



REPORT ON OPERATIONS

[FIRST HALF OF
2000]

TELEFONIA FISSA, MOBILE, INTERNET, INFORMATION TECHNOLOGY, THE NEXT THING.*



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RESULTS OF OPERATIONS AND FINANCIAL DATA

[in billions of lire]

	1 st half 2000	1 st half 1999	Year 1999
Sales and services revenues	27,528	25,382	52,481
Gross operating profit	12,496	11,889	23,673
Operating income	6,565	6,308	12,456
Income before taxes	5,571	4,958	9,711
Net income before minority interest	2,758	2,364	4,665
Net income - Parent Company	1,896	1,764	3,364
Cash flow	8,148	7,625	15,003
Capital investments	8,745	5,497	13,077
of which:			
• Capital expenditures	5,606	4,355	10,560
• Financial investments	3,139	1,142	2,517

PROFIT AND FINANCIAL INDEXES

[percentages]

	1 st half 2000	1 st half 1999	Year 1999
Gross operating profit / Revenues	45.4	46.8	45.1
Operating income / Revenues [ROS]	23.8	24.9	23.7
Return on equity [ROE] [1]	6.9	6.6	12.6
Return on investments [ROI]	11.6	12.5	23.6
Net borrowings / Invested capital [debt ratio]	30.7	25.8	29.1

BALANCE SHEETS DATA

[in billions of lire]

	June 30 2000	Dec. 31 1999	June 30 1999
Total assets	95,622	89,181	89,140
Net invested capital	59,178	54,069	49,094
Stockholders' equity [2]	41,063	38,311	36,435
of which:			
• Parent Company	34,970	33,004	31,419
• Minority interest	6,093	5,307	5,016
Net borrowings	18,115	15,758	12,659

OPERATING DATA

	June 30 2000	Dec. 31 1999	June 30 1999
Telecom Italia			
Fixed network access lines [in thousands]	26,774	26,502	26,230
Annual increase in minutes in fixed network traffic [%]	23.4	11.6	9.3
– domestic	23.8	11.4	9.1
– international	16.8	15.4	12.7
Internet customers [in thousands]	3,089	1,990	626
TIM			
Lines [in thousands]	19,975	18,527	16,037
Annual increase in minutes in mobile radio traffic [%]	27.4	35.1	38.7
GSM coverage [% population]	99.0	99.0	99.0
E-TACS coverage [% population]	98.0	98.0	98.0
Employees of Group [number]	128,438	122,662	125,552

[1] Net income before minority interest / Average stockholders' equity before minority interest.

[2] Net of "Receivables from stockholders for capital contributions".

To the Shareholders,

During the first half of 2000, the plan for the industrial and structural transformation of the Telecom Italia Group yielded its first tangible fruits, with the prospect of more positive results in the second half of the year.

Effectively, there are two main guidelines forming the basis for our commitment to building a highly competitive company, capable of competing successfully on domestic and international markets: a new industrial strategy and a thoroughly revitalized organization.

First of all, we are strengthening the structures which must operate in those spheres of activity where the great game of the future is being played out, as part of the rapid convergence currently taking place in the ICT sector: Internet, broadband and data-transmission services, the new wireless technologies and services and international business. During the first half of the year, we have undertaken important initiatives in these business areas, to which I would like to draw your attention.

The Seat-Tin.it deal, which is still in progress, and which aims to create a strong Italian Internet organization to spread the digital economy nationwide, is, without doubt, the most important event in the development of the new economy to have taken place in 2000.

The reorganization of Telecom Italia Wireline Services, through the formation of operational units capable of exploiting the enormous development potential of growing markets, such as data transmission and broadband services, will also come to represent a significant factor in terms of our Group's competitiveness.



It is equally important to give a new boost to entrepreneurial initiatives in spheres of activity that have not yet been fully exploited.

For example, we are currently implementing a radical plan to launch Telecom Italia Information Technology. Thanks to this new business area, we shall be able to develop the Group's information technology resources better, in order to tackle the competition and the new markets which have opened up in this field with augmented competitive skills.

Furthermore, in the first half of the year, we have begun a series of projects which should give a decisive boost to the expansion of our international business.

We have entered the scene in new countries, such as Peru and Turkey, where we have been awarded the licenses for GSM telephone services.

We have set up a new holding company, Auna, in Spain to reorganize the numerous initiatives in that country in an integrated way and, which will guarantee greater efficiency and competitiveness.

After having formed the subsidiary Mediterranean Nautilus to create an optical network, linking the main countries in the Mediterranean region, we recently launched the Latin American Nautilus to create an optical loop network which will connect the main cities of North and South America: in this way, the larger plan to develop the Internet market and innovative services on the Europe-America backbone will become a reality.

In order to fully exploit the development potential of our international operations, we are transferring the complete control of STET Mobile Holding (SMH), the financial holding company controlling the foreign wireless subsidiaries to Tim, while Stet International Netherlands, a subsidiary of Telecom Italia, will take over all the foreign companies offering pure wireline telephone services or integrated wireline and wireless telephone services. By concentrating the control of the foreign companies in the respective business areas, there are undoubted advantages to be gained in terms of speed and efficiency, which will prove to be invaluable in terms of coping with the dynamism of the international markets.

In order to ensure the success of such a far-reaching and complex industrial plan it was vital to base our organization on new criteria in terms of product management, which are strictly correlated to the evolution of business, and according to the values of a corporate culture which gives priority to keeping an ever-wary eye on the market. After the agreement with the trade unions signed in March 2000, which, amongst other things, involved a gradual reduction of the personnel of the parent company, for a total of approximately 13,000 units over the three-year period 2000-2002, the new organizational structure will be able to become fully operational.

During the six-month period, there was also significant progress in the sale of activities not directly related to our core business. The sale of 80% of Italtel to a consortium of investors led by Cisco Systems, in July, is certainly the most important initiative in this direction. Then, as far as the sale of our 49% in Sirti is concerned, a tender offer was announced by a group of companies, and to which we announced our intention to adhere. On a consolidated level, including the Meie and Teleleasing disposals, the total will generate an after tax capital gain of approximately Lire 900 billion, a decline in financial debt of approximately Lire 3,100 billion and a reduction in personnel of approximately 17,000 employees.

From the point of view of economic results, the six-month period closed with an increase of 8.5% in terms of revenues, equal to Lire 27,528 billion, compared to the first half of 1999. Revenues also benefited from the contribution of the Argentinian group Nortel Inversora, which was consolidated for the first time in the Group's financial statements in 2000. The positive results of mobile telephone services (revenues increased by 10.2% compared to the first half of 1999), international business (+33%) and information activities (+6.3%) were countered by the anticipated fall in revenues from fixed telecommunications, which still constitute the main component of the Group's revenues as a whole. In the business area of wireline network services, where the mature phone services market was accompanied by the effects of greater competition, we have already taken important actions both to boost the growth of the data sector and to combat competition by launching highly innovative tariff offers.

Revenues from fixed network services fell by 6.1% compared to the first half of 1999. Revenues from voice services, despite the overall increase in traffic of 23.4% in terms of minutes, fell by 13.9%, due to the considerable tariff reductions of for trunk and international calls and the start-up of new, aggressive commercial policies aimed for residential customers. However, it is important to note that revenues from data traffic increased by 17% compared to the first half of 1999, thus partially compensating for the fall in revenues from phone services.

The gross operating margin (EBITDA), equal to Lire 12,496 billion, increased by 5.1% compared to the first half of 1999 and represented 45.4% of overall revenues.

The consolidated net profit for the six-month period, equal to Lire 1,896 billion, net of minority interests, increased by 7.5% compared to the first half of 1999.

The results are in line with our expectations, and can be regarded as positive, if we consider that the organizational restructuring and the policies of industrial and commercial development launched in all operating sectors starting with Telecom Italia Wireline Services, will naturally require time in order to yield the expected results, which in the second half of 2000, are already anticipated to be significant.

From this rapid summary of activities and results for the six-month period, I believe that there emerges a picture of a new Group on the move, which is effectively committed to achieving the growth objectives which were defined in our industrial plan.

As we tread this path, in a transparent, consistent way, we must never lose sight of the two goals which we set ourselves from the outset: to ensure an increasing level of quality and meet our customers' requirements for communication and, at the same time, generate ever-greater rewards for our shareholders.



Roberto Colaninno
Chairman and Chief Executive Officer

The results for the first half of 2000 of Telecom Italia Group evidence both an improvement in operating performance consistent with the strategy to transform and exploit existing assets, and also the transactions entered into by the Group, including, in particular, the acquisition of Seat, which will bring benefits to the results of the Group in the second half of the year.

As regards the operational plan, the Group's strategy is centered on the following development priorities.

1. Re-positioning of wireline telecommunications, through growth in the data business and a selective defense of the market shares in the voice business, destined to become the object of a gradual acceleration in the liberalization process and the consequent alignment of prices with the most competitive markets.

Revenues from the data business have risen during the first half by more than 15% over the same period of the prior year, thanks to an expansion of the offering, the identification of innovative solutions for corporate customers and the progressive re-positioning of activities over the entire area of Information & Communication Technology [ICT].

As for the voice business, the new market approach is founded on the selected defense of the most remunerative traffic segments through innovative pricing systems and the introduction of solutions able to increase volume growth, such as the "Teleconomy" offers. Overall traffic significantly increased during the period compared to the first half of 1999 [+23%], thanks partly to roughly a one-third reduction in average prices.

2. Technological and market leadership in mobile telecommunications, with a further growth in profitability on the domestic market and the gradual introduction of data services on the mobile network using WAP and GPRS and, in future, UMTS technologies.

In the six-month period, TIM reached 20 million customers in Italy, an increase of 25% in lines and more than 27% in traffic compared to the corresponding period of the prior year, in reference to which services with value-added tripled [Short Message Service, mobile banking], arriving at 4% of overall revenues.

The six-month economic results are very satisfying in terms of operational profitability [the gross margin is equal to 49% of revenues] and also in terms of net income [more than 20% higher than the first half of 1999], despite the serious impact of rate adjustments on incoming calls from the fixed network where prices were reduced by 25% on average.

3. Growth of the international "portfolio" in terms of the extension of the customer base and the increase in the revenues of the foreign companies, based on the implementation of success models evolved on the domestic market and on the development of broadband ring networks for data transport and the supply of hosting services at international level.

Specifically, compared to the same period of 1999, the growth of the customer base is more than 50%, while the increase in revenues is about a third; the increments were mainly achieved in Latin America and by the wireless telecommunications companies. At consolidated level, the gross margin of the foreign companies rose significantly, +45% with a comparable scope of consolidation, without considering the effect of

the proportional consolidation of Telecom Argentina, which together with all the foreign companies contributed about 10% to the gross operating margin of the Group.

4. Rapid growth of the Internet in all major segments: access, content and services for both the consumer and small/medium-sized businesses.

Excluding the benefits from the Seat-Tin.it merger, the first half displayed a strong growth in Internet customers. Tin.it reached 3 million customers [in terms of log-ins] compared to about 600,000 at June 30, 1999, mainly on account of the spread of “free” Internet access offers. As for innovative access services, the introduction of ADSL technology on the network has already led to over 20,000 sales of connections [including the wholesale offer], destined to significantly increase in the second half of the year.

5. The pursuit of efficiency by curbing operating costs, rationalizing investments and divesting of non-core businesses.

During the first half, a majority of the investment disposals announced to the market were completed, with the conclusion of the sale of Teleleasing and Meie and the definition of agreements for the sale of Italtel and the Sirti group. The benefits of these last two deals will be recorded in the second half of the year. Generally speaking, the disposals will contribute more than Lire 3,000 billion to reducing the net debt and will lead to a reduction in the workforce of about 17,000 units at Group level.

As regards efficiency, the policy of curbing operating costs has continued, with special emphasis on the fixed telecommunications sector. For the Parent Company, this led to both a reduction in employees [-5% in the average number compared to June 30, 1999] and consumption. The decrease in operating costs compensated the increase in commercial and advertising costs spent to acquire a better commercial presence and image.

The rationalization of capital expenditures was accomplished by reducing the realization of traditional activities in favor of the development of more innovative projects. The ratio of overall capital expenditures to revenues remained the same as the first half 1999, with a comparable scope of consolidation, but with a different mix: capital expenditures in wireless and data networks increased while traditional accesses to the wireline network decreased.

As for the consolidated economic and financial results, the first half of 2000 shows an increase in the gross operating margin of 5% compared to the corresponding period of the prior year, in line with expectations, partly due to the consolidation of Telecom Argentina [+Lire 845 billion]. The reduction in the contribution made by the wireline telecommunications business [-Lire 719 billion, -9%], caused by a strong fall in prices, was offset by the significant increase in the wireless telecommunications business [+Lire 461 billion, +15%] and the international business [+Lire 130 billion, +45%].

In view of the results for the first half, it can reasonably be assumed that the goals for revenues and the gross operating margin announced to the public for the year 2000 will be reached.

The first half also evidenced a growth in the net income of the Group [+17%], which reached 10% of revenues compared to 9.3% in the first half of 1999, thanks partly to the improvement in financial management [+Lire 216 billion] and the balance of extraordinary items [+Lire 441 billion].

Total investments amounted to Lire 8,745 billion [+Lire 3,248 billion]. The increase is due not only to the consolidation of Telecom Argentina [+Lire 447 billion] but to international acquisitions [30% of Globo.com for Lire 1,641 billion and the GSM license in Peru for Lire 367 billion] and financial transactions carried out [additional investment in TIM for Lire 1,196 billion, the buyback of savings shares by Telecom Italia for Lire 326 billion]. Capital expenditures, in fact, remained more or less in line with those in the first half of 1999.

Net financial debt of the Group at June 30, 2000 amounts to Lire 18,115 billion, an increase of Lire 2,357 billion compared to December 31, 1999; the entry of Telecom Argentina group in the scope of consolidation alone contributed to an increase in debt of more than Lire 3,024 billion. With a comparable scope of consolidation, in fact, the net debt position remains substantially unchanged, with an improvement in the debt ratios [gross operating margin/interest expense, gross operating margin/net debt] and interest expense.

As already announced to the financial community, the net financial debt of the Group will increase in the second half of the year as a result of the acquisition of the Seat Pagine Gialle group, the further initiatives geared to international expansion [including the one in Turkey] and the purchase of the UMTS license in Italy.

[COMPOSITION]**Board of Directors****Chairman
and Chief Executive Officer**

Roberto Colaninno

Honorary President

Antonio Tesone

Deputy Chairman

Sergio Erede

Directors

Angelo Benessia

Peter A. Cohen

Salvatore Donato

Paolo Ferro-Luzzi

Emilio Gnutti

Jeffrey E. Livingston

Ettore Lonati

Domenico Giovanni Siniscalco

Joseph M. Tucci

Gérard Worms

Secretary to the Board

Paolo Donzelli

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.

[POWERS OF CORPORATE GOVERNANCE BODIES]**Board of Directors**

The Board of Directors of Telecom Italia, with respect to its exclusive responsibility regarding matters which cannot be delegated according to art. 2381 of the Italian Civil Code, as its exclusive right:

- [a] prepares and adopts the rules for corporate governance and establishes guidelines for corporate governance of the Group;
- [b] reviews and approves strategic, industrial and financial plans of the Company and the Group;
- [c] valuta ed approva il *budget* annuale della società e del Gruppo;
- [c] examines and approves the annual budget of the Company and the Group;
- [d] examines and approves the documentation of the periodic statement envisaged by existing laws;
- [e] reviews and approves capital expenditures and disposals [also real estate] for amounts in excess of Lire 500 billion;
- [f] reviews and approves transactions [including, for instance, acquisitions or divestitures of directly or indirectly held investments] bearing particular economic or strategic importance, with special reference to related party transactions;
- [g] assigns or revokes powers granted to the CEO and the Executive Committee, where there is one, setting the limits, the manner and period, usually not less than three months, for the activities carried out during the year which should be referred to the board by those granted powers;
- [h] provides for the assignment of the posts of CEO and Chairman in the subsidiaries which have revenues – according to the latest available financial statements – that are equal to or higher than Lire 2,000 billion;
- [i] provides, as proposed by the CEO, for the appointment, revocation and conferral of powers to the general managers of the Company;
- [j] establishes, after examining the proposals of the specific committee and having heard the board of statutory auditors, the remuneration of the CEO and those that hold special posts, as well as dividing the total remuneration among the individual board members and committees, where this has not already been arranged by the shareholders' meeting;
- [k] monitors the overall performance of operations, with special attention being paid to conflicts of interest, taking into account, in particular, the information received from the CEO and the audit committee, in addition to effecting a periodical comparison of actual and budget figures;
- [l] ascertains the appropriateness of the organizational and administrative structure of the Company and the Group drawn up by the CEO;
- [m] sees to the change, renewal and stipulation of agreements with the Ministry of Communications;
- [n] keeps the shareholders informed at meetings.

Chairman and CEO

The Chairman and CEO is assigned

- legal representation and signature powers;
- the task of keeping the Board of Statutory Auditors informed of activities carried out and transactions of significant economic, financial and equity importance carried out by the Company and the Group, in the manner and within the terms established by art. 13 of the by-laws;
- all ordinary and extraordinary powers of administration of the Company [with the right to appoint procurators ad negotia for individual acts or series of acts] except for those powers reserved exclusively for the Board of Directors, which he may exercise in cases of emergency, subject to informing the Board at its next meeting.

Deputy Chairman

The Deputy Chairman shall have signature powers and legal representation of the Company only in the case of impediment or absence of the Chairman and CEO.

Internal Committees

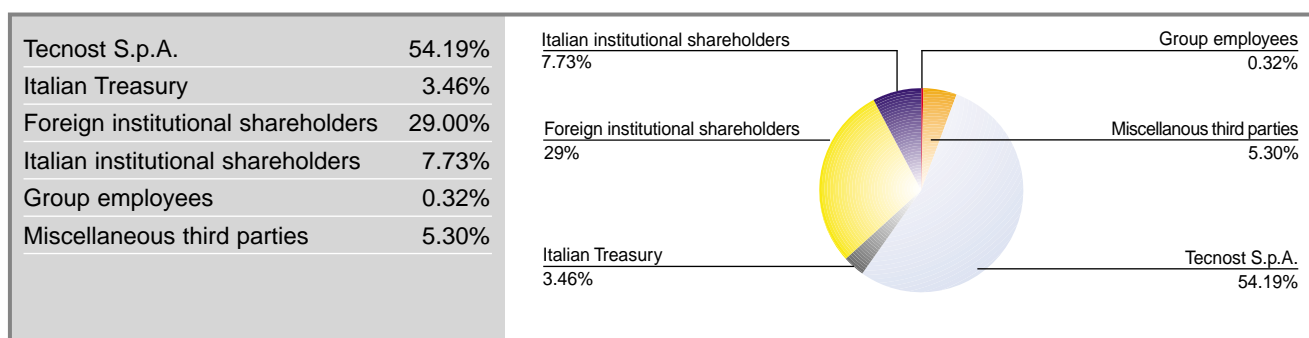
Committees are also formed within the Board of Directors as follows:

- a remuneration committee. This committee [composed of the Deputy Chairman and the Directors Cohen and Siniscalco] formulates proposals to the Board for the remuneration of the CEO and those who hold special posts, in addition to, as indicated by the CEO, determining the criteria for the remuneration of the Company's top management;
- an audit and corporate governance committee. This committee is composed of the Directors Benessia [Chairman], Livingston and Worms. Such committee:
 - [a] evaluates the adequacy of the internal control system;
 - [b] evaluates the working plan prepared by the those in charge of internal control and receives periodical reports from same;
 - [c] examines the proposals submitted by the audit firms to obtain appointment as auditors, as well as the audit work plan and the recommendations contained in the internal control report;
 - [d] informs the Board, at least every six months, at the time of the approval of the financial statements, on the activities carried out and the adequacy of the system of internal control;
 - [e] carries out additional tasks which it is assigned by the Board of Directors, especially with respect to relations with the independent audit firm.

The audit and corporate governance committee also oversees the observance and periodical updating of the rules for corporate governance and compliance with the code of conduct and ethical standards eventually adopted by Telecom Italia and/or its subsidiaries.

Information for shareholders

The holders of Telecom Italia ordinary shares as reported in the Shareholders' Register and other information available on the date of July 31, 2000 are as follows:



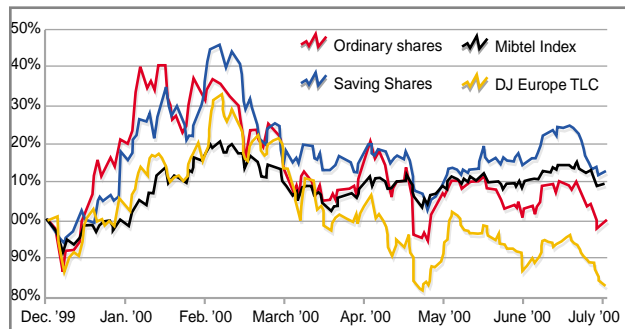
Performance of Telecom Italia Group stocks

In the first half of 2000, Italian stock market performance was characterized by an initial phase of sustained growth, followed, between March and April, by a significant market correction caused principally by the negative trend in technological and telephone stocks, that was similar to the performance of the sector throughout Europe [the Dow Jones Euro Stoxx index of the telecommunications sector, in fact, reported a drop of 13% in the first half]; there then followed a period of less fluctuation. After having reached a high of 35,001 points on March 10, the Mibtel index showed a gain of 10% over the beginning of the year that was higher than the average performance of the European stock markets [the general Dow Jones Euro Stoxx index, in fact, posted a drop of about 1%].

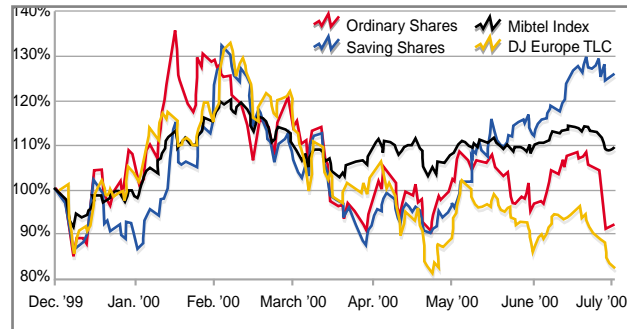
The performance of the Group's stocks generally followed the dynamics of the market: the price of Telecom Italia ordinary stock, after reaching the record high of Euros 20.35 on February 11, ended the first half at Euros 14.14, with 3% better performance than the sector index for Europe. The price of savings stock, after reaching a record high of Euros 9 on March 6, closed at Euros 6.92 on June 30, registering a gain of 15% for the period.

Performance of Telecom Italia Group Stocks

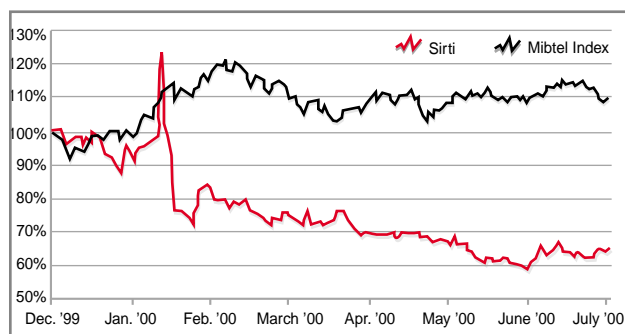
TELECOM ITALIA



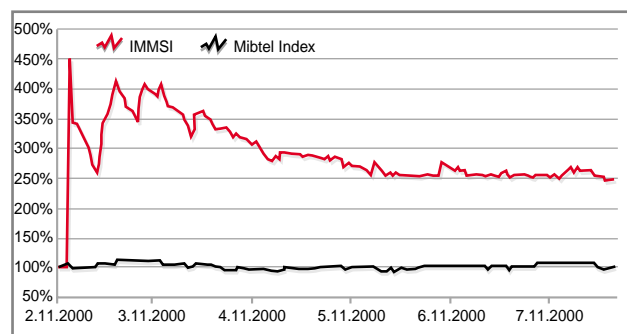
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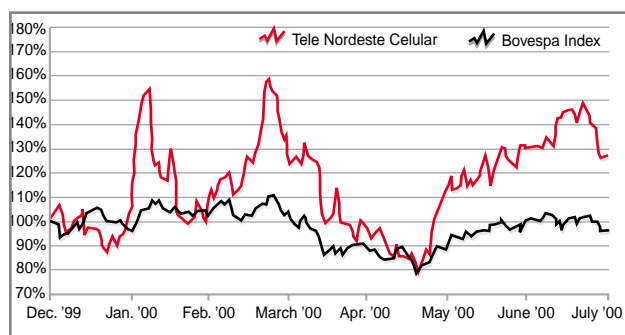
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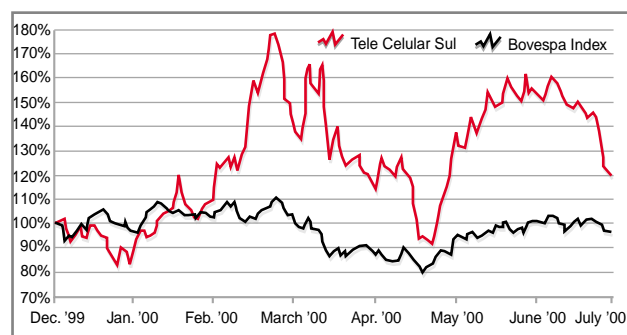
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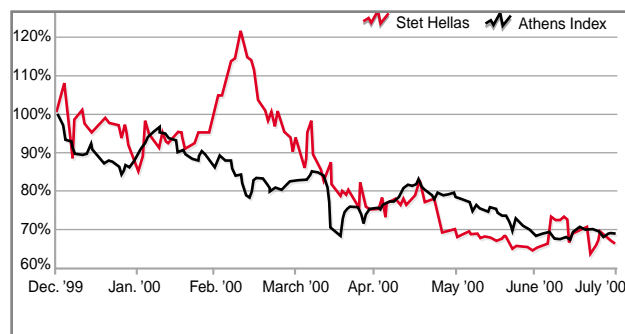
TELE NORDESTE CELULAR



TELE CELULAR SUL



STET HELLAS



After a record high of Euros 15.49 on February 15, the price of TIM ordinary stock at June 30 [Euros 10.57] was about 3% lower than the beginning of the year but nevertheless showed a better performance than the sector index for Europe [-12%]. Savings stock, which reached a record high of Euros 6.57 on March, 2, posted a gain of 12% at June 30, with a price at Euros 5.30.

Stet Hellas stock displayed a drop of about 35%, in line with the Greek stock market [-31%].

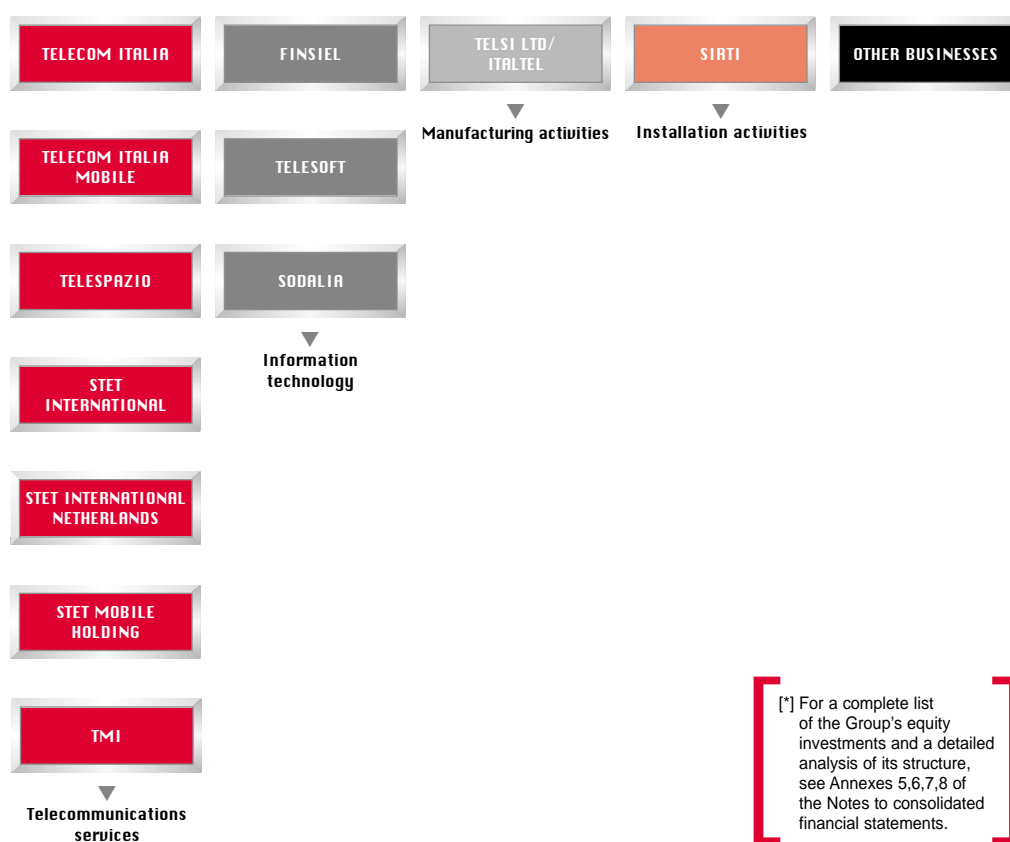
A particularly bright note comes from the performance of the two Brazilian mobile telecommunications companies, Tele Nordeste Celular and Tele Celular Sul, whose ordinary stocks reported gains of 32% and 62%, respectively, while the Brazilian stock market remained at substantially stable levels [-2%].

The spin-off of Sirti was also perfected during the six months with the simultaneous listing on the stock market of IMMSI stock starting from February 11, 2000. Considering the sum of the prices of Sirti and IMMSI, the performance during the first six months was down by 10%; the prices at June 30 were Euro 1.75 and Euro 1.49, respectively.

Market capitalization

On the basis of the official prices at June 30, 2000, Telecom Italia and TIM are the two leading companies in terms of capitalization on the Italian stock market with, respectively, Euros 89,376 million and Euros 78,538 million [equal, respectively, to 11% and 10% of the entire market].

Activities of Telecom Italia Group at June 30, 2000 [*]





REPORT ON OPERATIONS





1. Telecom Italia Group

Telecom Italia Group's business activities extend over the following business sectors: wireline telephone services engaged in by Telecom Italia; mobile telecommunications services, operated by TIM; and satellite telecommunications provided by Telespazio. In the first six months of 2000, Telecom Italia and TIM accounted for 53.6% and 25.6% of aggregate revenues respectively.

Outside Italy, the Group's telecommunications business is operated by its subsidiaries and affiliated companies, generally, 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 Group is also present in other sectors: information technology systems run by the companies Finsiel, Telesoft and Sodalìa, manufacturing operations conducted by Italtel, installation operations supplied by Sirti.

The total consolidated carrying value of investments in affiliated companies at June 30, 2000 is concentrated in Europe for about 64%, in Latin America for about 33%% and the remainder in the rest of the world.

The Group's workforce at June 30, 2000 numbered 128,438 [122,662 at December 31, 1999]. The increase is due mainly to the entry in the area of consolidation of Telecom Argentina, whose workforce, consolidated using the proportional method, numbers 7,161, and to increases that took place in foreign Telecommunications companies [+438 units] and TIM [+112 units]. In contrast, the most significant reductions were recorded at Telecom Italia [-1,547 units, of which 377 were transferred to Tin.it and 147 to TIM], in Italtel Group [-262 units], in Sirti Group [-198 units] and in the IT segment. With reference to the latter, it should be noted that Webegg [formerly Logicasiel], whose workforce numbered 255 at December 31, 1999, is no longer included in the area of consolidation of the Finsiel group.

The following table shows the results of the Group according to business segments. However, it should be pointed out that, from 2000, the Nortel Inversora group is consolidated using the proportional method, being jointly controlled with the France Telecom group.

[in billions of lire]		Wireline telecom- munications in Italy	Mobile telecom- munications in Italy	Satellite telecom- munications	International telecom- munications	Information technology activities	Manufacturing activities [1]	Installation activities	Subtotal	Other activities and eliminations	Consolidated total
Sales and service revenues [*]	1 st half 2000	16,985	7,324	272	3,614	1,356	771	782	31,104	[3,576]	27,528
	1 st half 1999	18,016	6,648	295	1,445	1,276	676	662	29,018	[3,636]	25,382
	Year 1999	35,856	14,425	636	3,160	3,074	1,776	1,501	60,428	[7,947]	52,481
Gross operating profit	1 st half 2000	7,346	3,602	38	1,263	176	22	71	12,518	[22]	12,496
	1 st half 1999	8,065	3,141	15	288	200	[46]	40	11,703	186	11,889
	Year 1999	15,448	6,734	70	580	405	23	123	23,383	290	23,673
Operating income [loss]	1 st half 2000	3,528	2,755	[56]	259	118	[39]	7	6,572	[7]	6,565
	1 st half 1999	3,857	2,402	[14]	[116]	126	[71]	23	6,206	102	6,308
	Year 1999	7,108	5,126	[41]	[246]	237	[5]	76	12,255	201	12,456
Capital expenditures [2]	1 st half 2000	2,229	933	30	1,247	50	22	21	4,532	1,074	5,606
	1 st half 1999	2,192	710	33	1,272	57	70	24	4,321	34	4,355
	Year 1999	5,928	1,992	70	1,845	129	33	81	10,132	428	10,560
Number of employees at end of period	1 st half 2000	75,056	9,487	1,218	13,226	9,949	4,891	12,506	126,333	2,105	128,438
	Year 1999	76,150	9,375	1,354	5,627	10,206	5,153	12,704	120,569	2,093	122,662
	1 st half 1999	78,444	9,124	1,324	5,295	10,298	7,261	11,720	123,466	2,086	125,552
[*] Of which, to other sectors of the Group	1 st half 2000	2,125	284	70	94	318	539	291	3,721	[3,721]	=
	1 st half 1999	2,518	339	83	85	235	252	311	3,823	[3,823]	=
	Year 1999	4,903	703	176	180	947	817	664	8,390	[8,390]	=

[1] Following the reorganization, Italtel group has been consolidated proportionally [50%] for the first ten months and line-by-line for the remaining two months of 1999.
[2] Investments in fixed assets and intangible assets.



[1.1] WIRELINE TELECOMMUNICATIONS IN ITALY

The wireline telecommunications sector is directly operated by the Parent Company Telecom Italia. It also includes Path.Net, a company created to supply the “Single Public Administration Network” with data transport services, and Tin.it, created as a separate company on May 1 and whose subsequent merger to Seat Pagine Gialle was approved by the shareholders’ meetings of Tin.it and Seat of Telecom Italia on July 3, and July 4, 2000, respectively. The following table shows the results for wireline achieved in the first half of 2000, compared to data for the same period and the whole of 1999.

[in billions of lire]	1 st half 2000	1 st half 1999	Year 1999	Change [1] [A-B]	
	[A]	[B]		amount	percentage
Sales and service revenues	16,985	18,016	35,856	[1,031]	[5.7]
Gross operating profit	7,346	8,065	15,448	[719]	[8.9]
Operating income	3,528	3,857	7,108	[329]	[8.5]
Capital expenditures	2,229	2,192	5,928	37	1.7
Number of employees at end of period	75,056	78,444	76,150	[1,094]	[1.4]

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

The reduction in results compared to the first half of 1999 is due to the intensification of competition and the consequent policies to reduce prices and offer discounts adopted by Telecom Italia. In fact, the marked growth in minutes recorded during the period [+23.4%] was impacted by the effects of both substitutions in traffic totally “handled” to traffic simply “transported” on behalf of other operators and out-of-town traffic to the less remunerative online [city] traffic, which led, compared to the first six months of the previous year, to an fall in average yield per minute of more than 32%. The effects of reducing the workforce – totally attributed to the Parent Company – will be felt more significantly in the second half of the year, when the unemployment benefit programs and layoffs agreed with the labor unions on March 28 and made operational by the agreements on July 20 will be implemented.

► The offering

During the first half of 2000, all the phenomena which had characterized the previous year, particularly the development of *Internet*, the entry of new operators following deregulation, and the growth of the data segment in contrast with the maturity of vocal services, became more accentuated. In response to these stimuli, first *Internet* activities were concentrated in the new company Tin.it, which will be merged in Seat Pagine Gialle; the latter then reached an agreement to acquire the third Italian television operating company, confirming the increasingly rapid convergence of the sector of Information & Communications Technology. Innovative rate models using a fixed charge system were introduced, which are particularly advantageous for residential customers with high traffic consumption. Finally the reorganization of Telecom Italia continued and operational units were set up to provide a timely, effective response to the requirements of particular segments of the clientele.

Mass Market

1999 and the first six months of 2000 were characterized by ever-fiercer competition on the telephone services market. In fact, in this context, Telecom Italia re-oriented its approach to the clientele by launching customer loyalty programs, confirming its leadership in the segment. Attention to the requirements of residential customers as a focal point of corporate strategy was reinforced by means of an ever-broader and more innovative offering and actions geared to specific customer targets. Significant innovations in the offering were introduced with the aim of promoting customer loyalty, including “160/89” [maximum and minimum prices per minute for Category 3 long-distance calls], particularly aggressive on inter-district traffic, and the new offerings for residential customers: “Teleconomy 24” [in addition to a basic monthly charge of Lire 9,000, all national traffic to fixed telephones is charged at Lire 24/min regardless of the time-band] and “Teleconomy no stop” [by paying Lire 89,000 per month, the customer is offered unlimited fixed to fixed national traffic]. The two rate plans also include discounts of 35% on international traffic and of 5% on traffic to mobile telephones.

From January 1, 2000, the “Minuti preziosi” [Precious minutes] prize-winning program has been in operation, whereby the customer is awarded points based on expenditures [one point for every Lire 10,000 on the phone bill; bonuses are awarded for newcomers and special promotions]. The points give the customer the right to prizes in the form of traffic, access, products and Telecom and Tin.it services.

The “Comunico” club has also been operational since March. The club was created with the aim of building up a continuous and privileged rapport with the best customers. Thanks to the club, the customer can acquire the products and services supplied by Telecom Italia and other companies with which co-marketing agreements have been drawn up at advantageous terms.

During the six-month period, the number of customers taking advantage of traffic discount packages has grown significantly, despite the continuous expansion of mobile telephone services and pressure from numerous competitors. The overall increase in customers using the various plans [including “160/89” and Teleconomy” in 2000] was 570% compared to the results of the first half of 1999.

The innovation of the offering was also backed up by the marketing of new products. In June the web-phone was launched, which functions on an *ISDN* line and is able to “surf” the *Internet*. A cordless dual-mode phone was subsequently introduced, able to handle one fixed-network telephone number and one *GSM* mobile telephone number.

There was continued interest in network services which, in addition to augmenting customer satisfaction, characterize the Telecom Italia offering in a distinctive way. As far as supplementary telephone services are concerned [call waiting, call transfer, three-way conference calls, automatic disabling] 473,000 lines were activated bringing the total number to 6,129,000 subscribers [+7.2% compared to the same period in 1999].

The spread of the “Memotel” centralized answer-phone services also continued, reaching 2,209,000 subscribers at June 30, 2000, of which 329,000 were acquired in the six-month period [+50% compared to the same period in 1999]. In addition to the existing service, for which there is a monthly rental charge, in July, the “pay per use” service was launched.

The free “5” redial service for engaged numbers was used by about 30% of customers.

The “Chi è” [Caller ID] service, which displays the incoming telephone number, recorded a net increase of 608,000 subscribers, bringing the total number to 1,220,000 subscribers.

The *ISDN* superline was again confirmed as one of the fastest-growing ways of accessing the most innovative telecommunications services. At June 30, 2000, 1,189,000 lines had been installed, showing an increase of 361,000 lines compared to December 31, 1999.

The “Call iT” telephone cards marketed during the six-month period, partly through the “Comunico” club, numbered 151,000 [+184% compared to the same period in 1999]; this brought the total to 550,000.

As for public telephone services, the new “Unica” card, which can be used in two ways [using the magnetic band or the code], was launched, completing the offering already geared to ethnic communities present in Italy with the “Welcome” cards. During the six-month period, promotional offers and contests continued associated with the sale of prepaid phone cards. The experiments were completed for the “*Internet corner*” terminals that are used to surf the *Internet* using telephone cards. These terminals will be installed in the second half of the year.

In order to improve the quality of its services, Telecom Italia confirms its aim of ensuring the highest levels of customer care. With this in mind, the “187” service for residential customers was further stepped up, and the availability of the service to the public was increased to between 8 a.m. and 8 p.m. from Monday to Friday.

Small and Medium-size companies

During the first six months of 2000, the Business function, devoted to covering small and medium-size companies [approximately 650,000 customers] became fully operational. The commercial results, which were concentrated in the second quarter of the year, increased, confirming the wisdom of corporate strategy. These include the increase of *ISDN* access lines, [in the six-month period, 152,000 equivalent lines were installed, bringing the total to 988,000] and *ADSL* lines [about 1,000 over the six-month period], the latter being mainly the result of the *wholesale* and RING offerings.

The main commercial initiatives of the Business function were:

- offerings, to customers opting for *carrier* selection, of the “Optima” package, which ensures better rates on more expensive traffic [international, inter-district and fixed-to-mobile calls];
- customer retention by means of goal-oriented commercial offerings, including “Teleconomy 24 Affari”;
- support for small and medium-size companies for their entry into e-business, in keeping with the mission “con noi nella new economy” [with us into the new economy].

On this subject, a sales channel has been created dedicated to the new value-added services, by setting up an indirect network composed of various partners, and the “Full Business Company” offering has been marketed to enable companies to evolve towards the e-company models. Finally, partnership agreements with leading companies in software applications for small and medium-size companies will strengthen the e-business offering for this segment.

Business Market

The results achieved in the first six months of 2000 are much in line with the forecasts; in particular, those relating to the data segment grew by approximately 15% compared to the first half of 1999. During the six-month period, to broaden the portfolio, the following offerings were introduced: “Business One”, to support management activities and the development of customers’ telecommunications systems and equipment; “Full Business Company”, for the evolution of customer companies into e-companies; “Full Business Security”, to supply network security services in IP applications. Within the framework of these services, the “Videonet” service [video-communication on IP] was introduced; the *wholesale ADSL* offering was also established geared to operators who wish to market *Internet* access services using this technique.

With reference to the services offered, the results are as follows:

- 7,500 RING access lines were contracted during the six-month period, of which 3,800 have already been activated;
- 19,600 contracts were signed for *wholesale ADSL* connections;
- more than 600 contracts were signed in the first month of marketing the “Business Full Company”;
- the activation of 5,900 Business Frame access lines activated during the six-month period [an increase of 24% compared to the number at the end of 1999], with higher revenues than anticipated;
- the growth of *ISDN* connections, with the creation of 163,000 equivalent lines [+12% compared to December 31, 1999], bringing the total number of lines to 1,547,000;
- the performance of “Intelligent Numbers” [toll-free calls, numbers with Intelligent charges, Single Number, Universal Number], revenues from which were higher than anticipated;
- the activation of InterBusiness lines, which increased by 12% compared to the end of 1999.

Internet

During the first six months of 2000, TIN confirmed the extraordinary growth recorded the previous year, exceeding 3 million subscribers [of which about 600,000 paid for the service], with an increase of 55% compared to December 31, 1999. Of these, about 40,000 were generated by the “E-Vai” offering, which consists in the sale, with installment payments, of a personal computer with Tin.it access. At the beginning of 2000, the marketing of broadband services in *ADSL* technology also started by means of the “always on” connection to *Internet*, against payment of a fixed monthly charge. At June 30, 4,200 new subscribers have been acquired. The offering was further enhanced by the web services of the “Easy” and “Village” lines, geared mainly to the world of small and medium-size companies.

The period also confirmed the success of the virtual community Atlantide, the number of subscribers to which doubled compared to the end of 1999, reaching the million mark by June 30. The increase in the number of subscribers has natural repercussions both in the number of monthly page-views which, in May, reached a peak of 85 million, and the volumes of traffic generated, of approximately 1 billion minutes per month.

On May 1, the TIN business unit of Telecom Italia was separated to form the new joint-stock company Tin.it, the first step in the process of merging with Seat Pagine Gialle which will be concluded in the summer, giving rise to Italy's largest Internet Service Provider and one of the most important on a worldwide scale. On March 15, the Board of Directors of Telecom Italia approved the plan for the industrial and corporate merger between Tin.it S.p.A. and Seat Pagine Gialle. The plan is divided into the following phases:

- contribution to Tin.it S.p.A., with effect from May 1, 2000, of the TIN division, the holding in Esri [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%] formerly within Telespazio and the Content Management division by Saritel;
- subsequent partial spin-off of Tin.it S.p.A. [about 8%] to Seat Pagine Gialle, which will increase its capital by issuing new ordinary shares to be assigned in an equal number to the ordinary and savings shareholders of Telecom Italia;
- contextual merger by incorporation of Tin.it S.p.A. in Seat Pagine Gialle, which will increase its capital by issuing new ordinary shares to Telecom Italia.

The merger between the two companies is the result of the desire to create an Italian pool 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.

In the first half, *Internet* business produced revenues for Lire 242 billion, offset by the consequent costs for the rapid development of the activities; both the gross operating result and the operating result show a loss, in fact, negative for Lire 33 billion and Lire 69 billion, respectively.

The number of employees at June 30, 2000 is 444 units.

International traffic

The first half of 2000 showed a positive trend compared to both the first half of 1999 and the forecasts for the period. In fact, the overall volumes handled amounted to 3.6 billion minutes compared to the 3.1 billion minutes in the first six months of 1999, with a growth of 16.8%.

Total traffic in minutes	16.8%
• Incoming	8.9%
• Outgoing [1]	15.2%
• In transit	55.2%

[1] Net of the Internet Virtual Private Network component.

The increase in the amount of *wholesale* outgoing traffic which Telecom Italia collected from mobile operators and other fixed Italian operators continued [+87% compared to the first half of 1999], with a recovery of the market shares lost from final customers on account of the increasing competition present on the domestic market. In April the new interconnection price-list was published with regard to all the Italian operators, with different prices according to the type of destination network of traffic [fixed or mobile]. In order to satisfy customers with a non-continuous demand, new forms of rate plans were launched by publicizing and booking on the *Internet* on a “first come, first serve” basis. With reference to incoming traffic, the marked increase towards the Italian mobile networks [+61% compared to the first half of 1999] was accompanied by fairly stable volumes of traffic towards the Telecom Italia fixed network. In implementing the *Authority's* Resolution No. 338/99 [non-discrimination between the cost of termination of national and international calls on the mobile network], since March 1, 2000, Telecom Italia has applied an *access charge* of Lire 360 per minute Italian to mobile operators on incoming foreign traffic destined for their networks. The same *access charge* is required from foreign operators for termination on mobile networks in those countries.

As far as transit traffic is concerned, thanks to the more aggressive Telecom Italia offering and the growth of new operators in liberalized markets, there was a growth in volumes of 55% compared to the first half of 1999.

In a context of reduced prices, the improvement in margins was pursued by means of a marked reduction in the unitary “distribution” cost of traffic [-21% compared to the first half of 1999], which was achieved thanks to a careful policy of negotiation with foreign operators and careful management of traffic routing.

SEA-BONE, the service of international connection to *Internet* for Italian and foreign operators, recorded a growth in revenues of 124% compared to the first half of 1999. For data services, on March 1, 2000, the rate adjustments on IPLCs [International Private Leased Circuits] came into force, with reductions of up to 50% for countries in Western Europe and up to 38% for North America. With regard to “Hard Patched” services [the sale to foreign operators of transit transmission capacity on the Telecom Italia network], the marked increase in the demand, together with the re-definition of prices, led to an increase in revenues of 137% compared to the first half of 1999: in fact, the traditional requests for telephone services were accompanied by a growing demand for capacity for *Internet* uses.

» The network

The national network

During the first half of 2000 the standards of quality offered to the clientele improved even further, both in terms of the technologies used and in the operation of the network. The growth in the demand for connectivity services and, consequently, for the bandwidth required by the clientele, led Telecom Italia to identify innovative technological solutions able to support competitive offerings for the new services, especially for data traffic. The explosion of Internet has already highlighted a marked growth in dial-up traffic, terminated partly on the networks of other operators, with an impact on all the platforms needed for supplying services [IP networks, access systems, switching and transport networks]. The continuous enhancement of the offering has thus led, on the one hand, to the updating of equipment and the upgrading of transmission infrastructures used for access and transport and, on the other, important measures to develop the systems for network provisioning and to support the operation of services.

The national network in statistics at June 30, 2000 is as follows.

Exchange areas:	about 10,000 served by 11,300 Line Stages [SL]
Switching areas:	615 served by 652 Local Group Stages [SGU]
Gateway areas:	33 served by 83 Transit Group Stages [SGT]
POTS accesses:	24.9 million
ISDN PRA accesses:	40,500
ISDN BRA accesses:	1,762,000
Copper network accesses:	103.6 million of kilometers-pair
Optic fiber access network:	403,500 kilometers-line
Optic fiber carrier network:	2.7 million kilometers-line
Tele-selective circuits:	3.7 million
Direct number circuits:	556,300 access points with speeds up to 64 Kbit/s 76,500 access points with speeds up to 64 Kbit/s -2 Mbit/s
Direct analog circuits:	166,300 access points
Frame Relay accesses:	5,000 gates at 2 Mbit/s
ATM accesses:	900 gates at 34/155 Mbit/s and 2,200 gates at 2 Mbit/s
IP dial-up accesses:	40,000 gates

At June 30, digital switching reached 99.4%, against 98.7% at the end of 1999. During the six-month period, 8 self-switching systems based on a new technology were introduced to the network, for which software is being developed so that they can be used as ISP [Internet Services Provider] collection junctions for Telecom Italia.

The functional requirements were defined for a new transit network which can transport data and voice traffic in an integrated way. This network will replace the networks currently used for the long-distance transport of phone traffic, *IP* and *ATM*, in harmony with an evolution of services characterized by convergence between telephone and data. In the second half of the year, experiments are planned to be conducted on the access network. During the first half of 2000, *number portability*, inter-district *carrier selection* and *carrier preselection* services continued to be extended nationwide.

As far as the *intelligent network* is concerned, the new prepaid “Carta Unica” [single card] service was developed. The card can be used from public and private fixed network terminals in Italy and abroad. The “virtual” *Call Center* platform was created, able to function with operators distributed across the national network and used by the company for its Customer Care and “12” and “1412” services. Experiments are in progress with a voice recognition node for the “12” service. A new public telephone platform has been successfully tested which, thanks to *ISDN* technology, increases the possibility of using terminals and the range of services offered. Finally, the network structures dedicated to rapidly growing Private Virtual Networks have been extended.

During the period, development continued for “Arianna”, the new optical transport network with a high transmission capacity capable of covering the whole country. It will mainly be used to transport flows with a high requirement for quality and availability, thanks to the use of the latest generation of *SDH* technologies and the new optical DWDM [Dense Wavelength Division Multiplexing] technology. Arianna is based on a structure of *SDH* rings and, in order to raise the transport capacity of existing optic fibers, uses DWDM systems, thanks to which it is possible to increase current transmission capacity. The network is operated by the same system that is currently used for regional networks. The *SDH* network in the six-month period, recorded an increase of 90% in connections and of 42% in terms of equipment handled. New generation equipment is expected to be supplied on which 2 Mbit/s interfacing of the *HDSL* type will be available and which will make it possible to install remote *SDH* functions on copper lines up to the customers’ premises.

In addition to the systems for the optical fiber, which is already in operation, there are plans to use new OADM [Optical Add-Drop Multiplexer] apparatus capable of operating without any need for optical-electrical conversion, both on long-distance and local networks.

Within the framework of the “Reseau” project, experiments have begun involving a high-performance *IP* network relying on DWDM connections nationwide, optical ring networks in cities and OADM apparatus on a local level. The cities involved in the project are Milan, Rome and Turin; the metropolitan ring in Turin will be ready by the end of the year.

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, will become effective in the second half of the year with the installation of 10,000 samples in Florence and Milan. In 2001, the termination will enter the network in new and restructured buildings.

The adoption of the in-house system of cabling for apartments, which is currently at the experimental stage and which, by integrating existing telecommunications connections [telephone and TV], will facilitate the supply of high-speed services, permitting the immediate use of *ISDN* access and *ADSL* technology, was also sustained during the period by Telecom Italia in terms of standards.

With regard to activities aimed at optimizing the costs of building copper and fiber optic networks, during the six-month period a survey was carried out on an international level to verify the functional characteristics of optical fibers from different suppliers. Based on the results, a specification has been drawn up for a new optical cable for the long-distance network, for the purchase of which a bid is now in progress. At the same time, a process has started to rationalize other products used in building fiber networks.

In March, the first phase of the *ADSL* program was completed, which led to the activation of 50,000 access lines in 25 localities. 75% of the original 2000 program, which includes the extension of the service to 73 localities with 568 exchanges, was completed during the six-month period [426 exchanges already tested]. The new offering of data services for companies on the *ADSL* platform has caused an increase in the program to 114 localities with 650 exchanges.

Other achievements during the period under examination were as follows:

- the extension of the Tin.it network in order to meet the requirements expressed by the customer and to ensure the distribution of services using *ADSL* technology;
- the testing of the Single Public Administration Network [RUPA] and the consequent start of the commercial phase with the main public administrations;
- the creation of the access network for UNI.TIM by extending the Arcipelago network and introducing apparatus based on technology that is consistent with that used by the customer;
- the development of the network to launch new data services ["RING"] for companies with *Frame Relay*, *ATM* and *IP* access;
- updating the technology of the InterBusiness network aimed at supplying *IP* services, which has enabled Internet Service Providers to offer new audio and multimedia services;
- the extension of national and international connections to *Internet*;
- the completion of systems to measure traffic and invoicing for the InterBusiness, ATMosfera and Arcipelago data networks, in order to offer customers advanced rate solutions for data services.

During the first half of 2000, the evolution of support systems was again oriented towards improving the services offered to the clientele and augmenting the effectiveness of network platforms. In this context, *carrier preselection* and *number portability* services were developed within the framework of interconnection with other operators. On this subject, in the second quarter the services laid down by the Authorities new resolution on *carrier preselection* and those relating to *local loop unbundling* will be implemented.

Still on the theme of interconnection, during the period, the liberalized market witnessed the following developments:

- the signing of 9 agreements and 7 renewals, for a total of 49 contracts;
- the signing of 17 new "reverse" agreements [termination of calls on the network of the other operator] and 8 renewals, for a total of 31 contracts;
- the signing of 12 new agreements to supply direct connections between the junctions of other operators, for a total of 22 contracts;
- the realization of interconnection with the networks of 20 operators, in addition to the 23 already interconnected at the end of 1999;
- the signing of 3 agreements relating to the supply of high-speed access in *ADSL* technology;
- the signing of 13 *carrier preselection* contracts;
- the signing of 21 supplementary agreements for inter-district *carrier selection*;
- the signing of 4 *number portability* agreements.

During the six-month period, interconnection traffic was equivalent to 28.2 billion minutes, divided as follows:

- 5.0 billion for fixed-to-mobile traffic originated by Telecom Italia customers;
- 4.4 billion for mobile-to-fixed traffic [excluding the integrated operator Wind];
- 4.7 billion for fixed-to-fixed traffic originated by other operators [including Wind] and terminated on the Telecom Italia network;
- 8.3 billion for fixed-to-fixed traffic originated by Telecom Italia customers and terminated on another operator's network;
- 5.8 billion for traffic collected through *carrier selection*.

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 destination called shown in the following table.

Rate of effectiveness	1 st half 2000	Year 1999	1 st half 1999
Local calls	99.7%	99.7%	99.7%
Long-distance	99.1%	99.1%	99.2%

International network

Investments during the six-month period were mainly devoted to developing the pan-European regional optical fiber network which will connect nine countries [Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and the United Kingdom] thanks to ring structures, which will guarantee the self-protection of traffic should a fault occur on any given section. The connections between Belgium, France, Germany, Italy, Holland, Switzerland and the United Kingdom will be completed during 2000; the completion of the entire network is scheduled for the first six months of 2001. During the first half of 2000, with reference to systems operated in partnership with other operators, the submarine network between Italy and Libya became operational. A pan-regional submarine network is also planned for Latin America [Latin American Nautilus] as well as a trans-Atlantic back-bone in optical fiber.

Within the framework of a strategy aiming to create pan-regional networks in geographical areas characterized by a marked growth in the demand for international capacity, on May 18, an agreement was signed to set up Mediterranean Nautilus. In 2001, this company will create and then manage the new "Mediterranean Nautilus 1" system, an optical fiber ring submarine network about 7,000 km long linking Italy, Israel, Greece, Turkey, Cyprus and Egypt, supporting the offering of international connectivity for "city to city" *Internet* services, voice, high-speed data, and image and hosting services. As the technological partner responsible for the development of *Internet* services, Telecom Italia has assumed the operational control of the company, with 51% of the capital; the remainder is subdivided between the Israeli partners Aurec [9%], Clalcom [15%], Globescom [15%] and Kama [10%].

Finally, work continued to optimize the international network through the introduction of a new circuit multiplication apparatus in the transmission systems; limiting the unitary costs of products/services in the satellite network; and finally in information systems, where special attention is devoted to the security of data and applications according to their strategic importance.

» Human resources

Employees in the sector [including the 46 resources of Path.Net, the new company which will provide data transport services on the “Single Public Administration Network” [RUPA], and the total of 444 of Tin.it] numbered 75,056 at June 30, 2000. Employees at Telecom Italia numbered 74,566, compared to 76,113 at the end of 1999; the reduction of 1,547 units reflects the corporate strategy of optimizing processes and costs. In more detail, over the six-month period 1,206 employees retired and 534 were transferred to other companies in the Group [377 to Tin.it]. At the same time attention was given to the quality mix of personnel by recruiting 143 new employees, almost all university graduates, or have high-school diplomas or diplomas of interest to the company, to which 50 more were added having been transferred from other companies in the Group.

At June 30, 2000, there were also 52 temporary employees [who were not employed at the end of 1999] in Telecom Italia.

During the six-month period, training activities were mainly directed at consolidating the culture and competence required by the Information & Communications Technology market, to encourage the emergence, development and spread of professional skills suited to the requirements of the new economy and the new business contexts associated with the *Internet*. The training sessions, both on a managerial level and a technical and professional level, had the aim of meeting the requirements for diversification and making better use of the various corporate business areas, spreading the culture of customer care and encouraging the sharing of projects involving the re-engineering of production and organizational processes. They were also characterized by the use of hi-tech educational technologies, based on the integration between multimedia and online and more traditional teaching techniques.

On June 28, within the framework of Confindustria, the new Collective National Labor Contract [CCNL], covering companies providing telecommunications services, was signed with the labor unions. By contrast, the negotiations to define the standards for the transition between the previous and the new CCNL are still in progress at the Industrial Union Headquarters in Rome.

During the period, the negotiations begun in 1999 with the labor unions under the terms of the development and organizational plan for Telecom Italia continued, with the time-scales described below. On March 28, at the Ministry of Labor and Social Security, the implementation agreement for the plan was signed, enabling the company to achieve many of its pre-established objectives, both in terms of employee cutbacks [confirmed to be in the order of 13,000] and reducing operating costs.

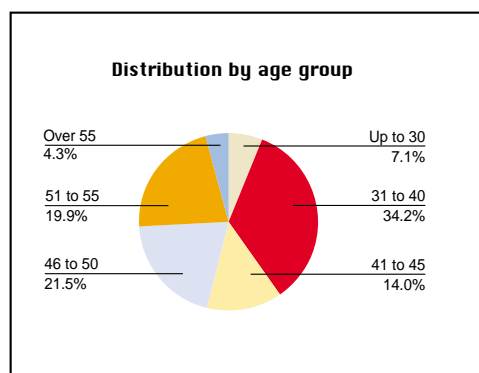
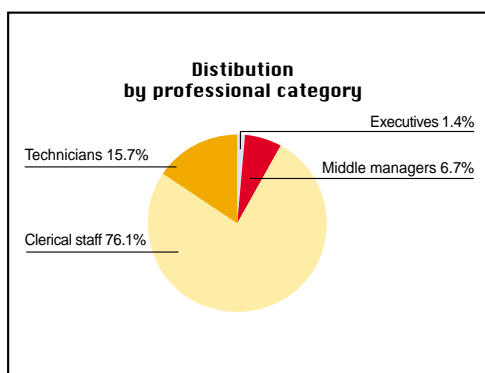
Over the three-year period 2000-2002 the reorganization process will involve [Wireline, International Activities, Information Technologies and Corporate] departments and staff. The tools employed will include unemployment compensation programs under Law 223/1991 for 5,300 units, layoffs for 2,200 units, inter-company job transfers for 1,000 units, solidarity contracts and working hours flexibility for 600 units. In addition to the above-described programs, incentive plans will be offered to about 3,000 units and no replacements will be made for staff turnover. Between July 20 and 31, operational agreements were worked out for unemployment compensation plans and layoffs.

Agreements were also reached with the labor unions in the following areas:

- *Bonus based on results:* on May 4 it was agreed to reduce by 0.1% the reference parameter for calculating the corporate macro-indicator following the variation of certain presentation criteria in the 1999 financial statements.
- *Social policies:* the agreement signed on March 28 recognized the need to contain operating costs and to reduce the statutory bodies of the Employee Social Club and the Association for supplementary health benefits. In particular, the statutes and the electoral regulations of the CRALT were approved; with regard to ASSILT, the contribution rates paid by the company, the main subscribers and pensioners were reviewed and changes were made to the statutory bodies. The Association for loans to workers [APLAT] was abolished, while a new corporate procedure was started with the same aims and a joint commission was set up to implement the new system.

Following the elections held at the meeting of the delegates and the administrative and control bodies, in June, the applications for acknowledgment of the corporate body and the authorization necessary to begin the operation of TELEMACO, the supplementary pension fund for workers in telecommunications companies, were presented to the Ministry of Labor and the relevant supervisory commission.

The charts that follow show the distribution of Telecom Italia S.p.A. personnel by professional category and by age group at June 30, 2000.



» Research and development

Confirming its commitment in this area, during the period, Telecom Italia created the "Venture Capital and Innovation" Business Unit so that it can better exploit the dynamics emerging in the market of the "new economy", in which technological and business innovation is linked to the development of new business in Italy and abroad. The aims are to identify and manage business opportunities in order to augment the competitive advantage guaranteed by new technologies, to create value for the Group, to generate significant financial returns, by accelerating the creation of new services and improving overall quality, and to ensure that, on the Italian market, Telecom Italia is perceived as a leader in the field of innovation.

In this context, a central role has been assumed by CSELT which, as always, contributed to the strategies of innovating the technology and services of all the companies in the Group. In wireline telecommunications, CSELT operated on the data networks [designing and developing the *IP backbone*, testing solutions for integrated voice/data services on *IP*], on the new access technologies on *xDSL* copper, on switching and on network intelligence [technical solutions for the evolution of performance and services, interconnection tests with other operators]. Within the sphere of applications, CSELT created innovative solutions for the *Internet*, by developing virtual communities and e-commerce. In the field of vocal technologies, where it leads the international field, CSELT has developed an integrated platform for surfing the *Internet* using vocal commands, a basic component in the evolution of the system towards a multi-access portal [voice, WAP, PC].

Interaction design institute

The activities begun during the six-month period include the setting up of the Interaction Design Institute, promoted by Telecom Italia and Olivetti, which have committed themselves to guaranteeing the financial backing for the initiative. The institute 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.



[1.2] MOBILE TELECOMMUNICATIONS IN ITALY

Telecom Italia Group operates in the mobile telecommunications sector through Telecom Italia Mobile [TIM]. The following table shows the highlights of the first half of 2000, compared to those of the first half and the whole of 1999.

	1 st half 2000	1 st half 1999	Year 1999	Change[1] [A-B]	
	[A]	[B]		amount	percentage
[in billions of lire]					
Sales and service revenues	7,324	6,648	14,425	676	10.2
Gross operating profit	3,602	3,141	6,734	461	14.7
Operating income	2,755	2,402	5,126	353	14.7
Capital expenditures	933	710	1,992	223	31.4
Number of employees at end of period	9,487	9,124	9,375	112	1.2

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

During the period, there was again a positive trend in revenues [+10.2%] due particularly to traffic, which increased by 27.4% in minutes and by more than 13% in amount thanks to the increase in the average lines [+8% compared to the end of 1999], in a context of a gradual reduction of prices. There was also marked growth in VAS services [Short

Message Service, Mobile Banking], showing an increase of more than 190%. The simultaneous curbing of costs, which show trends of slower growth, mainly in technical [interconnection with the fixed network] and structural components, made it possible to close the six-month period with an increase in operating income of more than 14%, which is particularly significant when seen in the context of an ever-more competitive market, characterized by the entry of the fourth operator and increasing price pressure.

►► The offering

The new lines activated during the six-month period numbered 1.5 million; those activated after June 30, 1999 numbered almost 4 million. Thus, by the end of the six-month period, the level of market penetration had exceeded 61%, compared to 53% at the end of 1999 and 42% at June 30, 1999. With 20 million lines [of which 17.1 *GSM* and 2.9 *TACS*] and a market share of 57%, TIM confirmed its leadership on the domestic market. The composition of the clientele confirms the increasing importance of the prepaid market, equal to 85% of lines compared to 82% at the end of 1999.

At June 30, Telecom Italia Group's international mobile customers numbered 18.2 million [4.9 million on an equity basis], with an increase of 32% compared to the end of 1999, due to the exceptional results of the Spanish operator Retevision Movil, whose customers increased from 1 to 2.4 million in the six-month period, and to the positive performance of other operators in Europe and South America. The "foreign customers/Italian customers" ratio, which was equal to 91% at June 30 [58% at June 30, 1999, 24.5% on an equity basis at the end of June 2000] confirms the important position assumed by TIM among international operators, based partly on a "plug & play" type approach, which involves the exportation of successful rate plans and innovative services and turnkey operational processes in order to achieve flexible, rapid economies of scale and to create fast start-ups.

On the domestic market, for the consumer segment, during the six-month period, TIM promoted alternative ways of recharging prepaid cards, especially using Bancomat, with SMS or free traffic offers; it also implemented formulas to encourage customers to subscribe without activation charges or with free traffic offers. For the prepaid segment, the "Duetto" formula was launched, with the option of combining it with other rates, enabling users to call another TIM number at Lire 90 [+VAT] per minute regardless of the time of day time, contributing to the growth of the clientele. The Short Message Service [SMS] was also extended to *TACS*, accompanied by a special promotion campaign. Users who had subscribed for more than four years were awarded discounts on traffic; in order to develop use of the service, the Long TIM rate was extended to all users. Finally, agreements were stipulated with major banks for mobile banking and online trading.

In order to provide the best possible response to the needs of business customers in a context of continuous evolution, a special trademark and customer care service were introduced and are to be launched on a dedicated web-site. In the segment of small and medium-size companies, which TIM intends to develop, the "2-4" offering was introduced for companies which subscribe from 2 to 4 *TACS* or *GSM* subscriptions, with a particularly advantageous basic rate profile and the possibility of customized services. In the segment of medium-large companies, in which the Company intends to maintain an effective presence, the basic "Soluzione Azienda Mobile" rate plan and services and options were changed. The new TIMDuo option allows companies to charge employees for personal traffic, but benefiting from discounts on the total traffic. The "Numero Verde

Mobile” [Mobile Toll-free Number] is proposed to companies as a tool with which to augment business opportunities.

During the first six months of the year, TIM enhanced its range of value-added services, uniting 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 manage voice, fax, e-mail and surfing the *Internet* in an integrated way] 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 thanks to agreements already stipulated with Seat-Tin.it and Yahoo! Europe.

At June 30, TIM products and services were being marketed at more than 85,000 points of sale, consisting of 1,752 Standard Dealers diversified into 4,773 shops; 15 large-scale retailers with 282 points of sale; 80,000 points of sale in the distribution channel [tobacconists, newsagents, motorway service stations, and Autogrill restaurants]; 113 Telecom Italia shops and 71 “Il Telefonino” shops, managed both directly and indirectly. Considerable investments were also made during the six-month period to develop e-commerce, in which TIM aims to become one of the largest European operators.

As far as the quality of service is concerned, the overall level of customer satisfaction rose [about 83% compared to 80% at the end of 1999]; in particular, there was an increase in the level of satisfaction for the quality of the network and for the “119” customer care service. Lastly, as far as applications designed for specific markets are concerned, TIM was the first Italian operator to permit its clientele to use cell phones for banking transactions, based on an architecture which provides high levels of security in terms of authentication and the coding of communications. This architecture was developed in conjunction with Oberthur Card System and SSB and, once the number of the terminal is known, permits direct communication between the SIM card and the SIM Toolkit application, which is already present on the switching junctions of the TIM network. In parallel, TIM has grown the standardization of this architecture on an international level.

» The network

Investments during the six-month period were mainly devoted to increasing the traffic capacity of the *GSM* network, developing new services and strengthening the intelligent network and operational systems. Work continued on the extension of the 1800 MHz network to ensure continuous coverage nationwide; at the same time, the routing service for international roaming was optimized. The creation of the TGDS platform [*TACS GSM* Delivery System] made it possible to extend the SMS service to analogical customers by phone access; in the second half of the year there are plans to provide an offering of the SMS service in text format, by marketing special terminals. The *IP backbone* was also strengthened; it will constitute the first nucleus of a multi-service network for the integrated transport of voice and data, and can be used for corporate requirements.

During the second quarter, WAP services [*Wireless Application Protocol*] services were introduced to the network, through which it is possible to access the *Internet* using special mobile radio terminals, and connection with some sites has already been completed. The services available are limited due to the current low speed of data-transmission. However the development activities of GPRS [General Packet Radio Service – data transmission on a *GSM* network at a speed almost comparable to that of an *ISDN* line] have already started, making it possible to access the *Internet* easily, manage e-mail in an optimum way and increase e-commerce. The service is scheduled to be introduced in the second half of the year, starting in Rome and Milan.

UMTS

Following the approval of the rules by the Communications Authority on December 22, 1999, an auction was approved for the awarding of five licenses Crediop [leader], N.E.R.A. and Italconsult were appointed as advisors. The auction will take place in October, by means of private bid beginning with a minimum of Lire 4,000 billion, which can be raised by successive bids. There are five licenses to be awarded and, in any case, one less than the number of participants [having verified the market potential, Resolution 410/99 of Authority has considered the possibility of awarding a sixth license]. The licenses will have a duration period of 15 years starting on January 1, 2002 and the licensees will be bound to cover the regional capitals during the first 30 months and provincial capitals during the following 30 months. The auction will be open to operators which, of the 8 that had applied by August 24, passed the examination of technical, commercial and economic-financial plans.

TIM is participating in the auction, with reservation, maintaining that it has the right to start service regardless of the outcome of the bidding, since under the current convention, TIM has the right to offer "public mobile radio services for numerical communication, regardless of the technologies used".

On an international level, Telecom Italia Group is participating in *UMTS* bids wherever it is already present as a *GSM* specific operator; in this connection, on March 13, 2000, the subsidiary Retevision Movil was awarded a special license in the Spanish mobile telephone market, while Bouygues Telecom and Telekom Austria are already busy preparing for bids on the French and Austrian markets, to be launched shortly.

►► Human resources

At the end of June 2000, there were 9,487 employees, an increase up of 1.2% compared to the end of 1999 and 4% compared to June 30, 1999. The net increase of 112 resources is due to 507 new recruits [of which 147 were transferred from other companies within the Group] and 395 employees who left the company. The population of the company, of which 43.7% are women, has an average age of 31 and an average of 3 years service. The high level of education of personnel, 80% of whom have high-school diplomas and 18% of whom are university graduates, was strengthened during the six-month period by specific training courses, aimed at developing the technical and commercial expertise in the business areas.

►► Research and development

During the six-month period, experiments continued with CSELT and some suppliers aimed at the offering of new services and the third generation mobile services [*UMTS*]. The activities with CSELT were geared to developing value-added and *Internet* services in the areas of WAP and GPRS, paying particular attention to adapting the new techniques to the corporate operational context. CSELT also provided significant support in defining the architecture and in planning/designing the mobile network for the new *GSM* services [*WAP*, *IP*, intelligent network services], already conceived as evolving towards the *UMTS* standard. With regard to the sphere of *IP* [*Internet Protocol*], TIM completed its experiments, conducted at an international level, of "voice on *IP*" technologies, partly aimed at using *IP* networks for *GSM* and SMS services; the company also followed the evolution of *IP* in the wireless environment, with the aim of defining technical solutions for the systems of the third generation.

[1.3] SATELLITE TELECOMMUNICATIONS

Telecom Italia Group operates in the satellite telecommunication sector through **Telespazio** and its subsidiaries. The following table shows the highlights of the first half of 2000, compared to those referring to the same period the previous year and the whole previous year.

[in billions of lire]	1 st half 2000	1 st half 1999	Year 1999	Change [1] [A-B]	
	[A]	[B]		amount	percentage
Sales and service revenues	272	295	636	[23]	[7.8]
Gross operating profit	38	15	70	23	°
Operating income [loss]	[56]	[14]	[41]	[42]	°
Capital expenditures	30	33	70	[3]	[9.1]
Number of employees at end of period	1,218	1,324	1,354	[136]	[10.0]

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.



The above figures refer mainly to the operations of Telespazio. The company recorded a positive performance in its operations with a production value of Lire 351 billion [+22.6% compared to the first half of 1999], achieved thanks to the significant contributions of the various segments of activity in which it operates [in particular, space services and systems, the Astrolink system order, television and mobile services]. The gross operating profit [Lire 64 billion, compared to Lire 57 billion in the first half of 1999], suffered not only from the costs incurred for the creation of Astrolink, but also from the acquisition of unused satellite capacity, destined for a foreign television customer with whom commercial dealings have been severed. The operating income, which amounted to a negative figure of Lire 11 billion, was affected by the further writedown of receivables for services supplied in previous years to the above-mentioned customer, as well as the writedown of receivables from Iridium. The figures for the first half of 2000 include the result of Viasat for only four months since it was contributed to the newly-formed company Tin.it S.p.A. on May 1, 2000.

» The offering

The scenario of satellite activities is representative of the current contradictions present in many sectors with a high technological vocation. In fact, although, on the one hand, the interest aroused by the development of broadband connections via satellite for multimedia and *Internet* applications [in which Telespazio is involved in creating dedicated platforms] remains strong, on the other, the development of satellite mobile telephone services has been significantly re-scaled. In the more traditional broadcasting services – television and data transmission – competitive pressure continues to grow, while the creation of complex space projects has taken a marked downturn due to the reduction of public financing, a phenomenon which has favored and accelerated the processes of alliances and reorganization, which had been completed or begun in the sector on a worldwide scale, partly in expectation of the privatization of the satellite consortiums Eutelsat and Intelsat. In this challenging reference framework, however, Telespazio succeeded in developing its activities significantly.

Space systems and services continue to offer interesting development prospects, both on account of the launch, over the next 10 years, of 1,600 new satellites, and on account of the launch of the European satellite navigation program, Galileo. During the period the supply of telemetry services for Intelsat, Inmarsat, Eutelsat, Eumetsat, Orion and Comsat continued, along with the management in orbit of the Sax and Italsat 1 and 2 satellites; the company also supervised the development of services for the Defense program “Sicral” and the management of positioning services of satellites in orbit for the MITA [Italian Space Agency – ASI] and Atlantic Bird 1 missions.

Within the framework of the Astrolink program, in collaboration with suppliers, engineering activities were started relating to the design of the earth segment and the control stations. The preliminary designs of the components were delivered between February and March; the delivery of more detailed designs is scheduled for next September. On August 1, Telespazio presented its offer for the running and maintenance contract with Astrolink Llc. which, if concluded, would constitute an important source of income over the next few years.

In the television sector, where it holds 90% of the Italian market, the company increased the satellite capacity supplied to the main operators and responded to the growing demand for Business TV services. The market is characterized by falling prices partly because of the competition from operators that have already been privatized, and by the intensive activity to find residual space capacity to increase the investments of various operators in the international consortiums Eutelsat and Intelsat in view of privatization, which could change the positioning of the same operators on the market. During the period, two contracts were acquired with the Sitcom group and a few other international contracts were developed [Eurosport and STV]; there was widespread use of the digital platform for the national and international clientele. Following legal action for compensation and recovery of receivables on the part of an important Arabian customer, the lease contract for space capacity was terminated.

After the interruption of services to companies in the Iridium group, telecommunications activities concentrated on managing international stations on behalf of Telecom Italia, on the user networks [VSAT services] and on the supply of satellite systems for the Ministry for Home Affairs [the SARC project] and the Ministry of Defense to support Italian troops involved in UN missions. The re-definition of contracts with the Parent Company, due both to the reduction of the circuits used and the fall in prices, was counterbalanced by the start of a new series of initiatives on the foreign market; in particular, VSAT services were characterized by the offering to multi-national customers of new services in evolved markets and new networks in emerging markets.

The market of earth observation activities, which is fairly small, could expand in the near future following the recent development of new technologies both in the resolution of images and in observation techniques, allowing the creation of numerous innovative applications. In July, the temporary grouping of companies under the Telespazio umbrella awarded the bid held by the ASI [Agenzia Spaziale Italiana] to manage its operational centers; a mixed public and private company was also set up which will operate in the market of remote observation satellite applications.

In mobile telecommunication services and systems, the recent availability of the ORBCOMM system will make it possible to market the services connected to it. In

Europe, the marketing of “Emsat” mobile telephone services through Eutelsat has received a further boost thanks partly to the development of the SARC project.

Iridium, which ceased commercial activities on March 17, put its 72 satellites and the earth control center up for sale, without any results. Consequently, on August 9, the American judge serving authorized Motorola [the largest shareholder in the consortium] to begin the process of de-orbiting the entire constellation. The company Iridium Italia will also shortly cease operations.

» The network

The technical activities of Telespazio aim to consolidate its roles of national and international role for space services, active participation in the development of global satellite systems, national coverage of broadcasting services in the television and data markets, the latter being increasingly regarded as a pilot market for the evolution of multimedia. In fact, the timely technological updating of systems makes it possible to improve the offering continuously, leading to the growth of corporate business areas.

Achievements during the six-month period include the completion of the earth segment for the Artemis and MITA missions and progress in the creation of the same for the SICRAL mission. Activities continued to adapt the earth satellite control center and to create the flight simulator for the Satelcom [Eutelsat] satellite, the launch of which is scheduled for the first half of 2001. During the next few years, the development of the network will receive a strong boost from the Galileo project [the second generation satellite global navigating system], which constitutes the most interesting development opportunity in Europe and for which the European Space Agency [ESA] has finally given the go-ahead. The activities of Telespazio in the initiative involve the architecture and the operation of the system, the requirements of the earth segment and of the telecommunications system, and the definition of commercial applications.

» Human resources

At June 30, personnel working in the sector numbered 1,218 units, a reduction of 136 [of whom 67 were transferred to Tin.it following the contribution of Viasat] compared to the 1,354 units at the end of 1999. The number of employees of Telespazio at the same date is 1,032 units, compared to 1,041 on December 31, 1999.

» Research and development

The activities of the first six months of 2000 were aimed at developing systems, innovative applications and services, some of which is financed by space agencies [ASI, ESA] and by the European Union.

In the telecommunications sector, which is characterized, following the development of *Internet*, by a shift towards broadband technologies on account of the need to transmit increasing quantities of data on the networks, the company is involved not only in Astrolink but also in the development of applications and services which may be offered using technologies that are already available.

In the sector of earth observation, development continued of new systems of remote observation from satellites to provide high-definition services, and the technological platform to supply territorial information services, and applications in SAR technology, which is particularly useful for measuring the shift of land precisely, especially in urban areas and areas liable to landslide.

In the navigation sector, the company supervised the European part of prototypes and services, especially for air traffic, and, at the same time, consolidated its role in the Galileo program: in the sector of space systems and services, its activities included special programs for managing satellites, space observation from and the integration of aeronautical and space systems for civilian and military applications.

[1.4] INTERNATIONAL TELECOMMUNICATIONS

The international presence of the Telecom Italia Group is diversified over several companies, which some of are owned directly by the Parent Company and others by the subsidiaries Stet International Netherlands [SIN] and Stet Mobile Holding [SMH]. During the period, the management and development of the international portfolio of the Group were aimed at strengthening its presence in strategic markets, mainly in Europe and Latin America. In these areas, integration between the various national economies and the coordination of initiatives organized by the Group – concentrated, during the six-month period, in Spain, Turkey, Peru and Brazil – will favor the development of synergies between the subsidiaries.



In **Spain**, along with Endesa and Union Fenosa, Telecom Italia set up the holding company **AUNA**, with the aim of maximizing the value of the investments of its partners in the local telecommunications market. The terms of the agreement, which was defined in April, were approved on June 20 by the shareholders' meeting of the new company. The definition of a single strategy for the Group companies will make it possible to exploit all the possible synergies in the management of the network, the systems and personnel and also from a financial point of view, thus reducing overall costs. The operation is diversified into two phases:

- in the first phase, telecommunications and audio-visual activities were spun off to the company Retevisión, leaving the financial activities relating to the management of investments in Retevisión Holding, renamed AUNA. AUNA is owned by SIN [28.67%], Endesa [28.67%], Union Fenosa [13.52%] and by a few Spanish banks [29.14%];
- in the second stage, the three main partners, together with the minority shareholders, will contribute their investments directly to AUNA which, at the end of the process, will hold the control of all the companies involved [or rather all those in which Telecom Italia, Endesa e Union Fenosa are the main shareholders]. The companies to be incorporated: Retevisión, Madritel, Cable i Televisió de Catalunya [Menta], Retevisión Movil [Amena], EresMas Interactiva, Quiero TV, Supercable de Sevilla/Andalusia, Cabletelca, Grupo R, Rete Roja, Aragon de Cable, Hispasat and Retena. Euskaltel and Netco Redes will not be incorporated in AUNA. The Group's final investment holding in AUNA will depend upon the exchange ratio agreed between the operators who will converge in the new company, as well as the contributions of the various minority shareholders. The contributions will take place at the end of September.

In line with the strategy of consolidating its presence in Europe and expanding into the Mediterranean basin, in April, Telecom Italia Group, in a consortium with Is Bank [the

leading private bank in the country], won the bidding for the fourth national mobile license in **Turkey**. The division of the investment holding in the consortium [49% Telecom Italia Group and 51% Is Bank] reflect the rules laid down by national laws; in fact, control of companies offering telecommunications services must be held by local investors.

The bid involved the issue of two new licenses to private operators; as a matter of course, one other was attributed to the fixed network operator. The consortium of which the Group is part was awarded the license at the price of US dollar 2,525 million; the other was not awarded since none of the participants raised the bid by US dollar 10 million over the price paid by the first consortium, as required by the tender for bids.

The project is of enormous importance in terms of the potential of the Turkish market: the country, with a population of 65 million, and a per-capita income of approximately US dollar 3,000, has a penetration of mobile services of approximately 11%, much lower than the average in Europe [40%] or the emerging European countries [20%], offering huge margins of growth. The company, of which TIM will have operational control, intends to give top priority to the business segment, thanks partly to the support of the local partner, and target the young age group, which is numerous and interested in technological innovation and the development of *Internet* services. The launch of the service is scheduled for February 2001.

In March, **TIM Perú** [100%-owned by SMH], competing with the leading international operators, was awarded the third PCS 1900 mobile license at the price of US dollar 180 million. The license imposes the coverage of 10 cities, including the capital, Lima, within two years of the service being activated: it has a 20-year duration and is renewable, and offers the possibility of requesting other licenses for supplementary services, including long-distance basic telephone services. In fact, the first two licenses were awarded to operators active in both the mobile and fixed telephone segments.

The acquisition strengthens the status of Telecom Italia Group as the leading operator in South America. Since the bidding conditions are not binding from a technical point of view, the company has decided to adopt *GSM* in order to exploit the competitive advantage over the local competition, both in terms of quality and the broad range of services offered, and roaming potential with the other *GSM* operators in the region and further afield, as well as synergies in acquisitions and management.

Peru, with a population of 25 million and a per-capita income of approximately US dollar 2,600, is characterized by a level of penetration of the service [4.3%] that is lower than the average of comparable countries, presenting good prospects for growth. Because of the current high prices, the company will devise a commercial policy based on the development of value-added services and the broadening of tariff plan options.

In **Brazil**, on June 2, Telecom Italia Net and Globo Organizacoes signed a strategic agreement in the *Internet* sector. The agreement involves the acquisition by Telecom Italia of 30% of the registered capital [30% of the shares with voting rights and 30% of preferred shares] of GLB Servicos Interativos, an Internet company belonging to Globo Group, for US dollar 810 million. On June 26, the transaction was concluded through the affiliated company Softe.

On March 26, GLB launched Globo.com, a "horizontal" portal which applies to all the Portuguese-speaking communities in the world, using exclusive multimedia contents produced by Globo, a media leader in Latin America, active in the television, radio and printing sector and the largest producer of contents in Portuguese. The portal has already assumed an important position on the Brazilian Internet market, which is highly competitive and expanding rapidly. Telecom Italia will provide the company with support from the technological point of view.

On January 31, Brasil Telecom Participacoes [formerly Tele Centro Sul Participacoes], 19.6% of which is owned by SIN, presented an offer for the acquisition of 100% of Telebrasil Sul [TBS], a holding company with 85.19% of the voting capital [31.5% of the total capital] of Companhia Riograndense de Telecomunicacoes [CRT]. Brasil Telecom's offer was the only one to be presented in a process which, based on what the Brazilian regulatory body ANATEL was suggested set February 4 as the date by which Telefonica, the majority shareholder of TBS, was to have disposed of its investment, since it was incompatible with its role as majority shareholder in TELESP, the telephone operator of the state of San Paolo. Telefonica rejected Brasil Telecom's offer, judging it to be inadequate. ANATEL then ruled that the management of CRT should be entrusted to the minority shareholders until TBS is sold. On July 28, the Brasil Telecom shareholders' meeting approved the maximum price to conclude the deal [US dollar 800 million], giving management the authority to negotiate terms and conditions.

Currently, CRT, which operates in an area where the per-capita income is approximately US dollar 5,500, above the Brazilian average [US dollar 4,700], has 1.8 million customers. Through its acquisition, in addition to creating important synergies, Brasil Telecom would reach a similar size to the other wireline telephone companies resulting from the split-up of Telebras. This would enable Brazil Telecom to cope better with the deregulation of the market scheduled for the end of 2001, bringing these companies to compete on a national scale with each other and new incoming operators.

Telecom Italia Group's wireline international customers reached 18.2 million [5.7 million on an equity basis] at June 30, with an increase of 8.33% compared to the end of 1999.

► Consolidated subsidiaries

The following table shows the highlights of the results, adjusted to conform to Group accounting principles, reported by the consolidated companies which make up the international sector.

	1 st half 2000	1 st half 2000 with a comparable scope of consolidation [A]	1 st half 1999 [B]	Year 1999	Change % [1] [A-B]
[in billions of lire]					
Sales and service revenues	3,614	1,922	1,445	3,160	33.0
Gross operating profit	1,263	419	288	580	45.5
Operating income [loss]	259	[125]	[116]	[246]	[7.7]
Capital expenditures	1,247	797	1,272	1,845	[37.3]
Number of employees at end of period	13,226	6,065	5,295	5,627	7.8

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

The trend of the sector, with a comparable scope of consolidation, [excluding the Nortel group], was affected by the improvement in the operational management of the companies, some of which are just emerging from the start-up phase, as well as the appreciation of the Brazilian real against the Italian lira. The increase in the gross operating profit, with comparable exchange rates, would be 32.41%.

Europe

TMI - TeleMedia International Italia Group. The TMI group, which is entirely controlled by Telecom Italia, operates in the market of Global Providers, offering multi-national companies world-wide voice/data telecommunications services on a fixed network. Telecom Italia intends to strengthen the positioning of TMI by developing the range of services offered and further reducing costs, by optimizing the network structure and resorting to alternative operators capable of offering traffic transport at competitive prices.

During the six-month period, the TMI Group recorded revenues of Lire 135 billion. The operating result was a loss of Lire 81 billion while the loss for the period amounted to Lire 79 billion.

9 Telecom Reseau. 9 Telecom Reseau is a French fixed-line telephone carrier offering, for only slightly more than one year, indirect access to voice, data, *wholesale* and *Internet* services for the residential and business segments. After the increase in share capital voted on June 27, the Telecom Italia Group's investment rose to 93.99% [92.82% through SIN and 1.17% through TMI Ltd.].

Despite the difficulties existing on the market, partly due to the orientation of the regulatory authorities in favor of the dominant operator, at June 30, 9 Telecom Reseau had accumulated 491,000 customers [an increase of 261,000 compared to the end of 1999], of which 463,000 were residential and 28,000 business customers. *Internet* customers numbered 106,000 [up 46,000 with respect to the end of 1999, concentrated in the residential segment]. During the six-month period there was an overall increase in clientele of 106%.

The company took part in the bid for the national "wireless local loop" license, awarded on July 11 to another operator. Therefore, with the aim of re-positioning its offering on *IP* data services for small and medium-sized companies, 9 Telecom will supply *ADSL* services on the France Telecom network, while implementing the technology for *local loop unbundling*, which will be made available in the first few months of 2001.

During the six-month period, 9 Telecom recorded revenues amounting to FRF 234 million [Lire 69 billion] compared to FRF 23 million [Lire 7 billion] in the first half of 1999. The operating result, which was a loss of FRF 583 million [Lire 172 billion], and the loss recorded for the period amounting to FRF 576 million [Lire 170 billion], were again due to the start-up phase.

Intelcom San Marino. The operator, which offers international telephone services, value-added services, data transmission and *Internet* access in the Republic of San Marino, has recently started experimenting with offering *ADSL*. At June 30, *Internet* subscribers numbered approximately 3,000; a similar number was accumulated by the subsidiary TMS [Telefonia Mobile Sammarinese], the second-largest mobile operator in the republic. Through other investments, the company also has interests in satellite services, business television and data transmission, as well as the dissemination and development of interactive multimedia services.

Revenues for the six-month period amounted to Lire 50 billion, showing an increase of 150% compared to the same period in 1999 [Lire 20 billion]. The operating income and net income both totaled Lire 3 billion.

Stet Hellas. During the six-month period the Greek market reached a level of penetration of 47% in a fiercely competitive scenario characterized by the offers for terminals prices below costs and large discounts on tariffs. In this context, Stet Hellas has also concentrated

on quality and innovation, introducing the first mobile portal for online services that can be accessed through WAP starting in June. At June 30, the company had accumulated 1.4 million customers [+20% compared to the end of 1999], with a market share of 29%.

Despite pressure from the competition, Stet Hellas succeeded in improving its economic results: in fact, consolidated revenues amounted to Greek drachmas 84 billion [Lire 484 billion], +19.7% compared to the first half of 1999; operating income amounted to Greek drachmas 11 billion [Lire 62 billion]; net income is Greek drachmas 2.7 billion [Lire 15.8 billion]; in the first half of 1999, the company recorded a loss of Greek drachmas 2.5 billion [Lire 15 billion].

Latin America

Entel Bolivia. During the first six months of 2000, the company suffered from the effects of the economic crisis prevailing in the country, which should, however, recede in the second half of the year. However, during the period, work continued to complete the fixed network and the mobile network infrastructures. On this subject, the mobile division of Entel generated a net increase of 63,000 connections, reaching 207,000 customers at June 30 [78% with prepaid cards] and confirming its leadership position on the market.

Revenues for the period amounted to Bolivian bolivianos 637 million [Lire 213 billion], +1.5% compared to the first half of 1999; operating income amounted to Bolivian bolivianos 41 million [Lire 14 billion], while net income totaled Bolivian bolivianos 82 million [Lire 27 billion].

Nortel Inversora - Telecom Argentina. Nortel Inversora is the major shareholder of Telecom Argentina and 50% of the ordinary capital is held by Telecom Italia and SIN. In April, Nortel's investment in Telecom Argentina fell from 58.26% to 54.74%, as a result of the conversion of debentures [MEDS – Mandatory Exchangeable Debt Securities] into shares of Telecom Argentina held by Nortel.

After the award of the mobile PCS licenses [in July 1999] and the liberalization of the fixed telephone services market [in October 1999], Telecom Argentina was transformed into an integrated operator, capable of supplying telecommunications and value-added services nationwide, thus strengthening its strategic positioning. By the end of June 2000, the Telecom Argentina group had accumulated 3.3 million subscribers to the fixed network and, through the subsidiary Telecom Personal, confirmed its position as leader in the mobile telephone market with more than 1.6 million customers [55% with prepaid cards], corresponding to a market share of 31%.

During the six-month period, Nortel Inversora reported a consolidated net income of Argentine pesos 81 million [Lire 163 billion]. This result is mainly due to Telecom Argentina which, during the period, generated consolidated revenues of Argentine pesos 1,677 million [Lire 3,385 billion, compared to Argentine pesos 1,613 million [Lire 2,869 billion] in the first half of 1999. The operating income amounted to Argentine pesos 375 million [Lire 757 billion]; net income was Argentine pesos 125 million [Lire 252 billion].

Bitel Participacoes. The two operational holding companies Tele Celular Sul Participacoes and Tele Nordeste Celular Participacoes, which operate in the mobile telephony services, are subsidiaries of this Brazilian company, which is a wholly owned subsidiary of SMH. In the sector, the commitment of the Telecom Italia Group in South America aims to strengthen the competitive position of the subsidiaries with regard to the two macro-regional operators Telefonica and Bellsouth. In particular in Brazil, a restructuring process is in progress with

the aim of streamlining corporate structures, developing operating synergies and obtaining tax benefits, together with the creation of shared technological platforms, including the new wireless portal. During the period, Bitel incurred financial expenses of Brazilian reais 51 million [Lire 58 billion] on the debt to the Brazilian government arising from the acquisition of the subsidiaries.

Tele Celular Sul Participacoes. The operator provides mobile phone services to the states of Paraná, Santa Caterina and the city of Pelotas. Despite the fact that, during the period, the competing operator pursued an aggressive commercial policy, characterized especially by offering terminals at below-cost prices, the company won 170,000 new customers, bringing the total to more than 1.2 million [+16% compared to the end of 1999], with a market share of 83%.

Consolidated revenues during the period amounted to Brazilian reais 385 million [Lire 436 billion], +21% compared to the same period in 1999; operating income amounted to Brazilian reais 58 million [Lire 66 billion]; net income amounted to Brazilian reais 11 million [Lire 12 billion].

Tele Nordeste Celular Participacoes. The company operates in the regions of Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte. Thanks to an effective commercial strategy geared to maintaining its leadership on the market and the offering of innovative products and services [SMS, UNI.TIM], at the end of June 2000, Tele Nordeste had accumulated 1.4 million customers, corresponding to a market share of 65%. Consolidated revenues for the six-month period amounted to Brazilian reais 445 million [Lire 503 billion], +46% compared to the first half of 1999; operating income amounted to Brazilian reais 89 million [Lire 100 billion], while net income amounted to Brazilian reais 12 million [Lire 14 billion].

» Affiliated companies and other companies

Europe

Spain. The main events which took place during the first half in the affiliated companies and other companies in Spain include:

- the award in March, through Amena, of one of the four *UMTS* licenses offered by the Spanish government;
- the change in the registered name of Retevisión Interactiva, a company operating in the *Internet*, to EresMas Interactiva following the name-change of the portal Alehop.com to EresMas.com;
- the launch, on May 5, of Quiero TV, the commercial trademark of Onda Digital, 49% owned by AUNA, which, in November 1999, was awarded the only Spanish digital land-based pay-TV license. The platform calls for broadcasting 14 channels, 3 of which will be “pay per view”, and the possibility of accessing the *Internet* through television. Two months after its launch, in the face of 27,000 requests, 17,000 contracts had been signed and 12,000 customers activated.

The following section contains further information about individual companies. The figures for the first half of 2000 are not yet affected by the formation of AUNA and are therefore comparable with the corresponding figures of 1999.

Retevision, the second-largest operator of wireline services in the country, closed the six-month period with more than 1,600,000 customers, corresponding to more than 2,400,000 lines, of which approximately 40,000 were direct access lines, mainly for business customers. At June 30, the company had accumulated 888,000 *Internet* customers, thanks to the success of the free Internet service and a portal with hi-tech content like EresMas. At the end of June, the “Tarifa Plana” was launched, offering Retevision customers favorable conditions for access to *Internet*. The offering met with instant success with approximately 20,000 subscriptions being stipulated within a few days, of which 40% refer to new Retevision customers. 8% of corporate revenues can already be attributed to *Internet* services; 58% can be attributed to telecommunications and 31% to audio-visual business. During the period, the competition, which has led to significant tariff reductions, limited the growth of revenues equal to Spanish pesetas 45 billion [Lire 530 billion] compared to Spanish pesetas 47 billion [Lire 543 billion] in the first half of 1999 and generated a fall in profit margins. The operating loss is Spanish pesetas 14 billion [Lire 158 billion]. The loss for the period amounted to Spanish pesetas 23 billion [Lire 272 billion], compared to Spanish pesetas 5.6 billion [Lire 65 billion] in the first half of 1999.

During the six-month period, **Retevision Movil [Amena]**, with an incremental market share of 29%, reached 12% of the total market, [at June 30, customers numbered 2.4 million, +140% compared to the end of 1999]. The operator was characterized by its dynamism and by the innovative nature of its offering, launching, during the six-month period, the first WAP service in Spain. In March, the company was awarded a *UMTS* license for an overall cost of Lire 255 billion; the commercial launch of the service is scheduled for 2001.

Revenues for the period amount to Spanish pesetas 47 billion [Lire 550 billion] compared to Spanish pesetas 5.8 billion [Lire 67 billion] in the first half of 1999. The operating loss is Spanish pesetas 53 billion [Lire 617 billion]. The loss for the period is Spanish pesetas 37 billion [Lire 435 billion]. The negative economic results were penalized by the considerable commercial efforts, which made it possible to acquire more than 1.4 million customers during the six-month period.

Cable i Televisio de Catalunya [Menta] supplies phone and cable-TV services in the Barcelona area. At June 30, 2000, customers numbered approximately 8,000; despite the delays in the issue of digging permits, 111,000 homes were supplied with cables. The company is broadening its range of services, paying particular attention to *Internet* with broadband access and to the sphere of data transmission. In May, the “pay per view” service was also launched for the residential market.

The six-month period generated revenues of Spanish pesetas 217 million [Lire 3 billion]; the operating result was a loss of Spanish pesetas 3,319 million [Lire 39 billion]; the loss for the period, which amounted to Spanish pesetas 3,305 million [Lire 38 billion] was due to the start-up phase.

Madritel holds the concession for the phone and cable-TV service in the Madrid area. During the first ten months of activity commercial results were positive, with approximately 18,000 active customers. Despite the delay in issuing digging permits, 133,000 homes have already been cabled. In May, with Menta and nine other cable operators, Madritel created the company Estreno Digital in order to acquire content for pay-TV at advantageous terms. In June, the company launched its broadband *Internet* service.

During the first six months, consolidated revenues were generated for Spanish pesetas 1,111 million [Lire 13 billion]; the operating loss was Spanish pesetas 4,515 million [Lire 53 billion]; the loss for the period, amounting to Spanish pesetas 3,223 million [Lire 38 billion], was due to the start-up phase.

Euskaltel offers telecommunications services in the Basque countries through a strategic agreement with Retevisión, sanctioned with shares exchange of 3%. During the six-month period, the company consolidated its position as the second largest operator in the region with 238,000 customers for indirect phone services and 6,500 for direct phone services. By means of a commercial cooperation agreement with Retevisión Movil, Euskaltel also plays the role of operator of integrated fixed-mobile services, with more than 160,000 customers. The offering is completed by *Internet* services, the excellent results of which [the acquisition of 65,000 paying customers and 123,000 free customers] enabled the company to consolidate its position as the fifth-largest provider in Spain. Revenues for the period amounted to Spanish pesetas 6.2 billion [Lire 72 billion], +47% compared to the first half of 1999. The operating income was a negative figure of Spanish pesetas 4 billion [Lire 47 billion]; the loss for the year amounted to Spanish pesetas 3.2 billion [Lire 37 billion].

At the beginning of 2000, **Netco Redes** lost its rights to the exclusive use of the fiber optic telecommunications networks of some of the Spanish electrical companies [Endesa, Union Fenosa, Red Electrica de Espana] following a decision on the part of the Spanish Antitrust Authority. The company will be paid damages over ten years amounting to approximately Lire 8 billion with interest at 4%. In turn, Netco Redes, which manages and maintains the infrastructures, is ceding its right of use to Retevisión. Both revenues of Spanish pesetas 1.7 billion [Lire 20 billion] and the net income for the six-month period of Spanish pesetas 0.5 billion [Lire 5 billion] are the same as those generated in the corresponding period in 1999.

France. During the six-month period, despite the presence of a slowdown in the growth of the market, **Bouygues Telecom**, the third largest mobile operator in France, improved its competitive position, reaching 16% of the total market by the end of June, with 4 million customers [+23% compared to the end of 1999 and +103% compared to June 30, 1999]. The company is concentrating on developing its distribution network and setting up specialized channels for VAS, and is also busy preparing for the *UMTS* bid. Revenues for the period amounted to French francs 5,637 million [Lire 1,664 billion], +89% compared to the first half of 1999; the operating loss is French francs 631 million [Lire 186 billion]; the loss for the period amounts to French francs 1,096 million [Lire 324 billion compared to Lire 378 billion in the first half of 1999].

Austria. Telekom Austria is the main fixed phone services operator. At June 30, the company operated approximately 3,800,000 equivalent lines, with a market share of 95%. To challenge the competition, in March, the operator initiated a reduction in rates for fixed-to-mobile traffic [-20%], which was extended in July to online and long-distance traffic [-50% in peak time]. At the end of June, "Aon-line", Telekom Austria's *Internet* Service Provider, had accumulated 192,000 customers. Within the framework of the strategic repositioning of the business area, the Internet activities of the company are to be transferred to Highway 194, a company acquired by ORF, the Austrian state television company, with which an agreement has been signed concerning the supply of content. On an international scale, the acquisition of 100% of Czech OnLine, the leading ISP of the Czech Republic, was completed for the sum of Lire 420 billion, with approximately 170,000 customers [of whom 35,000 are business customers], corresponding to a market share of 60%. The company is expected to be listed on the stock exchange by the end of 2000; the preparatory activities for this are already in progress.

Due to the increase in competitive pressure, as a consequence of which the company has already begun to restructure, in the first half of 2000 the results of the company were lower than in the same period in 1999. Revenues for the period amounted to Austrian schillings 18,444 million [Lire 2,595 billion], -3% compared to the first half of 1999. The operating loss is Austrian schillings 580 million [Lire 82 billion]; the loss for the period is Austrian schillings 1,305 million [Lire 184 billion], also due to extraordinary expenses incurred to support employee reduction programs, the effects of which will penalize results in the second half to a greater degree.

At the end of June, the Austrian mobile market, which was characterized during the six-month period by the entry of the fourth operator and marked growth, reached a level of penetration of 62%. In this context, **Mobilkom Austria** reached 2.6 million customers [+14% compared to the end of 1999], with a market share of 52%. Corporate strategy is geared to optimizing existing business areas, strengthening the customer service and developing value-added services. In particular, the offering developed towards *Internet* with WAP applications, thanks to which it is already possible to carry out financial operations and operate *e-mail*. Mobilkom, with the support of TIM, is also currently busy preparing for the bid of the *UMTS* licenses scheduled for 2001.

Revenues for the six-month period amounted to Austrian schillings 8,944 million [Lire 1,259 billion], +15% compared to the first half of 1999; operating income amounted to Austrian schillings 1,339 million [Lire 188 billion]; net income amounted to Austrian schillings 887 million [Lire 125 billion].

Czech Republic. In line with 1999, the first half of 2000 was again characterized by a marked spread of mobile services; in fact, by the end of June, the level of penetration of the service had reached 27% [compared to 19% at the end of 1999]. In this context, **Radiomobil**, the leader on the incremental market, activated 397,000 lines, with a final total of approximately 1.3 million customers [+45% compared to the end of 1999] and a market share of 46%.

Revenues for the six-month period amounted to Lire 421 billion [+81% compared to the same period of 1999]; the net income is equal to Lire 61 billion [+33% compared to the first half of 1999].

Serbia. In Serbia, the Telecom Italia Group is present through **Telekom Srbija**, the fixed-line carrier operating as a monopoly and the country's second largest mobile operator. At June 30, the company had accumulated 2,125,000 subscribers to the fixed network [of whom 1,885,000 are residential and 240,000 business customers] and 255,000 mobile phone customers. Given the strong devaluation of the local currency, the government granted permission to increase rates by 9.5% for telecommunications services, starting in April.

The company provided no official valuation of the entity of the damages inflicted during the war; state secrecy imposed in this area, which was to expire on June 26, has been postponed indefinitely. However, Telekom Srbija is still being prevented from managing telecommunications services in Kosovo. For this reason the investment has already been written down [by about Lire 198 billion] in the 1999 financial statements of SIN.

Revenues for the six-month period amounted to approximately Lire 700 billion, of which Lire 43 billion were generated by the mobile telecommunications segment.

Russia. **Astelit**, a company equally owned by Telecom Italia and the Russian state, offers long-distance and value-added services, in particular to Italian multi-national companies with interests in Moscow and Saint Petersburg, and *wholesale* traffic on the local market. Revenues during the first half of 2000 amounted to US dollar 2.6 million [Lire 5 billion].

Latin America

Brazil. In Brazil, the Telecom Italia Group operates in the fixed phone segment through Brasil Telecom Participacoes and in the mobile phone segment also through Maxitel. The former company is controlled by SIN through **Solpart Participacoes**, which holds 51.79% of ordinary share capital. During the six-month period, Solpart incurred financial expenses of Brazilian reais 80 million [Lire 90 billion] on the debt with the Brazilian government taken out for the acquisition of the subsidiary.

In May, Tele Centro Sul Participacoes took the new name of **Brasil Telecom Participacoes**. During the six-month period, 253,000 new lines were activated [+5% compared to the end of 1999], reaching a total of 4,971,000 connections by June 30.

Within the framework of the corporate restructuring process, in February, the process was completed for the incorporation in Telepar Participacoes of eight other operating companies formerly controlled by Tele Centro Sul: at the end of this transaction, 74.55% of Brasil Telecom [the new name of Telepar Participacoes] is owned by Brasil Telecom Participacoes, of which 93.55% through ordinary shares and 64.59% through preferred shares.

Consolidated revenues for the period amounted to Brazilian reais 1,856 million [Lire 2,097 billion], with a growth of 21% compared to the first half of 1999. The operating income, which amounted to Brazilian reais 225 million [Lire 254 billion], and the consolidated net income, of Brazilian reais 110 million [Lire 124 billion], were affected by the costs of corporate restructuring and the higher amortization resulting both from investment policies, geared to accelerating the achievement of the objectives set by the regulatory body in order to enter the long-distance inter-regional and international market two years early, and the amortization of goodwill paid for the acquisition of the company, already recorded by the parent company Solpart and passed to Brasil Telecom in compliance with current Brazilian laws.

Having completed the start-up phase, **Maxitel**, the mobile operator active in the states of Bahia and Sergipe, continues to face fierce competition induced by the commercial aggressiveness of its competitor.

During the six-month period, customers increased by 36% compared to the end of 1999, reaching a final total of 691,000 units, with a market share of 31%.

The company concluded the period with consolidated revenues of Brazilian reais 225 million [Lire 255 billion], +100% compared to June 1999, an operating loss of Brazilian reais 68 million [Lire 77 billion] and the loss for the period of Brazilian reais 206 million [Lire 232 billion], caused by heavy financial expenses.

Chile. Despite the fact that the country has not yet completely recovered from the economic recession which began at the end of 1998, **Entel Chile** recorded a marked improvement in results, due mainly to the affiliated companies Entel PCS and Americatel USA, now beyond the start-up phase.

In particular, the recession hit the traditional business segment of domestic long-distance and international services, in which the company recorded a fall in traffic of 7% compared to the first half of 1999, yet it maintained its leadership in the sector. Moreover, margins were maintained owing to a reduction in direct costs resulting from the new decree on tariffs, which significantly reduced the access charge to the local network. In sectors showing strong growth, Entel PCS [the operational management of which is entrusted to TIM] has almost reached 1 million mobile customers, tripling its base compared to June 1999; similar dynamics were recorded in *Internet* services [+118% in terms of traffic].

Even the market has finally acknowledged the success achieved by Entel in its transformation from a simple long-distance operator to an integrated operator capable of playing a key role in the spheres of mobile and *Internet* services: in fact, in the last twelve months, the market price of its shares has risen from US dollar 2.4 to US dollar 9.2.

Consolidated revenues for the six-month period amounted to Chilean pesos 236 billion [Lire 935 billion], +40%. The operating income totaled Chilean pesos 28 billion [Lire 111 billion], double that of the same period of 1999. The net income amounted to Chilean pesos 10 billion [Lire 40 billion], against a loss of Chilean pesos 5 billion [Lire 20 billion] during the first half of 1999, attributable to costs incurred for diversifying and developing the business of the subsidiaries.

During the six-month period, the SIN's investment increased from 21.86% to 25.63%.

Cuba. Etec S.A. Cuba, the exclusive operator of the domestic fixed and mobile phone services, closed the six-month period with revenues of US dollar 142 million [Lire 288 billion], +23% compared to the first half of 1999, and a net income of US dollar 87 million [Lire 175 billion], an increase of 23% compared to that of the same period of the previous year. In April, telephone connections with the main American operators were restored following the positive conclusion of the judicial proceedings which had led to the blocking of funds owed by them to the Cuban company.

Other areas

Israel. During the period, **Golden Lines**, currently the second largest operator of international phone services in Israel, generated revenues of Israeli shekels 254 [Lire 126 billion], with a growth of 12% compared to the same period the previous year. The loss for the period amounted to Israeli shekels 32 million [Lire 16 billion]. Before the end of the year, the company will launch its offering of *Internet* access services, geared to both residential and business customers.

India. In this market the Telecom Italia Group operates through Bharti Telenet and Bharti Cellular; the sale of these companies is preview in order to realize the program of the foreigner portfolio reorganization.

During the first quarter of 2000 [which began on April 1], **Bharti Telenet**, which operates fixed telecommunications in the state of Madhya Pradesh, generated revenues of Indian rupees 258 million [Lire 11.8 billion], a marked increase compared to the Indian rupees 54 million [Lire 2.2 billion] recorded in the same period of 1999. The loss for the period was Indian rupees 127 million [Lire 5.8 billion].

Bharti Celular, the *GSM* operator in New Delhi, operates in a growing market: during the six-month period, by conquering 65% of the incremental market, it reached a market share of 59%, corresponding to 207,000 final customers.



[1.5] INFORMATION TECHNOLOGY ACTIVITIES

The Telecom Italia Group operates in the sector through the Finsiel, Telesoft and Sodalìa. These companies have been joined together, as Telecom Italia's information technology function, in the "Information Technology Services" Business Unit. At the end of the six-month period, this unit began a program of industrial and corporate reorganization, geared to focusing its activities according to product, customer and market, partly with the aim of obtaining improvements in production and efficiency. The new configuration of organization includes six areas of activity which will report to a holding company [TI.IT] into which Telecom Italia will transfer all the investments it holds in the sector. The areas will focus on development activities, operational activities, market activities [with an emphasis on the financial, industry and transport segments, and the Public Administration], activities to support the Tax Office and the Ministry of Finance, the offering of professional services, web-related services, consultancy and training. Within the framework of the reorganization process, Telecom Italia will transfer its business segments dealing with operational and development activities to the Business Unit.

The following table shows highlights of the first half of 2000 of Finsiel, Telesoft and Sodalìa compared to those for the same period and the whole year of 1999.

	1 st half 2000	1 st half 1999	Year 1999	Change[1] [A-B]	
	[A]	[B]		amount	percentage
[in billions of lire]					
Sales and service revenues	1,356	1,276	3,074	80	6.3
Gross operating profit	176	200	405	[24]	[12.0]
Operating income	118	126	237	[8]	[6.3]
Capital expenditures	50	57	129	[7]	[12.3]
Number of employees at end of period	9,949	10,298	10,206	[257]	[2.5]

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

The main contribution to these results was provided by **Finsiel** group which, during the six-month period, generated revenues of Lire 1,046 billion [compared to Lire 1,053 billion in the first half of 1999, -0.7%]. The operating income totaled Lire 92 billion [compared to Lire 109 billion in the first half of 1999, -14.9%]. The reduction in results is due to the exclusion of some companies from the scope of consolidation and the sale of some business segments to third parties, the re-definition of the terms of the contracts with the General State Accounting Office, the completion of activities conducted for the transition to the year 2000 and the re-scaling of those associated with the Euro.

Finsiel confirmed its position as the main operator on the Italian Information Technology market thanks to its capacity to rapidly change its offering according to the diverse requirements of its public and private clientele. During the six-month period, in addition to its traditional activities, in fact, there was marked growth in system integration, networking, facility management and web-based solution services, resulting in an increase in the results of Banksiel Group, which specializes in services for banks, and also Tele Sistemi Ferroviari, a company in partnership with Ferrovie dello Stato.

The activities on behalf of the Public Administration were of key importance. In this sphere, collaboration continued with the State Audit Court, the General State Accounting Office, the Ministry of Finance [to which the subsidiary SOGEI supplies support for the computerization of the national tax system – the “Fisco telematico” project], with the Ministries of Health and Agricultural Policies and with many local administrations.

During the period, the process of rationalizing the investments of Finsiel group continued. In this context, the following should be mentioned:

- the acquisition of the entire capital of Comitsiel by Banksiel;
- the sale by Banksiel of its share in Sibisiel to Netsiel, which subsequently also acquired the minority holding in Sibisiel;
- the change of the registered name of Logicasiel [former joint venture between Finsiel and Logica, the British Information Technology operator] to Webegg, following the sale by Logica of its investment [45%] to Olivetti. Webegg subsequently increased capital which gave the shareholders Finsiel and Olivetti a 50-50 stake; subsequent to these transactions Webegg, which is no longer included in the scope of consolidation, is valued using the equity method;
- the acquisition, by Consiel, of 15% of Finsiel do Brasil held by Finsiel.

At June 30, the workforce numbered 7,844, a reduction of 3.5% compared to the 8,130 units at the end of 1999.

Telesoft is involved in the main strategic projects of Telecom Italia and TIM, with the role of key partner in the creation and development of operating processes for managing the phone network 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.

During the first half of 2000, Telesoft generated a production value of Lire 366 billion, Lire 6 billion more than in the corresponding period of 1999. The operating income amounted to Lire 24 billion [compared to Lire 13 billion in the first half of 1999].

At June 30, 2000, the workforce numbered 1,570, compared to 1,554 at December 31, 1999.

Sodalia, which is active in the research and development of software for managing telecommunications services and networks, continued its work in support of Telecom Italia and confirmed its role as a strategic supplier for Bell Atlantic.

The company closed the six-month period with a production value of Lire 19 billion [compared to Lire 24 billion in the same period of the previous year] and an operating loss of Lire 0.4 billion [compared to Lire 2.7 billion in the first half of 1999]; however, in this connection, it should be pointed out that the Province of Trento withdrew its contribution to technological research activities made until 1999.

At the end of the period, the workforce numbered 293, compared to 303 at December 31, 1999.

1.6] MANUFACTURING ACTIVITIES

The Telecom Italia Group operates in the sector through **Italtel**. The following table shows the highlights of the first six months of 2000, compared to the results of the first half and the whole of 1999.

	1 st half 2000	1 st half 1999	Year 1999	Change [1] [A-B]	
	[A]	[2] [B]	[2]	amount	percentage
[in billions of lire]					
Sales and service revenues	771	1,352	3,114	[581]	°
Gross operating profit	22	[91]	10	113	°
Operating loss	[39]	[141]	[115]	102	°
Capital expenditures	22	70	127	[48]	°
Number of employees at end of period	4,891	14,522	5,153	262	[5.1]

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

[2] Following the reorganization, Italtel Group was consolidated using the proportional method at 50% for the first 10 months of the year and consolidated line-by-line for the remaining two months.

The figures for the first half of 2000 are not comparable to those of the corresponding period of 1999 because of the sale to Siemens of the activities and the companies operating in the radio, transport and mobile telecommunications network sectors in the second half of 1999; the simultaneous sale, by Siemens, of 50% of Telsi Ltd, gave Telecom Italia a 100% stake in Italtel. This company concentrated its activities in the fixed 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 services by making the best possible use of its core competencies.

Revenues for the first half totaled Lire 771 billion, earned mainly on international markets, particularly in Spain. Industrial operations show favorable trends while the net loss for the period of approximately Lire 36 billion includes the effects of receivable and inventory writedowns.



At the end of June, Telecom Italia signed an agreement for technological collaboration with Cisco, which involves the joint development of a broad range of services based on the convergence of data, voice and video, and advanced applications in the web world [e-commerce, web call centers]. Under the terms of the agreement, Cisco will acquire 18.9% of Italtel, while a group of American financial investors will take over another 61.2% of the company. Telecom Italia will maintain a strategic stake of 19.9% aimed at developing possible synergies with its American technological partner and, through Italtel, will strengthen its leading role as a supplier of hi-tech corporate services and applications, and, at the same time, will reduce the marketing times of new services and be able to add joint solutions to its offering. The new Italtel will therefore play an active role in the development of these solutions.

Within the sphere of the Italtel group, investments in Tecnosistemi, Mistel Microinformatica Telecomunicazioni and General 4 Elettronica Sud were divested during the period.

At June 30, the workforce numbered 4,891, showing a reduction of 262 units compared to the end of 1999, partly as a result of the agreement reached in January with the labor unions, which includes special initiatives aimed at restoring the balance between work programs and the workforce.

1.7] INSTALLATION ACTIVITIES

The Telecom Italia Group operates in the sector through the Sirti Group. The following table shows the highlights of the first half of 2000, compared to the first half and the whole of 1999.

	1 st half 2000	1 st half 1999	Year 1999	Change [1] [A-B]	
	[A]	[B]		absolute	percentage
[in billions of lire]					
Sales and service revenues	782	662	1,501	120	18.1
Gross operating profit	71	40	123	31	77.5
Operating income	7	23	76	[16]	[69.6]
Capital expenditures	21	24	81	[3]	[14.3]
Number of employees at end of period	12,506	11,720	12,704	[198]	[1.6]

[1] The change in the number of employees is calculated with respect to the number at the end of 1999.

During the six-month period, the production value of the group totaled Lire 920 billion, an increase of about 28.5% compared to June 1999, thanks to the growth of the activities of the subsidiaries, particularly those in Europe and Argentina. The increase [10.3%] in the production value of the holding company Sirti S.p.A. [Lire 475 billion] was lower, but benefited from the development of activities on behalf of new telecommunications operators. The deterioration of the consolidated operating income can be largely attributed to the negative trend of the Brazilian affiliate Construtel, which was strongly affected by the unfavorable conditions of the local market [economic crisis in the country, change of market scenarios resulting from the telecommunications liberalization process, and the reduction in prices on the part of some operators].



The evolution of the telecommunications market in 1999, which centered on technological innovation and the gradual liberalization of services, was again confirmed in the first half of 2000, with repercussions in terms of strategic positioning and operating activities. On the domestic market, the stagnation of the demand of Telecom Italia was counterbalanced by significant expansion in activities on behalf of new operators to create new network infrastructures; in this context, a key role was played by the growth of data and *Internet* services, destined to become even more accentuated in future. The six-month period also highlighted comforting signs of recovery in the sphere of international activities, with developments varying in the different geographical areas.

Within the framework of the process of reorganizing Sirti Group's activities, the following should be mentioned:

- subsequent to the resolutions of the extraordinary shareholders' meeting on 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; from February 11, the stock exchange authorized the trading of IMMSI shares and the listing of Sirti shares ex demerger;
- on February 4, the sale of the investment in Sinted was completed;
- in June, in Brazil, the merger by incorporation of Matricial Projetos e Consultoria Ltda. and Teleinvest Participacoes Ltda. in Construtel Projetos e Construcoes Ltda. was completed.

In August, the company Wiretel made a take-over bid for Sirti shares at a price of Euro 1.502 per share. The offer will be formalized by September 30, 2000. Telecom Italia announced its intention to accept the offer.

At June 30, the workforce of the Group, which numbered 12,506, showed a reduction of 198 units compared to the end of 1999, of which 104 refer to Sirti S.p.A..



[1.8] OTHER ACTIVITIES

Among the activities supporting the core business of Telecom Italia Group, **Emsa** has responsibility for the management of real estate properties. The company reported revenues of Lire 44 billion during the period, with an increase compared to the first half of 1999 [Lire 37 billion]. The net income of Lire 37 billion [compared to an operating breakeven for the six months to June 30, 1999], is also due to the sale of a particularly prestigious building. The workforce numbered 92, 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 352 billion [Lire 3 billion in the first half of 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 24 million [Lire 20 billion in the first half of 1999].

As regards investment sales, in February, Telecom Italia and Mediobanca 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 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 telemarketing and market research in Italy, strengthening its role of providing support to the Group's marketing policies. This is affirmed by the increase in revenues [Lire 64 billion compared to Lire 37 billion in the first half of 1999] and net income [Lire 18 billion compared to Lire 8 billion in the first half of 1999]. The workforce numbered 110 at June 30 and increased by four units over the end of 1999.

Saritel was again able to positively benefit from the growth in the demand for services connected to the *Internet* for both fixed-line and mobile networks. Its business received a strong boost from the development and management of new services for Telecom Italia and TIM, for which Saritel directed the integration of the networks and systems for data and message transmission using cell phones [UNI.TIM service] and the customer car service. The returns were also positive for the activities aimed to the final customer through services offered by Telecom Italia.

When Tin.it S.p.A. was formed, Saritel contributed the business segment "Content Management" to the new company. This business is involved in information services and access and databanks for professionals and small and medium businesses, and has 10 employees.

Revenues in the first half were Lire 94 billion, compared to Lire 55 billion in the corresponding period of 1999; the significant increase [+71%] is mainly due to the growth of *Internet* related activities. This finally allowed the company to close the six-month period with a slight profit [Lire 0.3 billion]. The workforce numbered 439 employees at June 30, compared to 384 in 1999.

In the area of advanced research, **CSELT** [Centro Studi e Laboratori Telecomunicazioni] was confirmed a protagonist in the technological innovation process of the entire Group, dedicating its business to the evolution of network architectures, the search for new solutions for value-added service offers and the development of mobile services, and also provided operational support to Telecom Italia and TIM. CSELT also conducted activities on behalf of the foreign subsidiaries, mainly in the design and planning of fixed and mobile networks, the development of service centers for *Internet* and data applications on the mobile network [WAP], and supplying support tools for the strategic development of networks and services.

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, consisting of 50 researchers, to Agilent Technologies. The transaction made it possible to exploit an asset composed of human resource, know-how and advanced laboratories, thus concentrating the Center's activities on its core business.

CSELT reported revenues of Lire 130 billion, in line with the same period of 1999, ending the six months with a net income of Lire 2 billion, due also to the gains on the sale of the business segment [in the first half of 1999, the company presented a breakeven]. At June 30, the workforce numbered 1,155 compared to 1,149 at the end of 1999.

In the multimedia sector, in April, Telecom Italia and News Corporation set the terms for the 50-50 acquisition of the investments held by Cecchi Gori group [18%] and Sds [12%] in **Stream**. The transaction was concluded at the end of June and allowed Telecom Italia and News Corporation to raise their stakes to 50% each. Customers rose by 104,000 units during the first half [an increase of 27% and entirely referring to subscriptions via satellite], reaching a total of 489,000 units.

Revenues during the first half were Lire 104 billion [Lire 23 billion in the same period of 1999]. Expenses regarding the acquisition of content, realization of technical infrastructures and marketing actions aimed at extending the subscriber base, however, led the company to end the six months with a loss of Lire 302 billion [Lire 152 billion during the same period of 1999]. The results for the second half could also be affected by the costs to adopt, by operators in the sector, the sole decoder, as set forth by law No. 78/1999. The workforce numbered 364 units at June 30, compared to 339 at the end of 1999.



[1.9] EVOLUTIONS IN THE REGULATORY FRAMEWORK

The first half of 2000 was characterized by the definition of standards on specific subjects which fall under the national regulatory framework laid down in Italian Law No. 249/1997, instituted by the Communications Authority, and by Presidential Decree No. 318/1997, implementing Community directives. There follows a summary of the main measures adopted by the Communications Authority.

Rate rebalancing

In Resolution No. 310/00/CONS of May 24, 2000, the Authority laid down the changes – to be implemented in two stages, starting on July 1 and September 1, 2000 – to the economic conditions to be applied to public telephone services, by means of an increase in the price of local communications and a reduction in the prices of all other forms of communications, with virtually no change in terms of cost for the customer. Still on the subject of rebalancing rates, with reference to the *price-cap*, the Authority approved Telecom Italia's proposal to increase the basic charges for residential customers [from Lire 18,000/month to Lire 18,700/month] and reduce the charges applied to international traffic. In Resolution No. 314/00/CONS of June 1, 2000, the Authority also established the economic and social requirements for taking advantage of special terms [a 50% reduction in the basic monthly charge] which will replace the existing “low-traffic contracts”.

Financing the Universal Service

In Resolution No. 8/00/CIR of August 1, 2000, the Authority established that, in the light of the conditions in terms of competition and the market existing in Italy in 1999, the prerequisites exist for the application of the sharing mechanism for the net cost of the Universal service, estimated at approximately Lire 120 billion. Telecom Italia, TIM, Omnitel Pronto Italia and Infostrada are required to contribute to the fund to be set up for this purpose at the Ministry for Communications for the universal service for 1999.

Interconnection

In resolution No. 1/00/CIR of February 15, 2000, the Authority approved Telecom Italia's interconnection offering of July 15, 1999, integrating it with some changes which, in particular, involved non-geographic numbering services [toll-free numbers, numbers with Intelligent charges] with retroactive effect starting from January 1, 1999]. On the following April 3, Telecom Italia sent the Authority an offer of interconnecting rates of reference for the year 2000. the Authority passed a resolution for its approval which was sent to the European Commission and to the Antitrust Authorities for a competent opinion.

Fixed-to-mobile calls

In Resolution No. 4/00/CONS of January 12, 2000, the Authority approved Telecom Italia's proposal relating to the economic conditions of fixed-to-mobile communications, which came into force on the following February 17.

Numbering

In order to bring the regulatory framework in line with the evolution of market requirements, the availability and the efficient allocation of numbering resources, in Resolution No. 6/00/CIR of June 8, 2000, the Authority 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.

Local loop unbundling

In Resolution No. 2/00/CIR of March 16, 2000, the Authority approved the measure for unbundled access services at the level of local network [*local loop unbundling*] and the promotion of the spread of innovative services [broadband, interactive, etc.]. The resolution enables operators to access final users directly, by September 2000, by leasing the necessary network components from Telecom Italia.

New operating fee

With effect from January 1, 1999, Italian Law No. 448/1998 replaced the license fee with a new operating fee, the amount of which will gradually decrease until 2003. In implementing the above-mentioned law, the decree issued by the Ministry of the Treasury 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.

Evolution of European Union Regulations

Currently being introduced into Italian legislation are certain directives of particular importance for the development of the competitive framework, with regard to the implementation of the system for supplying an *Open Network Provision* [ONP], for vocal telephone services and the universal service within a competitive environment. In 1999, the European Commission gave the go-ahead to a review of Community legislation on telecommunications, aimed principally at verifying that the standards issued are suited to the actual market developments, and that convergence is taking place between fixed and mobile telecommunications and between these sectors and the audio-visual sector. In this connection, on July 12, 2000, the Commission adopted five harmonizing directive proposals, comprising one general directive and four more specific ones concerning authorizations, access and interconnection, the universal service and the rights of users and the protection of data in telecommunications services.

Mobile telecommunications

As already mentioned, on February 17, 2000 the new rates for incoming traffic from Telecom Italia came into force: from an average in 1999 of Lire 475/min, in 2000, the average fell to Lire 360/min [diversified into "peak" and "off peak" periods]. Also established were the average prices of termination on the networks of notified operators were [Lire 360/min], the portion of the rates kept by the fixed network carrier and the range proposed by mobile telephone service operators.

In June, attempts at conciliation promoted by the Authority regarding the national roaming agreements between TIM and the operators WIND and BLU ended positively. As far as WIND is concerned, the agreement confirmed the base TIM price [Lire 360/min] for the year 2000, and the extension of the contract to 2001, subject to the release of extra

frequencies [5 MHz] on the 1800 band throughout the national territory by the Authority to TIM in the near future. With regard to BLU, the agreement for 2000, which was formalized in July, involves national roaming at the price of Lire 280/min for telephone, and fax and data services, and Lire 100/min for every SMS.

* * *

The Antitrust Authorities have begun proceedings, now in progress, to ascertain whether Telecom Italia holds an alleged dominant position in the marketing of services using xDSL technology. The closing of the preliminary investigation proceedings is scheduled for February 2001.

The action brought by the Antitrust Authorities to ascertain the existence of price-fixing agreements between TIM and Omnitel to reduce competition in the mobile telephone market, was concluded on September 28 by the decision that ordered the two operators to pay penalties to be calculated on the basis of their respective revenues in 1998. The penalty for TIM was about Lire 100 billion. TIM appealed the decision to the regional administrative court of Lazio [TAR] on October 25, which gave its verdict in May 2000, confirming its decision that the penalty should be paid; an appeal to the Council of State has already been proposed. However, on June 30, the company paid the penalty so as to avoid incurring the additional sanctions laid down by the law.



2. Management's discussion and analysis of financial condition and results of operations of Telecom Italia Group

[2.1] RESULTS ON OPERATIONS

Consolidated statements of income

	1 st half 2000	1 st half 1999	Year 1999
[in billions of lire]			
A. Sales and service revenues	27,528	25,382	52,481
Changes in inventories of work in progress, semifinished and finished goods	56	99	[127]
Changes in inventory of contract work in process	505	438	341
Increases in capitalized internal construction costs	806	650	2,056
Operating grants	19	15	39
B. Standard production value	28,914	26,584	54,790
Raw materials and outside services	[*] [11,438]	[9,850]	[21,531]
C. Value added	17,476	16,734	33,259
Labor costs	[*] [4,980]	[4,845]	[9,586]
D. Gross operating profit	12,496	11,889	23,673
Depreciation and amortization	[5,390]	[5,261]	[10,338]
Other valuation adjustments	[527]	[337]	[844]
Provisions to reserves for risks and charges	[145]	[132]	[195]
Net other income	131	149	160
E. Operating income	6,565	6,308	12,456
Net income from investments	210	63	277
Net financial expense	[499]	[568]	[910]
Value adjustments on financial assets	[727]	[426]	[1,131]
F. Income before extraordinary items and taxes	5,549	5,377	10,692
Net extraordinary income [expense]	22	[419]	[981]
G. Income before taxes	5,571	4,958	9,711
Income taxes for the period	[2,813]	[2,594]	[5,046]
H. Net income before minority interest	2,758	2,364	4,665
Minority interest	[862]	[600]	[1,301]
I. Net income after minority interest	1,896	1,764	3,364

[*] Reduced by related cost recoveries.

Results of operations for the first half of 2000 showed a consolidated net income of Lire 1,896 billion [Lire 2,758 billion less the minority interest of Lire 862 billion], an increase of Lire 132 billion [+7.5%] compared to the first half of 1999.

Beginning in 2000, Nortel Inversora group has been consolidated proportionally. For purposes of comparison, the most significant percentage changes will also be indicated, also for a comparable scope of consolidation.

The key figures are analyzed in the following paragraphs.

► *Sales and service revenues*, in the first half of 2000 amount to Lire 27,528 billion, with an increase of 8.5% compared to the first half of 1999 [Lire 25,918 billion, +2.1% over the first half of 1999, net of the contribution of the Nortel Inversora group]. Revenues, net of the amount due to other carriers, total Lire 24,898 billion and show an increase of Lire 1,667 billion [+7.2%] over the first half of 1999.

The growth of revenues is attributable to both the entry of the Nortel Inversora group in the scope of consolidation and the positive trend of mobile telephone services [+10.2%] and the installations sector, which more than compensated the reduction in revenues from fixed telephone services offered in Italy [-Lire 1,031 billion, -5.7%]. This decrease is attributable to the Parent Company, whose traffic revenues, even though the number of minutes rose by 23.4% [+Lire 622 billion], decreased by 13.9%; the average return on traffic during the first half, in fact, was Lire 79 per minute compared to Lire 117 per minute in the first half of the prior year [-32.5%, -Lire 1,922 billion].

► *Raw materials and outside services* totaled Lire 11,438 billion in the first half of 2000 and are 16.1% higher than in the first half of 1999 [10.2% with a comparable scope of consolidation]. This increase is due to the entry of Nortel Inversora group in the scope of consolidation [Lire 582 billion], as well as the increase in costs for the operation and development of mobile telecommunications in Italy and abroad. Besides, the increase in raw materials and outside services was affected by the advertising campaigns for both institutional and individual product and service advertising of the Parent Company. Raw materials and outside services as a percentage of revenues was 41.6% [38.8% in the first half of 1999].

This caption includes, moreover, Lire 554 billion of telecommunications operating fees due to the civil service, of which Lire 305 billion relating to the Parent Company, Lire 175 billion to TIM and Lire 74 billion to foreign subsidiaries.

► *Labor costs*, totaling Lire 4,980 billion, increased by Lire 135 billion compared to the first half of 1999; net of the effects of the entry of the Nortel Inversora group in the scope of consolidation [Lire 248 billion], labor costs would have decreased by Lire 113 billion, mainly due to the reduction in the costs of the Parent Company [-Lire 105 billion]. As a percentage of gross revenues, labor costs went from 19.1% in the first half of 1999 to 18.1% in the corresponding period of 2000.

Personnel in the Group numbered 128,438 at June 30, 2000, with an increase of 5,776 units due to the entry of Nortel Inversora group in the scope of consolidation [7,161 units]. The workforce employed in fixed telephone services in Italy [-1,094 units], in the manufacturing [-262 units], information technology [-257 units] and installations [-198 units] sectors has decreased, while the workforce in the mobile telephone services in Italy [+112 units] and abroad [+438 units] has increased.

» *Gross operating profit* of Lire 12,496 billion increased by Lire 607 billion [+5.1%] compared to the first half of 1999, representing 45.4% of revenues [46.8% in the first half of 1999].

The growth of the gross operating profit is essentially due to telecommunications services, the entry of Nortel Inversora group in the scope of consolidation [+Lire 845 billion] and the good performance of mobile telecommunications [TIM's gross operating profit rose by Lire 461 billion], partly offset by the reduction in the gross operating profit of the fixed telephone services in Italy [-Lire 719 billion] which is affected, as mentioned above, by a decrease in sales and service revenues of more than Lire 1,000 billion.

» *Depreciation and amortization* totaled Lire 5,390 billion [Lire 5,261 billion in the first half of 1999], including Lire 927 billion for the amortization of intangibles [of which Lire 186 billion relates to goodwill] and Lire 4,463 billion for the depreciation of fixed assets. The increase is due to the entry of Nortel Inversora group in the scope of consolidation and higher depreciation and amortization taken by TIM for Lire 391 billion, 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 and lower depreciation on public telephony installations and the DECT assets that were written down in the 1999 financial statements and the adjustment of depreciation rates relating to the copper network and the switching installations in the 1999 financial statements.

» *Other valuation adjustments* of Lire 527 billion increased by Lire 190 billion over the first half of 1999 [of which Lire 83 billion relates to the Nortel Inversora group] and mainly refer to the writedowns of receivables from customers to adjust receivables to estimated realizable value. Of these writedowns, Lire 144 billion refers to the Parent Company, Lire 60 billion to TIM [respectively, Lire 185 billion and Lire 82 billion in the first half of 1999] Telecom Argentina, Lire 59 billion to Tele Nordeste Celular Participacoes, Lire 48 billion to Telespazio and Lire 45 billion to Tele Celular Sul Participacoes.

» *Provisions to reserves for risks and charges*, amounting to Lire 145 billion, increased by Lire 13 billion; the increase is mainly due to the entry of Nortel Inversora group in the scope of consolidation.

» *Net other income [expense]* shows an income balance of Lire 131 billion [Lire 149 billion in the first half of 1999] and basically refers to late payment fees charged by the telecommunications companies to customers for late payment of telephone bills [Lire 106 billion], the portion of capital grants credited during the period [Lire 66 billion], indirect duties and taxes [Lire 111 billion], together with other income and expense in the normal course of business.

» *Operating income* of Lire 6,565 billion shows an improvement of Lire 257 billion over the first half of 1999 [+4.1%], representing 23.8% of revenues compared to 24.9% in the first half of 1999.

The increase in operating income is mainly attributable to the Nortel Inversora group [+Lire 379 billion] and the good results of TIM [which increased by Lire 352 billion], partly reduced by the lower operating income of the Parent Company [-Lire 323 billion], 9 Telecom Reseau [-Lire 42 billion] and the satellite telecommunications sector [-Lire 56 billion].

» *Income from investments* of Lire 210 billion mainly include dividends received from unconsolidated companies for Lire 105 billion and gains realized by the Parent Company on the sale of TIM and IMMSI shares for Lire 61 billion.

» *Net financial expense* totals Lire 499 billion [-Lire 568 billion in the first half of 1999]. The improvement is attributable to a better balance in financial transactions by the Parent Company and lower financial expenses by Bitel Participacoes due on the remaining debt owed the Brazilian government on the purchase of Tele Celular Sul Participacoes and Tele Nordeste Celular Participacoes, partly offset by the net financial expenses of Nortel Inversora group [Lire 128 billion].

» *Value adjustments on financial assets* show a negative balance of Lire 727 billion [-Lire 426 billion in the first half of 1999] and 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 same investments [Lire 173 billion]. The higher expense balance is due to the losses of some foreign unconsolidated subsidiaries and the proportional consolidation of integrale Nortel Inversora group which, in the first half of 1999, had been valued using the equity method and made a positive contribution of Lire 33 billion.

» *Net extraordinary income [expense]* shows an income balance of Lire 22 billion [an expense balance of Lire 419 billion in the first half of 1999], including Lire 800 billion of income and Lire 778 billion of expense. Extraordinary income includes the gains realized on the sale of the companies in Meie group [Lire 450 billion] and Teleleasing [Lire 41 billion], the gain [Lire 57 billion] on the sale of a building by Emsa and the gain realized by the Finsiel group [Lire 29 billion] following the sale of two business segments and the income [Lire 91 billion] deriving from TIM's lower tax expense compared to the amount provided for in the 1999 financial statements which arose at the time of filing the 1999 tax return. Extraordinary expense includes Lire 225 billion of social security expense pursuant to Law 58/1992 to guarantee uniform status under the former Telephone Employees Pension Fund [FPT] which, as required by the 2000 Finance Bill, has now become part of the general "Employees Pension Fund". Extraordinary expense also includes Lire 72 billion for the extraordinary contribution 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 comprises Lire 78 billion for the fines imposed on TIM and Omnitel Pronto Italia by the Antitrust Authorities for alleged violations of fair trade practices. The amount recorded in extraordinary expense is equal to the difference between the fine [Lire 100 billion] and the amount accrued by TIM in the 1999 financial statements [Lire 22 billion].

» *Income taxes for the period* of Lire 2,813 billion increased by Lire 219 billion compared to the first half of 1999, of which Lire 116 billion is due to the consolidation of the Nortel Inversora group.

The ratio of taxes to income before taxes is 50.5%, compared to 52.3% in the first half of 1999.

[2.2] FINANCIAL CONDITION

Consolidated balance sheets

[in billions of lire]	6/30/2000	12/31/1999	6/30/1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	7,469	5,299	5,000
Fixed assets	48,883	45,518	45,169
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	12,828	12,326	11,885
• Other	1,231	891	902
	70,411	64,034	62,956
B. Working capital			
Inventories	2,619	1,995	2,469
Trade accounts receivable	15,510	15,883	15,281
Other assets	3,303	3,177	2,596
Trade accounts payable	[12,022]	[12,870]	[10,234]
Reserves for risks and charges	[3,655]	[2,006]	[3,794]
Other liabilities	[13,956]	[13,248]	[17,294]
	[8,201]	[7,069]	[10,976]
C. Invested capital, net of operating liabilities [A+B]	62,210	56,965	51,980
D. Reserve for employee termination indemnities [3,032]		[2,896]	[2,886]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities [C+D]	59,178	54,069	49,094
Financed by:			
F. Stockholders' equity [*]			
Parent Company interest	34,970	33,004	31,419
Minority interest	6,093	5,307	5,016
	41,063	38,311	36,435
G. Medium/long-term debt	12,009	10,002	10,133
H. Net short-term borrowing			
• Short-term borrowings	9,607	9,622	8,101
• Liquid assets and short-term financial assets	[3,675]	[4,049]	[5,776]
• Financial accrued expenses [income] and deferred expenses [income], net	174	183	201
	6,106	5,756	2,526
	[G+H]	15,758	12,659
I. Total [F+G+H]	59,178	54,069	49,094

[*] Net of "receivables from stockholders for capital contributions".

The balance sheet of Telecom Italia Group shows net invested capital of Lire 59,178 billion [Lire 54,069 billion at December 31, 1999], of which 69.4% is financed by stockholders' equity [70.9% at December 31, 1999] and 30.6% by net borrowings [29.1% at December 31, 1999].

► *Intangibles, fixed assets and long-term investments* of Lire 70,411 billion show an increase of Lire 6,377 billion compared to December 31, 1999.

"Intangible assets" of Lire 7,469 billion increased by Lire 2,170 billion mainly on account of goodwill [Lire 1,196 billion] which arose from the purchase, by the Parent Company, of 50 million TIM ordinary shares for the purpose of increasing its investment in the company, the consolidation of Nortel Inversora group [Lire 762 billion, of which Lire 244 billion refers to the residual goodwill on the additional investment made in Nortel Inversora during 1999] and the purchase, through TIM Perù, of a PCS 1900 license in Perù [Lire 364 billion].

The investments for the first half amount to Lire 2,304 billion while the amortization charge for the period was Lire 927 billion.

"Fixed assets" of Lire 48,883 billion increased by Lire 3,365 billion mainly due to the consolidation of Nortel Inversora group [Lire 5,134 billion], partly compensated by the exclusion from the scope of consolidation of Teleleasing, which led to a reduction in the fixed assets leased to third parties [Lire 562 billion] and a decrease in the fixed assets of the Parent Company [-Lire 1,557 billion].

Capital expenditures and the depreciation charge during the period amount, respectively, to Lire 3,302 billion and Lire 4,463 billion.

"Long-term investments" of Lire 14,059 billion increased by Lire 842 billion after the acquisition, for Lire 1,641 billion, of 30% of GLB Servicos Interativos, the Internet company of Globo Organizações, the buy-back by the Parent Company, for Lire 326 billion, of No. 26,046,820 treasury savings shares with a par value of Lire 1,000 each, equal to 0.35% of the share capital, deriving from the public purchase offer made from February 17, 2000 to March 17, 2000 [No. 1,793,820 shares] and later buy-backs [No. 24,253,000 shares] voted by the ordinary shareholders' meeting of January 14, 2000 which authorized the purchase offer. A specific reserve was recorded for this transaction in stockholders' equity. Such investments 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 companies [Lire 220 billion]. The investments in the first half amounted to Lire 3,139 billion.

► *Working capital* was negative for Lire 8,201 billion [-Lire 7,069 billion at December 31, 1999].

The reduction of Lire 1,132 billion is due to:

- the increase in "inventories" [from Lire 1,995 billion at the end of 1999 to Lire 2,619 billion, +Lire 624 billion] attributable to the information system sector [+Lire 210 billion], the installation sector [+Lire 172 billion], Telespazio [+Lire 93 billion], Nortel Inversora group [+Lire 58 billion] and the manufacturing sector [+Lire 57 billion];
- the reduction in "trade accounts receivable", from Lire 15,883 billion at the end of 1999 to Lire 15,510 billion, connected with the reduction in the receivables of the Parent Company [-Lire 812 billion] and TIM [-Lire 444 billion], partly offset of the entry in the scope of consolidation of Nortel Inversora group [+Lire 857 billion];

- the increase in “other assets” from Lire 3,177 billion at the end of 1999 to Lire 3,303 billion due to Nortel Inversora group for Lire 158 billion. This item includes, among other things, deferred tax assets of Lire 595 billion, collections from customers of Lire 442 billion that are being processed by the bank and postal systems, receivables from the Financial Administration of Lire 380 billion and receivables from personnel of Lire 203 billion;
- the reduction in “trade accounts payable” from Lire 12,870 billion at the end of 1999 to Lire 12,022 billion, connected particularly with the reduction in payables by the Parent Company [-Lire 1,246 billion], TIM [-Lire 513 billion] and Tele Celular Sul Participacoes [-Lire 165 billion], only partly compensated by the effect of the entry in the scope of consolidation of Nortel Inversora group [+Lire 672 billion] and higher payables by Telespazio [+Lire 158 billion] and Italtel group [+Lire 157 billion];
- the increase in the “reserves for risks and charges” from Lire 2,006 billion at the end of 1999 to Lire 3,655 billion, basically related to the income taxes recorded during the period in the reserve for income taxes which rose from Lire 601 billion at December 31, 1999 to Lire 2,151 billion at June 30, 2000;
- the increase in “other liabilities” from Lire 13,248 billion at the end of 1999 to Lire 13,956 billion, attributable to the Parent Company for Lire 662 billion, Softe for Lire 548 billion in respect of the remaining liabilities on the purchase of 30% of GLB Servicos Interativos and the Nortel Inversora group for Lire 425 billion. Other liabilities mainly include payables to customers for Lire 2,892 billion, taxes payable for Lire 2,553 billion, contributions to pension and social security institutions for Lire 1,791 billion, employee-related payables for Lire 1,530 billion, residual liabilities for investments for Lire 1,437 billion, telecommunications operating fees payable for Lire 722 billion and capital subscriptions payable for Lire 637 billion.

» *Stockholders' equity* is Lire 41,063 billion [Lire 38,311 billion at the end of 1999], of which Lire 34,970 billion [Lire 33,004 billion at December 31, 1999] is the Parent Company interest and Lire 6,093 billion [Lire 5,307 billion at December 31, 1999] is the minority interest. The increase, besides the net income for the period, is attributable to the minority interest in the stockholders' equity of the Nortel Inversora group for Lire 1,320 billion. Stockholders' equity includes Lire 4,499 billion of dividends of the Parent Company voted by the ordinary shareholders' meeting of July 3, 2000 payable from July 27, 2000.

» *Net debt* of Lire 18,115 billion [Lire 15,758 billion at the end of 1999] consists of Lire 12,009 billion of medium/long-term debt [Lire 10,002 billion at the end of 1999] and Lire 6,106 billion of net short-term borrowings [Lire 5,756 billion at December 31, 1999]. The entry of Nortel Inversora group in the scope of consolidation led to an increase in net financial debt of Lire 3,024 billion.

Gross debt amounts to Lire 21,616 billion [Lire 19,624 billion in 1999].

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

[in billions of lire]					6/30/2000		12/31/1999	
	Lire	%	Foreign Currency	%	Total	%	Total	%
Medium/long-term debt	7,897	62	4,112	47	12,009	56	10,002	51
Short-term debt	4,885	38	4,722	53	9,607	44	9,622	49
Total	12,782	100	8,834	100	21,616	100	19,624	100

The average maturity of medium/long-term debt is 4.2 years.

A breakdown of foreign currency borrowings is given in the following table:

	Foreign currency [in millions]		Billions of lire	
	6/30/2000	12/31/1999	6/30/2000	12/31/1999
USD	3,086	1,364	6,252	2,629
Euro-zone currencies	328	342	635	662
GBP	264	320	791	964
DRG	60,834	44,700	350	262
BRL	575	515	647	555
Other currencies			159	75
Total			8,834	5,147

A breakdown of gross debt based on interest rates is given below:

				6/30/2000	12/31/1999
	Lire	Currency [equivalent in lire]	Total		
Up to 2.5%	2,072	1	2,073		3,411
From 2.5% to 5%	6,894	1,297	8,191		9,671
From 5% to 7.5%	2,905	3,279	6,184		5,240
From 7.5% to 10%	895	3,502	4,397		1,284
Over 10%	16	755	771		18
Total	12,782	8,834	21,616		19,624

In particular, the largest amount of gross debt [equal to 76%] falls in the range of interest rates up to 7.5% and includes loans made by various banking institutions with 3% interest being subsidized by the Ministry of the Treasury [under Law No. 67 dated March 11, 1988], loans received from Cassa Depositi e Prestiti [under law No. 887 of December 22, 1984], and also loans made with EIB funds and short-term borrowings.

[2.3] FINANCIAL PERFORMANCE

Consolidated statements of cash flows

[in billions of lire]	1 st half 2000	1 st half 1999	Year 1999
A. Net short-term borrowings at beginning of period	[5,756]	[4,987]	[4,987]
B. Cash flows - operating activities			
Net income for the period	2,758	2,364	4,665
Depreciation and amortization	5,390	5,261	10,338
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[611]	43	116
Writedowns of intangibles, fixed assets and long-term investments	660	423	1,189
Change in working capital	[*] 1,221	57	[1,371]
Net change in "reserve for employee termination indemnities"	136	175	185
Foreign exchange gains and other changes	56	235	164
	9,610	8,558	15,286
C. Cash flows - investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[2,304]	[1,416]	[3,057]
• fixed assets	[3,302]	[2,939]	[7,503]
• long-term investments	[3,139]	[1,142]	[2,517]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,038	550	1,063
Change in scope of consolidation	450	128	128
	[7,257]	[4,819]	[11,886]
D. Cash flows - financing activities			
New borrowings	125	890	1,485
Capital contributions	100	=	80
Capital grants	26	116	128
Debt repayment	[155]	[126]	[370]
Change in medium-long term debt due within one year	[1,401]	[1,470]	[2,214]
	[1,305]	[590]	[891]
E. Dividends	[1,398]	[688]	[3,278]
F. Cash flows for the period	[B+C+D+E] [350]	2,461	[769]
G. Net short-term borrowings at end of period	[A+F] [6,106]	[2,526]	[5,756]

[*] The difference with respect to the "consolidated balance sheet" is mainly due to changes in capital grants.

In the first half of 2000, net cash outflows amounted to Lire 350 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 that were not entirely financed by the cash flows from operating activities [Lire 9,610 billion].

Investments totaled Lire 8,745 billion in the first half of 2000, of which Lire 5,606 billion for industrial investments and Lire 3,139 billion for financial investments.

Industrial investments refer mainly to the Parent Company and TIM; they also include goodwill [Lire 1,196 billion] which arose from the purchase of 50 million TIM ordinary shares by the Parent Company and a PCS 1900 license in Perù [Lire 367 billion].

Financial investments include Lire 1,641 billion for the acquisition of 30% of GLB Servicios Interativos and Lire 326 billion connected with the buy-back of No. 26,046,820 treasury savings shares deriving from the public purchase offer made from February 17, 2000 to March 17, 2000 and later buy-backs voted by the ordinary shareholders' meeting of January 14, 2000.

[2.4] RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS

Consolidated statements of income

[in millions of euros]	1 st half 2000	1 st half 1999	Year 1999
A. Sales and service revenues	14,217	13,109	27,104
Changes in inventories of work in progress, semifinished and finished goods	29	51	[65]
Changes in inventory of contract work in process	261	226	176
Increases in capitalized internal construction costs	416	335	1,062
Operating grants	10	8	20
B. Standard production value	14,933	13,729	28,297
Raw materials and outside services	[*] [5,907]	[5,087]	[11,120]
C. Value added	9,026	8,642	17,177
Labor costs	[*] [2,572]	[2,502]	[4,951]
D. Gross operating profit	6,454	6,140	12,226
Depreciation and amortization	[2,784]	[2,717]	[5,339]
Other valuation adjustments	[272]	[174]	[436]
Provisions to reserves for risks and charges	[75]	[68]	[101]
Net other income	68	77	83
E. Operating income	3,391	3,258	6,433
Net income from investments	108	33	143
Net financial expense	[258]	[294]	[470]
Value adjustments on financial assets	[375]	[220]	[584]
F. Income before extraordinary items and taxes	2,866	2,777	5,522
Net extraordinary income [expense]	11	[216]	[507]
G. Income before taxes	2,877	2,561	5,015
Income taxes for the period	[1,453]	[1,340]	[2,606]
H. Net income before minority interest	1,424	1,221	2,409
Minority interest	[445]	[310]	[672]
I. Net income after minority interest	979	911	1,737

[*] Reduced by related cost recoveries.

Consolidated balance sheets

[in millions of euros]	1 st half 2000	1 st half 1999	Year 1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	3,857	2,737	2,582
Fixed assets	25,246	23,508	23,328
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	6,625	6,366	6,138
• other	636	460	466
	36,364	33,071	32,514
B. Working capital			
Inventories	1,353	1,030	1,275
Trade accounts receivable	8,010	8,203	7,891
Other assets	1,706	1,641	1,341
Trade accounts payable	[6,209]	[6,647]	[5,285]
Reserves for risks and charges	[1,887]	[1,036]	[1,959]
Other liabilities	[7,208]	[6,842]	[8,932]
	[4,235]	[3,651]	[5,669]
C. Invested capital, net of operating liabilities [A+B]	32,129	29,420	26,845
D. Reserve for employee termination indemnities	[1,566]	[1,496]	[1,490]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities [C+D]	30,563	27,924	25,355
Financed by:			
F. Stockholders' equity [*]			
Parent Company interest	18,060	17,045	16,227
Minority interest	3,147	2,741	2,590
	21,207	19,786	18,817
G. Medium/long-term debt	6,202	5,165	5,233
H. Net short-term borrowings			
• Short-term borrowings	4,962	4,969	4,184
• Liquid assets and short-term financial assets	[1,898]	[2,091]	[2,983]
• Liquid assets and short-term financial assets	90	95	104
	3,154	2,973	1,305
	[G+H]	8,138	6,538
I. Total [F+G+H]	30,563	27,924	25,355

[*] Net of "receivables from stockholders for capital contributions".

Consolidated statements of cash flows

[in millions of euros]	1 st half 2000	1 st half 1999	Year 1999
A. Net short-term borrowings at beginning of period	[2.973]	[2.576]	[2.576]
B. Cash flows - operating activities			
Net income for the period	1.424	1.221	2.409
Depreciation and amortization	2.784	2.717	5.339
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[316]	22	60
Writedowns of intangibles and fixed assets and long-term investments	341	219	614
Change in working capital	631	29	[708]
Net change in "reserve for employee termination indemnities"	70	90	96
Foreign exchange gains and other changes	29	121	85
	4.963	4.419	7.895
C. Cash flows - investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[1.190]	[731]	[1.579]
• fixed assets	[1.705]	[1.518]	[3.875]
• long-term investments	[1.621]	[590]	[1.300]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	536	284	549
Change in scope of consolidation	232	66	66
	[3.748]	[2.489]	[6.139]
D. Cash flows - financing activities			
New borrowings	65	460	767
Capital contributions	52	=	41
Capital grants	13	60	66
Debt repayment	[80]	[65]	[191]
Change in medium-long term debt due within one year	[724]	[759]	[1.143]
	[674]	[304]	[460]
E. Dividends	[722]	[355]	[1.693]
F. Cash flow for the period [B+C+D+E]	[181]	1.271	[397]
G. Net short-term borrowings at end of period [A+F]	[3.154]	[1.305]	[2.973]

[*] The difference with respect to the "consolidated balance sheet" is mainly due to changes in capital grants.

[2.5] OUTLOOK FOR THE CURRENT YEAR

In the second part of the year, efforts will be stepped up to complete the industrial and corporate reorganization of Telecom Italia Group, which will have to demonstrate its ability to be a competitive operator in the telecommunication arena, capable of taking advantage of the opportunities offered by technological development and market growth in order to increase the Company's value and satisfy the expectations of its shareholders. Operational management will be focused on defending the leadership position in wireline and mobile telecommunications on the domestic market by improving the service, innovating the offering, centering attention on the customer and growing in a commercial capacity, thus continuing to generate the resources necessary to finance the development of the new businesses.

The development of the new businesses will be accelerated, especially in the data and Internet areas, partly by establishing strong synergies that can be gained from the Seat-Tin.it merger which will give the Group a solid position on the European Internet market, laying the foundations for a rapid development in the "new economy" and for a growth in revenues from both the business market and the general market.

The effects of the measures adopted to improve efficiency especially for fixed telecommunications, with the start of the restructuring plan, will enable us to significantly reduce the number of employees and structure costs and further rationalize capital expenditures.

A fundamental step in the restructuring plan is the completion of the new organizational structure of the Group, formulated upon the creation of Business Units, the outsourcing of services and the reorganization of the Corporate structure: the event is an important one not only from the standpoint of the industrial plan but also for the financial program, since it creates a direct link between the business areas and responsibilities, transparency in strategies and visibility in management performance.

A particularly important aspect of the restructuring process the reorganization of the information system operations of the Group through the creation of the "IT Services" Business Unit in order to enhance focus, awareness and operational synergies. The main benefits expected from such reorganization within the Group are the reduction in the cost of conducting information systems services and the improvement in the effectiveness of development solutions. The most significant impact on the markets outside the Group is the growth of competitiveness, thanks to the offering of integrated vertical solutions and the outsourcing of EDP services.

Non-core assets will continue to be divested through the sale of real estate property, hence freeing resources to support business expansion and improve the return on invested capital.

The Group's international presence will also be stepped up, not only on the retail market but also on the wholesale market represented by the sale of bands and integrated services in the Mediterranean area and Latin America [Nautilus rings]. Besides persisting in attaining an improvement in the operational performance of the foreign companies, the structures exercising control over the international holdings will also be reorganized so that a more direct stance will be taken in the business and the transfer of know-how to the operating companies will be facilitated, thus placing emphasis on bringing out the full value of the assets in portfolio. The companies operating in wireline telecommunications will be concentrated under Stet International Netherlands [SIN], a 100%-owned company of Telecom Italia, while the companies in the mobile network will be under the control of Stet Mobile Holding [SMH], a 100%-owned company of TIM. Lastly, the initiatives announced to the international community will be carried out with a view to improving the financial structure of the Group and maintaining the commitments undertaken with the market. In particular, TIM savings shares will be converted into ordinary shares, thus obtaining financial resources to be earmarked for the purchase of the UMTS license.

[2.6] 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 and the companies in which they hold corporate office or significant responsibility – all 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 first half 2000	Amounts in billions of lire	Nature of transactions
Sales and services revenues	805	These comprise mainly the revenues from Seat-Pagine Gialle [Lire 165 billion], Stream [Lire 124 billion], Teleleasing [Lire 103 billion], Nortel Inversora group [*] [Lire 82 billion] and Lottomatica [Lire 66 billion].
Raw materials and outside services	289	These mainly refer to expenses to Seat-Pagine Gialle [Lire 63 billion], Entel Chile [Lire 61 billion] and Siemens Informatica [Lire 49 billion].
Net other [income] expense	16	These mainly relate to cost recoveries for personnel on loan to some foreign unconsolidated subsidiaries and affiliates.
Net financial income [expense]	4	These mainly refer to interest earned on loans made to some foreign subsidiaries and affiliates and interest expense for Teleleasing [Lire 31 billion] for finance leasing transactions.
Loans in long-term investments	295	This item refers to loans made to BDT [Lire 162 billion], Retevision Movil [Lire 93 billion] and other foreign unconsolidated subsidiaries and affiliates.
Medium/long-term debt	1.024	These refer to Teleleasing finance lease contracts.
Trade accounts receivable	713	These comprise mainly trade accounts receivable of Nortel Inversora group [*] [Lire 92 billion], Stream [Lire 75 billion], Telekom Srbija [Lire 65 billion], Retevision [Lire 61 billion], Golden Lines International [Lire 44 billion], Seat-Pagine Gialle [Lire 42 billion], Madritel [Lire 39 billion], Teleleasing [Lire 36 billion], Telekom Austria [Lire 34 billion] and Ctc [Lire 30 billion].
Trade accounts payable	820	These pertain to supplier relationships connected with investments and operations. In particular, they comprise trade accounts payable to Consorzio Ims [Lire 107 billion], Siemens Informatica [Lire 81 billion], Entel Chile [Lire 62 billion], Seat-Pagine Gialle [Lire 59 billion], Teleleasing [Lire 52 billion].
Short-term financial assets	240	These include, among other things, receivables from Stream [Lire 106 billion] Etec S.A. [Lire 42 billion], and Telekom Srbija [Lire 39 billion].
Other liabilities	639	These comprise mainly payables to Solpart Participacoes [Lire 360 billion] and Astrolink [Lire 260 billion] for capital contributions payable.
Investments in fixed and intangible assets	142	These mainly consist of acquisitions from Consorzio Ims [Lire 89 billion], Siemens Informatica [Lire 20 billion].

[*] Nortel Inversora group is consolidated proportionally.

[2.7] TREASURY SHARES

At June 30, 2000, Telecom Italia, the Parent company holds No 26,046,820 treasury savings shares of par value Lire 1,000 each, corresponding to 0.35% of the class of share capital.



3. Management's discussion and analysis of financial condition and result of operations of Telecom Italia

As regards the contribution, with effect from May 1, 2000, of the assets consisting of the business segments and investments inherent to the operations and marketing of online services and products by Telecom Italia to Tin.it S.p.A. and the successive merger of Tin.it in Seat Pagine Gialle, the balance sheet does not include the assets contributed to Tin.it, whereas the statement of income takes into account the data relative to Tin.it only up to April 30, 2000.

[3.1] RESULTS OF OPERATIONS

Statements of income

[in billions of lire]	1 st half 2000	1 st half 1999	Year 1999
A. Sales and service revenues	16,910	18,016	35,856
Changes in inventory of contract work in process	16	26	[20]
Increases in capitalized internal construction costs	12	12	26
Operating grants	1	3	3
B. Standard production value	16,939	18,057	35,865
Raw materials and outside services	[*]	[6,638]	[14,325]
C. Value added	10,301	11,150	21,540
Labor costs	[*]	[2,994]	[6,106]
D. Gross operating profit	7,307	8,058	15,434
Depreciation and amortization	[3,674]	[4,064]	[7,766]
Other valuation adjustments	[144]	[185]	[542]
Provisions to reserves for risks and charges	[94]	[110]	[156]
Net other income	116	151	126
E. Operating income	3,511	3,850	7,096
Net income from investments	219	65	3,327
Net financial expense	[241]	[348]	[561]
Value adjustments on financial assets	[355]	[184]	[295]
F. Income before extraordinary items and taxes	3,134	3,383	9,567
Net extraordinary expense	[509]	[366]	[657]
G. Income before taxes	2,625	3,017	8,910
Income taxes for the period	[1,273]	[1,451]	[3,860]
H. Net income for the period	1,352	1,566	5,050

[*] Reduced by related cost recoveries.

Results of operations for the first half of 2000 showed a net income of Lire 1,352 billion, Lire 214 billion [-13.7%] lower than that in the corresponding period of 1999. This result was affected by a reduction in sales and service revenues [-Lire 1,106 billion compared to the first half of 1999] caused by growing competition and the consequent reduction in rates, higher investment writedowns and higher extraordinary expenses connected with the reorganization plan. The negative effects of the above were partly compensated by the reduction in outside service costs, depreciation and amortization and the improvement in the balance of net financial income and expenses.

The key figures are analyzed in the following paragraphs.

► *Sales and service revenues*, amounting to Lire 16,910 billion, decreased by 6.1% compared to the same period in 1999 [Lire 18,016 billion] and are recorded gross of the amount due to other domestic and international TLC operators [Lire 2,988 billion]. The total includes revenues from services of Lire 16,517 billion and revenues from sales of Lire 393 billion [respectively, Lire 17,594 billion and Lire 422 billion in the first half of 1999]. The decrease in revenues [-Lire 1,106 billion, -6.1%] is mainly due to traffic, which decreased by 13.9% even though the number of minutes rose by 23.4% [+Lire 622 billion in terms of revenues]. The average return on traffic during the first half, in fact, was Lire 79 per minute compared to Lire 117 per minute in the first half of the prior year, [-32.5%, -Lire 1,922 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 [+20.9% in terms of minutes] and the application of new interconnecting rates for traffic to and from mobile phones, which were partly offset by the increase in basic subscription charges [+10%] due to rate increases, *ISDN* connections and links with other carriers, especially fixed networks.

Revenues from interconnection access charges from fixed network carriers were Lire 682 billion [Lire 285 billion in the corresponding period of 1999].

► *Raw materials and outside services* of Lire 6,638 billion net of the related cost recoveries, include:

[in billions of lire]	1 st half 2000	1 st half 1999	Change %
Direct service costs	1,037	985	5.3
Operating costs	1,165	1,381	[15.6]
Marketing costs	990	755	31.1
Know-how development costs	153	156	[1.9]
	3,345	3,277	2.1
Amount due to other carriers	2,988	3,225	[7.3]
TLC operating fees	305	405	[24.7]
Total	6,638	6,907	[3.9]

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

- a) “direct service costs”, pertaining to the operation and maintenance of the network, increased by Lire 52 billion due to a higher use of satellite systems and the interconnecting costs to the other operators’ networks, partly offset by the savings arising from the ongoing equipment rationalization program, concentrating especially on public telephony installations;
- b) “operating costs”, inclusive of management and maintenance of buildings, vehicles, information systems and equipment, as well as overheads, decreased by Lire 216 billion owing to both an overall policy to control and reduce costs for all types of expense and due to the fact that in the first half of 1999, non-recurring costs were incurred for the take-over bid and the negotiations with Deutsche Telekom for Lire 130 billion. The operating costs for the first half of 2000 also include Lire 8 billion to upgrade the information systems to ensure *carrier preselection* and *number portability*;
- c) “marketing costs”, inclusive of sales expense, post-sales assistance, customer relations, advertising and promotion, increased by Lire 235 billion mainly due to the commercial re-positioning of Telecom Italia, which led to the use of more advertising campaigns for both institutional and individual product and service advertising [+Lire 177 billion] and costs deriving from commercial agreements with the Internet Service Providers [Lire 27 billion];
- d) “know-how development costs”, comprising training, studies and research and technical consulting services, are down by Lire 3 billion.

The above costs total Lire 3,345 billion for the first half of 2000, an increase of 2.1% over the first half of 1999.

- e) “amounts due to other carriers” decreased by Lire 237 billion, primarily as a result of the difference between the amounts due to mobile carriers and foreign correspondents [-Lire 365 billion and -Lire 51 billion, respectively] and fixed carriers [+Lire 189 billion]. The decrease in the amount due to mobile carriers is on account of the reduction in fixed-mobile traffic rates and a contraction in the traffic volumes with TIM; as regards fixed carriers, the increase is in relation to fiercer competitive pressure and the greater presence of new carriers on the fixed telecommunications market;
- f) “TLC operating fees” decreased by Lire 100 billion and include the fee on sales revenues [Lire 301 billion], and the fee [Lire 4 billion] to operate the *Authority*.

The percentage of raw materials and outside services to revenues was 39.3% compared to 38.3% in the first half of 1999.

» *Labor costs* [net of cost recoveries for employees on loan to subsidiaries and affiliated companies] amounted to Lire 2,994 billion, with a decrease of Lire 98 billion [-3.2%], compared to the corresponding period of 1999, and -Lire 109 billion [-3.5%] gross of such cost recoveries. This gross change is due mainly to the reduction in the average number of employees, which dropped from 77,579 units in the first half of 1999 to 73,971 units the first half of 2000 [-4.7%]. The effect of this reduction is partly offset by the increases due to the collective bargaining agreements, career developments and seniority increases.

The percentage of labor costs to revenues rose, going from 17.2 % in the first half of 1999 to 17.7% in the first six months of the current year.

» *Gross operating profit* of Lire 7,307 billion decreased by Lire 751 billion compared to the corresponding period of 1999 [-9.3%] due to the above mentioned reduction in revenues by more than Lire 1,100 billion. The percentage of gross operating profit to sales and service revenues is lower than that in the first half of 1999 [43.2% compared to 44.7%].

» *Depreciation and amortization*, totaling Lire 3,674 billion, decreased by Lire 390 billion compared to the first half 1999. This item comprises Lire 495 billion in amortization of intangible assets and Lire 3,179 billion in depreciation of fixed assets.

“Amortization of intangible assets” decreased by Lire 10 billion, due to lower software investments which became amortizable during the first half 2000.

“Depreciation of fixed assets” decreased by Lire 380 billion; this change derives from a reduction in the amount of depreciable assets, the change in the mix of depreciable assets and lower depreciation on public telephony installations and the DECT fixed assets written down in the 1999 financial statements and the adjustment of depreciation rates relating to the copper network and the switching installations in the 1999 financial statements for about Lire 80 billion.

» *Other valuation adjustments*, amounting to Lire 144 billion, decreased by Lire 41 billion compared to the corresponding period of 1999 and relate solely to writedowns of accounts receivables made to reduce accounts receivables to their estimated realizable value.

» *Provisions to reserves for risks and charges*, amounting to Lire 94 billion, refer mainly to the provisions to cover commercial and normal litigation.

» *Net other income [expense]*, amounting to an income balance of Lire 116 billion [-Lire 35 billion compared to the first half of 1999], represents the difference between Lire 246 billion of income and Lire 130 billion of expenses.

“Income” includes mainly late payment fees charged to customers for the late payment of telephone bills of Lire 77 billion [Lire 99 billion in the first half of 1999], non-telephone services rendered to TIM of Lire 28 billion [Lire 19 billion in the first half of 1999], portions of capital grants attributable to the period of Lire 34 billion [Lire 39 billion in the first half of 1999] and sundry damages and recoveries of Lire 45 billion [Lire 45 billion in the first half of 1999].

“Expense” includes losses on disposals of fixed and intangible assets of Lire 20 billion [Lire 43 billion in the first half of 1999], indirect duties and taxes for the period of Lire 73 billion [Lire 74 billion in the first half of 1999] and other expenses from normal operations amounting to Lire 37 billion [Lire 78 billion in the first half of 1999].

» *Operating income* amounts to Lire 3,511 billion, a decrease of Lire 339 billion from the corresponding period of 1999 [-8.8%], essentially due to a reduction in revenues which was only partly compensated by savings in outside costs, labor costs and depreciation and amortization. The ratio of operating income to revenues was 20.8%, compared to 21.4 % in the first half of 1999.

» *Income from investments* can be analyzed as follows:

[in billions of lire]	1 st half 2000	1 st half 1999
Dividends and tax credits	149	51
Net gains on sales of investments	70	14
Total	219	65

- a) dividends and tax credits include dividends recorded on the cash basis [Lire 130 billion] mainly in respect of investments in foreign companies and TIM shares purchased during the period, as well as the related tax credits [Lire 19 billion];
- b) net gains from the sale of investments refer principally to the gains realized on the sale of TIM [Lire 43 billion] and IMMSI [Lire 15 billion] shares.

» *Net financial expense* [Lire 241 billion] can be analyzed as follows:

[in billions of lire]	1 st half 2000	1 st half 1999	Change %
Balance from financial transactions	[274]	[367]	[25.3]
Other net financial income	33	19	73.7
Total	[241]	[348]	[30.7]

- a) the balance from financial transactions comprises the income [Lire 59 billion] and expense [Lire 333 billion] related to financial receivables and payables making up the net debt position;
- b) other net financial income refers to interest income earned on medium/long-term loans [Lire 22 billion] and net sundry other income [Lire 15 billion].

» *Value adjustments on financial assets* show a negative balance of Lire 355 billion [-Lire 184 billion in the first half of 1999] and are almost entirely composed of writedowns to the investments in the subsidiaries TMI - Telemedia International Italia [Lire 78 billion] and the affiliated company Stream [Lire 200 billion]; the total also includes a writedown [Lire 53 billion] to adjust the value of TIM shares to market price.

» *Net extraordinary income [expense]* shows a net expense balance of Lire 509 billion [-Lire 366 billion in the first half of 1999] which derives from the difference between income of Lire 29 billion and expense of Lire 538 billion. The latter mainly comprises the expenses connected with corporate restructuring activities [Lire 222 billion] – which also include employee reduction plans for a higher number employees than budgeted – and social security charges pursuant to Law No. 58/92 [Lire 225 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. To this end, extraordinary expense also includes Lire 72 billion for the extraordinary contribution 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.

» *Income taxes for the period* amounted to Lire 1,273 billion [Lire 1,451 billion in the first half of 1999] and have been calculated using the tax rate [48.5%] expected for the entire year.

[3.2] FINANCIAL CONDITION

Balance sheets

[in billions of lire]	6/30/2000	12/31/1999	6/30/1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	2,230	2,259	2,131
Fixed assets	34,980	36,520	36,933
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	20,340	17,939	15,944
• other	823	1,705	1,584
	58,373	58,423	56,592
B. Working capital			
Inventories	272	233	332
Trade accounts receivable	9,834	10,460	10,940
Other assets	1,539	2,923	1,379
Trade accounts payable	[7,689]	[9,313]	[8,029]
Reserves for risks and charges	[2,157]	[1,242]	[2,765]
Other liabilities	[8,337]	[7,676]	[11,784]
	[6,538]	[4,615]	[9,927]
C. Invested capital, net of operating liabilities [A+B]	51,835	53,808	46,665
D. Reserve for employee termination indemnities	[2,285]	[2,163]	[2,151]
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities [C+D]	49,550	51,645	44,514
Financed by:			
F. Stockholders' equity			
Share capital paid-in	7,426	7,426	7,421
Reserves and retained earnings	28,167	23,101	23,026
Net income for the period	1,352	5,050	1,566
	36,945	35,577	32,013
G. Medium/long-term debt	7,326	8,220	8,685
H. Net short-term borrowings:			
• short-term borrowings	6,850	10,028	6,828
• liquid assets and short-term financial assets	[1,686]	[2,297]	[3,151]
• financial accrued expense and deferred expense, net	115	117	139
	5,279	7,848	3,816
	[G+H]	12,605	12,501
I. Total [F+G+H]	49,550	51,645	44,514

The balance sheet shows net invested capital of Lire 49,550 billion [Lire 51,645 billion at December 31, 1999], of which 74.6% is financed by stockholders' equity and 25.4% 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 2,230 billion and show a decrease of Lire 29 billion compared to December 31, 1999, which represents the difference between additions [Lire 478 billion], the amortization charge [Lire 495 billion], retirements [Lire 4 billion] and transfers made to Tin.it following the demerger and contribution [Lire 8 billion];
- b) "fixed assets" of Lire 34,980 billion show a decrease of Lire 1,540 billion from December 31, 1999, which represents the difference between additions [Lire 1,708 billion], the depreciation charge [Lire 3,179 billion], disposals net of reutilizations [Lire 24 billion], utilization of part of the writedown made in the 1999 financial statements for public telephone installations [Lire 10 billion] and transfers to Tin.it following the demerger and contribution [Lire 55 billion];
- c) "long-term investments" amounted to Lire 21,163 billion, up by Lire 1,519 billion compared to December 31, 1999. This increase is mainly due to the following:
 - new investments of Lire 2,761 billion, primarily due to loans for the future capital increases of Stet International Netherlands [Lire 522 billion] and Stet Mobile Holding [Lire 368 billion] directed to the acquisition of foreign holdings, mainly in Spain, France and Latin America, the recapitalization and increase in share capital of Stream [Lire 359 billion] and the purchase of 50 million TIM ordinary shares for Lire 1,231 billion in order to increase the investment in the company;
 - writedowns of holdings amounting to Lire 310 billion, mainly pertaining to Stream [Lire 200 billion] and TMI - Telemedia International Italia [Lire 78 billion];
 - sale of investments for a total of Lire 311 billion, of which Lire 260 billion refers to the sale of Bitel Partecipacoes to Stet Mobile Holding;
 - loans transferred to Tin.it following the demerger and contribution [Lire 1 billion];
 - loans made for Lire 46 billion;
 - buy-back of No. 26,046,820 treasury savings shares with a par value of Lire 1,000 each, equal to 0.35% of the share capital, deriving from the public purchase offer made from February 17, 2000 to March 17, 2000 [No. 1,793,820 shares] and later buy-backs [No. 24,253,000 shares] voted by the ordinary shareholders' meeting of January 14, 2000 which authorized the purchase offer. Such shares are recorded at a cost of Lire 326 billion at June 30, 2000;
 - reimbursements of loans for Lire 1,006 billion; these refer mainly to loans repaid by Teleleasing following the agreement for the sale of 60% of Teleleasing by Saiat to Mediobanca on June 29, 2000.

» *Working capital* showed a negative figure of Lire 6,538 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 723 billion], amounted to Lire 9,834 billion and decreased by Lire 626 billion, compared to December 31, 1999;

- b] “other assets” amounted to Lire 1,539 billion and decreased by Lire 1,384 billion, compared to December 31, 1999. These essentially refer to receivables from employees [Lire 160 billion], customer payments in transit with banks and the postal system [Lire 236 billion], receivables from subsidiaries [Lire 344 billion], trading stock in portfolio [Lire 382 billion, principally TIM stock] and commercial accrued income and prepaid expenses [Lire 101 billion];
- c] “trade accounts payable” amounted to Lire 7,689 billion, with a decrease of Lire 1,624 billion compared to December 31, 1999. The reduction is due to the normal concentration, in the first half, of payments made against the heavy volume of costs and investments in the last few months of the prior year. They include Lire 957 billion due to other national and international telecommunications carriers;
- d] “reserves for risks and charges” of Lire 2,157 billion increased by Lire 915 billion compared to December 31, 1999, mainly owing to movements in the reserve for taxes [provision for taxes for the first half and the set off of deferred tax assets recorded at December 31, 1999]. This item includes the aforementioned “reserve for taxes” [Lire 1,162 billion], the “reserve for capital grants” [Lire 269 billion], the “reserve for litigation” [Lire 256 billion], the “reserve for contractual risks and other risks” [Lire 433 billion] and the “reserve for losses of subsidiaries and affiliates” [Lire 37 billion];
- e] “other liabilities”, amounting to Lire 8,337 billion, increased by Lire 661 billion compared to December 31, 1999. They mainly comprise employee-related payables [Lire 1,000 billion], contributions to pension and social security institutions [Lire 1,664 billion], amounts owed to customers [Lire 2,032 billion], payables related to TLC operating fees [Lire 536 billion], taxes payable [Lire 1,861 billion] and commercial accrued expenses and deferred income [Lire 839 billion].

► *Stockholders’ equity* amounted to Lire 36,945 billion and increased by Lire 1,368 billion compared to December 31, 1999. The increase represents the net income for the period [Lire 1,352 billion] and the portion of capital grants that became available [Lire 16 billion transferred from “reserves for risks and charges” to “reserves”].

Stockholders’ equity also includes 1999 dividends [Lire 4,499 billion] declared by the shareholders’ meeting of July 3, 2000 and payable from July 27, 2000.

Moreover, in connection with the public purchase offer for treasury savings shares, for which reference should be made to “long-term investments”, Lire 326 billion was reclassified from the “extraordinary reserve” to the “reserve for treasury shares in portfolio”.

► *Net debt* of Lire 12,605 billion decreased by Lire 3,463 billion from December 31, 1999. Gross debt amounts to Lire 14,176 billion [Lire 18,248 billion at December 31, 1999] and comprises liabilities to financial institutions for interest expense accrued in the half and paid in July 2000.

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

[in billions of lire]					6/30/2000		12/31/1999	
	Lire	%	Foreign Currency	%	Total	%	Total	%
Medium/long-term debt	6,453	49	873	83	7,326	52	8,220	45
Short-term debt	6,670	51	180	17	6,850	48	10,028	55
Total	13,123	100	1,053	100	14,176	100	18,248	100

The average maturity for medium/long-term debt is 4.8 years.

The breakdown of foreign currency debt is as follows:

	Foreign currency [in millions]		Billions of lire	
	6/30/2000	12/31/1999	6/30/2000	12/31/1999
USD	23	150	48	288
Euro-zone currencies	124	167	241	323
GBP	252	258	755	775
JPY	937	992	9	10
Total			1,053	1,396

The breakdown of gross debt based on interest rates is given below:

[in billions of lire]				6/30/2000	12/31/1999
	Lire	Foreign currency [equivalent in lire]	Total		Lire
Up to 2.5%	1,684	=	1,684		3,035
From 2.5% to 5%	8,670	805	9,475		11,761
From 5% to 7.5%	1,859	212	2,071		2,350
From 7.5% to 10%	894	36	930		1,085
Over 10%	16	=	16		17
Total	13,123	1,053	14,176		18,248

The largest amount of gross debt falls in the range of interest rates up to 7.5% and includes loans of Lire 2,164 billion made by various banking institutions with interest of 3% being subsidized by the Ministry of the Treasury [under Law No. 67/1988], and also part of loans made with EIB funds and short-term borrowings.

The range of interest rates from 5% to 7.5% includes loans from the Cassa Depositi e Prestiti [under Law No. 887/1984].

[3.3] FINANCIAL PERFORMANCE

Statements of cash flows

[in billions of lire]	1 st half 2000	1 st half 1999	Year 1999
A. Net short-term borrowings, at beginning of period	[7,848]	[7,127]	[7,127]
B. Cash flows - operating activities			
Net income for the period	1,352	1,566	5,050
Depreciation and amortization	3,674	4,064	7,766
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[7]	25	175
Writedowns of intangibles and fixed assets and long-term investments	262	87	416
Change in working capital	[*] 1,950	850	[2,350]
Net change in "reserve for employee termination indemnities"	122	133	146
	7,353	6,725	11,203
C. Cash flows - investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[479]	[406]	[1,352]
• fixed assets	[1,708]	[1,786]	[4,574]
• long-term investments	[**] [3,133]	[1,579]	[3,973]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,342	362	507
Assets contributed to Tin.it	64	=	=
	[3,914]	[3,409]	[9,392]
D. Cash flow - financing activities			
New borrowings	=	533	1,138
Capital contributions	=	=	64
Capital grants	27	111	114
Debt repayment	[150]	[126]	[209]
Change in medium-long term debt due within one year	[747]	[523]	[1,518]
	[870]	[5]	[411]
E. Dividends	=	=	[2,121]
F. Cash flows for the period	[B+C+D+E] 2,569	3,311	[721]
G. Net short-term borrowings, at end of period	[A+F] [5,279]	[3,816]	[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 period-end exchange rates.

[**] In the first half of 2000 this item includes Lire 52 billion for the formation of Tin.it S.p.A..

In the first half of 2000, net cash inflows amounted to Lire 2,569 billion, with a corresponding reduction of the same amount in net short-term borrowings, which totals Lire 5,279 billion.

This change is due to "cash flows provided by operating activities" of Lire 7,353 billion which entirely financed investing activities and loan repayments.

Investments totaled Lire 5,320 billion [Lire 3,771 billion in the first half of 1999]. These refer to industrial investments of Lire 2,187 billion [Lire 2,192 billion in the first half of 1999] and financial investments of Lire 3,133 billion [Lire 1,579 billion in the first half of 1999]; the latter include Lire 2,761 billion of investment acquisitions.

[3.4] RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS

Statements of income

	1 st half 2000	1 st half 1999	Year 1999
[in millions of euros]			
A. Sales and service revenues	8,733	9,305	18,518
Changes in inventory of contract work in process	8	13	[10]
Increases in capitalized internal construction costs	6	6	13
Operating grants	=	2	2
B. Standard production value	8,747	9,326	18,523
Raw materials and outside services	[*] [3,428]	[3,567]	[7,398]
C. Value added	5,319	5,759	11,125
Labor costs	[*] [1,546]	[1,597]	[3,153]
D. Gross operating profit	3,773	4,162	7,972
Depreciation and amortization	[1,897]	[2,099]	[4,011]
Other valuation adjustments	[74]	[96]	[280]
Provisions to reserves for risks and charges	[49]	[57]	[81]
Net other income	60	78	65
E. Operating income	1,813	1,988	3,665
Net income from investments	113	34	1,718
Net financial expense	[124]	[180]	[290]
Value adjustments on financial assets	[183]	[95]	[152]
F. Income before extraordinary items and taxes	1,619	1,747	4,941
Net extraordinary expense	[263]	[189]	[340]
G. Income before taxes	1,356	1,558	4,601
Income taxes for the period	[658]	[749]	[1,993]
H. Net income for the period	698	809	2,608

[*] Reduced by related cost recoveries.

Balance sheets

[in millions of euros]		6/30/2000	12/31/1999	6/30/1999
A.	Intangibles, fixed assets and long-term investments			
	Intangible assets	1,152	1,166	1,101
	Fixed assets	18,066	18,861	19,074
	Long-term investments:			
	• investments and advances on future increases of capital contributions for investments	10,505	9,265	8,234
	• other	425	880	818
		30,148	30,172	29,227
B.	Working capital			
	Inventories	140	120	172
	Trade accounts receivable	5,079	5,402	5,650
	Other assets	795	1,510	712
	Trade accounts payable	[3,971]	[4,810]	[4,147]
	Reserves for risks and charges	[1,114]	[641]	[1,428]
	Other liabilities	[4,306]	[3,964]	[6,086]
		[3,377]	[2,383]	[5,127]
C.	Invested capital, net of operating liabilities [A+B]	26,771	27,789	24,100
D.	Reserve for employee termination indemnities	[1,180]	[1,117]	[1,111]
E.	Invested capital, net of operating liabilities and reserve for employee termination indemnities [C+D]	25,591	26,672	22,989
	Financed by:			
F.	Stockholders' equity			
	Share capital paid-in	3,835	3,835	3,833
	Reserves and retained earnings	14,548	11,931	11,892
	Net income for the period	698	2,608	809
		19,081	18,374	16,534
G.	Medium/long-term debt	3,784	4,245	4,485
H.	Net short-term borrowings:			
	• short-term borrowings	3,538	5,179	3,526
	• liquid assets and short-term financial assets	[871]	[1,186]	[1,627]
	• financial accrued expense and deferred expense, net	59	60	71
		2,726	4,053	1,970
	[G+H]	6,510	8,298	6,455
I.	Total [F+G+H]	25,591	26,672	22,989

Statements of cash flows

	1 st half 2000	1 st half 1999	Year 1999
[in millions of euros]			
A. Net short-term borrowings, at beginning of period	[4,053]	[3,681]	[3,681]
B. Cash flows - operating activities			
Net income for the period	698	809	2,608
Depreciation and amortization	1,897	2,099	4,011
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[4]	13	90
Writedowns of intangibles and fixed assets and long-term investments	136	44	215
Change in working capital	[*] 1,007	439	[1,214]
Net change in "reserve for employee termination indemnities"	63	69	75
	3,797	3,473	5,785
C. Cash flows - investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[247]	[210]	[698]
• fixed assets	[882]	[922]	[2,362]
• long-term investments	[**] [1,618]	[815]	[2,052]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	693	187	262
Assets contributed to Tin. it	33	=	=
	[2,021]	[1,760]	[4,850]
D. Cash flow – financing activities			
New borrowings	=	275	588
Capital contributions	=	=	33
Capital grants	14	57	59
Debt repayment	[77]	[64]	[108]
Change in medium-long term debt due within one year	[386]	[270]	[784]
	[449]	[2]	[212]
E. Dividends	=	=	[1,095]
F. Cash flows for the period	[B+C+D+E] 1,327	1,711	[372]
G. Net short-term borrowings, at end of period	[A+F] [2,726]	[1,970]	[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 period-end exchange rates.

[**] In the first half of 2000 this item includes euros 27 million for the formation of Tin.it S.p.A..

[3.5] OUTLOOK FOR THE CURRENT YEAR

In the second half of 2000, Telecom Italia will operate in a market that is increasingly characterized by rapid evolution and growing competition. The pursuit of established goals will lead the Company to step up its commitment to improve operational efficiency by reducing operating costs to counter the effects of customer retention policies and the fiercer competition over the most sought-after traffic areas.

During this period, steps will be taken to expand the networks to support innovative services using the integrated *IP/ATM* platform, while, on the international front, specific plans will be designed to be offered to interconnecting operators, with prices set according to area and volume, in order to improve the profitability of traffic transmission. To confront the fixed-mobile traffic being by-passed through alternative international channels, agreements will be concluded with foreign correspondents covering traffic to mobile networks.

[3.6] TRANSACTIONS BETWEEN TELECOM ITALIA AND RELATED PARTIES

Pursuant to the disclosure requirements of Article 2428 of the Italian Civil Code concerning transactions with related parties – including parent companies and their subsidiaries, unconsolidated subsidiaries and affiliated companies, as well as the Parent Company's Directors and the companies in which they hold corporate office or significant responsibility - all such transactions entered into by Telecom Italia 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 first half 2000	Amounts in billions of lire	Nature of transaction
Sales and service revenues	1,455	This item refers to revenues from telecommunications services as well as revenues connected with the mobile-fixed access charge and rental of lines acquired by TIM. Also included are revenues from services connected to contracts with Seat Pagine Gialle and the management fee from Telecom Argentina.
Raw materials and outside services	2,109	This item refers to acquisitions from subsidiaries and affiliates and other related parties [in particular from Sirti, Italtel, TIM, CSELT, Siemens Informatica, Seat Pagine Gialle, Saritel, Telespazio, TMI - Telemedia International, Entel Chile] mainly for leasing installments, equipment maintenance, software, personnel training and directory printing, as well as the amounts due to TIM for its share of services invoiced by Telecom Italia.
Net other income	76	Income connected to miscellaneous services rendered to subsidiaries and affiliates, including outsourcing services rendered to TIM.
Net financial income	56	This item mainly comprises dividends and the interest accrued on current accounts held for purposes of centralized cash management.
Net extraordinary income	6	These refer to gains by Saiat on the sale of Meie and other nonrecurring gains by subsidiaries and affiliates.
Trade accounts receivable	1,221	These are mainly items connected with telecommunications services rendered.
Other assets	378	These essentially comprise receivables relating to the Group's VAT procedure.
Trade accounts payable	2,715	Essentially, these are the supplier transactions connected with normal investments and operations, in particular from Sirti, Telesoft, Italtel, as well as the amounts due to TIM for its share of services invoiced by Telecom Italia.
Other liabilities	140	This item refers to the amount payable in connection with the Group's VAT procedure and deferred income from TIM.
Long-term loans receivable	97	Loans granted to the subsidiary Telespazio.
Net short-term financial liabilities	553	This item mainly regards transactions current accounts held for purposes of centralized cash management.
Investments in fixed and intangible assets	932	These are mainly the acquisitions from Italtel [exchanges], Sirti and Consorzio I.M.S. [line equipment] and Telesoft.

4. Significant events subsequent to June 30, 2000

Seat Pagine Gialle/Tin.it

On July 3, the Antitrust Authority concluded the first stage of its inquiry into the merger of Seat Pagine Gialle and Tin.it, ruling in favor, but subject to the observance of the laws on free trade, and leaving the Communications Authority to write its final opinion. On July 18, the Communications Authority expressed a favorable opinion, but set certain conditions: in particular, the new company will have to forgo its exclusive advertising contract on telephone directories [White Pages], not being in conformity with the laws on the liberalization of communications; the Authority will define the terms of this obligation after a special inquiry. It must also avoid any actions directed to excessive price reductions and strategies for the concentration and acquisition of providers. Lastly, on July 27, the Antitrust Authority authorized the merger under these terms:

1. sale of the interest [66%] held by Seat in Mc-Link [a company which offers Internet access services];
2. sale of the entire investment held by Telecom Italia in Excite Italia [a global portal held jointly with [Excite@Home](#)];
3. commitment to provide online, starting from September 1, 2000, the database of fixed telephone subscribers, free of charge to authorized subjects and, against a fee to all others;
4. commitment to auction, starting from January 1, 2008, the right to collect advertising to be placed in the "White Pages";
5. commitment not to engage in unfair trade practices by also distributing, using the Buffetti commercial network, products of competitors;
6. obligation, for Telecom Italia and Seat, to maintain separate trademarks and sales structures for the next three years.

On August 10, Telecom Italia's extraordinary shareholders' meeting approved the partial demerger of the Company – previously voted by the Seat shareholders' meeting held on July 4, 2000 – by transferring, to Seat Pagine Gialle, No. 3,348,922 Tin.it ordinary shares [equal to a 8.168% stake] held by Telecom Italia, also approving the relative share exchange [56 Seat ordinary shares of par value Lire 50 each, for every 1,000 Telecom Italia ordinary shares of par value Lire 1,000 each]. On August 11, the special meeting of the savings shareholders of Telecom Italia approved the exchange voted by the shareholders' meeting held the previous day.

Again on August 10, the Board of Directors of Telecom Italia passed a resolution to purchase the Seat Pagine Gialle shares delivered during the take-over bid, with payment on August 18.

Iridium

Following the abandonment of the business activity, Iridium put the satellites and land control center for sale. In view of the absence of any important offers, at the end of August, Motorola [the main shareholder in the consortium], decided to start the process to de-orbit the entire satellite constellation, as per the authorization obtained from the American judge responsible on August 9.

Sirti

On August 3, 2000, Telecom Italia expressed its willingness, though not legally binding, to accept the public tender offer, that will be launched by Wiretel by September 30, 2000 for all of Sirti's shares at a price of Euros 1.502 per share, by assigning its entire holding in Sirti [49.09%]. Wiretel is a company wholly controlled by a consortium of companies consisting of Stella International, Techint, 21 Investimenti, Interbanca and 3i. Telecom Italia has also pledged to provide suitable contractual guarantees for the shares it is bringing to the deal; should a rival bid be forthcoming, the company has granted Wiretel the right to purchase, outside the public offer and at the same price as the rival offer, the equivalent of 25% of Sirti's share capital. Telecom Italia is also committed to undertaking commercial relations with Sirti, the duration and prices of which will be agreed with the companies making the take-over bid for Sirti.

UMTS

August 24 was the deadline for taking part in the auction for awarding the mobile telephone license using UMTS technology. Eight competitors are taking part: besides the four actual mobile telephone operators [TIM, Omnitel, Wind and Blu], Andala, Ipse, TuMobile and Anthill are also participating. This last company, which has been excluded from the bidding because of the absence of the necessary technical requirements, has announced its intention to appeal to the regional administrative court [TAR] of Lazio. Those admitted to the next stage of the auction will have to present their industrial plans for final participation by September 11. On September 22, an announcement will be made of the participants allowed to take in the auction which will take place during the first few days of October. The licenses will be assigned by December 7.

Share capital increase of TIM

On September 4, 2000, the Board of Directors of TIM passed a resolution for the bonus increase of share capital pursuant to the third paragraph of article 2442 of the Civil Code by increasing the par value of each of the No. 8,211,894,952 shares from Euros 5 cents to Euros 6 cents, and thus for a total amount of Euros 82,118,949.52 [about Lire 159 billion], by utilizing available capital reserves. This increase, to be approved by an extraordinary shareholders' meeting, is necessary in order to raise the share capital of TIM up to the minimum amount required for participating in the auction for the UMTS license in Italy.

Commercial agreement for Internet services

Telecom Italia reached an agreement with IBM Italia for the joint development of applications solutions and the creation of the first Internet Data Center network in Italy for e-business services in order to facilitate the entry of corporations in the Network Economy market. The company has also concluded agreements with various municipal-owned companies to develop online services for citizens and corporations.

With a view to developing Internet services especially for the spread of ADSL services and technologies, Tin.it concluded cooperation agreements with Borsa Italiana S.p.A., Class Editori and 3Com Italia and then signed an agreement of understanding with Microsoft, based on the integration of the range of Microsoft products and technologies and the expertise of Tin.it's web-partners, in order to increase the e-business and e-commerce services for small and medium-size businesses.

Conversion of TIM savings shares

The Board of Directors of TIM, on July 26, approved the proposal for the voluntary conversion of savings shares into an equal number of ordinary shares against payment to the company of a monetary adjustment equal to 38% of the arithmetic average of the market price of ordinary stock in the 15 market days prior to the shareholders' meeting which will approve the transaction; the adjustment will be in any case be included in a range of from Euros 3.7 to Euros 5.1 per share. The offer will be proposed to all the TIM savings shareholders, in accordance with the various international regulations. The transaction, directed to simplifying the share structure, will make it possible to raise financial resources which will provide TIM will greater operational flexibility. After approval and validation by the extraordinary shareholders' meeting following authorization by Consob, a subsequent Board of Directors' meeting will establish the timing and period for the conversion offer.

The Board of Directors of Telecom Italia, which also met on July 26, decided to accept the offer to convert all of its shares, equal to 19.52% of TIM savings shares. To increase its holding in view of the conversion, the Company also purchased 50 million ordinary shares on the market which brought its investment to 52.88%, corresponding to the final percentage holding if all savings shareholders convert their shares.

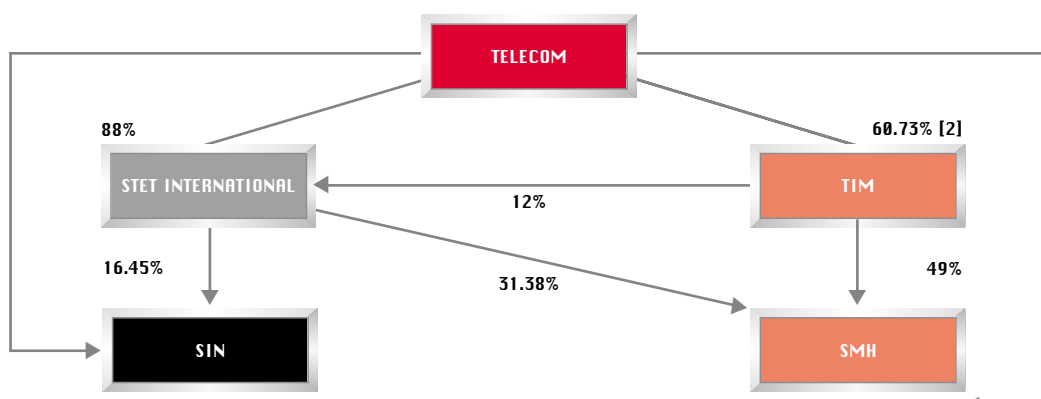
Acceptance of the offer, for the Parent Company, will involve a total outlay of between Lire 2,200 billion and Lire 3,000 billion.

Rationalization of the international sector

The meetings of the Boards of Directors of Telecom Italia, TIM and Stet International, held July 26, approved the project for the reorganization of Telecom Italia Group's international sector.

The project, which will be voted by the extraordinary meetings of the companies by October, calls for TIM to increase its stake in Stet Mobile Holding [SMH] to 100% and Telecom Italia to raise its interest in Stet International Netherlands [SIN] to 100%.

Companies involved in the transaction [1]



[1] The percentages of interest take in account the capital increases which have been made utilizing the advances on future increases of capital contributions for investments by Telecom Italia and TIM in SIN and SMH.

[2] Ordinary shares held as long-term investments at June 30, 2000.

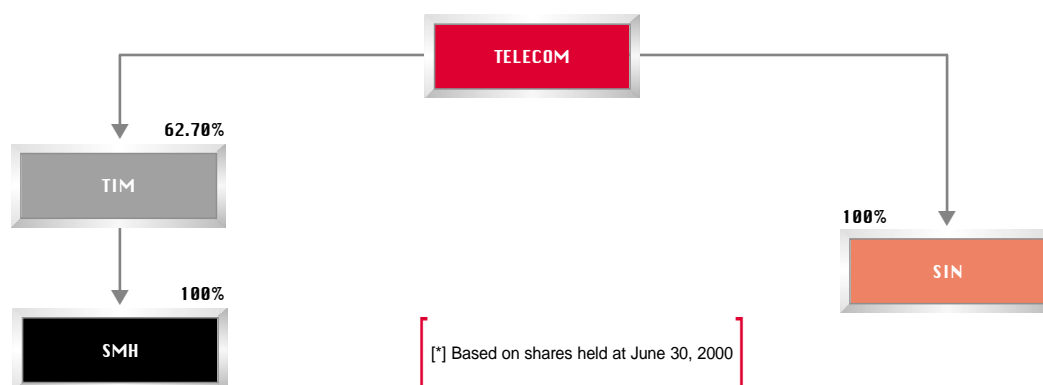
The transaction will be effected by a non-proportional demerger of Stet International to Telecom Italia [which holds a 88% stake] and TIM [which holds the remaining 12%], and the contribution, by Telecom Italia to TIM, of the investment in SMH against a share capital increase set aside for Telecom Italia.

In particular, through the non-proportional demerger of Stet International, TIM will be assigned SMH shares exclusively for an amount equal to 12% of the total value of Stet International, while Telecom Italia will be assigned the remaining equity of Stet International [including the remaining SMH shares, SIN shares, receivables and payables] for an amount equal to the stake [88%] in Stet International currently held by Telecom Italia.

Telecom Italia's investment in SMH (44.96%) will subsequently be contributed to TIM by increasing share capital through the issue of ordinary shares set aside for Telecom Italia. The effect of this will be to increase Telecom Italia's investment in TIM by 1.97%, from the current 60.73% to 62.70% (54.82% considering the total conversion of all TIM savings shares).

The reorganization plan leading to the simplification of the corporate structure will allow Telecom Italia and TIM to focus on their respective core businesses thanks to the control which they will exercise, respectively, over the international wireline and mobile telephone business.

Post-demerger and contribution [*]



Brazil

In July, for an amount of about Lire 1,600 billion, an agreement was reached for the sale to Brasil Telecom of 85.19% of the ordinary share capital of Companhia Riograndense de Telecomunicacoes [CRT] previously held by Telefonica. The agreement was approved by the local telecommunications authority on August 29.

Corporate reorganization plan

On March 28, 2000, an agreement was reached with the unions concerning the plan for the development and reorganization of Telecom Italia. The agreement will allow the Company to reach pre-fixed objectives in terms of employee cutbacks [confirmed in about 13,000] and operating cost reductions. Telecom Italia will thus be in a stronger and more efficient position to face a market characterized by extremely rapid evolution and growing competition.

The reorganization will include, in the three-year period 2000-2002, the Network and Market Italy areas and the staff functions. The reorganization will involve unemployment compensation programs under Law 223/1991 for 5,300 units, layoffs for 2,200 units, intercompany job transfers for 1,000 units, solidarity contracts and working hour flexibility for 600 units. The company also confirmed the total number of employee cutbacks for which, in addition to the above-described programs, incentive plans will be offered to about 3,000 units and no replacements will be made for staff turnover. Programs to re-train and re-quality staff are also being put into place for specific professional job figures, which will involve about 15,000 units.

The Plan also calls for the hiring of 6,200 persons [2,000 in the Southern Italy] mainly in reference to activities connected with the new economy, customer care and technological evolution.

From July 20 to 31, operational agreements were reached with the unions concerning unemployment compensation programs and layoffs. The consequent expenses to be borne by Telecom Italia based on an initial valuation carried out by the responsible corporate function, can be quantified in about Lire 650 billion. These will be recorded at the next accounting closing.

Breakdown of universal service cost

Telecom Italia, as a former monopolist, continues to have the obligation to provide telephone services at non-economic conditions which would not exist in free market. Such services, rendered in areas and to customers considered non-profitable, constitute the so-called "universal service". With its Resolution No. 8/00/CIR of August 1, 2000, the Communications Authority established the breakdown for financing the net cost of universal service for 1999; this cost can be quantified in Lire 120 billion, of which about Lire 70 billion should be borne by Telecom Italia. The costs to be borne by the other national telecommunications carriers, to be based on the related market shares, is still being defined. The contributions by the various companies will be set aside, as established by the Ministerial Decree of March 10, 1998, in a specific fund to be set up at the Ministry of Communications which will later pay over the entire amount to Telecom Italia.

5. Other information

THE EURO

In the first half of 2000, the Euro Project, the organizational unit designated for the coordination of the activities to introduce the new European currency, continued with the measures begun in 1999 both within and outside the Group.

In Telecom Italia, the plan already begun in the prior year was monitored and support was provided to the corporate functions involved in the plan; guidelines were also supplied for the planning and progress of the initiatives, the analysis of software products for the conversion to the common currency, as well as the principles and rules for euro-compatibility.

The Project also established the work and deadlines for the final phase of the plan:

- full upgrading of information systems by September 2001;
- realization and tests of the contingency plan [to ensure continuity of the corporate processes and minimize any eventual disservice] by December 2001;
- “Independent Verification & Validation” of the main corporate systems, carried out using suppliers, methods and tools other than those used during the change-over stage so as to identify eventual problems in time to correct mistakes;
- constant updating of the Internet site devoted to the euro, which can be consulted by all the Group companies;
- personnel training on the introduction of the euro for all those who will work with SAP.

External communication projects undertaken were as follows:

- conclusion of the “Eurologo” campaign promoted by the “Euro Commission ” of the Ministry of the Treasury, in which Telecom Italia and TIM company stores participated;
- selective distribution of the first group of 12 collector telephone cards designed by Telecom Italia to commemorate the introduction of the common currency, depicting European capitals in the “Euro-zone”;
- direct participation in the Euro Provincial Committees [CEP] of the nine most representative Italian provinces;
- meetings dedicated to the future instructors and businessmen in the retail sector for 50 companies in the territory, organized by specific request of Unioncamere.

As for TIM, during the first half, under the coordination of the interfunctional GDL formed in 1999, the work was finalized for the conversion to euros by October 2000.

6. 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.

Internet

The most famous data network in the world. Initially used by the American government as a network for the Ministry of Defense, Internet has developed as an interconnected set of networks based on

different construction technologies [LAN, WAN, data networks, voice networks] and managed by different bodies, but all using the IP protocol.

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.

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.

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.

Unbundling local loop

Lease of user connection [so-called “last mile”].

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].



**CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS
ENDED JUNE 30, 2000 OF TELECOM ITALIA GROUP**

**[CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS
ENDED JUNE 30, 2000 OF TELECOM ITALIA GROUP]**



ASSETS [in billions of lire]

	6/30/2000		12/31/1999		6/30/1999	
Receivables from stockholders for capital contributions						
Portion called in	1		=		=	
Portion not called in	3		3		3	
	4		3		3	
Intangibles, fixed assets and long-term investments						
INTANGIBLES ASSETS						
Start-up and expansion costs	124		127		114	
Industrial patents and intellectual property rights	1,387		1,507		1,276	
Permits, licenses, trademarks and similar rights	989		296		338	
Goodwill	7		8		10	
Consolidation difference	3,286		1,967		1,973	
Work in progress and advances to suppliers	995		755		719	
Other intangibles	681		639		570	
	7,469		5,299		5,000	
FIXED ASSETS						
Land and buildings	10,276		9,823		9,656	
Plant and machinery	34,182		31,991		31,854	
Manufacturing and distribution equipment	269		240		235	
Other fixed assets	1,499		1,097		1,046	
Construction in progress and advances to suppliers	2,657		2,367		2,378	
	48,883		45,518		45,169	
LONG-TERM INVESTMENTS						
Investments in						
unconsolidated subsidiaries	14		235		132	
affiliated companies	12,274		11,510		11,157	
other companies	400		579		594	
	12,688		12,324		11,883	
Advances on future increase in capital contributions to investments	140		2		2	
Loans to	[*]		[*]		[*]	
unconsolidated subsidiaries	= 274		= 258		= 118	
other borrowers	158 619		190 628		75 628	
	158 893		190 886		75 746	
Other securities	12		5		156	
Treasury stock (for an overall par value of 26 billion as at 30.06.2000)	326		=		=	
	14,059		13,217		12,787	
Total intangibles, fixed assets and long-term investments	70,411		64,034		62,956	
Current assets						
INVENTORIES						
Raw materials and supplies	274		189		310	
Work in progress and semi-finished goods	164		134		308	
Contract work in process	1,641		1,217		1,354	
Finished goods and merchandise						
finished goods	58		23		99	
merchandise	453 511		403 426		394 493	
Advances to suppliers	29		29		4	
	2,619		1,995		2,469	
ACCOUNTS RECEIVABLES	[**]		[**]		[**]	
Trade accounts receivables	14 14,657		67 14,942		141 14,671	
Receivables from unconsolidated subsidiaries	= 53		= 75		= 113	
Receivables from affiliated companies	= 904		= 953		= 906	
Receivables from parent companies	= 1		= 2		= 1	
Miscellaneous receivables	340 2,710		582 3,093		434 2,361	
	354 18,325		649 19,065		575 18,052	
SHORT-TERM FINANCIAL ASSETS	[**]		[**]		[**]	
Investments in subsidiaries	360		122		126	
Other investments	65		11		=	
Marketable securities	2,089		2,450		2,990	
Receivables from security sale	= 2		= 9		= 791	
	2,516		2,592		3,907	
LIQUID ASSETS						
Bank and postal accounts	1,275		1,294		1,395	
Cash and securities on hand	18		18		44	
	1,293		1,312		1,439	
Total current assets	24,753		24,964		25,867	
Accrued income and prepaid expenses						
discounts and similar changes on borrowings	3		3		4	
accrued income and other prepaid expenses	451		177		310	
	454		180		314	
TOTAL ASSETS	95,622		89,181		89,140	

[*] Amounts due within one year [**] Amounts due after one year

**LIABILITIES AND
STOCKHOLDERS' EQUITY** [in billions of lire]

	6/30/2000		12/31/1999		6/30/1999	
Stockholders' equity						
PARENT COMPANY INTEREST IN						
Share capital	7,426		7,426		7,421	
Treasury stock	326		=		=	
Reserves and retained earnings	25,322		22,214		22,234	
Net income	1,896		3,364		1,764	
	34,970		33,004		31,419	
MINORITY INTEREST IN						
Share capital, reserves and retained earnings	5,235		4,009		4,419	
Net income	862		1,301		600	
	6,097		5,310		5,019	
	41,067		38,314		36,438	
Reserves for risks and charges						
Reserve for taxes						
for taxes	2,151		309		2,423	
for deferred taxes	=		292		=	
	2,151		601		2,423	
Consolidation reserve for future charges and risks	=		=		13	
Other reserves	1,504		1,405		1,358	
	3,655		2,006		3,794	
Reserve for employee termination indemnities	3,032		2,896		2,886	
Liabilities	[• •]		[• •]		[• •]	
Debentures	2,791	3,604	1,578	1,906	1,328	1,998
Due to banks	7,102	15,164	7,136	15,780	7,317	13,868
Due to other lenders	1,120	1,630	1,276	1,738	1,422	2,092
Advances	=	946	=	733	=	593
Accounts payable to suppliers	71	10,666	12	11,775	54	9,296
Accounts payable to unconsolidated subsidiaries	=	27	=	39	=	69
Accounts payable to affiliated companies	943	2,161	=	1,156	342	1,169
Accounts payable to parent companies	=	4	=	5	=	767
Taxes payables	11	2,553	11	2,295	=	3,326
Contributions to pension and social security institutions	1,372	1,791	1,376	1,855	1,477	1,842
Other liabilities	163	7,418	13	6,960	743	9,204
	13,573	45,964	11,402	44,242	12,683	44,224
Accrued expenses and deferred income	1,904		1,723		1,798	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	95,622		89,181		89,140	

[**] Amounts due after one year

[in billions of lire]

	6/30/2000	12/31/1999	6/30/1999
Guarantees provided			
Sureties			
on behalf of unconsolidated subsidiaries	87	87	130
on behalf of affiliated companies	3,491	1,828	2,305
on behalf of outsiders	443	527	612
	4,021	2,442	3,047
Endorsements			
on behalf of outsiders	272	28	53
Other guarantees apart from endorsements			
on behalf of unconsolidated subsidiaries	13	=	=
on behalf of affiliated companies	34	64	=
on behalf of outsiders	3	23	108
	50	87	108
	4,343	2,557	3,208
Collateral provided			
Other obligations of outsiders	9	14	8
Other obligations, not including liabilities	3	3	3
	12	17	11
Purchase and sale commitments	18,877	1,666	1,602
Other memorandum accounts	498	7,820	5,843
TOTAL MEMORANDUM ACCOUNTS	23,730	12,060	10,664

[in millions of lire]

	First half 2000	First half 1999	Year 1999
Production value			
Sales and service revenues	27,528	25,382	52,481
Changes in inventories of work in progress, semifinished and finished goods	56	99	[127]
Changes in inventory of contract work in process	505	438	341
Increases in capitalized internal construction costs	806	650	2,056
Other revenue and income			
operating grants	19	15	39
other	407	485	959
	426	500	998
	29,321	27,069	55,749
Production cost			
Raw materials, suppliers and merchandise	[2,056]	[1,897]	[4,354]
Semifinished and finished goods	[311]	[288]	[441]
Services	[7,906]	[6,550]	[14,289]
Use of property not owned	[693]	[641]	[1,363]
Personnel			
wages and salaries	[3,512]	[3,435]	[6,773]
social security contributions	[1,093]	[1,102]	[2,155]
termination indemnities	[249]	[245]	[487]
other costs	[149]	[90]	[221]
	[5,003]	[4,872]	[9,636]
Amortization, depreciation and writedowns			
amortization of intangible assets	[927]	[776]	[1,913]
depreciation of fixed assets	[4,463]	[4,485]	[8,425]
other writedowns of fixed assets and other long-term investments	[27]	=	[142]
writedowns of receivables included in current assets and of liquid assets	[499]	[337]	[702]
	[5,916]	[5,598]	[11,182]
Changes in inventory of raw materials, supplies and merchandise	68	85	37
Provisions for risks	[118]	[130]	[155]
Other provisions	[27]	[2]	[40]
Miscellaneous operating costs	[794]	[868]	[1,870]
	[22,756]	[20,761]	[43,293]
Net production value	6,565	6,308	12,456
Financial income and expense			
Income from investments			
dividends from unconsolidated subsidiaries	7	=	3
dividends from affiliated companies	34	=	=
dividendi from other companies	84	42	112
other income from investments	93	21	167
	218	63	282
Other financial income			
loans included in long-term investments			
affiliated companies	14	2	6
other borrowers	11	13	22
	25	15	28
securities, other than investments, included in long-term investments	=	4	3
securities, other than investments, included in current assets	99	85	184
other income			
interest and fees from unconsolidated subsidiaries	=	1	3
interest and fees from affiliated companies	14	15	26
interest and fees from others and miscellaneous income	441	214	547
	455	230	576
	579	334	791
Interest and other financial expense			
interest and fees paid to unconsolidated subsidiaries	=	[1]	[1]
interest and fees paid to affiliated companies	[32]	[1]	[1]
interest and fees paid to others and miscellaneous income	[1,054]	[900]	[1,704]
	[1,086]	[902]	[1,706]
Net financial income (expense)	[289]	[505]	[633]

CONSOLIDATED STATEMENTS OF INCOME

[CONTINUED] [in billions of lire]

	First half 2000	First half 1999	Year 1999
Value adjustments on financial assets			
Upward adjustments on			
<i>Investments in unconsolidated subsidiaries,</i>			
<i>affiliated companies</i>	144	247	467
<i>securities, other than investments,</i>			
<i>included in current assets</i>	=	1	=
	144	248	467
Writedown of			
<i>Investments in unconsolidated subsidiaries,</i>			
<i>affiliated companies</i>	[809]	[657]	[1,562]
<i>securities, other than investments, included in</i>			
<i>long-term investments</i>	=	[13]	[36]
<i>securities, other than investments, included in</i>			
<i>current assets</i>	[62]	[4]	=
	[871]	[674]	[1,598]
Total adjustments	[727]	[426]	[1,131]
Extraordinary income and expense			
Income			
<i>gains on disposals of assets</i>	596	1	50
<i>miscellaneous</i>	204	115	230
	800	116	280
Expense			
<i>losses on disposals of assets</i>	=	[9]	[21]
<i>taxes due for prior years</i>	[10]	[21]	[7]
<i>miscellaneous</i>	[768]	[505]	[1,233]
	[778]	[535]	[1,261]
Total extraordinary items	22	[419]	[981]
Income before taxes	5,571	4,958	9,711
Income taxes			
<i>current taxes</i>	[2,813]	[2,594]	[5,585]
<i>deferred taxes</i>	=	=	539
	[2,813]	[2,594]	[5,046]
Net income before minority interest	2,758	2,364	4,665
Minority interest	[862]	[600]	[1,301]
Net income after minority interest	1,896	1,764	3,364

Notes to consolidated financial statements

FOREWORD

The consolidated financial statements for the six months ended June 30, 2000 have been prepared in accordance with art. 81 and Annex 3C-bis of Consob resolution No. 11971 of May 14, 1999 (issuing rules), amended by Consob resolution No. 12475 of April 6, 2000. Following certain changes to some items of the financial statements, for purposes of comparison, the financial statements for the six months ended June 30, 1999 and the year ended December 31, 1999 have been reclassified.

The disclosure relating to the introduction of the euro is included under “Other information” in these notes and the Report on Operations.

The consolidated statements of cash flows, although presented in the Report on Operations, constitute an integral part of these notes to consolidated financial statements.

SCOPE OF CONSOLIDATION

The scope of the consolidation at June 30, 2000 – as in previous periods – 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 over which it exerts a dominant influence. The proportional method of consolidation, pursuant to Article 37 of Legislative Decree 127/1991, is used to consolidate the affiliated companies controlled jointly with other shareholders at 50%:

- Nortel Inversora and Telecom Argentina group controlled by it;
- Viasat [through Tin.it] and its subsidiary Viasat Assistance.

The complete list of companies consolidated by the proportional method is given in Annex 6. In order to give a complete picture of the Group, it is necessary to point out that, starting from year 2000, the Nortel Inversora group, jointly controlled with the France Telecom group, has been consolidated using the proportional method. The proportional consolidation of the Nortel Inversora group did not have any impact on the result of the period because this group was previously consolidated using the equity method, but it did have an impact on the components of the consolidated balance sheet and statements of income [sales of service and revenues: +5.8%; total assets: +6.8%; net financial debt: +16.7%].

The following changes have taken place in the scope of consolidation:

- Since June 30, 1999:
 - a] added to the scope of consolidation: Associazione Economica Internazionale Cubatel-Sirti, Centrosiel, Finsiel do Brasil, Path.Net, Nortel Inversora group, Teleinvest Participacoes, Telepolis, Telespazio Ireland, Telespazio Luxemburg, TIM Perù;

- b] eliminated from the scope of consolidation: Webegg [formerly Logicasiel], Tecnitel, Sinted, Stet France, Teleleasing.
- Since December 31, 1999:
 - c] added to the scope of consolidation: Associazione Economica Internazionale Cubatel-Sirti, Centrosiel, Nortel Inversora group, TIM Perù;
 - d] eliminated from the scope of consolidation: Webegg, Tecnitel, Sinted, Stet France, Teleleasing and Optical Technologies Center.

At June 30, 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	52	72	124	=	=	=	124
consolidated on the proportional method	=	=	=	2	9	11	11
valued by the equity method	=	5	5	33	33	66	71
valued at cost	28	14	42	39	9	48	90
Total companies	80	91	171	74	51	125	296

The investments in companies valued at cost mainly refer to consortia, of which 19 are subsidiaries and 34 are affiliates.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles adopted in preparing the consolidated financial statements for the six months ended June 30, 2000, taking into account the specific adjustments required for interim periods, have been applied on a basis consistent with those used in the annual consolidated financial statements, to which reference should be made, except as follows:

- *finance leases*: following the exclusion of Teleleasing from the scope of consolidation, IAS 17 has been adopted, whereby assets covered by finance lease contracts with a purchase option are recorded in fixed assets and depreciated from the date of the lease contract. A liability for the same amount is recorded simultaneously, 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. Depreciation is calculated on the same basis as that for similar owned assets.
- *income taxes*: the income taxes for the first half of the individual consolidated companies, as well on the consolidation adjustments, are recorded in "reserve for taxes" under "reserves for risks and charges" based on the tax rate for the year 2000.
- *employee benefit obligations under Law No. 58/1992*: employee benefit obligations, as required by Law No. 58/1992, to guarantee a uniform insurance status, are accounted for on a cash basis, as described in the Notes to financial statements of Telecom Italia. The remaining liability for such obligations, payable in fifteen annual installments on the basis of the statement updated to June 30, 2000 by the

INPS authorities and according to its interpretation, amounts to Lire 2,873 billion, divided as follows:

- a] Lire 1,828 billion for the principal amount [except for the portion attributable to former Iritel employees];
- b] Lire 1,045 billion for accrued interest.

As regards pre-amortization interest and the related accrued interest, as disclosed in the Notes to financial statements of Telecom Italia, payment of the residual amount of Lire 789 billion was suspended as from June 2000 in compliance with sentence No. 4242 of April 5, 2000 handed down by the Court of Cassation.

The consolidated six-month financial statements also include Lire 1,477 billion due to the National Social Security Institute [INPS], estimated to cover employees of the former State Company for Telephone Services [ASST] as determined 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 first half of 2000 [under “extraordinary expense”] amount to Lire 225 billion inclusive of accrued interest.

CONSOLIDATED BALANCE SHEETS

ASSETS

Intangible, fixed assets and long-term investments

Intangible assets

Lire 7,469 billion

[Lire 5,299 billion at December 31, 1999]

Intangible assets increased by Lire 2,170 billion [of which Lire 762 billion refers to the entry of Nortel Inversora group in the scope of consolidation] compared to December 31, 1999. A breakdown of the composition and the changes in this account are provided below:

[in billions of lire]	12/31/1999	Additions	Amortization	Disposals and other changes	6/30/2000
Start-up and expansion costs	127	18	[17]	[4]	124
Industrial patents and intellectual property rights	1,507	174	[564]	270	1,387
Permits, licenses, trademarks and similar rights	296	375	[37]	355	989
Goodwill	8	=	[3]	2	7
Consolidation difference	1,967	1,196	[186]	309	3,286
Work in progress and advances to suppliers	755	478	=	[238]	995
Other intangibles	639	63	[120]	99	681
Total	5,299	2,304	[927]	793	7,469

- *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.
- *Permits, licenses, trademarks and similar rights* mainly include the remaining cost of the license PCS 1900 in Peru [Lire 364 billion], PCS licenses in Argentina [Lire 354 billion], a GSM license in Greece [Lire 110 billion], and the remainder of the costs incurred by the Parent Company for the launch and use of satellites.
- The *consolidation difference* increased by Lire 1,319 billion over December 31, 1999, mainly as a result of the goodwill [Lire 1,196 billion, before amortization for the period] which arose on the purchase of 50 million TIM ordinary shares by the Parent Company. Furthermore, this item includes the residual value of the difference between the amount paid for Tele Celular Sul Participacoes [Lire 570 billion], Tele Nordeste Celular Participacoes [Lire 566 billion], Italtel [Lire 356 billion], Entel Bolivia [Lire 259 billion] and Nortel Inversora [Lire 244 billion] and the share of their underlying stockholders' equity at their acquisition date.
- *Work in progress and advances to suppliers* increased by Lire 240 billion compared to December 31, 1999 and represent the difference between the capitalization of costs incurred in the first half of 2000, mainly by the Parent Company, for software development projects in progress and projects which became operative during the period.

- *Other intangibles* totaling Lire 681 billion [Lire 639 billion at December 31, 1999] include Lire 337 billion [Lire 357 billion at December 31, 1999] of leasehold improvements.

Fixed assets

Lire 48,883 billion

[Lire 45,518 billion at December 31, 1999]

Fixed assets increased by Lire 3,365 billion compared to December 31, 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 is provided in the following table:

[in billions of lire]							6/30/2000	12/31/1999
	Owned			Leased			Total	In financial statements
	Gross value	Accumulated depreciation	Total	Gross value	Accumulated depreciation	Total		
Land and buildings	14,775	[5,342]	9,433	992	[149]	843	10,276	9,823
Plant and machinery	106,975	[72,872]	34,103	125	[46]	79	34,182	31,991
Manufacturing and distribution equipment	2,393	[2,124]	269	4	[4]	=	269	240
Other fixed assets	5,402	[3,984]	1,418	112	[31]	81	1,499	1,097
Construction in progress and advances to suppliers	2,534	=	2,534	123	=	123	2,657	2,367
Total	132,079	[84,322]	47,757	1,356	[230]	1,126	48,883	45,518

Accumulated depreciation covered 63.4% of gross fixed assets, compared to 64.1% at the end of last year. The gross value includes Lire 3,656 billion relating to revaluations made by Telecom Italia and TIM.

The changes in fixed assets during the period are shown in the following table:

[in billions of lire]	1 st half 2000
January 1	45,518
Changes during the year:	
• additions	3,302
• sales and retirements	[65]
• depreciation for the first half	[4,463]
• assets leased to third parties under finance leases and change in the scope of consolidation and other	4,591
June 30	48,883

Additions during the first half amounted to Lire 3,302 billion [including a total of Lire 571 billion invested in Southern Italy], and increased by Lire 363 billion, attributable, principally, to the entry of Nortel Inversora group in the scope of consolidation [Lire 431 billion], partly offset by the reduction in capital expenditures in the fixed and mobile telecommunications sectors in Italy.

A breakdown of additions during the first half by sector is provided below:

[in billions of lire]	1 st half 2000	1 st half 1999
Fixed telecommunications Italy	1,736	1,786
Mobile telecommunications Italy	757	659
Satellite telecommunications Italy	28	28
International activities	787	349
Information technology activities	32	32
Manufacturing activities	20	25
Installation activities	19	22
	3,379	2,901
Other activities and intraGroup eliminations	[77]	38
Total	3,302	2,939

Long-term investments

Lire 14,059 billion

[Lire 13,217 billion at December 31, 1999]

Long-term investments increased by Lire 842 billion compared to December 31, 1999 and include the following:

[in billions of lire]	6/30/2000	12/31/1999	Change
Investments in:			
• unconsolidated subsidiaries	14	235	[221]
• affiliated companies	12,274	11,510	764
• other companies	400	579	[179]
	12,688	12,324	364
Advances on future increase in capital contributions to investments	140	2	138
	12,828	12,326	502
Loans to:			
• affiliated companies	274	258	16
• other borrowers	619	628	[9]
	893	886	7
Other securities	12	5	7
Treasury stock	326	=	326
Total	14,059	13,217	842

Investments in affiliated companies, amounting to Lire 12,274 billion, increased by Lire 764 billion compared to December 31, 1999, chiefly due to the acquisition of 30% of GLB Servicos Interativos, partially offset by the entry of Nortel Inversora group in the scope of consolidation and by the losses of some foreign subsidiaries, in particular, Telekom Austria.

Investments in affiliated companies refer to the following:

[in billions of lire]

Telekom Austria	3,612
GLB Servicios Interativos	1,641
Mobikom Austria	1,128
Etec S.A.	973
Solpart Participacoes	795
Retevision	751
Entel Chile	561
Telekom Srbija	548
Astrolink	500
Netco Redes	271
Stream	187
Retevision Movil	173
Other	1,134
Total	12,274

Investments valued by the equity method included the unamortized portion [Lire 6,045 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 2,231 billion], GLB Servicios Interativos [Lire 1,592 billion], Mobikom Austria [Lire 619 billion], Retevision [Lire 479 billion], Netco Redes [Lire 228 billion], Etec S.A. [Lire 221 billion] and Entel Chile [Lire 216 billion].

A list of the companies valued by the equity method is provided in Annex 7; investments in unconsolidated subsidiaries and affiliates are listed in Annex 8.

Loans to other borrowers, amounting to Lire 619 billion, include loans to other companies, capital contributions to the Jilin Huatai Communications Chinese joint venture, loans to employees and security deposits. This item also includes the upward adjusted tax credit, deriving from prepayment of the tax on the reserve for employee severance indemnities, totaling Lire 303 billion.

Treasury stock of Lire 326 billion refer to 26,046,820 savings shares bought back by the Parent Company following the Public Purchase Offer voted by the ordinary shareholders' meeting of January 14, 2000.

Current assets

Inventories

Lire 2,619 billion

[Lire 1,995 billion at December 31, 1999]

Inventories include the following:

[in billions of lire]	6/30/2000	12/31/1999	Change
Raw materials and supplies	274	189	85
Merchandise	453	403	50
	727	592	135
Work in progress and semifinished goods	164	134	30
Finished goods	58	23	35
	222	157	65
Contract work in process	1,641	1,217	424
Advances to suppliers	29	29	=
	1,670	1,246	424
Total	2,619	1,995	624

Inventories are held by manufacturing and installation companies for Lire 1,062 billion [Lire 833 billion at December 31, 1999] and companies providing telecommunications services for Lire 997 billion [Lire 835 billion at December 31, 1999] and companies in the information technology sectors for Lire 513 billion [Lire 303 billion at December 31, 1999]. "Raw materials" and "work in progress and semifinished" inventories approximate current values.

Accounts receivable

Lire 18,325 billion

[Lire 19,065 billion at December 31, 1999]

A breakdown of accounts receivable, which decreased by Lire 740 billion, is provided below:

[in billions of lire]	6/30/2000	12/31/1999	Change
Trade accounts receivable	16,276	16,239	37
• Allowance for doubtful accounts	[1,619]	[1,297]	[322]
Total trade accounts receivable	14,657	14,942	[285]
Receivables from unconsolidated subsidiaries	53	75	[22]
Receivables from affiliated companies	904	953	[49]
Receivables from parent companies	1	2	[1]
Miscellaneous receivables	2,710	3,093	[383]
Total	18,325	19,065	[740]

In particular:

- gross *trade accounts receivable* totaled Lire 16,276 billion and consist, for the most part, of receivables relating to telecommunications services. Receivables have been adjusted to estimated realizable value by writedowns were also made almost entirely to receivables from telecommunications services. Accounts receivable also include Lire 1,739 billion of receivables from other telecommunications carriers;

- *receivables from affiliated companies* amounted to Lire 904 billion. They refer to financial receivables for Lire 233 billion, and trade and other receivables for Lire 671 billion;
- *miscellaneous receivables* of Lire 2,710 billion [Lire 3,093 billion at December 31, 1999] included the following:
 - financial receivables of Lire 47 billion [Lire 58 billion at December 31, 1999];
 - other receivables totaling Lire 2,663 billion [Lire 3,035 billion at December 31, 1999] which refer to the following:

[in billions of lire]	6/30/2000	12/31/1999
Government and other public entities for subsidies and grants	118	112
Customer payments in transit	442	532
Due from the Tax Administration	380	442
Deferred tax assets	595	940
Employees	203	144
Other receivables from the Government, other public entities and items in transit	925	865
Total	2,663	3,035

During the first half, TIM sold trade accounts receivable to factoring companies for Lire 2,905 billion [sale of receivables from dealers without recourse up to the established limits with collection at maturity]. Receivables sold and not yet due amount to about Lire 344 billion.

Short-term financial assets
[Lire 2,592 billion at December 31, 1999]

Lire 2,516 billion

This item, which decreased by Lire 76 billion compared to December 31, 1999, includes the following:

[in billions of lire]	6/30/2000	12/31/999	Change
Investments in subsidiaries	360	122	238
Investments in other companies	65	11	54
Marketable securities	2,089	2,450	[361]
Receivable on the sale of securities	2	9	[7]
Total	2,516	2,592	[76]

- *Investments in subsidiaries and other companies* refer to the value of listed shares purchased for trading. A comparison of the market prices of such shares at year-end and the corresponding carrying value shows an unrealized gain of Lire 23 billion.
- *Marketable securities* consist of debt securities held by the subsidiary Softe.

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 1.

LIABILITIES AND STOCKHOLDERS' EQUITY

Stockholders' equity

Lire 41,067 billion

[Lire 38,314 billion at December 31, 1999]

A breakdown of stockholders' equity is presented below:

[in billions of lire]	6/30/2000	12/31/1999	Change
Parent Company	34,970	33,004	1,966
Minority interest	6,097	5,310	787
Total	41,067	38,314	2,753

Stockholders' equity of the Parent Company and minority interest increased by Lire 2,753 billion compared to December 31, 1999. The increase, besides the net income for the period, is attributable to the minority interest in the shareholders' equity of Nortel Inversora group for Lire 1,320 billion.

Shareholders' equity includes Lire 4,499 billion of Parent Company dividends declared by the ordinary shareholders' meeting of July 3, 2000 and payable from July 26, 2000.

In particular:

- The *share capital* of the Parent Company 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.
- The Parent Company'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 such reserves since, based on current plans, no transactions are expected to be entered into which would warrant taxation.

The reconciliation of the stockholders' equity and net income for the period of the Parent Company and the consolidated financial statements, as well as the changes in the components of consolidated stockholders' equity, are provided in Annexes 3 and 4.

Reserves for risks and charges

Lire 3,655 billion

[Lire 2,006 billion at December 31, 1999]

These reserves increased by Lire 1,649 billion from December 31, 1999 and refer to the following:

- the *reserve for taxes*, amounting to Lire 2,151 billion increased by Lire 1,550 billion compared to December 31, 1999, due to the provision for income taxes of the period.
- *other reserves*, amounting to Lire 1,504 billion, increased by Lire 99 billion compared to December 31, 1999 and include the reserve for litigation [Lire 295 billion], the reserve for restructuring charges [Lire 244 billion] and other reserves [Lire 965 billion], of which Lire 433 billion refers to contractual and other risks of the Parent Company.

Reserve for employee termination indemnities

Lire 3,032 billion

[Lire 2,896 billion at December 31, 1999]

A breakdown of the changes which occurred during the period are provided below:

[in billions of lire]

January 1	2,896
Change during the period:	
• provisions charged to income	249
• utilizations for:	
• indemnities paid to employees	[73]
• advances	[25]
• other changes	[15]
June 30	3,032

Liabilities

Lire 45,964 billion

[Lire 44,242 billion at December 31, 1999]

A breakdown of liabilities, which increased by Lire 1,722 billion from December 31, 1999, is as follows:

[in billions of lire]	6/30/2000			12/31/1999		
	Financial	Trade and other	Total	Financial	Trade and other	Total
Debentures	3,604	-	3,604	1,906	-	1,906
Due to banks	15,164	-	15,164	15,780	-	15,780
Due to other lenders	1,630	-	1,630	1,738	-	1,738
Advances	-	946	946	-	733	733
Accounts payable to suppliers	90	10,576	10,666	123	11,652	11,775
Accounts payable to unconsolidated subsidiaries	5	22	27	9	30	39
Accounts payable to affiliated companies	1,047	1,114	2,161	11	1,145	1,156
Accounts payable to parent companies	-	4	4	-	5	5
Taxes payable	-	2,553	2,553	-	2,295	2,295
Contributions to pensions and social security institutions	-	1,791	1,791	-	1,855	1,855
Other liabilities	76	7,342	7,418	57	6,903	6,960
Total	21,616	24,348	45,964	19,624	24,618	44,242

In particular:

- *debentures*, which totaled Lire 3,604 billion, increased by Lire 1,698 billion compared to December 31, 1999, mainly as a result of the entry of Nortel Inversora group in the scope of consolidation.

The item includes:

- the 1992/2010 debenture issue by the Parent Company Telecom Italia, reserved for subscription by employees in service and retired, for a total amount of Lire 684 billion;
- debentures maturing between 2001 and 2008 issued by Nortel Inversora group for Lire 2,408 billion;

- debentures maturing between 2000 and 2002 issued by Softe through different financial institutions for US \$272 million, equivalent to Lire 512 billion.
- The amount *due to banks* totaled Lire 15,164 billion, a decrease of Lire 616 billion from December 31, 1999. Liabilities were secured by mortgages and liens for a total of Lire 97 billion.
- The amount *due to other lenders* of Lire 1,630 billion decreased by Lire 108 billion compared to December 31, 1999. It refers mainly to medium/long-term financing provided to the Parent Company by Cassa Depositi e Prestiti and IRI. These liabilities were secured by mortgages and liens for a total of Lire 5 billion.
- *Advances*, which totaled Lire 946 billion, increased by Lire 213 billion compared to December 31, 1999 and include advances received from customers of Lire 239 billion and installment billings of Lire 707 billion.
- *Accounts payable to suppliers* amounted to Lire 10,666 billion and show a decrease of Lire 1,109 billion compared to December 31, 1999, mainly in respect of the Parent Company. Accounts payable to other telecommunications carriers stood at Lire 1,111 billion.
- *Accounts payable to affiliated companies* of Lire 2,161 billion increased by Lire 1,005 billion compared to the end of 1999. They include financial payables of Lire 1,047 billion and trade and other accounts payable of Lire 1,114 billion. Financial payables refer to payables to Teleleasing for finance lease contracts for Lire 1,024 billion. Other payables mainly refer to capital contributions payable to Solpart Participacoes and Astrolink.
- *Taxes payable* amounted to Lire 2,553 billion and increased by Lire 258 billion compared to December 31, 1999 and include vat payable and the residual amount payable by the Parent Company for 1999 income taxes.
- *Contributions to pensions and social security institutions* totaled Lire 1,791 billion and decreased by Lire 64 billion compared to December 31, 1999. They include amounts owed to social security and health institutions with regard to personnel.
- *Other liabilities* of Lire 7,418 billion [Lire 6,960 billion at December 31, 1999] consist of the following:

[in billions of lire]	6/30/2000	12/31/1999
Customer-related items	2,892	3,394
Residual amounts due for investments	1,437	764
Employee-related items	1,530	1,060
Telecommunications operating fee	722	1,174
Other recurring and miscellaneous items		
[contra-entries for accrued costs, sundry payables, etc.]	837	568
Total	7,418	6,960

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

MEMORANDUM ACCOUNTS

Starting from these six-month financial statements, the recording and presentation of memorandum accounts has been partly changed. In particular:

- guarantees provided are presented net of counter-guarantees received;
- financial derivative contracts are only presented in the notes.

Memorandum accounts totaled Lire 23,730 billion [Lire 12,060 billion at December 31, 1999] and can be analyzed as follows:

[in billions of lire]	6/30/2000	12/31/1999
Guarantees provided	4,343	2,557
Collateral provided	12	17
Purchase and sale commitments	18,877	1,666
Other	498	7,820
Total	23,730	12,060

Guarantees provided, net of counter-guarantees received for Lire 191 billion, amount to Lire 4,343 billion and mainly refer to sureties issued by the Parent Company on behalf of affiliated companies and others for financial transactions, supply contracts and guarantees on bids to acquire fixed line and mobile licenses abroad.

Collateral provided, amounting to Lire 12 billion, consists of liens and mortgages on the assets of companies included in the scope of consolidation.

Purchase and sale commitments totaled, respectively, Lire 18,102 billion and Lire 775 billion at June 30, 2000. They refer primarily to the unfulfilled part of obligations undertaken by the individual consolidated companies outside their normal operating cycle. Purchase commitments principally include the Parent Company's commitments to purchase Seat Pagine Gialle shares [Lire 18,064 billion] undertaken as part of the merger between Tin.it and Seat, following the take-over bid for Seat shares by the Parent Company during the period May 8-26, 2000 [Lire 4,620 billion], the agreement with the shareholders of Huit II that holds a stake in Seat [Lire 12,945 billion] and finally the agreement with JP Morgan aimed at the potential purchase of the Seat shares held by JP Morgan [Lire 499 billion].

Other memorandum accounts of Lire 498 billion consist mainly of assets of third parties held by the consolidated companies of the information technology sector.

Furthermore:

- consolidated companies of the Group have issued weak letters of patronage totaling Lire 387 billion, chiefly in favor of unconsolidated subsidiaries and affiliated companies, for insurance policies, lines of credit and overdrafts arrangements;
- guarantees received from others for Lire 852 billion on behalf of Group companies, which consist primarily of sureties granted to guarantee the performance of non-financial contractual obligations;
- the order backlog of installation companies amounted to Lire 881 billion;
- derivative contracts stipulated to cover the interest rate and/or exchange rate risk for a total notional value of Lire 6,000 billion.

Financial derivatives

Financial derivative contracts undertaken to hedge interest rate risks and outstanding at June 30, 2000 refer to medium/long-term debt positions as indicated in the following table.

[in billions of lire]	Notional amount/ Capital exchanged at 6/30/2000	Market value of derivatives at 6/30/2000 [*]	Market value of underlying debt positions at 6/30/2000 [*]	Market value of debt including related derivatives at 6/30/2000
Interest rate swap	3,786	50	[3,808]	[3,758]
Zero cost collars	81	-	[81]	[81]
Cross-currency and interest rate swaps	1,028	70	[1,062]	[992]

[*] The minus sign signifies a debt, while no sign indicates market value favorable to the Group [savings].

To determine the market value of the above financial derivatives, various pricing models are used based on current market standards. In particular, the market value of the interest rate swaps and the cross currency and interest rate swaps reflects the present value of the difference between the fixed rate to be paid/received and the market interest rate for maturities having the same remaining life as the swaps. The market value of the cross currency and interest rate swaps also reflect the difference between the foreign currency/domestic currency exchange rate at the closing of the swap and the same market exchange rate at June 30, 2000. Libor rates are used for short-term derivatives [up to one year] and swap rates are used for medium/long-term derivatives [more than one year].

The market value of the debt is estimated as the present value of future cash flows.

The following table indicates the notional amount and the average interest rate to be paid/received by maturity for interest rate swaps.

	Maturity							Total
[in billions of lire]	By the end of 2000	2001	2002	2003	2004	Beyond		
Interest rate swap:								
Fixed pay rate:								
• notional amount [billions of lire]	[*] 290	122	125	300	1.100	71	58	2.066
• weighted average pay rate	23,80%	4,39%	3,80%	4,65%	3,92%	4,245%	4,71%	
• received parameter	CDI	Libor 3M	Libor 3M	Libor 3M	Libor 3M	Libor 3M	Libor 3M	
		Euro	Euro	Euro	Euro	Euro	Euro	
Variable pay rate:								
• notional amount [billions of lire]	-	-	-	-	28	603	1.089	1.720
• paid parameter	-	-	-	-	-	Euribor 6M	Euribor 6M	
• received parameter	-	-	-	-	-	Rendint Renditbot Rolint Robot	Renditn Renditbot Rolint Robot	

[*] Interest rate hedge on a position in Brazilian reais

Zero cost collars include two contracts with maturity in 2000.

The notional amount of the derivatives described above, shown under “other memorandum accounts”, does not measure the credit risk exposure, which, instead, is limited to the amount of interest to be received each time.

The *cross currency and interest rate swaps* allow variable rates in pounds sterling to be converted into fixed or variable rates in Euro. The *cross currency and interest rate swaps* stipulated by the Brazilian companies Tele Celular Sul and Tele Nordeste Celular for an equivalent Lire 273 billion convert USD loans into local currency.

The use of derivative contracts to hedge interest rate risks made it possible to convert Lire 793 billion of debt indexed at “domestic parameters” [Rendint, Rendibot, Rolint, Robot] to Euribor 6M parameters.

Financial derivatives negotiated to hedge the risks on foreign debt securities in portfolio at June 30, 1999 include the following asset swaps aimed at hedging the risk of a reduction in the yield or in the value of the underlying securities.

[in billions of lire]	Notional amount/ Capital exchanged at 6/30/2000	Market value of securities including related derivatives at 6/30/2000
Interest rate swap	420	419
Cross currency and interest rate swap	164	156

Interest rate swap are used to hedge interest rate risks on securities in domestic currency and convert fixed rate yields to variable rate yields or vice-versa.

Cross currency and interest rate swap are used to hedge interest rate and currency exchange risks on securities denominated in foreign currency: consequently it becomes possible to transform the yield of the security from the foreign currency to the domestic currency and eventually also to convert from a fixed rate to a variable rate or a variable rate to a fixed rate.

Asset swap are valued by reference to synthetic securities which are composed of the underlying security plus the swap.

The market value of asset swaps changes in relation to the security issuer’s credit and eventually the yield of the synthetic security, as compared to the market rates.

Financial derivatives stipulated to hedge exchange risks and outstanding at June 30, 2000 include hedges on trade and financial payables in foreign currency as shown in the following table:

[in billions of lire]	Capital exchanged at 6/30/2000	Market value of derivatives at 6/30/2000 [*]	Market value of underlying debt positions at 6/30/2000 [*]	Market value of debt including related derivatives at 6/30/2000
Forward contracts in foreign currency	254	[1]	[254]	[255]

[*] The minus sign signifies a debt, while no sign indicates market value favorable to the Group [savings].

The forward contracts refer to forward currency purchases.

The market value of these contracts is determined by reference to the difference between the amount of the underlying debt translated at the exchange rate at June 30, 2000 and the amount of the same debt at the forward exchange rate at the same date. The forward exchange rate is obtained by adding the starting spot exchange rate plus the accrual of premium or discount points pertaining to the period between the starting date and June 30, 2000.

CONSOLIDATED STATEMENTS OF INCOME

Sales and service revenues

Lire 27,528 billion

[Lire 25,382 billion in the first half 1999]

Sales and service revenues amounted to Lire 27,528 billion in the first half of 2000, with an increase of 8.5% compared to the first half of 1999 [Lire 25,918 billion, +2.1% over the first half of 1999, net of the contribution by the Nortel Inversora group].

Revenues, net of the amounts due to other TLC carriers, totaled Lire 24,898 billion, with an increase of Lire 1,667 billion [+7.2%], compared to the first half 1999.

Revenues from foreign operations totaled Lire 5,694 billion [Lire 3,525 billion in the first half 1999].

Financial income and expense

-Lire 289 billion

[-Lire 505 billion in the first half of 1999]

Net financial expenses include:

[in billions of lire]	1 st half 2000	1 st half 1999	Change
Income from investments	218	63	155
Other financial income	579	334	245
Interest and other financial expense	[1,086]	[902]	[184]
Total	[289]	[505]	216

– *income from investments* totaled Lire 218 billion and increased by Lire 155 billion compared to the first half of 1999 mainly on account of higher dividends received from the unconsolidated companies;

– *other financial income* of Lire 579 billion [Lire 334 billion in the first half of 1999] includes the following:

[in billions of lire]	1 st half 2000	1 st half 1999	Change
Interest and capital gains			
on fixed-income securities	99	89	10
Interest and fees from:			
• unconsolidated subsidiaries	-	1	[1]
• affiliated companies	14	15	[1]
• banks	54	66	[12]
• customers	2	15	[13]
Foreign exchange gains	257	59	198
Other	153	89	64
Total	579	334	245

– *interest and other financial expense* of Lire 1,086 billion [Lire 902 billion in the first half of 1999] can be analyzed as follows:

[in billions of lire]	1 st half 2000		1 st half 1999		Change	
Interest and fees paid to:						
• unconsolidated subsidiaries	-		1		[1]	
• affiliated companies	32		1		31	
• banks	427		385		42	
• suppliers	23		12		11	
• other lenders	53	535	90	489	[37]	46
Interest and other charges						
on debenture issues		139		53		86
Foreign exchange losses		240		187		53
Losses on realisation of investments		8		-		8
Other		164		173		[9]
Total		1.086		902		184

In particular, interest and fees paid to banks include Lire 244 billion [Lire 274 billion in the first half of 1999] of interest on medium/long-term loans.

Extraordinary income and expense

Lire 22 billion

[-Lire 419 billion in the first half of 1999]

This item includes the following:

[in billions of lire]	1 st half 2000		1 st half 1999		Change	
Extraordinary income:						
• gains from the sale of investments and business segments	596		1		595	
• non-operating income and other income	204	800	115	116	89	684
Extraordinary expense:						
• employee reduction plans	[257]		[86]		[171]	
• charges as required under Law 58/1992	[225]		[267]		42	
• non-recurring expenses and other charges	[296]	[778]	[182]	[535]	[114]	[243]
Total		22		[419]		441

Gains from the sale of investments and business segments include the gains on the sale of the companies in Meie group [Lire 450 billion] and Teleleasing [Lire 41 billion], the gain [Lire 57 billion] on the sale of a building by Emsa and the gains realized by Finsiel group [Lire 29 billion] on the sale of two business segments.

Non-recurring expenses and other charges include Lire 72 billion for an extraordinary contribution due from Telecom Italia to INPS following the abolition of the Telephone Employees Pension Fund [FPT] which has now become part of the general “Employees Pension Fund”, to meet the higher financial requirements covered by the rules of the fund that was abolished. Extraordinary expenses also include Lire 78 billion for the fines imposed on TIM and Omnitel Pronto Italia by the Antitrust Authorities for alleged violations of the fair trade practices. The amount recorded herein is equal to the difference between the fine [Lire 100 billion] and the amount accrued by TIM in the 1999 financial statements [Lire 22 billion].

OTHER INFORMATION

Workforce

The workforce numbered 128,438 units at June 30, 2000 [122,662 at December 31, 1999], of which 7,228 were employed in companies consolidated using the proportional method [67 at December 31, 1999]. The breakdown of the workforce by business segment is presented below:

[in billions of lire]	6/30/2000	12/31/1999	Change
Fixed telecommunications Italy	75,056	76,150	[1,094]
Mobile telecommunications Italy	9,487	9,375	112
Satellite telecommunications Italy	1,218	1,354	[136]
International activities	13,226	5,627	7,599
Information technology activities	9,949	10,206	[257]
Manufacturing activities	4,891	5,153	[262]
Installation activities	12,506	12,704	[198]
Other activities	2,105	2,093	12
Total [*]	128,438	122,662	5,776

[*] The figure at June 30, 2000 does not take into account the temporary staff in the Parent Company [52 units], which were not present at December 31, 1999.

The increase of 7,599 units in the international telecommunications workforce refers to 7,161 units for the entry of Nortel Inversora group in the scope of consolidation.

The average equivalent number of employees on the payroll in the first half of 2000 is 125,721 units [121,374 in the first half of 1999], of which 7,108 refers to companies consolidated using the proportional method [of which 7,041 belong to the Nortel Inversora group]. The breakdown by category is as follows:

1 st half 2000 Average equivalent number of employees on the payroll in companies consolidated with the following method:			
	Full consolidation	Proportional	Total
Executives	2,260	25	2,285
Middle management	9,640	327	9,967
Clerical staff	84,186	2,799	86,985
Technicians	22,527	3,957	26,484
Total	118,613	7,108	125,721

Introduction of the Euro

The expenses borne for the introduction of the Euro currency total about Lire 3,4 billion and have been charged, principally, to the statement of income under "production cost" as they refer to services rendered to adapt and change the information systems.

Exchange rates used to translate foreign currency financial statements

	1 st half 2000 exchange rates	
	Period-end exchange rates [balance sheet items]	Average exchange rate for the period [statement of income items]
Bolivian boliviano	329.038	333.831
Costarican colon	6.557	6.677
Canadian dollar	1,367.7121	1,376.015
Hong Kong dollar	259.1715	259.193
USA dollar	2,026.2348	2,018.467
Greek drachma	5.7485	5.790
Portuguese escudo	9.658	9.658
Euro	1,936.27	1,936.27
Dutch guilder	878.641	878.641
Hungarian forint	7.442	7.518
French franc	295.182	295.182
Belgian-Luxembourg franc	47.999	47.999
Romanian leu	0.096	0.093
British pound	3,062.2647	3,165.049
German mark	989.999	989.999
Nigerian naira	19.352	20.890
Spanish peseta	11.637	11.637
Argentinean peso	2,026.2348	2,018.467
Chilean peso	3.949	3.953
Brazilian real	1.125.730	1.130.364
Russian ruble	72.210	71.047
Polish zloty	462.834	475.644

The following Annexes numbered 1 to 8, together with the financial statements expressed in euros, are an integral part of these notes.

LOANS RECEIVABLE, ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

[in billions of lire]	6/30/2000				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
Loans included under long-term investments to:								
Affiliated companies	-	-	274	274	-	11	247	258
other								
• customers	4	15	-	19	3	10	-	13
• others	154	416	30	600	187	392	36	615
	158	431	304	893	190	413	283	886
Accounts receivable								
Other loans to:								
customers	4	-	-	4	-	-	-	-
unconsolidated subsidiaries	7	-	-	7	19	-	-	19
affiliated companies	233	-	-	233	201	-	-	201
other borrowers	46	1	-	47	58	-	-	58
	290	1	-	291	278	-	-	278
Trade receivables from								
customers	14,639	14	-	14,653	14,875	67	-	14,942
unconsolidated subsidiaries	44	-	-	44	53	-	-	53
affiliated companies	669	-	-	669	745	-	-	745
parent companies	-	-	-	-	2	-	-	2
others	137	7	-	144	141	-	-	141
	15,489	21	-	15,510	15,816	67	-	15,883
Other receivables from:								
unconsolidated subsidiaries	2	-	-	2	3	-	-	3
affiliated companies	2	-	-	2	7	-	-	7
parent companies	1	-	-	1	-	-	-	-
others	2,187	33	299	2,519	2,312	270	312	2,894
	2,192	33	299	2,524	2,322	270	312	2,904
Total accounts receivable	17,971	55	299	18,325	18,416	337	312	19,065
Accrued income	146	-	-	146	94	-	-	94

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

[in billions of lire]	6/30/2000				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	813	1,500	1,291	3,604	328	753	825	1,906
Due to banks	1,989	6,688	414	9,091	1,831	6,508	628	8,967
Due to other lenders	371	845	275	1,491	343	1,005	271	1,619
Due to suppliers	38	52	-	90	9	8	-	17
Due to affiliated companies	81	468	475	1,024	-	-	-	-
Other liabilities	4	-	1	5	1	3	1	5
	3,296	9,553	2,456	15,305	2,512	8,277	1,725	12,514
Short-term debt								
Due to banks	6,073	-	-	6,073	6,813	-	-	6,813
Due to other lenders	139	-	-	139	119	-	-	119
Due to suppliers	-	-	-	-	106	-	-	106
Accounts payable to unconsolidated subsidiaries	5	-	-	5	9	-	-	9
Accounts payable to affiliated companies	23	-	-	23	11	-	-	11
Other borrowings	71	-	-	71	52	-	-	52
	6,311	-	-	6,311	7,110	-	-	7,110
Trade payables ^[1]								
Due to suppliers	10,557	19	-	10,576	11,648	1	3	11,652
Accounts payable to unconsolidated subsidiaries	14	-	-	14	22	-	-	22
Accounts payable to affiliated companies	482	-	-	482	458	-	-	458
Accounts payable to parent companies	4	-	-	4	5	-	-	5
	11,057	19	-	11,076	12,133	1	3	12,137
Miscellaneous payables								
Payable to unconsolidated subsidiaries	8	-	-	8	8	-	-	8
Accounts payable to affiliated companies	632	-	-	632	687	-	-	687
Taxes payable	2,542	11	-	2,553	2,284	11	-	2,295
Contributions to pension and social security institutions	419	470	902	1,791	479	474	902	1,855
Other liabilities	7,180	135	27	7,342	6,894	8	1	6,903
	10,781	616	929	12,326	10,352	493	903	11,748
Total liabilities ^[1]	31,445	10,188	3,385	45,018	32,107	8,771	2,631	43,509
Accrued expenses	331	-	-	331	240	-	-	240

[1] not including advances.

RECONCILIATION OF THE STOCKHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE SIX MONTHS ENDED JUNE 30, 2000

[in billions of lire]	Telecom Italia's interest				Minority interest			Total
	Share capital and reserves		Net income period	Total	Share capital and reserves	Net income period	Total	
	Share Capital	Reserves and Retained Earnings						
Six-month financial statements of Telecom Italia at June 30, 2000	7,426	28,181	1,353	36,960				36,960
Results of consolidated companies for the six months			1,152	1,152		964	964	2,116
Capital and reserves of consolidated companies		21,739		21,739	5,719		5,719	27,458
• carrying value of investments in consolidated companies		[25,114]		[25,114]				[25,114]
Consolidation adjustments:								
• elimination of tax-related entries		[262]	15	[247]	6	[1]	5	[242]
• valuation of investments by the equity method		[1,163]	[526]	[1,689]	[591]	[83]	[674]	[2,363]
• positive differences on purchase of investments		3,145	[163]	2,982	330	[19]	311	3,293
• elimination of intraGroup dividends		21	[21]	-	4	[4]	-	-
• losses of subsidiaries included in the six- month results of parent companies		[75]	140	65	[5]	[7]	[12]	53
• gains on sales of investments		32	[22]	10	7	[4]	3	13
• elimination of intraGroup profits included in fixed assets and intangibles		[737]	[21]	[758]	[229]	13	[216]	[974]
• other		[119]	[11]	[130]	[6]	3	[3]	[133]
Consolidated six-month financial statements at June 30, 2000	7,426	25,648	1,896	34,970	5,235	862	6,097	41,067

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY DURING THE SIX MONTHS ENDED JUNE 30, 2000

[in billions of lire]	Telecom Italia's interest				Minority interest			Total
	Share capital and reserves		Net income period	Total	Share capital and reserves	Net income period	Total	
	Share Capital	Reserves and Retained Earnings						
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>					[97]	[1,301]	[1,398]	[1,398]
<i>transfer to reserves</i>		3,364	[3,364]					
Proportional consolidation of Nortel Inversora group					1,320		1,320	1,320
Translation adjustments on the conversion of six month financial statements in foreign currencies and other		70		70	3		3	73
Net income for the period			1,896	1,896		862	862	2,758
Consolidated six-month financial statements at June 30, 2000	7,426	25,648	1,896	34,970	5,235	862	6,097	41,067

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office	Share capital	Interest held %	by	% held by Telecom Italia Group
Fixed telecommunications - Italy					
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
TELECOM ITALIA NET S.p.A. [internet services]	Turin [Italy]	ITL 41,000,000,000	96.78 3.18 0.04	TELECOM ITALIA TELESPAZIO SARITEL	100.00
- FINSATEL S.r.l. [holding company]	Rome [Italy]	ITL 266,000,000	100.00	TELECOM ITALIA NET	100.00
Mobile telecommunications - Italy					
TELECOM ITALIA MOBILE S.p.A. [mobile telecommunications]	Turin [Italy]	ITL 795,022,291,936	60.73	TELECOM ITALIA	52.88
Satellite telecommunications - Italy					
IRIDIUM ITALIA S.p.A. [satellite-based mobile service]	Rome [Italy]	ITL 14,000,000,000	30.00 35.00 35.00	TELECOM ITALIA TELECOM ITALIA MOBILE TELESPAZIO	83.51
TELESPAZIO S.p.A. [satellite telecommunication services]	Rome [Italy]	ITL 184,000,000,000	100.00	TELECOM ITALIA	100.00
- COM.STAR S.r.l. [cabling systems]	Rome [Italy]	ITL 50,000,000	100.00	TELESPAZIO	100.00
- CTM - Centro di Telerilevamento Mediterraneo S.c.p.A. [research]	Palermo [Italy]	ITL 1,839,000,000	51.00	TELESPAZIO	51.00
- DAMOS SUDAMERICA S.A. [supply of Orbcomm satellite services]	Rio de Janeiro [Brazil]	BRL 12,000,000	63.99 4.01	TELESPAZIO ENTEL CHILE	63.99
- EURIMAGE S.p.A. [distribution and sale of remote sensing data]	Rome [Italy]	ITL 8,600,000,000	51.00	TELESPAZIO	51.00
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V. [marketing of Orbcomm satellite services in European area]	Amsterdam [Holland]	EURO 15,463,572	69.44	TELESPAZIO	69.44
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V. [mobile telephony services]	Amsterdam [Holland]	EURO 45,500	100.00	EUROPEAN COMPANY FOR MOBILE COMM. SERV.	69.44
- TELEO S.p.A. [distribution of products and services for satellite mobile communications]	Rome [Italy]	ITL 6,100,000,000	100.00	TELESPAZIO	100.00
- TELESPAZIO IRELAND Ltd [holding company]	Dublin [Ireland]	USD 1,000,000	100.00	TELESPAZIO	100.00
- TELESPAZIO LUXEMBOURG S.A. [holding company]	Luxembourg	LUF 1,250,000	100.00	TELESPAZIO	100.00
International telecommunications					
STET INTERNATIONAL S.p.A. [acquisition and management of investments in foreign telecommunications companies]	Turin [Italy]	ITL 1,717,000,000,000	88.00 12.00	TELECOM ITALIA TELECOM ITALIA MOBILE	94.35
- STET INTERNATIONAL NETHERLANDS N.V. [holding company]	Amsterdam [Holland]	NLG 996,381,900	58.82 41.18	STET INTERNATIONAL TELECOM ITALIA	96.67
- 9 TELECOM RESEAU S.A.S. [telecommunication services]	Boulogne Billancourt [France]	FRF 2,833,276,800	92.82 1.17	STET INTERNATIONAL NETHERLANDS TMI TELEMEDIA INT. Ltd	90.91
- ICH – International Communication Holding N.V. [holding company]	Amsterdam [Holland]	NLG 100,000	100.00	STET INTERNATIONAL NETHERLANDS	96.67

(continued) List of companies consolidated on a line-by-line basis
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
- ETI Euro Telecom International N.V. [holding company]	Amsterdam [Holland]	NLG	100,100	100.00	ICH	96.67
- 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	48.34
- DATACOM S.A. [data transmission services]	La Paz [Bolivia]	BOB	21,746,600	70.00	ENTEL BOLIVIA	33.84
- INDIAN TELECOMMUNICATION HOLDING B.V. [holding company]	Amsterdam [Holland]	NLG	30,300,000	100.00	STET INTERNATIONAL NETHERLANDS	96.67
- INTELCOM SAN MARINO S.p.A. [telecommunication services in San Marino]	Republic of San Marino	ITL	3,000,000,000	70.00	STET INTERNATIONAL NETHERLANDS	67.67
GOLDEN NETHERLANDS N.V. [holding company]	Amsterdam [Holland]	NLG	486,400	39.06 60.94	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	97.97
STET MOBILE HOLDING N.V. [holding company]	Amsterdam [Holland]	NLG	321,898,300	12.19 49.00 38.81	TELECOM ITALIA TELECOM ITALIA MOBILE STET INTERNATIONAL	74.71
- BITEL PARTICIPACOES S.A. [holding company]	Rio de Janeiro [Brazil]	BRL	1,163,410,587	99.99 0.01	STET MOBILE HOLDING Nominees	74.71
- TELE CELULAR SUL PARTICIPACOES S.A. [holding company for operating companies providing mobile network services]	Curitiba [Brazil]	BRL	175,872,361	51.79	BITEL	14.39
- TELEPAR CELULAR S.A. [mobile telephony operator]	Curitiba [Brazil]	BRL	214,880,019	81.98	TELE CELULAR SUL	11.80
- TELESC CELULAR S.A. [mobile telephony operator]	Florianopolis [Brazil]	BRL	240,625,505	91.40	TELE CELULAR SUL	13.15
- CTMR CELULAR S.A. [mobile telephony operator]	Pelotas [Brazil]	BRL	21,251,912	81.32	TELE CELULAR SUL	11.70
- TELE NORDESTE CELULAR PARTICIPACOES S.A. [holding company for operating companies providing mobile network services]	Brasilia [Brazil]	BRL	108,942,588	51.79	BITEL	14.39
- TELEPISA CELULAR S.A. [mobile telephony operator]	Teresina [Brazil]	BRL	22,775,024	97.88	TELE NORDESTE CELULAR	14.08
- TELECEARA' CELULAR S.A. [mobile telephony operator]	Fortaleza [Brazil]	BRL	87,049,907	85.28	TELE NORDESTE CELULAR	12.27
- TELERN CELULAR S.A. [mobile telephony operator]	Natal [Brazil]	BRL	42,823,492	92.57	TELE NORDESTE CELULAR	13.32
- TELPA CELULAR S.A. [mobile telephony operator]	Joao Pessoa [Brazil]	BRL	42,268,922	95.08	TELE NORDESTE CELULAR	13.68
- TELPE CELULAR S.A. [mobile telephony operator]	Recife [Brazil]	BRL	108,688,266	95.06	TELE NORDESTE CELULAR	13.68
- TELASA CELULAR S.A. [mobile telephony operator]	Maceio' [Brazil]	BRL	30,255,834	97.39	TELE NORDESTE CELULAR	14.01
- TIMNET.COM S.A. [mobile services]	Sao Paolo [Brazil]	BRL	18,000,000	50.00 50.00	TELE NORDESTE CELULAR TELE CELULAR SUL	14.39
- STET HELLAS TELECOMMUNICATIONS S.A. [operation of GSM service in Greece]	Atens [Greece]	GRD	36,300,000,000	58.14	STET MOBILE HOLDING	43.44
- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A. [mobile telephony]	Atens [Greece]	GRD	500,000,000	100.00	STET HELLAS	43.44
- U-MOBIL B.V. [holding company]	Amsterdam [Holland]	NLG	77,240,000	100.00	STET MOBILE HOLDING	74.71
- TIM PERU' S.A.C. [mobile telephony operator]	Lima [Perù]	PEN	634,817,000	100.00	STET MOBILE HOLDING	74.71

(continued) List of companies consolidated on a line-by-line basis
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office	Share capital	Interest held %	by	% held by Telecom Italia Group
TELECOM ITALIA DO BRASIL S/C Ltda [collaboration agreements and contracts]	Rio de Janeiro [Brazil]	BRL 2,699,758	99.99 0.01	TELECOM ITALIA Nominees	100.00
TELECOM ITALIA OF NORTH AMERICA Inc. [promotional services for telecommunications]	New York [USA]	USD 5,550,000	100.00	TELECOM ITALIA	100.00
TMI TELEMEDIA INTERNATIONAL ITALIA S.p.A. [acquisition of investments in Italian and international telecommunications companies and institutions]	Rome [Italy]	ITL 167,528,000,000	100.00	TELECOM ITALIA	100.00
- TMI TELEMEDIA INTERNATIONAL NETHERLANDS B.V. [holding company]	Amsterdam [Holland]	NLG 40,000	100.00	TMI TELEMEDIA INTERNATIONAL ITALIA	100.00
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. [holding company]	Luxembourg	EURO 82,150,674	99.99 0.01	TMI TELEMEDIA INTERNATIONAL ITALIA Nominees	100.00
- TMI TELEMEDIA INTERNATIONAL Ltd [telecommunication services]	London [UK]	USD 379,400,225	100.00	TMI TELEMEDIA INTERNAT. LUXEMBOURG	100.00
- EURO DATACOM Ltd [telecommunication services]	Huddersfield [UK]	GBP 306,666	100.00	TMI TELEMEDIA INT. Ltd	100.00
- INTELLECTUS BUSINESS COMUNICACION ESPANA S.A. [telecommunication services]	Madrid [Spain]	ESP 350,000,000	100.00	TMI TELEMEDIA INT. Ltd	100.00
- TMI – HUNGARY TRADING AND SERVICES Ltd [telecommunication services]	Budapest [Hungary]	HUF 3,000,000	100.00	TMI TELEMEDIA INT. Ltd	100.00
- TELEMEDIA INTERNATIONAL USA Inc. [telecommunication services]	New Jersey [USA]	USD 22,600,000	100.00	TMI TELEMEDIA INT. Ltd	100.00
- TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. [telecommunication services]	Montreal [Canada]	CAD 952,100	100.00	TMI TELEMEDIA INT. Ltd	100.00
- TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda [telecommunication services]	San Paolo [Brazil]	BRL 2,443,217	99.99 0.01	TMI TELEMEDIA INT. Ltd Nominees	100.00
- TMI TELEMEDIA INTERNATIONAL HONG KONG Ltd [telecommunication services]	Hong Kong [China]	HKD 540,480,247	99.99 0.01	TMI TELEMEDIA INT. Ltd TELEMEDIA INT. USA	100.00

Information technology activities

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
- ASPASIEL S.r.l. [information systems]	Rome [Italy]	ITL 500,000,000	50.00	FINSIEL	38.84
- 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
- BISIEL – Banca e Impresa Sistemi Elettronici S.p.A. [multibank software]	Mantua [Italy]	ITL 8,000,000,000	51.00	BANKSIEL	21.99
- CENTROSIEL S.p.A. [information systems]	Milan [Italy]	EURO 516,600	47.00	BANKSIEL	20.26
- COMITSIEL S.p.A. [information systems]	Milan [Italy]	ITL 4,000,000,000	100.00	BANKSIEL	43.11
- 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	77.68
- 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
- CONSIEL – Società di Management Consulting e Formazione p.A. [corporate consulting and management services]	Milan [Italy]	ITL 9,900,000,000	79.50	FINSIEL	61.76
- ASKA S.r.l. [consulting]	Milan [Italy]	ITL 20,000,000	60.00	CONSIEL	37.05

(continued) List of companies consolidated on a line-by-line basis
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
- HITECO CONSULTANTS S.r.l. [consulting]	Milan [Italy]	ITL	50,000,000	60.00	CONSIEL	37.05
- JMAC CONSIEL S.p.A. [data collection and analysis for systems sales to business]	Milan [Italy]	ITL	300,000,000	45.00	CONSIEL	27.79
- METIS S.p.A. [consulting]	Genoa [Italy]	ITL	300,000,000	100.00	CONSIEL	61.76
- DITEL ENGINEERING S.r.l. [consulting]	Genoa [Italy]	ITL	20,000,000	99.00	METIS	61.14
- 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
- FINSIEL DO BRASIL Ltda [information systems]	Sao Paulo [Brazil]	BRL	222,223	75.00 25.00	FINSIEL CONSIEL	73.70
- FINSIEL ROMANIA S.r.l. [information systems]	Bucharest [Romania]	ROL	11,841,500,000	90.53	FINSIEL	70.33
- 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
- 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
- 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
- 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
- NETSIEL - Networks Produttivi per Sistemi Informativi Elettronici S.p.A. [information products and production of software for sale]	Bari [Italy]	ITL	39,500,000,000	100.00	FINSIEL	77.68
- SINTESIEL S.r.l. [information systems]	Rome [Italy]	ITL	250,000,000	88.00	FINSIEL	68.36
- SOGEI - Società Generale d'Informatica S.p.A. [information systems and related services for the Ministry of Finances and Italian and foreign public administrations]	Rome [Italy]	ITL	20,000,000,000	100.00	FINSIEL	77.68
- TELE SISTEMI FERROVIARI S.p.A. [information systems]	Rome [Italy]	ITL	149,099,000,000	61.00	FINSIEL	47.39
- VENIS - Venice 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
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
TELESOFT S.p.A. [telecommunication software]	Rome [Italy]	ITL	40,500,000,000	60.00 40.00	TELECOM ITALIA FINSIEL	91.07
- TECO SOFT ESPANA S.A. [telecommunication software]	Madrid [Spain]	ESP	60,000,000	100.00	TELESOFT	91.07
- TELESOFT AMERICA Inc. [telecommunication software]	New Jersey [USA]	USD	700,000	100.00	TELESOFT	91.07
- TELESOFT HELLAS S.A. [telecommunication software]	Athens [Greece]	GRD	20,000,000	100.00	TELESOFT	91.07
- TELESOFT RUSSIA Z.A.O. [telecommunication software]	Moscow [Russia]	RUR	1,592,000	75.00	TELESOFT	68.30

(continued) List of companies consolidated on a line-by-line basis
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office	Share capital	Interest held %	by	% held by Telecom Italia Group
Manufacturing activities					
TELSI Ltd [holding company for telecommunications manufacturers]	Bracknell [UK]	GBP 1,119,364,000	100.00	TELECOM ITALIA	100.00
- ITALTEL S.p.A. [telecommunications systems]	Milan [Italy]	ITL 396,000,000,000	100.00	TELSI Ltd	100.00
- ITALCOM – Sistemi Italiani di Commutazione S.p.A. [interactive television systems]	Milan [Italy]	ITL 200,000,000	100.00	ITALTEL	100.00
- ITALTEL CERM Palermo S.c.p.A. [research]	Carini [Palermo, Italy]	ITL 4,122,500,000	90.00 10.00	ITALTEL CSELT	100.00
- ITALTEL B.V. [marketing and finance]	Amsterdam [Holland]	NLG 4,000,000	100.00	ITALTEL	100.00
- ITALTEL A.O. [telecommunications systems]	St. Petersburg [Russia]	RUR 20,000	100.00	ITALTEL B.V.	100.00
- ITALTEL DE CHILE S.A. [telecommunications systems]	Santiago [Chile]	CLP 46,559,317	90.00 10.00	ITALTEL B.V. ITALTEL	100.00
- ITALTEL NIGERIA Ltd [maintenance of telecommunications systems]	Lagos [Nigeria]	NAIRA 2,000,000	99.99 0.01	ITALTEL B.V. ITALTEL	100.00
- ITALTEL S.A. [telecommunications systems]	Madrid [Spain]	ESP 675,000,000	100.00	ITALTEL B.V.	100.00
- ITALTEL DE COSTA RICA S.A. [marketing]	San José [Costa Rica]	CRC 1,000,000	100.00	ITALTEL B.V.	100.00
- TRANSDIGI S.A. [telecommunications systems]	Buenos Aires [Argentina]	ARS 2,093	96.00 4.00	ITALTEL B.V. ITALTEL	100.00
Installation activities ^[1]					
SIRTI S.p.A. [design and installation of telecommunications and electrical services]	Milan [Italy]	ITL 220,000,000,000	48.98	TELECOM ITALIA	48.98
- CONSTRUTEL MATRICIAL DE CHILE S.A. [design and installation of telecommunications services]	Santiago [Chile]	CLP 287,721,000	100.00	SIRTI	48.98
- CONSTRUTEL PROJETOS E CONSTRUÇÕES Ltda [installation of telecommunications and electrical services]	Belo Horizonte [Brazil]	BRL 20,255,900	85.00	SIRTI	41.63
- SIRTI GmbH [construction and maintenance of telecommunications systems]	Berlin [Germany]	DM 20,000,000	100.00	SIRTI	48.98
- SIRTI Ltd [construction and maintenance of telecommunications systems]	London [UK]	GBP 17,000,000	100.00	SIRTI	48.98
- SIRTI S.A. [construction and maintenance of telecommunications systems]	Paris [France]	FRF 37,258,358	100.00	SIRTI	48.98
- SIRTI BOLIVIA S.A. [construction and maintenance of telecommunications systems]	La Paz [Bolivia]	BOB 4,980,000	91.00	SIRTI	44.57
- FININDUSTRIA S.A. [miscellaneous activities]	Madrid [Spain]	ESP 29,000,000	100.00	SIRTI	48.98
- SEIRT Sociedad Española de Instalaciones Redes Telefonicas S.A. [construction and maintenance of telecommunications systems]	Madrid [Spain]	ESP 360,000,000	50.00 50.00	SIRTI FININDUSTRIA	48.98
- SIRTI ARGENTINA S.A. [construction and maintenance of telecommunications systems]	Buenos Aires [Argentina]	ARS 5,000,000	100.00	SIRTI	48.98
- SIRTI POLSKA Sp. z o.o. [construction and maintenance of telecommunications systems]	Warsaw [Poland]	PLN 10,778,000	100.00	SIRTI	48.98
- SIRTI 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

[1] In the scope of consolidation, it is included AEI Cubatel Sirti, established in Havana, 99% ownership held by SIRTI S.p.A..

(continued) List of companies consolidated on a line-by-line basis
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office	Share capital	Interest held %	by	% held by Telecom Italia Group
Other activities					
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
CSELT - Centro Studi e Laboratori Telecomunicazioni S.p.A. [studies and research in telecommunications and electronics]	Turin [Italy]	EURO 618,000	100.00	TELECOM ITALIA	100.00
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
EMSA - Società Immobiliare p.A. [real estate management]	Turin [Italy]	ITL 1,123,596,000	100.00	TELECOM ITALIA	100.00
IMMSI S.p.A. [real estate management]	Turin [Italy]	ITL 220,000,000,000	46.66	TELECOM ITALIA	46.66
SAIAT – Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. [financing]	Turin [Italy]	ITL 69,408,000,000	100.00	TELECOM ITALIA	100.00
- TELIMM S.p.A. [real estate]	Turin [Italy]	ITL 8,238,730,000	79.42 0.58	SAIAT TELECOM ITALIA	80.00
- TELS Y Elettronica e Telecomunicazioni S.p.A. [manufacturing and sale of systems for encrypted telecommunication]	Turin [Italy]	ITL 750,000,000	100.00	SAIAT	100.00
SARITEL S.p.A. [group factory for added value network services]	Pomezia [Rome, Italy]	ITL 22,224,000,000	100.00	TELECOM ITALIA	100.00
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A. [training]	L'Aquila [Italy]	ITL 3,000,000,000	100.00	TELECOM ITALIA	100.00
SOFTE S.A. [financing]	Luxembourg	USD 100,000,000	99.99 0.01	TELECOM ITALIA SAIAT	100.00
- SOGERIM S.A. [real estate]	- Luxembourg	EURO 525,000	99.95 0.05	SOFTE SAIAT	100.00
TRAINET S.p.A. [development, operation and sales of online teaching systems]	Rome [Italy]	ITL 1,305,800,000	100.00	TELECOM ITALIA	100.00

LIST OF COMPANIES CONSOLIDATED BY THE PROPORTIONAL METHOD

[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office	Share capital	Interest held %	by	% held by Telecom Italia Group
Fixed telecommunications - Italy					
VIASAT S.p.A. [design and testing of advanced technologies in data transmission and data processing]	Rome [Italy]	EURO 2,425,956	33.54 16.46	TELECOM ITALIA NET FINSATEL	50.00
- VIASAT ASSISTANCE S.p.A. [telecommunications sales and operation]	- Rome [Italy]	ITL 1,200,000,000	100.00	VIASAT	50.00
International telecommunications					
NORTEL INVERSORA S.A. [holding company]	Buenos Aires [Argentina]	ARS 80,942,695	32.50 17.50	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	38.73
- TELECOM ARGENTINA STET-FRANCE TELECOM S.A. [telecommunication services]	Buenos Aires [Argentina]	ARS 984,380,978	54.74	NORTEL INVERSORA	21.20
- PUBLICOM S.A. [telecommunication services]	Buenos Aires [Argentina]	ARS 16,000,000	99.99 0.01	TELECOM ARGENTINA NORTEL INVERSORA	21.20
- TELECOM PERSONAL S.A. [telecommunication services]	Buenos Aires [Argentina]	ARS 310,514,481	99.99 0.01	TELECOM ARGENTINA PUBLICOM	21.20
- NUCLEO S.A. [telecommunication services]	Asuncion [Paraguay]	GUARANI 60,000,000,000	67.50	TELECOM PERSONAL	14.31
- CABLE INSIGNIA S.A. [telecommunication services]	Asuncion [Paraguay]	GUARANI 10,000,000,000	75.00	TELECOM PERSONAL	15.90
-TELECOM INTERNET S.A. [internet services]	Buenos Aires [Argentina]	USD 12,000	98.00 2.00	TELECOM ARGENTINA PUBLICOM	21.20
-TELECOM SOLUCIONES S.A. [telecommunication services]	Buenos Aires [Argentina]	USD 43,077,586	99.99 0.01	TELECOM ARGENTINA PUBLICOM	21.20
- MICROSISTEMAS S.A. [telecommunication services]	Buenos Aires [Argentina]	ARS 210,000	99.99 0.01	TELECOM SOLUCIONES PUBLICOM	21.20

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
SUBSIDIARIES						
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	STET INTERNATIONAL NETHERLANDS Nominees	96.66
TELEFONIA MOBILE SAMMARINESE S.p.A. [mobile telecommunications]	Republic of S. Marino	ITL	150,000,000	51.00	INTELCOM S.MARINO	34.51
TELEOS B.V. [operative holding company]	Amsterdam [Holland]	NLG	40,000	100.00	TELESPAZIO	100.00
TELEOS INTERNATIONAL B.V. [products and services for satellite mobile communications]	Amsterdam [Holland]	NLG	40,000	100.00	TELEOS	100.00
AFFILIATED COMPANIES						
ANCITEL S.p.A. [online services for municipalities]	Rome [Italy]	ITL	1,650,000,000	10.91 9.09	TELECOM ITALIA INSIEL	14.58
ASCAI SERVIZI S.r.l. [promotion of communications strategies-and processes]	Rome [Italy]	ITL	122,000,000	40.98	SAIAT	40.98
ASTELIT Ltd [telecommunication services]	Moscow [Russia]	RUR	500	50.00	TELECOM ITALIA	50.00
ASTELIT LLC [mobile telecommunication services]	Kiev [Ukraine]	UAH	1,030	49.00	U-MOBIL	36.61
ASTROLINK INTERNATIONAL LLC [satellite telecommunication services]	Delaware [USA]	USD	1,350,100,000	18.52	TELESPAZIO LUXEMBOURG	18.52
AUNA – Operadores de telecomunicaciones S.A. [holding of telecommunications companies]	Barcelona [Spain]	ESP	53,333,330,000	28.67	STET INTERNATIONAL NETHERLANDS	27.72
BDT S.A. [holding company]	Saint Quentin en Yvelines [France]	FRF	1,522,536,600	19.61	STET MOBILE HOLDING	14.65
BHARTI CELLULAR Ltd [GSM mobile services in New Delhi area]	New Delhi [India]	INR	1,050,000,000	2.00 51.00	STET MOBILE HOLDING BHARTI TELE-VENTURES	11.35
BHARTI TELENET Ltd [telecommunication license holder]	New Delhi [India]	INR	2,000,000,000	11.00 19.20 51.00	STET INTERNATIONAL NETHERLANDS INDIAN TELECOMMUNICATION HOLDING BHARTI TELE-VENTURES	39.05
BHARTI TELE-VENTURES Ltd [holding company]	New Delhi [India]	INR	500,000,000	20.00	STET INTERNATIONAL NETHERLANDS	19.33
BOUYGUES TELECOM S.A. [mobile telecommunications]	Velizy Villacoublay [France]	FRF	3,038,200,000	55.00	BDT	8.06
BRASIL TELECOM PARTICIPACOES S.A. [holding companies for investments in wireline telecommunications companies in various Brazilian states]	Brasilia [Brasil]	BRL	1,936,658,922	51.79	SOLPART	7.08
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	20.53
CABLE I TELEVISIO DE CATALUNYA S.A. [cable telecommunications in Catalogna area]	Barcelona [Spain]	ESP	17,513,000,000	22.50 7.50	STET INTERNATIONAL NETHERLANDS MULTIMEDIA CABLE	24.94
CRUED Servizi Informatici S.p.A. [information svstems]	Perugia [Italy]	ITL	3,000,000,000	49.00	FINSIEL	38.06

(continued) list of companies consolidated by the equity method
(the percentage held exclusively refers to ordinary shares)

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
DATASIEL – Sistemi e Tecnologie di Informatica S.p.A. [data processing products and services for public administrations, Agencies, and institutions 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
D.E.C. INFORMATICA S.r.l. [electronic data and signal processing]	Cremona [Italy]	ITL	21,000,000	20,00	CONSIEL	12,35
DITEC – Distribuzione Integrata Tecnomeccanica S.p.A. [logistics]	Terni [Italy]	ITL	1,386,000,000	20,00	ITALTEL	20,00
EISYS S.p.A. [information systems]	Rome [Italy]	ITL	1,200,000,000	25,00	EIS	17,05
ENTEL CHILE S.A. [telecommunication services]	Santiago [Chile]	CLP	367,045,650,291	25,63	STET INTERNATIONAL NETHERLANDS	24,78
ESRI ITALIA S.p.A. [development and distribution of GIS products and services and related software packages]	Rome [Italy]	ITL	500,000,000	49,00	TELECOM ITALIA	49,00
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	28,31
EUSTEMA S.p.A. [design, research, development and marketing of software, information and online systems]	Rome [Italy]	ITL	600,000,000	33,33	TELESOFT	30,35
EXCITE ITALIA B.V. [internet services]	Amsterdam [Holland]	NLG	100,000	50.00	TELECOM ITALIA	50.00
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
GLB SERVICOS INTERATIVOS S.A. [added value information services]	Rio de Janeiro [Brasil]	BRL	100,000,000	30.00	SOFTE	30.00
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	25.86
HUIT S.a. r.l. [holding company]	Luxembourg	ITL	39,419,807,500	21.07	TELECOM ITALIA	21.07
HUIT2 S.A. [holding company]	Luxembourg	ITL	39,419,807,500	100.00	HUIT	21.07
INFORMATICA TRENTO 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]	DM	50,000	34.00	IRIDIUM ITALIA	28.39
ITALDATA S.p.A. [production, research and development of electronic data processing products]	Avellino [Italy]	EURO	3,096,000	15.99 69.00	TELECOM ITALIA SIEMENS INFORMATICA	49.80
LARES TECNO S.p.A. [printed board]	L'Aquila [Italy]	EURO	5,200,000	20.00	ITALTEL	20.00
LARIX S.r.l. [development, production and distribution of hardware and software products]	Trento [Italy]	ITL	44,000,000	20.00	CONSIEL	12.35
LOTTOMATICA S.p.A. [automation system for State lottery]	Rome [Italy]	ITL	53,000,000,000	25.50	SOGEI	19.81

(continued) list of companies consolidated by the equity method
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
MADRITEL COMUNICACIONES S.A. [cable telecommunications in Madrid area]	Madrid [Spain]	ESP	15,000,000,000	23.00	STET INTERNATIONAL NETHERLANDS	22.23
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
MARISTEL S.p.A. [construction of submarine cable systems]	Milan [Italy]	ITL	2,000,000,000	50.00	SIRTI	24.49
MAXITEL S.A. [license holder for mobile telecommunications in Bahia and Sergipe areas]	Belo Horizonte [Brazil]	BRL	677,679,703	43.15	STET MOBILE HOLDING	43.85
MED-1 SUBMARINE CABLES Ltd [construction and operation of LEV cable systems]	Ramat Gan [Israel]	ILS	100,000	23.17	TELECOM ITALIA	23.17
MOBILKOM AUSTRIA A.G. [GSM mobile telecommunications provider]	Wien [Austria]	ATS	1,000,000,000	25.00 75.00	STET MOBILE HOLDING TELEKOM AUSTRIA	36.80
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	42.53
NETCO REDES S.A. [provider of infrastructures and transport rights]	Madrid [Spain]	ESP	1,004,680,000	30.00	STET INTERNATIONAL NETHERLANDS	29.00
PRAXIS CALCOLO S.p.A. [technical and organizational services for automatic data processing]	Milan [Italy]	ITL	1,080,000,000	29.00	FINSIEL	22.53
PROGERA S.r.l. [technological networks]	Venice [Italy]	ITL	90,000,000	25.00	SIRTI	12.25
RETEVISION MOVIL S.A. [third mobile network]	Barcelona [Spain]	ESP	28,000,000,000	23.30 40.10	STET MOBILE HOLDING AUNA	28.52
SAPED – Studio Analisi Programmazione Elaborazione Dati S.p.A. [information systems]	Siena [Italy]	ITL	2,000,000,000	20.00	BANKSIEL	8.62
SEAT-PAGINE GIALLE S.p.A. [publishing and advertising]	Turin [Italy]	ITL	276,291,703,500	47.33	HUIT2	16.65
SIEMENS INFORMATICA S.p.A. [sale, leasing, and maintenance of data processing systems]	Milan [Italy]	EURO	6,192,000	49.00	TELECOM ITALIA	49.00
SIM 2 MULTIMEDIA S.p.A. [multimedia equipment]	Pordenone [Italy]	ITL	30,000,000,000	33.33	ITALTEL	33.33
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. [informative 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. [vehicle for operation of the Brasil Telecom holding company for fixed telephony]	Rio de Janeiro [Brazil]	BRL	2,126,000,000	38.00	STET INTERNATIONAL NETHERLANDS	36.73
STREAM S.p.A. [multimedia services]	Rome [Italy]	ITL	416,890,000,000	50.00	TELECOM ITALIA	50.00
STT – SOCIETA' TRASPORTO TELEMATICO S.p.A. [online transport services provider]	Verona [Italy]	ITL	10,000,000,000	40.00	SARITEL	40.00
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

(continued) list of companies consolidated by the equity method
[the percentage held exclusively refers to ordinary shares]

Name (Type of business)	Head office		Share capital	Interest held %	by	% held by Telecom Italia Group
TELEKOM AUSTRIA A.G. [fixed telephony]	Wien [Austria]	ATS	15,000,000,000	25.00	STET INTERNATIONAL NETHERLANDS	24.17
TELEKOM SRBIJA a.d. [fixed telephony]	Belgrade [Jugoslavia]	YUN	10,907,385,234	29.00	STET INTERNATIONAL NETHERLANDS	28.03
TELESPACO- Observacao da Terra Ltda [development and distribution of GIS products and services and related software packages]	Brasilia [Brazil]	USD	500,000	49.00	TELESPAZIO	49.00
TELEZARIA A.O. [switching systems]	St. Petersburg [Russia]	RUR	41,900	40.00	ITALTEL	40.00
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
WEBEGG S.p.A. [informative systems]	Ivrea [Turin, Italy]	EURO	20,000,000	50.00	FINSIEL	38.84

LIST OF OTHER INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES

Name (Type of business)	Head office	Share capital	interest held %	by
SUBSIDIARIES				
CONSULTEL 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
DMR CONSIEL S.p.A. [in liquidation]	Rome [Italy]	ITL 500,000,000	51.00	CONSIEL
EDOTEL S.p.A.	Turin [Italy]	ITL 200,000,000	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE
EUSO SAIC	Buenos Aires [Argentina]	ARS 0.0013	99.85 0.15	ITALTEL B.V. Nominees
FINSIEL HELLAS S.A.	Koropi [Greece]	GRD 230,000,000	85.00	FINSIEL
IC SOFT S.p.A. [in liquidation]	Napoli [Italy]	ITL 200,000,000	100.00	FINSIEL
IREOS S.p.A. [in liquidation]	Rome [Italy]	ITL 200,000,000	100.00	TELECOM ITALIA
ITALTEL KENYA Ltd	Nairobi [Kenia]	SHS 500,000	50.00 50.00	ITALTEL B.V. Nominees
MEDITERRANEAN NAUTILUS Ltd	Dublin [Ireland]	EURO 2	100.00	STET INTERNATIONAL NETHERLANDS
NETHERTELEC S.A.	Quito [Ecuador]	XAF 40,000,000	99.99 0.01	STET INTERNATIONAL NETHERLANDS Nominees
RESEAU S.r.l. [in liquidation]	Milan [Italy]	ITL 300,000,000	100.00	TELECOM ITALIA
SETELCO S.A.	Lugano [Switzerland]	CHF 50,000	100.00	SIRTI
TECNITEL Tecnologie Italiane di Telecomunicazioni S.p.A. [in liquidation]	Rome [Italy]	ITL 1,000,000,000	100.00	TELECOM ITALIA
TELECOM ITALIA GmbH	Wien [Austria]	ATS 500,000	100.00	TELECOM ITALIA
TELEPORTI ITALIA S.p.A. [in liquidation]	Rome [Italy]	ITL 1,325,000,000	100.00	TELECOM ITALIA
TI FRANCE S.A.R.L.	Paris [France]	EURO 7,800	100.00	TELECOM ITALIA
TI GERMANY GMBH	Frankfurt [Germany]	EURO 25,000	100.00	TELECOM ITALIA
TI SWITZERLAND GMBH	Zurich [Switzerland]	CHF 20,000	95.00 5.00	TELECOM ITALIA Nominees
TI UNITED KINGDOM Ltd	London [UK]	GBP 1,000	100.00	TELECOM ITALIA
TI WEB S.A.	Luxembourg	USD 30,000	99.97 0.03	TELECOM ITALIA Nominees
TIM INTERNATIONAL B.V.	Amsterdam [Holland]	EURO 20,000	100.00	TELECOM ITALIA MOBILE
T.I.SCOM S.A. [in liquidation]	Curitiba [Brasil]	BRL 7,735,000	51.00	TELESPAZIO
AFFILIATED COMPANIES				
BIBOP RESEARCH INT. S.p.A.	Milano [Italy]	ITL 1,000,000,000	40.00	TELECOM ITALIA NET
CARTESIA-Cartografia digitale S.p.A	Roma [Italy]	ITL 200,000,000	50.00	TELECOM ITALIA
CESEN S.p.A.	Genoa [Italy]	ITL 1,219,000,000	39.00	METIS
CITEL – Corporacion Interamericana de Telecomunicaciones S.A.	Monterrey [Mexico]	MXN 2,073,729,933	25.00	STET INTERNATIONAL NETHERLANDS
COSER. S.c.p.A.	Rome [Italy]	ITL 40,000,000	20.00	TRAINET
CYGENT Inc.	California [USA]	USD 28,708,549	21.56	TELECOM ITALIA
CZECH TELESPAZIO S.r.l. [in liquidation]	Prague [Czech Rep.]	CSK 1,500,000	40.00	TELECOM ITALIA

[continued] list of other investments in subsidiaries and affiliated companies

Name (Type of business)	Head office	Share capital	interest held %	by
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
NORCABLE S.A.	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
UBA - NET S.A.	Buenos Aires [Argentina]	ARS 1,430,000	50.00	TRAINET
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 CONNET FORMAZIONE	Bari [Italy]	ITL 100,000,000	60.00 40.00	CONSIEL NETSIEL
CONSORZIO CO.RE.D.	Milan [Italy]	ITL 500,000,000	60.00 30.00	SIRTI ITALTEL
CONSORZIO CRATI [in liquidation]	Cagliari [Italy]	ITL 367,000,000	50.00 50.00	FINSIEL SARITEL
CONSORZIO C.R.I.A.I. [in liquidation]	Naples [Italy]	ITL 110,002,000	27.27 27.27	FINSIEL SOGEL
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 IRIS BENI LIBRARI [in liquidation]	Rome [Italy]	ITL 100,000,000	90.00 10.00	FINSIEL ITALTEL
CONSORZIO ISIB	Rome [Italy]	ITL 100,000,000	30.00 70.00	INTERSIEL FINSIEL
CONSORZIO ITALTEL TELESIS [in liquidation]	Milan [Italy]	ITL 1,000,000,000	100.00	ITALTEL
CONSORZIO ITINERA [in liquidation]	Rome [Italy]	ITL 500,000,000	56.80 4.80 4.80 4.80	TELECOM ITALIA ITALTEL CSELT NETSIEL
CONSORZIO PROTER	Rome [Italy]	ITL 20,000,000	61.11	TELESPAZIO
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	75.00 25.00	FINSIEL IC SOFT
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 ALINARI 2000	Florence [Italy]	ITL 50,000,000	50.00	FINSIEL
CONSORZIO ALTEL	Rome [Italy]	ITL 100,000,000	50.00	TELESPAZIO

[continued] list of other investments in subsidiaries and affiliated companies

Name (Type of business)	Head office		Share capital	interest held %	by
CONSORZIO AMBIENTE 2000 [in liquidation]	Naples [Italy]	ITL	50,000,000	25.00 25.00	TELECOM ITALIA FINSIEL
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 AUTOFABER [in liquidation]	Milan [Italy]	ITL	150,000,000	33.33	ITALTEL
CONSORZIO CIFRA	Cagliari [Italy]	ITL	120,000,000	25.00	KRENESIEL
CONSORZIO CITAD [in liquidation]	Rome [Italy]	ITL	500,000,000	20.00	ITALTEL
CONSORZIO CLOTO [in liquidation]	Rome [Italy]	ITL	30,000,000	33.33	FINSIEL
CONSORZIO C.O.M.P.A.	Bologna [Italy]	ITL	250,000,000	20.00	FINSIEL
CONSORZIO CSIA	Rome [Italy]	ITL	400,000,000	44.00	FINSIEL
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 ITALIA 900 [in liquidation]	Milan [Italy]	ITL	100,000,000	46.50	ITALTEL
CONSORZIO HERMES [in liquidation]	Milan [Italy]	ITL	1,000,000,000	34.00 22.80	SIRTI ITALTEL
CONSORZIO PER LA FORMAZIONE INTERNAZIONALE - C.F.I.	Rome [Italy]	ITL	200,000,000	20.00	TELECOM ITALIA
CONSORZIO I.M.S.	Milan [Italy]	ITL	500,000,000	20.00	SIRTI
CONSORZIO I.T.A.	Rome [Italy]	ITL	24,000,000	33.33	TELESPAZIO
CONSORZIO I.T.S	Rome [Italy]	ITL	40,000,000	50.00	ITALTEL
CONSORZIO PAOLA	Udine [Italy]	ITL	7,000,000	50.00	INSIEL
CONSORZIO R.E.S. - Raggruppamento Europeo per la Sicurezza	Rome [Italy]	ITL	600,000,000	50.00	TELECOM ITALIA
CONSORZIO SANITEL [in liquidation]	Pavia [Italy]	ITL	10,000,000	50.00	ITALTEL
CONSORZIO SI.GE.T. [in liquidation]	Rome [Italy]	ITL	100,000,000	40.00	FINSIEL
CONSORZIO SIMAP [in liquidation]	Bari [Italy]	ITL	200,000,000	34.00	FINSIEL
CONSORZIO SIMT	Rome [Italy]	ITL	100,000,000	45.00	FINSIEL
CONSORZIO SIRTI LUZI	Milan [Italy]	ITL	11,600,000	50.00	SIRTI
CONSORZIO SISIM [in liquidation]	Rome [Italy]	ITL	90,000,000	33.33	TELESPAZIO
CONSORZIO SISTEMI INFORMATIVI	Milan [Italy]	ITL	200,000,000	50.00	ITALTEL
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
CONSORZIO TELERES [in liquidation]	Palermo [Italy]	ITL	50,000,000	40.00	ITALTEL

ASSETS [in billions of euro]

	6/30/2000	12/31/1999	6/30/1999
Receivables from stockholders for capital contributions			
Portion called in	=	=	=
Portion not called in	2	2	2
	2	2	2
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Start-up and expansion costs	64	66	59
Industrial patents and intellectual property rights	716	778	659
Permits, licenses, trademarks and similar rights	510	153	175
Goodwill	4	4	5
Consolidation difference	1,697	1,016	1,019
Work in progress and advances to suppliers	514	390	371
Other intangibles	352	330	294
	3,857	2,737	2,582
FIXED ASSETS			
Land and buildings	5,307	5,073	4,987
Plant and machinery	17,654	16,522	16,451
Manufacturing and distribution equipment	139	124	121
Other fixed assets	774	567	541
Construction in progress and advances to suppliers	1,372	1,222	1,228
	25,246	23,508	23,328
LONG-TERM INVESTMENTS			
Investments in			
unconsolidated subsidiaries	7	121	68
affiliated companies	6,339	5,944	5,762
other companies	207	299	307
	6,553	6,364	6,137
Advances on future increase in capital contributions to investments	72	2	1
Loans to	[*]	[*]	[*]
unconsolidated subsidiaries	= 142	= 133	= 61
other borrowers	82 320	98 324	39 324
	82 462	98 457	39 385
Other securities	6	3	81
Treasury stock (for an overall par value of I. 26 billion as at 6.30.2000)	168	-	-
	7,261	6,826	6,604
Total intangibles, fixed assets and long-term Investments	36,364	33,071	32,514
Current assets			
INVENTORIES			
Raw materials and supplies	141	98	160
Work in progress and semi-finished goods	85	69	159
Contract work in process	848	628	699
Finished goods and merchandise:			
finished goods	30	12	51
merchandise	234 264	208 220	204 255
Advances to suppliers	15	15	2
	1,353	1,030	1,275
ACCOUNTS RECEIVABLES			
Trade accounts receivables	[**] 7 7,570	[**] 35 7,717	[**] 73 7,577
Receivables from unconsolidated subsidiaries	= 27	= 39	= 58
Receivables from affiliated companies	= 467	= 492	= 468
Receivables from parent companies	= 1	= 1	= 1
Miscellaneous receivables	176 1,400	301 1,597	224 1,220
	183 9,465	336 9,846	297 9,324
SHORT-TERM FINANCIAL ASSETS			
Investments in subsidiaries	[**] 186	[**] 63	[**] 65
Other investments	33	6	-
Marketable securities	1,079	1,265	1,544
Receivables from security sale	= 1	= 5	= 409
	1,299	1,339	2,018
LIQUID ASSETS			
Bank and postal accounts	658	668	720
Cash and securities on hand	9	9	23
	667	677	743
Total current assets	12,784	12,892	13,360
Accrued income and prepaid expenses			
Discounts and similar changes on borrowings	2	2	2
Accrued income and other prepaid expenses	233	91	160
	235	93	162
TOTAL ASSETS	49,385	46,058	46,038

[*] amounts due within one year [**] amounts due after one year

LIABILITIES AND STOCKHOLDERS' EQUITY [in billions of euro]

	6/30/2000		12/31/1999		6/30/1999	
Stockholders' equity						
PARENT COMPANY INTEREST IN						
Share capital	3,835		3,835		3,833	
Treasury stock	168		=		=	
Reserves and retained earnings	13,078		11,473		11,483	
Net income	979		1,737		911	
	18,060		17,045		16,227	
MINORITY INTEREST IN						
Share capital, reserves and retained earnings	2,704		2,071		2,282	
Net income	445		672		310	
	3,149		2,743		2,592	
	21,209		19,788		18,819	
RESERVES FOR RISKS AND CHARGES						
Reserve for taxes	1,111		160		1,252	
for taxes	=		151		=	
for deferred taxes	1,111		311		1,252	
	=		=		7	
Consolidation reserve for future charges and risks	776		725		701	
Other reserves	1,887		1,036		1,960	
Reserve for employee termination indemnities	1,566		1,496		1,490	
Liabilities	[**]		[**]		[**]	
Debentures	1,441	1,861	815	984	686	1,032
Due to banks	3,668	7,832	3,685	8,150	3,779	7,162
Due to other lenders	578	842	659	898	734	1,081
Advances	=	489	=	378	=	306
Accounts payable to suppliers	37	5,509	6	6,081	28	4,801
Accounts payable to unconsolidated subsidiaries	=	14	=	20	=	36
Accounts payable to affiliated companies	487	1,116	=	597	176	604
Accounts payable to parent companies	=	2	=	3	=	396
Taxes payables	6	1,319	6	1,185	=	1,718
Contributions to pension and social security institutions	709	925	711	958	763	951
Other liabilities	84	3,831	7	3,594	384	4,753
	7,010	23,740	5,889	22,848	6,550	22,840
Accrued expenses and deferred income	983		890		929	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	49,385		46,058		46,038	

[**] Amounts due after one year

[in billions of euro]

	6/30/2000	12/31/1999	6/30/1999
Guarantees provided			
Sureties			
on behalf of unconsolidated subsidiaries	45	45	67
on behalf of affiliated companies	1,803	944	1,190
on behalf of outsiders	229	272	316
	2,077	1,261	1,573
Endorsements			
on behalf of outsiders	140	14	27
Other guarantees apart from endorsements			
on behalf of unconsolidated subsidiaries	7	=	=
on behalf of affiliated companies	18	33	=
on behalf of outsiders	2	12	56
	27	45	56
	2,244	1,320	1,656
Collateral provided			
Other obligations of outsiders	5	7	4
Other obligations, not including liabilities	2	2	2
	7	9	6
Purchase and sale commitments	9,749	860	827
Other memorandum accounts	257	4,039	3,018
TOTAL MEMORANDUM ACCOUNTS	12,257	6,228	5,507

[in billions of euro]

	First half 2000	First half 1999	Year 1999
Production value			
Sales and service revenues	14,217	13,109	27,104
Changes in inventories of work in progress, semifinished and finished goods	29	51	[65]
Changes in inventory of contract work in process	261	226	176
Increases in capitalized internal construction costs	416	335	1,062
Other revenue and income			
<i>operating grants</i>	10	8	20
<i>other</i>	210	250	496
	220	258	516
	15,143	13,979	28,793
Production cost			
Raw materials, suppliers and merchandise	[1,062]	[979]	[2,249]
Semifinished and finished goods	[160]	[149]	[228]
Services	[4,082]	[3,383]	[7,380]
Use of property not owned	[358]	[331]	[704]
Personnel			
<i>wages and salaries</i>	[1,814]	[1,774]	[3,498]
<i>social security contributions</i>	[564]	[569]	[1,113]
<i>termination indemnities</i>	[129]	[126]	[252]
<i>other costs</i>	[77]	[46]	[114]
	[2,584]	[2,515]	[4,977]
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	[479]	[401]	[988]
<i>depreciation of fixed assets</i>	[2,305]	[2,316]	[4,351]
<i>other writedowns of fixed assets and other long-term investments</i>	[14]	=	[73]
<i>writedowns of receivables included in current assets and of liquid assets</i>	[258]	[174]	[363]
	[3,056]	[2,891]	[5,775]
Changes in inventory of raw materials, supplies and merchandise	35	44	19
Provisions for risks	[61]	[67]	[80]
Other provisions	[14]	[1]	[21]
Miscellaneous operating costs	[410]	[448]	[965]
	[11,752]	[10,720]	[22,360]
Net production value	3,391	3,259	6,433
Financial income and expense			
Income from investments			
<i>dividends from unconsolidated subsidiaries</i>	3	=	2
<i>dividends from affiliated companies</i>	18	=	=
<i>dividendi from other companies</i>	43	22	58
<i>other income from investments</i>	48	11	86
	112	33	146
Other financial income			
<i>Loans included in long-term investments</i>			
<i>affiliated companies</i>	7	1	3
<i>other borrowers</i>	6	7	11
	13	8	14
<i>securities, other than investments, included in long-term investments</i>	=	2	2
<i>securities, other than investments, included in current assets</i>	51	44	95
<i>other income</i>			
<i>interest and fees from unconsolidated subsidiaries</i>	=	1	2
<i>interest and fees from affiliated companies</i>	7	7	13
<i>interest and fees from others and miscellaneous income</i>	228	111	283
	235	119	298
	299	173	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>	[17]	[1]	[1]
<i>interest and fees paid to others and miscellaneous income</i>	[544]	[466]	[880]
	[561]	[468]	[882]
Net financial income [expense]	[150]	[262]	[327]

CONSOLIDATED STATEMENTS OF INCOME

[CONTINUED] [in billions of euro]

	First Half 2000	First Half 1999	Year 1999
Value adjustments on financial assets			
Upward adjustments on			
<i>investments in unconsolidated subsidiaries,</i>			
<i>affiliated companies</i>	75	127	241
<i>securities, other than investments,</i>			
<i>included in current assets</i>	=	1	=
	75	128	241
Writedown of			
<i>investments in unconsolidated subsidiaries,</i>			
<i>affiliated companies</i>	[418]	[339]	[806]
<i>securities, other than investments,</i>			
<i>included in long-term investments</i>	=	[7]	[19]
<i>securities, other than investments,</i>			
<i>included in current assets</i>	[32]	[2]	=
	[450]	[348]	[825]
Total adjustments	[375]	[220]	[584]
Extraordinary income and expense			
Income			
<i>gains on disposals of assets</i>	308	1	26
<i>miscellaneous</i>	105	59	119
	413	60	145
Expense			
<i>losses on disposals of assets</i>	=	[4]	[11]
<i>taxes due for prior years</i>	[5]	[11]	[4]
<i>miscellaneous</i>	[397]	[261]	[637]
	[402]	[276]	[652]
Total extraordinary items	11	[216]	[507]
Income before taxes	2,877	2,561	5,015
Income taxes			
<i>current taxes</i>	[1,453]	[1,340]	[2,884]
<i>deferred taxes</i>	=	=	278
	[1,453]	[1,340]	[2,606]
Net income before minority interest	1,424	1,221	2,409
Minority interest	[445]	[310]	[672]
Net income after minority interest	979	911	1,737





ASSETS [in millions of lire]

	6/30/2000	12/31/1999	6/30/1999
Receivables from stockholders for capital contributions	=	=	=
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Industrial patents and intellectual property rights	987,871	1,192,288	1,090,060
Permits, licenses, trademarks and similar rights	101,264	112,598	123,477
Goodwill	=	3,800	5,700
Work in progress and advances to suppliers	964,496	740,383	666,325
Other intangibles	175,918	209,545	245,141
	2,229,549	2,258,614	2,130,703
FIXED ASSETS			
Land and buildings	7,656,378	7,828,564	7,867,435
Plant and machinery	25,692,448	26,861,307	27,254,308
Manufacturing and distribution equipment	94,288	115,494	105,490
Other fixed assets	345,396	450,448	445,769
Construction in progress and advances to suppliers	1,192,002	1,264,138	1,259,794
	34,980,512	36,519,951	36,932,796
LONG-TERM INVESTMENTS			
Investments in subsidiaries	10,015,696	8,731,261	7,549,733
affiliated companies	665,987	217,062	537,234
other companies	158,201	382,070	350,731
	10,839,884	9,330,393	8,437,698
Advances on future increase in capital contributions to investments	9,500,251	8,610,090	7,506,696
Loans to subsidiaries	[*] = 96,814	[*] 35,133 1,300,011	[*] 43,366 1,164,803
other borrowers	104,451 400,298	115,606 404,502	35,445 415,782
	104,451 497,112	150,739 1,704,513	78,811 1,580,585
	=	=	3,486
Other securities			
Treasury shares [for an overall par value of 26,047 millions of lire as at 6/30/2000]	325,604	=	=
	21,162,851	19,644,996	17,528,465
Total intangibles, fixed assets and long-term investments	58,372,912	58,423,561	56,591,964
Current assets			
INVENTORIES			
Contract work in process	69,871	53,980	100,119
Finished goods and merchandise merchandise	202,600	179,048	231,969
	272,471	233,028	332,088
ACCOUNTS RECEIVABLE	[**]	[**]	[**]
Trade accounts receivable	= 8,611,956	= 9,408,833	= 9,730,161
Receivables from subsidiaries	= 2,503,168	= 2,978,004	= 3,756,491
Receivables from affiliated companies	= 498,421	= 405,401	= 910,654
Receivables from parent companies	= 950	= 2,484	= 1,470
Miscellaneous receivables due from Government and other public entities for grants and subsidies	= 250	= 250	= 250
accrued dividends from subsidiaries	=	= 1,511,007	=
deferred tax assets	=	157,673 345,483	=
other receivables	= 711,130	= 749,676	= 790,880
	= 711,380	157,673 2,606,416	= 791,130
	12,325,875	15,401,138	15,189,906
SHORT-TERM FINANCIAL ASSETS			
Investments in subsidiaries	328,240	108,813	121,115
Other investments	54,054	10,394	=
Other securities	156,308	=	=
	538,602	119,207	121,115
LIQUID ASSETS			
Bank and postal accounts	92,003	139,521	55,993
Checks	2	1	1
Cash and securities on hand	1,308	930	1,172
	93,313	140,452	57,166
Total current assets	13,230,261	15,893,825	15,700,275
Accrued income and prepaid expenses			
Discounts and similar charges on borrowings	2,969	3,584	4,333
Accrued income and other prepaid expenses	147,732	45,895	146,410
	150,701	49,479	150,743
TOTAL ASSETS	71,753,874	74,366,865	72,442,982

[*] Amounts due within one year [**] Amounts due after one year

**LIABILITIES AND
STOCKHOLDERS' EQUITY** [in millions of lire]

	6/30/2000		12/31/1999		6/30/1999	
Stockholders' equity						
Share capital		7,426,157		7,426,157		7,421,252
Additional paid-in capital		3,490,922		3,490,922		3,431,320
Reserves for inflation adjustments under law no. 72 of 3.19.1983		4,805,725		4,805,725		4,805,725
law no. 413 of 12.30.1991		908,093		908,093		908,093
		5,713,818		5,713,818		5,713,818
Legal reserve		762,267		762,267		762,267
Reserve for treasury shares		325,604		=		=
Other reserves						
Reserve for accelerated depreciation		1,487,794		1,487,794		2,260,695
Special reserve		3,302,202		3,627,806		2,854,905
Reserve for capital grants		868,931		852,913		837,562
Miscellaneous reserves		7,165,723		7,165,723		7,165,723
		12,824,650		13,134,236		13,118,885
Retained earnings		5,050,363		=		=
Net income		1,351,750		5,050,363		1,565,779
		36,945,531		35,577,763		32,013,321
Reserves for risks and charges						
Reserves for taxes						
for taxes		1,161,920		254,498		1,653,457
for deferred taxes		=		=		=
		1,161,920		254,498		1,653,457
Other reserves		995,134		987,710		1,111,793
		2,157,054		1,242,208		2,765,250
Reserve for employee termination indemnities		2,285,044		2,163,171		2,151,041
Liabilities	[**]		[**]		[**]	
Debentures	683,536	683,536	824,914	824,914	897,378	897,378
Due to banks	5,579,749	10,080,512	6,124,631	12,422,073	6,394,248	11,282,898
Due to other lenders	1,062,512	1,393,104	1,270,719	1,609,805	1,393,104	1,809,124
Advances	=	1,714	=	1,862	=	2,020
Accounts payable to suppliers	=	4,980,387	=	6,187,988	=	5,068,679
Accounts payable to subsidiaries	=	4,377,282	=	6,178,550	=	3,822,820
Accounts payable to affiliated companies	=	393,647	=	376,043	=	644,349
Accounts payable to parent companies	=	3,859	=	4,568	=	767,315
Taxes payable	=	1,861,570	=	928,685	=	2,604,311
Contributions to pension and social security institutions	1,371,767	1,663,570	1,371,767	1,709,281	1,472,235	1,721,021
Other liabilities	9,518	3,923,728	9,518	4,213,725	13,370	5,905,495
	8,707,082	29,362,909	9,601,549	34,457,494	10,170,335	34,525,410
Accrued expenses and deferred income		1,003,336		926,229		987,960
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		71,753,874		74,366,865		72,442,982

[**] Amounts due after one year

MEMORANDUM ACCOUNTS

[in millions of lire]

	6/30/2000	12/31/1999	6/30/1999
Guarantees provided			
Sureties			
on behalf of subsidiaries	1,035,106	2,918,499	2,514,398
on behalf of affiliated companies	3,262,515	1,611,022	2,257,834
on behalf of outsiders	265,760	297,147	289,931
	4,563,381	4,826,668	5,062,163
Collateral provided	=	=	=
Purchase and sale commitments	19,136,361	2,283,754	2,119,247
Other memorandum accounts	18,628	5,634,702	3,656,247
TOTAL MEMORANDUM ACCOUNTS	23,718,370	12,745,124	10,837,657

[in millions of lire]

	First half 2000	First half 1999	Year 1999
Production value			
Sales and service revenues	16,909,552	18,016,405	35,856,164
Changes in inventory of contract work in process	15,891	25,924	[20,215]
Increases in capitalized internal construction costs	12,333	11,800	26,471
Other revenues and income			
<i>operating grants</i>	912	2,594	2,637
<i>other</i>	288,087	403,324	751,718
	288,999	405,918	754,355
	17,226,775	18,460,047	36,616,775
Production cost			
Raw materials, supplies and merchandise	[542,971]	[552,588]	[1,174,168]
Services	[5,423,411]	[5,592,849]	[11,571,326]
Use of property not owned	[402,112]	[416,155]	[852,638]
Personnel			
<i>wages and salaries</i>	[2,107,633]	[2,192,012]	[4,292,924]
<i>social security contributions</i>	[666,061]	[708,827]	[1,387,863]
<i>termination indemnities</i>	[172,994]	[170,800]	[337,103]
<i>other costs</i>	[76,400]	[61,143]	[160,808]
	[3,023,088]	[3,132,782]	[6,178,698]
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	[494,761]	[504,659]	[1,253,215]
<i>depreciation of fixed assets</i>	[3,179,785]	[3,559,000]	[6,513,033]
<i>other writedowns of fixed assets</i>	=	=	[142,299]
<i>writedowns of receivables included in current assets and of liquid assets</i>	[143,865]	[185,491]	[399,035]
	[3,818,411]	[4,249,150]	[8,307,582]
Changes in inventory of raw materials, supplies and merchandise	23,552	42,551	[10,370]
Provisions for risks	[93,923]	[109,664]	[156,225]
Miscellaneous operating costs			
<i>losses on disposals of assets</i>	[19,793]	[42,554]	[206,471]
<i>license fee</i>	[305,204]	[404,400]	[755,718]
<i>miscellaneous operating costs</i>	[110,413]	[152,728]	[307,990]
	[435,410]	[599,682]	[1,270,179]
	[13,715,774]	[14,610,319]	[29,521,186]
Net production value	3,511,001	3,849,728	7,095,589
Financial income and expense			
Income from investments			
<i>dividends from subsidiaries</i>	22,270	2,145	1,964,630
<i>dividends from affiliated companies</i>	44,690	3,578	7,632
<i>dividends from other companies</i>	63,171	42,052	110,780
<i>other income from investments</i>	95,897	16,980	1,243,899
	226,028	64,755	3,326,941
Other financial income			
<i>loans included in long-term investments</i>			
<i>subsidiaries</i>	13,326	22,283	43,703
<i>affiliated companies</i>	41	=	=
<i>other borrowers</i>	8,590	10,125	17,742
	21,957	32,408	61,445
<i>securities, other than investments, included in long-term investments</i>	=	144	270
<i>securities, other than investments, included in current assets</i>	2,652	4	4
<i>other income</i>			
<i>interest and fees from subsidiaries</i>	38,696	35,369	78,649
<i>interest and fees from affiliated companies</i>	3,260	13,408	22,805
<i>interest and fees from others and miscellaneous income</i>	91,825	62,469	146,474
	133,781	111,246	247,928
	158,390	143,802	309,647
Interest and other financial expense			
<i>interest and fees paid to subsidiaries</i>	[66,250]	[35,357]	[70,447]
<i>interest and fees paid to affiliated companies</i>	[165]	[811]	[1,011]
<i>interest and fees paid to others and miscellaneous expenses</i>	[340,353]	[455,709]	[798,867]
	[406,768]	[491,877]	[870,325]
Net financial income (expense)	[22,350]	[283,320]	2,766,263

[CONTINUED] [in millions of lire]

	First half 2000	First half 1999	Year 1999
Value adjustments on financial assets			
Writedowns of <i>investments in subsidiaries, affiliated and other companies</i>	[355,111]	[183,524]	[294,605]
	[355,111]	[183,524]	[294,605]
Total adjustments on financial assets	[355,111]	[183,524]	[294,605]
Extraordinary income and expense			
Income			
<i>gains on disposals of assets</i>	1,535	=	=
<i>miscellaneous</i>	28,281	22,966	71,286
	29,816	22,966	71,286
Expense			
<i>taxes due for prior years</i>	[7,365]	[2,715]	[5,624]
<i>miscellaneous</i>	[531,235]	[386,219]	[722,633]
	[538,600]	[388,934]	[728,257]
Total extraordinary items	[508,784]	[365,968]	[656,971]
Income before taxes	2,624,756	3,016,916	8,910,276
Income taxes			
<i>current taxes</i>	[1,273,006]	[1,451,137]	[3,257,767]
<i>deferred taxes</i>	=	=	[602,146]
	[1,273,006]	[1,451,137]	[3,859,913]
Net income	1,351,750	1,565,779	5,050,363

Notes to financial statements

FOREWORD

The financial statements for the six months ended June 30, 2000 have been prepared in accordance with art. 81 and Annex 3C-bis of Consob resolution No. 11971 of May 14, 1999 [issuing rules], amended by Consob resolution No. 12475 of April 6, 2000.

Following certain changes to some items of the financial statements, for purposes of comparison, the financial statements for the six months ended June 30, 1999 and the year ended December 31, 1999 have been reclassified.

The disclosure relating to the introduction of the euro is included under “Other information” in these notes and the Report on Operations.

The statements of cash flows, although presented in the Report on Operations, constitute an integral part of these notes to consolidated financial statements.

As described in the comments in “Management’s discussion and analysis of the financial condition and results of operations”, following the contribution to Tin.it S.p.A. of the assets consisting of the business segments and investments inherent to the operations and marketing of online services and products, with effect from May 1, 2000, and the successive merger of Tin.it in Seat Pagine Gialle, the balance sheet of Telecom Italia does not include the assets contributed to Tin.it, whereas the statement of income takes into account the data relative to Tin.it only up to April 30, 2000.

ACCOUNTING PRINCIPLES

The accounting principles used in drawing up the six-month financial statements, taking into account the specific adjustments required for interim periods, have been applied on a basis consistent with those used in the annual financial statements, to which reference should be made, except for the income tax expense [IRPEG and IRAP] for the period charged to the *reserve for taxes* under “reserve for risks and charges”.

Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia’s obligation required under Law No. 58/1992 to guarantee a uniform insurance status with the “Telephone Workers’ Social Security Fund ” [which became part of the general “Employees Pension Fund” on January 1, 2000], 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 Legislative Decree 331/1993 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 1,472 billion of residual payables to INPS, [net of the amount attributed to TIM for the employees tran-

sferred to that company], 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 when 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. 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 and 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 1,800 billion and Lire 2,400 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 [at June 30, 2000, INPS had submitted formal requests for about 94% 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, on the basis of the formal requests made by INPS on June 30, 2000 and the interpretation of said requests, amounts to Lire 2,873 billion, divided as follows:

- Lire 1,828 billion for the principal amount [except for the portion attributable to former Iritel employees];
- Lire 1,045 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 Cassation, 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 47 billion relates to the amount due for the period to June 30].

The charge to income for the first half of 1999 [under *extraordinary expense*] amounts to Lire 225 billion inclusive solely of accrued interest.

In the first half of 1999 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 and has arranged for these amounts to be recovered from these companies. The recovery is recorded in the statement of income under "extraordinary income" and amounts to Lire 4 billion.

BALANCE SHEETS

ASSETS

Intangibles, fixed assets and long-term investments

Intangible assets

Lire 2,229,549 million

[Lire 2,258,614 million at December 31, 1999]

A summary of the changes during the period is presented as follows:

[in millions of lire]	1 st half 2000
– Additions	478,059
– Disposals	[4,172]
– Contribution to Tin.it	[8,191]
– Amortization	[494,761]
Total	[29,065]

An analysis of the composition and the changes in intangible assets during the six months 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
Permits, 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 Year 2000	109,512	=	[62,578]	46,934

[in millions of lire]	Change during the period					Total
	Additions	Reclassifications	Sales/ Retirements/ Transfers [a]	Writedowns/ Reversals of writedowns	Amortization	
Industrial patents and intellectual property rights	6,780	235,397	[6,007]	=	[440,587]	[204,417]
Permits, licenses, trademarks and similar rights	100	277	[15]	=	[11,696]	[11,334]
Goodwill	=	=	[2,533]	=	[1,267]	[3,800]
Work in progress and advances to suppliers	463,595	[235,674]	[3,808]	=	=	224,113
Other intangibles [*]	7,584	=	=	=	[41,211]	[33,627]
Total	478,059	=	[12,363]	=	[494,761]	[29,065]

[*] Including:						
Leasehold improvements	7,584	=	=	=	[25,565]	[17,981]
Great Jubilee Year 2000	=	=	=	=	[15,645]	[15,645]

[a] Broken down as follows:	Cost	Amortization	Carrying value
Industrial patents and intellectual property right of which contribution to Tin.it	[132,230]	126,223	[6,007]
Permits, licenses, trademarks and similar rights	[4,264]	2,414	[1,850]
Goodwill	[99]	84	[15]
of which contribution to Tin.it	[19,000]	16,467	[2,533]
Work in progress and advance to suppliers of which contribution to Tin.it	[19,000]	16,467	[2,533]
	[3,808]	=	[3,808]
	[3,808]	=	[3,808]
Total	[155,137]	142,774	[12,363]
of which contribution to Tin.it	[27,072]	18,881	[8,191]

6/30/2000				
[in millions of lire]	Cost	Writedowns	Amortization	Total
Industrial patents and intellectual property rights	4,294,829	[58,386]	[3,248,572]	987,871
Permits, licenses, trademarks and similar rights	227,749	=	[126,485]	101,264
Goodwill	=	=	=	=
Work in progress and advances to suppliers	964,496	=	=	964,496
Other intangibles [*]	899,975	=	[724,057]	175,918
Total	6,387,049	[58,386]	[4,099,114]	2,229,549

[*] Including:				
Leasehold improvement	789,674	=	[645,046]	144,628
Great Jubilee Year 2000	109,512	=	[78,223]	31,289

Additions during the period of Lire 478,059 million mainly referred to software project costs [Lire 469,529 million] and leasehold improvements [Lire 7,584 million].

Fixed assets

Lire 34,980,512 million

[Lire 36,519,951 million at December 31, 1999]

A summary of the changes during the period is presented as follows:

[in millions of lire]	1 st half 2000
– Additions	1,708,576
– Retirements and other changes	[13,433]
– Contribution to Tin.it	[54,797]
– Depreciation	[3,179,785]
Total	[1,539,439]

An analysis of the composition and the changes in fixed assets during the period is presented as follows:

[in millions of lire]	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
					12/31/1999
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]	Additions	Reclassifications	Sales/Retirements/Transfers [a]	Writedowns/Reversals of writedowns	Depreciation	Total
						Changes during the period
Land and buildings	15	35,841	[1,611]	=	[206,431]	[172,186]
• non-industrial buildings	15	146	[1,531]	=	[949]	[2,319]
• industrial buildings	=	35,695	[80]	=	[205,482]	[169,867]
Plant and machinery	498,911	1,169,167	[23,384]	=	[2,813,553]	[1,168,859]
Manufacturing and distribution equipment	9,465	8	[382]	=	[30,297]	[21,206]
Other fixed assets	66,489	14,137	[56,174]	=	[129,504]	[105,052]
Construction in progress and advances to suppliers	1,133,696	[1,219,153]	13,321	=	=	[72,136]
Total	1,708,576	=	[68,230]	=	[3,179,785]	[1,539,439]

[a] Broken down as follows:	Cost	Upward Adjustments	Writedowns	Accumulated Depreciation	Total
Land and buildings	[1,779]	[72]	=	240	[1,611]
• non-industrial buildings	[1,683]	=	=	152	[1,531]
• industrial buildings	[96]	[72]	=	88	[80]
Plant and machinery	[520,297]	[23,434]	10,051	510,296	[23,384]
of which contribution to Tin.it	[6,123]	=	=	3,094	[3,029]
Manufacturing and distribution equipment	[10,918]	[28]	=	10,564	[382]
of which contribution to Tin.it	[32]	=	=	27	[5]
Other fixed assets	[224,701]	[2]	=	168,529	[56,174]
of which contribution to Tin.it	[94,148]	=	=	42,385	[51,763]
Construction in progress and advances to suppliers	13,321	=	=	=	13,321
Total	[744,374]	[23,536]	10,051	689,629	[68,230]
of which contribution to Tin.it	[100,303]	=	=	45,506	[54,797]

6/30/2000					
[in millions of Lire]	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	10,443,576	1,978,745	[3,939]	[4,762,004]	7,656,378
• non-industrial buildings	93,420	10,550	=	[8,419]	95,551
• industrial buildings	10,350,156	1,968,195	[3,939]	[4,753,585]	7,560,827
Plant and machinery	88,711,624	1,659,537	[1,902,329]	[62,776,384]	25,692,448
Manufacturing and distribution equipment	1,753,263	5,338	=	[1,664,313]	94,288
Other fixed assets	2,885,225	8,372	=	[2,548,201]	345,396
Construction in progress and advances to suppliers	1,192,002	=	=	=	1,192,002
Total	104,985,690	3,651,992	[1,906,268]	[71,750,902]	34,980,512

Additions during the period include Lire 340,702 million of projects completed in Southern Italy.

Depreciation is calculated using the rates applied in the prior year, which take into account the adjusted estimated useful life of the majority of installations making up the domestic telecommunications network, such as the copper networks and exchange systems. Accumulated depreciation covered 64.3% of gross fixed assets at December 31, 1999 and 66% at June 30, 2000.

Long-term investments

Lire 21,162,851 million

[Lire 19,644,996 million at December 31, 1999]

Long-term investments increased by Lire 1,517,855 million compared to December 31, 1999 and include the following:

[in millions of lire]	6/30/2000	12/31/1999
Investments in		
• subsidiaries	10,015,696	8,731,261
• affiliated companies	665,987	217,062
• other companies	158,201	382,070
	10,839,884	9,330,393
Advances on future increase in capital contributions to investments	9,500,251	8,610,090
Loans to		
• subsidiaries	96,814	1,300,011
• other borrowers	400,298	404,502
	497,112	1,704,513
Treasury shares	325,604	=
Total	21,162,851	19,644,996

Annex 9 presents the changes in each investment during the period together with the corresponding amount at the beginning of the year and at June 30, 2000.

Overall, investments in subsidiaries, affiliates and other companies increased by Lire 1,509,491 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: Stream [258,000], Iridium Italia [18,206], Tin.it formerly Savigliano Immobiliare [976], Edotel [11,829], N.TC in liquidation [1,321], Reseau [1,838], Saiat [1,000], Czechtel in liquidation [21], TMI - Telemedia International Italia [87,512], Fintech [15,000], eFusion [1,860]. 	397,563
<ul style="list-style-type: none"> Acquisition/subscription of shares/quotas at time of corporate formation of: Stream [100,651], TIM [1,230,947], Tin.it formerly Savigliano Immobiliare [30], Eutelsat [65,528], TI France [15], TI Germany [49], TI Switzerland [25], TI United Kingdom [3], TI Web [61], Cygent [4,501], SIA [20,593], Mix [19] 	1,422,422
<ul style="list-style-type: none"> Permanent transfer to capital stock of advances on future increases in capital contributions relating to Cartesia [100] and CAF Italia 2000 [1]. 	101
<ul style="list-style-type: none"> Reclassification of long-term receivable from Bitel to investment [259,981] and acquisition of investments in IMMSI through a partial demerger of Sirti [45,574]. 	305,555
<ul style="list-style-type: none"> Acquisition of investment in Tin.it following demerger and contribution of business segments and investments relating to operation and marketing of online services and products. 	50,965
Total increases [A]	2,176,606

[in millions of lire]

Decreases:

<ul style="list-style-type: none"> Disposals of shares/quotas in: Bitel [259,981], IMMSI [9,229], Edotel [80], Teleleasing [14], Consorzio Promotore ISDN in liquidation [229], Consorzio Multimediale di Terni [1,750], Sistemi e Telematica [420], TSP [7,023], Accel [550], Intelsat [30,270], Media Technology Venture [800], The Fantastic Corporation [548]. 	310,894
<ul style="list-style-type: none"> Writedown for losses of investments charged to statement of income of: Iridium Italia [4,200], Stream [179,321], TMI - Telemedia International Italia [78,090], Tin. it formerly Savigliano Immobiliare [6], Consorzio Civita [12]. 	261,629
<ul style="list-style-type: none"> Writedown for losses of investments covered by the reserve for risks and charges on investments of: Iridium Italia [14,006], Stream [20,205], N.TC in liquidation [1,321], Edotel [11,629], Czechtel in liquidation [21], Consorzio CIMSC [9], Reseau [1,538]. 	48,729
<ul style="list-style-type: none"> Reduction of investment in Sirti following the partial demerger and formation of IMMSI. 	45,574
<ul style="list-style-type: none"> Contribution to Tin.it of the investments in Esri Italia [245] and Excite Italia B.V. [44]. 	289
Total decreases [B]	667,115
Net change for the period [A-B]	1,509,491

In particular:

- subsequent to the resolutions of the extraordinary shareholders' 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;
- 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 shareholders' meeting of the company acquired the previous February 29. The same shareholders' meeting passed a resolution to transform the company from a limited liability company to a joint stock company and change the registered name to Tin.it S.p.A.. Also on the same date, a second capital increase was voted for Lire 40 billion by the contribution 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. After these transactions, Telecom Italia held a 96.78% stake in Tin.it, corresponding to a carrying value of Lire 51,965 million;
- during the first half Telecom Italia and News Television purchased, by subscriptions to capital increases and acquisitions, a 50-50 stake in the investments held by Cecchi Gori group and Sds in Stream. After this transaction, Telecom Italia's stake in Stream rose from 35% to 50%;
- during the month of April, Telecom Italia purchased 50 million of TIM ordinary shares at a price of Lire 1,230,947 million, in order to strengthen its own interest in the company;
- 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 not written down but 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 June 30, 2000 and their carrying value shows an unrealized gain of Lire 81,694 billion. Further details are given in Annex 10.

Advances on future increase in capital contributions to investments, of Lire 9,500,251 million, increased by Lire 890,161 million compared to December 31, 1999, due to the non-interest bearing loans on the future increase in capital contributions made during the year to the Stet International Netherlands and Stet Mobile Holding [respectively, for Lire 521,934 million and Lire 368,327 million], for the acquisition of foreign holdings.

The loans under long-term investments decreased by Lire 1,207,401 compared to December 31, 1999, and are analyzed as follows:

	12/31/1999	Change during the period				6/30/2000
		Disbursements	Reimbursements	Reclassifications/ Other	Total	
[in millions of lire]						
Subsidiaries	1,300,011	9,611	[962,918]	[249,890]	[1,203,197]	96,814
Other borrowers	404,502	36,338	[42,922]	2,380	[4,204]	400,298
Totale	1,704,513	45,949	[1,005,840]	[247,510]	[1,207,401]	497,112

Loans to subsidiaries, of Lire 96,814 million, consist exclusively of loans made at market rates to the company Telespazio; loans to subsidiaries decreased by Lire 1,203,197 million mainly on account of the loans repaid by Teleleasing following the sale to Mediobanca of a 60% interest.

Loans to other borrowers mainly include the prepayment of the tax on the reserve for employee termination indemnities [Lire 235,156 million] required under Law No. 662/1996 and adjusted for inflation according to law, loans granted to personnel [Lire 88,297 million] and the loan made to Ros Telecom [Lire 47,363 million] for the installation of the ITUR submarine optical cable linking Italy, Turkey, Ukraine and Russia.

Treasury shares [Lire 325,604 million] were purchased following the public purchase offer for the buy-back of treasury savings shares authorized by the ordinary shareholders' meeting of January 14, 2000 and carried out from February 17, 2000 to March 17, 2000 [No. 1,793,820 shares] and the subsequent buy-backs [No. 24,253,000 shares] decided by the same shareholders' meeting. A specific reserve was set up under shareholders' 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 June 30, 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 Public Offering under Decree of August 8, 1997 by the President of the Council of Ministers.

Current assets

Inventories

Lire 272,471 million

[Lire 233,028 million at December 31, 1999]

These increased by Lire 39,443 million compared to December 31, 1999 and include the following:

Contract work in process

Lire 69,871 million

This item, which increased by Lire 15,891 million compared to December 31, 1999, represents the value of the work being performed on behalf of third parties at June 30, 2000.

Merchandise

Lire 202,600 million

Merchandise includes goods held for resale and used for maintenance [telephone products and materials] and shows an increase of Lire 23,552 million compared to December 31, 1999.

Accounts receivable

Lire 12,325,875 million

[Lire 15,401,138 million at December 31, 1999]

Trade accounts receivable decreased by Lire 3,075,263 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	Change during the period			6/30/2000
		Utilizations	Provisions	Change	
Trade accounts receivable	10,136,833			[801,877]	9,334,956
• allowance for doubtful accounts	[728,000]	148,865	[143,865]	5,000	[723,000]
Total	9,408,833			[796,877]	8,611,956
Receivables from subsidiaries	2,978,004			[474,836]	2,503,168
of which financial receivables	2,083,785			[764,145]	1,319,640
Receivables from affiliated companies	405,401			93,020	498,421
of which financial receivables	64,789			51,718	116,507
Receivables from parent companies	2,484			[1,534]	950
Miscellaneous receivables	2,606,416			[1,895,036]	711,380
• Government and other public entities for grants and subsidies	250			=	250
• accrued dividends from subsidiaries	1,511,007			[1,511,007]	=
• deferred tax assets	345,483			[345,483]	=
• other receivables	749,676			[38,546]	711,130
Total	15,401,138			[3,075,263]	12,325,875

In particular:

- *trade accounts receivable*, of Lire 8,611,956 million, are shown net of the allowance for doubtful accounts [Lire 723,000 million, of which Lire 143,865 million was charged during the period];
- *receivables from subsidiaries and affiliated companies* amount to Lire 3,001,589 million and refer to the financial, trade and other items.

The financial receivables [Lire 1,436,147 million] reflect current account transactions carried out at market rates for cash management purposes and short-term loans granted to the companies of the Group. The main loans are receivable from Finsiel [Lire 322,111 million], Telespazio [Lire 268,617 million] and Sogei [Lire 183,352 million].

Most of the trade receivables of [Lire 1,221,134 million] are receivable from TIM [Lire 338,340 million], Telespazio [Lire 209,592 million] and Telecom Argentina [Lire 128,723 million].

Other [Lire 344,308 million] represent primarily amounts owed in connection with the Group's VAT settlement system;

- *other receivables*, of Lire 711,380 million, are related to personnel, Tax Administration receivables, amounts paid by customers and in transit with the banking system and other sundry items.

Short-term financial assets

Lire 538,602 million

[Lire 119,207 million at December 31, 1999]

These increased by Lire 419,395 million compared to December 31, 1999 and the composition and changes during the period are shown in the following table:

	12/31/1999	Change during the period				6/30/2000
[in millions of lire]		Investments	Sales / Reimburse- ments	Writedowns / Reversal of Writedown	Total	
Investments in subsidiaries	108,813	439,230	[166,128]	[53,675]	219,427	328,240
Investments in affiliated companies	=	139,199	[139,199]	=	=	=
Other investments	10,394	47,533	[623]	[3,250]	43,660	54,054
Other securities	=	156,308	=	=	156,308	156,308
Total	119,207	782,270	[305,950]	[56,925]	419,395	538,602

Investments in subsidiaries refer to listed shares purchased for later trading.

The net gain on sales of shares in subsidiaries and other companies, totaling Lire 44,055 million, refers mainly to TIM [Lire 43,319 million].

A comparison between the market prices of listed shares in portfolio at June 30, 2000 and their carrying value shows an unrealized gain of Lire 17,561 million.

Further details are given in Annex 10.

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 11.

LIABILITIES AND STOCKHOLDERS' EQUITY

Stockholders' equity

Lire 36,945,531 million

[Lire 35,577,763 million at December 31, 1999]

The table below shows the changes that occurred during the period:

	12/31/1999	Change during the period				6/30/2000
[in millions of lire]		Appropriation of 1999 net income	Other changes	Net income for period	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	=	=	=	=	4,805,725
• Law No. 413 of 12/30/1991	908,093	=	=	=	=	908,093
Legal reserve	762,267	=	=	=	=	762,267
Reserve for treasury shares in portfolio	=	=	325,604		325,604	325,604
Miscellaneous reserves:						
• reserve for accelerated depreciation	1,487,794	=	=	=	=	1,487,794
• special reserve	3,627,806	=	[325,604]	=	[325,604]	3,302,202
• reserve for capital grants	852,913	=	16,018	=	16,018	868,931
• other reserves	7,165,723	=	=	=	=	7,165,723
Net income for the year 1999	5,050,363	=	=	=	=	5,050,363
Net income for the period	=	=	=	1,351,750	1,351,750	1,351,750
Total stockholders' equity	35,577,763	=	16,018	1,351,750	1,367,768	36,945,531

In particular:

- *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;
- the *reserve for treasury shares* in portfolio of Lire 325,604 million has been set up in respect of the public purchase offer for treasury savings shares, to which reference should be made under the specific caption in assets. The amount at June 30, 2000 was reclassified from the extraordinary reserve;
- the *reserve for capital grants* increased by Lire 16,018 million and refers to the transfer, from the "reserves for risks and charges", of a portion of the capital grants to which the company was entitled at December 31, 1992 which became available in the six-month period in relation to the depreciation of the assets to which the grants refer.

Stockholders' equity at June 30, 2000 includes the 1999 dividends [Lire 4,499,017 million], voted by the shareholders' meeting of July 3, 2000 and payable from July 27, 2000.

Reserves for risks and charges

Lire 2,157,054 million

[Lire 1,242,208 million at December 31, 1999]

These increased by Lire 914,846 million compared to December 31, 1999. The composition and changes in these reserves are described as follows:

	12/31/1999	Changes during the period				6/30/2000
[in millions of lire]		Provisions	Utili- zations	Released to statement of income	Reclassi- fication/ Other	Total
Reserve for taxes	254,498	1,273,044	[711]	=	[364,911]	907,422
Other reserves:	987,710	143,041	[119,599]	=	[16,018]	7,424
Reserve for litigation	257,694	5,178	[6,339]	=	=	[1,161]
Reserve for capital grants	284,653	=	=	=	[16,018]	[16,018]
Reserve for losses of subsidiaries and affiliates	49,438	36,557	[48,729]	=	=	[12,172]
Reserve for contractual risks and other risks	395,925	101,306	[64,531]	=	=	36,775
Total	1,242,208	1,416,085	[120,310]	=	[380,929]	914,846

In particular:

- the *reserve for taxes* increased by Lire 907,422 million mainly on account of the provision for income taxes of the period and the set-off of deferred tax assets recorded in the financial statements at December 31, 1999;
- *other reserves* increased by Lire 7,424 million as a result of various movements that refer mainly to the “reserve for losses of subsidiaries and affiliates” [provisions for the losses in the first half of 2000 and utilizations to cover the losses for the year ended December 31, 1999, mainly for Edotel and Iridium Italia] and the “reserve for contractual risks and other risks” [mainly for provisions connected with the settlement of disputes and utilizations to cover the retroactive application of the 1999 interconnecting rates].

Reserve for employee termination indemnities

Lire 2,285,044 million

[Lire 2,163,171 million at December 31, 1999]

This item increased by Lire 121,873 million compared to December 31, 1999. The following changes took place in the account:

[in millions of lire]	
Balance at 12/31/1999	2,163,171
Changes during the period:	
- 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 by Law No. 297/1982	172,994
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	[28,008]
• Advances under Law No. 297/1982	[17,455]
• Amounts transferred to/from subsidiaries and other changes	[5,658]
Balance at 6/30/2000	2,285,044

Liabilities

Lire 29,362,909 million

[Lire 34,457,494 million at December 31, 1999]

Liabilities, which decreased by Lire 5,094,585 million compared to December 31, 1999, include the following:

[in millions of lire]	6.30.2000			12.31.1999		
	Loans payable	Trade accounts payable and miscellaneous payables	Total	Loans payable	Trade accounts payable and miscellaneous payables	Total
Debentures	683,536	=	683,536	824,914	=	824,914
Due to banks	10,080,512	=	10,080,512	12,422,073	=	12,422,073
Due to other lenders	1,393,104	=	1,393,104	1,609,805	=	1,609,805
Advances	=	1,714	1,714	=	1,862	1,862
Accounts payable to suppliers	=	4,980,387	4,980,387	=	6,187,988	6,187,988
Accounts payable to subsidiaries	1,965,922	2,411,360	4,377,282	3,343,202	2,835,348	6,178,550
Accounts payable to affiliated companies	23,277	370,370	393,647	6,426	369,617	376,043
Accounts payable to parent companies	=	3,859	3,859	=	4,568	4,568
Taxes payable	=	1,861,570	1,861,570	=	928,685	928,685
Contributions to pension and social security institutions	=	1,663,570	1,663,570	=	1,709,281	1,709,281
Other liabilities	29,266	3,894,462	3,923,728	41,738	4,171,987	4,213,725
Total	14,175,617	15,187,292	29,362,909	18,248,158	16,209,336	34,457,494

In particular:

- *debentures*, of Lire 683,536 million, include the 1992/2010 debenture issue voted by the extraordinary stockholders' meeting of the former company Sip 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;
- *due to banks*, of Lire 10,080,512 million, refers to:
 - medium/long-term debt for Lire 6,982,234 million, of which Lire 72,000 million is secured by collateral;
 - short-term borrowings for Lire 3,098,278 million, of which Lire 24,000 million is secured by collateral, consisting of Lire 2,008,360 million in loans taken out to cover temporary liquidity requirements and Lire 1,089,918 million in bank overdrafts;
- *due to other lenders*, of Lire 1,393,104 million, represents medium/long-term loans received from Cassa Depositi e Prestiti [Lire 943,739 million] and amounts due to Iri [Lire 449,365 million];
- *accounts payable to suppliers*, of Lire 4,980,387 million, include amounts assigned by some suppliers to credit institutions, factoring companies, etc.. They also comprise payables to other TLC carriers amounting to Lire 956,517 million;
- *accounts payable to subsidiaries and affiliated companies*, of Lire 4,770,929 million, mainly refer to financial, trade and other items. Financial payables [Lire 1,989,199 million] relate to current account transactions negotiated at market rates for cash management purposes, principally with TIM [Lire 892,178 million] and Saiat [Lire 659,782 million].

Trade accounts payable [Lire 2,702,747 million] mainly refer to payables to TIM [Lire 749,546 million], Sirti [Lire 242,192 million], Telesoft [Lire 277,404 million] and Italtel [Lire 577,041 million].

Other payables [Lire 78,983 million] primarily refer to capital contributions paid to the subsidiary Path.Net [Lire 34,996 million] and the affiliated company Fintech [Lire 10,500 million] and amounts owed in connection with the Group's VAT settlement system;

- *taxes payable*, of Lire 1,861,570 million, refer to the VAT liability [Lire 1,285,363 million] and IRPEG and IRAP taxes payable for 1999 [Lire 451,275 million];
- *contributions to pension and social security institutions*, of Lire 1,663,570 million, include amounts owed to social security and health institutions with regard to personnel;
- *other liabilities*, of Lire 3,923,728 million, include, in particular:
 - payables to the Postal Administration for its portion of telecommunications service revenues billed by Telecom Italia to customers, totaling Lire 23,431 million;
 - payables to customers totaling Lire 2,032,249 million, including deposits, pre-billed basic charges and the unused portions of prepaid magnetic telephone cards;
 - payables to employees amounting to Lire 999,719 million;
 - payables for the operating fee totaling Lire 536,390 million.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 12.

MEMORANDUM ACCOUNTS

Starting from these six-month financial statements, the recording and presentation of memorandum accounts has been partly changed. In particular:

- guarantees provided are presented net of counter-guarantees received;
- financial derivative contracts are only presented in the notes.

Memorandum accounts totaled Lire 23,718,370 million and can be analyzed as follows:

Guarantees provided***Lire 4,563,381 million***

Guarantees provided consist of sureties, including Lire 1,990,496 million on behalf of subsidiaries – mainly on debentures issued by Softe, other medium/long-term financial transactions and supply contracts – and Lire 3,696,415 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 1,146,313 million].

Guarantees also include Lire 22,783 million of counter-guarantees provided by Telecom Italia on behalf of third parties [Siemens A.G.].

Purchase and sale commitments***Lire 19,136,361 million***

This item consists almost entirely of purchase commitments for Seat Pagine Gialle shares [Lire 18,064,332 million] undertaken as part of the merger between Tin.it and Seat, following both the take-over bid for Seat shares by Telecom Italia during the period May 8-26, 2000 [Lire 4,620,409 million], the agreement with the shareholders of Huit II that holds a stake in Seat [Lire 12,944,985 million] and finally the agreement with JP Morgan aimed at the potential purchase of Seat shares held by JP Morgan [Lire 498,938 million].

Other memorandum accounts***Lire 18,628 million***

These mainly refer to assets of third parties received free on loan, on deposit for safekeeping or for similar purposes [Lire 12,488 million] and the Great Jubilee Year 2000 licensing agreement [Lire 4,063 million], equal to the minimum guaranteed amount not yet been covered by the marketing of telephone cards which bear a "Joint Logo" with the Jubilee Year 2000 Committee.

* * *

The Company issued letters of patronage totaling Lire 2,309,485 million, chiefly on behalf of subsidiaries and affiliated companies for insurance policies, lines of credit and overdraft arrangements.

Assets of third parties received free on loan, on deposit for safekeeping or for similar purposes amounted to Lire 592,957 million and consist mainly of equipment leased to customers.

Guarantees received from others on behalf of Group companies, which consist primarily of sureties granted to guarantee the performance of non-financial contractual obligations total Lire 305,920 million.

The stock of employees and private stockholders deposited at Telecom Italia at June 30, 2000, and hence subdeposited with Monte Titoli S.p.A., equals Lire 629,369 million

Derivatives, equal to the notional amount of the contracts stipulated to hedge interest and/or exchange risks on debt, amount to Lire 4,357,623 million [Lire 4,332,516 million for long-term transactions].

Bonds set aside for subscription by corporate employees are equal to Lire 316,464 million.

Financial derivatives

The financial derivative contracts negotiated by the Company are used to hedge interest rate and exchange rate risk exposure.

During the first half of 2000 the Company continued to convert indexed loans at “domestic parameters” [Rendint, Rendibot, Rolint, Robot] into loans using the Euribor 6M parameter. Today, this makes it possible to have a more “liquid” and manageable debt portfolio, also for additional possible hedges.

Financial derivative contracts undertaken to hedge medium/long-term debt positions outstanding at June 30, 2000 are indicated in the following table.

[in billions of lire]	Notional amount/ Capital exchanged at 6/30/2000	Market value of derivatives at 6/30/2000 [*]	Market value of underlying debt positions at 6/30/2000 [*]	Market value of debt including related derivatives at 6/30/2000 [*]
<i>Interest rate swap</i>	3,496	58	-3,581	-3,460
<i>Zero cost collar</i>	81	0	-81	-81
<i>Cross currency and interest rate swap</i>	755	47	-781	-734

[*] The minus sign signifies a debt, while no sign indicates market value favorable to the Group [savings].

Interest rate swap and *zero cost collars* 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, limited instead 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 *cross currency swaps* and *interest rate swaps* 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. 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 June 30, 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						Total
	By the end of 2000	2001	2002	2003	2004	Beyond	
<i>Interest rate swap:</i>							
Fixed pay rate:							
• notional amount [billions of lire]	122	125	300	1,100	71	58	1,776
• weighted average pay rate	4.39%	3.80%	4.65%	3.92%	4.25%	4.71%	4.11%
• weighted average receive rate	Libor 3M euro	Libor 3M euro	Libor 3M euro	Libor 3M euro	Libor 3M euro	Libor 3M euro	Libor 3M euro
Variable pay rate:							
• notional amount [billions of lire]	-	-	-	28	603	1,089	1,720
• paid parameter					Euribor 6M	Euribor 6M	
• received parameter					Rendint Rendibot Rolint Robot	Rendint Rendibot Rolint Robot	

Zero cost collars include two contracts with an initial notional value of Lire 136 billion each, with maturity in 2000.

The *cross-currency* and *interest rate swaps* allow variable rates in pounds sterling to be converted into fixed or variable rates in Euro.

STATEMENTS OF INCOME

Sales and service revenues

Lire 16,909,552 million

[Lire 18,016,405 million in the first half of 1999]

Breakdown of “sales and service revenues” by type of business

[in millions of lire]	1 st half 2000	1 st half 1999	Change
Sales:			
- telephone products	386,307	417,573	[31,266]
- other goods	5,988	4,375	1,613
	392,295	421,948	[29,653]
Services:			
- Traffic [*]	9,480,206	11,016,488	[1,536,282]
- Basic charges [of which]:	6,281,630	5,712,007	569,623
• lines leased to TLC operators	771,763	443,776	327,987
- Activation fees	238,872	222,192	16,680
- Consulting and co-ordination fees	126,549	113,519	13,030
- Miscellaneous services and other revenues	390,000	530,251	[140,251]
	16,517,257	17,594,457	[1,077,200]
Total	16,909,552	18,016,405	[1,106,853]

[*] of which:

[in millions of lire]	1 st half 2000	1 st half 1999	Change
• Traffic from Telecom Italia customers:			
- domestic	6,973,741	8,494,856	[1,521,115]
- outgoing non-domestic	732,176	848,522	[116,346]
- special services and other	417,890	488,935	[71,045]
	8,123,807	9,832,313	[1,708,506]
• Traffic from other operators:			
- domestic	687,487	493,971	193,516
- foreign correspondents	668,912	690,204	[21,292]
	1,356,399	1,184,175	172,224

Breakdown of “sales and service revenues” by geographic region

[in millions of lire]	International revenues [incoming services]	Italian revenues [outgoing services]	Total
EUROPE	421,639	578,411	1,000,050
OTHER AREAS	259,087	451,228	710,315
	680,726	1,029,639	1,710,365
ITALY			15,199,187
Total			16,909,552

Note that, as stated in the summary of accounting policies, revenues are shown gross of Lire 2,988,286 million due to other carriers [Lire 3,224,757 million in the first half of 1999].

Raw materials, supplies and merchandise

Lire 542,971 million

[Lire 552,588 million in the first half of 1999]

These refer mainly to the expenses for the sale of telecommunications products and systems, supplies of materials and other goods purchased for operating purposes.

Services

Lire 5,423,411 million

[Lire 5,592,849 million in the first half of 1999]

Services include the following:

[in millions of lire]	1 st half 2000	1 st half 1999	Change
Direct service costs	719,686	676,285	43,401
Operating costs	926,886	1,137,629	[210,743]
Marketing costs	635,864	398,848	237,016
Know-how development costs	152,689	155,330	[2,641]
Amounts due to other carriers	2,988,286	3,224,757	[236,471]
Total	5,423,411	5,592,849	[169,438]

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;
- b] "operating costs" refer to the operating and maintenance costs of buildings, vehicles, information systems and equipment, as well as overheads;
- c] "marketing costs" include selling expenses, post-sales assistance, customer relations, advertising and promotion; in particular, they include Lire 291,227 million [Lire 138,714 million in the first half of 1999] relating to "institutional" campaigns, individual product and service advertising and promotion expenses and costs deriving from commercial agreements with the Internet Service Providers for Lire 27,238 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 2,074,643 million due to Italian mobile carriers, Lire 551,153 million to foreign correspondents, Lire 169,959 million to the service providers Audiotel and Videotel and Lire 192,531 million to other national fixed-line telephone carriers.

Use of property not owned

Lire 402,112 million

[Lire 416,155 million in the first half of 1999]

Use of property not owned includes mainly "direct service costs" of Lire 243,307 million [for the lease of TLC circuits and the use of satellite systems] and "operating costs" of Lire 157,325 million [for building rentals, property and vehicle leases and equipment rentals].

Financial income and expense

-Lire 22,350 million

[- Lire 283,320 million in the first half of 1999]

This item shows a net financial expense balance of Lire 22,350 million and an improvement of Lire 260,970 million compared to the first half of 1999. The balance can be analyzed as follows:

[in millions of lire]	1 st half 2000	1 st half 1999	Change
Income from investments [A]	226,028	64,755	161,273
Other financial income [B]	158,390	143,802	14,588
Interest and other financial expense [C]	406,768	491,877	[85,109]
Total [A+B-C]	[22,350]	[283,320]	260,970

Income from investments refers to the following:

[in millions of lire]	1 st half 2000	1 st half 1999	Change
Dividends from subsidiaries, affiliates and other companies	130,131	47,775	82,356
Other income from investments:			
• tax credits for dividends	19,177	3,422	15,755
• gains on sales of investments	76,720	95,897	13,558
	16,980	63,162	78,917
Total	226,028	64,755	161,273

Other financial income includes the following:

			1 st half 2000	1 st half 1999	Change
[in millions of lire]	Included in long-term investments	Included in current assets	Total		
Interest and fees on:					
– loans to:					
subsidiaries	13,326	38,696	52,022	57,652	[5,630]
affiliated companies	41	3,260	3,301	13,408	[10,107]
other borrowers	8,590	1	8,591	10,125	[1,534]
– banks and the Postal Administration	=	8,711	8,711	8,570	141
– securities	=	2,652	2,652	148	2,504
	21,957	53,320	75,277	89,903	[14,626]
Foreign exchange gains			46,001	14,898	31,103
Other			37,112	39,001	[1,889]
Total			158,390	143,802	14,588

Interest and other financial expense can be analyzed as follows:

			1 st half 2000	1 st half 1999	Change
[in millions of lire]	Medium/ long-term	Short-term	Total		
Interest, premiums and other similar charges on debentures	9,828	=	9,828	16,514	[6,686]
Interest and fees on loans due to banks	154,504	45,841	200,345	302,460	[102,115]
Interest and fees on loans due to other lenders	48,546	=	48,546	59,998	[11,452]
Interest on loans due to suppliers	=	29	29	371	[342]
Interest and fees on loans to subsidiaries	=	66,250	66,250	35,357	30,893
Interest and fees on loans to affiliated companies	=	165	165	811	[646]
Interest on other loans	=	1,061	1,061	687	374
	212,878	113,346	326,224	416,198	[89,974]
Foreign exchange losses			24,507	53,802	[29,295]
Accrued portion of discounts and similar charges on debenture issues			614	669	[55]
Other			55,423	21,208	34,215
Total			406,768	491,877	[85,109]

Extraordinary income and expense

-Lire 508,784 million

[-Lire 365,968 million in the first half of 1999]

This item shows a net expense balance of Lire 508,784 million, with an increase of Lire 142,816 million compared to first half of 1999.

Income [Lire 29,816 million], due to non-recurring items, increased by Lire 6,850 million over the corresponding period of 1999.

Expense [Lire 538,600 million] increased by Lire 149,666 million compared to the first half of 1999. Such increase is mainly due to expenses connected with corporate restructuring activities of Lire 222,144 million [Lire 47,453 million in the first half of 1999] and the portion for the first half [Lire 72,000 million] regarding the extraordinary contribution to INPS as a result of the abolition [as established by the 2000 Finance Bill], starting from January 1, 2000, of the Telephone Employees Pension Fund [FPT] and the transfer of the employee positions to the general "Employees Pension Fund" as from January 1. The contribution is due to INPS for the years 2000-2002 to meet the higher financial requirements covered by the rules of the fund that was abolished.

OTHER INFORMATION

Introduction of the euro

The expenses borne during the first half for the introduction of the euro currency total some Lire 1.4 billion, of which Lire 1.1 billion was charged to the statement of income [in *Production cost* under *Services*, as it refers to services rendered to adapt and upgrade 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].

Workforce

The workforce numbered 74,566 units at June 30, 2000 [74,618 units taking into account the 52 units under temporary work contracts which were not present at December 31, 1999] compared to 76,113 units at the end of 1999. Expressing such numbers in terms of the average equivalent number of employees, the following breakdown is obtained, by category, at the end of the period, compared to June 30, 2000 and December 31, 1999:

Average equivalent workforce	1 st half 2000	1 st half 1999	Year 1999
Executives	1,081	1,116	1,113
Middle management	5,030	5,082	5,105
Clerical staff	56,091	58,445	58,318
Technicians	11,769	12,936	12,648
Total	73,971	77,579	77,184

The following Annexes numbered 9 to 12, together with the financial statements expressed in euros, are an integral part of these notes.

LONG-TERM INVESTMENTS AND ADVANCES AGAINST FUTURE CAPITAL INCREASES OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/1999				Changes during the period						6/30/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases/ Subscriptions	Reclassi- fications	Disposals	Writedowns [-]/ Reinstatements of value [+]	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
[in millions of lire]														
Investments in subsidiaries														
ATESIA	7,177	-	-	7,177	-	-	-	-	-	-	7,177	-	-	7,177
BITEL PARTECIPACOES	-	-	-	-	-	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
IMMSI	-	-	-	-	-	45,574	[9,229]	-	-	36,345	8,827	27,518	-	36,345
IREOS [in liquidation]	200	-	[200]	-	-	-	-	-	-	-	200	-	[200]	-
IRIDIUM ITALIA	63,004	-	[63,004]	-	14,006	[14,006]	-	[4,200]	4,200	-	4,200	-	[4,200]	-
MEIE ASSICURAZIONI	-	-	-	-	-	-	-	-	-	-	-	-	-	-
N.T.C. [in liquidation]	1,476	-	[1,476]	-	1,321	[1,321]	-	-	-	-	-	-	-	-
PATH.NET	49,995	-	-	49,995	-	-	-	-	-	-	49,995	-	-	49,995
RESEAU	5,400	-	[5,400]	-	1,538	[1,538]	-	-	300	300	300	-	-	300
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
EDOTEL [ex SIDAC]	247	-	[247]	-	11,629	[11,629]	[80]	-	200	120	120	-	-	120
SIRTI	32,041	99,882	-	131,923	-	[45,574]	-	-	-	[45,574]	20,972	65,376	-	86,348
SODALIA	8,012	-	[98]	7,914	-	-	-	-	-	-	8,012	-	[98]	7,914
SOFT	11,390	73,686	-	85,076	-	-	-	-	-	-	11,390	73,686	-	85,076
STET INTERNATIONAL	1,511,046	-	[103,662]	1,407,384	-	-	-	-	-	-	1,511,046	-	[103,662]	1,407,384
STET INTERNATIONAL														
NETHERLANDS	1,128,771	-	[44,916]	1,083,855	-	-	-	-	-	-	1,128,771	-	[44,916]	1,083,855
STET MOBILE														
HOLDING	325,800	-	-	325,800	-	-	-	-	-	-	325,800	-	-	325,800
TECNITEL [in liquidation]	983	-	-	983	-	-	-	-	-	-	983	-	-	983
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	1,230,947	-	-	-	-	1,230,947	4,410,899	162,926	-	4,573,825
TELECOM ITALIA														
of NORTH AMERICA	6,941	-	[3,217]	3,724	-	-	-	-	-	-	6,941	-	[3,217]	3,724
TELELEASING	49	-	-	49	-	[35]	[14]	-	-	[49]	-	-	-	-
TELEIMM	-	-	-	-	-	35	-	-	-	35	35	-	-	35
TELEPORTI ITALIA														
[in liquidation]	1,290	-	[44]	1,246	-	-	-	-	-	-	1,290	-	[44]	1,246
TELESOF	24,300	-	-	24,300	-	-	-	-	-	-	24,300	-	-	24,300
TELESPAZIO	196,000	-	-	196,000	-	-	-	-	-	-	196,000	-	-	196,000
TELSI	1,066,088	-	-	1,066,088	-	-	-	-	-	-	1,066,088	-	-	1,066,088
TI FRANCE	-	-	-	-	15	-	-	-	-	15	15	-	-	15
TI GERMANY	-	-	-	-	49	-	-	-	-	49	49	-	-	49
TI SWITZERLAND	-	-	-	-	25	-	-	-	-	25	25	-	-	25
TI UNITED KINGDOM	-	-	-	-	3	-	-	-	-	3	3	-	-	3
TI WEB	-	-	-	-	61	-	-	-	-	61	61	-	-	61
TIN.IT	-	-	-	-	51,965	-	-	[6]	6	51,965	51,965	-	-	51,965
TMI TELEMEDIA														
INTERNAT. ITALIA	167,528	-	[87,535]	79,993	-	-	-	[78,090]	87,512	9,422	167,528	-	[78,113]	89,415
TRAINET	1,336	-	[30]	1,306	-	-	-	-	-	-	1,336	-	[30]	1,306
Consorzio GRUPPO STET														
PER ITALIA 90 [in liquidation]	80	-	-	80	-	-	-	-	-	-	80	-	-	80
Consorzio ITINERA														
[in liquidation]	258	-	[131]	127	-	-	-	-	-	-	258	-	[131]	127
Consorzio PROMOTORE														
ISDN [in liquidation]	804	-	[575]	229	-	-	[229]	-	-	[229]	-	-	-	-
	8,684,380	364,463	[317,582]	8,731,261	1,312,559	231,487	[269,533]	[82,296]	92,218	1,284,435	9,899,867	357,475	[241,647]	10,015,695

[continued] Long-term investments and advances against future capital increases of subsidiaries and affiliated companies

	12/31/1999				Changes during the period						6/30/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases/ Subscriptions	Reclassi- fications	Disposals	Writedowns [-]/ Reinstatements of value [+]	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
[in millions of lire]														
Investments														
in affiliated companies														
ANCITEL	180	-	-	180	-	-	-	-	-	-	180	-	-	180
ASTELIT	2	-	[2]	-	-	-	-	-	-	-	2	-	[2]	-
CARTESIA	-	-	-	-	-	100	-	-	-	100	100	-	-	100
CENTRO MULTIMEDIALE														
DI TERNI	2,250	-	-	2,250	-	[500]	[1,750]	-	-	[2,250]	-	-	-	-
CYGENT INC.	4,888	-	-	4,888	4,501	-	-	-	-	4,501	9,389	-	-	9,389
CZECHTEL [in liquidation]	32	-	-	32	21	[21]	-	-	-	-	32	-	-	32
ESRI ITALIA	245	-	-	245	-	[245]	-	-	-	[245]	-	-	-	-
EUTELSAT	-	-	-	-	-	280,180	-	-	-	280,180	280,180	-	-	280,180
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	-	-	-	-	-	-	29,524	-	[18,000]	11,524
HUIT	98,958	-	-	98,958	-	-	-	-	-	-	98,958	-	-	98,958
ITALDATA	720	-	-	720	-	-	-	-	-	-	720	-	-	720
MED-1 Submarine Cables	9	-	-	9	-	-	-	-	-	-	9	-	-	9
NORTEL INVERSORA	37,010	-	-	37,010	-	-	-	-	-	-	37,010	-	-	37,010
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	253,651	84,795	-	[179,321]	-	159,125	280,503	-	[93,677]	186,826
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]	-	-	-	-	-	-	-	11	-	[11]	-
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	273,173	364,265	[9,193]	[179,321]	-	448,924	782,280	2,757	[119,050]	665,987

[continued] Long-term investments and advances against future capital increases of subsidiaries and affiliated companies

	12/31/1999				Changes during the period						6/30/2000			
	Cost	Upward adjust-ments	Write-downs	Balance sheet value	Purchases/ Subscriptions	Reclassi-fications	Disposals	Writedowns [-]/ Reinstatements of value [+]	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
[in millions of lire]														
Investments in other companies														
ACCEL	3,949	-	-	3,949	-	-	[550]	-	-	[550]	3,399	-	-	3,399
CAF ITALIA	-	-	-	-	-	1	-	-	-	1	1	-	-	1
CENTRO MULTIMEDIALE														
DI TERNI	-	-	-	-	-	500	-	-	-	500	500	-	-	500
EDINDUSTRIA	86	-	[12]	74	-	-	-	-	-	-	86	-	[12]	74
EFUSION	2,142	-	-	2,142	1,860	-	-	-	-	1,860	4,002	-	-	4,002
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
INMARSAT	19,061	-	-	19,061	-	-	-	-	-	-	19,061	-	-	19,061
INSULA	480	-	-	480	-	-	-	-	-	-	480	-	-	480
INTELSAT	68,927	-	-	68,927	-	-	[30,270]	-	-	[30,270]	38,657	-	-	38,657
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
MEDIA TECHNOLOGY VENTURE	7,523	-	-	7,523	-	-	[800]	-	-	[800]	6,723	-	-	6,723
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 COGEFO	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 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	88,000	[279,688]	[32,168]	[12]	-	[223,868]	161,061	-	[2,859]	158,202
Total long-term investments														
	9,421,751	367,220	[458,578]	9,330,393	1,673,732	316,064	[310,894]	[261,629]	92,218	1,509,491	10,843,208	360,232	[363,556]	10,839,884
Advances against future capital of subsidiaries and affiliated companies														
	8,610,090	-	-	8,610,090	2,244,603	[444]	-	-	-	2,244,159	10,854,249	-	-	10,854,249

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

June 30, 2000

June 30, 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 investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,036,629,012	20,460.57	82,591,729	1,107.74	4,471,535	19,352.83	78,120,194
- saving shares	305,439,248	10,269.98	3,136,855	334.89	102,290	9,935.09	3,034,565
	4,342,068,260		85,728,585		4,573,825		81,154,759
SIRTI	107,752,248	3,390.41	365,324	801.36	86,348	2,589.05	278,976
IMMSI	102,644,748	2,883.11	295,936	354.09	36,345	2,529.02	259,591
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	16,000,000	20,460.57	327,369	20,460.57	327,369	-	-
SIRTI	257,000	3,390.41	871	3,390.41	871	-	-
AT HOME	3,004	42,044.37	126	42,044.37	126	-	-
BROADBASE SOFTWARE	4,646	62,053.44	288	62,053.44	288	-	-
CISCO SYSTEMS	50,617	128,792.55	6,519	128,792.55	6,519	-	-
DIGITAL ISLAND	52,605	98,525.67	5,183	61,822.65	3,252	36,703.02	1,931
FOUNDRY NETWORKS	34,318	222,885.83	7,649	222,885.83	7,649	-	-
INTERWOVEN	9,090	222,854.22	2,026	216,066.43	1,964	6,787.79	62
MEDICAL LOGIC	44,698	18,742.67	838	18,742.67	838	-	-
NORTHPOINT COMMUNICATIONS	58,706	22,668.50	1,331	22,668.50	1,331	-	-
PORTAL SOFTWARE	321,221	129,425.75	41,574	96,413.51	30,970	33,012.24	10,604
REDBACK NETWORKS	16,752	362,949.31	6,080	66,642.41	1,116	296,306.90	4,964

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

[in millions of lire]	6/30/2000				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
Receivables in long-term investments								
subsidiaries	-	96,814	-	96,814	35,133	501,337	763,541	1,300,011
other borrowers								
• customers	1,499	387	-	1,886	1,465	378	-	1,843
• employees	14,383	57,470	16,444	88,297	18,028	55,201	10,822	84,051
• security deposits	1,049	7,731	2,627	11,407	672	1,132	9,936	11,740
• miscellaneous	87,520	211,188	-	298,708	95,441	211,427	-	306,868
	104,451	373,590	19,071	497,112	150,739	769,475	784,299	1,704,513
Receivables in current assets								
Other loans to								
subsidiaries	1,319,640	-	-	1,319,640	2,083,785	-	-	2,083,785
affiliated companies	116,507	-	-	116,507	64,789	-	-	64,789
other borrowers	620	-	-	620	8,190	-	-	8,190
	1,436,767	-	-	1,436,767	2,156,764	-	-	2,156,764
Trade accounts receivable								
customers	8,611,956	-	-	8,611,956	9,408,833	-	-	9,408,833
Subsidiaries	839,630	-	-	839,630	712,749	-	-	712,749
affiliated companies	381,504	-	-	381,504	335,837	-	-	335,837
parent companies	337	-	-	337	2,183	-	-	2,183
miscellaneous receivables due								
• Government and other public entities for grants and subsidies	250	-	-	250	250	-	-	250
	9,833,677	-	-	9,833,677	10,459,852	-	-	10,459,852
Other receivables								
subsidiaries	343,898	-	-	343,898	181,470	-	-	181,470
affiliated companies	410	-	-	410	4,775	-	-	4,775
parent companies	613	-	-	613	301	-	-	301
miscellaneous receivables								
• accrued dividends from subsidiaries	-	-	-	-	1,511,007	-	-	1,511,007
• deferred tax assets	-	-	-	-	187,810	157,673	-	345,483
• other	710,510	-	-	710,510	741,486	-	-	741,486
	1,055,431	-	-	1,055,431	2,626,849	157,673	-	2,784,522
Total accounts receivable	12,325,875	-	-	12,325,875	15,243,465	157,673	-	15,401,138
Accrued income	49,169	-	-	49,169	30,506	-	-	30,506

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

[in millions of lire]	6/30/2000				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
Long-term debt								
Debentures	-	-	683,536	683,536	-	-	824,914	824,914
Due to banks	1,402,485	5,260,483	319,266	6,982,234	1,468,254	5,621,387	503,244	7,592,885
Due to other lenders	330,592	788,541	273,971	1,393,104	339,086	1,001,265	269,454	1,609,805
	1,733,077	6,049,024	1,276,773	9,058,874	1,807,340	6,622,652	1,597,612	10,027,604
Short-term debt								
Due to banks	3,098,278	-	-	3,098,278	4,829,188	-	-	4,829,188
Accounts payable to subsidiaries	1,965,922	-	-	1,965,922	3,343,202	-	-	3,343,202
Accounts payable to affiliated companies	23,277	-	-	23,277	6,426	-	-	6,426
Other liabilities	29,266	-	-	29,266	41,738	-	-	41,738
	5,116,743	-	-	5,116,743	8,220,554	-	-	8,220,554
Trade payables [1]								
Accounts payable to suppliers	4,980,387	-	-	4,980,387	6,187,988	-	-	6,187,988
Accounts payable to subsidiaries	2,343,057	-	-	2,343,057	2,751,349	-	-	2,751,349
Accounts payable to affiliated companies	359,690	-	-	359,690	366,983	-	-	366,983
Accounts payable to parent companies	3,859	-	-	3,859	4,568	-	-	4,568
	7,686,993	-	-	7,686,993	9,310,888	-	-	9,310,888
Miscellaneous payables								
Accounts payable to subsidiaries	68,303	-	-	68,303	83,999	-	-	83,999
Accounts payable to affiliated companies	10,680	-	-	10,680	2,634	-	-	2,634
Taxes payable	1,861,570	-	-	1,861,570	928,685	-	-	928,685
Contributions to pension and social security institutions	291,803	469,520	902,247	1,663,570	337,514	469,520	902,247	1,709,281
Other liabilities	3,884,944	8,663	855	3,894,462	4,162,469	8,663	855	4,171,987
	6,117,300	478,183	903,102	7,498,585	5,515,301	478,183	903,102	6,896,586
Total liabilities [1]	20,654,113	6,527,207	2,179,875	29,361,195	24,854,083	7,100,835	2,500,714	34,455,632
Accrued expenses	161,416	-	-	161,416	147,674	-	-	147,674

[1] Does not include advances

ASSETS [in thousands of euros]

	6/30/2000	12/31/1999	6/30/1999
Receivables from stockholders for capital contributions	=	=	=
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Industrial patents and intellectual property rights	510,193	615,765	562,969
Permits, licenses, trademarks and similar rights	52,298	58,152	63,771
Goodwill	=	1,963	2,944
Work in progress and advances to suppliers	498,121	382,376	344,128
Other intangibles	90,854	108,221	126,605
	1,151,466	1,166,477	1,100,417
FIXED ASSETS			
Land and buildings	3,954,189	4,043,116	4,063,191
Plant and machinery	13,269,042	13,872,707	14,075,675
Manufacturing and distribution equipment	48,696	59,648	54,481
Other fixed assets	178,382	232,637	230,220
Construction in progress and advances to suppliers	615,618	652,873	650,630
	18,065,927	18,860,981	19,074,197
LONG-TERM INVESTMENTS			
Investments in subsidiaries	5,172,675	4,509,320	3,899,112
affiliated companies	343,954	112,103	277,458
other companies	81,704	197,323	181,137
	5,598,333	4,818,746	4,357,707
Advances on future increase in capital contributions to investments	4,906,470	4,446,741	3,876,885
Loans to subsidiaries	[•] = 50,000	[•] 18,145 671,399	[•] 22,397 601,571
other borrowers	53,944 206,737	59,705 208,908	18,306 214,733
	53,944 256,737	77,850 880,307	40,703 816,304
	=	=	1,800
Other securities			
Treasury shares (for an overall par value as at 6.30.2000) of 13,452 thousands of euro	168,160	=	=
	10,929,700	10,145,794	9,052,696
Total intangibles, fixed assets and long-term investments	30,147,093	30,173,252	29,227,310
Current assets			
INVENTORIES			
Contract work in process	36,085	27,878	51,707
Finished goods and merchandise merchandise	104,634	92,471	119,802
	140,719	120,349	171,509
ACCOUNTS RECEIVABLE	[• •]	[• •]	[• •]
Trade accounts receivable	= 4,447,704	= 4,859,257	= 5,025,209
Receivables from subsidiaries	= 1,292,778	= 1,538,011	= 1,940,066
Receivables from affiliated companies	= 257,413	= 209,372	= 470,314
Receivables from parent companies	= 491	= 1,283	= 759
Miscellaneous receivables due from Government and other public entities for grants and subsidies	= 129	= 129	= 129
accrued dividends from subsidiaries	= =	= 780,370	= =
deferred tax assets	= =	81,431 178,427	= =
other receivables	= 367,268	= 387,175	= 408,455
	= 367,397	81,431 1,346,101	= 408,584
	6,365,783	7,954,024	7,844,932
SHORT-TERM FINANCIAL ASSETS			
Investments in subsidiaries	169,522	56,197	62,551
Other investments	27,917	5,368	=
Other securities	80,726	=	=
	278,165	61,565	62,551
LIQUID ASSETS			
Bank and postal accounts	47,516	72,056	28,917
Checks	1	1	1
Cash and securities on hand	676	480	605
	48,193	72,537	29,523
Total current assets	6,832,860	8,208,475	8,108,515
Accrued income and prepaid expenses			
Discounts and similar charges on borrowings	1,533	1,851	2,238
Accrued income and other prepaid expenses	76,297	23,703	75,614
	77,830	25,554	77,852
TOTAL ASSETS	37,057,783	38,407,281	37,413,677

[•] Amounts due within one year [••] Amount due after one year

LIABILITIES AND STOCKHOLDERS' EQUITY [in thousands of euros]

	6/30/2000		12/31/1999		6/30/1999	
Stockholders' equity						
Share capital		3,835,290		3,835,290		3,832,757
Additional paid-in capital		1,802,911		1,802,911		1,772,129
Reserves for inflation adjustments under law No. 72 of 3.19.1983		2,481,950		2,481,950		2,481,950
law No. 413 of 12.30.1991		468,991		468,991		468,991
		2,950,941		2,950,941		2,950,941
Legal reserve		393,678		393,678		393,678
Reserve for treasury shares		168,160		=		=
Other reserves						
Reserve for accelerated depreciation		768,381		768,381		1,167,552
Special reserve		1,705,445		1,873,606		1,474,435
Reserve for capital grants		448,765		440,493		432,565
Miscellaneous reserves		3,700,787		3,700,787		3,700,787
		6,623,378		6,783,267		6,775,339
Retained earnings		2,608,295		=		=
Net income		698,121		2,608,295		808,656
		19,080,774		18,374,382		16,533,500
Reserves for risks and charges						
Reserves for taxes						
for taxes		600,082		131,437		853,939
for deferred taxes		=		=		=
		600,082		131,437		853,939
Other reserves		513,944		510,110		574,193
		1,114,026		641,547		1,428,132
Reserve for employee termination indemnities		1,180,127		1,117,185		1,110,920
Liabilities	[••]		[••]		[••]	
Debentures	353,017	353,017	426,033	426,033	463,457	463,457
Due to banks	2,881,700	5,206,150	3,163,108	6,415,465	3,302,353	5,827,131
Due to other lenders	548,742	719,478	656,271	831,395	719,478	934,335
Advances	=	885	=	961	=	1,043
Accounts payable to suppliers	=	2,572,155	=	3,195,829	=	2,617,754
Accounts payable to subsidiaries	=	2,260,677	=	3,190,955	=	1,974,322
Accounts payable to affiliated companies	=	203,302	=	194,210	=	332,778
Accounts payable to parent companies	=	1,993	=	2,359	=	396,285
Taxes payable	=	961,421	=	479,626	=	1,345,014
Contributions to pension and social security institutions	708,459	859,162	708,459	882,770	760,346	888,833
Other liabilities	4,916	2,026,436	4,916	2,176,207	6,905	3,049,934
	4,496,834	15,164,676	4,958,787	17,795,810	5,252,539	17,830,886
Accrued expenses and deferred income		518,180		478,357		510,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		37,057,783		38,407,281		37,413,677

[**] Amounts due after one year

[in thousands of euros]

	6/30/2000	12/31/1999	6/30/1999
Guarantees provided			
Sureties			
on behalf of subsidiaries	534,588	1,507,279	1,298,578
on behalf of affiliated companies	1,684,947	832,023	1,166,074
on behalf of outsiders	137,254	153,464	149,737
	2,356,789	2,492,766	2,614,389
Collateral provided	=	=	=
Purchase and sale commitments	9,883,106	1,179,460	1,094,499
Other memorandum accounts	9,621	2,910,081	1,888,294
TOTAL MEMORANDUM ACCOUNTS	12,249,516	6,582,307	5,597,182

[in thousands of euros]

	First half 2000	First half 1999	Year 1999
Production value			
Sales and service revenues	8,733,055	9,304,697	18,518,163
Changes in inventory of contract work in process	8,207	13,389	[10,440]
Increases in capitalized internal construction costs	6,369	6,094	13,671
Other revenues and income			
<i>operating grants</i>	471	1,339	1,362
<i>other</i>	148,785	208,299	388,230
	149,256	209,638	389,592
	8,896,887	9,533,818	18,910,986
Production cost			
Raw materials, supplies and merchandise	[280,421]	[285,388]	[606,407]
Services	[2,800,958]	[2,888,465]	[5,976,091]
Use of property not owned	[207,674]	[214,926]	[440,351]
Personnel			
<i>wages and salaries</i>	[1,088,502]	[1,132,080]	[2,217,110]
<i>social security contributions</i>	[343,992]	[366,078]	[716,771]
<i>termination indemnities</i>	[89,344]	[88,211]	[174,099]
<i>other costs</i>	[39,457]	[31,578]	[83,051]
	[1,561,295]	[1,617,947]	[3,191,031]
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	[255,523]	[260,635]	[647,232]
<i>depreciation of fixed assets</i>	[1,642,222]	[1,838,070]	[3,363,701]
<i>other writedowns of fixed assets</i>	=	=	[73,491]
<i>writedowns of receivables included in current assets and of liquid assets</i>	[74,300]	[95,798]	[206,084]
	[1,972,045]	[2,194,503]	[4,290,508]
Changes in inventory of raw materials, supplies and merchandise	12,164	21,976	[5,356]
Provisions for risks	[48,507]	[56,638]	[80,683]
Miscellaneous operating costs			
<i>losses on disposals of assets</i>	[10,222]	[21,977]	[106,633]
<i>license fee</i>	[157,625]	[208,855]	[390,296]
<i>miscellaneous operating costs</i>	[57,023]	[78,878]	[159,064]
	[224,870]	[309,710]	[655,993]
	[7,083,606]	[7,545,601]	[15,246,420]
Net production value	1,813,281	1,988,217	3,664,566
Financial income and expense			
Income from investments			
<i>dividends from subsidiaries</i>	11,501	1,108	1,014,647
<i>dividends from affiliated companies</i>	23,081	1,848	3,942
<i>dividends from other companies</i>	32,625	21,718	57,213
<i>other income from investments</i>	49,527	8,769	642,420
	116,734	33,443	1,718,222
Other financial income			
<i>loans included in long-term investments</i>			
<i>subsidiaries</i>	6,882	11,508	22,571
<i>affiliated companies</i>	21	=	=
<i>other borrowers</i>	4,436	5,229	9,163
	11,339	16,737	31,734
<i>securities, other than investments, included in long-term investments</i>	=	74	139
<i>securities, other than investments, included in current assets</i>	1,369	2	2
<i>other income</i>			
<i>interest and fees from subsidiaries</i>	19,985	18,267	40,619
<i>interest and fees from affiliated companies</i>	1,684	6,925	11,778
<i>interest and fees from others and miscellaneous income</i>	47,424	32,263	75,647
	69,093	57,455	128,044
	81,801	74,268	159,919
Interest and other financial expense			
<i>interest and fees paid to subsidiaries</i>	[34,215]	[18,260]	[36,383]
<i>interest and fees paid to affiliated companies</i>	[85]	[419]	[522]
<i>interest and fees paid to others and miscellaneous expenses</i>	[175,778]	[235,354]	[412,580]
	[210,078]	[254,033]	[449,485]
Totale preventi [oneri] finanziari	[11,543]	[146,322]	1,428,656

[CONTINUED] [in thousands of euros]

	First half 2000	First half 1999	Year 1999
Value adjustments on financial assets			
Writedowns of investments in subsidiaries, affiliated and other companies	[183,400]	[94,782]	[152,151]
	[183,400]	[94,782]	[152,151]
Total adjustments on financial assets	[183,400]	[94,782]	[152,151]
Extraordinary income and expense			
Income			
gains on disposals of assets	793	=	=
miscellaneous	14,606	11,861	36,817
	15,399	11,861	36,817
Expense			
taxes due for prior years	[3,804]	[1,402]	[2,905]
miscellaneous	[274,360]	[199,466]	[373,209]
	[278,164]	[200,868]	[376,114]
Total extraordinary items	[262,765]	[189,007]	[339,297]
Income before taxes	1,355,573	1,558,106	4,601,774
Income taxes			
current taxes	[657,452]	[749,450]	[1,682,496]
deferred taxes	=	=	[310,983]
	[657,452]	[749,450]	[1,993,479]
Net income	698,121	808,656	2,608,295

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		Capitale	Company capital	%
Telecommunications services					
ANCITEL S.p.A	Rome [Italy]	ITL	1,650,000,000	TELECOM ITALIA FINSIEL	10.91 9.09
ASTELIT Ltd.	Moscow [Russia]	RUR	500	TELECOM ITALIA	50.00
CONSULTELT S.p.A. in liquidation	Rome [Italy]	ITL	2,594,340,000	TELECOM ITALIA	100.00
IRIDIUM ITALIA S.p.A.	Rome [Italy]	ITL	14,000,000,000	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE	30.00 35.00 35.00
- IRIIDIUM SERVICES EUROPE Gmbh & Co.KG in liquidation	Dusseldorf [Germany]	DEM	29,000,000	IRIDIUM ITALIA	34.00
- IRIIDIUM SERVICES EUROPE VERWALTUNG GmbH	Dusseldorf [Germany]	DEM	50,000	IRIDIUM ITALIA	34.00
MED-1 SUBMARINE CABLES Ltd.	Ramat Gan [Israel]	ILS	100,000	TELECOM ITALIA	23.17
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 S.p.A.	Turin [Italy]	ITL	1,717,000,000,000	TELECOM ITALIA TELECOM ITALIA MOBILE	88.00 12.00
- STET INTERNATIONAL NETHERLANDS N.V.	Amsterdam [Holland]	NLG	996,381,900	TELECOM ITALIA STET INTERNATIONAL	41.18 58.82
- 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
- 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	70.00
- CZECH Communication Company A.S. in liquidation	Prague [Czech Rep.]	CZK	1,000,000	ETI	100.00
- INDIAN TELECOMMUNICATION HOLDING B.V.	Amsterdam [Holland]	NLG	30,300,000	STET INTERNATIONAL NETHERLANDS	100.00
- BHARTI TELENET Ltd.	New Delhi [India]	INR	2,000,000,000	STET INTERNATIONAL NETHERLANDS INDIAN TELECOMMUNICATION HOLDING	11.00 19.20
- BHARTI TELE-VENTURES Ltd.	New Delhi [India]	INR	500,000,000	STET INTERNATIONAL NETHERLANDS	20.00
- INELCOM SAN MARINO S.p.A.	San Marino	ITL	3,000,000,000	STET INTERNATIONAL NETHERLANDS	70.00
- TELEFONIA MOBILE SAMMARINESE S.p.A.	San Marino	ITL	150,000,000	INELCOM SAN MARINO	51.00

[continued] List of major equity holdings of Telecom Italia

Company name	Head office	Capitale	Company capital	%
- BROAD BAND SERVICE S.A.	San Marino	ITL 500,000,000	INTELCOM SAN MARINO	20.00
- MEDITERRANEAN NAUTILUS Ltd	Dublin [Irlanda]	Euro 2	STET INTERNATIONAL NETHERLANDS	100.00
- NETHERTELEC S.A.	Quito [Ecuador]	ECS 40,000,000	STET INTERNATIONAL NETHERLANDS	99.99
- STET FRANCE S.A.	Paris [France]	FRF 6,000,000	STET INTERNATIONAL NETHERLANDS	99.99
- MULTIMEDIA CABLE S.A.	Barcelona [Spain]	ESP 1,936,000,000	STET INTERNATIONAL NETHERLANDS	44.00
- SOLPART Participações S.A.	Rio de Janeiro [Brazil]	BRR 2,126,000,000	STET INTERNATIONAL NETHERLANDS	38.00
- NORCABLE S.A. In liquidation	Buenos Aires [Argentina]	ARP 12,000	STET INTERNATIONAL NETHERLANDS	33.33
- NETCO REDES S.A.	Madrid [Spain]	ESP 1,004,680,000	STET INTERNATIONAL NETHERLANDS	30.00
- ETEC S.A. – Empresa de telecomunicaciones de Cuba S.A.	Havana [Cuba]	USD 1,441,900,000	STET INTERNATIONAL NETHERLANDS	29.29
- TELEKOM SRBIJA a.d.	Belgrade [Serbia]	YUD 10,907,385,234	STET INTERNATIONAL NETHERLANDS	29.00
- AUNA – Operadores de telecomunicaciones S.A.	Barcelona [Spain]	ESP 53,333,330,000	STET INTERNATIONAL NETHERLANDS	28.67
- TELEKOM AUSTRIA A.G.	Vienna [Austria]	ATS 15,000,000,000	STET INTERNATIONAL NETHERLANDS	25.00
- CITEL – Corp. Interamericana de Telecomunicaciones S.A.	Monterrey [Mexico]	MXN 2,073,729,933	STET INTERNATIONAL NETHERLANDS	25.00
- MADRITEL COMUNICACIONES S.A.	Madrid [Spain]	ESP 15,000,000,000	STET INTERNATIONAL NETHERLANDS	23.00
- CABLE I TELEVISIO DE CATALUNYA S.A.	Barcelona [Spain]	ESP 17,513,000,000	STET INTERNATIONAL NETHERLANDS	22.50
- EUSKALTEL S.A.	Zamudio Bizkaia [Spain]	EUR 141,000,000	STET INTERNATIONAL NETHERLANDS	18.00
- ENTEL CHILE S.A.	Santiago [Chile]	CLP 367,045,650,291	STET INTERNATIONAL NETHERLANDS	25.63
- STET MOBILE HOLDING N.V.	Amsterdam [Holland]	NLG 321,898,300	TELECOM ITALIA TELECOM ITALIA MOBILE STET INTERNATIONAL	12.19 49.00 38.81
- BITEL PARTICIPAÇÕES S.A.	Rio de Janeiro [Brazil]	BRR 1,163,410,587	STET MOBILE HOLDING	99.99
- TELE CELULAR SUL PARTICIPAÇÕES S.A.	Curitiba [Brazil]	BRR 175,872,361	BITEL	51.79
- TELEPAR CELULAR S.A.	Curitiba [Brazil]	BRR 214,880,019	TELE CELULAR SUL	81.98
- TELESC CELULAR S.A.	Florianopolis [Brazil]	BRR 240,625,505	TELE CELULAR SUL	91.40
- CTMR CELULAR S.A.	Pelotas [Brazil]	BRR 21,251,912	TELE CELULAR SUL	81.32
- TELE NORDESTE CELULAR PARTICIPAÇÕES S.A.	Brasilia [Brazil]	BRR 108,942,588	BITEL	51.79
- TELEPISA CELULAR S.A.	Teresina [Brazil]	BRR 22,775,024	TELE NORDESTE CELULAR	97.88
- TELECEARA' CELULAR S.A.	Fortaleza [Brazil]	BRR 87,049,907	TELE NORDESTE CELULAR	85.28
- TELERN CELULAR S.A.	Natal [Brazil]	BRR 42,823,492	TELE NORDESTE CELULAR	92.57
- TELPA CELULAR S.A.	Joao Pessoa [Brazil]	BRR 42,268,922	TELE NORDESTE CELULAR	95.08
- TELPE CELULAR S.A.	Recife [Brazil]	BRR 108,688,266	TELE NORDESTE CELULAR	95.06
- TELASA CELULAR S.A.	Maceio [Brazil]	BRR 30,255,834	TELE NORDESTE CELULAR	97.39
- TIMNET.COM S.A.	San Paolo [Brazil]	R \$ 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

[continued] List of major equity holdings of Telecom Italia

Company name	Head office	Capitale	Company capital	%
- TIM PERU' S.A.C.	Lima [Perù]	Nuevo Soles 634,817,000	STET MOBILE HOLDING	100.00
- U-MOBIL B.V.	Amsterdam [Holland]	NLG 77,240,000	STET MOBILE HOLDING	100.00
- ASTELIT LLC	Kiev [Ukraine]	UAH 1,030	U-MOBIL	49.00
- MAXITEL S.A.	Belo Horizonte [Brazil]	BRR 677,679,703	STET MOBILE HOLDING	43.15
- MOBILKOM AUSTRIA A.G.	Vienna [Austria]	ATS 1,000,000,000	STET MOBILE HOLDING	25.00
- RETEVISION MOVIL S.A.	Barcelona [Spain]	ESP 28,000,000,000	STET MOBILE HOLDING	23.30
- BDT S.A.	Saint Quentin en Yvelines [France]	FRF 1,522,536,600	STET MOBILE HOLDING	19.61
- C-MOBIL B.V.	Amsterdam [Holland]	NLG 40,000	STET MOBILE HOLDING	12.00
TELECOM ITALIA GmbH	Vienna [Austria]	ATS 500,000	TELECOM ITALIA	100.00
TELECOM ITALIA DO BRASIL Ltda	Rio de Janeiro [Brazil]	BRR 2,699,758	TELECOM ITALIA	99.99
TELECOM ITALIA MOBILE S.p.A. *	Turin [Italy]	ITL 795,022,291,936	TELECOM ITALIA	60.97
- TIM INTERNATIONAL B.V.	Amsterdam [Holland]	EUR 20,000	TELECOM ITALIA MOBILE	100.00
TELECOM ITALIA OF NORTH AMERICA Inc.	New York [USA]	USD 5,550,000	TELECOM ITALIA	100.00
TELECOM ITALIA NET S.p.A.	Turin [Italy]	ITL 41,000,000,000	TELECOM ITALIA SARITEL TELESPAZIO	96.78 0.04 3.18
- BIBOP RESEARCH Int. S.p.A.	Milan [Italy]	ITL 1,000,000,000	TIN.IT	40.00
- ESRI ITALIA S.p.A.	Rome [Italy]	ITL 500,000,000	TIN.IT	49.00
- EXCITE ITALIA B.V.	Amsterdam [Holland]	NLG 100,000	TIN.IT	50.00
- FINSATEL S.r.l.	Rome [Italy]	ITL 266,000,000	TIN.IT	100.00
- VIASAT S.p.A.	Rome [Italy]	EUR 2,425,956	TIN.IT FINSATEL	33.54 16.46
TELEPORTI ITALIA S.p.A. in liquidation	Rome [Italy]	ITL 1,325,000,000	TELECOM ITALIA	100.00
TELESPAZIO S.p.A.	Rome [Italy]	ITL 184,000,000,000	TELECOM ITALIA	100.00
- COM.STAR S.r.l.	Rome [Italy]	ITL 50,000,000	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 12,000,000	TELESPAZIO	63.99
- EURIMAGE S.p.A.	Rome [Italy]	ITL 8,600,000,000	TELESPAZIO	51.00
- EUROPEAN COMPANY FOR MOBILE COMMUNICATIONS SERVICES B.V.	Amsterdam [Holland]	EUR 15,463,572	TELESPAZIO	69.44
- EUROPEAN COMPANY FOR MOBILE COMMUNICATIONS OPERATIONS B.V.	Amsterdam [Holland]	EUR 45,500	EUROPEAN COMPANY FOR MOBILE COMMUNICATIONS 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 IRELAND Ltd.	Dublin [Ireland]	USD 1,000,000	TELESPAZIO	100.00

* Company listed on Italian Stock Exchange.

[continued] List of major equity holdings of Telecom Italia

Company name	Head office		Capitale	Company capital	%
- TELESPIAZIO LUXEMBOURG S.A.	Luxembourg	LUF	1,250,000	TELESPIAZIO	100.00
- ASTROLINK INTERNATIONAL LLC	Delaware [USA]	USD	1,350,100,000	TELESPIAZIO LUX.	18.52
- T.I.SCOM S.A. in liquidation	Curitiba [Brazil]	BRR	7,735,000	TELESPIAZIO	51.00
- CZECH TELESPIAZIO S.r.l. in liquidation	Prague [Czech Rep.]	CZK	1,500,000	TELECOM ITALIA	40.00
- DATASPIAZIO S.p.A.	Rome [Italy]	ITL	980,000,000	TELESPIAZIO	49.00
- MAREMS-V&D SERVICE S.A.	Moscow [Russia]	RUR	7,135,500	TELESPIAZIO	49.00
- POLITEL S.A.	Warsaw [Poland]	PLN	100,000	TELESPIAZIO TMI – TELEMEDIA INTERN. LTD.	10.00 10.00
- TELESPIACO - OBSERVAÇÃO DA TERRA Ltda	Brasilia [Brazil]	USD	500,000	TELESPIAZIO	49.00
TI FRANCE S.a.r.l.	Paris [France]	EUR	7,800	TELECOM ITALIA	100.00
TI GERMANY GmbH	Francoforte [Germany]	EUR	25,000	TELECOM ITALIA	100.00
TI SWITZERLAND GmbH	Zurich [Switzerland]	CFH	20,000	TELECOM ITALIA NOMINEES	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
TMI – TELEMEDIA INTERNATIONAL ITALIA S.p.A.[Italy]	Rome	ITL	167,528,000,000	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
- INTELECTUS BUSINESS COMMUNICATION ESPANA S.A.	Madrid [Spain]	ESP	350,000,000	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	22,600,000	TMI – TELEMEDIA INTERN. LTD.	100.00
- TELECOM MEDIA INTERNATIONAL ITALY – CANADA Inc.	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 LTD.	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
Information activities					
CARTESIA – Cartografia digitale S.p.A.	Rome [Italy]	ITL	200,000,000	TELECOM ITALIA	50.00
FINSIEL – Consulenza e Applicazioni Informatiche S.p.A.	Rome [Italy]	ITL	116,132,400,000	TELECOM ITALIA SOGEI	77.19 0.63
- 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
- BISIEL – Banca e Impresa Sistemi Elettronici S.p.A.	Mantova [Italy]	ITL	8,000,000,000	BANKSIEL	51.00
- 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

* 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.

[continued] List of major equity holdings of Telecom Italia

Company name	Head office		Capitale	Company capital	%
- COMITSIEL S.p.A.	Milan [Italy]	ITL	4,000,000,000	BANKSIEL	100.00
- 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	79.50
- ASKA S.r.l.	Milan [Italy]	ITL	20,000,000	CONSIEL	60.00
- DMR CONSIEL S.p.A.	Rome [Italy]	ITL	500,000,000	CONSIEL	51.00
- D.E.C. INFORMATICA S.r.l.	Cremona [Italy]	ITL	21,000,000	CONSIEL	20.00
- HITECO CONSULTANTS S.r.l.	Milan [Italy]	ITL	50,000,000	CONSIEL	60.00
- JMAC CONSIEL S.p.A. ***	Milan [Italy]	ITL	300,000,000	CONSIEL	45.00
- LARIX S.r.l.	Trento [Italy]	ITL	44,000,000	CONSIEL	20.00
- METIS S.p.A.	Genoa [Italy]	ITL	300,000,000	CONSIEL	100.00
- DITEL ENGINEERING S.r.l.	Genoa [Italy]	ITL	20,000,000	METIS	99.00
- CESEN S.p.A.	Genoa [Italy]	ITL	1,219,000,000	METIS	39.00
- 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 DO BRASIL Ltda	San Paolo [Brazil]	BRR	222,223	FINSIEL CONSIEL	75.00 25.00
- FINSIEL HELLAS S.A.	Koropi [Greece]	GRD	230,000,000	FINSIEL	85.00
- 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	39,500,000,000	FINSIEL	100.00
- 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
- PRAXIS CALCOLO S.p.A.	Milan [Italy]	ITL	1,080,000,000	FINSIEL	29.00
- SINTESIEL S.r.l.	Rome [Italy]	ITL	250,000,000	FINSIEL	88.00
- SISPI S.p.A.	Palermo [Italy]	ITL	4,000,000,000	FINSIEL	49.00
- WEBEGG S.p.A.	Ivrea [Italy]	EUR	20,000,000	FINSIEL	50.00

*** 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		Capitale	Company capital	%
- 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]	ITL	53,000,000,000	SOGEI	25.50
- TELESISTEMI FERROVIARI S.p.A.	Rome [Italy]	ITL	149,099,000,000	FINSIEL	61.00
- VENIS - Venezia Informatica e Sistemi S.p.A.	Venice [Italy]	ITL	3,000,000,000	FINSIEL INSIEL	20.40 30.60
GEIS – General Electric Information Services S.p.A.	Milan [Italy]	ITL	2,450,000,000	TELECOM ITALIA	40.00
ITALDATA S.p.A.	Avellino [Italy]	EUR	3,096,000	TELECOM ITALIA	15.99
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
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 AMERICA Inc.	New Jersey [USA]	USD	700,000	TELESOFT	100.00
- TELESOFT HELLAS S.A.	Athens [Greece]	GRD	20,000,000	TELESOFT	100.00
- TELESOFT RUSSIA J.S.C.	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	33.33
Manufacturing activities					
TELSI Ltd.	Bracknell [UK]	GBP	1,119,364,000	TELECOM ITALIA	100.00
- ITALTEL S.p.A.	Milan [Italy]	ITL	396,000,000,000	TELSI	100.00
- ITALCOM – Sistemi Italiani di Commutazione S.p.A.	Milan [Italy]	ITL	200,000,000	ITALTEL S.P.A.	100.00
- ITALTEL CERM PALERMO S.c.p.A.	Carini [Palermo, Italy]	ITL	4,122,500,000	ITALTEL S.P.A. CSELT	90.00 10.00
- ITALTEL B.V.	Amsterdam [Holland]	NLG	4,000,000	ITALTEL S.P.A.	100.00
- ITALTEL A.O.	S. Pietroburgo [Russia]	RUR	20,000	ITALTEL B.V.	100.00
- ITALTEL DE CHILE S.A.	Santiago [Chile]	CLP	46,599,317	ITALTEL B.V. ITALTEL S.P.A.	90.00 10.00
- ITALTEL DE COSTARICA S.A.	San José [Costa Rica]	Colones	1,000,000	ITALTEL B.V.	100.00
- ITALTEL S.A.	Madrid [Spain]	ESP	675,000,000	ITALTEL B.V.	100.00

[continued] List of major equity holdings of Telecom Italia

Company name	Head office	Capitale	Company capital	%
- ITALTEL KENIA Ltd.	Nairobi [Kenia]	SHS 500,000	ITALTEL B.V. ITALTEL S.P.A.	99.98 0.02
- ITALTEL NIGERIA Ltd.	Lagos [Nigeria]	Naira 2,000,000	ITALTEL B.V. ITALTEL S.P.A.	99.99 0.01
- EUSO SAIC	Buenos Aires [Argentina]	ARP 0,0013	ITALTEL B.V. NOMINEES	99.85 0.15
- TRANSDIGI S.A.	Buenos Aires [Argentina]	ARP 2,093	ITALTEL S.P.A. ITALTEL B.V.	4.00 96.00
- DITEC - Distribuzione Integrata Tecnomeccanica S.p.A.	Terni [Italy]	ITL 1,386,000,000	ITALTEL S.P.A.	20.00
- RIKT OAO – Russian-Italian company for telephony	Mezhdurecensk [Russia]	RUR 9,213,390	ITALTEL S.P.A.	11.48
- LARES TECNO S.p.A.	L'Aquila [Italy]	ITL 10,000,000,000	ITALTEL S.P.A.	20.00
- SIM 2 MULTIMEDIA S.p.A.	Pordenone [Italy]	ITL 30,000,000,000	ITALTEL S.P.A.	33.33
- TELEZARIA A.O.	San Pietroburgo [Russia]	RUR 41,900	ITALTEL S.P.A.	40.00
Installation activities				
SIRTI S.p.A. *	Milan [Italy]	ITL 220,000,000,000	TELECOM ITALIA	49.09
- CONSTRUTEL MATRICIAL DE CHILE S.A.	Santiago [Chile]	CLP 287,721,000	SIRTI	100.00
- CONSTRUTEL PROJETOS E CONSTRUÇÕES Ltda	Belo Horizonte [Brazil]	BRR 20,255,900	SIRTI	85.00
- SETELCO S.A.	Lugano [Switzerland]	CHF 50,000	SIRTI	100.00
- FININDUSTRIA S.A.	Madrid [Spain]	ESP 29,000,000	SIRTI	100.00
- SEIRT Sociedad Espanola de Instalaciones Redes Telefonicas S.A.	Madrid [Spain]	ESP 360,000,000	SIRTI FININDUSTRIA	50.00 50.00
- SIRTI ARGENTINA S.A.	Buenos Aires [Argentina]	ARP 5,000,000	SIRTI	100.00
- SIRTI BOLIVIA S.A.	La Paz [Bolivia]	BOB 4,980,000	SIRTI	91.00
- SIRTI GmbH	Berlin [Germany]	DEM 20,000,000	SIRTI	100.00
- SIRTI Ltd.	London [UK]	GBP 17,000,000	SIRTI	100.00
- SIRTI POLSKA Sp. z o.o	Warsaw [Poland]	PLN 10,778,000	SIRTI	100.00
- SIRTI PORTUGAL TELECOMUNICACOES S.A.	Lisbon [Portugal]	PTE 1,200,000,000	SIRTI SEIRT	99.00 1.00
- SIRTI S.A.	Paris [France]	FRF 37,258,358	SIRTI	100.00
- MARISTEL S.p.A.	Milan [Italy]	ITL 2,000,000,000	SIRTI	50.00
- PROGERA S.r.l.	Venice [Italy]	ITL 90,000,000	SIRTI	25.00
Other activities				
ATESIA – Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A.	Rome [Italy]	ITL 6,100,000,000	TELECOM ITALIA	100.00
CYAGENT Inc.	California [USA]	USD 28,708,549	TELECOM ITALIA	21.56
CSELT – Centro Studi e Laboratori Telecomunicazioni S.p.A.	Turin [Italy]	EUR 618,000	TELECOM ITALIA	100.00
EDOTEL S.p.A.	Turin [Italy]	ITL 200,000,000	TELECOM ITALIA TELECOM ITALIA MOBILE	60.00 40.00

* Company listed on Italian Stock Exchange.

[continued] List of major equity holdings of Telecom Italia

Company name	Head office		Capitale	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	39,419,500,000	TELECOM ITALIA	21.07
IMMSI S.p.A. *	Turin [Italy]	ITL	220,000,000,000	TELECOM ITALIA	46.66
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
RESEAU S.r.l. in liquidation	Milan [Italy]	ITL	300,000,000	TELECOM ITALIA	100.00
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	122,000,000	SAIAT	40.98
- 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 Italy]	ITL	22,224,000,000	TELECOM ITALIA	100.00
- STT – Società Trasporto Telematico S.p.A.	Verona [Italy]	ITL	10,000,000,000	SARITEL	40.00
- 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
- GLB SERVICOS INTERATIVOS S.A.	Rio de Janeiro [Brazil]	BRR	100,000,000	SOFTE	30.00
- SOGERIM S.A.	Luxembourg	EUR	525,000	SOFTE SAIAT	99.95 0.05
STOA' S.c.p.A.	Ercolano [Naples, Italy]	ITL	2,001,174,000	TELECOM ITALIA FINSIEL INTERSIEL SIRTI ITALTEL S.P.A.	8.63 2.96 2.03 1.48 0.74
STREAM S.p.A.	Rome [Italy]	ITL	416,890,000,000	TELECOM ITALIA	50.00
TECNITEL Tecnologie Italiane di Telecomunicazioni S.p.A. in liquidation	Rome [Italy]	ITL	1,000,000,000	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

* Company listed on Italian Stock Exchange.

AUDITORS REPORT ON THE LIMITED REVIEW OF THE TELECOM ITALIA GROUP INTERIM FINANCIAL REPORTING FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2000

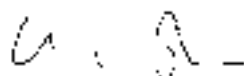
To the Shareholders
of Telecom Italia S.p.A.

1. We have performed a limited review both of the interim financial reporting of Telecom Italia S.p.A. and of its Group for the six month period ended 30 June 2000, consisting of the balance sheet, income statement and related explanatory notes. We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.
2. Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (Consob) with Deliberation n. 10867 of 31 July 1997. The limited review of the interim financial reporting of certain subsidiaries which, at 30 June 2000, reflected total assets constituting 12.9 per cent of consolidated total assets and net sales constituting 32.1 per cent of consolidated net sales, have been performed by other auditors, who furnished us with their related reports. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual statutory and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
3. Regarding the comparative data of the company's interim financial reporting as at and for the period ended 30 June 1999 and the company's statutory and consolidated financial statements as at and for the year ended 31 December 1999, reference should be made to Arthur Andersen S.p.A. reports dated respectively 27 September 1999 and 10 April 2000.

4. Based on our review, no significant changes or adjustments came to our attention that should be made to the interim financial reporting identified in paragraph 1 of this report, in order to make them consistent with the criteria for the preparation of interim financial reporting established by Consob with its Regulation n. 11971 of 14 May 1999 and subsequent amendments.
5. For a better understanding of the interim financial reporting, reference should be made to the information included in the explanatory notes regarding the accounting criteria utilised for the employee benefit obligations as required by Law no.58/1992.

Torin, 13 September 2000

PricewaterhouseCoopers SpA



Sergio Duca
(Partner)

This report has been translated from the original which was issued in accordance with Italian practice

Useful information

A free copy of this report can be obtained by:

Writing to the following address:	TELECOM ITALIA S.p.A Adempimenti Societari Via Flaminia, 189 00196 Roma
Sending a fax to:	+ 39 – 0636882225 + 39 – 0636882855 + 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 – 0636001273 / 0636001274 / 0636001275
E-mail	affarisocietari@telecomitalia.it
Internet	User of the world wide web can access the “Report on operations first half 2000” and obtain information about TELECOM ITALIA and its products and services at the following address: http://www.telecomitalia.it

TELECOM ITALIA S.p.A.

Registered office: Via Bertola, 34 – 10122 Turin, Italy

Corporate Headquarters and Secondary Office: Corso d'Italia, 41 – 00198 Rome, Italy

Capital stock: L. 7,426,157,226,000 Italian lire

Registration no. in the Ordinary Section of the Company Register 286/33, at the Turin Court

VAT number and tax number: 00471850016

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