



REPORT ON OPERATIONS

FIRST HALF 2001



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RESULTS OF OPERATIONS, NET OF EFFECT OF GOODWILL

	1 st half 2001	1 st half 2000	Year 2000
(in billions of lire)			
Sales and services revenues	30,185	27,528	55,979
Gross operating profit	13,657	12,496	25,400
Operating income	7,771	6,751	13,529
Income before taxes	5,296	5,930	10,848
Net income before minority interest	2,953	3,118	6,936
Net income	2,131	2,224	5,107
Cash flow	8,264	8,322	17,519
Gross operating profit / Revenues	45.2	45.4	45.4
Operating income / Revenues (ROS)	25.7	24.5	24.2
Cash flow / Revenues	27.4	30.2	31.3

PROFIT AND FINANCIAL INDEXES

	1 st half 2001	1 st half 2000	Year 2000
(in billions of lire)			
Sales and services revenues	30,185	27,528	55,979
Gross operating profit	13,657	12,496	25,400
Operating income	6,759	6,565	13,179
Income before taxes	3,986	5,571	9,621
Net income before minority interest	1,643	2,758	5,709
Net income	934	1,896	3,927
Cash flow	7,966	8,148	16,642
Capital investments, of which	13,960	8,745	38,742
• Capital expenditures	7,369	4,410	15,295
• Goodwill	1,936	1,196	17,637
• Financial investments	4,655	3,139	5,810

FINANCIAL CONDITION

	6.30.2001	12.31.2000	6.30.2000
(in billions of lire)			
Total assets	138,761	126,854	95,622
Net invested capital	91,369	86,273	59,178
Shareholders' equity (1),			
of which	44,009	49,428	41,063
• Parent company	31,371	36,443	34,970
• Minority interest	12,638	12,985	6,093
Net borrowings	47,360	36,845	18,115
Number of employees of Group	120,211	114,669	128,490

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

CORPORATE BODIES

BOARD OF DIRECTORS

■ MEMBERS AT JUNE 30, 2001

Chairman and Chief Executive Officer

Roberto Colaninno *

Honorary President

Antonio Tesone

Deputy Chairman

Sergio Erede ⁽¹⁾ **

Directors

Peter A. Cohen ⁽¹⁾

Salvatore Donato

Guido Ferrarini ⁽²⁾

Paolo Ferro-Luzzi

Emilio Gnutti

Jeffrey E. Livingston ⁽²⁾

Ettore Lonati

Joseph Tucci

Roberto Ulissi ⁽¹⁾ ***

Gérard Worms ⁽²⁾

■ MEMBERS AT SEPTEMBER 12, 2001

Chief Executive Officer

Enrico Bondi ****

Honorary President

Antonio Tesone

Directors

Peter A. Cohen ⁽¹⁾

Salvatore Donato

Guido Ferrarini ⁽²⁾

Paolo Ferro-Luzzi

Emilio Gnutti

Jeffrey E. Livingston ⁽²⁾

Ettore Lonati

Joseph Tucci

Roberto Ulissi ⁽¹⁾ ***

Gérard Worms ⁽²⁾

SECRETARY TO THE BOARD

Pierpaolo Cotone

BOARD OF STATUTORY AUDITORS

Chairman

Paolo Germani

Acting auditors

Mario Boidi

Paolo Golia

Fabrizio Quarta

Gianfranco Zanda

Alternate auditors

Enrico Bignami

Leonida Liuni

INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A.

* Resigned on July 31, 2001

** Resigned on August 3, 2001

*** Co-opted on June 12, 2001

**** Co-opted on July 31, 2001

(1) Member of the Directors Remuneration Committee

(2) Member of the Internal Audit and Corporate Governance Committee

■ CORPORATE GOVERNANCE (Situation at September 12, 2001)

Board of Directors

(Art. 1.3 of the Code of Self-discipline)

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) 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

Chief Executive Officer

(Board resolution of July 31, 2001)

The CEO is assigned

- all ordinary powers of administration of the Company (with the right to appoint procurators ad negotia for individual acts or series of acts), up to the limit of Lire 500 billion, and, in any case, in accordance with the Code of Self-discipline of the Company;
- he task of keeping the Board of Statutory Auditors informed of activities carried out and transactions of significant economic, financial and equity importance effected by the Company and the Group, in the manner and within the terms established by art. 13 of the by-laws.

Pursuant to art. 15 of the by-laws, the CEO has single signature powers and can legally represent the Company.

Internal Committees

(Articles 9 and 11 of the Code of Self-discipline)

Committees are also formed within the Board of Directors as follows

- a Directors Remuneration Committee. This committee 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:

- (a) evaluates the adequacy of the internal control system;
- (b) evaluates the working plan prepared by those in charge of internal control and receives periodical reports from same;
- (c) examines the proposals submitted by the audit firms for their 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 and of the reports on operations, 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.

THE REGULATORY FRAMEWORK

As set forth by Italian Law No. 249/1997, which instituted the National Regulatory Agency for Communications (henceforth referred to as “the Regulator”), and by Presidential Decree No. 318/1997, which implemented the European Union directives on the telecommunication sector at Community level, the process of deregulation can now be regarded as complete, since all segments of the market have been opened up to competition. There follows a summary of the main decisions adopted during the first half of 2001 by the Regulator.

Rate rebalancing

Following the guidelines concerning rate rebalancing formulated by the European Commission to the Italian government, with Resolution No. 847/00/CONS of December 11, 2000 the Regulator modified the price sub cap applied to the basic monthly subscription charges. This made it possible to apply, with effect from February 1, 2001, an average increase of 4% to the basic monthly subscription fees and to reduce the prices of local and inter-district calls and, with effect from July 1, 2001, to further raise the subscription fee by 4.4% and to further reduce the prices of local and inter-district calls. The rate rebalancing should be completed by July 10, 2002.

Interconnection

The Regulator asked Telecom to supplement the interconnection services for 2000 so that they would include the following: rates to supply billing services and the risk of insolvency for access by Telecom Italia subscribers to non-geographical numbers belonging to other operators; rates for the partial circuits service. To date, neither service is operational.

With Resolution No. 13/01/CIR of June 27, 2001, the Regulator authorized Telecom Italia to exclude the routing service of the international traffic of other operators to the United States, Canada, Switzerland, Norway and the EU countries from the Interconnection Reference Services offer for the year 2001 and subsequent years.

On September 7, 2001, Telecom Italia published the rates relative to 2001 together with the technical and economic instructions for interconnection to the switched telephone network and *local loop unbundling*. The data for the six-month period already takes into account the new rates.

Fixed-to-mobile calls

Following the reduction in termination prices, applied by the operators Omnitel and TIM, Telecom Italia proceeded to correspondingly reduce the prices for calls made from its own network to the respective networks of mobile operators. The change came into effect on July 15, 2001 for calls directed towards Omnitel numbers and on August 1, 2001 for those directed towards TIM numbers.

Local loop unbundling

During the first half of 2001, the Regulator established the first two lists of the 1,100 co-location sites designated for implementing the process of *local loop unbundling*.

Evolution of European Union regulations

The final approval of the revised “package” of Community directives on telecommunications, within the framework of the “1999 Communications Review”, submitted by the European Commission on July 12, 2000 to the European Parliament and the Council of Europe, is encountering delays owing to some differences which have emerged among the competent authorities about topics of particular importance, such as the criteria for identifying SMP operators and the power of the Commission to intervene on the content of the measures adopted by national regulatory agencies.

Wireless Local Loop

The Regulator has appointed an advisor to define the procedures for awarding frequencies for broadband point-to-multipoint radio networks and for the relative licenses. The measure follows Resolutions No. 715/00/CONS and 822/00/CONS in which, respectively, the Regulator laid down the procedures for issuing authorizations for testing the point-to-multipoint systems and for the award of frequencies for broadband point-to-multipoint radio networks.

Mobile Number Portability (MNP)

In Resolution No. 12/01/CIR, the Regulator regulated the portability of numbers among mobile operators, both with reference to changing mobile operator and transferring to a new service. The resolution establishes a calendar for the process of implementing the service and also sets up a *Monitoring Unit*.

The SEAT S.p.A./Cecchi Gori Communications transaction

Under the ruling dated January 23, 2001, the Antitrust Authority authorized the merger of Seat Pagine Gialle and Cecchi Gori Communications, laying down measures designed to prevent the strengthening of Telecom Italia Group’s dominant position in the markets involved. One of the most important measures regards access, by operators who apply, to civil infrastructures with the aim of laying fiber optic cables in order to offer interactive multimedia services.

In Resolution No. 288/01/CONS the Regulator authorized the transfer of property belonging to Cecchi Gori Communications to Seat Pagine Gialle.

Italian Law No. 66 of March 20, 2001

The coming into force of Italian Law No. 66/2001 regulates the changeover from analog technology to digital technology for television broadcasting, to be implemented by 2006. The same law also transferred responsibility for the issue of general authorizations and licenses for installing and supplying public telecommunications networks, as well as providing telecommunications services, from the Regulator to the Ministry of Communications.

Regulation of terrestrial broadcasting in digital technology

The Regulator approved the Regulation for the issue of authorizations and licenses for terrestrial broadcasting using digital technology, establishing the rights and duties of *network providers*, *service providers* and *content providers*, the rules for the testing phase of digital TV, the conversion of analog licenses to digital TV licenses, the antitrust restrictions on the supply of content, and regulations for sharing infrastructures, installations and sites.

Frequency allocation

In Resolution 895/00, with effect from January 1, 2001, the Regulator awarded TIM another 5 MHz for mobile services in the 1800 *band*, following the early release of 15 MHz which had originally been scheduled for the beginning of 2002. The frequencies were awarded provisionally, awaiting a review of the award plan, at the conclusion of which, however, the Regulator is expected to confirm the availability of the frequencies assigned to the current operators. On February 7, the Regulator ordered the award to TIM of a license for the offering of vocal telephone services nationwide, extending the authorizations issued hitherto and, therefore, also the potential range of services to its customers. At the same time TIM was awarded the *carrier selection* code “1038”.

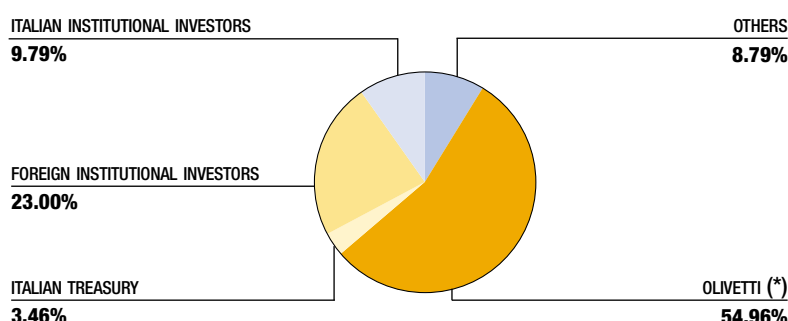
SHAREHOLDER INFORMATION

The shareholders of record of Telecom Italia ordinary shares and other information available as of the date of July 31, 2001 are as follows:

Shareholders (Ordinary shares)

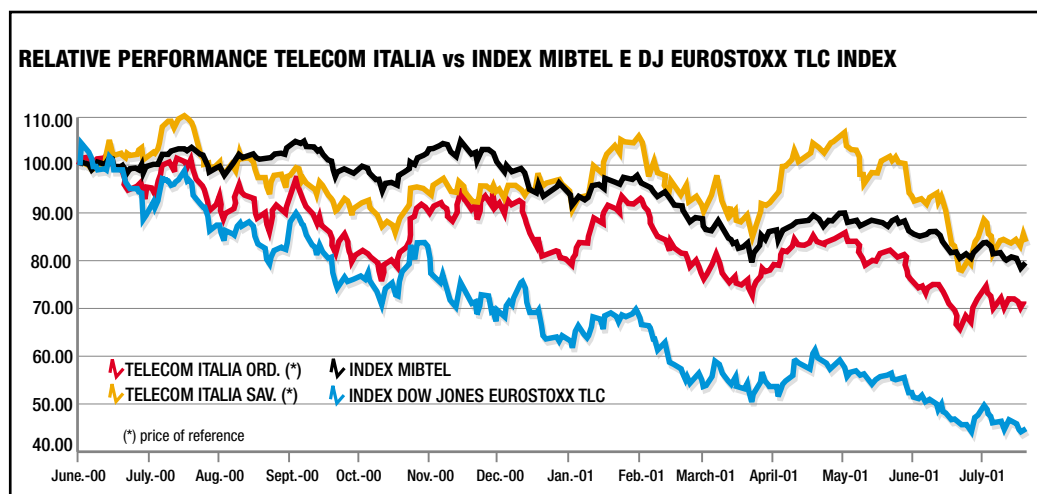
Olivetti S.p.A. (*)	54.96%
Italian Treasury	3.46%
Foreign institutional shareholders	23.00%
Italian institutional shareholders	9.79%
Others	8.79%

(*) of which 0.7869% is held indirectly through Olivetti Finance N.V.



Stock Markets

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



Re-denomination of share capital into euros

Following the resolution passed by the extraordinary shareholders' meeting held May 3, 2001, the share capital was converted into euros through the re-denomination of the par value of the ordinary and savings shares and the rounding up of the par value from Lire 1,000 to Euros 0.55 and the consequent bonus increase in share capital by:

- cancellation of No. 112,998,070 treasury savings shares of par value Lire 1,000 each held in portfolio and the allocation to share capital, to simultaneously replenish the same, of an amount equal to the par value of the cancelled shares corresponding to the portion of the reserve for treasury shares in portfolio which became available as a result of the cancellation, with a consequent increase in the par value of the outstanding shares;
- allocation to share capital of an amount equal to Lire 362 billion from the revaluation reserve ex Law No. 72 dated March 19, 1983, with a consequent increase in the par value of the outstanding shares.

Market capitalization of Telecom Italia

On the basis of the closing prices at June 29, 2001, market capitalization of Telecom Italia is about Euros 67.5 billion.

REPORT ON OPERATIONS



chapter 1 THE TELECOM ITALIA GROUP

TELECOM ITALIA GROUP BUSINESSES AT JUNE 30, 2001

Wireline Services	Mobile Services	International Operations	Internet and Media	IT Services	Satellite Services	Telecom Italia Lab
"Wireline Service" Function of Telecom Italia	TIM	"International Operations" Function of Telecom Italia	Seat Group	IT Telecom	"Satellite Services" Function of Telecom Italia	Telecom Italia Lab
Atesia	Stet Mobile Holding	Stet International Netherlands		Finsiel Group	Telespazio Group	Loquendo
Path.net	TIM International	Nortel Inversora/ Telecom Argentina		Telesoft Group		
Saritel				Netsiel		
TMI Group				Sodalìa		
Mediterranean Nautilus						
Latin American Nautilus						
Pan European Backbone						

In the first half of 2001, the Telecom Italia Group has continued its transformation into a global operator in the wireline, wireless and Internet/Media sectors by reorganizing its activities according to Business Unit, also at the international level. In keeping with this organizational structure, beginning in 2001, the results are presented in such a way as to show the contribution of each individual Business Unit to the consolidated results.

The following table presents the main results attained by the Group in the first half of 2001, compared to those for the corresponding period of 2000 and for the entire year 2000.

		Wireline Services (1)	Mobile Services	International Operations (1)	Internet and Media (2)	IT Services	Satellite Services	Telecom Italia Lab	Subtotal	Other activities and eliminations	Consolidated total (3)
(in billions of lire)											
Sales and service revenues	First half 2001	16,480	9,545	3,493	1,598	1,713	272	120	33,221	(3,036)	30,185
	First half 2000	16,946	8,745	2,124	219	1,850	272	106	30,262	(2,734)	27,528
	Year 2000	33,913	18,235	4,438	509	4,139	659	239	62,132	(6,153)	55,979
Gross operating profit	First half 2001	7,326	4,601	1,256	278	318	30	(19)	13,790	(133)	13,657
	First half 2000	7,188	4,134	816	(31)	298	37	(18)	12,424	72	12,496
	Year 2000	14,366	8,610	1,739	(67)	638	96	(18)	25,364	36	25,400
Operating income	First half 2001	4,260	3,130	94	(121)	176	9	(43)	7,505	(746)	6,759
	First half 2000	3,828	2,843	220	(66)	122	(56)	(34)	6,857	(292)	6,565
	Year 2000	7,581	5,786	446	(142)	260	(100)	(67)	13,764	(585)	13,179
Capital expenditures:											
– industrial	First half 2001	2,645	3,451	855	154	108	21	16	7,250	119	7,369
	First half 2000	2,139	1,481	559	47	107	29	26	4,388	22	4,410
	Year 2000	5,316	8,143	1,409	65	243	59	63	15,298	(3)	15,295
– goodwill	First half 2001	-	17	1,496	259	2	-	-	1,774	162	1,936
	First half 2000	-	120	-	-	-	-	-	120	1,076	1,196
	Year 2000	-	1,741	1,510	-	1	-	-	3,252	14,385	17,637
Number of employees at end of period (unit)	First half 2001	61,452	16,033	14,816	8,992	11,770	1,173	1,370	115,606	4,605	120,211
	First half 2000	68,770	12,946	9,670	377	11,814	1,230	1,262	106,069	22,421	128,490
	Year 2000	62,782	15,257	10,070	7,515	12,005	1,206	1,287	110,122	4,547	114,669

(1) Subsequent to the changes in the organization structure which took place in April 2001, the companies included in the Wireline Services B.U. and International Operations B.U. have changed, as described on pages 25 to 36. The data relating to the first half and the year 2000 have thus been reclassified for purposes of comparison.

(2) The data for the first half and the year 2000 (except the number of employees at December 31, 2000) only include the results of the former Tin.it.

(3) The data for the first half and the year 2000 include, respectively, the results for the first six months and the first nine months of Italtel and Sirti.

chapter 2

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

Companies brought into the consolidation area during the first six months of 2001 included the Entel Chile group, following the acquisition of the controlling interest by SIN, the newly established mobile telephone companies Tim Brasil, Blucel, Starcel and Unicel and, for the Seat Pagine Gialle group, the Consodata and Cecchi Gori Communications groups, as well as NetCreations and some companies operating in the professional publishing and call center business.

Moreover, the groups Seat Pagine Gialle, Jet Multimedia, Mageos Explorer (ex Europe Explorer), Maxitel and the companies Corporacion Digitel and Eustema, whose balance sheets only were consolidated at December 31, 2000, have now been fully consolidated line-by-line, including the statement of income, whereas the Sirti group and Italtel group have been excluded from the consolidation area as at September 30, 2000.

For purposes of a homogeneous comparison, the most important percentage changes are also indicated on a comparable consolidation basis.

2.1

RESULTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF INCOME

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000
A. Sales and service revenues	30,185	27,528	55,979
Changes in inventories of work in progress, semifinished and finished goods	3	56	54
Changes in inventory of contract work in process	367	505	487
Increases in capitalized internal construction costs	384	806	1,765
Operating grants	19	19	39
B. Standard production value	30,958	28,914	58,324
Raw materials and outside services (*)	(12,500)	(11,438)	(23,234)
C. Value added	18,458	17,476	35,090
Labor costs (*)	(4,801)	(4,980)	(9,690)
D. Gross operating profit	13,657	12,496	25,400
Depreciation and amortization	(6,323)	(5,390)	(10,933)
Other valuation adjustments	(465)	(527)	(1,017)
Provisions to reserves for risks and charges	(191)	(145)	(305)
Net other income (expense)	81	131	34
E. Operating income	6,759	6,565	13,179
Net investment and financial income (expense) and value adjustments	(2,961)	(1,016)	(3,143)
F. Income before extraordinary items and taxes	3,798	5,549	10,036
Net extraordinary income (expense)	188	22	(415)
G. Income before taxes	3,986	5,571	9,621
Income taxes	(2,343)	(2,813)	(3,912)
H. Net income before minority interest	1,643	2,758	5,709
Minority interest	(709)	(862)	(1,782)
I. Net income	934	1,896	3,927

(*) Reduced by related cost recoveries.

Results of operations for the first six months of 2001 show a consolidated net income of Lire 1,643 billion (Lire 934 billion, net of minority interests of Lire 709 billion) with a reduction of Lire 1,115 billion compared to the first six months of 2000.

The consolidated result was negatively affected by the significant increase in net financial expense, up Lire 1,038 billion, and the amortization of goodwill, of Lire 1,310 billion (of which Lire 1,197 billion refer to the Parent Company), recorded in amortization expense for Lire 1,012 billion and in net investment and financial income (expense) and value adjustments for Lire 298 billion, with an increase of Lire 951 billion compared to the same period of 2000, mainly due to the acquisition of Seat Pagine Gialle.

Excluding the effect of the amortization of goodwill, the result for the period attributable to the Parent Company would have been Lire 2,131 billion and Lire 2,224 billion for the first six months of 2000.

Therefore the statement of income, net of the effect of goodwill, would be the following:

(in billions of lire)	1 st half 2001	1 st half 2000
Gross operating profit	13,657	12,496
Operating income	7,771	6,752
Net income before minority interest	2,953	3,118
Minority interest	(822)	(894)
Net income	2,131	2,224

The key figures of the statement of income are analyzed in the following paragraphs.

■ *Sales and service revenues* for the first six months of 2001 amounted to Lire 30,185 billion and increased by 9.7% compared to the first six months of 2000 (+Lire 2,657 billion, +0.6% compared to the first six months of 2000, on a comparable consolidation basis).

Revenues, net of the amount due to other telecommunications operators, totaled Lire 26,508 billion and increased, compared to the first six months of 2000, by Lire 1,610 billion (+6.5%). The increase in revenues was produced both by the positive trend in mobile telephone services and the contribution by the newly consolidated companies brought into the consolidation area, in particular, the Entel Chile group (Lire 1,201 billion) and the Seat Pagine Gialle group (Lire 1,528 billion), which was partly reduced by the exclusion of the companies in the manufacturing and installations segments from the consolidation area.

While mobile telecom services in Italy and abroad showed a positive performance, the revenues generated by the Parent Company decreased even though traffic revenues, in spite of a significant increase in terms of minutes, fell inasmuch as the average return on gross traffic, during the six-month period, was Lire 82 per minute against Lire 115 per minute for the first six months of the prior year.

■ *Raw materials and outside services* totaled Lire 12,500 billion for the first six months of 2001 and increased, compared to the first six months of 2000, by 9.3%, while the percentage of raw materials and outside services to revenues was 41.4% compared to 41.6% for the first six months of 2000. This increase is mainly connected to the change in the consolidation area, particularly the contribution made by the Entel Chile group (Lire 721 billion) and the Seat Pagine Gialle group (Lire 869 billion), as well as higher lease expenses by the Parent Company on the buildings sold to IM.SER (Lire 268 billion) that were partly compensated by the exclusion of the companies in the manufacturing and installations segments from the consolidation area (Lire 1,158 billion).

Raw materials and outside services also includes Lire 519 billion of TLC license fees due to the state administration, of which Lire 268 billion relate to the Parent Company, Lire 172 billion to TIM and Lire 79 billion to foreign subsidiaries.

■ *Labor costs*, totaling Lire 4,801 billion, decreased by Lire 179 billion compared to the first six months of 2000. The decrease is due to the exclusion of the Sirti and Italtel groups from the consolidation area and the reduction in Parent Company costs following employee cutbacks and layoffs, partly offset by the inclusion of the Seat Pagine Gialle group (+Lire 329 billion) and the Entel Chile group (+Lire 110 billion) in the consolidation area. As a percentage of revenues, labor costs fell from 18.1% for the first six months of 2000 to 15.9% in the corresponding period of 2001.

Employees at June 30, 2001 numbered 120,211, with an increase of 5,542 units mainly due to the effect of the inclusion of the Entel Chile group (+4,757 units) in the consolidation area

and the change in consolidation area of the Seat Pagine Gialle group (+1,477 units), the increase in the number of employees of TIM group (+776 units) partly offset by the reduction in the parent company Telecom Italia (-1.987 units).

■ *Gross operating profit* of Lire 13,657 billion increased, compared to the first six months of 2000, by 9.3% (+Lire 1,161 billion, +5.7% compared to the first six months of 2000, on a comparable consolidation basis) and showed a ratio of gross operating profit to revenues of 45.2% (45.4% for the first six months of 2000). The increase in the gross operating margin can be substantially ascribed to the good performance of the TIM group (+Lire 467 billion; +11.3%) and the inclusion of the Entel Chile group (+Lire 368 billion) in the consolidation area.

■ *Depreciation and amortization* totaled Lire 6,323 billion (Lire 5,390 billion for the first six months of 2000), including Lire 2,035 billion for the amortization of intangibles (of which Lire 1,012 relate to goodwill) and Lire 4,288 billion for the depreciation of fixed assets. The increase is due to the entry of the Seat Pagine Gialle group (+Lire 196 billion) and the Entel Chile group (+Lire 188 billion) in the consolidation area, as well as the higher amortization charge for goodwill (+Lire 826 billion, of which Lire 548 billion refer to the acquisition of Seat Pagine Gialle), that was only partly compensated by the decrease in the depreciation and amortization taken by the Parent Company owing mainly to a lower amount of depreciable assets and the change in the mix of depreciable assets.

■ *Other valuation adjustments* of Lire 465 billion decreased compared to the first six months of 2000 by Lire 62 billion and mainly refer to the writedown of receivables from customers to estimated realizable value. The total includes Lire 96 billion referring essentially to the Parent Company, Lire 99 billion to Telecom Argentina, Lire 81 billion to the Seat Pagine Gialle group, Lire 49 billion to TIM and Lire 38 billion to the Entel Chile group.

■ *Provisions to reserves for risks and charges* amounted to Lire 191 billion (Lire 145 billion for the first six months of 2000); the increase of Lire 46 billion can essentially be ascribed to the Seat Pagine Gialle group (Lire 27 billion).

■ *Net other income (expense)* showed an income balance of Lire 81 billion (Lire 131 billion for the first six months of 2000) and basically refers to the late payment fees charged to the customers of the telecommunications companies (Lire 132 billion), the portion of capital grants credited to income during the period (Lire 69 billion), indirect duties and taxes (Lire 143 billion), together with other income and expense in the normal course of business operations.

■ *Operating income* of Lire 6,759 billion improved by 3% (+5.4% compared to the first six months of 2000, on a comparable consolidation basis, and taking into account the contribution of the buildings to IM.SER); operating income represents 22.4% as a percentage of revenues compared to 23.8% for the first six months of 2000. The increase in operating income was attributable to the improvement recorded by the Parent Company (+Lire 396 billion), due principally to the reduction of labor costs and depreciation and amortization as well as the good results of the TIM group (+Lire 287 billion) and, additionally, was affected by the higher amortization charge for goodwill (-Lire 826 billion).

■ *Net investment and financial income (expense) and value adjustments* showed an expense balance of Lire 2,961 billion, which included the following:

- *value adjustments* to financial assets show a negative balance of Lire 1,495 billion (-Lire 727 billion for the first six months of 2000). They mainly refer to the Group's share of the income and losses of the unconsolidated companies valued using the equity method, which also include the amortization of goodwill upon the purchase of these holdings (Lire 298 billion, Lire 173 billion for the first six months of 2000). This caption was particularly affected by:
 - the loss reported by IS TIM (Lire 406 billion), caused not only by the expenses connected with the start-up phase, but also by the effects consequent to the currency crisis in Turkey and the application of principles for inflation accounting in high-inflation countries;
 - the writedown of Stream (Lire 237 billion) and the writedown to adjust the value of TIM shares included in current assets to market price (Lire 225 billion);
- *net investment income (expense)* showed an income balance of Lire 71 billion (Lire 210 billion for the first six months of 2000) essentially in relation to dividends received from unconsolidated subsidiaries, affiliated companies and other companies (Lire 35 billion) and the net gains on the sale of listed securities included in current assets (Lire 36 billion);
- *net financial income (expense)* presented an expense balance of Lire 1,537 billion (Lire 499 billion for the first six months 2000). The increase in the expense balance is primarily attributable to the higher financial exposure of the Group, in addition to the entry of the groups Maxitel (-Lire 178 billion), Seat Pagine Gialle (-Lire 51 billion) and Entel Chile (-Lire 66 billion) in the consolidation area.

■ *Net extraordinary income (expense)* showed an income balance of Lire 188 billion (Lire 22 billion for the first six months of 2000), which included Lire 793 billion of income and Lire 605 billion of expense.

The improvement is primarily due to the fact that, unlike the first six months of 2000, the social security charges due under ex Law 58/92 were recorded on a cash basis and paid in the month of July 2001.

Extraordinary income includes the gains from the sale of 30% of Mediterranean Nautilus S.A. to the Israeli company F.T.T. Investment of Lire 183 billion, the dilution of the investment in Auna of Lire 31 billion, the increase in the shareholders' equity of Lottomatica after its listing of Lire 67 billion and income from the partial cancellation, in accordance with the sentence handed down by the Council of State No. 1.699/2001, of a portion of the fine levied on TIM by the Antitrust Authority of Lire 62 billion.

Extraordinary expenses include Lire 205 billion of expenses concerning personnel cutbacks and layoffs, (of which Lire 137 billion relate to the Parent Company), Lire 72 billion to the extraordinary contribution to INPS - established by the 2000 Finance Bill for the three years 2000-2002 to meet the higher financial requirements covered by the rules of the pension fund that was abolished – and Lire 107 billion of provisions made by TIM to the reserves for risks and charges.

■ *Income taxes* for the period amounted to Lire 2,343 billion and decreased, compared to the first six months of 2000, by Lire 470 billion. Income taxes represented 58.8% as a percentage of income before income taxes compared to 50.5% for the first six months of 2000. The effective tax rate was higher than that of the Parent Company (44.4%) inasmuch as the income before income taxes was affected by the considerable increase in the amortization charge for goodwill and the losses of the consolidated foreign subsidiaries which reflected on the taxable income of the Group.

Furthermore, the first six months of 2000 benefited from the taxation of capital gains at the substitute rate of 19%.

2.2

FINANCIAL CONDITION

CONSOLIDATED BALANCE SHEETS

(in billions of lire)	6.30.2001	12.31.2000	6.30.2000
A. Intangibles, fixed assets and long-term investments			
Intangible assets	35,163	31,052	7,469
Fixed assets	47,721	45,358	48,883
Long-term investments			
• Equity investments and advances on future capital contributions	15,650	14,712	12,828
• Other	1,172	2,085	1,231
	99,706	93,207	70,411
B. Working capital			
Inventories	2,052	1,405	2,619
Trade accounts receivable	16,930	16,124	15,510
Other assets	6,141	7,263	3,303
Trade accounts payable	(13,195)	(14,252)	(12,022)
Reserves for risks and charges	(4,054)	(3,425)	(3,655)
Other liabilities	(13,561)	(11,495)	(13,956)
	(5,687)	(4,380)	(8,201)
C. Invested capital, net of operating liabilities (A+B)	94,019	88,827	62,210
D. Reserve for employee termination indemnities	(2,650)	(2,554)	(3,032)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	91,369	86,273	59,178
Financed by:			
F. Shareholders' equity (*)			
Parent Company interest	31,371	36,443	34,970
Minority interest	12,638	12,985	6,093
	44,009	49,428	41,063
G. Medium/long-term debt	33,480	16,010	12,009
H. Net short-term borrowings			
Short-term borrowings	27,196	29,307	9,607
Liquid assets and short-term financial assets	(13,669)	(8,586)	(3,675)
Financial accrued expense and deferred income, net	353	114	174
	13,880	20,835	6,106
	(G+H)	36,845	18,115
I. Total (F+G+H)	91,369	86,273	59,178

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

The balance sheet of the Telecom Italia Group shows a net invested capital of Lire 91,369 billion (Lire 86,273 billion at December 31, 2000), of which 48.2% is financed by shareholders' equity (57.3% at December 31, 2000) and 51.8% by net debt (42.7 % at December 31, 2000).

■ *Intangibles, fixed assets and long-term investments* of Lire 99,706 billion increased by Lire 6,499 billion compared to December 31, 2000.

"Intangible assets" amounted to Lire 35,163 billion and increased by Lire 4,111 billion; the main changes during the first six months were as follows:

(in billions of lire)	1 st half 2001	Year 2000
Beginning of the year	31,052	5,299
Additions:		
– goodwill	1,936	17,637
– other additions	3,342	7,765
Disposals	(18)	(23)
Amortization	(2,035)	(2,192)
Writedowns	(3)	(70)
Change in consolidation area	1,033	2,646
Translation difference and other	(144)	(10)
End of the period	35,163	31,052

Goodwill paid during the period included Lire 1,415 billion on the acquisition of the controlling interest in the Entel Chile group, whereas the other additions refer primarily to the cost of acquiring the mobile telephone licenses in Brazil (Lire 1,916 billion).

"Fixed assets" totaled Lire 47,721 billion and increased by Lire 2,363 billion; the main changes during the period were as follows:

(in billions of lire)	1 st half 2001	Year 2000
Beginning of the year	45,358	45,518
Additions	4,027	7,530
Disposals	(198)	(199)
Sale of "Large Buildings" business segment		(4,632)
Depreciation	(4,288)	(8,741)
Writedowns	(4)	(22)
Change in consolidation area	2,477	5,766
Translation difference and other	349	138
End of the period	47,721	45,358

"Long-term investments", amounting to Lire 16,822 billion, increased by Lire 25 billion, being the balance between the capital payments made to the Turkish company IS TIM (Lire 3,192 billion) and the cancellation, on the part of the Parent Company, of No. 112,998,070 treasury savings shares at the time of re-denominating the share capital into euros (Lire 1,281 billion), as well as the consolidation of the groups Entel Chile and Cecchi Gori Communications.

■ *Working capital* showed a negative balance of Lire 5,687 billion (-Lire 4,380 billion at December 31, 2000).

The reduction of Lire 1,307 billion is due to:

- the increase in “inventories” (from Lire 1,405 billion at the end of 2000 to Lire 2,052 billion; +Lire 647 billion), mainly attributable to Telesoft (+Lire 182 billion), the Entel Chile group (+Lire 77 billion), Telespazio (+Lire 137 billion) and the Seat Pagine Gialle group (+Lire 104 billion);
- the increase in “trade accounts receivable”, from Lire 16,124 billion at the end of 2000 to Lire 16,930 billion, was mainly connected to the entry of the Entel Chile group in the consolidation area (+Lire 616 billion) and the higher receivables from third parties of the Seat Pagine Gialle group (+Lire 325 billion), the Parent Company (+Lire 137 billion, which was also affected by the securitization transaction) and Sogei (+Lire 100 billion), and partly reduced by the reduction in the receivables of TIM (-Lire 336 billion);
- the decrease in “other assets”, from Lire 7,263 billion at the end of 2000 to Lire 6,141 billion, can be ascribed to the reduction in the assets of the Parent Company and TIM on account of compensating deferred tax assets against the reserve for taxes;
- the decrease in “trade accounts payable”, from Lire 14,252 billion at the end of 2000 to Lire 13,195 billion, was associated with the reduction in payables to third parties by the Parent Company and TIM (-Lire 1,706 billion) and the Telecom Argentina group (-Lire 303 billion) and partly compensated by the entry of the Entel Chile group in the consolidation area (+Lire 363 billion) and the increase in payables to third parties of the companies Latin American Nautilus Ltd (+Lire 206 billion), Netsiel (+Lire 201 billion) and Telespazio (+Lire 191 billion);
- the increase in the “reserves for risks and charges”, from Lire 3,425 billion at the end of 2000 to Lire 4,054 billion, was mainly due to the provision for income taxes for the six-month period;
- the increase in “other payables”, from Lire 11,495 billion at the end of 2000 to Lire 13,561 billion, was basically attributable to the increase in VAT taxes payable and payables for advertising services to be rendered by Seat Pagine Gialle.

■ *Shareholders' equity* was Lire 44,009 billion (Lire 49,428 billion at the end of 2000), of which Lire 31,371 billion (Lire 36,443 billion at December 31, 2000) was the Parent Company's interest and Lire 12,638 billion (Lire 12,985 billion at December 31, 2000) the minority interest.

The reduction was relative to the pay-out of dividends on 2000 profits (Lire 6,034 billion), particularly for the Parent Company and TIM, and the cancellation of No. 112,998,070 treasury savings shares of the Parent Company at the time of re-denominating the share capital into euros (Lire 1,281 billion). Such reduction was partly compensated by the result for the six-month period (Lire 1,643 billion) and the minority interest in the shareholders' equity of Entel Chile (Lire 740 billion).

Net debt, of Lire 47,360 billion (Lire 36,845 billion at the end of 2000), consisted of Lire 33,480 billion of medium/long-term debt (Lire 16,010 billion at the end of 2000) and net short-term borrowings of Lire 13,880 billion (Lire 20,835 billion at December 31, 2000).

The increase in net debt of Lire 10,515 billion, compared to December 31, 2000, is mainly due to the following:

- investments in Turkey (Lire 3,192 billion) and in Brazil (Lire 1,916 billion);
- the acquisition of the controlling interest in Entel Chile (Lire 1,879 billion);
- the consolidation of the Entel Chile group (Lire 1,764 billion);
- dividends paid-out (Lire 6,034 billion).

As part of the program to rearrange the Telecom Italia Group's debt in order to guarantee funding at competitive terms, without modifying the total amount, the following transactions which fall under the Global Medium Term Note Program were entered into:

- on March 15, 2001, the subsidiary Sogerim issued debentures for an amount of Euros 2 billion, later increased to Euros 2.5 billion, for an equivalent of Lire 4.841 convertible into Tim or Seat Pagine Gialle ordinary shares, with the right of issuer to pay off the amount due in cash. These are five-year debentures and the debenture holders are entitled to early redemption at the end of the third year after issue;
- on April 10, 2001, debentures were issued on the international markets for a total of Euros 6 billion– with Sogerim as the issuer and with the complete and unconditional guarantee of the Parent Company. The issue is divided into three tranches: the first, for floating rate notes of Euros 1 billion maturing April 20, 2004, the second, for fixed rate bonds of Euros 3 billion maturing April 20, 2006 and the third, for fixed rate bonds of Euros 2 billion maturing on April 20, 2011.

Furthermore, during the first six months of 2001 Telecom Italia began a program for the securitization of receivables generated by the services rendered to the residential, top and business customers of Telecom Italia Wireline Services (TIWS) and customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the public administration) for a total of Euros 2 billion of bonds to be issued.

Such program foresees it possible to follow up the first issue of Euros 700 million effected in June 2001 by TI Securitisation Vehicle, an Italian-registered limited liability company which operates under the law for securitization (Law No. 130 dated April 30, 1999), with successive issues of securities with the same rights, up to the limit established by the program.

The aforementioned securitization transaction led to an improvement in net debt at June 30, 2001 of about Lire 1,400 billion.

Debt maturity is detailed in the following table:

					6.30.2001		12.31.2000	
	Lire	%	Currency Including the Euro-zone	%	Total	%	Total	%
(in billions of lire)								
Medium/long-term debt	24,167	52	9,313	66	33,480	55	16,010	35
Short-term borrowings	22,490	48	4,706	34	27,196	45	29,307	65
Total	46,657	100	14,019	100	60,676	100	45,317	100

2.3

FINANCIAL PERFORMANCE

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000
A. Net short-term borrowings, at beginning of period	(20,835)	(5,756)	(5,756)
B. Cash flows from operating activities			
Net income	1,643	2,758	5,709
Depreciation and amortization	6,323	5,390	10,933
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(340)	(611)	(2,112)
Writedowns of intangibles and fixed assets and long-term investments	1,114	660	2,195
Change in working capital (*)	1,297	1,221	(3,088)
Net change in "reserve for employee termination indemnities"	96	136	(342)
Change in the consolidation area, foreign exchange gains (losses) and other changes	(207)	506	364
	9,926	10,060	13,659
C. Cash flows from investing activities			
Intangibles, fixed assets and long-term investments:			
• Intangible assets:			
Goodwill	(1,936)	(1,196)	(17,637)
Other investments	(3,342)	(1,108)	(7,765)
• Fixed assets	(4,027)	(3,302)	(7,530)
• Long-term financial assets	(4,655)	(3,139)	(5,810)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,055	1,038	8,348
	(12,905)	(7,707)	(30,394)
D. Cash flows from financing activities			
New borrowings	18,222	125	2,822
Contributions by shareholders	391	100	8,082
Capital grants	11	26	52
Debt repayment	(320)	(155)	(609)
Change in medium-long term debt due within one year	(2,336)	(1,401)	(2,788)
	15,968	(1,305)	7,559
E. Dividends	(6,034)	(1,398)	(5,903)
F. Cash flows for the period (B+C+D+E)	6,955	(350)	(15,079)
G. Net short-term borrowings, at end of period (A+F)	(13,880)	(6,106)	(20,835)

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

Net cash inflows for the first six months of 2001 amounted to Lire 6,955 billion, with a consequent reduction of the same amount in net short-term borrowings.

Such trend is due to both the "cash flows from operating activities" of Lire 9,926 billion and the "cash flows from financing activities" of Lire 15,968 billion, which increased as a result of the financial transaction to rearrange the Group's debt.

Investments amounted to Lire 13,960 billion for the first six months of 2001, including Lire 7,369 billion of capital expenditures, Lire 1,936 billion of goodwill and Lire 4,655 billion of financial investments, of which Lire 3,192 billion were made in Turkey.

2.4

RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS

CONSOLIDATED STATEMENTS OF INCOME

(in millions of euros)	1 st half 2001	1 st half 2000	Year 2000
A. Sales and service revenues	15,589	14,217	28,911
Changes in inventories of work in progress, semifinished and finished goods	2	29	28
Changes in inventory of contract work in process	190	261	251
Increases in capitalized internal construction costs	198	416	912
Operating grants	10	10	20
B. Standard production value	15,989	14,933	30,122
Raw materials and outside services (*)	(6,456)	(5,907)	(11,999)
C. Value added	9,533	9,026	18,123
Labor costs (*)	(2,480)	(2,572)	(5,005)
D. Gross operating profit	7,053	6,454	13,118
Depreciation and amortization	(3,266)	(2,784)	(5,647)
Other valuation adjustments	(240)	(272)	(525)
Provisions to reserves for risks and charges	(99)	(75)	(158)
Net other income (expense)	43	68	17
E. Operating income	3,491	3,391	6,805
Net investment and financial income (expense) and value adjustments	(1,529)	(525)	(1,623)
F. Income before extraordinary items and taxes	1,962	2,866	5,182
Net extraordinary income (expense)	97	11	(214)
G. Income before taxes	2,059	2,877	4,968
Income taxes	(1,210)	(1,453)	(2,020)
H. Net income before minority interest	849	1,424	2,948
Minority interest	(366)	(445)	(920)
I. Net income	483	979	2,028

(*) Reduced by related cost recoveries.

CONSOLIDATED BALANCE SHEETS

(in millions of euros)	6.30.2001	12.31.2000	6.30.2000
A. Intangibles, fixed assets and long-term investments			
Intangible assets	18,160	16,037	3,857
Fixed assets	24,646	23,425	25,246
Long-term investments			
• Equity investments and advances on future capital contributions	8,083	7,598	6,625
• Other	605	1,077	636
	51,494	48,137	36,364
B. Working capital			
Inventories	1,060	726	1,353
Trade accounts receivable	8,744	8,327	8,010
Other assets	3,172	3,751	1,706
Trade accounts payable	(6,815)	(7,360)	(6,209)
Reserves for risks and charges	(2,094)	(1,769)	(1,887)
Other liabilities	(7,005)	(5,937)	(7,208)
	(2,938)	(2,262)	(4,235)
C. Invested capital, net of operating liabilities (A+B)	48,556	45,875	32,129
D. Reserve for employee termination indemnities	(1,369)	(1,319)	(1,566)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	47,187	44,556	30,563
Financed by:			
F. Shareholders' equity (*)			
Parent Company interest	16,202	18,821	18,060
Minority interest	6,526	6,706	3,147
	22,728	25,527	21,207
G. Medium/long-term debt	17,291	8,268	6,202
H. Net short-term borrowings			
Short-term borrowings	14,046	15,136	4,962
Liquid assets and short-term financial assets	(7,059)	(4,434)	(1,898)
Financial accrued expense and deferred income, net	181	59	90
	7,168	10,761	3,154
	(G+H)	19,029	9,356
I. Total (F+G+H)	47,187	44,556	30,563

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euros)	1 st half 2001	1 st half 2000	Year 2000
A. Net short-term borrowings, at beginning of period	(10,761)	(2,973)	(2,973)
B. Cash flows from operating activities			
Net income	849	1,424	2,948
Depreciation and amortization	3,266	2,784	5,647
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(176)	(316)	(1,091)
Writedowns of intangibles and fixed assets and long-term investments	575	341	1,134
Change in working capital (*)	669	631	(1,595)
Net change in "reserve for employee termination indemnities"	50	70	(177)
Change in the consolidation area, foreign exchange gains (losses) and other changes	(106)	261	189
	5,127	5,195	7,055
C. Cash flows from investing activities			
Intangibles, fixed assets and long-term investments:			
• Intangible assets:			
Goodwill	(1,000)	(618)	(9,109)
Other investments	(1,726)	(572)	(4,010)
• Fixed assets	(2,080)	(1,705)	(3,889)
• Long-term financial assets	(2,404)	(1,621)	(3,001)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	545	536	4,311
	(6,665)	(3,980)	(15,698)
D. Cash flows from financing activities			
New borrowings	9,411	65	1,457
Contributions by shareholders	202	52	4,174
Capital grants	6	13	27
Debt repayment	(165)	(80)	(314)
Change in medium-long term debt due within one year	(1,207)	(724)	(1,440)
	8,247	(674)	3,904
E. Dividends	(3,116)	(722)	(3,049)
F. Cash flows for the period (B+C+D+E)	3,593	(181)	(7,788)
G. Net short-term borrowings, at end of period (A+F)	(7,168)	(3,154)	(10,761)

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

chapter 3 BUSINESS UNITS

3.1 WIRELINE SERVICES

The Wireline Services Business Unit is responsible for:

- on a national scale, data and voice business on the fixed network and the *call centers*, geared to final customers and to other operators and including objectives, such as: supervising phone services, the growth of the data business, the development of integrated solutions and the spread of *broadband* access systems (*XDSL* and fiber optics); as from April 1, the companies Atesia, Saritel and Path are also part of the B.U.;
- also with effect from April 1, on an international scale, phone and data services and the development of international networks for *wholesale* customers; the B.U. is also responsible for the “Mediterranean Nautilus”, “Latin American Nautilus” and “Pan European Backbone” projects, which will provide the Group with fiber optic rings that will strengthen its presence, in the areas of greatest strategic importance, of the foreign companies created for that purpose and the TMI Group.

The following table shows the results of the first half of 2001, compared to those of the first half and the whole of 2000.

	1 st half 2001	1 st half 2000	Year 2000	Change (1) (A-B)	
	(A)	(B)		Amount	Percentages
(billions of lire)					
Sales and service revenues	16,480	16,946	33,913	(466)	(2.7)
Gross operating profit	7,326	7,188	14,366	138	1.9
Operating income	4,260	3,828	7,581	432	11.3
Capital expenditures:					
• industrial	2,645	2,139	5,316	506	23.7
• goodwill	-	-	-	-	-
Number of employees at end of period (units)	61,452	68,770	62,782	(1,330)	(2.1)

(1) The change in the number of employees was calculated based on the figures at the end of 2000.

The economic results can mostly all be attributed to the Wireline Services function of Telecom Italia. Compared to the first half of 2000, the period under examination was characterized by a considerable increase in the amount of traffic “carried” on behalf of other operators and online traffic; by the success of discount policies aimed at customer retention; by tariff changes subsequent to June 30, 2000 which significantly reduced the prices of domestic, district and inter-district traffic, and outgoing international traffic. The increase in minutes (+28.2%) was therefore achieved in a context of falling prices and the development of less remunerative services; as a result, the average yield of traffic fell by approximately 29%, and its equivalent global value fell by almost 9%. The growing

demand for interconnection by other Italian fixed-network operators (with overall revenues of Lire 974 billion; Lire 682 billion in the first half of 2000), the increase in monthly subscription charges resulting from tariff changes and the development of data connections made it possible to contain the fall of revenues, which, moreover, was more than compensated by reductions in external costs (despite an increase in the portion due to other operators, another sign of the ever fiercer competitive context which prevails), the cost of labor as a result of cutbacks in the workforce, amortization, depreciation and writedowns, which improved the gross operating profit and, more significantly, the operating income compared to the figures for the first half of 2000.

During the first half of 2001, the R&D activities associated with Wireline Services were again mainly performed by TI Lab (the new name of CSELT since March 1, 2001); overall costs amounted to approximately Lire 40 billion, of which Lire 38 billion were spent on the activities of TI Lab.

■ THE WIRELINE SERVICES FUNCTION OF TELECOM ITALIA

The function operates with the following structure: Retail, which includes Residential Phone Services, Business Phone Services and Public Phone Services; Data.com, which follows “data & web services” for business customers; *Wholesale*, which is responsible on a national scale for the supply of infrastructures and network services to the commercial units of Telecom Italia and other operators; International, which is responsible for phone and data services and the development of international networks for the market of other telecommunications operators.

Operating figures	6.30.2001	12.31.2000	6.30.2000
Connections to fixed network (in thousands)	27,301	27,153	26,774
- of which ISDN lines	5,133	4,584	3,724
Annual increase in minutes of traffic on fixed network (%)	28.2	27.6	23.4
- national traffic	29.1	28.1	23.8
- international traffic	9.5	11.5	16.8
- outgoing	9.3	13.2	15.2
- incoming	(0.3)	(0.1)	8.9
- transit	39.2	52.9	55.2

In the **Residential Phone Services** segment, on account of the fierce competition, the growth of traffic was accompanied by a fall in revenues owing to the discount policies and tariff rebalancing measures implemented. The six-month period was characterized by the positive results of Internet, the “Teleconomy” plan, (with more than 3,000,000 customers at the end of June), also available in the integrated *ADSL* phone and data version, and Sirio 187, the handset with SMS facility. Telecom Italia is the only operator to offer the service on the fixed network, with the additional possibility, from April, of sending SMS to e-mail addresses. In network services, 390,000 new customers were acquired for the

centralized answering service “Memotel” and 520,000 new customers for the “Chi è” service. The *ISDN* superline recorded a 21% growth in accesses compared to the end of 2000. Approximately 50,000 new Call IT telephone credit cards were issued; finally, activities continued to set up the “187” service as the sole front-end for the residential clientele.

Business Phone Services is responsible for about 830,000 customers in the medium-high range concentrating on phone and *IP* services. During the six-month period, 83,000 new *ISDN* access lines were connected; retention work continued through the “Teleconomy 24 Aziende” offering, generating an increase of 63,500 lines; the new “Easy budget” tariff plan was launched, enabling customers to program their telephone costs. New services include “Multicontact”, which explains customers to communicate “between one and many” by sending the same message from a PC to groups of people through the simultaneous use of SMS, fax, *e-mail* and voice messages towards both fixed and mobile phones. Finally, 7,200 new contracts were stipulated for *ADSL* plans.

In **Public Telephone Services**, the popularity of the international “Welcome” Card was confirmed. In addition, the installation of *ISDN* terminals continued. These now number more than 58,000, of which approximately 13,000 were installed during the six-month period.

To extend its offering, during the six-month period under consideration **Data.com** developed “Hyperway”, a private national virtual network based on an *IP* protocol and a virtual *LAN* network geared to cities, in which all of the services and applications (voice, data and video) are available; “Plus”, to support the operation of customers’ telecommunications systems; “Gestire Impresa”, for companies evolving towards e-company models. The “Neteconomy” and “Full Business Security” plans were redefined and new consumer models were introduced within the sphere of “InterBusiness” and “Datawan”; a special offering was introduced for transmitting data on *ISDN*, which, amongst other things, is used as a back-up for data networks. E-business solutions distributed via the Internet Data Center include “NetVantage”, for operating virtual community processes online; “Full Business Government”, for the local Public Administration; “Full Business Health”, for companies operating in the segment of health; and “Full Business Banking”, for the financial segment. For the main services, contracts were stipulated for approximately 46,000 new access lines, more than 16,000 of which have already been installed. Lastly, connections in innovative *broadband* technologies, numbered approximately 50,000, of which 55% were activated during the six-month period.

On the national network (*Wholesale*), the updating of the offering for final customers, among whom the demand for connection to the data network is growing partly as a result of the development of Internet, has led to the improvement of the infrastructures and operation systems through innovative technological solutions that are able to offer competitive services and improve quality standards. The Italian market, at the end of June, was constituted by 162 licensed operators (OLOs), of which 28 began activities

during the six-month period. The growth of this market led to the expansion of the offerings to the market. The national network, in statistics, at June 30, 2001, is as follows:

Exchange areas:	about 10,000, served by 11,562 Line Stages (SL)
Switching areas:	615, served by 652 Local Group Stages (SGU)
Gateway Areas:	33, served by 66 Transit Group Stages (SGT)
POTS accesses:	24.5 million
ISDN PRA accesses	47,800
ISDN BRA accesses:	2,441,500
Copper network accesses:	104.1 million kilometers-pair
Fiber optic access network:	406,000 kilometers-line
Fiber optic carrier network:	2.6 million kilometers-line
Tele-selective circuits:	3.7 million
Network for direct digital circuits:	652,700 access points with speeds up to 2 Mbit/s
Network for direct number circuits:	166,200 access points
Frame Relay accesses:	approximately 50,000 gates at 2Mbit/s
ADSL accesses:	275,000, in 283 towns

During the six-month period, the switched network was improved according to the telephone numbering plan; from March 1 until June 30 it was possible to dial mobile telephone numbers with or without the zero code; since July 1, only the code without the zero can be used. The call return service has been activated, which provides customers with information about the last call received, including the number, date and time of the call, and with the option of re-calling the number automatically. On April 18 the digitization of national switching was completed. The *intelligent network* platforms were also strengthened to make it possible to open them up to Internet.

As far as the services offered to customers by the structures of Retail e Data.com are concerned, it is now possible to use the new prepaid chip cards from public *ISDN* telephone terminals; the introduction of the new features to the “12” and “1412” services; the change of platform and the new features of the “Memotel” systems. The approval, on the part of the Regulator, of the “permanent virtual channel” geared to OLOs and Internet Service Providers (ISPs) has made it possible to re-start the marketing of services with access in *ADSL* technology to final customers.

In the carrier network, work continued on the development of “Arianna”, a ring network which uses the latest generation of *SDH* and DWDM (Dense Wavelength Division Multiplexing) technologies and on which flows are carried requiring high quality and availability. The introduction of the new *SDH* systems has started; the extent of the fiber optic network has been increased with 23 new DWDM systems, integrated by OADM (Optical Add Drop Multiplexer) systems. Work on the fiber optic ring linking Milan and Palermo has begun, consisting of 4,200 km of cable with 96 optic fibers on two backbones and the laying of two submarine links under the Strait of Messina, scheduled for September (by October the eastern backbone will also be operational). Finally, greater capacity radio link systems have been installed to cope with the increase in the demand for capacity from mobile operators.

As far as *wholesale* services are concerned, some new services were introduced: “E@sy.IP”, for those ISP/OLO customers who do not intend to develop their own *IP* network when entering the Internet market; “Giganet”, for customers who require greater carrier capacity, flexibility and autonomy in managing the network. The evolution of the *dial-up*

plan for ISP/OLO customers has led to the design of a new infrastructure on which Tin.it and TIM customers can be transferred and thanks to which the same “E@sy.IP” services can be supplied. During the six-month period new functions planned by the Regulator in Resolution No. 8/01/CIR were made available for *carrier preselection*.

Local Loop Unbundling has made it necessary to install OLO apparatus in the Telecom Italia exchanges (interconnection housing). On the *Regulator's* recommendation, hundreds of sites have been set up all over Italy; 469 had already been requested by other operators at June 30. The first deliveries were made in August.

In the sphere of **International** Operations the world market of *wholesale* services was characterized by an increase in the demand for Internet/data services to the detriment of phone services (in the trans-Atlantic section, the former already constitutes about 85% of the total) and by growing pressure on prices owing to competition. This affected the composition of revenues for the period, in which the Internet/data components constitute 24.6%, compared to 22.2% in the first half of 2000.

In international phone services, the overall volumes handled increased, in the two six-month periods under comparison, from 3.6 to 4 billion minutes; growth was concentrated in “outgoing” and “transit” traffic, whereas the result for incoming traffic was fairly stable: in fact, the competition on the domestic market favors direct connection between Italian OLOs and foreign operators.

Against the lower amounts paid to foreign operators for termination on fixed networks, due to negotiations over prices and re-routing, the cost of delivering traffic to mobile networks has increased: in fact, the *access charge* paid to Italian mobile network operators for the termination of incoming traffic on their networks was Lire 254 per minute (Lire 180 in the first half of 2000) following the resolution of the *Regulator* which brought the cost of the termination of international calls in line with that applied to national calls. Telecom Italia has asked correspondents to pay a “mobile accounting tariff”, having to pay it for termination on the mobile networks of other countries.

During the six-month period under review, efforts were devoted mainly to developing networks in those geographical areas characterized by a marked increase in the demand for capacity and which are of significant strategic value because of the presence of subsidiaries. In fact, capital expenditures were mainly devoted to activating the pan-European regional network (Pan European Backbone), which connects nine countries (Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and Great Britain) with high-speed optical fibers and a ring structure which will guarantee the self-protection of traffic should a fault occur on any given section. At June 30, the nodes of Milan, Zurich, Frankfurt, Amsterdam, Brussels, London and Paris had been connected; by the end of the year, the capacity of the network is to be extended and the Austrian ring is to be added. 100%-owned subsidiaries have been set up by Telecom Italia in each of the countries linked by the network; they own the installations within the national borders and offer services mainly to Telecom Italia, to enable it to sell cross-border services to the *wholesale* clientele. In France, Switzerland, Great Britain, Holland, Germany and Belgium the companies, which hold a special license issued by the local authorities, are already operational; the companies in Austria and Spain have been set up, but are not yet operational.

Work continued on the building of the submarine and land-based ring network in Latin America (Latin American Nautilus). In June, the economic and financial conditions for the supply of the submarine ring in Latin America and the amount of transmission capacity of the “Mid Atlantic Crossing” submarine system which will connect it to Miami and New York were re-negotiated with Global Crossing. In fact, capital expenditures were largely destined

for the acquisition of capacity on the Miami-New York section, in order to be able to offer connection to the Internet nodes of the United States and satisfy the demand coming mainly from customers in Latin America. Here, too, for the purposes of this project, subsidiaries have been set up in Panama, Venezuela, Peru, Chile, Brazil and Argentina; the company providing services in the United States has been set up but is not yet operational.

In collaboration with the subsidiaries Med-1 (installation) and Med Nautilus (management), work continued on the “Mediterranean Nautilus” project, the submarine optical fiber ring network which will connect Italy, Greece, Turkey, Israel and Egypt. The laying of the cable between Catania, Chania, Haifa and Tel Aviv was completed in August; the ring is scheduled to become operational in October, when the land stations are completed.

With regard to the creation of a fiber optic trans-Atlantic backbone, an agreement was signed with Teleglobe, which will supply two wavelengths on the “Flag-Atlantic” system between the nodes of London, Paris and New York. The first will be available in October; the second in early 2002. With reference to systems being created through consortiums with other operators, the capacity of the Columbus 3 submarine cable linking Italy to Florida via Spain and Portugal has been extended, and work has started on the submarine Palma-Algiers system, scheduled to become operational in 2002.

■ CONSOLIDATED COMPANIES

Saritel, in keeping with its mission as the “Internet factory” of the Telecom Italia Group, operated in the management of basic services and platforms and also in the integration of systems and the development of applications. The services are directed towards both the market of operators – composed mainly of Wireline Services, TIM, Seat and a few foreign subsidiaries in Spain and Turkey – and towards companies, including important financial institutions. Revenues (Lire 102 billion) and the gross operating profit grew by 9% and 67% respectively compared to the first half of 2000; the operating income, of Lire 2 billion, fell by 12.5%.

Atesia confirmed its leadership position in the Italian market of telemarketing and market research. The sales trend was characterized by a significant increase in the activities performed for Telecom Italia and TIM, which more than compensated for the reduction in service rendered to Stream. Revenues (Lire 72 billion) and the gross operating profit (Lire 36 billion) increased by 12.6% and 14.9% respectively compared to the first half of 2000; the operating income of Lire 32 billion, fell by 3.8%.

Path.Net is responsible for the development and management of the Single Public Administration Network. During the six-month period, 8 new contracts were signed with central public administrations and 6 with local public administrations, bringing the total number of contracts stipulated to 52, corresponding to 6,830 access lines, of which 4,539 have already been activated (607 in the six-month period). Revenues amounted to Lire 63 billion, compared to Lire 9 billion in the first half of 2000, the year in which the company, having been set up at the end of 1999, began to operate; the gross operating profit (Lire 2 billion) and the operating income (Lire 1 billion), which were negative in the first half of 2000, were also positive.

The **TMI – Telemedia International Italia** Group offers international voice and data services on fixed networks in the global providers market, characterized by fierce competition and falling prices. Revenues (Lire 94 billion) fell by 30.3% compared to the first half of 2000 (Lire 135

billion); in fact, the price reductions were not compensated by a corresponding growth in volumes. This fact, together with an insufficient reduction of network costs resulted in a serious deterioration of the gross operating result (a negative figure of Lire 66 billion; -31.2%) and the operating result (a negative figure of Lire 100 billion; -24.2%) compared to the first half of 2000. A plan is being drawn up to reorganize the operations of the TMI Group.

At June 30 2001, the companies responsible for the “Pan European Backbone”, “Mediterranean Nautilus” and “Latin American Nautilus” networks are now also consolidated. Their figures are low as a result of the start-up of operations. During the six-month period, capital expenditures totaled Lire 15 billion, Lire 216 billion and Lire 385 billion respectively, aimed at network development.

3.2

MOBILE SERVICES

The “Mobile Services” Business Unit (the TIM Group) operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in two main areas: the Mediterranean Basin and Latin America. The objectives of the TIM Group are to constantly develop innovative services (i-TIM) and maintain its leadership in technological innovation (*WAP*, *GPRS*, *UMTS*), in order to defend its market shares in Italy, and to rapidly expand its presence on foreign markets characterized by high tariffs of economic development and low levels of mobile service penetration.

The following table shows the highlights of the first half of 2001, compared to the first half and the whole of 2000.

	1 st half 2001	1 st half 2000	Year 2000	Change (1) (A-B)	
	(A)	(B)		Amount	Percentage
(billions of lire)					
Revenues of sales and services	9,545	8,745	18,235	800	9.2
Gross operating profit	4,601	4,134	8,610	467	11.3
Operating income	3,130	2,843	5,786	287	10.1
Capital expenditures:					
• industrial	3,451	1,481	8,143	1,970	°
• goodwill	17	120	1,741	(103)	(85.8)
Number of employees at end of period (units)	16,033	12,946	15,257	776	5.1

(1) The change in the number of employees has been calculated based on the figures at the end of 2000.

At June 30, the TIM Group had accumulated 45.7 million lines; of these, 23 million (6.7 million on an equity basis) refer to foreign markets, with an increase of 18.9% compared to the end of 2000, and 52.2% compared to June 30 2000. If we also consider the integrated mobile companies consolidated by the International Operations Business Unit, foreign lines number approximately 28 million (8.3 million on an equity basis) and therefore total more than 50.4 million lines. The lines of the TIM Group are distributed as follows: 49.6% in Italy (77.3% on an equity basis), 40.2% (16.1% on an equity basis) in the rest of Europe and 10.2% (6.6% on an equity basis) in Latin America, especially Brazil.

The increase in revenues from sales and services gross of amounts due to other telecommunications operators, compared to the first half of 2000, is equal to 9.2% and can mainly be attributed to the positive trend of the revenues of TIM S.p.A.. The percentage

increase of the gross operating profit exceeded the growth in revenues and reflects the gradual improvement in the efficiency of the Group. This made it possible to absorb the higher amortization and depreciation charges made during the first half of 2001, thus generating a growth of the operating income as a percentage of revenues (from 32.5% in the first half of 2000 to 32.8% in the first half of 2001).

At June 30, 2001, employees numbered 16,033 units (+776 units compared to the end of 2000); the increase is mainly due to the Latin America companies.

During the first half of 2001, R&D costs of Lire 36 billion were mainly incurred by the Parent Company and mostly for the activities of TI LAB.

TIM

During the six-month period, TIM improved its economic performance compared to the same period in 2000; revenues amounted to Lire 7,767 billion (+6.1%); the gross operating profit was Lire 4,044 billion (+12.3%) thanks to the reduction of external costs; the operating income was Lire 3,175 billion (+15.2%). The growth in revenues is attributable to a further expansion of traffic (+9.3% in terms of revenues including revenues from VAS traffic, +17% in terms of minutes).

Revenues deriving from value-added services increased by approximately 70% compared to the same period in 2000, especially following the increase in Internet services (more than 400%) and SMS (approximately 60%). The highlights for the period with regard to TIM's domestic customers are as follows:

TIM – operating data	6.30.2001	12.31.2000	6.30.2000
Lines (in thousands)	22,649	21,601	19,975
Annual growth in minutes of mobile traffic (%)	17.0	24.6	27.4
GSM coverage (% of population)	99.7	99.6	99.4
E-TACS coverage (% of population)	98.1	98.0	98.0

On the domestic market, TIM confirmed its leadership by achieving highly satisfactory results despite the strong pressure from the competition. The objectives pursued were the extension of service, with the proposal of innovative products, the further diversification of tariff plans, customer care, and effectiveness and immediacy in communication (both for advertising and tariffs).

As far as the mass market is concerned, action during the first half of the year was aimed at developing SMS traffic, with the introduction of “CartAmici TIM”, which, at a low cost, makes it possible to send short text messages to all TIM customers at the tariff of Lire 100; televoting initiatives via SMS; “LoSai di TIM”, a service offered free to GSM customers enabling them to know who has called while the telephone is switched off or out of range, through a text message sent via SMS. In addition, the “4040 Trova Tutto” service was offered exclusively to TIM customers, making it possible to obtain personal assistance in finding national and international telephone numbers and in locating places of interest. The concentration on the target of young people led to a change in the Autoricarica (automatic recharging) mechanism (with an increase in the frequency of bonus credits for Autoricarica 300, Autoricarica 190 and for the profiles of the Flash line), the enhancement of Flash lines and the launch of the TIM 3XTe (extension of the advantages introduced by Duetto TIM) option; the “In Europe” plan was also launched for international *roaming*.

With regard to the business segment, the new offers included the extension of value-added services for the dissemination of financial and commercial transactions and were made effective through the stipulation of important agreements for the extension of mobile banking and mobile trading; the new Business EasyTIM offering, for small and medium-size companies, the *GPRS* DATA ON offering, thanks to which the employees of customer companies can link up with their Intranet network using *GPRS*.

In the field of value-added services, which are all under the “i-TIM” trademark, the main innovations are as follows:

- the i-TIM *portal*: a *portal* of interactive services which not only permits access to UNI.TIM services, and the customization of the *Wap*TIM, *Script*TIM, and TIM Spot, services, but also the creation of a personal home page, free transmission of text messages and entry into the world of entertainment with the TIM chat-site C@fé. This *portal* is the crux of the multi-channel and multi-access strategy geared to developing telephone business and building customer loyalty;
- WAP of i-TIM: this makes it possible to access an ever more varied range of services, thanks to the agreements signed with many Content/Service providers. The most recent services now available include SoneraZed (Holiday Bargains, Events, etc.), and Costameno (benchmarking on prices of products of mass consumption);
- *GPRS*: in March TIM launched its services for the business market and in May for the consumer market, based on General Packet Radio Services through the *GSM* mobile network. With this kind of transmission, it is possible to surf the Internet using a mobile phone (using i-TIM WAP services) or by connecting a mobile phone to a PC or palm-top (through the UNI.TIM service).

Thanks to the coordination and initiative of TIM, a single platform, M-Services, has been conceived for Mobile Internet. All the *GSM* operators in the world (*GSM* Association) have established that they will supply their M-Services on a single common technological standard. The new applications will be mainly concentrated on the WAP environment and on advanced forms of text messaging, which will be enhanced by images and sound (*EMS*: *Enhanced Message Service*) until they evolve into *MMS* (Multimedia Message Service).

During the first half of 2001, TIM continued to strengthen its *GSM* network, both for the development of the mobile access network and for that of the backbone network. Furthermore, the TIM network was adapted to the *GPRS* service and work continued on the development of *UMTS*. In April, testing of *UMTS* began in the city of Padua, in collaboration with NEC/Siemens, for the first time in Italy on a large scale. The company also created *Wireless Office*, for a leading insurance company, the first indoor coverage system which permits the integration of the mobile service with corporate *PABX* and *LAN*.

■ CONSOLIDATED COMPANIES

During the first half of 2001, expansion on foreign markets continued; the consolidated statements of income for the period includes the economic data of Digitel and Maxitel (acquired at the end of 2000) and Tim Brasil (a subholding company of the subsidiaries Blucel, Starcel, and Unicel set up during the six-month period). In particular: Blucel has been awarded the *GSM band D* license in Region 2 (Brasilia, Rio Grande do Sul, the

Central West Region and Mato Grosso); Unicel has been awarded the *GSM band E* license in the region of Rio de Janeiro and the Amazon; Starcel has been awarded the *GSM band D* license in Region 3 (San Paolo).

As far as the above-mentioned companies are concerned, since they are still in the start-up stage, the economic data for the first half of 2001 is not significant.

Europe

Stet Hellas closed the six-month period with approximately 1.9 million lines; its market share is 27.4% (25% in incremental terms). During the six-month period, the company concentrated efforts on strengthening its commercial network with the reorganization of the franchising network and the implementation of a policy designed to curb costs and optimize investments. As a result of the renewal of its operational and organizational framework, Stet Hellas is now the leading mobile telecommunications operator in Greece and one of the top international companies to have obtained the international ISO9001:2000 Quality Management Standard certification. The company has also launched “B on Line Internet”, the first integrated offering of mobile/Internet phone services in Greece. Revenues for the six-month period amounted to Greek drachmas 86 billion (Lire 487 billion), +2.4% compared to the first half of 2000; the gross operating profit was Greek drachmas 29 billion (Lire 166 billion), +29.5% compared to the first half of 2000; the operating income was Greek drachmas 14 billion (Lire 82 billion), + 33.8% compared to the first half of 2000.

Latin America

Tele Nordeste Celular Participacoes, with more than 1.6 million lines and a market share of 65%, has adopted a policy of strategic repositioning by focusing its attention on the most profitable segments of the clientele (extending the post paid segment and promotional campaigns on innovative services including the ones linked to the TIMnet.com portal) and by initiating strong action to promote customer retention. Revenues for the period amounted to Brazilian reais 425 million (Lire 428 billion), 4.5% less than in the same period of 2000 on account of outsourcing the marketing of terminals; the gross operating profit was Brazilian reais 197 million (Lire 199 billion, +0.5% compared to the first half of 2000); the operating income was Brazilian reais 88 million (Lire 89 billion) –1.1% less than in the first half of 2000.

Tele Celular Sul Participacoes, with more than 1.5 million lines and a market share of approximately 71%, during the six-month period the company embarked on a policy to curb costs and optimize investments, and launched programs to promote customer loyalty and retention directed at customers with the highest profile. In March it launched WAS services in collaboration with TIMnet.com. Revenues for the period amounted to Brazilian reais 387 million (Lire 390 billion, in line with the first half of 2000); the gross operating profit was Brazilian reais 178 million (Lire 179 billion, +10.6% compared to the first half of 2000); the operating income was Brazilian reais 80 million (Lire 81 billion, +37.9% from the first half of 2000).

Maxitel, with more than 1 million lines, has a market share of 33%. During the six-month period, in order to combat the competition, the company concentrated its operations on loyalty and retention programs directed at sending customers the reorganization of the

sales network and an improvement in credit management. Maxitel also launched WAS services, in collaboration with TIMnet.com. Revenues for the period amounted to Brazilian reais 267 million (Lire 268 billion, +18.7% compared to the first half of 2000); the gross operating profit was Brazilian reais 63 million (more than Lire 63 billion, +96.9% from the first half of 2000); the operating result, which was a negative figure of almost Brazilian reais 37 million (-Lire 37 billion) improved by 45.6% compared to the first six months of 2000.

TIM Perù, launched its commercial service at the end of January, and, by the end of June had accumulated 74,000 lines and an incremental market share of 32%, confirming the validity of the commercial offerings which TIM is also extending to companies in the Group.

Work on developing the network made it possible to create more than 200 radio links for mobile communications, concentrated mainly in the areas of Lima, Arequipa and Trujillo. Revenues for the period amounted to Peruvian nuevo soles 33 million (Lire 20 billion); the company reported a negative gross operating result of Peruvian nuevo soles 88 million (-Lire 54 billion); the operating loss of Peruvian nuevo soles 109 million (-Lire 66 billion), can be attributed to the start-up phase.

Digitel, which has been operating in Venezuela since the end of 1999, was acquired by TIM at the end of 2000. By the end of June, approximately 420,000 lines had been activated, equal to a market share of 13% (in Caracas and the surrounding area) and a growth of 66% compared to the end of 2000. During the six-month period, the company embarked on important programs in the spheres of financial restructuring, sales and marketing geared to revitalizing its services. Revenues for the period amounted to Bolivian bolivares 70 billion (Lire 218 billion); the gross operating profit was approximately Bolivian bolivares 5 billion (Lire 15 billion); the operating result, which was negative, amounted Bolivian bolivares 7 billion (-Lire 22 billion).

■ AFFILIATED COMPANIES AND OTHER COMPANIES

Europe

By the end of the six-month period, **Mobilkom Austria** had accumulated approximately 2.9 million lines; the performance of Vipnet in Croatia and Si.Mobil in Slovenia was also positive: these operators reached a customer base of 677,000 and 197,000, respectively. Revenues for the six-month period amounted to more than Austrian schillings 9 billion (Lire 1,335 billion); the gross operating profit was approximately Austrian schillings 4 billion (Lire 546 billion); the operating income was Austrian schillings 2 billion (Lire 287 billion).

In Turkey, **IS TIM**, set up in September 2000, launched the service with the “Aria” trademark in March 2001, only 5 months after being awarded the GSM license on October 27, 2000. At the end of June, “Aria” had accumulated approximately 187,000 lines, with an incremental market share for the month of June of approximately 17%. Revenues for the six-month period amounted to Turkish lire 10,166 billion (Lire 18 billion); the gross operating result, which was negative, amounted to Turkish lire 62,774 billion (-Lire 113 billion); the operating result was also negative, Turkish lire 121,802 billion (-Lire 219 billion) due to the start-up phase of the company.

Bouygues Telecom, with a customer base of 5.9 million, confirmed a market share of 18%; the number of lines compared to the first six months of 2000, increased by 50%. During the period, the company launched initiatives geared to optimizing operational and financial management, concentrating on innovating services with new tariff packages. Revenues for the six-month period amounted to approximately French francs 8,021 million (Lire 2,368 billion, +42.4% compared to the first half of 2000); the gross operating profit was French francs 3,129 million (Lire 924 billion, more than three times the figure recorded in the first half of 2000); the operating income was French francs 33 million (Lire 10 billion, +105% compared to the first half of 2000).

3.3 INTERNATIONAL OPERATIONS

The international presence of the Business Unit is spread over several companies, most of which are controlled by SIN (Stet International Netherlands, 100%-owned by Telecom Italia), a holding company for integrated fixed-mobile companies. During the first half of 2001, the development and management of the foreign portfolio were geared to maintaining the presence of the Telecom Italia Group in strategic markets, mainly in Europe and Latin America, with the aim of:

- strengthening its presence in countries and business segments with high growth potential;
- divesting of participations with a minor strategic importance.

On April 1, within the framework of redefining the objectives of the Group Business Units, TMI, Mediterranean Nautilus, Latin American Nautilus and the Pan-European Backbone were transferred to the Wireline Services Business Unit; in March, SIN sold 30% of Mediterranean Nautilus S.A. (including Elettra) to FTT Investment, a company in the Israeli Fishman Group and, in February, liquidated the Chinese joint-venture Tianjin Stet Communications Development, for Euros 8.63 million.

Other important transactions during the six-month period are described below

Europe

In **France**, within the framework of the partnership begun at the end of 2000 with Pinault-Printemps-Redoute (PPR), in April, SIN sold 1,003,386 of its shares in 9Telecom Reseau to Lobelie (a company in the PPR Group), thus reducing its investment interest to 97.18% and receiving in exchange a receivable of Euros 35 million which was due to Lobelie from 9Telecom for the sale of Mageos. Then, on July 16, the Board of Directors of the French company approved a capital increase for a total of Euros 36 million, to which SIN will subscribe proportionally by converting the above-mentioned receivable.

Again in April, Jet Multimedia (JM) concluded the acquisition, begun in February, of 100% of Victoire Multimedia from the LVMH Group, for Euros 33,538,750. The transaction, which was financed by the issue, on the part of JM, of 479,125 new shares of Euro 1 each to the DI Group, led to an overall capital increase for JM of approximately French francs 219 million (Lire 65 billion), thus reducing 9Telecom's investment in JM from 94.5% to approximately 90%. The acquisition of Victoire, a national leader in online services provided to financial operators, completes the services being offered by JM, which are directed towards a segment of the clientele with a vertical market and high growth potential.

In May, Mageos (an Internet Service Provider acquired from PPR) contributed its *portal*, the virtual community “Foule9” and its trademark to Europe Explorer (the Internet Service Provider acquired by JM) for a total value of French francs 15 million. Following the transaction, which was financed by a capital increase of Europe Explorer equal to Euros 2,287 million, the new company “Mageos-Explorer” was conceived, in which 9Telecom holds a 91.21% investment. Also in May, the transaction was finalized for the merger by incorporation of the remaining part of Mageos with 9Telecom (100% of the capital, equal to Euros 40,001,505), with retroactive effect from January 1, 2001.

In **Spain**, during the six-month period, the shareholding structure of AUNA (a holding company created in December 2000) was completed, as a result of which the total investment of the Telecom Italia Group (SIN and SMH) is 26.58% of capital, in addition to an investment of 0.32% owned through Multimedia Cable.

The extraordinary shareholders’ meeting of AUNA held on April 25 approved a capital increase of approximately Spanish pesetas 103 billion, subscribed to by SIN through the conversion of the loan against a future capital increase of Spanish pesetas 23 billion (Lire 272 billion) made in 2000 plus an integration of Spanish pesetas 50.5 million (Lire 588 million) paid in March, to bring the value of the above-mentioned loan up to the level of the effective investment held by SIN in the company, at the time of the conversion. At the same Meeting, a further capital increase was approved for approximately Spanish pesetas 186 billion, in which SIN, based on its investment of 22.76%, invested the sum of Spanish pesetas 42.3 billion (Lire 492 billion). In order to finance these capital increases, SIN received from Telecom Italia a contribution against a future capital increase equal to approximately Lire 120 billion.

In Euskaltel, in which an 18% stake is held, during the six-month period SIN subscribed to three capital increases with a payment, based on its investment, of approximately Lire 32 billion.

In **Austria**, Mobikom Austria was legally converted from a joint stock company to a partnership. This will enable Telekom Austria to recover past tax losses through the profits from Mobikom, with effect from July 1, 2000.

Latin America

In **Chile**, in March, SIN acquired new stakes in the Entel Chile group for US \$905 million, bringing its investment to 54.76%. The transaction is part of the international strategy of the Group to consolidate and strengthen its presence in Latin America, with Entel standing forward as a global telecommunications operator.

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

(in billions of lire)	1 st half 2001 (A)	1 st half 2000	1 st half 2000 – on a comparable consolidation basis (B)	Year 2000	Year 2000 – on a comparable consolidation basis	Change (1) (A-B)	
						Amount	Percentage
Sales and service revenues	3,493	2,124	3,055	4,438	6,507	438	14.4
Gross operating profit	1,256	816	1,114	1,739	2,395	142	12.7
Operating income	94	220	324	446	684	(230)	(71.0)
Capital expenditures:							
• industrial	855	559	829	1,409	2,172	26	3.1
• goodwill	1,496	-	-	1,510	1,510	-	-
Number of employees at end of period	14,816	9,670	13,829	10,070	14,771	45	0.3

(1) The change in the number of employees was calculated based on the figures at the end of 2000.

At June 2001, the economic and financial data of the Business Unit show a positive trend compared to the first half of 2000 on a comparable consolidation basis (as a result of the entry of the Entel Chile Group). The increase in revenues and in the gross operating profit compared to June 2000 highlights double digit growth; in terms of profitability, the percentage of the gross operating profit to revenues remained virtually unchanged (36% in the first half of 2001 against 36.4% in the first half of 2000), as a result of the erosion of profit margins within some of the incumbent companies, which was only partly compensated by the growth of companies in the start-up phase.

In terms of the operating result, on the other hand, there was a significant decline compared to the same period in 2000 on a comparable consolidation basis, which can be attributed to the amortization of goodwill of Entel Chile and to the lower margins on sales in Argentina, due to the economic crisis affecting the country, the effects of which are also reflected on the International Operations business unit of Telecom Italia.

■ CONSOLIDATED SUBSIDIARIES

Europe

During the first half of 2001, **9Telecom Reseau** developed its activities in fixed telephone services and, at June 30, had accumulated a total of 990,000 customers (750,000 at the end of 2000), of which 514,000 were active, corresponding to 916,000 lines. There were more than 86,000 active Internet customers (compared to the 36,000 estimated at December 31, 2000). Revenues for the six-month period amounted to French francs 532 million (Lire 157 billion), more than double the figure in the first half of 2000 (French francs 234 million, equal to Lire 69 billion); the gross operating profit was again a negative figure, of French francs 368 million (-Lire 109 billion), although this was a great improvement over the first half of 2000 (+28% compared to the same period in 2000). Similarly, the operating income was negative, French francs 523 million (-Lire 154 billion), an improvement of 10% compared to the first half of 2000 (-French francs 583 million, equal to -Lire 172 billion). During the six-month period, **Jet Multimedia** reported revenues of French francs 314 million (Lire 93 billion), 15% higher than in the first half of 2000 (French francs 273 million, equal

to Lire 80 billion), attributable mainly to its traditional activities (Audiotel, Minitel, Internet, WAP) and, to a lesser extent, to more innovative activities (development and advertising), the results of which were affected by the generalized decline which took place in the new economy sector. Moreover, Jet Multimedia is in an excellent position to succeed in overcoming this economic phase of the Internet market, since it is a market leader in the offering of integrated hosting services and has an excellent mix of traditional and innovative business. In fact, it should be emphasized that the core business of Jet reported a positive trend: revenues from hosting well exceed the forecasts. The gross operating profit was French francs 10 million (-Lire 3 billion), compared to French francs 8 million (Lire 2.3 billion) reported in the first half of 2000. The gap can mainly be attributed to high fixed costs. In this sphere there was a slight recovery in the cost structure, although it will not be possible to appreciate the most significant benefits of re-engineering until 2002. Similarly, the operating income, which was a negative figure of French francs 44 million (-Lire 13 billion), is lower than the figure reported in the first half of 2000 (+French francs 8 million, Lire 2.3 billion) partly as a result of the amortization of goodwill deriving from recent acquisitions.

Mageos-Explorer is currently an Internet Service Provider with approximately 14,000 active customers. During the six-month period it generated revenues of French francs 12 million (Lire 4 billion), a negative gross operating profit result of -French francs 12 million (-Lire 4 billion) and an operating income of -French francs 16 million (-Lire 5 billion).

Intelcom San Marino offers international telephone services, value-added services, data transmission and Internet access. At June 30, 2001, it had accumulated approximately 4,200 Internet customers and 8,300 mobile customers through Telefonía Mobile Sammarinese (TMS), in which it has a 51% investment.

During the six-month period, the company reported revenues of Lire 45 billion (Lire 50 billion in the first half of 2000); the gross operating profit was Lire 3 billion (Lire 4 billion in the first half of 2000) whereas the operating income confirms the figure of the first half of 2000 (Lire 3 billion). The fall in revenues in the core business can be attributed to the fierce competition.

Latin America

The Group is present in Argentina through **Nortel Inversora**, the company with a majority investment in **Telecom Argentina** (54.74%), in which Telecom Italia and SIN have a direct investment of 50% of the ordinary share capital. At June 30 2001, the Telecom Argentina Group had accumulated more than 3.6 million fixed network subscribers (+9,5% compared to the end of June 2000), with a market share of 45%, and 2.2 million mobile customers (of which 62% on prepaid card), maintaining a market share of 31%; at the same date, Internet customers numbered 326,000 (+126% compared to the end of June 2000).

The economic situation prevailing in the country and the new competitive context influenced the results of the Group which, during the six-month period, reported revenues of Argentine pesos 1,597 million (Lire 3,448 billion), a fall of 5% compared to the first half of 2000 (Argentine pesos 1,677 million, equal to Lire 3,385 billion). The reduction can be attributed in particular to the lower revenues from traditional telephone services (-7%) deriving from the lowering of tariffs and the lower propensity of the clientele towards consumption. Conversely, despite the economic situation, greater efficiency in external costs made it possible to raise corporate gross operational profitability and hence to keep the gross

operating profit virtually constant, equal to Argentine pesos 832 million (Lire 1,795 billion, -0,6% compared to the first half of 2000). The operating income, equal to Argentine pesos 315 million (Lire 680 billion) fell by 16% compared to the same period in 2000 (Argentine pesos 375 million, Lire 757 billion); this figure also includes the increase in bad debts.

During the next few months, the persisting serious economic crisis prevailing in the country will make it necessary to pinpoint further efficiencies in distribution and operating costs, also in investments and productivity levels. In this sphere, it emerges that the company has already implemented a plan to reduce investments (particularly with reference to traditional telephone services) which, as a percentage of revenues, have fallen from 26% in the six-month period of 2000 to approximately 20% in 2001.

The **Entel Chile** group, despite the prevailing recession in the country, has achieved excellent growth with an increase in revenues compared to the same period of the prior year of close to 40% (consolidated revenues amounted to Chilean pesos 329 billion, equal to Lire 1,206 billion, compared to Chilean pesos 236 billion in the first half of 2000, equal to Lire 935 billion). This can be attributed to a considerable increase in the revenues of the group holding company (+7% compared to the first half of 2000) but, more particularly, to the activities of the subsidiaries Entel Telefonía Personal (mobile telephone services) and Americatel USA (a long-distance *carrier* operating in the United States for the Spanish market). In fact, during the six-month period, Entel further consolidated its market leadership in the mobile sector with approximately 1.6 million customers (+62% compared to June 30, 2000), equal to an increase, in terms of revenues, of 47%; similarly, Americatel reported an increase in revenues of 84% compared to the results of the corresponding period of 2000; finally, the Internet sector considerably increased the levels of traffic and revenues (+44% and +32% respectively).

The gross operating profit is Chilean pesos 100 billion (Lire 368 billion, +33% compared to the first half of 2000); the operating income of Chilean pesos 39 billion (Lire 144 billion) increased by 39% compared to the same period in 2000 (Chilean pesos 28 billion, Lire 111 billion). This trend confirms the success achieved in the diversification of business and the now completed changeover from a former monopoly operator to an integrated operator.

According to Bolivian law, until November 2001, fixed, local and long distance telecommunications must be offered by a monopoly. Local telephone services are currently supplied by cooperatives with territorial competence limited to specific areas of the country, whereas long distance telephone services are offered on a national level by **Entel Bolivia**, a subsidiary of SIN.

During the period, the company recorded 65 million minutes of incoming international traffic (+47% compared to June 2000), achieved in a context of a considerable reduction in prices (-36%) that was partly offset by better agreements with *carriers*. In the domestic market, the growth of volumes (308 million minutes; +9% compared to June 2000) did not fully compensate the reduction in the tariffs of long distance national and international traffic (approximately -10%).

In terms of quantity, despite the persisting economic crisis affecting the country, at June 30, 2001 the company had accumulated 36,000 direct access lines and 306,000 mobile customers (thanks especially to the launch of GSM in November 2000) which showed a marked increase compared to June 2000 (+29% and +48% respectively).

To summarize the six-month period, Entel reported revenues of Bolivian bolivianos 631 million (Lire 211 billion, in line with the first half of 2000); mobile telephone services contributed Bolivian bolivianos 96 million (Lire 32 billion, +21%) and basic telephone

services contributed Bolivian bolivianos 508 million (Lire 170 billion, -4%). The gross operating profit was Bolivian bolivianos 264 million (Lire 88 billion; +3% compared to the first half of 2000) with an operating income of Bolivian bolivianos 59 million (Lire 20 billion; +44% compared to the same period in 2000), having benefited from policies designed to rationalize external costs and, in particular, labor costs.

■ AFFILIATED COMPANIES AND OTHER COMPANIES

Europe

Spain

During the six-month period, by strengthening its position as the main competitor of Telefonica, **AUNA** reached a total of 2,300 customers with direct access, 2,409,000 customers with indirect access (through Retevision), 4,361,000 mobile customers (through Retevision Movil which operates under the Amena trademark), of which 75% with prepaid cards, 2,127,000 mainly residential free-Internet customers (through EresMas), approximately 90,000 paying Internet customers, mainly from the business sector (through Retevision) and 38,000 broadband Internet customers. Customers of cable operators totaled approximately 180,000.

Consolidated revenues amounted to Spanish pesetas 170 billion (Lire 1,978 billion), the gross operating profit, close to a breakeven, was a negative figure of Spanish pesetas 5 billion (-Lire 59 billion) and the operating income was also negative: -Spanish pesetas 57 billion (-Lire 666 billion).

Euskaltel, which was not involved in the process of setting up AUNA, offers direct and indirect telephone services, mobile telephone services, Internet and cable TV in the Basque region where, at June 30 2001, it consolidated its position as the second-largest fixed telephone services operator, with 342,000 indirect lines and 30,000 direct lines (equal to 280,000 customers) and the third-largest mobile operator, with 284,000 active customers; paying Internet customers numbered 108,000, 37% more than at the end of 2000 (when they numbered 79,000).

During the period, the company reported revenues of Spanish pesetas 10 billion (+61% compared to the first half of 2000, Spanish pesetas 6.2 billion, Lire 72 billion); a negative gross operating profit of Spanish pesetas 0.8 billion (-Lire 9.3 billion, +54.5% compared to the first half of 2000) and an operating income of -Spanish pesetas 4 billion (-Lire 46 billion, in line with the same period of the prior year).

Austria

Telekom Austria, the dominant operator in the fixed, Internet and data sector, has tackled the growing pressure from the competition and the deregulation of the market by embarking on a policy to reduce tariffs and proceeding to spin-off the Internet operations to a new company: Jet2Web Internet Services. Against the gradual loss of the phone market, a segment for which, during the first six months, it achieved a market share in traffic of 56.8% (with approximately 3,205,000 lines, compared to 3,269,000 in December 2000), the operator, with Jet2Web Internet Services, reached a market share of 37% in the Internet sector (compared to 25% at the end of 2000), equal to approximately 520,000 customers (approximately 300,000 at the end of 2000), thanks partly to the acquisition by Jet2Web of the customers of Lion.cc and YWAS.

During the period, the parent company reported revenues of Austrian schillings 16,377 million (Lire 2,304 billion), a fall of 11% compared to the first half of 2000 (Austrian schillings 18,444 million, Lire 2,595 billion, including Internet activities. The gross operating profit, Austrian schillings 5,585 million (Lire 786 billion; -3% compared to the same period in 2000), partially recovered, due to rationalization of external costs and labor costs. The operating result, a negative figure of Austrian schillings 97 million (-Lire 14 billion) also considerably improved compared to the first half of 2000 (-Austrian schillings 580 million, -Lire 81 billion).

Jet2Web Internet Services reported revenues of Austrian schillings 515 million (Lire 72 billion). The high costs sustained for the launch of the new *portal* helped to generate a loss in terms of the gross operating profit of Austrian schillings 116 million (-Lire 16 billion) and a negative operating result of Austrian schillings 235 million (-Lire 33 billion).

In the data sector, **Datakom** reported revenues of Austrian schillings 2,122 million (Lire 299 billion, +6% compared to the first half of 2000), a gross operating profit of Austrian schillings 324 million (Lire 46 billion; -9.5% compared to the same period of 2000) and an operating income of Austrian schillings 100 million (Lire 14 billion), 49% less than in the same period in 2000 (Austrian schillings 195 million, Lire 28 billion) mostly as a result of higher operating costs (including costs paid to the parent company) and higher amortization and depreciation.

Serbia

At June 30, 2001, **Telekom Srbija**, the only fixed operator and the second-largest mobile operator in the country, in which SIN has an investment of 29%, maintained its fixed network customer base of more than 2,200,000 subscribers, whereas it reached 648,000 mobile customers, showing an increase of 50% compared to the end of 2000. The results of the first half of 2001 show revenues of approximately Serbian dinars 9.5 billion (Lire 308 billion).

Considering the company's persisting lack of available funds, within the framework of the Telecom Italia Group, a decision was made to accrue additional provisions for overdue receivables.

Currently, a shareholders' Task Force is defining a plan to re-launch operations and restore a satisfactory economic and financial position for Telecom Srbija.

Latin America

Brazil

The Telecom Italia Group operates in the field of fixed telephone services through **Brasil Telecom Participacoes** (BTP), in which SIN has a stake through Solpart Participacoes, which owns about 52% of the company.

At June 30, 2001, BTP had accumulated 7.9 million connections (+59% compared to June 30, 2000) and had installed 9.8 million lines. Results for the period show consolidated revenues of Brazilian reais 3,095 million (Lire 3,114 billion), a gross operating profit of Brazilian reais 1,659 million (Lire 1,669 billion), and an operating income of Brazilian reais 469 million (Lire 472 billion).

Compared to the prior six-month period, the results show a reduction of profitability in terms of the EBITDA margin, which can mainly be attributed to the delay of newly installed lines entering into service, and to higher accruals for risks on receivables.

In the first six months of 2001, **Globo.com** (GLB Servicos Interativos), the Internet Consumer portal, concentrated its efforts on achieving a marked increase in the size of its audience: +34% compared to the end of 2000, double the growth achieved by the Brazilian market leader UOL (+17%), ranking Globo.com eighth in the general Brazilian classification with 1,642,000 Unique Visitors (the number of visitors to a site in a given period of time).

The company, which is still in the start-up phase, concentrated on strengthening the content of the portal and a new commercial strategy based on synergies with the Globo Group. Globo.com is also defining its strategy to access Narrowband and Broadband. Broadband multidevice access could constitute an important opportunity, since it will make it possible to realize in full the potential deriving from the new media business segment.

During the six-month period, the current economic situation generated a slowdown in the growth of the market compared to the forecasts made at the beginning of the year.

During the first half of 2001, the company reported revenues of Brazilian reais 4.1 million (Lire 4.1 billion), the gross operating profit was a negative figure of Brazilian reais 67.8 million (-Lire 67.4 billion) and the operating result was a negative figure of Brazilian reais 70 million (-Lire 70.4 billion).

Globo.com is the vehicle through which Telecom Italia plans to lay the foundations for the implementation of the Internet Consumer strategy in Brazil.

Cuba

Etec S.A. Cuba, the exclusive operator of national and international fixed telephone services, closed the six-month period with results slightly lower compared to the same period in 2000. This is principally due to the fall in revenues from incoming international traffic (-10%), which can be attributed to the severing of telephone communications with the U.S. ordered by the Cuban government on December 15, 2000, the latest move in the dispute between Cuba and the United States. The fall in revenues from international traffic was partly compensated by revenues from national traffic (+7% compared to the first half of 2000), and particularly attributable to the growth in the activities as an Internet Service Provider.

To summarize, revenues for the period amounted to US\$ 137 million (Lire 296 billion), slightly less (-4%) than the figure recorded in the first half of 2000 (US\$ 142.5 million) on account of the above-mentioned reduction in international traffic. The gross operating profit was US\$ 90 million (Lire 194 billion; -12% compared to the same period in 2000); the operating income, of US\$ 70.2 million (Lire 151 billion), fell by 19.5% compared to the same period of the prior year, mainly as a result of higher depreciation due to an increase in investments.

Other areas

Israel

The Telecom Italia Group has a 26.4% investment in **Golden Lines**, currently the second-largest operator of international telephony and Internet services in the country, through Golden Netherlands.

In the first half of 2001, the company reported revenues of Israeli shekels 324 million (Lire 168 billion, +28% compared to the same period in 2000) and a net loss of Israeli shekels 7.3 million (-Lire 3.8 billion), an improvement of 76% compared to the first half of 2000 (loss of Israeli shekels 31 million, equal to -Lire 16.2 billion).

3.4

INTERNET AND MEDIA

The Internet and Media Business Unit, corresponding to the Seat Pagine Gialle Group, supervises the whole chain of value in the media sector, extending its activities to publishing, information and television, and is the nationwide leader in the marketing of office products and services. Seat PG is also responsible for the development of Internet services for residential customers and small and medium-size companies, in all its components: access, portals and web services.

(in billions of lire)	1 st half 2001 (A)	1 st half 2000 (2)	1 st half 2000 – on a comparable consolidation basis (B) (3)	Year 2000 (2)	Year 2000 – on a comparable consolidation basis (3)	Change (1) (A-B)	
						Amount	Percentage
Sales and service revenues	1,598	219	1,605	509	3,723	(7)	(0.4)
Gross operating profit	278	(31)	298	(67)	733	(20)	(6.7)
Operating income	(121)	(66)	(14)	(142)	51	(107)	°
Capital expenditures:							
• industrial	154	47	259	65	426	(105)	(40.5)
• goodwill	259	-	n.d.	-	-	-	-
Number of employees at end of period	8,992	377	n.d.	7,515	n.d.		

(1) The change in the number of employees has been calculated on the basis of numbers at the end of 2000.

(2) Data refer only to Tin.it, with the exception of the number of employees in 2000, which includes the Seat Group.

(3) This includes the consolidated results of the Seat Group, the activities of Tin.it from January 1, 2000 and the companies recently acquired by the Seat Group.

During the first half of 2001, the Internet and Media Business Unit reported revenues of Lire 1,598 billion, an increase of 44% compared to the same period in the prior year, which can be attributed to the inclusion of new companies in the consolidation area. In fact at June 30, the results of recently acquired companies were consolidated for the first time, including the French business information company Consodata, the British equivalent of Pagine Gialle, TDL Infomedia (Thomson), the German Directory Assistance company Telegate and the television group Cecchi Gori Communications (La 7, formerly Telemontecarlo).

Revenues for the period were fairly stable compared to those of the first half of 2000 – reconstructed on a comparable consolidation basis in order to take into account the newly acquired companies mentioned above – due to a combined effect, amongst other things, of a 1.8% increase in the Directories Italia Division, increase of over 11% in Office Products and Professional Publishing, as well as a 25.7% fall in Television and 7.1% drop in Internet.

More generally, the period January-June 2001 was characterized by a slowdown of the economy and a serious crisis in the advertising market all over Europe.

In this context, the Directories confirmed their characteristic of being anti-cyclical products, which react slightly to the dynamics of the economic situation, whereas revenues from Television and Internet were particularly affected by the poor trend of the advertising market, which, in Italy, during the period, reported zero growth in the television segment and a sharp fall in the Internet segment. Furthermore, the Television business area was the object of far-reaching reorganization on account of the start-up at the end of the six-month period of La 7 and the launch of MTV Italia.

During the six-month period, the consolidated gross operating profit was Lire 278 billion, compared to Lire 298 billion in the first half of 2000 – reconstructed on a comparable

consolidation basis in order to take into account the newly acquired companies mentioned above – as the result of the inclusion in the consolidation area of a number of activities now being developed: in particular, the fall can be explained by the negative trend of the margins of Telegate on account of difficulties of the market and by higher costs for launching the new TV channels. In addition to the positive gross operating profit of the Directories Italia Division (equal to Lire 372 billion, more than 50% of revenues), the Internet segment showed an impressive performance (on a comparable consolidation basis with the first half of 2000) reducing its losses from Lire 94 billion to Lire 57 billion. Thanks to the recovery of efficiency and the very positive trend in sales of *ADSL* subscriptions (which, during the quarter, increased from approximately 19,000 to more than 70,000), the gross operating profit of Internet access services came close to a breakeven (with a loss equal to 3% of revenues), while the global statements of income for the segment include costs for the start-up of the new initiatives associated with Mondus (marketplace), Giallo.it (a portal for companies), Gialloviaggi (a portal for business trips). The increase in amortization and depreciation charges (mainly with reference to the Internet business area) and accruals made in relation to the receivables of the television activities of Seat PG Due from the Cecchi Gori Group affected the operating result, which was a negative figure of Lire 121 billion.

As far as the parent company Seat Pagine Gialle is concerned, during the six-month period, revenues increased (+Lire 29 billion; +3.7%) particularly as a result of income deriving from the activities of Tin.it (Lire 101 billion for access services not present in the corresponding period of 2000) and lower revenues (Lire 82 billion) from the compiling of telephone subscriber directories on behalf of Telecom Italia. In fact the ownership of the telephone directories was contributed to Tin.it, which merged with Seat PG on November 15, 2000. The operating income for the period was Lire 161 billion.

On a comparable consolidation basis, the operating income improved considerably, increasing from Lire 105 billion to Lire 161 billion.

Significant events during the period

- In February, Seat acquired control (54.5%) of Consodata (a company, listed on the Nouveau Marché in Paris, operating in the sector of information marketing). The transaction was based on: (i) a capital increase by Seat to finance the transaction through the issue of 63,789,104 shares against the contribution of 3,986,819 Consodata shares, corresponding to 39.27% of the share capital of the French company; (ii) the contribution from Seat to Consodata of the entire investment (100%) held in Giallo Dat@ against a capital increase by Consodata through the issue of 3,383,520 ordinary shares (25% of the new capital of Consodata after the increase).
- On April 5, 2001, following a check of the valuations effected pursuant to Article 2343 of the Italian Civil Code and in execution of the resolutions approved by the shareholders' meeting on February 23, 2001, new Seat PG ordinary shares numbering 150,579,625 were issued to finance the acquisition of the remaining investment in Telegate Holding GmbH, which controls 50.99% of the capital of Telegate A.G., a German company listed on the Neuer Markt. As a result of the acquisition of a 100% stake in Telegate Holding GmbH, Seat PG holds a 64.532% interest (direct and indirect) in Telegate A.G..
- On May 11, 2001 the residual take-over bid for the shares of Group Buffetti S.p.A. not yet held by Seat was concluded. A total of 1,415,346 shares were tendered, equal to

3.114% of the share capital and 83.751% of the shares covered by the take-over bid, which gave Seat a 99.396% stake in the capital of the Buffetti Group, and, with effect from May 17, 2001, the Buffetti Group was canceled from the list of companies quoted on the stock exchange. On the basis of current laws, within four months of the closing of the bid, Seat will acquire the remaining shares of the Buffetti Group, at a price which will be determined by Arthur Andersen, the expert appointed by the President of the Rome Court.

- On May 29, 2001, Seat acquired 100% of Pan-Adress Direktmarketing GmbH and General Partner GmbH (cumulatively known as Pan-Adress), the German firm operating in the Direct Marketing sector. The acquisition was made by agreeing on a value equal to German marks 40 million in exchange for 1,084,912 Consodata shares owned by Seat PG. The sellers, by virtue of a commitment made with Seat, contributed the Consodata shares to the tender offer launched by Seat PG itself.
- On June 15, 2001, following a check of the valuations effected pursuant to Article 2343 of the Italian Civil Code and in execution of the resolutions approved by the extraordinary shareholders' meeting held on May 10 2001, new Seat ordinary shares numbering 76,310,000 were issued to finance the acquisition of 100% of Net Creations – a U.S. company specializing in marketing via *e-mail*.

3.5

INFORMATION TECHNOLOGY SERVICES

The Information Technology Services (IT Services) Business Unit is responsible for the information technology activities of the Group.

IT Services, which was constituted following the integration of various companies (Finsiel, Netsiel, Telesoft, Sodalìa and the former information technology function of Telecom Italia) covers the whole chain of value of information technology services, pursuing objectives of repositioning with regard to products with higher added value and the transformation of its operative units nationwide into development centers for the various geographical areas.

During the first half of the year, the first phase of industrial and corporate rationalization according to homogeneous areas of the Business Unit was implemented through the following measures:

- the sale to Telesoft of Telecom Italia's "Information Systems Development Service" business segment;
- the sale to Telesoft, of Finsiel's "Applications Software Development Services" business segment;
- the sale to Netsiel of the Eis "Services" business segment;
- the sale to Finsiel of Consiel's "Health" business segment;
- the transfer to Finsiel of the investment in Lottomatica, through the partial, non-proportional demerger of Sogei. This transaction was aimed to support the initial public offer, held on May 7, 2001, of 70.5% of Lottomatica shares by the Olivetti Group and the Telecom Italia Groups and Banca Nazionale del Lavoro.

Instead, as far as the second phase of corporate reorganization is concerned (scheduled for the second half of 2001), which will involve the contribution to IT Telecom of the investments held by Telecom Italia in Finsiel, Telesoft, Sodalìa and Netsiel, studies are currently in progress to ascertain the best placement of the assets involved within the Telecom Italia Group.

The following table shows the highlights of the first six months of 2001, compared to those of the first six months and the whole of 2000:

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000	Change (1) (A-B)	
	(A)	(B)		Amount	Percentage
Sales and service revenues	1,713	1,850	4,139	(137)	(7.4)
Gross operating profit	318	298	638	20	6.7
Operating income	176	122	260	54	44.3
Capital expenditures:					
• industrial	108	107	243	1	0.9
• goodwill	2	-	1	2	
Number of employees at end of period	11,770	11,814	12,005	(235)	(2.0)

(1) The change in the numbers of employees has been calculated based on numbers at the end of 2000.

Revenues for the first half of 2001, equal to Lire 1,713 billion, are Lire 137 billion less than in the same period the prior year. This trend is mainly due to the effect of the new outsourcing contracts, taken out in 2001 by Telesoft and Netsiel with the Wireline Services B.U. of the Parent Company, completing the process for the spin-off of the former information technology function formerly within Telecom Italia; these contracts, which are oriented towards maximum efficiency, in a framework of competitive prices at market conditions, generated a marked reduction in revenues in the areas devoted to such activities. However, profitability during the six-month period improved, both in terms of the gross operating profit and the operating income.

The costs for R&D activities sustained during the six-month period amounted to approximately Lire 8 billion.

At June 30, 2001, employees numbered 11,770 (-235 compared to the workforce at the end of 2000).

On August 2, 2001, the new organizational framework of the IT Services B.U. was defined, involving the division of operations into the Business Management Integration function and Corporate Units. The following Market Units report directly to the former:

- Operational Services, which includes Netsiel;
- E-Communication, which includes Telesoft, Sodalia, Eustema, and the foreign companies Tecosoft Espana, Telesoft Hellas, Telesoft Russia and Sodalia Nord America;
- Mobile Internet Services, which includes Netikos and Netikos Finland;
- E-Government, which includes Finsiel's E-Government Business line (along with the foreign company Finsiel Romania, an affiliate);
- E-Enterprise, which includes Finsiel's E-Enterprise Business line (along with the companies Tele Sistemi Ferroviari, EIS and Aspasiel, affiliates);
- E-Finance, which includes Finsiel's E-Finance Business line (along with Banksiel, Carisiel and Centrosiel, affiliates);
- Regional Services, which includes Insiel, Intersiel, Krenesiel, Venis, Webred, Datsiel, Sispi, as well as the projects and resources of Finsiel operating on behalf of Italian Public Administration and Local Health bodies;
- Tax Services, which includes Sogei;
- Consulting, which includes Consiel and Consiel do Brasil.

There follows the highlights of the main companies comprising the BU for the first six months of 2001.

In addition to continuing with its traditional activities in favor of the central and local Public Administration, the **Finsiel group** extended its development and system integration services, “Enterprise Resources Planning” (ERP) platforms, online services in the fields of e-business, e-banking and training. Moreover, all services were revitalized to offer customized web-based solutions to companies, banks and the Public Administration.

Work continued on the rationalization of investments begun in 2000. The main changes in the consolidation area of the Group compared to June 30, 2000 are: the entry of Webred and Netikos; the exclusion of Bisiel, Jmac Consiel, Hiteco Consultants, Comitsiel which has merged with Banksiel, Sintesi which has merged with Tele Sistemi Ferroviari, Metis which has merged with Consiel, Sit and Aska which were placed in liquidation, as well as Netsiel and its subsidiary Sibisiel which, as a result of the reorganization in the B.U., are directly consolidated by Telecom Italia.

Overall, in the first half of 2001, the Finsiel Group reported revenues of Lire 1,111 billion, an increase of 6.2% compared to the same period in 2000, due mainly to the higher production volumes of Sogei and Finsiel. This trend of revenues, together with the reduction of labor costs and other operating expenses, generated an improvement in the gross operating profit (Lire 149 billion, +11% compared to the first half of 2000) and the operating income (Lire 118 billion, +28% compared to the first half of 2000).

The Telesoft group is the leading supplier of software and Information Technology services of the Telecom Italia Group. In fact, it is the Group’s main partner in the creation and development of both network management processes for telecommunications, and support systems for marketing activities. During the period, in addition to consolidating its position on the national market, Telesoft strengthened its presence in Latin America, Spain and Greece, in keeping with the Telecom Italia Group’s expansion strategy.

In addition to the above mentioned acquisitions of business segments, compared to the first half of 2000, we should mention the entry in the consolidation area of Eustema and the exclusion of Telesoft America, which was sold to Sodalia.

Revenues in the first six months of 2001, with the tariff structure resulting from the new outsourcing contract, amounted to Lire 309 billion, with an increase of Lire 12 billion, +4%, compared to the same period in 2000, due to the acquisition of business segments and changes in the consolidation area. The gross operating profit, Lire 29 billion, fell compared to the first half of 2000, by Lire 11 billion, -27.5%, as a result of a review of the compensations under the new development and software support contract for the Wireline Services Business Unit of Telecom Italia, signed at the beginning of the year.

The operating income fell from Lire 26 billion in the first half of 2000 to Lire 6 billion in the first half of 2001, partly as a result of higher amortization and depreciation and accruals to the reserve for risks and charges.

Netsiel manages and operates Telecom Italia’s information technology infrastructures. The company offers the market a complete range of products and services to support organization and production. The first half of 2001 was characterized both by the start of the operational management of Telecom Italia’s information technology infrastructures. This followed the contribution of the “Information Systems Operation” business segment of the Parent Company to Netsiel, which took place on December 31, 2000 (for which a special outsourcing contract was signed), and by Netsiel’s acquisition of the “Services”

business segment of EIS (Elettronica Ingegneria Sistemi). As a result of the first contribution, Netsiel's share structure was changed from a 100% stake owned by Finsiel to: Telecom Italia 68.65% and Finsiel 31.35%.

Thanks to the new shareholding structure, in keeping with the new mission of the company, in the first half of 2001, Netsiel reported revenues of Lire 352 billion; the gross operating profit was Lire 134 billion and the operating income was Lire 50 billion.

The activities of **Sodalia** are oriented towards the creation of innovative telecommunications software. Revenues from sales and services amounted to Lire 21 billion (+18.4% compared to the first half of 2000); the gross operating profit, of Lire 5 billion, was almost double the figure recorded in the first half of the prior year; the operating result improved from a negative figure of -Lire 0.4 billion in the first half of 2000 to an operating income of Lire 3 billion in the first half of the current year.

3.6 SATELLITE SERVICES

The Satellite Services Business Unit (the Telespazio Group and the "Satellite Services" business segment of Telecom Italia) is responsible for developing satellite communications systems for phone and data services, radio and television transmission and earth observation. The Telespazio Group also plays an active part in leading innovative international projects such as Astrolink (the global satellite telecommunications system) and GALILEO (the European satellite civilian navigation and radio-locating system). The following table shows the highlights of the first half of 2001, compared with those of the first six months and the whole of 2000. The latter also include the line-by-line consolidation of the companies Iridium Italia and Comstar, which are not included in the consolidation area in the first six months of the current year since they have been put into liquidation.

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000	Change (1) (A-B)	
	(A)	(B)		Amount	Percentage
Sales and service revenues	272	272	659	-	-
Gross operating profit	30	37	96	(7)	(18.9)
Operating income	9	(56)	(100)	65	°
Capital expenditures:					
• industrial	21	29	59	(8)	(27.6)
• goodwill	-	-	-	-	-
Number of employees at end of period	1,173	1,230	1,206	(33)	(2.7)

(1) The change in the number of employees has been calculated based on figures at the end of 2000.

Revenues from sales and services achieved by the Business Unit in the first six months are in line with those of the first six months of the prior year. The period generated a positive trend in "Media & Communication" activities, due to the growth of the Television sector, which made it possible to absorb the fall in revenues from the Telecommunications sector following the interruption of the operation service for the *gateway* of the Iridium system. Furthermore, the six-month period was affected by the fall in revenues of some of the companies in the Group caused by difficulties encountered by the mobile satellite systems, such as Orbcomm and the company already mentioned, Iridium.

The gross operating profit – which is not only determined by the revenues described above

but also by variations in work in progress – amounted to Lire 30 billion, and fell by 18.9%, compared to the first half of 2000, also as a result of the lower contribution from the progress in the important Astrolink order.

The operating income was at Lire 9 billion, a clear improvement over the first six months of the prior year which closed with an operating loss of Lire 56 billion, having also been affected by both the negative trend of Iridium Italia and extraordinary non-recurring expenses resulting mainly from the settling of some commercial dealings with a foreign customer.

In the six-month period, the Business Unit also received dividends of Lire 67 billion (Lire 47 billion in the first half of 2000) – which are not included in the operating income – relating to investments in satellite consortiums and companies.

At June 30, 2001, employees numbered 1,173, down by 33 units compared to the end of 2000.

■ TELESPAZIO

During the first half of 2001, Telespazio reported revenues of Lire 263 billion (Lire 258 billion in the first half of 2000, +1.9%). The production value, of Lire 389 billion, increased by Lire 38 billion, +10.7%, compared to the first half of 2000, following the increase of work in progress relating to the stage of completion of the Astrolink order; furthermore, the fall in the profitability of this order led to a reduction of the gross operating profit (- Lire 28 billion, -43.7%, compared to the first half of 2000). The operating income was positive and amounted to Lire 18 billion, an improvement compared to the first half of 2000 (when a negative figure of Lire 11 billion was recorded due particularly to the writedown of receivables and other expenses incurred in relation to the settling of dealings with a foreign television customer).

In the “**Media & Communication**” segment, the growth trend stabilized in the market of traditional products, while there was a positive evolution of multimedia/broadband services. However, the market scenario is destined to change radically, both as a result of the gradual deregulation of the sector, and as a consequence of the privatization of the Eutelsat and Intelsat consortiums, which took place in early July.

In the Television sector, the company acquired contracts for Lire 210 billion in the traditional market and developed a new digital platform for the overseas transportation of broadband signals for which the first commercial dealings are just beginning.

In the Telecommunications sector and, more particularly, the sector of networks for business customers and user systems, the process of strengthening and standardizing the offering portfolio is nearing completion (Directsat, Diffusat Services and Private Networks), partly through the adoption of new technologies.

In VSAT services, the network for the World Food Program, which now links approximately 20 countries in Asia, Africa and America, is being expanded and a contract has been acquired with Xelion to link online trading locations situated on mobile mediums. Other important services are offered to the defense sector on national territory, but also to Italian military contingents involved in peace missions in Bosnia, Kosovo, Albania and Eritrea.

Special importance is being given to the development and implementation of the first

nucleus of multimedia broadcasting services of the *IP* platform, Evolv-e. This platform will make it possible for Telespazio to supply a new generation of broadband solutions and services for companies. The first applications to be implemented were the Tele-teaching, Tele-medicine and Content delivery services.

As far as the “**Space System**” segment is concerned, there are good development prospects in the market of large international projects (Astrolink, CosmoSkymed, TerraSar - InfoTerra, EuroStar, SkyBridge, etc.) linked to broadband communications (Ku/Ka) or earth observation (Visibile/SAR).

Telespazio is playing an important role in the creation and management of the “earth segment” of important projects, while acquiring ever greater responsibility in the design of missions, LEOP (Launch and Early Orbit Phase) services for launching and transferring satellites into orbit and in value-added earth observation services.

On February 8, 2001, Telespazio successfully provided the first LEOP service for SICRAL, the satellite for military telecommunications, confirming its status as the only European operator capable of executing all the operational management phases of the satellite.

During the first six months, the creation phase of the important CosmoSkymed program was begun and collaboration proceeded with the ESA on the ARTEMIS project, the launch of which took place in July 2001.

Last April the Council of European Ministers of Transport approved the first package of the funding (Euros 100 million) planned for the GALILEO project. In this context, Telespazio is playing an important role as technical coordinator, defining services and developing infrastructures, and designing operational procedures for managing the space mission.

On an international level, Telespazio has acquired two contracts from Boeing for support services for the launch of the American Mars/Odyssey space probe which took place in April and won the competition announced by Eutelsat for the supply of launch services for three new satellites planned for the three-year period 2002-2004.

Finally, activities continued in relation to the Astrolink initiative; in this context, the recently constituted American subsidiary (Telespazio North America) has acquired the contract for the Operation & Maintenance activities for the whole duration of the life of the satellites.

3.7

TELECOM ITALIA LAB

The Business Unit, conceived from the integration of the technological expertise of CSELT with that of venture capital management, is responsible for pinpointing and managing innovative initiatives, both by identifying and creating business opportunities which create value for the Telecom Italia Group and increase its competitiveness, and by steering technological integration towards activities with higher added value, with the aim of increasing the revenues of the B.U. beyond the captive market.

In this context, the constitution of TILAB and the associated contribution of the “Venture Capital & Innovation” business segment of Telecom Italia (in March 2001), are a response to the need to direct its wealth of competence in the field of research and development by speeding up the creation of new services and, at the same time, establishing the concept of “innovation company” within the Telecom Italia Group.

The main corporate transactions during the six-month period are described below:

- on January 1, 2001, CSELT sold the business segment devoted to general services and the running and maintenance of buildings and systems, consisting of about 30 employees, and the related equipment and contractual dealings to OMS Olivetti Multiservices, outsourcing all the activities previously supervised by the business segment to OMS;
- on February 1, 2001, CSELT established Loquendo, and, at the same time, contributed to it the business segment devoted to voice technologies, consisting of about 90 employees and the relative equipment and systems, patents, technologies and contractual dealings;
- on March 1, 2001, by means of a contribution from Telecom Italia, CSELT incorporated the VEN (Venture Capital & Innovation) business segment, consisting of 73 employees, investments in corporate holdings and specialized mutual funds, patents and other associated assets. As a result of this contribution, at March 1, 2001, the net capital of TILAB increased from Euros 20.4 million to Euros 65.2 million.

The following table shows the highlights of the Business Unit in the first six months of 2001, compared to those of the first six months and the whole of 2000.

The company Telsy, a 100%-owned subsidiary of Saiat, has been included in the B.U. since TI Lab plans to acquire the company in the second half of the year.

	1 st half 2001	1 st half 2000	Year 2000	Change (1) (A-B)	
	(A)	(B)		Amount	Percentage
(in billions of lire)					
Sales and service revenues	120	106	239	14	13.2
Gross operating profit	(19)	(18)	(18)	(1)	(5.6)
Operating income	(43)	(34)	(67)	(9)	(26.5)
Capital expenditures:					
• industrial	16	26	63	(10)	(38.5)
• goodwill	-	-	-		
Number of employees at end of period	1,370	1,262	1,287	83	6.4

(1) The change in the number of employees has been calculated based on the figures at the end of 2000.

Despite the difficulties associated with the process of repositioning activities within the Telecom Italia Group, resulting from the new structure, and the lower number of orders from the Parent Company, revenues increased compared to the first half of 2000, by Lire 14 billion, +13.2%; this result benefited from the sales revenues of the new company Loquendo, the higher number of orders from other companies in the Group, and the development of activities outside the Telecom Italia Group. This positive performance was offset by the reduction in the gross operating profit and the operating income: the first result was influenced by the increase in external costs and labor costs following the acquisition, from the parent company, of the activities belonging to the VEN business segment; the second result was negatively affected by the association fees in the Interaction Design Institute (IDI) which were passed on by Telecom Italia under the plan for TILAB's to take its place in the association.

The research and development activities of the B.U. were concentrated over a vast field of systems and services according to the strategic decisions of Venture Capital. Special attention was given to qualified techniques in the mobile and fixed sectors (locating and

text messaging and multimedia services); the definition of network design, planning and management tools and the definition and testing of local access networks (W-LAN, Bluetooth). On a more technological front TILAB developed solutions, products and architectures that can be integrated on silicon. In this sector, the most significant results involved the access *ADSL modem*, the functions of *UMTS* stations and *IP networking (network processor)*. The development of modular products continued, created in Sw and convertible into *firmware* for specific solutions or for Hw components. The first prototypes of an intelligent aerial were defined and created as well as passive filtering systems for *UMTS*.

Finally, voice techniques have found their full development potential within the framework of the creation of the company Loquendo, which, in the first few months of operation, fully met the growth objectives that had been established, both in terms of organization and revenues. In this context, the techniques of voice synthesis and voice recognition were refined, and were adapted to the multi-lingual context in which the company operates.

At June 30, 2001, employees numbered 1,370 (of whom 992 are involved in R&D activities), 83 more than at the end of 2000.

3.8

OTHER ACTIVITIES

As far as the other activities of the Telecom Italia Group are concerned, there follows a description of the Real Estate and Services Business Unit and the company Stream.

REAL ESTATE AND SERVICES

To support the core business of the Group, on the one hand, the B.U. ensures the management and enhances the value of its real estate properties, and, on the other, carries out activities for the design and realization of real estate project including facility management services.

The B.U. comprises the structures of Telecom Italia which deal with real estate and services, as well as the consolidated companies Emsa, IMMSI and Telimm. The affiliates IM.SER and Telemaco Immobiliare also report to the B.U.; the latter company was set up in April 2001 as a result of the contribution of the “Trading Portfolio” business segment of IM.SER, which subsequently sold the entire investment to its shareholders, in proportion to the number of shares held in IM.SER. To date, 60% of the share capital of IM.SER is held by Beni Stabili, following the acquisition by the latter – in May 2001 – of 15% from Lehman Brothers, whereas Telecom Italia kept the remaining 40%. 45% of Telemaco Immobiliare is owned by Beni Stabili, 40% by Telecom Italia and 15% by Lehman Brothers.

During the first half of 2001 revenues amounted to Lire 902 billion, with a fall of 5.2% compared to the first half of 2000. The lower revenues are mainly attributable to the real estate activities of Telecom Italia, following the alignment of the corporate pricing system to market conditions, and to Emsa. Compared to the first half of 2000 (on a comparable consolidation basis following the already mentioned real estate spin-off), operating costs registered a fall of 4.4% as a result of action taken to recover efficiency, and now total approximately Lire 798 billion. The gross operating profit for the period is Lire 105 billion, a fall of 11.6%, on a comparable consolidation basis, compared to the first half of 2000, and the operating result, which includes amortization and depreciation and various expenses

due mainly to real estate taxes, was a negative figure of Lire 71 billion and remains approximately in line with that of the first half of 2000.

At June 30, 2001, employees numbered 2,012.

There follows a description of the economic trend of the main components of the B.U.:

Real Estate and Services activities of Telecom Italia – The activities conducted by the structures of the Parent Company included the services (renting and leases, real estate services and other management services, engineering, etc) to corporate functions and business units. Revenues amounted to Lire 880 billion (equal to 97% of the revenues of the whole B.U.) with a fall, compared to the first six months of 2000 (which takes into account the effect of the real estate spin-off), of 3.8% which can mainly be attributed to the policy of rationalizing the space occupied by corporate structures, as well as bringing prices offered to internal customers in line with market prices.

The gross operating profit was approximately Lire 90 billion and the operating result, despite being a negative figure of approximately Lire 75 billion, is still an improvement over the figure recorded in the first half of 2000.

Emsa conducts activities with the aim of optimizing the real estate assets used by its customers, through the integrated management of real estate services. The production value equal to Lire 23 billion, shows a reduction of 48% compared to the first half of 2000, due, on the one hand, to a fall in revenues deriving from real estate management activities for companies in the Group and, on the other, to a reduction in the income from the recovery of property renovation costs, since the contracts acquired in the first half of 2000 state that such renovation costs will be directly borne by the customer. The gross operating profit was Lire 3 billion, with a slight reduction compared to the first half of 2000 (Lire 1 billion), whereas the operating income (Lire 1 billion) fell by 53.7% compared to the first half of 2000.

STREAM

In the first half of 2001, the trend of subscriptions to Stream, the Group company that operates in the sector of Pay-TV, was slightly affected by the planned introduction of the single decoder.

The main promotion campaigns run during the period (free subscription and decoder rental for several months) were adopted by the company in compliance with the agreement signed with the Regulator to protect consumers in the phase of implementing the single decoder.

The package was enhanced thanks to the launch of the Calcio (Football) channel and two new theme channels, offered exclusively by Stream in its basic package: MT Channel and Stream Verde devoted, respectively, to technology and the world of science, and to the farming world; in addition, the rights were acquired to broadcast all the Uefa Champions League matches for two years, as well as the rights of Bologna Calcio, starting in the 2001-2002 season.

Revenues for the period amounted to Lire 223 billion, more than double the figure recorded during the first half of 2000; the gross operating profit was a negative figure of Lire 266 billion (–Lire 205 billion in the first half of 2000) resulting mainly from the increase in the costs for acquiring content; the operating result was a negative figure of Lire 400 billion (–Lire 291 billion in the first half of 2000).

At June 30, 2001 employees numbered 532, compared to 457 at December 31, 2000.

On July 4, 2001, Telecom Italia reached an agreement with News Corporation within the framework of the planned business combination between Stream and Tele+ on the basis of which Telecom Italia will guarantee to cover, proportionally, the financial requirements of Stream until December 31, 2001, for a maximum amount of Lire 399 billion .

If the business combination between Stream e Tele+ is approved by the competent authorities by December 31, 2001 or a subsequent date agreed by the parties involved, Telecom Italia will have the right to transfer its investment in Stream to News Corporation at a price equal to 110% of the sums effectively paid by Telecom Italia.

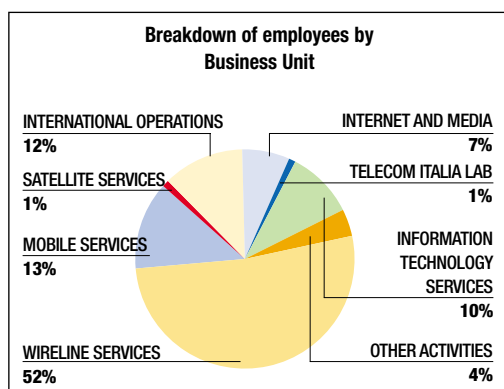
If, on the other hand, the Regulator does not approve the project, News Corporation will return to Telecom Italia 50% of the sums paid to Stream.

chapter 4 HUMAN RESOURCES

At June 30, 2001, employees of Telecom Italia Group numbered 120,211 (114,669 at December 31, 2000).

The increase (+5,542) is due mainly to the increase in the workforce of the IOP B.U. (following the entry of the Entel Chile Group in the consolidation area, +4,757), and the Internet/Media B.U. (following the changes in the consolidation area of the Seat Pagine Gialle Group, +1,477 units). In addition, there was an increase in the TIM Group (+776), mainly due to the acquisition of the Brazilian subsidiaries.

The following chart depicts the breakdown of employees by B.U..



The employees of Telecom Italia fell from 66,541 at December 31, 2000 to 64,554 at June 30, 2001, with a reduction of 1,987.

During the first half of 2001, 427 new permanent employees were hired (including university graduates or high school graduates in disciplines of corporate interest), 1,792 terminated employment and 622 were transferred to other companies in the Group (mainly as a result of the transfer of the employees of the "Information Systems Development Service" business

segment to Telesoft).

The 1,792 employees who terminated employment can be analyzed as follows: 33% due to incentive packages, 27% due to permanent lay-offs under the application of Law No. 223/1991, 26% due to various reasons, 7% on account of the contribution to Printel and 7% for other reasons.

■ DEVELOPMENT/TRAINING

During the first six months of 2001, development and training activities were geared to ensure:

- a more businesslike corporate culture, able to successfully regulate change, and a more in-depth knowledge of the managerial capital of the Group in order to better exploit its potential; this requirement was met by both the “Competencies Labs” created by TIM and Wireline Services, which inspired the largest Group project (“Managerial Competencies Lab”) currently in progress, and the Management Review process which has been activated in all the Business Units of Telecom Italia;
- supervision of the professional skills required for the success of the Company; in this context, between 2001 – 2002, the “Development of Professional Internet Skills” aims to recruit and train 500 young university graduates and high school graduates to meet the need for professional Internet skills expressed by all the Business Units;
- the appropriate management segmentation geared to appreciating the specific nature of the various professional and business contexts, by seeking and implementing innovative and competitive solutions through a continuous confrontation with the external market and the exploitation of the best internal practices at Telecom Italia; the “Key People” projects activated in various companies in the Group (Wireline Services, SEAT Pagine Gialle and TIM) are a response to this rationale.

■ INDUSTRIAL RELATIONS

In Italy, the main subjects discussed in negotiations with the labor unions were as follows:

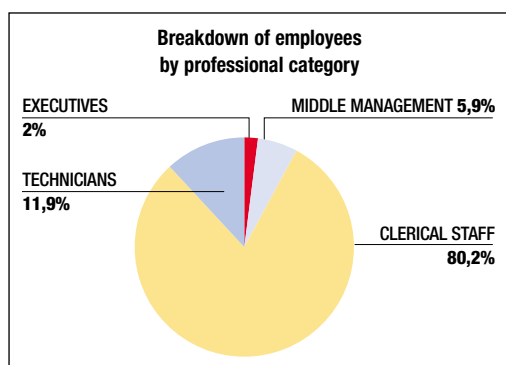
Employment: On February 16, an agreement was signed with the labor unions for the addition to the Group of 500 young people with on-the-job training contracts according to the formulas called for by the “Development of Professional Internet Skills” project already mentioned.

On March 5, an agreement was signed to call back a maximum of 600 employees that were laid off under government unemployment compensation programs: approximately 500 people were called back by April, while 80 chose to participate in re-training schemes. Moreover, today, approximately 1,500 people are involved in government unemployment compensation programs who, during the lay-off period, will mature the requirements to qualify for retirement pensions.

Corporate reorganization: the strategy established in the “Development and Reorganization Plan” to focus activity on the core business of telecommunications continued. In this context, the business segment that deals with the printing of Telecom Italia telephone bills was contributed to Printel (116 people). On the other hand, corporate reorganizations within the Group were aimed at attributing various companies to the business units according to their missions.

National Labor Contract for Telecommunications and Bonus: on July 16, Telecom Italia and the labor unions reached the agreement about the application of the National Labor Contract (in force in Telecom Italia since October 1, 2000) and the relative company labor agreements. Similar agreements were reached with regard to Telecom Italia Lab, Loquendo, TIM, Telesoft, Sodalìa and Telespazio.

On July 16, Telecom Italia also agreed on the amounts of the profit-sharing bonus to be paid in July and November 2001 (linked to the gross operating profit of 2000), while, in September, the objectives and the amounts to be paid relating to the period 2001 – 2005 will be decided.



With reference to foreign activities, the agreement reached on June 7 between Entel Bolivia and the national labor unions for the renewal of the collective national labor contract assumed particular importance. The agreement introduces a bonus calculated according to the EBITDA, reviews the levels of the long-service mechanism and advocates flexible working hours and incentives to reduce the workforce.

chapter 5

TRANSACTIONS BETWEEN THE TELECOM ITALIA GROUP AND RELATED PARTIES

Transactions with related parties – including parent companies and their subsidiaries, unconsolidated subsidiaries and affiliated companies, as well as the Parent Company's Directors (see pages 83 and 84) and the companies in which they hold corporate office or significant responsibility – all fall under the Group's normal operations and were conducted at market 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 six months of 2001	Amounts in billions of lire	Nature of transaction
Sales and services revenues	590	These mainly comprise revenues from Brasil Telecom (Lire 129 billion), Eutelsat (Lire 79 billion), Auna (Lire 76 billion), Teleleasing (Lire 74 billion), the Nortel Inversora group (*) (Lire 66 billion) and Lottomatica (Lire 49 billion).
Raw materials and outside services	498	These mainly refer to expenses regarding IM.SER (Lire 255 billion) and Etec S.A. (Lire 89 billion).
Net other expense	17	These mainly relate to cost recoveries for personnel on loan to some foreign subsidiaries and affiliates.
Net financial income	6	These comprise interest earned on loans made to some foreign subsidiaries and affiliates and interest expense payable to Teleleasing (Lire 29 billion) for financial leasing transactions.
Loans in long-term investments	273	These refer to loans granted to BDT (Lire 204 billion) and Golden Lines International (Lire 27 billion).
Medium and long-term financial liabilities	1,211	These refer to payables to Teleleasing for financial leasing contracts.
Trade accounts receivable	739	These comprise mainly trade accounts receivable from Telekom Srbija (Lire 138 billion including provisions for Lire 44 billion), Auna (Lire 129 billion), Etec S.A. (Lire 73 billion), Teleleasing (Lire 58 billion), Stream (Lire 56 billion), Telekom Austria (Lire 46 billion), the Nortel Inversora group (*) (Lire 42 billion), Brasil Telecom (Lire 41 billion) and Golden Lines International (Lire 39 billion).
Trade accounts payable	1,274	These pertain to supplier relationships connected with investments and operations. In particular, they comprise trade accounts payable to Italtel (Lire 289 billion), Etec S.A. (Lire 82 billion), Eutelsat (Lire 69 billion), Telekom Srbija (Lire 55 billion), Auna (Lire 43 billion), Siemens Informatica S.p.A. (Lire 34 billion) and Teleleasing (Lire 33 billion).
Short-term financial receivables	481	These also include receivables from Stream (Lire 351 billion) and Telekom Srbija (Lire 43 billion).
Other liabilities	216	These comprise mainly capital contributions payable to affiliated companies, particularly Auna (Lire 172 billion).
Investments in fixed and intangible assets	490	These mainly consist of acquisitions from Italtel (Lire 435 billion).

(*) Nortel Inversora group is consolidated proportionally.

chapter 6 OTHER INFORMATION

6.1 EVENTS SUBSEQUENT TO JUNE 30, 2001

6.1.1 STOCK OPTION PLAN

On July 27, the Board of Directors of Telecom Italia approved the 2001 Stock Option Plan of the Group for the period 2002-2003. The Plan covers about 1400 top-level employees of the Group (about 50% of the executives and 15% of middle management) and calls for the assignment of options to purchase more than 67 million Telecom Italia ordinary shares at a specified price.

The Plan does not cover the TIM group and the Seat group in that, being listed on the stock market, these groups have issued their own Stock Option Plans.

6.1.2 CANCELLATION OF THE LIEN ON SEAT PG ORDINARY SHARES

On August 20, Telecom Italia announced that it had cancelled the lien on 339,291,608 Seat ordinary shares that at one time had been pledged to the Chase Manhattan Bank. The shares were pledged in connection with the loan made to Telecom Italia, extinguished on August 17, to buy the aforementioned shares through the offer of purchase made by the Company for Seat shares in May 2000.

6.1.3 CORPORATE TRANSACTIONS

The following transactions took place subsequent to June 30:

- in August, within the framework of the project of Wireline Services function for the development of the *call center* business that will mainly be located in Central-South Italy, the company Telecontact Center S.p.A. (a subsidiary of Telecom Italia) was set up, with head offices in Naples;
- on August 3, Huit II, a subsidiary of Telecom Italia, purchased (by exchanging 186 million Seat ordinary shares) a 100% stake in ISM S.r.l. (owned by Messrs. Ainio and Gualandri, both of whom are managers and directors of companies of the Group), through the subsidiary Vertico N.V., a company which holds a 33.3% stake in Matrix. The deal was made for the purpose of consolidating the Group's control over Matrix, thus also over the Virgilio portal, with such control being exercised through the subsidiaries Seat and Webfin, a company 60%-owned by Seat and 40%-owned by De Agostini. To this end, on July 17, the Board of Directors of Seat voted to assert, in the manner and format provided by the contract, the serious alteration in the economic equilibrium among the services established by the contract signed with De Agostini,

which covered, among other things, the purchase and sale of 40% of Webfin for Lire 1,355 billion; in this regard, an attempt at reconciliation is in progress. In the meantime, De Agostini has stated that the exchange effected by Huit II would have essentially violated said contract. Telecom Italia has denied this affirmation, stating that the transaction took place entirely within the exercise of its legitimate rights;

- in July, TIM, through Stet Hellas, won a *UMTS* license in Greece at the minimum auction price (Greek drachmas 50 billion, equal to Lire 285 billion) and a *DCS 1800* license (second generation mobile telephony) for Greek drachmas 9 billion (Lire 51 billion);
- in July, Seat Pagine Gialle completed a public exchange offer on the capital of the French company Consodata. A total of 5,981,625 Consodata shares, equal to 44% of the share capital of the company, were tendered under the offer which called for the exchange of 16 Seat shares per Consodata share. Seat now holds 90.735% of Consodata's share capital. As requested by Conseil des Marchés Financiers, in order to obtain the authorization for the exchange offer, beginning August 7, 2001, Seat ordinary shares were listed on the Premier Marché d'Euronext Paris; also in July, Seat issued 15,698,286 Seat ordinary shares to service the transaction for the acquisition of 60% of the share capital of CIPI, a company operating in the *Business to Business* sector in promotional articles and gifts for businesses;
- on July 4, the transaction begun May 29 was concluded by Seat, which led to the acquisition of a 100% stake in Pan Adress, a German company operating in the direct marketing segment. The purchase took place in exchange for 1,084,912 Consodata shares held by Seat PG. The sellers, by virtue of a commitment undertaken with Seat, contributed the Consodata shares to the tender offer made by the same Seat PG.

6.1.4 LOCAL LOOP UNBUNDLING

On July 13, the Regulator began the third phase of the process for the supply of *local loop unbundling* services by Telecom Italia: in fact, it drew up a list of the remaining 550 co-location sites (the previous two phases were begun in January and March) destined to accommodate the equipment of other operators. In this last phase, there was a new feature: operators who have obtained access to *local loop unbundling* can use it directly or transfer it to other smaller operators, thus expanding the range of Telecom Italia competitors.

Meanwhile, from August 3, respecting the time frame set by the Regulator, the space allocated in the first 150 exchanges belonging to the first batch of exchanges requested at the end of March by other operators was made available by the Company.

6.1.5 SUBSCRIPTION CHARGES HALVED FOR WEAKER SEGMENTS

On August 1, the Regulator established the regulations to implement Resolution No. 314 of June 1, 2000 on the basis of which, for the so-called "weaker segments" a 50% discount on Telecom Italia's basic subscription charge will be available for residential telephone services. The measure, which will affect approximately 1.3 million families, should become operational after October 31, the term fixed by a previous legislative decree as the deadline by which INPS must prepare a data bank to be shared with the Company for controlling the certifications of the clientele.

6.1.6 PRIVATIZATION OF EUTELSAT AND INTELSAT

On July 2, the extraordinary shareholders' meeting of the intergovernment organization Eutelsat voted to transfer its activities and assets to the newly forming company Eutelsat S.A., decreeing the process of privatization closed. Telecom Italia has a 20.48% stake.

On July 18, the intergovernment organization Intelsat also completed the privatization process transforming itself into the new joint stock company Intelsat Ltd, in which Telecom Italia has a 2.8% stake. The company has more than 200 shareholders in 145 different countries and will constitute one of the most important operators in the satellite telecommunications sector.

6.1.7 FISCAL AUDIT

As known, in February 2001, the revenue authorities completed a general fiscal audit at Telecom Italia begun on February 3, 2000.

At the end of July 2001, the Office of Receipts of Turin formally accepted a good part of the objections raised by Telecom Italia against the findings reported by the revenue authorities. As a result, the amounts in dispute, which, however, have not yet been formally assessed, have been reduced. The existing provisions are, in any case, deemed sufficient to meet any contingencies that may arise.

6.1.8 ACQUISITION BY PIRELLI - EDIZIONE HOLDING OF OLIVETTI SHARES HELD BY BELL

On August 9, 2001, in accordance with Legislative Decree No. 58/1998, art. 122 and Consob resolution No. 11971/1999, art. 129 and later changes, an extract was published of the agreements reached on July 30, 2001 between the companies Pirelli S.p.A., Edizioni Holding S.p.A. and Bell S.A. and later on August 7, 2001 between the companies Pirelli S.p.A. and Edizioni Holding S.p.A..

6.2

LITIGATION

6.2.1 OPPOSITION TO SHAREHOLDERS' RESOLUTIONS

As noted, January 10, 2001 marked the end of the period for the buy-back of Telecom Italia savings shares authorized by resolution of the shareholders' meeting of January 14, 2000. The buy-back program, begun with a tender offer from February 17 to March 17, 2000 and later continued with direct purchases on the stock market, led to the purchase of No. 112,998,070 shares, equal to about 1.5% of share capital.

In January 2001, a claim for damages was filed against Olivetti and Telecom Italia, as well as the Chairman and Deputy Chairman of the latter company, for a total of Euros 18.9 million (Lire 36.6 billion). The claim is based on the alleged non-fulfillment on the commitments stated in the "Offer Document" relating to the take-over and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also the resolutions passed by the shareholders' meeting of January 14, 2000, especially in relation to the mandate to purchase treasury savings stock on the electronic trading market, as set forth by

applicable laws, subsequent to the end of the period for the tender offer.

As regards the aforementioned shareholders' resolutions, a case is pending brought by a shareholder challenging that a proposal was put to the shareholders' meeting that had been changed from the one deposited prior to the shareholders' meeting.

After the end of the first half, the resolutions passed by the shareholders' meetings of May 3, 2001 were also contested in relation to the authorization for the creation of a subsidiary for the purchase of Telecom Italia ordinary shares pursuant to article 2359 bis of the Italian Civil Code, through a tender offer, as well as an offer for the conversion of savings shares into ordinary shares against payment, resolutions that are economically and operationally related to each other. In short, the suit is based on the argument that all of the transactions on which the resolutions were passed would constitute a distribution of reserves, from which the savings shareholders who do not wish to convert their shares would be unlawfully excluded.

6.2.2 INVESTIGATION BY THE ATTORNEY GENERAL'S OFFICE OF TURIN

In February 2001, the Attorney General's Office of Turin ordered the start of a preliminary investigation into the transaction involving the acquisition, by Telecom Italia, of 29% of the share capital of Telekom Srbija. Telecom Italia immediately made all the documentation and figures relating to the above-mentioned transaction available to the authorities.

On the basis of the tests and procedures performed, with the full cooperation of the responsible corporate functions, in fulfilling their responsibilities regarding the 2000 financial statements, the audit firm PricewaterhouseCoopers and the Board of Statutory Auditors stated that, to date, no facts had emerged which could call into question the correctness of the statutory financial statements and consolidated financial statements of Telecom Italia at December 31, 1997, 1998 and 1999, also for the effects on the fiscal year ended December 31, 2000.

At the beginning of July, the Company was subpoenaed to produce documentation mainly in relation to the acquisition of Seat and the Tin.it-Seat merger.

The Company's offices fully cooperated with the authorities and made ample documentation available.

6.2.3 ACQUISITION OF CECCHI GORI COMMUNICATIONS BY SEAT

The purchase of Cecchi Gori Communications by Seat under the contract dated August 7, 2000 with Fin.Ma.Vi. S.p.A. and Cecchi Gori Group Media Holding S.p.A. (Cecchi Gori Group), was followed by administrative and civil disputes.

Following an inquiry begun pursuant to ex Law No. 249 of July 31, 1997, the Regulator, on January 17, 2001, issued a ruling denying authorization for the merger. Telecom Italia and Seat challenged the ruling to the TAR (Regional Administrative Court) of Lazio, asking for its suspension and then annulment. The TAR accepted the request for suspension, forcing the Regulator to re-examine the case.

On February 20, 2001, the Regulator reaffirmed its negative opinion. Seat and Telecom Italia immediately took exception to the new unfavorable opinion which TAR, deciding upon its merits, definitively annulled on March 7, giving de facto authorization to the continuation of the transaction.

In April 2001, the Regulator appealed the ruling handed down by the TAR of Lazio. The Council of State, in its ruling of June 26, 2001, denied the appeal and confirmed the ruling issued in the first degree, ordering the administrative regulatory board to comply. The Regulator, therefore, under resolution 288/01/CONS of July 4, 2001, authorized the merger.

In February, the Cecchi Gori Group presented an appeal to the Rome Court asking, among other things, for the cancellation or, failing this, the nullity of the contract for the purchase of Cecchi Gori Communications; the appeal was declared inadmissible and denied by the court.

In April, the Cecchi Gori Group opposed the shareholders' resolution passed on August 11, 2000 to amend the by-laws of Cecchi Gori Communications; the hearing is scheduled to be held by the end of the year.

In May, the same Cecchi Gori Group took legal steps against Cecchi Gori Communications and Seat so that the resolutions passed by the shareholders' meeting of Cecchi Gori Communications on April 27, 2001 would be declared null and void, then asking for the suspension of execution of the resolutions. The Court denied both the petition for suspension and the claim made by Cecchi Gori Group. The treatment of the case is scheduled to be heard in October.

Cecchi Gori Group, in August, also filed suit with the Milan Courts to annul the act allowing the shares of Cecchi Gori Communications owned by Cecchi Gori Group to be pledged to guarantee the proper fulfillment of all the obligations covered by the August 7, 2000 contract of purchase, by the sellers.

Under the arbitration clause of the same contract, an arbitration proceeding is also pending, initiated July 31, 2001 by Cecchi Gori Group in order to have the August 7, 2000 purchase contract declared null and void, ineffective or cancelled (mainly because of the non-fulfillment of the condition for suspension represented by the obtaining of the necessary authorizations on the part of the competent authorities by the date established) or to ask for its fulfillment or, in any case, to obtain damages.

6.2.4 GALACTICA DISPUTE

At the end of May 2001, a dispute arose between Telecom Italia and the *Internet Service Provider* Galactica S.p.A. regarding the non-renewal of an agreement concerning the experimentation of an Internet access service at a flat tariff.

To this end – after appeals to the Civil Courts, in addition to the Milan Court of Appeals pursuant to Law 287/90 were both denied – Galactica sued Telecom Italia over the alleged illegality of the recession of the contract, asking damages and warning Telecom Italia about interrupting services.

In the meantime, the reconciliation proceedings begun as a result of an appeal presented by Galactica to the Regulator was concluded at the beginning of August with no agreement having been reached. On August 2, the Regulatory Authority approved the new plan offered by Telecom Italia to all the *Internet Service Providers* beginning September 3, 2001, which allows any interested operators to use the 709 numbering system designated expressly for Internet access services.

As regards the dispute concerning the request for damages, confident of a positive outcome to the controversy, Telecom Italia has not accrued any amount for this purpose in its financial statements for the first half of 2001.

6.2.5 12 DIRECTORY INFORMATION

At the end of March, Telecom Italia appealed to the TAR of Lazio (asking for suspension and with a simultaneous request for the payment of damages) to annul the measure taken by the Regulator, pursuant to the letter of March 23, 2001, which obliged the Company – after having authorized the new 12 directory information service – to restore the original technical conditions and tariffs.

At the hearing, in July, the TAR agreed to a stay proposed by Telecom Italia and the new AGCOM Resolution 271/01/CONS was filed, making changes to the tariffs for directory information service and these, too, were also contested by the Company. The hearing was therefore adjourned to a date which has yet to be decided.

6.2.6 ALLEGED UNFAIR TRADE STRATEGIES BY TELECOM ITALIA HINDERING MARKET DEVELOPMENT

Following a petition presented by 27 competing operators concerning Telecom Italia's alleged strategies to hinder the development of the market, with Resolution No. 179/01/CONS the Regulator challenged the Company about a series of violations, announcing the start of sanction measures.

In June, Telecom Italia contested the measures, asking their suspension. In July, the TAR of Lazio postponed arguments over the validity of the case until a hearing in February 2002. In the meantime, on July 4, 2001, the Regulator announced the application of sanction measures in seven resolutions, all of which were contested by the Company.

6.2.7 FEE UNDER LAW NO. 448 OF DECEMBER 23, 1998, EX ART. 20, PARAGRAPH 2

Telecom Italia, TIM, Wind and Omnitel have filed a complaint before the TAR of Lazio against the Ministerial Decree of March 21, 2000 which brought into force Law No. 448 of December 23, 1998 instituting, from January 1, 1999, a new fee in lieu of the concession fee, which is based on a progressively declining scale up to 2003.

The TAR of Lazio asked the Administrations of the Treasury and the Communications to file a documented report clarifying the correspondence with the European Commission concerning the framework behind the approval of the aforementioned law, with further discussion of the dispute to be held before the end of the year. Furthermore, a request has been made to remit the case to the Court of Justice of the European Community in order to ascertain the compatibility of the above-mentioned Italian law with the Community laws as regards telecommunications.

As a result of this dispute, Telecom Italia and TIM have not proceeded to pay the amount in question for the year 2000 (equal, respectively, to Lire 594 billion and Lire 346 billion).

6.2.8 DATA TRANSMISSION AND INTERNET ACCESS SERVICES IN X-DSL TECHNOLOGY

Following the formal complaint lodged by Infostrada in July 1999, relating to the marketing of network access services for data transmission in *ADSL* technology, the Antitrust Authority began proceedings against Telecom Italia to assess whether, under the circumstances, it could be accused of abusing its dominant position.

Subsequently, the inquiry was extended to Telecom Italia's conduct with regard to the

supply of direct basic band circuits, broadband data transmission services and Internet access using *x-DSL* technology offered to its business customers, in the absence of a corresponding *wholesale* offering to its competitors, and to the determination of the tariffs for wholesale services with *ADSL* access to its competitors.

On April 27, 2001, Telecom Italia was presented with a fine of Lire 115 billion. This measure has been contested before the TAR of Lazio, and the hearing to discuss the matter will be held before the end of the year.

Confident of a positive outcome to the controversy, Telecom Italia has not accrued any amount for this purpose in its financial statements for the first half of 2001.

In the meantime, requests for damages have been presented to the Rome Court of Appeals by Albacom, Infostrada, AIIP, Pronet, Unidata, Data Service and other operators, for the alleged abuse of Telecom Italia's dominant position in its offering of broadband data transmission and Internet access services based on the application of *x-DSL* technologies, in the absence of any corresponding wholesale offering to its competitors. The requests for damages amount to a total of Lire 360 billion.

Here again, confident of a positive outcome to the controversy, the Company has not accrued any amounts for this purpose in its financial statements for the first half of 2001.

6.2.9 PAGINE ITALIA

The company Pagine Italia presented an appeal under Law No. 287/90 ex Art. 33 to the Turin Court of Appeals, for alleged abuse of a dominant position deriving from the merger between Seat and Telecom Italia in the area of advertising. In particular, the court was asked to adopt preliminary measures to annul the merger and the contract between Telecom Italia and Seat for the distribution of Pagine Gialle (Yellow Pages). Subsequently, a case for an opinion ruling was introduced, with an attached claim for damages.

The preliminary appeal was rejected in November 2000; Pagine Italia then presented a formal complaint, which the Court of Appeals rejected in February 2001. The same Court also ruled on the case for the opinion ruling, declaring the claims made by Pagine Italia to be inadmissible and ordering it to pay legal costs.

6.2.10 SOGEI CONCESSION

Sogei – a subsidiary of Finsiel – was entrusted with the concession for the management of the financial information systems by the Ministry of Finance (now the Ministry of Economy) in 1992.

Sogei maintains that such concession, which originally was scheduled to continue to 2001, should be considered extended by law until May 2012. According to the Ministry of Economy, instead, the concession would have expired in May 2001 without any further extensions; therefore, the Ministry published a notice for an Advisor in the bid to assign the management of its information services from that date.

Sogei has contested the notice for bidding to the TAR of Lazio and requested an arbitration proceeding with regard to the duration of the concession.

In May 2001, the Ministry and Sogei, although leaving the respective rights undecided, agreed to a "technical extension" of the original concession up to May 2003, deferring the settlement of the controversy over the further duration of the concession itself to a later date.

6.2.11 STET HELLAS DISPUTE

In December 1996, Mobitel, a company in the Greek Interamerican group (now Demco Reinsurance), a minority shareholder of Stet Hellas and, at that time, its exclusive representative, initiated arbitration proceedings at the Paris International Chamber of Commerce, principally maintaining its right to receive commissions not only on outgoing traffic generated by the subscribers it had signed up, but also on incoming traffic and that generated by customers in default of payment. The total damages requested are equal to about US \$38 million.

Mobitel and Interamerican have also requested damages for a total of US \$172 million following the dissolution of the exclusive representative contract as notified by Stet Hellas.

The latter and Telecom Italia, which took over from Stet International (formerly the guarantor of the first company and, as such, a party to the contracts at one time signed) presented a counterclaim for an amount of about US \$ 210 million, mainly to cover the damages suffered as a result of the loss of the acquisition of market share caused by non-fulfillment by Mobitel.

In October 2000, a partial arbitration award was issued which, in principle, agreed with Mobitel's request for recognition of a commission also on Stet Hellas's revenues from incoming traffic; the relative quantification, to which various exceptions were taken, is still pending.

6.2.12 NORTEL INVERSORA DISPUTE

In April, Nortel was cited to appear before a commercial judge in Buenos Aires for an obligatory attempt at reconciliation with regard to the opposition of certain resolutions passed by the shareholders' meeting of January 19, 2001 which covered, among other things, the approval of the financial statements at September 30, 2000. There was no outcome from the mediation hearing.

Under Argentine law, whenever the outcome from the reconciliation procedure is not positive, the one initiating the action can continue action in order to have the case judged, advising the parties involved about the definitive action that was taken, within the terms established by law. Such action has not yet been notified to date.

In August, a further citation was received, similar to the previous one, for an obligatory attempt at reconciliation with regard to the opposition of certain resolutions passed by the shareholders' meeting of Nortel on April 26, 2001 which covered, among other things, the approval of the financial statements at December 31, 2000.

The mediation hearing has not yet taken place.

6.2.13 ENTEL CHILE DISPUTE

The company Americatel Corporation, in which Entel Chile has a direct 80% holding, until May 2001 had a contract with the company OAN for the billing and collection of long-distance services rendered to its customers through the local United States telephone operators. On May 25 of this year, OAN filed for bankruptcy in the Santa Barbara, California, courts, and Americatel, in the meantime, immediately filed an appeal for an emergency opinion to safeguard its funds and receivables under OAN's

management, which, at that date, amounted to about US \$30 million. At the July 5 hearing, the court denied this appeal. Consequently, Americatel filed an injunction for recognition of its right of ownership of the receivables held by OAN in the name of and on behalf of the same Americatel under the clauses of the contract signed between the parties in dispute.

6.2.14 BRASIL TELECOM DISPUTE

In April, Brasil Telecom filed suit before the ordinary judge of Rio de Janeiro against Telecom Italia and Stet International Netherlands, and also the two directors nominated by Telecom Italia.

This suit has been filed in order to obtain damages that Brasil Telecom would have suffered following the purchase of CRT - Companhia Riograndense de Telefonia shares and also the fact that it did not participate in the SMP bid (Serviço Móvel Pessoal). The judge has been asked to quantify the damages.

6.2.15 WTC DISPUTE

In March 1999, Telecom filed suit, in the Miami courts, for payment of unpaid invoices of about US \$13 million from the local *wholesale* operator Telecom Corporation (“WTC”) that were issued for the capacity supplied for international traffic.

WTC presented a counterclaim, also citing Telemedia International U.S.A. Inc. (a Telecom Italia subsidiary), asking damages from each for a total of US \$60 million. After an examination of the pre-trial objections and usual documents, the case is in the inquiry stage.

6.3

THE EURO

At the beginning of 2001, the organizational unit of the Telecom Italia Group called the “EURO Project” outlined the last phase of the action to be carried out to bring the information systems in line with the new single currency. The activity, the conclusion of which is scheduled for the third quarter of 2001, involves changes to and the extension of the software and data structures of all the procedures involved, both within the Group and in its external dealings.

The action to be taken in the final phase includes:

- the update of the information systems in the third quarter of 2001;
- the creation and testing of contingency plans by December 2001;
- “Independent verification and validation” of the most important corporate systems through suppliers, methodologies and tools that are different from those used in the adaptation phase, in order to highlight any problems in time for them to be corrected.

chapter 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TELECOM ITALIA

The financial condition and the results of operations of Telecom Italia for the first six months of 2001 reflect the results emerging from the transactions involving the companies described below that took place in 2000 and in the first half of 2001.

- Contribution to Tin.it S.p.A., with effect from May 1, 2000, of all the assets and liabilities pertaining of the business segments and investment holdings inherent to the operations and marketing of online services and products by Telecom Italia, Telespazio and Saritel; on the following November 15, the merger of Tin.it in Seat Pagine Gialle was finalized and became effective for accounting and tax purposes as from May 1, 2000;
- contribution to TE.SS. - Tele Payroll Services S.p.A., operational since November 1, 2000, of the business segment for the management of the personnel administration services of the companies of the Group;
- contribution, on December 1, 2000, of the business segment "Large Buildings", consisting of Telecom Italia's most prestigious real estate properties, to IM.SER., and the successive sale of 60% of this company to Beni Stabili (45%) and Lehman Brothers (15%);
- total spin-off of Stet International to Telecom Italia and TIM as part of the rationalization of the international communications sector. The spin-off was concluded on December 27, 2000 and became effective for accounting and tax purposes as from January 1, 2000;
- contribution to Netsiel, which took place on December 31, 2000, of the business segment for the operations of the information technology services. This transaction falls under the reorganization program for the sector which calls for concentrating all of the Group's operations in the Information Technology sector in I.T. Telecom;
- sale to Telesoft, on March 1, 2001, of the business segment devoted to the development of information systems and the creation of applications software;
- sale of the business segment relating to the centers for printing telephone bills to Printel, which took place on February 1, 2001, and the outsourcing of the related activities to Postel;
- contribution to CSELT, which then changed its name to Telecom Italia Lab, of the "Venture Capital" business segment on March 1, 2001.

In the following table, the results for the first six months of 2000 have been restated to give effect to the variations consequent to the aforementioned transactions, shown globally in the column "adjustments".

	1 st half 2001	1 st half 2000	Adjustments	1 st half 2000 pro-forma	Change %	Change %
(in billions of lire)	(a)	(b)		(c)	(a / b)	(a / c)
Sales and service revenues	16,560	16,954	(82)	16,872	(2.3)	(1.8)
Raw materials and outside services(*)	(6,773)	(6,643)	(515)	(7,158)	2.0	(5.4)
Labor costs (*)	(2,600)	(2,994)	104	(2,890)	(13.2)	(10.0)
Gross operating profit	7,167	7,346	(493)	6,853	(2.4)	4.6
Depreciation and amortization	(3,140)	(3,674)	252	(3,422)	(14.5)	(8.2)
Other valuation adjustments	(108)	(144)	9	(135)	(25.0)	(20.0)
Net other income (expense)	58	76	22	98	(23.7)	(40.8)
Operating income	3,906	3,510	(210)	3,300	11.3	18.4

(*) Reduced by related cost recoveries.

7.1

RESULTS OF OPERATIONS

STATEMENTS OF INCOME

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000
A. Sales and service revenues	16,560	16,954	33,813
Changes in inventory of contract work in process	(28)	16	16
Increases in capitalized internal construction costs	7	12	22
Operating grants	1	1	1
B. Standard production value	16,540	16,983	33,852
Raw materials and outside services (*)	(6,773)	(6,643)	(13,301)
C. Value added	9,767	10,340	20,551
Labor costs (*)	(2,600)	(2,994)	(5,920)
D. Gross operating profit	7,167	7,346	14,631
Depreciation and amortization	(3,140)	(3,674)	(7,201)
Other valuation adjustments	(108)	(144)	(370)
Provisions to reserves for risks and charges	(71)	(94)	(121)
Net other income (expense)	58	76	22
E. Operating income	3,906	3,510	6,961
Net investment and financial income (expense) and value adjustments	(1,467)	(401)	1,727
F. Income before extraordinary items and taxes	2,439	3,109	8,688
Net extraordinary income (expense)	(163)	(484)	(348)
G. Income before taxes	2,276	2,625	8,340
Income taxes	(1,010)	(1,273)	(3,386)
H. Net income	1,266	1,352	4,954

(*) Reduced by related cost recoveries.

Results of operations for the first six months of 2001 showed a net income of Lire 1,266 billion, with a reduction of Lire 86 billion (-6.4%) compared to the corresponding period of 2000. Such result was affected by the decrease, compared to the first six months of 2000, in sales and service revenues, the increase in outside costs, financial expense and the writedowns of investments; the negative effects of such phenomena were almost entirely compensated by the reduction in labor costs, depreciation and amortization, extraordinary expense and income taxes.

The key figures are analyzed in the following paragraphs.

■ *Sales and service revenues*, amounting to Lire 16,560 billion, decreased by 2.3% compared to the same period of 2000 (Lire 16,954 billion) and included Lire 16,328 billion of revenues from services and Lire 232 billion of revenues from sales (respectively Lire 16,562 billion and Lire 392 billion in the corresponding period of 2000).

Revenues, net of the amount due to other domestic and international TLC operators, instead, totaled Lire 13,227 billion and decreased, compared to the same period of 2000, by Lire 739 billion (-5.3%).

The reduction in revenues from services (-1.4%) can be ascribed to traffic, which fell by 8.9% in amount even though the number of minutes rose by 28.2% (corresponding to +Lire 1,173 billion in terms of revenues); however such increase was offset by a reduction in profitability since the average return fell by 29.0% (from Lire 115 per minute for the

first six months of 2000 to Lire 82 per minute, -Lire 2,018 billion in terms of revenues). Such performance was affected by:

- the discount policies aimed at customer retention;
- the strong increase in “transported” traffic on behalf of other operators and online traffic, which, on the one hand, led to an increase in the volume of minutes managed and, on the other hand, created a shift in the mix towards less remunerative types of traffic;
- the rate adjustments on August 1, 2000 and December 28, 2000 which reduced, respectively, the tariffs of outgoing international traffic by 13% and out-of-district traffic by 10%; the tariff revisions on February 1, 2001 which introduced new discounted tariffs for district and out-of-district traffic.

These phenomena were partly compensated by the increase in basic subscription charges (+9%) following the August 1, 2000 and February 1, 2001 tariff revisions, the development of data connections, the demand for interconnecting services to the Telecom Italia network by other operators and the growing number of telephone subscribers to the various discount tariff plans offered by the Company.

■ *Raw materials and outside services* of Lire 6,773 billion, net of the related cost recoveries, included:

(in billions of lire)	1 st half 2001	1 st half 2000	Change %
Direct service costs	863	1,037	(16.8)
Operating costs	1,579	1,170	35.0
Marketing costs	648	990	(34.5)
Know-how development costs	82	153	(46.4)
	3,172	3,350	(5.3)
Amounts due to other carriers	3,333	2,988	11.5
TLC license fee	268	305	(12.1)
Total	6,773	6,643	2.0

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

- “direct service costs”, pertaining to the operation and maintenance of the network, decreased by Lire 174 billion consequent to both savings arising from the ongoing equipment rationalization program, concentrating especially on switching systems, and lower installation and maintenance costs for switching systems and data transmission;
- “operating costs”, inclusive of the management and maintenance of buildings, vehicles, information systems and equipment, as well as overheads, increased by Lire 409 billion compared to the first six months of 2000, mainly as a result of the rent on the buildings conferred to IM.SER and the operating costs for the information systems (business conferred to Netsiel in December 2000) which had a total effect of Lire 391 billion;
- “marketing costs”, inclusive of sales expense, post-sales assistance, customer relations, advertising and promotion, decreased by Lire 342 billion. This reduction is due to the combined effect of the lower costs for product sales (-Lire 230 billion) since, beginning from the second half of 2000, the Company provides certain customers only with the designs for the telecommunications systems, leaving manufacturers with the responsibility for the sale of the equipment (this also explains the reduction in revenues from product sales, described previously); lower costs (-Lire 47 billion) for the printing of the White Pages telephone directory, conferred to Tin.it; lower expenses for the advertising and promotional campaigns (-Lire 136 billion) and higher fees to Internet Service Providers (+Lire 45 billion);

- “know-how development costs”, comprising training, studies and research and technical consulting services, decreased by Lire 71 billion, mainly as a result of the reduction in expenses from the subsidiary Ti Lab.

The above costs totaled Lire 3,172 billion for the first half of 2001 and showed a reduction of 5.3% compared to the first six months of 2000.

- “amounts due to other carriers” increased by Lire 345 billion, primarily as a result of the increase in amounts due to foreign correspondents (+Lire 219 billion), fixed-line carriers (+Lire 229 billion) and the reduction (-Lire 83 billion) in the amounts due to suppliers of information for the videotel and audiotel services;
- “TLC license fee” decreased by Lire 37 billion due to a reduction in the tariff from 2.7% to 2.5% and a decline in revenues.

The percentage of raw materials and outside services to revenues was 40.9% compared to 39.2% for the first six months of 2000.

■ *Labor costs* (net of cost recoveries for employees on secondment of Lire 32 billion) amounted to Lire 2,600 billion, with a decrease of Lire 394 billion (-13.2%), compared to the same period of 2000, and -Lire 391 billion (-12.9%) gross of such cost recoveries. This gross change is due mainly to the reduction in the average number of employees (-12,119 units compared to the first six months of 2000, -16.4%), on account of resignations as a result of the cutbacks made under ex Law No. 223/1991, and staff transfers following the contributions and sales of business segments made during the second half of 2000 and the first quarter of 2001. The effects due to the change in the number of employees were offset to a minimum extent by the increases due to collective bargaining agreements, career developments, merit bonuses and seniority increases.

The percentage of labor costs to revenues went from 17.7% for the first six months of 2000 to 15.7% for the six-month period under examination.

■ *Gross operating profit* of Lire 7,167 billion decreased by Lire 179 billion compared to the corresponding period of 2000 (-2.4%). The percentage of gross operating profit to sales and service revenues (43.3%) has remained unchanged compared to that for the first half of 2000.

■ *Depreciation and amortization*, totaling Lire 3,140 billion, decreased by Lire 534 billion compared to the first six months of 2000. This item comprises Lire 487 billion for the amortization of intangible assets and Lire 2,653 billion for the depreciation of fixed assets. “Amortization of intangible assets” decreased by Lire 8 billion compared to the first six months of 2000, while “depreciation of fixed assets” decreased by Lire 526 billion; about Lire 240 billion of the decrease is due to a reduction in the amount of depreciable assets following the contribution of assets to IM.SER and Netsiel in December 2000 and to Telesoft in 2001 and the adjustment of the depreciation rates relating to the submarine network made in the 2000 financial statements (Lire 24 billion) and the change in the mix of depreciable assets.

■ *Other valuation adjustments*, amounting to Lire 108 billion, decreased by Lire 36 billion compared to the corresponding period of 2000; these refer entirely to the writedown of receivables to estimated realizable value. In particular, they include Lire 27 billion of provisions on receivables for services to Telekom Srbija.

■ *Provisions to reserves for risks and charges*, amounting to 71 billion, refer to provisions for disputes covering regulatory questions and adjustments to the “reserve for litigation” for third-party controversies.

■ *Net other income (expense)*, amounting to an income balance of Lire 58 billion (Lire 76 billion for the first half of 2000), represents the difference between Lire 189 billion of other income and Lire 131 billion of other expenses.

“Other income” includes mainly fees charged to customers for the late payment of telephone bills of Lire 95 billion (Lire 77 billion for the first six months of 2000), the portion of capital grants credited during the period of Lire 28 billion (Lire 34 billion for the first six months of 2000) and sundry damages claims and recoveries of Lire 60 billion (Lire 45 billion for the first six months of 2000). “Other expense” mainly includes indirect duties and taxes of Lire 88 billion (Lire 73 billion for the first six months of 2000), losses on receivables sold in securitization transactions of Lire 17 billion and other expenses in the normal course of business (Lire 26 billion; Lire 57 billion for the first six months of 2000).

■ *Operating income* amounted to Lire 3,906 billion, with an increase of Lire 396 billion compared to the corresponding period of 2000 (+11.3%). Such result was mainly due to the reduction in labor costs and depreciation and amortization which entirely absorbed the reduction in revenues and the increase in outside costs. The ratio of operating income to revenues was 23.6%, compared to 20.7% for the first six months of 2000.

■ *Net investment and financial income (expense) and value adjustments* showed an expense balance of Lire 1,467 billion (-Lire 401 billion for the first six months of 2000), which can be analyzed as follows:

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

(in billions of lire)	1 st half 2001	1 st half 2000	Change %
Dividends and tax credits	115	149	(22.8)
Net gains on sales of investments	-	46	
Total	115	195	(41.0)

- *Net financial income (expense)* shows an expense balance of Lire 964 billion (-Lire 241 billion for the first six months of 2000), detailed as follows:

(in billions of lire)	1 st half 2001	1 st half 2000	Change %
Balance from financial transactions	(985)	(274)	°
Other net financial income (expense)	21	33	(36,4)
Total	(964)	(241)	°

- the balance from financial transactions comprises the income (Lire 86 billion) and expenses (Lire 1,071 billion) related to financial receivables and payables included in the net debt. The increase in the net expense balance, compared to the first six months of 2000, is essentially due to higher debt exposure, expenses on the call option on Seat shares, negotiated as part of the transaction to defer the put option on the same shares and, to a lesser degree, the increase in short-term interest rates;

- other net financial income (expense) refers to interest income earned on medium/long-term loans (Lire 15 billion), net gains on exchange rates (Lire 5 billion) and net sundry other income.
- *Value adjustments to financial assets* show a negative balance of Lire 618 billion (-Lire 355 billion for the first six months of 2000) and regard the writedowns of investments in subsidiaries, mainly TMI - Telemedia International Italia (Lire 126 billion) and in the affiliated company Stream (Lire 237 billion); the amount also includes writedowns mainly to adjust the value of TIM shares carried in current assets to market price (Lire 180 billion).
- *Net extraordinary income (expense)* shows a net expense balance of Lire 163 billion (-Lire 484 billion for the first six months of 2000) which derives from the difference between extraordinary income of Lire 93 billion and extraordinary expense of Lire 256 billion. The latter mainly comprises the expenses connected with corporate restructuring (Lire 137 billion) and the extraordinary contribution (Lire 72 billion) – established by the 2000 Finance Bill, for the three years 2000-2002 – payable to INPS to meet the higher financial requirements covered by the rules of the fund “Telephone Employees Pension Fund (FPT) that, on January 1, 2000, became part of the “Employees Pension Fund”. The reduction in extraordinary expenses (-Lire 289 billion), compared to the first six months of 2000, was mainly due to the fact that the social security charges for the six-month period under ex Law 58/92 (Lire 233 billion), that are accounted for on a cash basis, were paid in July 2001, unlike the prior period.
- *Income taxes* amounted to Lire 1,010 billion (Lire 1,273 billion for the first six months of 2000) and were calculated at the tax rate (44.4%) estimated for the entire year.

7.2 FINANCIAL CONDITION

BALANCE SHEETS

(in billions of lire)	6.30.2001	12.31.2000	6.30.2000
A. Intangibles, fixed assets and long-term investments			
Intangible assets	2,264	2,302	2,230
Fixed assets	28,235	29,305	34,980
Long-term investments			
• equity investments and advances on future capital contributions	40,392	38,429	20,340
• other	429	1,765	823
	71,320	71,801	58,373
B. Working capital			
Inventories	201	149	272
Trade accounts receivable	10,145	9,846	9,834
Other assets	3,032	6,097	1,539
Trade accounts payable	(7,256)	(8,459)	(7,689)
Reserves for risks and charges	(1,784)	(1,711)	(2,157)
Other liabilities	(8,273)	(6,887)	(8,337)
	(3,935)	(965)	(6,538)
C. Invested capital, net of operating liabilities (A+B)	67,385	70,836	51,835
D. Reserve for employee termination indemnities	(2,034)	(1,997)	(2,285)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	65,351	68,839	49,550
Financed by:			
F. Shareholders' equity			
Share capital paid-in	7,789	7,426	7,426
Reserves and retained earnings	22,631	23,855	28,167
Net income	1,266	4,954	1,352
	31,686	36,235	36,945
G. Medium/long-term debt	12,095	6,174	7,326
H. Net short-term borrowings			
Short-term borrowings	25,367	30,424	6,850
Liquid assets and short-term financial assets	(3,953)	(4,129)	(1,686)
Financial accrued expense and deferred income, net	156	135	115
	21,570	26,430	5,279
	(G+H)	32,604	12,605
I. Total (F+G+H)	65,351	68,839	49,550

The balance sheet shows net invested capital of Lire 65,351 billion (Lire 68,839 billion at December 31, 2000), of which 48.5% is financed by shareholders' equity and 51.5% by net debt.

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

- "intangible assets" amounted to Lire 2,264 billion and decreased by Lire 38 billion compared to December 31, 2000. The decrease can be ascribed to the difference between the additions (Lire 469 billion), the amortization charge (Lire 487 billion), the writeoff of software (Lire 38 billion), entirely covered by the utilization of the writedown made

in the 2000 financial statements (Lire 38 billion), and the transfers of software as a result of the sales and contributions made during the six-month period (Lire 20 billion);

- “fixed assets” of Lire 28,235 billion decreased by Lire 1,070 billion, compared to December 31, 2000. The decrease represented the difference between the additions (Lire 1,589 billion), the depreciation charge (Lire 2,653 billion) and disposals (Lire 6 billion);
- “long-term investments” amounted to Lire 40,821 billion and increased by Lire 627 billion compared to December 31, 2000. The increase was mainly on account of the following changes:
 - new investments of Lire 2,451 billion, primarily due to loans for the future capital increase of Stet International Netherlands (Lire 2,041 billion) directed, almost entirely, to the increment in the investment in Entel Chile, to the recapitalization of the share capital of TMI - Telemedia International Italia (Lire 118 billion) and to the acquisition of a 40% stake in the company Telemaco Immobiliare (Lire 147 billion);
 - writedowns of investments amounting to Lire 323 billion, mainly pertaining to Stream (Lire 194 billion) and TMI - Telemedia International Italia (Lire 126 billion);
 - reduction of the carrying value of the investment in IM.SER for Lire 145 billion following the distribution of reserves by the same company;
 - disbursement and repayment of loans, respectively, for Lire 26 billion and Lire 74 billion;
 - buy-back of No. 8,020,000 treasury savings shares with a par value of Lire 1,000 each, for Lire 96 billion, following the extension, to January 10, 2001, of the tender offer made during the period February 17, 2000 to March 17, 2000 (No. 1,793,820 shares), and later buy-backs (No. 103,184,250 shares), as voted by the ordinary shareholders’ meeting of January 14, 2000, which authorized the tender offer;
 - cancellation of No. 112,998,070 treasury savings shares, for a total of Lire 1,376 billion, subsequent to the bonus capital increase at the time of re-denominating the share capital into euros. The transaction is described under the comments in “shareholders’ equity”.

■ *Working capital* showed a negative figure of Lire 3,935 billion (-Lire 965 billion at December 31, 2000), thus representing, as it does traditionally, a source of operating cash flows.

In detail:

- “trade accounts receivable”, net of the related allowance account (Lire 660 billion), amounted to Lire 10,145 billion and increased by Lire 299 billion, compared to December 31, 2000, mainly as a result of the increase in the credit positions from subsidiaries and affiliated companies. In June, accounts receivable regarding residential, top and business customers were sold under a securitization agreement, and, consequently, at June 30, trade accounts receivable show a reduction for an amount of Lire 1,426 billion, of which Lire 1,315 billion is not yet due. The transaction is fully described in the notes to the financial statements of Telecom Italia, to which reference should be made;
- “other assets” amounted to Lire 3,032 billion and decreased by Lire 3,065 billion, compared to December 31, 2000, mainly as a result of the receipt of 2000 dividends from subsidiaries and compensation of the deferred tax assets against the reserve for taxes. The most important components relate to receivables from subsidiaries (Lire 522 billion), principally regarding the accounts connected with the Group VAT procedure, receivables from employees (Lire 205 billion), customer payments in transit with banks and the postal system (Lire 128 billion), trading of TIM stock (Lire 453 billion) and accrued income and prepaid expenses (Lire 1,473 billion), almost entirely relating to the premium paid by Telecom Italia for the call option on Seat shares, negotiated as part of the transaction to defer the put option on the same shares;

- “trade accounts payable” amounted to Lire 7,256 billion and decreased, compared to December 31, 2000, by Lire 1,203 billion. The reduction is due to the normal decrease, in the first six months, caused by payments of purchases and investments at the end of 2000. They include Lire 1,580 billion due to other national and international telecommunications carriers;
- “reserves for risks and charges” of Lire 1,784 billion increased by Lire 73 billion compared to December 31, 2000. They include the reserve for taxes (Lire 276 billion), the reserve for capital grants (Lire 238 billion), the reserve for corporate restructuring (Lire 246 billion), the reserve for litigation (Lire 272 billion), the reserve for contractual risks and other risks (Lire 609 billion) and the reserve for losses of subsidiaries, affiliates, and other companies (Lire 143 billion);
- “other liabilities”, amounting to Lire 8,273 billion, increased by Lire 1,386 billion, compared to December 31, 2000, mainly in respect of the increase in VAT payables. They mainly comprise payroll-related payables (Lire 909 billion), contributions to pension and social security institutions (Lire 1,562 billion), amounts owed to customers (Lire 1,970 billion), the TLC license fee payable (Lire 916 billion), taxes payable (Lire 1,860 billion) and accrued expenses and deferred income (Lire 908 billion).

■ *Shareholders’ equity* amounted to Lire 31,686 billion and decreased, compared to December 31, 2000, by Lire 4,549 billion. The decrease represents the balance between the net income for the period (Lire 1,266 billion), the portion of capital grants that became available (Lire 15 billion, transferred from the “reserves for risks and charges” to “reserves”), 2000 dividends paid-out (Lire 4,471 billion), the cancellation of the reserve for treasury shares in portfolio for a total of Lire 1,376 billion, the increase in paid-in-capital as a result of exercising stock options (Lire 16 billion), the share capital increase (Lire 363 billion), of which Lire 1 billion was for the exercise of stock options and Lire 362 billion for the re-denomination of the same share capital into euros, as described later in the report, and the simultaneous reduction in the revaluation reserve ex Law No. 72 dated March 19, 1983 (Lire 362 billion).

To this end, the extraordinary shareholders’ meeting of May 3, 2001 passed a resolution to re-denominate the share capital into euros by expressing the par value of the ordinary and savings shares in euros and rounding up the par value of Lire 1,000 to Euros 0.55 and consequently effecting a bonus increase in share capital by:

- cancellation of No. 112,998,070 treasury savings shares of par value Lire 1,000 each held in portfolio and the allocation to share capital, to simultaneously replenish the same, of an amount equal to the par value of the cancelled shares corresponding to the portion of the reserve for treasury shares in portfolio which became available as a result of the cancellation, with a consequent increase in the par value of the shares outstanding;
- allocation to share capital of an amount equal to Lire 362 billion from the revaluation reserve ex Law No. 72 dated March 19, 1983, with a consequent increase in the par value of the outstanding shares.

■ *Net debt* totaled Lire 33,665 billion and increased by Lire 1,061 billion compared to December 31, 2000. The composition of net debt changed as a result of the issue of Telecom Italia bonds on May 31, 2001 that were entirely subscribed to by Sogerim for Lire 6,390 billion; this made it possible to consolidate a significant portion of short-term debt.

The aforementioned securitization transaction led to an improvement in net debt of about Lire 1,400 billion.

Gross debt amounted to Lire 37,462 billion (Lire 36,598 billion at December 31, 2000).

Debt maturity is detailed in the following table:

					6.30.2001		12.31.2000	
	Lire	%	Currency (including the Euro-zone)	%	Total	%	Total	%
(in billions of lire)								
Medium/long-term debt	11,257	31	838	51	12,095	32	6,174	17
Short-term debt	24,557	69	810	49	25,367	68	30,424	83
Total	35,814	100	1,648	100	37,462	100	36,598	100

7.3 FINANCIAL PERFORMANCE

STATEMENTS OF CASH FLOWS

(in billions of lire)	1 st half 2001	1 st half 2000	Year 2000
A. Net short-term borrowings, at beginning of period	(26,430)	(7,848)	(7,848)
B. Cash flows from operating activities			
Net income	1,266	1,352	4,954
Depreciation and amortization	3,140	3,674	7,201
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(21)	(7)	(1,180)
Writedowns of intangibles and fixed assets and long-term investments	322	262	634
Change in working capital (*)	2,982	1,950	(3,612)
Net change in "reserve for employee termination indemnities"	37	122	(166)
	7,726	7,353	7,831
C. Cash flows from investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	(469)	(479)	(1,300)
• fixed assets	(1,589)	(1,708)	(3,674)
• long-term investments	(2,573)	(3,133)	(21,985)
Intangibles, fixed assets and long-term investments acquired as a result of corporate transactions	(87)	-	(9,146)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	288	1,342	8,091
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	97	64	7,946
	(4,333)	(3,914)	(20,068)
D. Cash flows from financing activities			
New borrowings	6,390	-	3
Contributions by shareholders	17	-	-
Capital grants	4	27	33
Debt repayment	(25)	(150)	(581)
Change in medium-long term debt due within one year	(448)	(747)	(1,472)
Change in shareholders' equity as a result of corporate transactions	-	-	177
	5,938	(870)	(1,840)
E. Dividends	(4,471)	-	(4,505)
F. Cash flows for the period (B+C+D+E)	4,860	2,569	(18,582)
G. Net short-term borrowings, at end of period (A+F)	(21,570)	(5,279)	(26,430)

(*) 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, affiliates and other companies, the adjustment of long-term loans receivable and medium/long-term debt to period-end exchange rates.

Net cash inflows for the first six months of 2001 amounted to Lire 4,860 billion, with a consequent reduction of the same amount in net short-term borrowings, which are now Lire 21,570 billion.

Such trend is due to both the "cash flows from operating activities" of Lire 7,726 billion and the "cash flows from financing activities" of Lire 5,938 billion (which benefited from the Telecom Italia bond issue on May 31, 2001 entirely subscribed to by Sogerim for Lire 6,390 billion), which totally finances the investing activities and the pay-out of 2000 dividends.

Investments, amounting to Lire 4,631 billion (Lire 5,320 billion for the first six months of 2000), included Lire 2,058 billion of capital expenditures (Lire 2,187 billion for the first six months of 2000) and Lire 2,573 billion of financial investments (Lire 3,133 billion for the first six months of 2000); the latter include Lire 2,451 billion of investment acquisitions.

7.4

RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS

STATEMENTS OF INCOME

(in millions of euros)	1 st half 2001	1 st half 2000	Year 2000
A. Sales and service revenues	8,553	8,756	17,463
Changes in inventory of contract work in process	(14)	8	8
Increases in capitalized internal construction costs	4	6	11
Operating grants	1	-	1
B. Standard production value	8,544	8,770	17,483
Raw materials and outside services (*)	(3,498)	(3,431)	(6,870)
C. Value added	5,046	5,339	10,613
Labor costs (*)	(1,343)	(1,546)	(3,057)
D. Gross operating profit	3,703	3,793	7,556
Depreciation and amortization	(1,622)	(1,897)	(3,719)
Other valuation adjustments	(56)	(74)	(191)
Provisions to reserves for risks and charges	(37)	(49)	(62)
Net other income (expense)	30	40	11
E. Operating income	2,018	1,813	3,595
Net investment and financial income (expense) and value adjustments	(758)	(207)	892
F. Income before extraordinary items and taxes	1,260	1,606	4,487
Net extraordinary income (expense)	(84)	(250)	(179)
G. Income before taxes	1,176	1,356	4,308
Income taxes	(522)	(658)	(1,749)
H. Net income	654	698	2,559

(*) Reduced by related cost recoveries.

BALANCE SHEETS

(in millions of euros)		6.30.2001	12.31.2000	6.30.2000
A.	Intangibles, fixed assets and long-term investments			
	Intangible assets	1,169	1,189	1,152
	Fixed assets	14,582	15,135	18,066
	Long-term investments			
	• equity investments and advances on future capital contributions	20,861	19,847	10,505
	• other	222	912	425
		36,834	37,083	30,148
B.	Working capital			
	Inventories	104	77	140
	Trade accounts receivable	5,239	5,085	5,079
	Other assets	1,566	3,149	795
	Trade accounts payable	(3,748)	(4,369)	(3,971)
	Reserves for risks and charges	(921)	(884)	(1,114)
	Other liabilities	(4,273)	(3,557)	(4,306)
		(2,033)	(499)	(3,377)
C.	Invested capital, net of operating liabilities (A+B)	34,801	36,584	26,771
D.	Reserve for employee termination indemnities	(1,050)	(1,031)	(1,180)
E.	Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	33,751	35,553	25,591
	Financed by:			
F.	Shareholders' equity			
	Share capital paid-in	4,023	3,835	3,835
	Reserves and retained earnings	11,688	12,320	14,548
	Net income	654	2,559	698
		16,365	18,714	19,081
G.	Medium/long-term debt	6,246	3,188	3,784
H.	Net short-term borrowings			
	Short-term borrowings	13,101	15,713	3,538
	Liquid assets and short-term financial assets	(2,042)	(2,132)	(871)
	Financial accrued expense and deferred income, net	81	70	59
		11,140	13,651	2,726
	(G+H)	17,386	16,839	6,510
I.	Total (F+G+H)	33,751	35,553	25,591

STATEMENTS OF CASH FLOWS

(in millions of euros)	1 st half 2001	1 st half 2000	Year 2000
A. Net short-term borrowings, at beginning of period	(13.651)	(4.053)	(4.053)
B. Cash flows from operating activities			
Net income	654	698	2.559
Depreciation and amortization	1.622	1.897	3.719
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(11)	(4)	(610)
Writedowns of intangibles and fixed assets and long-term investments	166	136	327
Change in working capital (*)	1.540	1.007	(1.865)
Net change in "reserve for employee termination indemnities"	19	63	(86)
	3.990	3.797	4.044
C. Cash flows from investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	(242)	(247)	(671)
• fixed assets	(820)	(882)	(1.898)
• long-term investments	(1.329)	(1.618)	(11.354)
Intangibles, fixed assets and long-term investments acquired as a result of corporate transactions	(45)	-	(4.724)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	149	693	4.179
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	50	33	4.104
	(2.237)	(2.021)	(10.364)
D. Cash flows from financing activities			
New borrowings	3.300	-	2
Contributions by shareholders	9	-	-
Capital grants	2	14	17
Debt repayment	(13)	(77)	(300)
Change in medium-long term debt due within one year	(231)	(386)	(761)
Change in shareholders' equity as a result of corporate transactions	-	-	91
	3.067	(449)	(951)
E. Dividends	(2.309)	-	(2.327)
F. Cash flows for the period (B+C+D+E)	2.511	1.327	(9.598)
G. Net short-term borrowings, at end of period (A+F)	(11.140)	(2.726)	(13.651)

(*) 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, affiliates and other companies the adjustment of long-term loans receivable and medium/long-term debt to period-end exchange rates.

chapter 8

CURRENT YEAR OUTLOOK FOR THE TELECOM ITALIA GROUP AND TELECOM ITALIA S.P.A.

In the second half of 2001, the commitment for the industrial transformation of the Group will be stepped with a view to further improving productivity, maintaining a high rate of growth and seizing every opportunity offered by the advances in technology.

The year 2001 will basically be marked by three distinct factors:

- a strong growth in industrial operations from the standpoint of revenues and gross operating profit;
- the preservation of a high profitability, even though there are numerous businesses in the start-up phase. This will be accomplished by the careful management of resources and the reduction of the operating costs of companies already operational;
- the adoption of a strict financial policy in order to contain the level of total debt and the ability to generate dividends for the shareholders.

On the basis of available data, industrial operations are expected to produce “double digit” growth in revenues and gross operating profit, substantially in line with market expectations as regards dynamics and composition.

The revenues of the Group should reach Euros 33 billion, with a significant growth over the year 2000, mainly as a result of the consolidation of the new acquisitions (Seat group, Entel Chile group, Maxitel in Brazil), the favorable performance of mobile telephone services and the development of data/Internet services provided by TIWS in Italy.

A higher gross operating profit by the Group should keep the acceleration seen in the first half on course, not only on account of the change in the consolidation area, but also because of the favorable results reached by the domestic fixed and mobile telephone business in terms of the growth in volumes and the reduction in costs.

The slight variation in the growth of the gross profit margin, when compared to the targets already announced to the market and financial community, will depend upon a lower net contribution by both international fixed and mobile operations owing to the effect of the industrial acceleration of the Latin American businesses in the start-up phase and the deterioration in exchange rates compared to the preliminary estimates.

Operations for the entire year 2001, as already shown by the results for the six months, will be characterized by the significant increase in expenses for development, represented by the amortization of goodwill on the acquisitions of investments, the value adjustments for the companies valued using the equity method which report losses owing to their start-up and higher interest expense.

The effect of the expenses for development will thus cause a significant reduction in the consolidated net income of the Telecom Italia Group compared to the year 2000, in line with in the six-month results.

The net financial debt of the Group, which rose during the first six months as a result of the completion of the acquisitions of the international holdings in the mobile and fixed telephone business and the payment of dividends from 2000 earnings, will remain at around Euros 25 billion, which is substantially in line with that reported for the six-month period.

Telecom Italia S.p.A., which does not have the amortization charge for goodwill or the value adjustments that are reported in the consolidated financial statements, will maintain a high net income, in line with the net income reported for the first half, benefiting, as in the past, from the dividends of the subsidiaries as well as the measures adopted to reduce costs mainly in the domestic fixed telephone sector.

chapter 9

TRANSACTIONS BETWEEN TELECOM ITALIA AND RELATED PARTIES

Transactions with related parties – including parent companies and their subsidiaries, unconsolidated subsidiaries and affiliated companies, as well as the Telecom Italia's Directors and the companies in which they hold corporate office or significant responsibility – all such transactions fall under Telecom Italia's normal operations and were conducted at standard conditions or in accordance with specific regulatory provisions. In accordance with the provisions of article 2428 of the Italian Civil Code, the table below provides a breakdown of the transactions with such parties:

Statement of income and balance sheet items for the first six months of 2001	Amounts in billions of lire	Nature of transaction
Sales and services revenues	1,499	These refer mainly to revenues from telecommunications services as well as revenues for mobile-fixed interconnections and rental of lines acquired by TIM. They also include the management fee from Telecom Argentina, the revenues from Seat Pagine Gialle and Telespazio.
Raw materials and outside services	2,622	These refer to purchases from subsidiaries and affiliates and other related parties (in particular, from Italtel, TIM, TI Lab, Netsiel, IM.SER, Saritel and Seat Pagine Gialle) mainly for rentals, installments, equipment maintenance, software and studies and research, as well as the amounts due to TIM, Telespazio and Etec S.A. for their share of telecommunications services.
Net other income	90	These refer to income connected with miscellaneous services rendered mainly to TIM and other subsidiaries and affiliates.
Net financial expense	102	These mainly comprise dividends and the interest accrued on current accounts held for purposes of centralized cash management and financial expenses, paid to Stet International Netherlands, relative to the call option on Seat Pagine Gialle shares, agreed in relation to the deferral of the put option on the same Seat Pagine Gialle shares.
Net extraordinary (income)	6	These refer to gains realized on the contribution of the "Information Systems Development" business segment to Telesoft.
Loans in long-term investments	97	These refer to loans granted to the subsidiary Telespazio.
Trade accounts receivable	1,874	These are mainly items connected with the rendering of telecommunications services.
Other assets	1,944	These primarily refer to receivables from subsidiaries under the VAT procedures used by the Group and prepaid expenses relating to the premium paid by Telecom Italia and Stet International Netherlands for the call option on Seat Pagine Gialle shares in relation to the deferral of the put option on Seat shares.
Trade accounts payable	2,655	Essentially, these are the supplier transactions connected with normal investments and operations, in particular with Telesoft, Italtel and Netsiel, as well as the amounts due to TIM and Telespazio for their share of services invoiced by Telecom Italia.
Other liabilities	83	These refer to the amount payable in connection with the Group's VAT procedure and capital contributions payable to Path.net.
Net short-term financial liabilities	1,317	These mainly transactions on the current accounts held for purposes of centralized cash management.
Investments in fixed and intangible assets	727	These mainly regard the acquisitions from Italtel (exchanges), Telesoft and Finsiel (software projects), Siemens Informatica and TI Lab.

In April, moreover, Telecom Italia Lab (a 100%-owned subsidiary of Telecom Italia), joined with the Ramius Capital Group, an American investment management company (in which the director, Peter Cohen, is the CEO), to set up an United States-registered venture capital fund called Saturn Venture Partners which targets investments in fixed and mobile TLC technologies and service infrastructures. The fund's participants also include the companies TIM, Olivetti and Hopa (in which the directors Mr. Colaninno and Mr. Gnutti are shareholders).

The law firm of Studio Bonelli, Erede, Pappalardo in which Mr. Erede is the senior partner, has performed professional legal services on behalf of Telecom Italia and some subsidiaries.

Furthermore, two executives of Telecom Italia S.p.A. have each purchased a building from Telecom Italia, paying the market price.

In March 2001, Telecom Italia purchased a 12.3% stake in Netesi S.p.A. – with headquarters in Milan and operating in the area of online applications services – by subscribing to a first tranche of new shares issued for a capital increase for an investment of approximately Lire 12.1 billion. The subscription of the next tranches for capital increases will involve further outlays for a maximum of approximately Lire 12.1 billion. Netesi's shareholders include, among others, Omniaholding (in which the Deputy Chairman and the CEO is a relative of Mr. Roberto Colaninno) with a current stake of 9.21%.

chapter 10

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/m*6U/sec*5U) over the normal telephone's twisted pairwire.

Authority

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

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.

Business-to-business

Electronic market among businesses.

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.

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.

DCS 1800

Digital Communication System. A derivative of GSM operating on the 1800 MHz frequency.

Dial-up

Collegamento diretto a Internet tramite modem e linee telefoniche normali o ISDN, reso possibile dagli sviluppi applicativi dei due protocolli SLIP (serial line Internet protocol) e PPP (point to point protocol).

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.

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.

GPRS

General Packet Radio Services. Evolution of GSM which allows high-speed voice and data mobile connections, used to surf the Internet and access corporate Intranets.

GSM

Global System for Mobile communications. Digital system for mobile 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.

Intelligent network

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

IP (Internet Protocol)

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

ISDN

Integrated Services Digital Network. A numerical integrated services network that enables multimedial communications (voice, data, animated text and images), accessible at a rate of 128 Kbit/sec (2 channels at 64 Kbit/sec - standard access) and 2 Mbit/sec (primary access). The particular feature of the ISDN service is that it provides numerical user-to-user connectivity. The ISDN network incorporates functions that enable high-capacity and broadband multiple service accesses, evolving towards an integrated numerical network also in the broadband services.

LAN

Local Area Network . A private telecommunications network which covers a local geographical area.

Local loop unbundling

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

Number portability

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

PABX

Private Automatic Branch Exchange. A private telephone exchange connected to the public telephone network.

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.

Roaming

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

SDH

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

UMTS

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

VSAT

Very Small Aperture Terminal. Small aperture terminals (up to 1.8 m).

WAP

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

Wholesale

Intended for the new TLC operators ("intermediate" customers), this consists in a specific agreement for the supply of basic services that these intermediate customers do not provide on their own (a typical example is the carriage of international traffic).

XDSL

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

**CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTH ENDED JUNE 30,
2001 OF THE TELECOM ITALIA GROUP AND TELECOM ITALIA**

**CONSOLIDATED
FINANCIAL STATEMENTS
OF TELECOM ITALIA GROUP**



ASSETS (in billions of lire)

	6.30.2001	12.31.2000	6.30.2000
Receivables from shareholders for capital contributions			
Portion called in	=	=	1
Portion not called in	3	3	3
	3	3	4
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Start-up and expansion costs	201	194	124
Industrial patents and intellectual property rights	2,256	1,585	1,387
Concession, licenses, trademarks and similar rights	8,680	6,787	989
Goodwill	138	133	7
Consolidation difference	21,327	19,809	3,286
Work in progress and advances to suppliers	1,497	1,626	995
Other intangibles	1,064	918	681
	35,163	31,052	7,469
FIXED ASSETS			
Land and buildings	6,277	5,706	10,276
Plant and machinery	35,746	35,096	34,182
Manufacturing and distribution equipment	147	152	269
Other fixed assets	1,836	1,619	1,499
Construction in progress and advances to suppliers	3,715	2,785	2,657
	47,721	45,358	48,883
LONG-TERM INVESTMENTS			
Equity investments in:			
unconsolidated subsidiaries	55	41	14
affiliated companies	12,822	13,939	12,274
other companies	417	369	400
	13,294	14,349	12,688
Advances on future capital contributions	2,356	363	140
Accounts receivable:	(*)	(*)	(*)
unconsolidated subsidiaries	7	9	274
affiliated companies	27	246	619
other receivables	178	212	158
	212	212	893
Other securities	268	12	12
Treasury stock		1,281	326
	16,822	16,797	14,059
Total intangibles, fixed assets and long-term investments	99,706	93,207	70,411
Current assets			
INVENTORIES			
Raw materials and supplies	70	40	274
Work in progress and semifinished goods	14	26	164
Contract work in process	1,276	905	1,641
Finished goods and merchandise:			
finished goods	3	3	58
merchandise	659	415	453
	662	418	511
Advances to suppliers	30	16	29
	2,052	1,405	2,619
ACCOUNTS RECEIVABLE	(**)	(**)	(**)
Trade accounts receivable	11	9	14
Accounts receivable from unconsolidated subsidiaries	62	79	53
Accounts receivable from affiliated companies	1,157	800	904
Accounts receivable from parent companies	2	5	1
Other receivables	183	944	340
	194	6,641	2,710
	22,650	953	354
SHORT-TERM FINANCIAL ASSETS	(**)	(**)	(**)
Equity investments in unconsolidated subsidiaries	650	759	360
Equity investments in affiliated companies		11	
Other equity investments	70	73	65
Other securities	6,321	3,911	2,089
Receivables for sales of securities	62	1	2
	7,103	4,755	2,516
LIQUID ASSETS			
Bank and postal accounts	4,773	2,516	1,275
Checks	2		
Cash and valuables on hand	14	9	18
	4,789	2,525	1,293
Total current assets	36,594	31,694	24,753
Accrued income and prepaid expenses			
Issue discounts and similar charges	183	3	3
Accrued income and other prepaid expenses	2,275	1,947	451
	2,458	1,950	454
TOTAL ASSETS	138,761	126,854	95,622

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

LIABILITIES AND SHAREHOLDERS' EQUITY (in billions of lire)

	6.30.2001		12.31.2000		6.30.2000	
Shareholders' equity						
PARENT COMPANY INTEREST IN:						
Share capital	7,790		7,426		7,426	
Reserve for treasury stock	-		1,281		326	
Reserves and retained earnings	22,647		23,809		25,322	
Net Income	934		3,927		1,896	
	31,371		36,443		34,970	
MINORITY INTEREST IN:						
Share capital, reserves and retained earning	11,932		11,206		5,235	
Net income	709		1,782		862	
	12,641		12,988		6,097	
	44,012		49,431		41,067	
Reserves for risks and charges						
Reserve for pensions and similar obligation	66		30			
Reserve for taxes						
<i>for taxes</i>	1,111		307		2,151	
<i>for deferred taxes</i>			390			
	1,111		697		2,151	
Other reserves	2,877		2,698		1,504	
	4,054		3,425		3,655	
Reserve for employee termination indemnities	2,650		2,554		3,032	
Liabilities	(**)		(**)		(**)	
Debentures	14,786	15,291	3,229	3,512	2,791	3,604
Convertible debentures	4,841	4,841				
Due to banks	9,166	32,219	8,318	32,522	7,102	15,164
Due to other lenders	2,499	3,284	2,454	3,270	1,120	1,630
Advances		1,137		716		946
Trade accounts payable	527	11,922	67	13,129	71	10,666
Notes payable	229	232	97	97		
Accounts payable to unconsolidated subsidiaries		104		12		27
Accounts payable to affiliated companies	951	2,023	980	2,463	943	2,161
Accounts payable to parent companies		3		3		4
Taxes payables	11	2,804	5	1,800	11	2,553
Contributions to pension and social security institutions	2	1,718	1,260	1,808	1,372	1,791
Other liabilities	536	9,759	1,130	9,755	163	7,418
	33,548	85,337	17,540	69,087	13,573	45,964
Accrued expenses and deferred income	2,708		2,357		1,904	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	138,761		126,854		95,622	

(**) Amounts due beyond one year

(in billions of lire)

	6.30.2001	12.31.2000	6.30.2000
Guarantees provided			
Sureties			
on behalf of unconsolidated subsidiaries	44	39	87
on behalf of affiliated companies	4,048	4,482	3,491
on behalf of others	593	461	443
	4,685	4,982	4,021
Endorsements			
on behalf of others	283	326	272
Other guarantees			
on behalf of unconsolidated subsidiaries	1	1	13
on behalf of affiliated companies	42	134	34
on behalf of others	155	232	3
	198	367	50
	5,166	5,675	4,343
Collateral provided			
For obligations of others	2	1	9
For own obligations, not including liabilities	3	3	3
	5	4	12
Purchases and sales commitments	6,188	9,492	18,877
Other memorandum accounts	478	454	498
TOTAL MEMORANDUM ACCOUNTS	11,837	15,625	23,730

(in billions of lire)

	1 st half 2001	1 st half 2000	Year 2000
Production value			
Sales and service revenues	30,185	27,528	55,979
Changes in inventories of work in progress, semifinished and finished goods	3	56	54
Changes in inventory of contract work in process	367	505	487
Increases in capitalized internal construction costs	384	806	1,765
Other revenue and income:			
<i>operating grants</i>	19	19	39
<i>other</i>	384	407	787
	403	426	826
	31,342	29,321	59,111
Production cost			
Raw materials, supplies and merchandise	(1,582)	(2,056)	(3,893)
Semifinished and finished goods	(229)	(311)	(480)
Services	(9,329)	(7,906)	(16,252)
Use of property not owned	(1,058)	(693)	(1,546)
Personnel			
<i>wages and salaries</i>	(3,411)	(3,512)	(6,796)
<i>social security contributions</i>	(1,026)	(1,093)	(2,183)
<i>termination indemnities</i>	(213)	(249)	(469)
<i>other costs</i>	(164)	(149)	(281)
	(4,814)	(5,003)	(9,729)
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	(2,035)	(927)	(2,192)
<i>depreciation of fixed assets</i>	(4,288)	(4,463)	(8,741)
<i>other writedowns of intangibles and fixed assets</i>	(7)	(27)	(93)
<i>writedowns of receivables included in current assets and liquid assets</i>	(458)	(499)	(924)
	(6,788)	(5,916)	(11,950)
Changes in inventory of raw materials, supplies and merchandise	192	68	(4)
Provisions for risks	(156)	(118)	(231)
Other provisions	(35)	(27)	(74)
Miscellaneous operating costs	(784)	(794)	(1,773)
	(24,583)	(22,756)	(45,932)
Operating income	6,759	6,565	13,179
Financial income and expense			
Income from equity investments:			
<i>dividends from unconsolidated subsidiaries</i>	18	7	7
<i>dividends from affiliated companies</i>		34	123
<i>dividends from other companies</i>	17	84	137
<i>other income from equity investments</i>	36	93	323
	71	218	590
Other financial income from:			
<i>accounts receivable included in long-term investments affiliated companies</i>	7	14	18
<i>other</i>	15	11	19
	22	25	37
<i>securities, other than equity investments, included in long-term investments</i>			1
<i>securities, other than equity investments, included in current assets</i>	152	99	201
<i>other income</i>			
<i>interest and fees from unconsolidated subsidiaries</i>	1		1
<i>interest and fees from affiliated companies</i>	17	14	28
<i>interest and fees from others and miscellaneous income</i>	685	441	778
	703	455	807
	877	579	1,046
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>	(30)	(32)	(64)
<i>interest and fees paid to others and miscellaneous expense</i>	(2,383)	(1,054)	(2,471)
	(2,414)	(1,086)	(2,536)
Total financial income and expense	(1,466)	(289)	(900)

(Continued) (in billions of lire)

	1 st half 2001	1 st half 2000	Year 2000
Value adjustments to financial assets			
Upward adjustments of:			
<i>equity investments</i>	131	144	533
<i>securities, other than equity investments, included in current assets</i>	2		
	133	144	533
Writedown of:			
<i>equity investments</i>	(1.613)	(809)	(2.517)
<i>long-term investments, other than equity investments</i>			
<i>securities, other than equity investments, included in current assets</i>	(15)	(62)	(259)
	(1.628)	(871)	(2.776)
Total value adjustments	(1.495)	(727)	(2.243)
Extraordinary income and expense			
Income			
<i>gains on disposals</i>	444	596	2.219
<i>miscellaneous</i>	349	204	457
	793	800	2.676
Expense:			
<i>losses on disposals</i>	(21)		(23)
<i>prior years' taxes</i>	(5)	(10)	(11)
<i>miscellaneous</i>	(579)	(768)	(3.057)
	(605)	(778)	(3.091)
Total extraordinary items	188	22	(415)
Income before taxes	3.986	5.571	9.621
Income taxes			
<i>current taxes</i>	(2.343)	(2.813)	(4.815)
<i>deferred taxes</i>			903
	(2.343)	(2.813)	(3.912)
Net income before minority interest	1.643	2.758	5.709
Minority interest	(709)	(862)	(1.782)
Net income	934	1.896	3.927

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PREAMBLE

The consolidated financial statements for the six months ended June 30, 2001 have been prepared in accordance with the provisions of the Italian Civil Code concerning consolidated financial statements, art. 81 and Annex 3C-bis of Consob resolution No. 11971 of May 14, 1999 and later amendments (Issuer Rules).

Disclosure regarding the introduction of the euro currency is provided in “Other Information” in these notes and in 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.

CONSOLIDATION AREA

The consolidation area at June 30, 2001, 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 in which it exercises a dominant influence. The proportional method of consolidation, pursuant to Article 37 of Legislative Decree 127/1991, is used to consolidate the associated company Nortel Inversora and the Telecom Argentina group which it controls (Nortel Inversora group).

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

The following changes have taken place in the consolidation area:

- Since June 30, 2000:
 - a) added to the consolidation area:
 - Seat Pagine Gialle group;
 - for *Wireline Services*: the companies set up to develop a European network (TI Belgium, TI France, TI Germany, TI Switzerland, TI United Kingdom, Telecom Italia Netherlands); the companies to develop the Nautilus project (Mediterranean Nautilus group, Mediterranean Nautilus, Latin American Nautilus, Latin American Nautilus Brasil, Latin American Nautilus Service, Latin American Nautilus Argentina, Latin American Nautilus Chile, Latin American Nautilus Panama, Latin American Nautilus Perù, Latin American Nautilus Venezuela), Med-1 group;
 - for *Mobile Services*: Tim Brasil, Blucel, Starcel, Unicel, Tim International, Corporation Digitel, Maxitel group;
 - for *International Operations*: Entel Chile group, Jet Multimedia group, Mageos Explorer group, BBNED, TI WEB, Telecom Argentina USA;
 - for *Telecom Italia Lab*: Loquendo, Telecom Italia Lab S.A., Telecom Italia Lab General Partner, TI;

- for *IT Services*: TI.IT - Telecom Italia Information Technology, Eustema, Webred;
- for *Satellite Services*: Telespazio North America;
- for *Other activities*: Tele Payroll Services;
- b) eliminated from the consolidation area:
 - Sirti group;
 - Italtel group;
 - for *Mobile Services*: U-Mobil;
 - for *IT Services*: Bisiel, Comitsiel, Aska, Jmac Consiel, Metis, Sit;
 - for *Satellite Services*: Com.star, Iridium Italia.
- Since December 31, 2000:
 - c) added to the consolidation area:
 - for *Wireline Services*: the companies Latin American Nautilus Brasil, Latin American Nautilus Service, Latin American Nautilus Chile, Latin American Nautilus Panama, Latin American Nautilus Perù, Latin American Nautilus Venezuela;
 - for *Mobile Services*: Tim Brasil, Blucel, Starcel, Unicel;
 - for *International Operations*: Entel Chile group, Telecom Argentina USA and, in the Jet Multimedia group, Victoire Multimedia, Victoire Multimedia Informatique;
 - for *Internet and Media*: Consodata group, Cecchi Gori Communications group, NetCreations, some companies in the professional publishing sector and in the call center area;
 - for *IT Services*: Webred;
 - for *Satellite Services*: Telespazio North America;
 - for *Telecom Italia Lab*: Loquendo, Telecom Italia Lab S.A., Telecom Italia Lab General Partner.

In the first half of 2001, moreover, the groups Seat Pagine Gialle, Jet Multimedia, Mageos Explorer (ex Europe Explorer), Maxitel and the companies Corporacion Digitel and Eustema, whose balance sheets only were consolidated at December 31, 2000, have now been fully consolidated line-by-line, including the statement of income;

- d) eliminated from the consolidation area:
 - Sirti group;
 - Italtel group;
 - for *Mobile Services*: U-Mobil;
 - for *IT Services*: Bisiel, Aska, Jmac Consiel, Sit;
 - for *Satellite Services*: Com.star, Iridium Italia.

At June 30, 2001, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 8 can be categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
• consolidated by the line-by-line method	97	208	305				305
• consolidated by the proportional method(*)					9	9	9
• valued by the equity method	17	15	32	26	21	47	79
• valued at cost	34	20	54	32	12	44	98
Total companies	148	243	391	58	42	100	491

(*) Companies in the Nortel Inversora group.

The investments in companies valued at cost mainly refer to consortia, of which 17 are subsidiaries and 24 are affiliates.

As regards some holdings operating in the “new economy”, no writedowns were effected notwithstanding the fall in the market values of this sector. This was decided in view of both the prospects for business in the medium and long-term which are deemed unchanged and also on account of the industrial, and thus strategic, nature of such investments in relation to the competitive positioning of the Telecom Italia Group in the reference markets. Nevertheless, in view of the rapid evolution of the sector, these holdings will be continually and carefully monitored.

The value of the companies in the operating start-up stage, especially in innovative sectors, almost entirely depends upon the medium- to long-term business prospects of the sector and the company’s potential for achieving a competitive positioning on the market. Economic slowdowns of a short-term duration in the reference market or delays in the start-up process have no significant effect on the value of the company.

Nevertheless, the medium- to long-term prospects of the reference markets and the competitive positions will be carefully monitored in order to identify any critical areas.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles adopted in preparing the consolidated financial statements for the six months ended June 30, 2001, 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.

Income taxes

Income taxes on the first half results of the individual consolidated companies, as well on the consolidation adjustments, are recorded in the “reserve for taxes” under the “reserves for risks and charges” based on the tax rate for the year 2001.

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. In particular the remaining liability for such obligations, payable in fifteen annual installments on the basis of the statement updated to June 30, 2001 by the INPS authorities and according to its interpretation, amounts to Lire 2,923 billion, divided as follows:

- a) Lire 1,911 billion for the principal amount (except for the portion attributable to former Iritel employees);
- b) Lire 1,012 billion 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 six-month consolidated financial statements also include Lire 1,377 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.

Securitization

In the first half of 2001, the Parent Company began a program for the securitization of receivables generated by the services rendered to the residential, top and business customers of Telecom Italia Wireline Services (TIWS) and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the public administration) for a total of Euros 2 billion of notes to be issued. Such program calls for following up the first issue of Euros 700 million in June 2001 by TI Securitisation Vehicle S.r.l., the vehicle company for the program which operates under Law No. 130/1999, with successive issues of notes all with the same rights, up to the limit established by the program.

For additional details on the criteria applied and the procedures for completing the transaction, reference should be made to the Notes to the financial statements of Telecom Italia.

Translation rates

For the consolidated subsidiaries and the affiliates which use inflation accounting to avoid distorting effects on the results for the period, the income statement is translated at the exchange rates at the end of the period instead of at the average rates. The Group companies which use inflation accounting are Digitel C.A. (Venezuela) and IS TIM Telekomunikasyon Hizmetleri A.S. (Turkey).

CONSOLIDATED BALANCE SHEETS

ASSETS

Intangibles, fixed assets and long-term investments

Intangible assets

Lire 35,163 billion

(Lire 31,052 billion at December 31, 2000)

Intangible assets increased by Lire 4,111 billion compared to December 31, 2000. A breakdown of the composition and the changes in this caption are provided below:

(miliardi di lire)	12.31.2000	Additions	Amortization	Disposals and other changes	6.30.2001
Start-up and expansion costs	194	37	(33)	3	201
Industrial patents and intellectual property rights	1,585	294	(723)	1,100	2,256
Concessions, licenses, trademarks and similar rights	6,787	1,976	(106)	23	8,680
Goodwill	133	1	(9)	13	138
Consolidation difference	19,809	1,936	(1,012)	594	21,327
Work in progress and advances to suppliers	1,626	945	-	(1,074)	1,497
Other intangibles	918	89	(152)	209	1,064
Total	31,052	5,278	(2,035)	868	35,163

Start-up and expansion costs refer primarily to registration fees paid when consolidated companies are established or when their capital is increased.

Industrial patents and intellectual property rights consist mainly of applications software either owned outright or acquired under a license for an unspecified period of time.

Concessions, licenses, trademarks and similar rights mainly include the cost of the UMTS license acquired by TIM and the cost of PCS licenses acquired in Brazil by Starcel, Blucel and Unicel, as well as the value, net of amortization, of the mobile telephone licenses owned by Maxitel, Telecom Argentina, Stet Hellas and TIM Perù.

The *consolidation difference* increased by Lire 1,518 billion over December 31, 2000 as a result of new investments, net of amortization for the period, in Entel Chile (Lire 1,368 billion) and Cecchi Gori Communications (Lire 122 billion) and the reclassification from investments of the remaining goodwill on the previous acquisitions of Entel Chile (Lire 303 billion) and Cecchi Gori Communications (Lire 259 billion). Furthermore, this item includes the residual value of the difference between the amount paid and the underlying share of the net equities at the date of acquisition of the Seat Pagine Gialle group (Lire 12,061 billion), the Jet Multimedia group (Lire 1,221 billion), Tele Celular Sul Participacoes (Lire 443 billion), Tele Nordeste Celular Participacoes (Lire 440 billion), the Nortel Inversora group (Lire 227 billion) and Entel Bolivia (Lire 234 billion).

Work in progress and advances to suppliers decreased by Lire 129 billion compared to December 31, 2000 and mainly represent the difference between the capitalization of costs incurred in the first half of 2001 for software development projects in progress and projects which became operative during the period.

Other intangibles totaling Lire 1,064 billion (Lire 918 billion at December 31, 2000) include Lire 508 billion (Lire 506 billion at December 31, 2000) of leasehold improvements.

Fixed assets

Lire 47,721 billion

(Lire 45,358 billion at December 31, 2000)

Fixed assets increased by Lire 2,363 billion compared to December 31, 2000. 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:

(n billions of lire)							6.30.2001	12.31.2000
Owned assets			Leased assets				Net book value	Net book value
	Gross value	Accumulated depreciation	Total	Gross lordo	Accumulated depreciation	Total		
Land and buildings	8,473	(3,081)	5,392	1,062	(177)	885	6,277	5,706
Plant and machinery	115,359	(79,687)	35,672	151	(77)	74	35,746	35,096
Manufacturing and distribution equipment	1,985	(1,838)	147	3	(3)	-	147	152
Other fixed assets	4,826	(3,120)	1,706	197	(67)	130	1,836	1,619
Construction in progress and advances to suppliers	3,481	-	3,481	234	-	234	3,715	2,785
Total	134,124	(87,726)	46,398	1,647	(324)	1,323	47,721	45,358

Accumulated depreciation covered 66.7% of gross fixed assets, compared to 65.9%. The gross value includes Lire 2,489 billion of upward adjustments made by Telecom Italia.

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

(miliardi di lire)	1 st half 2001	Year 2000
Beginning of the year	45,358	45,518
• Additions	4,027	7,530
• Disposals	(198)	(199)
• Sale of "Large Buildings" business segment		(4,632)
• Depreciation	(4,288)	(8,741)
• Writedowns	(4)	(22)
• Change in the consolidation area	2,477	5,766
• Translation adjustments and other	349	138
End of the period	47,721	45,358

Additions during the first half amounted to Lire 4,027 billion (of which Lire 540 billion were invested in Southern Italy) and decreased by Lire 725 billion compared to the first half of 2000. Details by Business Unit are as follows:

(n billions of lire)	1 st half 2001	1 st half 2000
Wireline Services	1,788	1,590
Mobile Services	1,193	1,013
International Operations	713	517
Internet and Media	96	33
IT Services	56	68
Satellite Services	18	28
Telecom Italia Lab	13	24
	3,877	3,273
Other activities and eliminations	150	29
Total	4,027	3,302

Long-term investments

Lire 16,822 billion

(Lire 16,797 billion at December 31, 2000)

Long-term investments increased by Lire 25 billion compared to December 31, 2000 and include the following:

(n billions of lire)	6.30.2001	12.31.2000	Change
Investments in:			
• unconsolidated subsidiaries	55	41	14
• affiliated companies	12,822	13,939	(1,117)
• other companies	417	369	48
	13,294	14,349	(1,055)
Advances on future capital contributions	2,356	363	1,993
	15,650	14,712	938
Accounts receivables:			
• unconsolidated subsidiaries	9	-	9
• affiliated companies	251	246	5
• other receivables	644	546	98
	904	792	112
Other securities	268	12	256
Treasury stock	-	1,281	(1,281)
Total	16,822	16,797	25

Investments in affiliated companies, amounting to Lire 12,822 billion, decreased by Lire 1,117 billion compared to December 31, 2000, chiefly due to the consolidation of the Entel Chile group and the Cecchi Gori Communications group, previously valued by the equity method (respectively, Lire 733 billion and Lire 229 billion), and the writedown of the investment in IS TIM.

Investments in affiliated companies refer to the following:

(in billions of lire)

Telekom Austria	3,395
Auna	1,527
GLB Servicos Interativos (Globo.com)	1,465
Mobikom Austria	1,134
Etec S.A.	1,051
Solpart Participacoes	828
Astrolink	548
Eutelsat	491
Telekom Srbija	378
IS TIM	317
BDT	302
IM.SER	264
Netco Redes	254
Italtel Holding	178
Telemaco Immobiliare	151
Lottomatica	139
Other	400
Total	12,822

Investments valued by the equity method included the unamortized portion (Lire 5,036 billion against Lire 5,645 billion at December 31, 2000) of the excess of book values over the corresponding share of the underlying net equities at the time of purchase. The excess mainly refers to Telekom Austria (Lire 1,817 billion), GLB Servicos Interativos (Globo.com) (Lire 1,390 billion), Mobikom Austria (Lire 567 billion), Auna (Lire 516 billion), Netco Redes (Lire 209 billion) and Etec S.A. (Lire 210 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.

Advances on future capital contributions (Lire 2,356 billion) regard mainly advances made by Tim International to the Turkish company IS TIM.

Other receivables, amounting to Lire 644 billion, include loans made to other companies, capital contributions to the Chinese Jilin Huatai Communications joint venture, loans to employees and security deposits. The caption also includes the receivable (including accrued interest), deriving from prepayment of the tax on the reserve for employee severance indemnities, totaling Lire 229 billion.

Other securities amounted to Lire 268 billion and increased by Lire 256 billion from December 31, 2000. They include investments made in the Wisequity S.p.A. closed mutual fund by Seat during the period.

Treasury stock of the Parent Company (No. 104,978,070 savings shares at December 31, 2000 increased by the No. 8,020,000 savings shares bought back in January 2001 after the continuation of the tender offer effected in the first quarter of 2000) was cancelled following the bonus increase in share capital at the time the share capital was re-denominated into euros.

Current assets

Inventories

Lire 2,052 billion

(Lire 1,405 billion at December 31, 2000)

Inventories include the following:

(in billions of lire)	6.30.2001	12.31.2000	Change
Raw materials and supplies	70	40	30
Merchandise	659	415	244
	729	455	274
Work in progress and semifinished goods	14	26	(12)
Finished goods	3	3	-
	17	29	(12)
Contract work in process	1,276	905	371
Advances to suppliers	30	16	14
	1,306	921	385
Total	2,052	1,405	647

Inventories are held by companies providing telecommunications services for Lire 678 billion (Lire 878 billion at December 31, 2000) and companies providing information technology services for Lire 676 billion (Lire 420 billion at December 31, 2000). *Raw materials and supplies* and *work in progress and semifinished goods* are substantially in line with current costs.

Accounts receivable

Lire 22,650 billion

(Lire 23,009 billion at December 31, 2000)

A breakdown of accounts receivable, which decreased by Lire 359 billion, is provided below:

(in billions of lire)	6.30.2001	12.31.2000	Change
Trade accounts receivable	17,797	16,917	880
• allowance for doubtful accounts	(1,711)	(1,433)	(278)
Total trade accounts receivable	16,086	15,484	602
Accounts receivable from unconsolidated subsidiaries	62	79	(17)
Accounts receivable from affiliated companies	1,184	800	384
• allowance for doubtful accounts	(27)	-	(27)
Total affiliated companies	1,157	800	357
Accounts receivable from parent companies	2	5	(3)
Other receivables	5,343	6,641	(1,298)
Total	22,650	23,009	(359)

Gross *trade accounts receivable* totaled Lire 17,797 billion and consist, for the most part, of receivables for telecommunications services. Receivables have been adjusted to estimated realizable value by writedowns and they, too, refer mostly to telecommunications companies. Accounts receivable also include Lire 2,591 billion of receivables from other telecommunications carriers and Lire 512 billion of services to be performed by Seat Pagine Gialle representing the advertising commitments undertaken and invoiced by the company for directories that will be published in 2002. The same amount is recorded in other liabilities.

Gross *accounts receivable from affiliated companies* amounted to Lire 1,184 billion. They refer to financial receivables of Lire 468 billion, and trade and other receivables of Lire

716 billion. Financial receivables mainly refer to Stream (Lire 351 billion) and Telekom Srbija (Lire 43 billion).

Other receivables of Lire 5,343 billion (Lire 6,641 billion at December 31, 2000), included the following:

- financial receivables of Lire 2,017 billion (Lire 1,810 billion at December 31, 2000), mainly referring to the Parent Company (Lire 1,688 billion), of which Lire 1,337 billion are relative to the transaction for the loan of securities covered by specific contracts and Lire 285 billion relating to the securitization transaction..
- other receivables totaling Lire 3,326 billion (Lire 4,831 billion at December 31, 2000), which refer to the following:

(in billions of lire)	6.30.2001	12.31.2000
Government and other public entities for subsidies and grants	90	82
Customer payments in transit	224	362
Due from the Tax Administration	801	1,116
Deferred tax assets	893	1,928
Employees	177	152
Sundry	1,141	1,191
Total	3,326	4,831

During the first half, TIM assigned trade accounts receivable to factoring companies for Lire 2,680 billion (assignment of receivables from dealers without recourse up to the established limits with collection at maturity). Receivables assigned and not yet due amount to about Lire 172 billion at June 30, 2001.

Short-term financial assets

Lire 7,103 billion

(Lire 4,755 billion at December 31, 2000)

This item, which increased by Lire 2,348 billion compared to December 31, 2000, includes the following:

(in billions of lire)	AI 30.6.2001	AI 31.12.2000	Variazioni
Equity investments in unconsolidated subsidiaries	650	759	(109)
Equity investments in affiliated companies	-	11	(11)
Other equity investments	70	73	(3)
Other securities	6,321	3,911	2,410
Receivables for sale of securities	62	1	61
Total	7,103	4,755	2,348

Equity investments in subsidiaries and others refer mainly to listed shares of Group companies purchased by Telecom Italia for trading. The carrying value at the end of the year approximates market value.

Other securities, which consist almost entirely of government securities and bonds, rose by Lire 2,410 billion compared to December 31, 2000 mainly as a result of the increase in "other securities" held by Softe (Lire 161 billion) and Sogerim (Lire 3,089 billion) for the investment in commercial paper of the liquidity generated by the issue of debentures by the company. The carrying value at the end of the year approximates market value.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

Shareholders' equity**Lire 44,012 billion***(Lire 49,431 billion at December 31, 2000)*

Details are as follows:

(in billions of lire)	6.30.2001	12.31.2000	Change
Parent company interest, Telecom Italia	31,371	36,443	(5,072)
Minority interest	12,641	12,988	(347)
Total	44,012	49,431	(5,419)

The shareholders' equity of the Parent Company and the minority interest decreased by Lire 5,419 billion compared to December 31, 2000. The reduction during the period is due to the payment of dividends from 2000 earnings (Lire 6,034 million), in particular by Telecom Italia and TIM, and the cancellation of the savings shares of treasury stock held by the Parent Company when the share capital was re-denominated in euros (Lire 1,281 billion). Such reduction was partly compensated by the net income for the period (Lire 1,643 billion) and the minority interest in the shareholders' equity of Entel Chile (Lire 740 billion).

The *share capital* of the Parent Company consists of No. 5,261,328,631 ordinary shares and No. 2,053,122,025 savings shares, both with a par value of Euros 0.55 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 that would warrant taxation.

The reconciliation of the shareholders' 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 shareholders' equity, are provided in Annexes 3 and 4.

Reserves for risks and charges**Lire 4,054 billion***(Lire 3,425 billion at December 31, 2000)*

These reserves increased by Lire 629 billion from December 31, 2000 and refer to the following:

- the *reserve for taxes*, amounting to Lire 1,111 billion, increased by Lire 414 billion compared to December 31, 2000, due to the provision for income taxes of the period;
- *other reserves*, amounting to Lire 2,943 billion, increased by Lire 215 billion compared to December 31, 2000 and include the reserve for litigation (Lire 519 billion), the reserve for restructuring charges (Lire 267 billion) and other reserves (Lire 2,157 billion), of which Lire 609 billion refer to contractual and other risks of the Parent Company and Lire 813 billion to the risk reserve for technological obsolescence by TIM.

Reserve for employee termination indemnities

Lire 2,650 billion

(Lire 2,554 billion at December 31, 2000)

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

(in billions of lire)

January 1	2,554
Change during the period:	
• provisions charged to income	213
• utilizations for:	
• indemnities paid to employees	(77)
• advances	(23)
• other changes	(17)
June 30	2,650

Liabilities

Lire 85,337 billion

(Lire 69,087 billion at December 31, 2000)

Details of liabilities, which increased by Lire 16,250 billion from December 31, 2000, are as follows:

	6.30.2001			12.31.2000		
(in billions of lire)	Financial	Trade and other	Total	Financial	Trade and other	Total
Debentures	15,291	-	15,291	3,512	-	3,512
Convertible debentures	4,841	-	4,841	-	-	-
Due to banks	32,219	-	32,219	32,522	-	32,522
Due to other lenders	3,284	-	3,284	3,270	-	3,270
Advances	-	1,137	1,137	-	716	716
Trade accounts payable	571	11,351	11,922	526	12,603	13,129
Notes payable	229	3	232	97	-	97
Accounts payable to unconsolidated subsidiaries	91	13	104	-	12	12
Accounts payable to affiliated companies	1,120	903	2,023	1,339	1,124	2,463
Accounts payable to parent companies	-	3	3	-	3	3
Taxes payable	-	2,804	2,804	-	1,800	1,800
Contributions to pensions and social security institutions	-	1,718	1,718	-	1,808	1,808
Other liabilities	3,030	6,729	9,759	4,051	5,704	9,755
Total	60,676	24,661	85,337	45,317	23,770	69,087

Debentures, which totaled Lire 15,291 billion and increased by Lire 11,779 billion, from December 31, 2000; include the following:

- the 1992/2010 debenture issue of the Parent Company – voted by the ex Sip extraordinary shareholders' meeting of April 30, 1992, which is reserved for subscription by employees in service and retired, up to a maximum of Lire 1,000 billion – for an equivalent amount of Lire 267 billion (Lire 282 billion at December 31, 2000). At June 30, 2001, the debentures reserved for subscription by employees thus total Lire 733 billion;

- debentures maturing between 2001 and 2008 issued by the Nortel Inversora group for a total of Lire 2,085 billion;
- debentures maturing between 2000 and 2002 issued by Softe through different financial institutions for US\$ 128 million, equivalent to Lire 293 billion;
- debentures issued by Sogerim in three tranches for a total of Lire 11,618 billion, which took place in April for Euros 6 billion. The issue is divided into three tranches: the first, equal to Euros 1 billion, matures on April 20, 2004; the second, equal to Euros 3 billion, matures on April 20, 2006; the third, equal to Euros 2 billion, matures on April 20, 2011;
- debentures issued by TDL Infomedia Ltd (Seat Pagine Gialle group), maturing beyond 2005, for 417 billion;
- debentures maturing between 2002 and 2005 issued by the Brazilian companies Tele Nordeste Celular and Tele Celular Sul for a total of Lire 397 billion;
- debentures maturing between 2002 and 2005 issued by Entel Chile for a total of Lire 214 billion.

Convertible debentures include debentures issued by Sogerim for Euros 2.5 billion, for an equivalent amount of Lire 4,841 billion, convertible into Tim or Seat Pagine Gialle ordinary shares, with the option for the issuer to pay off the amount due in cash. These are five-year debentures and the debenture holders are entitled to early redemption at the end of the third year after issue.

Due to banks, of Lire 32,219 billion, are secured by mortgages and liens of Lire 74 billion. Due to banks decreased, compared to December 31, 2000, by Lire 303 billion.

Due to other lenders, of Lire 3,284 billion, increased by Lire 14 billion compared to December 31, 2000. These liabilities were secured by mortgages and liens for a total of Lire 4 billion. The balance refers mainly to medium/long-term financing received by the Parent Company from Cassa Depositi e Prestiti and IRI (Lire 1,063 billion), and a loan made to Seat Pagine Gialle (Lire 1,715 billion) by Seat Pagine Gialle Finance S.r.l., a corporate vehicle, entirely owned by third parties, operating under the provisions of Law 130/99 on securitization.

Advances, which totaled Lire 1,137 billion, increased by Lire 421 billion compared to December 31, 2000 and include advances received from customers of Lire 528 billion and installment billings of Lire 609 billion.

Trade accounts payable amount to Lire 11,922 billion and decreased by Lire 1,207 billion compared to December 31, 2000, mainly in respect of the Parent Company and TIM. Accounts payable to other telecommunications carriers stood at Lire 802 billion.

Notes payable, of Lire 232 billion, increased by Lire 135 billion compared to December 31, 2000. They comprise Lire 229 billion of notes issued by Seat Pagine Gialle as part of the securitization transaction.

Accounts payable to affiliated companies of Lire 2,023 billion decreased by Lire 440 billion compared to December 31, 2000. They include financial payables of Lire 1,120 billion and trade and other accounts payable of Lire 903 billion. Financial payables refer to payables to Teleleasing for finance lease contracts of Lire 1,038 billion. Other payables amount to Lire 202 billion and chiefly relate to capital contributions payable (to Auna for Lire 172 billion and Astrolink for Lire 17 billion).

Taxes payable amount to Lire 2,804 billion and increased by Lire 1,004 billion compared to December 31, 2000. They mostly comprise VAT payables and the remaining liability for income taxes relating to the year 2000 of the Parent Company.

Contributions to pensions and social security institutions totaled Lire 1,718 billion and decreased by Lire 90 billion compared to December 31, 2000. They include amounts owed and payable to social security and health institutions.

Other liabilities of Lire 9,759 billion (Lire 9,755 billion at December 31, 2000) consist of the following:

(in billions of lire)	6.30.2001	12.31.2000
Customer-related items	3,349	3,261
Residual amounts due for investments and securities	93	315
Payroll-related items	1,416	1,560
Telecommunications license fee	1,461	1,191
Other financial items	3,030	2,973
Other recurring and miscellaneous items (contra-entries for accrued costs, sundry payables, etc.)	410	455
Total	9,759	9,755

In particular, the financial payables include Lire 680 billion of TIM for the remaining liability payable to the Ministry of Communications on the purchase of the UMTS licenses, Lire 1,337 billion of the Parent Company for the transaction on the loan of Seat Pagine Gialle ordinary and savings shares and Lire 645 billion of the TIM group for the remaining liabilities on the PCS licenses acquired in Brazil during the six-month period.

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

MEMORANDUM ACCOUNTS

Memorandum accounts at June 30, 2001 total Lire 11,837 billion (Lire 15,625 billion at December 31, 2000) and are detailed as follows:

(in billions of lire)	6.30.2001	12.31.2000
Guarantees provided	5,166	5,675
Collateral provided	5	4
Purchases and sales commitments	6,188	9,492
Other	478	454
Total	11,837	15,625

Guarantees provided, net of counter-guarantees received of Lire 1,292 billion, total Lire 5,166 billion and mainly consist of sureties provided by the Parent Company on behalf of affiliated companies and others for loan transactions, supply contracts and guarantees on bids to acquire fixed line and mobile licenses abroad.

Collateral provided of Lire 5 billion refers to liens and mortgages covering the assets of the companies included in consolidation.

Purchases and sales commitments outstanding at the end of the period of, respectively, Lire 6,154 billion and Lire 34 billion, mainly refer to the commitments, which do not fall within the normal operating cycle of the individual consolidated companies. Purchase commitments principally include the Parent Company's commitments for the put option on Seat Pagine Gialle shares (Lire 5,780 billion) as described below. The reduction of Lire 3,304 billion compared to December 31, 2000 relates to the purchase of Entel Chile, which took place during the early months of the first half of 2001 for Lire 1,857 billion, to Seat Pagine Gialle for the commitment to purchase a 40% stake in Webfin S.p.A. for Lire 1,355 billion, which Seat Pagine Gialle, owing to the unforeseen loss of value of the companies operating in the Internet sector and the absence of the conditions necessary to execute the contract, thus considers to be non-existent.

Put option on Seat shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on No. 710,777,200 Seat Pagine Gialle shares at a strike price of Euros 4.2. The contract provided for the exercise of such option after the deed of merger between Seat and Tin.it was recorded in the Companies Register.

Huit II later transferred the put option to Chase Equity Limited (CEL), together with the ownership of the corresponding Seat shares. On December 4, 2000, CEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of an early exercise of the option in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Stet International Netherlands then purchased from CEL, through the Liberator Ltd. trust, a call option on No. 660,777,200 Seat shares with the same expiry date and strike price as the put option, paying a total premium of Euros 747,016,226 (Lire 1,446,425 million). For the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between Telecom Italia and

Stet International Netherlands. The relative premium will be taken to income over five years. The implicit rate of interest was 6.2%.

At June 30, 2001, the market price of Seat ordinary shares is significantly below the strike price; at the expiry date, the purchase of Seat Pagine Gialle shares will give rise to a consolidation difference equal to the cost of purchase, recorded in commitments, less the pro-rata share of the net equity of Seat Pagine Gialle at that date.

Other memorandum accounts refer mainly to third party assets held by the individual consolidated companies, mainly those in the information technology sector.

* * *

Furthermore:

- the consolidated companies of the Group issued weak letters of patronage totaling Lire 538 billion chiefly on behalf of unconsolidated subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets of third parties on loan, on deposit for safekeeping or for similar purposes amounted to Lire 518 billion and consist mainly of equipment leased to customers;
- collateral received amounts to Lire 31 billion;
- guarantees received amount to Lire 113 billion;
- guarantees provided by others for obligations of the Group companies, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled Lire 483 billion;
- the value of the stock of employees and private shareholders deposited on June 30, 2001 with the parent Company amounts to about Lire 640 billion.

Derivative contracts

The Group uses derivatives mainly for the management of its debt positions, primarily interest rate swaps (IRS) and interest rate options (IRO) to reduce the interest rate exposure on fixed-rate and floating-rate bank loans and bonds and cross-currency & interest rate swaps (CIRS) to convert foreign currency loans – US dollar, pound sterling, Japanese yen and euro – into the functional currencies of the various subsidiaries of the Group.

The following table gives a description of the financial derivative contracts used to hedge medium/long-term debt positions and outstanding at June 30, 2001 .

(in billions of lire)	National amount (*)/ Capital exchange at 6.30.2001	Market value of debt including related derivatives at 6.30.2001
Interest rate swaps and interest rate options	7,317	7,352
Cross currency and interest rate swaps	2,498	2,548

(*) The reported amounts refer to the notional amounts expressed in the functional currencies of the companies at the exchange rates when the transactions took place, and expressed in Italian lire at the period-end exchange rates.

IRSs and IROs involve the exchange of flows of interest calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date with the counterparts. This amount does not represent the amount exchanged between the parties and therefore does not constitute a measure of exposure to credit risk, which is instead limited to the amount of interest or interest differentials to be received at the interest date. The same also applies to CIRSs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity and eventually at another date.

The market value of CIRSs reflects the differential between the fixed rate paid by the Company and the market interest rate for the same maturities. The CIRSs also reflect the differential between the forward exchange rate at the closing of the swap and the market rate at June 30, 2001.

The counterparts to derivative contracts are only the best rated banks and financial institutions and are continually monitored in order to minimize the risk of non-performance.

Adequate pricing models are used by the Company to determine the market value of the above financial derivatives.

Besides derivative contracts used for managing the debt positions, at June 30, 2001 the Luxembourg subsidiary Softe has IRSs and CIRSs to hedge investments in bonds for a notional capital of Lire 547 billion.

Lastly, in addition to the various transactions to hedge the short-term positions of Softe, there were also transactions to hedge the interest rate exposure on short-term US dollar loans contracted by TIM.

CONSOLIDATED STATEMENTS OF INCOME

Sales and service revenues

Lire 30,185 billion

(Lire 27,528 billion in the first half of 2000)

Sales and service revenues amounted to Lire 30,185 billion in the first half of 2001, with an increase of 9.7% compared to the first half of 2000 (+ Lire 2,657 billion, +0.6% over the first half of 2000, on a comparable consolidation basis).

Revenues, net of the amounts due to other TLC carriers, totaled Lire 26,508 billion, with an increase of Lire 1,610 billion (+ 6.5%), compared to the first half of 2000.

Revenues from foreign operations totaled Lire 7,034 billion (Lire 5,694 billion in the first half of 2000).

Financial income and expense

-Lire 1,466 billion

(-Lire 289 billion in the first half of 2000)

Net financial expenses include:

(in billions of lire)	1 st half 2001	1 st half 2000	Change
Income from investments	71	218	(147)
Other financial income	877	579	298
Interest and other financial expense	(2,414)	(1,086)	(1,328)
Total	(1,466)	(289)	(1,177)

“Income from investments” totaled Lire 71 billion and decreased by Lire 147 billion compared to the first half of 2000.

“Other financial income” of Lire 877 billion (Lire 579 billion in the first half of 2000), includes the following:

(in billions of lire)	1 st half 2001	1 st half 2000	Change
Interest and capital gains on fixed-income securities	152	99	53
Interest and fees from:			
• unconsolidated subsidiaries	1	-	1
• affiliated companies	17	14	3
• banks	147	54	93
• customers	12	70	107
Foreign exchange gains	347	257	90
Other	201	153	48
Total	877	579	298

Interest and other financial expense of Lire 2,414 billion (Lire 1,086 billion in the first half of 2000), can be analyzed as follows:

(in billions of lire)	1 st half 2001		1 st half 2000		Change	
Interest and fees paid to:						
• unconsolidated subsidiaries	1		-		1	
• affiliated companies	30		32		(2)	
• banks	1,122		427		695	
• suppliers	16		23		(7)	
• other lenders	62	1,231	53	535	9	696
Interest and other charges on debenture issues	328		139		189	
Foreign exchange losses	434		240		194	
Losses on the sale of investments	-		8		(8)	
Other	421		164		257	
Total	2,414		1,086		1,328	

In particular, interest and fees paid to other lenders consist mostly of interest on medium/long-term borrowings of the Parent Company.

Interest and fees paid to banks include Lire 445 billion of interest on medium/long-term loans and Lire 677 billion of charges relating to short-term positions. Interest is shown net of the interest expense on loans, equivalent to three percentage points, subsidized by the government under Finance Bill 1988 (Law No. 67 of March 11, 1988), in connection with loans that replaced those which should have been made by Cassa Depositi e Prestiti.

Extraordinary income and expense

Lire 188 billion

(Lire 22 billion in the first half of 2000)

This item includes the following:

(in billions of lire)	1 st half 2001		1 st half 2000		Change	
Extraordinary income:						
• gains on the sale of investments and business segments	444		596		(152)	
• non-operating income and other income	349	793	204	800	145	(7)
Extraordinary expense:						
• losses on disposals	(21)		-		(21)	
• employee reduction plans	(205)		(257)		52	
• charges as required under Law 58/1992	-		(225)		225	
• non-recurring expenses and other charges	(379)	(605)	(296)	(778)	(83)	173
Total	188		22		166	

Gains on the sale of investments and business segments include the gains on the sale of the 30% stake in Mediterranean Nautilus to the Israeli company F.T.T. Investment (Lire 183 billion), the dilution of the investment in Auna (Lire 31 billion), the increase in the shareholders' equity of Lottomatica after its listing (Lire 67 billion). Extraordinary income also includes income from the partial cancellation, in accordance with the sentence handed down by the Council of State No. 1.699/2001, of a portion of the fine levied on TIM by the Antitrust Authority (Lire 62 billion).

Extraordinary expenses include Lire 205 billion of expenses concerning employee reduction plans, (of which Lire 137 billion relate to the Parent Company), Lire 72 billion to the extraordinary contribution to INPS - established by the 2000 Finance Bill for the three years 2000/2002 to meet the higher financial requirements covered by the rules of the pension fund that was abolished – and Lire 107 billion of provisions made by TIM to the reserves for risks and charges.

OTHER INFORMATION

Introduction of the euro

The expenses borne for the introduction of the Euro currency total about Lire 10 billion and mostly refer to TIM (Lire 8 billion).

Employees

Employees numbered 120,211 at June 30, 2001 (114,669 at December 31, 2000), of which 7,379 were employed in companies consolidated using the proportional method (7,498 at December 31, 2000). The breakdown of employees by Business Unit is presented below:

	6.30.2001	12.31.2000	Change
Wireline Services	61.452	62.782	(1.330)
Mobile Services	16.033	15.257	776
International Operations	14.816	10.070	4.746
Internet and Media	8.992	7.515	1.477
IT Services	11.770	12.005	(235)
Satellite Services	1.173	1.206	(33)
Telecom Italia Lab	1.370	1.287	83
Altre attività	4.605	4.547	58
Total	120.211	114.669	5.542

The increase of 5,542 persons, is mainly due to the inclusion of the Entel Chile group in the consolidation area (+4,757 persons), the change in the consolidation area of the Seat Pagine Gialle group (+1,477 persons) and the TIM group (+776 persons), mainly with reference to the South American subsidiaries. Such increases were partly compensated by the reduction in employees of the Parent Company (-1,987 persons).

The average equivalent number of employees on the payroll in the first half of 2001 is 114,311 (125,721 in the first half of 2000), of which 7,439 refer to companies consolidated using the proportional method. The breakdown by category is as follows:

1 st half 2001 Average equivalent number of employees on the payroll in companies consolidated using the following method:			
	Line-by-line	Proportional	Total
Executives	2,376	22	2,398
Middle management	6,540	335	6,875
Clerical staff	88,281	2,901	91,182
Technicians	9,675	4,181	13,856
Total	106,872	7,439	114,311

Exchange rates used to translate foreign currency financial statements

	Period-end exchange rates (balance sheet items)			Average exchange rate for the period (statement of income items)		
	6.30.2001	12.31.2000	% Change	1 st half 2001	1 st half 2000	% Change
Europe						
Euro	1,936.27	1,936.27	-	1,936.27	1,936.27	-
Greek drachma	5.6824	5.6824	-	5.6824	5.6824	-
Portuguese escudo	9.6581	9.6581	-	9.6581	9.6581	-
Dutch guilder	878.641	878.641	-	878.641	878.641	-
French franc	295.182	295.182	-	295.182	295.182	-
Belgian-Luxembourg franc	47.999	47.999	-	47.999	47.999	-
German mark	989.999	989.999	-	989.999	989.999	-
Spanish peseta	11.637	11.637	-	11.637	11.637	-
Hungarian forint	7.947	7.306	8.8	7.407	7.518	(1.5)
Romanian leu	0.078	0.080	(2.5)	0.077	0.093	(17.2)
Pound sterling	3,210.5289	3,102.4996	3.5	3,105.8463	3,165.0490	(1.9)
Turkish lira	0.0018	0.0030	(40)	0.0018	0.0030	(40)
Russian rouble	78.340	72.885	7.5	74.332	71.047	4.6
Polish zloty	574.629	502.953	14.3	534.449	475.644	12.4
North America						
USA dollar	2,283.3373	2,080.8920	9.7	2,158.4718	2,018.4670	6.9
South America						
Venezuelan bolivar	3.123	2.856	9.3	3.123	3.018	3.5
Bolivian boliviano	350.202	326.924	7.1	334.373	333.831	0.2
Cost Rican colon	6.878	6.491	6.0	6.612	6.667	(0.8)
Argentinean peso	2,283.3373	2,080.8920	9.7	2,158.4718	2,018.4670	6.9
Chilean peso	3.643	3.722	(2.1)	3.668	3.953	(7.2)
Brazilian real	994.051	1,063.790	(6.6)	1,006.159	1,130.364	(11.0)
Asia						
Hong Kong dollar	292.740	266.7847	9.7	276.745	259.193	6.8

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)	6.30.2001				12.31.2000			
	Amounts due				Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
Accounts receivable in long-term investments								
unconsolidated subsidiaries	7	2	-	9	-	-	-	-
affiliated companies	27	224	-	251	-	246	-	246
other								
• customer	5	7	1	13	4	8	2	14
• others	173	397	61	631	208	291	33	532
	212	630	62	904	212	545	35	792
Accounts receivable in current assets								
Other loans to								
unconsolidated subsidiaries	13	-	-	13	56	-	-	56
affiliated companies	468	-	-	468	283	-	-	283
others	2,012	5	-	2,017	1,803	7	-	1,810
	2,493	5	-	2,498	2,142	7	-	2,149
Trade receivables								
customers	16,075	11	-	16,086	15,475	9	-	15,484
parent companies	2	-	-	2	20	-	-	20
unconsolidated subsidiaries	22	-	-	22	515	-	-	515
affiliated companies	688	-	-	688	5	-	-	5
others	127	5	-	132	95	5	-	100
	16,914	16	-	16,930	16,110	14	-	16,124
Other receivables								
unconsolidated subsidiaries	27	-	-	27	3	-	-	3
affiliated companies	1	-	-	1	2	-	-	2
others	2,664	173	357	3,194	3,800	532	399	4,731
	2,692	173	357	3,222	3,805	532	399	4,736
Total accounts receivable	22,099	194	357	22,650	22,057	553	399	23,009
Accrued income	244	-	-	244	139	-	-	139

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in billions of lire)	6.30.2001				12.31.2000			
	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	505	9,916	4,870	15,291	283	2,070	1,159	3,512
Convertible debentures	-	4,841	-	4,841	-	-	-	-
Due to banks	2,049	8,083	1,083	11,215	1,670	6,968	1,350	9,988
Due to other lenders	602	2,237	262	3,101	779	2,243	211	3,233
Notes payable	-	229	-	229	-	97	-	97
Trade accounts payable	3	525	-	528	5	62	-	67
Due to affiliated companies	87	342	609	1,038	93	359	621	1,073
Other liabilities	239	478	5	722	312	864	6	1,182
	3,485	26,651	6,829	36,965	3,142	12,663	3,347	19,152
Short-term debt								
Due to banks	21,004	-	-	21,004	22,534	-	-	22,534
Due to other lenders	183	-	-	183	37	-	-	37
Due to suppliers	43	-	-	43	459	-	-	459
Accounts payable to unconsolidated subsidiaries	91	-	-	91	-	-	-	-
Accounts payable to affiliated companies	82	-	-	82	266	-	-	266
Other liabilities	2,308	-	-	2,308	2,869	-	-	2,869
	23,711	-	-	23,711	26,165	-	-	26,165
Trade payables ⁽¹⁾								
Accounts payable to suppliers	11,349	2	-	11,351	12,599	4	-	12,603
Accounts payable to unconsolidated subsidiaries	3	-	-	3	4	-	-	4
Accounts payable to affiliated companies	701	-	-	701	926	-	-	926
Accounts payable to parent companies	3	-	-	3	3	-	-	3
	12,056	2	-	12,058	13,532	4	-	13,536
Miscellaneous payables								
Notes payable	3	-	-	3	-	-	-	-
Payable to unconsolidated subsidiaries	10	-	-	10	8	-	-	8
Accounts payable to affiliated companies	202	-	-	202	198	-	-	198
Taxes payable	2,793	11	-	2,804	1,795	5	-	1,800
Contributions to pension and social security institutions	1,716	2	-	1,718	548	492	768	1,808
Other liabilities	6,676	43	10	6,729	5,444	247	13	5,704
	11,400	56	10	11,466	7,993	744	781	9,518
Total liabilities ⁽¹⁾	50,652	26,709	6,839	84,200	50,832	13,411	4,128	68,371
Accrued expenses	712	-	-	712	434	8	-	442

⁽¹⁾ not including advances.

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE SIX MONTHS ENDED JUNE 30, 2001

(in billions of lire)	Telecom Italia's interest				Minority interest			Total
	Share capital and reserves		Net income	Total	Share capital and reserves	Net income	Total	
	Share Capital	Reserves and Retained Earnings						
Six-month financial statements of Telecom Italia at June 30, 2001	7.790	22.631	1.266	31.687	-	-	-	31.687
Results of consolidated companies for the six months	-	-	778	778	-	900	900	1.678
Capital and reserves of consolidated companies	-	47.039	-	47.039	13.248	-	13.248	60.287
Carrying value of investments in consolidated companies	-	(60.765)	-	(60.765)	-	-	-	(60.765)
Consolidation adjustments:								
• <i>elimination of tax-related entries</i>	-	(257)	100	(157)	10	2	12	(145)
• <i>valuation of investments by the equity method</i>	-	(3.181)	(665)	(3.846)	(1.767)	(142)	(1.909)	(5.755)
• <i>positive differences on purchase of investments</i>	-	19.203	(847)	18.356	1.055	(52)	1.003	19.359
• <i>elimination of intraGroup dividends</i>	-	31	(31)	-	1	(1)	-	-
• <i>losses of subsidiaries included in the six-month results of parent companies</i>	-	(92)	179	87	14	(10)	4	91
• <i>gains on sales of investments</i>	-	(316)	68	(248)	(9)	9	-	(248)
• <i>elimination of intraGroup profits included in fixed assets and intangibles</i>	-	(547)	53	(494)	(41)	4	(37)	(531)
• <i>elimination of intraGroup transactions on investments</i>	-	(919)	-	(919)	(557)	-	(557)	(1.476)
• <i>other</i>	-	(180)	33	(147)	(22)	(1)	(23)	(170)
Consolidated six-month financial statements at June 30, 2001	7.790	22.647	934	31.371	11.932	709	12.641	44.012

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY DURING THE SIX MONTHS ENDED JUNE 30, 2001

(in billions of lire)	Telecom Italia interest				Minority interest			Total
	Share capital and reserves		Net income	Total	Share capital and reserves	Net income	Total	
	Share Capital	Reserves and Retained Earnings						
Consolidated financial statements at December 31, 2000	7,426	25,090	3,927	36,443	11,206	1,782	12,988	49,431
Contribution by shareholders	1	251	-	252	139	-	139	391
Cancellation of treasury stock and re-denomination in euros	363	(1,644)	-	(1,281)	-	-	-	(1,281)
Appropriation of 2000 net income:								
<i>dividends distributed</i>		(544)	(3,927)	(4,471)	-	(1,563)	(1,563)	(6,034)
<i>transfer to reserves</i>	-	-	-	-	219	(219)	-	-
Entel Chile group consolidation	-	-	-	-	740	-	740	740
Translation adjustments	-	(506)	-	(506)	(372)	-	(372)	(878)
Net income	-	-	934	934	-	709	709	1,643
Consolidated six-month financial statements at June 30, 2001	7,790	22,647	934	31,371	11,932	709	12,641	44,012

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

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
TELECOM ITALIA S.p.A. (wireline telecommunications)	Turin (Italy)	ITL 7,789,513,254,431	54.17	OLIVETTI	
B.U. Wireline Services					
ATESIA -Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	EUR 3,150,406	100.00	TELECOM ITALIA	100.00
LATIN AMERICAN NAUTILUS S.A. (holding company)	Luxembourg	USD 60,000,000	70.00 10.00 10.00 10.00	TELECOM ITALIA ENTEL BOLIVIA ENTEL CHILE TELECOM ARGENTINA	81.87
- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD 1,000,000	100.00	LATIN AMERICAN NAUTILUS S.A.	81.87
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	Rio de Janeiro (Brazil)	BRL 20,000	99.99	LATIN AMERICAN NAUTILUS S.A.	81.86
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	Panama	USD 10,000	100.00	LATIN AMERICAN NAUTILUS S.A.	81.87
- LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD 10,000	100.00	LATIN AMERICAN NAUTILUS S.A.	81.87
- LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	Buenos Aires (Argentina)	ARS 12,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciari	81.86
- LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	Santiago (Chile)	CLP 6,200,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciari	81.86
- LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	Caracas (Venezuela)	VEB 7,000,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciari	81.86
- LATIN AMERICAN NAUTILUS PERÙ S.A. (installation and maintenance of submarine cable systems)	San Borja (Perù)	PEN 3,500	99.97 0.03	LATIN AMERICAN NAUTILUS S.A. Fiduciari	81.85
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Tel Aviv (Israel)	ILS 100,000	23.17 27.83	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	51.00
- MED 1 IC-1 (1999) Ltd (installation and maintenance of submarine cable IC1)	Tel Aviv (Israel)	ILS 1,000	99.99 0.01	MED-1 LTD MED-1 ITALY	51.00
- MED-1 (NETHERLANDS) B.V. (holding company)	Amsterdam (Holland)	NLG 40,000	100.00	MED-1 LTD	51.00
- MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rome (Italy)	ITL 1,062,000,000	100.00	MED-1 NETHERLANDS	51.00
MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD 326,480,000	62.51 7.49	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	70.00
- ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	ITL 20,000,000,000	100.00	MEDITERRANEAN NAUTILUS S.A.	70.00
- MEDITERRANEAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD 100,000	51.00	MEDITERRANEAN NAUTILUS S.A.	35.70
- MEDITERRANEAN NAUTILUS ISRAEL Ltd (installation and maintenance of submarine cable systems)	Tel Aviv (Israel)	ILS 1,000	100.00	MEDITERRANEAN NAUTILUS Ltd	35.70
- MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR 100,000	100.00	MEDITERRANEAN NAUTILUS Ltd	35.70
PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	EUR 25,800,000	99.99 0.01	TELECOM ITALIA SODALIA	100.00
SARITEL S.p.A. (group factory for added value network services)	Pomezia (Rome, Italy)	EUR 11,445,360	100.00	TELECOM ITALIA	100.00

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Amsterdam (Holland)	EUR 18,200	100.00	TELECOM ITALIA	100.00
TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	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)	EUR 86,511,459.20	100.00	TELECOM ITALIA	100.00
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Luxembourg	EUR 82,150,675	100.00	TMI - TELEMEDIA INTERN. ITALIA	100.00
- TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	London (UK)	USD 416,400,225	100.00	TMI - TELEMEDIA INTERN. LUXEMBOURG	100.00
- EURO DATACOM Ltd (telecommunications services)	Huddersfield (UK)	GBP 306,666	100.00	TMI - TELEMEDIA INTERN. Ltd	100.00
- TMI - HUNGARY TRADING AND SERVICES Ltd (telecommunications services)	Budapest (Hungary)	HUF 3,000,000	100.00	TMI - TELEMEDIA INTERN. Ltd	100.00
- TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD 119,022,889.68	100.00	TMI - TELEMEDIA INTERN. Ltd	100.00
- TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD 952,100	100.00	TMI - TELEMEDIA INTERN. Ltd	100.00
- TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	Sao Paulo (Brazil)	BRL 2,443,217	100.00	TMI - TELEMEDIA INTERN. Ltd	100.00
- TMI TELEMEDIA INTERNATIONAL HONG KONG Ltd (telecommunications services)	Hong Kong	HKD 794,661,046	99.99 0.01	TMI - TELEMEDIA INTERN. Ltd TMI - TELEMEDIA INTERN. USA	100.00
TI BELGIUM S.P.R.L. - B.V.B.A. (telecommunications services)	Bruxelles (Belgium)	EUR 1,500,000	100.00	TELECOM ITALIA	100.00
TI FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR 7,800	100.00	TELECOM ITALIA	100.00
TI GERMANY GmbH (telecommunications services)	Frankfurt (Germany)	EUR 25,000	100.00	TELECOM ITALIA	100.00
TI SWITZERLAND GmbH (telecommunications services)	Zurich (Switzerland)	CHF 20,000	100.00	TELECOM ITALIA	100.00
TI UNITED KINGDOM Ltd (telecommunications services)	London (UK)	GBP 1,000	100.00	TELECOM ITALIA	100.00
B.U. Mobile Services					
TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR 513,964,432.74	55.68	TELECOM ITALIA	54.82
- STET MOBILE HOLDING N.V. (holding company)	Amsterdam (Holland)	NLG 398,159,000	100.00	TELECOM ITALIA MOBILE	54.82
- BITEL PARTICIPACOES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL 2,290,264,028	99.99 0.01	STET MOBILE HOLDING Fiduciari	54.82
- TELE CELULAR SUL PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL 245,033,341	51.35	BITEL	10.62
- TELEPAR CELULAR S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL 333,880,024.34	87.43	TELE CELULAR SUL	9.29
- TELESC CELULAR S.A. (mobile telephony operator)	Florianopolis (Brazil)	BRL 249,170,454.34	91.62	TELE CELULAR SUL	9.73
- CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL 21,251,917.26	81.32	TELE CELULAR SUL	8.64

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Recife (Brazil)	BRL 186,053,905.66	51.24	BITEL	10.62
- TELASA CELULAR S.A. (mobile telephony operator)	Maceiò (Brazil)	BRL 31,409,860.10	97.20	TELE NORDESTE CELULAR	10.32
- TELECEARÀ CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL 89,439,654.33	85.65	TELE NORDESTE CELULAR	9.10
- TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL 23,392,322.95	97.52	TELE NORDESTE CELULAR	10.36
- TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL 42,823,497.29	92.57	TELE NORDESTE CELULAR	9.83
- TELPA CELULAR S.A. (mobile telephony operator)	Joao Pessoa (Brazil)	BRL 43,164,229.17	89.88	TELE NORDESTE CELULAR	9.55
- TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 113,848,783.98	94.87	TELE NORDESTE CELULAR	10.08
- MAXITEL S.A. (license holder for mobile telecommunications in Bahia e Sergipe areas)	Belo Horizonte (Brazil)	BRL 677,679,703	43.15 46.85	STET MOBILE HOLDING BITEL	52.99
- MAXITEL TELECOMUNICACOES Ltda (mobile telephony operator)	Salvador de Bahia (Brazil)	BRL 1,000	99.99 0.01	MAXITEL S.A. Fiduciari	52.98
- OFFSHORE FINANCIAL & SECURITIES Inc. (holding company)	Tortola (British Virgin Island)	USD 6,104,860	100.00	MAXITEL S.A.	52.99
- STET HELLAS TELECOMMUNICATIONS S.A. (operation of GSM services in Greece)	Athens (Greece)	GRD 36,300,000,000	59.29	STET MOBILE HOLDING	32.50
- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A. (mobile telephony)	Athens (Greece)	GRD 2,700,000,000	100.00	STET HELLAS	32.50
- TIM BRASIL S.A. (formerly TIM do Brasil Ltda) (holding company)	Sao Paulo (Brazil)	BRL 1,287,041,568	100.00	STET MOBILE HOLDING	54.82
- BLUCEL S.A. (mobile telephony operator)	Sao Paulo (Brazil)	BRL 271,824,025	100.00	TIM BRASIL	54.82
- STARCEL S.A. (mobile telephony operator)	Sao Paulo (Brazil)	BRL 512,777,589	100.00	TIM BRASIL	54.82
- UNICEL S.A. (mobile telephony operator)	Sao Paulo (Brazil)	BRL 495,300,000	100.00	TIM BRASIL	54.82
- TIMNET.COM S.A. (mobile services)	Rio de Janeiro (Brazil)	BRL 78,000,000	20.00 20.00 20.00 20.00	STET MOBILE HOLDING MAXITEL S.A. TELE NORDESTE CELULAR TELE CELULAR SUL STARCEL	36.77
- TIM PERÙ S.A.C. (mobile telephony operator)	Lima (Perù)	PEN 652,231,998	100.00	STET MOBILE HOLDING	54.82
- TIM INTERNATIONAL B.V. (holding company)	Amsterdam (Holland)	EUR 20,000	100.00	TELECOM ITALIA MOBILE	54.82
- CORPORACION DIGITEL C.A. (mobile telecommunications services)	Caracas (Venezuela)	VEB 42,823,450,241	56.56	TIM INTERNATIONAL	31.01
B.U. International Operations					
STET INTERNATIONAL NETHERLANDS N.V. (holding company)	Amsterdam (Holland)	NLG 3,562,961,000	100.00	TELECOM ITALIA	100.00
- 9 TELECOM RESEAU S.A.S. (telecommunications services)	Boulogne Billancourt (France)	FRF 3,875,276,800	97.18 0.04	STET INTERNATIONAL NETHERLANDS TMI TELEMEDIA INTERN. Ltd	97.22

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- MAGEOS EXPLORER S.A. (formerly EUROPE EXPLORER) (internet services)	Lyon (France)	EUR 6,317,788.80	91.21	9 TELECOM RESEAU	88.67
- BELGIUM EXPLORER S.A. (internet services)	Bruxelles (Belgium)	EUR 62,000	99.92	MAGEOS EXPLORER	88.60
- FRANCE EXPLORER S.A. (internet services)	Lyon (France)	FRF 10,050,000	99.99	MAGEOS EXPLORER	88.66
- HOLLAND EXPLORER B.V. (internet services)	Amsterdam (Holland)	EUR 20,000	100.00	MAGEOS EXPLORER	88.67
- IBER EXPLORER S.A. (internet services)	Barcellona (Spain)	ESP 10,000,000	99.99 0.01	MAGEOS EXPLORER JET MULTIMEDIA	88.66
- INFOCONCERT S.A. (website for shows and concerts)	Lyon (France)	FRF 450,800	64.73	MAGEOS EXPLORER	57.40
- ITALIA EXPLORER S.r.l. (internet services)	Milan (Italy)	EUR 11,000	100.00	MAGEOS EXPLORER	88.67
- PORTUGAL EXPLORER S.A. (internet services)	Lisbon (Portugal)	EUR 11,000	100.00	MAGEOS EXPLORER	88.67
- SWISS EXPLORER S.a.r.l. (internet services)	Lousanne (Switzerland)	CHF 20,000	100.00	MAGEOS EXPLORER	88.67
- JET MULTIMEDIA S.A. (internet hosting)	Lyon (France)	EUR 10,648,448	90.15 0.95	9 TELECOM RESEAU SOFTE	88.59
- DE VIRIS COMMUNICATION S.A. (consulting for internet technologies)	Rueil Malmaison (France)	EUR 80,000	99.95 0.05	JET MULTIMEDIA Fiduciari	88.55
- JET MEDIA S.A. (advertising on TV, radio and press)	Lyon (France)	EUR 100,000	99.76 0.04 0.20	JET MULTIMEDIA OMEGA Fiduciari	88.42
- PUBLICLAIR S.A. (advertising services for magazines)	Paris (France)	FRF 250,000	98.80 0.20 1.00	JET MEDIA OMEGA Fiduciari	87.53
- JET MULTIMEDIA HOSTING S.A. (design, development and maintenance of Web and Audiotel, Minitel services)	Lyon (France)	EUR 7,790,215	99.99 0.01	JET MULTIMEDIA Fiduciari	88.58
- IB TELEMATIC S.A. (Minitel services)	Paris (France)	EUR 430,280	99.97 0.03	JET MULTIMEDIA HOSTING Fiduciari	88.56
- ICOR S.A. (Internet, Extranet and Intranet for tourism)	Le Bourget du Lac (France)	EUR 96,000	99.87 0.02 0.11	JET MULTIMEDIA HOSTING OMEGA Fiduciari	88.49
- VILLAGES TOURS S.a.r.l. (travel agency and website for tourism)	Lyon (France)	FRF 260,000	100.00	JET MULTIMEDIA HOSTING	88.58
- TRAVEL MANIA S.a.r.l. (travel agency and website for tourism)	Lyon (France)	FRF 2,000,000	97.00	VILLAGES TOURS	85.93
- JET MULTIMEDIA s.r.l. (internet services)	Milan (Italy)	EUR 20,000	100.00	JET MULTIMEDIA HOSTING	88.58
- METAPHORA S.A. (consulting for management of information systems)	Toulouse (France)	FRF 3,080,000	46.50 13.80	JET MULTIMEDIA HOSTING JET VENTURE	53.42
- DIS WEBSIZING S.a.r.l. (web agency)	Nanterre (France)	FRF 50,000	100.00	JET MULTIMEDIA HOSTING	88.58
- JET VENTURE S.A. (financing and development of Internet services)	Paris (France)	EUR 8,000,000	99.87 0.13	JET MULTIMEDIA OMEGA	88.59
- OMEGA S.a.r.l. (intergroup services)	Lyon (France)	EUR 80,000	100.00	JET MULTIMEDIA	88.59
- VICTOIRE MULTIMEDIA S.A. (internet services)	Paris (France)	EUR 89,025	98.89 0.02	JET MULTIMEDIA OMEGA	87.63

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
- PRESSINVEST S.A. (Minitel services)	Paris (France)	EUR	128,992	99.92 0.01	VICTOIRE MULTIMEDIA OMEGA	87.56
- VICTOIRE MULTIMEDIA INFORMATIQUE S.A. (development of internet sites)	Paris (France)	EUR	1,165,665	99.99 0.01	VICTOIRE MULTIMEDIA OMEGA	87.62
- BBNET N.V. (telecommunications services)	Amsterdam (Holland)	EUR	42,725,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
- ENTEL CHILE S.A. (telecommunications services)	Santiago (Chile)	CLP	384,296,795,855	54.76	STET INTERNATIONAL NETHERLANDS	54.76
- AMERICATEL CENTROAMERICA S.A. (holding company)	Guatemala City (Guatemala)	USD	2,649,608	78.65	ENTEL CHILE	43.07
- AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San Salvador (El Salvador)	USD	1,143,572	15.00 85.00	ENTEL CHILE AMERICATEL CENTROAMERICA	44.82
- AMERICATEL GUATEMALA S.A. (telecommunications services)	Guatemala City (Guatemala)	GTQ	400,000	100.00	AMERICATEL CENTROAMERICA	43.07
- AMERICATEL HONDURAS S.A. (telecommunications services)	Tegucigalpa (Honduras)	HNL	500,000	100.00	AMERICATEL CENTROAMERICA	43.07
- INDUSTRIAS TELEPUERTO DEL ISTMO S.A. (telecommunications services)	Panama	USD	1,000	100.00	AMERICATEL CENTROAMERICA	43.07
- INDUSTRIAS TELEPUERTO ICAN S.A. (telecommunications services)	San Jose (Costarica)	CRC	10,000	100.00	AMERICATEL CENTROAMERICA	43.07
- INDUSTRIAS TELEPUERTOS NICARAGUENSES S.A. (telecommunications services)	Managua (Nicaragua)	NIO	255,000,000	100.00	AMERICATEL CENTROAMERICA	43.07
- CHILE WIRELESS S.A. (telecommunications services)	Santiago (Chile)	CLP	100,000	99.00 1.00	ENTEL CHILE ENTEL INVERSIONES	54.76
- ENTEL INTERNATIONAL B.V.I. Corp. (holding company)	Tortola (British Virgin Island)	USD	59,742,555.54	100.00	ENTEL CHILE	54.76
- AMERICATEL CORP. USA (telecommunications services)	Florida (USA)	USD	618	80.00	ENTEL INTERNATIONAL	43.81
- ENTEL USA HOLDING Inc. (holding company)	Florida (USA)	USD	1,000	100.00	ENTEL INTERNATIONAL	54.76
- AMERICASKY Corporation (telecommunications services)	Florida (USA)	USD	1,000	80.00 20.00	ENTEL USA HOLDING ENTEL INTERNATIONAL	54.76
- ENTEL TELEFONIA PERSONAL S.A. (holding company)	Santiago (Chile)	CLP	120,877,442,058	94.64 5.36	ENTEL CHILE ENTEL INVERSIONES	54.76
- ENTEL TELEFONIA MOVIL S.A. (mobile services)	Santiago (Chile)	CLP	1,774,099,595	0.08 99.92	ENTEL CHILE ENTEL PERSONAL	54.76
- ENTEL PCS TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP	92,632,303,759	0.10 99.90	ENTEL CHILE ENTEL PERSONAL	54.76
- EMPRESA DE TELECOMUNICACIONES INSTA BEEP Limitada (telecommunications services)	Santiago (Chile)	CLP	2,052,500,000	100.00	ENTEL PERSONAL	54.76
- ENTEL INVERSIONES S.A. (holding company)	Santiago (Chile)	CLP	2,899,153,835	99.99 0.01	ENTEL CHILE Fiduciari	54.75
- ORBITEL PERU S.A. (telecommunications services)	Lima (Perù)	PEN	39,271,200	45.69 54.31	ENTEL CHILE ENTEL INVERSIONES	54.76
- ENTEL INVESTMENTS Inc. (telecommunications services)	Tortola (British Virgin Island)	USD	1,630	100.00	ENTEL CHILE	54.76
- ENTEL CALL CENTER S.A. (telecommunications services)	Santiago (Chile)	CLP	3,913,631,361	90.00 10.00	ENTEL CHILE ENTEL INVERSIONES	54.76
- ENTEL TELEFONIA LOCAL S.A. (local telecommunications services)	Santiago (Chile)	CLP	20,788,939,458	99.00 1.00	ENTEL CHILE ENTEL INVERSIONES	54.76

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- ENTEL SERVICIOS TELEFONICOS S.A. (telecommunications services)	Santiago (Chile)	CLP 992,480,226	91.42 8.58	ENTEL CHILE ENTEL INVERSIONES	54.76
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 2,908,443,548	99.99 0.01	ENTEL CHILE ENTEL INVERSIONES	54.76
- ORBITEL VENEZUELA S.A. (telecommunications services)	Caracas (Venezuela)	VEB 709,500	100.00	ENTEL CHILE	54.76
- RED DE TRANSACCIONES ELECTRONICAS S.A. (telecommunications services)	Santiago (Chile)	CLP 1,465,818,000	93.76	ENTEL CHILE	51.34
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 2,500,078,770	99.90 0.10	ENTEL CHILE ENTEL INVERSIONES	54.76
- GOLDEN NETHERLANDS N.V. (holding company)	Amsterdam (Holland)	NLG 572,000	33.22 66.78	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	100.00
- ICH – International Communication Holding N.V. (holding company)	Amsterdam (Holland)	NLG 100,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
- ETI – Euro Telecom International N.V. (holding company)	Amsterdam (Holland)	NLG 100,100	100.00	ICH	100.00
- ENTEL Empresa Nacional de Telecomunicaciones S.A. (domestic and international long distance telephone services)	La Paz (Bolivia)	BOB 1,280,898,800	50.00	ETI	50.00
- DATACOM S.A. (data transmission services)	La Paz (Bolivia)	BOB 21,746,600	100.00	ENTEL BOLIVIA	50.00
- INDIAN TELECOMMUNICATION HOLDING B.V. (holding company)	Amsterdam (Holland)	NLG 303,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
- INTELCOM SAN MARINO S.p.A. (telecommunications services in San Marino)	Republic of San Marino	ITL 3,000,000,000	70.00	STET INTERNATIONAL NETHERLANDS	70.00
- TELECOM ITALIA DE ESPANA S.A. (telecommunications services)	Madrid (Spain)	ESP 350,000,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
TELECOM ITALIA DO BRASIL S/C Ltda (telecommunications promotional services)	Rio de Janeiro (Brazil)	BRL 2,699,758	99.9993 0.0007	TELECOM ITALIA Fiduciari	99.99
TELECOM ITALIA GmbH (holding company)	Wien (Austria)	ATS 500,000	100.00	TELECOM ITALIA	100.00
TELSI Unlimited (holding companies for telecommunications)	London (UK)	GBP 1,119,364,000	100.00	TELECOM ITALIA	100.00
TI WEB S.A. (holding company)	Luxembourg	USD 30,000	99.9667 0.0333	TELECOM ITALIA Fiduciari	99.97
B.U. Internet and Media					
SEAT PAGINE GIALLE S.p.A. (publishing and internet services)	Milan (Italy)	ITL 563,068,971,200	54.65 3.63 0.01	TELECOM ITALIA HUIT II SARITEL	57.33
- CECCHI GORI COMMUNICATIONS S.p.A. (production, marketing on tv and press)	Rome (Italy)	ITL 9,805,000,000	100.00	SEAT PAGINE GIALLE	57.33
- BETA TELEVISION S.r.l. (sale of services in the field of radio and tv broadcasting, production of tv, radio and movie programs)	Rome (Italy)	EUR 12,151,928	51.00	CECCHI GORI COMMUN.	29.24
- CECCHI GORI NEWS AND SPORT S.r.l. (gathering of data and information regarding news)	Rome (Italy)	ITL 1,500,000,000	50.00 50.00	BETA TELEVISION TV INTERNAZIONALE	43.28

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
- MTV ITALIA PRODUCTION S.r.l. (production and acquisition of programs and rights of tv broadcasting)	Milan (Italy)	ITL	20,000,000	100.00	BETA TELEVISION	29.24
- MTV NETWORKS S.r.l. (holding company)	Milan (Italy)	ITL	159,000,000	100.00	BETA TELEVISION	29.24
- MTV PUBBLICITÀ S.r.l. (advertising agent)	Milan (Italy)	ITL	20,000,000	100.00	BETA TELEVISION	29.24
- CECCHI GORI ADVERTISING S.r.l. (trading of advertising spaces and management of advertising relating to broadcasting)	Rome (Italy)	ITL	1,000,000,000	100.00	CECCHI GORI COMMUN.	57.33
- CECCHI GORI BROADCASTING S.r.l. (maintenance of audio/video tv equipments)	Rome (Italy)	ITL	200,000,000	50.00 50.00	CECCHI GORI COMMUN. TV INTERNAZIONALE	57.33
- GLOBO EUROPA B.V. (performance of services and operations in the field of tv and radio broadcasting)	Amsterdam (Holland)	NLG	400,000	100.00	CECCHI GORI COMMUN.	57.33
- GLOBO COMMUNICATION S.A.M. (production, acquisition and trading of tv programs)	Montecarlo	FRF	56,000,000	99.99	GLOBO EUROPA	57.32
- TV INTERNAZIONALE S.p.A. (acquisition, management and maintenance of technical systems relating to audio/video broadcasting)	Rome (Italy)	ITL	12,000,000,000	100.00	GLOBO EUROPA	57.33
- GIAROLO S.r.l. (trading, management and maintenance of equipments relating to the repairing and distribution of radio and tv programs)	Milan (Italy)	ITL	99,000,000	75.50	TV INTERNAZIONALE	43.28
- T.V.I. MONTECARLO S.A.M. (trading and licensee of tv programs)	Montecarlo	FRF	1,000,000	99.50	GLOBO EUROPA	57.04
- CONSODATA S.A. (management and supply of data banks)	Levallois Perret (France)	EUR	4,731,867	46.50	SEAT PAGINE GIALLE	26.66
- BCA FINANCES S.A. (analysis, management and trading of data banks)	Lille (France)	FRF	700,000	100.00	CONSODATA S.A.	26.66
- BCA S.A. (analysis, management and trading of data banks)	Lille (France)	FRF	500,000	17.00 83.00	CONSODATA S.A. BCA FINANCES	26.66
- CABESTAN S.A. (software production)	Suresnes (France)	FRF	250,000	100.00	CONSODATA S.A.	26.66
- CAL- CONSUMER ACCES LIMITED (management and supply of data banks)	Kingston (UK)	GBP	200,000	100.00	CONSODATA S.A.	26.66
- CONSODATA GROUP (management and supply of data banks)	London (UK)	GBP	2	100.00	CAL	26.66
- CONSODATA UK (business information)	London (UK)	GBP	2	100.00	CAL	26.66
- RFM DATA Ltd (list broking) (UK)	Kingston	GBP	2	100.00	CAL	26.66
- LIVING LIFESTYLE LTD (management and supply of data banks)	Kingston (UK)	GBP	2	100.00	CAL	26.66
- CONSOBELGIUM S.A. (business information)	Bruxelles (Belgium)	EUR	62,500	100.00	CONSODATA S.A.	26.66
- CONSODATA ESPANA S.A. (business information)	Barcellona (Spain)	ESP	310,000,000	100.00	CONSODATA S.A.	26.66
- CONSODATA INTERACTIVE S.A. (business information)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.	26.66
- CONSODATA ITALIA S.r.l. (business information)	Milan (Italy)	ITL	20,000,000	100.00	CONSODATA S.A.	26.66
- CONSODATA SOLUTIONS S.A. (data management)	Levallois Perret (France)	EUR	270,000	100.00	CONSODATA S.A.	26.66

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- CONSODATA SYSTEME S.A. (business information)	Levallois Perret (France)	EUR 40,000	100.00	CONSODATA S.A.	26.66
- CONSODATA S.p.A. (formerly GIALLO DAT@ S.p.A.) (services of direct marketing; creation, management and marketing of data bank)	Rome (Italy)	EUR 6,500,000	100.00	CONSODATA S.A.	26.66
- DOMINO RESEARCH S.r.l. (data processing geomarketing sector)	Milan (Italy)	ITL 90,000,000	60.00	CONSODATA S.p.A.	16.00
- DWI S.p.A. (design, realization software)	Verona (Italy)	EUR 500,000	51.00	CONSODATA S.p.A.	13.60
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)	Milan (Italy)	ITL 150,000,000	60.00	CONSODATA S.p.A.	16.00
- PHARMASOFT CONSULTING S.r.l. (design, management and marketing of pharmaceutical sector data bank)	Rome (Italy)	ITL 2,000,000,000	60.00	CONSODATA S.p.A.	16.00
- PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)	Cusago (Milan, Italy)	EUR 100,000	61.00	CONSODATA S.p.A.	16.26
- MEDIA PRISME S.A. (analysis, management and trading of data banks)	Paris (France)	FRF 250,000	50.00 50.00	CONSODATA S.A. BCA Finances	26.66
- MP LIST S.A. (analysis, management and trading of data banks)	Bruxelles (Belgium)	BEF 750,000	100.00	MEDIA PRISME	26.66
DATABANK S.p.A. (marketing)	Milan (Italy)	ITL 1,820,000,000	93.46	SEAT PAGINE GIALLE	53.58
- DATABANK WETTBEWERBS - MARKT-UND FINANZANALYSE GmbH (marketing)	Darmstadt (Germany)	DEM 1,700,000	60.00	DATABANK	32.15
- DBK S.A. (marketing)	Madrid (Spain)	ESP 16,500,000	99.99	DATABANK	53.57
- EUREEDIT S.A. (realization, promotion and marketing european technology of commerce annual "Europages")	Paris (France)	EUR 400,000	84.99	SEAT PAGINE GIALLE	48.72
- FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	ITL 19,212,147,000	60.00	SEAT PAGINE GIALLE	34.40
- MATRIX S.p.A. (internet services)	Milan (Italy)	ITL 2,200,000,000	0.70 66.00	SEAT PAGINE GIALLE FINANZIARIA WEB	23.10
- GIALLO MARKET S.r.l. (owner of Virgilio.it)	Milan (Italy)	EUR 1,000,000	90.00	MATRIX	20.79
- GOALLARS B.V. (internet services)	Amsterdam (Holland)	EUR 100,000	55.00	MATRIX	12.71
- KMATRIX S.r.l. (consulting)	Milan (Italy)	EUR 100,000	100.00	MATRIX	23.10
- LINK S.r.l. (supply of computer services)	Milan (Italy)	ITL 20,000,000	100.00	MATRIX	23.10
- OLÀ! S.r.l. (advertising on line)	Milan (Italy)	ITL 20,000,000	51.00	MATRIX	11.78
- ZDNET ITALIA S.r.l. (internet services)	Milan (Italy)	EUR 400,000	51.00	MATRIX	11.78
- FINSATEL S.r.l. (holding company)	Turin (Italy)	ITL 266,000,000	100.00	SEAT PAGINE GIALLE	57.33
- GIALLO LAVORO S.p.A. (research, selection and training of human resources)	Turin (Italy)	EUR 100,000	100.00	SEAT PAGINE GIALLE	57.33

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Turin (Italy)	EUR	1,000,000	100.00	SEAT PAGINE GIALLE	57.33
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)	Faenza (Ravenna, Italy)	ITL	500,000,000	60.00	GIALLO PROFESSIONAL PUBLISHING	34.40
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)	Faenza (Ravenna, Italy)	ITL	20,000,000	100.00	GRUPPO EDITORIALE FAENZA EDITRICE	34.40
- FAENZA EDITRICE IBERICA S.l. (publishing house also on behalf of third parties)	Castellon de La Plana (Spain)	ESP	500,000	100.00	GRUPPO EDITORIALE FAENZA EDITRICE	34.40
- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	Sao Paulo (Brazil)	BRL	10,000	90.00 10.00	GRUPPO EDITORIALE FAENZA EDITRICE FAENZA EDITRICE IBERICA	34.40
- QUASAR E ASSOCIATI S.r.l. (publishers)	Milan (Italy)	EUR	20,408	51,00	GIALLO PROFESSIONAL PUBLISHING	29.24
- EDITORIALE QUASAR S.r.l. (publishers)	Milan (Italy)	ITL	20,000,000	100.00	QUASAR E ASSOCIATI	29.24
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cinisello Balsamo (Milan, Italy)	ITL	2,000,000,000	65.00	GIALLO PROFESSIONAL PUBLISHING	37.26
- GIALLO VIAGGI.it S.p.A. (research, development, production of information and telematic products for tourism)	Turin (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE	57.33
- MEDIOLANUM TOURIST SERVICE S.r.l. (tour operator)	Milan (Italy)	ITL	20,000,000	100.00	GIALLO VIAGGI.it	57.33
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Turin (Italy)	EUR	1,000,000	100.00	SEAT PAGINE GIALLE	57.33
- CALL CENTER SERVICES S.r.l. (call center services)	Cernusco sul Naviglio (Milan, Italy))	EUR	10,350	66.00	GIALLO VOICE	37.84
- IMR S.r.l. (call center services)	Biella (Italy)	ITL	20,000,000	51.00	GIALLO VOICE	29.24
- OPS S.r.l. (call center services)	Milan (Italy)	ITL	20,000,000	51.00	GIALLO VOICE	29.24
- TELEPROFESSIONAL S.r.l. (call center services)	Monza (Milan, Italy)	ITL	100,000,000	66.00	GIALLO VOICE	37.84
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rome (Italy)	ITL	22,725,000,000	99.40	SEAT PAGINE GIALLE	56.99
- MAGIQ 32 S.r.l. (wholesale of paper and millboard)	Rome (Italy)	ITL	1,000,000,000	100.00	GRUPPO BUFFETTI	56.99
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and trading of business software)	Rome (Italy)	ITL	250,000,000	99.99	GRUPPO BUFFETTI	56.98
- OFFICE AUTOMATION PRODUCTS S.p.A. (formerly INDUSTRIAL SERVICE S.p.A.) (wholesale magnetic stand)	Lecco (Italy)	ITL	1,500,000,000	84.00	GRUPPO BUFFETTI	47.87
- IS PRODUCTS S.p.A. (marketing of office automation)	Lecco (Italy)	ITL	18,000,000,000	27.78 72.22	GRUPPO BUFFETTI OFFICE AUTOMATION	50.40
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Venaria Reale (Turin, Italy)	ITL	1,000,000,000	100.00	IS PRODUCTS	50.40
- SK DIRECT S.r.l. (graphic arts)	Rome (Italy)	ITL	4,621,000,000	4.31 95.69	GRUPPO BUFFETTI OFFICE AUTOMATION	48.26

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- ITALBIZ.COM Inc. (internet services)	California (USA)	USD 13,800	72.46	SEAT PAGINE GIALLE	41.54
- KOMPASS ITALIA S.p.A. (publishing annuals, sale telematic products)	Turin (Italy)	ITL 2,739,744,000	100.00	SEAT PAGINE GIALLE	57.33
- NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)	New York (USA)	USD 1	100.00	SEAT PAGINE GIALLE	57.33
- POLIX S.p.A. (recording, elaboration and publishing of public opinion poll)	Milan (Italy)	EUR 100,000	78.50	SEAT PAGINE GIALLE	45.00
- SEAT CAPITAL INVESTMENTS S.A. (holding company)	Luxembourg	EUR 5,384,500	99.99	SEAT PAGINE GIALLE	57.32
- TDL INFOMEDIA Limited (holding company)	Hampshire (UK)	GBP 139,509.21	99.60	SEAT PAGINE GIALLE	57.10
- MYBLUECAT.COM LIMITED (supply of services)	Hampshire (UK)	GBP 2	100.00	TDL INFOMEDIA	57.10
- TDL INFOMEDIA FINANCE Ltd (holding company)	Hampshire (UK)	GBP 9,734.09	100.00	TDL INFOMEDIA	57.10
- TDL INFOMEDIA HOLDINGS Plc (holding company)	Hampshire (UK)	GBP 397,126.43	100.00	TDL INFOMEDIA FINANCE	57.10
- TDL INFOMEDIA GROUP Plc (holding company)	Hampshire (UK)	GBP 624,576.64	100.00	TDL INFOMEDIA HOLDINGS	57.10
- TDL GROUP Ltd (holding company)	Hampshire (UK)	GBP 89,864.25	100.00	TDL INFOMEDIA GROUP	57.10
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	Hampshire (UK)	GBP 1,340,000	100.00	TDL GROUP	57.10
- BUSINESS INFORMATION GROUP Ltd (publishing and marketing directories)	Hampshire (UK)	GBP 1	100.00	THOMSON DIRECTORIES	57.10
- FOREST RENTAL SERVICES Ltd (supply of services)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- HILL CLEANING SERVICES Ltd (supply of services)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- HILL ENTERPRISES Ltd (supply of services)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- INFOMEDIA GROUP Ltd (publishing and marketing directories)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- INFONATION Ltd (publishing and marketing directories)	Hampshire (UK)	GBP 1	100.00	THOMSON DIRECTORIES	57.10
- LAKE BUILDING SERVICES Ltd (supply of services)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- PEAK MAINTENANCE SERVICES Ltd (supply of services)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- THOMSON DIRECTORIES PENSION COMPANY LIMITED (administration of Thomson Directories Pension Fund)	Hampshire (UK)	GBP 2	100.00	THOMSON DIRECTORIES	57.10
- TDL INVESTMENTS B.V. (formerly MARACANÀ HOLDING B.V.) (supply of services)	Rotterdam (Holland)	EUR 20,000	100.00	TDL INFOMEDIA	57.10
- TELEGATE HOLDING GmbH (holding company)	Martinsried (Germany)	DEM 51,000	100.00	SEAT PAGINE GIALLE	57.33
- TELEGATE A.G. (internet services)	Martinsried (Germany)	EUR 12,730,000	13.54 50.99	SEAT PAGINE GIALLE TELEGATE HOLDING	37.00

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
- 11880.com GmbH (internet services)	Martinsried (Germany)	EUR	25,000	85.00	TELEGATE A.G.	31.45
- ARSMOVENDI.COM A.G. (internet services)	Munich (Germany)	EUR	150,000	33.33	TELEGATE A.G.	12.33
- TRAVELGATE BUSINESS GmbH (business tour operator)	Munich (Germany)	EUR	25,000	100.00	ARSMOVENDI	12.33
- TRAVELTEAM24 GmbH (tour operator)	Schongau (Germany)	DEM	100,000	100.00	TRAVELGATE BUSINESS	12.33
- DATAGATE GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.	37.00
- KIMTRAVEL CONSULTING A.G. (internet services)	Munich (Germany)	EUR	69,493	33.00	TELEGATE A.G.	12.21
- TELEGATE ANKLAM GmbH (internet services)	Anklam (Germany)	DEM	100,000	100.00	TELEGATE A.G.	37.00
- MOBILSAFE A.G. (internet services)	Meerbusch (Germany)	EUR	150,000	33.33	TELEGATE ANKLAM	12.33
- TELEGATE CALL CENTER GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.	37.00
- PHONECOM GmbH (call center services)	Munich (Germany)	DEM	153,900	50.68	TELEGATE CALL CENTER	18.75
- MEDIA EVOLUTION (call center services)	Munich (Germany)	DEM	60,000	100.00	PHONECOM	18.75
- TELEGATE HOLDING B.V. (call center services)	Schiphol (Holland)	EUR	18,200	100.00	TELEGATE A.G.	37.00
- TELEGATE ESPANA S.A. (formerly TELEGATE COMMUNICATIONS SYSTEMS S.A.) (call center services)	Madrid (Spain)	EUR	61,000	99.00 1.00	TELEGATE HOLDING B.V. TELEGATE A.G.	37.00
- TELEGATE GmbH (call center services)	Wien (Austria)	EUR	35,000	100.00	TELEGATE HOLDING B.V.	37.00
- TELEGATE Inc. (call center services)	Texas (USA)	USD	1,000	100.00	TELEGATE HOLDING B.V.	37.00
- TELEGATE ITALIA S.r.l. (call center services)	Milan (Italy)	EUR	129,000	99.00 1.00	TELEGATE HOLDING B.V. TELEGATE A.G.	37.00
- TELEGATE Ltd (call center services)	London (UK)	GBP	50,000	100.00	TELEGATE HOLDING B.V.	37.00
- TELEGATE AKADEMIE GmbH (training center for employees of call centers)	Rostock (Germany)	EUR	25,000	100.00	TELEGATE A.G.	37.00
- TICKETONE S.p.A. (tickets sale)	Milan (Italy)	EUR	625,000	50.10	SEAT PAGINE GIALLE	28.72
- TIN WEB S.r.l. (formerly GIALLO WEB S.r.l.) (advices regarding the creation of internet sites)	Milan (Italy)	EUR	99,000	100.00	SEAT PAGINE GIALLE	57.33

B.U. IT Services

TI.IT-TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A. (information and communication technology)	Rome (Italy)	ITL	50,000,000,000	100.00	TELECOM ITALIA	100.00
FINSIEL - Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	Rome (Italy)	EUR	59,982,384.60	77.92 0.63	TELECOM ITALIA FINSIEL	78.41
- ASPASIEL S.r.l. (information systems)	Rome (Italy)	EUR	260,000	50.00	FINSIEL	39.21

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- BANKSIEL - Società di informatica e organizzazione p.A. (design, installation, operation and maintenance of information systems for bank and insurance companies)	Milan (Italy)	EUR	10,400,000	55.50 FINSIEL	43.52
- CARISIEL Sistemi Informativi Elettronici per il Settore Credito e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	EUR	769,585	2.00 FINSIEL 98.00 BANKSIEL	44.22
- CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR	516,600	47.00 BANKSIEL	20.45
- CONSIEL - Società di management Consulting e Formazione p.A. (corporate consulting and management services)	Milan (Italy)	EUR	5,148,000	92.00 FINSIEL	72.14
- CONSIEL DO BRASIL (consulting and information systems)	Sao Paulo (Brazil)	BRL	222,223	99.99 CONSIEL	72.13
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	Rome (Italy)	EUR	5,165,000	100.00 FINSIEL	78.41
- FINSIEL ROMANIA S.r.l. (information systems)	Bucharest (Rumania)	ROL	11,841,500,000	90.53 FINSIEL	70.99
- INSIEL - Informatica per il Sistema degli Enti Locali S.p.A. (information systems)	Trieste (Italy)	EUR	7,755,000	52.00 FINSIEL	40.78
- INTERSIEL - Società Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza, Italy)	EUR	1,033,000	100.00 FINSIEL	78.41
- KRENESIEL S.p.A. - Società Sarda di Informatica (information systems)	Sassari (Italy)	EUR	2,582,300	41.00 FINSIEL 10.00 INSIEL	36.23
- NETIKOS S.p.A. (consulting)	Rome (Italy)	EUR	10,320,000	75.00 FINSIEL 25.00 TI.IT TELECOM ITALIA I.T.	83.81
- NETIKOS Finland OY (development of wireless solutions)	Helsinki (Finland)	EUR	10,700	100.00 NETIKOS	83.81
- SOGEI - Società Generale d'Informatica S.p.A. (information systems and related services for the Ministry of Finances and Italian and foreign public Administration)	Rome (Italy)	EUR	10,330,000	100.00 FINSIEL	78.41
- TELE SISTEMI FERROVIARI S.p.A. (information systems)	Rome (Italy)	EUR	77,003,670	61.00 FINSIEL	47.83
- VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities)	Venice (Italy)	EUR	1,549,500	20.40 FINSIEL 30.60 INSIEL	28.47
- WEBRED S.p.A. (formerly CRUED S.p.A.) (information systems)	Perugia (Italy)	EUR	1,560,000	51.00 FINSIEL	39.99
NETSIEL - Networks Produttivi per Sistemi Informativi Elettronici S.p.A. (information products and production of software for sale)	Bari (Italy)	EUR	65,073,960	68.65 TELECOM ITALIA 31.35 FINSIEL	93.23
- SIBISIEL - Società di Informatica per la Banca e l'Impresa S.p.A. (information systems)	Bari (Italy)	EUR	1,032,920	90.20 NETSIEL 9.80 SIBISIEL	93.23
SODALIA S.p.A. (production of advanced software for telecommunications networks and services)	Trento (Italy)	EUR	3,099,000	100.00 TELECOM ITALIA	100.00
- SODALIA NORTH AMERICA Inc. (formerly TELESOFT AMERICA) (telecommunications software)	Herndon-Virginia (USA)	USD	700,000	100.00 SODALIA	100.00
TELESOFT S.p.A. (telecommunications software)	Rome (Italy)	ITL	40,500,000,000	60.00 TELECOM ITALIA 40.00 FINSIEL	91.37

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
- EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	ITL 600,000,000	67.33	TELESOFT	61.52
- TECO SOFT ESPANA S.A. (telecommunications software)	Madrid (Spain)	ESP 60,000,000	100.00	TELESOFT	91.37
- TELESOFT HELLAS S.A. (telecommunications software)	Maroussi-Atene (Greece)	GRD 20,000,000	100.00	TELESOFT	91.37
- TELESOFT RUSSIA ZAO (telecommunications software)	Moscow (Russia)	RUB 1,592,000	75.00	TELESOFT	68.52
B.U. Satellite Services					
TELESPAZIO S.p.A. (satellite telecommunications services)	Rome (Italy)	EUR 95,000,000	100.00	TELECOM ITALIA	100.00
- CENTRO DI TELERILEVAMENTO MEDITERRANEO - S.C.P.A. (research)	Palermo (Italy)	ITL 1,839,000,000	51.00	TELESPAZIO	51.00
- 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)	EUR 16,881,882	72.01	TELESPAZIO	72.01
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V. (mobile telephony services)	Amsterdam (Holland)	EUR 45,500	100.00	EUROPEAN COMPANY FOR MOBILE COMM.SERVICES	72.01
- 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 BRASIL S.A. (formerly Damos Sudamerica) (supply of Orbcomm satellite services)	Rio de Janeiro (Brazil)	BRL 34,520,000	87.49 1.39	TELESPAZIO ENTEL CHILE	88.25
- TELESPAZIO LUXEMBOURG S.A. (holding company)	Luxembourg	USD 245,260,800	100.00	TELESPAZIO	100.00
- TELESPAZIO IRELAND Ltd (holding company)	Dublin (Ireland)	USD 1,000,000	100.00	TELESPAZIO LUX.	100.00
- TELESPAZIO NORTH AMERICA Inc. (activities regarding satellite telecommunications)	Delaware (USA)	USD 10	100.00	TELESPAZIO	100.00
B.U. Telecom Italia Lab					
TELECOM ITALIA LAB S.p.A. (formerly Cselit) (studies and research in telecommunications and electronics)	Turin (Italy)	EUR 10,985,000	100.00	TELECOM ITALIA	100.00
- LOQUENDO - SOCIETÀ PER AZIONI (research, development and trading of technologies and equipments regarding vocal recognition and interaction)	Turin (Italy)	EUR 2,500,000	100.00	TELECOM ITALIA LAB	100.00
- TELECOM ITALIA LAB B.V. (formerly TMI NETHERLANDS B.V.) (holding company)	Amsterdam (Holland)	NLG 40,000	100.00	TELECOM ITALIA LAB	100.00
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Luxembourg	USD 30,000	99.97 0.03	TELECOM ITALIA LAB Fiduciari	99.97
- TELECOM ITALIA LAB S.A. (holding company)	Luxembourg	USD 30,000	99.97 0.03	TELECOM ITALIA LAB Fiduciari	99.97
TELSY Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Turin (Italy)	ITL 750,000,000	100.00	SAIAT	100.00

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
Other companies					
EMSA - Società Immobiliare p.A. (real estate management)	Turin (Italy)	ITL 1,123,596,000	100.00	TELECOM ITALIA	100.00
HUIT S.a.r.l. (holding company)	Luxembourg	ITL 10,402,650,000	79.67	TELECOM ITALIA	79.67
- HUIT II S.a.r.l. (holding company)	Luxembourg	ITL 39,838,500,000	100.00	HUIT	79.67
IMMSI S.p.A. (real estate management)	Turin (Italy)	ITL 220,000,000,000	45.31	TELECOM ITALIA	45.31
SAIAT- Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. (financing)	Turin (Italy)	EUR 35,745,120	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. (marketing and financing)	Luxembourg	EUR 525,000	99.95 0.05	SOFTE SAIAT	100.00
TELE PAY ROLL SERVICES S.p.A. (information payroll services)	Rome (Italy)	EUR 2,840,000	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
TRAINET S.p.A. (development, operation and sales of lines teaching systems)	Rome (Italy)	ITL 1,305,800,000	100.00	TELECOM ITALIA	100.00
TECNO SERVIZI MOBILI S.r.l. (formerly HITECO CONSUL.) (real estate management)	Rome (Italy)	EUR 26,000	100.00	TELECOM ITALIA	100.00

LIST OF COMPANIES CONSOLIDATED BY THE PROPORTIONAL METHOD

Name (type of business)	Head office	Share Capital	%	held by	% held by Telecom Italia Group	
B.U. International Operations						
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS	78,633,050	32.50 17.50	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	25.52
- TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	984,380,978	54.74	NORTEL INVERSORA	13.97
- PUBLICOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	16,000,000	99.99 0.01	TELECOM ARGENTINA NORTEL INVERSORA	13.97
- TELECOM PERSONAL S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	310,514,481	99.99 0.01	TELECOM ARGENTINA PUBLICOM	13.97
- CABLE INSIGNIA S.A. (telecommunications services)	Asuncion (Paraguay)	PYG	10,000,000,000	75.00	TELECOM PERSONAL	10.48
- NUCLEO S.A. (telecommunications services)	Asuncion (Paraguay)	PYG	160,000,000,000	67.50	TELECOM PERSONAL	9.43
- MICRO SISTEMAS S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	210,000	99.99 0.01	TELECOM ARGENTINA PUBLICOM	13.97
- TELECOM ARGENTINA USA Inc. (telecommunications services)	Delaware (USA)	USD	100	100.00	TELECOM ARGENTINA	13.97
- TELECOM INTERNET S.A. (internet services)	Buenos Aires (Argentina)	USD	2,990,875	99.99 0.01	TELECOM ARGENTINA PUBLICOM	13.97

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Name (type of business)	Head office	Share Capital	%	held by	% held by Telecom Italia Group
AUTEL BETEILIGUNGS GmbH (holding company)	Wien (Austria)	EUR 35,000	100.00	STET MOBILE HOLDING	54.82
BEIGUA S.r.l. (purchase, sale, management and maintenance of systems for repairs and distribution of radiotelevision programs)	Milan (Italy)	ITL 99,000,000	51.00	TV INTERNAZIONALE	29.24
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP 1,262,184,000	50.00	ENTEL PERSONAL	27.38
BUFFETTI S.r.l. (retail trade of stationary, books, office kits)	Rome (Italy)	ITL 20,000,000	100.00	GRUPPO BUFFETTI	56.99
CSF Sistemi S.r.l. (IT network management for pharmacies)	Anagni (Frosinone, Italy)	EUR 1,186,000	30.00	MATRIX	6.93
DATATRADER S.A. (development and distribution of data bank)	Rueil Mailmaison (France)	EUR 266,980	50.00	CONSODATA S.A.	13.33
DISCOVERITALIA S.p.A. (communication systems)	Novara (Italy)	ITL 10,000,000,000	25.00	SEAT PAGINE GIALLE	14.33
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR 1,020,000	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE	81.93
EMAX-TRADE S.p.A. (management of internet sites)	Milan (Italy)	ITL 200,000,000	45.45	MATRIX	10.50
ESRI ITALIA S.p.A. (development and distribution of GIS products and services and related software packages)	Rome (Italy)	EUR 500,000	49.00	SEAT PAGINE GIALLE	28.09
EURODIRECTORY S.A. (management publishing companies of annuals Kompass)	Luxembourg	NLG 3,580,000	50.00	SEAT PAGINE GIALLE	28.67
EXPERT SYSTEM S.p.A. (development linguistic software)	Modena (Italy)	ITL 276,923,000	35.00	MATRIX	8.09
FREEFINANCE S.p.A. (credit brokerage on line)	Milan (Italy)	EUR 148,102	24.88	MATRIX	5.75
GAY.IT S.p.A. (internet services)	Pisa (Italy)	EUR 1,000,000	22.50	MATRIX	5.20
ISCE Investor in Sapient & Cuneo Europe S.A. (shareholding management company)	Luxembourg	ITL 8,400,000,000	25.00	SEAT CAPITAL INVESTMENTS	14.33
MIA ECONOMIA.com S.r.l. (development of publishing initiatives for personal finance sector)	Milan (Italy)	EUR 1,500,000	30.00	MATRIX	6.93
MONDUS Ltd (development data bank and market place via internet)	Oxford (UK)	GBP 1,879.9	46.44	SEAT PAGINE GIALLE	26.62
NETEX S.r.l. (management license of software of Netex Ltd)	Milan (Italy)	EUR 10,000	50.00	MATRIX	11.55
RARTEL S.A. (construction and management of telecommunications network in Rumania)	Bucharest (Rumania)	ROL 4,685,000,000	50.06 1.00	TELESPAZIO TELEO	51.06
RONCADIN RESTAURANTS S.p.A. (catering)	Fiume Veneto (Pordenone, Italy)	ITL 1,770,566,000	25.00	SEAT PAGINE GIALLE	14.33
SAPENDI S.p.A. (realization and marketing of publishing, graphic, and data bank products and services)	Novara (Italy)	ITL 10,000,000,000	25.00	SEAT PAGINE GIALLE	14.33
STET FRANCE S.A. (holding company)	Paris (France)	FRF 6,000,000	100.00	9 TELECOM RESEAU	97.22
TDL BELGIUM S.A. (publishing and marketing of directories)	Bruxelles (Belgium)	BEF 100,000,000	47.00	TDL INVESTMENTS B.V.	26.84
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	USD 1,000,000	99.999 0.001	TELECOM ITALIA SOGERIM	100.00

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office	Share Capital	%	held by	% held by Telecom Italia Group
TELECOM ITALIA SPAIN S.L. (telecommunications services)	Madrid (Spain)	EUR 3,100	100.00	TELECOM ITALIA	100.00
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Republic of S. Marino	ITL 150,000,000	51.00	INTELCOM S.MARINO	35.70
TELEOS B.V. (operative holding company)	Amsterdam (Holland)	NLG 40,000	100.00	TELESPAZIO	100.00
TELEOS INTERNATIONAL B.V. (marketing of products and services for satellite mobile communications)	Amsterdam (Holland)	NLG 40,000	100.00	TELEOS	100.00
TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	Wien (Austria)	EUR 35,000	100.00	TELECOM ITALIA	100.00
VIASAT S.p.A. (development, installation and maintenance of information networks)	Rome (Italy)	EUR 2,425,956	33.54 16.46	SEAT PAGINE GIALLE FINSATEL	28.67
WISEQUITY N.V. (shareholding management company)	Amsterdam (Holland)	EUR 50,000	50.00	SEAT CAPITAL INVESTMENTS	28.66
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	ITL 142,000,000	35.21	SAIAT	35.21
ASTELIT Ltd (telecommunications services)	Moscow (Russia)	RUB 500	50.00	TELECOM ITALIA	50.00
ASTROLINK INTERNATIONAL LLC (satellite telecommunications services)	Delaware (USA)	USD 1,350,100,000	18.52	TELESPAZIO LUX.	18.52
AUNA - Operadores de telecomunicaciones S.A. (holding of telecommunications companies)	Barcellona (Spain)	ESP 240,192,390,000	22.76 3.81	STET INTERNATIONAL NETHERLANDS STET MOBILE HOLDING	24.85
BDT - BOUYGUES DECAUX TELECOM S.A. (holding company)	Guyancourt (France)	EUR 294,356,302.32	19.61	STET MOBILE HOLDING	10.75
BOUYGUES TELECOM S.A. (mobile telecommunications)	Velizy- Villacoublay (France)	EUR 560,679,600	55.00	BDT-BOUYGUES DECAUX TELECOM	5.91
BRASIL TELECOM PARTICIPACOES S.A. (holding companies for investments in wireline telecommunications companies in various Brazilian states)	Brasilia (Brazil)	BRL 2,094,181,319	52.26	SOLPART	7.19
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of S. Marino	ITL 500,000,000	20.00 20.00	INTELCOM S.MARINO STREAM	24.00
CARTESIA-Cartografia digitale S.p.A. (design, realization, marketing of numeric cartography)	Rome (Italy)	ITL 2,000,000,000	50.00	TELECOM ITALIA	50.00
CYGENT Inc. (development and marketing software)	California (USA)	USD 28,708,549	22.48	TELECOM ITALIA LAB	22.48
DATASIEL – Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration Agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	Genoa (Italy)	EUR 2,582,500	50.00	FINSIEL	39.21
DATASPAZIO - S.p.A. (computational software and hardware development and sale)	Rome (Italy)	ITL 980,000,000	49.00	TELESPAZIO	49.00
EISYS S.p.A. (information systems)	Rome (Italy)	ITL 1,200,000,000	25.00	EIS	19.60
ETEC S.A. – Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	La Habana (Cuba)	USD 1,441,900,000	29.29	STET INTERNATIONAL NETHERLANDS	29.29
FINTECH FINANZIARIA TECNOLOGICA S.p.A. (minority interests holding in small and medium sized companies)	Turin (Italy)	EUR 25,820,000	50.00	TELECOM ITALIA LAB	50.00
FUTUR COM S.r.l.	Sesto S.Giovanni (Milan, Italy)	ITL 20,000,000	23.09	MC LINK	8.74
GEOWEB S.p.A. (information systems)	Rome (Italy)	ITL 1,000,000,000	40.00	SOGEI	31.36

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office	Share Capital	%	held by	% held by Telecom Italia Group
GLB SERVICOS INTERATIVOS S.A. (internet services)	Rio de Janeiro (Brazil)	BRL 100,000,000	30.00	TI WEB	29.99
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS 3,000,000	26.40	GOLDEN NETHERLANDS	26.40
IM.SER S.p.A. (real estate management)	Turin (Italy)	ITL 280,000,000,000	40.00	TELECOM ITALIA	40.00
INFORMATICA TRENTINA S.p.A. (design, installation, management and maintenance of information systems)	Trento (Italy)	EUR 3,100,000	40.41	FINSIEL	31.69
IS TIM TELEKOMUNIKASYON HZMETLERI A.S. (mobile telecommunications)	Istanbul (Turkey)	TRL 545,000,000,000,000	49.00	TIM INTERNATIONAL	26.86
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	ITL 217,738,400,000	19.76	SOGERIM	19.76
JMAC CONSIEL S.p.A. (data collection and analysis for systems sales and business)	Milan (Italy)	EUR 156,000	45.00	CONSIEL	32.46
LOTTOMATICA S.p.A. (automation system for State lottery)	Rome (Italy)	EUR 87,957,250	18.36	FINSIEL	14.40
MAREMS-V & D SERVICE S.A. (provision of satellite services for mobile voice communications using vehicle-mounted terminals)	Moscow (Russia)	RUB 7,135,500	49.00	TELESPAZIO	49.00
MOBILKOM AUSTRIA Aktiengesellschaft & Co KG - Limited Partnership (mobile telephony operator)	Wien (Austria)	EUR 79,940,117.59	75.00 25.00	TELEKOM AUSTRIA AUTEL	36.04
MULTIMEDIA CABLE S.A. (holding company for investments in telecommunications companies and multimedia systems)	Barcellona (Spain)	ESP 1,936,000,000	44.00	STET INTERNATIONAL NETHERLANDS	44.00
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	ESP 1,004,680,000	30.00	STET INTERNATIONAL NETHERLANDS	30.00
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	Milan (Italy)	EUR 1,056,000	22.50	FINSIEL	17.64
PROSISTEMI S.r.l.	Milan (Italy)	ITL 20,000,000	33.35	ITALSERVICE S.r.l.	9.94
RETEVISION I S.A.U. (holding company for telecommunications)	Barcellona (Spain)	ESP 30,651,000,000	100.00	AUNA	24.85
RETEVISION MOVIL S.A. (mobile telephony operator)	Barcellona (Spain)	ESP 35,000,000,000	97.90	AUNA	24.33
SAPED – Studio Analisi Programmazione Elaborazione Dati S.p.A. (information systems)	Siena (Italy)	ITL 2,000,000,000	20.00	BANKSIEL	8.70
SIEMENS INFORMATICA S.p.A. (sale, leasing and maintenance of data processing systems)	Milan (Italy)	EUR 6,192,000	49.00	TELECOM ITALIA	49.00
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support systems)	Brescia (Italy)	ITL 500,000,000	40.00	TELECOM ITALIA LAB	40.00
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Palermo (Italy)	EUR 2,066,000	49.00	FINSIEL	38.42
SITEBA Sistemi Telematici Bancari S.p.A. (support services for payments systems)	Milan (Italy)	ITL 5,000,000,000	30.00	TELECOM ITALIA	30.00
SOLPART PARTICIPACOES S.A. (holding company for investment in Brasil Telecom Participacoes S.A.)	Rio de Janeiro (Brazil)	BRL 2,150,008,023	37.29	STET INTERNATIONAL NETHERLANDS	37.29

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office		Share Capital	%	held by	% held by Telecom Italia Group
STREAM S.p.A. (multimedia services)	Rome (Italy)	ITL	816,040,000,000	50.00	TELECOM ITALIA	50.00
STT – SOCIETÀ TRASPORTO TELEMATICO S.p.A. (online transport services provider)	Verona (Italy)	EUR	5,200,000	30.00	TELECOM ITALIA	30.00
TELELEASING – Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Milan (Italy)	ITL	18,977,770,000	20.00	SAIAT	20.00
TELEKOM AUSTRIA A.G. (wireline telephony)	Wien (Austria)	EUR	1,090,500,000	29.78	STET INTERNATIONAL NETHERLANDS	29.78
TELEKOM SRBIJA a.d. (telecommunications services)	Belgrade (Serbia)	YUM	10,907,385,234	29.00	STET INTERNATIONAL NETHERLANDS	29.00
TELEMACO IMMOBILIARE S.p.A. (real estate management)	Rome (Italy)	EUR	9,600,000	40.00	TELECOM ITALIA	40.00
TRADECOM–Soluzioni avanzate per il commercio, il turismo e i servizi S.p.A. (services related to telecommunications information and multimedia technology)	Rome (Italy)	ITL	500,000,000	24.50 24.50	FINSIEL SARITEL	43.71
UBA – NET S.A. (teledidactic services)	Buenos Aires (Argentina)	ARS	1,430,000	50.00	TRAINET	50.00
WEBEGG S.p.A. (information systems)	Ivrea (Turin, Italy)	EUR	33,107,160	30.20 19.80	FINSIEL TI.IT-TELECOM ITALIA I.T.	43.48

LIST OF OTHER INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES

Name	Head office	Share Capital	%	held by
9 TELECOM WEB EURL	Boulogne Billancourt (France)	EUR 8,000	100.00	9 TELECOM RESEAU
9 TELECOM PORTAIL EURL	Boulogne Billancourt (France)	EUR 8,000	100.00	9 TELECOM RESEAU
ARTES S.r.l. (in liquidation)	Florence (Italy)	ITL 3,280,000,000	99.97	CECCHI GORI COMMUN.
ASKA S.r.l. (in liquidation)	Milan (Italy)	EUR 10,400	60.00	CONSIEL
CLIPPER S.p.A. (in liquidation)	Rome (Italy)	ITL 200,000,000	50.00	SCS COM. INTEGR. (in liquidation)
COMSTAR S.r.l. (in liquidation)	Rome (Italy)	ITL 2,000,000,000	100.00	TELESPAZIO
CONSULTEL S.p.A. (in liquidation)	Rome (Italy)	ITL 2,594,340,000	100.00	TELECOM ITALIA
DATA HOUSE S.p.A.	Milan (Italy)	ITL 375,000,000	52.00	SEAT PAGINE GIALLE
e-GEOS S.p.A.	Matera (Italy)	EUR 105,000	51.00 2.00 1.00	TELESPAZIO EURIMAGE FINSIEL
EMMEDI 97 S.r.l. sole shareholder (in liquidation)	Rome (Italy)	ITL 20,000,000	100.00	GRUPPO BUFFETTI
ERICH LIMITED	Kingston (UK)	GBP 2	100.00	CAL
FINSIEL HELLAS S.A. (in liquidation)	Koropi (Greece)	GRD 230,000,000	91.00	FINSIEL
GENERAL PARTNER GmbH	Munich (Germany)	EUR 25,000	100.00	SEAT PAGINE GIALLE
GIALLO e.com S.p.A.	Turin (Italy)	EUR 150,000	100.00	SEAT PAGINE GIALLE
IC SOFT S.p.A. (in liquidation)	Naples (Italy)	ITL 200,000,000	100.00	FINSIEL
IL CENTRO CONTABILE S.p.A. (in liquidation)	Rome (Italy)	ITL 4,379,426,000	89.70	GRUPPO BUFFETTI
INCAS FRANCE S.A. (in liquidation)	Asnieres (France)	FRF 19,168,900	100.00	IS PRODUCTS
IREOS S.p.A. (in liquidation)	Rome (Italy)	ITL 200,000,000	100.00	TELECOM ITALIA
IRIDIUM ITALIA S.p.A. (in liquidation)	Rome (Italy)	EUR 2,575,000	30.00 35.00 35.00	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE
MARKET & INDUSTRY ANALYSTS S.A.	Bruxelles (Belgium)	BEF 4,340,000	100.00	DATABANK
MC LINK S.p.A.	Rome (Italy)	ITL 4,899,320,000	66.00	SEAT PAGINE GIALLE
LATIN AMERICAN NAUTILUS USA Inc.	Florida (USA)	USD 10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
MEDITERRANEAN BROAD BAND ACCESS S.A.	Crete (Greece)	GRD 4,000,000,000	60.00	STET INTERNATIONAL NETHERLANDS
MEDITERRANEAN NAUTILUS B.V.	Amsterdam (Holland)	EUR 18,000	100.00	MEDIT. NAUTILUS LTD

(continued) List of other investments in subsidiaries and affiliated companies

Name	Head office	Share Capital	%	held by
MEDITERRANEAN NAUTILUS GREECE S.A.	Athens (Greece)	EUR 60,000	99.00 1.00	MEDIT. NAUTILUS LTD MEDIT. NAUTILUS ISRAEL
OFFICE CENTRAL DE DOCUMENTATION DATA BASES	Paris (Francia)	FRF 250,000	99.71 0.04	VICTOIRE MULTIMEDIA INFORMATIQUE OMEGA
OR.MA INFORMATICA S.r.l.	Milan (Italy)	ITL 20,000,000	100.00	SK DIRECT
PAN-ADRESS DIRECTMARKETING GmbH & Co. KG	Munich (Germany)	EUR 204,000	100.00	SEAT PAGINE GIALLE
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation)	Rome (Italy)	ITL 1,200,000,000	100.00	SEAT PAGINE GIALLE
SIT S.p.A. (in liquidation)	Trieste (Italy)	ITL 250,000,000	56.00	INSIEL
TECNOLOGIE INNOVATION ET MOBILITE s.a.r.l.	Tunis (Tunisia)	TND 10,000	80.00	STET MOBILE HOLDING
TELECOM ITALIA IRELAND Ltd	Dublin (Ireland)	EUR 2	100.00	TELECOM ITALIA
TELEHOUSE-INTERNET EXCHANGE S.A.	Gualdicciolo (Rep. S.Marino)	ITL 3,000,000,000	60.00	INTELCOM S.MARINO
TIMNET.COM PERÙ S.A.C.	Lima (Perù)	PEN 1,000	100.00	TIM PERÙ
T.I.SCOM S.A. (in liquidation)	Curitiba (Brazil)	BRL 7,735,000	51.00	TELESPAZIO
VALORIUS S.A.	Boulogne Billancourt (France)	FRF 250,000	100.00	9 TELECOM RESEAU
VICTOIRE MULTIMEDIA Inc.	California (USA)	USD 1,000	100.00	VICTOIRE MULTIMEDIA INFORMATIQUE
CEDAC S.r.l.	Brescia (Italy)	ITL 20,000,000	30.00	DATA HOUSE
CITEL - Corporacion Interamericana de Telecomunicaciones S.A.	Monterrey (Mexico)	MXN 2,073,729,933	25.00	STET INTERNATIONAL NETHERLANDS
COMETEL Societe Espagnole	Bilbao (Spain)	EUR 35,000	40.00	JET MULTIMEDIA HOSTING
CONSODATA DEUTSCHLAND GmbH	Munich (Germany)	DEM 50,000	100.00	PAN-ADRESS
COSER S.c.r.l.	Catanzaro (Italy)	ITL 40,000,000	20.00	TRAINET
CROMA S.r.l. (in liquidation)	P.San Giovanni (Perugia, Italy)	ITL 80,000,000	50.00	WEBRED
CZECH TELESPAZIO S.r.l. (in liquidation)	Prague (Czech Rep.)	CZK 1,500,000	40.00	TELECOM ITALIA
EMPRESA COLOMBOAMERICANA DE TELECOMUNICACIONES (in liquidation)	Bogotá (Columbia)	USD 1,145,636	50.00	ENTEL PERSONAL
IRIDIUM SERVICES EUROPE GmbH & CO.KG (in liquidation)	Düsseldorf (Germany)	DEM 29,000,000	34.00	IRIDIUM ITALIA (in liquidation)
IRIDIUM SERVICES EUROPE VERWALTUNG GmbH	Düsseldorf (Germany)	DEM 50,000	34.00	IRIDIUM ITALIA (in liquidation)
ITALSERVICE S.p.A.	Milan (Italy)	ITL 200,000,000	40,00 60,00	DATA HOUSE ITALSERVICE S.r.l.
ITALSERVICE S.r.l.	Varese (Italy)	ITL 20,000,000	100.00	DATA HOUSE

(continued) List of other investments in subsidiaries and affiliated companies

Name	Head office	Share Capital	%	held by
L'UFFICIO MODERNO S.r.l.	Florence (Italy)	ITL 20,000,000	15.00 15.00	GRUPPO BUFFETTI IL CENTRO CONTABILE
MILANO DATA ENTRY S.r.l.	Milan (Italy)	ITL 20,000,000	100.00	DATA HOUSE
MOBILKOM AUSTRIA Geschäftsführungs Aktiengesellschaft - - Stock Corporation	Wien (Austria)	EUR 100,000	75.00 25.00	TELEKOM AUSTRIA AUTEL
NETRIA S.A.	Lyon (France)	FRF 758,500	34.00	JET MULTIMEDIA
POLITEL S.A.	Warsaw (Poland)	PLN 100,000	10.00 10.00	TMI TELEMEDIA INT. Ltd TELESPAZIO
SUD PARTNER S.a.r.l.	Tolouse (France)	EUR 40,000	24.00	JET MULTIMEDIA HOSTING
TM3 S.r.l.	Bergamo (Italy)	ITL 20,000,000	35.00	DATA HOUSE
VINTEL S.r.l.	Como (Italy)	ITL 70,000,000	25.00	DATA HOUSE.
VOICEMAIL INTERNATIONAL Inc. (in liquidation)	California (USA)	USD 48,580	37.07	TELECOM ITALIA
CONSORTIUM				
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 C.R.I.A.I. (in liquidation)	Naples (Italy)	ITL 110,002,000	27.27 27.27	FINSIEL SOGEI
CONSORZIO GEODOC (in liquidation)	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	TELECOM ITALIA
CONSORZIO IRIS BENI CULTURALI	Rome (Italy)	ITL 330,000,000	90.91 9.09	FINSIEL NETSIEL
CONSORZIO ISIB	Rome (Italy)	ITL 100,000,000	70.00 30.00	FINSIEL INTERSIEL
CONSORZIO NAUTILUS	Rome (Italy)	ITL 150,000,000	30.00 20.00	SSGRR MEDITERRANEAN NAUTILUS Ltd
CONSORZIO PAOLA (in liquidation)	Udine (Italy)	ITL 16,768,758	100.00	INSIEL
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 (in liquidation)	Catanzaro (Italy)	ITL 200,000,000	46.00 5.00	INTERSIEL INSIEL
CONSORZIO SESIT (in liquidation)	Rome (Italy)	ITL 100,000,000	70.00	FINSIEL
CONSORZIO SITA (in liquidation)	Rome (Italy)	ITL 250,000,000	80.00	FINSIEL
CONSORZIO SOFTIN (in liquidation)	Naples (Italy)	ITL 1,700,000,000	100.00	FINSIEL
CONSORZIO TELEFRANCHISING	Rome (Italy)	EUR 1,240,000	80.00	TELESPAZIO

(continued) List of other investments in subsidiaries and affiliated companies

Name	Head office	Share Capital	%	held by
CONSORZIO TURISTEL	Rome (Italy)	ITL 150,000,000	33.33 33.33	SARITEL FINSIEL
CONSORZIO ACCAM	Rome (Italy)	ITL 12,000,000	33.33	EIS
CONSORZIO AIACE	Milan (Italy)	ITL 20,000,000	25.00	DATABANK
CONSORZIO ALTEL	Rome (Italy)	ITL 100,000,000	50.00	TELESPAZIO
CONSORZIO ARCHIMEDE (in liquidation)	Catania (Italy)	ITL 75,000,000	50.00	FINSIEL
CONSORZIO ATLAS (in liquidation)	Rome (Italy)	ITL 140,000,000	42.84 14.29 14.29	TELESPAZIO ESRI ITALIA EUSTEMA
CONSORZIO CIFRA	Cagliari (Italy)	ITL 120,000,000	25.00	KRENESIEL
CONSORZIO C.O.M.P.A. (in liquidation)	Bologna (Italy)	ITL 350,000,000	20.00	FINSIEL
CONSORZIO CORITEL	Rome (Italy)	ITL 400,000,000	25.00	TELECOM ITALIA MOBILE
CONSORZIO CSIA	Rome (Italy)	ITL 400,000,000	44.00	FINSIEL
CONSORZIO DREAM FACTORY	Rome (Italy)	ITL 750,000,000	20.00	TELECOM ITALIA LAB
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 OMNIA (in liquidation)	Perugia (Italy)	ITL 5,000,000	50.00	WEBRED
CONSORZIO I.T.A.	Rome (Italy)	ITL 24,000,000	33.33	TELESPAZIO
CONSORZIO R.E.S. - Raggruppamento Europeo per la Sicurezza	Rome (Italy)	ITL 600,000,000	50.00	TELECOM ITALIA
CONSORZIO SI.GE.T. (in liquidation)	Rome (Italy)	ITL 100,000,000	40.00	FINSIEL
CONSORZIO SIMT	Rome (Italy)	ITL 100,000,000	45.00	FINSIEL
CONSORZIO SISIM (in liquidation)	Rome (Italy)	ITL 90,000,000	50.00	TELESPAZIO
CONSORZIO TECNOSIEL	Rome (Italy)	ITL 200,000,000	50.00	FINSIEL
CONSORZIO TELAER	Capodichino (Naples, Italy)	ITL 200,000,000	50.00	TELESPAZIO
CONSORZIO TELCAL	Catanzaro (Italy)	EUR 877,975	24.00 24.00	TELECOM ITALIA INTERSIEL
CONSORZIO TELEMED (in liquidation)	Rome (Italy)	ITL 200,000,000	33.33	TELECOM ITALIA
EUTELSAT	Paris (France)	EUR 533,770,000	20.48	TELECOM ITALIA

ASSETS (in millions of euros)

	6.30.2001	12.31.2000	6.30.2000
Receivables from shareholders 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	104	100	64
Industrial patents and intellectual property rights	1,165	819	716
Concession, licenses, trademarks and similar rights	4,483	3,505	510
Goodwill	71	69	4
Consolidation difference	11,014	10,230	1,697
Work in progress and advances to suppliers	773	840	514
Other intangibles	550	474	352
	18,160	16,037	3,857
FIXED ASSETS			
Land and buildings	3,242	2,947	5,307
Plant and machinery	18,461	18,126	17,654
Manufacturing and distribution equipment	76	78	139
Other fixed assets	948	836	774
Construction in progress and advances to suppliers	1,919	1,438	1,372
	24,646	23,425	25,246
LONG-TERM INVESTMENTS			
Equity investments in:			
unconsolidated subsidiaries	28	21	7
affiliated companies	6,622	7,199	6,339
other companies	215	191	207
	6,865	7,411	6,553
Advances on future capital contributions	1,217	187	72
Accounts receivable:	(*)	(*)	(*)
unconsolidated subsidiaries	4		
affiliated companies	14	127	142
other receivables	92	282	320
	110	409	462
Other securities	138	6	6
Treasury stock		662	168
	8,688	8,675	7,261
Total intangibles, fixed assets and long-term investments	51,494	48,137	36,364
Current assets			
INVENTORIES			
Raw materials and supplies	36	13	141
Work in progress and semifinished goods	7	467	85
Contract work in process	659		848
Finished goods and merchandise:			
finished goods	2	2	30
merchandise	340	214	234
Advances to suppliers	16	8	15
	1,060	725	1,353
ACCOUNTS RECEIVABLE	(**)	(**)	(**)
Trade accounts receivable	6	5	7
Accounts receivable from unconsolidated subsidiaries	8,308	7,997	7,570
Accounts receivable from affiliated companies	32	41	27
Accounts receivable from parent companies	598	413	467
Accounts receivable from other companies	1	3	1
Other receivables	94	488	176
	2,759	3,429	1,400
	100	493	183
	11,698	11,883	9,465
SHORT-TERM FINANCIAL ASSETS	(**)	(**)	(**)
Equity investments in unconsolidated subsidiaries	336	392	186
Equity investments in affiliated companies		6	
Other equity investments	36	38	33
Other securities	3,264	2,020	1,079
Receivables for sales of securities	32	1	1
	-	-	-
	3,668	2,457	1,299
LIQUID ASSETS			
Bank and postal accounts	2,465	1,299	658
Checks	1		
Cash and valuables on hand	7	5	9
	2,473	1,304	667
Total current assets	18,899	16,369	12,784
Accrued income and prepaid expenses			
Issue discounts and similar charges	94	2	2
Accrued income and other prepaid expenses	1,175	1,005	233
	1,269	1,007	235
TOTAL ASSETS	71,664	65,515	49,385

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

LIABILITIES AND SHAREHOLDERS' EQUITY (in millions of Euro)

	6.30.2001		12.31.2000		6.30.2000	
Shareholders' equity						
PARENT COMPANY INTEREST IN:						
Share capital	4,023		3,835		3,835	
Reserve for treasury stock			662		168	
Reserves and retained earnings	11,696		12,296		13,078	
Net Income	483		2,028		979	
	16,202		18,821		18,060	
MINORITY INTEREST IN:						
Share capital, reserves and retained earning	6,162		5,788		2,704	
Net income	366		920		445	
	6,528		6,708		3,149	
	22,730		25,529		21,209	
Reserves for risks and charges						
Reserve for pensions and similar obligation	34		15			
Reserve for taxes						
<i>for taxes</i>	574		159		1,111	
<i>for deferred taxes</i>			201			
	574		360		1,111	
Other reserves	1,486		1,393		776	
	2,094		1,768		1,887	
Reserve for employee termination indemnities	1,369		1,319		1,566	
Liabilities	(**)		(**)		(**)	
Debentures	7,636	7,897	1,668	1,814	1,441	1,861
Convertible debentures	2,500	2,500				
Due to banks	4,734	16,640	4,296	16,796	3,668	7,832
Due to other lenders	1,291	1,696	1,267	1,689	578	842
Advances		587		370		489
Trade accounts payable	272	6,157	35	6,781	37	5,509
Notes payable	118	120	50	50		
Accounts payable to unconsolidated subsidiaries		54		6		14
Accounts payable to affiliated companies	491	1,045	506	1,272	487	1,116
Accounts payable to parent companies		2		2		2
Taxes payables	6	1,448	3	930	6	1,319
Contributions to pension and social security institutions	1	887	651	934	709	925
Other liabilities	277	5,040	583	5,038	84	3,831
	17,326	44,073	9,059	35,682	7,010	23,740
Accrued expenses and deferred income		1,398		1,217		983
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		71,664		65,515		49,385

(**) Amounts due beyond one year

(in millions of euros)

	6.30.2001	12.31.2000	6.30.2000
Guarantees provided			
Sureties			
on behalf of unconsolidated subsidiaries	23	20	45
on behalf of affiliated companies	2,091	2,315	1,803
on behalf of others	306	238	229
	2,420	2,573	2,077
Endorsements			
on behalf of others	146	168	140
Other guarantees			
on behalf of unconsolidated subsidiaries		1	7
on behalf of affiliated companies	22	69	18
on behalf of others	80	120	2
	102	190	27
	2,668	2,931	2,244
Collateral provided			
For obligations of others	1	1	5
For own obligations, not including liabilities	2	2	2
	3	3	7
Purchases and sales commitments	3,196	4,902	9,749
Other memorandum accounts	247	234	257
TOTAL MEMORANDUM ACCOUNTS	6,114	8,070	12,257

(in millions of euros)

	1 st half 2001	1 st half 2000	Year 2000
Production value		14,217	28,911
Sales and service revenues	15,589		
Changes in inventories of work in progress, semifinished and finished goods	2	29	28
Changes in inventory of contract work in process	190	261	251
Increases in capitalized internal construction costs	198	416	912
Other revenue and income:			
<i>operating grants</i>	10	10	20
<i>other</i>	198	210	406
	208	220	426
	16,187	15,143	30,528
Production cost			
Raw materials, supplies and merchandise	(817)	(1,062)	(2,011)
Semifinished and finished goods	(118)	(160)	(248)
Services	(4,818)	(4,082)	(8,394)
Use of property not owned	(546)	(358)	(798)
Personnel			
<i>wages and salaries</i>	(1,761)	(1,814)	(3,510)
<i>social security contributions</i>	(530)	(564)	(1,128)
<i>termination indemnities</i>	(110)	(129)	(242)
<i>other costs</i>	(85)	(77)	(145)
	(2,486)	(2,584)	(5,025)
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	(1,051)	(479)	(1,132)
<i>depreciation of fixed assets</i>	(2,215)	(2,305)	(4,515)
<i>other writedowns of intangibles and fixed assets</i>	(4)	(14)	(48)
<i>writedowns of receivables included in current assets and liquid assets</i>	(236)	(258)	(477)
	(3,506)	(3,056)	(6,172)
Changes in inventory of raw materials, supplies and merchandise	99	35	(2)
Provisions for risks	(81)	(61)	(119)
Other provisions	(18)	(14)	(38)
Miscellaneous operating costs	(405)	(410)	(916)
	(12,696)	(11,752)	(23,723)
Operating income	3,491	3,391	6,805
Financial income and expense			
Income from equity investments:			
<i>dividends from unconsolidated subsidiaries</i>	9	3	4
<i>dividends from affiliated companies</i>		18	64
<i>dividends from other companies</i>	9	43	71
<i>other income from equity investments</i>	19	48	167
	37	112	306
Other financial income from:			
<i>accounts receivable included in long-term investments</i>			
<i>affiliated companies</i>	3	7	9
<i>other</i>	8	6	10
	11	13	19
<i>securities, other than equity investments, included in long-term investments</i>			1
<i>securities, other than equity investments, included in current assets</i>	79	51	104
<i>other income</i>			
<i>interest and fees from unconsolidated subsidiaries</i>			1
<i>interest and fees from affiliated companies</i>	9	7	14
<i>interest and fees from others and miscellaneous income</i>	354	228	402
	363	235	417
	453	299	541
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>	(15)	(17)	(33)
<i>interest and fees paid to others and miscellaneous expense</i>	(1,231)	(544)	(1,277)
	(1,247)	(561)	(1,311)
Total financial income and expense	(757)	(150)	(464)

(Continued) (in millions of euros)

	1 st half 2001	1 st half 2000	Year 2000
Value adjustments to financial assets			
Upward adjustments of:			
<i>equity investments</i>	68	75	275
<i>securities, other than equity investments, included in current assets</i>	1		
	69	75	275
Writedown of:			
<i>equity investments</i>	(833)	(418)	(1,300)
<i>long-term investments, other than equity investments</i>			
<i>securities, other than equity investments, included in current assets</i>	(8)	(32)	(134)
	(841)	(450)	(1,434)
Total value adjustments	(772)	(375)	(1,159)
Extraordinary income and expense			
Income			
<i>gains on disposals</i>	229	308	1,146
<i>miscellaneous</i>	180	105	236
	409	413	1,382
Expense:			
<i>losses on disposals</i>	(11)		(12)
<i>prior years' taxes</i>	(2)	(5)	(5)
<i>miscellaneous</i>	(299)	(397)	(1,579)
	(312)	(402)	(1,596)
Total extraordinary items	97	11	(214)
Income before taxes	2,059	2,877	4,968
Income taxes			
<i>current taxes</i>	(1,210)	(1,453)	(2,486)
<i>deferred taxes</i>			466
	(1,210)	(1,453)	(2,020)
Net income before minority interest	849	1,424	2,948
Minority interest	(366)	(445)	(920)
Net income	483	979	2,028



TELECOM ITALIA

FINANCIAL STATEMENTS OF TELECOM ITALIA



ASSETS (in millions of lire)

	6.30.2001	12.31.2000	6.30.2000
Receivables from shareholders for capital contributions	-	-	-
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Industrial patents and intellectual property rights	1,300,046	821,198	987,871
Concessions, licenses, trademarks and similar rights	85,086	90,088	101,264
Goodwill	-	-	-
Work in progress and advances to suppliers	749,845	1,240,085	964,496
Other intangibles	128,774	150,281	175,918
	2,263,751	2,301,652	2,229,549
FIXED ASSETS			
Land and buildings	2,952,305	3,009,903	7,656,378
Plant and machinery	23,716,579	25,122,424	25,692,448
Manufacturing and distribution equipment	66,187	77,775	94,288
Other fixed assets	197,937	162,229	345,396
Construction in progress and advances to suppliers	1,301,983	933,185	1,192,002
	28,234,991	29,305,516	34,980,512
LONG-TERM INVESTMENTS			
Equity investments in subsidiaries	35,408,354	35,272,942	10,015,696
affiliated companies	935,150	1,113,026	665,987
other companies	142,621	177,710	158,201
	36,486,125	36,563,678	10,839,884
Advances on future capital contributions	3,906,306	1,864,890	9,500,251
Accounts receivable subsidiaries	(*) 96,814	96,814	96,814
other receivables	98,630 332,350	145,441 387,605	104,451 400,298
	98,630 429,164	145,441 484,419	104,451 497,112
Treasury stock	-	1,280,571	325,604
	40,821,595	40,193,558	21,162,851
Total intangibles, fixed assets and long-term investments	71,320,337	71,800,726	58,372,912
Current assets			
INVENTORIES			
Contract work in process	41,917	69,533	69,871
Finished goods and merchandise merchandise	159,147	79,855	202,600
	201,064	149,388	272,471
ACCOUNTS RECEIVABLE	(**)	(**)	(**)
Trade accounts receivable	8,268,047	8,317,409	8,611,956
Accounts receivable from subsidiaries	3,638,464	5,234,671	2,503,168
Accounts receivable from affiliated companies	882,002	467,819	498,421
Accounts receivable from parent companies	2,291	2,339	950
Other receivables due from Government and other public entities for grants and subsidies	2,450	2,450	250
deferred tax assets	-	270,262 939,489	-
other receivables	2,272,277	2,692,943	711,130
	2,274,727	270,262 3,634,882	711,380
	15,065,531	17,657,120	12,325,875
SHORT-TERM FINANCIAL ASSETS			
Equity investments in subsidiaries	452,870	632,642	328,240
Other equity investments	-	9,966	54,054
Other securities	-	-	156,308
	452,870	642,608	538,602
LIQUID ASSETS			
Bank and postal accounts	137,717	210,320	92,003
Checks	22	9	2
Cash and valuables on hand	816	623	1,308
	138,555	210,952	93,313
Total current assets	15,858,020	18,660,068	13,230,261
Accrued income and prepaid expenses			
Issue discounts and similar charges	1,925	2,411	2,969
Accrued income and other prepaid expenses	1,558,939	1,631,942	147,732
	1,560,864	1,634,353	150,701
TOTAL ASSETS	88,739,221	92,095,147	71,753,874

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

LIABILITIES AND SHAREHOLDERS' EQUITY (in millions of lire)

	6.30.2001		12.31.2000		6.30.2000	
Shareholders' equity						
Share capital		7,789,513		7,426,157		7,426,157
Additional paid-in-capital		3,506,595		3,490,922		3,490,922
Reserves for inflation adjustments under						
Law No. 72 of 3.19.1983		4,443,197		4,805,244		4,805,225
Law No. 413 of 12.30.1991		908,003		908,003		908,093
		5,351,200		5,713,247		5,713,818
Legal reserve		1,262,498		1,014,785		762,267
reserve for treasury stock		-		1,280,571		325,604
Other reserves						
Reserve for accelerated depreciation		235,816		-		1,487,794
Reserve under Law No. 342 of 11.21.2000						
- article 14		1,393,442		1,720,299		-
Reserve under Legislative Decree No. 124/93						
- article 13		328		-		-
Special reserve		2,638,509		2,407,507		3,302,202
Reserve for capital grants		899,200		884,134		868,931
Miscellaneous reserves		7,343,451		7,343,451		7,165,723
		12,510,746		12,355,391		12,824,650
Retained earnings		-		-		5,050,363
Net income		1,265,559		4,954,262		1,351,750
		31,686,111		36,235,335		36,945,531
Reserves for risks and charged						
Reserves for taxes		276,399		273,475		1,161,920
Other reserves		1,507,925		1,437,617		995,134
		1,784,324		1,711,092		2,157,054
Reserve for employee termination indemnities		2,033,864		1,996,825		2,285,044
Liabilities	(••)		(••)		(••)	
Debentures	6,657,027	6,657,027	281,642	281,642	683,536	683,536
Due to banks	4,625,970	24,536,226	5,014,710	24,727,109	5,579,749	10,080,512
Due to other lenders	811,703	1,245,635	877,578	1,275,967	1,062,512	1,393,104
Advances		3,582		2,281		1,714
Trade accounts payable		4,598,100		5,485,150		4,980,387
Accounts payable to subsidiaries		5,446,324		10,006,563		4,377,282
Accounts payable to affiliated companies		713,783		1,106,083		393,647
Accounts payable to parent companies		1,659		2,529		3,859
Taxes payables		1,860,394		956,726		1,861,570
Contributions to pension and social security institutions	1,260,477	1,562,045	1,260,477	1,656,923	1,371,767	1,663,570
Other liabilities	6,318	5,458,438	6,318	5,661,223	9,518	3,923,728
	13,361,495	52,083,213	7,440,725	51,162,196	8,707,082	29,362,909
Accrued expenses and deferred income		1,151,709		989,699		1,003,336
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		88,739,221		92,095,147		71,753,874

(••) Accounts due beyond one year

(in millions of lire)

	6.30.2001	12.31.2000	6.30.2000
Guarantees provided			
Sureties			
on behalf of subsidiaries	23,040,157	5,444,146	1,035,106
on behalf of affiliated companies	1,447,178	3,957,082	3,262,515
on behalf others	338,426	(765,973)	265,760
	24,825,761	8,635,255	4,563,381
Collateral provided	-	-	-
Purchases and sales commitments	6,615,943	6,767,141	19,136,361
Other memorandum accounts	15,894	17,413	18,628
TOTAL MEMORANDUM ACCOUNTS	31,457,598	15,419,809	23,718,370

(in millions of lire)

	1 st half 2001	1 st half 2000	Year 2000
Production value			
Sales and service revenues	16,560,639	16,954,132	33,812,663
Changes in inventory of contract work in process	(27,616)	15,891	15,553
Increases in capitalized internal construction costs	6,539	12,333	22,006
Other revenue and income			
<i>operating grants</i>	538	912	1,010
<i>other</i>	241,785	242,328	534,977
	242,323	243,240	535,987
	16,781,885	17,225,596	34,386,209
Production cost			
Raw materials, supplies and merchandise	302,454	542,971	783,387
Services	5,697,321	5,423,411	11,028,534
Use of property not owned	604,996	402,112	875,363
Personnel			
<i>wages and salaries</i>	1,838,556	2,107,633	4,155,804
<i>social security contributions</i>	595,025	666,061	1,366,437
<i>termination indemnities</i>	145,343	172,994	332,906
<i>other costs</i>	53,159	76,400	125,145
	2,632,083	3,023,088	5,980,292
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	486,680	494,761	1,161,934
<i>amortization of fixed assets</i>	2,653,124	3,179,785	6,038,791
<i>other writedowns of intangibles and fixed assets</i>	-	-	37,628
<i>writedowns of receivables included in current assets and liquid assets</i>	108,380	143,865	332,490
	3,248,184	3,818,411	7,570,843
Changes in inventory of raw materials, supplies and merchandise	(79,292)	(23,552)	99,193
Provisions for risks	71,035	93,923	121,690
Miscellaneous operating costs			
<i>losses and disposals of assets</i>	1,919	19,683	94,349
<i>license fee</i>	268,102	305,204	602,529
<i>other miscellaneous costs</i>	129,047	110,413	269,397
	399,068	435,300	966,275
	(12,875,849)	(13,715,664)	(27,425,577)
Operating income	3,906,036	3,509,932	6,960,632
Financial income and expense			
Income from equity investments			
<i>dividends from subsidiaries</i>	14,867	22,270	2,044,891
<i>dividends from affiliated companies</i>	77,885	44,690	132,865
<i>dividends from other companies</i>	8,350	63,171	110,157
<i>other income from equity investments</i>	14,074	65,830	1,176,655
	115,176	195,961	3,464,568
Other financial income from			
<i>accounts receivable included in long-term investments</i>			
<i>subsidiaries</i>	2,320	13,326	8,104
<i>affiliated companies</i>	-	41	7,532
<i>other</i>	12,944	8,590	15,984
	15,264	21,957	31,620
<i>securities, other than equity investments, included in long-term investments</i>	-	-	-
<i>securities, other than equity investments, included in current assets</i>	-	2,652	2,531
<i>other income</i>			
<i>interest and fees from subsidiaries</i>	73,688	38,696	81,587
<i>interest and fees from affiliated companies</i>	8,066	3,260	13,706
<i>interest and fees from others and miscellaneous income</i>	111,648	91,825	224,137
	193,402	133,781	319,430
	208,666	158,390	353,581
Interest and other financial expense			
<i>interest and fees paid to subsidiaries</i>	277,291	66,250	151,392
<i>interest and fees paid to affiliated companies</i>	1,801	165	11,042
<i>interest and fees paid to others and miscellaneous expense</i>	893,540	333,456	1,080,815
	(1,172,632)	(399,871)	(1,243,249)
Total financial income expense	(848,790)	(45,520)	2,574,900

(Continued) (in millions of lire)

	1 st half 2001	1 st half 2000	Year 2000
Value adjustments to financial assets			
Upward adjustments of equity investments	26	-	-
	26	-	-
Writedowns of equity investments	618,459	355,111	847,616
	(618,459)	(355,111)	((847,616))
Total value adjustments	(618,433)	(355,111)	(847,616)
extraordinary income and expense			
Income			
gains on disposals	18,457	32,781	1,290,378
miscellaneous	75,048	28,281	171,010
	93,505	61,062	1,461,388
Expense			
losses on disposals	100	7,007	19,109
prior years' taxes	2,377	7,365	6,842
miscellaneous	253,655	531,235	1,782,920
	(256,132)	(545,607)	(1,808,871)
Total extraordinary items	(162,627)	(484,545)	(347,483)
Income before taxes	2,276,186	2,624,756	8,340,433
Income taxes			
current taxes	1,010,627	1,273,006	2,677,681
deferred taxes	-	-	708,490
	(1,010,627)	(1,273,006)	(3,386,171)
Net income	1,265,559	1,351,750	4,954,262

NOTES TO FINANCIAL STATEMENTS

PREAMBLE

The financial statements for the six months ended June 30, 2001 have been prepared in accordance with the provisions of the Italian Civil Code, art. 81 and Annex 3C-bis of Consob resolution No. 11971 of May 14, 1999 and later amendments (Issuer Rules).

Following certain changes to some items of the financial statements, for purposes of comparison, the financial statements for the six months ended June 30, 2000 and the year ended December 31, 2000 have been reclassified.

Disclosure regarding the introduction of the euro currency is provided in “Other Information” in these notes and in the Report on Operations.

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

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 which was charged to the *reserve for taxes* under “reserve for risks and charges” as well as the use of the estimated tax rate for 2001 for its calculation. As in the past, the result for the first half of 2001 does not include dividends from subsidiary earnings for the current year which will be recorded on the accrual basis at the end of the year.

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 1,366 billion of residual payables to INPS, (net of the amount attributed to TIM, TE.SS, Netsiel and Tin.it for the employees transferred to those companies), relating to the estimate made for the employees of the former 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 court rulings, forgoing appeals and petitions in the Court of Appeals in order to reach a final determination of the correct interpretation of the law in question. While the proceedings are pending, Telecom Italia has agreed to pay under protest the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation.

Based on the above, a reasonable estimate of the principal amount of the liability attributable to the Company (excluding, as mentioned earlier, the part relating to the former Iritel employees) could vary between Lire 1,900 billion and Lire 2,500 billion (Lire 509 billion of which has already been paid), depending on conflicting interpretations and taking into account all personnel involved. These estimates are merely indicative, lacking complete data from INPS (at June 30, 2001, INPS had submitted formal requests for about 96% of the employees whose change in insurance status will result in a charge for Telecom Italia).

In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, Section 3 of Law No. 58/1992, the payments requested by INPS will be made in fifteen equal annual installments payable in arrears (including annual interest of 5%), starting when INPS formally submits its requests.

The remaining liability for obligations under Law No. 58/1992, on the basis of the formal requests made by INPS on June 30, 2001 and the interpretation of said requests, amounts to Lire 2,923 billion, divided as follows:

- Lire 1,911 billion for the principal amount (except for the portion attributable to former Iritel employees);
- Lire 1,012 billion in accrued interest.

Pre-amortization interest (including that relating to the employees of the former Iritel), subsequent to the agreement between INPS and Telecom Italia, was paid by the latter - with reservation - in fifteen equal annual installments, payable in arrears, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of Lire 216 billion. In compliance with the sentence handed down by the Court of Appeals, No. 4242 of April 5, 2000, which upheld Telecom Italia's position, payment of the above-described interest and accrued interest related thereto was suspended from June 2000 (for a residual amount of Lire 789 billion).

Securitization

In the first half of 2001, Telecom Italia began a program for the securitization of receivables generated by the services rendered to the residential, top and business customers of Telecom Italia Wireline Services (TIWS) and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the public administration) for a total of Euros 2 billion of notes to be issued. Such program makes it possible to follow up the first issue of Euros 700 million of notes in June 2001 by TI Securitisation Vehicle S.r.l., the vehicle company for the program which operates under Law No. 130/1999, with successive issues of notes all with the same rights, up to the limit established by the program.

The transaction, regulated by the aforementioned law, presupposes, usually on a monthly basis, the stipulation of a contract between Telecom Italia the (assignor) and TI Securitisation Vehicle S.r.l. (assignee), exclusively for outstanding trade accounts receivable. The flows of receipts from the trade accounts receivable covered by the contracts, constitute the funds which the securitization vehicle uses to pay the interest and the principle to the noteholders. Within the framework of TI Securitization Vehicle's disbursement plans and the time frame for the collection of the receivables, the sums received are also used to purchase new receivables generated by the sales activities of Telecom Italia.

The price for this transaction, equal to the nominal value of the receivables, net of a discount which takes into account the expenses which will be incurred by TI Securitization Vehicle S.r.l., will be paid to Telecom Italia partly at the time of sale (non-repeatable amount), and partly deferred. The deferred portion, which will be paid to Telecom Italia depending upon the collection of the receivable which have been sold, is prudently calculated on the basis of estimates of the collection times and the amounts of the credit notes that will issued and the expenses that will be incurred by the vehicle company for the securitization. Such estimates and therefore also the deferred part of the price, will be adjusted monthly on the basis of the effective performance of the receivables. As regards the risk of recovery, Telecom Italia is responsible for the solvency of the debtors sold only up to the limit of the amount of the portion deferred.

The first issue of notes backed by the securitization of receivables (called *Series 2001-1*) for a total of Euros 700 million, was divided into three classes having the following characteristics:

- *Class A1*: variable rate notes denominated in euros for Euros 100 million at approximately 18 months (maturing January 25, 2003) with a margin of 19 basis points over the Euribor;
- *Class A2*: variable rate notes denominated in euros for Euros 150 million at approximately 3 years (maturing July 25, 2004) with a margin of 27 basis points over the Euribor;
- *Class A3*: variable rate notes denominated in euros for Euros 450 million at approximately 5 years (maturing July 25, 2006) with a margin of 34 basis points over the Euribor;

These notes have been rated by Fitch, Moody's and Standard & Poor's at AAA/Aaa/AAA. The high ratings reflect the quality and diversification of the receivable portfolio, the element of overcollateralization represented by the dynamic mechanism for managing the deferred price, the legal structure of the transaction and other qualifying aspects of the program. The notes were subscribed to at face value and requests were received from Italy for about 20% of the total amount and the remaining 80% from abroad, particularly Spain, France, the United Kingdom and Germany.

The total amount of the trade accounts receivables sold by Telecom Italia within the framework of the securitization transaction during the first half of 2001 was Lire 2,872 billion. At June 30, 2001, the receivables sold and not yet collected amounted to Lire 1,426 billion (of which Lire 1,315 billion were not yet due.).

The accounting treatment of the securitization transaction is described below:

- receivables sold without recourse are reversed from the balance sheet with a contra-entry for the consideration received on the sale. The latter is represented by the amount received immediately (*Advanced Purchase Price*) and by the deferred portion (*Deferred Purchase Price*) recorded, respectively in *Cash and banks* and *Other receivables (financial)* in the balance sheet. The difference between the accounting value of the receivables sold and the consideration on the sale (*securitization expenses*) was charged on the accrual basis to *Miscellaneous operating costs* in the statement of income;
- the costs and expenses relating to the start-up and completion and implementation of the securitization program (arrangement, underwriting, legal, rating, audit, etc.) have been charged directly to the statement of income in *Costs for Services*.

The securitization transaction led to an improvement in net debt at June 30, 2001 of about Lire 1,400 billion.

Lastly, at June 30, 2001 TI Securitisation Vehicle S.r.l. has invested excess liquidity of Lire 180 billion in Telecom Italia against which financial payables have been recorded for the same amount in the balance sheet of Telecom Italia.

BALANCE SHEETS

ASSETS

Intangibles, fixed assets and long-term investments

Intangible assets

Lire 2,263,751 million

(Lire 2,301,652 million at December 31, 2000)

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

(in millions of lire)	1 st half 2001
– additions	469,367
– disposals	(37,866)
– sales and contributions of business segments	(20,350)
– utilization of reserve account	37,628
– amortization	(486,680)
Total	(37,901)

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

12.31.2000				
(in millions of lire)	Cost	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	5,102	=	(5,102)	=
Industrial patents and intellectual property rights	4,349,916	(63,021)	(3,465,697)	821,198
Concessions, licenses, trademarks and similar rights	228,602	=	(138,514)	90,088
Goodwill	=	=	=	=
Work in progress and advances to suppliers	1,273,078	(32,993)	=	1,240,085
Other intangibles (*)	742,724	=	(592,443)	150,281
Total	6,599,422	(96,014)	(4,201,756)	2,301,652
(*) Of which:				
Leasehold improvements	634,935	=	(488,181)	146,754
Great Jubilee 2000	107,000	=	(103,473)	3,527

(in millions of lire)	Changes during the period					Total
	Additions	Reclassifications	Sales / Retirements / Transfers (a)	Writedowns /Reinstatements	Amortization	
Industrial patents and intellectual property rights	=	950,979	(20,588)	=	(451,543)	478,848
Concessions, licenses, trademarks and similar rights	=	6,470	=	=	(11,472)	(5,002)
Goodwill	=	=	=	=	=	=
Work in progress and advances to suppliers	469,367	(959,607)	=	=	=	(490,240)
Other intangibles (*)	=	2,158	=	=	(23,665)	(21,507)
Total	469,367	=	(20,588)	=	(486,680)	(37,901)

(*) Of which:						
Leasehold improvements	=	2,158	=	=	(20,138)	(17,980)
Great Jubilee 2000	=	=	=	=	(3,527)	(3,527)

(a) Broken down as follows:	Cost	Writedowns	Amortization	Net value
Industrial patents and intellectual property rights	(206,942)	4,635	202,069	(238)
• of which sales and contributions of business segments	(37,287)	=	16,937	(20,350)
Concessions, licenses, trademarks and similar rights	=	=	=	=
Goodwill	=	=	=	=
Work in progress and advance to suppliers	(32,993)	32,993	=	=
Other intangibles	(107,000)	=	107,000	=
Total	(384,222)	37,628	326,006	(20,588)

6.30.2001				
(in millions of lire)	Cost	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	5,102	=	(5,102)	=
Industrial patents and intellectual property rights	5,056,666	(58,386)	(3,698,234)	1,300,046
Concessions, licenses, trademarks and similar rights	235,072	=	(149,986)	85,086
Work in progress and advances to suppliers	749,845	=	=	749,845
Other intangibles (*)	637,882	=	(509,108)	128,774
Total	6,684,567	(58,386)	(4,362,430)	2,263,751

(*) Of which:				
Leasehold improvements	637,093	=	(509,108)	128,774
Great Jubilee 2000	=	=	=	=

Beginning in 2001, all acquisitions of intangibles are managed using specific work orders which are accounted for in “Work in progress and advances to suppliers”. Reclassifications represent assets which have become operational during the period.

Fixed assets

Lire 28,234,991 million

(Lire 29,305,516 million at December 31, 2000)

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

(in millions of lire)

January 1, 2001	
– additions	1,588,650
– disposals	(4,780)
– sales and contributions of business segments	(1,271)
– depreciation	(2,653,124)
June 30, 2001	(1,070,525)

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

12.31.2000					
(in millions of lire)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	4,267,743	928,110	(3,939)	(2,182,011)	3,009,903
• non industrial buildings	63,142	2,801	=	(4,758)	61,185
• industrial buildings	4,204,601	925,309	(3,939)	(2,177,253)	2,948,718
Plant and machinery	89,323,545	1,563,046	(1,868,237)	(63,895,930)	25,122,424
Manufacturing and distribution equipment	1,756,235	5,298	=	(1,683,758)	77,775
Other fixed assets	1,244,931	8,372	=	(1,091,074)	162,229
Construction in progress and advances to suppliers	933,185	=	=	=	933,185
Total	97,525,639	2,504,826	(1,872,176)	(68,852,773)	29,305,516

(in millions of lire)	Changes during the period					Total
	Additions	Reclassifications	Sales/ Retirements/ Other changes (a)	Writedowns/ Reinstatements	Depreciation	
Land and buildings		31,466	(2,121)	=	(86,943)	(57,598)
• non industrial buildings	=	(1,281)	(650)	=	(452)	(2,383)
• industrial buildings	=	32,747	(1,471)	=	(86,491)	(55,215)
Plant and machinery	=	1,101,754	(2,243)	=	(2,505,356)	(1,405,845)
Manufacturing and distribution equipment	=	6,413	(194)	=	(17,807)	(11,588)
Other fixed assets	=	80,219	(1,493)	=	(43,018)	35,708
Construction in progress and advances to suppliers	1,588,650	(1,219,852)	=	=	=	368,798
Total	1,588,650	=	(6,051)	=	(2,653,124)	(1,070,525)

(a) Broken down as follows:	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings	(2,103)	(1,855)	=	1,837	(2,121)
• non-industrial buildings	(671)	(278)	=	299	(650)
• industrial buildings	(1,432)	(1,577)	=	1,538	(1,471)
Plant and machinery	(184,437)	(13,657)	=	195,851	(2,243)
Manufacturing and distribution equipment	(4,206)	(7)	=	4,019	(194)
• of which sales and contributions of business segments	(650)	=	=	565	(85)
Other fixed assets	(113,580)	=	=	112,087	(1,493)
• of which sales and contributions of business segments	(73,681)	=	=	72,495	(1,186)
Construction in progress and advances to suppliers	=	=	=	=	=
Total	(304,326)	(15,519)	=	313,794	(6,051)

6.30.2001					
(in millions of lire)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	4,297,106	926,255	(3,939)	(2,267,117)	2,952,305
• non-industrial buildings	61,190	2,523	=	(4,911)	58,802
• industrial buildings	4,235,916	923,732	(3,939)	(2,262,206)	2,893,503
Plant and machinery	90,240,862	1,549,389	(1,868,237)	(66,205,435)	23,716,579
Manufacturing and distribution equipment	1,758,442	5,291	=	(1,697,546)	66,187
Other fixed assets	1,211,570	8,372	=	(1,022,005)	197,937
Construction in progress and advances to suppliers	1,301,983	=	=	=	1,301,983
Total	98,809,963	2,489,307	(1,872,176)	(71,192,103)	28,234,991

Beginning in 2001, all acquisitions of tangible assets are managed using specific work orders which are accounted for in "Construction in progress and advances to suppliers". Reclassifications represent assets which have become operational during the period. Additions during the period include Lire 286,000 million of projects completed in Southern Italy.

Depreciation is calculated using the rates applied in the prior year. Accumulated depreciation went from 70.1% of fixed assets, net of writedowns, at December 31, 2000 to 71.6% at June 30, 2001.

Long-term investments**Lire 40,821,595 million***(Lire 40,193,558 million at December 31, 2000)*

Long-term investments increased by Lire 628,037 million compared to December 31, 2000 and include the following:

(in millions of lire)	6.30.2001	12.31.2000
Equity investments in:		
• subsidiaries	35,408,354	35,272,942
• affiliated companies	935,150	1,113,026
• other companies	142,621	177,710
	36,486,125	36,563,678
Advances on future capital contributions	3,906,306	1,864,890
Accounts receivable		
• subsidiaries	96,814	96,814
• other receivables	332,350	387,605
	429,164	484,419
Treasury stock	-	1,280,571
Total	40,821,595	40,193,558

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, 2001.

Overall, investments in subsidiaries, affiliates and other companies decreased by Lire 77,553 million compared to December 31, 2000, as shown below:

(in millions of lire)

Increases:

• Subscription to capital increases, recapitalizations and loss coverage of: Ti Lab (50,000), Finsiel (4,219), Tecno Servizi Mobili (200), Seat P.G. (6), Telecom Italia Capital (2,005), TE.SS (3,001), TI Spain (7), Eutelsat (72,497), Telemaco Immobiliare (146,705), TMI – Telemedia International Italia (117,857), Istituto della Enciclopedia Italiana founded by Giovanni Treccani (1,375), Netesì (12,102).	409,974
• Capital increase following contribution of “Venture Capital” business segment to TI Lab.	86,631
• Permanent transfer to share capital of advances on future capital contributions relating to TI Austria GMBH (68)	68
• Subscription of Mediterranean Nautilus shares against contribution of Elettra to the same company	25,563
Total increases	(A) 522,236

(in millions of lire)

Decreases:

• Disposals of shares/quotas in: Geis (1,832), IM.SER (145,332), STT (1,100), Accel (192), Dmail.it (2,534), Intelsat (15,914), Consorzio CAISI (3).	166,907
• Writedown for losses of investments charged to statement of income of: Telecom Italia Capital (2,071), Stream (194,044), TMI – Telemedia International Italia (125,564), TI Web (61), Trainet (875).	322,615
• Writedown for losses of investments covered by the <i>reserve for risks and charges on investments</i> of: Centro Multimediale di Terni (224), Czechtel (32), Stoa’ (173), Trainet (11), Consorzio Formazione Internazionale (40).	480
• Investments that were contributed as part of the “Venture Capital” business segment to TI Lab: Cygent Inc (22,946), Fintech (25,000), Siosistemi (6,400), Consorzio Dreamfactory (172), Accel (2,866), Dmail.it (5,938), ITXC (4,002), Gemini Israel III LP (1,181), IFM Infomaster (1,323), Jerusalem Global Venture (1,496), Media Technology Venture (7,320), The Fantastic Corporation (619), Vertical Networks (4,961).	84,224
• Contribution of the investment in Elettra to Mediterranean Nautilus.	25,563
Total decreases	(B) 599,789
Net change for the period	(A-B) (77,553)

In particular:

- on March 1, 2001, Telecom Italia contributed the “Venture Capital and Innovation” business segment to CSELT, which then changed its name to Telecom Italia Lab, through the subscription of No. 1,352,000 shares of the same for an equivalent amount of Lire 86,631 million. In April, Telecom Italia subscribed to Telecom Italia Lab’s capital increase of No. 9,015,000 shares for a total of Lire 50,000 million;
- in May, IM.SER sold to its shareholders, including Telecom Italia, the entire investment in the company Telemaco Immobiliare, established by the contribution of IM.SER’s “Trading Portfolio” business segment, such as to arrive at its the original shareholder base (40% Telecom Italia). The value of the purchase of the Telemaco Immobiliare shares was equal to Lire 146,705 million. Moreover, Telecom Italia received Lire 146,641 million from the distribution of the additional paid-in-capital by IM.SER, realizing a gain of Lire 1,309 million;
- in March, Telecom Italia subscribed to the Mediterranean Nautilus share capital increase for No. 20,405,000 new shares by contributing its investment in Elettra (No. 20,000 shares equal to 100% of share capital);
- some equity investments in subsidiaries and affiliated companies are carried at a value exceeding the corresponding share of the underlying shareholders’ equity, net of dividends and after the consolidation adjustments. These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values.

A comparison between the market price of the listed shares at June 30, 2001 and their carrying value shows a positive difference of Lire 48,948 billion. Further details are given in Annex 10.

Advances on future capital contributions, of Lire 3,906,306 million, increased by Lire 2,041,416 million compared to December 31, 2000, due to the non-interest bearing loans made against the future increase in capital to Stet International Netherlands for the acquisition of foreign holdings.

Accounts receivable included in long-term investments decreased by Lire 55,255 million compared to December 31, 2000, and are analyzed as follows:

	12.31.2000	Change during the period				6.30.2001
(in millions of lire)		Disbursements	Reimbursements	Reclassifications/ Other	Total	
Subsidiaries	96,814	-	-	-	-	96,814
Other receivables	387,605	26,157	(73,962)	(7,450)	(55,255)	332,350
Total	484,419	26,157	(73,962)	(7,450)	(55,255)	429,164

“Accounts receivables from subsidiaries”, of Lire 96,814 million, consist exclusively of loans made at market rates to the company Telespazio.

“Other receivables” mainly include the prepayment of the tax on the reserve for employee termination indemnities (Lire 185,235 million) required under Law No. 662/1996 and adjusted for inflation according to law; loans granted to personnel (Lire 92,493 million); the loan made to Ros Telecom (Lire 35,067 million) for the realization of the ITUR project (submarine optical cable linking Italy, Turkey, Ukraine and Russia).

During the first 10 days of January 2001, No. 8,020,000 treasury savings shares with a par value of Lire 1,000 each were purchased for Lire 95,855 million, following the extension of the tender offer made during the period February 17, 2000 to March 17, 2000 (No. 1,793,820 shares), and later buy-backs (No. 103,184,250 shares), as voted by the ordinary shareholders’ meeting of January 14, 2000, which authorized the tender offer; The extraordinary shareholders’ meeting of May 3, 2001, also voted to cancel all the treasury savings shares (No. 112,998,070), for a total of Lire 1,376,426 million, subsequent to the bonus capital increase at the time of re-denominating the share capital into euros.

Current assets**Inventories****Lire 201,064 million***(Lire 149,388 million at December 31, 2000)*

These increased by Lire 51,676 million compared to December 31, 2000 and include the following:

*Contract work in process**Lire 41,917 million*

This item, which decreased by Lire 27,616 million compared to December 31, 2000, represents the value of the work being performed on behalf of third parties at June 30, 2001.

*Merchandise**Lire 159,147 million*

Merchandise includes goods held for resale and used for maintenance (telephone products and materials) and shows an increase of Lire 79,292 million compared to December 31, 2000.

Accounts receivable**Lire 15,065,531 million***(Lire 17,657,120 million at December 31, 2000)*

Trade accounts receivable decreased by Lire 2,591,589 million compared to December 31, 2000. A breakdown and the changes that occurred during the year are given in the table below:

(in millions of lire)	12.31.2000	Change during the period			6.30.2001
		Utilizations	Provisions	Change	
Trade accounts receivable	8,971,409			(70,362)	8,901,047
• allowance for doubtful accounts	(654,000)	102,117	(81,117)	21,000	(633,000)
Total trade accounts receivable	8,317,409			(49,362)	8,268,047
Accounts receivable from subsidiaries	5,234,671			(1,596,207)	3,638,464
of which financial receivables	2,057,125			(285,076)	1,772,049
Receivables from affiliated companies	467,819			441,446	909,265
• allowance for doubtful accounts	-	-	(27,263)	(27,263)	(27,263)
Total affiliated companies	467,819			414,183	882,002
of which financial receivables	121,071			233,019	354,090
Receivables from parent companies	2,339			(48)	2,291
Miscellaneous receivables	3,634,882			(1,360,155)	2,274,727
• Government and other public entities for grants and subsidies	2,450			-	2,450
• deferred tax assets	939,489			(939,489)	-
• other receivables	2,692,943			(420,666)	2,272,277
Total	17,657,120			(2,591,589)	15,065,531

In particular:

- *trade accounts receivable*, of Lire 8,268,047 million, are shown net of the allowance for doubtful accounts (Lire 633,000 million, of which Lire 81,117 million was charged during the period). These receivables show a decrease of Lire 49,362 billion from December 31, 2000. As a result of the securitization transaction, described in the accounting principles, trade accounts receivable at June 30, 2001 decreased by Lire 1,426 billion, of which Lire 1,315 billion was not yet due.
- *receivables from subsidiaries and affiliated companies* amount to Lire 4,520,466 million and refer to financial, trade and other items.

Financial receivables (Lire 2,126,139 million) reflect current account transactions carried out at market rates for cash management and short-term financing purposes with the companies of the Group. The main financial receivables are due from Finsiel (Lire 240,802 million), Telespazio (Lire 194,406 million), TIM (Lire 787,036 million) and Stream (Lire 350,919 million).

Trade receivables (Lire 1,871,939 million), are shown net of writedowns made during the period of Lire 27,263 million against the receivables for services to Telekom Srbija. The balance refers mostly to TIM (Lire 350,989 million), Telespazio (Lire 315,411 million), Telecom Argentina (Lire 62,828 million) and the Auna group (Lire 126,303). The other receivables (Lire 522,388 million) represent primarily amounts owed in connection with the Group's VAT settlement system;

- *Other receivables* of Lire 2,274,727 million are related to receivables from personnel, the Tax Administration, amounts paid by customers and in transit with the banking and postal system and the loan of Seat Pagine Gialle ordinary and savings shares (Lire 1,337,272 million).

Short-term financial assets

Lire 452,870 million

(Lire 642,608 million at December 31, 2000)

These decreased by Lire 189,738 million compared to December 31, 2000 and the composition and changes during the year are shown in the following table:

	12.31.2000	Change during the period				6.30.2001
(in millions of lire)		Investments	Sales / Reimbursements	Writedowns / Reinstatements	Total	
Equity investments in						
subsidiaries	632,642	-	-	(179,772)	(179,772)	452,870
Other investments	9,966	2,108	(9,699)	(2,375)	(9,966)	-
Total	642,608	2,108	(9,699)	(182,147)	(189,738)	452,870

"Equity investments in subsidiaries" refer to the value of TIM ordinary shares, purchased for later trading.

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 SHAREHOLDERS' EQUITY

Shareholders' equity

Lire 31,686,111 million

(Lire 36,235,335 million at December 31, 2000)

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

	12.31.2000	Change during the period				6.30.2001
(in millions of lire)		Appropriation of 2000 net income	Other changes	Net income for period	Total	
Share capital	7,426,157	=	363,356	=	363,356	7,789,513
Additional paid-in capital	3,490,922	=	15,673	=	15,673	3,506,595
Reserves for inflation adjustments under						
• Law No. 72 of 3/19/1983	4,805,244	=	(362,047)	=	(362,047)	4,443,197
• Law No. 413 of 12/30/1991	908,003	=	=	=	=	908,003
Legal reserve	1,014,785	247,713	=	=	247,713	1,262,498
Reserve for treasury shares in portfolio	1,280,571	=	(1,280,571)	=	(1,280,571)	=
Miscellaneous reserves:						
• reserve for accelerated depreciation	=	235,816	=	=	235,816	235,816
• reserve Law No. 342 of 11/21/2000, art. 14	1,720,299	=	(326,857)	=	(326,857)	1,393,442
• special reserve	2,407,507	=	231,002	=	231,002	2,638,509
• reserve for capital grants	884,134	=	15,066	=	15,066	899,200
• reserve DL 124/93 ex art. 13	=	328	=	=	328	328
• other reserves	7,343,451	=	=	=	=	7,343,451
Net income for the year 2000	4,954,262	(483,857)	(4,470,405)	=	(4,954,262)	=
Net income for the period	=	=	=	1,265,559	1,265,559	1,265,559
Total shareholders' equity	36,235,335	=	(5,814,783)	1,265,559	(4,549,224)	31,686,111

In particular:

- *share capital* increased by Lire 363,356 million, compared to December 31, 2000. Lire 1,309 million of this increase is due to the subscription against payment, by the managers of the Group of No. 1,291,500 ordinary shares, with No. 1,022,650 shares having a par value of Lire 1,000 each and No. 268,850 share having a par value Euros 0.55 each, under the stock option plan. The remaining Lire 362,047 million of the increase refers to the bonus share capital increase following the re-denomination of the share capital into euros. In fact, the extraordinary shareholders' meeting of May 3, 2001 passed a resolution to re-denominate the share capital into euros by expressing the par value of the ordinary and savings shares in euros and rounding up the par value of Lire 1,000 to Euros 0.55 and consequently effecting a bonus increase in share capital by:
 - cancellation of No. 112,998,070 treasury savings shares of par value Lire 1,000 each held in portfolio and the allocation to share capital, to simultaneously replenish the same, of an amount equal to the par value of the cancelled shares corresponding to the share of the reserve for treasury shares in portfolio which became available as a result of the cancellation;

– allocation to share capital of an amount equal to Lire 362,047 million from the revaluation reserve ex Law No. 72 dated March 19, 1983.

Share capital at June 30, 2001 consists of No. 5,261,328,631 ordinary shares and No. 2,053,122,025 savings shares of par value Euros 0.55 each;

- *additional paid-in capital*, of Lire 3,506,595 million, increased by Lire 15,673 million, compared to December 31, 2000, as a result of the foregoing subscriptions to the stock option plan;
- the *reserve for inflation adjustments Law No. 72 of 3.19.1983*, of Lire 4,443,197 million, decreased by Lire 362,047 million, compared to December 31, 2000, due to the effect of the aforementioned re-denomination of share capital into euros;
- the *reserve for treasury shares in portfolio* now shows a nil balance, compared to December 31, 2000, as a result of the cancellation of No. 112,998,070 savings shares of treasury stock of par value Lire 1,000 each held in portfolio;
- the *reserve Law No. 342 of November 21, 2000, art. 14* decreased by Lire 326,857 million owing to the reclassification, to the special reserve, of the amount corresponding to the substitute tax (19%) covered by the utilization of deferred taxes at the time of preparing the 2000 financial statements;
- the *reserve for accelerated depreciation*, of Lire 235,816 million, increased by the same amount compared to December 31, 2000, following the appropriation of net income for the year 2000;
- the *special reserve*, of Lire 2,638,509 million, increased by Lire 231,002 million, compared to December 31, 2000. The change is due to the following movements: reclassification to the reserve for treasury shares in portfolio of No. 8,020,000 savings shares of treasury stock with a par value of Lire 1,000 each, following the extension of the tender offer voted by the shareholders' meeting on January 14, 2000; reclassification from the reserve No. 342 of November 21, 2000, art. 14;
- the *reserve for capital grants* increased by Lire 15,066 million as a result of the transfer from the "reserve for risks and charges" of the portion of grants received up to December 31, 1992 which became available during the period in relation to the depreciation of the assets to which such grants refer.

Reserves for risks and charges**Lire 1,784,324 million***(Lire 1,711,092 million at December 31, 2000)*

These reserves increased by Lire 73,232 million, compared to December 31, 2000. The composition and changes in these reserves are detailed as follows:

	12.31.2000	Change during the period					6.30.2001
(in millions of lire)		Provisions	Utilizations	Released to income	Reclassifications/ Other	Total	
Reserve for taxes	273,475	1,009,354	(4,920)	=	(1,001,510)	2,924	276,399
For taxes	273,475	1,009,354	(4,920)	=	(1,001,510)	2,924	276,399
For deferred taxes	=	=	=	=	=	=	=
Other reserves	1,437,617	193,524	(108,150)	=	(15,066)	70,308	1,507,925
Reserve for litigation	262,191	18,625	(8,714)	=	=	9,911	272,102
Reserve for capital grants	253,347	=	=	=	(15,066)	(15,066)	238,281
Reserve for losses of subsidiaries and affiliates	29,225	113,669	(480)	=	=	113,189	142,414
Reserve for corporate restructuring	294,523	=	(48,217)	=	=	(48,217)	246,306
Reserve for contractual risks and other risks	598,331	61,230	(50,739)	=	=	10,491	608,822
Total	1,711,092	1,202,878	(113,070)	=	(1,016,576)	73,232	1,784,324

In particular:

- the *reserve for taxes* increased by Lire 2,924 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, 2000;
- *other reserves* increased by Lire 70,308 million as a result of various movements that refer mainly to the “reserve for losses of subsidiaries and affiliates”, principally for provisions to cover the losses of the first half (in particular, Stream for Lire 42,956 million and Telecom Italia Web for Lire 60,136 million), and the “reserve for corporate restructuring” (used for the employee reduction and incentive plans).

Reserve for employee termination indemnities

Lire 2,033,864 million

(Lire 1,996,825 million at December 31, 2000)

This item increased by Lire 37,039 million compared to December 31, 2000. The following changes took place in the account:

(in millions of lire)

Balance at January 1, 2001	1,996,825
Change 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	145,343
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	(51,474)
• Advances under Law No. 297/1982	(507)
• Advances under agreements with labor unions regarding layoffs under unemployment compensation plans	(15,267)
- amounts transferred to/from subsidiaries and other changes	(41,056)
Balance at June 30, 2001	2,033,864

Liabilities

Lire 52,083,213 million

(Lire 51,162,196 million at December 31, 2000)

Liabilities, which increased by Lire 921,017 million compared to December 31, 2000, include the following:

	6.30.2001			12.31.2000		
(in millions of lire)	Financial	Trade and other	Total	Financial	Trade and other	Total
Debentures	6,657,027	-	6,657,027	281,642	-	281,642
Due to banks	24,536,226	-	24,536,226	24,727,109	-	24,727,109
Due to other lenders	1,245,635	-	1,245,635	1,275,967	-	1,275,967
Advances	-	3,582	3,582	-	2,281	2,281
Accounts payable to suppliers	-	4,598,100	4,598,100	-	5,485,150	5,485,150
Accounts payable to subsidiaries	3,392,171	2,054,153	5,446,324	7,739,320	2,267,243	10,006,563
Accounts payable to affiliated companies	51,096	662,687	713,783	260,531	845,552	1,106,083
Accounts payable to parent companies	-	1,659	1,659	-	2,529	2,529
Taxes payable	-	1,860,394	1,860,394	-	956,726	956,726
Contributions to pension and social security institutions	-	1,562,045	1,562,045	-	1,656,923	1,656,923
Other liabilities	1,579,841	3,878,597	5,458,438	2,313,161	3,348,062	5,661,223
Total	37,461,996	14,621,217	52,083,213	36,597,730	14,564,466	51,162,196

In particular:

- *debentures*, of Lire 6.657,027 million, include:
 - Lire 267,336 million for the 1992/2010 debenture issue, passed by resolution of the extraordinary shareholders' meeting of ex 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. At June 30, 2001, the debentures set aside for subscription by employees thus were equal to Lire 732,664 million;

- Lire 6,389,691 million for the issue of debentures in two tranches in May for a total of euros 3,300 million and subscribed to by the subsidiary Sogerim. In particular, the first tranche, equal to euros 1,800 million matures on January 20, 2006, while the second, equal to euros 1,500 million, matures on January 20, 2011;
- *due to banks*, of Lire 24,536,226 million, refer to:
 - medium/long-term debt totaling Lire 5,564,584 million, of which Lire 72,000 million is secured by collateral;
 - short-term borrowings for Lire 18,971,642 million, consisting of Lire 3,382,664 million in loans taken out to cover temporary liquidity requirements, Lire 14,803,327 million for credit facilities and Lire 785,651 million of bank overdrafts;
- *due to other lenders*, amounting to Lire 1,245,635 million, almost entirely represents medium/long-term loans received from Cassa Depositi e Prestiti (Lire 815,845 million), amounts due to Iri (Lire 246,668 million) and the payable to TI Securitisation Vehicle S.r.l (Lire 179,701 million);
- *trade accounts payable*, of Lire 4,598,100 million, include payables to other TLC carriers of Lire 1,580,190 million and amounts assigned by some suppliers to credit institutions, factoring companies, etc..
- *accounts payable to subsidiaries and affiliated companies*, of Lire 6,160,107 million, consist of financial payables, trade accounts payable and other payables (Lire 3,443,267 million). They refer to current account transactions negotiated at market rates for cash management purposes, mainly with TIM (Lire 1,671,097 million) and with the Seat group (Lire 1,038,096 million).
Trade accounts payable (Lire 2,653,161 million) mainly refer to payables to TIM (Lire 720,849 million), Netsiel (Lire 291,246 million), Telesoft (Lire 247,735 million), Telespazio (Lire 147,159 million) and Italtel (Lire 287,746 million).
Other payables (Lire 63,679 million) primarily refer to capital contributions paid to the company Path.Net (Lire 34,997 million) and amounts owed in connection with the Group's VAT settlement system;
- *taxes payable*, of Lire 1,860,394 million, mainly refer to the VAT liability (Lire 1,411,131 million) and IRPEG and IRAP taxes payable for 2000 (Lire 333,608 million);
- *contributions to pension and social security institutions*, of Lire 1,562,045 million, include amounts owed to social security and health institutions with regard to employees;
- *other liabilities*, of Lire 5,458,438 million, include, in particular:
 - payables to customers totaling Lire 1,970,215 million, including deposits, pre-billed basic charges and the unused portions of prepaid magnetic telephone cards;
 - payables to employees amounting to Lire 909,169 million;
 - payables for the TLC licensing fee totaling Lire 916,181 million;
 - the loan of Seat Pagine Gialle ordinary and savings shares (Lire 1,337,272 million) with a contra-account in "Other receivables".

An analysis of liabilities and accrued expenses by maturity and type, pursuant to art. 2427 of the Italian Civil Code, point 6, is provided in Annex 12.

MEMORANDUM ACCOUNTS

Memorandum accounts totaled Lire 31.457.598 million at June 30, 2001 and can be analyzed as follows:

Guarantees provided

Lire 24,825,761 million

Guarantees provided consist almost entirely of sureties, including Lire 23,040,157 million on behalf of subsidiaries – mainly on debentures issued by Sogerim, on April 10, for a total of Euros 6 billion, which fall under the Global Medium Term Note Program, completely guaranteed by Telecom Italia – and other medium/long-term financial transactions and supply contracts; Lire 1,447,178 million on behalf of affiliated companies (net of the counter-guarantees received by Telecom Italia of Lire 1,282,936 million) and Lire 338,426 million on behalf of third parties (net of Lire 4,031 million of counter-guarantees) for medium/long-term financial transactions, supply contracts and guarantees on bids to acquire mobile licenses abroad.

Purchases and sales commitments

Lire 6,615,943 million

This item consists almost entirely of the commitment to purchase Seat Pagine Gialle shares (Lire 5,780,278 million) regarding the put options on Seat Pagine Gialle ordinary shares, described below, and future lease obligations, increased by the buyout amounts of the assets leased (Lire 775,665 million).

Put option on Seat shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on No. 710,777,200 Seat Pagine Gialle shares at a strike price of euros 4.2. The contract provided for the exercise of such option after the deed of merger between Seat and Tin.it was recorded in the Companies Register.

Huit II later transferred the put option to Chase Equity Limited (CEL), together with the ownership of the corresponding Seat shares. On December 4, 2000, CEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of an early exercise of the option in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Stet International Netherlands then purchased from CEL, through the Liberator Ltd. trust, a call option on No. 660,777,200 Seat shares with the same expiry date and strike price as the put option, paying a total premium of euro 747,016,226 (Lire 1,446,425 million). For the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between Telecom Italia and Stet International Netherlands. The relative premium will be taken to income over five years. The implicit rate of interest was 6.2%.

At June 30, 2001, the market price of Seat ordinary shares is significantly below the strike price; Telecom Italia, however, intends to record the equivalent value of these same shares in "Investments" under long-term investments at the conclusion of the above transactions.

Other memorandum accounts**Lire 15,894 million**

These mainly refer to assets of third parties on loan, on deposit for safekeeping or for similar purposes (Lire 13,896 million).

Furthermore:

- the Company issued weak letters of patronage totaling Lire 2,606,928 million, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets of third parties on loan, on deposit for safekeeping or for similar purposes amounted to Lire 445,396 million and consist mainly of equipment leased to customers;
- guarantees provided by others for Company obligations, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled Lire 474,848 million;
- the value of the stock of employees and private shareholders deposited at June 30, 2001 with Telecom Italia, and then subdeposited with Monte Titoli S.p.A., equals Lire 215,625 million, while the stock in the process of being assigned or substituted totals Lire 423,806 million.

Financial derivatives

Derivatives refer to cross currency and interest rate swaps (to convert pound sterling loans into euros) and interest rate swaps (to convert variable rate loans into fixed rate loans and convert debt linked to domestic parameters to the 6-month Euribor rate).

The following table gives a description of the financial derivative contracts outstanding at June 30, 2001 to hedge to medium/long-term debt positions.

(in billions of lire)	Notional amount/ Capital exchanged at 6.30.2001	Market value of derivatives at 6.30.2001 (a)	Market value of underlying debt positions at 6.30.2001 (b)	Market value of debt including related derivatives at 6.30.2001 (c = b - a)
<i>Interest rate swap</i>	3,097	22	3,039	3,017
<i>Cross currency and interest rate swap</i>	756	66	761	695

Interest rate swaps 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.

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 differential between the forward euro/pound sterling exchange rate at the closing of the swap and the same market rate at June 30, 2001.

Adequate pricing models are used by the Company to determine the market value of the above financial derivatives.

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

	Maturity					
	By the end of 2001	2002	2003	2004	2005	2006
<i>Interest rate swap:</i>						
Fixed pay rate,						
variable receive rate:						
• notional amount (billions of lire)	125	300	1,100	28	47	-
• weighted average pay rate	3.80%	4.70%	3.88%	4.25%	4.71%	-
• received parameter	Libor 3M Euro	Libor 3M Euro	Libor 3M Euro	Libor 3M Euro	Libor 3M Euro	-
Variable pay rate,						
variable receive rate:						
• notional amount (billions of lire)	-	-	-	515	521	461
• paid parameter	-	-	-	Euribor 6M	Euribor 6M	Euribor 6M
• received parameter	-	-	-	Rolint Robot	Rendint Rendibot	Rendint Rendibot
					Rolint	Rolint

STATEMENTS OF INCOME

Sales and service revenues**Lire 16,560,639 million***(Lire 16,954,132 million in the first half of 2000)***Breakdown of "sales and service revenues" by type of business**

(in millions of lire)	1 st half 2001	1 st half 2000	Change
Sales:			
- telephone products	226,734	386,307	(159,573)
- other goods	5,975	5,988	(13)
	232,709	392,295	(159,586)
Services:			
- Traffic (*):	8,634,715	9,480,206	(845,491)
- Basic charges (of which):	6,848,496	6,281,630	566,866
• lines leased to TLC operators	839,891	774,573	65,318
- Activation fees	242,789	238,872	3,917
- Miscellaneous services and other revenues	601,930	561,129	40,801
	16,327,930	16,561,837	(233,907)
Total	16,560,639	16,954,132	(393,493)

(*) of which:

(in millions of lire)	1 st half 2001		1 st half 2000		Change	
• Traffic from Telecom Italia customers:						
- domestic	6,044,331		6,973,741		(929,410)	
- outgoing non-domestic	446,949		732,176		(285,227)	
- special services and other	436,491	6,927,771	417,890	8,123,807	18,601	(1,196,036)
• Traffic from other operators:						
- domestic	907,111		687,487		219,624	
- foreign correspondents	799,833	1,706,944	668,912	1,356,399	130,921	350,545

Breakdown of “sales and service revenues” by geographical region

(in millions of lire)	International Revenues (incoming services)	Italian Revenues (outgoing services)	Total
EUROPE	468,246	496,516	964,762
OTHER AREAS	425,492	354,464	779,956
	893,738	850,980	1,744,718
ITALY			14,815,921
Total			16,560,639

Note that, revenues are shown gross of Lire 3,332,741 million due to other carriers (Lire 2,988,286 million in the first half of 2000).

Raw materials, supplies and merchandise

Lire 302,454 million

(Lire 542,971 million in the first half of 2000)

These decreased by Lire 240,517 million compared to the first half of 2000, mainly due to lower costs of sale for products (-Lire 167,767 million), insofar as beginning from the second half of 2000, for some customers, the Company only supplies plans for telecommunications systems, leaving manufacturers with responsibility for supplying the equipment.

This item refers mainly to the expenses for the sales of telecommunications products and systems, supplies of materials and other goods purchased for operating purposes.

Services

Lire 5,697,321 million

(Lire 5,423,411 million in the first half of 2000)

Services include the following:

(in millions of lire)	1 st half 2001	1 st half 2000	Change
Direct service costs	661,956	719,686	(57,730)
Operating costs	1,105,435	926,886	178,549
Marketing costs	514,311	635,864	(121,553)
Know-how development costs	82,878	152,689	(69,811)
Amounts due to other carriers	3,332,741	2,988,286	344,455
Total	5,697,321	5,423,411	273,910

An analysis of the composition of such costs is as follows:

- “direct service costs” include the operating and maintenance costs of the TLC network, public telephone installations and terminals leased to customers;
- “operating costs” refer to the operating and maintenance costs of buildings, vehicles, information systems and equipment, as well as general expenses. In particular, they include Lire 246,000 million of operating costs for the information systems (business conferred to Netsiel in December 2000);
- “marketing costs” include sales expenses, post-sales assistance, customer relations, advertising and promotion; in particular, such costs include Lire 189,045 million (Lire 327,862 million in the first half of 2000) relating to advertising and promotional expenses, Lire 72,469 million deriving from trade agreements with Internet Service

Providers and Lire 27,886 million for the costs of printing telephone bills (business conferred to Printel on February 1, 2001). The contribution to Tin.it of the activities for printing the White Pages telephone directory led to a reduction in costs of Lire 49,394 million;

- “know-how development costs” are made up of costs pertaining to training, studies and research and consulting services;
- “amounts due to other carriers” include Lire 2,054,302 million due to Italian mobile carriers, Lire 421,357 million to domestic fixed carriers, Lire 770,391 million to foreign correspondents and Lire 86,691 million to the service providers Audiotel and Videotel.

Use of property not owned

Lire 604,996 million

(Lire 402,112 million in the first half of 2000)

These consists of “operating costs”, of Lire 430,964 million (mainly the rentals on buildings conferred to IM.SER of Lire 267,300 million and building and vehicle leases) and “direct service costs” of Lire 174,032 million (for the lease of TLC lines and the use of satellite systems).

Financial income and expense

-Lire 848,790 million

(- Lire 45,520 million in the first half of 2000)

This item shows a net financial expense balance of Lire 848,790 million and an improvement of Lire 803,270 million compared to the first half of 2000. The balance can be analyzed as follows:

(in millions of lire)		1 st half 2001	1 st half 2000	Change
Income from investments	(A)	115,176	195,961	(80,785)
Other financial income	(B)	208,666	158,390	50,276
Interest and other financial expense	(C)	1,172,632	399,871	772,761
Total	(A+B-C)	(848,790)	(45,520)	(803,270)

Income from investments refers to the following:

(in millions of lire)		1 st half 2001	1 st half 2000	Change
Dividends from subsidiaries, affiliates and other companies		101,102	130,131	(29,029)
Other income from equity investments:				
• tax credits on dividends	14,074	19,177	(5,103)	
• gains on sales of investments	- 14,074	46,653	65,830	(46,653) (51,756)
Total		115,176	195,961	(80,785)

Other financial income includes the following:

(in millions of lire)	1 st half 2001		Total	1 st half 2000	Change
	Included in long-term investments	Included in current assets			
Interest and fees on:					
– accounts receivable					
from subsidiaries	2,320	73,688	76,008	52,022	23,986
from affiliated companies	-	8,066	8,066	3,301	4,765
from others	12,944	-	12,944	8,591	4,353
– banks and the Postal Administration	-	4,478	4,478	8,711	(4,233)
– securities	-	-	-	2,652	(2,652)
	15,264	86,232	101,496	75,277	26,219
Foreign exchange gains			46,312	46,001	311
Other income			60,858	37,112	23,746
Total			208,666	158,390	50,276

Interest and other financial expense can be analyzed as follows:

(in millions of lire)	1 st half 2001		Total	1 st half 2000	Change
	Medium/long-term debt	Short-term debt			
Interest and fees paid to:					
– subsidiaries	-	277,291	277,291	66,250	211,041
– affiliated companies	-	1,801	1,801	165	1,636
– banks	141,162	548,072	689,234	200,345	488,889
– other lenders	36,609	-	36,609	48,546	(11,937)
– suppliers	-	262	262	29	233
– others	-	13,693	13,693	1,061	12,632
	177,771	841,119	1,018,890	316,396	702,494
Interest, premiums and other similar charges on debenture issues			42,227	9,828	32,399
Foreign exchange losses			41,745	24,507	17,238
Accrued portion of issue discounts and similar charges on loans			486	614	(128)
Other financial expense			69,284	48,526	20,758
Total			1,172,632	399,871	772,761

Extraordinary income and expense

-Lire 162,627 million

(- Lire 484,545 million in the first half of 2000)

This item shows a net expense balance of Lire 162,627 million and an improvement of Lire 321,918 million compared to the first half of 2000.

Income (Lire 93,505 million), due to non-recurring items, increased by Lire 32,443 million over the corresponding period of 2000.

Expense (Lire 256,132 million) decreased by Lire 289,475 million compared to the first half of 2000. Such decrease is mainly due to lower expenses connected with corporate restructuring activities (Lire 137,189 million; Lire 222,144 million in the first half of 2000) and the payment of social security charges pursuant to Law No. 58/92 which are recorded on a cash basis and, unlike the first half of 2000, were paid in July 2001.

OTHER INFORMATION

Introduction of the euro

The expenses borne during the first half for the introduction of the Euro currency total Lire 323 million (recorded in the balance sheet, Intangible assets, under “*industrial patents and intellectual property rights*”) and are relative to projects which gave new and more complex operating capabilities to the systems of “Network Creations”. Such projects, which are scheduled to be completed by December 2001, will require additional investments during the second half of the year.

Employees

The employees numbered 64,554 at June 30, 2001, compared to 66,541 at December 31, 2000. Expressing such numbers in terms of the average equivalent number of employees, the following breakdown is obtained, by category, during the period, compared to the first half of 2000 and the year 2000:

Average equivalent workforce	1 st half 2001	Year 2000	1 st half 2000
Executives	1,016	1,084	1,081
Middle management	1,616	4,978	5,030
Clerical staff	50,252	55,214	56,091
Technicians	8,968	11,660	11,769
Total	61,852	72,936	73,971

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 ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(in millions of lire)	12.31.2000				Changes during the period						6.30.2001			
	Cost	Upward adjustments	Writedowns	Balance sheet value	Purchases/ Subscriptions	Reclassifications	Disposals	Writedowns(-) Reinstatements of value(+)	Capital Replenishments	Total	Cost	Upward adjustments	Writedowns	Total value
Equity investments in subsidiaries														
ATESIA	7,177	-	-	7,177	-	-	-	-	-	-	7,177	-	-	7,177
CONSUTEL (in liquidation)	2,594	-	(2,594)	-	-	-	-	-	-	-	2,594	-	(2,594)	-
EDOTEL	1,200	-	-	1,200	-	-	-	-	-	-	1,200	-	-	1,200
ELETTRA TLC	25,900	-	(337)	25,563	-	(25,563)	-	-	-	(25,563)	-	-	-	-
EMSA	56,416	464	-	56,880	-	-	-	-	-	-	56,416	464	-	56,880
FINSIEL	701,066	-	-	701,066	4,219	-	-	-	-	4,219	705,285	-	-	705,285
GOLDEN														
NETHERLANDS	182	-	-	182	-	-	-	-	-	-	182	-	-	182
HUIT	98,759	-	-	98,759	-	-	-	-	-	-	98,759	-	-	98,759
IMMSI	8,573	26,721	-	35,294	-	-	-	-	-	-	8,573	26,721	-	35,294
IREOS (in liquidation)	200	-	(200)	-	-	-	-	-	-	-	200	-	(200)	-
IRIDIUM														
ITALIA (in liquidation)	1,500	-	(1,500)	-	-	-	-	-	-	-	1,500	-	(1,500)	-
LATIN AMERICAN														
NAUTILUS S.A.	92,677	-	-	92,677	-	-	-	-	-	-	92,677	-	-	92,677
LATIN AMERICAN NAUTILUS Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MED-1 Submarine Cables	9	-	-	9	-	-	-	-	-	-	9	-	-	9
MEDITERRANEAN														
NAUTILUS S.A.	68	-	-	68	-	25,563	-	-	-	25,563	25,631	-	-	25,631
NETSIEL	210,059	-	-	210,059	-	-	-	-	-	-	210,059	-	-	210,059
PATH.NET	49,995	-	-	49,995	-	-	-	-	-	-	49,995	-	-	49,995
SAIAT	67,272	22,493	-	89,765	-	-	-	-	-	-	67,272	22,493	-	89,765
SARITEL	34,432	-	-	34,432	-	-	-	-	-	-	34,432	-	-	34,432
SCUOLA SUPERIORE														
GUGLIELMO														
REISS ROMOLI	3,000	-	-	3,000	-	-	-	-	-	-	3,000	-	-	3,000
SEAT PAGINE GIALLE	13,036,729	-	-	13,036,729	7	-	-	-	-	7	13,036,736	-	-	13,036,736
SODALIA	8,012	-	(98)	7,914	-	-	-	-	-	-	8,012	-	(98)	7,914
SOFFE	11,390	73,686	-	85,076	-	-	-	-	-	-	11,390	73,686	-	85,076
STET INTERNATIONAL														
NETHERLANDS	11,079,332	-	(44,916)	11,034,416	-	-	-	-	-	-	11,079,332	-	(44,916)	11,034,416
TECNO SERVIZI														
MOBILI (ex HITECO														
CONS.)	-	-	-	-	200	-	-	-	-	200	200	-	-	200
TELECOM ITALIA CAPITAL	66	-	-	66	2,005	-	-	(2,071)	-	(66)	2,071	-	(2,071)	-
TELECOM ITALIA GMBH	84	-	-	84	-	-	-	-	-	-	84	-	-	84
TELECOM ITALIA														
DO BRASIL	4,105	-	(4,105)	-	-	-	-	-	-	-	4,105	-	(4,105)	-
TELECOM ITALIA														
MOBILE	8,136,645	162,926	-	8,299,571	-	-	-	-	-	-	8,136,645	162,926	-	8,299,571
TELECOM														
ITALIA of NORTH														
AMERICA	6,941	-	(3,217)	3,724	-	-	-	-	-	-	6,941	-	(3,217)	3,724
TELE PAYROLL														
SERVICE	3,564	-	(44)	3,520	3,001	-	-	-	-	3,001	6,565	-	(44)	6,521
TELESOFT	24,300	-	-	24,300	-	-	-	-	-	-	24,300	-	-	24,300
TELESPAZIO	196,000	-	-	196,000	-	-	-	-	-	-	196,000	-	-	196,000
TELIMM	35	-	-	35	-	-	-	-	-	-	35	-	-	35
TELSI	1,066,088	-	-	1,066,088	-	-	-	-	-	-	1,066,088	-	-	1,066,088
TI AUSTRIA GMBH	-	-	-	-	-	68	-	-	-	68	68	-	-	68
TI BELGIUM	2,904	-	-	2,904	-	-	-	-	-	-	2,904	-	-	2,904
TI FRANCE	15	-	-	15	-	-	-	-	-	-	15	-	-	15
TI GERMANY	49	-	-	49	-	-	-	-	-	-	49	-	-	49
TI IRELAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TI.IT - TELECOM ITALIA														
INFORMATION														
TECHNOLOGY	50,000	-	-	50,000	-	-	-	-	-	-	50,000	-	-	50,000
TI LAB (ex CSELT)	150	5,012	-	5,162	50,000	86,631	-	-	-	136,631	136,781	5,012	-	141,793

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)	12.31.2000				Changes during the period						6.30.2001			
	Cost	Upward	Writedowns	Balance	Purchases/	Reclassi-	Disposals	Writedowns(-)	Capital	Total	Cost	Upward	Writedowns	Total
	adjustments			sheet	Subscriptions	fications		Reinstatements	Replenish-		adjustments			value
				value				(1)	of value(+)	ments				
TI NETHERLANDS	35	-	-	35	-	-	-	-	-	-	35	-	-	35
TI SPAIN	-	-	-	-	6	-	-	-	-	-	6	-	-	6
TI SWITZERLAND	25	-	-	25	-	-	-	-	-	-	25	-	-	25
TI UNITED KINGDOM	3	-	-	3	-	-	-	-	-	-	3	-	-	3
TI WEB	61	-	-	61	-	-	-	(61)	-	(61)	61	-	(61)	-
TMI - TELEMEDIA														
INTERNATIONAL														
ITALIA	167,528	-	(117,875)	49,653	-	-	-	(125,564)	117,857	(7,707)	167,528	-	(125,582)	41,946
TRAINET	1,306	-	-	1,306	-	(11)	-	(875)	-	(886)	1,306	-	(886)	420
Consorzio GRUPPO														
STET PER ITALIA 90														
(in liquidation)	80	-	-	80	-	-	-	-	-	-	80	-	-	80
	35,156,526	291,302	(174,886)	35,272,942	59,438	86,688	-	(128,571)	117,857	135,412	35,302,326	291,302	(185,274)	35,408,354

(1) TMI - TELEMEDIA INTERNATIONAL ITALIA

Cost	117,857
Writedowns	(117,857)
	-

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)				12.31.2000	Changes during the period						6.30.2001			
	Cost	Upward adjustments	Writedowns	Balance sheet value	Purchases/ Subscriptions	Reclassi- fications	Disposals	Writedowns(-) Reinstatements (1) of value(+)	Capital Replenish- ments	Total	Cost	Upward adjustments	Writedowns	Total value
Equity investments in affiliated companies														
ANCITEL	180	-	-	180	-	(180)	-	-	-	(180)	-	-	-	-
ASTELIT	2	-	(2)	-	-	-	-	-	-	-	2	-	(2)	-
CARTESIA	1,000	-	-	1,000	-	-	-	-	-	-	1,000	-	-	1,000
CYGENT INC.	22,946	-	-	22,946	-	(22,946)	-	-	-	(22,946)	-	-	-	-
CZECH TELESPIAZIO														
(in liquidation)	32	-	-	32	-	(32)	-	-	-	(32)	32	-	(32)	-
EUTELSAT	418,575	-	-	418,575	72,497	-	-	-	-	72,497	491,072	-	-	491,072
FINTECH	25,000	-	-	25,000	-	(25,000)	-	-	-	(25,000)	-	-	-	-
GEIS - GENERAL														
ELECTRIC														
INFORMATION														
SERVICES	29,524	-	(27,692)	1,832	-	-	(1,832)	-	-	(1,832)	-	-	-	-
IM.SER	391,775	-	-	391,775	-	-	(145,332)	-	-	(145,332)	246,443	-	-	246,443
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)	-	-	-	-
SITEBA	1,454	-	-	1,454	-	-	-	-	-	-	1,454	-	-	1,454
STREAM	480,078	-	(286,033)	194,045	-	-	-	(194,045)	-	(194,045)	480,078	-	(480,078)	-
STT	4,400	-	-	4,400	-	-	(1,100)	-	-	(1,100)	3,300	-	-	3,300
TELEMACO														
IMMOBILIARE	-	-	-	-	146,706	-	-	-	-	146,706	146,706	-	-	146,706
VOICE MAIL														
INTERNATIONAL														
(in liquidation)	7,360	-	(7,360)	-	-	-	-	-	-	-	7,360	-	(7,360)	-
Consorzio														
DREAMFACTORY	172	-	-	172	-	(172)	-	-	-	(172)	-	-	-	-
Consorzio FORMAZIONE														
INTERNAZIONALE	40	-	-	40	-	(40)	-	-	-	(40)	-	-	-	-
Consorzio R.E.S.	300	-	-	300	-	-	-	-	-	-	300	-	-	300
Consorzio TELCAL	408	-	-	408	-	-	-	-	-	-	408	-	-	408
Consorzio TELEMED														
(in liquidation)	20	-	-	20	-	-	-	-	-	-	20	-	-	20
	1,431,356	2,757	(321,087)	1,113,026	219,203	(54,770)	(148,264)	(194,045)	-	(177,876)	1,419,865	2,757	(487,472)	935,150
(1)	GEIS	STT	Cons. FORMAZIONE INTERNAZIONALE		IM.SER									
Cost	29,524	1,100		40	145,332									
Writedowns	(27,692)	-		(40)	-									
	1,832	1,100		-	145,332									

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)				12.31.2000	Changes during the period						6.30.2001			
	Cost	Upward adjustments	Writedowns	Balance sheet value	Purchases/ Subscriptions	Reclassifications	Disposals	Writedowns(-) Reinstatements (')	Capital Replenish-ments of value(+)	Total	Cost	Upward adjustments	Writedowns	Total value
Equity investments in other companies														
ACCEL	3,058	-	-	3,058	-	(2,866)	(192)	-	-	(3,058)	-	-	-	-
ANCITEL	-	-	-	-	-	180	-	-	-	180	180	-	-	180
CAF ITALIA	1	-	-	1	-	-	-	-	-	-	1	-	-	1
CENTRO MULTIMEDIALE DI TERNI	500	-	-	500	-	(224)	-	-	-	(224)	500	-	(224)	276
DMAIL.IT	8,472	-	-	8,472	-	(5,937)	(2,535)	-	-	(8,472)	-	-	-	-
EDINDUSTRIA	86	-	(12)	74	-	-	-	-	-	-	86	-	(12)	74
EMITTENTI TITOLI	820	-	-	820	-	-	-	-	-	-	820	-	-	820
ERTICO	1	-	-	1	-	-	-	-	-	-	1	-	-	1
EURESCOM	17	-	-	17	-	-	-	-	-	-	17	-	-	17
FRATELLI ALINARI	6,004	-	-	6,004	-	-	-	-	-	-	6,004	-	-	6,004
GEMINI ISRAEL III P	1,181	-	-	1,181	-	(1,181)	-	-	-	(1,181)	-	-	-	-
IFM INFOMASTER	1,323	-	-	1,323	-	(1,323)	-	-	-	(1,323)	-	-	-	-
INMARSAT	19,061	-	-	19,061	-	-	-	-	-	-	19,061	-	-	19,061
INSULA	480	-	-	480	-	-	-	-	-	-	480	-	-	480
INTELSAT	45,434	-	-	45,434	-	-	(15,914)	-	-	(15,914)	29,520	-	-	29,520
IRI MANAGEMENT	14	-	(2)	12	-	-	-	-	-	-	14	-	(2)	12
ISTITUTO DELLA ENCICLOPEDIA ITALIANA FONDATA DA GIOVANNI TRECCANI	8,800	-	(2,756)	6,044	1,375	-	-	-	-	1,375	10,175	-	(2,756)	7,419
ITXC (ex Efusion)	4,002	-	-	4,002	-	(4,002)	-	-	-	(4,002)	-	-	-	-
JERUSALEM GLOBAL VENTURE	1,496	-	-	1,496	-	(1,496)	-	-	-	(1,496)	-	-	-	-
MEDIA TECHNOLOGY VENTURE	7,320	-	-	7,320	-	(7,320)	-	-	-	(7,320)	-	-	-	-
MIX	19	-	-	19	-	-	-	-	-	-	19	-	-	19
NETESI	-	-	-	-	12,102	-	-	-	-	12,102	12,102	-	-	12,102
NEW SKIES SATELLITES	39,610	-	-	39,610	-	-	-	-	-	-	39,610	-	-	39,610
RETE TELEMATICA PIEMONTESE	478	-	-	478	-	-	-	-	-	-	478	-	-	478
SIA	21,837	-	-	21,837	-	-	-	-	-	-	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	619	-	-	619	-	(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 CAISI	3	-	-	3	-	-	(3)	-	-	(3)	-	-	-	-
Consorzio CEFRIEL	70	-	-	70	-	-	-	-	-	-	70	-	-	70
Consorzio CIES	50	-	-	50	-	-	-	-	-	-	50	-	-	50
Consorzio CO.TIM (in liquidation)	8	-	(5)	3	-	-	-	-	-	-	8	-	(5)	3
Consorzio DI BIOINGEGNERIA ED INFORMATICA MEDICA	30	-	-	30	-	-	-	-	-	-	30	-	-	30
Consorzio Nazionale Imballaggi (CONAI)	2	-	-	2	-	-	-	-	-	-	2	-	-	2
Consorzio ELIS	5	-	-	5	-	-	-	-	-	-	5	-	-	5
Consorzio ENERGIA FIERA DISTRICT	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio GE.SE.CE.DI	140	-	-	140	-	-	-	-	-	-	140	-	-	140
Consorzio NETTUNO	80	-	-	80	-	-	-	-	-	-	80	-	-	80
Consorzio TECHNAPOLI	400	-	-	400	-	-	-	-	-	-	400	-	-	400
	180,569	-	(2,859)	177,710	13,477	(29,922)	(18,644)	-	-	(35,089)	145,704	-	(3,083)	142,621
Totale partecipazioni	36,768,451	294,059	(498,832)	36,563,678	292,118	1,996	(166,908)	(322,616)	117,857	(77,553)	36,867,895	294,059	(675,829)	36,486,125
Versamenti in c/futuro aumento di partecipazioni														
	1,864,890	-	-	1,864,890	2,041,484	(68)	-	-	-	2,041,416	3,906,306	-	-	3,906,306

(1)	DMAIL.IT	ACCEL	Cons. CAISI	STOA'
Costo	2,535	192	3	173
Svalutazioni	-	-	-	(173)
	2,535	192	3	-

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

	Shares	Market value		Carrying value		Difference	
		Unit price (lire)	Total (millions of lire)	Unit price (lire)	Total (millions of lire)	Unit price (lire)	Total (millions of lire)
		(A)		(B)		(A-B)	
June 30, 2001							
Long-term equity investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	11,857.72	55,682,531	1,767.41	8,299,571	10,090.31	47,382,960
SEAT PAGINE GIALLE							
- ordinary shares	6,051,510,901	2,399.04	14,517,808	2,154.29	13,036,736	244.74	1,481,072
IMMSI	99,674,748	1,194.68	119,079	354.09	35,294	840.59	83,786
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	11,857.72	452,870	11,857.72	452,870	-	-

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in millions of lire)	6.30.2001				12.31.2000			
	Amounts due				Amounts due			
	within one year	from two to five years	after five years	Total	within one year	from two to five years	after five years	Total
Accounts receivable in long-term investments								
Subsidiaries	-	96,814	-	96,814	-	96,814	-	96,814
Others								
• customers	1,256	326	-	1,582	1,447	372	-	1,819
• employees	13,533	56,846	22,114	92,493	15,197	59,087	20,763	95,047
• security deposits	2,583	7,611	1,856	12,050	1,147	7,313	1,284	9,744
• miscellaneous	81,258	144,967	-	226,225	127,650	153,345	-	280,995
	98,630	306,564	23,970	429,164	145,441	316,931	22,047	484,419
Accounts receivable in current assets								
Other loans from								
Subsidiaries	1,772,049	-	-	1,772,049	2,057,125	-	-	2,057,125
Affiliated company	354,090	-	-	354,090	121,071	-	-	121,071
Others	1,688,304	-	-	1,688,304	1,739,478	-	-	1,739,478
	3,814,443	-	-	3,814,443	3,917,674	-	-	3,917,674
Trade receivables								
Customers	8,268,047	-	-	8,268,047	8,317,409	-	-	8,317,409
Subsidiaries	1,344,293	-	-	1,344,293	1,177,895	-	-	1,177,895
Affiliated company	527,646	-	-	527,646	346,403	-	-	346,403
Parent company	2,291	-	-	2,291	2,205	-	-	2,205
Other receivables due from								
• Government and other public entities for grants and subsidies	2,450	-	-	2,450	2,450	-	-	2,450
	10,144,727	-	-	10,144,727	9,846,362	-	-	9,846,362
Other receivables								
Subsidiaries	522,122	-	-	522,122	1,999,651	-	-	1,999,651
Affiliated company	266	-	-	266	345	-	-	345
Parent company	-	-	-	-	134	-	-	134
Miscellaneous receivables								
• deferred tax assets	-	-	-	-	669,227	270,262	-	939,489
• other	583,973	-	-	583,973	953,465	-	-	953,465
	1,106,361	-	-	1,106,361	3,622,822	270,262	-	3,893,084
Total accounts receivable	15,065,531	-	-	15,065,531	17,386,858	270,262	-	17,657,120
Accrued income	81,794	-	-	81,794	33,737	-	-	33,737

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in millions of lire)	6.30.2001				12.31.2000			
	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	-	3,752,622	2,904,405	6,657,027	-	-	281,642	281,642
Due to banks	938,614	4,563,323	62,647	5,564,584	1,074,487	4,861,360	153,350	6,089,197
Due to other lenders	254,231	646,649	165,054	1,065,934	398,389	674,745	202,833	1,275,967
	1,192,845	8,962,594	3,132,106	13,287,545	1,472,876	5,536,105	637,825	7,646,806
Short-term debt								
Due to banks	18,971,642	-	-	18,971,642	18,637,912	-	-	18,637,912
Due to other lenders	179,701	-	-	179,701	-	-	-	-
Subsidiaries	3,392,171	-	-	3,392,171	7,739,320	-	-	7,739,320
Affiliated company	51,096	-	-	51,096	260,531	-	-	260,531
Other liabilities	1,579,841	-	-	1,579,841	2,313,161	-	-	2,313,161
	24,174,451	-	-	24,174,451	28,950,924	-	-	28,950,924
Trade payables ⁽¹⁾								
Suppliers	4,598,100	-	-	4,598,100	5,485,150	-	-	5,485,150
Subsidiaries	1,990,654	-	-	1,990,654	2,133,672	-	-	2,133,672
Affiliated company	662,507	-	-	662,507	834,872	-	-	834,872
Parent company	1,659	-	-	1,659	2,529	-	-	2,529
	7,252,920	-	-	7,252,920	8,456,223	-	-	8,456,223
Other payables								
Subsidiaries	63,499	-	-	63,499	133,571	-	-	133,571
Affiliated company	180	-	-	180	10,680	-	-	10,680
Taxes payable	1,860,394	-	-	1,860,394	956,726	-	-	956,726
Contributions to pension and social security institutions	301,568	492,551	767,926	1,562,045	396,446	492,551	767,926	1,656,923
Other liabilities	3,872,279	6,015	303	3,878,597	3,341,744	6,015	303	3,348,062
	6,097,920	498,566	768,229	7,364,715	4,839,167	498,566	768,229	6,105,962
Total liabilities ⁽¹⁾	38,718,136	9,461,160	3,900,335	52,079,631	43,719,190	6,034,671	1,406,054	51,159,915
Accrued expenses	240,005	-	-	240,005	207,675	-	-	207,675

(1) Does not include advances

ASSETS (in thousands of euros)

	6.30.2001	12.31.2000	6.30.2000
Receivables from shareholders for capital contributions	-	-	-
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS			
Industrial patents and intellectual property rights	671,418	424,113	510,193
Concessions, licenses, trademarks and similar rights	43,943	46,527	52,298
Goodwill	-	-	-
Work in progress and advances to suppliers	387,263	640,450	498,121
Other intangibles	66,506	77,614	90,854
	1,169,130	1,188,704	1,151,466
FIXED ASSETS			
Land and buildings	1,524,738	1,554,485	3,954,189
Plant and machinery	12,248,591	12,974,649	13,269,042
Manufacturing and distribution equipment	34,183	40,167	48,696
Other fixed assets	102,226	83,785	178,382
Construction in progress and advances to suppliers	672,418	481,950	615,618
	14,582,156	15,135,036	18,065,927
LONG-TERM INVESTMENTS			
Equity investments in subsidiaries	18,286,889	18,216,954	5,172,675
affiliated companies	482,964	574,830	343,954
other companies	73,658	91,780	81,704
	18,843,511	18,883,564	5,598,333
Advances on future capital contributions	2,017,439	963,135	4,906,470
Accounts receivable	(*)	(*)	(*)
subsidiaries	50,000	50,000	50,000
other receivables	50,938 171,644	75,114 200,181	53,944 206,737
	50,938 221,644	75,114 250,181	53,944 256,737
Treasury stock	-	661,360	168,160
	21,082,594	20,758,240	10,929,700
Total intangibles, fixed assets and long-term investments	36,833,880	37,081,980	30,147,093
Current assets			
INVENTORIES			
Contract work in process	21,648	35,911	36,085
Finished goods and merchandise			
merchandise	82,193	41,242	104,634
	103,841	77,153	140,719
ACCOUNTS RECEIVABLE	(**)	(**)	(**)
Trade accounts receivable	4,270,090	4,295,583	4,447,704
Accounts receivable from subsidiaries	1,879,110	2,703,482	1,292,778
Accounts receivable from affiliated companies	455,516	241,609	257,413
Accounts receivable from parent companies	1,183	1,208	491
Other receivables due from Government and other public entities for grants and subsidies	1,265	1,265	129
deferred tax assets	-	139,579 485,206	-
other receivables	1,173,533	1,390,789	367,268
	1,174,798	139,579 1,877,260	367,397
	7,780,697	9,119,142	6,365,783
SHORT-TERM FINANCIAL ASSETS			
Equity investments in subsidiaries	233,888	326,732	169,522
Other equity investments	-	5,147	27,917
Other securities	-	-	80,726
	233,888	331,879	278,165
LIQUID ASSETS			
Bank and postal accounts	71,125	108,621	47,516
Checks	11	5	1
Cash and valuables on hand	422	321	676
	71,558	108,947	48,193
Total current assets	8,189,984	9,637,121	6,832,860
Accrued income and prepaid expenses			
Issue discounts and similar charges	994	1,245	1,533
Accrued income and other prepaid expenses	805,125	842,828	76,297
	806,119	844,073	77,830
TOTAL ASSETS	45,829,983	47,563,174	37,057,783

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

LIABILITIES AND SHAREHOLDERS' EQUITY (in thousands of euros)

	6.30.2001		12.31.2000		6.30.2000	
Shareholders' equity						
Share capital		4,022,948		3,835,290		3,835,290
Additional paid-in-capital		1,811,005		1,802,911		1,802,911
Reserves for inflation adjustments under						
Law No. 72 of 3.19.1983		2,294,720		2,481,701		2,481,950
Law No. 413 of 12.30.1991		468,944		468,944		468,991
		2,763,664		2,950,645		2,950,941
Legal reserve		652,026		524,093		393,678
Reserve for treasury stock		-		661,360		168,160
Other reserves						
Reserve for accelerated depreciation		121,789		-		768,381
Reserve under Law No. 342						
of 11.21.2000 - article 14		719,653		888,460		-
Reserve under Legislative Decree						
No. 124/93 - article 13		169		-		-
Special reserve		1,362,676		1,243,374		1,705,445
Reserve for capital grants		464,398		456,617		448,765
Miscellaneous reserves		3,792,576		3,792,576		3,700,787
		6,461,261		6,381,027		6,623,378
Retained earnings		-		-		2,608,295
Net income		653,607		2,558,663		698,121
		16,364,511		18,713,989		19,080,774
Reserves for risks and charged						
Reserves for taxes		142,748		141,238		600,082
Other reserves		778,778		742,467		513,944
		921,526		883,705		1,114,026
Reserve for employee termination indemnities		1,050,403		1,031,274		1,180,127
Liabilities	(••)		(••)		(••)	
Debentures	3,438,068	3,438,068	145,456	145,456	353,017	353,017
Due to banks	2,389,114	12,671,903	2,589,882	12,770,486	2,881,700	5,206,150
Due to other lenders	419,210	643,317	453,231	658,982	548,742	719,478
Advances		1,850		1,178		885
Trade accounts payable		2,374,720		2,832,844		2,572,155
Accounts payable to subsidiaries		2,812,792		5,167,958		2,260,677
Accounts payable to affiliated companies		368,638		571,244		203,302
Accounts payable to parent companies		857		1,306		1,993
Taxes payables		960,813		494,108		961,421
Contributions to pension						
and social security institutions	650,982	806,729	650,982	855,729	708,459	859,162
Other liabilities	3,263	2,819,048	3,263	2,923,778	4,916	2,026,436
	6,900,637	26,898,735	3,842,814	26,423,069	4,496,834	15,164,676
Accrued income and deferred income		594,808		511,137		518,180
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		45,829,983		47,563,174		37,057,783

(••) Accounts due beyond one year

(in thousands of euros)

	30.6.2001	31.12.2000	30.6.2000
Guarantees provided			
Sureties			
on behalf of subsidiaries	11,899,248	2,811,667	534,588
on behalf of affiliated companies	747,405	2,043,662	1,684,947
on behalf others	174,783	(395,592)	137,254
	12,821,436	4,459,737	2,356,789
Collateral provided	-	-	-
Purchases and sales commitments	3,416,849	3,494,937	9,883,106
Other memorandum accounts	8,209	8,993	9,621
TOTAL MEMORANDUM ACCOUNTS	16,246,494	7,963,667	12,249,516

(in thousands of euros)

	1 st half 2001	1 st half 2000	Year 2000
Production value			
Sales and service revenues	8,552,856	8,756,079	17,462,784
Changes in inventory of contract work in process	(14,263)	8,207	8,032
Increases in capitalized internal construction costs	3,377	6,369	11,365
Other revenue and income			
<i>operating grants</i>	278	471	522
<i>other</i>	124,872	125,152	276,292
	125,150	125,623	276,814
	8,667,120	8,896,278	17,758,995
Production cost			
Raw materials, supplies and merchandise	156,205	280,421	404,586
Services	2,942,420	2,800,958	5,695,762
Use of property not owned	312,454	207,674	452,087
Personnel			
<i>wages and salaries</i>	949,535	1,088,502	2,146,294
<i>social security contributions</i>	307,305	343,992	705,705
<i>termination indemnities</i>	75,063	89,344	171,932
<i>other costs</i>	27,454	39,457	64,632
	1,359,357	1,561,295	3,088,563
Amortization, depreciation and writedowns			
<i>amortization of intangible assets</i>	251,349	255,523	600,089
<i>amortization of fixed assets</i>	1,370,224	1,642,222	3,118,775
<i>other writedowns of intangibles and fixed assets</i>	-	-	19,433
<i>writedowns of receivables included in current assets and liquid assets</i>	55,974	74,300	171,717
	1,677,547	1,972,045	3,910,014
Changes in inventory of raw materials, supplies and merchandise	(40,951)	(12,164)	51,229
Provisions for risks	36,687	48,507	62,848
Miscellaneous operating costs			
<i>losses and disposals of assets</i>	991	10,165	48,728
<i>license fee</i>	138,463	157,625	311,180
<i>other miscellaneous costs</i>	66,647	57,023	139,132
	206,101	224,813	499,040
	(6,649,820)	(7,083,549)	(14,164,129)
Operating income	2,017,300	1,812,729	3,594,866
Financial income and expense			
Income from equity investments			
<i>dividends from subsidiaries</i>	7,678	11,501	1,056,098
<i>dividends from affiliated companies</i>	40,224	23,081	68,619
<i>dividends from other companies</i>	4,312	32,625	56,891
<i>other income from equity investments</i>	7,269	33,999	607,692
	59,483	101,206	1,789,300
Other financial income from			
<i>accounts receivable included in long-term investments</i>			
<i>subsidiaries</i>	1,198	6,882	4,185
<i>affiliated companies</i>	-	21	3,890
<i>other</i>	6,685	4,436	8,255
	7,883	11,339	16,330
<i>securities, other than equity investments, included in long-term investments</i>	-	-	-
<i>securities, other than equity investments, included in current assets</i>	-	1,369	1,307
<i>other income</i>			
<i>interest and fees from subsidiaries</i>	38,057	19,985	42,136
<i>interest and fees from affiliated companies</i>	4,166	1,684	7,079
<i>interest and fees from others and miscellaneous income</i>	57,661	47,424	115,757
	99,884	69,093	164,972
	107,767	81,801	182,609
Interest and other financial expense			
<i>interest and fees paid to subsidiaries</i>	143,209	34,215	78,187
<i>interest and fees paid to affiliated companies</i>	930	85	5,703
<i>interest and fees paid to others and miscellaneous expense</i>	461,475	172,216	558,194
	(605,614)	(206,516)	(642,084)
Total financial income and expense	(438,364)	(23,509)	1,329,825

(Continued) (in thousands of euros)

	1 st half 2001	1 st half 2000	Year 2000
Value adjustments to financial assets			
Upward adjustments of equity investments	13	-	-
	13	-	-
Writedowns of equity investments	319,407	183,400	437,757
	(319,407)	(183,400)	(437,757)
Total value adjustments	(319,394)	(183,400)	(437,757)
Extraordinary income and expense			
Income			
gains on disposals	9,532	16,930	666,425
miscellaneous	38,759	14,606	88,319
	48,291	31,536	754,744
Expense			
losses on disposals	52	3,619	9,869
prior years' taxes	1,227	3,804	3,534
miscellaneous	131,002	274,360	920,801
	(132,281)	(281,783)	(934,204)
Total extraordinary items	(83,990)	(250,247)	(179,460)
Income before taxes	1,175,552	1,355,573	4,307,474
Income taxes			
current taxes	521,945	657,452	1,382,907
deferred taxes	-	-	365,904
	(521,945)	(657,452)	(1,748,811)
Net income	653,607	698,121	2,558,663

**AUDITORS' REPORT ON THE REVIEW
OF THE MANAGEMENT REPORT
OF TELECOM ITALIA S.P.A.
AS OF AND FOR THE SIX MONTHS PERIOD
ENDED 30 JUNE 2001
(Translation from the original Italian version)**

To the Shareholders of
Telecom Italia S.p.A.

1. We have performed the review of the Management Report of Telecom Italia S.p.A. as of and for the six months period ended 30 June 2001, represented by the Balance Sheets and the Statements of Income and related Notes of Telecom Italia S.p.A. and the Telecom Italia Group. We have also reviewed that part of the financial information presented by the Board of Directors in the Management Report with respect of their discussions and analyses of the operations, solely for the purpose of evaluating its consistency with the above mentioned statements and related Notes.
2. Our review was conducted in accordance with auditing standards governing review of interim financial statements recommended by CONSOB (the Italian Stock Exchange Regulatory Agency) in its resolution No. 10867 of 31 July 1997. The review of the data related to the six months period ended 30 June 2001 of certain subsidiary companies, which represents approximately 22% of the consolidated assets and 13% of the consolidated revenues, was performed by other auditors who supplied us with their review reports. A review consists mainly of obtaining relevant information with respect to the data included in the statements identified in paragraph 1 of this report and of evaluating the consistency of the accounting principles applied through discussions with appropriate members of management, and performing analytical reviews of the financial data presented in such statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures for the verification tests of account balances of assets and liabilities. Consequently, the scope of work for a review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the statements and related Notes identified in paragraph 1 of this report, as we do in connection with reporting on the full scope audits of the annual Parent Company and Consolidated Statements of Telecom Italia S.p.A..

3. With respect to the comparative data presented of the Parent Company and of the Consolidated Group as of and for the year ended 31 December 2000 and for the six months period ended 30 June 2000, reference should be made to the audit and review reports issued by other auditors on 21 May 2001 and on 13 September 2000, respectively.
4. As a result of our review, we did not become aware of any significant modifications that should be made to the statements and related Notes identified in paragraph 1 of this report, in order for them to be in conformity with the criteria for the presentation of the semi-annual Management Report, stated by art. 81 of CONSOB regulations as approved in its resolution No. 11971 of 14 May 1999 and subsequent modifications.
5. We draw your attention to the information presented in the explanatory notes, "Summary of significant accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law no. 58/1992.

Turin, 13 September 2001

Reconta Ernst & Young S.p.A.
Signed by: Felice Persico, partner

COMMENTARY BY THE BOARD OF STATUTORY AUDITORS ON THE REPORT ON OPERATIONS FOR THE FIRST HALF ENDING JUNE 30, 2001

The Board of Statutory Auditors, having taken note of the Report on Operations for the first half of 2001 and also making reference to the Memorandum prepared for the Ordinary Shareholders' Meeting of the shareholders of Telecom Italia S.p.A. held on June 12, 2001, formulates the following brief considerations.

- TELEKOM SRBIJA - This refers to the 29% holding in Telekom Srbija acquired in 1997 (see point A of the aforementioned Memorandum).

By request of the Board of Statutory Auditors in September, the person in charge *pro-tempore* of the International Operations business unit of Telecom Italia had the following comments:

- no facts or events arose subsequent to May 2001 which could have a negative impact on the financial statements of Telecom Italia for the fiscal years 1997, 1998, 1999 and 2000;
- during the month of August 2001, Stet International Netherlands N.V. (SIN), which has held the investment since the beginning, gave notice to the Serbian Company to honor its commitments as Telekom Srbija had not paid the *management fees* for the period October 1998 to June 2001. The Serbian Company has subsequently sent a letter confirming the amounts due to SIN.

In valuing the receivables due from Telekom Srbija for the overdue *management fees*, the directors effected a writedown of Lire 27.26 billion in the six-month financial statements of Telecom Italia to bring the receivables in line with estimated realizable value.

On July 13, 2001, a manager of Telecom Italia was put in charge of the so-called "Srbija Project", which consists of "*re-examining the terms of the investment and resuming the ordinary operations of business*".

In the opinion of Telecom Italia's *management*, there are no elements that would justify the writedown of the *asset value* of the investment in the six-month financial statements.

The Board has recommended that the situation should be constantly monitored, especially with regard to the information that could be obtained from those involved in the plan to relaunch Telekom Srbija. The Board specifically suggested that attention should be given to both the problem of collecting the overdue *management fees* receivable and the prospects of collecting the future *management fees* which will have an effect on the economic value of the investment.

- COMPENSATION PACKAGE - This refers to the compensation to be paid to the Managing Director of Seat - Pagine Gialle S.p.A. (see point C of the Memorandum). The Board of Statutory Auditors in its Memorandum dated June 12, 2001, with reference to the "*compensation package*" payable to the Managing Director of Seat – Pagine Gialle, may take possible actions after obtaining an authoritative and independent legal opinion concerning the deliberative and disclosure aspects of the aforementioned subject. Such opinion was issued on June 11, 2001.

The Board of Statutory Auditors has already sent Consob certain initial considerations regarding the subject on June 19, 2001.

The Committee for Internal Control and *Corporate Governance*, which initially recommended that an opinion should be obtained, temporarily remained without a

Chairman owing to the resignation of the Director, Angelo Benessia. A new Director, Guido Ferrarini, was subsequently co-opted and named Chairman of the Committee. This Committee then again discussed the subject on July 27, 2001, partly as a result of certain observations made by a member of the Committee in this regard. The Committee for Internal Control and *Corporate Governance* and the Board of Statutory Auditors – which closely work together on this matter – met on August 2, 2001 and decided to ask the aforementioned legal consultant for additional information. An authoritative and independent expert was also asked to provide precise information on the method and calculation of the *compensation package* for the Managing Director of Seat. The information from the two consultants is currently pending. As regards the above, the Board would like to make known that it will express its conclusions upon receiving the aforementioned additional information.

- OPERATIONAL POWERS, DECISIONAL STRUCTURE AND INTERNAL CONTROL SYSTEM (see point E of the Memorandum) – A new project for the system of internal procedures and powers of corporate representation were presented to the Board of Statutory Auditors and the Committee for Internal Control and *Corporate Governance* on July 27, 2001. Such system, however, will also be re-examined in light of the new organizational structure of the Company which will become effective on October 1, 2001 and is currently being finalized.

- At June 30, 2001, the subsidiaries and affiliated companies numbered 491, of which 305 were consolidated on a line-by-line basis, 9 consolidated proportionally, 79 valued using the equity method and 98 stated at cost.

As regards certain companies in the *new economy* operating in dynamic markets and which were characterized by a consideration drop in market value, the Directors have not effected writedowns in view of the following considerations:

- prospects for business, considered substantially unchanged in the medium and long term;
- the industrial/strategic nature of such investments, partly in relation to the competitive position assumed by the companies in the markets;
- the fact that, for the companies in the *start-up* stage, declines in the short term, and especially those due to the economic situation, do not affect the economic value of the *business*.

The Board of Statutory Auditors, in taking note of these considerations, recommended that the value of the investments should be continuously and constantly monitored, in relation to both the instability and unexpectedness of the Internet market and the strategic direction of the new economy area.

To this end, it should be mentioned that, in the September 12, 2001 meeting, which approved the Report on Operations for the first half of 2001, the Board of Directors of Telecom Italia, on the basis of suggestions made by the Committee for Internal Control and Corporate Governance, the Board of Statutory Auditors and the Audit Firm, voted to assign the same Committee for Internal Control and Corporate Governance the specific responsibility for drawing up an effective procedure for monitoring investments which establishes boards, responsibilities and deadlines for conducting the task of monitoring.

The Board of Statutory Auditors

**LIST OF MAJOR EQUITY HOLDINGS OF TELECOM ITALIA
AS PER ART. 120 OF LEGISLATIVE DECREE NO. 58,
FEBRUARY 24, 1998**

LIST OF MAJOR EQUITY HOLDINGS

Company name	Head office	Share capital	Held by	%
Wirelines services				
ANCITEL S.p.A.	Rome (Italy)	Euro	1,087,232	TELECOM ITALIA INSIEL
				8.55 7.13
ASTELIT Ltd	Moscow (Russia)	RUR	500	TELECOM ITALIA
				50.00
CONSUTEL S.p.A. in liquidation	Rome (Italy)	ITL	2,594,340,000	TELECOM ITALIA
				100.00
LATIN AMERICAN NAUTILUS S.A.	Luxembourg	USD	60,000,000	TELECOM ITALIA ENTEL BOLIVIA ENTEL CHILE
				70.00 10.00 10.00
- LATIN AMERICAN NAUTILUS ARGENTINA S.A.	Buenos Aires (Argentina)	ARP	12,000	LATIN AMERICAN NAUTILUS S.A.
				99.99
- LATIN AMERICAN NAUTILUS BRASIL Limitada	Rio de Janeiro (Brazil)	BRR	20,000	LATIN AMERICAN NAUTILUS S.A.
				99.99
- LATIN AMERICAN NAUTILUS CHILE S.A.	Santiago (Chile)	CLP	6,200,000	LATIN AMERICAN NAUTILUS S.A.
				99.99
- LATIN AMERICAN NAUTILUS Limited	Dublin (Ireland)	USD	1,000,000	LATIN AMERICAN NAUTILUS S.A.
				100.00
- LATIN AMERICAN NAUTILUS PANAMA S.A.	Panama	USD	10,000	LATIN AMERICAN NAUTILUS S.A.
				100.00
- LATIN AMERICAN NAUTILUS PERÙ S.A.	San Borja-Lima (Perù)	Nuevos Soles	3,500	LATIN AMERICAN NAUTILUS S.A.
				99.97
- LATIN AMERICAN NAUTILUS SERVICE Inc.	Florida (Usa)	USD	10,000	LATIN AMERICAN NAUTILUS S.A.
				100.00
- LATIN AMERICAN NAUTILUS USA Inc.	Florida (Usa)	USD	10,000	LATIN AMERICAN NAUTILUS S.A.
				100.00
- LATIN AMERICAN NAUTILUS VENEZUELA C.A.	Caracas (Venezuela)	Bolivares	7,000,000	LATIN AMERICAN NAUTILUS S.A.
				99.99
MED-1 SUBMARINE CABLES LTD	Tel Aviv (Israel)	Shekel	100,000	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
				23.18 27.83
- MED-1 NETHERLANDS B.V.	Amsterdam (Olanda)	NLG	40,000	MED-1 LTD
				100.00
- MED-1 ITALY S.r.l.	Rome (Italy)	ITL	1,062,000,000	MED-1 NETHERLANDS
				100.00
- MED-1 IC -1 (1999) LTD	Tel Aviv (Israel)	Shekel	1,000	MED-1 LTD MED-1 ITALY
				99.99 0.01
MEDITERRANEAN NAUTILUS S.A.	Luxembourg	USD	326,480,000	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
				62.51 7.49
- MEDITERRANEAN NAUTILUS Ltd	Dublin (Ireland)	USD	100,000	MEDITERRANEAN NAUTILUS S.A.
				51.00
- MEDITERRANEAN NAUTILUS B.V.	Amsterdam (Holland)	Euro	18,000	MEDITERRANEAN NAUTILUS Ltd
				100.00
- MEDITERRANEAN NAUTILUS GREECE S.A.	Athens (Greece)	Euro	60,000	MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ISRAELE
				99.00 1.00
- MEDITERRANEAN NAUTILUS ITALY S.p.A.	Rome (Italy)	Euro	100,000	MEDITERRANEAN NAUTILUS Ltd
				100.00
- MEDITERRANEAN NAUTILUS ISRAEL Ltd	Tel Aviv (Israel)	Shekel	1,000	MEDITERRANEAN NAUTILUS Ltd
				100.00
NORTEL INVERSORA S.A.	Buenos Aires (Argentina)	ARP	78,633,050	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
				32.50 17.50
PATH.NET S.p.A.	Rome (Italy)	Euro	25,800,000	TELECOM ITALIA SODALIA
				99.99 0.01
- STET INTERNATIONAL NETHERLANDS N.V.	Amsterdam (Holland)	NLG	3,562,960,500	TELECOM ITALIA
				100.00
- 9 TELECOM RESEAU S.A.S.	Boulogne Billancourt (France)	FRF	3,875,276,800	STET INTERNATIONAL NETHERLANDS TMI - TELEMEDIA INTERN. Ltd
				97.18 0.04

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- 9TELECOM PORTAIL EURL	Boulogne – Billancourt (France)	Euro	8,000	9 TELECOM RESEAU	100.00
- 9TELECOM WEB EURL	Boulogne – Billancourt (France)	Euro	8,000	9 TELECOM RESEAU	100.00
- STET FRANCE S.A.	Paris (France)	FRF	6,000,000	9 TELECOM RESEAU	100.00
- MAGEOS EXPLORER S.A.	Lyon (France)	Euro	6,317,788.80	9 TELECOM RESEAU	91.21
- BELGIUM EXPLORER S.A.	Brussels (Belgium)	Euro	62,000	MAGEOS EXPLORER	99.92
- FRANCE EXPLORER S.A.	Lyon (France)	FRF	10,050,000	MAGEOS EXPLORER	99.99
- HOLLAND EXPLORER B.V.	Amsterdam (Holland)	Euro	20,000	MAGEOS EXPLORER	100.00
- IBER EXPLORER S.A.	Barcelona (Spain)	ESP	10,000,000	MAGEOS EXPLORER JET MULTIMEDIA	99.99 0.01
- INFOCONCERT S.A.	Lyon (France)	FRF	450,800	MAGEOS EXPLORER	64.73
- ITALIA EXPLORER S.r.l.	Milan (Italy)	Euro	11,000	MAGEOS EXPLORER	100.00
- PORTUGAL EXPLORER S.A.	Lisbon (Portugal)	Euro	11,000	MAGEOS EXPLORER	100.00
- SWISS EXPLORER S.a.r.l.	Losanne (Switzerland)	CHF	20,000	MAGEOS EXPLORER	100.00
- JET MULTIMEDIA S.A.	Lyon (France)	Euro	10,648,448	9 TELECOM RESEAU SOFTE	90.15 0.95
- DE VIRIS COMMUNICATION S.A.	Rueil Malmaison (France)	Euro	80,000	JET MULTIMEDIA	99.95
- JET MEDIA S.A.	Lyon (France)	Euro	100,000	JET MULTIMEDIA OMEGA	99.76 0.04
- PUBLICLAIR S.A.	Paris (France)	FRF	250,000	JET MEDIA OMEGA	98.80 0.20
- JET MULTIMEDIA HOSTING S.A.	Lyon (France)	Euro	7,790,215	JET MULTIMEDIA	99.99
- COMETEL Societe Espagnole	Bilbao (Spain)	Euro	35,000	JET MULTIMEDIA HOSTING	40.00
- IB TELEMATIC S.A.	Paris (France)	Euro	430,280	JET MULTIMEDIA HOSTING	99.97
- ICOR S.A.	Le Bourget du Lac (France)	Euro	96,000	JET MULTIMEDIA HOSTING OMEGA	99.87 0.02
- VILLAGES TOURS S.a.r.l.	Lyon (France)	FRF	260,000	JET MULTIMEDIA HOSTING	100.00
- TRAVEL MANIA S.a.r.l.	Lyon (France)	FRF	2,000,000	VILLAGES TOURS	97.00
- JETMULTIMEDIA S.r.l.	Milan (Italy)	Euro	20,000	JET MULTIMEDIA HOSTING	100.00
- METAPHORA S.A.	Toulouse (France)	FRF	3,080,000	JET MULTIMEDIA HOSTING JET VENTURE	46.50 13.80
- SUD PARTNER S.a.r.l.	Toulouse (France)	Euro	40,000	JET MULTIMEDIA HOSTING	24.00
- DIS WEBSIZING S.a.r.l.	Nanterre (France)	FRF	50,000	JET MULTIMEDIA HOSTING	100.00
- IO FACET S.A.	Paris (France)	FRF	1,500,000	JET MULTIMEDIA HOSTING	12.51

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- JET VENTURE S.A.	Paris (France)	Euro 8,000,000	JET MULTIMEDIA OMEGA	99.87 0.13
- AGENCY MULTIMEDIA S.A.	St. Denis La Plaine (France)	FRF 2,200,000	JET VENTURE	19.09
- FIRST ASSUR S.A.	Paris (France)	FRF 14,039,900	JET VENTURE	17.09
- RESACOM S.A.	Paris (France)	Euro 40,000	JET VENTURE	19.97
- NETRIA S.A.	Lyon (France)	FRF 758,500	JET MULTIMEDIA	34.00
- OMEGA S.a.r.l.	Lyon (France)	Euro 80,000	JET MULTIMEDIA	100.00
- VICTOIRE MULTIMEDIA S.A.	Paris (France)	Euro 89,025	JET MULTIMEDIA OMEGA	98.89 0.02
- PRESSINVEST S.A.	Paris (France)	Euro 128,992	VICTOIRE MULTIMEDIA OMEGA	99.92 0.01
- FIFSAT S.A.	Paris (France)	Euro 200,000	PRESSINVEST	50.00
- VICTOIRE MULTIMEDIA INFORMATIQUE S.A.	Paris (France)	Euro 1,165,665	VICTOIRE MULTIMEDIA OMEGA	99.99 0.01
- OFFICE CENTRAL DE DOCUMENTATION S.A.	Paris (France)	FRF 250,000	VICTOIRE MULTIMEDIA INFORMATIQUE OMEGA	99.71 0.04
- VICTOIRE MULTIMEDIA Inc.	California (Usa)	USD 1,000	VICTOIRE MULTIMEDIA INFORMATIQUE	100.00
- VALORIUS S.A.	Boulogne Billancourt (France)	FRF 250,000	9 TELECOM RESEAU	100.00
- AUNA – Operadores de telecomunicaciones S.A.	Barcelona (Spain)	ESP 240,192,390,000	STET INTERNATIONAL NETHERLANDS STET MOBILE HOLDING	22.76 3.81
- BBNED N.V.	Amsterdam (Holland)	Euro 42,725,000	STET INTERNATIONAL NETHERLANDS	100.00
- CITEL – Corp. Interamericana de Telecomunicaciones S.A.	Monterrey (Mexico)	MXN 2,073,729,933	STET INTERNATIONAL NETHERLANDS	25.00
- ETEC S.A. – Empresa de telecomunicaciones de Cuba S.A.	Havana (Cuba)	USD 1,441,900,000	STET INTERNATIONAL NETHERLANDS	29.29
- ENTEL CHILE S.A.	Santiago (Chile)	CLP 384,296,795,855	STET INTERNATIONAL NETHERLANDS	54.76
- AMERICATEL CENTROAMERICA S.A.	Guatemala City	USD 2,649,608	ENTEL CHILE	78.65
- AMERICATEL EL SALVADOR S.A. DE C.V.	San Salvador	USD 1,143,572	AMERICATEL CENTROAMERICA ENTEL CHILE	85.00 15.00
- AMERICATEL GUATEMALA S.A.	Guatemala City	Quetzales 400,000	AMERICATEL CENTROAMERICA	100.00
- AMERICATEL HONDURAS S.A.	Tegucigalpa (Honduras)	Lempiras 500,000	AMERICATEL CENTROAMERICA	100.00
- INDUSTRIAS TELEPUERTO DEL ISTMO S.A.	Panama	USD 1,000	AMERICATEL CENTROAMERICA	100.00
- INDUSTRIAS TELEPUERTO ICAN S.A.	San José (Costa Rica)	Colon 10,000	AMERICATEL CENTROAMERICA	100.00
- INDUSTRIAS TELEPUERTOS NICARAGUENSES S.A.	Managua (Nicaragua)	Cordobas 255,000,000	AMERICATEL CENTROAMERICA	100.00
- CHILE WIRELESS S.A.	Santiago (Chile)	CLP 100,000	ENTEL CHILE ENTEL INVERSIONES	99.00 1.00
- ENTEL INTERNATIONAL BVI Corporation	Tortola (British Virgin Islands)	USD 59,742,555.54	ENTEL CHILE	100.00

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- AMERICATEL CORPORATION	Florida (Usa)	USD 618	ENTEL INTERNATIONAL	80.00
- ENTEL USA HOLDING Inc.	Florida (Usa)	USD 1,000	ENTEL INTERNATIONAL	100.00
- AMERICASKY CORPORATION	Florida (Usa)	USD 1,000	ENTEL USA HOLDING ENTEL INTERNATIONAL	80.00 20.00
- ENTEL TELEFONIA PERSONAL S.A.	Santiago (Chile)	CLP 120,877,442,058	ENTEL CHILE ENTEL INVERSIONES	94.64 5.36
- ENTEL TELEFONIA MOVIL S.A.	Santiago (Chile)	CLP 1,774,099,595	ENTEL PERSONAL ENTEL CHILE	99.92 0.08
- ENTEL PCS TELECOMUNICACIONES S.A.	Santiago (Chile)	CLP 92,632,303,759	ENTEL PERSONAL ENTEL CHILE	99.90 0.10
- EMPRESA DE TELECOMUNICACIONES INSTA BEEP Limitada	Santiago (Chile)	CLP 2,052,500,000	ENTEL PERSONAL	100.00
- BUENAVENTURA S.A.	Santiago (Chile)	CLP 1,262,184,000	ENTEL PERSONAL	50.00
- ENTEL INVERSIONES S.A.	Santiago (Chile)	CLP 2,899,153,835	ENTEL CHILE	99.99
- ORBITEL PERÙ	Lima (Perù)	Nuevos Soles 39,271,200	ENTEL INVERSIONES ENTEL CHILE	54.31 45.69
- ENTEL INVESTMENTS Inc.	Tortola (British Virgin Islands)	USD 1,630	ENTEL CHILE	100.00
- ENTEL CALL CENTER S.A.	Santiago (Chile)	CLP 3,913,631,361	ENTEL CHILE ENTEL INVERSIONES	90.00 10.00
- ENTEL TELEFONIA LOCAL S.A.	Santiago (Chile)	CLP 20,788,939,458	ENTEL CHILE ENTEL INVERSIONES	99.00 1.00
- ENTEL SERVICIOS TELEFONICOS	Santiago (Chile)	CLP 992,480,226	ENTEL CHILE ENTEL INVERSIONES	91.42 8.58
- MICARRIER TELECOMUNICACIONES S.A.	Santiago (Chile)	CLP 2,908,443,548	ENTEL CHILE ENTEL INVERSIONES	99.99 0.01
- ORBITEL VENEZUELA S.A.	Caracas (Venezuela)	Bolivares 709,500	ENTEL CHILE	100.00
- RED DE TRANSACCIONES ELECTRONICAS S.A.	Santiago (Chile)	CLP 1,465,818,000	ENTEL CHILE	93.76
- SATEL TELECOMUNICACIONES S.A.	Santiago (Chile)	CLP 2,500,078,770	ENTEL CHILE ENTEL INVERSIONES	99.90 0.10
- EUSKALTEL S.A.	Zamudio Bizkaia (Spain)	Euro 187,800,000	STET INTERNATIONAL NETHERLANDS	18.00
- GOLDEN NETHERLANDS N.V.	Amsterdam (Holland)	NLG 572,000	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	33.22 66.78
- GOLDEN LINES International Communications Services Ltd	Ramat Gan (Israel)	Shekel 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)	Bolivianos 1,280,898,800	ETI	50.00
- DATACOM S.A.	La Paz (Bolivia)	Bolivianos 21,746,600	ENTEL BOLIVIA	100.00
INDIAN TELECOMMUNICATION Holding B.V.	Amsterdam (Holland)	NLG 303,000	STET INTERNATIONAL NETHERLANDS	100.00
- INTELCOM SAN MARINO S.p.A.	Republic of San Marino	ITL 3,000,000,000	STET INTERNATIONAL NETHERLANDS	70.00

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- TELEFONIA MOBILE SAMMARINESE S.p.A.	Republic of San Marino	ITL 150,000,000	INTELCOM SAN MARINO	51.00
- TELEHOUSE INTERNET EXCHANGE S.A.	Republic of San Marino	ITL 3,000,000,000	INTELCOM SAN MARINO	60.00
- BROAD BAND SERVICE S.A.	Republic of San Marino	ITL 500,000,000	INTELCOM SAN MARINO	20.00
- MEDITERRANEAN BROADBAND ACCESS S.A.	Crete (Greece)	GRD 4,000,000,000	STET INTERNATIONAL NETHERLANDS	60.00
- MULTIMEDIA CABLE S.A.	Barcelona (Spain)	ESP 1,936,000,000	STET INTERNATIONAL NETHERLANDS	44.00
- NETCO REDES S.A.	Madrid (Spain)	ESP 1,004,680,000	STET INTERNATIONAL NETHERLANDS	30.00
- SOLPART Participações S.A.	Rio de Janeiro (Brazil)	BRR 2,150,008,022.99	STET INTERNATIONAL NETHERLANDS	37.29
- TELECOM ITALIA DE ESPANA S.A.	Madrid (Spain)	ESP 350,000,000	STET INTERNATIONAL NETHERLANDS	100.00
- TELEKOM SRBIJA a.d.	Belgrade (Serbia)	Dinars 10,907,385,234	STET INTERNATIONAL NETHERLANDS	29.00
- TELEKOM AUSTRIA A.G.	Vienna (Austria)	Euro 1,090,500,000	STET INTERNATIONAL NETHERLANDS	29.78
TELECOM ITALIA GmbH	Vienna (Austria)	Sc.A. 500,000	TELECOM ITALIA	100.00
TELECOM ITALIA CAPITAL S.A.	Luxembourg	USD 1,000,000	TELECOM ITALIA	99.99
TELECOM ITALIA DO BRASIL Ltda	Rio de Janeiro (Brazil)	BRR 2,699,758	TELECOM ITALIA	99.99
TELECOM ITALIA IRELAND Limited	Dublin (Ireland)	Euro 2	TELECOM ITALIA	100.00
TELECOM ITALIA NETHERLANDS B.V.	Amsterdam (Holland)	Euro 18,200	TELECOM ITALIA	100.00
TELECOM ITALIA OF NORTH AMERICA Inc.	New York (USA)	USD 5,550,000	TELECOM ITALIA	100.00
TI BELGIUM S.P.R.L.- B.V.B.A.	Brussels (Belgium)	Euro 1,500,000	TELECOM ITALIA	100.00
TI FRANCE S.a.r.l.	Paris (France)	Euro 7,800	TELECOM ITALIA	100.00
TI GERMANY GmbH	Frankfurt (Germany)	Euro 25,000	TELECOM ITALIA	100.00
TELECOM ITALIA SPAIN SL	Madrid (Spain)	Euro 3,100	TELECOM ITALIA	100.00
TI SWITZERLAND GmbH	Zurich (Switzerland)	CHF 20,000	TELECOM ITALIA	100.00
TI TELECOM ITALIA AUSTRIA GmbH	Vienna (Austria)	Euro 35,000	TELECOM ITALIA	100.00
TI UNITED KINGDOM Ltd	London (UK)	GBP 1,000	TELECOM ITALIA	100.00
TI WEB S.A.	Luxembourg	USD 30,000	TELECOM ITALIA	99.97
- GLB SERVICOS INTERATIVOS S.A.	Rio de Janeiro (Brazil)	BRR 100,000,000	TI WEB	30.00
TMI – TELEMEDIA INTERNATIONAL ITALIA S.p.A.	Rome (Italy)	Euro 86,511,459.20	TELECOM ITALIA	100.00
- TMI – TELEMEDIA INTERNATIONAL LUXEMBOURG S.A.	Luxembourg	Euro 82,150,675	TMI – TELEMEDIA INTERN. ITALIA	99.99
- TMI – TELEMEDIA INTERNATIONAL LTD	London (UK)	USD 416,400,225	TMI – TELEMEDIA INTERN. LUXEMBOURG	100.00
- EURO DATACOM LTD	Huddersfield (UK)	GBP 306,666	TMI – TELEMEDIA INTERN. LTD	100.00

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- TMI – HUNGARY TRADING AND SERVICES LTD	Budapest (Hungary)	NLG	3,000,000	TMI – TELEMEDIA INTERN. LTD	100.00
- TELEMEDIA INTERNATIONAL USA Inc.	New Jersey (USA)	USD	119,022,889.68	TMI – TELEMEDIA INTERN. LTD	100.00
- TELECOM MEDIA INTERNATIONAL ITALY – CANADA INC.	Montreal (Canada)	\$ Can.	952,100	TMI – TELEMEDIA INTERN. LTD	100.00
- TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA	Sao Paulo (Brazil)	BRR	2,443,217	TMI – TELEMEDIA INTERN. LTD	99.99
- TMI TELEMEDIA INTERNATIONAL HONG KONG LTD	Hong Kong	Hk\$	794,661,046	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
Mobil services					
TELECOM ITALIA MOBILE S.p.A. *	Turin (Italy)	Euro	513,964,432.74	TELECOM ITALIA SOFTE	56.13 0.15
- STET MOBILE HOLDING N.V.	Amsterdam (Holland)	NLG	398,159,000	TELECOM ITALIA MOBILE	100.00
- AUTEL BETEILIGUNGS GmbH	Vienna (Austria)	Euro	35,000	STET MOBILE HOLDING	100.00
- MOBILKOM AUSTRIA A.G. & Co KG	Vienna (Austria)	Euro	79,940,117.59	AUTEL	25.00
- MOBILKOM AUSTRIA GESCHAFTSFUHRUNGS A.G.	Vienna (Austria)	Euro	100,000	AUTEL	25.00
- BITEL PARTICIPAÇÕES S.A.	Rio de Janeiro (Brazil)	BRR	2,290,264,028	STET MOBILE HOLDING	99.99
- TELE CELULAR SUL PARTICIPAÇÕES S.A.	Curitiba (Brazil)	BRR	245,033,341	BITEL	51.35
- TELEPAR CELULAR S.A.	Curitiba (Brazil)	BRR	333,880,024.34	TELE CELULAR SUL	87.43
- TELESC CELULAR S.A.	Florianopolis (Brazil)	BRR	249,170,454.34	TELE CELULAR SUL	91.62
- CTMR CELULAR S.A.	Pelotas (Brazil)	BRR	21,251,917.26	TELE CELULAR SUL	81.32
- TELE NORDESTE CELULAR PARTICIPAÇÕES S.A.	Recife (Brazil)	BRR	186,053,905.66	BITEL	51.24
- TELEPISA CELULAR S.A.	Teresina (Brazil)	BRR	23,392,322.95	TELE NORDESTE CELULAR	97.52
- TELECEARÀ CELULAR S.A.	Fortaleza (Brazil)	BRR	89,439,654.33	TELE NORDESTE CELULAR	85.65
- TELERN CELULAR S.A.	Natal (Brazil)	BRR	42,823,497.29	TELE NORDESTE CELULAR	92.57
- TELPA CELULAR S.A.	Joao Pessoa (Brazil)	BRR	43,164,229.17	TELE NORDESTE CELULAR	89.88
- TELPE CELULAR S.A.	Recife (Brazil)	BRR	113,848,783.98	TELE NORDESTE CELULAR	94.87
- TELASA CELULAR S.A.	Maceiò (Brazil)	BRR	31,409,860.10	TELE NORDESTE CELULAR	97.20
- TIMNET.COM S.A.	Rio de Janeiro (Brazil)	BRR	78,000,000	TELE NORDESTE CELULAR TELE CELULAR SUL MAXITEL STET MOBILE HOLDING STARCEL	20.00 20.00 20.00 20.00 20.00
- BOUYGUES DECAUX TELECOM S.A.	Guyancourt (France)	Euro	294,356,302.32	STET MOBILE HOLDING	19.61

* Company listed on Milan Stock Exchange.

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- MAXITEL S.A.	Belo Horizonte (Brazil)	BRR	677,679,703	STET MOBILE HOLDING BITEL	43.15 46.85
- MAXITEL TELECOMUNICAÇÕES Ltda	Salvador de Bahia (Brazil)	BRR	1,000	MAXITEL S.A.	99.99
- OFFSHORE FINANCIAL & SECURITIES Inc.	Tortola (British Virgin Island)	USD	6,104,860	MAXITEL S.A.	100.00
- STET HELLAS TELECOMMUNICATIONS S.A.	Athens (Greece)	GRD	36,300,000,000	STET MOBILE HOLDING	59.29
- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A.	Athens (Greece)	GRD	2,700,000,000	STET HELLAS	100.00
- TECHNOLOGIE INNOVATION ET MOBILITÉ S.a.r.l.	Tunis (Tunisia)	Dinari	10,000	STET MOBILE HOLDING	80.00
- TIM BRASIL S.A.	Sao Paulo (Brazil)	BRR	1,287,041,568	STET MOBILE HOLDING	100.00
- BLUCEL S.A.	Sao Paulo (Brazil)	BRR	271,824,025	TIM BRASIL	100.00
- STARCEL S.A.	Sao Paulo (Brazil)	BRR	512,777,589	TIM BRASIL	100.00
- UNICEL S.A.	Sao Paulo (Brazil)	BRR	495,300,000	TIM BRASIL	100.00
- TIM INTERNATIONAL B.V.	Amsterdam (Holland)	Euro	20,000	TELECOM ITALIA MOBILE	100.00
- CORPORACION DIGITEL C.A.	Caracas (Venezuela)	Bolivares	42,823,450,241	TIM INTERNATIONAL B.V.	56.56
- IS-TIM Telekomunikasyon Hizmetleri A.S.	Istanbul (Turkey)	Turkish lire	545,000,000,000,000	TIM INTERNATIONAL B.V.	49.00
- TIM PERÙ S.A.C.	Lima (Perù)	Nuevos Soles	652,231,998	STET MOBILE HOLDING	100.00
- TIMNET.COM PERÙ S.A.C.	Lima (Perù)	Nuevos Soles	1,000	TIM PERU'	100.00
Satellite services					
IRIDIUM ITALIA S.p.A. in liquidation	Rome (Italy)	Euro	2,575,000	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE	30.00 35.00 35.00
- IRIDIUM SERVICES EUROPE GmbH & Co.KG in liquidation	Dusseldorf (Germany)	DEM	29,000,000	IRIDIUM ITALIA	34.00
- IRIDIUM SERVICES EUROPE Verwaltung GmbH	Dusseldorf (Germany)	DEM	50,000	IRIDIUM ITALIA	34.00
TELESPAZIO S.p.A.	Rome (Italy)	Euro	95,000,000	TELECOM ITALIA	100.00
- COM.STAR S.r.l. (in liquidation)	Rome (Italy)	ITL	2,000,000,000	TELESPAZIO	100.00
- CTM – Centro di Telerilevamento Mediterraneo S.c.p.A.	Palermo (Italy)	ITL	1,839,000,000	TELESPAZIO	51.00
- TELESPAZIO BRASIL S.A.	Rio de Janeiro (Brazil)	BRR	34,520,000	TELESPAZIO ENTEL CHILE	87.49 1.39
- e-GEOS S.p.A.	Matera (Italy)	Euro	105,000	TELESPAZIO EURIMAGE FINSIEL	51.00 2.00 1.00
- EURIMAGE S.p.A.	Rome (Italy)	ITL	8,600,000,000	TELESPAZIO	51.00
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V.	Amsterdam (Holland)	Euro	16,881,882	TELESPAZIO	72.01
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V.	Amsterdam (Holland)	Euro	45,500	EUROPEAN COMPANY MOBILE COMMUNICATION SERVICES	100.00
- RARTEL S.A.	Bucharest (Romania)	ROL	4,685,000,000	TELESPAZIO TELEO	50.06 1.00

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- TELEO S.p.A.	Rome (Italy)	ITL	6,100,000,000	TELESPAZIO	100.00
- TELEOS B.V.	Amsterdam (Holland)	NLG	40,000	TELESPAZIO	100.00
- TELEOS INTERNATIONAL B.V.	Amsterdam (Holland)	NLG	40,000	TELEOS	100.00
- TELESPAZIO LUXEMBOURG S.A.	Luxembourg	USD	245,260,800	TELESPAZIO	100.00
- ASTROLINK INTERNATIONAL LLC	Delaware (USA)	USD	1,350,100,000	TELESPAZIO LUX.	18.52
- TELESPAZIO IRELAND Ltd	Dublin (Ireland)	USD	1,000,000	TELESPAZIO LUX.	100.00
- TELESPAZIO NORTH AMERICA Inc.	Delaware (USA)	USD	10	TELESPAZIO	100.00
- T.I.SCOM S.A. in liquidation	Curitiba (Brazil)	BRR	7,735,000	TELESPAZIO	51.00
- CZECH TELESPAZIO S.r.l. in liquidation	Praga (Czech Republic)	CZK	1,500,000	TELECOM ITALIA	40.00
- DATASPAZIO S.p.A.	Rome (Italy)	ITL	980,000,000	TELESPAZIO	49.00
- MAREMS-V&D Service S.A.	Moscow (Russia)	RUR	7,135,500	TELESPAZIO	49.00
- POLITEL S.A.	Warsaw (Poland)	PLN	100,000	TELESPAZIO TMI – TELEMEDIA INTERN. Ltd	10.00 10.00
Information technology services					
TI.IT – TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.	Rome (Italy)	ITL	50,000,000,000	TELECOM ITALIA	100.00
FINSIEL – Consulenza e Applicazioni Informatiche S.p.A.	Rome (Italy)	Euro	59,982,384.60	TELECOM ITALIA FINSIEL	77.92 0.63
- ASPASIEL S.r.l. *	Rome (Italy)	Euro	260,000	FINSIEL	50.00
- BANKSIEL – Società di Informatica e Organizzazione p.A.	Milan (Italy)	Euro	10,400,000	FINSIEL	55.50
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A.	Rende (Cosenza, Italy)	Euro	769,585	FINSIEL BANKSIEL	2.00 98.00
- CENTROSIEL S.p.A.**	Milan (Italy)	Euro	516,600	BANKSIEL	47.00
- SAPED – Studio Analisi Program. Elaborazione Dati S.p.A.	Siena (Italy)	ITL	2,000,000,000	BANKSIEL	20.00
- CONSIEL – Società di Management Consulting e Formazione p.A.	Milan (Italy)	Euro	5,148,000	FINSIEL	92.00
- ASKA S.r.l. in liquidation	Milan (Italy)	Euro	10,400	CONSIEL	60.00
- CONSIEL DO BRASIL Ltda	Sao Paulo (Brazil)	BRR	222,223	CONSIEL	99.99
- JMAC CONSIEL S.p.A.	Milan (Italy)	Euro	156,000	CONSIEL	45.00
- DATASIEL – Sistemi e Tecnologie d'Informatica S.p.A.	Genoa (Italy)	Euro	2,582,500	FINSIEL	50.00
- EIS – Elettronica Ingegneria Sistemi S.p.A.	Rome (Italy)	Euro	5,165,000	FINSIEL	100.00
- EISYS S.p.A.	Rome (Italy)	ITL	1,200,000,000	EIS	25.00
- POLCESCA S.r.l.	Rome (Italy)	ITL	2,020,000,000	EIS	16.66
- FINSIEL HELLAS S.A. in liquidation	Koropi (Greece)	GRD	230,000,000	FINSIEL	91.00
- FINSIEL ROMANIA S.r.l.	Bucharest (Romania)	ROL	11,841,500,000	FINSIEL	90.53
- IC SOFT S.p.A. in liquidation	Naples (Italy)	ITL	200,000,000	FINSIEL	100.00
- INFORMATICA TRENTINA S.p.A.	Trento (Italy)	Euro	3,100,000	FINSIEL	40.41
- INSIEL – Informatica per il Sistema degli Enti Locali S.p.A.	Trieste (Italy)	Euro	7,755,000	FINSIEL	52.00

* Finsiel exercises the right to vote on 1% of the capital held by another stockholder

** Finsiel exercises the right to vote on 4% of the capital held by another stockholder

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- SIT – Sistemi Interportuali Trieste S.p.A. in liquidation	Trieste (Italy)	ITL	250,000,000	INSIEL	56.00
- INTERSIEL – Società Interregionale Sistemi Informativi Elettronici S.p.A.	Rende (Cosenza, Italy)	Euro	1,033,000	FINSIEL	100.00
- KRENESIEL – Società Sarda di Informatica S.p.A.	Sassari (Italy)	Euro	2,582,300	FINSIEL INSIEL	41.00 10.00
- LOTTOMATICA S.p.A.*	Rome (Italy)	Euro	87,957,250	FINSIEL	18.36
- NETIKOS S.p.A.	Rome (Italy)	Euro	10,320,000	FINSIEL TI.IT - TELECOM ITALIA	75.00 25.00
- NETIKOS FINLAND OY S.p.A.	Helsinki (Finland)	Euro	10,700	NETIKOS	100.00
- NETSIEL – Networks Produttivi per Sistemi Informativi Elettronici S.p.A.	Bari (Italy)	Euro	65,073,960	TELECOM ITALIA FINSIEL	68.65 31.35
- SIBISIEL – Società di Informatica per la Banca e l'Impresa S.p.A.	Bari (Italy)	Euro	1,032,920	NETSIEL SIBISIEL	90.20 9.80
- PRAXIS CALCOLO S.p.A.	Milan (Italy)	Euro	1,056,000	FINSIEL	22.50
- SISPI S.p.A.	Palermo (Italy)	Euro	2,066,000	FINSIEL	49.00
- SOGEI Società Generale d'Informatica S.p.A.	Rome (Italy)	Euro	10,330,000	FINSIEL	100.00
- GEOWEB S.p.A.	Rome (Italy)	ITL	1,000,000,000	SOGEI	40.00
- TELESISTEMI FERROVIARI S.p.A.	Rome (Italy)	Euro	77,003,670	FINSIEL	61.00
- VENIS – Venezia Informatica e Sistemi S.p.A.	Venice (Italy)	Euro	1,549,500	FINSIEL INSIEL	20.40 30.60
- WEBEGG S.p.A.	Ivrea Turin (Italy)	Euro	33,107,160	TI.IT - TELECOM ITALIA FINSIEL	19.80 30.20
- WEBRED S.p.A.	Perugia (Italy)	Euro	1,560,000	FINSIEL	51.00
- CROMA S.r.l. in liquidation	Perugia (Italy)	ITL	80,000,000	WEBRED	50.00
- VIRTUALAND PARK S.p.A.	Perugia (Italy)	ITL	200,000,000	WEBRED	12.50
RETE TELEMATICA PIEMONTESE S.p.A.	Turin (Italy)	ITL	1,445,136,000	TELECOM ITALIA	16.52
SIEMENS INFORMATICA S.p.A.	Milan (Italy)	Euro	6,192,000	TELECOM ITALIA	49.00
SODALIA S.p.A.	Trento (Italy)	Euro	3,099,000	TELECOM ITALIA	100.00
- SODALIA NORTH AMERICA Inc.	Virginia (USA)	USD	700,000	SODALIA	100.00
TELEPORTO ADRIATICO S.r.l.	Venice (Italy)	ITL	3,200,000,000	TELECOM ITALIA INSIEL	7.50 4.68
TELESOFT S.p.A.	Rome (Italy)	ITL	40,500,000,000	TELECOM ITALIA FINSIEL	60.00 40.00
- TELESOFT HELLAS S.A.	Athens (Greece)	GRD	20,000,000	TELESOFT	100.00
- TELESOFT RUSSIA ZAO	Moscow (Russia)	RUR	1,592,000	TELESOFT	75.00
- TECO SOFT ESPANA S.A.	Madrid (Spain)	ESP	60,000,000	TELESOFT	100.00
- EUSTEMA S.p.A.	Rome (Italy)	ITL	600,000,000	TELESOFT	67.33
- PAS GROUP S.r.l.	Milan (Italy)	ITL	180,000,000	EUSTEMA	16.66
Other activities					
ATESIA – Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A.	Rome (Italy)	Euro	3,150,406	TELECOM ITALIA	100.00
CARTESIA – Cartografia digitale S.p.A.	Rome (Italy)	ITL	2,000,000,000	TELECOM ITALIA	50.00
EDOTEL S.p.A.	Turin (Italy)	Euro	1,020,000	TELECOM ITALIA TELECOM ITALIA MOBILE	60.00 40.00
- FICOMPTA 3 S.p.A.	Milan (Italy)	Euro	6,300,000	EDOTEL	15.00

*Company listed on Milan Stock Exchange.

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
ELETTRA TLC S.p.A.	Rome (Italy)	ITL	20,000,000,000	MEDITERRANEAN NAUTILUS S.A.	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)	Euro	100,000	TELECOM ITALIA	11.75
FRATELLI ALINARI S.p.A.	Firenze (Italy)	Euro	7,200,000	TELECOM ITALIA	11.35
HUIT S.A.	Luxembourg	ITL	10,402,650,000	TELECOM ITALIA	79.67
- HUIT II S.à.r.l.	Luxembourg	ITL	39,838,500,000	HUIT	100.00
IM.SER S.p.A.	Turin (Italy)	ITL	280,000,000,000	TELECOM ITALIA	40.00
IMMSI S.p.A.*	Turin (Italy)	ITL	220,000,000,000	TELECOM ITALIA	45.31
INSULA S.p.A.	Venice (Italy)	ITL	4,000,000,000	TELECOM ITALIA	12.00
IREOS S.p.A. in liquidation	Rome (Italy)	ITL	200,000,000	TELECOM ITALIA	100.00
MIX S.r.l.	Milan (Italy)	Euro	99,000	TELECOM ITALIA MC LINK	9.75 9.75
NETESI S.p.A.	Milan (Italy)	Euro	1,628,627	TELECOM ITALIA	12.30
SAIAT - Società Attività Intermedie Ausiliarie Telecomunicazioni p.A.	Turin (Italy)	Euro	35,745,120	TELECOM ITALIA	100.00
- ASCAI SERVIZI S.r.l.	Rome (Italy)	ITL	142,000,000	SAIAT	35.21
- TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A.	Milan (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)	Euro	11,445,360	TELECOM ITALIA	100.00
- TRADECOM – Soluzioni Avanzate per il commercio, il turismo e i servizi S.p.A.	Rome (Italy)	ITL	500,000,000	SARITEL FINSIEL	24.50 24.50
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A.	L'Aquila (Italy)	ITL	3,000,000,000	TELECOM ITALIA	100.00
SITEBA Sistemi Telematici Bancari S.p.A.	Milan (Italy)	ITL	5,000,000,000	TELECOM ITALIA	30.00
SOFTE S.A.	Luxembourg	USD	100,000,000	TELECOM ITALIA SAIAT	99.99 0.01
- SOGERIM S.A.	Luxembourg	Euro	525,000	SOFTE SAIAT	99.95 0.05
- ITALTEL HOLDING S.p.A.	Milan (Italy)	ITL	217,738,400,000	SOGERIM	19.76
STREAM S.p.A.	Rome (Italy)	ITL	816,040,000,000	TELECOM ITALIA	50.00
STT-Società Trasporto Telematico S.p.A.	Verona (Italy)	Euro	5,200,000	TELECOM ITALIA	30.00
TECNO SERVIZI MOBILI S.r.l.	Rome (Italy)	Euro	26,000	TELECOM ITALIA	100.00
TELE PAYROLL SERVICES S.p.A.	Rome (Italy)	Euro	2,840,000	TELECOM ITALIA	100.00
TELEMACO IMMOBILIARE S.p.A.	Rome (Italy)	Euro	9,600,000	TELECOM ITALIA	40.00
TELSI UNLIMITED	London (UK)	GBP	1,119,364,000	TELECOM ITALIA	100.00
TELECOM ITALIA LAB S.p.A.	Turin (Italy)	Euro	10,985,000	TELECOM ITALIA	100.00
- CYGENT Inc.	California (USA)	USD	28,708,549	TELECOM ITALIA LAB	22.48
- LOQUENDO - SOCIETA' PER AZIONI	Turin (Italy)	Euro	2,500,000	TELECOM ITALIA LAB	100.00
- FINTECH FINANZIARIA TECNOLOGICA S.p.A.	Turin (Italy)	Euro	25,820,000	TELECOM ITALIA LAB	50.00
- IFM INFOMASTER S.p.A.	Genoa (Italy)	Euro	161,765	TELECOM ITALIA LAB	12.00
- LOCALPORT S.p.A.	Ivrea - Turin	ITL	2,670,000,000	TELECOM ITALIA LAB	15.00
- SIOSISTEMI S.p.A.	Brescia (Italy)	ITL	500,000,000	TELECOM ITALIA LAB	40.00

* Company listed on Milan Stock Exchange.

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- TELECOM ITALIA LAB General Partner S.A.	Luxembourg	USD 30,000	TELECOM ITALIA LAB	99.97
- TELECOMMUNICATION ADVISER LLC	Delaware (USA)	USD 560,280	TELECOM ITALIA LAB GENERAL PARTNER	37.50
- TELECOM ITALIA LAB S.A.	Luxembourg	USD 30,000	TELECOM ITALIA LAB	99.97
- TELECOM ITALIA LAB B.V.	Amsterdam (Holland)	NLG 40,000	TELECOM ITALIA LAB	100.00
- VIRTUAL SELF LTD	Ramat Gan (Israel)	Shekel 3,156	TELECOM ITALIA LAB	14.28
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
Internet and Media				
SEAT PAGINE GIALLE S.p.A. *	Milan (Italy)	ITL 563,068,971,200	TELECOM ITALIA HUIT II TELESPAZIO SARITEL SOFTE	54.65 3.63 1.10 0.01 0.13
- BFINANCE.COM LIMITED	London (UK)	GBP 23,736	SEAT PAGINE GIALLE	17.20
- CECCHI GORI COMMUNICATIONS S.p.A.	Rome (Italy)	ITL 9,805,000,000	SEAT PAGINE GIALLE	100.00
- ARTES S.r.l. (in liquidation)	Florence (Italy)	ITL 3,280,000,000	CECCHI GORI COMMUNICATIONS	99.98
- BETA TELEVISION S.r.l.	Rome (Italy)	Euro 12,151,928	CECCHI GORI COMMUNICATIONS	51.00
- CECCHI GORI NEWS & SPORT S.r.l.	Rome (Italy)	L. 1,500,000,000	BETA TELEVISION T.V. INTERNAZIONALE	50.00 50.00
- MTV NETWORKS S.r.l.	Milan (Italy)	ITL 159,000,000	BETA TELEVISION	100.00
- MTV PUBBLICITA' S.r.l.	Milan (Italy)	ITL 20,000,000	BETA TELEVISION	100.00
- MTV ITALIA PRODUCTION S.r.l.	Milan (Italy)	ITL 20,000,000	BETA TELEVISION	100.00
- CECCHI GORI ADVERTISING S.r.l.	Rome (Italy)	ITL 1,000,000,000	CECCHI GORI COMMUNICATIONS	100.00
- CECCHI GORI BROADCASTING S.r.l.	Rome (Italy)	ITL 200,000,000	CECCHI GORI COMMUNICATIONS T.V. INTERNAZIONALE	50.00 50.00
- GLOBO EUROPE B.V.	Amsterdam (Holland)	NGL 400,000	CECCHI GORI COMMUNICATIONS	100.00
- GLOBO COMMUNICATION S.a.m.	Montecarlo	FRF 56,000,000	GLOBO EUROPE B.V.	99.99
- T.V. INTERNAZIONALE S.p.A.	Rome (Italy)	ITL 12,000,000,000	GLOBO EUROPE B.V.	100.00
- BEIGUA S.r.l.	Milan (Italy)	ITL 99,000,000	T.V. INTERNAZIONALE	51.00
- GIAROLO S.r.l.	Milan (Italy)	ITL 99,000,000	T.V. INTERNAZIONALE	75.50
- T.V.I. INTERNAZIONALE MONTECARLO S.a.m.	Montecarlo	FRF 1,000,000	GLOBO EUROPA B.V.	99.50
- CONSODATA S.A.	Levallois Perret (France)	Euro 4,731,867	SEAT PAGINE GIALLE	46.50
- BCA FINANCES S.A.	Lille (France)	FRF 700,000	CONSODATA S.A.	100.00
- BCA S.A.	Lille (France)	FRF 500,000	CONSODATA S.A. BCA FINANCES S.A.	17.00 83.00
- CAL-CONSUMER ACCESS LIMITED	Kingston (UK)	GBP 200,000	CONSODATA S.A.	100.00
- CONSODATA GROUP	London (UK)	GBP 2	CAL-CONSUMER ACCESS LIMITED	100.00

* Company listed on Milan Stock Exchange.

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- CONSODATA UK	London (UK)	GBP	2	CAL-CONSUMER ACCESS LIMITED	100.00
- ERICH LIMITED	Kingston (UK)	GBP	2	CAL-CONSUMER ACCESS LIMITED	100.00
- RFM DATA LTD	Kingston (UK)	GBP	2	CAL-CONSUMER ACCESS LIMITED	100.00
- LIVING LIFESTYLE LTD	Kingston (UK)	GBP	2	CAL-CONSUMER ACCESS LIMITED	100.00
- CABESTAN S.A.	Suresnes (France)	FRF	250,000	CONSODATA S.A.	100.00
- CONSODATA S.p.A.	Rome (Italy)	Euro	6,500,000	CONSODATA S.A.	100.00
- DOMINO RESEARCH S.r.l.	Milan (Italy)	ITL	90,000,000	CONSODATA S.p.A.	60.00
- PHARMASOFT CONSULTING S.r.l.	Rome (Italy)	ITL	2,000,000,000	CONSODATA S.p.A.	60.00
- PUBBLIBABY S.p.A.	Cusago (Milan Italy)	Euro	100,000	CONSODATA S.p.A.	61.00
- FINANZA E GESTIONE S.r.l.	Milan (Italy)	ITL	150,000,000	CONSODATA S.p.A.	60.00
- DWI S.p.A.	Verona (Italy)	Euro	500,000	CONSODATA S.p.A.	51.00
- CONSOBELGIUM S.A.	Brussels (Belgium)	Euro	62,500	CONSODATA S.A.	100.00
- CONSODATA ESPANA S.A.	Barcelona (Spain)	ESP	310,000,000	CONSODATA S.A.	100.00
- CONSODATA INTERACTIVE S.A.	Levallois Perrot (France)	Euro	40,000	CONSODATA S.A.	100.00
- CONSODATA ITALIA S.r.l.	Milan (Italy)	ITL	20,000,000	CONSODATA S.A.	100.00
- CONSODATA SOLUTIONS S.A.	Levallois Perrot (France)	Euro	270,000	CONSODATA S.A.	100.00
- CONSODATA SYSTEME S.A.	Levallois Perrot (France)	Euro	40,000	CONSODATA S.A.	100.00
- DATATRADER S.A.	Rueil Malmaison (France)	Euro	266,980	CONSODATA S.A.	50.00
- MEDIA PRISME S.A.	Paris (France)	FRF	250,000	CONSODATA S.A. BCA FINANCES	50.00 50.00
- MP LIST S.A.	Bruxelles (Belgium)	Fr. B.	750,000	MEDIA PRISME	100.00
- DATABANK S.p.A.	Milan (Italy)	ITL	1,820,000,000	SEAT PAGINE GIALLE	93.46
- MARKET & INDUSTRY ANALYSTS S.A.	Bruxelles (Belgium)	Fr. B.	4,340,000	DATABANK	100.00
- DBK S.A.	Madrid (Spain)	PTS	16,500,000	DATABANK	99.99
- DATABANK WETTBEWERBS-MARKT-UND FINANZANALYSE GmbH	Darmstadt (Germany)	DM	1,700,000	DATABANK	60.00
- DATA HOUSE S.p.A.	Milan (Italy)	ITL	375,000,000	SEAT PAGINE GIALLE	52.00
- ITALSERVICE S.r.l.	Varese (Italy)	ITL	20,000,000	DATA HOUSE	100.00
- PROSISTEMI S.r.l.	Milan (Italy)	ITL	20,000,000	ITALSERVICE S. r.l.	33.35
- RIBES S.p.A.	Parma (Italy)	Euro	100,000	ITALSERVICE S. r.l.	17.50
- ITALSERVICE S.p.A.	Milan (Italy)	ITL	200,000,000	DATA HOUSE ITALSERVICE S. r.l.	40.00 60.00
- CEDAC S.r.l.	Brescia (Italy)	ITL	20,000,000	DATA HOUSE	30.00
- MILANO DATA ENTRY S.r.l.	Milan (Italy)	ITL	20,000,000	DATA HOUSE	100.00
- TM3 S.r.l.	Bergamo (Italy)	ITL	20,000,000	DATA HOUSE	35.00
- VINTEL S.r.l.	Como (Italy)	ITL	70,000,000	DATA HOUSE	25.00

(continued) List of major equity holdings

Company name	Head office		Share capital	Held by	%
- DISCOVERITALIA S.p.A.	Novara (Italy)	ITL	10,000,000,000	SEAT PAGINE GIALLE	25.00
- ELETTRONCLICK S.p.A.	Milan (Italy)	Euro	151,000	SEAT PAGINE GIALLE	14.70
- EUREDIT S.A.	Paris (France)	Euro	400,000	SEAT PAGINE GIALLE	84.99
- EURODIRECTORY S.A.	Luxembourg	NGL	3,580,000	SEAT PAGINE GIALLE	50.00
- ESRI ITALIA S.p.A.	Rome (Italy)	Euro	500,000	SEAT PAGINE GIALLE	49.00
- FINANZIARIA WEB S.p.A.	Turin (Italy)	ITL	19,212,147,000	SEAT PAGINE GIALLE	60.00
- MATRIX S.p.A.	Milan (Italy)	ITL	2,200,000,000	SEAT PAGINE GIALLE FINANZIARIA WEB	0.70 66.00
- CSF SISTEMI S.r.l.	Anagni (Frosinone, Italy)	Euro	1,186,000	MATRIX	30.00
- EMAX TRADE S.p.A.	Milan (Italy)	ITL	200,000,000	MATRIX	45.45
- EXPERT SYSTEM S.p.A.	Modena (Italy)	ITL	276,923,000	MATRIX	35.00
- FREEFINANCE S.p.A.	Milan (Italy)	Euro	148,102	MATRIX	24.88
- GAY.IT S.p.A.	Pisa (Italy)	Euro	1,000,000	MATRIX	22.50
- GIALLO MARKET S.r.l.	Milan (Italy)	Euro	1,000,000	MATRIX	90.00
- GOALLARS B.V.	Amsterdam (Holland)	Euro	100,000	MATRIX	55.00
- KMATRIX S.r.l.	Milan (Italy)	Euro	100,000	MATRIX	100.00
- LINK S.r.l.	Milan (Italy)	ITL	20,000,000	MATRIX	100.00
- MIA ECONOMIA.com S.r.l.	Milan (Italy)	Euro	1,500,000	MATRIX	30.00
- NETEX S.r.l.	Milan (Italy)	Euro	10,000	MATRIX	50.00
- OLA' S.r.l.	Milan (Italy)	ITL	20,000,000	MATRIX	51.00
- ZDNET ITALIA S.r.l.	Milan (Italy)	Euro	400,000	MATRIX	51.00
- FINSATEL S.r.l.	Turin (Italy)	ITL	266,000,000	SEAT PAGINE GIALLE	100.00
- GENERAL PARTNER GmbH	Munich (Germany)	Euro	25,000	SEAT PAGINE GIALLE	100.00
- GRUPPO BUFFETTI S.p.A.	Rome (Italy)	ITL	22,725,000,000	SEAT PAGINE GIALLE	99.40
- BUFFETTI S.r.l. a socio unico	Rome (Italy)	ITL	20,000,000	GRUPPO BUFFETTI	100.00
- EMMEDI 97 S.r.l. a socio unico in liquid.	Rome (Italy)	ITL	20,000,000	GRUPPO BUFFETTI	100.00
- IL CENTRO CONTABILE in liquidation	Rome (Italy)	ITL	4,379,426,000	GRUPPO BUFFETTI	89.70
- IS PRODUCTS S.p.A.	Lecco (Italy)	ITL	18,000,000,000	GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS	27.78 72.22
- INCAS PRODUCTION S.r.l.	Venaria Reale (Turin, Italy)	ITL	1,000,000,000	IS PRODUCTS	100.00
- INCAS FRANCE S.A. in liquidation	Asnieres (France)	FRF	19,168,900	IS PRODUCTS	100.00

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- L'UFFICIO MODERNO S.r.l.	Florence (Italy)	ITL 20,000,000	GRUPPO BUFFETTI IL CENTRO CONTABILE	15.00 15.00
- MAGIQ 32 S.r.l. with a sole stockholder	Rome (Italy)	ITL 1,000,000,000	GRUPPO BUFFETTI	100.00
- OFFICE AUTOMATION PRODUCTS S.p.A.	Lecco (Italy)	ITL 1,500,000,000	GRUPPO BUFFETTI	84.00
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A.	Rome (Italy)	ITL 250,000,000	GRUPPO BUFFETTI	99.99
- SK DIRECT S.r.l.	Rome (Italy)	ITL 4,621,000,000	GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS	4.31 95.69
- OR.MA INFORMATICA S.r.l.	Milan (Italy)	ITL 20,000,000	SK DIRECT	100.00
- GIALLO e.com S.p.A.	Turin (Italy)	Euro 150,000	SEAT PAGINE GIALLE	100.00
- GIALLO VIAGGI.it S.p.A.	Turin (Italy)	Euro 100,000	SEAT PAGINE GIALLE	100.00
- MEDIOLANUM TOURIST SERVICE S.r.l.	Milan (Italy)	ITL 20,000,000	GIALLO VIAGGI S.p.A.	100.00
- GIALLO LAVORO S.p.A.	Turin (Italy)	Euro 100,000	SEAT PAGINE GIALLE	100.00
- GIALLO PROFESSIONAL PUBLISHING S.p.A.	Turin (Italy)	Euro 1,000,000	SEAT PAGINE GIALLE	100.00
- QUASAR E ASSOCIATI S.r.l.	Milan (Italy)	Euro 20,408	GIALLO PROFESSIONAL PUBLISHING	51.00
- EDITORIALE QUASAR S.r.l.	Milan (Italy)	ITL 20,000,000	QUASAR E ASSOCIATI	100.00
- GRUPPO EDITORIALE JCE S.p.A.	Cinisello Balsamo (Milan, Italy)	ITL 2,000,000,000	GIALLO PROFESSIONAL PUBLISHING	65.00
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A.	Faenza (Italy)	ITL 500,000,000	GIALLO PROFESSIONAL PUBLISHING	60.00
- FAENZA EDITRICE DO BRASIL LTDA	Sao Paulo (Brazil)	BRR 10,000	GRUPPO FAENZA EDITRICE FAENZA EDITRICE IBERICA	90.00 10.00
FAENZA EDITRICE IBERICA S.L.	Castellon de la plana (Spain)	ESP 500,000	GRUPPO FAENZA EDITRICE	100.00
- PROMO ADVERTISING S.r.l.	Faenza (Italy)	ITL 20,000,000	GRUPPO FAENZA EDITRICE	100.00
- GIALLO VOICE S.p.A.	Turin (Italy)	Euro 1,000,000	SEAT PAGINE GIALLE	100.00
- CALL CENTER SERVICES S.r.l.	Cernusco sul Naviglio (Milan, Italy)	Euro 10,350	GIALLO VOICE	66.00
- IMR S.r.l.	Biella (Italy)	ITL 20,000,000	GIALLO VOICE	51.00
- OPS S.r.l.	Milan (Italy)	ITL 20,000,000	GIALLO VOICE	51.00
- TELEPROFESSIONAL S.r.l.	Monza (Italy)	ITL 100,000,000	GIALLO VOICE	66.00
- TIN WEB S.r.l.	Milan (Italy)	Euro 99,000	SEAT PAGINE GIALLE	100.00
- KOMPASS ITALIA S.p.A.	Turin (Italy)	ITL 2,739,744,000	SEAT PAGINE GIALLE	100.00
- ITALBIZ.COM INC.	California (USA)	USD 13,800	SEAT PAGINE GIALLE	72.46
- MC LINK S.p.A.	Rome (Italy)	ITL 4,899,320,000	SEAT PAGINE GIALLE	66.00
- FUTUR COM S.r.l.	Sesto San Giovanni (Milan, Italy)	ITL 20,000,000	MC LINK	23.09
- MONDUS LTD	Oxford (UK)	GBP 1,879.90	SEAT PAGINE GIALLE	46.44
- NETCREATIONS Inc.	New York (USA)	USD 1	SEAT PAGINE GIALLE	100.00
- PAN-ADRESS GmbH & Co.KG	Monaco (Germany)	Euro 204,000	SEAT PAGINE GIALLE	100.00
- CONSODATA DEUTSCHLAND	Monaco (Germany)	DEM 50,000	PAN-ADRESS GmbH	100.00
- CRM CONSULTING GmbH	Mainz (Germany)	Euro 33,600	PAN-ADRESS GmbH	25.30

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- MEDIPLAN GmbH	Munich (Germany)	DEM 50,000	PAN-ADRESS GmbH	100.00
- POLIX S.p.A.	Milan (Italy)	Euro 100,000	SEAT PAGINE GIALLE	78.50
- RONCADIN RESTAURANTS S.p.A.	Fiume Veneto (Pordenone, Italy)	ITL 1,770,566,000	SEAT PAGINE GIALLE	25.00
- SAPENDI S.p.A.	Novara (Italy)	ITL 10,000,000,000	SEAT PAGINE GIALLE	25.00
- SCS COMUNICAZIONE INTEGRATA S.p.A. in liquidation	Rome (Italy)	ITL 1,200,000,000	SEAT PAGINE GIALLE	100.00
- CLIPPER S.p.A. in liquidation	Rome (Italy)	ITL 200,000,000	SCS COMUNICAZIONE INTEGRATA	50.00
- SEAT CAPITAL INVESTMENTS S.A.	Luxembourg	Euro 5,384,500	SEAT PAGINE GIALLE	99.99
- ISCE - Investors in Sapient & Cuneo Europe S.A.	Luxembourg	ITL 8,400,000,000	SEAT CAPITAL INV.	25.00
- WISEQUITY N.V.	Amsterdam (Holland)	Euro 50,000	SEAT CAPITAL INV.	50.00
- TELEGATE HOLDING GmbH	Martinsried (Germany)	DEM 51,000	SEAT PAGINE GIALLE	100.00
- TELEGATE A.G.	Martinsried (Germany)	Euro 12,730,000	SEAT PAGINE GIALLE TELEGATE HOLDING	13.54 50.99
- 1180.COM GmbH	Martinsried (Germany)	Euro 25,000	TELEGATE A.G.	85.00
- TELEGATE ANKLAM GmbH	Anklam (Germany)	DEM 100,000	TELEGATE A.G.	100.00
- MOBILSAFE A.G.	Meerbusch (Germany)	Euro 150,000	TELEGATE ANKLAM	33.33
- TELEGATE AKADEMIE GmbH	Rostock (Germany)	Euro 25,000	TELEGATE A.G.	100.00
- ARSMOVENDI.COM A.G.	Munich (Germany)	Euro 150,000	TELEGATE A.G.	33.33
- DATAGATE GmbH	Martinsried (Germany)	Euro 25,000	TELEGATE A.G.	100.00
- KIMTRAVEL CONSULTING A.G.	Munchen (Germany)	Euro 69,493	TELEGATE A.G.	33.00
- TELEGATE CALL CENTER GmbH	Martinsried (Germany)	Euro 25,000	TELEGATE A.G.	100.00
- PHONECOM GmbH	Munchen (Germany)	DEM 153,900	TELEGATE CALL CENTER	50.68
- MEDIA EVOLUTION GmbH	Munchen (Germany)	DEM 60,000	PHONECOM	100.00
- TELEGATE HOLDING B.V.	Schiphol (Holland)	Euro 18,200	TELEGATE A.G.	100.00
- TELEGATE ESPANA S.A.	Madrid (Spain)	Euro 61,000	TELEGATE HOLDING B.V. TELEGATE A.G.	99.00 1.00
- TELEGATE INC.	Texas (USA)	USD 1,000	TELEGATE HOLDING B.V.	100.00
- TELEGATE ITALIA S.r.l.	Milan (Italy)	Euro 129,000	TELEGATE HOLDING B.V. TELEGATE A.G.	99.00 1.00
- TELEGATE GmbH	Vienna (Austria)	Euro 35,000	TELEGATE HOLDING B.V.	100.00
- TELEGATE LTD	London (UK)	GBP 50,000	TELEGATE HOLDING B.V.	100.00
- TDL INFOMEDIA LIMITED	Hampshire (UK)	GBP 139,509.21	SEAT PAGINE GIALLE	99.60
- TDL INVESTMENTS B.V.	Rotterdam (Holland)	Euro 20,000	TDL INFOMEDIA LIMITED	100.00

(continued) List of major equity holdings

Company name	Head office	Share capital	Held by	%
- TDL BELGIUM S.A.	Brussels (Belgium)	BEF 100,000,000	TDL INVESTMENTS	47.00
- INDIRECT S.p.r.l.	Brussels (Belgium)	Fr. B. 6,000,000	TDL INVESTMENTS	15.60
- MYBLUECAT.COM Limited	Hampshire (UK)	GBP 2	TDL INFOMEDIA LIMITED	100.00
- TDL INFOMEDIA FINANCE LIMITED	Hampshire (UK)	GBP 9,734.09	TDL INFOMEDIA LIMITED	100.00
- TDL INFOMEDIA HOLDINGS PLC	Hampshire (UK)	GBP 397,126.43	TDL INFOMEDIA FINANCE LIMITED	100.00
- TDL INFOMEDIA GROUP PLC	Hampshire (UK)	GBP 624,576.64	TDL INFOMEDIA HOLDINGS PLC	100.00
- TDL GROUP LIMITED	Hampshire (UK)	GBP 89,864.25	TDL INFOMEDIA GROUP PLC	100.00
- THOMSON DIRECTORIES LIMITED	Hampshire (UK)	GBP 1,340,000	TDL GROUP LIMITED	100.00
- BUSINESS Information Group Limited	Hampshire (UK)	GBP 1	THOMSON DIRECTORIES LIMITED	100.00
- FOREST Rental Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- HILL Cleaning Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- HILL Enterprises Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- INFOMEDIA Group Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- INFONATION Group Limited	Hampshire (UK)	GBP 1	THOMSON DIRECTORIES LIMITED	100.00
- LAKE Building Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- PEAK Maintenance Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- THOMSON Directories Pension Company Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- MOBILE COMMERCE Limited	Surrey (UK)	GBP 1,358.10	THOMSON DIRECTORIES LIMITED	15.00
- TICKETONE S.p.A.	Milan (Italy)	Euro 625,000	SEAT PAGINE GIALLE	50.10
- TWICE SIM S.p.A.	Milan (Italy)	Euro 12,925,000	SEAT PAGINE GIALLE	18.64
- VIASAT S.p.A.	Rome (Italy)	Euro 2,425,956	SEAT PAGINE GIALLE FINSATEL	33.54 16.46
- WEB MUSIC COMPANY S.p.A.	Rome (Italy)	ITL 1,000,000,000	SEAT PAGINE GIALLE	15.00

Useful information

A free copy of this report can be obtained by:

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Internet	User of the world wide web can access the “Report on operations first half 2001” and obtain information about TELECOM ITALIA and its products and services at the following address: http://www.telecomitalia.it
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