



first half 2002 report

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

■ CONTENTS

Summary data and general information	Corporate boards	2
	Highlights	3
	Selected economic and financial data of Telecom Italia Group	5
	Key data of the Business Units/Operating Activities of Telecom Italia Group	6
	Operating highlights of Telecom Italia Group	8
	Shareholder information	9
	Organizational structure of Telecom Italia Group at June 30, 2002	12
	Global operations at June 30, 2002	13
Report on operations	Economic and financial review of Telecom Italia Group	14
	Significant events subsequent to June 30, 2002	25
	Outlook	29
	Related party transactions	30
	Economic and financial review of the Business Units/Operating Activities of Telecom Italia Group	32
	Domestic Wireline	32
	Mobile	40
	Internet and Media	47
	International Operations	52
	Information Technology Market	57
	Information Technology Group	62
	Telespazio	66
	Other activities	68
	Information on sustainability and other relevant information	71
	Human resources	71
	Research & Development	73
	Corporate Governance	73
	Social and environmental awareness	75
	The regulatory framework	76
	Litigations	78
	Economic and financial review of Telecom Italia S.p.A.	83
Consolidated financial statements at June 30, 2002 of Telecom Italia Group	Consolidated balance sheets	90
	Consolidated statements of income	92
	Notes to consolidated financial statements	94
Financial statements at June 30, 2002 of Telecom Italia SpA	Balance sheets	144
	Statements of income	146
	Notes to financial statements	148
Independent auditors' report and other information	Independent auditors' report	177
	Useful information	179

On September 5, 2002, the Board of Directors approved the first half 2002 report.

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

■ CORPORATE BOARDS

Board of Directors ⁽¹⁾	Chairman	Marco Tronchetti Provera (E)	<p>◀ (E) Executive director.</p> <p>◀ (1) Appointed by the Shareholders' Meeting on November 7, 2001.</p> <p>◀ (***) Resigned on September 5, 2002.</p> <p>◀ (****) Co-opted on September 5, 2002. Already appointed General Director on May 7, 2002.</p>
	Deputy Chairman	Gilberto Benetton	
	Managing Directors	Enrico Bondi (E) ***	
		Carlo Orazio Buora (E)	
		Riccardo Ruggiero (E) ****	
	Directors	Umberto Colombo (I)	<p>◀ (I) Independent director.</p> <p>◀ (*) Resigned on July 25, 2002.</p> <p>◀ (**) Co-opted on July 25, 2002.</p>
		Francesco Denozza (I)	
		Luigi Fausti (I)	
		Guido Ferrarini (I)	
		Paolo Maria Grandi *	
		Pietro Modiano **	
		Natalino Irti (I)	
		Gianni Mion	
		Massimo Moratti	
		Carlo Alessandro Puri Negri	
	Secretary to the Board	Pier Francesco Saviotti	
		Roberto Ulissi (I)	
		Francesco Chiappetta	
Directors' Remuneration Committee	Chairman	Luigi Fausti	
	Members	Umberto Colombo Pier Francesco Saviotti	
Audit and Corporate Governance Committee	Chairman	Roberto Ulissi	
	Members	Guido Ferrarini Natalino Irti	
Board of Statutory Auditors ⁽²⁾	Chairman	Paolo Germani	<p>◀ (2) Appointed by the Shareholders' Meeting on July 3, 2000.</p>
	Acting auditors	Mario Boidi	
		Paolo Golia	
		Fabrizio Quarta Gianfranco Zanda	
	Alternate auditors	Enrico Bignami	
		Leonida Liuni	
Common representative of the savings shareholders ⁽³⁾		Carlo Pasteris	◀ (3) Appointed by the special Savings Shareholders' Meeting on October 31, 2001.
Independent auditors ⁽⁴⁾		Reconta Ernst & Young S.p.A.	◀ (4) Appointed by the Shareholders' Meeting on June 12, 2001.

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

■ HIGHLIGHTS

■ FIRST HALF 2002

Improvement in economic results. Acceleration of growth and margins in the second quarter

Revenues: euro 14,989 million, +1.7% compared to first half of 2001; excluding the negative effect of the translation of foreign currencies due to a fall in the exchange rates, growth would have been equal to 3.6%. Compared to the first quarter of 2002, the second quarter posted an increase of 6.3%.

Gross operating profit: euro 6,808 million, +3.3% compared to first half of 2001; excluding the exchange rate effect, growth would have been equal to 4.5%. Compared to the first quarter of 2002, the second quarter posted an increase of 7.9%.

Operating income: euro 3,662 million, +10.3% compared to first half of 2001; excluding the exchange rate effect, growth would have been equal to 10.8%. Compared to the first quarter of 2002, the second quarter posted an increase of 11.6%.

Net income: euro 770 million, +59.4% compared to first half of 2001; the result benefits from the improvement in operating income and the positive effects of the divestiture of investments.

Reduction in indebtedness

Net debt: euro 21,100 million, euro 842 million down, compared to December 31, 2001, after dividend payments of euro 3,247 million. Net debt benefited from the divestiture plan (Lottomatica, Bouygues Decaux Telecom, Mobilkom Austria), the cost-cutting and rationalization policy of investments, as well as receivables securitization and factoring.

Improvement in ratings

In June 2002, Standard & Poor's upgraded the outlook on BBB+ rating from stable to positive.

Launch of new services and products

Domestic Wireline: launch of new services such as Alice and Alice Flash, which were favorably received by the market, upgrading of commercial rate plans with the introduction of lower broadband rates.

Mobile: launch of the new MMS service (Multimedia Messaging Service), the extended-memory SIM Card (64 K/byte) and the "4888 Pay For Me" service, with the possibility of charging the cost of the call to all TIM users and Telecom Italia fixed-line numbers.

Internet and Media: re-launch of the Tin.it brand, enhanced by new services, especially ADSL, and extension of the capacity of Virgilio, confirmed as the number one Italian portal.

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

Auna

The closing of the sale was brought forward from December to August 1, 2002. Proceeds of euro 1,805 million were received, in addition to the reimbursement of the capital contributions made from January to June 2002 of euro 193 million, with realization of a net gain of euro 1,027 million for the Telecom Italia Group.

Telemaco Immobiliare

On August 1, 2002, the disposal of Telemaco Immobiliare was concluded with proceeds of euro 178 million, besides a distribution of reserves of euro 40 million, and a net gain of euro 64 million for the Telecom Italia Group.

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

Sogei

On July 31, 2002, the disposal of Sogei was concluded, with proceeds of euro 36 million (equal to the carrying value in the consolidated financial statements), in addition to a distribution of reserves of euro 25 million. The positive impact on the net indebtedness of the Telecom Italia Group was approximately euro 201 million.

Telespazio

On August 2, 2002, an agreement for the sale of Telespazio was signed between Telecom Italia and Finmeccanica. The positive impact on the net indebtedness of the Telecom Italia Group will be approximately euro 245 million with a net gain of euro 53 million.

9Telecom

On August 26, 2002, the disposal of the investment in 9Telecom was concluded and, at the same, a 7% interest was purchased in LDCOM. The net loss from the disposal of euro 282 million, for the Telecom Italia Group, was accrued in the first half of 2002.

Solpart Participações

On August 26, 2002, the Telecom Italia Group has reached an agreement with the other shareholders in Solpart Participações (which has indirect control of Brasil Telecom) to reduce its own stake in Solpart (from 37.29% to 19% of ordinary share capital) through a sale of 18.29% of ordinary share capital to Timepart Participações and to Techold Participações.

Blu S.p.A.

On August 7, 2002, TIM signed a preliminary agreement for the purchase of 100% of the share capital of Blu, the fourth GSM operator in Italy, after transferring separate business segments to other operators. A provisional price of euro 18 million will be paid when the contract is signed.

Renewal of bank facility

In August 2002, Telecom Italia renewed only the main credit line of euro 7.5 billion – out of a total euro 10 billion in syndicated credit lines expiring in 2002 – thus reducing used credit lines by 25% and confirming the goal of reducing indebtedness.

Agreement on employment

On July 30, and August 2, 2002, Telecom Italia S.p.A. and certain Italian companies of the Group signed agreements with the labor unions of the sector for employee cutbacks involving a total of approximately 3,900 employees, as established in the May 27, 2002 agreement relating to the Industrial Plan 2002-2004. The economic effects of the agreement are included in the extraordinary provisions of Telecom Italia Group.

In addition:

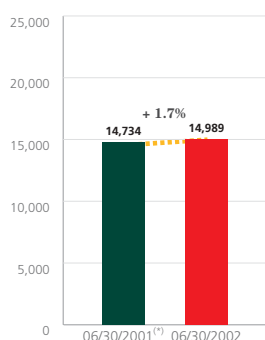
- **purchase of an additional stake in Stet Hellas** (17.45%) by TIM International NV, which already held a 63.95% interest, at a price of euro 108 million;
- **purchase of 86% of EPIClink**, by Telecom Italia, for a price of euro 60.2 million;
- **approval by the Antitrust authority** of the agreement between Telecom Italia and shareholders of Netesi for the purchase of an additional stake (61.9%) of ordinary shares in Netesi (Telecom Italia already held a 17.98% interest), at a price of euro 11 million;
- **purchase of a stake in Mediocredito Centrale** (3%), by Telecom Italia, for a price of euro 36 million;
- **purchase of treasury stock by Telecom Italia;**
- **rate rebalancing;**
- **telecommunications licenses:** the license period for individual licenses in the telecommunications sector was extended from 15 to 20 years.

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

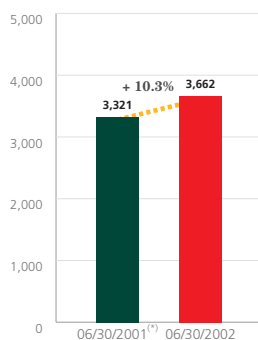
SELECTED ECONOMIC AND FINANCIAL DATA OF TELECOM ITALIA GROUP

There were no significant changes in the scope of consolidation during the first six months of 2002.

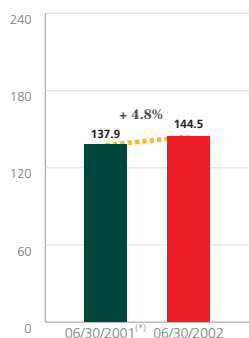
Revenues
(euro/million)



Gross operating profit
(euro/million)



Revenues/Employees
(euro/thousands)



	1 st half 2002	1 st half 2001 ^(*)	1 st half 2001	Year 2001
Results of operations (in millions of euro)				
Sales and services revenues	14,989	14,734	15,589	30,818
Gross operating profit	6,808	6,591	7,053	13,619
Operating income	3,662	3,321	3,491	6,674
Income (loss) before income taxes	2,477	1,997	2,059	(733)
Income (loss) before minority interest	1,392	837	849	(1,658)
Net income (loss)	770	483	483	(2,068)
Free cash flow ⁽¹⁾	4,150	2,642	2,692	5,990
Investments:				
- Industrial	1,863	3,640	3,806	6,990
- Goodwill	76	1,000	1,000	1,174
- Financial	609	2,388	2,404	3,093
Financial condition (in millions of euro)				
Total assets	57,334	68,039	71,664	62,670
Net invested capital	37,245	44,159	47,187	41,250
Shareholders' equity	16,145	21,815	22,728	19,308
- parent company's interest	11,265	16,202	16,202	13,522
- minority interest	4,880	5,613	6,526	5,786
Net debt	21,100	22,344	24,459	21,942
Profit and financial indexes				
Gross operating profit/Revenues	45.4	44.7	45.2	44.2
Operating income/Revenues (ROS)	24.4	22.5	22.4	21.7
Free cash flow/Revenues	27.7	17.9	17.3	19.4
Net debt/ Net invested capital (Debt ratio)	56.7	50.6	51.8	53.2
Employees				
Employees (No. in Group at period-end)	108,642	112,832	120,211	109,956
Employees (Average No. in Group)	103,750	106,872	114,311	107,491
Revenues/Employees (Group average - in thousands of euro)	144.5	137.9	136.3	286.7

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional method.

◀ (1) Calculated as follows: Operating income + Depreciation and amortization - Industrial investments - Change in operating working capital.

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

■ KEY DATA OF THE BUSINESS UNITS/OPERATING ACTIVITIES OF TELECOM ITALIA GROUP

Telecom Italia Group operated with the following Business Units/Operating Activities structure during the six months:

		Domestic Wireline (1)	Mobile	Internet and Media	International Operations (2)	IT Market (1)	IT Group (1)	Tele-spazio	Sub-total	Other activities and eliminations	Consolidated-total
(in millions of euro)											
Sales and services revenues	1 st half 2002	8,400	5,185	871	947	553	495	143	16,594	(1,605)	14,989
	1 st half 2001 ^(*)	8,482	4,930	825	934	573	451	140	16,335	(1,601)	14,734
	1 st half 2001				1,804				17,205	(1,616)	15,589
	Year 2001	17,159	10,250	1,957	1,879	1,198	1,198	648	34,289	(3,471)	30,818
Gross operating profit	1 st half 2002	3,905	2,488	209	192	58	50	7	6,909	(101)	6,808
	1 st half 2001 ^(*)	3,780	2,376	143	186	76	79	16	6,656	(65)	6,591
	1 st half 2001				649				7,119	(66)	7,053
	Year 2001	7,749	4,760	444	347	166	188	159	13,813	(194)	13,619
Operating income	1 st half 2002	2,407	1,684	19	(69)	43	(16)	(5)	4,063	(401)	3,662
	1 st half 2001 ^(*)	2,199	1,617	(42)	(122)	61	6	5	3,724	(403)	3,321
	1 st half 2001				49				3,895	(404)	3,491
	Year 2001	4,362	3,136	31	(268)	123	22	60	7,466	(792)	6,674
Investments:											
- Industrial	1 st half 2002	998	583	30	154	14	49	7	1,835	28	1,863
	1 st half 2001 ^(*)	1,353	1,782	79	276	15	71	11	3,587	53	3,640
	1 st half 2001				442				3,753	53	3,806
	Year 2001	2,798	3,151	175	517	30	162	29	6,862	128	6,990
- Goodwill	1 st half 2002	-	-	7	-	-	28	-	35	41	76
	1 st half 2001 ^(*)	-	9	134	773	1	-	-	917	83	1,000
	1 st half 2001				773				917	83	1,000
	Year 2001	-	31	203	773	1	6	-	1,014	160	1,174
Number of employees at:	6,30,2002	56,633	17,137	8,300	7,131	6,315	7,523	1,188	104,227	4,415	108,642
	6,30,2001 ^(*)	60,942	16,033	8,992	7,437	6,682	6,968	1,173	108,227	4,605	112,832
	6,30,2001				14,816				115,606	4,605	120,211
	12,31,2001	57,831	16,721	9,264	7,307	6,441	6,844	1,196	105,604	4,352	109,956

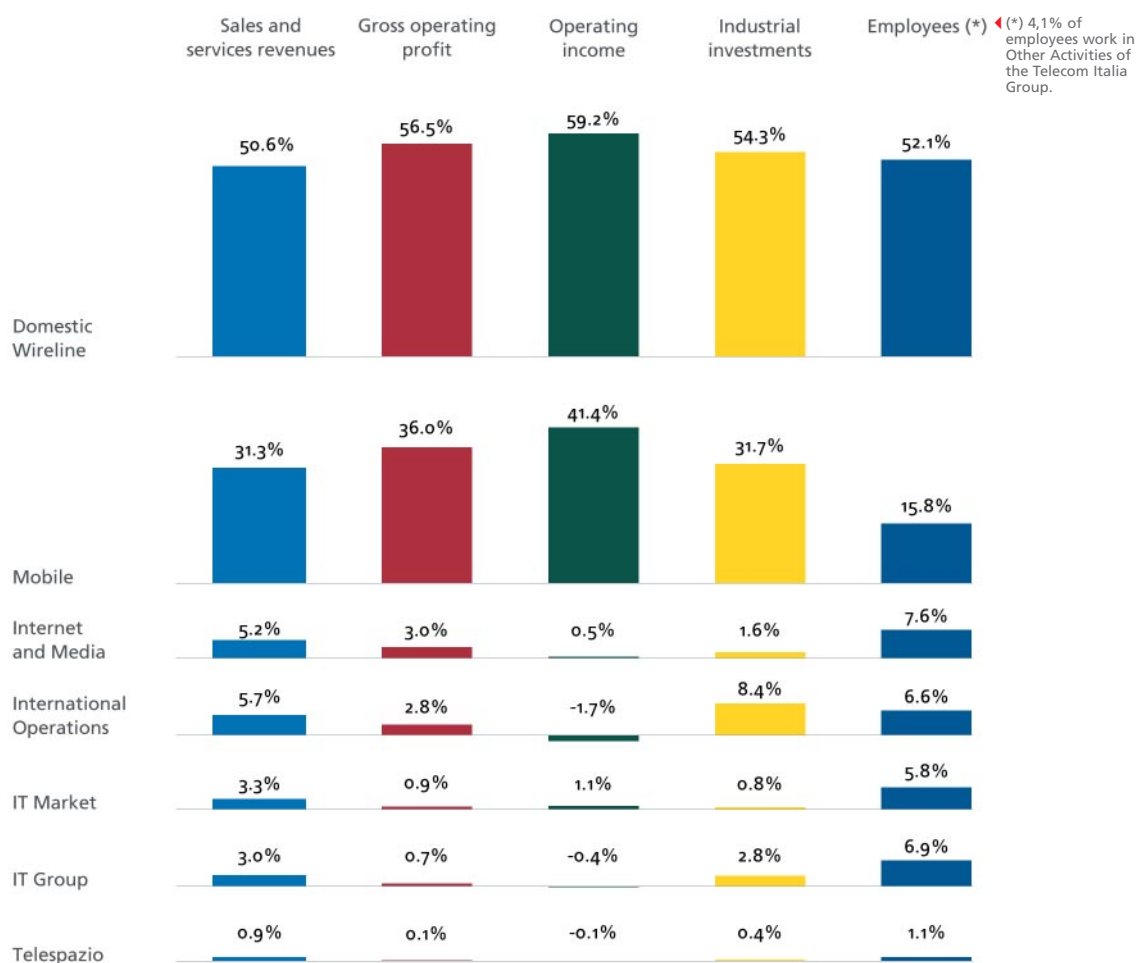
(*) Restated by consolidating the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

(1) In early 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group; beginning January 1, 2002, Saritel S.p.A. has been consolidated in the Information Technology Group BU instead of the Domestic Wireline BU. For purposes of a more meaningful comparison, the data relating to 2001 has been restated.

(2) In May 2002, the International Operations (IOP) "Operating Activity" was eliminated; the relative companies, maintaining the same corporate ownership structure, became part of Domestic Wireline BU (Intelcom San Marino and Golden Lines), of the Foreign Holdings Central Function (9Telecom Réseau Group, BBNed Group, Auna Group, Telekom Austria Group, Telekom Srbija, Etec S.A. and what remains of the ex IOP). The companies in the South American area report to Latin America Operations (LAO).

1 SUMMARY DATA AND GENERAL INFORMATION >>	1 CONTENTS
14 REPORT ON OPERATIONS	2 CORPORATE BOARDS
89 CONSOLIDATED FINANCIAL STATEMENTS	3 HIGHLIGHTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	5 SELECTED ECON. FINANC. DATA OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	6 KEY DATA OF THE B.U./O.A. OF T.I. GROUP

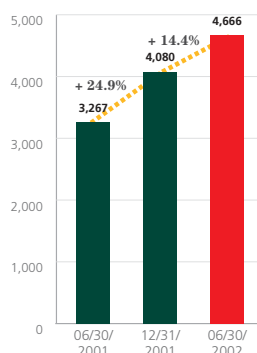
Major economic and operating indicators by Business Units / Operating Activities:
are shown in the graph below:



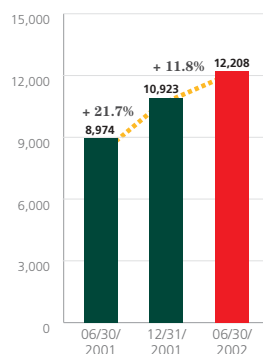
1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ OPERATING HIGHLIGHTS OF TELECOM ITALIA GROUP

Telecomy customers
(excluding ADSL, in thousands)



TIM group lines abroad
(thousands)



	1 st half 2002	1 st half 2001	Year 2001
DOMESTIC WIRELINE			
Fixed network connections in Italy (at end of period, thousands)	27,326	27,301	27,353
- of which digital (equivalent ISDN channels, at end of period)	5,662	5,133	5,403
Telecomy customers (excluding ADSL, at end of period, thousands)	4,666	3,267	4,080
Network infrastructure in Italy			
- access network in copper (at end of period, millions of km - pair)	104.7	104.6	104.3
- access network and transport in fiber optic cables (at end of period, millions of km of fiber optic cables)	3.3	3.0	3.2
Network infrastructure abroad			
- European backbone (at end of period, km of fiber optic cables)	36,600	28,000	36,600
MOBILE			
TIM lines in Italy (at end of period, thousands)	24,207	22,649	23,946
TIM group lines abroad (at end of period, thousands) ⁽¹⁾	12,208	8,974	10,923
TIM group lines total (Italy + abroad, thousands) ⁽¹⁾	36,415	31,623	34,869
GSM penetration in Italy (% of population)	99.8	99.7	99.7
E-TACS penetration in Italy (% of population)	98.0	98.1	98.0
INTERNET AND MEDIA			
Directories:			
- published by Seat Pagine Gialle (units)	102	102	304
- published by Thomson (TDL Infomedia Ltd.) (units)	67	68	173
Internet:			
Page Views Virgilio (millions)	2,861	1,877	3,945
Active Users ISP (at end of period, thousands)	1,980	1,703	1,804

◀ (1) The lines abroad at June 30, 2001 and December 31, 2001 have been rendered comparable to those at June 30, 2002, excluding the lines of Bouygues Telecom, Arna (mobile operator controlled by Auna) and the Mobilkom Austria group. The lines abroad include those of the affiliate IS TIM Turkey.

1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ SHAREHOLDER INFORMATION

■ Shares

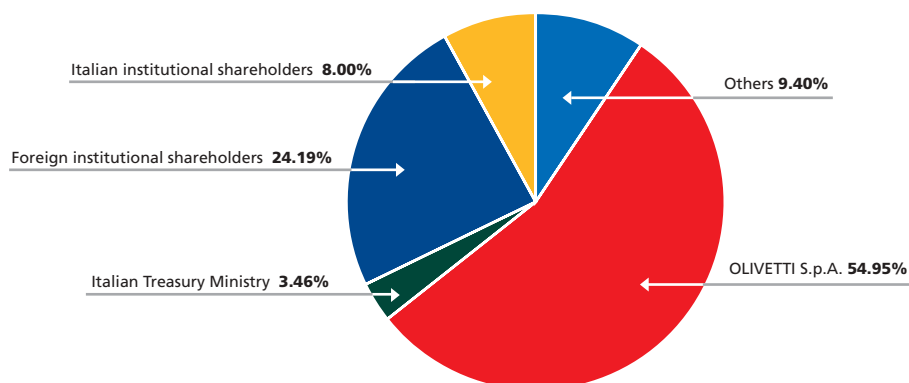
Share capital ⁽¹⁾	euro 4,023,716,540.80
Ordinary shares (par value euro 0.55 each)	n. 5,262,726,231
Savings shares (par value euro 0.55 each)	n. 2,053,122,025
Market capitalization (on average prices of June 2002)	euro 53,288 million
Percentage of Telecom Italia stock	
- on Mibtel Index (Telecom Italia – ordinary and savings)	9.64% (at 6.28.2002)
- on DJ Eurostoxx TLC Index ⁽²⁾ (Telecom Italia – ordinary)	6.45% (at 6.28.2002)
Percentage of stocks of Telecom Italia Group	
- on Mibtel Index (Telecom Italia, TIM, Seat Pagine Gialle – ordinary and savings)	17.62% (at 6.28.2002)
- on DJ Eurostoxx TLC Index (Telecom Italia, TIM – ordinary)	11.70% (at 6.28.2002)

◀ (1) Resulting from the certification ex art. 2444 of the Italian Civil Code, carried out on June 25, 2002.

◀ (2) The index is calculated on a geographical basis including all European nations.

■ Shareholders

Shareholders per shareholders' register at June 30, 2002
Telecom Italia S.p.A. (Ordinary shares)



1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Performance of the main stocks of Telecom Italia Group

Relative performance Telecom Italia S.p.A. July 1, 2001 - June 30, 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares) (Source: Reuters)



Relative performance TIM S.p.A. July 1, 2001 - June 30, 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares) (Source: Reuters)



1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

Relative performance Seat Pagine Gialle S.p.A. July 1, 2001 - June 30, 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares) (Source: Reuters)



■ Rating at June 30, 2002

		Outlook
STANDARD & POOR'S	BBB+	Positive
MOODY'S	Baa1	Positive
FITCH IBCA	A-	Stable

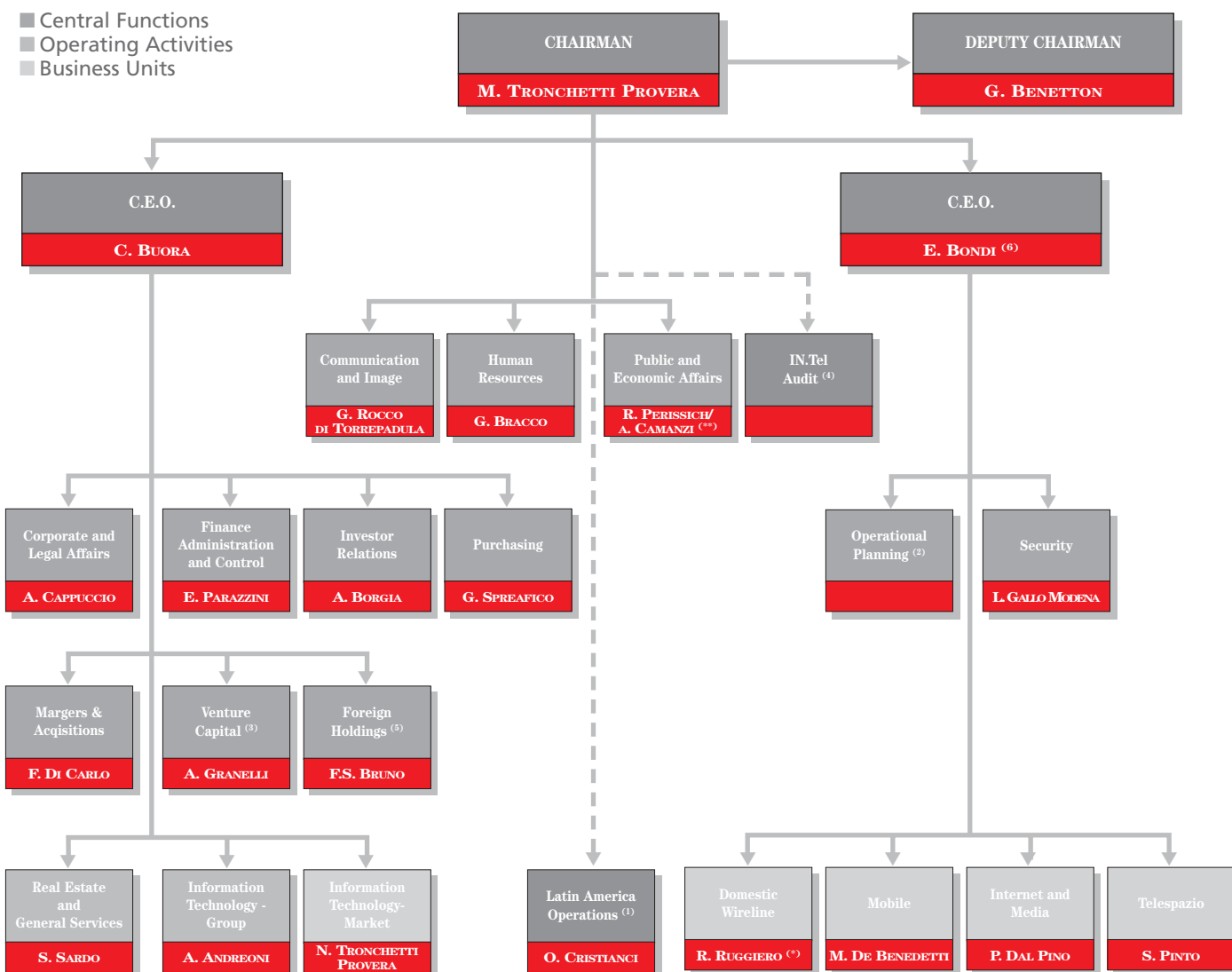
The upgrading from "stable" to "positive" made by Standard & Poor's in June 2002 can be attributed to the higher profit margins and the operating performance reported by Telecom Italia – which is confirmed as being one of the most profitable operators in the sector – as well as the positive evolution of the financial situation and a strengthening of the fundamentals that are also the result of management having achieved important objectives established in the Industrial Plan such as the start of the sale of non-core operations.

1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ MACRO-ORGANIZATIONAL STRUCTURE OF TELECOM ITALIA GROUP (SITUATION UPDATED TO JUNE 30, 2002)

The macro-organizational structure of Telecom Italia is composed of:

- **Central Functions**, responsible for overseeing the functioning of the Telecom Italia Group
- **Business Units**, responsible for developing the business and coordinating the activities for the market
- **Operating Activities**, responsible for developing the synergies and supplying common services within the Telecom Italia Group



(1) Coordinates the activities of the Telecom Italia Group in Latin America, to be developed in accordance with the strategic plan. It reports to the International Steering Committee, composed of the Chairman and the two CEOs. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Domestic Wireline and Mobile Business Units.

(2) Beginning July 2002, the Function was eliminated. The operations and resources became part of Finance, Administration and Control.

(3) In March 2002, the Venture Capital Central Function was created for the purpose of ensuring the choice and management of both direct investments in start-ups which develop technologies and platforms of potential interest to the Business Units and Operating Activities of the Group and indirect investments in Venture Capital funds.

(4) In April 2002, the operations and resources of the Internal Audit Central Function became part of the newly-formed consortium company IN.TEL.AUDIT, which carries out Internal Auditing activities of the Telecom Italia Group and Olivetti.

(5) In May 2002, the International Operations (IOP) "Operating Activity" was eliminated. Although maintaining the same corporate control structure, the relative companies became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9Telecom Reseau Group, BB Ned Group, Auna Group, Telekom Austria Group, Telekom Srbija, Etec S.A. and what remains of the ex IOP). The companies in the South American area report to Latin America Operations (LAO).

(6) On September 5, 2002, the Chairman Executive Officer Enrico Bondi resigned; from the same date the Domestic Wireline, Mobile, Internet and Media and Telespazio business unit report to Chairman.

(*) From May 7, 2002, General Director. From September 5, 2002, Chairman Executive Officer.

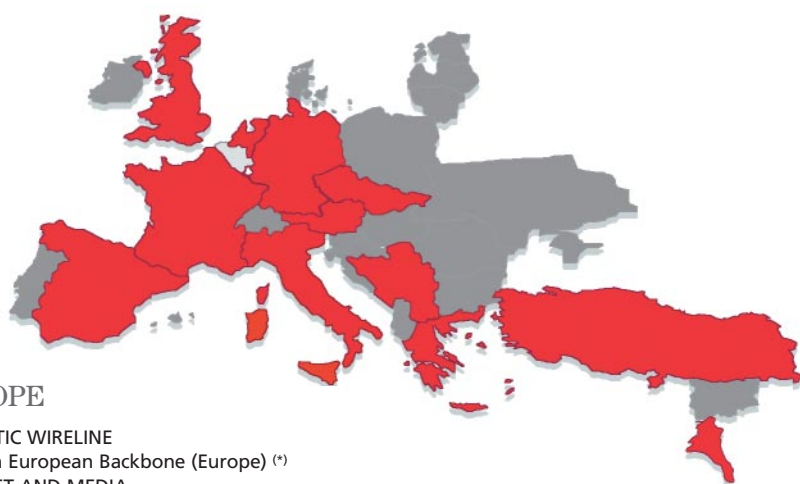
(**) Co-director

1 SUMMARY DATA AND GENERAL INFORMATION >>	8 OPERATING HIGHLIGHTS OF T.I. GROUP
14 REPORT ON OPERATIONS	9 SHAREHOLDER INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	12 MACRO-ORGANIZATIONAL STRUCTURE OF T.I. GROUP
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	13 GLOBAL OPERATIONS OF T.I. GROUP
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ GLOBAL OPERATIONS OF TELECOM ITALIA GROUP

MAJOR SUBSIDIARIES

(SITUATION UPDATED TO JUNE 30, 2002)



EUROPE

DOMESTIC WIRELINE

- Pan European Backbone (Europe) (*)

INTERNET AND MEDIA

- TDL Infomedia Group (Great Britain) (*)
- Telegate Group (Germany) (*)
- Consodata Group (France) (*)

INTERNATIONAL OPERATIONS (1)

- 9Telecom Reseau Group (France) (*)
- BBNed (Holland) (*)
- Intelcom S. Marino (S. Marino) (*)

OTHER ACTIVITIES

- Softe S.A. (Luxembourg)
- Sogerim S.A. (Luxembourg)

MEDITERRANEAN BASIN

DOMESTIC WIRELINE

- Mediterranean Nautilus Group(*)
- Med-1 Group (*)

MOBILE

- Stet Hellas Group (Greece) (*)

ITALY

DOMESTIC WIRELINE

- Atesia S.p.A. (*)
- Path.net S.p.A. (*)
- TMI Group - Telemedia International Italia (*)

MOBILE

- TIM S.p.A. (*)

INTERNET AND MEDIA

- Seat Pagine Gialle S.p.A. (*)
- Buffetti Group S.p.A. (*)
- Matrix Group (*)
- Holding Media e Comunicazione Group (*)

IT MARKET

- Finsiel S.p.A. (*)
- Sogei S.p.A. (*)
- Tele Sistemi Ferroviari S.p.A.
- Insiel S.p.A.
- Banksiel S.p.A. (*)
- Intersiel S.p.A.

IT GROUP

- Saritel S.p.A. (*)
- Telesoft Group (*)
- Netsiel Group (*)
- Sodalina Group (*)
- Netikos Group
- TILAB Group (*)

TELESPAZIO

- Telespazio S.p.A.

OTHER ACTIVITIES

- Saiat S.p.A.



SOUTH AMERICA

DOMESTIC WIRELINE

- Latin American Nautilus Group (Latin America) (*)

MOBILE

- Tele Nordeste Celular Participações Group (Brazil) (*)
- Tele Celular Sul Participações Group (Brazil) (*)
- TIM Maxitel Group (Brazil) (*)
- TIM Perú S.A.C. (Perù) (*)
- Corporacion Digitel C.A. (Venezuela) (*)
- Portale Rio Norte S.A. (Brazil)
- Portale Sao Paulo S.A. (Brazil)
- TimNet Com S.A. (Brazil)

INTERNATIONAL OPERATIONS (1)

- Entel Chile Group (Chile) (*)
- Entel Bolivia Group (Bolivia) (*)

TELESPAZIO

- Telespazio Brasil S.A. (Brasile)

(1) In May 2002, the International Operations (IOP) "Operating Activity" was eliminated. Although maintaining the same corporate control structure, the relative companies became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9Telecom Reseau Group, BBNed Group, Auna Group, Telekom Austria Group, Telekom Srbija, Etec S.A. and what remains of the ex IOP). The companies in the South American area report to Latin America Operations (LAO).

(*) Comments on the main results of operations of these companies are provided in the report.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL REVIEW OF TELECOM ITALIA GROUP ⁽¹⁾

RESULTS OF OPERATIONS

The consolidated result of the Group for the first half of 2002 is a net income of euro 770 million (euro 1,392 million *before minority interest*). The result is euro 287 million (+59.4%) higher than the net income reported for the first half of 2001 which was euro 483 million (euro 837 million *before minority interest*).

Pretax earnings are euro 2,477 million, up euro 480 million from the first six months of the prior year. This increase is the result of an improvement in the operating income (+euro 341 million) and the balance of *net investment and financial income and expense* (+euro 146 million), the reduction in the income balance of *net extraordinary income and expense* (-euro 7 million), including gains on the divestiture of investments, (euro 753 million), offset by the expenses for employee cutbacks and layoffs (euro 355 million) and expenses connected with Telecom Italia's disposal of its investment in the French group 9Telecom (euro 367 million) and other extraordinary income and expenses amounting to euro 31 million.

Considering the loss up to its sale, the French group 9Telecom negatively impacted the results of the Telecom Italia Group, for the first half of 2002, by euro 440 million (euro 282 million after income taxes).

In particular, the net gains realized by the Group in the first half of 2002, equal to euro 403 million (euro 753 million before taxes and minority interest), refer to the following:

- sale of the entire 19.61% interest held by the Mobile BU in Bouygues Decaux Telecom (BDT) for a net gain of euro 484 million, which contributed euro 266 million to the consolidated net result of the Telecom Italia Group;
- participation to the takeover bid for Lottomatica by Information Technology Market BU (Finsiel group) for a net gain of euro 93 million, which contributed euro 73 million to the consolidated net result of the Telecom Italia Group;
- sale of the entire 25% interest held by the Mobile BU in the Mobikom Austria group to Telekom Austria (a company in which Telecom Italia International has a 29.8% interest) for a net gain of euro 115 million, which contributed euro 64 million to the consolidated net result of the Telecom Italia Group.

Sales and service revenues amounted to euro 14,989 million for the first six months of 2002, with a growth of 1.7% over the first half of 2001. Excluding the effect of exchange rates, the increase was equal to 3.6% while the effect of the changes in the scope of consolidation was practically nil (euro 29 million).

The increase in revenues reflected the positive contribution made by the Mobile BU and higher revenues from the Internet and Media area, contrasting a reduction in the amount contributed by the Domestic Wireline BU where traffic revenues, despite a 5.8% increase in terms of minutes, decreased by 6.6% as a result of a lower average return on traffic.

◀ (1) For purposes of comparison, the data for the first half of 2002 is commented in relation to the data for the first half of 2001, which is restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Sales and service revenues can be analyzed as follows:

GEOGRAPHIC AREA

(in millions of euro)	1 st half 2002		1 st half 2001 (*)		1 st half 2001	
Italy	12,172	81.2%	11,954	81.1%	11,956	76.7%
Other European countries	958	6.4%	896	6.1%	899	5.7%
North America	161	1.1%	303	2.1%	308	2.0%
Central and South America	1,424	9.5%	1,300	8.8%	2,119	13.6%
Australia, Africa and Asia	274	1.8%	281	1.9%	307	2.0%
Total	14,989	100.0%	14,734	100.0%	15,589	100.0%

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The gross operating profit, equal to euro 6,808 million, rose in comparison to the first half of 2001 by euro 217 million (+3.3%) – excluding the effect of exchange rates, the increase was equal to 4.5% - and this represents 45.4% of revenues (44.7% in the first half of 2001). While margins on the “domestic” front held their ground - Telecom Italia Domestic Wireline went from 44.6% of revenues in the first half of 2001 to 46.5% in the first half of 2002, Mobile confirms its position of 48% – the South American operations account for a higher proportion of revenues, although the margins are lower than average for both the wireline and mobile business.

The gross operating profit was particularly impacted by the following:

- **raw materials and outside services**, equal to euro 6,112 million, were lower by 1.1% compared to the first half of 2001. The reduction was principally due to continuing action taken to improve efficiency, although higher costs were incurred particularly by the Brazilian companies in the Mobile BU that are in the start-up stage. The percentage of raw materials and outside services to revenues was 40.8%, which is a reduction from the first half of 2001 (42.0%);
- **labor costs**, equal to euro 2,331 million, were substantially in line with those of the first six months of 2001 (euro 2,329 million). As a percentage of revenues, labor costs went from 15.8% in the first half of 2001 to 15.6%. Employees at June 30, 2002 number 108,642 (109,956 at December 31, 2001). A breakdown is presented below:

	6.30.2002 (a)	12.31.2001 (b)	6.30.2001 (*)	Change (a – b)
Italy	89,699	90,628	93,635	(929)
Abroad	18,943	19,328	19,197	(385)
Total employees	108,642	109,956	112,832	(1,314)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Operating income, equal to euro 3,662 million, increased by euro 341 million compared to the first half of 2001 (+10.3%, excluding the effect of exchange rates the increase was 10.8%) and as a percentage of revenues rose to 24.4% for the first six months of 2002 from 22.5% for the first half of 2001. The increase in absolute amounts reflects both higher gross operating profit and lower depreciation and amortization charges.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Specifically:

- **depreciation and amortization**, equal to euro 2,886 million (euro 3,028 million in the first half of 2001), showed a reduction of euro 142 million. Details are as follows:

(in millions of euro)	1 st half 2002 (a)	1 st half 2001 (b) (*)	1 st half 2001	Change (a – b)
Fixed assets	1,933	2,010	2,215	(77)
Intangibles	953	1,018	1,051	(65)
of which goodwill	431	516	523	(85)
Total depreciation and amortization	2,886	3,028	3,266	(142)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The reduction in the *amortization of goodwill* (-euro 85 million) is primarily due to the goodwill writeoffs taken in 2001.

As a percentage of revenues, depreciation and amortization charges are 19.3%, down from 20.6% in the first half of 2001.

Net investment and financial income (expense) is composed of the following:

(in millions of euro)	1 st half 2002 (a)	1 st half 2001 (b) (*)	1 st half 2001	Change (a – b)
Net investment income	9	37	37	(28)
Net financial expense	(897)	(700)	(794)	(197)
Value adjustments to financial assets	(403)	(774)	(772)	371
Total	(1,291)	(1,437)	(1,529)	146

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Details are as follows:

- the increase in net financial expense was mainly caused by higher exchange rate losses (equal to euro 157 million) mainly in reference to Digitel Venezuela (euro 127 million);
- the value adjustments to financial assets refer to:
 - amortization of goodwill arising at the time of the purchase of the investments in companies accounted for using the equity method, equal to euro 53 million (euro 158 million in the first half of 2001), with a reduction of euro 105 million compared to the first half of 2001 as a result of the writeoff of goodwill taken in the 2001 financial statements;
 - writedowns of securities and investments included in current assets for euro 150 million (euro 174 million in the first half of 2001) and long-term securities for euro 20 million, with a total reduction of euro 4 million from the first half of 2001;
 - value adjustments to financial assets for the Group's share of the earnings and losses of the unconsolidated companies accounted for using the equity method of -euro 180 million (-euro 442 million in the first half of 2001, with an improvement of euro 262 million). The value adjustments refer to the losses of Stream, euro 119 million (euro 122 million in the first half of 2001), IS TIM Turkey, euro 101 million (euro 210 million in the first half of 2001) and euro 40 million for the positive balance of the results of the other unconsolidated companies. There was no effect on this caption for the results of the investments in Nortel Inversora (Telecom Argentina) and the Auna group which in the first half of 2001 had been equal to a total of -euro 86 million. The investment in Nortel Inversora, whose carrying value was conservatively written off in the consolidated financial statements at December 31, 2001, has remained unchanged. As for the Auna

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

group, there was no change in the carrying value recorded in the consolidated financial statements at December 31, 2001 since the investment was sold on August 1, 2002.

Net extraordinary income (expense) show an income balance of euro 106 million (an income balance of euro 113 million in the first half of 2001). In particular:

extraordinary income of euro 1,059 million include:

- euro 753 million of gross gains from the divestitures of Bouygues Decaux Telecom (euro 484 million), Lottomatica (euro 133 million), Autel – Mobilkom Austria (euro 115 million) and other investments, fixed assets and business segments (euro 21 million);
- euro 131 million for the prior periods income relating to accrued pre-amortization interest - on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 - following the termination of litigation after the courts ruled in Telecom Italia's favor;
- euro 175 million, of which euro 80 million refer to the release of reserves, including euro 59 million to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to News Corporation and Vivendi Universal/Canal+, after the parties did not go through with the agreement; euro 86 million of nonrecurring income and euro 9 million of grants.

extraordinary expenses of euro 953 million include:

- euro 355 million of expenses for employee cutbacks and layoffs (of which euro 340 million refer to Telecom Italia, including euro 261 million for provisions relating to expenses for layoffs arising from the mobility agreements reached with the labor unions during the month of May);
- euro 367 million relating to the provisions posted in conjunction with the expected disposal of the investment in the 9Telecom group as well as the writeoff of the remaining goodwill on the subsidiary JetMultiMedia;
- euro 231 million of which euro 38 million for the extraordinary contribution to INPS to meet the higher financial requirements covered by the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund", euro 61 million of writedowns and losses relating to fixed assets, euro 49 million for provisions to reserves and euro 83 million for expenses related to prior period.

Income taxes for the period totaling euro 1,085 million showed a reduction of euro 75 million compared to the first half of 2001.

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments of euro 41,331 million decreased by euro 3,687 million from the end of 2001.

Details are as follows:

- **fixed assets** decreased from euro 21,757 million at the end of 2001 to euro 20,302 million at June 30, 2002 and **intangible assets** decreased from euro 16,197 million at the end of 2001 to euro 15,142 million at June 30, 2002. The reduction is generally due to the depreciation and amortization charges for the period that were only partly offset by investments, as well as the reduction in exchange rates compared to the end of 2001.
- **long-term investments** decreased from euro 7,064 million at the end of 2001 to euro 5,887 million at June 30, 2002. The reduction is principally due to the disposal of investments during the six-month period.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Investments amounted in total to euro 2,548 million (compared to euro 7,028 million in the first half of 2001). Details are as follows:

(in millions of euro)	1 st half 2002 (a)	1 st half 2001 (b) (*)	1 st half 2001	Change (a – b)
Industrial investments	1,863	3,640	3,806	(1,777)
Goodwill	76	1,000	1,000	(924)
Financial investments	609	2,388	2,404	(1,779)
Total investments	2,548	7,028	7,210	(4,480)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The reduction of investments by euro 4,480 million was mainly due to:

- for industrial investments, both to the significant investments made in 2001 for the GSM licenses in Brazil totaling approximately euro 980 million and the implementation of the program for a selective choice of investments;
- for goodwill, the acquisitions made during the first half of 2001 in Entel Chile (euro 731 million), Holding Media e Comunicazione (euro 66 million) and NetCreations (euro 93 million);
- for financial investments, the capital injections made in the first half of 2001 in the Turkish company IS TIM (euro 1,648 million) and in Auna (euro 276 million).

Financial investments during the first half of 2002 mainly regarded Stream (euro 113 million), Auna (euro 193 million, repaid on August 1, 2002) and the purchase of treasury stock (euro 100 million).

Working capital showed a negative balance of euro 2,695 million (a negative balance of euro 2,418 million at December 31, 2001).

The increase of euro 277 million was due to the following:

- the increase in "trade accounts receivable", from euro 8,346 million at the end of 2001 to euro 8,538 million, connected principally to the receivable positions relating to telecommunications services. There was a positive effect on trade accounts receivable from securitization transactions carried out by Telecom Italia during the period on receivables generated by services rendered to the customers;
- the reduction in "other assets", from euro 5,047 million at the end of 2001 to euro 4,249 million, mainly attributable to the compensation of deferred tax assets against the reserve for income taxes following the change in the method of recording income taxes in the interim financial statements;
- the reduction in "trade accounts payable" from euro 6,793 million at the end of 2001 to euro 5,410 million, partly due to lower investing activities during the period;
- the increase in the "reserves for risks and charges", from euro 3,053 million at the end of 2001 to euro 3,348 million;
- the increase in "other liabilities" from euro 6,601 million at the end of 2001 to euro 7,357 million, mainly in respect of Telecom Italia and the Seat Pagine Gialle group as a result of higher VAT payables of the Group.

Shareholders' equity amounted to euro 16,145 million (euro 19,308 million at the end of 2001), of which euro 11,265 million is the Parent Company's, Telecom Italia, interest (euro 13,522 million at December 31, 2001) and euro 4,880 million is the minority interest (euro 5,786 million at December 31, 2001).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.p.A.

The reduction of euro 3,163 million is analyzed below:

(in millions of euro)	1 st half 2002	Year 2001
At beginning of period	19,308	24,690
Net income (loss) of the Parent Company and minority interest	1,392	(1,658)
Dividends to third parties paid by:	(3,247)	(3,097)
- <i>Telecom Italia S.p.A.</i>	(2,307)	(2,309)
- <i>TIM S.p.A.</i>	(895)	(743)
- <i>Other Group companies</i>	(45)	(45)
Cancellation of Telecom Italia S.p.A. treasury stock	-	(711)
Change in scope of consolidation		358
Exchange differences and other changes	(1,308)	(274)
At end of period	16,145	19,308

Net debt, equal to euro 21,100 million, fell by euro 842 million compared to the end of 2001.

The following chart summarizes the major items which had an impact on the change in net debt during the period.



In particular, factors which reduced net debt are as follows:

- the divestiture of investments, of euro 1,871 million, in Mobilkom Austria (euro 756 million), Bouygues Decaux Telecom (euro 750 million), Lottomatica (euro 212 million) and long-term financial receivables (euro 72 million) as well as of fixed assets and intangibles (euro 81 million);
- securitization and factoring of trade accounts receivable of Telecom Italia S.p.A. which led to an improvement of approximately euro 1,033 million (at December 31, 2001, the improvement was euro 848 million);
- the factoring of trade accounts receivable by TIM for euro 211 million (euro 106 million at the end of 2001).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

The portion of debt due beyond one year rose from 64% at December 31, 2001 to 73% at June 30, 2002 after the issue of fixed-rate notes by Telecom Italia S.p.A. for euro 2,500 million on February 1, 2002, divided into two tranches of euro 1,250 million each, at a fixed rate, expiring, respectively, on February 1, 2007 and February 1, 2012. This issue falls under the "Global Note Program".

Gross debt is detailed in the following table:

	At 6.30.2002				At 12.31.2001			
(in millions of euro)			Foreign					
	euro	%	currency	%	Total	%	Total	%
Medium/long-term debt	15,291	74	1,776	65	17,067	73	16,083	64
Short-term borrowings	5,452	26	936	35	6,388	27	9,114	36
Total	20,743	100	2,712	100	23,455	100	25,197	100

THE PARENT COMPANY TELECOM ITALIA

Telecom Italia S.p.A. shows a net income of euro 389 million for the first six months of 2002 which is euro 265 million (-40.5%) below that reported for the first half of 2001. As further described on page 83, although the operating income is higher, (+euro 71 million, equal to 3.5%), net income is lower on account of a worsening in the balance of net investment and financial income and expense (-euro 387 million, equal to 51.1%) and the balance of extraordinary income and expense (-euro 148 million), that were impacted, respectively, by the loss on the divestiture of the French group 9Telecom and the expenses for employee cutbacks and layoffs.

Consistently with prior years, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first half of 2002 but are recorded by maturity at the end of the year whereas such income has contributed to the improvement in the consolidated result.

Net debt has remained substantially unchanged compared to the end of 2001 and amounts to euro 16,816 million at June 30, 2002 (euro 16,913 million at December 31, 2001).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Quarterly highlights of the Telecom Italia Group

(in millions of euro)	2002			2001 (*)			Change % 2002/2001	
	1 st Qtr.	2 nd Qtr.	1 st half	1 st Qtr.	2 nd Qtr.	1 st half	1 st Qtr.	2 nd Qtr.
Sales and service revenues	7,265	7,724	14,989	7,129	7,605	14,734	1.9%	1.6%
Change 2 nd Qtr. / 1 st Qtr.		6.3%			6.7%			
Gross operating profit	3,274	3,534	6,808	3,287	3,304	6,591	-0.4%	7.0%
Change 2 nd Qtr. / 1 st Qtr.		7.9%			0.52%			
% Gross operating profit / Revenues	45.1%	45.8%	45.4%	46.1%	43.4%	44.7%		
Operating income	1,731	1,931	3,662	1,721	1,600	3,321	0.6%	20.7%
Change 2 nd Qtr. / 1 st Qtr.		11.6%			-7.0%			
% Operating income / Revenues	23.8%	25.0%	24.4%	24.1%	21.0%	22.5%		
Net income (loss) for period Parent company's interest	721	49	770	386	97	483	86.8%	-49.5%
Change 2 nd Qtr. / 1 st Qtr.		-93.2%			-74.9%			

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Compared to the first quarter of 2002, the second quarter of 2002 shows a faster pace of growth in revenues (+6.3%), gross operating profit (+7.9%) and operating income (+11.6%). The Parent Company's share of net income is lower in the second quarter of 2002 compared to the first quarter of the same year, mainly due to the negative impact of the expenses connected with the divestiture of the 9Telecom group as well as the provision for expenses connected with layoffs.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

	1 st half 2002 (a)	1 st half 2001 ^(*) (b)	1 st half 2001	Year 2001	Change (a)-(b) amount	%
(in millions of euro)						
A. Sales and service revenues	14,989	14,734	15,589	30,818	255	1.7
Changes in inventories of work in progress, semifinished and finished goods	1	1	2	-	-	-
Changes in inventory of contract work in process	9	190	190	(115)	(181)	(95.3)
Increases in capitalized internal construction costs	248	168	198	581	80	47.6
Operating grants	4	10	10	24	(6)	(60.0)
B. Standard production value	15,251	15,103	15,989	31,308	148	1.0
Raw materials and outside services ⁽¹⁾	(6,112)	(6,183)	(6,456)	(13,042)	71	(1.1)
C. Value added	9,139	8,920	9,533	18,266	219	2.5
Labor costs ⁽¹⁾	(2,331)	(2,329)	(2,480)	(4,647)	(2)	0.1
D. Gross operating profit	6,808	6,591	7,053	13,619	217	3.3
Depreciation and amortization	(2,886)	(3,028)	(3,266)	(6,275)	142	(4.7)
of which goodwill	(431)	(516)	(523)	(1,022)	85	(16.5)
Other valuation adjustments	(233)	(189)	(240)	(455)	(44)	23.3
Provisions to reserves for risks and charges	(82)	(96)	(99)	(278)	14	(14.6)
Net other income (expense)	55	43	43	63	12	27.9
E. Operating income	3,662	3,321	3,491	6,674	341	10.3
Net investment and financial income (expense)	(1,291)	(1,437)	(1,529)	(3,955)	146	(10.2)
of which value adjustments	(403)	(774)	(772)	(1,956)	371	(47.9)
F. Income before extraordinary items and taxes	2,371	1,884	1,962	2,719	487	25.8
Net extraordinary income (expense)	106	113	97	(3,452)	(7)	(6.2)
G. Income before taxes	2,477	1,997	2,059	(733)	480	24.0
Income taxes	(1,085)	(1,160)	(1,210)	(925)	75	(6.5)
H. Net income (loss) before minority interest	1,392	837	849	(1,658)	555	66.3
Minority interest	(622)	(354)	(366)	(410)	(268)	75.7
I. Net income (loss)	770	483	483	(2,068)	287	59.4

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method

◀ (1) Reduced by related cost recoveries

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

CONSOLIDATED BALANCE SHEETS

	At 6.30.2002 (a)	At 12.31.2001 (b)	At 6.30.2001 (*)	At 6.30.2001	Change (a)-(b)
(in millions of euro)					
A. Intangibles, fixed assets and long-term investments					
Intangible assets	15,142	16,197	17,682	18,160	(1,055)
Fixed assets	20,302	21,757	21,752	24,646	(1,455)
Long-term investments:					
• equity investments and advances on future capital contributions	5,496	6,586	8,487	8,083	(1,090)
• other	391	478	584	605	(87)
	41,331	45,018	48,505	51,494	(3,687)
B. Working capital					
Inventories	633	636	1,020	1,060	(3)
Trade accounts receivable	8,538	8,346	8,328	8,744	192
Other assets	4,249	5,047	3,085	3,172	(798)
Trade accounts payable	(5,410)	(6,793)	(6,548)	(6,815)	1,383
Reserves for risks and charges	(3,348)	(3,053)	(1,948)	(2,094)	(295)
Other liabilities	(7,357)	(6,601)	(6,914)	(7,005)	(756)
	(2,695)	(2,418)	(2,977)	(2,938)	(277)
C. Invested capital, net of operating liabilities (A+B)	38,636	42,600	45,528	48,556	(3,964)
D. Reserve for employee termination indemnities	(1,391)	(1,350)	(1,369)	(1,369)	(41)
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities (C+D)	37,245	41,250	44,159	47,187	(4,005)
Financed by:					
F. Shareholders' equity ⁽¹⁾					
Parent Company interest	11,265	13,522	16,202	16,202	(2,257)
Minority interest	4,880	5,786	5,613	6,526	(906)
	16,145	19,308	21,815	22,728	(3,163)
G. Medium/long-term debt	17,067	16,083	15,646	17,291	984
H. Net short-term borrowings					
Short-term borrowings	6,388	9,114	13,517	14,046	(2,726)
Liquid assets and short-term financial assets	(2,414)	(3,505)	(6,964)	(7,059)	1,091
Financial accrued expense and deferred income, net	59	250	145	181	(191)
	4,033	5,859	6,698	7,168	(1,826)
(G+H)	21,100	21,942	22,344	24,459	(842)
I. Total (F+G+H)	37,245	41,250	44,159	47,187	(4,005)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euro)	1 st half 2002	1 st half 2001 (*)	1 st half 2001	Year 2001
A. Net debt, at beginning of year	(21,942)	(17,233)	(19,029)	(17,233)
B. Change in scope of consolidation	-	(839)	(839)	(839)
C. Cash flows - operating activities				
Net income (loss)	1,392	837	849	(1,658)
Depreciation and amortization	2,886	3,028	3,266	6,275
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(729)	(176)	(176)	(330)
Writedowns of intangibles, fixed assets and long-term investments	386	577	575	4,039
Change in working capital (**)	318	708	669	290
Net change in reserve for employee termination indemnities	41	50	50	31
Translation adjustments and other changes	400	87	(251)	136
	4,694	5,111	4,982	8,783
D. Cash flows - investing activities				
Intangibles, fixed assets and long-term investments:	(2,548)	(7,028)	(7,210)	(11,257)
– <i>intangible assets:</i>				
– <i>goodwill</i>	(76)	(1,000)	(1,000)	(1,174)
– <i>other investments</i>	(519)	(1,715)	(1,726)	(2,736)
– <i>fixed assets</i>	(1,344)	(1,925)	(2,080)	(4,254)
– <i>long-term investments</i>	(609)	(2,388)	(2,404)	(3,093)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,871	534	545	1,439
	(677)	(6,494)	(6,665)	(9,818)
E. Cash flows - financing activities				
Contribution by shareholders	52	202	202	240
Capital grants	20	6	6	22
	72	208	208	262
F. Dividends payout	(3,247)	(3,097)	(3,116)	(3,097)
G. Change in net debt (B+C+D+E+F)	842	(5,111)	(5,430)	(4,709)
H. Net debt, at end of period (A+G)	(21,100)	(22,344)	(24,459)	(21,942)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

◀ (**) The difference with respect to the reclassified consolidated balance sheets is due to the movements in capital grants and the use of the reserves for risks and charges.

The change in net debt was due to the following:

(in millions of euro)	1 st half 2002	1 st half 2001 (*)	1 st half 2001	Year 2001
Increases (decreases) in medium/long-term debt	(1,742)	7,685	7,933	9,350
Increases (decreases) in short-term borrowings	900	(2,574)	(2,503)	(4,641)
Total	(842)	5,111	5,430	4,709

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002

Significant events subsequent to June 30, 2002 are listed below.

Divestiture plan and corporate transactions:

Auna: in July 2002, Telecom Italia Group signed an agreement to bring forward the effects of the sale of Auna which had already been agreed with Endesa, Union Fenosa and Banco Santander Central Hispano. The transfer of the entire interest held by the Telecom Italia Group (26.89%), initially planned for December 2002, was completed on August 1st and resulted in net proceeds of euro 1,805 million, in addition to euro 193 million as reimbursement for the share capital increases paid in to Auna by the Telecom Italia Group from January to June 2002. Telecom Italia Group realized a net gain of euro 1,027 million. Compared to the originally established price of euro 1,850 million, the parties agreed to reduce the selling price by euro 45 million and to waive interests, also as a consequence of the anticipated closing of the deal.

Telemaco Immobiliare: on August 1, 2002, Telecom Italia sold the 40% interest held in Telemaco Immobiliare to Mirtus, an indirect subsidiary of the American real estate fund Whitehall that is promoted by the Goldman Sachs group, for proceeds of euro 178 million, in addition to a distribution of reserves for euro 40 million. The net gain realized by the Telecom Italia Group, which is calculated on the basis of the consolidated book value as of June 30, 2002, was euro 64 million. There is also a price adjustment mechanism, in favor of the sellers, based on the balance sheet figures and the realization price of certain assets during the course of 2002.

Sogei: on July 1, Finsiel signed an agreement with the Ministry of Economy and Finance – Fiscal Policy Department for the sale of the 100% interest in Sogei S.p.A., the company which manages the tax data for the Italian tax authorities. The transfer of the shares took place on July 31 at a sales price of euro 36 million (equal to the carrying value of the company in the consolidated financial statements of the Group at June 30, 2002), in addition to the distribution of reserves for euro 25 million. The positive impact on the Group's net debt was approximately euro 201 million. The deal is in line with the policy decided by the Bi-cameral Commission as regards tax data.

Telespazio: on August 2, 2002, Telecom Italia signed an agreement with Finmeccanica for the sale of Telespazio as well as some plants. The total impact on the net financial debt of the Telecom Italia Group will be approximately euro 245 million with a net gain of euro 53 million as calculated on the carrying value at June 30, 2002. The deal is subject to approval by the antitrust authority and should be concluded by the end of 2002.

9Telecom: August 26, 2002 marked the date of the conclusion of the transaction for the sale of the investment in 9Telecom and the purchase, at the same time, of 7% of LDCom. The losses connected with the sale were equal to euro 282 million and were accrued in the first half of 2002.

Solpart Participações: on August 26, 2002, the Telecom Italia Group has reached agreement with the other shareholders in Solpart Participações (which has indirect control of Brasil Telecom) to reduce its own stake in Solpart (from 37.29% to 19% of ordinary share capital) through a sale of 18.29% of ordinary share capital to Timepart Participações and to Techold Participações. This reduction is required to overcome barriers of a regulatory nature which until now have prevented TIM's local subsidiaries from commencing GSM 1800 commercialization. After this transaction the Telecom Italia Group stake dips below the 20%

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

threshold of Solpart ordinary share capital and as a result Telecom Italia no longer has the right to be involved in control over Brasil Telecom, a factor that has proved to be the impediment to TIM starting up its GSM service in Brazil. The transfer of shares regards only the ordinary shares, the Telecom Italia Group will therefore continue to hold the privileged capital it already owns (38% of privileged share capital), which constitutes the majority of Solpart's economic capital. As soon as is legally possible, the Telecom Italia Group intends to return to its previous investment position. As and when this occurs, the company agreement which is voided by these developments shall be reformulated in such a way as to provide Brasil Telecom management greater flexibility in running the company.

This transaction requires ANATEL regulatory approval. Should this not be forthcoming, the contract shall automatically be rescinded.

Preliminary agreement for the acquisition of 100% of the shares of Blu S.p.A.

On August 7, 2002, TIM S.p.A. signed a preliminary agreement with the shareholders of Blu S.p.A. for the purchase of 100% of the shares of the fourth GSM operator.

In accordance with the informal agreement presented by Blu and approved by the Ministry of Communication, the sale of 100% of the share capital of Blu to TIM will be carried out in a unitary and indissoluble context after the transfer of the separate business segments to Vodafone Omnitel S.p.A. (which will purchase a part of the radio stations), to H3G S.p.A. (which will purchase a majority of the sites) and to Wind Telecomunicazioni S.p.A. (which will purchase the customer base, the Blu trademark and a part of the network).

Blu will thus cease to exist as an operator giving up its wireless license and returning the 15 MHz frequency to the Ministry of Communication which, in view of the reduction in the availability of existing frequencies, is expected to proceed to reassign the spectrum in three blocks of 5 MHz to TIM, Vodafone Omnitel and Wind, for the duration of their respective GSM licenses. The agreed price to be paid to blu shareholders will be determined on the basis of an audited balance sheet of Blu S.p.A. at the date the contract comes into effect. Upon signing the final contract, TIM will pay a provisional price for the Blu shares equal to euro 18 million. The execution of the contract is subject to the following conditions:

- efficacy and execution of the final contracts for the sale of the business segments between Blu and Wind, Vodafone Omnitel and H3G;
- assignment to TIM, without additional cost, of the above-mentioned 5 MHz of GSM 1800 frequency;
- absence of decisions by any regulatory body which would obstruct the legitimate transfer of 100% of the shares;
- that the final price is at least euro 18 million.

After having obtained approval from the European Commission, formal authorization will have to be received from the pertinent authorities. If such conditions are not to be met within a reasonable period of time the parties are considered freed of all obligations.

It should also be pointed out that the current shareholders of the sellers include Edizioni Holding S.p.A. (in which the Chairman and Managing Director are, respectively, the Deputy Chairman of Telecom Italia Gilberto Benetton and the Director Gianni Mion) with a 9% stake and Autostrade S.p.A. (in which the same Mr Benetton and Mr Mion sit on the Executive Committee) with a 25.4% stake.

Renewal of bank facility

In August 2002, Telecom Italia renewed only the major credit line for euro 7.5 billion - out of the total euro 10 billion syndicated credit lines expiring in 2002 - thus reducing bank lines by 25% and confirming its target of cutting debt.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Agreement on employment

On July 30 and August 2, 2002, agreements were signed at the respective headquarters of the Employers' Association ("Unione Industriali") between Telecom Italia S.p.A., Telemedia International Italia S.p.A., Tele Pay Roll Services S.p.A., Telecom Italia Lab S.p.A. and the labor unions of the sector to reduce the work force by a total of approximately 3,900 employees, in implementation of the agreement reached on May 27, 2002 as part of the Industrial Plan 2002-2004.

The economic effects of the agreement are included in the extraordinary provisions made by Telecom Italia Group.

Acquisition of additional stake in Stet Hellas

In August, TIM International NV, a subsidiary of TIM, purchased, from the Verizon Europe Holding II group, a 17.45% stake in the share capital of Stet Hellas, in which it already had a 63.95% interest, for a price of approximately euro 108 million. The deal, which in effect makes TIM International NV the only industrial partner and strategic shareholder in the company, falls within the framework of the Group's strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

Purchase of treasury stock by Telecom Italia

As part of the transaction to purchase treasury stock as voted by the ordinary meeting of the shareholders of Telecom Italia on November 7, 2001, during the period July 1, 2002 to September 5, 2002, n. 7,445,000 savings shares of Telecom Italia stock were purchased at an average price of euro 5.26 per share, for a total amount of euro 39 million and n. 670,000 ordinary shares at an average price of euro 7.71 per share for a total investment of euro 5 million. The buy – back of treasury stock from January 1, 2002 stands at n.19,345,000 savings shares for a total of euro 109 million e n. 4,270,000 ordinary shares for a total of euro 35 million.

Acquisition of EPIClink

After having received approval from the antitrust authority, on August 2, 2002, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of euro 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli S.p.A. (25.3%; Pirelli is considered a related party of Telecom Italia through the persons of the Chairman and the CEO Carlo Buora), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). The company is specialized in outsourcing services in Information and Communication Technology (ITC) for small and medium-size business and industrial districts. After this transaction, EPIClink's shareholder base will be the following: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2% and E_voluzione 2%.

Approval by the Antitrust authority for the acquisition of additional stake in Netesi

At the end of August, the Antitrust authority approved the agreement between Telecom Italia and shareholders of Netesi (MTL Jupiter, Accenture, Angel Venture, Omniaholding, Euroclass, Intek and others) for the purchase of an additional stake (61.9%) of ordinary shares in Netesi (Telecom Italia already held a 17.98% interest), at a price of euro 11 million. After this transaction, the percentage of stocks held by Telecom Italia in Netesi will be 87.08%.

Acquisition of a stake in Mediocredito Centrale

In July Telecom Italia signed an agreement for the purchase of a stake in Mediocredito Centrale (3%) for a price of euro 36 million. The transfer of shares will be within December 31, 2002.

Rate rebalancing

Within the context of the price cap mechanism and in compliance with Resolution No. 847/00/CONS of December 11, 2000, on July 1, Telecom Italia increased the monthly subscription charges by euro 0.94 (including VAT), from euro 13.6 to euro 14.5 per month,

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

and offered residential customers 30 minutes of free long-distance calls over a two-month period. The rate adjustment was also applied to "Business" customers, with an increase in the monthly subscription charge of euro 0.70 (including VAT) and 60 minutes of local traffic over a two-month period. In addition, on July 26, Telecom Italia Domestic Wireline launched a new wholesale ADSL rate plan, aimed at telecoms operators and Internet Service Providers, which includes a 70% reduction of the "flat" subscription charge currently on the market. This is an innovative consumer rate plan similar to the one already used for dial-up that has been available for some time, with the added advantage of very high performance in terms of speed and easy access typical of ADSL technology.

Telecommunications licenses

On July 25, 2002, the Council of Ministers approved the law extending the duration of individual licenses in the telecoms sector from 15 to 20 years (the law also applies to licenses already issued), with the aim of ensuring that all operators have a longer time in which to operate, given the continuous expansion of the telephone services market and the consequently high level of competitiveness.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ OUTLOOK

PROSPECTS FOR THE PRESENT FISCAL YEAR

The Telecom Italia Group confirms the forecast of growth in operating income during the current year to be at least in line with the previous year. It also affirms its commitment to reduce net financial debt by continuing its divestiture program, a careful management of costs and a selective investment program.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ RELATED PARTY TRANSACTIONS

In reference to related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income in the six-month consolidated financial statements at June 30, 2002 of the Telecom Italia Group are presented in the following table.

The effects of related party transactions between Telecom Italia S.p.A. and the relative parent companies, subsidiaries and affiliated companies are reported – to supplement this disclosure – in the notes to the statutory financial statements of Telecom Italia S.p.A.. In the six-month consolidated financial statements, the effects of intercompany transactions on the balance sheet and statement of income, that is, transactions among consolidated companies, have been eliminated.

All related party transactions, including intercompany transactions, fall within the normal operations of the group, are governed by market terms or on the basis of specific laws, and there are no transactions of an unusual and/or exceptional nature.

MAJOR STATEMENT OF INCOME AND BALANCE SHEET COMPONENTS

	Transactions with:		Nature of transaction
	unconsolid. subsidiaries and affiliates	parent comp., subsidiaries and affiliates of parent comp.	
(in millions of euro)			
Sales and services revenues	239	1	These comprise revenues from Brasil Telecom (euro 60 million), Teleleasing (euro 83 million), Stream (euro 25 million), Auna Group (euro 18 million), Telecom Argentina (euro 16 million)
Raw materials and outside services	244	7	These mainly comprise rent payable to IMSER (euro 95 million) and Telemaco Immobiliare (euro 37 million) and TLC service costs from Etec S.A. (euro 31 million)
Net other (income) expense	7	–	These mainly relate to cost recoveries for personnel on loan to some foreign subsidiaries and affiliates
Net financial (income) expense	(9)	(11)	These include accrued interest income on loans made to certain foreign subsidiaries and affiliates (euro 5 million), interest expense payable to Teleleasing for financial leasing transactions (euro 14 million) and interest on the payable by Softe to Olivetti Finance N.V. (euro 11 million)
Loans in long-term investments	12	–	These refer mainly to medium/long-term loans made to subsidiaries and affiliates
Financial receivables	109	7	These comprise short-term loans made to Is Tim (euro 49 million) and Stream (euro 16 million)
Financial payables	512	250	These refer mainly to payables for finance leases to Teleleasing (euro 490 million) and a payable by Softe to Olivetti Finance N.V. (euro 250 million)

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

MAJOR STATEMENT OF INCOME AND BALANCE SHEET COMPONENTS

	Transactions with:		Nature of transaction
	unconsolid. subsidiaries and affiliates	parent comp., subsidiaries and affiliates of parent comp.	
(in millions of euro)			
Trade accounts receivable and other receivables	378	1	They mainly regard receivables from Auna group (euro 74 million), Stream (euro 95 million), Telekom Srbija (euro 19 million net of provisions), Telecom Argentina (euro 11 million net of provisions) and Teleleasing (euro 30 million)
Trade accounts payable and other payables	325	715	These refer to the payables to Olivetti for the payment of Group VAT (euro 706 million) and supply contracts connected with operating and investment activities: they include payables to the Italtel group: (euro 99 million), Siemens Informatica (euro 32 million), Teleleasing (euro 19 million), Etec S.A. (euro 12 million) and advances from Consorzio Telcal (euro 95 million)
Contract work in process	117	–	These refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan (euro 110 million)
Guarantees and collateral	1,274	–	These include guarantees provided on behalf of Auna group (euro 567 million), Is Tim (euro 229 million) and Stream (euro 73 million) and collateral provided on behalf of Is Tim (euro 150 million)
Purchase and sale commitments	22	–	These refer to commitments in favor of Teleleasing for operating leases
Investments in fixed assets and intangibles	118	–	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 94 million) and IT projects from Webegg (euro 14 million) and Siemens Informatica (euro 4 million)
Acquisition of investments	–	58	50% of Webegg from Olivetti
Disposal of investments	690	–	25% of Mobilkom Austria, through the disposal of the Autel holding to Telekom Austria

Related party transactions during the first half of 2002 also include those by the Telecom Italia Group with the Pirelli group:

(in millions of euro)	1 st half 2002	
Sales and services revenues	4.3	These mainly refer to telephone services
Raw materials and outside services	5.5	These essentially refer to R & D expenditures
Trade accounts receivable and other receivables	1.8	These mainly refer to the above-mentioned telephone services
Trade accounts payable and other payables	31.5	These mainly refer to the supply contracts connected with investment activities
Investments in fixed assets and intangibles	24.3	These mainly refer to purchases of telecommunications cables

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL REVIEW OF THE BUSINESS UNITS/OPERATING ACTIVITIES OF TELECOM ITALIA GROUP

DOMESTIC WIRELINE

- ▶ **Increase in profitability margins**
- ▶ **Innovation of products and service and in the field of Customer Care**
- ▶ **Efficiency in costs and investments**

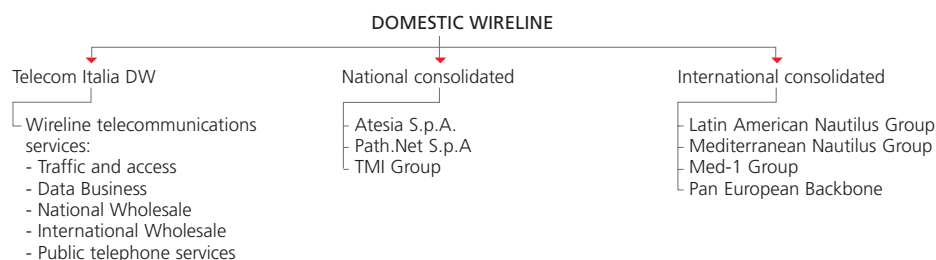
■ THE BUSINESS UNIT

The Domestic Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and Latin America.

During the six-month period, the strong competitive drive in the market continued. It was more accentuated in national traffic and was marked by the new commercial plans launched to support action intended to win back and retain customers.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The scope of consolidation changed as a result of the company Saritel S.p.A. becoming part of the of Information Technology – Group Operating Activity with effect from January 1, 2002. The data for 2001 has been restated for purposes of comparison.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

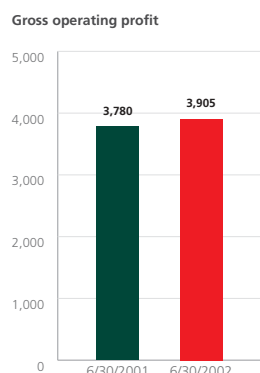
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2002, compared to those in the first half and whole of 2001, restated for purposes of comparison.

(millions of euro)	1 st half 2002 (a)	1 st half 2001 (b) ⁽¹⁾	Year 2001	Change (a-b)	
				Amount	%
Gross operating profit					
Sales and services revenues	8,400	8,482	17,159	(82)	(1.0)
Gross operating profit	3,905	3,780	7,749	125	3.3
% on revenues	46.5%	44.6%	45.2%		
Operating income	2,407	2,199	4,362	208	9.5
% on revenues	28.7%	25.9%	25.4%		
Investments:					
- industrial	998	1,353	2,798	(355)	(26.2)
- goodwill	-	-	-	-	-
Employees at period-end ⁽²⁾ (number)	56,633	60,942	57,831	(1,198)	(2.1)

◀ (1) Restated to exclude Saritel S.p.A. which became part of Information Technology Group.

◀ (2) The change in the number of employees has been calculated in reference to the data at the end of 2001.



Almost all of the results refer to the Domestic Wireline function of Telecom Italia.

In particular, the reduction in *revenues* can mainly be attributed to traffic (-euro 294 million compared to the same period of the prior year) and other components reporting a decline (sales and other revenues), and was only partially offset by the increase in basic subscription charges (+euro 315 million).

In fact, the downward observed in the first quarter of 2002 in the average return on traffic, due to greater competition and the consequent policy of granting discounts in order to build customer loyalty, was confirmed. These effects were partly compensated by the increase in the number of minutes, +5.8%, following the increase in "carried" traffic on behalf of other operators and on-line traffic.

The *gross operating profit* shows a significant increase (+3.3% compared to the first half of 2001), a fact further confirmed by the *operating income* (+9.5% compared to the same period of the prior year), as a result of steps taken to curb costs and improve the level of the efficiency of invested capital begun in 2001.

Investments fell by 26.2% compared to the first half of 2001, as a result of a selective investment policy designed to combine efficiency with technological development.

The number of *employees* fell by 1,198 compared to the end of 2001 as a result of the policy to optimize resources.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ INFORMATION ON OPERATIONS

The following table shows the operating highlights in the first half of 2002, compared to those in the first half of 2001:

Operating data	1 st half 2002	1 st half 2001
Fixed network connections (in thousands)	27,326	27,301
- of which ISDN	5,662	5,133
Annual increase in minutes of traffic on the fixed network (%)	5.8	28.2
- national traffic	5.3	29.1
- international traffic	18.9	9.5
- outgoing	14.3	9.3
- incoming	11.5	(0.3)
- in transit	42.8	39.2

■ Voice traffic and access

During the first half of 2002, new commercial rate plans were launched for residential and business phone services, including:

Residential telephone services	Ricomincio da te	Plan combining minutes of free calls with a simultaneous adjustment of the basic subscription charge
	Teleconomy Forfait	Package offering national calls (local and long-distance calls) of unlimited duration for a fixed monthly cost (5,800 customers at June 30, 2002)
	Teleconomy Zero	Package offering calls to anywhere in Italy (local and long-distance calls) at a fixed cost per call (regardless of the duration of the call) with a monthly subscription charge (572,000 customers at June 30, 2002)
Business telephone services	Corporate rate plan	Plan based on three different plans according to the amount the customer wishes to spend
	Business rate plan	Plan based on six different plans according to the amount the customer wishes to spend, with the expense subdivided into six installments
	Teleconomy Zero Business	Package offering calls to anywhere in Italy (local and long-distance calls) at a fixed cost per call (regardless of the duration of the call) with a monthly subscription charge (31,000 customers at June 30, 2002)

With reference to Public Telephone Service installations, terminals using ISDN technology numbered 93,473 at June 30, 2002 (+58.4% compared to June 30, 2001).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ Data transmission

During the first six months of 2002, the commercial range of data packages was expanded by the introduction of new plans in both the data transmission segment of corporate networks and Internet access, offered to companies and private customers alike.

These included:

ADSL Alice	ADSL plan (with various levels of pricing) making it possible to use high-speed Internet while leaving the normal phone line free (approximately 278 thousand customers)
ADSL Smart	ADSL plan for small and medium-size companies (approximately 22 thousand customers)
Hyperway	Package with expanded performance and pricing profiles based on an IP protocol which makes it possible to achieve integrated communication through data and voice IPs between customer areas (7,067 customers at June 30, 2002 of whom 5,776 are broadband)
Lambda	Fiber optic data transmission service
Full Business Security	Turnkey solution with new features which protects corporate networks, applications and IT systems from outside interference
Web Services	Hosting and on-line applications services, with new, expanded streaming services and highly evolved text messaging services
Wireless Lan	Service allowing fast wireless Internet access

■ National Wholesale

During the first half of 2002, Telecom Italia expanded its activities in the wholesale area by offering a range of commercial rate plans with products such as:

Local Loop Unbundling	Local Loop Unbundling service with more than 45,000 customers connected to the networks of other telecommunications operators
"Shared Access"	Service supplying licensed or authorized operators with access to the high range of frequencies available on the two-pair copper cables of Telecom Italia's distribution network

■ International Wholesale

As far as International Wholesale is concerned, the first half of 2002 was characterized by dynamic growth in the international traffic handled, by an improvement in efficiency and by a rationalization of costs.

■ National network

The national network in statistics at June 30, 2002 is as follows:

Exchange areas	about 10,400
Switching areas	615, served by 628 Local Group Stages (LGS)
Gateway Areas	33, served by 66 Transit Group Stages (TGS)
Copper access network	105 million of kilometers-pair
Fiber optic access network	420,000 kilometers-line
Fiber optic carrier network	2.9 million kilometers-line
Direct dialing circuits	3.8 million
Network for direct digital circuits	658,000 access points with speeds up to 2 Mbit/s
Network for direct analog circuits	167,000 access points
Frame Relay accesses	about 61,000 gates at 2Mbit/s

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

As far as the national network is concerned, during the first half of 2002 infrastructures and operation systems were improved. In particular, improvements were made to the infrastructure supporting broadband services as part of the "Network Development" project, which aims to achieve the maximum level of potential synergy between the various companies comprising the Group. The following activities are worthy of note:

ADSL	The ADSL network was extended to a further 130 exchanges, with a simultaneous increase in the coverage of the ADSL service to more than 70% of Internet users
SHDSL	New technology making it possible to supply services at up to 2 Mbit/s by using a single two-pair copper cable
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity and Hyperway MPLS services based on GBE access). In particular, during the first half of 2002, approximately 100 optical access lines were established in the 15 metropolitan networks equipped with GBE technology in 2001
Arianna network	Completion of another 8 SDHi rings, as part of the link between regional and international networks and the national transmission backbone
Fiber optic transport network	Creation of 18 links with DWDM systems between Palermo and Milan capable of carrying 40 fiber optic channels at 10 Gbit/s per link. Activation of the first 3 lambda links at 10 Gbit/s (Catania – Palermo, Catania – Rome, Rome – Milan)
T-Bone	Work began on the western backbone of the fiber optic ring linking Rome and Palermo, the north-eastern backbone linking Milan, Venice and Bologna, and the Adriatic backbone linking Bologna and Canosa for a total of 2,400 km
National Backbone	The migration of long-distance phone traffic from a backbone based on circuit technologies to the innovative one based on package technologies has begun. It will take two years for the migration to be completed
WI-FI	Wireless LAN solutions for private broadband services for residential and business clientele
Work Force Management (WFM)	The creation and dissemination of the WFM system was completed, making it possible to inform the technical experts of all the Work Centers about activities efficiently and automatically

■ International network

The international network in statistics at June 30, 2002 is as follows.

Connected countries	237
- of which direct dialing	229
- of which ISDN	53
Switching exchanges	8 (4 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	36,600 kilometers-line
Bands	2 rings of 60,000 Mbit/s

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

As far as the international network is concerned, services continued to be activated on the new infrastructures and operating systems developed in 2001 in geographical areas with a strong growth in demand for capacity, which are of strategic importance to the subsidiaries and affiliates located in those areas. Highlights during the year include:

Pan-european Backbone	Activation of the pan-european regional network, 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. Telecom Italia has set up cross-border services in each of the countries linked by the network, such as Managed Bandwidth (a plan offering transmission capacity), IP connectivity (offering international IP connectivity), international phone services (transport and delivery of international phone traffic, also in ATM technology) and GRX (GPRS Roaming eXchange for IP interconnection between wireless GPRS operators)
LAN (Latin American Nautilus)	Activation of the final configuration of the LAN ring network, which connects eight junctions in Latin America, including Rio de Janeiro, São Paulo, Buenos Aires and Santiago, with the junction in Miami
Mediterranean Nautilus	Work continued on the "Mediterranean Nautilus" project, the submarine optical fiber ring network which will connect Italy, Greece, Turkey, Israel and Egypt, with the completion of the ring which connects the points of Catania (Sicily), Chania (Crete), Haifa (Israel) and Tel Aviv (Israel)

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

As already described in the section "Significant events subsequent to June 30, 2002", on July 1, Telecom Italia increased the basic subscription charge by euro 0.94 (including VAT) as part of the price cap mechanism and in accordance with Resolution No. 847/00/CONS of December 11, 2000.

■ SUBSIDIARIES



Atesia S.p.A.

Held by: Telecom Italia 100.0%.

The company operates in the sector of telemarketing and market research.

The table shows the key economic highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	42	37	13.5
Gross operating profit	19	18	5.6
Operating income	16	16	-

Activities during the first half of 2002:

- development of the range of dedicated products for Telecom Italia and TIM.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

P.AthNet

Path.Net S.p.A.

Held by: Telecom Italia 99.99%, Sodalia 0.01%

The company is responsible for the development and management of the single Public Administration (R.U.P.A.) network.

The table shows the key economic highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	42	33	27.3
Gross operating profit	2	1	100.0
Operating income	1	-	-

Activities during the first half of 2002:

- stipulation of important new contracts with the Public Administrations.

TMI Group - Telemedia International Italia

Held by: Telecom Italia 100.0%

The group offers international voice and data services on fixed networks.

The table shows the key economic highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	19	49	(61.2)
Gross operating profit	(21)	(34)	38.2
Operating income	(31)	(52)	40.4

Activities during the first half of 2002:

- reorganization of the group's operations with the aim of streamlining the service, partly in view of a higher level of integration with Telecom Italia's international wholesale service.

Latin American Nautilus Group

Held by: Telecom Italia 70.0%, Entel Bolivia 10.0%, Entel Chile 10.0%, Telecom Argentina 10.0%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in Latin America.

The table shows the key economic highlights:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of US\$)	1 st half 2001 (mill. of US\$)	Change in US\$ (%)
Sales and services revenues	10	-	9	-	-
Gross operating profit	(1)	(3)	(1)	(3)	66.7
Operating income	(9)	(3)	(8)	(3)	(166.7)

Activities during the first half of 2002:

- activation of the final configuration of the network.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Mediterranean Nautilus Group

Held by: Telecom Italia 62.51%, Telecom Italia International 7.49%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in the Eastern Mediterranean. The Group comprises the following companies:

Mediterranean Nautilus S.A., Elettra Tlc S.p.A. and Mediterranean Nautilus Group Ltd.

The table shows the key economic highlights:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of US\$)	1 st half 2001 (mill. of US\$)	Change in US\$ (%)
Sales and services revenues	30	27	27	24	12.5
Gross operating profit	8	13	7	11	(36.4)
Operating income	58	(6)	52	(6)	°

Activities during the first half of 2002:

- progress in the creation of the submarine fiber optic link currently being built.

Med-1 Group

Held by: Telecom Italia 23.17%, Telecom Italia International 27.83%

The group is responsible for installing land-based and submarine networks in the area of the Middle East.

The table shows the key economic highlights:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of US\$)	1 st half 2001 (mill. of US\$)	Change in US\$ (%)
Sales and services revenues	11	6	10	6	66.7
Gross operating profit	7	2	6	2	200.0
Operating income	3	(1)	2	(1)	300.0

Activities during the first half of 2002:

- cooperation in the laying of the fiber optic Med Nautilus submarine network.

Pan European Backbone

Held by: Telecom Italia 100.00%

This is a group of companies which is responsible for the transport of traffic and the supply of transmission capacity for wholesale customers in Europe.

The table shows the key economic highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	12	9	33.3
Gross operating profit	8	6	33.3
Operating income	3	3	-

Activities during the first half of 2002:

- activation of cross-border services for the wholesale clientele.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

MOBILE

- ▶ **Growth of revenues and improvement in profitability margins**
- ▶ **Reduction of net financial indebtedness**
- ▶ **Sale of Bouygues Telecom and Mobikom Austria**

■ THE BUSINESS UNIT

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

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is structured as follows:



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

Key events in the first half of 2002 include:

- the sale of BDT (Bouygues Decaux Telecom, affiliated company 19.61%-owned, parent company of the French operator Bouygues Telecom), generating proceeds of euro 750 million and a gain of euro 484 million;
- the sale of Autel (a holding company 100%-owned of Telecom Italia, which has a 25% stake in the Mobikom Austria group) to Telekom Austria, generating proceeds of euro 756 million, gross of dividends paid of euro 66 million, and a gain of euro 163 million.

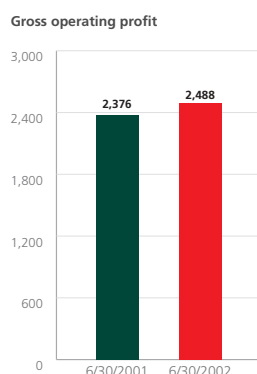
The sales described did not cause any significant change in the scope of consolidation since the companies sold were accounted for using the equity method.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2002, compared to the first half and the whole of 2001.

(millions of euro)	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
				Amount	%
Gross operating profit					
Sales and services revenues	5,185	4,930	10,250	255	5.2
Gross operating profit	2,488	2,376	4,760	112	4.7
% on Revenues	48.0%	48.2%	46.4%		
Operating income	1,684	1,617	3,136	67	4.1
% on Revenues	32.5%	32.8%	30.6%		
Investments:					
- industrial	583	1,782	3,151	(1,199)	(67.3)
- goodwill	-	9	31	(9)	
Employees at period-end (number) ⁽¹⁾	17,137	16,033	16,721	416	2.5



◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

The growth of *revenues* is mainly due to the positive performance of the parent company TIM, Stet Hellas, TIM Perù and TIM Maxitel. Compared to the first half of 2001, the growth of revenues takes into account the negative effects of the currency devaluation of the Venezuelan bolivar and the Brazilian real for a total of euro 179 million. Excluding the effect of the changes in the exchange rate, the growth in consolidated revenues for the first half of 2002 would be 8.8% compared to the same period of the prior year.

The *gross operating profit* increases of 4.7% compared to the first half of 2001 and as a percentage of revenues is slightly lower than that of the same period of the prior year, for the start-up of the Brazilian companies. Excluding the exchange rate effect, growth would have been equal to 6.7%.

The *operating income* is also slightly lower than that of the first half of 2001, despite the positive performance recorded by TIM Maxitel and Digital; the good performance of these two companies, together with the positive trend reported by TIM, Stet Hellas, Tele Nordeste Celular and Tele Celular Sul, was absorbed by the results of the companies still in the start-up phase, which were still negative.

Industrial investments amounted to euro 583 million. The lower figure in the first half of 2002, compared to the first half of 2001 can be correlated to the considerable investments made, in 2001, for the acquisition of PCS licenses in Brazil and the start-up and development of foreign subsidiaries.

At June 30, 2002, *employees* numbered 17,137 an increase of 416 compared to December 31, 2001, and largely attributable to operations in Latin America.

For a description of operations, please refer to the comment on the parent company TIM and the individual consolidated companies.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

The following events have already been described in the section "Significant events subsequent to June 30, 2002":

- on August 7, 2002, TIM S.p.A. signed a preliminary agreement with the shareholders of Blu S.p.A. for the acquisition of 100% of the shares of the company;
- in August, TIM International NV acquired a further stake of 17.45% in the share capital of Stet Hellas from the Verizon Europe Holding II;
- on July 25, 2002, the Council of Ministers approved the law extending the duration of individual licenses in the telecoms sector from 15 to 20 years.



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

Held by: Telecom Italia 54.82%, Softe 0.17%

The table shows the key economic highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	4,190	4,011	4.5
Gross operating profit	2,182	2,086	4.6
Operating income	1,613	1,638	(1.5)

Activities during the first half of 2002:

Revenues from traffic remained constant, although the growth in overall volumes (millions of minutes) remained high. In particular, volumes of traffic of TIM clientele alone increased by over 12%, significantly more than the growth in the TIM customer base (+6.9%).

The expiry of the roaming contract with Wind, which was still operational in the first half of 2001, contributed to curbing the growth of revenues from traffic. As far as revenues from services are concerned, there was an increase in basic subscription charges and activation fees, and recharging and revenues from value-added services (VAS). The latter increased by more than 40% compared to the first half of 2001. The increase in revenues from sales of 17.1% is due to the effect of higher supplies of equipment purchased by dealers, in view of the summer marketing campaigns to launch MMS services.

The growth in *gross operating profit* is slightly higher than the increase of revenues.

This is due to the fact that the incidence of service costs remained unchanged and labor costs fell slightly, mainly as a result of limiting the growth of the workforce.

During the six-month period, TIM confirmed its leadership of the market with a share of 46.2%.

The following table shows the key operating highlights for the first half of 2002, compared to the first half of 2001, and the main activities carried out by each sector:

TIM - operating highlights	June 30, 2002	June 30, 2001
TIM lines in Italy (thousands)	24,207	22,649
Traffic (TIM S.p.A. in million of minutes)	17,842	16,311
GSM penetration in Italy (% of population)	99.8	99.7
E-TACS penetration in Italy (% population)	98.0	98.1

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

During the first half of 2002, TIM continued to develop innovative services with the aim of building customer loyalty and giving users greater incentives for using mobile phones. The most important initiatives included:

TIM 4888 PayFor Me	Launched in January 2002, it enables customers to charge the cost of a call to another TIM phone (whether the customer has a contract or a prepaid card) and to all Telecom Italia fixed phones
MMS	June 24 saw the launch of the MMS (messages consisting of one or more components of multimedia including text, images, sound and video) service. All TIM customers who own a compatible handset are automatically able to send MMS free of charge. MMS sent through TIM will remain free of charge until October 7

■ SUBSIDIARIES

■ EUROPE

Stet Hellas Group

Held by: TIM International 63.95%, Softe 0.13%

The Group operates the GSM service in Greece.

The table shows the main economic and operating data:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	304	251	21.1
Gross operating profit	109	85	28.2
Operating income	53	42	26.2
Number of lines at period-end (thousands)	2,284	1,887	21.0

Activities during the first half of 2002:

- Increase in revenues from services on account of the growth of outgoing traffic and SMS

■ LATIN AMERICA

The activities of the Mobile BU in Latin America are coordinated by Latin America Operations.

Tele Nordeste Celular Participações Group

Held by: Bitel 21.18%

The group operates mobile network services in the northeast of Brazil.

The table shows the main economic and operating data:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of reais)	1 st half 2001 (mill. of reais)	Change in reais (%)
Sales and services revenues	214	221	469	425	10.4
Gross operating profit	113	103	247	197	25.4
Operating income	55	46	121	88	37.5
Number of lines at period-end (thousands)			1,842	1,625	13.4



1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Activities during the first half of 2002:

- Launch of programs to encourage customer loyalty and retention;
- Further rationalization in the operation of points of sale and continuation of the policies to limit clientele credit lines, with the aim of pursuing a continuous reduction of costs;
- Careful evaluation of investments, while pursuing the objective of maintaining an optimum level of efficiency of service.



Tele Celular Sul Participações Group

Held by: Bitel 20.68%

The group operates mobile network services in the south of Brazil.

The table shows the main economic and operating data:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of reais)	1 st half 2001 (mill. of reais)	Change in reais (%)
Sales and services revenues	213	201	466	387	20.4
Gross operating profit	99	92	216	178	21.3
Operating income	43	42	94	80	17.5
Number of lines at period-end (thousands)			1,635	1,503	8.8

Activities during the first half of 2002:

- Repositioning of the commercial product range for the corporate sector;
- Launch of new rate plans for the subscriber customer segment;
- Development of diversified sales channels;
- Growth of revenues from SMS and from Value-Added Services provided through TIMNet.com.



TIM Maxitel Group

Held by: TIM International 58.70%, Bitel 37.97%, TIM Brasil 3.33%

The group handles mobile telephone services in Brazil in the areas of Bahia and Sergipe.

The table shows the main economic and operating data:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of reais)	1 st half 2001 (mill. of reais)	Change in reais (%)
Sales and services revenues	163	139	357	267	33.7
Gross operating profit	62	33	136	63	115.9
Operating income	12	(19)	25	(37)	
Number of lines at period-end (thousands)			1,274	1,065	19.6

Activities during the first half of 2002:

- Change of the brand name to TIM Maxitel;
- Commercial strategy focused on customer acquisition;
- Loyalty and retention programs stepped up in the high-profile customer range;
- Special offers for subscriber customers to encourage migration to new rate plans.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.



TIM Perú S.A.C.

Held by: TIM International 100.00%

The company operates mobile telephone services in Peru.

The table shows the main economic and operating data:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of nuevo soles)	1 st half 2001 (mill. of nuevo soles)	Change in nuevo soles (%)
Sales and services revenues	36	10	112	33	239.4
Gross operating profit	(22)	(28)	(70)	(88)	20.5
Operating income	(39)	(34)	(122)	(109)	(11.9)
Number of lines at period-end (thousands)			259	74	250.0

Activities during the first half of 2002:

- Share capital increases for a total of US \$199 million;
- Market share of 12.8% achieved;
- Launch of new products and services, with the aim of developing voice and data traffic;
- Expansion of the distribution chain and phone recharging points.



Corporacion Digitel C.A.

Held by: TIM International 56.56%

The company operates mobile telephone services in Venezuela.

The table shows the main economic and operating data:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of boliv.)	1 st half 2001 (mill. of boliv.)	Change in bolivares (%)
Sales and services revenues	83	113	111,486	69,816	59.7
Gross operating profit	17	8	22,433	4,848	362.7
Operating income	2	(11)	2,590	(7,122)	
Number of lines at period-end (thousands)			799	419	90.7

Activities during the first half of 2002:

- New customized rate plans;
- National roaming agreement with the operator of services in the east of Venezuela.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ AFFILIATED COMPANIES

■ MEDITERRANEAN BASIN

IS TIM T.H. A.S.

Held by: TIM International 49.00%

The company operates mobile telephone services in Turkey.

The table shows the main economic and operating data:

	1st half 2002 (mill. of euro)	1st half 2001 (mill. of euro)	1st half 2002 (bill. of Turkish lire)	1st half 2001 ⁽¹⁾ (bill. of Turkish lire)	Change in Turkish lire (%)
Sales and services revenues	33	9	51,674	10,166	408.3
Gross operating profit	(57)	(58)	(89,331)	(62,774)	(42.3)
Operating income	(196)	(113)	(306,558)	(121,802)	(151.7)
Number of lines at period-end (thousands)			964	187	415.5

◀ (1) Commercial services began on March 21, 2001 and therefore the revenues and certain types of costs refer to a period of less than a six-month period

Activities during the first half of 2002:

- New rate plans aimed at the corporate clientele, to improve penetration in the more profitable market segments;
- Continuation of the network roll-out plan, the aim being to achieve a coverage of 70-80% of the population by the year-end, with a significant number of BTS (Base Transceiver Stations) installed.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

INTERNET AND MEDIA

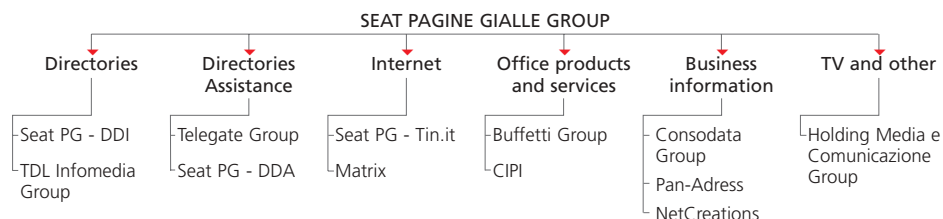
- ▶ **Improvement in profitability**
- ▶ **Reduction of net financial indebtedness**
- ▶ **Development of synergies between the various business areas**

■ THE BUSINESS UNIT

The Internet and Media Business Unit is responsible for the whole chain of value in the media sector. Its operations run from directories to telephone publishing and television and the BU is the national leader in the marketing of products and services for the office. Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies: access, portals and web services.

■ THE STRUCTURE OF THE BUSINESS UNIT

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



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

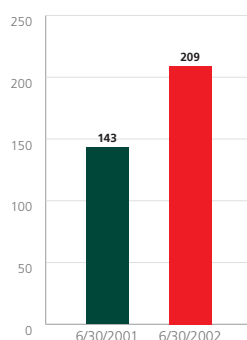
There were no significant changes in the scope of consolidation compared to 2001. The main corporate transactions carried out in the six-month period include the sale of the 46.43% interest held in Mondus Ltd.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key economic highlights for the first half of 2002, compared to the first half and the whole of 2001.

Gross operating profit



	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
(millions of euro)				Amount	%
Sales and service revenues	871	825	1,957	46	5.5
Gross operating profit	209	143	444	66	46.2
% on Revenues	24.0%	17.3%	22.7%		
Operating income	19	(42)	31	61	
% on Revenues	2.2%	-5.1%	1.6%		
Investments:					
- industrial	30	79	175	(49)	(62.0)
- goodwill	7	134	203	(127)	(94.8)
Employees at period-end (number) ⁽¹⁾	8,300	8,992	9,264	(964)	(10.4)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

Consolidated *revenues* for the first half of 2002 show an increase of 5.5% compared to the same period of the prior year (+2.6% on a comparable consolidation basis) thanks partly to the positive contribution of the Directories business area, despite the serious recession still affecting the publishing market, and of Directory Assistance area.

The *gross operating profit* of the group improved considerably, thanks particularly to the growth achieved in the area of Directories and the Internet.

These improvements also reflected on the *operating income* which reported a positive figure during the six-month period of euro 19 million, compared to a loss of euro 42 million in the first half of 2001.

During the first half of 2002, efforts continued to rationalize and re-focus corporate *investments* on the core business, leading to a significant reduction in investments compared to the first half of 2001 (from euro 79 million to euro 30 million), in line with the objectives of the industrial plan for 2002-2004 announced last February.

At the end of the six-month period, *employees* of the group numbered 8,300 compared to 9,264 at December 31, 2001.

■ INFORMATION ON OPERATIONS

During the six-month period, the operations of the Seat Pagine Gialle group were marked by:

- continuation of the integration process between the business areas of Directory, Internet and Directory Assistance;
- new positioning of the range of products providing access to the Internet and a higher level of cooperation with Telecom Italia Domestic Wireline for the sale of ADSL Internet connections;
- review of the text and graphics of the Virgilio portal and the start-up of marketing of Virgilio Presenza and PG Net with a view to better exploiting potential synergies between the Directories and Internet business areas;
- repositioning of the television broadcasting channel La7 and launch of the new program schedule;
- definition of a new strategic plan for the Buffetti Group.

For a description of operations during the six-month period, please refer to the comments on the parent company Seat Pagine Gialle and its main consolidated companies, presented below.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

On July 30, 2002, Seat Pagine Gialle sold its investment in the closed-end trust Wisequity and its equity investments in Giallo Lavoro S.p.A. and Roncadin Restaurants S.p.A..

Furthermore, in August, Seat Pagine Gialle concluded a deal with the American company D&B for the sale of DataHouse S.p.A., the Group company that operates in the sector of real estate information. The value of the transaction is approximately euro 22 million. The sale of DataHouse is in line with the objectives of the industrial plan, the aim being to focus on the strategic core businesses.



■ SEAT PAGINE GIALLE (PARENT COMPANY)

Held by: Telecom Italia 53.21%, Huit II 1.90%, Softe 0.13%, Saritel 0.02%

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

The table shows the economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	459	437	5.2
Gross operating profit	209	177	17.7
Operating income	100	77	30.7

Activities during the first half of 2002:

Telephone publishing	Telephone Directories	102 volumes published in Italy during the six-month period
	Pagine Bianche	Sales campaign to promote the new product distributed from September 2002
	PG on line	700 thousand visits to the website every week
	PG Net	New product created in collaboration with Virgilio, and start of sales
	Tuttocittà	Preparation for the launch of the new on-line edition
Internet	Dial up	Repositioning of the product range
	ADSL	Revised and enhanced product range

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ MAIN SUBSIDIARIES



TDL Infomedia Group

Held by: Seat Pagine Gialle 99.60%

The group operates in the telephone publishing sector and is the second-largest publisher of directories in the United Kingdom.

The table shows the economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	58.7	55.5	5.8
Gross operating profit	16.2	11.5	40.9
Operating income	0.2	(3.5)	

Activities during the first half of 2002:

- 67 editions were published during the six-month period compared to 68 in the first half of 2001;
- further synergies were established with Seat Pagine Gialle in the areas of purchasing and printing.



Telegate Group

Held by: Seat Pagine Gialle 64.53%

The group operates in the sector of Directory Assistance.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	60.2	68.6	(12.2)
Gross operating profit	3.9	(11.2)	
Operating income	(5.4)	(18.9)	71.4

Activities during the first half of 2002:

- Further progress achieved in the sphere of rationalization and the recovery of efficiency;
- Optimization of the productive capacity of call centers;
- Specific action taken to curb database costs.



Matrix S.p.A.

Held by: Finanziaria WEB 66.00%, Seat Pagine Gialle 0.70%, NV Vertico 33.30%

The company operates in the Internet sector.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	9.5	11.7	(18.8)
Gross operating profit	(8.1)	(18.7)	56.7
Operating income	(11.2)	(22.6)	50.4

Activities during the first half of 2002:

- Introduction of new management figures in key posts;
- Rationalization of costs and recovery of efficiency;
- Re-styling of the Virgilio portal and launch of Virgilio Presenza.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.



Buffetti Group

Held by: Seat Pagine Gialle 100.00%

The group operates in the sector of products and services for the office.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	139.9	126.4	10.7
Gross operating profit	9.0	9.3	(3.2)
Operating income	6.8	5.7	19.3

Activities during the first half of 2002:

- redefinition of corporate strategies and development plans;
- development and launch of customized printing;
- start of the marketing of promotional gifts "on demand".



Consodata Group

Held by: Seat Pagine Gialle 90.42%

The group operates in the sector of business information in the French market.

The table shows the economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	39.6	38.5	2.9
Gross operating profit	1.8	6.1	(70.5)
Operating income	(3.8)	(3.5)	(8.6)

Activities during the first half of 2002:

- Focus on products with greater value-added and with more goal-oriented targets;
- Rationalization of investments;
- Update and improvement of the technical potential of the database.

Holding Media e Comunicazione Group

Held by: Seat Pagine Gialle 100.0%

The group operates in the sector of radio and television broadcasting.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	41.5	38.4	8.1
Gross operating profit	(23.7)	(21.8)	(8.7)
Operating income	(43.1)	(39.7)	(8.6)

Activities during the first half of 2002:

- Repositioning of the television broadcasting channel La7;
- Launch of the new TV program schedule with effect from March 18;
- Action to improve cost efficiency for content production processes.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

INTERNATIONAL OPERATIONS

- ▶ **Growing revenues and operating income**
- ▶ **Optimization of the portfolio of business activities**

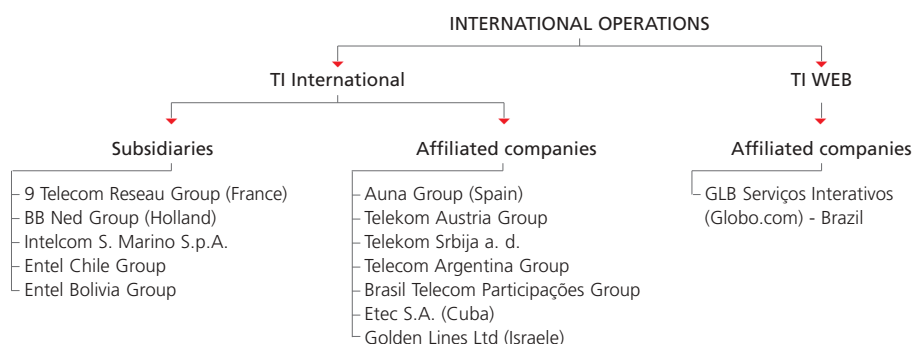
■ THE OPERATING ACTIVITY

In May 2002, the International Operations (IOP) "Operating Activity" was changed. While the companies involved maintained the same corporate control structure, they were transferred to the Domestic Wireline BU and the Foreign Holdings Central Function. All the companies based in Latin America now report to Latin American Operations (LAO).

The figures for the first half of 2002 still reflect the previous organizational structure, both because the organizational change took place in May, and for purposes of comparison.

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The structure of International Operations used to consist of companies which were for the most part controlled by the holding company Telecom Italia International (the new corporate name of Stet International Netherlands since May 15, 2002).



As a result of the reorganization described above, although the above-mentioned companies maintain the same corporate control structure, they now report to the following organizational units:



1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

MAJOR EVENTS /SCOPE OF CONSOLIDATION

The first half of 2002 was marked by the following transactions:

- during the first half of 2002, the Telecom Italia Group reached an agreement with ÖIAG, the majority shareholder of Telekom Austria, whereby, starting from the second half of 2002, Telecom Italia Group will gradually sell its investment in Telekom Austria;
- during the first half of 2002 Telecom Italia International's stake in 9Telecom SA was raised to 99.96% following the acquisition of 1,003,386 shares from Lobelie. Furthermore, on June 21, 2002, Telecom Italia International signed an agreement with the Louis Dreyfus Communications group (LDCom) for the sale of its stake in 9Telecom;
- during the first half of 2002 Telecom Italia GmbH and Telecom Italia de España were placed in liquidation.

Compared to the first half of 2001, the scope of consolidation has changed as the result of the exclusion of the Nortel Inversora-Telecom Argentina group, which, however, at December 31, 2001 had been accounted for using the equity method, and because of the aforementioned wind-up of Telecom Italia GmbH and Telecom Italia de España.

ECONOMIC AND FINANCIAL DATA

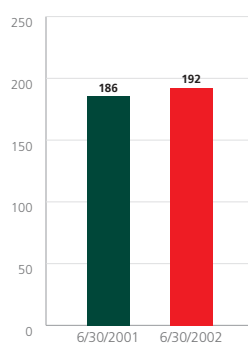
The table shows the key results for the first half of 2002, compared to the first half and the whole of 2001.

(millions of euro)	1 st half 2002 (a)	1 st half 2001 (b) ^(*)	Year 2001	Change (a-b)	
				Amount	%
Sales and services revenues	947	934	1,879	13	1.4
Gross operating profit	192	186	347	6	3.2
% on Revenues	20.3%	19.9%	18.5%		
Operating income	(69)	(122)	(268)	53	43.4
% on Revenues					
Investments:					
- industrial	154	276	517	(122)	(44.2)
- goodwill	-	773	773	(773)	
Employees at period-end (number) ⁽¹⁾	7,131	7,437	7,307	(176)	(2.4)

◀ (*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

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

Gross operating profit



The difficult economic situation in the Latin American market continues with obvious effects on the currencies of the whole region. The economies of the region had already been negatively influenced by the crisis in Argentina.

During the first half of 2002, revenues amounted to euro 947 million, an increase of 1.4% compared to the same period of 2001. The increase can mainly be attributed to a greater contribution on the part of the Entel Chile group and the 9Telecom group.

The gross operating profit increased by 3.2% compared to the first half of 2001. The increase in revenues and the reduction in labor costs (-2.5%) were offset by a slight increase in the usage of raw materials and outside services (1.1%). As a result, gross operating profit rose, as a percentage of revenues, from 19.9% in the first half of 2001 to 20.3%.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

The *operating income* reported a significant improvement compared to the same period of 2001. This can be attributed to lower amortization of goodwill on the part of subsidiaries following the writedowns made in the financial statements at December 31, 2001.

Industrial investments decreased compared to the first half of 2001, showing a contraction of 44.2%. This was largely due to the lower level of investments made by the 9Telecom, Entel Chile and Entel Bolivia groups.

At June 30, 2002 *employees* numbered 7,131, a reduction of 2.4% compared to the figure at December 31, 2001.

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

As already described in the section "Significant events subsequent to June 30, 2002", on August 1, 2002 the Telecom Italia Group sold its stake in Auna to Endesa, Union Fenosa and Banco Santander Central Hispano. August 26, 2002 marked the conclusion of the transaction involving the sale of the Group's stake in 9Telecom and the simultaneous acquisition of 7% of LDCom.

■ MAIN SUBSIDIARIES

■ EUROPE

9Telecom Reseau Group

Held by: Telecom Italia International 99.96%,

TMI - Telemedia International Ltd. 0.04%

The Group operates in the sectors of wireline telephone, voice, data and Internet services. It also operates in the sector of traditional hosting in France.

The table shows the key economic and operating highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	187	128	46.1
Gross operating profit	(32)	(60)	46.7
Operating income	(70)	(139)	49.6
Voice customers at period-end (thousands)	713	514	38.7
Internet customers at period-end (thousands)	131	86	52.3

Activities during the first half of 2002:

- transfer of the Internet-access operations of Magéos Explorer to 9Telecom,
- focus of Magéos Explorer's business on value-added services in the Internet sector.



1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.



BBNed Group

Held by: Telecom Italia International 96.17%

The group operates in the Dutch market of broadband (XDSL) local access services for ISP and business customers.

The table shows the key economic and operating highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	3	-	
Gross operating profit	(10)	(7)	(42.9)
Operating income	(13)	(8)	(62.5)
Number of ADSL lines at period-end	5,474	45	

Activities during the first half of 2002:

- progress in the development of the OSS network and platform, now nearing completion;
- customer growth rate exceeded expectations, positioning the BBNed group among the leaders of the ADSL market.

Intelcom San Marino S.p.A.

Held by: Telecom Italia International 70.00%

The company owns the monopoly for international telephone services in the Republic of San Marino. In addition, it offers value-added services associated with the sale of international connections, as well as data-transmission, hosting and housing and Internet-access services.

The table shows the key economic and operating highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	15	23	(34.8)
Gross operating profit	-	2	
Operating income	(6)	2	
Volume of traffic handled (millions of minutes)	125	122	2.5
Internet customers at June 30 (thousands)	5	4	25.0

Activities during the first half of 2002:

- marked contraction of the volumes of traffic handled in the first half of 2002 resulting from the increase in the interconnection rate imposed by wireless operators on traffic collected through toll-free numbers.

Following the above-mentioned reorganization of international operations, as from July 1, 2002, the company reports to the Domestic Wireline Business Unit.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ LATIN AMERICA

The activities of International Operations in Latin America are coordinated by Latin America Operations.



Entel Chile Group

Held by: Telecom Italia International 54.76%

The group operates in the sectors of fixed and mobile telephone services, data-transmission and Internet-access services in Chile.

The table shows the key economic and operating highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of pesos)	1 st half 2001 (mill. of pesos)	Change in pesos (%)
Sales and services revenues	632	623	377,177	328,645	14.8
Gross operating profit	204	190	121,672	100,266	21.3
Operating income	82	74	48,615	39,212	24.0
No. of fixed lines at June 30 (thousands)			99	92	7.6
No. of mobile customers at June 30 (thousands)			2,089	1,583	32.0
Internet customers at June 30 (thousands)			463	336	37.8

Activities during the first half of 2002:

- start of operations in Peru and Venezuela where commercial plans have been launched for national and international long-distance services;
- technical implementation phase of the fast Internet-access service using WLL technology.



Entel Bolivia Group

Held by: Telecom Italia International 50.00%

The group operates in the sectors of wireline and mobile telephone services, Internet, data transmission, telex and telegraphy services in Bolivia.

The table shows the economic and operating highlights for the first half of 2002, compared to those first half of 2001:

	1 st half 2002 (mill. of euro)	1 st half 2001 (mill. of euro)	1 st half 2002 (mill. of boliv.)	1 st half 2001 (mill. of boliv.)	Change in bolivianos (%)
Sales and services revenues	97	112	611	649	(5.9)
Gross operating profit	39	48	244	275	(11.3)
Operating income	2	11	9	65	(86.2)
Number of fixed lines at June 30 (thousands)			54	44	22.7
Number of mobile customers at June 30 (thousands)			441	311	41.8
Internet customers at June 30 (thousands)			15	11	36.4

Activities during the first half of 2002:

- despite the deregulation of the market and the introduction of carrier selection, the group continues to maintain a large market share through the core business of the long-distance market: 90% on National Long Distance (LDN) and 78% on outgoing International Long Distance (LDI/U);
- business in the mobile sector has consolidated the growth of the customer portfolio, especially in the prepaid sector, and partly through migration from TDMA to GSM technology.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

INFORMATION TECHNOLOGY MARKET (ITM)

► Creation of a new business unit oriented towards the external market

■ INTRODUCTION

The Information Technology Market Business Unit was created in the early months of 2002 with the aim of focusing the activities previously included in the Information Technology Services BU according to the type of customer.

The BU is responsible for organizing the information technology activities of the Group oriented towards the external market, in particular, central and local administrations moving towards decentralization and e-government, as well as banks and businesses. Its product range covers the whole chain of value of information services. The IT Market BU creates solutions and services around platforms and products of the main sellers on the market. Customers' needs are satisfied in one of three possible ways: by acquiring existing solutions on the market, developing special solutions, or by integrating components offered by Finsiel with typical market platforms (SAP and Oracle). The applications may be used with ASP mode through the Internet Data Centers of Telecom Italia – Saritel.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit, which is represented by the Finsiel Group, is organized as follows:

INFORMATION TECHNOLOGY MARKET

Main Subsidiaries

- Finsiel S.p.A.
- Sogei S.p.A.
- Tele Sistemi Ferroviari S.p.A.
- Insiel S.p.A.
- Banksiel S.p.A.
- Aspasiel S.p.A.
- EIS S.p.A.

In April 2002, the IT Market BU was reorganized bearing in mind its key reference markets, as follows:



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The scope of consolidation was partly affected by the sale, in June 2002, of the investments in Netikos S.p.A., Telesoft S.p.A. and Netsiel S.p.A. to IT Telecom S.p.A. by Finsiel.

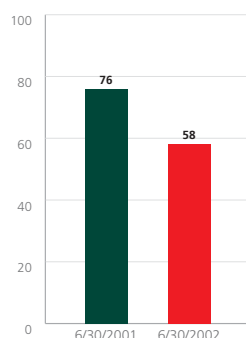
In addition, important developments include the sale, in February 2002, of the holding in the affiliated company Lottomatica S.p.A. to Tyche S.p.A. – De Agostini Group, through acceptance of a takeover bid. The sale generated a net gain for the Finsiel group in the consolidated financial statements of euro 93 million.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2002, compared to the first half and the whole of 2001, on a comparable consolidation basis:

Gross operating profit



(millions of euro)	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
				Amount	%
Sales and services revenues	553	573	1,198	(20)	(3.5)
Gross operating profit	58	76	166	(18)	(23.7)
% on Revenues	10.5%	13.3%	13.9%		
Operating income	43	61	123	(18)	(29.5)
% on Revenues	7.8%	10.6%	10.3%		
Investments:					
- industrial	14	15	30	(1)	(6.7)
- goodwill		1	1	(1)	
Employees at period-end (number) ⁽¹⁾	6,315	6,682	6,441	(126)	(2.0)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

Sales and service revenues show a reduction of euro 20 million compared to the same period of the prior year. This was due mainly to the contraction of the revenues of Finsiel, Consiel and Tele Sistemi Ferroviari; this result was affected by lower volumes and by a generalized reduction of revenues from contracts, only partly compensated by increases reported by Sogei, Insiel, Banksiel and, to a lesser extent, other companies for the invoicing of work currently in progress.

The *gross operating profit* and the *operating income* are lower than in the same period of 2001 as a result of the reduction in prices relating to some of the contracts which were renewed during the year. This was only partly compensated by reductions in the costs of orders and by steps taken to improve efficiency.

Industrial investments were substantially in line with those made in the same period of the prior year.

The number of *employees* of the IT Market BU fell by 126 compared to the figure at December 31, 2001.

■ INFORMATION ON OPERATIONS

During the six-month period, operations were marked by the acquisition of various important orders, particularly in the sphere of the Public Administration.

■ SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002

As already described in the section "Significant events subsequent to June 30, 2002", on July 31, Finsiel sold 100% of the share capital of Sogei S.p.A., the company responsible for managing the information systems for the tax data of the Italian tax authorities, to the

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Ministry of Economy and Finance – Department of Fiscal Policy, for a selling price of euro 36 million (equal to the carrying value of the company in Finsiel's consolidated financial statements), in addition to a distribution of reserves of euro 25 million.

In addition, the following events took place:

- on July 10, 2002, Finsiel reached an agreement to sell its stake (40.41%) in the affiliated company Informatica Trentina S.p.A. to Deltadator – Sequenza Group, at a price of euro 8.7 million with a net gain for the Finsiel group of euro 2 million. The conclusion of the transaction is subject to the approval of the majority shareholder, "Provincia Autonoma di Trento";
- August 2, 2002 saw the creation of Agrisian – Consulenza e servizi per l'agricoltura S.C.p.A., with a share capital of euro 10 million, in which Finsiel holds a 50.86% stake. The company was created with the aim of managing the contract stipulated with the Ministry for Agricultural and Forestry Policies;
- on August 2, 2002, Finsiel stipulated a contract to sell 100% of the share capital of Consiel S.p.A. to World Investment Partners S.A.. The transaction is subject to the approval of the antitrust authority. The selling price of euro 1 million is in line with the carrying value of the company in Finsiel's consolidated financial statements.

■ MAIN SUBSIDIARIES



Finsiel S.p.A.

Held by: Telecom Italia 77.92%, Finsiel 0.63%

The company supplies systems integration and Internet services for the Public Administration and large businesses.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	126	152	(17.1)
Gross operating profit	1	13	(92.3)
Operating income	(2)	12	(116.7)

Activities during the first half of 2002:

- In a competitive market scenario marked by reductions in the selling prices applied and a contraction of profitability margins, during the first half of 2002 the company was awarded numerous new contracts and also secured the renewal of other important contracts. In addition, further action was taken with a view to considerably improving efficiency. This included reducing purchase costs and improving performance by reviewing the company's organizational structure.

The revenues for the first six months of 2002 were mainly generated by the following customers: the Ministry of Agricultural and Forestry Policies, the Ministry of Health, Consip and state welfare organizations, as well as companies in the Telecom Group.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Sogei S.p.A.

Held by: Finsiel 100.00%

The company is responsible for managing and developing the information systems for tax data and on-line tax services.

The table shows the key economic highlights of the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	239	235	1.7
Gross operating profit	29	25	16
Operating income	29	23	26.1

Activities during the first half of 2002:

- during the six-month period, the company increased its volumes for the management of the financial information systems of the Ministry of Economy and Finance. Amongst other things, it provided an effective response to the new requirements expressed by the Ministry through the reform of the Financial Administration.



Banksiel S.p.A.

Held by: Finsiel 55.50%

The company is the leading Italian company in information technology for banking and finance.

The table shows the key economic highlights of the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	58	56	3.6
Gross operating profit	8	8	-
Operating income	7	5	40.0

Activities during the first half of 2002:

- During the six-month period, the company continued to develop and innovate its product range directed at the sphere of banking and finance. The main contracts acquired during the period include: the contract with BPM for "Parameterization of the Information System; the contract with Intesa Bci for "Prodotti di Deposito". In addition, the Facility Management contract with Credito Fondiario Industriale was renewed. Revenues during the first half of 2002 were mainly generated by the following customers: the Intesa Bci Group, the San Paolo-Imi Group and Antonveneta.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.



Tele Sistemi Ferroviari S.p.A

Held by: Finsiel 61.00%

The company specializes in the sector of transport and logistics and is a partner of the Italian national railways, Ferrovie dello Stato.

The table shows the key economic highlights of the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Sales and services revenues	57	61	(6.6)
Gross operating profit	10	13	(23.1)
Operating income	7	9	(22.2)

Activities during the first half of 2002:

- The company is the exclusive provider of ICT services for the companies in the Ferrovie Group. The ten-year outsourcing contract signed in 1997 with Ferrovie dello Stato is about to be renewed for the period 2002-2006 with lower contract payments, obliging the company to achieve higher levels of efficiency if it is to maintain its levels of profitability. Action taken hitherto has led to an increase in production volumes and a reduction in structural costs.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

INFORMATION TECHNOLOGY GROUP

► Creation of a new Operating Activity directed towards Group services

■ THE OPERATING ACTIVITY

The Information Technology Group Operating Activity was created in the early months of 2002 with the aim of focusing the activities previously included in the Information Technology Services BU according to the type of customer. The unit also incorporates operations that were formerly handled by the TILAB BU.

The unit is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group, pursuing objectives that will increase efficiency, improve quality and stimulate innovation.

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity is responsible for organizing the companies working on the Group's information systems within the framework of the plan to integrate the various companies involved. The Operating Activity is organized as follows:



In February 2002, the Operating Activity was given a new organizational structure, as follows:



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The following transactions carried out in the first half of 2002 affected the scope of consolidation:

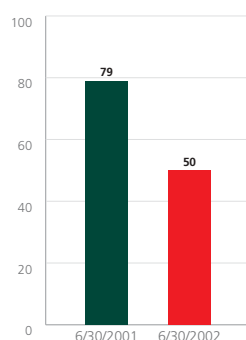
- contribution by Telecom Italia S.p.A. to IT Telecom S.p.A. of the investments held in Netsiel S.p.A. (68.65%), Saritel S.p.A. (100%), Sodalìa S.p.A. (100%) and Telesoft S.p.A. (60%);
- acquisition by IT Telecom S.p.A. of the equity investments held by Finsiel S.p.A. in Netikos S.p.A. (75%), Netsiel S.p.A. (31.35%) and Telesoft S.p.A. (40%). During the second half of 2002, the above-mentioned companies are expected to merge with IT Telecom, with the exception of Netikos;
- acquisition at the end of June by IT Telecom S.p.A. of the 50% investment in Webegg S.p.A. held by Olivetti S.p.A.. Webegg S.p.A. is now a 69.8%-owned subsidiary and only its balance sheet at June 30, 2002 was consolidated in the Operating Activity.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key results for the first half of 2002, compared to the first half and the whole of 2001:

Gross operating profit



	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
(millions of euro)				Amount	%
Revenues from sales and services	495	451	1,198	44	9.8
Gross operating profit	50	79	188	(29)	(36.7)
% on Revenues	10.1%	17.5%	15.7%		
Operating income	(16)	6	22	(22)	
% on Revenues		1.3%	1.8%		
Investments:					
- industrial	49	71	162	(22)	(31.0)
- goodwill	28		6	28	
Employees at period-end (number) ⁽¹⁾	7,523	6,968	6,844	679	9.9

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

The increase in *revenues* can essentially be attributed to higher invoicing of work in progress compared to the first half of 2001.

The reduction of *profit margins*, compared to the same period of 2001, reflects the revisions of the amounts due on contracts with the Domestic Wireline Business Unit. Such contracts refer mainly to operating and applied activities. The reduction was only partly compensated by a contraction in external consumption of 11%, a phenomenon that can be attributed largely to action to improve efficiency initiated at the beginning of the year. This process also led to a reduction in *industrial investments* of euro 22 million, particularly with regard to Netsiel and Saritel. *Goodwill* refers mainly to the acquisition of Webegg.

The increase in the number of *employees* (719 units) is associated with the inclusion of the Webegg group in the scope of consolidation at June 30, 2002.

■ INFORMATION ON OPERATIONS

During the six-month period, operations were marked by a series of initiatives with the following aims:

- to ensure innovation, development and optimum management of Information Technology in the Telecom Group;
- to develop action required with regard to organization, governance processes, technologies and responsibilities to achieve the mission of the Operating Activity.

■ EVENTS SUBSEQUENT TO JUNE 30, 2002

On July 31, 2002, Teco Soft España (a wholly-owned subsidiary of Telesoft S.p.A.) was sold following the withdrawal of the Telecom Italia Group from Spain as a result of the sale of Auna.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ MAIN SUBSIDIARIES



Telesoft Group

Held by: IT Telecom 100.00%

The group supplies software and Information Technology services for the Telecom Italia Group.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	214	160	33.8
Gross operating profit	17	15	13.3
Operating income	4	3	33.3

Activities during the first half of 2002:

- development of systems for the Telecom Italia Group through the creation of products to support both the management processes of the telecoms network, and marketing and after-sales activities.



Netsiel S.p.A.

Held by: IT Telecom 100.00%

The company manages Telecom Italia's information technology infrastructures.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	145	182	(20.3)
Gross operating profit	23	69	(66.7)
Operating income	(9)	26	

Activities during the first half of 2002:

- management and maintenance of applications platforms for the Telecom Italia Group;
- integrated job management;
- supply of services and technological support for customer assistance.



Sodalìa S.p.A.

Held by: IT Telecom 100.00%

The company creates innovative software for telecommunications.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	9	11	(18.2)
Gross operating profit	-	2	
Operating income	(1)	1	

Activities during the first half of 2002:

- continuation of work to create the integrated broadband network management platform of the Domestic Wireline BU.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.



Saritel S.p.A.

Held by: IT Telecom 100.00%

The company operates as the "Internet factory" of the Telecom Italia Group. It handles the management of basic services and platforms, the integration of systems and the development of applications.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	64	53	20.8
Gross operating profit	15	6	150.0
Operating income	6	1	

Activities during the first half of 2002:

- development and support of the product range for the Telecom Italia Group, mainly for Domestic Wireline, TIM, Seat Pagine Gialle, Retevisión Movil in Spain and IS TIM in Turkey.



TILAB Group

Held by: Telecom Italia 100.00%

The TILAB Group identifies and manages innovative initiatives, creating new business opportunities both for companies within the Group and for the external market.

The table shows the key economic highlights for the first half of 2002, compared to the first half of 2001:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	75	62	21.0
Gross operating profit	4	(10)	-
Operating income	(8)	(22)	63.6

Activities during the first half of 2002:

- laboratory development of platforms for supplying data services based on Wireless LAN technology for businesses;
- testing on the field of the localization platform, in collaboration with TIM;
- completion of the economic evaluation of the business area of "network-based" storage for disaster recovery;
- creation of a product to monitor end-to-end performance of IP services on the GPRS network;
- completion of the new reference framework for the processes of an innovative service provider;
- integration, in the Telecom Italia portal, of a product to create an on-line press agency which uses automatic animation systems and multi-lingual voice synthesis;
- creation of the UMTS platform in the System on Chip framework, which will make it possible to emulate the Base Station and terminal of a 3G system in an Embedded System;
- start-up of activities devoted to Network Development and the definition of strategies with which to innovate the network;
- supply to Telecom Italia – Domestic Wireline of solutions to improve ADSL installations and the creation of computer support for the installation of Alice;
- development of the MMS platform for TIM;
- start of testing on prototypes of broadband services in the domestic sphere;
- completion of the first stages of preparation (with Telecom Italia) of the exhibition on technological innovation in Venice;
- first tests for TIM of the Easy Video streaming platform, based on multimedia techniques using Wireless technology developed by TILAB.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

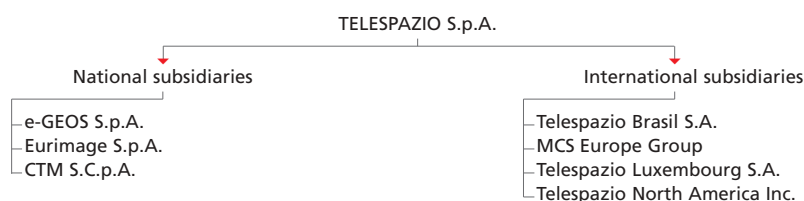
TELESPAZIO

■ THE BUSINESS UNIT

The Telespazio Business Unit (the Telespazio Group ⁽¹⁾ and the "Satellite Telecommunications" business segment of Telecom Italia) is responsible for developing satellite communication systems for phone and data, radio and television broadcasting and earth-observation.

◀ (1) On August 2, 2002, Telecom Italia signed an agreement with Finmeccanica for the sale of 100% of Telespazio share capital.

■ THE STRUCTURE OF THE BUSINESS UNIT



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

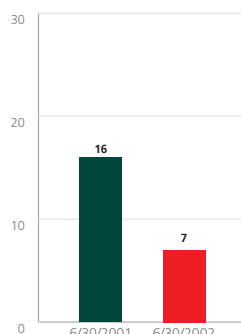
There were no significant changes in the scope of consolidation compared to 2001.

■ DATI ECONOMICO-FINANZIARI

The table shows the key economic highlights for the first half of 2002, compared to the first half and the whole of 2001:

	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
(millions of euro)				Amount	%
Revenues from sales and services	143	140	648	3	2.1
Gross operating profit	7	16	159	(9)	(56.3)
% on Revenues	4.9%	11.4%	24.5%		
Operating income	(5)	5	60	(10)	°
% on Revenues		3.6%	9.3%		
Investments:					
- industrial	7	11	29	(4)	(36.4)
- goodwill	-	-	-		
Employees at period-end (number) ⁽¹⁾	1,188	1,173	1,196	(8)	(0.7)

Gross operating profit



Revenues for the first half of 2002 are in line with those for the same period of the prior year. However, there was a change in the mix of revenues with an increase in television services, which produce a lower profit, thus significantly influencing the *gross operating profit* and the *operating income*.

There was no significant change in the number of *employees* or *investments*.

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ INFORMATION ON OPERATIONS

■ Media and Communication

Despite the negative market scenario, during the first half of 2002 Telespazio acquired contracts to supply services including new space capacity for RTI Mediaset and RAI, the Italian national broadcasting network.

In addition, the supplies of telecoms services to the Ministry of Defense continues to be relevant.

■ Space System

The "Space" business area reported a contraction of operations, particularly as a result of the delay in developing the Galileo project on the part of the ESA.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

OTHER ACTIVITIES

With regard to the "Other activities" of the Telecom Italia Group, there follows a description of the key highlights of the "Real Estate and General Services" business segment and the affiliated company Stream.

■ REAL ESTATE AND GENERAL SERVICES

The "Real Estate and General Services" segment provides *asset, property and agency management* services and leverages the value of the real estate properties of the Group, carries out the project design and work on properties and provides *project and facility management*. The range of services offered by Real Estate and General Services is directed mainly towards other corporate Functions/Business Units and is organized on the basis of a structure which, having been launched in March 2002, was fully operational at June 30, 2002.

Real Estate and General Services comprise the internal structures of Telecom Italia S.p.A., as well as some companies operating in the specific sector of business, of which four are subsidiaries (Emsa, Emsa Servizi, Telimm and Immsi) and three affiliated companies (Imser, Telemaco Immobiliare and Telegono).

Compared to the situation at March 31, 2002, the scope of consolidation of the companies involved includes Emsa Servizi S.p.A. – owned 100% by Telecom Italia – which was identified as the main operator in the sphere of the integration process of the Group's facility management services, and the affiliated company Telegono S.r.l., in which Telecom Italia acquired a 40% investment in June 2002.

The table shows the key economic highlights for the first half of 2002, compared to the first half and the whole of 2001. It should be noted that the figures take into account the exchanges between the Real Estate and General Services business segment and the other functions of Telecom Italia S.p.A..

	1 st half 2002	1 st half 2001	Year 2001	Change (a-b)	
(millions of euro)	(a)	(b)		Amount	%
Revenues from sales and services	434	466	953	(32)	(6.9)
Operating costs	377	394	809	(17)	(4.3)
Gross operating profit	57	72	145	(15)	(20.8)
% on Revenues	13.1%	15.5%	15.2%		
Operating income	(39)	(25)	(65)	(14)	(56.0)

During the six-month period, there was a contraction of *revenues* which can mainly be attributed to adjustments in the system of internal charges by the "Real Estate and General Services" function of Telecom Italia S.p.A. to other corporate Functions/Business Units according to the best market conditions, as well as the continuation of the policy of rationalizing the premises occupied by the company structures of Telecom Italia.

The trend of *operating costs* only partly compensated for the reduction in revenues: the *gross operating profit* of euro 57 million (euro 72 million in the first half of 2001), was therefore decreased as a percentage of revenues from 15.5% in the first half of 2001 to 13.1% in the first half of 2002.

The *operating income*, which includes depreciation and amortization charges and provisions to the reserves for risks and charges as well as sundry expenses mainly for property taxes, is a negative euro 39 million, compared to a negative euro 25 million for the same period of 2001.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Tiglio Project

During the six-month period, a framework agreement was reached between the Pirelli, Olivetti – Telecom Group and the Morgan Stanley Funds to integrate the real estate assets of the various interested companies as well as the entities that provide the real estate services of those companies or their subsidiaries, with the aim of better leveraging their value. The implementation of the project calls for a series of transactions directed to the concentration of the assets in two new vehicle companies that will be contributed to a real estate investment fund.

According to the agreement, the Olivetti and Telecom Italia Groups are committed to contributing properties, areas and assets worth approximately euro 1,580 million. Telecom Italia is expected to contribute approximately euro 1,300 million, with a gross gain of euro 170 million and net liquidity which, over several phases involving not only 2002, is estimated to amount to approximately euro 600 million (euro 650 million including the Seat Pagine Gialle group) by the end of the project, assuming that the quotas of the mutual fund will be valued on the basis of the contribution value.

The transactions relating to the project carried out to date by the Telecom Italia Group are as follows:

- an agreement signed between Telecom Italia and Beni Stabili on June 6, 2002 establishing the commitments and responsibilities among the shareholders for the partial and non-proportional spin-off of IM.SER S.p.A. (a company to which Telecom Italia contributed the "Large Buildings" business segment in 2000 and whose majority interest was later sold), owned 60% by Beni Stabili and 40% by Telecom Italia, to the respective beneficiaries IM.SER 60 S.r.l. and Emsa S.p.A.. The aim of the transaction, the execution of which is subject to the satisfactory outcome of a securitization transaction on the receivables due to IM.SER 60, is to enable the real estate properties and the other assets and liabilities of IM.SER to be divided up in proportion to the investments held in the company by Telecom Italia and Beni Stabili. On July 18, 2002, the extraordinary Shareholders' Meeting of Emsa approved the spin-off project and the transformation of Emsa into a limited liability company, which became effective on August 7, 2002;
- on June 28, 2002, the sale, subject to certain conditions, of fixed assets owned by Seat Pagine Gialle and Buffetti Group to Emsa;
- on July 30, 2002, the sale of the "Facility Management" business segment to Emsa Servizi S.p.A. by Emsa, effective August 1, 2002.

As regards the Tiglio project in general, moreover, on August 30, 2002, the Competition Directorate-General of the European Commission expressed a favorable opinion on the relative compatibility with the community market, issuing the authorization for the project.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ OTHER COMPANIES

Stream

Held by: Telecom Italia 50.00%

The company operates in the Pay TV sector.

The following table shows the key economic and financial highlights:

	1 st half 2002 (millions of euro)	1 st half 2001 (millions of euro)	Change (%)
Revenues from sales and services	139	115	20.9
Gross operating profit	(147)	(138)	(6.5)
Operating income	(239)	(206)	(16.0)

Activities during the first half of 2002:

- 38% increase in the customer base compared to the first half of 2001 thanks to new distribution channels and co-marketing initiatives
- limitation of promotional and marketing activities due to uncertainties about the corporate structure
- start, in conjunction with Canal Plus, of anti-pirating measures.

With regard to the agreement reached in February 2002 with News Corporation and Vivendi Universal/Canal+ for the sale of Telecom Italia's stake in Stream, since Vivendi did not accept the conditions imposed by the antitrust authority, the sale transaction did not go through.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ INFORMATION ON SUSTAINABILITY AND OTHER RELEVANT INFORMATION ON TELECOM ITALIA GROUP

HUMAN RESOURCES

■ TELECOM ITALIA GROUP

Employees at 6.30.2002	Employees at 12.31.2001	Change	Hired	Terminated employment	Change in scope of consolidation
108,642	109,956	(1,314)	3,408	(5,144)	422

At June 30, 2002 employees numbered 108,642, with a reduction of 1,314 compared to December 31, 2001, resulting from the change in the scope of consolidation (+422) and employee turnover (-1,736). The main component of employee turnover is the reduction in the number of employees of the Parent Company (see table below). The change in the scope of consolidation is due mainly to the increase in the operations of the IT Group Operating Activity following the inclusion of Webegg (+719) in the scope of consolidation, which was partly compensated by the reduction in employees in the Internet and Media BU as a result of some minor companies no longer in consolidation (-118) and, in the case of the Real Estate and General Services Operating Activity of Telecom Italia, following the sale of the "Fleet management" business segment (-151).

■ TELECOM ITALIA S.P.A.

Employees at 6.30.2002	Employees at 12.31.2001	Change	Hired	Terminated employment	Transfers to/from other group companies
59,472	61,081	(1,609)	146	(1,707)	(48)

■ DEVELOPMENT / TRAINING

During the first half of 2002, development and training activities amounted to a total of approximately 600,000 hours (classroom training for employees in Italy). They refer to the following areas:

- special topics concentrating on specific business areas relating, in particular, to training of customer relationship (development of customer care, improvement of CRM system) and to development of technological know - how;
- management training initiatives, for executives in the Group, transversal with regard to the BU and companies in the Group.

A three-year incentive plan (2002-2004) has been launched which aims to reward the creation of value in the Group and the Business Units and improve the corporate image. The plan is reserved for top management (approximately 220 executives).

The plan is the latest in a series of tools devised to provide incentives for the management of the Telecom Group. Hitherto, these consisted of short-term initiatives such as the annual MBO and long-term initiatives such as the stock option plans (which were mainly geared to executive retention).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ STOCK OPTION PLANS

Following the changes in the top management structure of the Group, which took place after the 2001 Stock Option Plan had started (at the Board meeting held on July 27, 2001), in February 2002, a plan was launched aimed at new top management executives with the assignment of No. 11,800,000 options decided by the Company's Board of Directors in response to the mandate given to the board at the Extraordinary Shareholders' Meeting of June 12, 2001.

The strike price, defined as the normal value of the stock, at the time of granting in accordance with current fiscal laws, is euro 9.203. The plan is scheduled to last for three years.

Furthermore, as already mentioned in the 2001 annual report, a new Stock Option Plan was launched for Group management who already held options from the 2000 Stock Option Plan and other executives hired after July 27, 2001 (the date of the start of the 2001 Stock Option Plan). This plan was deemed necessary since, as a result of the general performance of the stock market during recent years, the 2000 plan had lost its effectiveness as a tool through which to stimulate and retain management staff.

The new plan benefits from the recovery of the options following to the voluntary relinquishment of the 2000 plan by executives still working.

The 2002 plan, on June 30, 2002, involved 460 executives of the Group of whom 424 had already taken part in the 2000 plan which, as mentioned before, they voluntarily relinquished.

The strike price, defined as the normal value of the stock in accordance with current fiscal legislation, is euro 9.665. The plan is scheduled to last for three years.

■ INDUSTRIAL RELATIONS

The industrial relations of the Group mainly covered the following areas:

■ Employment

On May 27, an agreement was signed with the labor unions to ensure the correct level of employment according to the Industrial Plan 2002-2004. The agreement involves professional and inter-company cuts, with the support of training programs; the hiring of up to 3,000 recruits to acquire the new expertise needed to develop the strategic segments of the product range (this number includes the resources resulting from the possible acquisition of BLU S.p.A.); recourse to layoffs according to Law 223/91 for employees who become eligible for retirement during the layoff period.

■ Profit bonus

On June 3, 2002, an agreement was signed with the labor unions concerning the profit bonus for 2002, which will be calculated based on the gross operating profit for 2001. For the years 2003-2005 a customer loyalty index will also be used to calculate the bonus.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

RESEARCH & DEVELOPMENT

During the first half of 2002, most of the R&D activities of the Telecom Italia Group were conducted by TILAB, as part of the Information Technology Group BU, by its 962 employees. The activities involved research and testing in the field of fixed, mobile and Internet telecommunications. Particular attention was devoted to the study of techniques for network design, planning and management, especially with the aim of installing ADSL, and the development of new platforms for the supply of Wireless services (UMTS and MMS services for TIM). The overall R&D costs incurred during the period amounted to approximately euro 57 million. The total of grants and low-interest loans to support R&D costs, already received or awaiting receipt by TILAB, amounted to approximately euro 1.9 million.

CORPORATE GOVERNANCE

In keeping with the decision to reinforce the rules of corporate governance of the Company by updating them and rendering them more efficient and commensurate with the best international practices, the commitment continued to equip Telecom Italia with the necessary operating tools.

With this in mind, the Board of Directors, in July, approved a series of principles of conduct concerning the manner in which transactions with related parties should be carried out (*in primis* the directors and statutory auditors), including intercompany transactions. Such principles of conduct are aimed at guaranteeing an effective correctness and transparency in this area as regards procedures and substance, ensuring the full co-responsibilization of the entire Board of Directors in all relative decisions.

At the same time, internal regulations were formalized, using a specific procedure, for providing more exhaustive information to the Board of Statutory Auditors – in accordance with Legislative Decree No. 58/1998, art. 150, paragraph 1 – about the most important economic, financial and equity transactions and related party transactions, as well as unusual or exceptional transactions. As indicated in the annual report in the section on corporate governance, this procedure is also intended to improve the effectiveness and to ensure the completeness of the information flows from the delegated Directors to all the members of the Board of Directors.

Both documents (procedure and principles) can be consulted on the company website **www.telecomitalia.it**.

The adoption of the procedure and principles was taken assuming that the formation of a correct system of corporate governance is a continuous work in progress, since the principles of conduct need to be continually updated to meet the changing needs of the Company's business, making those modifications and improvements that are required in light of operating practices and the evolution of the overall internal and external legal context. In this framework, during the six-month period – among other things – work has progressed on the definition of a code of ethics and a procedure for internal management and the external communication of documents and information regarding the Company, and, in particular, price sensitive information. An overall Group project is also being implemented with the aim of verifying the consistency of existing organizational models with the discipline dictated by Legislative Decree No. 231/2001 regarding the administrative responsibility of companies for offenses committed by its staff, with the consequent adjustment, where necessary, of the internal control system.

By the end of the year, lastly, a complete revision of the Code of Self-discipline of Telecom Italia is scheduled, also in light of the review of the corporate governance principles outlined by the Corporate Governance Committee of the companies listed on the stock exchange and the introduction, by Borsa Italiana S.p.A., of the obligation to set up a code of conduct regarding insider trading, meaning transactions using financial instruments of the listed

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

issuer and its subsidiaries, carried out by persons who, by virtue of the positions they hold, have access to price sensitive information.

As for the activities of the statutory bodies and committees set up by the Board of Directors during the first six months of the year, four board meetings were held, the same number were held by the Directors' Remuneration Committee while the Audit and Corporate Governance Committee held a total of three formal meetings. The Board of Statutory Auditors met sixteen times, also ensuring its presence at the work of the Audit and Corporate Governance Committee.

The participation of the respective members of the various bodies was constantly very high and – where necessary – management or the audit firm or external consultants were called upon to provide necessary information and technical contributions. Special attention was devoted to ensuring that the Directors and Statutory Auditors received adequate information and document support in preparation for the meetings and whenever the need arose. In particular, the Board of Directors sought the advice of experts on technical aspects or economic conditions or the legitimacy of numerous transactions examined, and this was done – depending on the case – in relation to the nature of the same transactions or the quality of the counterpart, according to a policy that embodies correctness and transparency in procedures and substance which characterized the action of the Company even prior to the formal adoption of the principles of conduct described above and, in effect, extending itself beyond the areas covered by those principles.

During the period, no recourse was made by the Chairman to his emergency powers; on the contrary, the Board of Directors was often consulted before the conclusion of transactions which fell within the powers attributed to executive directors, who have not been changed since the date of the information presented in the annual report on corporate governance. Furthermore, the exercise of the powers and execution of the mandates was constantly updated and followed up.

In July, the Director Paolo Maria Grandi (who was selected from the list that been presented by the majority shareholder Olivetti S.p.A.) resigned from the Board of Directors, and Pietro Modiano was subsequently appointed by co-option to replace him. The latter is not regarded as an independent director since he is related to one of the parties to the shareholder agreements existing among the shareholders of Olimpia S.p.A. which – as is well-known – amongst other things, contain important clauses concerning the composition and the resolutions passed by Telecom Italia S.p.A. Board of Directors.

Effective September 5, 2002, Enrico Bondi also resigned from Managing Director and member of the Board of Directors and Riccardo Ruggiero was co-opted in his place.

Riccardo Ruggiero – who has also maintained his position as of General Manager assigned to him by the Board of Directors on May 7, 2002 – was appointed Managing Director.

On this occasion, the overall system of powers granted to the executive directors of the Company was reviewed (Chairman and Managing Directors), which is thus defined as follows:

- to the Chairman Marco Tronchetti Provera, all necessary powers are assigned to carry out all the acts pertaining to corporate activity in its various forms, with the sole exception of investments and acts for the disposition of investments in subsidiaries and affiliated companies, as well as companies or businesses thereof for an amount in excess of euro 250 million for each single transaction. Furthermore, the signature of the Chairman must be joined with that of a Managing Director to issue guarantees for obligations of Telecom Italia or subsidiaries for single amounts of not more than euro 250 million, or obligations of third parties for individual amounts of not more than 100 million. The Chairman also has emergency powers regarding matters under the Board of Directors' responsibility, the task of reporting to the Board of Statutory Auditors in the manner and under the terms required by art. 13 of the by-laws, the delegation of power to take charge of the management of confidential information and ensure the functioning and adequacy of the internal control system as well as the power to appoint one or more persons in charge;

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

- to the Managing Director Carlo Orazio Buora, all necessary powers are assigned to carry out all the acts pertaining to corporate activity in its various forms, with the sole exception of investments and acts for the purchase, sale and disposition of investments in subsidiaries and affiliated companies, as well as companies or businesses thereof and in general goods and services for an amount of not more than euro 150 million for each single transaction. The Managing Director Carlo Orazio Buora can issue guarantees for obligations of the subsidiaries and the same Telecom Italia for individual amounts of not more than euro 150 million, or obligations of third parties for individual amounts of not more than 50 million.
- to the Managing Director Riccardo Ruggiero, all necessary powers are assigned to carry out all the acts pertaining to corporate activity in its various forms, with the sole exception of investments and acts for the purchase, sale and disposition of investments in subsidiaries and affiliated companies, as well as companies or businesses thereof and in general goods and services for an amount in excess of euro 75 million for each single transaction, as well as the exception of the issue of guarantees. The powers of the Managing Directors Riccardo Ruggiero solely regard the operations and the structures of the Domestic Wireline Business Unit.

Single transaction shall be intended as the aggregate of transactions which, although individually below the quantitative threshold indicated, are connected among each other within the framework of the same strategic or executive structure and, therefore, considered globally, exceed the said designated thresholds.

It should also be understood that the aforementioned powers shall be exercised in accordance with the restrictions of the applicable laws - in areas where such powers cannot be delegated by the Board of Directors - as well as the principles and the limits - especially with regard to those reserved for the Board of Directors - envisaged by the Code of Self-discipline of the Company.

SOCIAL AND ENVIRONMENTAL AWARENESS

The 2001 Sustainability Report was distributed at the Shareholders' Meeting of May 7, 2002 and to the Financial Community on May 27, 2002, together with the 2001 Financial Statements.

An on-line hypertext version was published on the corporate Intranet and on the Group website.

In this way, the system of compiling financial statements has been completed according to international standards of excellence and confirms the Group's strong-felt wish to develop in a sustainable way, by endeavoring to promote social and environmental awareness in conjunction with the creation of value.

■ GLOBAL COMPACT

- Telecom Italia's support of the nine universal principles of the Global Compact in March, proposed to large businesses worldwide by Secretary General of the United Nations, Kofi Annan, in the areas of human rights, working conditions and the environment, led to Telecom Italia's inclusion in the Global Learning Forum on-line, created with the aim of disseminating action undertaken to sustain its principles.

For the occasion, some best practices were selected for monitoring and implementation:

- the social solidarity initiative launched in Peru by TIM S.p.A. in favor of the Human Rights Office (Caritas in Lima) involves economic contributions by TIM employees and a planned contribution by the company for the year 2002. The aim is to contribute to the creation of a Help-line for reporting cases of domestic violence and to provide legal, psychological and medical assistance to the victims, who are mainly women and children;

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

- a new system of industrial relations at Entel Bolivia has been agreed with the local Bolivian labor unions. The system has few precedents in Latin America in terms of the innovative elements it contains, and in terms of improving the working conditions of employees.

Furthermore, according to the agreement, the Group continues to consider the safeguarding of the environment as a key competitive factor through such initiatives as the reduction of energy and natural resources consumption, and promoting the use of technologies and products that are compatible with the environment (as reported in greater detail in the 2001 Sustainability Report).

■ UPDATE ON ENVIRONMENTAL DATA

- Telecom Italia's MUD (Environmental Statement), presented on April 30, 2002 provides an update on the total amount of waste produced in 2001. The total of 27,906.4 tons represents a decrease of more than 33% compared to 2000. The considerable difference is principally due to a decrease of 4,423.2 tons of equipment and 1,197.6 tons of accumulators generated by the dismantling of telephone exchanges using analog technology;
- dangerous waste constitutes in Italy 10.5% of all the waste produced. The absolute amount recorded, of 8,288 tons is much lower than in 2000, 15,548 tons.

■ PLANS AND PROGRAMS

In keeping with the planning commitments undertaken by the company, the Telecom Italia Group has begun to organize the process of collecting data on factors affecting sustainability, with the following objectives:

- to augment the reliability and scope of the contents of the Sustainability Report by defining a set of "Key Performance Indicators" that are in keeping with the requirements of sustainable rating agencies;
- to automate data collection.

A start was made on planning initiatives to promote social improvements and environmental projects with the development of a Strategic Plan for Sustainable Development.

THE REGULATORY FRAMEWORK

The first phase of the deregulation process can be considered concluded, now that all the segments of the market have been opened to competition. The new framework will be regulated by new standards which will be introduced in the national regulations by incorporating the EU directives contained in the "'99 Review".

There follows a summary of the main standards adopted during the first half of 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ RATE REBALANCING

Within the framework of the price cap mechanism and in obedience to Resolution No. 847/00/CONS of December 11, 2000, the adjustments of February 1 and July 1, 2002 became effective and further reduced telephone expenses for residential and business customers. The adjustment of monthly subscription charges was accompanied by further price reductions for local and out-of-district calls.

■ INTERCONNECTION AND LOCAL LOOP UNBUNDLING

In compliance with the rules laid down in Resolution No. 4/02/CIR, on April 18, 2002 Telecom Italia published the Interconnection Reference Plan (OIR) which contains technical and economic indications about using the network, both in terms of switched transport and local loop unbundling to the last mile. The new plan offers generalized price reductions on the services distributed to interconnected operators.

In compliance with Resolution No. 5/02/CIR, on April 30, 2002 Telecom Italia published the new flat-rate interconnection rate for Internet access known as FRIACO. The terms of supplying Partial Circuits according to the 2002 price list were published on the same date.

■ EQUALITY IN INTERNAL/EXTERNAL TREATMENT

In Resolution No. 152/02/CONS, the National Regulatory Authority approved measures that are intended to ensure the full application of the principle of equality in internal and external treatment on the part of the main fixed telephone operators on the market. These measures concern regulatory accounting, the ways in which services are offered to other operators, the application of the Network Cap model to the price list for interconnection and unbundling, and methods to verify the terms of plans offered to the public.

■ GENERAL TELEPHONE DIRECTORY

In Resolutions No. 36/02/CONS and 180/02/CONS, the National Regulatory Authority established the rules and organizational methods for the creation and supply of a general telephone directory service containing the numbers of subscribers to the services of all fixed and mobile telephone service operators. The creation of the single database will be organized within the regulatory framework stipulated by the various operators.

■ MOBILE NUMBER PORTABILITY

In Resolution No. 7/02/CIR of March 28, 2002 the National Regulatory Authority completed the rules covering Mobile Number Portability. The prices that must be paid by the Recipient (the operator who acquires the customer with the same number) to the Donor (the operator who loses the customer) will be established by the National Regulatory Authority by November 2002 and will come into effect on January 1, 2003. However, these prices must not be higher than the prices of Number Portability on fixed networks. In addition, the customer who has migrated to a different operator will be entitled to use any remaining credit on prepaid cards.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ LAW NO. 59 OF APRIL 8, 2002

In implementation of Law No. 59/02, the National Regulatory Authority has declared that Internet Service Providers are to have the same rights as licensed operators, including the right to use the Interconnection Reference Plan, and to ask the Ministry of Telecommunications to award them the rights to use the resources for numbering for Internet services and routing traffic therefrom. In implementation of the same law, the National Regulatory Authority named Telecom Italia and Wind as "Significant Market Power" (SMP) operators in the intermediate termination market for calls destined for the Internet, and Telecom Italia in the market of final services for Internet access from the fixed network for dial-up.

■ EVOLUTION OF COMMUNITY REGULATIONS

On April 24, 2002 the following new directives were published based on the "'99 Review":

- Directive 2002/19/CE concerning access to electronic communications networks and related resources, and interconnection of the said networks (known as the "Access" directive);
- Directive 2002/20/CE concerning authorizations for electronic communications networks and services (known as the "Authorizations" directive);
- Directive 2002/21/CE which establishes a common regulatory framework for electronic communications networks and services (known as the "Framework" directive);
- Directive 2002/22/CE concerning the universal service and the rights of users with regard to electronic communications networks and services (known as the "Universal Service" directive).

The Community regulatory framework will be completed upon the final approval of the directive concerning the treatment of personal information. The new standard must be incorporated in the national regulations by July 24, 2003 and, in this context, the law pertaining to Infrastructures and Transport (which has not yet been published in the Gazzetta Ufficiale) has given the Government a mandate to introduce the new directives. In addition, the European Commission is in the process of adopting the recommendation concerning important markets for services and products with the aim of imposing, changing or revoking the observance of regulations, as well as guidelines for market analysis and the evaluation of significant market power.

LITIGATIONS

There follows a description of the main disputes and litigations in which the Telecom Italia Group is involved at June 30, 2002.

■ DISPUTES CONCERNING SHAREHOLDERS' RESOLUTIONS

The Turin Court has rejected the accusations filed against the resolution passed by the Shareholders' Meeting of January 14, 2000 (authorization for the buy-back of savings shares through a tender offer and subsequent acquisitions on the open market), motivated by the circumstance that the shareholders were presented with a proposal that had been changed from the one deposited prior to the Shareholders' Meeting.

Instead, a claim for damages is still pending for a total of euro 18.9 million brought against Olivetti, Telecom Italia, as well as the Chairman and Deputy Chairman pro tempore of the latter company. The claim is based on the alleged non-fulfillment of the commitments contained in the "Offering Document" relating to the takeover and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also for the resolutions passed by the Shareholders' Meeting of January 14, 2000, in relation to the mandate to purchase treasury savings stock.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ UNIVERSAL SERVICE

In January 2002, the Regional Administrative Court, or TAR, of Lazio, ruled in favor of the appeal presented by Omnitel for the cancellation of the resolution passed by the National Regulatory Authority concerning the "Application of the sharing mechanism for the net cost of the universal service for the year 1999", which was also contested by Infostrada. In particular, the TAR ruled favorably to the plaintiffs with regard to the procedural issues whereas it rejected the appeal concerning the merits of the law, which will in any case be renewed.

In the meantime, Infostrada and Omnitel have not paid their portion of the service (established for a total of euro 9 million), thus preventing the Ministry of Communication to pay the amount globally due to Telecom Italia for the costs incurred in 1999 for providing the universal service (euro 27 million).

* * *

In the first months of 2002, Telecom Italia was notified of the appeal presented by Omnitel to the TAR of Lazio and the extraordinary appeal presented by Wind to the Head of State to annul the resolution containing the regulations for the "Universal Service: application of the sharing mechanism and valuation of the net cost for 2000". In addition to the suspension of the efficacy of the law, Omnitel also requested that the case be referred to the Court of Justice of the European Community for a preliminary opinion on the correct interpretation of the EU directives.

■ DATA-TRANSMISSION SERVICES AND INTERNET ACCESS BASED ON X-DSL TECHNOLOGY

Following the start of an investigation into Telecom Italia's practices with regard to the supply of basic band direct circuits and the offer (to its business users) of broadband data-transmission and Internet access services based on x-DSL technology, without any corresponding wholesale rate plan for its competitors, on April 27, 2001 the antitrust authorities imposed a fine of euro 59 million on Telecom Italia. The following November, the TAR of Lazio reduced the fine to euro 29 million. The fine was paid, with reserve, in January, in relation to a proposed appeal to the Council of State. The appeal was then filed to obtain the full annulment of the law that was contested in terms of the general illogicalness and the lack of a motivation and an inquiry.

Meanwhile, claims have been brought before the competent civil courts, by Albacom, Infostrada, AIIP, Unidata, Data Service and other operators, for the payment of damages, for the alleged abuse of a dominant position on the part of Telecom Italia in relation to the same practices contested by the antitrust authorities.

■ GALACTICA DISPUTE

In May 2001, a dispute arose with Internet Service Provider Galactica S.p.A. (currently in liquidation) for failure to renew the agreement concerning the testing of an Internet access service, at a flat rate. Galactica sued Telecom Italia for the alleged illegality of withdrawing from the contract, claiming damages and challenging Telecom Italia not to interrupt the distribution of the service.

In February 2002, Galactica presented another summons for damages caused by the alleged unfair trade practices of Telecom Italia.

In May 2002, the judge combined the two cases.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ALLEGED UNFAIR TRADE PRACTICES BY TELECOM ITALIA

Following a petition by 27 competitors accusing Telecom Italia to carry out strategies disturbing market development, in regulation No. 179/01/CONS the National Regulatory Authority objected to a series of violations committed by the Company, and, in July 2001, proceeded to apply the previously announced sanctions with special resolutions. Telecom Italia contested both the regulation and the special resolutions. In February, the TAR asked the National Regulatory Authority to file additional documentation, staying the case to a later date to be decided.

■ SEAT PAGINE GIALLE/DE AGOSTINI ARBITRATION

De Agostini has initiated arbitration proceedings against Seat Pagine Gialle, Finanziaria Web, Matrix and the Buffetti group for the alleged nonfulfillment of the agreement signed in 2000 governing the transfer of shares of Finanziaria Web (which, in turn, controls Matrix) on the part of Seat and De Agostini. Maintaining that the conditions for fulfillment of the contract have been met, De Agostini is asking that its shares of Finanziaria Web (40% of the share capital of the company) should be transferred to Seat at the price of euro 700 million, with payment to begin from June 30, 2003.

■ SEAT PAGINE GIALLE/CECCHI GORI

On June 13, 2002, the Rome Court rejected the claims filed by Cecchi Gori Group Media Holding and Fin.Ma.Vi. to declare the financial statements and related balance sheet at December 31, 2000 of Cecchi Gori Communications - CGC (now Holding Media Communications) null and void and to declare invalid the resolutions passed by the Shareholders' Meeting of April 27, 2001.

Pending at this date is the case brought by Cecchi Gori Group Media Holding for the annulment of the pledge of the CGC shares to guarantee the proper fulfillment of all the obligations covered by the contract under which, on August 7, 2000, Seat acquired control of CGC. The same contract is the subject of an arbitration.

■ STET HELLAS

In 1996, Mobitel - a company in the Greek Interamerican group (now Demco Reinsurance), and, at that time, the exclusive representative of Stet Hellas - initiated arbitration proceedings to ascertain its right to be paid commissions not only on outgoing traffic generated by the subscribers it had signed up, but also on incoming traffic and on traffic generated by customers in default of payment. It also requested the payment of the corresponding damages in addition to damages generated by the cancellation of the exclusive agency agreement with Stet Hellas.

The latter and Telecom Italia (which took over from Stet International which was already the guarantor of Stet Hellas and, as such, a party to the contracts at one time signed) presented a counterclaim seeking damages suffered as a result of the loss of the acquisition of market share caused by non-fulfillment on the part of Mobitel.

In October 2000, a partial arbitration award was ruled which, in principle, agreed with Mobitel's request for recognition of a commission also on Stet Hellas's revenues from incoming traffic; in November 2001, the Board of Arbitration affirmed its jurisdiction over the quantification of the amount of damages, besides its payment. The parties therefore indicated their final claims which can be summarized in damages for some euro 140 million on the part of Mobitel and some euro 890 million on the part of Stet Hellas and Telecom Italia.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ NORTEL INVERSORA

In April 2001, a minority shareholder of Nortel filed a complaint requesting the company's appearance before the Civil Court of Buenos Aires to reach an agreement over the alleged irregularities in the resolution passed by the Nortel Shareholders' Meeting approving the financial statements for the year ended September 30, 2000. The parties did not resolve their dispute so the minority shareholder suited Nortel to obtain a judgement on the merits of the case.

In August 2001, the minority shareholder filed another complaint for alleged irregularities in the resolution passed by the Nortel Shareholders' Meeting approving the financial statements at December 31, 2000. Although the parties did not resolve their disputes, to date, Nortel has not been served process.

In September 2001, the Buenos Aires Court issued a precautionary relief order providing for: (i) an injunction against the effectiveness of the shareholders' meetings of Nortel which approved the conduct of Nortel's directors for the periods under examination and (ii) the appointment of a special supervisor who would report on the status of Nortel's economic situation and business directly to the judge. Nortel appealed this order and, on May 28, 2002, the judge revoked the appointment of the special supervisor under point (ii) above and ordered the precautionary distraint of the shares in Nortel owned by the plaintiff. In August 2002, the same shareholder obtained two other hearings in an attempt at reconciliation (the dispute was not resolved) over the alleged irregularities in the resolutions passed by Nortel ordinary and special Shareholders' Meetings on April 25, 2002.

■ WHOLESALE TELECOM CORPORATION

In March 1999, Telecom filed suit in the United States District Court of the Southern District of Florida against Wholesale Telecom Corporation ("WTC") to recover some US\$ 13 million for switched transit communications services. WTC, in turn, filed a counterclaim against Telecom Italia and TMI USA seeking damages of US\$ 60 million.

In August, in the pre-debate stage, the parties reached a settlement that calls for each party to renounce every alleged reciprocal claim.

■ SOLPART

In August 2001, a minority shareholder of Brasil Telecom S.A. filed a complaint in the Civil Court of Curitiba (State of Paraná, Brazil) seeking a preliminary restraining order suspending some of Telecom Italia International N.V.'s (ex Stet International Netherlands N.V.) veto rights granted by the shareholders agreement operating in Solpart (the holding company of Brasil Telecom).

According to the plaintiff, Telecom Italia International would be in a conflict of interest and thus would not have been entitled to exercise its veto rights, in relation to (i) the purchase of Companhia Riograndense de Telecomunicações ("CRT") and (ii) the impediment barring Brasil Telecom from participating in the auction for the Serviço Móvel Pessoal ("SMP") licenses.

The appeal was denied and the shareholder, to date, has not sought to serve process on Telecom Italia International to decide on the merits of the case.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ BRASIL TELECOM

In 2001, Brasil Telecom filed two suits in the Civil Court of Rio de Janeiro (Brazil), against, respectively, Telecom Italia and Telecom Italia International and against two directors of Brasil Telecom nominated by Telecom Italia International. The suits request compensation for the damages suffered by Brasil Telecom as a result of the acquisition of CRT and the failure to participate in the auction of the SMP licenses.

■ CHASE MANHATTAN BANK DISPUTE

On April 5, 2002, the magistrate judge of the U.S. District Court for the District of Delaware dismissed Telecom Italia (since it is no longer a direct shareholder of Iridium LLC) from the case begun in June 2000 by Chase Manhattan Bank (now JP Morgan Chase Bank) over the US \$800 million loan given in 1998 to Iridium Operating LLC (a subsidiary of Iridium LLC). The above decision was appealed by Chase, which also served process on Iridium Italia S.p.A., a 30%-owned affiliate of Telecom Italia (with the remaining stake divided equally between TIM and Telespazio), and direct shareholder of Iridium LLC.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

■ ECONOMIC AND FINANCIAL REVIEW OF TELECOM ITALIA S.P.A.

The Parent Company **Telecom Italia S.p.A.** ends the first half of 2002 with a **net income** of euro 389 million, or euro 265 million lower, -40.5%, than the first half of 2001. Consistently with prior years, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first half of 2002 but are recorded at the end of the year. In the first six months of the year, there was an improvement in the operating result (+euro 71 million, +3.5%) while a deterioration was noted in the balances of *investment and financial income and expense* (-euro 387 million) and *extraordinary income and expense* (-euro 148 million). In particular:

factors impacting the balance of *investment and financial income and expense* were:

- higher expenses connected with *value adjustments of financial assets* (+euro 583 million) due to:
 - the writedown of the investment in Telecom Italia International (euro 517 million) mainly as a result of the losses connected with the disposal of the investment in 9Telecom to LDCom (euro 440 million) and the writeoff of the carrying value of the investment in Nortel Inversora (euro 37 million);
 - the writedown of Softe (euro 46 million), following the adjustment to market of the carrying value of equity securities in current assets, and other investments for a total of euro 20 million;
- the increase in *investment income* (+euro 231 million) due mainly to dividends from the distribution of reserves by TIM;
- the higher expense balance of *financial income and expense* (-euro 35 million);

factors impacting the balance of *extraordinary income and expense* were:

- the increase in *extraordinary expense* (+euro 307 million) mainly to provide (euro 261 million) for the expenses regarding layoffs following the mobility signed with the labor unions in May;
- the increase in *extraordinary income* (+euro 159 million) due principally to the prior period income relating to accrual for pre-amortization interest (euro 131 million) - on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 - following the termination of litigation after the courts ruled in Telecom Italia' favor.

Income taxes decreased by euro 199 million.

Sales and service revenues, amounting to euro 8,430 million, decreased by euro 123 million, -1.4%, compared to the first half of 2001.

The reduction in sales revenues can mainly be attributed to traffic revenues which fell by 6.6% even though the number of minutes rose by 5.8% (corresponding to +euro 191 million in terms of revenues). However, this increase was reduced by a decline in the average return on traffic of 11.7% (from euro 4.2 cents per minute in the first half of 2001 to euro 3.7 cents in this six-month period), -euro 485 million in terms of revenues. Such performance was affected by:

- the discount policies aimed at "customer retention";
- the growth in traffic "carried" on behalf of other operators and on-line traffic, which caused an increase in the volumes of minutes handled on one hand, and a shift in the mix to less remunerative types of traffic, on the other;
- the rate adjustments on July 1, 2001 and February 1, 2002 which lowered the prices of local, long-distance and international calls.

These phenomena were partly compensated by the increase in basic subscriber charges of +7.7%, as a result of the aforementioned rate changes and the growing number of subscribers to various discount rate plans proposed by the Company.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

Sales and service revenues, net of amounts due to other telecommunications operators, instead, amounted to euro 6,653 million, with a decrease of euro 179 million (-2.6%) from the first half of 2001.

Gross operating profit of euro 3,746 million increased by euro 45 million compared to the first half of 2001 (+1.2%). The percentage of gross operating profit to sales and service revenues was 44.4% (43.3% in the corresponding period of the prior year).

The improvement is due to the reduction in raw materials and outside services (-euro 106 million) and the decrease in labor costs by euro 48 million compared to the first half of 2001, which compensated the aforementioned decline in revenues.

The change in raw materials and outside services is mainly due to the following factors:

- the reduction in direct service costs (-euro 61 million) mainly as a result of lower installation and maintenance costs for switching and data transmission systems;
- the reduction in operating costs (-euro 80 million), principally due to lower costs for the IT system and for building rent and management;
- the reduction in marketing costs (-euro 24 million), chiefly attributable to lower advertising and promotion costs;
- the increase in amounts due to other carriers (+euro 56 million), owing to the sharp growth in interconnecting traffic.

Total raw materials and outside services, net of the amount due to other operators, amounted to euro 1,616 million in the first half of 2002 and decreased by euro 161 million compared to the corresponding period of the prior year.

The decrease in labor costs can mainly be ascribed to the effects of the reduction in the average number of employees (-3,515 compared to the first half of 2001, -5.7%).

Operating income, amounting to euro 2,088 million, increased by euro 71 million compared to the first half of 2001 (+3.5%). The percentage of operating income to revenues was 24.8%, compared to 23.6% in the first half of 2001. The increase is mainly due to lower depreciation and amortization charges for fixed assets and intangibles (-euro 136 million) that are partly compensated by higher provisions and expenses connected with credit management.

Employees at June 30, 2002 numbered 59,472 with a reduction of 1,609 compared to December 31, 2001 due mainly to employee reduction plans, cutbacks under Law 223/1991 and employees no longer with the company on account of the sale of the business segment "Fleet Management".

Investments amounted in total to euro 1,404 million (euro 2,391 million in the first half of 2001) and are detailed below:

(in millions of euro)	1 st half 2002 (a)	1 st half 2001 (b)	Change (a - b)
Industrial investments	918	1,062	(144)
Financial investments	486	1,329	(843)
Total investments	1,404	2,391	(987)

Net debt of euro 16,816 million is substantially in line with that at December 31, 2001 (euro 16,913 million).

The composition of net debt has changed as a result of both the issue of fixed-rate notes by Telecom Italia under the "Global Note Program" for a total of euro 2,500 million, thus making it possible to consolidate a significant amount of short-term debt, and the recording of the amount payable to JPMorgan Chase (euro 569 million) in medium/long-term payables

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

following the reduction in the exercise price of the options on Seat Pagine Gialle shares from euro 4.2 to euro 3.4 per share.

The aforementioned issue of the notes was carried out on February 1, 2002 and is divided into two tranches of euro 1.25 billion, expiring, respectively, on February 1, 2007 and February 1, 2012.

Gross debt at June 30, 2002 amounted to euro 18,121 million (euro 17,909 million at December 31, 2001). Details are provided in the following table:

	At 6.30.2002				At 12.31.2001			
(in millions of euro)			Foreign					
	euro	%	currency	%	Total	%	Total	%
Medium/long-term debt	12,971	73	82	20	13,053	72	10,371	58
Short-term borrowings	4,746	27	322	80	5,068	28	7,538	42
Total	17,717	100	404	100	18,121	100	17,909	100

The securitization and factoring of trade accounts receivable (described under the accounting principles section in the notes of Telecom Italia) led to a decrease of net debt at June 30, 2002 of euro 1,033 million (at December 31, 2001, the improvement was euro 848 million).

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

TELECOM ITALIA S.P.A.

STATEMENTS OF INCOME

	1 st half 2002 (a)	1 st half 2001 (b)	Year 2001	Change (a-b)	
(in millions of euro)				Amount	%
A. Sales and service revenues	8,430	8,553	17,309	(123)	(1.4)
Changes in inventory of contract work in process	(4)	(14)	(19)	10	(71.4)
Increases in capitalized internal construction costs	7	3	6	4	°
Operating grants	-	-	-		
B. Standard production value	8,433	8,542	17,296	(109)	(1.3)
Raw materials and outside services ⁽¹⁾	(3,392)	(3,498)	(7,109)	106	(3.0)
C. Value added	5,041	5,044	10,187	(3)	
Labor costs ⁽¹⁾	(1,295)	(1,343)	(2,616)	48	(3.6)
D. Gross operating profit	3,746	3,701	7,571	45	1.2
Depreciation and amortization	(1,486)	(1,622)	(3,321)	136	(8.4)
Other valuation adjustments	(99)	(56)	(159)	(43)	76.8
Provisions to reserves for risks and charges	(34)	(36)	(100)	2	(5.6)
Net other income (expense)	(39)	30	(8)	(69)	°
E. Operating income	2,088	2,017	3,983	71	3.5
Net investment and financial income (expense) and value adjustments	(1,144)	(757)	(377)	(387)	51.1
of which value adjustments	(902)	(319)	(775)	(583)	°
F. Income before extraordinary items and taxes	944	1,260	3,606	(316)	(25.1)
Net extraordinary income (expense)	(232)	(84)	(2,893)	(148)	°
G. Income before taxes	712	1,176	713	(464)	(39.5)
Income taxes	(323)	(522)	(562)	199	(38.1)
H. Net income	389	654	151	(265)	(40.5)

◀ (1) Reduced by related cost recoveries.

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

BALANCE SHEETS

	At 6.30.2002 (a)	At 12.31.2001 (b)	At 6.30.2001	Change (a-b)
(in millions of euro)				
A. Intangibles, fixed assets and long-term investments				
Intangible assets	1,340	1,318	1,169	22
Fixed assets	13,493	14,109	14,582	(616)
Long-term investments:				
• equity investments and advances on future capital contributions	17,741	18,149	20,861	(408)
• other	297	221	222	76
	32,871	33,797	36,834	(926)
B. Working capital				
Inventories	76	77	104	(1)
Trade accounts receivable	5,082	5,104	5,239	(22)
Other assets	2,812	3,868	1,566	(1,056)
Trade accounts payable	(3,163)	(3,549)	(3,748)	386
Reserves for risks and charges	(1,298)	(1,613)	(921)	315
Other liabilities	(4,550)	(3,875)	(4,273)	(675)
	(1,041)	12	(2,033)	(1,053)
C. Invested capital, net of operating liabilities (A+B)	31,830	33,809	34,801	(1,979)
D. Reserve for employee termination indemnities	(1,046)	(1,025)	(1,050)	(21)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	30,784	32,784	33,751	(2,000)
Financed by:				
F. Shareholders' equity				
Share capital paid-in	4,024	4,023	4,023	1
Reserves and retained earnings	9,555	11,697	11,688	(2,142)
Net income	389	151	654	238
	13,968	15,871	16,365	(1,903)
G. Medium/long-term debt	13,053	10,371	6,246	2,682
H. Net short-term borrowings				
Short-term borrowings	5,068	7,538	13,101	(2,470)
Liquid assets and short-term financial assets	(1,509)	(1,248)	(2,042)	(261)
Financial accrued expense (income) and deferred charges (income), net	204	252	81	(48)
	3,763	6,542	11,140	(2,779)
(G+H)	16,816	16,913	17,386	(97)
I. Total (F+G+H)	30,784	32,784	33,751	(2,000)

1 SUMMARY DATA AND GENERAL INFORMATION	14 ECONOMIC FINANCIAL REVIEW OF T.I. GROUP
14 REPORT ON OPERATIONS >>	25 SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2002
89 CONSOLIDATED FINANCIAL STATEMENTS	29 OUTLOOK
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	30 RELATED PARTY TRANSACTIONS
177 IND. AUDITORS' REPORT AND OTHER INFO	32 ECON. FIN. REVIEW OF THE B.U./O.A. OF T.I. GROUP
	71 SUSTAINABILITY AND OTHER RELEVANT INFORMATION
	83 ECON. FIN. REVIEW OF TELECOM ITALIA S.P.A.

STATEMENTS OF CASH FLOWS

(in millions of euro)	1 st half 2002	1 st half 2001	Year 2001
A. Net debt, at beginning of the year	(16,913)	(16,839)	(16,839)
B. Cash flows – operating activities			
Net income	389	654	151
Depreciation and amortization	1,486	1,622	3,321
(Gains) losses on sales of intangibles, fixed assets and long-term investments	2	(11)	(241)
(Upward adjustments) Writedowns of intangibles and fixed assets and long-term investments	771	166	3,148
Change in working capital ^(*)	1,068	1,538	(514)
Net change in "reserve for employee termination indemnities"	21	19	(6)
	3,737	3,988	5,859
C. Cash flows – investing activities			
Intangibles, fixed assets and long-term investments:	(1,404)	(2,391)	(4,495)
- <i>intangible assets</i>	(259)	(242)	(727)
- <i>fixed assets</i>	(659)	(820)	(1,739)
- <i>long-term investments</i>	(486)	(1,329)	(2,029)
Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions	(143)	(45)	(413)
Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments	62	149	975
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	143	50	280
	(1,342)	(2,237)	(3,653)
D. Cash flows – financing activities			
Capital contributions	8	9	10
Capital grants	-	2	19
	8	11	29
E. Dividends payout	(2,306)	(2,309)	(2,309)
F. Change in net debt (B+C+D+E)	97	(547)	(74)
G. Net debt, at end of year (A+F)	(16,816)	(17,386)	(16,913)

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

The change in net debt is due to the following:

(in millions of euro)	1 st half 2002	1 st half 2001	Year 2001
Increase (decrease) in medium/long-term debt	2,682	3,058	7,183
Increase (decrease) in short-term borrowings	(2,779)	(2,511)	(7,109)
Total	(97)	547	74



consolidated financial statements
at June 30, 2002 of Telecom Italia Group



1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ CONSOLIDATED BALANCE SHEETS

ASSETS

(in millions of euro)

	6/30/2002	12/31/2001	6/30/2001 (***)	6/30/2001 historical
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS				
- PORTION CALLED IN				
- PORTION NOT CALLED IN	1	1	1	2
TOTAL RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	1	1	1	2
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
- INTANGIBLE ASSETS				
Start-up and expansion costs	88	104	104	104
Industrial patents and intellectual property rights	1,148	1,274	1,155	1,165
Concession, licenses, trademarks and similar rights	3,885	4,307	4,284	4,483
Goodwill	38	47	71	71
Consolidation difference	8,573	9,094	10,892	11,014
Work in progress and advances to suppliers	670	874	773	773
Other intangibles	740	497	403	550
TOTAL INTANGIBLE ASSETS	15,142	16,197	17,682	18,160
- FIXED ASSETS				
Land and buildings	2,755	2,877	2,921	3,242
Plant and machinery	15,719	16,649	16,498	18,461
Manufacturing and distribution equipment	58	73	76	76
Other fixed assets	608	731	682	948
Construction in progress and advances to suppliers	1,162	1,427	1,575	1,919
TOTAL FIXED ASSETS	20,302	21,757	21,752	24,646
- LONG-TERM INVESTMENTS				
Equity investments in:				
unconsolidated subsidiaries	31	18	28	28
affiliated companies	3,839	4,764	7,031	6,622
other companies	140	145	211	215
Total equity investments	4,010	4,927	7,270	6,865
Advances on future capital contributions	1,486	1,659	1,217	1,217
Accounts receivable: (*)				
unconsolidated subsidiaries		2	3	4
affiliated companies	10	117	14	130
other receivables	57	273	92	329
Total accounts receivables	67	392	109	463
Other securities		86	121	138
Treasury stock (for an overall par value of euro 9 million at 6.30.2002)	100			
TOTAL LONG-TERM INVESTMENTS	5,887	7,064	9,071	8,688
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	41,331	45,018	48,505	51,494
CURRENT ASSETS				
- INVENTORIES				
Raw materials and supplies	19	22	33	36
Work in progress and semifinished goods	7	6	3	7
Contract work in process	373	352	659	659
Finished goods and merchandise				
finished goods	1	2	2	2
merchandise	232	253	308	340
Advances to suppliers	1	1	15	16
TOTAL INVENTORIES	633	636	1,020	1,060
- ACCOUNTS RECEIVABLE (**)				
Trade accounts receivable	4	3	3	6
Accounts receivable from unconsolidated subsidiaries	68	31	32	32
Accounts receivable from affiliated companies	376	567	619	598
Accounts receivable from parent companies	1	1	1	1
Other receivables	384	478	264	94
TOTAL ACCOUNTS RECEIVABLE	388	13,027	11,171	11,698
- SHORT-TERM FINANCIAL ASSETS				
Equity investments in unconsolidated subsidiaries	163	247	336	336
Equity investments in affiliated companies				
Other equity investments	1	9	36	36
Other securities	378	1,935	3,272	3,264
Receivables for sales of securities	44	3	32	32
TOTAL SHORT-TERM FINANCIAL ASSETS	586	2,194	3,676	3,668
- LIQUID ASSETS				
Bank and postal accounts	1,260	757	2,409	2,465
Cash and valuables on hand	5	5	7	8
TOTAL LIQUID ASSETS	1,265	762	2,416	2,473
TOTAL CURRENT ASSETS	15,040	16,619	18,283	18,899
ACCRUED INCOME AND PREPAID EXPENSES				
Issue discounts and similar charges	106	94	94	94
Accrued income and other prepaid expenses	856	938	1,156	1,175
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	962	1,032	1,250	1,269
TOTAL ASSETS	57,334	62,670	68,039	71,664

(*) Amounts due within one year.

(**) Amounts due beyond one year.

(***) Restated balance sheet at June 30, 2001 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

LIABILITIES AND SHAREHOLDERS' EQUITY

(in millions of euro)

	6/30/2002	12/31/2001	6/30/2001 (***)	6/30/2001 historical
SHAREHOLDERS' EQUITY				
PARENT COMPANY INTEREST IN:				
- SHARE CAPITAL	4,024	4,023	4,023	4,023
- RESERVE FOR TREASURY STOCK	100			
- RESERVES AND RETAINED EARNINGS	6,371	11,567	11,696	11,696
- NET INCOME (LOSS)	770	(2,068)	483	483
TOTAL PARENT COMPANY INTEREST	11,265	13,522	16,202	16,202
MINORITY INTEREST IN:				
- SHARE CAPITAL, RESERVES AND RETAINED EARNING	4,259	5,377	5,260	6,162
- NET INCOME	622	410	354	366
TOTAL MINORITY INTEREST	4,881	5,787	5,614	6,528
TOTAL SHAREHOLDERS' EQUITY	16,146	19,309	21,816	22,730
RESERVES FOR RISKS AND CHARGES				
Reserve for pension and similar obligation	39	49	34	34
Reserve for taxes				
for taxes		154		
for deferred taxes		35		
Total reserve for taxes	735	189	467	574
Other reserves	2,574	2,815	1,447	1,486
TOTAL RESERVES FOR RISKS AND CHARGES	3,348	3,053	1,948	2,094
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,391	1,350	1,369	1,369
LIABILITIES	(**)	(**)	(**)	(**)
Debentures	10,731	10,737	8,003	8,183
Convertible debentures	1,996	1,996	2,500	2,500
Due to banks	2,426	7,039	3,340	10,235
Due to other lenders	1,264	2,308	1,186	2,163
Advances		268		388
Trade accounts payable	22	4,983	155	6,226
Notes payable		220	221	221
Accounts payable to unconsolidated subsidiaries		22		25
Accounts payable to affiliated companies	440	685	474	902
Accounts payable to parent companies		706		1
Taxes payables	33	587	82	922
Contributions to pension and social security institutions	596	830	598	865
Other liabilities	171	4,645	178	4,851
TOTAL LIABILITIES	17,679	35,026	16,737	37,482
ACCRUED EXPENSES AND DEFERRED INCOME	1,423	1,476	1,615	41,543
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	57,334	62,670	68,039	71,664

(**) Amounts due beyond one year.

(***) Restated balance sheet at June 30, 2001 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

MEMORANDUM ACCOUNTS

(in millions of euro)

	6/30/2002	12/31/2001	6/30/2001 (*)	6/30/2001 historical
GUARANTEES PROVIDED				
Sureties:				
on behalf of unconsolidated subsidiaries	23	20	23	23
on behalf of affiliated companies	1,070	1,041	0	2,091
on behalf of others	281	213	306	306
Total sureties	1,374	1,274	329	2,420
Endorsements				
on behalf of others			146	146
Other guarantees				
on behalf of unconsolidated subsidiaries		3		
on behalf of affiliated companies	30	50	42	22
on behalf of others	26	95	80	80
Total other guarantees	56	148	122	102
TOTAL GUARANTEES PROVIDED	1,430	1,422	597	2,668
COLLATERAL PROVIDED				
For obligations of others	150	147	1	1
For own obligations, not including liabilities	2	16	2	2
TOTAL COLLATERAL PROVIDED	152	163	3	3
PURCHASES AND SALES COMMITMENTS	4,975	5,369	3,196	3,196
OTHER MEMORANDUM ACCOUNTS	285	287	247	247
TOTAL MEMORANDUM ACCOUNTS	6,842	7,241	4,043	6,114

(*) Restated balance sheet at June 30, 2001 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)

	1st half 2002	1st half 2001 (*)	1st half 2001 historical	Year 2001
PRODUCTION VALUE				
Sales and service revenues	14,989	14,734	15,589	30,818
Changes in inventories of work in progress, semifinished and finished goods	1	1	2	
Changes in inventory of contract work in process	9	190	190	(115)
Increases in capitalized internal construction costs	248	168	198	581
Other revenue and income				
operating grants	4	10	10	24
other	259	185	198	393
Total other revenue and income	263	195	208	417
TOTAL PRODUCTION VALUE	15,510	15,288	16,187	31,701
PRODUCTION COST				
Raw materials, supplies and merchandise	(691)	(774)	(817)	(1,767)
Semifinished and finished goods	(114)	(118)	(118)	(205)
Services	(4,567)	(4,639)	(4,818)	(9,552)
Use of property not owned	(544)	(523)	(546)	(1,069)
Personnel:				
wages and salaries	(1,681)	(1,669)	(1,761)	(3,355)
social security contributions	(498)	(505)	(530)	(993)
termination indemnities	(113)	(110)	(110)	(211)
other costs	(43)	(52)	(85)	(107)
Total personnel cost	(2,335)	(2,336)	(2,486)	(4,666)
Amortization, depreciation and writedowns				
amortization of intangible assets	(953)	(1,018)	(1,051)	(2,241)
depreciation of fixed assets	(1,933)	(2,010)	(2,215)	(4,034)
other writedowns of intangibles and fixed assets	(2)	(4)	(4)	(16)
writedowns of receivables included in current assets and liquid assets	(231)	(185)	(236)	(439)
Total amortization, depreciation and writedowns	(3,119)	(3,217)	(3,506)	(6,730)
Changes in inventory of raw materials, supplies and merchandise	10	114	99	57
Provisions for risks	(56)	(78)	(81)	(189)
Other provisions	(26)	(18)	(18)	(89)
Miscellaneous operating costs	(406)	(378)	(405)	(817)
TOTAL PRODUCTION COST	(11,848)	(11,967)	(12,696)	(25,027)
OPERATING INCOME	3,662	3,321	3,491	6,674
FINANCIAL INCOME AND EXPENSE				
Income from equity investments:				
dividends from unconsolidated subsidiaries	9	9	9	9
dividends from affiliated companies				
dividends from other companies		9	9	8
other income from equity investments		19	19	137
Total income from equity investments:	9	37	37	154
Other financial income from:				
accounts receivable included in long-term investments				
affiliated companies		4	3	7
other	7	8	8	16
Total accounts receivable included in long-term investments	7	12	11	23
securities, other than equity investments, included in long-term investments	4			3
securities, other than equity investments, included in current assets	51	78	79	135
other income				
interest and fees from unconsolidated subsidiaries	1			1
interest and fees from affiliated companies	4	11	9	16
interest and fees from others and miscellaneous income	427	348	354	744
Total other income	432	359	363	761
Total other financial income	494	449	453	922
Interest and other financial expense:				
interest and fees paid to unconsolidated subsidiaries		(1)	(1)	
interest and fees paid to affiliated companies	(14)	(16)	(15)	(31)
interest and fees paid to others and miscellaneous expense	(1,377)	(1,132)	(1,231)	(3,044)
Total interest and other financial expense:	(1,391)	(1,149)	(1,247)	(3,075)
TOTAL FINANCIAL INCOME AND EXPENSE	(888)	(663)	(757)	(1,999)

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS >>	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(in millions of euro)

	1st half 2002	1st half 2001 (*)	1st half 2001 historical	Year 2001
VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
Upward adjustments of				
equity investments	81	70	68	167
securities, other than equity investments, included in current assets			1	
Total upward adjustments	81	70	69	167
Writedowns of:				
equity investments	(408)	(836)	(833)	(1,933)
long-term investments, other than equity investments	(20)			(49)
securities, other than equity investments, included in current assets	(56)	(8)	(8)	(141)
Total writedowns	(484)	(844)	(841)	(2,123)
TOTAL VALUE ADJUSTMENTS	(403)	(774)	(772)	(1,956)
EXTRAORDINARY INCOME AND EXPENSE				
Income				
gains on disposals	753	229	229	392
miscellaneous	306	180	180	460
Total income	1,059	409	409	852
Expense				
losses on disposals	(18)	(11)	(11)	(46)
prior years' taxes	(2)	(2)	(2)	(5)
provisions and writedowns of equity investments	(367)			(2,983)
miscellaneous	(566)	(283)	(299)	(1,270)
Total expense	(953)	(296)	(312)	(4,304)
TOTAL EXTRAORDINARY ITEMS	106	113	97	(3,452)
INCOME BEFORE TAXES	2,477	1,997	2,059	(733)
Income taxes				
current taxes				(1,186)
deferred taxes				261
Total income taxes	(1,085)	(1,160)	(1,210)	(925)
NET INCOME (LOSS) BEFORE MINORITY INTEREST	1,392	837	849	(1,658)
Minority interest	(622)	(354)	(366)	(410)
NET INCOME (LOSS)	770	483	483	(2,068)

(*) Restated statement of income for the first half 2001 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

■ INTRODUCTION

The consolidated financial statements for the six months ended June 30, 2002 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").

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

■ SCOPE OF CONSOLIDATION

The scope of consolidation at June 30, 2002 includes the Italian and foreign companies listed in Annex 5, in which Telecom Italia holds the majority of voting rights, and all other companies in which it exercises a dominant influence.

The companies in which Telecom Italia holds between a 20% and 50% investment in share capital, including jointly controlled companies, have been accounted for using the equity method.

Beginning from the financial statements for the year ended December 31, 2001, Nortel Inversora and the Telecom Argentina group (Nortel Inversora group), which in 2000 were consolidated proportionally as allowed by art. 37 of Legislative Decree No. 127/1991, have been accounted for using the equity method.

For purposes of comparison, the most important changes in the balance sheet and statement of income components are also shown in comparison to the first half of 2001 which have been restated to give effect to the accounting for the Nortel Inversora group using the equity method.

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

- Since June 30, 2001:
 - a) added to the scope of consolidation:
 - for *Domestic Wireline*: the new companies set up during the period that are part of the Latin American Nautilus and Mediterranean Nautilus projects: Telecom Italia Spain, TI Telecom Italia (Austria) Telekommunikationsdienste and Telecontact Center;
 - for *Mobile*: Timnet.com and Starcel;
 - for *Internet and Media*: the companies Free-Finance, Xoom.it, Cipi, Data House and Pan Address groups;
 - for *IT Market*: Sogei I.T.;
 - for *IT Group*: Webegg group and Teco Soft Argentina;
 - for *Telespazio*: e-Geos;
 - for *Other Activities*: ISM, N.V. Vertico, EMSA Servizi Immobiliari and IN.TEL.AUDIT;
 - b) eliminated from the scope of consolidation:
 - for *Domestic Wireline*: TMI Hong Kong, TMI Hungary, Euro Datacom, TMI Italy-Canada and TMI do Brasil;
 - for *Internet and Media*: Polix, Consodata Interactive, Consodata Italia, Consodata Systeme, companies in the Thomson Directories group and companies in the Internet Business Area;
 - for *International Operations*: Nortel Inversora, Group Telecom Argentina, Infoconcert, Iber Explorer, Belgium Explorer, Indian Telecommunication Holding, Telecom Italia de Espana and Telecom Italia GmbH;
 - for *Telespazio*: Telespazio Ireland.
- Since December 31, 2001:
 - c) added to the scope of consolidation:
 - for *Domestic Wireline*: Latin American Nautilus Saint Croix and Mediterranean Nautilus Telekomunikasyon Hizmetleri Ticaret Anonim Sirketi;
 - for *Mobile*: Timnet Usa, Starcel;
 - for *IT Market*: Sogei I.T.;
 - for *IT Group*: Webegg group and Teco Soft Argentina;
 - for *Other Activities*: EMSA Servizi Immobiliari, IN.TEL.AUDIT;

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

d) eliminated from the scope of consolidation:

- for *Domestic Wireline*: Euro Datacom, TMI Italy-Canada and TMI do Brasil;
- for *Mobile*: Autel;
- for *Internet and Media*: companies in the Internet Business area;
- for *International Operations*: Belgium Explorer, Indian Telecommunication Holding, Telecom Italia de Espana and Telecom Italia GmbH.

In the first half of 2002, after a 50% interest was purchased by Olivetti S.p.A. on June 27, 2002, the balance sheet only of the Webegg group was consolidated.

At June 30, 2002, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 7 can be categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
consolidated on a line-by-line basis	103	189	292				292
valued by the equity method	11	11	22	44	78	122	144
valued at cost	30	28	58	22	12	34	92
Total companies	144	228	372	66	90	156	528

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles adopted in preparing the consolidated financial statements for the six months ended June 30, 2002, 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 for the classification of the liability for income taxes for the six-month period of the individual consolidated companies, as well as those on consolidation adjustments, in the "reserve for taxes" under "reserves for risks and charges".

Income taxes for the period results of the individual consolidated companies have been calculated on the basis of the estimated tax rate for 2002.

With regard to social security contributions in accordance with Law No. 58/1992 and the securitization and factoring of accounts receivable, the updated situation at June 30, 2002 is reported below:

■ Employee benefit obligations under Law No. 58/1992

Employee benefit obligations, 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, 2002 by the National Social Security Institute (INPS) and according to its interpretation, amounted to euro 1,347 million, divided as follows:

- euro 910 million for the principal amount (except for the portion attributable to former Iritel employees);
- euro 437 million for accrued interest.

As regards pre-amortization interest and related accrued interest, as disclosed in the Notes to financial statements of Telecom Italia, as a consequence of sentence No. 3398/2002 ruled by the Supreme Court, conforming to the previous sentence No. 4242/2000 handed down by the same Court, a receivable of some euro 131 million is due from INPS for principal and interest which has been recorded in the consolidated statement of income in "extraordinary income". Such receivable was partly offset against the usual installment of the social security expense paid on July 1, 2002.

The six-month consolidated financial statements also include euro 656 million payables to INPS, estimated to cover liabilities related to the 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.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Accounts receivable securitization and factoring

Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Domestic Wireline (TIDW) begun in 2001 has continued into the first half of 2002. Reference should be made to the annual report 2001 for a description of the program.

In the first half of 2002, the total amount of trade accounts receivables sold under securitization transactions amounted to euro 4.5 billion and only took into account the receivables due to Telecom Italia from residential customers. At June 30, 2002, sold trade receivables totaled euro 843 million (of which euro 747 million were not yet due).

The accounting treatment is described in the Notes to financial statements of Telecom Italia.

The securitization transactions led to a decrease in net debt at June 30, 2002 of euro 824 million.

At June 30, 2002, Telecom Italia showed financial receivables of euro 258 million from TI Securitisation Vehicle for the deferred portion of the securitization transaction, as well as financial payables of euro 162 million due to TI Securitisation Vehicle, for the investment of excess temporary liquid resources by the latter in Telecom Italia.

Factoring

In the first half of 2002, Telecom Italia and TIM sold trade accounts receivable without recourse for a total of euro 1,812 million.

These factoring transactions led to a reduction in net debt at June 30, 2002 of euro 420 million.

For the consolidated subsidiaries and affiliates which use inflation accounting to eliminate distorting effects on the results for the period, the statements of income have been translated at the period-end exchange rates instead of at the average rates. The companies in the Group which apply inflation accounting principles are Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), Mediterranean Nautilus Telekomunikasyon Hizmetleri Ticaret A.S. and IS TIM Telekomunikasyon Hizmetleri A.S. (Turkey).

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ CONSOLIDATED BALANCE SHEETS

ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLE ASSETS

euro 15,142 million

(euro 16,197 million at December 31, 2001)

Intangible assets decreased by euro 1,055 million compared to December 31, 2001. A breakdown of the composition and the changes in this account are provided below:

(in millions of euros)	12/31/2001	Additions	Amortization	Other changes	6/30/2002
Start-up and expansion costs	104	11	(18)	(9)	88
Industrial patents and intellectual property rights	1,274	140	(399)	133	1,148
Concessions, licenses, trademarks and similar rights	4,307	5	(39)	(388)	3,885
Goodwill	47	-	(5)	(4)	38
Consolidation difference	9,094	76	(431)	(166)	8,573
Work in progress and advances to suppliers	874	312		(516)	670
Other intangibles	497	51	(61)	253	740
Total	16,197	595	(953)	(697)	15,142

■ 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

Decreased by euro 422 million primarily on account of the change in the exchange rates of South American countries. They mainly refer to the TIM group for euro 3,757 million in respect of the remaining unamortized cost on the UMTS and PCS licenses and other Telecom Italia Group companies for euro 128 million.

■ Consolidation difference

Decreased by euro 521 million compared to December 31, 2001. This is mainly due to the amortization charge for the period (euro 431 million), the writeoff of the residual goodwill of 9Telecom relating to the subsidiary JetMultiMedia and the negative performance of the Brazilian real as regards goodwill in that currency. The residual value of euro 8,573 million mainly refers to:

(in millions of euros)	At 6/30/2002
Seat Pagine Gialle	5,600
TIM	778
Entel Chile	769
Corporacion Digitel	325
TDL Infomedia	280
Holding Media e Comunicazione	178
Other companies	643
Total	8,573

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Work in progress and advances to suppliers

Decreased by euro 204 million, compared to December 31, 2001. The balance represents the difference between the capitalization of costs, incurred mainly by Telecom Italia, for software development projects in progress and the projects which came into use during the period.

■ Other intangibles

Totaling euro 740 million (euro 497 million at December 31, 2001), include euro 445 million for the right of use of transmission systems and indefeasible rights, euro 231 million (euro 231 million at December 31, 2001) for leasehold improvements and euro 64 million for other capitalized charges.

■ FIXED ASSETS

euro 20,302 million

(euro 21,757 million at December 31, 2001)

Fixed assets decreased by euro 1,455 million compared to December 31, 2001. They are shown net of accumulated depreciation and writedowns and have been adjusted to eliminate intraGroup profits generated by purchases of internally produced goods and services by the Group. The negative trend in the exchanges rates of South American countries also caused a reduction.

An analysis of fixed assets is provided in the following table:

(in millions of euros)	Owned assets			Leased assets			6/30/2002	12/31/2001
	Gross value	Accumulated depreciation	Total	Gross value	Accumulated depreciation	Total	Net book value	Net book value
Land and buildings	3,877	(1,557)	2,320	544	(109)	435	2,755	2,877
Plant and machinery	57,257	(41,560)	15,697	58	(36)	22	15,719	16,649
Manufacturing and distribution equipment	981	(923)	58	2	(2)	-	58	73
Other fixed assets	1,899	(1,351)	548	79	(19)	60	608	731
Construction in progress and advances to suppliers	1,086		1,086	76		76	1,162	1,427
Total	65,100	(45,391)	19,709	759	(166)	593	20,302	21,757

The gross value of fixed assets includes euro 1,321 million of monetary revaluations made by the Italian companies.

Accumulated depreciation covered 70.4% of gross fixed assets, compared to 68.5% at the end of last year.

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

(in millions of euros)	1st half 2002	Year 2001
January 1	21,757	20,721
- Additions	1,344	4,254
- Disposals	(70)	(172)
- Depreciation for the period	(1,933)	(4,034)
- Writedowns	(2)	(11)
- Change in the scope of consolidation	(7)	1,345
- Translation adjustments and other	(787)	(346)
June 30	20,302	21,757

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

Additions during the first half amounted to euro 1,344 million and decreased by euro 736 million (euro 2,080 million in the first half of 2001). Details by Business Unit/Operating Activity are as follows:

(in millions of euros)	1st half 2002	1st half 2001 (*)	1st half 2001
Domestic Wireline	747	916	916
Mobile	429	616	616
Internet and Media	12	49	49
International Operations	135	213	368
IT Market	5	9	9
IT Group	26	36	36
Telespazio	6	9	9
	1,360	1,848	2,003
Other activities and eliminations	(16)	77	77
Total	1,344	1,925	2,080

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

■ LONG-TERM INVESTMENTS

euro 5,887 million

(euro 7,064 million at December 31, 2001)

Long-term investments, which decreased by euro 1,177 million from December 31, 2001, include the following:

(in millions of euros)	6/30/2002	12/31/2001	Change
Equity investments in:			
• unconsolidated subsidiaries	31	18	13
• affiliated companies	3,839	4,764	(925)
• other companies	140	145	(5)
	4,010	4,927	(917)
Advances on future capital contributions	1,486	1,659	(173)
	5,496	6,586	(1,090)
Accounts receivable:			
• unconsolidated subsidiaries	-	2	(2)
• affiliated companies	12	117	(105)
• other receivables	226	273	(47)
	238	392	(154)
Other securities	53	86	(33)
Treasury stock	100	-	100
Total	5,887	7,064	(1,177)

■ Equity investments in affiliated companies

Equity investments in affiliated companies, amounting to euro 3,839 million, decreased by euro 925 million, compared to December 31, 2001, mainly as a result of the divestitures during the six-month period.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

Equity investments in affiliated companies refer to the following:

(in millions of euros)	12/31/2001	Additions	Disposals	Valuation using equity method ^(*)	6/30/2002
Telekom Austria	1,460			(25)	1,435
Auna	690	193			883
GLB Serviços Interativos	24			(9)	15
Etec S.A.	551			(79)	472
Mobilkom Austria	544		(553)	9	-
Solpart Participações	238			(81)	157
Telekom Srbija	195			-	195
BDT	158		(158)		-
IM.SER	141			6	147
Netco Redes	125			(4)	121
Mirror International Holding	94			-	94
Telemaco Immobiliare	91			18	109
IS TIM	81			(81)	-
Lottomatica	78		(78)		-
Italtel Holding	65			(17)	48
Stream	32	113		(119)	26
Siemens Informatica	24			(1)	23
Mondus	18		(18)		-
Other	155	18	(2)	(57)	114
Total	4,764	324	(809)	(440)	3,839

(*) Includes the share of earnings or losses for the period, amortization of goodwill, change in the scope of consolidation and adjustments on the translation of foreign currency financial statements.

The investments valued by the equity method include the remaining unamortized portion (euro 1,228 million, against euro 1,688 million at December 31, 2001) of the excess of book value over the corresponding share of the underlying net equity at the time of purchase. The excess mainly refers to Telekom Austria for euro 648 million, Auna for euro 253 million, Etec S.A. for euro 103 million and Netco Redes for euro 98 million.

The addition of euro 193 million in Auna refers to capital increases made by the Telecom Italia Group from January to June 2002, which were reimbursed when the holding was sold.

The amount referring to the disposal of Mobilkom Austria is net of the amortization of the consolidation difference, classified within "investments", of euro 7 million, and the revaluation of euro 16 million made following the earnings reported by Mobilkom Austria.

A list of the companies valued by the equity method is provided in Annex 6; investments in unconsolidated subsidiaries and affiliates are listed in Annex 7.

■ Advances on future capital contributions

Advances on future capital contributions mainly refer to advances made by TIM International to IS TIM; these payments are lower due to the adjustment to bring the investment in line with the corresponding share of net equity and the negative trend in exchange rates following the depreciation of the Turkish lire. The balance has also been adjusted to reflect the effect of the write off of the investments in IS TIM, due to the losses incurred in the first half of 2002.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies mainly refer to loans made to foreign affiliates.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Other receivables

Other receivables include the tax receivable, including accrued interest, deriving from the prepayment of the tax on the reserve for employee severance indemnities (euro 102 million), loans to employees (euro 85 million), loans to other companies and security deposits (euro 51 million).

■ Other securities

Other securities decreased by euro 33 million from December 31, 2001. They mainly refer to the investments in the closed – end investment trust Wisequity S.p.A. by Seat Pagine Gialle (euro 11 million), the closed – end equity fund Saturn Venture Partners LLC by TIM and TILAB (euro 9 million) and other investments in securities (euro 33 million).

■ Treasury stock

Treasury stock refers to 11,900,000 Telecom Italia savings shares and 3,600,000 Telecom Italia ordinary shares purchased by authorization of the ordinary Shareholders' Meeting held on November 7, 2001.

CURRENT ASSETS

■ INVENTORIES

euro 633 million

(euro 636 million at December 31, 2001)

Inventories include the following:

(in millions of euros)	6/30/2002	12/31/2001	Change
Raw materials and supplies	19	22	(3)
Merchandise	232	253	(21)
	251	275	(24)
Work in progress and semifinished goods	7	6	1
Finished goods	1	2	(1)
	8	8	-
Contract work in process	373	352	21
Advances to suppliers	1	1	-
	374	353	21
Total	633	636	(3)

Inventories are held by companies providing telecommunications services for euro 217 million (euro 245 million at December 31, 2001), companies in the Information Technology services BU for euro 254 million (euro 234 million at December 31, 2001), Telespazio for euro 111 million (euro 113 million at December 31, 2001) and Seat Pagine Gialle group for euro 51 million (euro 44 million at December 31, 2001).

Contract work in process also includes work on behalf of Consorzio Telcal for the Piano Telematico Calabria (euro 110 million).

Raw materials and supplies and *work in progress and semifinished goods* are substantially in line with current costs.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ACCOUNTS RECEIVABLE

euro 12,556 million

(euro 13,027 million at December 31, 2001)

A breakdown of accounts receivable, which decreased by euro 471 million, is provided below:

(in millions of euros)	6/30/2002	12/31/2001	Change
Trade accounts receivable	9,045	8,712	333
• allowance for doubtful accounts	(861)	(808)	(53)
Total trade accounts receivable	8,184	7,904	280
Accounts receivable from unconsolidated subsidiaries	68	31	37
Accounts receivable from affiliated companies	376	567	(191)
Accounts receivable from parent companies	1	1	-
Other receivables	3,927	4,524	(597)
Total	12,556	13,027	(471)

■ Trade accounts receivable

Gross *trade accounts receivable* totaled euro 9,045 million and consist, for the most part, of receivables for telecommunications services. Receivables have been adjusted to their estimated realizable value by writedowns and they, too, refer mostly to telecommunications companies.

Trade accounts receivable refer, in particular, to Telecom Italia (euro 4,261 million), TIM (euro 959 million) and the Seat Pagine Gialle group (euro 903 million).

This caption also includes euro 1,726 million of receivables from other telecommunications carriers and euro 256 million receivables for services to be performed by Seat Pagine Gialle, liabilities for the same amounts are included in "other liabilities", representing advertising commitments undertaken and invoiced by the company for directories that will be published in 2003, of which euro 843 million relate to securitization transactions.

Furthermore, the securitization and factoring of receivables by Telecom Italia led to a reduction in trade accounts receivable at June 30, 2002 of euro 1,052 million.

During the first half of 2002, TIM sold trade accounts receivable without recourse under factoring agreements for euro 1,603 million. At June 30, 2002, such receivables sold and not yet due totaled euro 211 million.

■ Accounts receivable from unconsolidated subsidiaries

Accounts receivable from unconsolidated subsidiaries include loans granted for euro 27 million and trade accounts receivables and other receivables from subsidiaries of euro 41 million.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies decreased by euro 191 million and refer to financial receivables for euro 82 million and trade and other receivables for euro 294 million. Financial receivables mainly refer to IS TIM (euro 49 million) and Stream (euro 16 million); trade and other receivables chiefly refer to the Auna group (euro 74 million), Stream (euro 64 million), Teleleasing (euro 30 million), Telekom Srbija (euro 19 million) and Telecom Argentina (euro 11 million). Other receivables refer to Stream for euro 31 million following the enforcement of the guarantee provided by Telecom Italia, at the time of the sale of Italtel, on receivables of the latter from Stream; Telecom Italia has set up a specific reserve for the same amount.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Other receivables

Details are as follows:

- financial receivables of euro 617 million (euro 591 million at December 31, 2001), principally relating to the securities on loan given by Telecom Italia to Morgan Stanley, covered by specific guarantee contracts (euro 254 million on a total of 100,000,000 ordinary Seat Pagine Gialle shares) as well as Telecom Italia's receivable from TI Securitization Vehicle S.r.l. and Unicredito Factoring for the deferred portion of the transactions for the securitization and factoring of trade accounts receivable (euro 268 million);
- other receivables totaling euro 3,310 million (euro 3,933 million at December 31, 2001), referring to the following:

(in millions of euros)	6/30/2002	12/31/2001
Government and other public entities for subsidies and grants	48	45
Customer payments in transit	154	210
Due from the Tax Administration	1,038	1,544
Deferred tax assets	1,239	1,410
Employees	79	93
Other receivables (from the Government, other public entities and others)	752	631
Total	3,310	3,933

■ SHORT-TERM FINANCIAL ASSETS

euro 586 million

(euro 2,194 million at December 31, 2001)

This item, which decreased by euro 1,608 million compared to December 31, 2001, includes the following:

(in millions of euros)	6/30/2002	12/31/2001	Change
Equity investments in unconsolidated subsidiaries	163	247	(84)
Other equity investments	1	9	(8)
Other securities	378	1,935	(1,557)
Receivables for sales of securities	44	3	41
Total	586	2,194	(1,608)

Equity investments in subsidiaries mainly refer to listed shares purchased for trading; the reduction from December 31, 2001 is chiefly attributable to the writedown of TIM shares by Telecom Italia (euro 86 million).

Other securities, which consist almost entirely of government securities and bonds, decreased by euro 1,557 million compared to December 31, 2001, and are mainly held by Softe and Sogerim, which reduced their bond portfolios during the six-month period.

The carrying values at the end of the period of both equity investments and other securities were adjusted to market value through a writedown totaling of euro 150 million.

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

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 16,146 million

(euro 19,309 million at December 31, 2001)

Details are as follows:

(in millions of euros)	6/30/2002	12/31/2001	Change
Parent company interest	11,265	13,522	(2,257)
Minority interest	4,881	5,787	(906)
Total	16,146	19,309	(3,163)

Telecom Italia's interest in shareholders' equity decreased by euro 2,257 million, compared to December 31, 2001. The reduction was due mainly to the payment of 2001 dividends (euro 2,307 million), and a reduction in the net equities of certain foreign companies due to the unfavorable trend in the local currencies against the euro. Such reduction was partly compensated by the net income for the period (euro 770 million).

■ SHARE CAPITAL

The *share capital* of Telecom Italia consists of 5,262,726,231 ordinary shares and 2,053,122,025 savings shares, both with a par value of euro 0.55 each.

■ PARENT COMPANY INTEREST IN RESERVES AND RETAINED EARNINGS

Parent Company interest in reserves and retained earnings includes Telecom Italia's own retained earnings and reserves, as well as the consolidated companies' retained earnings and inflation adjustment reserves and tax-deferred reserves. No deferred taxes have been provided on the latter reserves since, based on current plans, no transactions are expected to be entered into that would warrant taxation.

The reconciliation of the shareholders' equity and the net income of Telecom Italia and the consolidated figures in the financial statements at June 30, 2002, and the roll-forward of consolidated shareholders' equity, are provided in Annexes 3 and 4.

RESERVES FOR RISKS AND CHARGES

euro 3,348 million

(euro 3,053 million at December 31, 2001)

These reserves increased by euro 295 million from December 31, 2001 and refer to the following:

■ Reserve for taxes

The *reserve for taxes*, amounting to euro 735 million, increased by euro 546 million compared to December 31, 2001, due to the provision for income taxes of the period.

■ Other reserves

Other reserves, amounting to euro 2,574 million, decreased by euro 241 million compared to December 31, 2001 mainly as a result of the classification in financial payables of the forward purchase commitments regarding Seat Pagine Gialle shares (euro 569 million) that were included in this caption in 2001. This reduction was partly compensated by the provisions made during the period.

Other reserves include:

- the reserve for the losses of subsidiaries and affiliates of euro 721 million for extraordinary provisions accrued on the basis of the strategic guidelines of recent plans, of which euro 440 million refer to the planned sale of the investment in the 9Telecom group and euro 128 million accrued by the Brazilian companies Portale Sao Paolo, Portale Rio Norte and TIM Celular Centro Sul;
- the reserves for contractual risks and other risks of Telecom Italia for a total of euro 544 million posted in previous years and in the

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

current period, relating to the contribution of the business segment "Large Buildings", the sales of Italtel and Sirti, the sale of the satellite consortiums and the risks connected with the investment in Stream. The reserve relating to the latter was partly released during the period since the agreement did not go through;

- the reserves for the risks of technological revisions and future risks inherent to the regulatory framework of TIM for euro 475 million;
- the reserves for corporate restructuring of euro 286 million (of which euro 261 million relate to Telecom Italia);
- the Sogerim reserve of euro 101 million relating to the financial expenses connected with the notes.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,391 million

(euro 1,350 million at December 31, 2001)

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

(in millions of euros)

January 1, 2002	1,350
Change during the period:	
• provisions charged to income	113
• utilizations for:	
indemnities paid to employees	(43)
advances	(11)
• other changes	(18)
June 30, 2002	1,391

LIABILITIES

euro 35,026 million

(euro 37,482 million at December 31, 2001)

A breakdown of liabilities, which decreased by euro 2,456 million from December 31, 2001, is as follows:

	6/30/2002		12/31/2001	
	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables
(in millions of euros)				
Debentures	10,737	-	8,183	-
Convertible debentures	1,996	-	2,500	-
Due to banks	7,039	-	10,235	-
Due to other lenders	2,308	-	2,163	-
Advances	-	268	-	388
Trade accounts payable	24	4,959	168	6,058
Notes payable	220	-	221	-
Accounts payable to unconsolidated subsidiaries	12	10	17	8
Accounts payable to affiliated companies	499	186	553	349
Accounts payable to parent companies	-	706	-	1
Taxes payable	41	546	50	872
Contributions to pensions and social security institutions	-	830	-	865
Other liabilities	579	4,066	1,107	3,744
Total	23,455	11,571	25,197	12,285

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Debentures

Debentures totaled euro 10,737 million and increased by euro 2,554 million compared to December 31, 2001. Details are as follows:

- notes issued by the subsidiary Sogerim on international markets for euro 6,000 million. The issue was divided in three tranches: the first, equal to euro 1 billion of floating rate notes, maturing on April 20, 2004; the second, equal to euro 3,000 million of fixed-rate notes, maturing on April 20, 2006; the third, equal to euro 2,000 million of fixed-rate notes, maturing on April 20, 2011;
- floating rate notes of euro 1,500 million issued by Telecom Italia (this is the first issue under the Global Medium-Term Note Program with Telecom Italia as the issuer). The maturity date is June 21, 2005 and the issuer can call in the notes at an earlier date at face value beginning from the second year and at every coupon date for interest thereafter;
- notes maturing between 2002 and 2005 issued by the Brazilian companies Tele Nordeste Celular and Tele Celular Sul for euro 141 million;
- notes maturing between 2002 and 2023 issued by Entel Chile for euro 228 million;
- notes maturing between 2009 and 2010 issued by the TDL Infomedia Ltd group for euro 197 million;
- notes issued by Telecom Italia on February 1, 2002 for euro 2,500 million, divided into two tranches of euro 1,250 million each, at fixed interest rates, maturing, respectively on February 1, 2007 and February 1, 2012. The issue is part of the "Global Note Program".
- notes 2002 – 2022 reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy, for euro 171 million.

■ Convertible debentures

Convertible debentures include notes issued by Sogerim for euro 2,500 million convertible into TIM or Seat Pagine Gialle shares, with the right of the issuer to pay off the amount due in cash. These are five-year notes and can be redeemed by the noteholders before maturity at the end of the third year after issue. Debentures decreased by euro 504 million due to the buy – back of notes by Sogerim.

■ Due to banks

Due to banks, of euro 7,039 million, are secured by euro 607 million, of which mortgages total euro 23 million and liens and pledges total euro 504 million; they decreased by euro 3,196 million compared to December 31, 2001.

■ Due to other lenders

Due to other lenders, of euro 2,308 million, increased by euro 145 million compared to December 31, 2001. This caption refers to a loan payable by Seat Pagine Gialle (euro 780 million) to Seat Pagine Gialle Finance S.r.l., a corporate vehicle entirely owned by third parties, operating under Law No. 130/99 on securitization, the reclassification of the provision to the reserve for risks on the Chase put option to medium/long-term financial payables (euro 569 million), loans granted by Cassa Depositi e Prestiti to Telecom Italia (euro 354 million) and a payable by Softe (euro 250 million) to Olivetti Finance N.V. negotiated on June 18, 2002 and due on July 18, 2002.

■ Advances

Advances, which totaled euro 268 million, decreased by euro 120 million compared to December 31, 2001 and include advances received from customers for euro 179 million (of which euro 95 million refer to Consorzio Telcal) and installment billings for euro 89 million.

■ Trade accounts payable

Trade accounts payable amounted to euro 4,983 million and decreased by euro 1,243 million from December 31, 2001, mainly as a result of the reduction in payables by TIM (-euro 379 million) and Telecom Italia (-euro 261 million). This item also includes euro 766 million payables to other telecommunications operators.

■ Notes payable

Notes payable, of euro 220 million, refer to investment certificates, maturing in June 2003, issued by Seat Pagine Gialle as part of the securitization transaction with Seat Pagine Gialle Finance S.r.l..

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Accounts payable to affiliated companies

Accounts payable to affiliated companies, of euro 685 million, decreased by euro 217 million compared to the end of 2001. They include financial payables of euro 499 million, mainly to Teleleasing (euro 490 million) for financial lease contracts. Trade accounts payable and other payables amount to euro 185 million and are due to the Italtel group (euro 99 million), Siemens Informatica (euro 32 million), Teleleasing (euro 19 million) and Etec S.A. (euro 12 million).

■ Accounts payable to parent companies

Accounts payable to parent companies of euro 706 million refer to the payable to Olivetti for Group VAT.

■ Taxes payable

Taxes payable amounted to euro 587 million and decreased by euro 335 million compared to December 31, 2001. Taxes payable include euro 60 million for income taxes and euro 486 million for indirect taxes and withholdings made by the companies as substitute taxpayers, as well as euro 41 million for medium/long-term financial debt relating to the agreement reached with the Tax Administration over the assessments received in 2001 by Telecom Italia.

■ Contributions to pensions and social security institutions

Contributions to pensions and social security institutions totaled euro 830 million and decreased by euro 35 million compared to December 31, 2001; they include amounts owed to social security and health institutions. This item includes euro 656 million payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992.

■ Other liabilities

Other liabilities, of euro 4,645 million, decreased by euro 206 million compared to December 31, 2001. A breakdown is provided below:

(in millions of euros)	6/30/2002	12/31/2001
Customer-related items	1,774	1,650
Employee-related items	696	631
Telecommunications license fee	1,208	1,034
Other financial items	579	1,107
Other recurring and miscellaneous items (contra-entries for accrued expenses, accrued interest expense at June 30 and payable the following year, sundry payables, etc.)	388	429
Total	4,645	4,851

In particular, customer-related items consist of deposits paid by customers and pre-billed basic subscriber charges (mainly for July and August), as well as prepaid traffic. The item also includes other liabilities for services to be performed by Seat Pagine Gialle (euro 256 million). The financial payables refer to Telecom Italia for euro 274 million, including the transaction for the securities on loan to Morgan Stanley (euro 254 million), and also the TIM group for euro 238 million for the remaining amounts payable on the UMTS licenses acquired in Italy and Greece. Such liabilities have considerably decreased as a result of the payment of the residual liability for the purchase of the PCS licenses by the Brazilian subsidiaries.

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

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ MEMORANDUM ACCOUNTS

Memorandum accounts at June 30, 2002 totaled euro 6,842 million and decreased, compared to December 31, 2001, by euro 399 million.

Memorandum accounts are detailed as follows:

(in millions of euros)	6/30/2002	12/31/2001
Guarantees provided	1,430	1,422
Collateral provided	152	163
Purchases and sales commitments	4,975	5,369
Other	285	287
Total	6,842	7,241

■ GUARANTEES PROVIDED

Guarantees provided, net of counter-guarantees received of euro 343 million, totaled euro 1,430 million and mainly consist of sureties provided by Telecom Italia and TIM on behalf of affiliated companies, by Telespazio for contract work with the Ministry of Agriculture Policy and by others for medium/long-term loan transactions and guarantees on foreign fixed and mobile line licenses.

■ COLLATERAL PROVIDED

Collateral provided of euro 152 million refers to liens and mortgages on the assets of the companies included in consolidation. In particular, the collateral includes IS TIM shares pledged as guarantees by TIM International for the performance of the obligations covered by the supply contracts signed by IS TIM with Ericsson and Siemens.

■ PURCHASES AND SALES COMMITMENTS

Purchases and sales commitments at the end of the period, respectively, of euro 2,828 million (euro 3,305 million at December 31, 2001) and euro 2,147 million (euro 2,064 million at December 31, 2001), refer to commitments which do not fall within the normal operating cycle of the individual consolidated companies.

In particular, the purchases commitments refer to:

- Telecom Italia's commitment for the put option on Seat Pagine Gialle shares (euro 2,417 million); at the expiration date, the purchase of Seat Pagine Gialle shares will require an entry to record the difference on consolidation equal to the purchase cost, recorded in commitments, less the underlying share of net equity at current values at that date. To guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares, Softe provided a guarantee (euro 2,220 million) in the form of a Direct Participation Letter of Credit to JPMorgan Chase Equity Limited.
In particular, it was agreed to reduce the strike price of the aforementioned options from euro 4.2 to euro 3.4 per share against payment of an amount equal to 569 million by Telecom Italia to JPMorgan Chase Equity Limited at the original expiration date of December 2005. Telecom Italia may elect to pay the consideration earlier, in which case the consideration will be discounted to its present value at the time of payment. The expense has been accounted for in the caption "due to other lenders" and had no effect on the statement of income for the period after utilization of the reserve for risks and charges accrued for the same amount at the end of 2001 for the estimated nonrecoverability of the original price of the put option;
- contractual commitment by Telecom Italia Lab S.A. (euro 141 million) to pay the remaining amounts subscribed to but not yet paid to four investments funds specialized in financing emerging companies in telecommunications, Internet, Intranet and Broadband networks;
- Seat Pagine Gialle's commitment (euro 51 million) relating to the minimum purchase amount of Consodata S.A. shares, equal to 8.4% of the share capital, held by certain executives, who are also shareholders' according to recently re-negotiated terms.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

The reduction of euro 477 million from December 31, 2001 is substantially due to the revised strike price following the re-negotiation of put and call options with JPMorgan Chase.

The sales commitments include the Group's commitment to sell the investment in the Spanish company Auna (euro 1,999 million).

■ OTHER MEMORANDUM ACCOUNTS

Other memorandum accounts of euro 285 million refer mainly to third-party assets held by the individual consolidated companies, principally those in the information technology sector.

Furthermore:

- the consolidated companies of the Group issued weak letters of patronage totaling euro 209 million chiefly on behalf of unconsolidated subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 332 million and consist mainly of equipment leased to customers;
- collateral received amounted to euro 5 million;
- guarantees received amounted to euro 62 million;
- 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 euro 629 million. They comprise euro 207 million for the surety policy replacing the security deposit for contracts with public agencies, issued by Fondiaria Assicurazioni S.p.A. on behalf of Raggruppamento Temporaneo di Imprese, of which Finsiel is the principal on behalf of the guaranteed agency (MIPAF - Ministero delle Politiche Agricole and Forestali) after having won the bid for the contract;
- the value of the stock belonging to employees and private shareholders deposited on June 30, 2002 c/o the companies of the Group amounted to about euro 91 million;
- the total amount of Telecom Italia commitments at June 30, 2002 for future lease payments to be paid to IM.SER under 21-year contracts was euro 3,586 million. The commitment from 2002 to 2006 is euro 185 million per year.

Moreover, on June 29, 2000, Telecom Italia International and Telecom Italia signed an agreement to guarantee the minority shareholders of Med-1 Submarine Cables Ltd two put options on the shares of this company, on which Telecom Italia International and Telecom Italia have two call options. The first option can be exercised after three years on 50% of the shares held by the minority shareholders at fair value; the second option can be exercised after five years on the remaining shares at fair value.

* * *

FINANCIAL DERIVATIVES

Financial derivative contracts are used by the Group to hedge exposure to interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction are recognized in the statement of income.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and expense" on an accrual basis.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" on an the accrual basis.

In the first half of 2002, transactions in derivatives by the Telecom Italia Group mainly regarded the management of debt exposure through the use of instruments to hedge interest rate and exchange rate risks.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

The following table gives a description of the financial derivative contracts used to hedge medium/long-term debt positions of the Group at June 30, 2002.

	Notional amount/ Capital exchanged at 6/30/2002
(in millions of euros)	
Interest rate swaps and interest rate options	5,564
Cross currency and interest rate swaps	1,297

IRs and IROs in portfolio involve or can 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 CCIRs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity or at the spot date.

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

Besides the derivative contracts concluded as part of the management of debt exposure, at June 30, 2002, there were IRs to hedge investments in notes for about Euro 49 million with the Luxembourg subsidiary Softe and about euro 3 million with the Tele Celular Sul group.

Finally, Telecom Italia, Seat and Softe have derivative instruments to hedge exchange rate exposure on short-term treasury transactions for approximately euro 973 million.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ CONSOLIDATED STATEMENTS OF INCOME

■ SALES AND SERVICE REVENUES

euro 14,989 million

(euro 15,589 million in the first half of 2001)

Sales and service revenues show a decrease of euro 600 million from the first half of 2001 (-3.8%; +1.7% compared to the first half of 2001, restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method). Such change is due to the combined effect of a positive trend in mobile telephone services and the increase in revenues from the Internet and IT Market areas countered by a reduction in wireline telephone services. The breakdown by Business Unit/Operating Activity is as follows:

(in millions of euros)	1st half 2002 (a)	1st half 2001 (*) (b)	1st half 2001 (c)	Change (a)-(c)	
				amount	%
Domestic Wireline	8,400	8,482	8,482	(82)	(1,0)
Mobile	5,185	4,930	4,930	255	5,2
Internet and Media	871	825	825	46	5,5
International Operations	947	934	1,804	(857)	(47,5)
IT Market	553	573	573	(20)	3,5
IT Group	495	451	451	44	9,8
Telespazio	143	140	140	3	2,1
	16,594	16,335	17,205	(611)	(3,6)
Other operations and IntraGroup eliminations	(1,605)	(1,601)	(1,616)	11	0,7
Consolidated Group revenues	14,989	14,734	15,589	(600)	(3,8)

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

Revenues from telecommunications services are shown gross of the amount due to other carriers of euro 1,996 million (euro 1,898 million in the first half of 2001).

Revenues from foreign operations totaled euro 2,817 million (euro 3,663 million in the first half of 2001). The reduction is due to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method, as well as the negative trend in the exchange rates of the South American countries.

■ FINANCIAL INCOME AND EXPENSE

-euro 888 million

(-euro 757 million in the first half of 2001)

Financial income and expense refers to the following items:

(in millions of euros)	1st half 2002 (a)	1st half 2001 (*) (b)	1st half 2001 (c)	Change
				(a-c)
Income from equity investments, net	9	37	37	(28)
Other financial income	494	449	453	41
Interest and other financial expense	(1,391)	(1,149)	(1,247)	(144)
Total	(888)	(663)	(757)	(131)

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Income from equity investments

Income from equity investments, net totaled euro 9 million (euro 37 million in the first half of 2001) and mainly includes dividends from unconsolidated companies.

■ Other financial income

Other financial income of euro 494 million (euro 453 million in the first half of 2001), includes the following:

(in millions of euros)	1st half 2002 (a)	1st half 2001 (*) (b)	1st half 2001 (c)	Change (a-c)
Interest and capital gains on fixed-income securities	55	78	79	(24)
Interest and fees from:				
- unconsolidated subsidiaries	1			
- affiliated companies	5	11	9	
- banks	36	76	76	
- customers	1 43	1 88	6 91	(48)
Foreign exchange gains and income on hedging contracts	368	183	183	185
Other	28	100	100	(72)
Total	494	449	453	41

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

■ Interest and other financial expense

Interest and other financial expense of euro 1,391 million (euro 1,247 million in the first half of 2001) include the following:

(in millions of euros)	1st half 2002 (a)	1st half 2001 (*) (b)	1st half 2001 (c)	Change (a-c)
Interest and fees paid to:				
- unconsolidated subsidiaries				
- affiliated companies	14	16	16	
- banks	163	538	580	
- suppliers and other lenders	91 268	34 588	40 636	(368)
Interest and other charges on note issues	371	123	169	202
Foreign exchange losses and expense on hedging contracts	565	223	226	339
Other financial expense	187	215	216	(29)
Total	1,391	1,149	1,247	144

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

In particular, interest and fees paid to banks include euro 73 million of interest on short-term borrowings and euro 91 million of expenses on medium/long-term debt positions.

Other financial expense includes euro 74 million for the portion of expenses of the period relating to the deferral of the put option on Seat Pagine Gialle shares recorded in prepaid expenses.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ EXTRAORDINARY INCOME AND EXPENSE

euro 106 million

(euro 97 million in the first half of 2001)

Extraordinary income and expense shows a net income balance of euro 106 million (euro 97 million in the first half of 2001) which includes euro 1,059 million of income and euro 953 million of expense.

Extraordinary income includes:

- euro 753 million of gross gains, including euro 484 million on the sale of the 19.61% interest held by the Mobile BU in Bouygues Decaux Telecom (BDT), euro 133 million from the participation to the takeover bid for Lottomatica by the Information Technology Market BU (Finsiel Group), euro 115 million from the sale by TIM International of the 25% interest in Mobilkom Austria group to Telekom Austria (29.8%-owned by Telecom Italia) and euro 21 million relating to the sale of other investments, fixed assets and business segments;
- euro 131 million for prior period income as a result of the recovery of pre-amortization interest - on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reservation, to INPS up to 1999 - following the termination of litigation after the courts ruled in Telecom Italia' favor.
- euro 175 million, of which euro 80 million for the release of reserves, including euro 59 million for expenses accrued in 2001 by Telecom Italia in connection with the expenses on the agreement for the sale of Stream to Vivendi Canal Plus, since the sale transaction did not go through; lastly, euro 86 million of prior period income and euro 9 million of grants.

Extraordinary expense includes:

- euro 355 million of expenses for employee cutbacks and layoffs, of which euro 340 million refer to Telecom Italia, including euro 261 million of provisions for layoffs following the mobility agreements signed with the labor unions in May;
- euro 367 million for provisions made in respect of the expected divestiture of the investment in the 9Telecom group and the writeoff of the residual goodwill carried by 9Telecom on the subsidiary JetMultiMedia;
- euro 231 million for prior period expenses and other extraordinary expenses, of which euro 49 million are for provisions to reserves, euro 61 million for writedowns and losses of fixed assets, intangibles and long-term investments and euro 38 million for the extraordinary contribution to INPS to meet the higher financial requirements deriving from the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund".

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

OTHER INFORMATION

■ EMPLOYEES

Employees numbered 108,642 at June 30, 2002 (109,956 at December 31, 2001). The breakdown of employees by Business Unit/Operating Activity is presented below:

(number)	6/30/2002	12/31/2001	Change
Domestic Wireline	56,633	57,831	(1,198)
Mobile	17,137	16,721	416
Internet and Media	8,300	9,264	(964)
International Operations	7,131	7,307	(176)
IT Market	6,315	6,441	(126)
IT Group	7,523	6,844	679
Telespazio	1,188	1,196	(8)
Other activities	4,415	4,352	63
Total	108,642	109,956	(1,314)

The change in employees of 1,314 was due to the combined effect of the reduction in employee due to turnover (-1,736), in Telecom Italia in particular, and the change in the scope of consolidation (+422) due to the inclusion of the Webegg group, the sale of the business segment "Gestione Autoparco" and the deconsolidation of some minor companies of the Seat Pagine Gialle group.

The average equivalent number of employees on the payroll in the first half of 2002 was 103,750 (114,311 in the first half of 2001). The breakdown by category is as follows:

(number)	1st half 2002	Year 2001	1st half 2001 (*)	1st half 2001
Executives	2,324	2,454	2,376	2,398
Middle management	6,959	6,379	6,540	6,875
Clerical staff	86,221	89,066	88,281	91,182
Technicians	8,246	9,592	9,675	13,856
Total	103,750	107,491	106,872	114,311

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

(foreign currency/euro)	Period-end exchange rates (balance sheet items)			Average exchange rate for the period (statement of income items)		
	6/30/2002	12/31/2001	% Change	1st half 2002	1st half 2001	% Change
Europe						
Greek drachma	0.002934703	0.002934703	-	0.002934703	0.002934703	-
Portuguese escudo	0.004987979	0.004987979	-	0.004987979	0.004987979	-
Dutch guilder	0.453780216	0.453780216	-	0.453780216	0.453780216	-
Belgian-Luxembourg franc	0.024789352	0.024789352	-	0.024789352	0.024789352	-
French franc	0.152449017	0.152449017	-	0.152449017	0.152449017	-
German mark	0.511291881	0.511291881	-	0.511291881	0.511291881	-
Spanish peseta	0.006010121	0.006010121	-	0.006010121	0.006010121	-
Swiss franc	0.679301678	0.674354306	0.7	0.680749096	0.653256175	4.2
Romanian leu	0.000029933	0.000035949	(16.7)	0.000029933	0.000040284	(25.7)
Pound sterling	1.538935057	1.643385374	(6.4)	1.608622215	1.604035749	0.3
Turkish lira	0.000000641	0.000000788	(18.7)	0.000000641	0.000000925	(30.7)
Hungarian forint	0.004082799	0.004078636	0.1	0.004107077	0.003825396	7.4
Russian rouble	0.031810450	0.037240619	(14.6)	0.035845891	0.038389274	(6.6)
Polish zloty	0.246317553	0.286098475	(13.9)	0.272672738	0.276019873	(1.2)
North America						
USA dollar	1.002506266	1.134687394	(11.6)	1.113709767	1.114757653	(0.1)
South America						
Venezuelan bolivar	0.000741088	0.001471562	(49.6)	0.000741088	0.001612895	(54.1)
Bolivian boliviano	0.139946457	0.166535381	(16.0)	0.158973161	0.172689243	(7.9)
Cost Rican colon	0.002790631	0.003302924	(15.5)	0.003181124	0.003414813	(6.8)
Peruvian nuevo sol	0.285817997	0.329612014	(13.3)	0.321931590	0.314643016	2.3
Argentinean peso	0.263817438	0.667463173	(60.5)	0.419792371	1.114757653	(62.3)
Chilean peso	0.001461379	0.001740402	(16.0)	0.001676591	0.001894364	(11.5)
Brazilian real	0.352448992	0.488901926	(27.9)	0.456291808	0.519637757	(12.2)
Asia						
Hong Kong dollar	0.128526444	0.145511692	(11.7)	0.145511692	0.142926865	1.8
Isaelian shekel	0.211053728	0.258742254	(18.4)	0.234621719	0.269123022	(12.8)

The following Annexes numbered 1 to 7 are an integral part of these notes.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX N. 1

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	At 6/30/2002 Amounts due				At 12/31/2001 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
(in millions of euros)								
Accounts receivable in long-term investments								
Unconsolidated subsidiaries					2			2
Affiliated companies	10	2		12		3	114	117
Other:								
Customers	3	2		5	2	3	1	6
Others	57	137	27	221	78	155	34	267
	70	141	27	238	82	161	149	392
Accounts receivable in current assets								
Other loans to:								
Unconsolidated subsidiaries	27			27	7			7
Affiliated companies	82			82	206			206
Parent companies	1			1				
Others	617			617	591			591
	727			727	804			804
Trade accounts receivables:								
Customers	8,180	4		8,184	7,901	3		7,904
Unconsolidated subsidiaries	26			26	10			10
Affiliated companies	262			262	360			360
Parent companies					1			1
Others	66			66	70	1		71
	8,534	4		8,538	8,342	4		8,346
Other receivables:								
Unconsolidated subsidiaries	15			15	14			14
Affiliated companies	32			32	1			1
Others	2,860	189	195	3,244	3,385	223	254	3,862
	2,907	189	195	3,291	3,400	223	254	3,877
Total accounts receivables	12,168	193	195	12,556	12,546	227	254	13,027
Accrued income	108			108	152			152

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX N. 2

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	At 6/30/2002 Amounts due				At 12/31/2001 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
(in millions of euros)								
Medium and long-term debt								
Debentures	6	6,318	4,413	10,737	180	5,722	2,281	8,183
Convertible debentures		1,996		1,996		2,500		2,500
Due to banks	1,350	2,107	319	3,776	1,105	2,995	345	4,445
Due to other lenders	610	1,162	102	1,874	186	1,090	96	1,372
Suppliers	2	22		24	12	155		167
Notes	220			220		221		221
Affiliated companies	50	170	270	490	48	176	298	522
Taxes payables	18	23		41	18	32		50
Other liabilities	121	150	15	286	120	157	15	292
	2,377	11,948	5,119	19,444	1,669	13,048	3,035	17,752
Short-term debt								
Due to banks	3,263			3,263	5,790			5,790
Due to other lenders	434			434	791			791
Suppliers					1			1
Unconsolidated subsidiaries	12			12	17			17
Affiliated companies	9			9	31			31
Other liabilities	293			293	815			815
	4,011			4,011	7,445			7,445
Trade accounts payable ⁽¹⁾								
Suppliers	4,959			4,959	6,058			6,058
Unconsolidated subsidiaries	4			4	3			3
Affiliated companies	179			179	343			343
Parent companies					1			1
	5,142			5,142	6,405			6,405
Other payables								
Unconsolidated subsidiaries	6			6	5			5
Affiliated companies	7			7	6			6
Parent companies	706			706				
Taxes payables	536	10		546	822	50		872
Contributions to pension and social security institutions	234	270	326	830	267	272	326	865
Other liabilities	4,060	6		4,066	3,738	6		3,744
	5,549	286	326	6,161	4,838	328	326	5,492
Total liabilities ⁽¹⁾	17,079	12,234	5,445	34,758	20,357	13,376	3,361	37,094
Accrued expenses	249			249	403			403

(1) not including advances

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX N. 3

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES IN THE FINANCIAL STATEMENTS AT JUNE 30, 2002

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
(in millions of euros)								
Financial statements of Telecom Italia at June 30, 2002	4,024	9,555	389	13,968				13,968
Results of consolidated companies			(118)	(118)		602	602	484
Share capital and reserves of consolidated companies		25,928		25,928	3,177		3,177	29,105
- carrying value of investments in consolidated companies		(36,592)		(36,592)				(36,592)
Consolidation adjustments:								
- elimination of tax-related entries		(74)	18	(56)	5		5	(51)
valuation of investments by the equity method		(1,219)	(70)	(1,289)	(730)	(41)	(771)	(2,060)
- positive differences on purchase of investments		8,384	(400)	7,984	620	(31)	589	8,573
- elimination of intragroup dividends		170	(170)		4	(4)		
- losses of subsidiaries included in the results of parent companies and extraordinary writedown of investments		1,193	1,011	2,204	1,648	4	1,652	3,856
- gains on sales of investments		(239)	40	(199)	(100)	81	(19)	(218)
- elimination of intragroup profits included in fixed assets and intangibles		(224)	35	(189)	(14)	3	(11)	(200)
- elimination of intragroup transactions on investments		(429)		(429)	(266)		(266)	(695)
- other		18	35	53	(85)	8	(77)	(24)
Consolidated financial statements at June 30, 2002	4,024	6,471	770	11,265	4,259	622	4,881	16,146

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX N. 4

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2002

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	Share capital and reserves	Net income	Total	
(in millions of euros)								
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309
Contribution by shareholders	1	7		8	44		44	52
Appropriation of 2001 net income:								
- Dividends distributed		(2,307)		(2,307)	(530)	(410)	(940)	(3,247)
- Transfer to reserves		(2,068)	2,068					
Translation adjustments on the conversion of financial statements in foreign currencies and other		(728)		(728)	(632)		(632)	(1,360)
Net income for the period			770	770		622	622	1,392
Consolidated financial statements at June 30, 2002	4,024	6,471	770	11,265	4,259	622	4,881	16,146

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 5

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

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
Domestic Wireline					
ATESIA -Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	EUR	3,150,406	100.00	TELECOM ITALIA
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 STET-FRANCE TELECOM
- 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. Fiduciaries
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	Rio de Janeiro (Brazil)	BRL	20,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA
- 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. Fiduciaries
- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	1,000,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	Panama	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	Lima (Peru)	PEN	3,500	99.97 0.03	LATIN AMERICAN NAUTILUS S.A. Fiduciaries
- LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS ST.CROIX LLC (installation and maintenance of submarine cable systems)	St. Croix (USA Virgin Islands)	USD	1,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- 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. Fiduciaries
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Tel Aviv (Israel)	ILS	100,000	23.17 27.83	TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
- 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 SUBMARINE CABLES MED-1 ITALY
- MED-1 (NETHERLANDS) B.V. (holding company)	Amsterdam (Holland)	EUR	18,151	100.00	MED-1 SUBMARINE CABLES
- MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rome (Italy)	EUR	548,477	100.00	MED-1 NETHERLANDS
MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD	326,480,000	62.51 7.49	TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
- ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR	10,329,200	100.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	100,000	51.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS B.V. (holding company)	Amsterdam (Holland)	EUR	18,003	100.00	MEDITERRANEAN NAUTILUS Ltd

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	Athens (Greece)	EUR 60,000	100.00		MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS ISRAEL Ltd (installation and maintenance of submarine cable systems)	Tel Aviv (Israel)	ILS 1,000	100.00		MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance) of submarine cable systems	Rome (Italy)	EUR 3,100,000	100.00		MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS Inc. (telecommunications activities)	Delaware (USA)	USD 3,000	100.00		MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS TELEKOMUNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications activities)	Istanbul (Turkey)	TRL 350,000,000,000	98.00 0.50 0.50 0.50 0.50		MEDITERRANEAN NAUTILUS B. V. MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ISRAEL MEDITERRANEAN NAUTILUS ITALY MEDITERRANEAN NAUTILUS GREECE
PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	EUR 25,800,000	99.99 0.01		TELECOM ITALIA SODALIA
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Amsterdam (Holland)	EUR 18,200	100.00		TELECOM ITALIA
TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	New York (USA)	USD 5,550,000	100.00		TELECOM ITALIA
TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	Madrid (Spain)	EUR 703,111	100.00		TELECOM ITALIA
TELECONTACT CENTER S.p.A. (telemarketing)	Naples (Italy)	EUR 110,000	100.00		TELECOM ITALIA
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	Brussels (Belgium)	EUR 3,000,000	99.99 0.01		TELECOM ITALIA Fiduciaries
TI FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR 10,307,800	100.00		TELECOM ITALIA
TI GERMANY GmbH (telecommunications services)	Frankfurt (Germany)	EUR 25,000	100.00		TELECOM ITALIA
TI SWITZERLAND GmbH (telecommunications services)	Zürich (Switzerland)	CHF 2,000,000	100.00		TELECOM ITALIA
TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	Vienna (Austria)	EUR 1.185,000	100.00		TELECOM ITALIA
TI UNITED KINGDOM Ltd (telecommunications services)	London (UK)	GBP 2,295,000	100.00		TELECOM ITALIA
TMI TELEMEDIA INTERNATIONAL ITALIA S.p.A. (acquisition of telecommunications companies and institutions in Italy and abroad)	Rome (Italy)	EUR 86,511,300	100.00		TELECOM ITALIA
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Luxembourg	EUR 82,150,674.64	99.99997 0.00003		TMI TELEMEDIA INTERN. ITALIA Fiduciaries
- TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	London (UK)	USD 558,472,454	67.94 32.06		TMI TELEMEDIA INTERN. LUX. TMI TELEMEDIA INTERN. ITALIA
- TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD 119,022,889.68	100.00		TMI TELEMEDIA INTERN. Ltd
Mobile					
TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR 513,964,432.74	54.82 0.17	55.68 0.17	TELECOM ITALIA SOFTE
- TIM INTERNATIONAL N.V. (holding company)	Amsterdam (Holland)	EUR 555,426,000	100.00		TELECOM ITALIA MOBILE
- STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony services)	Athens (Greece)	EUR 122,294,033	63.95 0.13		TIM INTERNATIONAL SOFTE
- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A. (mobile telephony services)	Athens (Greece)	GRD 2,700,000,000	100.00		STET HELLAS
- TIM BRASIL S.A. (holding company)	Saõ Paulo (Brazil)	BRL 4,366,696,557.51	100.00		TIM INTERNATIONAL

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- BITEL PARTICIPAÇÕES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL 2,290,264,028	99.999996 0.000004		TIM BRASIL Fiduciaries
- TELE CELULAR SUL PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL 324,666,393.24	20.68	52.06	BITEL
- CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL 21,251,917.26	78.56	81.32	TELE CELULAR SUL
- TELEPAR CELULAR S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL 333,880,024.34	73.37	87.43	TELE CELULAR SUL
- TELESC CELULAR S.A. (mobile telephony operator)	Florianópolis (Brazil)	BRL 266,803,506.58	83.55	91.81	TELE CELULAR SUL
- TELE NORDESTE CELULAR PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Recife (Brazil)	BRL 288,442,548.62	21.18	52.32	BITEL
- TELASA CELULAR S.A. (mobile telephony operator)	Maceió (Brazil)	BRL 33,970,730.02	78.78	97.31	TELE NORDESTE CELULAR
- TELECEARA' CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL 148,484,134.79	79.99	86.00	TELE NORDESTE CELULAR
- TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL 24,762,149.14	79.46	97.59	TELE NORDESTE CELULAR
- TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL 45,011,693.89	76.19	92.87	TELE NORDESTE CELULAR
- TELPA CELULAR S.A. (mobile telephony operator)	Joaô Pessoa (Brazil)	BRL 43,164,229.17	71.85	94.87	TELE NORDESTE CELULAR
- TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 125,620,727.74	78.68	95.16	TELE NORDESTE CELULAR
- STARCEL Ltda (call center services)	São Paulo (Brazil)	BRL 30,000	99.97 0.03		TIM BRASIL Fiduciaries
- TIM Celular Centro Sul S.A. (former BLUCEL S.A.) (mobile telephony operator)	Brasília (Brazil)	BRL 271,827,025	100.00		TIM BRASIL
- PORTALE RIO NORTE S.A. (former TIM Rio Norte S.A.) (mobile telephony operator)	São Paulo (Brazil)	BRL 495,300,000	99.999999 0.000001		TIM BRASIL Fiduciaries
- PORTALE SÃO PAULO (former TIM São Paulo S.A.) (mobile telephony operator)	São Paulo (Brazil)	BRL 512,780,589	99.999999 0.000001		TIM BRASIL Fiduciaries
- TIM MAXITEL S.A. (former MAXITEL S.A.) (license holder for mobile teleco mmunications in Bahia e Sergipe areas)	Belo Horizonte (Brazil)	BRL 677,679,703	58.70 37.97 3.33	43.15 46.85 10.00	TIM INTERNATIONAL BITEL TIM BRASIL
- MAXITEL TELECOMUNICAÇÕES Ltda (telecommunication company and sale of mobile phones)	Salvador de Bahia (Brazil)	BRL 1,000	99.90 0.10		TIM MAXITEL Fiduciaries
- OFFSHORE FINANCIAL & SECURITIES Inc. (holding company)	Tortola (British Virgin Islands)	USD 6,104,860	100.00		TIM MAXITEL
- TIMNET.COM S.A. (mobile services)	Rio de Janeiro (Brazil)	BRL 78,000,000	20.00 20.00 20.00 20.00		TIM INTERNATIONAL TIM MAXITEL TELE NORDESTE CELULAR TELE CELULAR SUL PORTALE SÃO PAULO
- TIMNET. USA Inc. (mobile services)	New Jersey (USA)	USD 4,000,000	100.00		TIM INTERNATIONAL
- TIM PERU' S.A.C. (mobile telephony operator)	Lima (Perù)	PEN 1,337,542,452	100.00		TIM INTERNATIONAL
- CORPORACION DIGITEL C.A. (telecommunications services)	Caracas (Venezuela)	VEB 42,823,450,241	56.56		TIM INTERNATIONAL
Internet and Media					
SEAT PAGINE GIALLE S.p.A. (publishing and Internet services)	Milan (Italy)	EUR 341,183,511.30	53.210 1.902 0.132 0.0168	53.209 1.934 0.134 0.0171	TELECOM ITALIA HUIT II SOFTE SARITEL

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- CIPI S.p.A. (personalized products for companies)	Milan (Italy)	EUR 1,200,000	60.00		SEAT PAGINE GIALLE
- CONSODATA S.A. (management and supply of data banks and market researches)	Levallois Perret (France)	EUR 4,748,159.50	90.42		SEAT PAGINE GIALLE
- BCA FINANCES S.A. (analysis, management and trading of data banks)	Lille (France)	EUR 107,100	100.00		CONSODATA S.A.
- BCA S.A. (analysis, management and trading of data banks)	Lille (France)	EUR 80,000	17.00 83.00		CONSODATA S.A. BCA FINANCES
- CAL- CONSUMER ACCESS Ltd (management and supply of data banks)	Kingston (UK)	GBP 200,000	100.00		CONSODATA S.A.
- CONSODATA GROUP Ltd (management and supply of data banks)	London (UK)	GBP 2	100.00		CAL- CONSUMER ACCESS
- CONSODATA UK Ltd (business information)	Kingston (UK)	GBP 2	100.00		CAL- CONSUMER ACCESS
- CONSOBELGIUM S.A. (business information)	Brussels (Belgium)	EUR 62,500	100.00		CONSODATA S.A.
- CHINALOOP Holdings (mailing list activities)	Cayman Islands	USD 29,961.3	50.06		CONSODATA S.A.
- CHINALOOP (Mauritius) Co. (mailing list activities)	Port Louis (Mauritius)	USD 200	100.00		CHINALOOP HOLDINGS
- SHANGHAI CHINA LOOP INFORMATION SERVICES (direct marketing)	Shanghai (China)	USD 1,730,000	100.00		CHINALOOP (MAURITIUS)
- CONSODATA ESPAÑA S.A. (business information)	Barcelona (Spain)	ESP 310,000,000	100.00		CONSODATA S.A.
- QUANTITATIVE MARKETING TECHNOLOGIES S.L. (direct marketing)	Barcelona (Spain)	EUR 13,113	70.00		CONSODATA ESPANA
- CONSODATA SOLUTIONS S.A. (data management)	Levallois Perret (France)	EUR 270,000	100.00		CONSODATA S.A.
- CONSODATA 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.
- CONSODATA.MARKETING INTELLIGENCE S.r.l. (former DOMINO RESEARCH S.r.l.) (data processing geomarketing sector)	Milan (Italy)	EUR 46,400	96.00		CONSODATA S.p.A.
- DWI S.p.A. (design, software realization)	Verona (Italy)	EUR 500,000	51.00		CONSODATA S.p.A.
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)	Milan (Italy)	EUR 77,450	60.00		CONSODATA S.p.A.
- 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.
- MEDIA PRISME S.A. (analysis, management and trading of data banks)	Levallois Perret (France)	EUR 40,000	50.00 50.00		CONSODATA S.A. BCA FINANCES
- MEDIA PRISME ESPAGNE S.A. (direct marketing)	Madrid (Spain)	EUR 30,490	100.00		MEDIA PRISME
- MP LIST S.A. (analysis, management and trading of data banks)	Brussels (Belgium)	BEF 750,000	100.00		MEDIA PRISME
- DATABANK S.p.A. (marketing)	Milan (Italy)	EUR 937,300	93.465		SEAT PAGINE GIALLE

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- DATABANK WETTBEWERBS - MARKT UND FINANZANALYSE GmbH (marketing)	Darmstadt (Germany)	EUR 153,387.56	60.00		DATABANK S.p.A.
- DBK S.A. (marketing)	Madrid (Spain)	EUR 99,000	99.99		DATABANK S.p.A.
- DATAHOUSE S.p.A. (gathering and sale of real estate information)	Milan (Italy)	EUR 200,850	52.00		SEAT PAGINE GIALLE
- ITALSERVICE S.r.l. (holding company)	Varese (Italy)	EUR 10,400	100.00		DATAHOUSE
- ITALSERVICE S.p.A. (gathering and sell of information regarding real estate sector)	Milan (Italy)	EUR 104,000	40.00 60.00		DATAHOUSE ITALSERVICE S.r.l.
- EUREDIT S.A. (realization, promotion and marketing European technology of commerce annual "Europages")	Paris (France)	EUR 2,800,000	93.562		SEAT PAGINE GIALLE
- FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	EUR 9,606,073.50	60.00		SEAT PAGINE GIALLE
- MATRIX S.p.A. (Internet services)	Milan (Italy)	EUR 1,100,000	0.70 66.00 33.30		SEAT PAGINE GIALLE FINANZIARIA WEB N.V. VERTICO
- FREE FINANCE S.p.A. (Internet loans for the real estate market)	Milan (Italy)	EUR 148,102	89.38		MATRIX
- XOOM.it S.p.A. (development and management of virtual communities)	Milan (Italy)	EUR 100,000	100.00		MATRIX
- FINSATEL S.r.l. (holding company)	Turin (Italy)	EUR 133,000	100.00		SEAT PAGINE GIALLE
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Turin (Italy)	EUR 1,000,000	100.00		SEAT PAGINE GIALLE
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)	Faenza (Ravenna, Italy)	EUR 260,000	60.00		GIALLO PROFESSIONAL PUBLISHING
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)	Castellon de La Plana (Spain)	EUR 3,005.50	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	Saõ Paulo (Brazil)	BRL 132,347.46	90.00 10.00		GRUPPO EDITORIALE FAENZA EDITRICE FAENZA EDITRICE IBERICA
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)	Faenza (Ravenna, Italy)	EUR 10,320	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cinisello Balsamo (Milan, Italy)	EUR 1,032,800	65.00		GIALLO PROFESSIONAL PUBLISHING
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	Milan (Italy)	EUR 20,408	51.00		GIALLO PROFESSIONAL PUBLISHING
- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Milan (Italy)	EUR 10,000	100.00		QUASAR E ASSOCIATI
- TTG ITALIA S.p.A. (publishing house for the touristic market)	Turin (Italy)	EUR 100,000	98.00		GIALLO PROFESSIONAL PUBLISHING
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Turin (Italy)	EUR 1,000,000	100.00		SEAT PAGINE GIALLE
- CALL CENTER SERVICES S.r.l. (call center services)	Cernusco sul Naviglio (Milan, Italy)	EUR 10,350	100.00		GIALLO VOICE
- IMR S.r.l. (call center services)	Turin (Italy)	EUR 10,500	100.00		GIALLO VOICE
- OPS S.r.l. (call center services)	Milan (Italy)	EUR 10,200	51.00		GIALLO VOICE

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- TELEPROFESSIONAL S.r.l. (call center services)	Monza (Milan, Italy)	EUR 52,000	66.00		GIALLO VOICE
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rome (Italy)	EUR 11,817,000	100.00		SEAT PAGINE GIALLE
- MAGIQ 32 S.r.l. (wholesale of paper and millboard)	Rome (Italy)	EUR 510,000	100.00		GRUPPO BUFFETTI
- OFFICE AUTOMATION PRODUCTS S.p.A. (wholesale magnetic stand)	Lecco (Italy)	EUR 774,000	84.00		GRUPPO BUFFETTI
- IS PRODUCTS S.p.A. (marketing of office automation)	Lecco (Italy)	EUR 9,360,000	27.78 72.22		GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Venaria Reale (Turin, Italy)	EUR 510,000	100.00		OFFICE AUTOMATION PRODUCTS
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and trading of business software)	Rome (Italy)	EUR 127,500	99.9996 0.0004		GRUPPO BUFFETTI BUFFETTI S.r.l.
- SK DIRECT S.r.l. (graphic arts)	Rome (Italy)	EUR 5,522,920	58.37 41.63		GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	Rome (Italy)	EUR 5,064,000	100.00		SEAT PAGINE GIALLE
- GLOBO EUROPA B.V. (services and operations in the field of radio and tv broadcasting)	Amsterdam (Holland)	EUR 181,512.09	100.00		HOLDING MEDIA E COMUNICAZIONE H.M.C.
- GLOBO COMMUNICATION S.A.M. (production, acquisition and trading of TV programs)	Montecarlo	EUR 8,400,000	99.993		GLOBO EUROPA
- TV INTERNAZIONALE S.p.A. (purchase, management and maintenance of technical trasmission systems for audio and broadcasting)	Rome (Italy)	EUR 6,200,000	100.00		GLOBO EUROPA
- BEIGUA S.r.l. (purchase, management and maintenance of installation for repair and distributi on of radio and tv broadcasting)	Rome (Italy)	EUR 51,480	51.00		TV INTERNAZIONALE
- GIAROLO S.r.l. (purchase, management and maintenance of installation for repair and distributi on of radio and tv broadcasting)	Rome (Italy)	EUR 50,490	75.50		TV INTERNAZIONALE
- T.V.I. MONTECARLO S.A.M. (trading and licensee of TV programs)	Montecarlo	EUR 150,000	99.50		GLOBO EUROPA
- HOLDING MEDIA E COMUNICAZIONE BROADCASTING S.r.l. (maintenance of audio/video TV equipments)	Rome (Italy)	EUR 103,400	50.00 50.00		HOLDING MEDIA E COMUNICAZIONE H.M.C. TV INTERNAZIONALE
- HOLDING MEDIA E COMUNICAZIONE PUBBLICITA' S.r.l. (purchase and sale of advertising spaces and management of advertising in the field of radio and tv broadcasting)	Rome (Italy)	EUR 516,500	100.00		HOLDING MEDIA E COMUNICAZIONE H.M.C.
- MTV ITALIA S.r.l. (services in the field of radio and tv broadcasting, production and sale of radio, tv and cinema programs)	Rome (Italy)	EUR 12,151,928	51.00		HOLDING MEDIA E COMUNICAZIONE H.M.C.
- HOLDING MEDIA E COMUNICAZIONE PRODUZIONI S.r.l. (gathering of data, press agencies regarding news and topical articles)	Rome (Italy)	EUR 258,864	50.00 50.00		MTV ITALIA TV INTERNAZIONALE
- MTV PUBBLICITA' S.r.l. (advertising agency)	Milan (Italy)	EUR 10,400	100.00		MTV ITALIA
- KOMPASS ITALIA S.p.A. (publishing of annuals and sale of telematic products)	Turin (Italy)	EUR 1,610,904.88	100.00		SEAT PAGINE GIALLE
- NEOEXPO S.p.A. (on-line events regarding fairs)	Palazzolo sull'Oglio (Brescia, Italy)	EUR 510,000	60.00		SEAT PAGINE GIALLE

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)	New York (USA)	USD	1	100.00	SEAT PAGINE GIALLE
- PAN-ADRESS DIREKTMARKETING & Co. KG (direct marketing)	Munich (Germany)	DEM	2,040,000	100.00	SEAT PAGINE GIALLE
- CONSODATA DEUTSCHLAND GmbH (direct marketing)	Munich (Germany)	DEM	50,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- CONSODATA MARKETING INTELLIGENCE GmbH (direct marketing)	Munich (Germany)	EUR	25,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- MEDIPLAN GmbH (direct marketing)	Munich (Germany)	EUR	26,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH (direct marketing)	Munich (Germany)	EUR	25,000	100.00	SEAT PAGINE GIALLE
- TDL INFOMEDIA Ltd (holding company)	Hampshire (UK)	GBP	139,524.78	99.60	SEAT PAGINE GIALLE
- MYBLUECAT.COM Ltd (supply of services)	Hampshire (UK)	GBP	2	100.00	TDL INFOMEDIA
- TDL INFOMEDIA FINANCE Ltd (holding company)	Hampshire (UK)	GBP	9,734.09	100.00	TDL INFOMEDIA
- TDL INFOMEDIA HOLDINGS Plc (holding company)	Hampshire (UK)	GBP	397,126.43	100.00	TDL INFOMEDIA FINANCE
- TDL INFOMEDIA GROUP Plc (holding company)	Hampshire (UK)	GBP	624,576.64	100.00	TDL INFOMEDIA HOLDINGS
- TDL GROUP Ltd (holding company)	Hampshire (UK)	GBP	89,864.25	100.00	TDL INFOMEDIA GROUP
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	Hampshire (UK)	GBP	1,340,000	100.00	TDL GROUP
- THOMSON DIRECTORIES PENSION COMPANY Ltd (management of Thomson Directories Pension fund)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
- TDL INVESTMENTS B.V. (supply of services)	Rotterdam (Holland)	EUR	20,000	100.00	TDL INFOMEDIA
- TELEGATE HOLDING GmbH (holding company)	Martinsried (Germany)	DEM	51,000	100.00	SEAT PAGINE GIALLE
- TELEGATE A.G. (call center services)	Martinsried (Germany)	EUR	12,730,000	13.54 50.99	SEAT PAGINE GIALLE TELEGATE HOLDING
- ARSMOVENDI.COM A.G. (Internet services)	Munich (Germany)	EUR	150,000	100.00	TELEGATE A.G.
- TRAVELGATE BUSINESS GmbH (business tour operator)	Munich (Germany)	EUR	25,000	100.00	ARSMOVENDI .COM
- TRAVELTEAM24 GmbH (tour operator)	Schongau (Germany)	DEM	100,000	100.00	TRAVELGATE BUSINESS
- DATAGATE GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.
- KIMTRAVEL CONSULTING A.G. (Internet services)	Munich (Germany)	EUR	69,493	100.00	TELEGATE A.G.
- TELEGATE AKADEMIE GmbH (training center for employees of call centers)	Rostock (Germany)	EUR	25,000	100.00	TELEGATE A.G.
- TELEGATE ANKLAM GmbH (Internet services)	Anklam (Germany)	DEM	100,000	100.00	TELEGATE A.G.
- 11880.com GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE ANKLAM
- MOBILSAFE A.G. (Internet services)	Meerbusch (Germany)	EUR	150,000	100.00	TELEGATE ANKLAM
- TELEGATE CALL CENTER GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.
- TGT HOLDING B.V. (holding company)	Schiphol (Holland)	EUR	18,200	100.00	TELEGATE A.G.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS >>	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights Held by
- TELEGATE ESPAÑA S.A. (call center services)	Madrid (Spain)	EUR 61,000	100.00	TGT HOLDING
- TELEGATE GmbH (call center services)	Vienna (Austria)	EUR 35,000	100.00	TGT HOLDING
- TELEGATE Inc. (call center services)	Texas (USA)	USD 1,000	100.00	TGT HOLDING
- TELEGATE ITALIA S.r.l. (call center services)	Milan (Italy)	EUR 129,000	99.00 1.00	TGT HOLDING TELEGATE A.G.
- TELEGATE Ltd (call center services)	London (UK)	GBP 50,000	100.00	TGT HOLDING

International Operations

TELECOM ITALIA INTERNATIONAL N.V. (former STET INTERNATIONAL NETHERLANDS N.V.) (holding company)	Amsterdam (Holland)	EUR 2,378,338,950	100.00	TELECOM ITALIA.
- 9 TELECOM RESEAU S.A. (telecommunications services)	Boulogne Billancourt (France)	EUR 616,291,485	99.96 0.04	TELECOM ITALIA INTERNATIONAL T.M.I. TELEMEDIA INT. Ltd
- JET MULTIMEDIA S.A. (Internet hosting)	Lyon (France)	EUR 10,987,413	89.99 0.92 0.18	9 TELECOM RESEAU SOFTE JET MULTIMEDIA S.A.
- JET MEDIA S.A.S. (advertising on TV, radio and press)	Lyon (France)	EUR 100,000	99.76 0.04 0.20	JET MULTIMEDIA S.A. OMEGA Fiduciaries
- JET MULTIMEDIA HOSTING S.A. (former VICTOIRE MULTIMEDIA INFORMATIQUE S.A.) (design, development and maintenance of Web and Audiotel, Minitel services)	Lyon (France)	EUR 17,747,595	99.99 0.01	JET MULTIMEDIA S.A. Fiduciaries
- IB TELEMATIC S.A. (Minitel services)	Paris (France)	EUR 430,280	99.97 0.03	JET MULTIMEDIA HOSTING Fiduciaries
- 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 Fiduciaries
- JET MULTIMEDIA S.r.l. (Internet services)	Milan (Italy)	EUR 10,400	100.00	JET MULTIMEDIA HOSTING
- ITALIA EXPLORER S.r.l. (Internet services)	Milan (Italy)	EUR 11,000	100.00	JET MULTIMEDIA S.r.l.
- METAPHORA S.A. (consulting for management of information systems)	Toulouse (France)	EUR 469,543	38.25 13.80 0.02	46.60 8.40 0.02 JET MULTIMEDIA HOSTING JET MULTIMEDIA S.A. Fiduciaries
- OFFICE CENTRAL DE DOCUMENTATION S.A. (Minitel services and legal affair data base)	Paris (France)	EUR 38,112	99.76 0.04 0.20	JET MULTIMEDIA HOSTING OMEGA Fiduciaries
- TRAVEL MANIA S.a.r.l. (travel agency and website for tourism)	Lyon (France)	EUR 304,898	97.00	JET MULTIMEDIA HOSTING
- OMEGA S.a.r.l. (intergroup services)	Lyon (France)	EUR 80,000	100.00	JET MULTIMEDIA S.A.
- MAGEOS EXPLORER S.A. (Internet services)	Lyon (France)	EUR 6,317,789	100.00	9 TELECOM RESEAU
- FRANCE EXPLORER S.A. (Internet services)	Lyon (France)	EUR 1,532,113	99.99	MAGEOS EXPLORER
- HOLLAND EXPLORER B.V. (Internet services)	Amsterdam (Holland)	EUR 100,000	100.00	MAGEOS EXPLORER
- EUROPE EXPLORER PORTUGAL L.D.A. (former PORTUGAL EXPLORER S.A.) (Internet services)	Lisbon (Portugal)	EUR 11,000	100.00	MAGEOS EXPLORER
- SWISS EXPLORER ON LINE S.a.r.l. (Internet services)	Lousanne (Switzerland)	CHF 20,000	100.00	MAGEOS EXPLORER
- BBNET N.V. (telecommunications services)	Amsterdam (Holland)	EUR 52,425,000	96.17	TELECOM ITALIA INTERNATIONAL
- BBeyond B.V. (telecommunications services)	Amsterdam (Holland)	EUR 18,000	100.00	BBNET

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights Held by
- ENTEL CHILE S.A. (telecommunications services)	Santiago (Chile)	CLP 396,209,996,527	54.76	TELECOM ITALIA INTERNATIONAL
- AMERICATEL CENTROAMERICA S.A. (holding company)	Guatemala City (Guatemala)	USD 2,649,608	78.65	ENTEL CHILE
- AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San Salvador (El Salvador)	USD 1,143,572.24	15.00 85.00	ENTEL CHILE AMERICATEL CENTROAMERICA
- AMERICATEL GUATEMALA S.A. (telecommunications services)	Guatemala City (Guatemala)	GTQ 450,000	100.00	AMERICATEL CENTROAMERICA
- AMERICATEL HONDURAS S.A. (telecommunications services)	Tegucigalpa (Honduras)	HNL 500,000	100.00	AMERICATEL CENTROAMERICA
- INDUSTRIAS TELEPUERTOS NICARAGUENSES S.A.) (telecommunications services)	Managua (Nicaragua)	NIO 255,000,000	100.00	AMERICATEL CENTROAMERICA
- ENTEL CALL CENTER S.A. (telecommunications services)	Santiago (Chile)	CLP 6,073,225,767	90.00 10.00	ENTEL CHILE ENTEL INVERSIONES
- ENTEL INTERNATIONAL B.V.I. Corp. (holding company)	Tortola (British Virgin Islands)	CLP 31,480,049,720	100.00	ENTEL CHILE
- AMERICATEL CORP. USA (telecommunications services)	Florida (USA)	USD 62,372,552.74	80.00	ENTEL INTERNATIONAL B.V.I.
- ENTEL USA HOLDING Inc. (holding company)	Florida (USA)	USD 1,000	100.00	ENTEL INTERNATIONAL B.V.I.
- AMERICASKY Corporation (telecommunications services)	Florida (USA)	USD 1,000	80.00 20.00	ENTEL USA HOLDING ENTEL INTERNATIONAL B.V.I.
- ENTEL INVERSIONES S.A. (holding company)	Santiago (Chile)	CLP 3,129,511,472	99.99 0.01	ENTEL CHILE Fiduciaries
- AMERICATEL PERU' S.A. (telecommunications services)	Lima (Perù)	PEN 39,288,339.60	45.69 54.31	ENTEL CHILE ENTEL INVERSIONES
- ENTEL INVESTMENTS Inc. (holding company)	Tortola (British Virgin Islands)	USD 1,630	100.00	ENTEL CHILE
- ENTEL SERVICIOS TELEFONICOS S.A. (telecommunications services)	Santiago (Chile)	CLP 1,071,339,726	91.42 8.58	ENTEL CHILE ENTEL INVERSIONES
- ENTEL TELEFONIA LOCAL S.A. (local telecommunications services)	Santiago (Chile)	CLP 22,440,766,220	99.00 1.00	ENTEL CHILE ENTEL INVERSIONES
- CHILE WIRELESS S.A. (holding company)	Santiago (Chile)	CLP 112,745,830	99.00 1.00	ENTEL TELEFONIA LOCAL ENTEL INVERSIONES
- ENTEL TELEFONIA PERSONAL S.A. (holding company)	Santiago (Chile)	CLP 123,550,386,824	94.64 5.36	ENTEL CHILE ENTEL INVERSIONES
- EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda (telecommunications services)	Santiago (Chile)	CLP 2,250,988,492	99.90	ENTEL TELEFONIA PERSONAL
- ENTEL PCS TELECOMUNICACIONES S.A. (mobile telecommunications services)	Santiago (Chile)	CLP 95,503,905,176	0.10 99.90	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- ENTEL TELEFONIA MOVIL S.A. (mobile telecommunications services)	Santiago (Chile)	CLP 1,829,096,682	0.08 99.92	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 3,139,539,748	99.99 0.01	ENTEL CHILE ENTEL INVERSIONES
- ENTEL VENEZUELA C.A. (former ORBITEL VENEZUELA C.A.) (telecommunications services)	Caracas (Venezuela)	VEB 709,500,000	100.00	ENTEL CHILE
- RED DE TRANSACCIONES ELECTRONICAS S.A. (telecommunications services)	Santiago (Chile)	CLP 1,582,287,416	93.76	ENTEL CHILE
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 2,698,727,530	99.90 0.10	ENTEL CHILE ENTEL INVERSIONES
- ICH – International Communication Holding N.V. (holding company)	Amsterdam (Holland)	EUR 50,000	100.00	TELECOM ITALIA INTERNATIONAL
- ETI - Euro Telecom International N.V. (holding company)	Amsterdam (Holland)	EUR 50,050	100.00	ICH
- ENTEL Empresa Nacional. de Telecomunicaciones S.A (telecommunications services)	La Paz (Bolivia)	BOB 1,280,898,800	50.00	ETI

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- DATACOM S.A. (data transmission services)	La Paz (Bolivia)	BOB 21,746,600	99.99		ENTEL BOLIVIA
- INTELCOM SAN MARINO S.p.A. (telecommunications services in San Marino)	Republic of San Marino	EUR 1,550,000	70.00		TELECOM ITALIA INTERNATIONAL
TELECOM ITALIA AMERICA LATINALtda (former TELECOM ITALIA DO BRASIL Ltda) (telecommunications promotional services)	São Paulo (Brazil)	BRL 2,699,758	99.9933 0.0067		TELECOM ITALIA Fiduciaries
TI WEB S.A. (holding company)	Luxembourg	USD 856,779,000	99.99999 0.00001		TELECOM ITALIA Fiduciaries
- TELS Ltd (holding companies)	London (UK)	EUR 603,565,000	99.99999 0.00001		TI WEB Fiduciaries

Information Technology - Market

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
- ASPASIEL S.r.l. (information systems)	Rome (Italy)	EUR 260,000	50.00	51.00	FINSIEL
- 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
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	EUR 769,585	2.00 98.00		FINSIEL BANKSIEL
- CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR 516,600	47.00	51.00	BANKSIEL
- CONSIEL - Società di Management Consulting e Formazione p.A. (corporate consulting and management services)	Milan (Italy)	EUR 4,000,000	100.00		FINSIEL
- 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
- FINSIEL ROMANIA S.r.l. (information systems)	Bucharest (Romania)	ROL 11,841,500,000	90.53		FINSIEL
- INSIEL - Informatica per il Sistema degli Enti Locali S.p.A. (information systems)	Trieste (Italy)	EUR 7,755,000	52.00		FINSIEL
- VENIS - VENEZIA INFORMATICA E SISTEMIS.p.A. (Information systems for the municipality of Venice and other public entities)	Venice (Italy)	EUR 1,549,500	20.40 30.60		FINSIEL INSIEL
- 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
- KRENESIEL - Società Sarda di Informatica S.p.A. (information systems)	Sassari (Italy)	EUR 2,582,300	41.00 10.00		FINSIEL INSIEL
- 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
- SOGEI SERVIZI INNOVATIVI E TECNOLOGICI S.p.A. (development of business enterprises in (Italy) the field of ITC and technological information)	Rome	EUR 100,000	51.00 49.00		SOGEI FINSIEL
- TELE SISTEMI FERROVIARI S.p.A. (information systems)	Rome (Italy)	EUR 77,003,669.54	61.00		FINSIEL
- WEBRED S.p.A. (information systems)	Perugia (Italy)	EUR 1,560,000	51.00		FINSIEL

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
Information Technology - Group					
IT TELECOM S.p.A. (information and communication technology)	Rome (Italy)	EUR	96,853,000	100.00	TELECOM ITALIA
- NETIKOS S.p.A. (information systems)	Rome (Italy)	EUR	13,416,000	100.00	IT TELECOM
- NETIKOS FINLAND OY (development of wireless solutions)	Helsinki (Finland)	EUR	10,700	100.00	NETIKOS
- NETSIEL - Networks Produttivi per Sistemi Informativi Elettronici S.p.A. (information products and production of software for sale)	Bari (Italy)	EUR	65,073,960	100.00	IT TELECOM
- SIBISIEL - Società di Informatica per la Banca e l'Impresa S.p.A. (information systems)	Bari (Italy)	EUR	1,032,920	90.20 9.80	NETSIEL SIBISIEL
- SARITEL S.p.A. (group factory for added value network services)	Pomezia (Rome, Italy)	EUR	11,445,360	100.00	IT TELECOM
- SODALIA S.p.A. (production of advanced software for telecommunications networks and services)	Trento (Italy)	EUR	3,099,000	100.00	IT TELECOM
- SODALIA NORTH AMERICA Inc. (telecommunications software)	Virginia (USA)	USD	700,000	100.00	SODALIA
- TELESOFT S.p.A. (telecommunications software)	Rome (Italy)	EUR	21,060,000	100.00	IT TELECOM
- EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	EUR	312,000	67.33	TELESOFT
- TECO SOFT ARGENTINA S.A. (design, realization and sale of software)	Buenos Aires	ARS	12,000	99.99	TELESOFT
- TECO SOFT ESPAÑA S.A. (telecommunications software)	Madrid (Spain)	EUR	60,160.10	100.00	TELESOFT
- TELESOFT HELLAS S.A. (telecommunications software)	Athens (Greece)	EUR	60,000	100.00	TELESOFT
- TELESOFT RUSSIA ZAO (telecommunications software)	Moscow (Russia)	RUB	1,592,000	75.00	TELESOFT
- WEBEGG S.p.A. (e-business solution)	Ivrea (Turin, Italy)	EUR	33,107,160	69.80	IT TELECOM
- TELEAP S.p.A. (software applications, architecture)	Ivrea (Turin, Italy)	EUR	1,560,000	100.00	WEBEGG
- PERFORMER S.p.A. (software applications)	Turin (Italy)	EUR	100,000	100.00	WEBEGG
- @LIVE S.p.A. (international training)	Turin (Italy)	EUR	10,000	100.00	WEBEGG
- DOMUS ACCADEMY S.p.A. (design research)	Milan (Italy)	EUR	140,000	67.30	WEBEGG
- W.P. WINNER PROJECT B. V. (software applications)	Rotterdam (Holland)	EUR	18,000	100.00	WEBEGG
- SOFTWARE FACTORY S.p.A. (software applications)	Milan (Italy)	EUR	1,500,000	100.00	W.P. WINNER PROJECT
TELECOM ITALIA LAB S.p.A. (studies, research and venture capital in telecommunications and electronics)	Turin (Italy)	EUR	27,455,000	100.00	TELECOM ITALIA
- LOQUENDO - SOCIETA' PER AZIONI (research, development and trading of technologies and equipment regarding vocal recognition and interaction)	Turin (Italy)	EUR	3,573,190	100.00	TELECOM ITALIA LAB S.p.A.
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Luxembourg	USD	30,000	99.97 0.03	TELECOM ITALIA LAB S.p.A. Fiduciaries
- TELECOM ITALIA LAB S.A. (holding company)	Luxembourg	USD	25,894,360	99.99 0.01	TELECOM ITALIA LAB S.p.A. Fiduciaries
- TELECOM ITALIA LAB B.V. (holding company)	Amsterdam (Holland)	EUR	18,655	100.00	TELECOM ITALIA LAB S.A.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS >>	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- TELS Y Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Turin (Italy)	EUR 390,000	100.00		TELECOM ITALIA LAB S.p.A.
Satellite Services					
TELESPAZIO S.p.A. (satellite telecommunications services)	Rome (Italy)	EUR 50,000,000	100.00		TELECOM ITALIA
- CENTRO DI TELERILEVAMENTO MEDITERRANEO - S.C.P.A. (research)	Palermo (Italy)	EUR 949,000	51.00		TELESPAZIO
- e-GEOS S.p.A. (earth observation activities)	Matera (Italy)	EUR 105,000	53.00 2.00		TELESPAZIO EURIMAGE
- EURIMAGE S.p.A. (distribution and sale of satellite data)	Rome (Italy)	EUR 4,386,000	51.00		TELESPAZIO
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V. (sale of the Orbcomm satellite data in Europe)	Amsterdam (Holland)	EUR 16,881,882	72.01 27.99		TELESPAZIO EUROPEAN COMPANY FOR MOBILE COMM.SERVICES
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V. (mobile telephony services)	Amsterdam (Holland)	EUR 45,500	100.00		EUROPEAN COMPANY FOR MOBILE COMM.SERVICES
- TELESPAZIO BRASIL S.A. (sale of telecommunication services through the Orbcomm satellite)	Rio de Janeiro (Brazil)	BRL 34,520,000	97.91 1.39		TELESPAZIO ENTEL CHILE
- TELESPAZIO LUXEMBOURG S.A. (holding company)	Luxembourg	USD 245,260,800	100.00		TELESPAZIO
- TELESPAZIO NORTH AMERICA Inc. (activities regarding satellite telecommunications)	Delaware (USA)	USD 10	100.00		TELESPAZIO
Other activities					
EMSA - Società Immobiliare p.A. (real estate management)	Turin (Italy)	EUR 584,270	100.00		TELECOM ITALIA
EMSA Servizi S.p.A. (former CONSUTEL S.p.A.) (real estate management)	Rome (Italy)	EUR 5,000,000	100.00		TELECOM ITALIA
IMMSI S.p.A. (real estate management)	Turin (Italy)	EUR 114,400,000	45.00		TELECOM ITALIA
IN.TEL.AUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	Milan (Italy)	EUR 2.750.000	54.55 18.18 18.18		TELECOM ITALIA SEAT PAGINE GIALLE TELECOM ITALIA MOBILE
SAIAT - Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. (financing)	Turin (Italy)	EUR 35,745,120	100.00		TELECOM ITALIA
- TELIMM S.p.A. (real estate management)	Turin (Italy)	EUR 4,242,946	99.42 0.58		SAIAT TELECOM ITALIA
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A. (professional training)	L'Aquila (Italy)	EUR 1,560,000	100.00		TELECOM ITALIA
- CONSEL DO BRASIL Ltda (consulting and information systems)	São Paulo (Brazil)	BRL 174,023	99.99 0.01		SSGRR Fiduciari
SOFTE S.A. (financing)	Luxembourg	USD 100,000,000	99.99 0.01		TELECOM ITALIA SAIAT
- SOGERIM S.A. (marketing and financing)	Luxembourg	EUR 525,000	99.95 0.05		SOFTE SAIAT
TECNO SERVIZI MOBILI S.r.l. (real estate management)	Rome (Italy)	EUR 26,000	51.00		TELECOM ITALIA
TELE PAY ROLL SERVICES S.p.A. (information systems for payroll services)	Rome (Italy)	EUR 2,840,000	100.00		TELECOM ITALIA
TI MEDIA S.A. (holding company)	Luxembourg	EUR 4,309,578	99.999 0.001		TELECOM ITALIA SOFTE
- HUIT II S.a.r.l. (holding company)	Luxembourg	EUR 20,716,020	100.00		TI MEDIA
- ISM S.r.l. (holding company)	Turin (Italy)	EUR 10,000	100.00		HUIT II
- N.V. VERTICO (holding company)	Brussels (Belgium)	EUR 69,440	100.00		ISM

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 6

LIST OF COMPANIES VALUED BY THE EQUITY METHOD

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
SUBSIDIARIES					
ARTES S.r.l. (in liquidation) (communication services)	Rome (Italy)	EUR	10,000	100.00	HOLDING MEDIA E COMUNICAZIONE H.M.C.
BUFFETTI S.r.l. (retail trade of stationary, books, office kits)	Rome (Italy)	EUR	10,000	100.00	GRUPPO BUFFETTI
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR	15,080,541.90	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE
EURO DATACOM Ltd (telecommunications services)	Huddersfield (UK)	GBP	306,666	100.00	TMI TELEMEDIA INTERN. Ltd
GIALLO LAVORO S.p.A. (research, selection and training of human resources)	Turin (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE
GIALLO MARKET S.r.l. (owner of Virgilio.it)	Milan (Italy)	EUR	1,000,000	90.00	MATRIX
GIALLO VIAGGI.IT S.p.A. (research, development, production of information and telematic products for tourism)	Milan (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE
GOALLARS B.V. (management of an Internet site)	Amsterdam (Holland)	EUR	100,000	55.00	MATRIX
KMATRIX S.r.l. (creation and management of an Internet site)	Milan (Italy)	EUR	100,000	100.00	MATRIX
LINK S.r.l. (supply of computer services)	Milan (Italy)	EUR	10,400	100.00	MATRIX
MEDIOLANUM TOURIST SERVICE S.r.l. (tour operator)	Milan (Italy)	EUR	10,200	100.00	GIALLO VIAGGI.IT
RARTEL S.A. (satellite telecommunications services)	Bucharest (Romania)	ROL	4,685,000,000	50.06 1.00	TELESPAZIO TELESPAZIO LUX.
SEAT CAPITAL INVESTMENTS S.A. (financing)	Luxembourg	EUR	5,384,500	99.99	SEAT PAGINE GIALLE
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	USD	1,000,000	99.999 0.001	TELECOM ITALIA SOGERIM
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD	952,100	100.00	TMI TELEMEDIA INTERN. Ltd
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Republic of San Marino	EUR	78,000	51.00	INTELCOM S.MARINO
TELEOS B.V. (operative holding company)	Amsterdam (Holland)	EUR	18,151.21	100.00	TELESPAZIO
TELEOS INTERNATIONAL B.V. (marketing of products and services for satellite mobile communications)	Amsterdam (Holland)	EUR	18,151.21	100.00	TELEOS B.V.
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	Republic of San Marino	EUR	1,550,000	60.00	INTELCOM S.MARINO
TIN WEB S.p.A. (consulting regarding the creation of Internet sites)	Milan (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	Saõ Paulo (Brazil)	BRL	2,443,217	99.99 0.01	TMI TELEMEDIA INTERN. Ltd Fiduciaries
ZDNET ITALIA S.r.l. (creation and management of Internet sites)	Milan (Italy)	EUR	400,000	51.00	MATRIX
AFFILIATED COMPANIES					
A1 BANK A.G. (mobile telephony operator, m-commerce)	Vienna (Austria)	EUR	5,000,000	100.00	MOBILKOM AUSTRIA AKTIENGES.& CO.
ARAGÓN DE CABLE S.A.U. (catv operator and fixed lines telecommunications in the district of Aragón)	Saragozza (Spain)	EUR	30,250,000	100.00	AUNA S.A.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	EUR 73,336.84	35.21		SAIAT
ASTROLINK INTERNATIONAL LLC (satellite telecommunications services)	Delaware (USA)	USD 1,350,100,000	18.52		TELESPAZIO LUX.
AUNA CABLE S.A.U. (management of a cable)	Madrid (Spain)	EUR 60,102	100.00		AUNA S.A.
AUNA OPERADORES DE TELECOMUNICACIONES S.A. (holding of telecommunications companies)	Barcelona (Spain)	EUR 1,947,922,436	22.77 3.81 0.31		TELECOM ITALIA INTERNATIONAL TIM INTERNATIONAL MULTIMEDIA CABLE
AUTEL BETEILIGUNGS GmbH (holding company)	Vienna (Austria)	EUR 35,000	100.00		TELEKOM AUSTRIA A.G
BRASIL TELECOM PARTICIPAÇÕES S.A. (holding company for investments in wireline telecommunications companies in some Brazilian states)	Brasilia (Brazil)	BRL 2,257,610,693	20.09	53.45	SOLPART PARTICIPAÇÕES
BRASIL TELECOM S.A. (local and regional long-distance telecommunications in 10 States of the centre-south Brazil)	Brasilia (Brazil)	BRL 3,335,769,960	65.43	97.71	BRASIL TELECOM PARTICIPAÇÕES
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of San Marino	EUR 258,000	20.00 20.00		INTELCOM S.MARINO STREAM
BRT Serviços de Internet S.A. (mobile telecommunications)	Brasilia (Brazil)	BRL 28,341,000	100.00		BRASIL TELECOM
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP 1,798,355,106	50.00		ENTEL TELEFONIA PERSONAL
CABLE I TELEVISIÓ DE CATALUNYA, S.A.U. (catv operator and fixed lines telecommunications in the district of Catalunya)	Barcelona (Spain)	EUR 144,091,710	100.00		AUNA S.A.
CABLE INSIGNIA S.A. (telecommunications services)	Asuncion (Paraguay)	PYG 2,600,000,000	75.00		TELECOM ARGENTINA STET-FRANCE TELECOM
CABLETELCA S.A. (catv operator and fixed lines telecommunications in the Canary Islands)	Tenerife (Spain)	EUR 40,744,263	100.00		AUNA S.A.
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	Rome (Italy)	EUR 1,032,800	50.00		TELECOM ITALIA
CEDAC S.r.l. (management of available data from the public real estate Registry and from other public bodies)	Brescia (Italy)	EUR 10,400	30.00		DATAHOUSE
CYGENT Inc. (development and sale of software)	California (USA)	USD 52,273,000	25.21		TELECOM ITALIA LAB B.V.
CZECH ONLINE A.S. (Internet services)	Prague (Czech Republic)	CZK 114,000,000	100.00		TELEKOM AUSTRIA A.G.
DATAKOM AUSTRIA GmbH (data services)	Vienna (Austria)	EUR 14,535,000	100.00		TELEKOM AUSTRIA A.G.
DATAKOM INTERNATIONAL SOLUTIONS GmbH (project development)	Vienna (Austria)	EUR 145,400	100.00		DATAKOM AUSTRIA
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	49.00		FINSIEL
DATASPAZIO - S.p.A. (computational software and hardware development and sale)	Rome (Italy)	EUR 506,000	49.00		TELESPAZIO
DISCOVERITALIA S.p.A. (management of an Internet site dedicated to tourism)	Novara (Italy)	EUR 5,160,000	25.00		SEAT PAGINE GIALLE
DOMINO S.r.l. (web design e web architecture)	Turin (Italy)	EUR 29,120	35.00		WEBEGG
EISYS S.p.A. (information systems)	Rome (Italy)	EUR 619,200	25.00		EIS

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights Held by
ERESMAS INTERACTIVA S.A. (Internet operator for the residential customers of the Auna Group)	Madrid (Spain)	EUR 14,527,616	99.82	AUNA S.A.
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	Rome (Italy)	EUR 500,000	49.00	SEAT PAGINE GIALLE
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	La Habana (Cuba)	USD 1,441,900,000	29.29	TELECOM ITALIA INTERNATIONAL
EURODIRECTORY S.A. (holding company in the field of publishing)	Luxembourg	EUR 1,625,320	50.00	SEAT PAGINE GIALLE
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 S.p.A.
GARAGE S.r.l. (multimedia and cinema broadcasting)	Milan (Italy)	EUR 49,400	35.00	WEBEGG
GAY.IT S.p.A. (management of an Internet site)	Pisa (Italy)	EUR 1,000,000	22.50	MATRIX
GEOWEB S.p.A. (information systems)	Rome (Italy)	EUR 516,500	40.00	SOGEI
GLB SERVIÇOS INTERATIVOS S.A. (Internet services)	Rio de Janeiro (Brazil)	BRL 182,732,615	28.57	TI WEB
GO TO WEB S.p.A. (web-based software solutions)	Ivrea (Turin, Italy)	EUR 10,000,000	20.00	WEBEGG
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS 3,000,000	26.40	TELECOM ITALIA INTERNATIONAL
ICOM Inc. (sale of e-mail marketing programs)	Toronto (Canada)	CAD 203.09	40.00	NETCREATIONS
IM.SER S.p.A. (real estate management)	Rome (Italy)	EUR 144,480,000	40.00	TELECOM ITALIA
INFORMATICA TRENTINA S.p.A. (design, installation, management and maintenance of information systems)	Trento (Italy)	EUR 3,100,000	40.41	FINSIEL
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	Istanbul (Turkey)	TRL 545,000,000,000,000	49.00	TIM INTERNATIONAL
ISCE Investor in Sapient & Cuneo Europe S.A. (consulting)	Luxembourg	EUR 4,334,400	25.00	SEAT CAPITAL INVESTMENTS
ITALCOM S.p.A. (multimedia systems and devices)	Milan (Italy)	EUR 103,200	100.00	ITALTEL S.p.A.
ITALDATA S.p.A. (solutions and services for the web economy)	Avellino (Italy)	EUR 3,096,000	100.00	SIEMENS INFORMATICA
ITALTEL A.O. (telecommunications systems)	Saint Petersburg (Russia)	RUB 20,000	100.00	ITALTEL B.V.
ITALTEL ARGENTINA S.A. (telecommunications systems)	Buenos Aires (Argentina)	ARS 600,000	96.00 4.00	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL B.V. (trade and financial company)	Amsterdam (Holland)	EUR 6,000,000	100.00	ITALTEL S.p.A.
ITALTEL BRASIL Ltda (trade company)	São Paulo (Brazil)	BRL 2,018,302	51.44 48.56	ITALTEL S.p.A. ITALTEL B.V.
ITALTEL CERM PALERMO S.c.p.a. (research)	Palermo (Italy)	EUR 2,125,000	90.00 10.00	ITALTEL S.p.A. TELECOM ITALIA LAB S.p.A.
ITALTEL DE CHILE S.A. (telecommunications systems)	Santiago (Chile)	CLP 50,420,325	90.00 10.00	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL DEUTSCHLAND GmbH (trade company)	Düsseldorf (Germany)	EUR 40,000	60.00 40.00	ITALTEL HOLDING ITALTEL B.V.
ITALTEL FRANCE S.a.s. (trade company)	Issy (France)	EUR 40,000	100.00	ITALTEL HOLDING
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	EUR 115,371,464	19.39	SOGERIM

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
ITALTEL Inc. (trade company)	Delaware (USA)	USD 100	60.00 40.00		ITALTEL HOLDING ITALTEL B.V.
ITALTEL KENYA Ltd (telecommunications systems)	Nairobi (Kenya)	KES 500,000	99.98 0.02		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL NIGERIA Ltd (telecommunications systems)	Lagos (Nigeria)	NGN 2,000,000	99.99 0.01		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL S.A. (telecommunications systems)	Madrid (Spain)	EUR 4,056,750	100.00		ITALTEL B.V.
ITALTEL S.p.A. (telecommunications systems)	Milan (Italy)	EUR 196,830,400	100.00		ITALTEL HOLDING
ITALTEL UK Ltd (trade company)	Staines (UK)	GBP 26,000	60.00 40.00		ITALTEL HOLDING ITALTEL B.V.
JET2WEB INTERNET SERVICES GmbH (Internet services)	Vienna (Austria)	EUR 15,000,000	100.00		TELEKOM AUSTRIA A.G.
JET2WEB NETWORK SERVICES GmbH (network services)	Vienna (Austria)	EUR 70,000	100.00		TELEKOM AUSTRIA A.G.
JMAC CONSIEL S.p.A. (data collection and analysis for systems sales and business)	Milan (Italy)	EUR 156,000	45.00		CONSIEL
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	Florence (Italy)	EUR 10,400	15.00 15.00		GRUPPO BUFFETTI IL CENTRO CONTABILE
MADRITEL S.A.U. (catv operator and fixed lines telecommunications in the community of Madrid)	Madrid (Spain)	EUR 162,423,513	100.00		AUNA S.A.
MARCAM ITALY S.r.l. (services for automatical data management)	Milan (Italy)	EUR 92,962	99.00		PRAXIS CALCOLO
MAREMS S.A. (provision of satellite services for mobile voice communications using vehicle-mounted terminals)	Moscow (Russia)	RUB 7,135,500	49.00		TELESPAZIO
MESNILL HOLDING S.A. (holding company)	Luxembourg	EUR 78,000	99.99		ISCE
MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	Milan (Italy)	EUR 1,500,000	30.00		MATRIX
MICRO SISTEMAS S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 210,000	99.99 0.01		TELECOM ARGENTINA STET-FRANCE TELECOM PUBLICOM
MIRROR INTERNATIONAL GmbH (holding company)	Frankfurt (Germany)	EUR 25,000	100.00		MIRROR INTERN. HOLDING
MIRROR INTERNATIONAL HOLDING S.a.r.l. (holding company)	Luxembourg	EUR 250,000	30.00		TELECOM ITALIA
MOBILKOM INTERNATIONAL GmbH (holding company)	Vienna (Austria)	EUR 35,000	100.00		MOBILKOM AUSTRIA AKTIENGES.& CO.
MOBILKOM INTERNATIONAL GmbH & Co. KG (holding company)	Vienna (Austria)	EUR 35,350	99.00 1.00		MOBILKOM AUSTRIA AKTIENGES.& CO. MOBILKOM INTERNATIONAL GmbH
MOBILKOM LIECHTENSTEIN A.G. (mobile telephony operator)	Vaduz (Liechtenstein)	CHF 200,000	100.00		MOBILKOM AUSTRIA AKTIENGES.& CO.
MOBILKOM AUSTRIA Aktiengesellschaft - Stock Corporation (mobile telephony operator)	Vienna (Austria)	EUR 100,000	75.00 25.00		TELEKOM AUSTRIA A.G. AUTEL BETEILIGUNGS
MOBILKOM AUSTRIA Aktiengesellschaft & Co KG (mobile telephony operator)	Vienna (Austria)	EUR 79,940,117.59	75.00 25.00		TELEKOM AUSTRIA A.G. AUTEL BETEILIGUNGS
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	Rome (Italy)	EUR 133,333	25.00		TELECOM ITALIA LAB B.V.
MULTIMEDIA CABLE S.A. (holding company for investments in telecommunications companies and multimedia systems)	Barcelona (Spain)	EUR 11,635,594	44.00		TELECOM ITALIA INTERNATIONAL
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	EUR 6,038,248	30.00		TELECOM ITALIA INTERNATIONAL
NETEX S.r.l. (activities relating to the contract regarding the licence of the software of Netex Ltd)	Milan (Italy)	EUR 10,000	50.00		MATRIX

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
NORDCOM S.r.l. (application service provider)	Milan (Italy)	EUR 5,000,000	42.00		TELECOM ITALIA
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS 78,633,050	22.03 11.86	32.50 17.50	TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
NUCLEO S.A. (telecommunications services)	Asuncion (Paraguay)	PYG 175,200,000,000	67.50		TELECOM PERSONAL
PERFORMER & DEG S.L. (design, development and sale of information systems)	Madrid (Spain)	EUR 3,006	50.00		PERFORMER S.p.A.
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	Milan (Italy)	EUR 1,056,000	22.50		FINSIEL
PROSISTEMI S.r.l. (management of available data from the public real estate Registry and from other public bodies)	Milan (Italy)	EUR 10,400	33.35		ITALSERVICE S.r.l.
PUBLICOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 16,000,000	99.99 0.01		TELECOM ARGENTINA STET-FRANCE TELECOM NORTEL INVERSORA
RETEVISION I S.A.U. (telecommunications services)	Barcelona (Spain)	EUR 252,241,612	100.00		AUNA S.A.
RETEVISION MOVIL S.A. (third mobile telephony operator)	Barcelona (Spain)	EUR 245,000,000	97.90		AUNA S.A.
RONCADIN RESTAURANTS S.p.A. (home delivery restaurant services)	Fiume Veneto (Pordenone, Italy)	EUR 920,694.32	25.00		SEAT PAGINE GIALLE
SAPED - Studio Analisi Programmazione Elaborazione Dati S.p.A. (information systems)	Siena (Italy)	EUR 1,032,800	20.00		BANKSIEL
SI.MOBIL d.d. (mobile telephony operator)	Lubijana (Slovenia)	SIT 9,300,000,000	75.00		MOBILKOM INTERNAT. GmbH & Co. KG
SIEMENS INFORMATICA S.p.A. (sale of innovating solutions in the field of electronic and mobile business)	Milan (Italy)	EUR 6,192,000	49.00		TELECOM ITALIA
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support systems)	Brescia (Italy)	EUR 260,000	40.00		TELECOM ITALIA LAB S.p.A.
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
SITEBA SISTEMI TELEMATICI BANCARI S.p.A. (support services for payments systems)	Milan (Italy)	EUR 2,600,000	30.00		TELECOM ITALIA
SITECNICA S.p.A. (IT multivendor services)	Milan (Italy)	EUR 143,000	100.00		SIEMENS INFORMATICA
SITEKNE S.p.A. (furnishing of resources in the field of ITC-Information Technology Communication solutions)	Rome (Italy)	EUR 103,200	100.00		SIEMENS INFORMATICA
SOLPART PARTICIPAÇÕES S.A. (holding company for investment in Brasil Telecom Participações S.A.)	Rio de Janeiro (Brazil)	BRL 2,069,103,679	37.76	37.29	TELECOM ITALIA INTERNATIONAL
STREAM S.p.A. (multimedia services)	Rome (Italy)	EUR 421,360,000	50.00		TELECOM ITALIA
SUPERCABLE DE ALMERIA S.A. (catv operator and fixed lines telecommunications in the city of Almeria)	Sevilla (Spain)	EUR 1,202,000	100.00		AUNA S.A.
SUPERCABLE DE ANDALUCIA S.A. (catv operator and fixed lines telecommunications in the district of Andalusia)	Sevilla (Spain)	EUR 69,272,655	100.00		AUNA S.A.
SUPERCABLE DE SEVILLA S.A. (catv operator and fixed lines telecommunications in the city of Sevilla)	Sevilla (Spain)	EUR 32,749,150	100.00		AUNA S.A.
TDL BELGIUM S.A. (publishing and sale of directories)	Brussels (Belgium)	BEF 750,087,200	49.60		TDL INVESTMENTS
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 984,380,978	54.74		NORTEL INVERSORA

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
TELECOM ARGENTINA USA Inc. (telecommunications services)	Delaware (USA)	USD 30,000	100.00		TELECOM ARGENTINASTET-FRANCE TELECOM
TELECOM PERSONAL S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 310,514,481	99.99 0.01		TELECOM ARGENTINASTET-FRANCE TELECOM PUBLICOM
TELECOMMUNICATIONS ADVISER LLC (management of the Saturn Venture Partners fund)	Delaware (USA)	USD 560,280	37.50		TELECOM ITALIA LAB GEN.PARTNER
TELEGONO S.r.l. (real estate management)	Rome (Italy)	EUR 1,000,000	40.00		TELECOM ITALIA
TELEIMPULS GmbH (mobile telephony operator)	Ljubljana (Slovenia)	SIT 2,100,000,000	100.00		MOBILKOM INTERNAT. GmbH & Co. KG
TELEKOM AUSTRIA A.G. (wireline telephony)	Vienna (Austria)	EUR 1,090,500,000	29.78		TELECOM ITALIA INTERNATIONAL
TELEKOM AUSTRIA PERSONALMANAGEMENT GmbH (personnel management)	Vienna (Austria)	EUR 70,000	100.00		TELEKOM AUSTRIA A.G.
TELEKOM BETEILIGUNGS- und ENTWICKLUNGS GmbH (holding company)	Vienna (Austria)	EUR 35,000	100.00		TELEKOM AUSTRIA A.G.
TELEKOM FINANZ-MANAGEMENT GmbH (financing)	Vienna (Austria)	EUR 37,000	100.00		TELEKOM BETEILIGUNGS
TELEKOM SRBIJA a.d. (telecommunications services)	Belgrade (Serbia)	YUM 10,800,000,000	29.00		TELECOM ITALIA INTERNATIONAL
TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Milan (Italy)	EUR 9,500,000	20.00		SAIAT
TELEMACO IMMOBILIARE S.p.A. (real estate management)	Rome (Italy)	EUR 9.600.000	40,00		TELECOM ITALIA
USABLENET Inc. (development of a software for the analysis of web sites)	Delaware (USA)	USD 1	20.00		TELECOM ITALIA LAB B.V.
VIASAT ASSISTANCE S.p.A. (communication and management of telecommunications)	Rome (Italy)	EUR 103,200	100.00		VIASAT S.p.A.
VIASAT S.p.A. (communication and management of telecommunications)	Rome (Italy)	EUR 2,425,956	33.54 16.46		SEAT PAGINE GIALLE FINSATEL
VIP-NET GSM d.o.o. (mobile telephony operator)	Zagreb (Croatia)	HRK 454,211,000	71.00		MOBILKOM AUSTRIA AKTIENGES.& CO.
WISEQUITY N.V. (holding company)	Amsterdam (Holland)	EUR 50,000	50.00		SEAT CAPITAL INVESTMENTS

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 7

LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
SUBSIDIARIES					
ASKA S.r.l. (in liquidation) (research and selection of human resources and consulting)	Milan (Italy)	EUR	10,400	60.00	CONSIEL
BUSINESS INFORMATION GROUP Ltd (in liquidation) (publishing and sale of telephone directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES
CABESTAN S.A. (in liquidation) (software design)	Suresnes (France)	FRF	250,000	100.00	CONSODATA S.A.
COMSTAR S.r.l. (in liquidation) (sale and installation of EDP products)	Rome (Italy)	EUR	1,020,000	100.00	TELESPAZIO
CONSODATA INTERACTIVE S.A. (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
CONSODATA ITALIA S.r.l. (in liquidation) (business information)	Milan (Italy)	EUR	10,200	100.00	CONSODATA S.A.
CONSODATA SYSTEME S.A. (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
EMAX-TRADE S.p.A (in liquidation) (management of Internet sites)	Milan (Italy)	EUR	100,000	100.00	MATRIX
EMMEDI 97 S.r.l. (in liquidation) (productions for the paper industry)	Rome (Italy)	EUR	10,400	100.00	GRUPPO BUFFETTI
FINSIEL HELLAS S.A. (in liquidation) (computer products for public and private customers)	Koropi (Greece)	GRD	230,000,000	91.00	FINSIEL
FOREST RENTAL SERVICES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
GIALLLO e.com S.p.A. (creation and diffusion of trade information)	Turin (Italy)	EUR	150,000	100.00	SEAT PAGINE GIALLE
HILL CLEANING SERVICES Ltd. (in liquidation) (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
HILL ENTERPRISES Ltd. (in liquidation) (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office ware)	Rome (Italy)	EUR	2,233,507.26	89.70	GRUPPO BUFFETTI
INCAS FRANCE S.A. (in liquidation) (sale of products for office automation)	Asnieres (France)	FRF	19,168,900	100.00	IS PRODUCTS
INDIAN TELECOMMUNICATION HOLDING B.V. (in liquidation) (holding company)	Amsterdam (Holland)	EUR	151,500	100.00	TELECOM ITALIA INTERNATIONAL
IINDUSTRIAS TELEPUERTO ICAN S.A.(in liquidation) (carrier of telecommunications)	San Jose (Costarica)	CRC	10,000	100.00	AMERICATEL CENTROAMERICA
INFOMEDIA GROUP Ltd (in liquidation) (publishing and sale of telephone directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
INFONATION GROUP Ltd (in liquidation) (publishing and sale of telephone directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES
IREOS S.p.A. (in liquidation) (promotion and management of remote domiciliary assistance)	Rome (Italy)	EUR	100,000	100.00	TELECOM ITALIA
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	Rome (Italy)	EUR	2,575,000	30.00 35.00 35.00	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE
LAKE BUILDING SERVICES Ltd (in liquidation) (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
LOQUENDO Inc. (in liquidation) (development of software for web vocal interaction)	California (USA)	USD	14,021,000	100.00	LOQUENDO SOCIETÀ PER AZIONI
MILANO DATA ENTRY S.r.l. (in liquidation) (data entry activities)	Milan (Italy)	EUR	10,400	100.00	DATAHOUSE

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of other subsidiaries and affiliated companies**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	Milan (Italy)	EUR 10,200	100.00		GRUPPO BUFFETTI
PEAK MAINTENANCE SERVICES Ltd (in liquidation) (furnishing of services)	Hampshire (UK)	GBP 2	100.00		THOMSON DIRECTORIES
RFM DATA Ltd (list broking)	Kingston (UK)	GBP 2	100.00		CAL- CONSUMER ACCES
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR 600,000	100.00		SEAT PAGINE GIALLE
SERVICE IN S.r.l. (in liquidation) (furnishing of services)	Milan (Italy)	ITL 20,700,000	95.00		CIPI
STET FRANCE S.A. (holding company)	Paris (Francia)	EUR 900,000	100.00		9 TELECOM RESEAU
T.I.SCOM S.A. ((in liquidation) (telecommunications systems and services)	Curitiba (Brazil)	BRL 7,735,000	51.00		TELESPAZIO
TECHNOLOGIE INNOVATION ET MOBILITE S.a.r.l. (holding company)	Tunis (Tunisia)	TND 10,000	99.99		TIM INTERNATIONAL
TELECOM ITALIA DE ESPANA S.A. (in liquidation) (sale of services and agency activities)	Madrid (Spain)	EUR 2,103,542	100.00		TELECOM ITALIA INTERNATIONAL
TELECOM ITALIA GmbH (in liquidation) (holding company)	Vienna (Austria)	EUR 36,336.42	100.00		TELECOM ITALIA
TELECOM ITALIA IRELAND Ltd (telecommunications services)	Dublin (Ireland)	EUR 2	100.00		TELECOM ITALIA
TELESPAZIO HUNGARY Ltd (telecommunications services)	Budapest (Hungary)	HUF 24,000,000	99.00 1.00		TELESPAZIO TELESPAZIO LUX.
TIM.COM Holding B.V. (holding company)	Amsterdam (Holland)	EUR 18,000	100.00		TIM INTERNATIONAL
TIMNET.COM PERU' S.A.C. (services for mobile networks)	Lima (Perù)	PEN 1,000	100.00		TIM PERU'
TMI - HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)	Budapest (Hungary)	HUF 3,000,000	100.00		TMI TELEMEDIA INTERN. Ltd
TRAINET S.p.A. (in liquidation) (development, operation and sales of lines teaching systems)	Rome (Italy)	EUR 674,445.70	100.00		TELECOM ITALIA
VALORIUS S.A. (furnishing of services)	Boulogne Billancourt (France)	EUR 38,112	100.00		9 TELECOM RESEAU

AFFILIATED COMPANIES

CITEL - Corporacion Interamericana de Telecomunicaciones S.A. (holding company)	Monterrey (Mexico)	MXN 2,073,729,933	25.00		TELECOM ITALIA INTERNATIONAL
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR 100,000	50.00		SCS COMUNICAZIONE INTEGR. (in liq.)
COMETEL Societe Espagnole S.a.r.l. (audiotel services)	Bilbao (Spain)	EUR 210,348	40.00		JET MULTIMEDIA HOSTING
CROMA S.r.l. (in liquidation) (hardware maintenance)	P. San Giovanni (Perugia, Italy)	ITL 80,000,000	50.00		WEBRED
CZECH TELESPAZIO S.r.l. (in liquidation) (telecommunications services)	Prague (Czech Republic)	CZK 750,000	40.00		TELECOM ITALIA
DATATRADER S.A. (in liquidation) (creation and sale of data base)	Rueil Mailmaison (France)	EUR 266,980	50.00		CONSODATA S.A.
E-UTILE S.p.A. (ICT solutions and services for companies in the field of public utilities)	Milan (Italy)	EUR 482,000	51.00		SIEMENS INFORMATICA
INDIRECT S.P.R.L. (in liquidation) (sale of services)	Brussels (Belgium)	BEF 6,000,000	19.17 7.83		TDL INVESTMENTS TDL INFOMEDIA Ltd
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	Heraklion Crete (Greece)	EUR 17,580,000	40.00		TELECOM ITALIA INTERNATIONAL
NETRIA S.A. (information technology services)	Lyon (France)	EUR 115,633	34.00		JET MULTIMEDIA S.A.

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of other subsidiaries and affiliated companies**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
POLITEL S.A. (sale of VSAT services)	Warsaw (Poland)	PLN 100,000	13.50 10.00		TELESPAZIO TMI TELEMEDIA INTERN. Ltd
RESACOM S.A. (in liquidation) (mail-order selling and Internet ticket office)	Paris (France)	EUR 40,000	19.97	19.27	JET MULTIMEDIA S.A.
SUD PARTNER S.a.r.l. (information technology services)	Toulouse (France)	EUR 40,000	24.00		JET MULTIMEDIA HOSTING
UBA - NET S.A. (in liquidation) (teledidactic services)	Buenos Aires (Argentina)	ARS 12,000	50.00		TRAINET (in liquidation)
VOICEMAIL INTERNATIONAL Inc. (in liquidation) (vocal message services)	California (USA)	USD 48,580	37.07		TELECOM ITALIA

CONSORTIUM SUBSIDIARIES

CONSORZIO ABECA (in liquidation) (information systems for the Ministry of cultural properties and environment)	Rome (Italy)	EUR 103,291.38	33.33 33.33		FINSIEL INTERSIEL
CONSORZIO CONNET FORMAZIONE (professional training for the Ministry of work and social security)	Bari (Italy)	EUR 51,645.69	60.00		SSGRR
CONSORZIO GEODOC (in liquidation) (realization of an information system for the geological documentation of the national territory)	Rome (Italy)	EUR 103,291.38	90.00 10.00		FINSIEL TELESPAZIO
CONSORZIO GRUPPO STET PER ITALIA '90 (in liquidation) (telecommunications services for the world soccer cup which has been held in Italy in 1990)	Rome (Italy)	EUR 51,646	80.00		TELECOM ITALIA
CONSORZIO i-FRANCHISING (development of sale and franchising networks)	Rome (Italy)	EUR 10,000	80.00		CONSORZIO TELEFRANCHISING
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of cultural properties and environment)	Rome (Italy)	EUR 171,600	90.91 9.09		FINSIEL NETSIEL
CONSORZIO ISIB (in liquidation) (harmonization of the infrastructural system of the Central Institute which manages the unique catalogue of the Italian libraries)	Rome (Italy)	EUR 51,645.69	70.00 30.00		FINSIEL INTERSIEL
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for the development of a new process of delivering long distance training services and the related platforms in Naples)	Naples (Italy)	EUR 51,165	59.00		TELECOM ITALIA LAB S.p.A.
CONSORZIO NAUTILUS (training activities)	Rome (Italy)	EUR 77,468.53	31.00 20.00		SSGRR MEDITERRANEAN NAUTILUS Ltd
CONSORZIO PROTER (in liquidation) (activities in the field of management and control of territory and environment)	Rome (Italy)	EUR 10,329.14	61.11		TELESPAZIO
CONSORZIO SEGISIEL (in liquidation) (realization of operating systems in the field of justice for the Telcal consortium)	Rende (Cosenza, Italy)	EUR 103,291.38	85.00 15.00		INTERSIEL FINSIEL
CONSORZIO SER (in liquidation) (realization of the information plan Calabria for the Telcal consortium)	Catanzaro (Italy)	EUR 103,291.38	46.00 5.00		INTERSIEL INSIEL
CONSORZIO SESIT (realization of the integrated information system for the Ministry of transport and navigation)	Rome (Italy)	EUR 51,645.69	70.00		FINSIEL
CONSORZIO SOFTIN (in liquidation) (research and development in the field of industrial software and consulting)	Naples (Italy)	EUR 877,976.73	100.00		FINSIEL
CONSORZIO TELEFRANCHISING (planning and development of Internet sites and portals)	Rome (Italy)	EUR 1,240,000	80.00		TELESPAZIO
CONSORZIO TURISTEL (information systems for tourism)	Rome (Italy)	EUR 77,460	33.33 33.33		SARITEL FINSIEL

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS >>	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **List of other subsidiaries and affiliated companies**

Name (type of business)	Head office	Share capital	% ownership	% of voting rights Held by
CONSORTIUM AFFILIATES				
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the military air force)	Rome (Italy)	EUR 6,120	33.33	EIS
CONSORZIO ALTEL (sale and promotion of satellite activities)	Rome (Italy)	EUR 51,645.68	50.00	TELESPAZIO
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	Bologna (Italy)	EUR 180,759.91	20.00	FINSIEL
CONSORZIO CEW (electronic publishing)	Perugia (Italy)	EUR 15,400	40.00	WEBRED
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	Rome (Italy)	EUR 206,582.76	44.00	FINSIEL
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	Rome (Italy)	EUR 20,000	20.00	TELECOM ITALIA LAB S.p.A.
CONSORZIO FORFIN (programs and information systems relating to fiscal and financing matters)	Rome (Italy)	EUR 5,164.57	15.00 15.00	SSGRR SOGEI
CONSORZIO I.T.A. (research and services in the field of agriculture)	Rome (Italy)	EUR 12,394.95	33.33	TELESPAZIO
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated telematic systems)	Milan (Italy)	EUR 516,456	100.00	ITALTEL S.p.A.
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (integrated services for the metropolitan area of Venice)	Venice (Italy)	EUR 10,500	50.00	VENIS
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Perugia (Italy)	EUR 2,582.28	50.00	WEBRED
CONSORZIO PAOLA (in liquidation) (applied research for the development of information systems for clinics and medical structures)	Udine (Italy)	EUR 8,143.88	50.00	INSIEL
CONSORZIO PER LE OSSERVAZIONI DELLA TERRA (planning and development of activities for environment)	Matera (Italy)	EUR 10,000	24.00	TELESPAZIO
CONSORZIO R.E.S. - Raggruppamento Europeo per la Sicurezza (establishment and management of a center for the evaluation of the physical safety of information systems)	Rome (Italy)	EUR 309,800	50.00	TELECOM ITALIA
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA' FEDERICO II (professional training)	Naples (Italy)	EUR 127,500	20.00	TELECOM ITALIA MOBILE
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	Rome (Italy)	EUR 51,645.69	45.00	FINSIEL
CONSORZIO TELAER (planning and development of activities regarding the advanced aerial survey)	Capodichino (Naples, Italy)	ITL 200,000,000	50.00	TELESPAZIO
CONSORZIO TELCAL (planning and development of the organic project "Piano Telematico Calabria")	Catanzaro (Italy)	EUR 877,975	24.00 24.00	TELECOM ITALIA INTERSIEL
CONSORZIO TELEMED (in liquidation) (telematic activities for social and sanitary assistance)	Rome (Italy)	EUR 103,291	33.33	TELECOM ITALIA

1 SUMMARY DATA AND GENERAL INFORMATION	90 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	92 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	94 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 8

OTHER MAJOR EQUITY HOLDINGS AS PER CONSOB RESOLUTION N. 11971 OF MAY 14, 1999

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
AGENCY MULTIMEDIA S.A. (Internet services)	St. Denis La Plaine (France)	EUR 3,353,288	19.09		JET MULTIMEDIA S.A.
ANCITEL S.p.A. (telecommunications services)	Rome (Italy)	EUR 1,087,232	8.55 7.13		TELECOM ITALIA INSIEL
AVONDI Ltd (marketplace management)	London (UK)	GBP 16,040	13.90		MATRIX
BFINANCE.COM Ltd (capital marketplace)	London (UK)	EUR 350,982	17.95		SEAT PAGINE GIALLE
CIFRA S.c.a.r.l. (training and innovative research for information Technology)	Cagliari (Italy)	EUR 61,976	16.67		KRENESIEL
CISIT S.c.p.A. (information technology activities)	Rome (Italy)	ITL 210,000,000	16.66		TRAINET (in liquidation)
COMUNICARE VIA SATELLITE S.r.l. (in liquidation) (sale of services relating to TV business)	Republic of San Marino	EUR 72,000	15.00		INTELCOM SAN MARINO
ELETTROCLICK S.p.A. (software production)	Milan (Italy)	EUR 127,420	14.70		SEAT PAGINE GIALLE
EURESCOM - European Institute For Research and Strategic Studies in Telecommunications GmbH (strategical research and development)	Heidelberg (Germany)	EUR 100,000	11.75		TELECOM ITALIA
EUSKALTEL S.A. (telecommunications services)	Zamudio Bizkaia (Spain)	EUR 250,200,000	18.00		TELECOM ITALIA INTERNATIONAL
FIRST ASSUR S.A. (data bank activities for the insurance sector)	Paris (France)	EUR 2,490,392	17.09		JET MULTIMEDIA S.A.
HOLDING BANCA DELLA RETE S.p.A. (financing)	Milan (Italy)	EUR 25,040,000	15.00		EDOTEL
IFM INFOMASTER S.p.A. (planning and realization of call center solutions)	Genoa (Italy)	EUR 161,765	12.00		TELECOM ITALIA LAB B.V.
ITALBIZ.COM Inc. (management of an Internet site)	California (USA)	USD 4,720	19.50		SEAT PAGINE GIALLE
INSULA S.p.A. (telecommunications services)	Mestre (Venice, Italy)	EUR 2,064,000	12.00		TELECOM ITALIA
LOCALPORT S.p.A. (study, research, development and sale of information systems)	Ivrea (Turin, Italy)	EUR 764,469	14.98		TELECOM ITALIA LAB S.p.A.
NETESI S.p.A. (telecommunications services)	Milan (Italy)	EUR 1,893,666	17.98		TELECOM ITALIA
PAS GROUP - Professional Application Software S.r.l. (software production)	Milan (Italy)	EUR 91,800	16.67		EUSTEMA
POLCESCA S.r.l. (in liquidation) (management of information services)	Bologna (Italy)	EUR 89,000	16.67		EIS
RIBES S.p.A. (management of available data from the public real estate Registry)	Parma (Italy)	EUR 500,000	17.50		ITALSERVICE S.r.l.
TELEPORTO ADRIATICO S.r.l. (telecommunications services)	Venice (Italy)	EUR 1,650,000	7.50 4.69		TELECOM ITALIA INSIEL
TRADIZIONI ITALIANE S.p.A. (agro-food company)	Cirò (Crotone, Italy)	EUR 8,263,111	11.38		INTERSIEL
TWICE SIM S.p.A. (investment services)	Milan (Italy)	EUR 12,925,000	18.64		SEAT PAGINE GIALLE
VIRTUALAND PARK S.p.A. (in liquidation) (information services)	Castiglione del Lago (Perugia, Italy)	EUR 103,280	12.50		WEBRED
VIRTUAL SELF Ltd (development of technologies devices, synthesis services)	Ramat Gan (Israel)	ILS 3,156,000	16.06		TELECOM ITALIA LAB B.V.



financial statements at June 30, 2002 of Telecom Italia S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

BALANCE SHEETS

ASSETS

(in thousands of euro)

	6/30/2002	12/31/2001	6/30/2001
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	-	-	-
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS			
- INTANGIBLE ASSETS			
Start-up and expansion costs	-	-	-
Industrial patents and intellectual property rights	586,186	665,721	671,418
Concessions, licenses, trademarks and similar rights	78	86	43,943
Goodwill	-	-	-
Work in progress and advances to suppliers	572,493	479,961	387,263
Other intangibles	181,082	172,154	66,506
TOTAL INTANGIBLE ASSETS	1,339,839	1,317,922	1,169,130
- FIXED ASSETS			
Land and buildings	1,456,494	1,497,471	1,524,738
Plant and machinery	11,508,287	11,800,588	12,248,591
Manufacturing and distribution equipment	19,510	27,953	34,183
Other fixed assets	79,107	102,835	102,226
Construction in progress and advances to suppliers	429,654	680,743	672,418
TOTAL FIXED ASSETS	13,493,052	14,109,590	14,582,156
- LONG-TERM INVESTMENTS			
Equity investments in			
subsidiaries	17,134,485	17,659,160	18,286,889
affiliated companies	364,480	386,923	482,964
other companies	21,930	24,327	73,658
Total equity investments	17,520,895	18,070,410	18,843,511
Advances on future capital contributions	219,797	78,896	2,017,439
Accounts receivable (*)			
subsidiaries	60,000	60,000	50,000
affiliated companies	2,001	-	-
other receivables	39,390	135,048	60,524
Total accounts receivable	39,390	197,049	60,524
Treasury stock (for an overall par value of 8,525 thousands of euro at 6.30.2002)	99,983	-	-
TOTAL LONG-TERM INVESTMENTS	18,037,724	18,370,044	21,082,594
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	32,870,615	33,797,556	36,833,880
CURRENT ASSETS			
- INVENTORIES			
Contract work in process	12,371	16,593	21,648
Finished goods and merchandise			
merchandise	63,720	60,301	82,193
TOTAL INVENTORIES	76,091	76,894	103,841
- ACCOUNTS RECEIVABLE (**)			
Trade accounts receivable	4,260,652	4,241,654	4,270,090
Accounts receivable from subsidiaries	1,898,312	2,196,920	1,879,110
Accounts receivable from affiliated companies	195,594	311,570	455,516
Accounts receivable from parent companies	247	1,090	1,183
Other receivable due from			
Government and other public entities for grants and subsidies	1,265	1,265	1,265
deferred tax assets	94,490	480,407	94,490
other receivable	1,791,581	1,958,800	1,173,533
Total other receivable	94,490	2,273,253	94,490
TOTAL ACCOUNTS RECEIVABLE	8,628,058	9,220,393	7,780,697
- SHORT-TERM FINANCIAL ASSETS			
Equity investments in subsidiaries	159,627	240,457	233,888
Other equity investments	-	-	-
Other securities	-	-	-
TOTAL SHORT-TERM FINANCIAL ASSETS	159,627	240,457	233,888
- LIQUID ASSETS			
Bank and postal accounts	50,453	80,220	71,125
Checks	58	9	11
Cash and valuables on hand	484	384	422
TOTAL LIQUID ASSETS	50,995	80,613	71,558
TOTAL CURRENT ASSETS	8,914,771	9,618,357	8,189,984
ACCRUED INCOME AND PREPAID EXPENSES			
Issue discounts and similar charges	44,536	25,097	994
Accrued income and other prepaid expenses	633,885	669,942	805,125
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	678,421	695,039	806,119
TOTAL ASSETS	42,463,807	44,110,952	45,829,983

(*) Amounts due within one year

(**) Amounts due beyond one year

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

LIABILITIES AND SHAREHOLDERS' EQUITY

(in thousands of euro)

	6/30/2002	12/31/2001	6/30/2001
SHAREHOLDERS' EQUITY			
- SHARE CAPITAL	4,023,717	4,023,061	4,022,948
- ADDITIONAL PAID-IN-CAPITAL	1,819,726	1,812,283	1,811,005
- RESERVES FOR INFLATION ADJUSTMENTS UNDER			
Law No. 72 of 3.19.1983	2,294,720	2,294,720	2,294,720
Law No. 413 of 12.30.1991	468,944	468,944	468,944
- TOTAL RESERVES FOR INFLATION ADJUSTMENTS	2,763,664	2,763,664	2,763,664
- LEGAL RESERVE	659,659	652,026	652,026
- RESERVE FOR TREASURY STOCK	99,983		
- OTHER RESERVES			
Reserve for accelerated depreciation	-	-	121,789
Reserve under Law No. 342 of 11.21.2000 - article 14	716,378	716,378	719,653
Reserve under Legislative Decree No. 124/93 - article 13	169	169	169
Reserve under Law No. 488/1992	118,678	118,678	-
Special reserve	-	1,369,062	1,362,676
Reserve for capital grants	479,099	471,947	464,398
Miscellaneous reserves	2,897,163	3,792,576	3,792,576
- TOTAL OTHER RESERVES	4,211,487	6,468,810	6,461,261
- RETAINED EARNINGS	1,147	-	-
- NET INCOME	388,749	150,810	653,607
TOTAL SHAREHOLDERS' EQUITY	13,968,132	15,870,654	16,364,511
RESERVES FOR RISKS AND CHARGES			
Reserves for taxes	125,909	116,648	142,748
Other reserves	1,171,676	1,496,089	778,778
TOTAL RESERVES FOR RISKS AND CHARGES	1,297,585	1,612,737	921,526
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,045,643	1,025,349	1,050,403
LIABILITIES	(**)	(**)	(**)
Debentures	10,920,490	8,250,000	3,438,068
Due to banks	1,213,017	1,771,001	12,671,903
Due to other lenders	896,482	317,658	643,317
Advances		2,447	1,850
Trade accounts payable		2,240,654	2,374,720
Accounts payable to subsidiaries		2,350,730	2,812,792
Accounts payable to affiliated companies		244,744	368,638
Accounts payable to parent companies		11	857
Taxes payables	27,185	43,975	960,813
Contributions to pension and social security institutions	593,361	593,361	650,982
Other liabilities	1,960	1,960	2,819,048
TOTAL LIABILITIES	13,652,495	10,977,955	26,898,735
ACCRUED EXPENSES AND DEFERRED INCOME	884,675	704,209	594,808
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	42,463,807	44,110,952	45,829,983

(**) Amounts due beyond one year

MEMORANDUM ACCOUNTS

(in thousands of euro)

	6/30/2002	12/31/2001	6/30/2001
GUARANTEES PROVIDED			
Sureties			
on behalf of subsidiaries	11,283,558	11,191,303	11,899,248
on behalf of affiliated companies	221,019	185,450	747,405
on behalf of others	109,217	164,576	174,783
TOTAL GUARANTEES PROVIDED	11,613,794	11,541,329	12,821,436
COLLATERAL PROVIDED	-	-	-
PURCHASES AND SALES COMMITMENTS	2,797,567	3,388,580	3,416,849
OTHER MEMORANDUM ACCOUNTS	6,859	7,060	8,209
TOTAL MEMORANDUM ACCOUNTS	14,418,220	14,936,969	16,246,494

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ STATEMENTS OF INCOME

(in thousands of euro)

	1st half 2002	1st half 2001	Year 2001
PRODUCTION VALUE			
Sales and service revenues	8,430,044	8,552,856	17,309,066
Changes in inventory of contract work in process	(4,222)	(14,263)	(19,318)
Increases in capitalized internal construction costs	6,710	3,377	5,615
Other revenue and income			
operating grants	-	278	278
other	99,593	124,872	241,625
Total other revenue and income	99,593	125,150	241,903
TOTAL PRODUCTION VALUE	8,532,125	8,667,120	17,537,266
PRODUCTION COST			
Raw materials, supplies and merchandise	106,215	156,205	301,447
Services	2,893,411	2,942,420	5,945,961
Use of property not owned	298,811	312,454	619,499
Personnel			
wages and salaries	920,072	949,535	1,858,021
social security contributions	289,524	307,305	590,283
termination indemnities	77,545	75,063	142,975
other costs	18,587	27,454	52,961
Total personnel costs	1,305,728	1,359,357	2,644,240
Amortization, depreciation and writedowns			
amortization of intangible assets	235,967	251,349	617,565
amortization of fixed assets	1,250,529	1,370,224	2,703,674
other writedowns of intangible and fixed assets	-	-	-
writedowns of receivables included in current assets and liquid assets	98,744	55,974	158,542
Total amortization, depreciation and writedowns	1,585,240	1,677,547	3,479,781
Changes in inventory of raw materials, supplies and merchandise	(3,419)	(40,951)	(19,059)
Provisions for risks	33,384	36,687	76,785
Other provisions	465	-	23,430
Miscellaneous operating costs			
losses on disposals of assets	8,017	991	24,747
license fee	110,684	138,463	289,582
other miscellaneous costs	105,202	66,647	167,568
Total miscellaneous operating costs	223,903	206,101	481,897
TOTAL PRODUCTION COST	(6,443,738)	(6,649,820)	(13,553,981)
OPERATING INCOME	2,088,387	2,017,300	3,983,285
FINANCIAL INCOME AND EXPENSE			
Income from equity investments			
dividends from subsidiaries	168,605	7,678	1,259,193
dividends from affiliated companies	16,772	40,224	41,056
dividends from other companies	463	4,312	4,385
other income from equity investments	104,535	7,269	717,456
Total income from equity investments	290,375	59,483	2,022,090
Other financial income from			
accounts receivable included in long-term investments			
subsidiaries	1,696	1,198	2,466
affiliated companies	20	-	-
other	6,337	6,685	11,918
Total accounts receivable included in long-term investments	8,053	7,883	14,384
securities, other than equity investments, included in long-term investments	-	-	-
securities, other than equity investments, included in current assets	-	-	-
other income			
interest and fees from subsidiaries	18,551	38,057	57,163
interest and fees from affiliated companies	921	4,166	8,336
interest and fees from others and miscellaneous income	24,219	57,661	108,169
Total other income	43,691	99,884	173,668
Total other financial income	51,744	107,767	188,052
Interest and other financial expense			
interest and fees paid to subsidiaries	96,887	143,209	257,800
interest and fees paid to affiliated companies	579	930	1,455
interest and fees paid to others and miscellaneous expense	487,063	461,475	1,553,551
Total interest and other financial expense	(584,529)	(605,614)	(1,812,806)
TOTAL FINANCIAL INCOME AND EXPENSE	(242,410)	(438,364)	397,336
VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
Upward adjustments of			
equity investments	-	14	14
Total upward adjustments	-	14	14
Writedowns of			
equity investments	902,119	319,408	774,881
Total writedowns	(902,119)	(319,408)	(774,881)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	(902,119)	(319,394)	(774,867)

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(in thousands of euro)

	1st half 2002	1st half 2001	Year 2001
EXTRAORDINARY INCOME AND EXPENSE			
Income			
gains on disposals	5,336	9,532	264,388
miscellaneous	201,773	38,759	230,824
Total income	207,109	48,291	495,212
Expense			
losses on disposals	-	52	1,134
prior years' taxes	1,003	1,227	1,226
provisions and writedowns of equity investments	-	-	2,526,768
miscellaneous	437,969	131,002	859,006
Total expense	(438,972)	(132,281)	(3,388,134)
TOTAL EXTRAORDINARY ITEMS	(231,863)	(83,990)	(2,892,922)
INCOME BEFORE TAXES	711,995	1,175,552	712,832
Income taxes			
current taxes			73,555
deferred taxes			488,467
Total income taxes	(323,246)	(521,945)	(562,022)
NET INCOME	388,749	653,607	150,810

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ NOTES TO FINANCIAL STATEMENTS

■ INTRODUCTION

The financial statements for the six months ended June 30, 2002 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").

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

All of the amounts are expressed in thousands of euro, unless otherwise indicated.

■ ACCOUNTING PRINCIPLES

The accounting principles used in preparing 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 classification of the liabilities for income taxes expense (IRPEG and IRAP) for the period which was included in the "reserve for taxes" under "reserve for risks and charges" caption as well as the use of the estimated tax rate for 2002 for its calculation. Consistently with prior years, the result for the first half of 2002 does not include dividends from subsidiary related to earnings for the current year which will be recorded on the accrual basis at the end of the year.

With regard to social security contributions in accordance with Law No. 58/1992 and the securitization and factoring of accounts receivable, the updated situation at June 30, 2002 is reported below:

■ 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) for 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 were transferred from the Public Administration to Iritel, Article 66, Section 1 of Legislative Decree 331/1993 converted into Law No. 427/1993 specifies that the amounts due to the Fund should be accrued in the financial statements and are tax deductible in the years in which the payments to fulfil this obligation – in fifteen equal annual deferred installments – 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 only approximately estimated, 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. At June 30, 2002, Telecom Italia had been notified of about 97% of the positions which will result in a charge for the Company. However, this situation includes Euro 651 million of residual payables to INPS, (net of the amount attributed to Group companies for the employees transferred to those companies), relating to the estimate made for the employees of the former State Company for Telephone Services (ASST) by the special Ministerial Commission established by 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, which in effect gives rise to pre-amortization interest). Secondly, the dispute concerns 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 (Telecom Italia is of the opinion 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.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

As stated below in the report, the dispute concerning pre-amortization interest was settled during the current six-month period.

Based on the above, a reasonable estimate of the principal amount of the liability estimated by Telecom Italia (excluding, as mentioned earlier, the part relating to the former Iritel employees) could vary between euro 960 million and euro 1,284 million (euro 334 million 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.

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 deferred installments (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, 2002 and the interpretation of said requests, amounts to euro 1,347 million, divided as follows:

- euro 910 million for the principal amount (except for the portion attributable to former Iritel employees);
- euro 437 million 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 deferred installments, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of euro 110 million, net of interest adjustments and certain reimbursements made by INPS. As previously mentioned, the dispute was resolved in Telecom Italia's favor in sentence No. 3398/2002 decided by the Supreme Court, conforming to the previous sentence No. 4242/2000 that was handed down (by which the payment of the above interest and accrued interest related thereto was suspended as from June 2000).

Telecom Italia therefore has a receivable of euro 131 million (including interest at 5%) recorded in the statement of income in "extraordinary income" in the first half of 2002. This receivable was in part compensated on July 1, 2002 by the payment of the current installment. A portion of the receivable will be paid by Telecom Italia to other companies in the Group - mainly TIM and TI Lab - since it concerns pre-amortization interest relating to these companies. This portion, equal to about euro 2 million - was recorded in the statement of income in the first half of 2002 in "extraordinary expense"

■ Accounts receivable securitization and factoring

Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Domestic Wireline (TIDW) begun in 2001 has continued into the first half of 2002. Reference should be made to the annual report 2001 for a description of the program.

In the first half of 2002, the total amount of trade accounts receivables sold under securitization transactions amounted to euro 4.5 billion and only took into account the receivables due to Telecom Italia from residential customers. At June 30, 2002, sold trade receivables totaled euro 843 million (of which euro 747 million were not yet due).

As far as the accounting treatment of securitization transactions is concerned, the total amount of receivables sold is netted in the balance sheet against the consideration received on the sale: these amounts consist of a down payment, non-refundable and without recourse, and of a deferred portion, recorded within *Other receivables (financial)* in current assets. This balance sheet caption is presented net of the relative allowance for doubtful accounts calculated on the basis of estimated realizable value; the change in the allowance account is recorded as *financial expense* in the statement of income. The difference between the book value of the receivables sold and the consideration on the sale, for the commercial portion, is charged to *Miscellaneous operating costs*, and for the financial portion, to *interest and other financial expense* 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 and other expenses) are charged directly to the statement of income in *Costs for Services*.

The securitization transaction led to a reduction in net debt at June 30, 2002 of euro 824 million.

Lastly, at June 30, 2002, Telecom Italia showed financial payables of euro 162 million due to TI Securitisation Vehicle for the investment of excess temporary liquid resources by the latter in Telecom Italia.

Factoring

In the first half of 2002, Telecom Italia entered into certain transactions for the sale of trade accounts receivable without recourse for a total of euro 209 million.

These factoring transactions led to a reduction in net debt at June 30, 2002 of the same amount.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

BALANCE SHEETS

ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLES ASSETS

euro 1,339,839 thousand

(euro 1,317,922 thousand at December 31, 2001)

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

(in thousands of euro)	1st half 2002
- additions	258,601
- disposals	(238)
- sales and contributions of business segments	(479)
- amortization	(235,967)
Total	21,917

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

12/31/2001				
(in thousands of euro)	Cost	Writedowns	Amortization	Total
Start-up and expansion costs	2,635	-	(2,635)	-
Industrial patents and intellectual property rights	2,850,338	-	(2,184,617)	665,721
Concessions, licenses, trademarks and similar rights	251	-	(165)	86
Work in progress and advances to suppliers	479,961	-	-	479,961
Other intangibles (*)	543,947	-	(371,793)	172,154
Total	3,877,132	-	(2,559,210)	1,317,922
(*) Including:				
Leasehold improvements	374,696	-	(274,635)	100,061
Right of use of transmission systems and indefeasible rights of use	168,844	-	(96,751)	72,093

CHANGES DURING THE PERIOD

(in thousands of euro)	Additions	Reclassifications	Sales / Retirements / Transfers (a)	Writedowns / Reinstatements of value	Amortization	Total
Industrial patents and intellectual property rights	-	138,375	(479)	-	(217,431)	(79,535)
Concessions, licenses, trademarks and similar rights	-	-	-	-	(8)	(8)
Work in progress and advances to suppliers	258,601	(165,831)	(238)	-	-	92,532
Other intangibles (*)	-	27,456	-	-	(18,528)	8,928
Total	258,601	-	(717)	-	(235,967)	21,917
(*) Including:						
Leasehold improvements	-	27,456	-	-	(11,210)	16,246
Right of use of transmission systems and indefeasible rights of use	-	-	-	-	(7,318)	(7,318)

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(a) Broken down as follows:	Cost	Writedowns	Amortization	Carrying value
Industrial patents and intellectual property rights	(1,238)	-	759	(479)
- of which contributions of business segments	(1,238)	-	759	(479)
Concessions, licenses, trademarks and similar rights	-	-	-	-
Work in progress and advance to suppliers	(238)	-	-	(238)
Other intangibles	-	-	-	-
Total	(1,476)	-	759	(717)

6/30/2002

(in thousands of euro)	Cost	Writedowns	Amortization	Total
Start-up and expansion costs	2,635	-	(2,635)	-
Industrial patents and intellectual property rights	2,987,475	-	(2,401,289)	586,186
Concessions, licenses, trademarks and similar rights	251	-	(173)	78
Work in progress and advances to suppliers	572,493	-	-	572,493
Other intangibles (*)	571,403	-	(390,321)	181,082
Total	4,134,257	-	(2,794,418)	1,339,839

(*) Including:

Leasehold improvements	402,152	-	(285,845)	116,307
Right of use of transmission systems and indefeasible rights of use	168,844	-	(104,069)	64,775

In particular, in the first half of 2002, the purchases of intangible assets from subsidiaries, affiliated companies and parent companies amounted to euro 205,888 thousand and principally referred to software projects from Telesoft (euro 159,837 thousand), Italtel (euro 25,170 thousand) and TiLab (euro 7,125 thousand).

■ FIXED ASSETS

euro 13,493,052 thousand

(euro 14,109,590 thousand at December 31, 2001)

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

(in thousands of euro)	1st half 2002
- additions	659,425
- disposals	(26,506)
- sales of business segments	(28)
- utilization of the reserve for writedowns	1,100
- depreciation	(1,250,529)
Total	(616,538)

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

6/30/2001

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	2,247,131	465,538	(1,856)	(1,213,342)	1,497,471
- non-industrial buildings	34,371	1,290	-	(2,377)	33,284
- industrial buildings	2,212,760	464,248	(1,856)	(1,210,965)	1,464,187
Plant and machinery	46,349,627	785,054	(711,165)	(34,622,928)	11,800,588
Manufacturing and distribution equipment	859,082	-	-	(831,129)	27,953
Other fixed assets	642,942	4,312	-	(544,419)	102,835
Construction in progress and advances to suppliers	680,743	-	-	-	680,743
Total	50,779,525	1,254,904	(713,021)	(37,211,818)	14,109,590

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

CHANGES DURING THE PERIOD

(in thousands of euro)	Additions	Reclassifications	Sales / Retirements / Other changes (a)	Writedowns / Reinstatements of value	Depreciation	Total
Land and buildings	-	16,051	(12,502)	-	(44,526)	(40,977)
- non-industrial buildings	-	6	(10,443)	-	(102)	(10,539)
- industrial buildings	-	16,045	(2,059)	-	(44,424)	(30,438)
Plant and machinery	-	889,964	(12,718)	-	(1,169,547)	(292,301)
Manufacturing and distribution equipment	-	1,470	-	-	(9,913)	(8,443)
Other fixed assets	-	2,863	(48)	-	(26,543)	(23,728)
Construction in progress and advances to suppliers	659,425	(910,348)	(166)	-	-	(251,089)
Total	659,425	-	(25,434)	-	(1,250,529)	(616,538)

(a) Broken down as follows:	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net book value
Land and buildings	(14,446)	(658)	63	2,539	(12,502)
- non-industrial buildings	(11,642)	(9)	-	1,208	(10,443)
- industrial buildings	(2,804)	(649)	63	1,331	(2,059)
Plant and machinery	(137,408)	(2,028)	1,037	125,681	(12,718)
Manufacturing and distribution equipment	(895)	-	-	895	-
Other fixed assets	(7,919)	(10)	-	7,909	(20)
- of which contributions of business segments	(189)	-	-	161	(28)
Construction in progress and advances to suppliers	(166)	-	-	-	(166)
Total	(161,023)	(2,696)	1,100	137,185	(25,434)

6/30/2002

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	2,248,736	464,880	(1,793)	(1,255,329)	1,456,494
- non-industrial buildings	22,735	1,281	-	(1,271)	22,745
- industrial buildings	2,226,001	463,599	(1,793)	(1,254,058)	1,433,749
Plant and machinery	47,102,183	783,026	(710,128)	(35,666,794)	11,508,287
Manufacturing and distribution equipment	859,657	-	-	(840,147)	19,510
Other fixed assets	637,697	4,302	-	(562,892)	79,107
Construction in progress and advances to suppliers	429,654	-	-	-	429,654
Total	51,277,927	1,252,208	(711,921)	(38,325,162)	13,493,052

In the first half of 2002, the purchases of fixed assets from subsidiaries, affiliated companies and parent companies totaled euro 69,934 thousand and referred almost entirely to purchases of telephone exchanges from Italtel (euro 68,753 thousand).

Furthermore, transactions with other related parties totaled euro 24,287 thousand and referred to the purchases of network cables from Pirelli.

Accumulated depreciation at June 30, 2002 is globally adequate in relation to the residual possibility of utilization of fixed assets, as determined by the estimated useful lives of the plant constituting the national telecommunications network. Depreciation expense is calculated using the rates applied in the prior year. Accumulated depreciation rose from 72.5% of fixed assets, net of writedowns, at December 31, 2001 to 74.0% at June 30, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ LONG-TERM INVESTMENTS

euro 18,037,724 thousand

(euro 18,370,044 thousand at December 31, 2001)

Long-term investments decreased by euro 332,320 thousand compared to December 31, 2001 and include the following:

(in thousands of euro)	6/30/2002	12/31/2001
Equity investments in:		
• subsidiaries	17,134,485	17,659,160
• affiliated companies	364,480	386,923
• other companies	21,930	24,327
	17,520,895	18,070,410
Advances on future capital contributions		
	219,797	78,896
Accounts receivable		
• subsidiaries	60,000	60,000
• affiliated companies	2,001	-
• other receivables	135,048	160,738
	197,049	220,738
Treasury stock	99,983	-
Total	18,037,724	18,370,044

Annex 1 presents the changes in each investment during the period together with the corresponding amount at the beginning of the year and at June 30, 2002. Overall, investments in subsidiaries, affiliates and other companies decreased by euro 549,515 thousand compared to December 31, 2001, as shown below:

INCREASES:	(in thousands of euro)
• Subscription to capital increases, recapitalizations and loss coverage of: TILAB (5,600), IN.TEL.AUDIT (1,500), Emsa Servizi (7,001), Nordcom (2,062), Stream (113,468), TMI - Telemedia International Italia (92,210), Edotel (8,436), Telegono (411), Sistemi Formativi Confindustria (12) and I.T. Telecom (376)	231,076
• Capital increases following contributions of the investments in Netsiel, Telesoft, Saritel and Sodalìa to I.T. Telecom	142,906
Total increases	(A) 373,982
DECREASES:	
• Disposals/reduction of equity shares/quotas in: IMMSI (123)	123
• Writedown for losses of value charged to the statement of income on the following investments: Nortel Inversora (19,114), Stream (119,270), TMI - Telemedia International Italia (80,105), TILAB (21,332), Latin American Nautilus (12,604), Telecom Italia International (516,641) and Telecom Italia of North America (1,294)	770,360
• Writedown for losses of value covered by the reserve for risks and charges on the following investments: Fratelli Alinari (2,400), TMI - Telemedia International Italia (5,698), Emsa Servizi (2,001) and Eurescom (9)	10,108
• Contribution of the following investments to I.T. Telecom: Netsiel (108,486), Telesoft (12,550), Saritel (17,783) and Sodalìa (4,087)	142,906
Total decreases	(B) 923,497
Net change for the period	(A-B) (549,515)

In particular:

- the investment held in Telecom Italia International (ex Stet International Netherlands) was written down by euro 516,641 thousand mainly for the losses connected with the sale of 9Telecom to LDCom and writedown of the carrying value of the investment in Nortel Inversora;
- the investments in the subsidiary TMI - Telemedia International Italia and the affiliate Stream were written down (euro 80,105 thousand and euro 119,270 thousand respectively) to bring their values in line with net equity at June 30, 2002;

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

- in June, Telecom Italia as part of the project for the reorganization of the Information Technology Group area, subscribed to 14,370,600 IT Telecom shares of par value euro 5 each with a share premium of euro 4.944, through the contribution – at book value – of the investments held in Netsiel (68.65%), Saritel (100%), Sodalia (100%) and Telesoft (60%). The total amount of the contribution was euro 142,906 thousand;
- in the first half of 2002, additional 22,000,000 Seat Pagine Gialle shares were loaned to Morgan Stanley. At June 30, 2002, 100,000,000 Seat Pagine Gialle shares were still on loan;
- some investments in subsidiaries and affiliated companies are recorded at an amount in excess of the corresponding share of the underlying shareholders' equity, net of dividends and after consolidation adjustments. These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values.

In particular, in the case of the investment in Seat Pagine Gialle S.p.A., on the basis of the plans and programs drawn up by the subsidiary and designed to regain economic and financial equilibrium and profits, it is deemed that there are no elements that suggest a permanent impairment in value. The performance of Seat Pagine Gialle's stock was also considered: the market price fell to below the average carrying value (euro 1.11) and by carefully evaluating such trend it was assessed that it did not reflect a permanent impairment in value. In fact, the Company maintains that the stock market price of Seat Pagine Gialle's stock is not particularly significant as regards the volumes traded, which are a very modest percentage of shares outstanding, and in relation to the particular moment in time that the world stock markets have experienced, and are still experiencing.

A comparison between the market price of listed shares at June 30, 2002 and their carrying value shows an unrealized gain of euro 12,493 million. Further details are given in Annex 2.

Advances on future capital contributions, of euro 219,797 thousand, increased by euro 140,901 thousand compared to December 31, 2001, following the payments made to I.T. Telecom for the acquisitions, from Finsiel, of the interests in the companies Netsiel, Telesoft and Netikos (euro 83,401 thousand), and from Olivetti, of the interest in Webegg (euro 57,500 thousand). Advances also include euro 78,896 thousand of payments made to Telecom Italia International in previous years for the acquisition of foreign investment holdings.

Accounts receivables of euro 197,049 thousand decreased, compared to December 31, 2001, by euro 23,689 thousand and are analyzed as follows:

(in thousands of euro)	12/31/2001	Changes during the period				6/30/2002
		Disburse-ments	Reimburse-ments	Reclassifi-cations/Other	Total	
Subsidiaries	60,000	-	-	-	-	60,000
Affiliated companies	-	2,001	-	-	2,001	2,001
Other receivables	160,738	12,523	(38,085)	(128)	(25,690)	135,048
Total	220,738	14,524	(38,085)	(128)	(23,689)	197,049

"Accounts receivables from subsidiaries" totaled euro 60,000 thousand and refer to the loan granted in 2001 to *Stet Hellas for the acquisition of UMTS licenses*.

"Accounts receivable from affiliated companies" totaled euro 2,001 thousand and refer to a *loan granted to Mirror International Holding*.

"Other receivables" amounting to euro 135,048 thousand, mainly refer to:

- receivables from employees (euro 46,413 thousand), representing the remaining amounts of loans receivable;
- the prepayment of the tax on the reserve for employee termination indemnities (euro 81,091 thousand) as stated in Law No. 662 of December 23, 1996, including accrued interest as required by law.

As regards accounts receivable included in long-term investments, the portion due within and beyond five years is disclosed in the attached Annex 3, as required by art. 2427, point 6, of the Italian Civil Code.

"Treasury stock" purchased up to June 30, 2002 totaled 11,900,000 savings shares and 3,600,000 ordinary shares, for an equivalent amount of euro 99,983 thousand. Moreover, the Telecom Italia ordinary Shareholders' Meeting on November 7, 2001, in authorizing the Board of Directors of the company to buy-back ordinary and/or savings shares for a maximum amount of euro 1,500,000,000, within the limits established by law, also authorized the directors to dispose of, for an unspecified period of time, the shares purchased for any stock option plans.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

CURRENT ASSETS

■ INVENTORIES

euro 76,091 thousand

(euro 76,894 thousand at December 31, 2001)

Inventories, which decreased by euro 803 thousand compared to December 31, 2001, consist of "contract work in process" (euro 12,371 thousand) and "merchandise" (euro 63,720 thousand).

■ ACCOUNTS RECEIVABLE

euro 8,628,058 thousand

(euro 9,220,393 thousand at December 31, 2001)

Accounts receivable decreased by euro 592,335 thousand compared to December 31, 2001. A breakdown and the changes that occurred during the period are disclosed in the table below:

(in thousands of euro)	12/31/2001	Changes during the period			6/30/2002
		Utilizations	Provisions	Change	
Trade accounts receivable	4,548,154			65,798	4,613,952
- allowance for doubtful accounts	(306,500)	38,844	(85,644)	(46,800)	(353,300)
Total trade accounts receivable	4,241,654			18,998	4,260,652
Accounts receivable from subsidiaries	2,214,020			(285,508)	1,928,512
- allowance for doubtful accounts of subsidiaries	(17,100)		(13,100)	(13,100)	(30,200)
Total accounts receivable from subsidiaries	2,196,920			(298,608)	1,898,312
- of which financial receivables	496,989			418,713	915,702
Accounts receivable from affiliated companies	324,870			(122,476)	202,394
- allowance for doubtful accounts of affiliated companies	(13,300)	6,500		6,500	(6,800)
Accounts receivable from affiliated companies	311,570			(115,976)	195,594
- of which financial receivables	122,490			(106,046)	16,444
Accounts receivable from parent companies	1,090			(843)	247
Other receivables	2,469,159			(195,906)	2,273,253
- Government and other public entities for grants and subsidies	1,265			-	1,265
- deferred tax assets	509,094			(28,687)	480,407
- other receivables	1,958,800			(167,219)	1,791,581
Total	9,220,393			(592,335)	8,628,058

■ Trade accounts receivable

Trade accounts receivable, totaling euro 4,260,652 thousand, are shown net of the allowance for doubtful accounts (euro 353,300 thousand, of which euro 85,644 thousand was charged during the period). They include euro 1,291,967 thousand of receivables from other telecommunications carriers, of which euro 989,264 thousand are from wireline and mobile carriers, and euro 302,703 thousand from foreign correspondents. The receivables securitization and factoring of receivables, described in the accounting principles paragraph, led to a reduction in trade accounts receivable at June 30, 2002 of euro 1,052,025 thousand, of which euro 843,109 thousand referred to securitization transactions.

■ Accounts receivable from subsidiaries

Accounts receivables from subsidiaries amounted to euro 1,898,312 thousand and refer to financial, trade and other receivables; they decreased by euro 298,608 thousand compared to December 31, 2001.

Financial receivables, equal to euro 915,702 thousand, refer to current account transactions carried out at market rates for cash management purposes and short-term loans. They include receivables from *TIM* (euro 260,000 thousand), *Sogei* (euro 136,881 thousand), *Tilab* (euro 127,242 thousand), *Telespazio* (euro 84,037 thousand), *Telesoft* (euro 62,624 thousand) and *Saritel* (euro 33,060 thousand). Trade accounts receivables (euro 672,490 thousand) relate to TLC services rendered mainly to *TIM* (euro 175,172 thousand), *Telespazio* (euro 143,500 thousand), *Seat Pagine Gialle* (euro 65,118 thousand) and *Path.Net* (euro 61,005 thousand) and a management fee due from *Telecom Italia International* (euro 23,859 thousand net of the relative allowance for doubtful accounts of euro 30,200 thousand, accrued for uncollectible receivables by *Telecom Italia International* from *Telekom Srbija*). Other receivables (euro 310,120 thousand) mainly regard the receivables for Group VAT, in particular with respect to *TIM* (euro 255,297 thousand) and *Seat Pagine Gialle* (euro 23,493 thousand).

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies totaled euro 195,594 thousand and refer to trade, financial and other receivables; they decreased by euro 115,976 thousand compared to December 31, 2001.

Financial receivables, equal to euro 16,444 thousand, reflect current account transactions carried out at market rates for cash management purposes and short-term loans, and mainly refer to the receivable from *Stream* (euro 16,076 thousand). Trade accounts receivable (euro 147,313 thousand) refer to TLC services rendered principally to *Auna* (euro 64,476 thousand) and *Stream* (euro 29,976 thousand) and TLC products sold to *Teleleasing* (euro 29,928 thousand), and include an allowance for doubtful accounts provided in 2001 for receivable positions with Brasil Telecom and Telecom Argentina (euro 6,800 thousand). Other receivables (euro 31,837 thousand) mainly refer to *Stream* (euro 31,447 thousand) following the enforcement of the guarantee provided by Telecom Italia, at the time of the sale of Italtel, on receivables of the latter from Stream; Telecom Italia has set up a specific reserve for the same amount.

■ Accounts receivable from parent companies

Accounts receivable from parent companies totaled euro 247 thousand and regard trade accounts receivable from the parent company *Olivetti*.

■ Other receivables

Other receivables amounted to euro 2,273,253 thousand and chiefly regard deferred tax assets (euro 480,407 thousand), receivables relating to personnel (euro 234,658 thousand), receivables from the Tax Administration (euro 710,341 thousand), cash orders from customers in transit with the banking and postal banking system (euro 148,182 thousand), the receivable for the loan of Seat Pagine Gialle shares to Morgan Stanley (euro 254,450 thousand) and receivables from TI Securitisation Vehicle S.r.l. and Unicredito Factoring for the deferred portions of trade accounts receivable securitization and factoring transactions (euro 268,431 thousand).

■ SHORT-TERM FINANCIAL ASSETS

euro 159,627 thousand

(euro 240,457 thousand at December 31, 2001)

The composition and changes during the period are shown in the following table:

		Changes during the period				
			Sales/ Reimbur- sements	Writedowns/ Reinstatements of value	Total	
(in thousands of euro)	12/31/2001	Acquisitions				6/30/2002
Equity investments in subsidiaries	240,457	5,184	-	(86,014)	(80,830)	159,627
Total	240,457	5,184	-	(86,014)	(80,830)	159,627

"Equity investments in subsidiaries" refer to the value of TIM ordinary shares, purchased for trading purposes. Further details are given in Annex 2.

* * *

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 3.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ LIABILITIES AND SHAREHOLDERS' EQUITY

■ SHAREHOLDERS' EQUITY

euro 13,968,132 thousand

(euro 15,870,654 thousand at December 31, 2001)

Shareholders' equity decreased by euro 1,902,522 thousand, compared to December 31, 2001; the table below shows the changes that occurred during the period:

(in thousands of euro)	12/31/2001	Changes during the period			Total	6/30/2002
		Appropriation of 2001 net income	Other changes	Net income		
Share capital	4,023,061	-	656	-	656	4,023,717
Additional paid-in capital	1,812,283	-	7,443	-	7,443	1,819,726
Reserves for inflation adjustments under						
- Law No. 72 of 3.19.1983	2,294,720	-	-	-	-	2,294,720
- Law No. 413 of 12.30.1991	468,944	-	-	-	-	468,944
Legal reserve	652,026	7,633	-	-	7,633	659,659
Reserve for treasury stock	-	-	99,983	-	99,983	99,983
Other reserves:						
- reserve for accelerated depreciation	-	-	-	-	-	-
- reserve Law No. 488/92	118,678	-	-	-	-	118,678
- reserve Law No. 342 of 11.21.2001, art. 14	716,378	-	-	-	-	716,378
- special reserve	1,369,062	-	(1,369,062)	-	(1,369,062)	-
- reserve for capital grants	471,947	-	7,152	-	7,152	479,099
- reserve, Leg. Decree No. 124/93, ex art. 13	169	-	-	-	-	169
- miscellaneous reserves	3,792,576	-	(895,413)	-	(895,413)	2,897,163
Retained earnings	-	1,147	-	-	1,147	1,147
Net income for the year 2001	150,810	(8,780)	(142,030)	-	(150,810)	-
Net income for the period	-	-	-	388,749	388,749	388,749
Total shareholders' equity	15,870,654	-	(2,291,271)	388,749	(1,902,522)	13,968,132

■ Share capital

Share capital was euro 4,023,717 thousand and increased by euro 656 thousand compared to December 31, 2001 following the subscription against payment, by executives of the Group, of 1,192,750 ordinary shares of par value euro 0.55 each, under the stock option plan.

■ Additional paid-in capital

Additional paid-in capital of euro 1,819,726 thousand increased by euro 7,443 thousand, compared to December 31, 2001, as a result of the foregoing options exercised under the stock option plan.

■ Reserve for treasury stock in portfolio

This reserve totaled euro 99,983 thousand and refers to the reclassification from "other reserves" of the amount for the purchase of 3,600,000 ordinary shares at an average price of euro 8.45 and 11,900,000 savings shares at an average price of euro 5.85 under the buy-back authorized by the ordinary Shareholders' Meeting on November 7, 2001.

■ Special reserve

The special reserve shows a nil balance after the distribution of the entire reserve to the shareholders as voted by the ordinary Shareholders' Meeting of May 7, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Reserve for capital grants

The reserve for capital grants totaled euro 479,099 thousand and increased by euro 7,152 thousand as a result of the transfer, from the "reserves for risks and charges", of the portion of grants received up to December 31, 1992 that became available during the six-month period, in relation to the depreciation of the underlying assets.

■ Miscellaneous reserves

Miscellaneous reserves totaled euro 2,897,163 thousand and decreased, compared to December 31, 2001, by euro 895,413 thousand due to the following movements:

- reclassification of euro 99,983 thousand to the "reserve for treasury stock in portfolio";
- withdrawal of euro 795,430 thousand for distribution to the shareholders as voted by the ordinary Shareholders' Meeting of May 7, 2002.

RESERVES FOR RISKS AND CHARGES

euro 1,297,585 thousand

(euro 1,612,737 thousand at December 31, 2001)

These decreased by euro 315,152 thousand, compared to December 31, 2001. The composition and changes in these reserves are described as follows:

(in thousands of euro)	12/31/2001	Change during the period					6/30/2002
		Provisions	Utilizations	Released to income	Reclassifications/Other	Total	
Reserve for taxes	116,648	323,219	(453)	-	(313,505)	9,261	125,909
Other reserves	1,496,089	377,023	(62,890)	(62,772)	(575,774)	(324,413)	1,171,676
Reserve for litigations	140,625	5,722	(4,708)	-	-	1,014	141,639
Reserve for capital grants	115,513	-	-	-	(7,152)	(7,152)	108,361
Reserve for losses of subsidiaries and affiliates	80,932	45,745	(10,108)	-	-	35,637	116,569
Reserve for corporate restructuring	-	261,000	-	-	-	261,000	261,000
Reserve for purchase commitments	568,622	-	-	-	(568,622)	(568,622)	-
Reserve for contractual risks and other risks	590,397	64,556	(48,074)	(62,772)	-	(46,290)	544,107
Total	1,612,737	700,242	(63,343)	(62,772)	(889,279)	(315,152)	1,297,585

■ Reserve for taxes

The reserve for taxes amounted to euro 125,909 thousand and increased, compared to December 31, 2001, by euro 9,261 thousand. The provision to the reserve relates to income taxes for the period. The reclassification refers to the compensation of the reserve for taxes against the receivable for current income taxes due to the different accounting treatment for recording income taxes in interim financial statements.

■ Other reserves

Other reserves totaled euro 1,171,676 thousand and decreased by euro 324,413 thousand, compared to December 31, 2001. This was mainly due to recording, in financial payables, the forward purchase commitments regarding Seat Pagine Gialle shares (-euro 568,622 thousand) that had been recorded in this caption in 2001, and to providing, in the reserve for corporate restructuring (+euro 261,000 thousand) – the expenses connected with the agreements over the layoffs signed with the labor unions in May 2002.

Furthermore:

- the provision to the reserve for the losses of subsidiaries and affiliates (euro 45,745 thousand) refers to losses in excess of the carrying value of Softe;
- the movements in the reserves for contractual risks and other risks regard: provisions mainly to cover regulatory disputes (euro 21,162 thousand) and the expenses connected with the sale of Italtel (euro 15,977 thousand); utilizations for guarantees provided by Telecom Italia for the sale of Sirti (euro 21,781 thousand) and the extinguishment of a payable by Stream to Telespazio (euro 15,800 thousand); amounts released to income since the agreement for the sale of Stream did not go through (euro 58,750 thousand).

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,045,643 thousand

(euro 1,025,349 thousand at December 31, 2001)

This reserve increased by euro 20,294 thousand, compared to December 31, 2001. The following changes took place during the period:

(in thousands of euro)

Balance at December 31, 2001	1,025,349
Changes during the period:	
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the period plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	77,546
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	(32,232)
• Advances	(7,844)
• Supplementary benefits (Telemaco)	(11,437)
• Substitute tax on the revaluation of the reserve	(3,524)
- Amounts transferred to/from subsidiaries	(2,215)
Balance at June 30, 2002	1,045,643

LIABILITIES

euro 25,267,772 thousand

(euro 24,898,003 thousand at December 31, 2001)

A breakdown of liabilities and accrued expenses pursuant to Article 2427, Section 6, of the Italian Civil Code, is provided in Annex 4. Liabilities, which increased by euro 369,769 thousand, compared to December 31, 2001, included the following:

(in thousands of euro)	6/30/2002			12/31/2001		
	Financial accounts payable	Trade accounts payable and other payables	Total	Financial accounts payable	Trade accounts payable and other payables	Total
Debentures	10,920,490	-	10,920,490	8,250,000	-	8,250,000
Due to banks	4,972,952	-	4,972,952	7,308,420	-	7,308,420
Due to other lenders	1,170,817	-	1,170,817	657,777	-	657,777
Advances	-	8,804	8,804	-	2,447	2,447
Trade accounts payable	-	1,979,878	1,979,878	-	2,240,654	2,240,654
Accounts payable to subsidiaries	733,329	1,119,615	1,852,944	1,218,043	1,132,687	2,350,730
Accounts payable to affiliated companies	8,191	94,647	102,838	29,205	215,539	244,744
Accounts payable to parent companies	-	705,674	705,674	-	11	11
Taxes payable	41,041	137,759	178,800	50,162	410,390	460,552
Contributions to pension and social security institutions	-	753,099	753,099	-	767,412	767,412
Other liabilities	273,990	2,347,486	2,621,476	395,266	2,219,990	2,615,256
Total	18,120,810	7,146,962	25,267,772	17,908,873	6,989,130	24,898,003

■ Debentures

Debentures amounted to euro 10,920,490 thousand and included euro 10,750,000 thousand of notes issued under the "Global Note Program" and euro 170,490 thousand for the issue of notes 2002 - 2022 reserved for subscription by employees, in service and retired, of companies directly and indirectly controlled by Telecom Italia with headquarters in Italy. The 20-year notes, with a face value of euro 50 each, issued at the same price, are not listed and can only be negotiated with Telecom Italia. The bi-annual deferred interest is payable on January 1 and July 1 of every year and is indexed to the 6-month Euribor.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

Under the "Global Note Program", in February, Telecom Italia issued a new note listed on the Luxembourg stock exchange for euro 2,500,000 thousand in two tranches of euro 1,250,000 thousand each, maturing February 1, 2007 and February 1, 2012.

■ Due to banks

Due to banks of euro 4,972,952 thousand decreased by euro 2,335,468 thousand compared to December 31, 2001. They consist of medium/long-term financing of euro 2,393,027 thousand - of which euro 24,790 thousand is secured by collateral - and short-term borrowings of euro 2,579,925 thousand. Of the latter amount, euro 1,245,000 thousand refer to borrowings taken out to cover temporary liquidity requirements, euro 900,000 thousand to credit facilities and euro 434,925 thousand to bank overdrafts.

■ Due to other lenders

Due to other lenders totaled euro 1,170,817 thousand and increased by euro 513,040 thousand compared to December 31, 2001. They consist of medium/long-term financing (euro 1,008,059 thousand) referring principally to the liability with JPMorgan Chase on the forward commitment to purchase Seat Pagine Gialle shares (euro 568,622 thousand) and loans made by Cassa Depositi e Prestiti (euro 353,623 thousand), as well as short-term loans payable to TI Securitisation Vehicle S.r.l., that invested the excess liquidity generated by the securitization of receivables (euro 162,758 thousand).

■ Trade accounts payable

Trade accounts payable totaled euro 1,979,878 thousand and decreased by euro 260,776 thousand compared to December 31, 2001. They comprise payables to other TLC carriers amounting to euro 581,702 thousand, of which euro 218,975 thousand are due to foreign correspondents and euro 362,727 thousand to wireline and mobile operators.

■ Accounts payable to subsidiaries

Accounts payable to subsidiaries amounted to euro 1,852,944 thousand and decreased by euro 497,786 thousand compared to December 31, 2001. They consist of financial payables, trade accounts payable and other payables. Financial payables (euro 733,329 thousand) refer to current account transactions negotiated at market rates for cash management purposes and mainly include accounts payable to *Seat Pagine Gialle* (euro 440,314 thousand), *Finsiel* (euro 160,000 thousand) and *Saiat* (32,185 thousand). Trade accounts payable (euro 1,080,387 thousand) mainly refer to payables to *TIM* (euro 352,956 thousand), *Telespazio* (euro 65,346 thousand) and *Seat Pagine Gialle* (euro 49,297 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and *Telesoft* (euro 210,904 thousand), *Netsiel* (euro 158,207 thousand), *Tilab* (euro 48,287 thousand) and *Saritel* (euro 38,418 thousand) for supply transactions. Other payables (euro 39,228 thousand) primarily refer to capital contributions paid to the company *Path.Net* (euro 18,074 thousand) and amounts owed in connection with the Group's VAT settlement system, in particular to *Emsa* (euro 10,584 thousand).

■ Accounts payable to affiliated companies

Accounts payable to affiliated companies totaled euro 102,838 thousand and decreased by euro 141,906 thousand compared to December 31, 2001. They refer to financial payables, trade accounts payable and other payables. Financial payables (euro 8,191 thousand) refer to current account transactions negotiated at market rates for cash management purposes and mainly include accounts payable to *Teleleasing* (euro 4,930 thousand) and *Siemens Informatica* (euro 2,606 thousand). Trade accounts payable (euro 94,554 thousand) mainly refer to payables to *Italtel* (euro 62,365 thousand) and *Siemens Informatica* (euro 9,521 thousand) for supply transactions, and *Etec S.A.* (euro 10,645 thousand) and *Teleleasing* (euro 7,353 thousand) for the portion of TLC services invoiced by Telecom Italia to customers. Other payables (euro 93 thousand) refer to the liability for capital contributions payable to *Consorzio Res*.

■ Accounts payable to parent companies

Accounts payable to parent companies totaled euro 705,674 thousand and refer to the payable to *Olivetti* for Group VAT.

■ Taxes payable

Taxes payable amounted to euro 178,800 thousand and decreased by euro 281,752 thousand compared to December 31, 2001.

They mainly refer to:

- the payable to the Italian Treasury for withholding taxes of euro 39,075 thousand;
- the VAT liability totaling euro 62,479 thousand;
- medium/long-term financial debt (euro 41,041 thousand), relative to the agreement with the Financial Administration over the assessments received in 2001.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ Contributions to pension and social security institutions

These totaled euro 753,099 thousand and decreased by euro 14,313 thousand compared to December 31, 2001. They include amounts owed to social security and health institutions with regard to personnel. These specifically include euro 651,003 thousand payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992, described under the accounting principles.

■ Other liabilities

Other liabilities, of euro 2,621,476 thousand, increased by euro 6,220 thousand compared to December 31, 2001. They include, in particular, liabilities for:

- customer-related items totaling euro 1,081,184 thousand, including deposits by subscribers against telephone conversations, pre-billed basic charges and the unused portions of prepaid telephone cards;
- employee-related items amounting to euro 407,985 thousand;
- the TLC license fee totaling euro 753,120 thousand. Telecom Italia contested the Ministerial Decree dated March 21, 2000 that introduced Law No. 448/1998, which set forth a new license fee as from January 1, 1999 in lieu of the previous concession fee. Consequently, it has not paid the license fee for the years 2000 and 2001;
- loan of Seat Pagine Gialle ordinary shares to Morgan Stanley (euro 254,450 thousand); the contra-entry is to "Other receivables".

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 4.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ MEMORANDUM ACCOUNTS

Memorandum accounts totaled euro 14,418,220 thousand at June 30, 2002 and can be analyzed as follows:

■ GUARANTEES PROVIDED

euro 11,613,794 thousand

Guarantees provided consist of sureties (net of counter-guarantees received totaling euro 1,949,462 thousand), of which euro 11,283,558 thousand are on behalf of subsidiaries, euro 221,019 thousand on behalf of affiliated companies and euro 109,217 thousand on behalf of third parties. The guarantees were given mainly in respect of the notes issued by Sogerim for a total of euro 8,500,000 thousand (part of the Global Medium-Term Note Program which is completely guaranteed by Telecom Italia), other medium/long-term financial transactions, supply contracts and guarantees on foreign fixed and mobile licenses.

■ PURCHASES AND SALES COMMITMENTS

euro 2,797,567 thousand

These mainly consist of commitments for the purchase of Seat Pagine Gialle shares (euro 2,416,642 thousand) under the put option on the same shares, described below, and future lease obligations plus the related purchase options (euro 352,830 thousand).

Put option on Seat Pagine Gialle shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on 710,777,200 Seat Pagine Gialle shares at a strike price of euro 4.2 per share. The contract provided for the exercise of such option after the deed of merger between Seat Pagine Gialle and Tin.it was recorded in the Companies Register. Huit II later transferred the put option to JPMorgan Chase Equity Limited (JPMCEL, at that time called Chase Equity Limited), together with the ownership of the corresponding Seat Pagine Gialle shares. On December 4, 2000, JPMCEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of exercising the option at an earlier date in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Telecom Italia International (at that time called Stet International Netherlands, a wholly-owned subsidiary of Telecom Italia) then purchased from JPMCEL, through the Liberator Ltd. trust, a call option on 660,777,200 Seat Pagine Gialle ordinary shares with the same expiry date and strike price as the put option, paying a total premium of euro 747,016,226. Moreover, for the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between the same Telecom Italia and Telecom Italia International.

On February 25, 2002, Telecom Italia concluded the renegotiation of the December 4, 2000 put and call options with the JPMorgan Chase group.

In particular, it was agreed to reduce the price to exercise the aforementioned options from euro 4.2 to euro 3.4 per share; in view of the reduction, Telecom agreed to pay JPMorgan Chase an amount of euro 568,622 thousand at the original expiration date of December 2005, unless Telecom Italia elects to pay the consideration earlier, in which case the consideration will be discounted to its present value at the time of payment.

It was also agreed to eliminate the right of either party to exercise the options at an earlier date, which thus expire on December 6, 2005, except for Telecom Italia's right to exercise part of the call options beforehand; the early exercise of the option per tranche, beginning from December 2004, covers 355 million Seat Pagine Gialle shares.

At the conclusion of the above transactions, Telecom Italia intends to record the equivalent value of these same shares in "Investments" under long-term investments.

The aforementioned expense connected with the revision of the strike price of the options (euro 568,622 thousand) was accounted for in the caption due to other lenders and had no effect on the statement of income for the period after utilization of the reserve for risks and charges accrued for the same amount at the end of 2001 for the estimated nonrecoverability of the original price of the put option.

■ OTHER MEMORANDUM ACCOUNTS

euro 6,859 thousand

These mainly refer to assets of third parties on loan, on deposit for safekeeping or for similar purposes (euro 5,867 thousand).

* * *

Moreover:

- the Company issued letters of patronage totaling euro 1,146,196 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 261,993 thousand and consist mainly of equipment leased to customers;
- guarantees provided by others for Company obligations totaled euro 2,546,147 thousand, including euro 2,220,000 thousand provided by Softe in the form of a Direct Participation Letter of Credit to JPMorgan Chase Equity Limited to guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares;
- the stock of employees and private shareholders deposited at June 30, 2002 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., were equal to euro 75,748 thousand, whereas those awaiting assignment or in the process of being replaced totaled euro 51,086 thousand;
- at June 30, 2002, the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting of June 21, 1999, amounted to euro 2,176 thousand; the remuneration of the common Representative of said shareholders will be paid out of this fund, as voted by the Meeting of the Savings Shareholders on October 31, 2001;
- the total amount of commitments at June 30, 2002 for future lease obligations to be paid to IM.SER under 21-year contracts was euro 3,585,886 thousand. The commitment from July 1, 2002 to June 30, 2007 is euro 184,667 thousand.

* * *

FINANCIAL DERIVATIVES

In the first half of 2002, transactions in derivatives mainly regarded the management of debt exposure through the use of instruments to hedge interest rate and exchange rate risks.

The following table gives a description of the financial derivative contracts used to hedge medium/long-term debt positions of the Group at June 30, 2002 compared to those at December 31, 2001.

(in millions of euro)	Notional amount/ Capital exchanged at June 30, 2002	Notional amount/ Capital exchanged at December 31, 2001
Interest rate swap	1,342	1,437
Cross currency and interest rate swap	390	390

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

	Maturity				
	Within 2002	2003	2004	2005	2006
Interest rate swap:					
Fixed pay rate, variable receive rate:					
- notional amount (millions of euro)	155	568	3	18,5	=
- weighted average pay rate	4.65%	3.4%	4.25%	4.7%	=
- received parameter	Euribor 3 mo	Euribor 3 mo	Euribor 3 mo	Euribor 3 mo	=
Variable pay rate, variable receive rate:					
- notional amount (millions of euro)	-	-	189	209	199,5
- paid parameter	-	-	Euribor 6 mo	Euribor 6 mo	Euribor 6 mo
- received parameter	-	-	Rolint	Rendint	Rendint
			Robot	Rendibot	Rendibot
				Rolint	Rolint
				Robot	Robot

Derivative transactions hedging exchange rate risks on short-term loans totaled euro 23 million.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ STATEMENTS OF INCOME

■ SALES AND SERVICE REVENUES

euro 8,430,044 thousand

(euro 8,552,856 thousand in the first half of 2001)

Breakdown by type of business

(in thousands of euro)	1st half 2002	1st half 2001	Change
Sales:			
- telephone products	89,696	117,098	(27,402)
- other goods	136	3,086	(2,950)
	89,832	120,184	(30,352)
Services:			
- Traffic (*)	4,166,179	4,459,458	(293,279)
- Basic charges (of which):	3,809,051	3,536,953	272,098
<i>lines leased to TLC operators</i>	528,700	433,768	94,932
- Activation fees	172,060	125,390	46,670
- Other	192,922	310,871	(117,949)
	8,340,212	8,432,672	(92,460)
Total	8,430,044	8,552,856	(122,812)
(*) of which:			
(in thousands of euro)	1st half 2002	1st half 2001	Change
Traffic by Telecom Italia customers:			
- domestic	2,589,056	3,121,636	(532,580)
- outgoing non-domestic	222,217	230,830	(8,613)
- special services and other	335,630	225,429	110,201
	3,146,903	3,577,895	(430,992)
Traffic by other operators:			
- domestic	642,836	468,484	174,352
- foreign correspondents	376,440	413,079	(36,639)
	1,019,276	881,563	137,713

Breakdown by geographical region

(in thousands of euro)	1st half 2002	1st half 2001	Change
Italy	7,733,723	7,770,108	(36,385)
Rest of Europe	396,210	416,897	(20,687)
North America	112,069	127,127	(15,058)
Central and South America	72,544	113,043	(40,499)
Australia, Africa and Asia	115,498	125,681	(10,183)
Total	8,430,044	8,552,856	(122,812)

Sales and service revenues are shown gross of the amount due to other carriers (euro 1,777,273 thousand), which are included in costs of "services". As for the breakdown by geographical region, the components of "Rest of Europe", "North American", "Central and South America" and "Australia, Africa and Asia" refer almost entirely to revenues from traffic to and from these geographical regions.

Transactions for revenues from sales and services with subsidiaries, affiliated companies and parent companies totaled euro 684,186 thousand. They refer to:

- TIM (euro 338,181 thousand) - revenues for mobile-fixed interconnections and lines leased;
- Telespazio (euro 58,978 thousand) - sale of satellite capabilities;
- Path.Net (euro 38,255 thousand) - TLC services and infrastructures dedicated to the Public Administration;
- Teleleasing (euro 82,678 thousand) - sale of TLC products and telephone services;
- Seat Pagine Gialle (euro 24,007 thousand) - TLC services.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ RAW MATERIALS, SUPPLIES AND MERCHANDISE

euro 106,215 thousand

(euro 156,205 thousand in the first half of 2001)

These decreased by euro 49,990 thousand (-32.0%) compared to the first half of 2001, mainly due to lower costs of inventory purchases. This item includes euro 10,804 thousand of costs incurred on behalf of subsidiaries, affiliated companies and parent companies mainly in reference to Italtel (euro 6,696 thousand) for the maintenance costs of telephone exchanges.

■ SERVICES

euro 2,893,411 thousand

(euro 2,942,420 thousand in the first half of 2001)

These include the following:

(in thousands of euro)	1st half 2002	1st half 2001	Change
Direct service costs	281,114	341,872	(60,758)
Operating costs	522,093	570,909	(48,816)
Marketing costs	239,727	265,619	(25,892)
Know-how development costs	73,204	42,803	30,401
Amounts due to other carriers	1,777,273	1,721,217	56,056
Total	2,893,411	2,942,420	(49,011)

An analysis of the composition of such costs shows the following:

- "direct service costs" include the operating and maintenance costs of the TLC network (euro 115,735 thousand), operating and maintenance costs of customer installations (euro 78,120 thousand), public telephone installations (euro 26,532 thousand) and the costs for operating the satellite systems (euro 31,350 thousand);
- "operating costs" refer to the operating and maintenance costs of buildings, motor vehicles, IT systems and equipment, as well as general expenses. In particular, operating costs include euro 128,755 thousand for IT systems, euro 71,563 thousand for electricity for buildings and installations, euro 62,157 thousand for indirect personnel costs, euro 45,468 thousand for building and plant operating and maintenance, euro 39,054 thousand for outsourcing costs and euro 49,065 thousand for sundry office expenses;
- "marketing costs" include selling expenses, after-sales assistance, customer relations, advertising and promotion. In particular, such costs include euro 72,804 thousand for advertising and promotions, euro 31,765 thousand for trade agreements with Internet Service Providers, euro 43,925 thousand for costs inherent to customer invoicing;
- "know-how development costs" consist mainly of euro 41,232 thousand of expenditures for studies and research and euro 25,494 thousand of consulting fees;
- "amounts due to other carriers" mainly include euro 1,029,692 thousand due to Italian mobile operators, euro 387,770 thousand to domestic fixed carriers and euro 333,251 thousand to foreign correspondents.

The costs for services include euro 1,052,438 thousand regarding transactions with subsidiaries, affiliated companies and parent companies. They refer, in particular, to:

- TIM (euro 642,146 thousand) - amounts due for telecommunications services;
- Netsiel (euro 101,433 thousand) - operating IT systems;
- Seat Pagine Gialle (euro 40,329 thousand) and Etec S.A. (euro 29,615 thousand) - TLC services;
- Saritel (euro 29,612 thousand) - supply of IT services;
- Tilab (euro 36,752 thousand) - consulting fees and studies and research costs;
- Telespazio (euro 28,185 thousand) - use of satellite circuits.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ USE OF PROPERTY NOT OWNED

euro 298,811 thousand

(euro 312,454 thousand in the first half of 2001)

Use of property not owned consists of "service costs" (for the lease of TLC lines and satellite systems), amounting to euro 96,854 thousand, and "operating costs" (for building rentals, building and vehicle leases and equipment rentals), totaling euro 201,957 thousand. As regards lease installments, principal and interest total, respectively, euro 10,033 thousand and euro 10,031 thousand.

This item comprise euro 150,166 thousand of costs for the use of property not owned relating to subsidiaries, affiliated companies and parent companies. They regard, in particular:

- IM.SER (euro 95,171 thousand) and Telemaco Immobiliare (euro 36,776 thousand) - building rentals;
- Teleleasing (euro 18,174 thousand) - mainly building leases.

■ FINANCIAL INCOME AND EXPENSE

- euro 242,410 thousand

(- euro 438,364 thousand in the first half of 2001)

The net expense balance, which decreased by euro 195,954 thousand, compared to the first half of 2001, included the following:

(in thousands of euro)		1st half 2002	1st half 2001	Change
Income from equity investments	(A)	290,375	59,483	230,892
Other financial income	(B)	51,744	107,767	(56,023)
Interest and other financial expense	(C)	584,529	605,614	(21,085)
Total	(A+B-C)	(242,410)	(438,364)	195,954

Income from equity investments refers to the following:

(in thousands of euro)	1st half 2002	1st half 2001	Change
Dividends from subsidiaries, affiliates and other companies	185,840	52,214	133,626
Other income from equity investments:			
• tax credits on dividends	104,535	7,269	97,266
Total	290,375	59,483	230,892

The dividends particularly refer to:

- TIM (euro 168,605 thousand), almost entirely from the distribution of reserves;
- Telemaco Immobiliare (euro 16,456 thousand).

Other financial income includes the following:

(in thousands of euro)	1st half 2002			1st half 2001	Change
	Included in long-term investments	Included in current assets	Total		
Interest and fees on:					
• accounts receivable	1,696	18,551	20,247	39,255	(19,008)
- from subsidiaries	20	921	941	4,166	(3,225)
- from affiliated companies	6,337	-	6,337	6,685	(348)
• banks and the Postal Administration	-	851	851	2,313	(1,462)
	8,053	20,323	28,376	52,419	(24,043)
Foreign exchange gains			8,624	23,918	(15,294)
Other income			14,744	31,430	(16,686)
Total			51,744	107,767	(56,023)

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

Other financial income includes euro 21,188 thousand of interest and fees on receivables from subsidiaries, affiliated companies and parent companies almost all of which refer to interest on current accounts for cash management purposes, mainly with:

- TIM (euro 5,771 thousand);
- Tilab (euro 1,952 thousand);
- Sogei (euro 1,665 thousand);
- Telespazio (euro 1,478 thousand);
- Stet Hellas (euro 1,696 thousand), for the long-term receivable described in long-term investments.

Interest and other financial expense can be analyzed as follows:

(in thousands of euro)	1st half 2002			1st half 2001	Change
	Medium/long-term debt	Short-term borrowings	Total		
Interest and fees:					
- subsidiaries	-	96,887	96,887	143,209	(46,322)
- affiliated companies	-	579	579	930	(351)
- banks	47,940	39,976	87,916	355,960	(268,044)
- other lenders	13,234	12,402	25,636	18,907	6,729
- suppliers	-	174	174	135	39
- others	-	9,922	9,922	7,072	2,850
	61,174	159,940	221,114	526,213	(305,099)
Interest, premiums and other similar charges on notes			313,283	21,808	291,475
Foreign exchange losses			19,588	21,559	(1,971)
Accrued portion of issue discounts and similar charges on loans			3,552	251	3,301
Other financial expense			26,992	35,783	(8,791)
Total			584,529	605,614	(21,085)

Interest and other financial expense includes euro 97,466 thousand of interest and fees on payables to subsidiaries, affiliated companies and parent companies with regard to:

- Telecom Italia International (euro 73,704 thousand) - financial expenses on the call option on Seat Pagine Gialle shares as part of the put option on the same shares;
- TIM (euro 8,018 thousand), Seat Pagine Gialle (euro 6,868 thousand) and Softe (euro 6,060 thousand) - interest expenses accrued on current accounts for cash management purposes.

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ EXTRAORDINARY INCOME AND EXPENSE

- euro 231,863 thousand

(- euro 83,990 thousand in the first half of 2001)

The net expense balance, increased by euro 147,873 thousand, compared to the first half of 2001. Details are as follows:

(in thousands of euro)	1st half 2002	1st half 2001	Change
Income			
- gains on disposals	5,336	9,532	(4,196)
- interest on pre-amortization interest Law 58/1992	131,188	-	131,188
- release to income of reserve for sale of Stream	58,750	-	58,750
- other	11,835	38,759	(26,924)
(A)	207,109	48,291	158,818
Expense			
- restructuring costs (employee reduction plans and territorial layoffs)	78,667	70,852	7,815
- provision to reserve for corporate restructuring for layoffs	261,000	-	261,000
- extraordinary contribution to INPS	35,672	37,296	(1,624)
- provisions to other reserves	36,429	-	36,429
- other	27,204	24,133	3,071
(B)	438,972	132,281	306,691
Total	(A-B)	(83,990)	(147,873)

Income increased by euro 158,818 thousand compared to same period of 2001, and mainly includes:

- prior period income as a result of the recovery of pre-amortization interest (euro 131,188 thousand) – on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reservation, to INPS up to 1999 – following the termination of litigation after the courts ruled in Telecom Italia' favor;
- release to income (euro 58,750 thousand) of a part of the reserve for risks and charges, set up in 2001 in connection with the expenses on the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+, since the sale transaction did not go through.

Expenses amounted to euro 306,691 thousand and include:

- euro 261,000 thousand for the provision to the reserve for corporate restructuring for the expenses in connection with layoffs (Law 223/1991) following mobility agreements in conjunction with the Group Industrial Plan 2002/2004 signed in May 2002;
- euro 78,667 thousand of restructuring expenses relating to employee reduction plans and territorial layoffs;
- euro 36,429 thousand for provisions mainly as a result of the guarantees provided at the time of the sale of Italtel (euro 15,977 thousand) and the guarantee given by Telecom Italia to Italtel regarding the risks connected with the guarantee granted by the latter to Istituto Bancario San Paolo for a loan made to Telecom Argentina (euro 9,170 thousand);
- euro 35,672 thousand for the extraordinary contribution to INPS (established by the 2000 Finance Bill for the three years 2000 - 2002) to meet the higher financial requirements deriving from the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general Employees Pension Fund".

1 SUMMARY DATA AND GENERAL INFORMATION	144 BALANCE SHEETS
14 REPORT ON OPERATIONS	146 STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

OTHER INFORMATION

■ Employees

The employees numbered 59,472 at June 30, 2002, compared to 61,081 at December 31, 2001. The following table discloses the breakdown expressed in terms of the average equivalent number of employees, divided by category, for the first half of 2002 and for the year 2001

AVERAGE EQUIVALENT WORKFORCE	1st half 2002	Year 2001	1st half 2001
Executives	966	1,005	1,016
Middle management	1,696	1,655	1,616
Clerical staff	47,905	49,953	50,252
Technicians	7,770	8,846	8,968
Total	58,337	61,459	61,852

The following Annexes numbered 1 to 4 are an integral part of these notes.

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ PANNEX 1

LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/2001				Changes during the period						6/30/2002			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns(-)/ Reinstatements of value (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
Equity investments in subsidiaries														
ATESIA	3,707	-	-	3,707	-	-	-	-	-	-	3,707	-	-	3,707
EDOTEL	620	-	(116)	504	8,436	-	-	-	-	8,436	9,056	-	(116)	8,940
ELETTRA TLC	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EMSA	29,136	240	-	29,376	-	-	-	-	-	-	29,136	240	-	29,376
EMSA SERVIZI (ex CONSUTEL)	1,340	-	(1,340)	-	2,001	(2,001)	-	-	5,000	5,000	5,000	-	-	5,000
FINSIEL	364,251	-	-	364,251	-	-	-	-	-	-	364,251	-	-	364,251
IMMSI	4,428	13,800	-	18,228	-	-	(123)	-	-	(123)	4,305	13,800	-	18,105
IN.TEL.AUDIT	-	-	-	-	1,500	-	-	-	-	1,500	1,500	-	-	1,500
IREOS (in liquidation)	103	-	(103)	-	-	-	-	-	-	-	103	-	(103)	-
IRIDIUM ITALIA (in liquidation)	775	-	(775)	-	-	-	-	-	-	-	775	-	(775)	-
IT TELECOM	25,823	-	(1,085)	24,738	376	142,906	-	-	-	143,282	169,155	-	(1,135)	168,020
LATIN AMERICAN NAUTILUS S.A.	47,863	-	(28,566)	19,297	-	-	-	(12,604)	-	(12,604)	47,863	-	(41,170)	6,693
MED-1 Submarine Cables	5	-	-	5	-	-	-	-	-	-	5	-	-	5
MEDITERRANEAN NAUTILUS S.A.	14,352	-	-	14,352	-	-	-	-	-	-	14,352	-	-	14,352
NETSIEL	108,486	-	-	108,486	-	(108,486)	-	-	-	(108,486)	-	-	-	-
PATH.NET	25,820	-	-	25,820	-	-	-	-	-	-	25,820	-	-	25,820
SAIAT	34,743	11,617	-	46,360	-	-	-	-	-	-	34,743	11,617	-	46,360
SARITEL	17,783	-	-	17,783	-	(17,783)	-	-	-	(17,783)	-	-	-	-
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI	1,549	-	-	1,549	-	-	-	-	-	-	1,549	-	-	1,549
SEAT PAGINE GIALLE	6,732,912	-	-	6,732,912	-	-	-	-	-	-	6,732,912	-	-	6,732,912
SODALIA	4,138	-	(51)	4,087	-	(4,087)	-	-	-	(4,087)	-	-	-	-
SOFTI	5,882	38,056	(43,938)	-	-	-	-	-	-	-	5,882	38,056	(43,938)	-
TECNO SERVIZI MOBILI (ex HITECO CONS.)	53	-	-	53	-	-	-	-	-	-	53	-	-	53
TELECOM ITALIA AMERICA LATINA (ex TELECOM ITALIA DO BRASIL)	2,120	-	(2,120)	-	-	-	-	-	-	-	2,120	-	(2,120)	-
TELECOM ITALIA CAPITAL	1,069	-	(1,069)	-	-	-	-	-	-	-	1,069	-	(1,069)	-
TELECOM ITALIA GMBH (in liquidation)	43	-	-	43	-	-	-	-	-	-	43	-	-	43
TELECOM ITALIA INTERNATIONAL														
(ex SIN)	7,772,566	-	(2,040,842)	5,731,724	-	-	-	(516,641)	-	(516,641)	7,772,566	-	(2,557,483)	5,215,083
TELECOM ITALIA MOBILE	4,202,226	84,144	-	4,286,370	-	-	-	-	-	-	4,202,226	84,144	-	4,286,370
TELECOM ITALIA of NORTH AMERICA	3,585	-	(1,771)	1,814	-	-	-	(1,294)	-	(1,294)	3,585	-	(3,065)	520
TELECONTACTCENTER	110	-	-	110	-	-	-	-	-	-	110	-	-	110
TELE PAY ROLL SERVICE	3,391	-	(731)	2,660	-	-	-	-	-	-	3,391	-	(731)	2,660
TELESOFT	12,550	-	-	12,550	-	(12,550)	-	-	-	(12,550)	-	-	-	-
TELESPAZIO	86,260	-	(5,816)	80,444	-	-	-	-	-	-	86,260	-	(5,816)	80,444
TELIIMM	18	-	-	18	-	-	-	-	-	-	18	-	-	18
TI AUSTRIA GMBH	1,185	-	-	1,185	-	-	-	-	-	-	1,185	-	-	1,185
TI BELGIUM	3,000	-	-	3,000	-	-	-	-	-	-	3,000	-	-	3,000
TI FRANCE	10,308	-	-	10,308	-	-	-	-	-	-	10,308	-	-	10,308
TI GERMANY	9,325	-	-	9,325	-	-	-	-	-	-	9,325	-	-	9,325
TI IRELAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

(segue) **Equity investments in subsidiaries**

(in thousands of euro)	12/31/2001				Changes during the period						6/30/2002			
	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/ Reinstatements of value (+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
TI LAB	85,157	2,588	(49,609)	38,136	5,600	-	-	(21,332)	-	(15,732)	90,757	2,588	(70,941)	22,404
TI MEDIA	51,005	-	-	51,005	-	-	-	-	-	-	51,005	-	-	51,005
TI NETHERLANDS	3,518	-	-	3,518	-	-	-	-	-	-	3,518	-	-	3,518
TI SPAIN	703	-	-	703	-	-	-	-	-	-	703	-	-	703
TI SWITZERLAND	2,631	-	-	2,631	-	-	-	-	-	-	2,631	-	-	2,631
TI UNITED KINGDOM	3,704	-	-	3,704	-	-	-	-	-	-	3,704	-	-	3,704
TI WEB	550,620	-	(542,257)	8,363	-	-	-	-	-	-	550,620	-	(542,257)	8,363
TMI - TELEMEDIA INTERNATIONAL ITALIA	86,521	-	(86,521)	-	5,698	(5,698)	-	(80,105)	86,512	6,407	86,512	-	(80,105)	6,407
TRAINET (in liquidation)	674	-	(674)	-	-	-	-	-	-	-	674	-	(674)	-
Consorzio GRUPPO STET PER														
ITALIA 90 (in liquidation)	41	-	-	41	-	-	-	-	-	-	41	-	-	41
	20,316,099	150,445	(2,807,384)	17,659,160	23,611	(7,699)	(123)	(631,976)	91,512	(524,675)	20,335,538	150,445	(3,351,498)	17,134,485
(1)									TMI TELEMEDIA INT. ITALIA	EMSA SERVIZI	IMMSI			
Cost									86,521	1,340	123			
Writedowns									(86,521)	(1,340)	-			
									-	-	123			

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

	12/31/2001				Changes during the period						6/30/2002			
	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/Reinstatements of value (+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
Equity investments in affiliated companies														
ASTELIT	1	-	(1)	-	-	-	-	-	-	-	1	-	(1)	-
CARTESIA	516	-	-	516	-	-	-	-	-	-	516	-	-	516
CZECH TELESPIAZIO (in liquidation)	17	-	(17)	-	-	-	-	-	-	-	17	-	(17)	-
IM.SER	127,277	-	-	127,277	-	-	-	-	-	-	127,277	-	-	127,277
MIRROR INTERNATIONAL HOLDING	100,351	-	-	100,351	-	-	-	-	-	-	100,351	-	-	100,351
NORDCOM	26,983	-	-	26,983	2,062	-	-	-	-	2,062	29,045	-	-	29,045
NORTEL INVERSORA	19,114	-	-	19,114	-	-	-	(19,114)	-	(19,114)	19,114	-	(19,114)	-
SIEMENS INFORMATICA	2,417	1,424	-	3,841	-	-	-	-	-	-	2,417	1,424	-	3,841
SITEBA	751	-	-	751	-	-	-	-	-	-	751	-	-	751
STREAM	247,940	-	(216,024)	31,916	-	-	-	(119,270)	113,468	(5,802)	247,940	-	(221,826)	26,114
TELEGONO	-	-	-	-	411	-	-	-	-	411	411	-	-	411
TELEMACO IMMOBILIARE	75,798	-	-	75,798	-	-	-	-	-	-	75,798	-	-	75,798
VOICE MAIL INTERNATIONAL (in liquidation)	3,801	-	(3,801)	-	-	-	-	-	-	-	3,801	-	(3,801)	-
Consorzio R.E.S.	155	-	-	155	-	-	-	-	-	-	155	-	-	155
Consorzio TELCAL	211	-	-	211	-	-	-	-	-	-	211	-	-	211
Consorzio TELEMED (in liquidation)	10	-	-	10	-	-	-	-	-	-	10	-	-	10
	605,342	1,424	(219,843)	386,923	2,473	-	-	(138,384)	113,468	(22,443)	607,815	1,424	(244,759)	364,480
(1)														
				STREAM				ASTELIT						
Cost				113,468				1						
Writedowns				(113,468)				(1)						
				-				-						

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

	12/31/2001				Changes during the period						6/30/2002			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns(-)/ Reinstatements of value (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
Equity investments in other companies														
ANCITEL	93	-	-	93	-	-	-	-	-	-	93	-	-	93
CAF ITALIA	1	-	-	1	-	-	-	-	-	-	1	-	-	1
EDINDUSTRIA	44	-	(6)	38	-	-	-	-	-	-	44	-	(6)	38
EMITTENTI TITOLI	423	-	-	423	-	-	-	-	-	-	423	-	-	423
ERTICO	1	-	-	1	-	-	-	-	-	-	1	-	-	1
EURESCOM (in liquidation)	9	-	-	9	-	(9)	-	-	-	(9)	-	-	-	-
FRATELLI ALINARI	3,101	-	-	3,101	-	(2,400)	-	-	-	(2,400)	3,101	-	(2,400)	701
INSULA	248	-	-	248	-	-	-	-	-	-	248	-	-	248
ISTITUTO DELLA ENCICLOPEDIA ITALIANA FONDATA DA GIOVANNI TRECCANI	5,255	-	(1,424)	3,831	-	-	-	-	-	-	5,255	-	(1,424)	3,831
MIX	10	-	-	10	-	-	-	-	-	-	10	-	-	10
NETESI	10,625	-	(7,764)	2,861	-	-	-	-	-	-	10,625	-	(7,764)	2,861
SIA	11,278	-	-	11,278	-	-	-	-	-	-	11,278	-	-	11,278
SISTEMI FORMATIVI CONFINDUSTRIA	-	-	-	-	12	-	-	-	-	12	12	-	-	12
SODETEL	4	-	-	4	-	-	-	-	-	-	4	-	-	4
TELEPORTO ADRIATRICO	124	-	-	124	-	-	-	-	-	-	124	-	-	124
UBAE	1,897	-	-	1,897	-	-	-	-	-	-	1,897	-	-	1,897
Consorzio C.I. MARK	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio CAISI	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consorzio CEFRIEL	36	-	-	36	-	-	-	-	-	-	36	-	-	36
Consorzio CIES	26	-	-	26	-	-	-	-	-	-	26	-	-	26
Consorzio CO.TIM (in liquidation)	4	-	(2)	2	-	-	-	-	-	-	4	-	(2)	2
Consorzio DI BIOINGEGNERIA ED INFORMATICA MEDICA	15	-	-	15	-	-	-	-	-	-	15	-	-	15
Consorzio Nazionale Imballaggi (CONAI)	1	-	-	1	-	-	-	-	-	-	1	-	-	1
Consorzio ELIS	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio ENERGIA FIERA DISTRICT	2	-	-	2	-	-	-	-	-	-	2	-	-	2
Consorzio GE.SE.CE.DI	72	-	-	72	-	-	-	-	-	-	72	-	-	72
Consorzio NETTUNO	41	-	-	41	-	-	-	-	-	-	41	-	-	41
Consorzio QUALITAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consorzio TECHNAPOLI	207	-	-	207	-	-	-	-	-	-	207	-	-	207
	33,523	-	(9,196)	24,327	12	(2,409)	-	-	-	(2,397)	33,526	-	(11,596)	21,930
Total long-term equity investments	20,954,964	151,869	(3,036,423)	18,070,410	26,096	(10,108)	(123)	(770,360)	204,980	(549,515)	20,976,879	151,869	(3,607,853)	17,520,895
Advances on future capital contributions of subsidiaries and affiliated companies														
	78,896	-	-	78,896	140,901	-	-	-	-	140,901	219,797	-	-	219,797

(1) EURESCOM														
Cost					9									
Writedowns					(9)									
					-									

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 2

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

	Number of Shares	Market value		Carrying value		Difference	
		Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)
		(A)		(B)		(A-B)	
June 30, 2002							
Long-term equity investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	4.04	18,980,785	0.91	4,286,371	3.13	14,694,415
SEAT PAGINE GIALLE							
- ordinary shares	6,051,510,901	0.74	4,478,118	1.11	6,732,912	(0.37)	(2,254,794)
IMMSI	99,674,748	0.71	71,168	0.18	18,104	0,53	53,064
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	39,492,000	4.04	159,627	4.04	159,627	-	-

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 3

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	At 6/30/2002 Amounts due				At 12/31/2001 Amounts due			
	within one year	from two to five year	after five year	Total	within one year	from two to five year	after five year	Total
(in thousands of euro)								
Accounts receivable in long-term investments								
Subsidiaries	-	60,000	-	60,000	-	60,000	-	60,000
Affiliated companies	-	2,001	-	2,001	-	-	-	-
Others								
- customers	744	186	-	930	709	177	-	886
- employees	11,705	28,687	6,021	46,413	8,887	24,390	16,108	49,385
- security deposits	1,491	3,350	648	5,489	1,347	3,792	787	5,926
- miscellaneous	25,450	56,766	-	82,216	49,581	54,960	-	104,541
	39,390	150,990	6,669	197,049	60,524	143,319	16,895	220,738
Accounts receivable in current assets								
Other loans from								
Subsidiaries	915,702	-	-	915,702	496,989	-	-	496,989
Affiliated companies	16,444	-	-	16,444	122,490	-	-	122,490
Others	526,253	-	-	526,253	547,878	-	-	547,878
	1,458,399	-	-	1,458,399	1,167,357	-	-	1,167,357
Trade receivables								
Customers	4,260,652	-	-	4,260,652	4,241,654	-	-	4,241,654
Subsidiaries	672,490	-	-	672,490	671,132	-	-	671,132
Affiliated companies	147,313	-	-	147,313	188,847	-	-	188,847
Parent companies	247	-	-	247	1,090	-	-	1,090
Other receivables due from								
- Government and other public entities for grants and subsidies	1,265	-	-	1,265	1,265	-	-	1,265
	5,081,967	-	-	5,081,967	5,103,988	-	-	5,103,988
Other receivables								
Subsidiaries	310,120	-	-	310,120	1,028,799	-	-	1,028,799
Affiliated companies	31,837	-	-	31,837	233	-	-	233
Miscellaneous receivables								
- deferred tax assets	385,917	94,490	-	480,407	414,604	94,490	-	509,094
- other	1,265,328	-	-	1,265,328	1,410,922	-	-	1,410,922
	1,993,202	94,490	-	2,087,692	2,854,558	94,490	-	2,949,048
Total accounts receivable	8,533,568	94,490	-	8,628,058	9,125,903	94,490	-	9,220,393
Accrued income	22,281	-	-	22,281	11,944	-	-	11,944

1 SUMMARY DATA AND GENERAL INFORMATION	144 CONSOLIDATED BALANCE SHEETS
14 REPORT ON OPERATIONS	146 CONSOLIDATED STATEMENTS OF INCOME
89 CONSOLIDATED FINANCIAL STATEMENTS	148 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.P.A. »	
177 IND. AUDITORS' REPORT AND OTHER INFO	

■ ANNEX 4

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	At 6/30/2002 Amounts due				At 12/31/2001 Amounts due			
	within one year	from two to five year	after five year	Total	within one year	from two to five year	after five year	Total
(in thousands of euro)								
Medium and long-term debt								
Debentures	-	7,550,000	3,370,490	10,920,490	-	6,300,000	1,950,000	8,250,000
Due to banks	1,180,010	1,212,439	578	2,393,027	810,364	1,767,875	3,126	2,581,365
Due to other lenders	111,577	831,818	64,664	1,008,059	172,330	273,300	44,358	489,988
Taxes payable	18,240	22,801	-	41,041	18,241	31,921	-	50,162
	1,309,827	9,617,058	3,435,732	14,362,617	1,000,935	8,373,096	1,997,484	11,371,515
Short-term borrowings								
Due to banks	2,579,925	-	-	2,579,925	4,727,055	-	-	4,727,055
Due to other lenders	162,758	-	-	162,758	167,789	-	-	167,789
Subsidiaries	733,329	-	-	733,329	1,218,043	-	-	1,218,043
Affiliated companies	8,191	-	-	8,191	29,205	-	-	29,205
Other liabilities	273,990	-	-	273,990	395,266	-	-	395,266
	3,758,193	-	-	3,758,193	6,537,358	-	-	6,537,358
Trade payables ⁽¹⁾								
Suppliers	1,979,878	-	-	1,979,878	2,240,654	-	-	2,240,654
Subsidiaries	1,080,387	-	-	1,080,387	1,090,902	-	-	1,090,902
Affiliated companies	94,554	-	-	94,554	215,446	-	-	215,446
Parent companies	16	-	-	16	11	-	-	11
	3,154,835	-	-	3,154,835	3,547,013	-	-	3,547,013
Other payables								
Subsidiaries	39,228	-	-	39,228	41,785	-	-	41,785
Affiliated companies	93	-	-	93	93	-	-	93
Parent companies	705,658	-	-	705,658				
Taxes payable	133,375	4,384	-	137,759	398,336	12,054	-	410,390
Contributions to pension and social security institutions	159,738	267,822	325,539	753,099	174,051	267,822	325,539	767,412
Other liabilities	2,345,526	1,907	53	2,347,486	2,218,030	1,907	53	2,219,990
	3,383,618	274,113	325,592	3,983,323	2,832,295	281,783	325,592	3,439,670
Total liabilities ⁽¹⁾	11,606,473	9,891,171	3,761,324	25,258,968	13,917,601	8,654,879	2,323,076	24,895,556
Accrued expenses	316,379	-	-	316,379	268,178	-	-	268,178

(1) Not including advances

1 SUMMARY DATA AND GENERAL INFORMATION	177 INDEPENDENT AUDITORS' REPORT
14 REPORT ON OPERATIONS	179 USEFUL INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	>>

■ INDEPENDENT AUDITORS' REPORT

RECONTA ERNST & YOUNG

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**AUDITORS' REPORT ON THE REVIEW
OF THE MANAGEMENT REPORT
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2002 OF
TELECOM ITALIA S.p.A.
(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. for the semi-annual period ended 30 June 2002, represented by the Balance Sheets and the Statements of Income and related Notes of Telecom Italia S.p.A. (Parent Company Statements) and of the Telecom Italia Group (Consolidated Statements). 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 July 31, 1997. The review of the data related to the six months period ended 30 June 2002 of certain subsidiary companies, which represents approximately 12% of the consolidated assets and 11% of the consolidated revenues, was performed by other auditors who supplied us with their review reports. A review consists mainly of obtaining information with respect to the accounts included in the statements identified in paragraph 1 of this report and the consistency of the accounting principles applied through discussions with appropriate members of management, and analytical procedures applied to 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 on assets and liabilities. Consequently, the scope of 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 of Telecom Italia S.p.A. as of and for the six months period ended 30 June 2002 as we do in connection with reporting on our full scope audits of the annual Parent Company and Consolidated financial statements of Telecom Italia S.p.A..

■ Reconta Ernst & Young S.p.A.
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Capitale Sociale € 1.043.330,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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1 SUMMARY DATA AND GENERAL INFORMATION	177 INDEPENDENT AUDITORS' REPORT
14 REPORT ON OPERATIONS	179 USEFUL INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	>>

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3. With respect to the parent company and the consolidated comparative data as of and for the year ended December 31, 2001 and for the six months period ended June 30, 2001, reference should be made to our audit and review reports issued on 15 April 2002 and on 13 September 2001 respectively.
4. Based on 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 May 14, 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, 6 September 2002

Reconta Ernst & Young S.p.A.
Signed by: Felice Persico, partner

1 SUMMARY DATA AND GENERAL INFORMATION	177 INDEPENDENT AUDITORS' REPORT
14 REPORT ON OPERATIONS	179 USEFUL INFORMATION
89 CONSOLIDATED FINANCIAL STATEMENTS	
143 FINANCIAL STATEMENTS OF TELECOM ITALIA S.p.A.	
177 IND. AUDITORS' REPORT AND OTHER INFO	>>

■ USEFUL INFORMATION

A free copy of this report can be obtained by:

Writing to the following address	TELECOM ITALIA S.p.A. Corporate and Legal Affairs Corso d'Italia, 41 00198 Roma
Sending a fax to	+39 - 0636883379 +39 - 0115724250
Calling to	Free Number 800020220 Free Number is at disposal for information and help to shareholders
E-mail	corporate.affairs@telecomitalia.it
Internet	User of the world wide web can access the "First half 2002 report" and obtain information about TELECOM ITALIA and its products and services at the following address: http://www.telecomitalia.it
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