



first quarter report 2002 >>

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## ■ CORPORATE BOARDS

Board of Directors <sup>1</sup>	<b>Chairman</b>	Marco Tronchetti Provera		
	<b>Deputy Chairman</b>	Gilberto Benetton		
	<b>Managing Director</b>	Enrico Bondi Carlo Orazio Buora		
	<b>Directors</b>	Umberto Colombo * Francesco Denozza Luigi Fausti * Guido Ferrarini ** Paolo Maria Grandi Natalino Irti ** Gianni Mion Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti * Roberto Ulissi **	◀ * Member of the Directors' Remuneration Committee ◀ ** Member of the Audit and Corporate Governance Committee	
	<b>Secretary to the Board</b>	Francesco Chiappetta		
	Board of Statutory Auditors <sup>2</sup>	<b>Chairman</b>	Paolo Germani	
		<b>Acting auditors</b>	Mario Boidi Paolo Golia Fabrizio Quarta Gianfranco Zanda	
		<b>Alternate auditors</b>	Enrico Bignami Leonida Liuni	
	Common representative of the savings shareholders <sup>3</sup>		Carlo Pasteris	
	Independent auditors <sup>4</sup>		Reconta Ernst & Young S.p.A.	

1 Appointed by the Shareholders' Meeting on November 7, 2001

2 Appointed by the Shareholders' Meeting on July 3, 2000

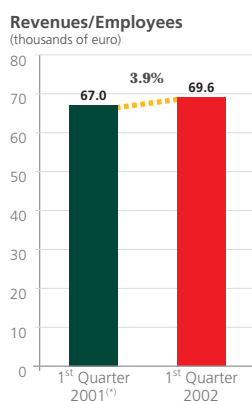
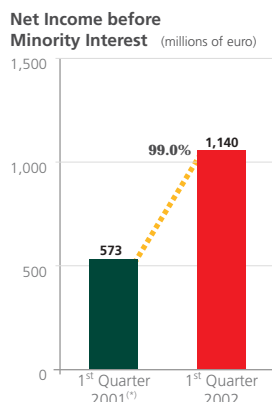
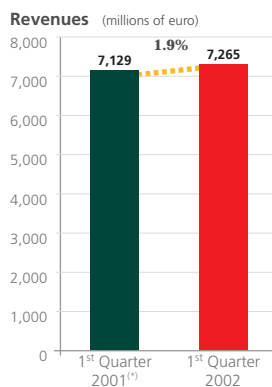
3 Appointed by the special Savings Shareholders' Meeting on October 31, 2001

4 Appointed by the Shareholders' Meeting on June 12, 2001

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## SELECTED ECONOMIC AND FINANCIAL DATA OF TELECOM ITALIA GROUP

No significant changes took place in the scope of consolidation during the first quarter of 2002.



	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	1 <sup>st</sup> Quarter 2001	Year 2001
<b>Results of Operations</b> (millions of euro)				
Sales and Service Revenues	7,265	7,129	7,552	30,818
Gross Operating Profit	3,274	3,287	3,511	13,619
Operating Income	1,731	1,721	1,795	6,674
Income (Loss) before Income Taxes	1,764	1,195	1,220	(733)
Net Income/(Loss) before Minority Interest	1,140	573	577	(1,658)
Net Income/(Loss) - Parent Company's Interest	721	386	386	(2,068)
Free Operating Cash Flows <sup>(1)</sup>	1,608	681	622	5,990
<b>Investments:</b>				
- Industrial	812	1,998	2,082	6,990
- Goodwill	10	766	766	1,174
- Financial	405	1,944	1,944	3,093
<b>Financial Condition</b> (millions of euro)				
Total Assets	62,361	67,045	70,618	62,670
Net Invested Capital	41,541	45,900	48,816	41,250
Shareholders' Equity	20,923	25,527	26,406	19,308
- Parent Company's Interest	14,519	19,314	19,314	13,522
- Minority Interest	6,404	6,213	7,092	5,786
Net debt	20,618	20,373	22,410	21,942
<b>Profit and Financial Indexes</b>				
Gross Operating Profit/Revenues	45.1	46.1	46.5	44.2
Operating Income/Revenues (ROS)	23.8	24.1	23.8	21.7
Free Cash Flows/Revenues	22.1	9.6	8.2	19.4
Net debt/Net Invested Capital (Debt Ratio)	49.6	44.4	45.9	53.2
<b>Employees</b>				
Employees (number in Group at period-end)	108,831	112,215	119,659	109,956
Employee (average number in Group)	104,331	106,377	113,821	107,491
Revenues/Employees (average, number in Group thousands of euro)	69.6	67.0	66.3	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.

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## ■ KEY DATA OF THE BUSINESS UNITS OF TELECOM ITALIA GROUP

Telecom Italia Group operated with the following Business Unit structure during the quarter:

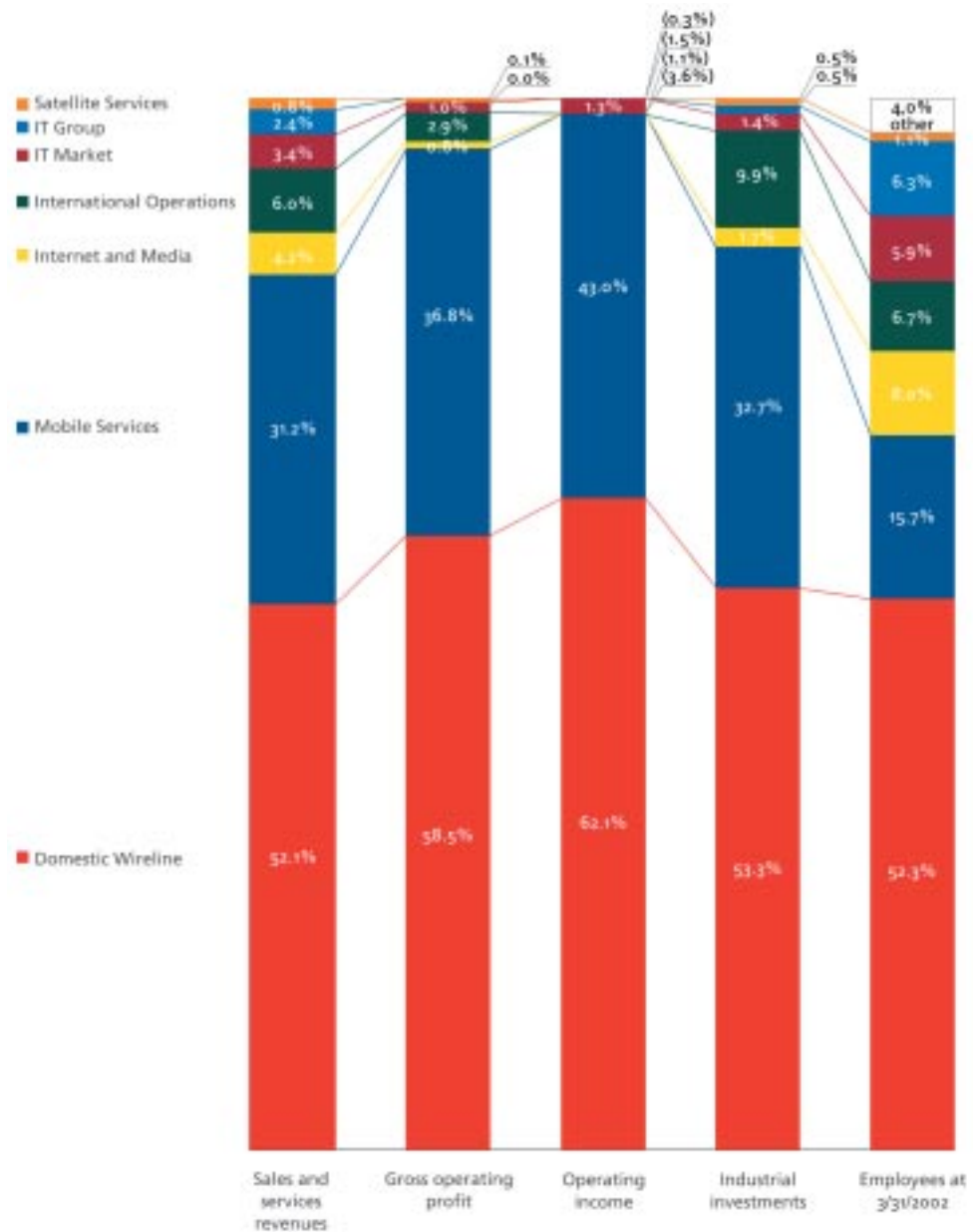
(millions of euro)		Domestic Wireline Services <sup>(1)</sup>	Mobile Services	Internet and Media Operations	International Operations	IT Market <sup>(1)</sup>	IT Group	Satellite Services <sup>(1)</sup>	Sub-total operat. and eliminations	Other operat.	Consolidated total
Sales and services revenues	1 <sup>st</sup> Quarter 2002	4,172	2,498	333	478	270	196	65	8,012	(747)	7,265
	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	4,215	2,396	292	443	246	209	65	7,866	(737)	7,129
	1 <sup>st</sup> Quarter 2001				874				8,297	(745)	7,552
	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 <sup>st</sup> Quarter 2002	1,943	1,221	27	96	32	(1)	4	3,322	(48)	3,274
	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	1,941	1,177	23	97	33	28	5	3,304	(17)	3,287
	1 <sup>st</sup> Quarter 2001				321				3,528	(17)	3,511
	Year 2001	7,749	4,760	444	347	166	188	159	13,813	(194)	13,619
Operating income	1 <sup>st</sup> Quarter 2002	1,200	831	(69)	(22)	25	(29)	(5)	1,931	(200)	1,731
	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	1,149	816	(53)	(40)	25	(4)	(4)	1,889	(168)	1,721
	1 <sup>st</sup> Quarter 2001				35				1,964	(169)	1,795
	Year 2001	4,362	3,136	31	(268)	123	22	60	7,466	(792)	6,674
Investments:											
- Industrial	1 <sup>st</sup> Quarter 2002	430	264	14	80	4	11	4	807	5	812
	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	503	1,282	33	122	6	38	5	1,989	9	1,998
	1 <sup>st</sup> Quarter 2001				205				2,072	10	2,082
	Year 2001	2,798	3,151	175	517	30	162	29	6,862	128	6,990
- Goodwill	1 <sup>st</sup> Quarter 2002	-	-	-	-	-	-	-	-	10	10
	1 <sup>st</sup> Quarter 2001 <sup>(*)</sup>	-	9	21	737	-	-	-	767	(1)	766
	1 <sup>st</sup> Quarter 2001				737				767	(1)	766
	Year 2001	-	31	203	773	1	6	-	1,014	160	1,174
Number of employees at:	3/31/2002	56,903	17,124	8,740	7,250	6,378	6,875	1,192	104,462	4,369	108,831
	3/31/2001 <sup>(*)</sup>	61,697	15,774	8,101	7,229	6,875	6,802	1,173	107,651	4,564	112,215
	3/31/2001				14,673				115,095	4,564	119,659
	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 Information Technology Business Unit was split into two distinct units: Information Technology - Market and Information Technology - Group; beginning January 1, 2002, Saritel S.p.A. is consolidated in the Information Technology - Group Business Unit instead of in Domestic Wireline. For purposes of comparison, the 2001 data of the Business Units have been reclassified.

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Major economic and operating indicators by Business Unit are presented in the following chart:



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## ■ OPERATING HIGHLIGHTS OF TELECOM ITALIA GROUP

	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001
<b>DOMESTIC WIRELINE</b>			
Fixed network connections in Italy (thousands)	27,344	27,263	27,353
- of which digital (equivalent ISDN channels)	5,545	4,902	5,403
Telecomy customers (excluding ADSL, in thousands)	4,347	2,720	4,080
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	104.3	103.9	104.3
- access network and transport in fiber optics (millions km of fiber optics)	3.2	3.0	3.2
Network infrastructure abroad			
- European backbone (km of fiber optics)	36,600	36,600	36,600
<b>MOBILE SERVICES</b>			
TIM lines in Italy (thousands)	24,083	22,015	23,946
TIM group lines abroad (thousands)	15,642	11,881	14,896
TIM group lines total (Italy + abroad, in thousands)	39,725	33,896	38,842
<b>INTERNET AND MEDIA</b>			
Directories			
- published directories Seat Pagine Gialle (units)	38	38	304
- published directories Thomson (units)	26	27	173
Internet:			
Page Views Virgilio (in millions)	1,359	774	3,945
Active Users (at period-end, in thousands)	1,930	1,748	1,804

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## ■ PERFORMANCE OF THE MAIN STOCKS OF TELECOM ITALIA GROUP

### ■ STOCK

Listed in	Milan
Share capital	Euro 4,023,643,418.30
Number of ordinary shares	No. 5,262,593,281 of Euro 0.55 each
Number of savings shares	No. 2,053,122,025 of Euro 0.55 each
Market capitalization (on average prices of March 2002)	Euro 63,030 million

**Relative performance Telecom Italia S.p.A. versus MIBTEL Index and DJ Eurostoxx TLC Index**  
(ordinary and savings shares)

◀ (Source: Reuters).



**Relative performance TIM S.p.A. versus MIBTEL Index and DJ Eurostoxx TLC Index**  
(ordinary shares)

◀ (Source: Reuters).





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**Relative performance Seat Pagine Gialle S.p.A. versus MIBTEL Index and DJ Eurostoxx Media Index**  
(ordinary shares)

(Source: Reuters).



## RATINGS AT MARCH 31, 2002

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

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## REPORT ON OPERATIONS (\*)

(\*) For purposes of a more meaningful comparison, the data for the first quarter of 2002 are commented in relation to the data for the same period of the prior year, which have been restated to give effect to the valuation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

**The consolidated net income of the Group** for the first quarter of 2002 is Euro 721 million (Euro 1,140 million *before minority interest*) and Euro 335 million (+86.8%) higher than the Euro 386 million reported in the first quarter of 2001 (Euro 573 million *before minority interest*).

Positive contributions to net income were made by the net gains on the divestiture of investments of Euro 339 million (Euro 94 million in the first quarter of 2001) and the significant reduction in value adjustments to financial assets.

The gains realized in the first quarter of 2002 relate to the following:

- sale of the 19.61% stake held by the Mobile Services BU in Bouygues Decaux Telecom (BDT), realizing a net gain of Euro 484 million, which contributed Euro 266 million to the consolidated net income of the Telecom Italia Group.
- acceptance of the tender offer for the purchase of Lottomatica stock by Information Technology – Market BU (Finsiel group), realizing a net gain of Euro 93 million, which contributed Euro 73 million to the consolidated net income of the Group.

**Sales and service revenues** total Euro 7,265 million, with an increase of 1.9% compared to the first quarter of 2001. The positive contribution by the Mobile Services BU and the increase in revenues from the Internet and Information Technology – Market areas was countered by a reduction in the contribution by the Domestic Wireline BU where revenues from traffic, despite an increase of 8.7% in terms of minutes, fell as a result of the lower average return on traffic.

**Gross operating profit**, equal to Euro 3,274 million, is in line with the first quarter of 2001 (-Euro 13 million) and represents 45.1% of revenues (46.1% in the first quarter of 2001). While the “domestic” margins held a stable course – Telecom Italia Domestic Wireline went from 46.5% of revenues in 2001 to 46.8% in 2002 and Tim S.p.A. from 53.3% to 53.5% – the foreign component accounted for a higher percentage of gross operating profit with margins that were lower than average in both wireline and mobile telecommunications. Furthermore, the Internet and Media BU was affected by the consolidation of the TV area (-Euro 13 million) and the rationalization currently in progress in the Information Technology – Group area.

**Operating income**, equal to Euro 1,731 million, is essentially unchanged compared to the first quarter of 2001 (+Euro 10 million) and represents 23.8% of revenues, compared to 24.1% in the first quarter of 2001. The improvement in amount is particularly due to the reduction in amortization and depreciation charges, whereas the percentage margin was affected by the same factors as the gross operating profit.

**Net investment and financial income and expense**, shows a net expense balance of Euro 510 million, with an improvement over the same period of the prior year of Euro 100 million, due:

- to the reduction in the expense balance of *value adjustments to financial assets* (Euro 240 million). This can be ascribed to lower goodwill amortization charges following the writedowns made in the 2001 financial statements and the higher results of some foreign subsidiaries. This caption was not affected by the results of the investments in Nortel Inversora (Telecom Argentina) and the Auna group. The investment in Nortel Inversora, which carrying value was written off in the consolidated financial statements for the year ended December 31, 2001, has remained unchanged, whereas a further writedown was made to the Telecom Argentina bonds (Euros 33 million). As regards the Auna group, no change was made to the carrying value in the 2001 consolidated financial statements since an agreement was reached for the sale of the investment;

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- higher financial expense, net, (Euro 111 million) in relation to the effect of increased average debt exposure during the period and higher expenses connected with the management of exchange risk, as compared to the first quarter of 2001;
- the reduction in investment income, net (Euro 29 million).

**Employees** at March 31, 2002 number 108,831, with a reduction of 1,125 compared to December 31, 2001. The largest change took place in the Domestic Wireline BU (-928 persons), Mobile Services (+403 persons), the Internet and Media BU (- 524 persons) and the Real Estate & General Services operations (-202 persons, including 151 resources who had been in the "Gestione autoparco" business).

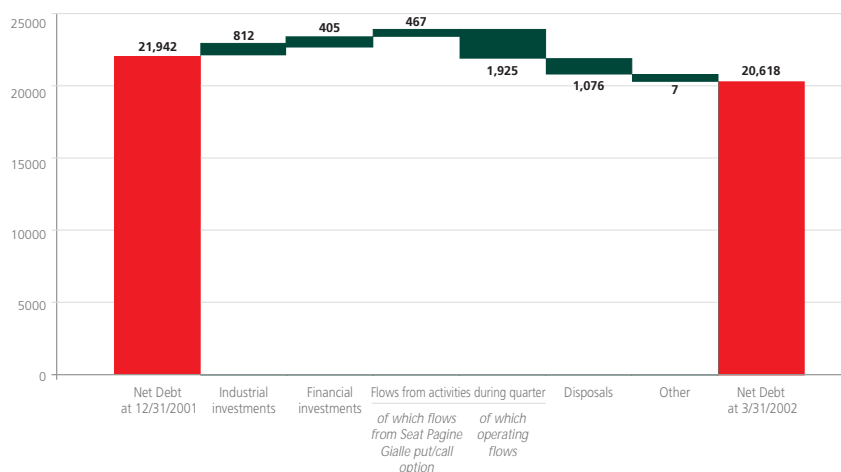
**Investments** totaled Euro 1,227 million (compared to Euro 4,708 million in the first quarter of 2001). Details are as follows:

(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b) (*)			Amount	%
Industrial investments	812	1,998	2,082	6,990	(1,186)	(59.4)
Goodwill	10	766	766	1,174	(756)	(98.7)
Financial investments	405	1,944	1,944	3,093	(1,539)	(79.2)
<b>Total investments</b>	<b>1,227</b>	<b>4,708</b>	<b>4,792</b>	<b>11,257</b>	<b>(3,481)</b>	<b>(73.9)</b>

The reduction in industrial investments of Euro 1,186 million is due to the significant investments made in 2001 for the GSM licenses in Brazil for about Euro 980 million; taking this into account, the decrease in investments in 2002 is mainly due to a careful selection of investment projects.

Furthermore, the first quarter 2001 figures included the goodwill on the acquisition of the additional stake in Entel Chile (Euro 731 million) as well as financial investments which comprised the capital contribution to the Turkish company IS Tim (Euro 1,648 million). Financial investments in 2002 mainly refer to Stream (Euro 113 million), Auna (Euro 192 million) and the purchase of treasury stock (Euro 12 million).

**Net debt** of Euro 20,618 million decreased from December 31, 2001 by Euro 1,324 million. The following chart presents the most important items which had an impact on the net debt in the quarter.



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In particular, *Disposals* include Euro 962 million for the divestiture of the investments in Bouygues Decaux Telecom (Euro 750 million) and Lottomatica (Euro 212 million). In the quarter, the debt structure was further modified: debt due beyond one year went from 64% at December 31, 2001 to 80% at March 31, 2002 following the issue of notes for Euro 2,500 million in February 1, 2002 by Telecom Italia S.p.A., subdivided into two tranches of Euro 1,250 million each, at a fixed interest rate, maturing, respectively, on February 1, 2007 and February 1, 2012. Such issues are part of the Global Note Program. The securitization program, begun in June 2001, also continued for trade accounts receivable generated by the services rendered to residential customers of Telecom Italia S.p.A. The securitization of receivables led an improvement in net debt at March 31, 2002 of about Euro 644 million (Euro 848 million at the end of 2001).

The parent company, **Telecom Italia S.p.A.**, ended the first quarter with a **net income** of Euro 280 million, lower by Euro 98 million, -25.9%, compared to the first quarter of 2001. The decrease is principally due to a higher expense balance, net, of investment and financial income and expense (-Euro 159 million, -44.2%), which absorbed the improvement in operating income (+Euro 29 million, +2.7%). In particular, impacting the net income were the following:

- higher value adjustments to financial assets (Euro 127 million) due to:
  - the write-off of the carrying value of the investment in Nortel Inversora for the stake held by Stet International Netherlands (Euro 37 million) and by Telecom Italia (Euro 19 million), as well as the further writedown to the Telecom Argentina bonds held by Softe and Sogerim (Euro 33 million);
  - the absorption of the losses of 9Telecom Reseau (Euro 54 million) by SIN;
  - lower writedowns of other investments (-Euro 16 million), mainly relating to TMI - Telemedia International Italia and Stream;
- higher financial expense, net (Euro 47 million) in relation to the effect of increased net average debt exposure;
- higher expense balance, net, of extraordinary income and expenses (-Euro 55 million);
- lower income taxes (-Euro 87 million).

**Sales and service revenues**, totaling Euro 4,190 million, decreased by Euro 70 million (-1.6%) compared to the first quarter of 2001.

The reduction is almost entirely attributable to service revenues (-Euro 66 million) and especially to traffic, the equivalent amount of which, despite an increase of 8.7% in terms of minutes, declined by 8.1%, above all due to a fall in the average return on retail and wholesale traffic of 15.5%. Such performance was partly compensated by the increase in the basis subscription charge +7.1%.

**Gross operating profit**, equal to Euro 1,875 million, decreased by Euro 25 million compared to first quarter of 2001 (-1.3%) and as a percentage of sales and service revenues is in line with the corresponding period of the prior year (44.7% compared to 44.6%).

The reduction is due mainly to the aforementioned fall in revenues that was partly absorbed by the decrease in raw materials and outside services (-Euro 40 million) and labor costs (-Euro 10 million).

**Operating income**, of Euro 1,097 million, increased by Euro 29 million compared to the first quarter of 2001 (+2.7%), and represents 26.2% of revenues, compared to 25.1% in 2001; the increase is essentially attributable to lower amortization and depreciation charges (-Euro 94 million) that were partly offset by higher provisions to cover losses on receivables.

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**Employees** at March 31, 2002 number 59,879, with a reduction of 1,202 persons compared to December 31, 2001 due principally to employee reduction plans, resignations following lay-offs under ex Law No. 223/1991 and transfers of employees following the sale of the "Gestione autoparco" business segment.

**Investments** amount in total to Euro 521 million (compared to Euro 1,447 million in the first quarter of 2001). Details are as follows:

	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter	Year	Change	
	2002	2001		(a - b)	
(millions of euro)	(a)	(b)	2001	Amount	%
Industrial investments	379	386	2,466	(7)	(1.8)
Financial investments	142	1,061	2,029	(919)	(86.6)
<b>Total investments</b>	<b>521</b>	<b>1,447</b>	<b>4,495</b>	<b>(926)</b>	<b>(64.0)</b>

**Net debt** amounts to Euro 16,651 million (Euro 16,913 million at December 31, 2001) with a reduction, compared to the end of 2001, of Euro 262 million, mainly due to cash flows from operating activities which entirely financed investments. The composition of debt has changed following the issue, in February, of the aforementioned notes issued by Telecom Italia under the Global Note Program.

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## ■ SIGNIFICANT EVENTS SUBSEQUENT TO MARCH 31, 2002

### ■ Purchase of Telecom Italia treasury stock

With reference to the buy-back of treasury stock authorized by the Ordinary Shareholders' Meeting of Telecom Italia held on November 7, 2001, purchases were made in the period between April 1, 2002 and May 7, 2002 for No. 4,025,000 savings shares at an average price of Euro 6.17 per share for a total of Euro 24.8 million and No. 1,000,000 ordinary shares at an average price of Euro 8.81 per share for a total of Euro 8.8 million. The buy-back of treasury stock from January 1, 2002 stands at No. 1,000,000 ordinary shares for a total of Euro 8.8 million and No. 6,250,000 savings shares for a total of Euro 38.3 million. The above-mentioned treasury stocks are recorded in "*long-term investments*".

### ■ Interconnection charges and unbundling

In April, Telecom Italia published the rate charges for 2002, with technical and price indications for using the network, both for interconnections and local loop unbundling, in compliance with Resolution 4/02/CIR issued in March by the Regulator.

### ■ Social security contributions in accordance with Law No. 58/1992

In a recent verdict, the Supreme Court ruled for the second time that Telecom Italia does not have to pay pre-amortization interest claimed by INPS in application of Law No. 58/1992 (regarding the reform of the telecommunications sector). As a result of the above decision, Telecom Italia will proceed to reach an agreement with the above-named institution to work out how to recover the sums paid by the Company for that purpose up to 1999, equal to Euro 112 million, plus 5% interest.

### ■ Acquisition of EPIClink

In April, Telecom Italia acquired 86% of the share capital of EPIClink from Edisontel (30.3%), Pirelli (25.3%), IntesaBci (20%), E\_voluzione (8%) and Camozzi Holding (2.4%), for approximately Euro 60 million. The company specializes in providing outsourcing services in the Information and Communication Technology (ITC) business area for small and medium-size companies and industrial districts. The transaction is subject to the approval of the Antitrust Authority.

### ■ IT Telecom

In April, as part of the plan to reorganize the Information Technology - Group area, the Board of Directors of the company IT Telecom authorized share capital increases to finance the contribution of the investments in the information technology sector held by Telecom Italia and Finsiel.

### ■ Webfin

In April, De Agostini Invest S.A., a minority shareholder in Webfin S.p.A., controlled by Seat Pagine Gialle S.p.A., proceeded to absorb the losses and recapitalize the company, paying its share at the shareholders' meeting. De Agostini Invest S.A. made this payment to safeguard its position in the arbitration proceedings currently pending, and, moreover, reserved itself the right to charge the total amount of Euro 22.6 million to Seat Pagine Gialle S.p.A. as compensation for damages.

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## ■ FUTURE OUTLOOK

The Group forecasts a growth in the operating income during the current year at least in line with the previous year. It affirms its commitment to reduce net debt by a careful management of investments and costs and the continuation of the divestiture program.

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## ■ RELATED PARTY TRANSACTIONS

The effects of related party transactions on the balance sheet and statement of income of the consolidated financial statements at March 31, 2002 of Telecom Italia Group are presented in the following table.

All related party transactions, including intercompany transactions, fall within the ordinary 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 exceptional nature.

### MAJOR STATEMENT OF INCOME AND BALANCE SHEET COMPONENTS

	Transactions with:		Nature of transactions
	unconsolidated subsidiaries and affiliates	parent comp., subsidiaries and affiliates of parent companies	
(millions of euro)			
Sales and services revenues	100	–	These comprise revenues from Brasil Telecom (Euro 31 million), Teleleasing (Euro 18 million), Auna group (Euro 13 million), Stream (Euro 12 million) and Telecom Argentina (Euro 11 million)
Raw materials and outside services	113	1	These mainly comprise rent payable to IMSER (Euro 47 million) and Telemaco Immobiliare (Euro 20 million) and TLC service costs from Etecsa Cuba (Euro 15 million)
Net other income	3	–	These mainly relate to cost recoveries for personnel on loan to some foreign subsidiaries and affiliates
Net financial expense	(4)	–	These include accrued interest income on loans made to certain subsidiaries and affiliates (Euro 3 million) and interest expense payable to Teleleasing for financial leasing transactions (Euro 7 million)
Loans in long-term investments	10	–	These refer to medium/long-term loans made to subsidiaries and affiliates
Financial receivables	117	–	These comprise mainly short-term loans receivable from IS Tim (Euro 36 million), Telekom Srbija (Euro 24 million) and Stream (Euro 16 million)
Financial payables	532	600	These refer mainly to payables for finance leases to Teleleasing (Euro 503 million) and a payable by Softe to Olivetti Finance N.V. (Euro 600 million)
Trade accounts receivable and other	397	–	They mainly regard receivables from Auna group (Euro 81 million), Stream (Euro 52 million), Telekom Srbija (Euro 37 million net of provisions), Telecom Argentina (Euro 16 million net of provisions) and Teleleasing (Euro 18 million)
Trade accounts payable and other	308	12	These refer to supply contracts connected with operating and investment activities: they include payables to the Italtel group (Euro 58 million), Siemens Informatica (Euro 44 million), Etecsa Cuba (Euro 23 million) and advances from Consorzio Telcal (Euro 89 million)
Contract work in process	117	–	These refer mainly to activities on behalf of Consorzio Telcal for the Piano Telematico Calabria (Euro 110 million)
Investments in fixed assets and intangibles	33	–	These mainly consist of acquisitions of telephone exchanges from the Italtel group (Euro 27 million) and information and computer projects from Siemens Informatica (Euro 3 million)



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

<b>1<sup>st</sup> Quarter 2002</b>		
(millions of euro)		
Sales and services revenues	2.0	These mainly refer to telephone services
Trade accounts receivable and other	0.9	These mainly refer to the above-mentioned telephone services
Trade accounts payable and other	18.0	These mainly refer to the supply contracts connected with investment activities
Investments in fixed assets and intangibles	11.4	These mainly refer to purchases of telecommunications cables

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## ■ LITIGATION

There follows a description of the developments during the first quarter of 2002 of the litigation described in the report on operations at December 31, 2001.

### ■ Chase Manhattan Bank dispute

With respect to the action brought by Chase Manhattan against the shareholders of Iridium LLC after it failed to repay a US\$ 800 million loan granted to Iridium Operating LLC (subsidiary of Iridium LLC), Telecom Italia took exception stating that it should not have been called to stand judgement (due to the fact that it sold its investment in Iridium LLC to Iridium Italia S.p.A. as early as October 1996) and a favorable ruling was handed down on the appeal at the beginning of April 2002. Chase has however requested that the case be reexamined.

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## ■ THE REGULATORY FRAMEWORK

There follows a summary of the main changes with regard to the regulatory framework, all with reference to the Italian market:

### ■ Wireless Local Loop

In January, the Minister of Communications announced a bid to award individual licenses for Wireless Local Loop systems according to Resolution No. 822/00/CONS and No. 400/01/CONS passed by the Regulator. TIM applied to take part in the bid; however, the fact that it has applied to participate in no way binds TIM which can subsequently decide not to continue with the bid without incurring any sanctions.

### ■ Access to the Telecom Italia network

In Resolution No. 4/02/CIR of March 2002, the Regulator made some changes to Telecom Italia's rate charges for 2002. On April 18, 2002 the modified rate charges were published and are described in the section "Significant subsequent events to March 31, 2002".

### ■ Mobile Number Portability

In Resolution No. 7/02/CIR of March 28, 2002 the Regulator completed the regulations for Mobile Number Portability, which is scheduled to start on May 1, 2002. The prices that the Recipient (the operator who acquires the customer with the same number) must pay to the Donor (the operator who loses the customer) will be decided by the Regulator by November 2002 and will be applied from January 1, 2003, and in any case must not be higher than the prices paid for Number Portability on fixed networks. Moreover, the customer who migrates to another operator will be able to use any remaining credit on prepaid cards.

### ■ Other matters

In Resolution No. 6/02/CIR of March 28, 2002 the Regulator confirmed that Telecom Italia can charge operators a fee for billing services and for the risk of insolvency connected thereto regarding access by Telecom Italia customers to non-geographical numbers of other operators (for example the 166 service or Internet access); this fee will be equal to 7% of the amount billed. This percentage fee will be applied for 2001, while, for 2002, Telecom Italia may charge a different fee depending on the level of risk of the non-geographical services billed.

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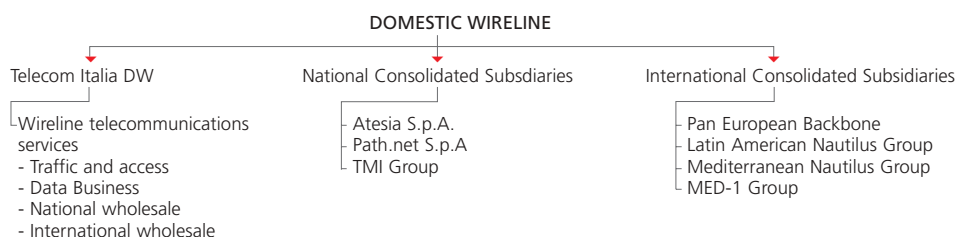
## ■ DOMESTIC WIRELINE

- ▶ Policies for controlling costs and investments
- ▶ Higher operating income

### ■ 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 customers and other operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and South America.

The Business Unit is organized as follows:



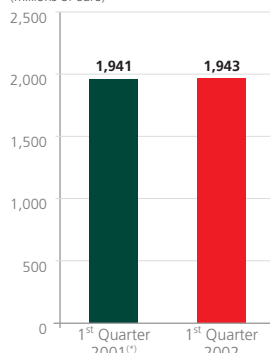
### ■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

Beginning January 1, 2002, Saritel has been consolidated in the Information Technology – Group Business Unit rather than in the Domestic Wireline Business Unit. For the purposes of comparison, the 2001 data for the two business units (see table below) have been reclassified.

### ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, the first quarter of 2001 and the year 2001, on a comparable consolidation basis.

**Gross Operating Profit**  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b) (*)	(*)	Amount	%
Sales and service revenues	4,172	4,215	17,159	(43)	(1.0)
Gross operating profit	1,943	1,941	7,749	2	0.1
% on revenues	46.6%	46.0%	45.2%		
Operating income	1,200	1,149	4,362	51	4.4
% on revenues	28.8%	27.3%	25.4%		
Investments:					
- industrial	430	503	2,798	(73)	(14.5)
- goodwill	-	-	-		
Employees at period-end (number) <sup>(1)</sup>	56,903	61,697	57,831	(928)	(1.6)

(\*) Excluding the company Saritel S.p.A. which was reclassified in the first quarter of 2002 to the Information Technology - Group Business Unit.

(1) The change in employees is calculated on the number at the end of 2001.

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Almost all of the economic results refer to the Domestic Wireline function of Telecom Italia. In particular, the fall in *revenues* can be attributed to traffic, the equivalent value of which dropped by 8.1% compared to the first quarter of 2001, despite an increase of 8.7% in terms of minutes. In fact, there was a reduction in the average yield of traffic following the discount policies implemented to promote customer retention and loyalty, and the growth of traffic "carried" on behalf of other operators and on-line traffic which, on the one hand, generated an increase in the number of minutes handled but, on the other, shifted the mix towards less remunerative types of traffic.

Instead, the slight increase in the *gross operating profit* and the more significant rise in the *operating income* can be attributed to an increase in efficiency compared to the first quarter of 2001. This was achieved as a result of policies to control costs and investments begun in 2001.

*Investments* declined by 14.5% compared to the same period of the prior year, partly as a result of careful selection of the investments made.

The number of *employees* fell by 928 compared to December 31, 2001.

## ■ INFORMATION ON OPERATIONS

The following table shows the operating highlights of the Domestic Wireline function of Telecom Italia for the first quarter of 2002, compared to those of the first quarter of 2001 and the year 2001:

Operating highlights	3.31.2002	3.31.2001	12.31.2001
Fixed network connections (in thousands)	27,344	27,263	27,353
- of which ISDN	5,545	4,902	5,403
Annual increase in minutes of traffic on the fixed network (%)	8.7	29.3	30.7
- national traffic	8.0	30.4	31.3
- international traffic	29.9	5.8	16.9
- outgoing	17.8	11.6	11.4
- incoming	27.1	(8.4)	12.6
- in transit	56.7	37.2	39.3

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## MOBILE SERVICES

- ▶ Higher revenues and profit margins
- ▶ Sale of Bouygues Decaux Telecom for an equivalent amount of Euro 750 million

### 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 the Mediterranean Basin and in South America.

The Business Unit is organized as follows:



### MAJOR EVENTS/SCOPE OF CONSOLIDATION

The quarter was marked by:

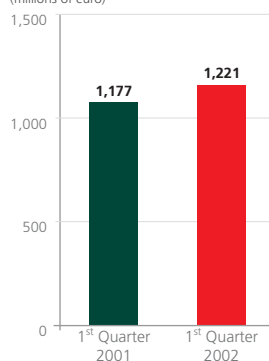
- the sale of the affiliated company Bouygues Decaux Telecom, realizing a gross gain Euro 484 million.

### ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, compared to the first quarter of 2001 and the year 2001.

	1 <sup>st</sup> Quarter 2002 (a)	1 <sup>st</sup> Quarter 2001 (b)	Year 2001	Change (a - b)	
				Amount	%
(millions of euro)					
Sales and service revenues	2,498	2,396	10,250	102	4.3
Gross operating profit	1,221	1,177	4,760	44	3.7
% on revenues	48.9%	49.1%	46.4%		
Operating income	831	816	3,136	15	1.8
% on revenues	33.3%	34.1%	30.6%		
Investments:	328	2,941	5,154	(2,613)	(88.8)
- industrial	264	1,282	3,151	(1,018)	(79.4)
- goodwill	-	9	31	(9)	°
Employees at period-end (number) <sup>(1)</sup>	17,124	15,774	16,721	403	2.4

Gross Operating Profit  
(millions of euro)



(1) The change in employees is calculated on the number at the end of 2001.

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*Revenues* for the first quarter of 2002 amount to Euro 2,498 million, with an increase of 4.3% compared to the first quarter of 2001. This increase can mainly be attributed to the group holding company TIM, Stet Hellas and Digitel. The change in revenues was negatively affected by the exchange rates for Euro 48 million; this effect is essentially based on the revenues of the Brazilian and Venezuelan group companies.

*Gross operating profit*, which amounts to Euro 1,221 million, increased by 3.7% compared to the first quarter of 2001. The slight reduction in gross operating profit as a percentage of revenues can be attributed to the start-up of international companies and, in particular, the Brazilian companies for which the launch of services based on GSM technology is imminent.

*Operating income*, totaling Euro 831 million, improved by 1.8% compared to the first quarter of 2001. Here again, the decrease in operating income as a percentage of revenues can essentially be attributed to the effect of the start-up of international companies.

During the first quarter of 2002, the *consolidated net income attributable to TIM* is Euro 918 million, with an increase of Euro 519 million compared to the first quarter of 2001. The increase can mainly be ascribed to extraordinary transactions which benefited from the gain on the sale of the investment in Bouygues Decaux Telecom (Euro 484 million) and the improvement in the financial area (with reference to the contributions made by the affiliated companies IS TIM and Mobilkom Austria). In particular, it should be noted that the positive contribution of IS TIM (Euro 45 million) includes the impact of exchange rate differences and inflation accounting, which, in the future, could be re-absorbed both by the results of operations and the changes in the macroeconomic data for the region.

*Industrial investments*, after the acquisition of licenses during 2001, are currently concentrated in the development of the infrastructures.

The number of *employees* increased by 403 compared to December 31, 2001; the increase is mainly in reference to South America.

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## ■ INTERNET AND MEDIA

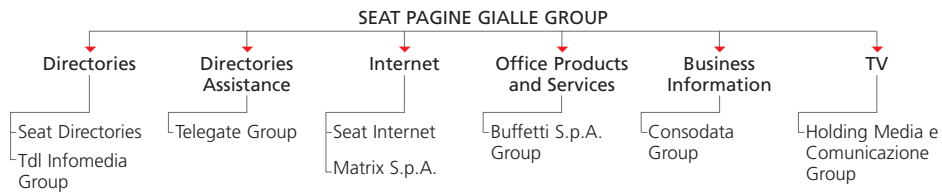
### ► Higher revenues and gross operating profit

### ■ THE BUSINESS UNIT

The Internet and Media Business Unit is responsible for the whole chain of value in the media sector. Its operations include telephone publishing and television and the BU is the national leader in the marketing of office products and services. 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.

Within the framework of the new strategic guidelines, the mission of the Business Unit comprises the creation of a multi-platform media group which, using the mediums of paper, telephones, the Internet and television, will meet the needs of the public for information and entertainment, and the needs of businesses for communication and services.

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 during the first quarter of 2002 compared to the financial statements at the end of 2001. Compared to the first quarter of 2001, the principal companies added to the scope of consolidation are Holding Media e Comunicazione Group (Television Area), Net Creations, Pan Adress and Data House (Business Information Area) and Cipi (Office Products and Services Area). Following restructuring projects, some companies (Giallo Viaggi, Giallo Lavoro, Giallo Market, TicketOne, TinWeb and ZDNet) have been excluded from the scope of consolidation.

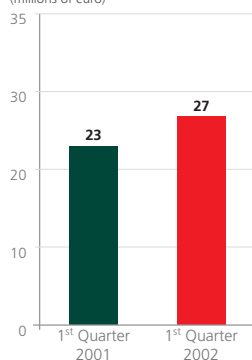


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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, compared to the first quarter of 2001 and the year 2001.

**Gross Operating Profit**  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b)		Amount	%
Sales and service revenues	333	292	1,957	41	14.0
Gross operating profit	27	23	444	4	17.4
% on revenues	8.1%	7.9%	22.7%		
Operating income	(69)	(53)	31	(16)	(30.2)
% on revenues	°	°	1.6%		
Investments:					
- industrial	14	33	175	(19)	(57.6)
- goodwill	-	21	203	(21)	°
Employees at period-end (number) <sup>(1)</sup>	8,740	8,101	9,264	(524)	(5.7)

(1) The change in employees is calculated on the number at the end of 2001.

The increase in the consolidated *revenues* of the Seat Pagine Gialle Group in the first quarter of 2002 compared to the same period in the prior year is mainly due to additional companies in the scope of consolidation. On a comparable consolidation basis, there was an increase of 1% over the first quarter of 2001.

*Gross operating profit* increased compared to the same period in the prior year. On a comparative consolidation basis, there was an increase in the gross operating profit of more than 90% (from Euro 14 million in the first quarter of 2001 to Euro 27 million in the first quarter of 2002), associated mainly with the improvement in the profitability of the Directories business area and the fact that a slightly positive gross operating profit was reported in the Internet business area.

*Operating income* decreased compared to the first quarter of 2001, partly owing to higher amortization charges for goodwill on companies that were consolidated subsequent to March 31, 2001 (mainly Holding Media e Comunicazione and Net Creations) and higher provisions to the allowance for doubtful accounts. On a comparative consolidation basis, however, there was an improvement (+10%) which can mainly be attributed to a reduction in the losses reported by the companies in the Internet and Directory Assistance business areas.

*Industrial investments* during the period amount to Euro 14 million, a decrease from Euro 33 million in the first quarter of 2001.

Between December 31, 2001 and March 31, 2002 the number of *employees* fell by 524 and now totals 8,740, partly as a result of the rationalization program implemented in the Internet business area.

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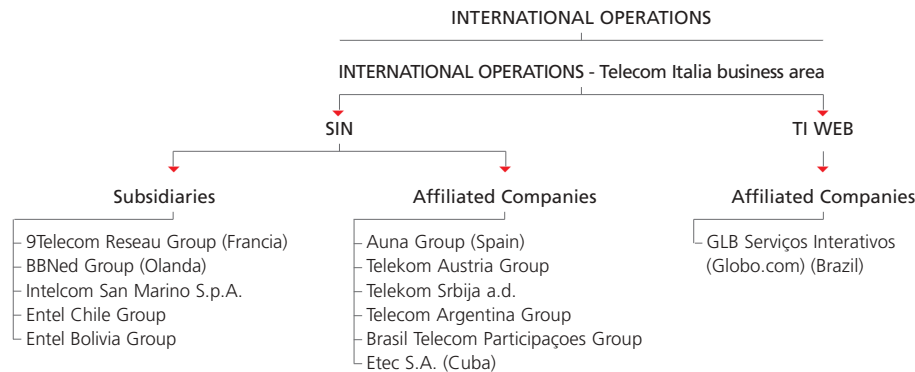
## INTERNATIONAL OPERATIONS

- ▶ Higher revenues and operating income
- ▶ Agreement signed for the sale of Auna and Multimedia Cable

### THE BUSINESS UNIT

The International Operations Business Unit operates in the sector of fixed and integrated fixed-mobile telecommunications. Its operations are mainly concentrated in Europe and South America.

The Business Unit is organized into companies for the most part controlled by the holding company Stet International Netherlands:



### MAJOR EVENTS/SCOPE OF CONSOLIDATION

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

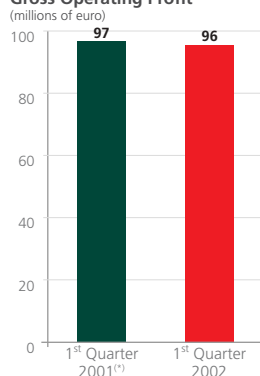
- an agreement signed with Banco Santander Central Hispano S.A., Endesa Telecomunicaciones S.A. and Union Fenosa Inversiones for the sale of Auna and Multimedia Cable S.A. stock. The completion of the transaction is subject to the approval of the responsible Spanish authorities and the European Union. In January, a capital stock increase of Auna was subscribed for Euro 164 million and a loan was made to Multimedia Cable for Euro 2.2 million. The payment of these amounts can be recovered at the conclusion of the sales transaction. The consolidated results for the first quarter 2002 do not include the share of earnings of Auna Group, as completion of the sale is imminent;
- the investment held by Stet International Netherlands in 9Telecom rose from 97.34% at December 31, 2001 to 97.52% following the purchase of No. 75,043 shares, previously held by Bouygues S.A., at a price of Euro 1 each. The activities directed to the sale of the 9Telecom Group are underway;
- subscription to the share capital increase of Euskaltel (an integrated operator in the Basque regions) for Euro 11.2 million by Stet International Netherlands.

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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, the first quarter of 2001 and the year 2001.

### Gross Operating Profit



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b) (*)		(*)	Amount	%
Sales and service revenues	478	443	874	1,879	35	7.9
Gross operating profit	96	97	321	347	(1)	(1.0)
% on revenues	20.1%	21.9%	36.7%	18.5%		
Operating income	(22)	(40)	35	(268)	18	45.0
% on revenues	°	°	4.0%			
Investments:						
- industrial	80	122	205	517	(42)	(34.4)
- goodwill	-	737	737	773	(737)	°
Employees at period-end (num.) <sup>(1)</sup>	7,250	7,229	14,673	7,307	(57)	(0.8)

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

(1) The change in employees is calculated on the number at the end of 2001.

The increase in *revenues* in the first quarter of 2002, compared to the same period in the prior year, can be mainly attributed to the higher contribution by the Entel Chile Group and the 9Telecom Group.

*Gross operating profit* is unchanged compared to the first quarter of 2001 as a result of the decrease in the profitability of the International Operations business area of Telecom Italia (on account of the lower income from service contracts with Telecom Argentina), as well as the start-up costs of BBned and the deterioration in the economic performance of Entel Bolivia.

Compared to the first quarter of 2001 there was a significant improvement in the *operating income* which can be attributed to the lower amortization charge for the goodwill of subsidiaries as a result of the writedowns made at December 31, 2001.

*Industrial investments* show a declining trend compared to the first quarter of 2001, with a reduction of 34.4%.

The number of *employees* fell by 57 compared to the end of 2001.

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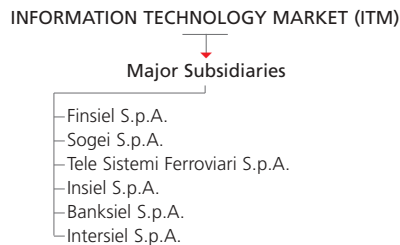
## ■ INFORMATION TECHNOLOGY - MARKET

- ▶ **Creation of a new Business Unit oriented towards the external market**
- ▶ **Higher business volumes**

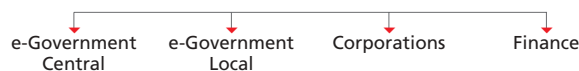
### ■ THE BUSINESS UNIT

The Information Technology - Market Business Unit is responsible for the information technology activities of the Group oriented towards the external market, particularly to Central and Local Administrations, banks and companies. Its services cover the whole chain of value of information technology services.

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



In April 2002, a new organizational structure of the IT Market BU became operational, as follows:



### ■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

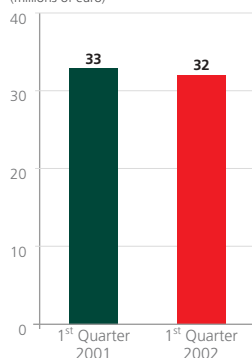
In the first quarter of 2002, the company Netikos was added to the scope of consolidation of the Information Technology - Group BU and the investment in the affiliated company Lottomatica S.p.A. was sold, through acceptance of a tender offer of purchase, to Tyche S.p.A. - De Agostini Group, realizing on a consolidated basis a gross gain of Euro 133 million.

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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, compared to the first quarter of 2001 and the year 2001, on a comparable consolidation basis.

**Gross Operating Profit**  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b)		Amount	%
Sales and service revenues	270	246	1,198	24	9.8
Gross operating profit	32	33	166	(1)	(3.0)
% on revenues	11.9%	13.4%	13.9%		
Operating income	25	25	123	-	-
% on revenues	9.3%	10.2%	10.3%		
Investments:					
- industrial	4	6	30	(2)	(33.3)
- goodwill	-	-	1	-	-
Employees at period-end (number) <sup>(1)</sup>	6,378	6,875	6,441	(63)	(1.0)

(1) The change in employees is calculated on the number at the end of 2001.

During the first quarter of 2002, *sales and service revenues* increased compared to the same period in the prior year, and can largely be attributed to the higher production volumes achieved particularly by Sogei, Tele Sistemi Ferroviari and Insiel, and was partly offset by a fall in the revenues of Finsiel.

In absolute terms, the profitability of the Group, both in terms of *gross operating profit* and *operating income*, settled at the same levels as in the prior year, while, as a percentage of revenues, they were lower, due to the lower margins on the volumes achieved during the current quarter.

The number of *employees* shows a reduction of 63 compared to December 31, 2001.

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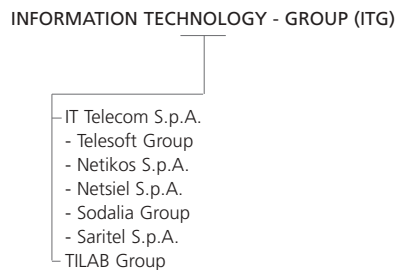
## ■ INFORMATION TECHNOLOGY - GROUP

### ▶ Creation of a new Business Unit oriented towards Group services

### ■ THE BUSINESS UNIT

The Information Technology - Group Business Unit is in charge of technological innovation and information technology for service activities within the Telecom Italia Group, with a view towards the objectives of rationalization and innovation.

The Business Unit includes the companies devoted to the information systems of the Group, within the framework of the project to integrate various areas. The Business Unit is organized as follows:



In February 2002, a new organizational structure of the IT Group BU became operational, as follows:



### ■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

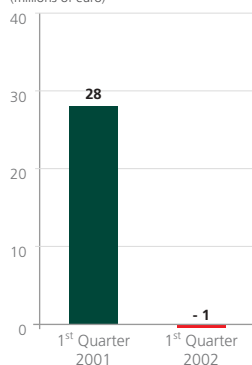
In the first quarter of 2002, the Board of Directors of Telecom Italia approved the corporate reorganization plan for Information Technology - Group Business Unit which calls for the concentration in IT Telecom of the investments held by Telecom Italia itself and Finsiel in the companies Netsiel, Telesoft, Sodalìa, Netikos and Saritel.

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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, compared to the first quarter of 2001 and the year 2001, on a comparable consolidation basis.

**Gross Operating Profit**  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b)		Amount	%
Sales and service revenues	196	209	1,198	(13)	(6.2)
Gross operating profit	(1)	28	188	(29)	°
% on revenues	°	13.4%	15.7%		
Operating income	(29)	(4)	22	(25)	°
% on revenues	-	-	1.8%		
Investments:					
- industrial	11	38	162	(27)	(71.1)
- goodwill	-	-	6	-	-
Employees at period-end (number) <sup>(1)</sup>	6,875	6,802	6,844	31	0.5

(1) The change in employees is calculated on the number at the end of 2001.

The decrease in *revenues* and *gross operating profit* is mainly the result of the trend of the prices of Netsiel and Telesoft recorded in the first quarter on the services rendered to the Domestic Wireline Business Unit and, as far as TI LAB is concerned, the reduction in operating grants (approximately Euro 5 million). Compared to the same period in 2001, external use of services fell by 29%, a phenomenon which can mainly be attributed to Netsiel and Telesoft.

The reduction in *investments* of Euro 27 million relates to the above-mentioned companies, which are mainly involved in providing services to the Domestic Wireline Business Unit.

## ■ R&D ACTIVITIES

The most important developments by TILAB during the first quarter of 2002 include:

- creation in the laboratory of platforms for supplying data services based on Wireless LAN networks to companies and the public sector;
- field testing of the locating platform with the cooperation of TIM;
- completion of the economic valuation of the network-based disaster recovery business;
- creation of a product to monitor the end-to-end performance of Internet services (IP) 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 for creating an on-line press agency which uses automatic animation and multi-lingual voice synthesis systems;
- creation, within the System on Chip framework, of a Physical Layer platform realizing the relevant UMTS functions. The platform enables the real time emulation of both the base station and the mobile terminal features within a single Embedded System.

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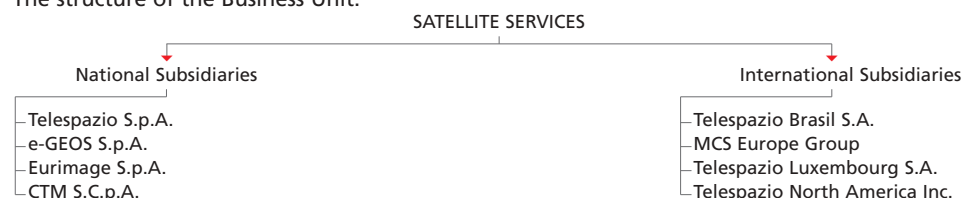
## ■ SATELLITE SERVICES

- ▶ **Creation of a consortium for the promotion, development and operation of Galileo services**

### ■ THE BUSINESS UNIT

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

The structure of the Business Unit:



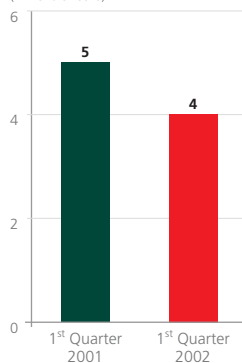
### ■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

There were no changes in the scope of consolidation during the first quarter of 2002 compared to the financial statements at the end of 2001. Compared to the first quarter of 2001, the company e-GEOS was added to the scope of consolidation.

### ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2002, compared to the first quarter of 2001 and the year 2001. The consolidation of e-GEOS had no significant economic, equity or financial effect.

Gross Operating Profit  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b)		Amount	%
Sales and service revenues	65	65	648	-	-
Gross operating profit	4	5	159	(1)	(20.0)
% on revenues	6.2%	7.7%	24.5%		
Operating income	(5)	(4)	60	(1)	(25.0)
% on revenues	°	°	9.3%		
Investments:					
- industrial	4	5	29	(1)	(20.0)
- goodwill	-	-	-	-	-
Employees at period-end (number) <sup>(1)</sup>	1,192	1,173	1,196	(4)	(0.3)

(1) The change in employees is calculated on the number at the end of 2001.

Revenues are in line with those reported in the first quarter of 2001. Furthermore, production volumes during the period were marked, on the one hand, by a decline in activities in the aerospace sector and, on the other, by growth in the telecommunications services sector.

In absolute terms, the *gross operating profit*, *investments* and the number of *employees* remained virtually unchanged.



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## ■ OTHER OPERATIONS

With regard to the "Other operations" of the Telecom Italia Group, there follows a description of the key highlights of the "Real Estate and General Services" operating activities.

### ■ REAL ESTATE AND GENERAL SERVICES

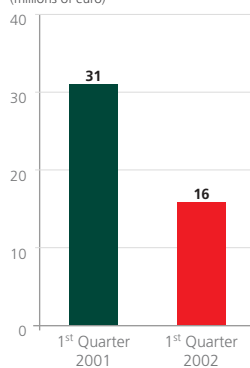
The "Real Estate and General Services" operating activities provide management services and leverage the value of the real estate properties of the Group (asset, property and agency management), carrying out project design and work on properties and offering real estate services (project and facility management).

The services offered by the "Real Estate and General Services" segment are directed mainly to the other Functions/Business Units and, since March 2002, have been reorganized so as to assimilate and arrange the various areas of activity in a way that is more consistent with the requirements of this business area.

The real estate operating activities head up not only the internal structures of Telecom Italia S.p.A., but also other companies operating in the specific business sector, three of which are subsidiaries (Emsa, Telimm and Immsi) and two of which are affiliated companies (Imser and Telemaco Immobiliare).

The following table shows the key results of the first quarter of 2002, compared to those of the first quarter of 2001 and the year 2001. The above data takes into account the exchanges between the Real Estate and General Services operating activities and the other functions of Telecom Italia S.p.A..

Gross Operating Profit  
(millions of euro)



(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001	Change (a - b)	
	(a)	(b)		Amount	%
Sales and service revenues	204	225	953	(21)	(9.3)
Operating costs	188	194	809	(6)	(3.1)
Gross operating profit	16	31	145	(15)	(48.4)
% on revenues	7.8%	13.8%	15.2%		
Operating income	(34)	(20)	(65)	(14)	(70.0)

The decrease in *sales and service revenues* can mainly be attributed to using the best market terms to align the internal system for recharging costs by the "Real Estate and General Services" function of Telecom Italia S.p.A. to the other Functions/Business Units, and to the continuation of the policy of rationalizing the premises occupied by the various structures of Telecom Italia.

The trend of *operating costs* partly compensated the fall in revenues, decreasing from Euro 194 million in the first quarter of 2001 to Euro 188 million in the same period of 2002, thus attenuating the decline in the *gross operating profit*.

The ratio between the gross operating profit and revenues fell from 13.8% in the first quarter of the prior year to 7.8%, whereas the change in absolute terms compared to the first quarter of 2001 of Euro 15 million remained fairly constant also at the level of operating income.

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## ■ FINANCIAL STATEMENTS TELECOM ITALIA GROUP

The financial statements, the accounting principles and the principles of consolidation applied in the preparation of the interim financial statements for the three months ended March 31, 2002, taking into account the adjustments required for quarterly statements, are the same as those applied in the annual consolidated financial statements at December 31, 2001. The quarterly reports are unaudited.

The income taxes of the individual consolidated companies are calculated at the estimated tax rate for the year 2002 and recorded in the "reserve for taxes" under "reserves for risks and charges":

### CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter	Year	Change	
	2002 (a)	2001 (b) (*)	2001	2001	Amount	%
<b>A. Sales and service revenues</b>	<b>7,265</b>	<b>7,129</b>	<b>7,552</b>	<b>30,818</b>	<b>136</b>	<b>1.9</b>
Changes in inventories of work in progress, semifinished and finished goods	-	6	6	-	(6)	°
Changes in inventory of contract work in process	26	99	99	(115)	(73)	(73.7)
Increases in capitalized internal construction costs	73	62	80	581	11	17.7
Operating grants	2	7	7	24	(5)	(71.4)
<b>B. Standard production value</b>	<b>7,366</b>	<b>7,303</b>	<b>7,744</b>	<b>31,308</b>	<b>63</b>	<b>0.9</b>
Raw materials and outside services <sup>(1)</sup>	(2,922)	(2,869)	(3,011)	(13,042)	(53)	1.8
<b>C. Value added</b>	<b>4,444</b>	<b>4,434</b>	<b>4,733</b>	<b>18,266</b>	<b>10</b>	<b>0.2</b>
Labor costs <sup>(1)</sup>	(1,170)	(1,147)	(1,222)	(4,647)	(23)	2.0
<b>D. Gross operating profit</b>	<b>3,274</b>	<b>3,287</b>	<b>3,511</b>	<b>13,619</b>	<b>(13)</b>	<b>(0.4)</b>
Depreciation and amortization	(1,421)	(1,493)	(1,620)	(6,275)	72	(4.8)
<i>of which goodwill</i>	(216)	(246)	(250)	(1,022)	30	(12.2)
Other valuation adjustments	(89)	(82)	(105)	(455)	(7)	8.5
Provisions to reserves for risks and charges	(30)	(22)	(22)	(278)	(8)	36.4
Net other income (expense)	(3)	31	31	63	(34)	°
<b>E. Operating income</b>	<b>1,731</b>	<b>1,721</b>	<b>1,795</b>	<b>6,674</b>	<b>10</b>	<b>0.6</b>
Net investment and financial income (expense)	(510)	(610)	(653)	(3,955)	100	16.4
<i>of which value adjustments</i>	(60)	(300)	(298)	(1,956)	240	80.0
<b>F. Income before extraordinary items and taxes</b>	<b>1,221</b>	<b>1,111</b>	<b>1,142</b>	<b>2,719</b>	<b>110</b>	<b>9.9</b>
Net extraordinary income (expense)	543	84	78	(3,452)	459	°
<b>G. Income before taxes</b>	<b>1,764</b>	<b>1,195</b>	<b>1,220</b>	<b>(733)</b>	<b>569</b>	<b>47.6</b>
Income taxes	(624)	(622)	(643)	(925)	(2)	0.3
<b>H. Net income (loss) before minority interest</b>	<b>1,140</b>	<b>573</b>	<b>577</b>	<b>(1,658)</b>	<b>567</b>	<b>99.0</b>
Minority interest	(419)	(187)	(191)	(410)	(232)	124.1
<b>I. Net income (loss)</b>	<b>721</b>	<b>386</b>	<b>386</b>	<b>(2,068)</b>	<b>335</b>	<b>86.8</b>

(\*) 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) Reduced by related cost recoveries.

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## CONSOLIDATED BALANCE SHEETS

(millions of euro)	3.31.2002	12.31.2001	3.31.2001	3.31.2001	Change		
	(a)	(b)	(*)		Amount	%	
<b>A. Intangibles, fixed assets and long-term investments</b>							
Intangible assets	15,958	16,197	17,472	17,947	(239)	(1.5)	
Fixed assets	21,323	21,757	21,619	24,426	(434)	(2.0)	
Long-term investments:							
- equity investments and advances on future capital contributions	6,908	6,586	9,015	8,622	322	4.9	
- other	352	478	1,177	1,185	(126)	(26.4)	
	<b>44,541</b>	<b>45,018</b>	<b>49,283</b>	<b>52,180</b>	<b>(477)</b>	<b>(1.1)</b>	
<b>B. Working capital</b>							
Inventories	653	636	866	912	17	2.7	
Trade accounts receivable	9,076	8,346	8,712	9,151	730	8.7	
Other assets	4,564	5,047	3,609	3,688	(483)	(9.6)	
Trade accounts payable	(6,071)	(6,793)	(6,717)	(7,020)	722	(10.6)	
Reserves for risks and charges	(2,537)	(3,053)	(1,618)	(1,757)	516	(16.9)	
Other liabilities	(7,320)	(6,601)	(6,883)	(6,986)	(719)	10.9	
	<b>(1,635)</b>	<b>(2,418)</b>	<b>(2,031)</b>	<b>(2,012)</b>	<b>783</b>	<b>32.4</b>	
<b>C. Invested capital, net of operating liabilities</b>	<b>(A+B)</b>	<b>42,906</b>	<b>42,600</b>	<b>47,252</b>	<b>50,168</b>	<b>306</b>	<b>0.7</b>
<b>D. Reserve for employee termination indemnities</b>		<b>(1,365)</b>	<b>(1,350)</b>	<b>(1,352)</b>	<b>(1,352)</b>	<b>(15)</b>	<b>1.1</b>
<b>E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities</b>	<b>(C+D)</b>	<b>41,541</b>	<b>41,250</b>	<b>45,900</b>	<b>48,816</b>	<b>291</b>	<b>0.7</b>
Financed by:							
<b>F. Shareholders' equity <sup>(1)</sup></b>							
Parent Company interest	14,519	13,522	19,314	19,314	997	7.4	
Minority interest	6,404	5,786	6,213	7,092	618	10.7	
	<b>20,923</b>	<b>19,308</b>	<b>25,527</b>	<b>26,406</b>	<b>1,615</b>	<b>8.4</b>	
<b>G. Medium/long-term debt</b>	<b>18,834</b>	<b>16,083</b>	<b>9,026</b>	<b>10,690</b>	<b>2,751</b>	<b>17.1</b>	
<b>H. Net short-term borrowings</b>							
Short-term borrowings	4,817	9,114	15,759	16,205	(4,297)	(47.1)	
Liquid assets and short-term financial assets	(3,312)	(3,505)	(4,416)	(4,529)	193	(5.5)	
Financial accrued expense (income) and deferred expense (income), net	279	250	4	44	29	11.6	
	<b>1,784</b>	<b>5,859</b>	<b>11,347</b>	<b>11,720</b>	<b>(4,075)</b>	<b>(69.6)</b>	
	<b>(G+H)</b>	<b>20,618</b>	<b>21,942</b>	<b>20,373</b>	<b>22,410</b>	<b>(1,324)</b>	<b>(6.0)</b>
<b>I. Total</b>	<b>(F+G+H)</b>	<b>41,541</b>	<b>41,250</b>	<b>45,900</b>	<b>48,816</b>	<b>291</b>	<b>0.7</b>

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

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001 (*)	1 <sup>st</sup> Quarter 2001	Year 2001
<b>A. Net debt, at beginning of year</b>	<b>(21,942)</b>	<b>(17,233)</b>	<b>(19,029)</b>	<b>(17,233)</b>
<b>B. Change in scope of consolidation</b>	<b>-</b>	<b>(839)</b>	<b>(839)</b>	<b>(839)</b>
<b>C. Cash flows - operating activities</b>				
Net income (loss)	1,140	573	577	(1,658)
Depreciation and amortization	1,421	1,493	1,620	6,275
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(620)	(118)	(118)	(330)
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	13	235	233	4,039
Change in working capital <sup>(1)</sup>	(752)	(236)	(256)	290
Net change in reserve for employee termination indemnities	15	33	33	31
Translation adjustments and other changes	241	122	(140)	136
	<b>1,458</b>	<b>2,102</b>	<b>1,949</b>	<b>8,783</b>
<b>D. Cash flows - investing activities</b>				
Long-term investments:	(1,227)	(4,708)	(4,792)	(11,257)
. intangible assets				
- goodwill	(10)	(766)	(766)	(1,174)
- other investments	(212)	(1,281)	(1,287)	(2,736)
. fixed assets	(600)	(717)	(795)	(4,254)
. long-term investments	(405)	(1,944)	(1,944)	(3,093)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,076	304	309	1,439
	<b>(151)</b>	<b>(4,404)</b>	<b>(4,483)</b>	<b>(9,818)</b>
<b>E. Cash flows - financing activities</b>				
Contribution by shareholders	31	32	32	240
Capital grants	3	5	5	22
	<b>34</b>	<b>37</b>	<b>37</b>	<b>262</b>
<b>F. Dividends</b>	<b>(17)</b>	<b>(36)</b>	<b>(45)</b>	<b>(3,097)</b>
<b>G. Change in net debt (B+C+D+E+F)</b>	<b>1,324</b>	<b>(3,140)</b>	<b>(3,381)</b>	<b>(4,709)</b>
<b>H. Net debt, at end of year (A+G)</b>	<b>(20,618)</b>	<b>(20,373)</b>	<b>(22,410)</b>	<b>(21,942)</b>

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

The change in net debt was due to the following:

(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001 (*)	1 <sup>st</sup> Quarter 2001	Year 2001
Increases (decreases) in medium/long-term debt	2,751	2,292	2,421	9,350
Increases (decreases) in short-term borrowings	(4,075)	848	960	(4,641)
<b>Total</b>	<b>(1,324)</b>	<b>3,140</b>	<b>3,381</b>	<b>4,709</b>

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

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## ■ FINANCIAL STATEMENTS TELECOM ITALIA S.P.A.

The financial statements, the accounting principles and the principles of consolidation applied in the preparation of the interim financial statements for the three months ended March 31, 2002, taking into account the adjustments required for quarterly statements, are the same as those applied in the annual consolidated financial statements at December 31, 2001. The quarterly reports are unaudited.

The income taxes of the individual consolidated companies are calculated at the estimated tax rate for the year 2002 and recorded in the "reserve for taxes" under "reserves for risks and charges":

### STATEMENTS OF INCOME

(millions of euro)	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter	Year	Change	
	2002	2001	2001	(a - b)	
		(a)	(b)	Amount	%
<b>A. Sales and service revenues</b>	<b>4,190</b>	<b>4,260</b>	<b>17,309</b>	<b>(70)</b>	<b>(1.6)</b>
Changes in inventory of contract work in process	(4)	(1)	(19)	(3)	°
Increases in capitalized internal construction costs	-	2	6	(2)	°
Operating grants	-	-	-	-	-
<b>B. Standard production value</b>	<b>4,186</b>	<b>4,261</b>	<b>17,296</b>	<b>(75)</b>	<b>(1.8)</b>
Raw materials and outside services <sup>(1)</sup>	(1,655)	(1,695)	(7,109)	40	(2.4)
<b>C. Value added</b>	<b>2,531</b>	<b>2,566</b>	<b>10,187</b>	<b>(35)</b>	<b>(1.4)</b>
Labor costs <sup>(1)</sup>	(656)	(666)	(2,616)	10	(1.5)
<b>D. Gross operating profit</b>	<b>1,875</b>	<b>1,900</b>	<b>7,571</b>	<b>(25)</b>	<b>(1.3)</b>
Depreciation and amortization	(726)	(820)	(3,321)	94	(11.5)
Other valuation adjustments	(23)	(29)	(159)	6	(20.7)
Provisions to reserves for risks and charges	(13)	(9)	(100)	(4)	44.4
Net other income (expense)	(16)	26	(8)	(42)	°
<b>E. Operating income</b>	<b>1,097</b>	<b>1,068</b>	<b>3,983</b>	<b>29</b>	<b>2.7</b>
Net investment and financial income (expense)	(519)	(360)	(377)	(159)	44.2
<b>F. Income before extraordinary items and taxes</b>	<b>578</b>	<b>708</b>	<b>3,606</b>	<b>(130)</b>	<b>(18.4)</b>
Net extraordinary income (expense)	(83)	(28)	(2,893)	(55)	°
<b>G. Income before taxes</b>	<b>495</b>	<b>680</b>	<b>713</b>	<b>(185)</b>	<b>(27.2)</b>
Income taxes	(215)	(302)	(562)	87	(28.8)
<b>H. Net income</b>	<b>280</b>	<b>378</b>	<b>151</b>	<b>(98)</b>	<b>(25.9)</b>

(1) Reduced by related cost recoveries.

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## BALANCE SHEETS

(millions of euro)	3.31.2002 (a)	12.31.2001 (b)	3.31.2001	Change (a - b)	
				Amount	%
<b>A. Intangibles, fixed assets and long-term investments</b>					
Intangible assets	1,292	1,318	1,140	(26)	(2.0)
Fixed assets	13,773	14,109	14,738	(336)	(2.4)
Long-term investments:					
- equity investments and advances on future capital contributions	18,093	18,149	20,770	(56)	(0.3)
- other	211	221	936	(10)	(4.5)
	<b>33,369</b>	<b>33,797</b>	<b>37,584</b>	<b>(428)</b>	<b>(1.3)</b>
<b>B. Working capital</b>					
Inventories	69	77	84	(8)	(10.4)
Trade accounts receivable	5,659	5,104	5,645	555	10.9
Other assets	3,735	3,868	3,165	(133)	(3.4)
Trade accounts payable	(3,311)	(3,549)	(4,215)	238	(6.7)
Reserves for risks and charges	(1,104)	(1,613)	(881)	509	(31.6)
Other liabilities	(4,573)	(3,875)	(4,226)	(698)	18.0
	<b>475</b>	<b>12</b>	<b>(428)</b>	<b>463</b>	<b>°</b>
<b>C. Invested capital, net of operating liabilities (A+B)</b>	<b>33,844</b>	<b>33,809</b>	<b>37,156</b>	<b>35</b>	<b>0.1</b>
<b>D. Reserve for employee termination indemnities</b>	<b>(1,032)</b>	<b>(1,025)</b>	<b>(1,046)</b>	<b>(7)</b>	<b>0.7</b>
<b>E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities (C+D)</b>	<b>32,812</b>	<b>32,784</b>	<b>36,110</b>	<b>28</b>	<b>0.1</b>
Financed by:					
<b>F. Shareholders' equity</b>					
Share capital paid-in	4,023	4,023	3,836	-	-
Reserves and retained earnings	11,858	11,697	14,888	161	1.4
Net income	280	151	378	129	85.4
	<b>16,161</b>	<b>15,871</b>	<b>19,102</b>	<b>290</b>	<b>1.8</b>
<b>G. Medium/long-term debt</b>	<b>13,555</b>	<b>10,371</b>	<b>3,103</b>	<b>3,184</b>	<b>30.7</b>
<b>H. Net short-term borrowings</b>					
Short-term borrowings	4,206	7,538	15,977	(3,332)	(44.2)
Liquid assets and short-term financial assets	(1,160)	(1,248)	(2,133)	88	(7.1)
Financial accrued expense (income) and deferred expense (income), net	50	252	61	(202)	(80.2)
	<b>3,096</b>	<b>6,542</b>	<b>13,905</b>	<b>(3,446)</b>	<b>(52.7)</b>
(G+H)	<b>16,651</b>	<b>16,913</b>	<b>17,008</b>	<b>(262)</b>	<b>(1.5)</b>
<b>I. Total (F+G+H)</b>	<b>32,812</b>	<b>32,784</b>	<b>36,110</b>	<b>28</b>	<b>0.1</b>

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## STATEMENTS OF CASH FLOWS

(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001
<b>A. Net debt, at beginning of year</b>	<b>(16,913)</b>	<b>(16,839)</b>	<b>(16,839)</b>
<b>B. Cash flows - operating activities</b>			
Net income (loss)	280	378	151
Depreciation and amortization	726	820	3,321
(Gains) losses on sales of intangibles, fixed assets and long-term investments	4	(5)	(241)
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	179	74	3,148
Change in working capital <sup>(1)</sup>	(460)	(69)	(514)
Net change in reserve for employee termination indemnities	6	15	(6)
	<b>735</b>	<b>1,213</b>	<b>5,859</b>
<b>C. Cash flows - investing activities</b>			
Long-term investments:			
. <i>intangible assets</i>	(521)	(1,447)	(4,495)
. <i>goodwill</i>	(85)	(87)	(727)
. <i>long-term investments</i>	(294)	(299)	(1,739)
. <i>long-term investments</i>	(142)	(1,061)	(2,029)
Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions	-	(45)	(413)
Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments	41	52	975
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	-	50	280
	<b>(480)</b>	<b>(1,390)</b>	<b>(3,653)</b>
<b>D. Cash flows - financing activities</b>			
Capital contributions	7	6	10
Capital grants	-	2	19
	<b>7</b>	<b>8</b>	<b>29</b>
<b>E. Dividends</b>	-	-	<b>(2,309)</b>
<b>F. Change in net debt</b>	(B+C+D+E)	<b>262</b>	<b>(169)</b>
<b>G. Net debt, at end of year</b>	(A+F)	<b>(16,651)</b>	<b>(17,008)</b>
		<b>(17,008)</b>	<b>(16,913)</b>

(1) 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 loans receivable and medium/long-term debt to period-end exchange rates.

The change in net debt is due to the following:

(millions of euro)	1 <sup>st</sup> Quarter 2002	1 <sup>st</sup> Quarter 2001	Year 2001
Increases (decreases) in medium/long-term debt	3,185	(85)	7,183
Increases (decreases) in short-term borrowings	(3,447)	254	(7,109)
<b>Total</b>	<b>(262)</b>	<b>169</b>	<b>74</b>

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## ■ USEFUL INFORMATION

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