



FIRST QUARTER REPORT

FIRST QUARTER REPORT
2000

TELEFONIA FISSA, MOBILE, INTERNET, THE NEXT THING.®

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RESULTS OF OPERATIONS		1 st quarter 2000	1 st quarter 1999	Year 1999	1 st quarter 2000 [1]
[in billions of lire]	Sales and services revenues	13,632	12,203	52,481	12,863
	Gross operating profit	6,491	5,920	23,673	6,049
	Operating income	3,604	3,309	12,456	3,405
	Net income before minority interest	1,599	1,408	4,665	1,562
	Net income - Parent Company	1,162	1,130	3,364	1,162

FINANCIAL CONDITION		3.31.00	12.31.99	3.31.99	3.31.00 [1]
[in billions of lire]	Net invested capital	56,159	54,069	51,003	51,187
	Stockholders' equity [2]	41,291	38,311	38,146	39,931
	of which:				
	• Parent Company	34,138	33,004	32,866	34,138
	• Minority interest	7,153	5,307	5,280	5,793
	Net borrowings	14,868	15,758	12,857	11,580
	Cash flows	4,249	15,003	3,919	4,030
	Capital investments	2,024	13,077	2,503	1,804
	of which:				
	• Capital	1,651	10,560	2,205	1,435
	• Financial investments	373	2,517	298	369

PROFIT AND FINANCIAL INDEXES		1 st quarter 2000	1 st quarter 1999	Year 1999	1 st quarter 2000 [1]
[percentages]	Gross operating profit/Revenues	47.6	48.5	45.1	47.0
	Operating income /Revenues [ROS]	26.4	27.1	23.7	26.5
	Return on equity [ROE] [2]	4.0	3.8	12.6	4.0
	Net borrowings/Invested capital [debt ratio]	26.5	25.2	29.1	22.6

OPERATING DATA		3.31.00	12.31.99	3.31.99
Telecom Italia				
	Fixed network access lines [in thousands]	26,574	26,502	26,066
	Annual increase in minutes in traffic on the fixed network [%]:			
	- from Telecom Italia customers	14.1	2.9	0.1
	- from other operators	91.2	98.4	87.0
	Internet customers [in thousands]	2,694	1,990	500
TIM				
	Lines [in thousands]	19,221	18,527	15,157
	Annual increase in minutes in mobile radio traffic [%]	30	35.1	41.4
	GSM coverage [% population]	99	99	98
	E-TACS coverage [% population]	98	98	98

		3.31.00	12.31.99	3.31.99	3.31.00 [1]
	Number of employees of Group	130,553	122,662	124,664	122,672

[1] The data in this column does not take into account the effects of the proportional consolidation from January 1, 2000 of Nortel Inversora and the Telecom Argentina group, which it controls.

[2] Income for the period of the Parent Company and minority interests / average stockholders' equity [share of Parent Company + minority interests].

The first quarter of 2000 was characterized by an initial phase of growth in the European stock markets, in line with the trend over the last few months of 1999, followed by a second phase in which the fall of the stocks in the so-called new economy and the fears of a possible jump in inflation in the United States negatively contributed to performance. The Mibtel Index reached 31,700 at the end of the first quarter of 2000, a gain of 9%.

Prices of Telecom Italia ordinary shares led to gains of 12% in the first quarter of 2000, after having reached a record high of Euros 20.35 on February 11, 2000. Prices of savings shares, instead, rose by 18%, posting a historical peak of Euros 9 on March 6, 2000.

Prices of TIM ordinary shares also rose, posting a gain [+15%] at the end of March that was higher than the market average, reaching a record Euros 15.49 on February 15, 2000 while savings shares reported a lower performance [+5%].

Stet Hellas shares recorded a fall of about 5%, which is nevertheless lower than that of the Greek stock exchange overall [-13%].

The Brazilian mobile telephone companies [Tele Nordeste Celular and Tele Celular Sul] registered a brilliant performance. Prices of ordinary shares rose 36% and 49%, respectively, in the first quarter of 2000, compared to 4% for the Brazilian stock market.

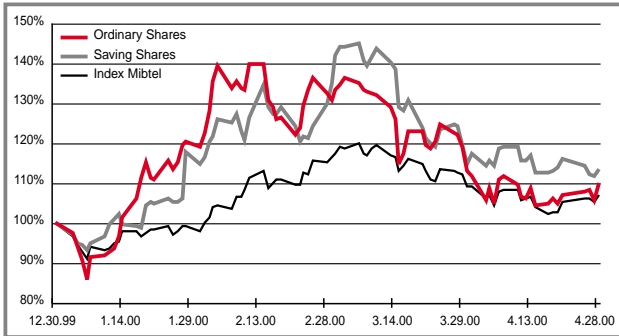
As for Sirti, the demerger and simultaneous listing of IMMSI on the stock market, starting from February 11, 2000, led to an appreciable increase in value for shareholders: the sum of Sirti and IMMSI market prices in the first quarter showed a growth of 17%.

Market capitalization

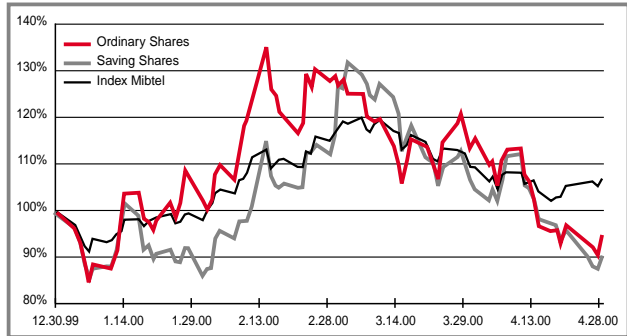
Based on March 31, 2000 prices, Telecom Italia and TIM are, respectively, the first and second largest Italian corporations in terms of market capitalization.

Performance of stocks in Telecom Italia Group

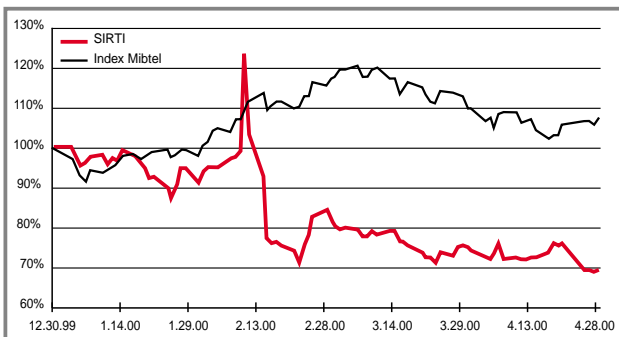
TELECOM ITALIA



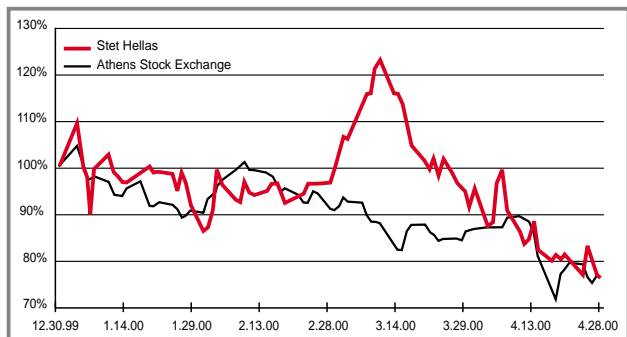
TIM



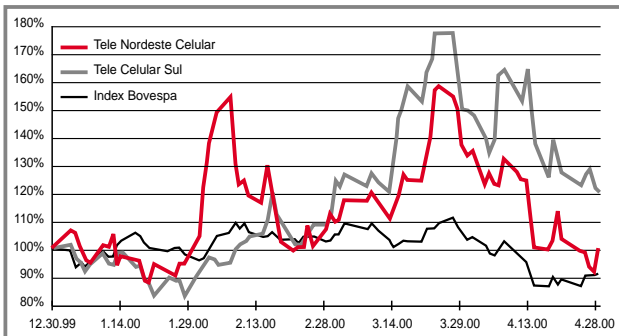
SIRTI



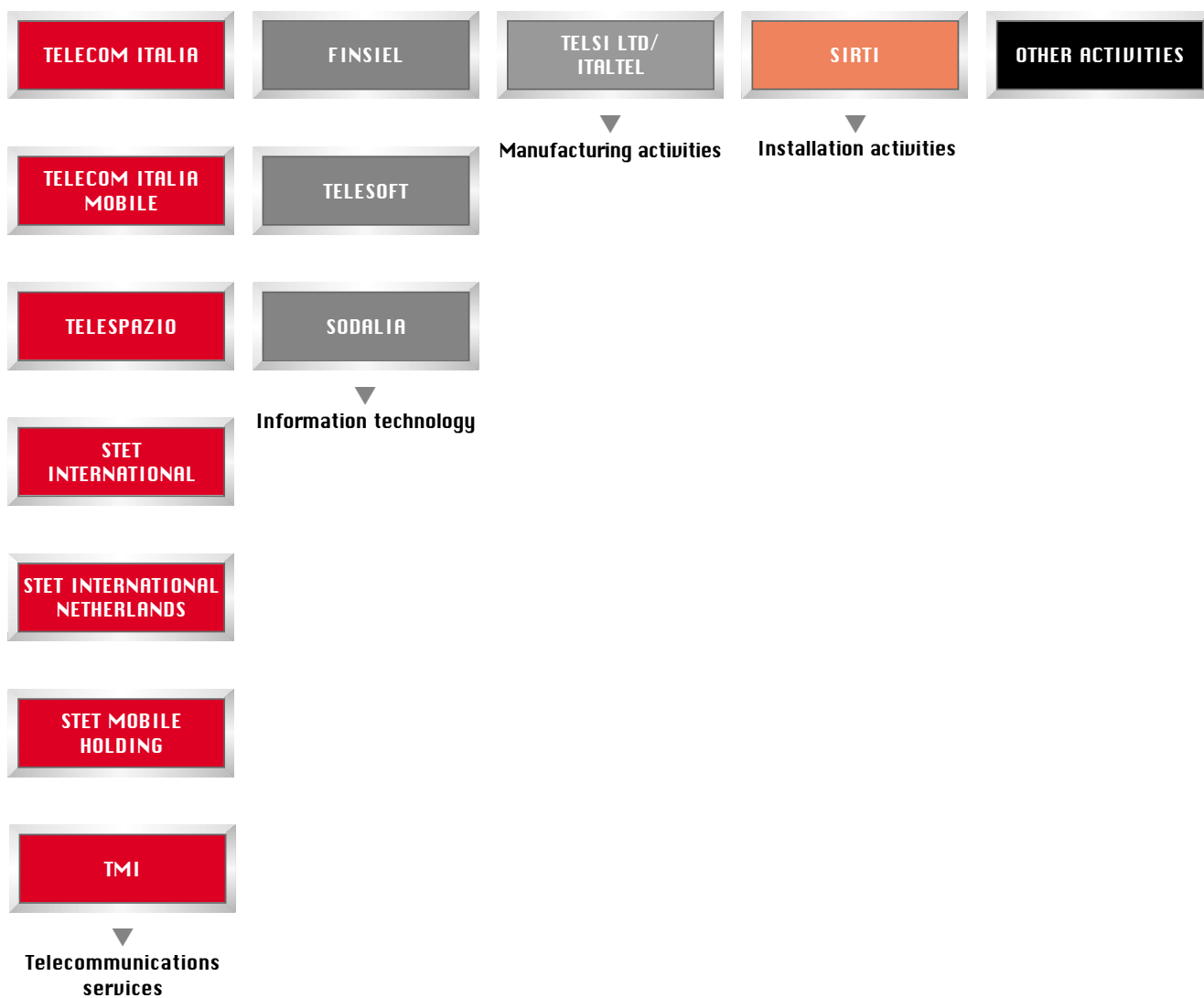
STET HELLAS



TELE NORDESTE CELULAR AND TELE CELULAR SUL



ACTIVITIES OF TELECOM ITALIA GROUP AT MARCH 31, 2000



Report on operations

1. The Telecom Italia Group

The figures for the first quarter of 2000 reflect the entry in the scope of consolidation, using the proportional method at 50%, of Nortel Inversora and the Telecom Argentina group, which it controls, and the exclusion of Teleleasing following the agreement for the sale to Mediobanca of a 60% stake held by Telecom Italia.

The results of the Group for the first quarter of 2000 follow:

- revenues of Lire 13,632 billion [Lire 12,203 billion in the first quarter of 1999, +11.7%], increased as a result of the positive trend in the mobile telephone business and the consolidation of the Telecom Argentina group;
- gross operating profit of Lire 6,491 billion [Lire 5,920 billion in the first quarter of 1999, +9.6%] was affected by the proportional consolidation of the Telecom Argentina group, the good performance of mobile telecommunications and by the fall in the gross operating profit of the fixed telecommunication business in Italy;
- operating income is Lire 3,604 billion [Lire 3,309 billion in the first quarter of 1999, +8.9%];
- income for the first quarter is Lire 1,599 billion [Lire 1,408 billion in the first quarter of 1999, +13.6%] and also reflects the positive financial results;
- income for the period attributable to the Parent Company Telecom Italia is Lire 1,162 billion [Lire 1,130 billion in the first quarter of 1999, +2.8%].

The percentage changes in the main results of the Group, excluding the effects of the proportional consolidation of Nortel Inversora and the Telecom Argentina group, would have been +5.4% for revenues, +2.2% for gross operating profit, +2.9% for operating income, +10.9% for income for the period attributable to the Parent Company and minority interests.

At March 31, 2000, Group employees numbered 130,553 [compared to 122,662 at December 31, 1999]. The increase of 7,891 units can be mainly attributed to the international telecommunications sector [+8,029 units], especially on account of the entry of the Argentinean companies [7,881 units] in the scope of consolidation and the reductions recorded in some sectors of activity such as fixed telecommunications in Italy [-649 units], in line with the strategy to optimize processes and costs being pursued by Telecom Italia, satellite telecommunications [-25 units], manufacturing activities [-51 units] which are in fact balanced by increases in other sectors, especially the installations activities [+579 units] for the development of activities in Brazil.

FUTURE OUTLOOK FOR THE CURRENT YEAR

2000 will constitute a turning-point for the Group, characterized as it is by the implementation of the new Industrial Plan and by the start of operations with the new organization. The fact that competitive pressure has intensified, for both mobile telephone services [with the entry of the fourth operating company and the awarding of the UMTS licenses], and also fixed telephone services and data transmission [today there are approximately 90 licenses on the national market alone], the rapidity of the liberalization process [carrier preselection, unbundling of the local loop] and the acceleration brought about thanks to the evolution taking place in technology [particularly the Internet], have combined to produce a profound transformation in the world of telecommunications. In this scenario, the Group has the attributes to guide the transformation process and to contribute directly to the development of the sector.

The main objective for 2000 is to continue to grow in Italy and abroad and to improve the management of operations as follows:

- by developing mobile telephone services, not only in the traditional telephone component of voice telephone services, but also in data and added-value services;
- by extending the use of the fixed network from voice to data services, in line with the tendencies of American operators;
- by decisively developing the Internet, not only from the consumer standpoint [by expanding the access and portal business], but also from the small and medium-size companies standpoint, bolstered by the merger between Seat and Tin.it;
- by increasing and reorganizing the Group's presence abroad, based mainly on mobile telephone services and the Internet, so as to extend the success achieved in Italy to the priority areas of expansion: Europe, Latin America and the Mediterranean basin.

Another fundamental objective for 2000 is to improve the profitability of invested capital by divesting non-core activities such as installations, manufacturing, some of the minor businesses and real estate properties. The process of rationalizing activities will also help to generate cash, releasing resources that can then be invested in developing the core business.

An essential part of the new Industrial Plan is to transform the organization of the Group, a task that was begun at the end of the first quarter of 2000. The new organizational structure, which is to be based on business and accountability, consists of seven Business Units.

- "Wireline Services", responsible for the development of data and voice business on fixed lines and for the call centers;
- "Mobile Services", responsible for national and foreign mobile telephone services;
- "Internet", responsible for developing the Internet for consumers and small and medium-size companies in all of its components: access, portals and web services;
- "Satellite Services", responsible for the operation and development of Telespazio's business;
- "IT Services", responsible for developing information services and for rationalizing all the operational units within the Group;
- "Venture Capital", responsible for identifying and managing new investment opportunities and initiatives in the ICT sector and Internet applications and coordinating CSELT research operations;
- "International Operations", responsible for managing subsidiaries operating in fixed and integrated telephone services, as well as developing the business of international networks.

The seven Business Units will be coordinated by a streamlined Corporate organization, with the exclusive role of guidance and control, while “common” operational activities which are not outsourced to third parties or absorbed by the Business Units will be transferred to specialized service companies. The reorganization of the Group and the implementation of the Industrial Plan are the fundamental pre-requisites of business in 2000, with which the management will act to ensure that its shareholders are fully satisfied.

The following table shows the key figures of the Group, according to sectors of activity:

[in billions of lire]		Wireline telecommunications Italy	Mobile telecommunications Italy	Satellite telecommunications	International telecommunications [1]	Information technology activities	Manufacturing activities [2]	Installation activities	Sub-total	Other activities and eliminations	Total consolidated
Sales and service revenues [*]	1 st quarter 2000	8,649	3,541	136	1,729	597	285	313	15,250	[1,618]	13,632
	1 st quarter 1999	8,947	3,102	141	674	520	296	282	13,962	[1,759]	12,203
	Year 1999	35,856	14,425	636	3,160	3,074	1,776	1,501	60,428	[7,947]	52,481
Gross operating profit [loss]	1 st quarter 2000	3,943	1,774	10	681	82	[28]	23	6,485	6	6,491
	1 st quarter 1999	4,086	1,506	14	153	73	[36]	20	5,816	104	5,920
	Year 1999	15,448	6,734	70	580	405	23	123	23,383	290	23,673
Operating income [loss]	1 st quarter 2000	2,020	1,356	[30]	191	47	[46]	9	3,547	57	3,604
	1 st quarter 1999	2,129	1,157	[2]	[30]	35	[50]	9	3,248	61	3,309
	Year 1999	7,108	5,126	[41]	[246]	237	[5]	76	12,255	201	12,456
Capital expenditures	1 st quarter 2000	911	348	22	369	23	6	8	1,687	[36]	1,651
	1 st quarter 1999	882	300	12	949	23	16	9	2,191	14	2,205
	Year 1999	5,928	1,992	70	1,845	129	87	81	10,132	428	10,560
Number of employees at end of period	1 st quarter 2000	75,501	9,381	1,329	13,656	10,220	5,102	13,283	128,472	2,081	130,553
	Year 1999	76,150	9,375	1,354	5,627	10,206	5,153	12,704	120,569	2,093	122,662
	1 st quarter 1999	78,796	8,982	1,293	4,501	10,201	7,333	11,458	122,564	2,100	124,664
[*] Of which, to other sectors of the Group	1 st quarter 2000	1,083	128	38	42	96	191	229	1,807	[1,807]	=
	1 st quarter 1999	538	945	38	37	77	100	162	1,897	[1,897]	=
	Year 1999	4,903	703	176	180	947	817	664	8,390	[8,390]	=

[1] The figures for the first quarter of 2000 include the proportional consolidation of Nortel Inversora and the Telecom Argentina group.

[2] These refer to 50% of the consolidated figures of Italtel group from January 1, 1999 to October 31, 1999 and 100% of the figures from November 1, 1999 to December 31, 1999 and from January 1, 2000 to March 31, 2000.

[3] Investments in fixed assets and intangible assets.

[1.1] WIRELINE TELECOMMUNICATIONS IN ITALY

The wireline telecommunications sector is operated directly by the Parent Company, **Telecom Italia**. The key data for the first quarter of 2000 compared to the first quarter of 1999 is as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B]	
				amount	percentage
Sales and service revenues	8,649	8,947	35,856	[298]	[3.3]
Gross operating profit	3,943	4,086	15,448	[143]	[3.5]
Operating income	2,020	2,129	7,108	[109]	[5.1]
Capital expenditures	911	882	5,928	29	3.3
Number of employees at end of period	75,501	78,796	76,150	[649]	[0.9]

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

The reduction in revenues, compared to the first quarter of 1999, is due to competition and the resultant decrease in prices and rates, even though there was a strong growth in traffic [24.1% in terms of minutes]. Between the first quarter of 1999 and the first quarter of 2000, the corresponding value of traffic, in fact, has declined by 10% due to the reduction [starting from August 1, 1999] in long-distance and international rates, the discounts aimed at customer retention policies and the application of new interconnecting prices for traffic to and from mobile phones. The reduction in revenues was partly compensated by the decrease in outside service costs, labor costs and amortization and depreciation, which permitted a partial recovery at the level of gross operating profit and operating income.

In a market which has been almost completely liberalized, Telecom Italia has confirmed its position as leader in all the sectors of telecommunications by dint of careful supervision of the core business of telephony and data services, extending the offering, and by developing innovative services [with the convergence of voice and data services] and technological infrastructures with particular reference to the Internet, all of which is geared to placing greater attention on customers and their requirements.

During the first quarter of 2000, in the face of ever fiercer competition, Telecom Italia maintained a market share of almost 93% of the national fixed network traffic by introducing offers such as "160/89" [maximum and minimum rate per minute for Level 3 long-distance calls] for high-consumption residential customers, or, for instance, "Net Manager", "Golden Number" or "Easy Call Center" [for developing telephony services and services such as toll-free numbers and numbers with Intelligent charges] for business customers. The Group's leadership on the data market was strengthened by developing the RING offering and introducing the "In Comune" services [broadband applications for the Public Administration], "Business One", "Business Full Security", "Videonet" and "Integr@" [integration on the same IP network as voice and data].

During the quarter, starting from January, the marketing of ADSL services was launched, and the following services were activated, which correspond to specific network services:

- "Infoconto": information about telephone consumption from the beginning of the month up to the date of consultation;

- “191” service: call center for the new marketing platform of Telecom Italia services for business customers;
- carrier preselection: selection on a permanent basis of a long-distance operator different from the one chosen by the operator providing access.

The explosion of the Internet market shows no sign of diminishing: at the end of March, the number of TIN subscribers was 2,694,000, a rise of 35% compared to the end of 1999. The Tin.it proposal, which is still the market leader, has been developed both in terms of connectivity [dial-up, ADSL and wireless], and services, through the offering of hosting, e-commerce solutions and portals for companies.

In this regard, on March 15, the Board of Directors of Telecom Italia approved the industrial and corporate business combination of Tin.it and Seat Pagine Gialle, which will be implemented in the following stages:

- contribution, to a new company Tin.it S.p.A., of the TIN division, the investments in Esri [50%], Excite Italia [50%], the management of the operations and advertising of the telephone directories by Telecom Italia, the investment in Viasat [50%] by Telespazio and the Content Management division by Saritel;
- partial demerger of Telecom Italia by transferring about 8% of Tin.it S.p.A. to Seat Pagine Gialle, which will increase its share capital by issuing new ordinary shares to be equally assigned to Telecom Italia’s ordinary and savings shareholders;
- simultaneous merger by incorporation of Tin.it S.p.A. in Seat Pagine Gialle, which will increase its share capital by issuing new ordinary shares on behalf of Telecom Italia.

The agreement signed with Seat Pagine Gialle marks the birth of a leading company in Europe, operating throughout the Internet chain of value, both in the market of small and medium-size companies and in that of consumers.

With reference to international traffic, the overall volume handled increased significantly, from 1.5 billion minutes in the first quarter of 1999 to 1.8 billion minutes in the first quarter of 2000 [+17.2%]. With regard to outgoing traffic [+12% compared to the corresponding period in 1999] the increase in wholesale traffic from mobile operators and from other Italian wireline operators [+88% compared to the first quarter of 1999] made it possible to recover the market shares lost because of the increasing competition on the domestic market. Within the sphere of incoming traffic [+12.4% compared to the corresponding period of 1999] there was a sharp increase in traffic towards the Italian mobile networks [+86% compared to the first quarter of 1999], due to both the increase in mobile terminals, the greater propensity towards mobile phones in Europe and the resulting development of roaming traffic. On the subject of traffic in transit, thanks to the more aggressive offering by the new operators in the liberalized markets, there was a growth in volumes of 52.8% [from 185 million minutes in the first quarter of 1999 to 282 million minutes in the first quarter of 2000].

The tendency to reduce rates was accompanied by a considerable reduction in costs, thanks to policies of negotiating prices with foreign correspondents and those responsible for managing traffic routing. As far as data services are concerned, on March 1, 2000 the price maneuver on IPLCs [International Private Leased Circuits] came into force with reductions of up to 50% for countries in Western Europe and up to 38% for North America. During the period, there was a marked increase in the demand for in transit transmission capacity on the Telecom Italia network from foreign carriers, mostly induced by the Internet which, together with the repositioning of the pricing structure, led to a considerable increase in revenues [+250% compared to the first quarter of 1999]. The Sea-Bone service [international connectivity to the Internet], in turn, recorded a growth in revenues of 171% compared to the first quarter of 1999].

[1.2] MOBILE TELECOMMUNICATIONS IN ITALY

The Telecom Italia Group operates in the mobile telecommunications sector through **Telecom Italia Mobile [TIM]**. The key data for the first quarter of 2000 compared to the first quarter of 1999 is as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B]	
				amount	percentage
Sales and service revenues	3,541	3,102	14,425	439	14.2
Gross operating profit	1,774	1,506	6,734	268	17.8
Operating income	1,356	1,157	5,126	199	17.2
Capital expenditures	348	300	1,992	48	16.0
Number of employees at end of period	9,381	8,982	9,375	6	0.1

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

In the quarter under review, in a domestic market where the level of penetration of the service has reached 57% and in which the pressure from competitors has intensified, TIM has improved its economic results compared to the first three months of 1999. Revenues increased by 14.2% thanks partly to the marked development of added value services, the value of which grew by 231%. The gross operating profit increased by 17.8% because of a more limited growth in external costs and labor costs; as a percentage of revenues gross operating profit increased from 48.5% in the first quarter of 1999 to 50.1% in this first quarter of 2000. The operating income increased by 17.2% and represented 38.3% of revenues [compared to 37.3% in the first quarter of 1999].

The 19.2 million lines in operation at March 31, 2000 enable the company to confirm its position as leader in Italy and Europe, with respective market shares equal to 59.3% and 11.1%. During the period, 694,000 lines were activated; as a result, the network was strengthened by the installation of 25,000 new channels and the activation of 498 base transceiver stations.

After the agreement reached at the end of 1999 with Fineco On Line for the first service of wireless financial transactions for the Italian market [Fineco Moving], agreements were reached with leading financial institutions for wireless trading online. In particular, together with the Banca Popolare di Milano, the launch was announced for We@TIM, an offering of services for trading online, mobile banking and e-commerce based on a TIM smart card and accessed by using a terminal, a personal computer or one of the network access tools, such as web phone and web TV. Another agreement with Monte dei Paschi has enabled TIM to multiply its access channels to online trading, making its services ever more innovative thanks to WAP technology.

The commitment to technological innovation continued: having made the first European UMTS phone call in an urban environment in November 1999, TIM reached an agreement with Ericsson to test GPRS [a package data transmission system for mobile phones that will make direct access to Internet possible from a mobile phone] and with Nec and Siemens to test UMTS terminals.

[1.3] SATELLITE TELECOMMUNICATIONS

The Telecom Italia Group operates in the satellite telecommunication sector through **Telespazio** and its subsidiaries. The key data for the first quarter of 2000 compared to the corresponding period of 1999 is as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B]	
				amount	percentage
Sales and service revenues	136	141	636	[5]	[3.5]
Gross operating profit	10	14	70	[4]	[28.6]
Operating income [loss]	[30]	[2]	[41]	[28]	°
Capital expenditures	22	12	70	10	83.3
Number of employees at end of period	1,329	1,293	1,354	[25]	[1.8]

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

Despite the positive contribution made by Astrolink, the sector was affected by lower profits on the services rendered by Telespazio and also the negative contribution produced by Iridium, whose service was suspended due to commercial difficulties, and Viasat, which is still in the start-up phase.

Moreover, the operating loss reflected the writedown of receivables for Lire 24 billion.

[1.4] INTERNATIONAL TELECOMMUNICATIONS

The international presence of the Telecom Italia Group is spread over several companies, most of which are controlled by **SIN [Stet International Netherlands]**, the holding company for integrated fixed-mobile companies, and by **SMH [Stet Mobile Holding]**, the holding company for mobile telecommunications companies.

With reference to the new international initiatives, mobile telephone licenses have been acquired in Turkey and Peru. In **Turkey** the consortium formed by Telecom Italia [49%] and by the local bank Isbank [51%] won the bidding for the award of the fourth license in GSM 1800 technology. The country, with more than 65 million inhabitants and a penetration of mobile services of approximately 11% at the end of 1999, offers significant opportunities both in terms of growth of the local market and extending the Group's client portfolio. In **Peru**, Telecom Italia was awarded the license for GSM 1900 technology. The country has a population of more than 25 million; at present, there are two operators present on the mobile market, with a total of 1.1 million customers. The investment in Peru consolidates the Group's presence in Latin America and is helping to distribute GSM technology, in which TIM is the world leader, on the South America.

In **Spain**, in April, Telecom Italia Group, together with its partners Endesa and Unión Fenosa set up a holding company [AUNA] to which the Spanish companies of the three partners will be contributed, with the mission being to define a global strategy for the telecommunications market aimed at maximizing the synergies between current and future activities and to optimize the use of the human and financial resources of the various subsidiaries. The holding company will become operational in the first half of 2000.

» Consolidated companies

The key data for the first quarter of 2000 of the consolidated companies in the international sector is as follows:

[in billions of lire]	1 st quarter 2000 with Telecom Argentina consolidated proportionally	1 st quarter 2000 with the same scope of consolidation [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B] percentage
Sales and service revenues	1,729	960	674	3,160	42.4
Gross operating profit	681	239	153	580	56.2
Operating income [loss]	191	[8]	[30]	[246]	°
Capital expenditures	369	153	949	1,845	[83.9]
Number of employees at end of period	13,656	5,775	4,501	5,627	°

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

The positive performance of the sector, with the same scope of consolidation, reflects the improvement in the operating management of the companies as well as the positive change in the Brazilian real against the Italian lira. The increase in gross operating profit, at the same exchange rates, would have been 40%.

Europe

TMI - Telemedia International Italia group – operates in the market of global providers [one that is experiencing sustained growth but with prices falling because of the strong competition] offering international voice/data services on fixed networks and creating projects with a high technological content. In the first quarter of 2000, the commercial strategy based on developing multinational clients with offices in Italy [through Telecom Italia] and offices abroad [through the direct sales force or distributors in which Telecom Italia has a holding] continued, mainly in France, Spain and Latin America. With reference to the offering, the expansion of services to corporate customers continued along with data transmission on Frame Relay and IP platforms and the reduction of less profitable services such as voice and messaging and those offered to resellers.

The gross operating profit improved compared to the same period in 1999 [-Lire 27 billion compared to -Lire 39 billion, + 30.8%], especially thanks to reductions in costs.

In France, at the end of January, **9 Telecom Reseau** tendered a bid to participate in the awarding of the national license for the wireless local loop on the 3.5 GHz and 26 GHz frequencies. This license, which will be awarded in the second half of 2000, will make it possible for the winning company to develop its offering up to the level of direct broadband access. On March 31, the company had a total of 356,000 customers, 126,000 more than at the end of 1999; about 87,000 are Internet customers, an increase of 45% compared to the end of 1999, and can be attributed to the “voice+Internet” and “Internet forfait” offers, which are completely innovative for the French market.

The operating profit of the company was again negative [-Lire 79 billion] owing to the start-up phase [-Lire 43 billion in the first quarter of the prior year].

In Greece, despite the aggressive commercial policies adopted by competitors, at March 31 2000, **Stet Hellas** exceeded 1.3 million customers [of whom 65% were represented by prepaid services], an increase of 60% compared to the end of March 1999. In February, the Greek Authority established a new price list for interconnection to the fixed network, which is higher for mobile operators.

The operating income was Lire 38 billion [compared to Lire 13 billion in the first quarter of 1999].

Latin America

The performance of the Brazilian companies **Tele Nordeste Celular** and **Tele Celular Sul** exceeded expectations. At the end of the quarter, the former, which operates in the states of Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte, had accumulated 1.3 million customers [corresponding to a market share of 67%] with an increase of 90% compared to March 31, 1999. At the end of March 2000, the customers of the second company, which operates in the states of Paraná and Santa Catarina and in the city of Pelotas, numbered 1.1 million [corresponding to a market share of 85%], an increase of 68% compared to March 31, 1999.

Revenues improved by Brazilian reais 77 million [+52%] for **Tele Nordeste Celular** and by Brazilian reais 51 million [+33%] for **Tele Celular Sul**.

The most important results of **Entel Bolivia** involve the mobile telephone service sector, whose customers increased by 170% compared to the end of March 1999, thanks particularly to the prepaid sector, which constitutes about 70% of the total.

Revenues were equal to Bolivian bolivianos 331 million [compared to Bolivian bolivianos 316 million in the same period of 1999].

After being awarded the mobile telephony license for PCS technology in June 1999 and following the liberalization of the fixed telephone market begun the following October, Telecom Argentina was transformed into a national integrated operating company, able to supply all the telecommunications services and added-value services nationwide, thus strengthening its strategic position. At the end of March 2000, **Telecom Argentina** had accumulated 3,206,000 fixed-network subscribers and was confirmed the leader in the mobile telephone market with 1,469,000 customers.

Consolidated revenues amounted to Argentine pesos 814 million [compared to Argentine pesos 802 million in the first three months of 1999].

▶▶ Affiliated companies and other companies

Europe

In France, **Bouygues Télécom** had accumulated 3.7 million customers [+125% compared to the end of March 1999], with a market share of 16% in terms of the final figure and 21% in terms of the net increment. With TIM's support, the company began activities with the aim of participating in the bidding for the UMTS license which will be announced during the next few months.

In Spain, at the end of the quarter, **Retevisión** had accumulated 1,540,000 customers in the indirect telephone sector. Furthermore, the company installed 43,000 direct access connections, mainly for business customers, and confirmed its position as leader in the Spanish Internet market with 670,000 subscribers, thanks partly to the free Internet service and to a portal with particularly hi-tech content such as “Eresmas.com” [formerly Alehop].

At the end of March, **Retevisión Movil [AMENA]**, the third-largest mobile telephone operating company in Spain, thanks particularly to the prepaid segment accumulated 1.6 million customers, with a market share of 9.4%. In March the company won the bidding for one of the four UMTS licenses with a cost of Spanish pesetas 320 billion [more than Lire 3,700 billion]. Apart from the three companies already operating on the market, three consortiums headed by France Telecom, Deutsche Telekom and FCC/Vivendi also participated in the bid.

Netco Redes lost its rights to the exclusive use of the fiber optic telecommunications networks of some Spanish electrical companies [including Endesa, Union Fenosa and Red Electrica de Espana] following the decisions of the Spanish antitrust Authority. The company will be compensated over 10 years with a total of Spanish pesetas 700 million [about Lire 8 billion] plus interest at 4%.

During the quarter **Euskaltel** consolidated its position as the second-largest telecommunications operating company in the Basque region, with more than 227,000 indirect telephone customers and more than 4,000 direct telephone customers; the latter increased by 60% compared to the end of 1999. The company is also an integrated fixed-mobile operating company [with 94,000 mobile customers] thanks to a commercial cooperation agreement with Retevisión Movil. The offering is completed by Internet, which accumulated 56,000 paying customers and 97,000 free customers through the “Canal 21” portal.

Telekom Austria is participating in the bidding launched by the Slovak Republic for the acquisition of 51% of the fixed telephone operator Slovak Telekom, which, in turn, holds 60% of the voting rights in EuroTel, the leading mobile operator in the country. During the first quarter the company also acquired 100% of the capital of Czech OnLine, the second Internet service provider in the Czech Republic. The operation will be completed by July 2000. On the domestic market, on March 31, Internet clients numbered 228,000, equal to 30% of the total. At the end of March, **Mobilkom Austria** had accumulated 2.4 million customers [of whom 144,000 were acquired during the quarter], with a growth of 50% over the figure at the end of March 1999. The level of competition in the Austrian mobile market [where the fourth operator is about to make its entrance] has led to an increase in the number of clientele, however, accompanied by a fall in the revenues of the operators.

During the quarter, the mobile market in the Czech Republic, where the third operator is about to make its entrance, was characterized by marked growth, which led to a penetration of the service to 21% of the population. In this context, at the end of the quarter, **Radiomobil** exceeded the million-customer mark, with an increase of 139% compared to March 31, 1999.

On March 31, **Telekom Srbija**, the operator of the fixed monopoly network and the second-largest operator in Serbia had accumulated 2,185,000 fixed network subscribers and 170,000 mobile service subscribers. In April the local government approved an overall increase in rates of approximately 30%, to be implemented between April 25 and June 25, 2000.

Latin America

During the quarter, the operations of the **Tele Centro Sul Participacoes** group, which operates in nine Brazilian states, was characterized by an increase in the number of fixed lines [151,000 new lines in service, +3% compared to end of December 1999], leading to a total of 4,869,000 connections. Within the framework of the restructuring of the group, in February, the eight other operating companies controlled by Tele Centro Sul were merged by incorporation into Telepar Participacoes. In April, Tele Centro Sul and Telepar changed their corporate status respectively to Brasil Telecom Participacoes and Brasil Telecom. On April 7, the shareholders' meeting of Tele Centro Sul approved the acquisition of the majority holding in Companhia Riograndense de Telecomunicacoes, currently owned, through Tele Brasil Sul, by the Spanish operator Telefonica.

At the end of the quarter, the Brazilian mobile telephone company **Maxitel** had accumulated 576,000 customers [+235% compared to March 31, 1999], with a market share of 28% of the total market and 32% of the increment in the states of Bahia, Sergipe and Minas Gerais.

Etec S.A. Cuba confirmed the positive results achieved in 1999, despite the fact that, for the whole quarter, telephone connections with the main American operators continued to be interrupted. Their gradual re-opening is scheduled for April 2000, following the positive conclusion of the matter relating to the possible payment of compensation to the relatives of American citizens who were victims of two aircraft shot down by the Cuban airforce. The procedure, which led to the freezing of the sums owed to Etec by the American carriers, was resolved by the payment of all pending bills, including the interest that had matured.

In Chile, despite the persisting recessive macro-economic situation, the **Entel** group not only confirmed the good results in the traditional activity of long-distance communications, but also further developed both its mobile telephone services [which, at March 31, 2000, had accumulated 784,000 customers compared to 232,000 at March 31, 1999, and whose revenues increased by 177% compared to the corresponding period of 1999], and the activities of Americatel USA, which offers long-distance services on the American market to a specific commercial target comprising the Spanish-American section of the population [revenues from this increased by 80% compared to the corresponding period of 1999]. During the quarter, the diversification of Entel's business continued, together with its transformation from being the former monopoly holder of the long-distance business to an integrated telecommunications operator.

[1.5] INFORMATION TECHNOLOGY ACTIVITIES

With the aim of enhancing the information technologies activities of Telecom Italia Group an Information Technologies sector was set up last January. The new business pole, which now includes the companies **Finsiel**, **Telesoft** and **Sodalìa**, and will in future include the computer functions of Telecom Italia, will better be able to take advantage of opportunities to extend demand as a market leader, seeking strategic alliances with primary market operators and exploiting the synergies found within the Group.

The key data for the first quarter of 2000 for Finsiel, Telesoft and Sodalìa compared to the first quarter of 1999 is as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B]	
				amount	percentage
Sales and service revenues	597	520	3,074	77	14.8
Gross operating profit	82	73	405	9	12.3
Operating income	47	35	237	12	34.3
Capital expenditures	23	23	129	=	=
Number of employees at end of period	10,220	10,201	10,206	14	0.1

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

The main contribution to such results was made by the **Finsiel** group which, during the quarter, reported revenues of Lire 488 billion [Lire 480 billion in the three months of 1999, +1.6%]. The gross operating profit was Lire 62 billion, in line with the same period of 1999; operating income was Lire 34 billion [Lire 32 billion for the first quarter of 1999, +5.6%].

Finsiel is confirmed as the top operator in the Italian information technology market, thanks also to its ability to change its offering in relation to the needs of the both the public and private clientele. Specifically, together with the continuation of its work with the public administration, both with the state departments [such as the Ministry of Finance through the specialized expertise of SOGEI] and local institutions, services are also being developed and offered in systems integration, networking, facility management and web-based solutions. Also to be viewed along these lines is the strengthening of Banksiel group which specializes in services for financial operators; the development of business conducted by Tele Sistemi Ferroviari, a company in partnership with Ferrovie dello Stato [the state railway], for which it performs outsourcing services; the growth of the Consiel group, specialized in management consulting.

As concerns Finsiel group, again, as part of the rationalization of the companies making up the group, the following should be mentioned:

- the purchase of the entire share capital of Comitsiel by Banksiel;
- the sale, by Banksiel, of its stake in Sibisiel and Netsiel, which later also purchased the minority interest in the same Sibisiel;
- the change in the registered name of the joint venture Logicasiel [a joint venture between Finsiel and Logica, an English information technologies operator] to Webegg, following the sale, by Logica, of its stake [45%] to Olivetti. Webegg later increased its share capital and, as a result, the shareholders Finsiel and Olivetti now have equal ownership in the company.

Telesoft has continued to participate in Telecom Italia's and TIM's main projects and is successfully going ahead with activities beyond Italy through the acquisition of new important foreign customers, outside of Telecom Italia Group. The gross operating profit in the first quarter of 2000 was Lire 14 billion, in line with the corresponding period of the prior year; the operating income was Lire 10 billion [Lire 7 billion in the first quarter of 1999].

1.6] MANUFACTURING ACTIVITIES

The Telecom Italia Group operates in the manufacturing sector through **Italtel**. The key results recorded in first quarter of 2000 and 1999 are detailed as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999 [1]	Change [2] [A-B]	
				amount	percentage
Sales and service revenues	285	296	1,776	[11]	[3.7]
Gross operating profit [loss]	[28]	[36]	23	8	22.2
Operating income [loss]	[46]	[50]	[5]	4	8.0
Capital expenditures	6	16	87	[10]	[62.5]
Number of employees at end of period	5,102	7,333	5,153	[51]	[1.0]

[1] Following the reorganization, in 1999, Italtel group was consolidated using the proportional method at 50% for the first 10 months of the year and line-by-line for the remaining two months.

[2] The change in personnel is calculated with respect to the end of 1999.

The reorganization of the manufacturing segment of the Group was completed in October 1999 with the transfer of the business and the companies relating to radio, transmission and mobile networks to Siemens, and the simultaneous sale of the 50% interest in Telsi Ltd, by the former German shareholder, to Telecom Italia. Italtel [now a wholly-owned subsidiary of Telecom Italia] has thus outlined a restructuring and development plan to be implemented through an industrial alliance which will allow it to exploit its core competencies in the switching segment, the expansion of the role of systems integrator for data networks, as well as the development of innovative solutions for voice/data integration [Internet, multimedia, e-commerce].

Telecom Italia has initiated contacts with industrial corporations in the ICT segment [Information and Communications Technology] and with institutional investors directed to the sale of a part of the company by the end of the first half of 2000.

At the end of January, an agreement was signed with the trade unions regarding the restructuring program. The program identified the actions necessary to reach an adequate number of human resources and it also calls for the outsourcing of activities not linked to the core business as well as the use of state unemployment compensation plans as an immediate tool for a re-equilibrium between programs for work and the workforce. Such actions will make it possible to raise the level of the company's competitiveness and, thanks to forecasted increases in sales revenues, to post a profit already in the current year 2000.

Revenues of the sector totaled Lire 285 billion, of which about 85% were from the domestic market, mainly Telecom Italia; exports were Lire 49 billion, primarily to Spain and Argentina. The gross operating margin shows a loss of Lire 28 billion due to the dynamics of sales, which are normally concentrated in the second half, while fixed overheads are spread throughout the year.

1.7] INSTALLATION ACTIVITIES

The Telecom Italia Group operates in the installation sector through **Sirti**. The key results for the first quarter of 2000 and the corresponding period of 1999 are as follows:

[in billions of lire]	1 st quarter 2000 [A]	1 st quarter 1999 [B]	Year 1999	Change [1] [A-B]	
				amount	percentage
Sales and service revenues	313	282	1,501	31	11.0
Gross operating profit	23	20	123	3	15.0
Operating income	9	9	76	=	=
Capital expenditures	8	9	81	[1]	[11.1]
Number of employees at end of period	13,283	11,458	12,704	579	4.6

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

In the first quarter of 2000, sales and service revenues of Lire 430 billion increased by 30% over the first quarter of 1999, mainly as a result of the increase of business in Europe and Argentina. The simultaneous increase in outside service costs and labor costs [equal to 31% in total] limited the improvement in the gross operating profit; instead, the operating income has remained unchanged due to the positive contribution of the European subsidiaries [and, specifically, those in France and Great Britain] and the Argentine subsidiary, countered by the operating losses of the Brazilian subsidiaries.

The above-described results reflected the dynamics of a market which showed a substantial standstill in demand by traditional operators [including Telecom Italia] and an expansion of activities following the programs for development of the networks and the services by new operators, in Italy and abroad; in this context, a fundamental role was carried out by the continuous increase in data and Internet services. This trend is destined to continue also for the immediate future.

Subsequent to the resolutions passed by the extraordinary shareholders' meeting on December 15, 1999, on February 7, 2000, a partial demerger was effected, on a proportional basis, of the real estate properties and activities connected with Sirti S.p.A., contributed to the newly formed company IMMSI S.p.A. The demerger legally took effect on February 10; starting from February 11, the stock market authorized the commencement of the trading of IMMSI stock and the post-demerger market price of Sirti S.p.A. stock.

On February 4, the sale was concluded for the investment in Sinted S.p.A., a company operating in the building security sector. This sale, too, falls within the framework of the strategy for the rationalization of investment holdings, that tends to concentrate the Group's activities in its core business.

With reference to the negotiations for the sale of the investment [49.1%] in Sirti S.p.A. by Telecom Italia, the second stage of the procedure for auction is currently in progress, which has attracted potential buyers from the industrial and financial world.

[1.8] OTHER ACTIVITIES

In April 2000, **CSELT** sold Agilent Technologies the wholly-owned company Optical Technologies Center S.r.l., which includes the Optical Technologies Center business segment which had been contributed and is made up of 50 researchers. The deal made it possible to sell an asset formed by human resources, know-how and advanced laboratories, with a view toward intensifying Telecom Italia Group's focus on its core business.

In April, Telecom Italia and Unipol Assicurazioni signed an agreement for the sale of the controlling interest in **Meie** group to the latter company. Specifically, the deal calls for the sale of 51.2% of **Meie Assicurazioni** and 51% of **Meie Vita** owned by Telecom Italia Group [the remaining 49% interest in Meie Vita is owned by Meie Assicurazioni].

As regards multimedia activities, the Board of Directors of **Stream** passed a resolution on February 4, 2000 to increase share capital from Lire 400 billion to Lire 940 billion as part of the agreement reached between Telecom Italia and News Corporation, Cecchi Gori Group and Sds when the new partners bought into the company.

In April 2000, Telecom Italia and News Corporation arranged the equally-owned purchase of the investments owned by Cecchi Gori Group [18%] and Sds [12%] in Stream. The deal will allow Telecom Italia and News Corporation to increase their respective investments to 50%.

In February, Telecom Italia and Mediobanca signed an agreement for the sale to the latter of a 60% stake in **Teleleasing**. The deal will reduce Telecom Italia Group's investment in the company to 20% and raise Mediobanca Group's investment to 80%.

The sale of the interest will take place subsequent to the partial demerger of some of the buildings owned by Teleleasing to a newly formed company. The stockholder structure of this new company will be the same as that of Teleleasing before the sale [80% Telecom Italia Group, 20% Mediobanca Group].

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

INTRODUCTION

The most significant changes in the scope of consolidation compared to both March 31, 1999 and December 31, 1999 refer to the consolidation, using the proportional method, of Nortel Inversora and the Telecom Argentina group, which it controls, and the exclusion of Teleleasing following the agreement for the sale of 60% of this company to Mediobanca.

The figures of the consolidated companies have been adjusted, where necessary, to conform to the accounting principles of the Group; the accounting principles and the principles of consolidation adopted for the preparation for the first quarter figures, taking into account the adjustments required in preparing interim statements, are consistent with those applied in the 1999 consolidated financial statements.

Subsequent to the exclusion of Teleleasing from the scope of consolidation, IAS 17 was adopted, according to which assets under financial lease contracts with a purchase option are recorded at fair market value at the inception of the lease in fixed assets and depreciated over the lease period. The financial expenses connected with the contract are recorded on the accrual basis.

The adoption of this principle has made it possible to substantially align the quarterly data with that of the 1999 financial statements which included, under tangible assets, the assets leased by Teleleasing to Telecom Italia Group companies.

The income taxes of the individual consolidated companies are calculated on the basis of the estimated tax rates for 2000 and recorded in the "*reserve for taxes*" under "reserves for risks and charges".

Furthermore, the data for the first quarter of 1999 used for purposes of comparison with the first quarter data of 2000 takes into account, in line with the data presented starting from the 1999 six-month financial statements, the exclusion of Stream from consolidation and the line-by-line consolidation of the Brazilian mobile telephone companies Tele Celular Sul and Tele Nordeste Celular.

[2.1] RESULTS OF OPERATIONS

Consolidated statements of income

[in billions of lire]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Sales and service revenues	13,632	12,203	52,481
Changes in inventories of work in progress, semifinished and finished goods	55	7	[127]
Changes in inventory of contract work in process	427	235	341
Increases in capitalized internal construction costs	272	259	2,056
Operating grants	6	9	39
B. Standard production value	14,392	12,713	54,790
Raw materials and outside services [*]	[5,428]	[4,389]	[21,531]
C. Value added	8,964	8,324	33,259
Labor costs [*]	[2,473]	[2,404]	[9,586]
D. Gross operating profit	6,491	5,920	23,673
Depreciation and amortization	[2,650]	[2,511]	[10,338]
Other valuation adjustments	[237]	[145]	[844]
Provisions to reserves for risks and charges	[52]	[19]	[195]
Net other income [expense]	52	64	160
E. Operating income	3,604	3,309	12,456
Net income from investments	100	42	277
Net financial expense	[269]	[299]	[910]
Value adjustments on financial assets	[196]	[195]	[1,131]
F. Income before extraordinary items and taxes	3,239	2,857	10,692
Net extraordinary income [expense]	33	[20]	[981]
G. Income before taxes	3,272	2,837	9,711
Income taxes for the period	[1,673]	[1,429]	[5,046]
H. Net income before minority interest	1,599	1,408	4,665
Minority interest	[437]	[278]	[1,301]
I. Net income after minority interest	1,162	1,130	3,364

[*] Reduced by related cost recoveries.

Results of operations for the first quarter of 2000 showed a consolidated net income of Lire 1,162 billion [Lire 1,599 billion less the minority interest of Lire 437 billion], an increase of Lire 32 billion [+2.8%] compared to the first quarter of 1999.

For purposes of comparison, the most significant changes in percentages will be indicated with the same scope of consolidation, that is, net of the consolidation of Nortel Inversora and the Telecom Argentina group using the proportional method.

The key figures are analyzed in the following paragraphs.

► *Sales and service revenues* amounted to Lire 13,632 billion in the first quarter of 2000 [Lire 12,203 billion in the first quarter of 1999], an increase of 11.7% [5.4% with the same scope of consolidation]. Revenues, net of the amount due to other carriers, instead, amounted to Lire 12,265 billion and increased, compared to the first quarter of 1999, by Lire 1,056 billion [+9.4%].

This increase is due to the positive performance of mobile telephone services and the entry of the Telecom Argentina group in the scope of consolidation.

» *Raw materials and outside services* totaled Lire 5,428 billion in the first quarter of 2000, 23.7% higher than in the first quarter of 1999, [18.4% with the same scope of consolidation]. These represent 39.8% of sales revenues [36% in the first quarter of 1999]. Such change should be viewed in relation to the entry of the Telecom Argentina group in scope of consolidation, as well as the increase in the operating and development costs of telecommunications services.

This item includes Lire 291 billion of grants for telecommunications activities, of which Lire 166 billion relate to the Parent Company, Lire 85 billion to TIM and Lire 40 billion to foreign companies.

» *Labor costs*, totaling Lire 2,473 billion, increased by Lire 69 billion compared to the first quarter of 1999. The increase is due, for Lire 112 billion, to the entry of the Telecom Argentina group in the scope of consolidation, partly compensated by the reduction in costs of the Parent Company. As a percentage of gross revenues, labor costs went from 19.7% in the first quarter of 1999 to 18.1% in the corresponding period of 2000.

Personnel in the Group numbered 130,553 at March 31, 2000, with an increase of 7,891 units, of which 7,881 units are due to the entry of the Telecom Argentina group in the scope of consolidation.

» *Gross operating profit* of Lire 6,491 billion increased by Lire 571 billion [+9.6%; 2.2% with the same scope of consolidation] compared to the first quarter of 1999, representing 47.6% of gross revenues [48.5% in the first quarter of 1999].

The increase is essentially due to the telecommunications services with the entry of the Telecom Argentina group in the scope of consolidation [+Lire 442 billion] and the good trend in mobile telecommunications [TIM's gross operating profit rose by Lire 265 billion], in part offset by the deterioration in the gross operating profit of the Parent Company [-Lire 158 billion].

» *Depreciation and amortization* totaled Lire 2,650 billion [Lire 2,511 billion in the first quarter of 1999] including Lire 418 billion for the amortization of intangibles and Lire 2,232 billion for the depreciation of fixed assets. The increase is due to the entry of the Telecom Argentina group in the scope of consolidation for Lire 182 billion and higher depreciation and amortization taken by TIM that was only partly compensated by the decrease in depreciation and amortization by the Parent Company following the reduction in the amount of depreciable and amortizable fixed assets, the change in the mix of such assets, lower depreciation of public telephone systems and the writedown of the DECT system during 1999 and the review, starting from the 1999 financial statements, of the depreciation rates for copper networks and switching systems.

» *Other valuation adjustments* of Lire 237 billion, increased by Lire 92 billion compared to the first quarter of 1999, and include writedowns of receivables from customers, in order to adjust receivables to estimated realizable value. Of these writedowns Lire 86 billion refer to the Parent Company and Lire 34 billion to TIM [Lire 75 billion and Lire 37 billion respectively in the first quarter of 1999], Lire 42 billion to Telecom Argentina and Lire 23 billion to Telespazio.

» *Provisions to reserves for risks and charges*, amounting to Lire 52 billion, increased by Lire 33 billion; the increase is mainly attributable to the Parent Company.

▶▶ *Net other income [expense]* shows an income balance of Lire 52 billion [Lire 64 billion in the first quarter of 1999], and basically refers to late payment fees charged by the telecommunications companies to customers for late payment of telephone bills [Lire 57 billion], the portion of capital grants referring to the period [Lire 32 billion], indirect duties and taxes [Lire 49 billion], together with other income and expense in the normal course of business.

▶▶ *Operating income* of Lire 3,604 billion, increased by Lire 295 billion [+8.9%; 2.9% with the same scope of consolidation] compared to the first quarter of 1999, with operating income as a percentage of gross revenues representing 26.4%, compared to 27.1% in the first quarter of 1999.

▶▶ *Income from investments*, amounting to Lire 100 billion, mainly includes dividends received from holdings for Lire 29 billion and gains realized on the sale of TIM and IMMSI stock by the Parent Company for Lire 70 billion.

▶▶ *Net financial expense* totals Lire 269 billion [Lire 299 billion in the first quarter of 1999]. The improvement in the balance is principally due to better financial management by the Parent Company, in part offset by the net financial expenses of the Telecom Argentina group [Lire 88 billion].

▶▶ *Value adjustments on financial assets* show a negative balance of Lire 196 billion [-Lire 195 billion in the first quarter of 1999] and mainly refer to the Group's share of the income and losses of the unconsolidated companies valued using the equity method, which also includes the amortization of goodwill upon the purchase of these investments.

▶▶ *Net extraordinary income [expense]* shows an income balance of Lire 33 billion [-Lire 20 billion in the first quarter of 1999] and includes gains of Lire 57 billion from the sale of a building by EMSA, and also Lire 31 billion of expenses on employee reduction plans and layoffs, of which Lire 29 billion refer to the Parent Company.

▶▶ *Income taxes for the period*, of Lire 1,673 billion, increased by Lire 244 billion, compared to the first quarter of 1999, of which Lire 62 billion is due to the consolidation of the Telecom Argentina group.

The taxes to gross profit ratio is 51.1%, compared to 50.4% in the first quarter of 1999.

[2.2] FINANCIAL POSITION

Consolidated balance sheets

[in billions of lire]	3.31.2000	12.31.1999	3.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	5,940	5,299	5,039
Fixed assets	49,388	45,518	45,720
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	11,515	12,326	11,489
• other	1,029	891	862
	67,872	64,034	63,110
B. Working capital			
Inventories	2,638	1,995	2,141
Trade accounts receivable	16,164	15,883	14,972
Other assets	3,463	3,177	2,323
Trade accounts payable	[12,395]	[12,870]	[11,146]
Reserves for risks and charges	[3,848]	[2,006]	[3,236]
Other liabilities	[14,757]	[13,248]	[14,356]
	[8,735]	[7,069]	[9,302]
C. Invested capital, net of operating liabilities	[A+B] 59,137	56,965	53,808
D. Reserve for employee termination indemnities	[2,978]	[2,896]	[2,805]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities	[C+D] 56,159	54,069	51,003
Financed by:			
F. Stockholders' equity			
Parent Company interest	34,138	33,004	32,866
Minority interest	7,153	5,307	5,280
	41,291	38,311	38,146
G. Medium/long-term debt	12,396	10,002	10,522
H. Net short-term borrowings:			
• short-term borrowings	7,673	9,622	8,575
• liquid assets and short-term financial assets	[5,439]	[4,049]	[6,492]
• financial accrued expense [income] and deferred expense [income], net	238	183	252
	2,472	5,756	2,335
	[G+H] 14,868	15,758	12,857
I. Total	[F+G+H] 56,159	54,069	51,003

The balance sheet of the Telecom Italia Group shows net invested capital of Lire 56,159 billion [Lire 54,069 billion at December 31, 1999], of which 73.5% is financed by stockholders' equity [70.9% at December 31, 1999] and 26.5% by net borrowings [29.1% at December 31, 1999].

►► *Intangibles, fixed assets and long-term investments* of Lire 67,872 billion show an increase of Lire 3,838 billion compared to December 31, 1999.

"Intangibles" of Lire 5,940 billion increased by Lire 641 billion following the consolidation of Nortel Inversora and the Telecom Argentina group [Lire 779 billion, of which Lire 253 billion of remaining goodwill relate to the increase of the investment in Nortel Inversora in 1999].

Investments during the first quarter of 2000 total Lire 232 billion while amortization amounts to Lire 418 billion.

“Fixed assets” of Lire 49,388 billion increased by Lire 3,870 billion mainly as a result of the contribution made by the Telecom Argentina group [Lire 5,086 billion], partly compensated by the exclusion of Teleleasing from consolidation which led to a decrease in assets leased to third parties [Lire 562 billion].

Capital expenditures and depreciation in the quarter were, respectively, Lire 1,419 billion and Lire 2,232 billion.

“Long-term investments” of Lire 12,544 billion decreased since Nortel Inversora had previously been accounted for using the equity method [Lire 961 billion]. Investments in the first quarter of 2000 amounted to Lire 373 billion.

▶▶ *Working capital* is a negative figure of Lire 8,735 billion [–Lire 7,069 billion at December 31, 1999].

This change was affected by:

- the increase in “inventories” [from Lire 1,995 billion at the end of 1999 to Lire 2,638 billion; +Lire 643 billion] attributable to TIM [+Lire 177 billion], Sirti [+Lire 85 billion], the Telecom Argentina group [+Lire 80 billion] and Telespazio owing to the stage of completion of the work on the Astrolink project [+Lire 44 billion];
- the increase in “trade accounts receivable” from Lire 15,883 billion at the end of 1999 to Lire 16,164 billion, is connected to the entry of the Telecom Argentina group in the scope of consolidation [+Lire 829 billion] and higher receivables by Telespazio for invoicing on the Astrolink project [+Lire 137 billion] only partly compensated by the decrease in receivables from the Parent Company and TIM [–Lire 890 billion];
- the growth in “other assets” from Lire 3,177 billion at the end of 1999 to Lire 3,463 billion is attributable to the Telecom Argentina group for Lire 172 billion;
- the decrease in “trade accounts payable” from Lire 12,870 billion at the end of 1999 to Lire 12,395 billion, connected to the reduction in the Parent Company and TIM debt [–Lire 1,136 billion], is only partly compensated by the entry of the Telecom Argentina group in the scope of consolidation [+Lire 662 billion] and the higher debt of Telespazio linked to the supplies on the Astrolink project [+Lire 142 billion];
- the increase in “reserves for risks and charges” from Lire 2,006 billion at the end of 1999 to Lire 3,848 billion is mainly in relation to the income taxes for the period recorded in the “*reserve for taxes*” which went from Lire 601 billion at December 31, 1999 to Lire 2,365 billion at March 31, 2000;
- the increase in “other liabilities” from Lire 13,248 billion at the end of 1999 to Lire 14,757 billion, can be ascribed to the Parent Company for Lire 962 billion and the Telecom Argentina group for Lire 533 billion.

▶▶ *Stockholders’ equity* was Lire 41,291 billion [Lire 38,311 billion at the end of 1999], of which Lire 34,138 billion [Lire 33,004 billion at December 31, 1999] refers to the Parent Company and Lire 7,153 billion [Lire 5,307 billion at December 31, 1999] to minority interests. The increase, besides the profit for the period, can be attributed to the minority interests in the stockholders’ equity of the Telecom Argentina and Nortel Inversora for Lire 1,360 billion.

▶▶ *Net debt* of Lire 14,868 billion [Lire 15,758 billion at the end of 1999] decreased by Lire 890 billion. With the same scope of consolidation, net financial debt would have been reduced by Lire 3,648 billion.

Net debt consists of Lire 12,396 billion of medium/long-term debt [Lire 10,002 billion at the end of 1999] and Lire 2,472 billion of net short-term borrowings [Lire 5,756 billion at December 31, 1999].

[2.3] FINANCIAL PERFORMANCE

Consolidated statements of cash flows

[in billions of lire]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Net short-term borrowings at beginning of period	[5,756]	[4,987]	[4,987]
B. Cash flows - Operating activities			
Net income for the period	1,599	1,408	4,665
Depreciation and amortization	2,650	2,511	10,338
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[77]	13	116
[Upward adjustments] writedowns of intangibles, fixed assets	171	173	1,189
Change in working capital [*]	1,683	728	[1,371]
Net change in reserve for employee termination indemnities	82	95	185
Foreign exchange gains [losses] and other changes	[171]	334	164
	5,937	5,262	15,286
C. Cash flows - Investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[232]	[1,046]	[3,057]
• fixed assets	[1,419]	[1,159]	[7,503]
• long-term investments	[373]	[298]	[2,517]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	196	265	1,063
Change in scope of consolidation	[101]	128	128
	[1,929]	[2,110]	[11,886]
D. Cash flows - Financing activities			
New borrowings	40	606	1,485
Capital contributions	30	=	80
Capital grants	10	67	128
Debt repayment	[91]	=	[370]
Change in medium-long term debt due within one year	[699]	[1,164]	[2,214]
	[710]	[491]	[891]
E. Dividends	[14]	[9]	[3,278]
F. Cash flows for the period	[B+C+D+E]	3,284	2,652
G. Net short-term borrowings at end of period	[A+F]	[2,472]	[5,756]

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

During the first quarter of 2000 there were positive cash flows of Lire 3,284 billion, with a consequent improvement, for the same amount, in net short-term borrowings which, at March 31, 2000 totaled Lire 2,472 billion.

This change is due to the fact that cash flows from operating activities of Lire 5,937 billion entirely financed the investing and financing activities for the period.

Investments in the first quarter of 2000 amount in total to Lire 2,024 billion, of which Lire 1,651 billion refer to capital expenditures and Lire 373 billion to financial investments.

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

The following statements were translated into euros using the fixed exchange rate of Euro 1 = Lire 1,936.27.

Consolidated statements of income

[in millions of euros]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Sales and service revenues	7,040	6,302	27,104
Changes in inventories of work in progress, semifinished and finished goods	28	4	[65]
Changes in inventory of contract work in process	222	121	176
Increases in capitalized internal construction costs	140	134	1,062
Operating grants	3	5	20
B. Standard production value	7,433	6,566	28,297
Raw materials and outside services [*]	[2,803]	[2,267]	[11,120]
C. Value added	4,630	4,299	17,177
Labor costs [*]	[1,278]	[1,242]	[4,951]
D. Gross operating profit	3,352	3,057	12,226
Depreciation and amortization	[1,369]	[1,296]	[5,339]
Other valuation adjustments	[122]	[75]	[436]
Provisions to reserves for risks and charges	[27]	[10]	[101]
Net other income [expense]	27	33	83
E. Operating income	1,861	1,709	6,433
Income from investments	52	22	143
Net financial expense	[139]	[154]	[470]
Value adjustments on financial assets	[101]	[101]	[584]
F. Income before extraordinary items and taxes	1,673	1,476	5,522
Net extraordinary income [expense]	17	[11]	[507]
G. Income before taxes	1,690	1,465	5,015
Income taxes for the period	[864]	[737]	[2,606]
H. Net income before minority interest	826	728	2,409
Minority interest	[226]	[144]	[672]
I. Net income after minority interest	600	584	1,737

[*] Reduced by related cost recoveries.

Consolidated balance sheets

[in millions of euros]	3.31.2000	12.31.1999	3.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	3,068	2,737	2,602
Fixed assets	25,507	23,508	23,613
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	5,947	6,366	5,934
• other	531	460	445
	35,053	33,071	32,594
B. Working capital			
Inventories	1,362	1,030	1,106
Trade accounts receivable	8,348	8,203	7,732
Other assets	1,788	1,641	1,200
Trade accounts payable	[6,401]	[6,647]	[5,757]
Reserves for risks and charges	[1,987]	[1,036]	[1,671]
Other liabilities	[7,621]	[6,842]	[7,414]
	[4,511]	[3,651]	[4,804]
C. Invested capital, net of operating liabilities	[A+B] 30,542	29,420	27,790
D. Reserve for employee termination indemnities	[1,538]	[1,496]	[1,449]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities	[C+D] 29,004	27,924	26,341
Financed by:			
F. Stockholders' equity			
Parent Company interest	17,631	17,045	16,974
Minority interest	3,694	2,741	2,727
	21,325	19,786	19,701
G. Medium/long-term debt	6,402	5,165	5,434
H. Net short-term borrowings			
• short-term borrowings	3,963	4,969	4,429
• liquid assets and short-term financial assets	[2,809]	[2,091]	[3,353]
• financial accrued expense [income] and deferred expense [income], net	123	95	130
	1,277	2,973	1,206
	[G+H] 7,679	8,138	6,640
I. Total	[F+G+H] 29,004	27,924	26,341

Consolidated statements of cash flows

[in millions of euros]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Net short-term borrowings at beginning of period	[2,973]	[2,576]	[2,576]
B. Cash flows - Operating activities			
Net income for the period	826	728	2,409
Depreciation and amortization	1,369	1,296	5,339
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[40]	7	60
[Upward adjustments] writedowns of intangibles, fixed assets	88	89	614
Change in working capital [*]	869	376	[708]
Net change in reserve for employee termination indemnities	42	49	96
Foreign exchange gains [losses] and other changes	[88]	173	85
	3,066	2,718	7,895
C. Cash flows - Investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[120]	[540]	[1,579]
• fixed assets	[733]	[599]	[3,875]
• long-term investments	[192]	[154]	[1,300]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	101	137	549
Change in scope of consolidation	[52]	66	66
	[996]	[1,090]	[6,139]
D. Cash flows - financing activities			
New borrowings	21	313	767
Capital contributions	15	=	41
Capital grants	5	35	66
Debt repayment	[47]	=	[191]
Change in medium-long term debt due within one year	[361]	[601]	[1,143]
	[367]	[253]	[460]
E. Dividends	[7]	[5]	[1,693]
F. Cash flows for the period	[B+C+D+E]	1,370	[397]
G. Net short-term borrowings at end of period	[A+F]	[1,206]	[2,973]

[*] The difference with respect to the consolidated balance sheet is principally due to the movements in capital grants.

3. Financial condition and results of operations of Telecom Italia

Statements of income

[in billions of lire]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Sales and service revenues	8,648	8,943	35,856
Changes in inventory of contract work in process	16	15	[20]
Increases in capitalized internal construction costs	6	5	26
Operating grants	=	=	3
B. Standard production value	8,670	8,963	35,865
Raw materials and outside services [*]	[3,241]	[3,326]	[14,313]
C. Value added	5,429	5,637	21,552
Labor costs [*]	[1,500]	[1,550]	[6,106]
D. Gross operating profit	3,929	4,087	15,446
Depreciation and amortization	[1,844]	[1,948]	[7,766]
Other valuation adjustments	[86]	[75]	[542]
Provisions to reserves for risks and charges	[48]	[1]	[156]
Net other income [expense]	62	50	126
E. Operating income	2,013	2,112	7,108
Net income from investments	99	36	3,327
Net financial expense	[100]	[201]	[573]
Value adjustments on financial assets	[118]	[78]	[295]
F. Income before extraordinary items and taxes	1,894	1,869	9,567
Net extraordinary income [expense]	[22]	[9]	[657]
G. Income before taxes	1,872	1,860	8,910
Income taxes for the period	[908]	[852]	[3,860]
H. Net income for the period	964	1,008	5,050

[*] Reduced by related cost recoveries.

» *Sales and service revenues* of Lire 8,648 billion decreased by 3.3% compared to the first quarter of 1999 [Lire 8,943 billion] and refer to revenues from services for Lire 8,462 billion and revenues from sales for Lire 186 billion [respectively, Lire 8,748 billion and Lire 195 billion in the first quarter of 1999]. The reduction in revenues from services [-3.3%] is due to traffic which fell by 10% notwithstanding an increase of 24.1% in terms of minutes. The reduction was negatively affected by the decrease, from August 1, 1999 in long-distance and international rates, the discount policy to secure customer retention and the application of the new interconnecting prices for traffic to and from mobile phones, phenomena partly compensated by increases in the basic monthly charges [+9.8%, for rate increases, development of TIN subscriptions, ISDN line connections and interconnections with other operators, especially the fixed network].

» *Gross operating profit* of Lire 3,929 billion decreased by Lire 158 billion compared to the first quarter of 1999 [-3.9%] and as a percentage of sales revenues is 45.4%, compared to 45.7% in the corresponding period of the prior year. The reduction in revenues of Lire 295 billion was partly compensated by the reductions in outside service costs and labor costs, which in total fell by Lire 135 billion compared to the first quarter of 1999. The reduction in outside service costs of Lire 85 billion can be ascribed to the reduction in the amounts to be paid to other operators [mainly for interconnecting rate revisions with mobile network operators] and fees for engaging in telecommunications activities as well

as the reduction in structure costs, only partly offset by the increase in marketing costs due to the development of Internet services and advertising campaigns. The reduction in labor costs of Lire 50 billion is mainly due to the reduction in the average workforce [-3,341 units compared to the first quarter of 1999; -4.3%].

▶▶ *Operating income* of Lire 2,013 billion decreased by Lire 99 billion compared to the first quarter of 1999 [-4.7%], and represents 23.3% of sales revenues [23.6% in the corresponding period of 1999]. The reduction is much less than that for the gross operating profit mainly as a result of lower depreciation of tangible assets [-Lire 97 billion], following the change in the amount of depreciable assets, lower depreciation of telephone systems and the DECT system written down in 1999 and the new depreciation plan for network systems adopted starting from last year's financial statements. This reduction is partly compensated by higher provisions to the reserves for risks and charges for probable retroactive price adjustments.

▶▶ *Net income* of Lire 964 billion is Lire 44 billion [-4.4%] lower than that of the corresponding period of 1999. This result was affected not only by the above-mentioned operating items but also by the increase in income from investments, the reduction in net financial expense, the value adjustments on financial assets [up by Lire 40 billion mainly as a result of the writedown of the associated company Stream for Lire 67 billion which, in the first quarter of 1999, was charged against the reserve set aside in the 1998 financial statements owing to the negotiations that were then taking place for the sale of the control of the company] and the increase in income taxes due to the estimated tax rates for the current year [48.5% compared to 45.8% applied in the first quarter of 1999].

Balance sheets

[in billions of lire]	3.31.2000	12.31.1999	3.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	2,182	2,259	2,158
Fixed assets	35,651	36,520	37,757
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	18,212	17,939	15,335
• other	581	1,705	1,610
	56,626	58,423	56,860
B. Working capital			
Inventories	247	233	303
Trade accounts receivable	9,843	10,460	10,369
Other assets	3,059	2,923	2,110
Trade accounts payable	[8,213]	[9,313]	[8,912]
Reserves for risks and charges	[2,091]	[1,242]	[2,358]
Other liabilities	[8,627]	[7,676]	[8,740]
	[5,782]	[4,615]	[7,228]
C. Invested capital, net of operating liabilities	[A+B] 50,844	53,808	49,632
D. Reserve for employee termination indemnities	[2,242]	[2,163]	[2,096]
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities	[C+D] 48,602	51,645	47,536
Financed by:			
F. Stockholders' equity			
Share capital paid-in	7,426	7,426	7,421
Reserves and retained earnings	28,160	23,101	25,138
Net income for the period	964	5,050	1,008
	36,550	35,577	33,567
G. Medium/long-term debt	7,727	8,220	9,073
H. Net short-term borrowings			
• short-term borrowings	7,529	10,028	8,365
• liquid assets and short-term financial assets	[3,344]	[2,297]	[3,672]
• financial accrued expense [income] and deferred expense [income], net	140	117	203
	4,325	7,848	4,896
	[G+H] 12,052	16,068	13,969
I. Total	[F+G+H] 48,602	51,645	47,536

» In *intangibles, fixed assets and long-term investments*, the reduction in “intangible assets” and “fixed assets” compared to December 31, 1999 is attributable to the amortization, depreciation and disposals during the period, altogether advanced to the realized investments. “Long-term investments” decreased by Lire 851 billion due to the repayment of loans [Lire 903 billion by Teleleasing following the agreement for the sale of 60% of Teleleasing held by Telecom Italia to Mediobanca], sales of investments [Lire 300 billion, of which Lire 260 billion for the sale of Bitel Participacoes to Stet Mobile Holding] and writedowns [Lire 119 billion, of which Lire 67 billion for Stream and Lire 43 billion for TMI – Telemedia International Italia], offset only in part by new investments for Lire 431 billion [including the loans for advances on future increases of capital contributions of Stet International Netherlands for Lire 92 billion and Stet Mobile Holding for Lire 157 billion, aimed to the acquisition of foreign investments, and the share capital increase of Stream of Lire 105 billion] and other transactions.

▶▶ *Working capital* is a negative amount of Lire 5,782 billion [Lire 4,615 billion at December 31, 1999], and traditionally a source of operating cash flow. The change [-Lire 1,167 billion] is mainly due to the increase in the “reserves for risks and charges” [in which the “reserve for taxes” includes the income taxes for the period of Lire 908 billion] and “other liabilities” [due to the increase in VAT payable] and the reduction in “trade accounts receivables”, offset only partly by the reduction in “trade accounts payable” and the increase in other asset items.

▶▶ *Net invested capital* at March 31, 2000 is Lire 48,602 billion [Lire 51,645 billion at December 31, 1999], financed by equity for 75.2% and net debt by 24.8%.

▶▶ *Stockholders’ equity* of Lire 36,550 billion increased by Lire 973 billion compared to December 31, 1999 in relation to the income for the period [Lire 964 billion] and the portion of capital grants credited to income [Lire 9 billion] and transferred from the reserve for risks and charges. With the purchase offer for savings treasury shares authorized by the ordinary shareholders’ meeting of January 14, 2000 and launched between February 17 and March 17, 2000, Lire 23 billion was reclassified from the “extraordinary reserve” to the specific “reserve for treasury shares in portfolio”.

▶▶ *Net debt* decreased, compared to December 31, 1999, by Lire 4,016 billion. Gross financial debt amounted to Lire 15,256 billion [Lire 18,248 billion at December 31, 1999], with a reduction of Lire 2,992 billion compared to December 31, 1999.

Statements of cash flows

[in billions of lire]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Net short-term borrowings at beginning of period	[7,848]	[7,127]	[7,127]
B. Cash flows - Operating activities			
Net income for the period	964	1,008	5,050
Depreciation and amortization	1,844	1,948	7,766
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[11]	3	175
[Upward adjustments] writedowns of intangibles and fixed assets	92	33	416
Change in working capital [*]	1,192	167	[2,350]
Net change in reserve for employee termination indemnities	79	79	146
	4,160	3,238	11,203
C. Cash flows - Investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[161]	[172]	[1,352]
• fixed assets	[738]	[709]	[4,574]
• long-term investments	[468]	[622]	[3,973]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,216	157	507
	[151]	[1,346]	[9,392]
D. Cash flows - Financing activities			
New borrowings	=	547	1,138
Capital contributions	=	=	64
Capital grants	10	67	114
Debt repayment	[91]	=	[209]
Change in medium-long term debt due within one year	[405]	[275]	[1,518]
	[486]	339	[411]
E. Dividends	=	=	[2,121]
F. Cash flows for the period	[B+C+D+E]	3,523	2,231
G. Net short-term borrowings at end of period	[A+F]	[4,325]	[7,848]

[*] The difference with respect to the balance sheet is due to entries affecting working capital. They refer to the movements in capital grants, the use of the reserve for losses of subsidiaries and affiliates and the adjustment of receivables recorded in long-term investments and medium/long-term debt to the period-end exchange rates.

» *Cash flows* [profit + depreciation and amortization] for the period of Lire 2,808 billion have completely financed debt repayments and investments. Added to this is the repayment of the loans by Teleleasing following the agreement for the sale to Mediobanca of 60% of the stake in Teleleasing held by Telecom Italia.

» *Investments* [compared to the first quarter of 1999] totaled Lire 1,367 billion [Lire 1,503 billion], of which Lire 899 billion for capital expenditures [Lire 881 billion] and Lire 468 billion for financial investments [Lire 622 billion], almost entirely related to foreign investments.

» Total cash flows provided in the first quarter of 2000 were Lire 3,523 billion, with a similar reduction in net short-term borrowings which, at March 31, 2000, were Lire 4,325 billion [Lire 7,848 billion at December 31, 1999].

RESULTS OF OPERATIONS, FINANCIAL POSITION AND PERFORMANCE EXPRESSED IN EUROS

Statements of income

[in millions of euros]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Sales and service revenues	4,466	4,619	18,518
Changes in inventory of contract work in process	8	8	[10]
Increases in capitalized internal construction costs	3	2	13
Operating grants	=	=	2
B. Standard production value	4,477	4,629	18,523
Raw materials and outside services [*]	[1,674]	[1,718]	[7,392]
C. Value added	2,803	2,911	11,131
Labor costs [*]	[775]	[801]	[3,153]
D. Gross operating profit	2,028	2,110	7,978
Depreciation and amortization	[952]	[1,006]	[4,011]
Other valuation adjustments	[44]	[39]	[280]
Provisions to reserves for risks and charges	[25]	[1]	[81]
Net other income [expense]	32	26	65
E. Operating income	1,039	1,090	3,671
Net income from investments	51	19	1,718
Net financial expense	[52]	[104]	[296]
Value adjustments on financial assets	[61]	[40]	[152]
F. Income before extraordinary items and taxes	977	965	4,941
Net extraordinary income [expense]	[11]	[5]	[340]
G. Income before taxes	966	960	4,601
Income taxes for the period	[469]	[440]	[1,993]
H. Net income for the period	497	520	2,608

[*] Reduced by related cost recoveries.

Balance sheets

[in millions of euros]	3.31.2000	12.31.1999	3.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	1,127	1,166	1,115
Fixed assets	18,412	18,861	19,500
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	9,406	9,265	7,920
• other	300	880	831
	29,245	30,172	29,366
B. Working capital			
Inventories	128	120	156
Trade accounts receivable	5,083	5,402	5,355
Other assets	1,580	1,510	1,090
Trade accounts payable	[4,242]	[4,810]	[4,603]
Reserves for risks and charges	[1,080]	[641]	[1,218]
Other liabilities	[4,455]	[3,964]	[4,514]
	[2,986]	[2,383]	[3,734]
C. Invested capital, net of operating liabilities	[A+B] 26,259	27,789	25,632
D. Reserve for employee termination indemnities	[1,158]	[1,117]	[1,082]
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities	[C+D] 25,101	26,672	24,550
Financed by:			
F. Stockholders' equity			
Share capital paid-in	3,835	3,835	3,832
Reserves and retained earnings	14,543	11,931	12,982
Net income for the period	498	2,608	521
	18,876	18,374	17,335
G. Medium/long-term debt	3,991	4,245	4,686
H. Net short-term borrowings			
• short-term borrowings	3,889	5,179	4,320
• liquid assets and short-term financial assets	[1,727]	[1,186]	[1,896]
• financial accrued expense [income] and deferred expense [income], net	72	60	105
	2,234	4,053	2,529
	[G+H] 6,225	8,298	7,215
I. Total	[F+G+H] 25,101	26,672	24,550

Statements of cash flows

[in millions of euros]	1 st quarter 2000	1 st quarter 1999	Year 1999
A. Net short-term borrowings at beginning of period	[4,053]	[3,681]	[3,681]
B. Cash flows - Operating activities			
Net income for the period	498	521	2,608
Depreciation and amortization	952	1,006	4,011
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[6]	2	90
[Upward adjustments] writedowns of intangibles and fixed assets	47	17	215
Change in working capital [*]	616	86	[1,214]
Net change in reserve for employee termination indemnities	41	41	75
	2,148	1,673	5,785
C. Cash flows - Investing activities			
Intangibles, fixed assets and long-term investments:			
• intangible assets	[83]	[89]	[698]
• fixed assets	[381]	[366]	[2,362]
• long-term investments	[242]	[321]	[2,052]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	628	81	262
	[78]	[695]	[4,850]
D. Cash flows - Financing activities			
New borrowings	=	282	588
Capital contributions	=	=	33
Capital grants	5	35	59
Debt repayment	[47]	=	[108]
Change in medium-long term debt due within one year	[209]	[142]	[784]
	[251]	175	[212]
E. Dividends	=	=	[1,095]
F. Cash flows for the period	[B+C+D+E]	1,819	[372]
G. Net short-term borrowings at end of period	[A+F]	[2,234]	[4,053]

[*] The difference with respect to the balance sheet is due to entries affecting working capital. They refer to the movements in capital grants, the use of the reserve for losses of subsidiaries and affiliates and the adjustment of receivables recorded in long-term investments and medium/long-term debt to the period-end exchange rates.

USEFUL INFORMATION

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