



THIRD QUARTER REPORT

THIRD QUARTER REPORT
2000

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



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FINANCIAL HIGHLIGHTS OF TELECOM ITALIA GROUP

RESULTS OF OPERATIONS AND FINANCIAL DATA		3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
[in billions of lire]	Sales and services revenues	14,039	12,824	41,567	38,206
	Gross operating profit	6,553	5,942	19,049	17,831
	Operating income	3,668	3,192	10,233	9,500
	Income before taxes	2,174	2,891	7,745	7,849
	Net income before minority interest	986	1,493	3,744	3,857
	Net income - Parent Company	530	1,132	2,426	2,896
	Cash flows	3,722	4,002	11,870	11,627
	Capital investments	15,534	2,910	24,279	8,407
	of which:				
	• capital expenditures	2,338	1,680	7,944	6,035
	• financial investments	13,196	1,230	16,335	2,372

PROFIT AND FINANCIAL INDEXES		3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
[percentages]	Gross operating profit / Revenues	46.7	46.3	45.8	46.7
	Operating income / Revenues [ROS]	26.1	24.9	24.6	24.9
	Return on equity [ROE] [1]			9.8	10.6
	Return on investments [ROI]			15.9	18.3
	Net borrowings / Invested capital [debt ratio]			48.5	28.9

BALANCE SHEETS DATA		SEPT. 30, 2000	JUNE 30, 2000	DEC. 31, 1999	SEPT. 30, 1999
[in billions of lire]	Net invested capital	74,353	59,178	54,069	52,442
	Stockholders' equity of the Parent Company and minority interests [2]	38,308	41,063	38,311	37,264
	Stockholders' equity of the Parent Company	31,136	34,970	33,004	32,057
	Net borrowings	36,045	18,115	15,758	15,178

OPERATING DATA		SEPT. 30, 2000	JUNE 30, 2000	DEC. 31, 1999	SEPT. 30, 1999
Telecom Italia					
	Fixed network access lines [in thousands]	26,911	26,774	26,502	26,335
	Annual increase in minutes on fixed network traffic [%]	25.2	23.4	11.6	10.3
	- domestic	25.8	23.8	11.4	10.0
	- international	13.9	16.8	15.4	14.6
	Internet customers [in thousands]	3,534	3,089	1,990	870
TIM					
	Lines [in thousands]	20,727	19,975	18,527	17,041
	Annual increase in minutes in mobile radio traffic [%]	25.8	27.4	35.1	37.3
	GSM coverage [% population]	99.4	99.4	99.0	99.0
	E-TACS coverage [% population]	98.0	98.0	98.0	98.0
	Employees of Group [number]	127,455	128,438	122,662	125,414

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

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

The results for the third quarter of 2000 of Telecom Italia Group were characterized by four basic factors.

1. Acceleration of the growth of results compared to the first half.

In the third quarter, gross operating profit rose by more than 10% compared to the same period of 1999, double the amount recorded in the first six months of the year.

Even excluding the positive impact of the consolidation of Nortel Inversora and Telecom Argentina which it controls, during the third quarter the gross operating profit rose by 2.3%, reversing the negative trend registered in the first half.

The increase in the gross operating profit for the first nine months was 6.8%, which is in line with the forecasted annual target.

The acceleration of the growth of gross operating profit was dependent upon two factors:

- the preservation of the level of gross operating profit for the segment of wireline telecommunications in Italy [-1.3% in the third quarter, compared to -9.3% in the first half], thanks to the performance of revenues [-4.1% in the third quarter, compared to -5.9% in the first six months] and the benefits arising from the reduction in operating costs and, in particular, raw materials and outside services “net” of the amounts due to other operators [-10.9% in the third quarter, compared to +2.1% in the first half];
- a steady trend of growth in gross operating profit by TIM: +11% in the third quarter, compared to +14.5% in the first six months [the figure benefited from the delay in introducing the fixed to mobile tariff changes]. The double-digit growth in mobile telecommunications reflected the good dynamics in traffic revenues [+10.2% in the third quarter] and value-added services [which led to over Lire 180 billion in revenues in the third quarter; +101.8%], in addition to an effective control over raw materials and net outside services, which remained practically unchanged compared to the third quarter of the prior year.

2. Improvement in profitability, confirmation of the effects of the actions taken to step up operating activities and the ability to defend margins against the growing competition.

In the third quarter, the return on sales [ROS] of the Group reached 26.1% compared to 23.8% in the first six months; net of the proportional consolidation of Telecom Argentina, ROS reached 26.4% compared to 23.9% in the first six months.

Gross operating profit as a percentage of sales revenues was 46.7% in the third quarter compared to 45.4% in the first half, confirmation of the effectiveness of the Group's industrial strategy based on the exploitation of existing assets.

3. Reduction in net income owing to the effect of the restructuring charges of the Parent Company.

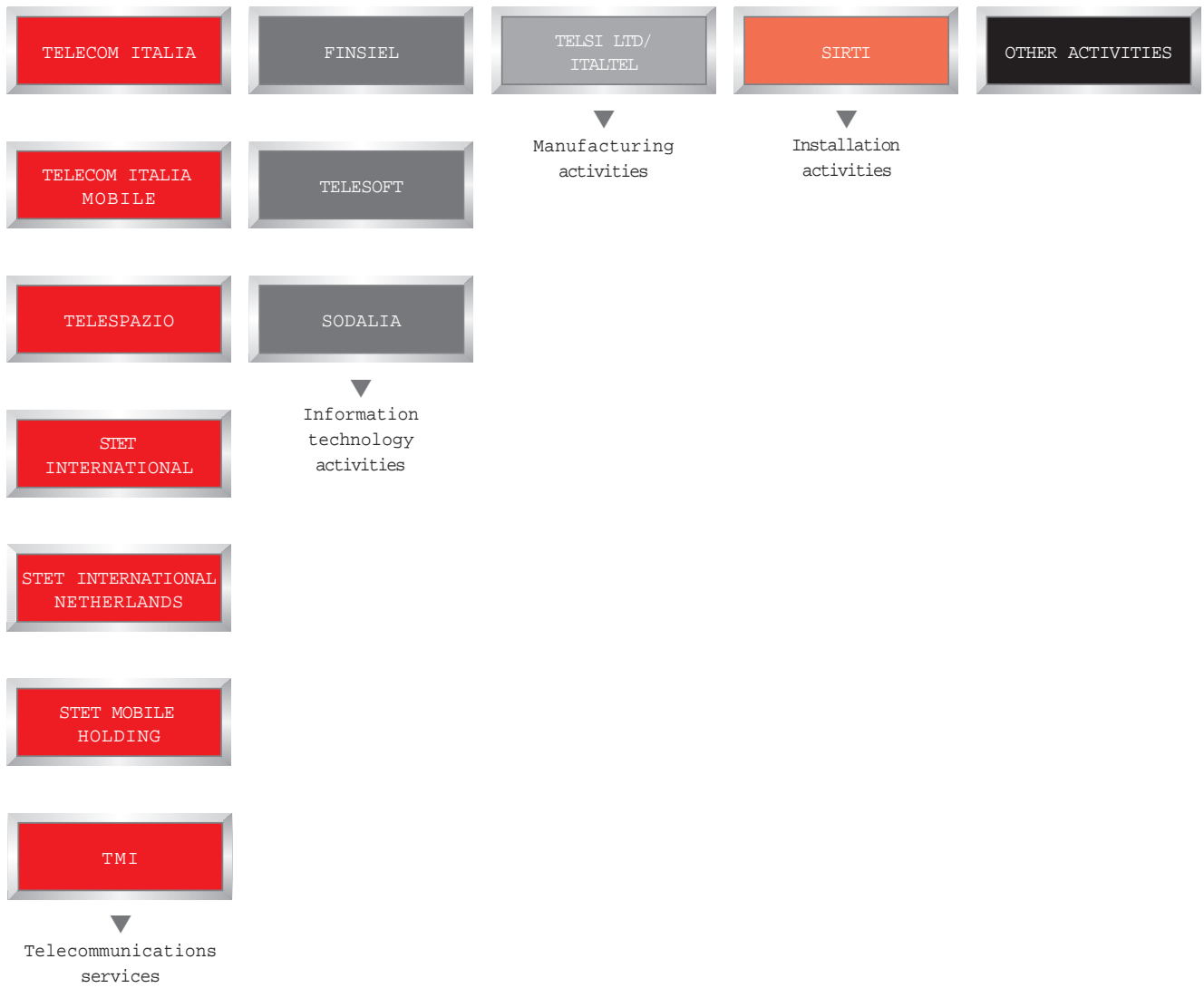
The consolidated net income for the first nine months was Lire 3,744 billion [Parent Company interest, Lire 2,426 billion], with a reduction of Lire 113 billion compared to the same period of 1999 [Parent Group interest, -Lire 470 billion; -16.2%]. The consolidated net income in the third quarter, in particular, was Lire 986 billion, Lire 507 billion less than in the same period of 1999.

The net income for the third quarter, in fact, reflects the extraordinary and not-recurring charges [Lire 734 billion] recorded during the period by Telecom Italia for its corporate restructuring program, largely [Lire 685 billion] consequent to the agreements reached in July with the unions concerning job mobility and unemployment compensation plans. Total restructuring charges incurred by the Parent Company in the nine months totaled Lire 956 billion for the employee reduction plan covering about 10,000 units which will lead to significant benefits in terms of savings in labor costs. The provisions made in the third quarter will be used over the next few months to meet the cost of the effective reduction in personnel covered by the restructuring plan.

4. Increase in the Group net financial debt.

Financial debt at September 30, 2000 amounted to Lire 36,045 billion, +Lire 17,930 billion compared to June 30. The increase is due almost entirely to the Parent Company [+Lire 17,536 billion compared to June 30] and was substantially caused by the acquisition of Seat Pagine Gialle shares [Lire 11,819 billion] and dividend payments [Lire 4,505 billion]. Debt exposure also rose on account of the Lire 951 billion increase in debt by the subsidiaries, in particular for the payment of the third installment of the Brazilian company Solpart [Lire 421 billion], for Stream's capital increase [Lire 200 billion] and for some minor investments [Lire 330 billion].

ACTIVITIES OF TELECOM ITALIA GROUP AT SEPTEMBER 30, 2000



Report on operations

1. The Telecom Italia Group

The figures for the first nine months of 2000 reflect the entry of Nortel Inversora group in the scope of consolidation using the proportional method at 50% and the exclusion of Teleleasing owing to the sale of a 60% stake.

The main results of the Group for the first nine months of 2000 were as follows:

- revenues of Lire 41,567 billion [Lire 38,206 billion in the first nine months of 1999, +8.8%] increased as a result of the positive trend in the mobile telephone business and the consolidation of the Nortel Inversora group;
- gross operating profit of Lire 19,049 billion [Lire 17,831 billion in the first nine months of 1999, +6.8%] reflected the proportional consolidation of the Nortel Inversora group, the good performance of the mobile telecommunications sector and the fall in the gross operating profit of the wireline telecommunications business in Italy;
- operating income was Lire 10,233 billion [Lire 9,500 billion in the same period of 1999, +7.7%];
- income for the period was Lire 3,744 billion [Lire 3,857 billion in the first nine months of 1999, -2.9%];
- income for the period attributable to the Parent Company, Telecom Italia, was Lire 2,426 billion [Lire 2,896 billion in the first nine months of 1999, -16.2%]. The decrease can be ascribed to the increase in extraordinary expenses principally for the corporate restructuring of the Parent Company [Lire 956 billion, of which Lire 685 billion derived from the agreements signed with the unions in July concerning job mobility and unemployment compensation programs], the amortization of goodwill and the losses reported by some foreign subsidiaries.

The percentage changes in the main results of the Group, excluding the effects of the proportional consolidation of the Nortel Inversora group, would have been: +2.3% for revenues, -0.5% for gross operating profit and +1.8% for operating income.

Specifically, the results of the Group for the third quarter of 2000 were as follows:

- revenues were Lire 14,039 billion [Lire 12,824 billion in the third quarter of 1999]; Lire 13,173 billion net of the effects of the proportional consolidation of the Nortel Inversora group;
- gross operating profit was Lire 6,553 billion [Lire 5,942 billion in the third quarter of 1999]; Lire 6,082 billion net of the effects of the proportional consolidation of the Nortel Inversora group;
- operating income was Lire 3,668 billion [Lire 3,192 billion in the third quarter of 1999]; Lire 3,478 billion net of the effects of the proportional consolidation of the Nortel Inversora group;
- income for the period was Lire 986 billion [Lire 1,493 billion in the third quarter of 1999]; Lire 968 billion net of the effects of the proportional consolidation of the Nortel Inversora group;
- income for the period attributable to the Parent Company, Telecom Italia, was Lire 530 billion [Lire 1,132 billion in the third quarter of 1999]. The decrease is mainly due to the restructuring charges of the Parent Company [Lire 734 billion, of which Lire 685 billion referred to the aforementioned union agreements signed in July] as a result of the implementation of the corporate reorganization plan.

The Group's workforce at September 30, 2000 numbered 127,455 [122,662 at December 31, 1999]. The increase of 4,793 units was mainly in reference to the international telecommunications sector [+7,926 units], especially the entry in the scope of consolidation of Argentinean companies [7,358 units]; the reductions recorded in some sectors of activity [wireline telecommunications in Italy: -1,736 units, in line with the strategy of optimizing processes and costs being pursued by Telecom Italia; installation operations: -929 units; information technology activities: -288 units; satellite telecommunications: -141 units; manufacturing activities: -261 units] which were partly offset by the increase in mobile telecommunications employees in Italy [+195 units].

OUTLOOK FOR THE LAST QUARTER

During the last quarter of 2000, the operations of the Telecom Italia Group will be focusing on defending its leadership in the domestic market of phone services, the development of new business, particularly in the data segment, on strengthening international operations and pursuing efficiency in all its business operations.

Further improvements in the operations of the companies in portfolio will be accompanied by the continuation of industrial and corporate transformation, with the incorporation between Seat Pagine Gialle and Tin.it that will give the Group a unique position on the Internet market, thus favoring development in the context of the "new economy" with a consequent increase in revenues, both in the business and consumer segments. The merger, approved by the Shareholder's Meetings of the respective companies, will become operational on November 15 and will lead to the consolidation of Seat during the last months of the current year.

The results of the action taken to improve efficiency, in particular with relation to wireline telephone services, will become effective by means of the full implementation of the restructuring plan, which will lead the Parent Company to significantly reduce the workforce at the end of the year, thus further rationalizing structural costs and expenditures for industrial investments.

The program of divesting non-core businesses will be completed through the sale of part of the Group's properties, the sale of Sirti and the definitive sale of 80% of Italtel, thus generating resources to support the expansion of business as well as significant gains.

The new structure for controlling international investments will become operational, thus enabling the Parent Company and TIM to focus on their respective core businesses, transferring their know-how to foreign companies and making the best possible use of the assets in their portfolio. The fixed-network companies will be concentrated under Stet International Netherlands [SIN], 100% owned by Telecom Italia, while the mobile-network companies will be controlled by Stet Mobile Holding [SMH], 100% owned by TIM.

Based on the results obtained during the first nine months, it is likely that the Group will close 2000 having achieved all the operational objectives announced to the market, both in terms of revenues and market shares, and in terms of gross operating profit and operating income.

The year-end financial results will also be in line with the targets announced to the market, despite the expenses of restructuring the Parent Company and the Austrian subsidiary, thanks partly to the contribution made by the gains divestment of non-core assets.

As regards net financial indebtedness, which already reflects the cash outlay for the acquisition of Seat, the year-end figure will be affected by the entry of Seat in the area of consolidation, the international acquisitions [including Jet Multimedia in France and the GSM license in Turkey] and the cost of the UMTS license in Italy. What is more, the overall debt target of the Group announced to the market will be met by means of the anticipated cash flows generated by sales and by the conversion of TIM savings shares into ordinary shares.

[1.1] WIRELINE TELECOMMUNICATIONS IN ITALY

The wireline telecommunications sector is directly operated by the Parent Company **Telecom Italia**. It also includes Path.Net, a company created to supply the “Single Public Administration Network” with data transmission services, and Tin.it, established on May 1, with its subsidiaries Viasat and Viasat Assistance. The following table shows the results obtained in the third quarter and in the first nine months of 2000, compared to the data for the corresponding periods of 1999.

[in billions of lire]	3 rd quarter 2000 [A]	3 rd quarter 1999 [B]	1.1-9.30 2000 [C]	1.1-9.30 1999 [D]	Change % [1]	
					[A-B]	[C-D]
Sales and service revenues	8,401	8,498	25,386	26,514	[1.1]	[4.3]
Gross operating profit	3,827	3,871	11,173	11,936	[1.1]	[6.4]
Operating income	2,053	1,801	5,581	5,658	14.0	[1.4]
Capital expenditures	1,202	1,251	3,431	3,443	[3.9]	[0.3]
Number of employees at end of period			74,414	77,921		[2.3]

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

Almost all the above figures refer to the operations of the Parent Company, which recorded revenues during the first nine months of 2000 that fell 4.8% compared to the corresponding period of 1999, mainly because of a reduction in the average revenue from traffic [from Lire 116 to Lire 76 per minute; -34.7%] brought about by an intensification of competition. Consequently, revenues from traffic fell by 13.7%, despite an increase of 25.2% in terms of minutes; this is due to reductions in tariffs, the new interconnection price-list, discount policies aimed at customer retention and a shift in the mix of traffic towards less remunerative components. The effects of such phenomena were partly offset by higher basic subscription charges, the increase in revenues deriving from relationships with other fixed network carriers, a reduction in operating costs [personnel and consumption of materials and services] and a fall in amortization and depreciation charges.

However, in a telecommunications market which has been completely deregulated, Telecom Italia confirmed its status as leader in all sectors thanks to careful monitoring of the core business of phone and data services, a broadening of the offering, the development of innovative services [with the convergence of phone and data] and technological infrastructures with particular reference to the Internet sector, and a growing awareness of the needs of its clientele. In the third quarter, the fall in revenues from phone services was partly counterbalanced by the significant growth in data transmission [+32%; +24% in the first nine months] and applications, both in innovative services and in more conventional components by means of an increase in the frequencies marketed and the consequent improvement of the mix. Applications were also favorably affected by a greater marketing of on-site services and the contributions made by innovative offerings.

For the mass market, during the third quarter, the “Teleconomy” tariff plan was enhanced by the introduction of “Teleconomy 24 Aziende”, geared to small companies [a monthly charge of Lire 9,000 for a conventional line and Lire 18,000 for an ISDN

line, with local and trunk calls charged at Lire 24 per minute, regardless of the time band, and special prices for international calls and calls to mobile telephones]. As far as residential customers and small companies are concerned, at September 30, 2000, there was an increase of more than 250% in terms of lines taking advantage of the various tariff plans compared to the first nine months of 1999.

The initiatives also continued for the “Comunico” program and the reward plan “Minuti preziosi”, aimed at retaining the more valuable residential clientele by installing a privileged, continuous rapport with them.

The product offering was enhanced with the launch of three new cordless phones [one of which is an ISDN phone], which helped to achieve a 24% share on that specific market. A fax machine was also introduced capable of sending and receiving color documents on ordinary paper [to/from the same model of fax machine].

There was an even greater interest in network services which, in addition to increasing customer satisfaction, distinguish the Telecom Italia offering from that of its competitors and constitute an effective tool through which to encourage customer loyalty. In the third quarter alone, the “Memotel” centralized answering-phone service and the “Chi è” service collected more than 600,000 new customers; in particular, in the case of Memotel, in July, the basic subscription and prepaid offerings were joined by the new “pay per use” plan; the “Chi è” service attracted an increase of 81% compared to the data at September 30, 1999.

The ISDN superline continued its positive trend, with a growth of 44% in access lines since the beginning of the year.

The “Call IT” telephone credit cards, marketed in the quarter through the “Comunico” club, increased by 79% compared to the same period of 1999.

Within the sphere of “information services”, during the third quarter, for the “12” [directory information] service, the migration towards the new systems architecture was completed, along with nationwide implementation of the voice-recognition system for all traffic originating from fixed networks, making it possible to obtain the information requested by voice interaction with a sophisticated automatic voice-recognition system; however, if required, an operator is always available to help the customer.

In the area of public telephony services the systems continued to be optimized, within the framework of which the first public phones using ISDN technology were also introduced and new “Terminali Ubicabili Ovunque” [TUO] were installed on the intelligent network and terminals were converted to more highly evolved network platforms. In July, the first part of the tariff changes were begun, which involved simplifying the tariffs and restoring equilibrium between local and inter-district calls. In addition, the new tariffs for international calls came into force, which are even more advantageous for the foreign communities living in Italy. During the third quarter, the “La scheda ti premia” initiative was launched for prepaid cards, offering thousands of prizes based on a “scratch and win” mechanism.

With the aim of meeting the requirements of the segment of small and medium-size companies, which are a driving force in the Italian production system, in the third quarter, the Business department continued to offer general connections with a particular focus on ISDN lines [which recorded an average of 608,000 access lines, equal to a penetration of approximately 35%]. The increase recorded during the

period was for 111,000 new access lines. Value-added solutions were also introduced for voice, data and Internet services.

As far as the voice segment is concerned:

- the "Teleconomy 24 Aziende" service already mentioned, apart from being advantageous for the market targeted, involves a simpler pricing system and will therefore produce significant results in terms of customer retention; the lines affected by this pricing system currently number 41,000;
- the "Easy Start" plan is dedicated to companies just starting up. With this package, a single supplier provides the whole telecommunications system, from engineering consultancy to ICT services and products. Financial incentives are also available for this offering.

The following initiatives were started with regard to the data segment and the Internet:

- the "ADSL Neteconomy" offering, which facilitates the entry of small and medium-size companies into the Internet universe. This service provides high-speed connections for groups of LAN users with connection "always on" at a "flat" tariff;
- the "Full Business Company" offering, which accompanies companies into the world of the new economy. This proposal offers network services, the Internet data center, hosting, basic applications and services associated with security.

Finally, applications have been started in ASP [Application Service Provider] mode direct to companies which want to concentrate on their core business, while delegating the technical and managerial responsibility of their information system to third parties. To this end, agreements were stipulated with two partners that are leaders in the manufacture of operations software.

For the Business Market, as part of the plan to broaden the portfolio, during the third quarter 2000, the following plans were introduced:

- under the Net Manager services which are geared to controlling, managing and analyzing TLC consumption: "Internet SecurP@y" for the payment of invoices through the Internet using credit cards and "Internet Billing" for the acquisition of invoices in an electronic format that is legally valid;
- in the phone segment, the "ChiamaGratis" plan was expanded and re-named "Full Business Card", with two new profiles: "Chiamagratis" for calling Italy, abroad and mobile phones, and "Chiamadirect", which makes it possible to call a fixed number in Italy free; in addition, a service has been introduced which makes it possible to use the Internet as a delivery vehicle, with [PIN] cards sent directly by e-mail;
- in the data segment: the "Multicast" service has been introduced on InterBusiness to improve transmission from one source to many destinations.

During the quarter, the following commercial achievements are worthy of mention:

- wholesale ADSL, with the stipulation of contracts for more than 12,000 connections, for a total of approximately 32,000 since the beginning of the year;
- Full Business Company, with approximately 2,800 contracts stipulated during the period [3,500 since June, when the service started];
- Full Business Security, with more than 300 contracts subscribed [500 since the beginning of the year];
- Business Frame/ATM, with 1,600 access lines installed during the period and 7,500 installed in the first nine months of the year [+31% compared to the end of 1999];

- the growth of connections on the ISDN network, with more than 60,000 equivalent lines installed [225,000 since the beginning of the year; +16% compared to the end of 1999];
- the results of “Intelligent Numbers” [toll-free calls, numbers with Intelligent charges, Single Number, Universal Number], and InterBusiness, which posted revenues above forecasts.

The amount of overall international traffic handled increased significantly, from 1.8 billion minutes in the third quarter of 1999 to 2 billion minutes in the third quarter of 2000 [+11.6%].

With regard to outgoing traffic [+17.1% compared to the corresponding period of 1999], the increased number of calls being handled by mobile telephone operators and other Italian fixed carrier companies [+56.1% compared to the third quarter of 1999] made it possible to recover the market shares of the clientele lost to other operators owing to increasing competition present on the domestic market.

As far as incoming traffic was concerned, there was a fall in the amount of traffic handled [-5.2% compared to the third quarter of 1999]: in fact, the competition favors direct connection between other Italian and foreign operating companies, so that the Telecom Italia network is by-passed. In addition, there was a change in the mix of traffic: traffic towards fixed networks fell [-12.7%] while traffic towards mobile networks increased [+6.5%], both due to the increase in customers using mobile networks, and a greater propensity to use cell phones.

In-transit traffic, thanks to a more aggressive offering and the growth of new operators in deregulated markets, increased by 66.5% [from 214 million minutes in the third quarter of 1999 to 356 million minutes in the third quarter of 2000].

SEA-BONE, the international connection service to Internet for Italian and foreign operators, recorded an increase in revenues of 68.2% compared to the third quarter of 1999.

The significant increase in the demand for transit transmission capacity on the Telecom Italia network on the part of foreign operating companies, combined with the re-definition of pricing policies, led to an increase in revenues of 101.8% compared to the third quarter of 1999, thanks also to a growing number of requests for Internet services.

In a context of falling prices, the improvement in margins was again pursued by reducing the unit cost of traffic distribution [-5.1% compared to the third quarter of 1999], achieved thanks to policies of negotiation with foreign operating companies and careful management of traffic routing.

During the third quarter, the growth in demand led to the development of commercial programs, speeding up the expansion of dedicated access network structures and infrastructures for transporting phone and data services. In particular, the access networks were expanded for data, collecting Internet dial-up traffic and the ADSL [“fast Internet”] service, for which 72,000 lines were installed in 600 switchboards in 95 urban areas, covering a potential catchment pool of about one third of the clientele.

At September 30, 17 self-switching systems based on a new technology were activated to act as collection junctions for Internet traffic coming from Internet Service Providers [ISP]; the extension of number portability and carrier preselection services nationwide was completed; 5,000 lines were activated on switching junctions depending on the intelligent network in order to extend the

offering of specific services. Finally, development continued of “Arianna”, the new optical fiber transport network with a high transmission capacity to transport flows requiring elevated quality and availability; 38 systems out of the 57 of the first stage were activated.

In the international sphere, the first nine months of 2000 were mainly devoted to creating the pan-European regional network which will unite nine countries [Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and the United Kingdom] with a high-speed optical fiber link, consisting of ring structures which will guarantee the “self-protection” of traffic if a fault should occur on any given section. The first part [Milan-Zurich-Frankfurt-Paris-London] was activated at the end of July; the connection with Belgium and Holland is scheduled for completion in 2000, that of Austria and Spain in 2001, based on the time required to issue the licenses required by the authorities of each country.

Activities have also continued to design a submarine and land-based ring network in South America and a fiber optic backbone crossing the Atlantic and, in collaboration with Mediterranean Nautilus, to create a submarine optical fiber ring in the Eastern Mediterranean. The proprietary systems include the submarine cable Maya-1 which, by extending Columbus 3, links Florida with Panama by means of Mexico, Honduras, the Cayman Islands, Costa Rica and Colombia.

Finally, both leased and owned systems and resources were updated and improved in order to effectively meet market requirements and cut the unit costs of the services offered.

Internet

At September 30, 2000, Tin.it confirmed the commercial growth already recorded in 1999, exceeding 3.5 million subscribers, with an increase of 75% compared to the beginning of the year. Of these, 57,000 were generated by the “E-Vai” plan launched at the end of 1999, which consisted in the sale, with installment payments, of a personal computer with Tin.it access. At the beginning of the year, marketing also began of broadband services using ADSL technology by means of the “always on” connection to Internet, subject to the payment of a monthly charge. At September 30, a total of 5,500 requests for activation had been received. The offering was also enhanced by the “web services” of the “Easy” and “Village” lines, geared mainly to small and medium-size companies.

During the first nine months, the virtual community Atlantide continued to meet with success, with the number of subscribers almost tripling [about 1.3 million] compared to the end of 1999. The increase in the number of subscribers is naturally reflected both in the number of monthly page-views [+64%], and in the volumes of traffic generated, of one billion minutes per month.

During the first nine months of 2000, the Tin.it group, comprising Viasat which is consolidated at 50%, recorded revenues of Lire 398 billion; the costs consequent to the rapid development of the business led to a gross operating loss [-Lire 43 billion] and an operating loss [-Lire 92 billion] for the period. The workforce numbered 428 units at September 30, 2000.

* * *

The merger between Tin.it and Seat Pagine Gialle, after registration in the companies register of the Turin courts on November 10 of the deed for the partial demerger of Telecom Italia by the contribution of 8.168% of Tin.it to Seat, will become finalized on November 15. Beginning November 13, Telecom Italia's shares will be listed on the stock market net of the rights for Seat ordinary shares [56 shares for every 1,000 Telecom ordinary or savings shares]. The merger gave birth to the top Internet Service Provider in Italy and one of the most important worldwide. The integration of the two companies, in fact, makes it possible to create an Italian pool equipped with the infrastructures, the size and the business skills necessary for accelerating the development of the Internet market in Italy and to compete with large groups in Europe and the rest of the world.

[1.2] MOBILE TELECOMMUNICATIONS IN ITALY

Telecom Italia Group operates in the mobile telecommunications sector through **Telecom Italia Mobile [TIM]**. The following table shows the highlights for the third quarter and for the first nine months of 2000 and 1999.

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1-9.30.2000	1.1-9.30.1999	Change % [1]	
	[A]	[B]	[C]	[D]	[A-B]	[C-D]
Sales and service revenues	3,915	3,708	11,239	10,356	5.6	8.5
Gross operating profit	1,904	1,714	5,506	4,855	11.1	13.4
Operating income	1,459	1,433	4,214	3,835	1.8	9.9
Capital expenditures	475	397	1,408	1,107	19.6	27.2
Number of employees at end of period			9,570	9,189		2.1

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

At September 30, 2000, the Italian mobile market had installed 38.5 million lines, with a level of penetration of approximately 67%; TIM's market share was approximately 54%, corresponding to 20.7 million lines [2.2 million new customers acquired in the first nine months of 2000], 87% of which use GSM services.

The entry of the fourth operator in May increased the level of competitiveness of the market; despite this, TIM succeeded in improving its economic results.

During the first nine months of 2000, the gross operating profit and the operating income grew significantly compared to the same period of 1999, thanks partly to the growth of value-added services; the same trend characterized the economic results of the third quarter of 2000 compared to those of the third quarter of 1999, albeit with a slowdown due to the already-mentioned effects of competition. Traffic for the period totaled 7.9 billion minutes, an increase of 23.2% compared to the third quarter of 1999, and in line with the gains in traffic recorded in the first half of 2000 compared to the corresponding period of the prior year.

Capital expenditures during the first nine months increased by 27.2% compared to the same period of 1999, making it possible to strengthen the network both in terms of base transceiver stations and transmission channels.

During the third quarter, TIM continued to conduct activities aimed at introducing alongside WAP [Wireless Application Protocol] – which recorded its first commercial results – the GPRS technology, which accelerates data transmission on the GSM network,

thus augmenting the potential of the offering of information and multimedia services, mobile banking and e-commerce. From a commercial point of view, the spread of the “AutoRicarica” mechanism and the “Duetto” option continued; the summer initiatives of “Carta vacanze” [with a tariff of Lire 100 per minute for calls to TIM customers plus 100 free SMSs] and “TIM raddoppia l’estate” [a bonus of Lire 50,000 of traffic at the first recharge, with the potential of a further Lire 50,000] were highly successful; the new “Flash” tariff was launched, with no charge when the call is answered, at a tariff of Lire 400 per minute, valid for both prepaid and subscriber customers.

At the end of the UMTS auction, held in October, TIM was awarded one of the five available licenses against a payment of Lire 4,680 billion on November 3. The company, having obtained an experimental license from the Ministry of Communications, will install a pilot system in Padua during 2001, taking advantage of the industrial collaboration of Siemens and NEC. On the other hand, in compliance with the rules of the auction, the commercial operation of UMTS license will begin in January 2002.

Within the framework of simplifying the share structure, the Stockholders’ Meeting held on October 10 approved the voluntary conversion of savings shares into an equal number of ordinary shares, against a monetary adjustment of Euros 3.7 per share. The inflow of fresh resources will be used partly to acquire the UMTS license. In this connection, in order to respect the rules of the auction which imposed a minimum of Lire 800 billion of paid-in share capital, the par value of the shares was raised from Euros 5 cents to Euros 6 cents by utilizing the reserves.

* * *

As far as regulations are concerned, on August 1, the Communications Authority voted that the assumptions do exist for the case of dividing the net cost of the universal service for 1999 among the national operators. The universal service refers to the obligation to supply phone services at uneconomic conditions by Telecom Italia, according to the terms of the concession. The cost, equal to Lire 121 billion, was divided among the largest operators; therefore, besides Telecom Italia, which still had to pay Lire 69 billion, Infostrada, Omnitel and TIM were required to pay Lire 34 billion. The Parent Company and TIM respectively recorded the income [Lire 52 billion] and the costs for this service in the third-quarter 2000 financial statements.

* * *

With a view towards focusing on the core businesses, the Boards of Directors of Telecom Italia and TIM decided upon the new structure of the international sector of the Group in relation to the respective investments held in Stet International Netherlands [SIN] through STET International, and in Stet Mobile Holding [SMH]. According to the new structure, approved by the Extraordinary Stockholders’ Meetings held between October 20 and 24, by the end of the operation, TIM will hold the entire investment in SMH and, therefore, all the investments in foreign companies operating in the mobile sector, while Telecom Italia, through SIN, will hold all the investments in foreign companies operating fixed and integrated networks. In this way, separate operational units have been created focusing on the particular types of business, with positive repercussions also in terms of the clear move to empower management with greater responsibility.

[1.3] SATELLITE TELECOMMUNICATIONS

Telecom Italia Group operates in the satellite telecommunication sector through Telespazio and its subsidiaries. The following table shows the highlights for the third quarter and first nine months of 2000, compared to those for the same periods of the prior year.

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1-9.30.2000	1.1-9.30.1999	Change % [1]	
	[A]	[B]	[C]	[D]	[A-B]	[C-D]
Sales and service revenues	141	153	413	448	[7.8]	[7.8]
Gross operating profit	22	3	60	18	–	–
Operating income [loss]	8	[48]	[48]	[62]	–	22.6
Capital expenditures	15	11	45	44	36.4	2.3
Number of employees at end of period			1,213	1,358		[10.4]

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

During the first nine months, the sector reported a production value of Lire 537 billion [compared to Lire 500 billion during the same period of 1999, +7.4%] thanks to the positive effects of the Astrolink order and the increase in volume achieved in most of the segments in which it operates. The gross operating profit reflected the costs of satellite capacity acquired but not used by Telespazio, since it was destined for a foreign television company with which commercial dealings had been severed and legal proceedings begun. The operating income therefore included Lire 42 billion for the writedown of the entire receivable due Telespazio from said customer. The same figures were also affected by the negative contribution of Iridium, a service which was withdrawn in March. The results of 1999 were influenced by the gross operating result of the Viasat group, which reported a loss of Lire 16 billion.

[1.4] INTERNATIONAL TELECOMMUNICATIONS

The international presence of the Telecom Italia Group is diversified over several companies, most of which are controlled by **SIN [Stet International Netherlands]**, a holding company for the integrated fixed-mobile telecommunications companies, and by **SMH [Stet Mobile Holding]**, a holding company for the mobile telecommunications companies. During the first nine months of 2000, international customers increased by more than 50% on a proportional basis.

During the third quarter, important initiatives were begun abroad, including the following.

On September 18, in **France**, the subsidiary 9 Telecom Reseau presented the Conseil des Marchés Financiers and the Commission des Operations de Bourse with the plan for the tender offer of 100% of the shares and warrants of Jet Multimedia, a company specialized in supplying value-added services and multi-platform hosting [Internet, Audiotel, Minitel], which, in 1999, generated revenues of Euros 73 million [Euros 45 million in the first half of 2000]. The prices offered were Euros 83 per share and Euros 71.7 per warrant, corresponding to an outlay of Euros 887 million assuming the offer was fully accepted, with a bonus of 12.9% on the closing price of September 15, the last day in which the stock market remained open prior to the presentation

of the offer and the subsequent cancellation of the stock from the listed market. The Telecom Italia Group reserved the right to accept the shares tendered under the tender offer if they represented less than 51% of the voting rights, as calculated when the offer was closed. The plan received the support of the management of Jet Multimedia which, with a resolution passed by its Board of Directors on September 18, made a formal recommendation to the stockholders to accept the offer. The members of the Council also undertook to tender their own shares which, together with the commitment already made by one of the principal stockholders, represent 20.3% of the issued share capital and 28.4% of the voting rights existing at the time of tender offer. The period of the offer finished on November 6; the results will be announced by the Commission des Operations de Bourse on November 17.

In **Spain**, following the agreement signed in April between Telecom Italia, Endesa and Union Fenosa, activities continued to set up the holding company AUNA, which will have control over all the Spanish telecommunications companies in which the three partners hold investments. The agreement envisages that AUNA will be set up by Retevision following the spin-off of its operating business segment from the business segment with the financial holdings. The plan, which was approved on June 20, 2000 by the Stockholders' Meeting, authorized the formation of Retevision I, an operating company 100%-owned by the former company Retevision, re-named AUNA, which will manage the financial investments. At a later date, the main stockholders, together with the minority stockholders, will contribute their investments in the companies directly to AUNA. The contributions are still in progress; therefore, at September 30, 2000, the situation of AUNA was comparable to that of Retevision at September 30, 1999, both in terms of activities and the scope of consolidation.

In **Turkey**, where, last April, the Group was awarded the 1800 GSM license, in September, along with the local bank, Turkiye Is Bankasi, the Group set up the company "Is TIM", which began operations to provide mobile telephone services.

On July 31, in **Brazil**, the subsidiary Brasil Telecom Participacoes [formerly Tele Centro Sul Participacoes] finally concluded the acquisition of 100% of the holding company Telebrasil Sul [TBS] for the sum of US \$800 million. TBS holds 85.19% of the share capital with voting rights and 1.27% of the preferred shares [31.56% of the total share capital] of CRT [Companhia Riograndense de Telecomunicacoes], a company which provides local fixed and long-distance telephone services in the state of Rio Grande do Sul. Brasil Telecom, which already held 8.01% of the ordinary shares and 0.07% of the preferred shares [2.94% of the total] of TBS, now owns a total of 93.2% of the ordinary shares and 1.34% of the preferred shares [equal to 34.6% of the total]. The acquisition is strategically important both because the state in which CRT operates constitutes a market of great interest, being characterized by one of the highest GDP per capita in Brazil [Brazilian reais 6,272 against Brazilian reais 5,240 in the region where Brasil Telecom operated previously and Brazilian reais 5,861 for the country as a whole], and also on account of the geographical proximity of the area covered by Brasil Telecom and that covered by CRT, and, finally, because Brasil Telecom is now just as big as the fixed network operators resulting from the spin-off of Telebras. In compliance with Brazilian legislation, the previous majority stockholder – the Spanish company Telefonica – had to dispose of its investment in

TBS, since it was incompatible with the same role it holds in Telesp, the operator in the state of San Paolo. Telefonica had rejected Brasil Telecom's first offer of US dollar 730 million made on January 31, judging it to be inadequate.

In **India**, on September 25, the sale was completed of all the holdings in the Bharti group companies [20% in the holding company Bharti Tele-Ventures, 30.2% in Bharti Telenet, the fixed network operator in the region of Madhya Pradesh and 2% in Bharti Cellular, a GSM mobile operator in Delhi] to the Singapore Telecom group, which is organizing a strategic alliance with the Indian companies. The sale is motivated by the decision to focus the international presence of the group in Europe, Latin America, and the Mediterranean Basin. The transaction was concluded for a total of US dollar 121 million.

8 Consolidated subsidiaries

The following table shows the highlights of the results reported by the consolidated companies which make up the international sector.

[in billions of lire]	3 rd quarter 2000 [A]	3 rd quarter 1999 [B]	1.1-9.30.2000 [C]	1.1-9.30.1999 [D]
Sales and service revenues	1,894	818	5,508	2,263
Gross operating profit	686	177	1,949	465
Operating income [loss]	98	[63]	357	[179]
Capital expenditures	638	214	1,885	1,486
Number of employees at end of period			13,553	5,771

The figures referring to 2000 take into account the effects of the consolidation of Nortel Inversora and the Telecom Argentina group, which it controls, using the proportional method beginning from January 1, 2000. With the same scope of consolidation, the figures would be as follows:

[in billions of lire]	3 rd quarter 2000 [A]	3 rd quarter 1999 [B]	1.1-9.30.2000 [C]	1.1-9.30.1999 [D]	Change % [1]	
					[A-B]	[C-D]
Sales and service revenues	986	818	2,908	2,263	20.5	28.5
Gross operating profit	214	177	633	465	20.9	36.1
Operating income [loss]	[78]	[63]	[203]	[179]	[23.8]	[13.4]
Capital expenditures	329	214	1,126	1,486	53.7	[24.2]
Number of employees at end of period			6,195	5,771		10.1

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

The positive trend in the sector, with a comparable scope of consolidation, reflects an improvement in the operating management of the company, in addition to the favorable change of the Brazilian real against the Italian lira.

The following commentary presents the main results obtained by the foreign companies of the Group during the first nine months of the year.

Europe

The **TMI - Telemedia International Italia** – group operates in the market of global providers, one characterized by a rapid pace of development and fierce competition, with falling prices on account of the commercial policies adopted by various operators, offering international voice/data services on a fixed network and executing projects with a high technological content. During the third quarter of 2000, the company continued to emphasize its commercial strategy based on the development of multinational customers with offices in Italy and abroad, in Europe and Latin America.

The consolidated revenues for the first nine months amounted to Lire 171 billion [compared to Lire 225 billion in 1999]; the company recorded a gross operating loss of Lire 106 billion [compared to a loss of -Lire 102 billion in the same period of 1999].

In France, at September 30, the company **9 Telecom Reseau** had accumulated 603,000 customers [403,000 of which were acquired in 2000], in line with overall forecasts. The residential component is the largest, with 562,000 customers; however, the company is also taking appropriate action to adequately develop the business component. Further developments in terms of technical platforms and services offered are also planned for Internet, the customers of which [117,000] have almost doubled since the end of 1999.

Revenues for the first nine months of 2000 amounted to French francs 381 million [Lire 112 billion], almost seven times that of the same period of 1999, which was characterized by the start-up of the company, whereas actual services were not launched until June. The company posted a gross operating loss which deteriorated by 10.9%, falling from -French francs 651 million [-Lire 192 billion] to -French francs 722 million [-Lire 213 billion]; the operating loss was -French francs 837 million [-Lire 247 billion] compared to -French francs 699 million [-Lire 602 billion] in the same period of 1999.

In the third quarter, revenues amounted to French francs 147 million [compared to French francs 34 million in the third quarter of 1999]. The gross operating loss for the third quarter of 2000 was French francs 210 million and showed an improvement of 13.2% over 1999; the operating loss was French francs 254 million, in line with the figure for the third quarter of 1999.

In **Greece**, despite the continuation of aggressive commercial policies on the part of its competitors, **Stet Hellas** continued to grow, with 1.6 million lines connected by September 30, and an increase of 33.6% compared to the end of 1999.

The consolidated results for the first nine months of 2000 showed revenues of Greek drachmas 132 million, equal to Lire 765 billion [compared to Greek drachmas 111 million, equal to Lire 660 billion in the same period of 1999].

The gross operating profit and the operating income remained substantially unchanged [respectively Greek drachmas 36 million, Lire 207 billion, and Greek drachmas 18 million, Lire 101 billion].

During the third quarter, revenues totaled Greek drachmas 48 million [compared to Greek drachmas 41 million in the third quarter of 1999]; the gross operating profit was Greek drachmas 13 million [Greek drachmas 18 million in the third quarter of 1999], while the operating income amounted to Greek drachmas 7 million [compared to Greek drachmas 11 million in the third quarter of 1999].

Latin America

At September 30, **Entel Bolivia**, which operates in the long-distance sector, in mobile telecommunications and value-added services, with a small presence in local fixed telephone services operated in the country by regional carriers, had accumulated 240,000 customers in mobile services [+91% compared to the end of September 1999], thanks, in particular, to the prepaid format, which constitutes 80% of the total.

Revenues during the first nine months amounted to Bolivian bolivianos 953 million [Lire 323 billion], 2.3% less than the same period of 1999, due mainly to the negative results of international traffic, which was only partly offset by the positive performance of national long-distance and mobile traffic.

In the third quarter of 2000 alone, revenues fell by 9.1% compared to the third quarter of 1999; this is reflected in a lower gross operating profit for the period [-19.5%].

With the deregulation of fixed long-distance telephone services and the awarding of mobile PCS licenses, in 1999, the **Telecom Argentina** group was transformed into an integrated operator capable of providing all types of telecommunications and value-added services nationwide, thus strengthening its strategic position. At September 30, Telecom Argentina had accumulated 3.5 million subscribers to the fixed network [+9% compared to the end of September 1999], 176,000 of which were acquired in the third quarter. In the mobile sector, the number of customers at the same date numbered 1.9 million [+23% compared to the end of September 1999], 205,000 of which were acquired in the third quarter; during the same period, there were 39,000 new subscribers to Internet, the total reaching 182,000 by September 30.

Despite the economic crisis currently affecting the country, consolidated revenues during the first nine months, which amounted to Argentine pesos 2,527 million [Lire 5,204 billion], grew by 3.7%, thanks mainly to the mobile phone sector [also sustained by the sale of terminals], data-transmission and Internet services. The decrease in gross operating profit for the period to Argentine pesos 1,278 million [Lire 2,363 billion] from Argentine pesos 1,378 million [Lire 2,482 billion], for -7.3%, mainly reflects the increase in external costs owing to the subsidy of mobile terminals and higher interconnection costs. As a percentage of revenues, the gross operating profit consequently fell from 56.5% in the first nine months of 1999 to 50.6% in the first nine months of 2000.

Finally, we should highlight the performance of the Brazilian mobile telecommunications companies **Tele Nordeste Celular** and **Tele Celular Sul**. At September 30, the former, which operates in the states of Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte, had accumulated approximately 1.5 million customers [+24.8% compared to the end of 1999] and a market share of almost 65%. The latter, which is active in the states of Paraná and Santa Catarina and in the town of Pelotas, has, in turn, confirmed its market leadership, with approximately 1.3 million customers and a market share of 80%.

During the first nine months, Tele Nordeste Celular totaled revenues of Brazilian reais 657 million [Lire 754 billion], or +36% compared to the corresponding period of 1999; the gross operating profit was Brazilian reais 293 million [+45.8% compared to 1999]. Revenues in the third quarter amounted to Brazilian reais 212 million [Lire 243 billion]. Tele Celular Sul posted consolidated revenues of Brazilian reais 567 million [Lire 650 billion] +15.5% compared to the first nine months of 1999; the gross operating profit was Brazilian reais 242 million [+25.4% compared to the first nine months of 1999]. Revenues in the third quarter amounted to Brazilian reais 182 million [Lire 209 billion].

8 Affiliated companies and other companies

Europe

In the French mobile telecommunications market which, at September 30, 2000 had reached a level of penetration of 44%, **Bouygues Télécom** exceeded 4.5 million customers [1.2 million of which were acquired in the period, +37.9%], with a 17% share of the global market and 22% of the incremental market.

Revenues during the first nine months amounted to French francs 8.9 billion [Lire 2,600 billion; +64% compared to 1999]. The gross operating profit totaled approximately French francs 2.8 billion [Lire 820 billion], more than twice the figure recorded in the third quarter of 1999, partly the result of significant cost cuts.

In Spain, **AUNA** [formerly Retevisión] ended the first nine months of 2000 with 1,740,000 customers, corresponding to 2,522,000 indirect access lines and 48,000 direct access lines, confirming its second place position in the Spanish wireline telecommunications market. A similar result was also achieved with Internet, where the number of customers exceeded one million at September 30, 2000. The fierce competition led to a reduction in tariffs and a consequent contraction of margins.

The revenues for the first nine months of 2000, which amounted to Spanish pesetas 72 billion [Lire 840 billion], were in line with those for the same period of 1999 [Spanish pesetas 71 billion; Lire 826 billion], 60% of which can be attributed to telecommunications, 28% to audio-visual services and 12% to Internet. The company showed a gross operating loss of -Spanish pesetas 3.7 billion [-Lire 43 billion] compared to a gross operating profit of Spanish pesetas 9 billion [Lire 104 billion] for the corresponding period of 1999, due to the fierce competition and the costs of developing Internet business. The operating loss was -Spanish pesetas 25 billion [-Lire 295 billion] compared to an operating loss in 1999 of -Spanish pesetas 8 billion [-Lire 93 billion]. The difference can be attributed partly to higher depreciation, due to heavy investments for the construction of the direct access network.

Revenues for the third quarter amounted to Spanish pesos 25 billion [Lire 291 billion], with an increase of 13.6% compared to the third quarter of 1999.

In March, **Retevisión Movil [AMENA]**, the third-largest mobile telephone operator in Spain, was awarded one of the four UMTS licenses in March auctioned by the Spanish Government. At the end of September, thanks in particular to the prepaid option, the company had accumulated 3.2 million customers, showing a growth of 2.2 million customers compared to the end of 1999, with a 13.9% share of the global market and 25.6% of the incremental market. The Spanish market has now reached a level of penetration of 58%, on a par with the Western European average.

During the first nine months of 2000, revenues amounted to Spanish pesetas 89 billion [Lire 1,034 billion] compared to Spanish pesetas 13 billion [Lire 151 billion] in 1999. The company showed an operating loss of -Spanish pesetas 61.4 billion [-Lire 714 billion], twice the figure recorded in the first nine months of 1999, attributable to the costs of acquiring new customers.

Cable i Televisio de Catalunya [Menta] supplies phone and cable-TV services in the Barcelona area; operational since June 1999, it may still be regarded as being in the start-up phase. During the third quarter it acquired 4,000 new customers, reaching a total of 12,000 subscribers by September 30.

During the first nine months of 2000, revenues totaled Spanish pesetas 436 million [Lire 5 billion, compared to Lire 1 billion in the same period of 1999]. The company recorded a gross operating loss of Spanish pesetas 4,011 million [-Spanish pesetas 2,466 million in the same period of 1999]; the operating loss increased from -Spanish pesetas 2,750 million to -Spanish pesetas 5,080 million.

Madritel provides phone and cable-TV service in the area of Madrid since September 1999. The customers acquired during the third quarter of 2000 numbered more than 5,000, bringing the total at September 30, 2000 to approximately 23,000 subscribers.

During the first nine months of 2000, consolidated revenues amounted to Spanish pesetas 1,933 million [Lire 22 billion], compared to Spanish pesetas 223 million in the corresponding period of 1999. The company showed a gross operating loss of -Spanish pesetas 4,412 million [-Lire 51 billion] compared to -Spanish pesetas 2,937 million [-50.2%] in 1999. The operating loss was -Spanish pesetas 7,370 million [-Lire 86 billion] compared to an operating loss in 1999 of -Spanish pesetas 3,607 million [-Lire 42 billion] in 1999.

Euskaltel, which offers telecommunications services in the Basque regions, where it has consolidated its position as the second operator, is not affected by the process of setting up AUNA. At the end of September 2000, the company exceeded 320,000 indirect lines and 13,000 direct lines, with an increase, compared to September 30, 1999, of 11% and 61% respectively. The performance of Internet and mobile phone services was excellent, reaching 214,000 and 243,000 customers, respectively.

Revenues for the first nine months of 2000 amounted to Spanish pesetas 10 billion [Lire 116 billion; +55% compared to 1999].

The company recorded a gross operating loss of -Spanish pesetas 4.8 billion [-Lire 56 billion]; the operating loss was -Spanish pesetas 7.5 billion [-Lire 87 billion]. These figures reflected the costs of acquiring mobile customers and the depreciation of investments for the development of the direct network.

In March, in order to tackle the growing pressure from competition, **Telekom Austria**, the main wireline phone services operator in Austria, reduced its tariffs for fixed-mobile traffic and, in July, for long-distance [-58% at peak time] and online [-34%] traffic. Within the framework of the strategic repositioning of its business, in September, the company Jet2Web.net was established, which will offer integrated broadband access and Internet services. The final activities are now in progress for listing and floating 25% of the share capital currently owned by the state stockholder OIAG on the stock exchange, scheduled for the end of November.

The results for the first nine months of 2000 were lower than those recorded in the same period of 1999. Revenues, which amounted to Austrian schillings 27,112 million [Lire 3,815 billion; -5.2% compared to 1999], were hurt by the effects of competition. The gross operating profit, of Austrian schillings 8,717 million [Lire 1,227 billion; -34.3% compared to 1999], fell on account of increasing external and personnel costs. The company posted

an operating loss of -Austrian schillings 780 million [-Lire 110 billion] compared to an operating profit in 1999 of Austrian schillings 4,176 million [Lire 588 billion]. Furthermore, other factors negatively affecting the net result for the third quarter were extraordinary expenses associated with employees reduction plans amounting to Austrian schillings 3,110 million [Lire 438 billion].

Mobilkom Austria operates on a market which, at September 30, 2000, recorded a level of penetration of 67%. At the same date, the company had accumulated 2.7 million customers [432,000 of which were acquired during the first nine months of the year, +19.1%], with a 50% share of the global market and 37% of the incremental market, following the entry, in May, of the fourth operator. During the third quarter, Mobilkom proceeded with its activities to prepare for the auction which would award the UMTS licenses which, formerly scheduled for 2001, was brought forward to early November. The company was awarded one of the six licenses at stake.

During the first nine months, revenues totaled Austrian schillings 13,562 million [Lire 1,908 billion; +14% compared to 1999]. The gross operating profit was Austrian schillings 4,663 million [Lire 656 billion; +13.1% compared to 1999].

Latin America

As already mentioned, on July 31, 2000, **Brasil Telecom Participacoes** [formerly Tele Centro Sul Participacoes] acquired 100% of Telebrasil Sul [TBS] for US dollar 800 million. During the first nine months of 2000, the company installed 425,000 new lines [+9% compared to the end of 1999], reaching 5,143,000 connections at the end of September. At September 30, CRT lines in service numbered 1,733,000, with an increase of 213,000 [+14%] compared to December 31, 1999 [50,000 were installed after August 1].

During the same period, consolidated revenues by Brasil Telecom amounted to Brazilian reais 3,226 million [Lire 3,700 billion], including Brazilian reais 269 million [Lire 309 billion] as a result of the consolidation of CRT for the months of August and September 2000. The growth of Brasil Telecom alone compared to the first nine months of 1999 [+26.6%] was mainly due to the astonishing increase in traffic to and from mobile phones, however, this was counterbalanced by an increase in interconnection costs. Operating income [again net of CRT] of Brazilian reais 511 million [+13.6%] was affected by the amortization of the goodwill paid for the acquisition of the company, previously recorded by the parent company Solpart, and the goodwill paid for the acquisition of CRT.

Also in Brazil, at September 30, the radiomobile company **Maxitel** had accumulated 817,000 customers with an increase of 61% compared to the end of 1999. The consolidated economic results for the first nine months of 2000 showed revenues for Brazilian reais 350 million [Lire 401 billion; +78.6% compared to 1999], a gross operating profit of Brazilian reais 53 million [Lire 61 billion; -70% compared to 1999] and an operating loss of -Brazilian reais 99 million [-Lire 114 billion].

The performance of the group **Entel Chile** showed a constant and positive diversification of activities: in fact, the main factors of growth are still the core businesses of long-distance telecommunications, mobile telephone services, where customers exceeded 1 million, and the consolidation of the results of the international operator Americatel USA.

The consolidated revenues in the first nine months amounted to Chilean pesos 372 billion [Lire 1,470 billion], with an increase of 41.4% compared to the corresponding period of 1999. The same growth was evident in the revenues for the third quarter, which rose from Chilean pesos 94 billion [Lire 347 billion] in 1999 to Chilean pesos 136 billion [Lire 538 billion] in 2000. The gross operating profit was Chilean pesos 125 billion [Lire 494 billion; +33%]; the operating income was Chilean pesos 46 billion [Lire 182 billion], almost double the figure recorded in the same period of 1999.

The positive trend of operations was confirmed in the steady increase in the prices of Entel shares on the Santiago stock exchange.

Etec S.A., the exclusive operator of the domestic and international fixed phone services in Cuba, generated revenues equal to US dollar 214 million [Lire 441 billion] in the first nine months of 2000, with an increase of 21% compared to the same period of 1999. During the third quarter, the increase in revenues compared to the third quarter of 1999, instead, was 17% owing to the reduction of outgoing international traffic due to the downscaling of tourism and the effects of replacing calls with Internet communications. The increase in depreciation charges, which can be attributed to the development of systems, and higher external costs explain the more limited growth [+15%] in net income, which, during the first nine months of 2000 increased from US dollar 104 million in 1999 to US dollar 120 million in 2000 [Lire 187 billion and Lire 247 billion, respectively].

[1.5] INFORMATION TECHNOLOGY ACTIVITIES

The following table shows highlights for the third quarter and the first nine months of 2000 by Finsiel, Telesoft and Sodalia compared to those for the same periods of 1999.

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1-9.30.2000	1.1-9.30.1999	Change % [1]	
	[A]	[B]	[C]	[D]	[A-B]	[C-D]
Sales and service revenues	699	750	2,055	2,026	[6.8]	[1.4]
Gross operating profit	87	85	263	285	2.4	[7.7]
Operating income	50	36	168	162	38.9	3.7
Capital expenditures	18	36	68	93	[50.0]	[26.9]
Number of employees at end of period			9,918	10,586		[2.8]

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

The main contribution to these results was provided by the **Finsiel** group which, during the first nine months, generated revenues of Lire 1,578 billion [Lire 1,588 billion in the same period of 1999; -0.6%]. The gross operating profit was Lire 206 billion; the operating income was Lire 136 billion [compared to Lire 230 billion and Lire 137 billion, respectively, for the first nine months of 1999].

Finsiel, in addition to continuing its traditional activities for the Public Administration, with reference to both local institutions and central state organizations - including the Ministry of Finance, which uses the specialized support of SOGEI - has broadened its offering of services providing system integration, networking, facility management and web-based solutions.

The development of the offering also characterized the strengthening of the Banksiel group, specialized in services for financial operators, the activities performed by Tele

Sistemi Ferroviari, a company in partnership with Ferrovie dello Stato, and the growth of the Consiel group, which specializes in management consultancy.

Telesoft is involved in the main strategic projects of Telecom Italia and TIM in the sphere of managing the network and support systems for marketing activities, and has operated abroad in Spain, Greece and South America. Revenues for the first nine months amounted to Lire 410 billion [compared to Lire 265 billion during the same period of 1999; +54.7%]. The gross operating profit amounted to Lire 49 billion and the operating income was Lire 30 billion [compared to Lire 43 billion and Lire 21 billion, respectively, for the first nine months of 1999].

Sodalia, which is active in the development of software for managing telecommunications services and networks, continued its work in support of Telecom Italia and, on the North American market, confirmed its role as a strategic supplier for Bell Atlantic and TTC. During the period, revenues amounted to Lire 27 billion [compared to Lire 18 billion in the first nine months of 1999; +50%]. The gross operating profit amounted to Lire 4 billion and the operating income was Lire 0.5 billion [compared to Lire 5 billion and Lire 2 billion, respectively, in the first nine months of 1999].

Within the framework of a more far-reaching reorganization of the activities of the Group, in July, the Board of Directors of Telecom Italia voted to adopt a reorganization plan for the "IT Services" Business Unit, creating the joint-stock company Telecom Italia Information Technology, which will be wholly owned by the Parent Company. The reorganization program plans to place under the control of the new company all the companies which, within the Group, perform activities in the sector of Information Technology, to ensure that they are uniformly coordinated and controlled, as well as grouping activities and human and material resources currently distributed among the various companies according to homogeneous business areas. The aim is to create areas of activity by product/customer/market, exploiting specific professional skills and expertise and thus achieving considerable savings in terms of efficiency. The program will involve the transfer of the business segments of Telecom Italia which manage IT activities: in fact "Operations" and "Development" will be contributed respectively to Netsiel and Telesoft.

[1.6] MANUFACTURING ACTIVITIES

The Telecom Italia Group operates in the sector through Italtel. The following table shows the highlights of the third quarter and the first nine months of 2000 compared to the same periods of 1999.

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1-9.30.2000	1.1-9.30.1999	Change % [2]	
	[A]	[B]	[C]	[1] [D]	[A-B]	[C-D]
Sales and service revenues	450	947	1,221	2,299	—	—
Gross operating profit	16	84	38	[7]	—	—
Operating income [loss]	13	25	[26]	[116]	—	—
Capital expenditures	17	23	39	93	—	—
Number of employees at end of period			4,892	12,248		[5.1]

[1] The figures refer to 100% of Italtel group; in 1999, Italtel group was consolidated by Telecom Italia Group using the proportional method at 50% for the first 10 months of the year and consolidated line-by-line for the remaining two months.

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

The figures for the first nine months of 2000 are not comparable to those of the corresponding period of 1999 because of the sale to Siemens of the activities and the companies operating in the radio, transport and mobile telecommunications network sectors in the second half of 1999; the simultaneous sale, by Siemens, of 50% of Telsi Ltd, gave Telecom Italia a 100% stake in Italtel. This company concentrated its activities in the fixed network segment, with the aim of competing in the offering of switching systems and in the development of innovative solutions for the integration of phone and data services by making the best possible use of its core competencies.

The data for the third quarter shows a favorable trend, with revenues amounting to Lire 450 billion, Lire 54 billion of which came from foreign markets, and positive margins. At September 30, the workforce fell by 261 units compared to the end of the prior year following the first results deriving from the agreements concluded with the labor unions.

At the end of June, Telecom Italia signed an agreement with Cisco for the sale of 18.9% of the share capital of Italtel, while a group of American financial investors will take over a further 61.2%. Telecom Italia will still have a holding of 19.9% for the purpose of developing possible synergies with its industrial partner in America, the repercussions of which will find suitable applications in the services which Telecom Italia will offer the market.

During the third quarter, Italtel sold the “Prototypes”, the “Printed circuit boards prototypes” and the “Photonics” business segments of the company and its minority holdings in Mistel, General4, Tecnosistemi and Meie Assicurazioni.

[1.7] INSTALLATION ACTIVITIES

The Telecom Italia Group operates in the sector through the Sirti group. The following table shows the highlights for the third quarter and the first nine months of 2000, compared to the same periods of 1999.

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1-9.30.2000	1.1-9.30.1999	Change % [1]	
	[A]	[B]	[C]	[D]	[A-B]	[C-D]
Sales and service revenues	383	305	1,165	967	25.6	20.5
Gross operating profit	36	28	107	68	28.6	57.4
Operating income	13	9	20	32	44.4	[37.5]
Capital expenditures	8	17	29	41	[52.9]	[29.3]
Number of employees at end of period			11,775	12,714		[7.3]

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

The first nine months of 2000 showed a significant increase [+29.7%] in the production value of Lire 1,405 billion [compared to Lire 1,083 billion in 1999] and the gross operating profit [+57.4%] compared to the first nine months of the prior year, signs of a generalized improvement in the operating conditions of the group. The third quarter, too, compared to the same period of 1999, showed a growth in revenues, gross operating profit – although, as a percentage of revenues it remained fairly stable – and operating income, where the improvement was mainly due to the reduction in the amortization and

depreciation charges and provisions made during the period. At the end of the period, the workforce was reduced by 929 units compared to the end of 1999.

The dynamics of the Italian market highlighted a noticeable fall in Telecom Italia's demand and, at the same time, a marked expansion in the demands of new telecommunications operators, which intensified their investment programs to create new infrastructures in fixed and mobile networks. A fundamental role is being played by the constant growth of data services and the Internet, as well as the importance that network infrastructures have assumed in the evolution of the strategies and business models of many new operators.

Activities on foreign markets showed comforting signs of recovery, with a general improvement in operating margins, with the exception of Brazil; therefore operations showed different development patterns in the various geographical areas.

In the leading European countries, the trend of activities was conditioned by the persisting weakness in the demand of some traditional operators. However, significant new opportunities arose in relation to the programs of new network and services operators, which have favored the expansion of activities in almost all the European subsidiaries, a factor which will also characterize the last quarter of 2000. There were particularly positive results in Spain and France, and the recovery taking place in Germany should also be mentioned, where Sirti GmbH – net of deferring margins on important orders currently in progress – virtually reached a breakeven. Even the British subsidiary, Sirti Ltd., which closed the first nine months at a loss on account of the economic repercussions of the closing of the maintenance contracts with British Telecom as a result of the unfavorable outcome of the bids for the new contracts, showed a significant recovery of profitability in the third quarter.

In Latin America, the results in Argentina are all-important, since production there almost doubled compared to the same period of the prior year, with a marked increase in operational profitability. The last quarter should confirm this trend, despite the closing of some important orders associated with the long-distance network. In Brazil, on the other hand, the trend of operations of Construel was affected by the unfavorable market conditions, both as a result of the economic crisis currently affecting the country, and the increase in competition, which led to generalized reductions in prices.

* * *

On October 4, Wiretel, a company controlled by a group of companies composed of Stella International, Techint, Interbanca, 21 Investimenti and 3i, launched a takeover bid for 100% of the capital of Sirti S.p.A., at the price of Lire 2,910 per share [Euros 1.502]. The tender offer was transmitted to Sirti on October 19.

The Board of Directors of Sirti S.p.A., which met on October 25, approved the operation. The following October 31, the company issued a statement declaring that it would not be creating obstacles to the offer, since it was judged to be friendly. On November 8, 2000, Telecom Italia announced that it had accepted the offer for its entire stake [49.095%]. The offer will valid from November 2 to November 22, 2000.

[1.8] OTHER ACTIVITIES

In the area of advanced research, **CSELT** dedicated its business to the evolution of network architectures, the search for new value-added service solutions and the development of mobile services, and also provided operational support to Telecom Italia and TIM.

CSELT also conducted significant activities on behalf of the foreign subsidiaries, mainly in the design and planning of fixed and mobile networks, the development of service centers for Internet and data applications on the mobile network [WAP], and supplying support tools for the strategic development of networks and services.

During the first nine months, CSELT generated revenues of Lire 188 billion – a figure in line with that of the same period of 1999 – closing with a profit of Lire 2 billion, due also to the gain resulting from the sale, in April, of the “Centro Tecnologie Ottiche” business segment [the company ended the first nine months of 1999 substantially with a breakeven]. At the end of September, the workforce numbered 1,164, compared to 1,149 at the end of 1999.

In the multimedia sector, at the end of June, Telecom Italia and News Corporation agreed on the joint acquisition of the stakes held by the Cecchi Gori group and Sds in Stream. The transaction enabled Telecom Italia and News Corporation to bring their respective investment holdings up to 50%.

During the first nine months of the current year, 207,000 new customers were acquired, bringing the total number to almost 593,000. Revenues for the period amounted to Lire 201 billion. However, the expenses connected with the acquisition of content for the services extension and the numerous commercial transactions aimed at extending the subscriber base led the company to end the period with a loss of Lire 469 billion. At September 30, the workforce numbered 439, compared to 339 at the end of 1999.

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 September 30, 1999 and December 31, 1999 refer to the consolidation of the Nortel Inversora group using the proportional method and the exclusion of Teleleasing following the agreement for the sale of 60% of this company.

The data of the consolidated companies has 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 of the financial statements for the first nine months, taking into account the adjustments required in preparing interim statements, are consistent with those applied in the 1999 consolidated financial statements and the six-month report 2000. The quarterly statements are unaudited.

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 in fixed assets at fair market value at the inception of the lease and depreciated over the lease period. The financial expenses connected with the contract are recorded on the accrual basis.

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

[2.1] RESULTS OF OPERATIONS

Consolidated statements of income

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Sales and service revenues	14,039	12,824	41,567	38,206
Changes in inventories of work in progress, semifinished and finished goods	[6]	[49]	50	50
Changes in inventory of contract work in process	245	122	750	560
Increases in capitalized internal construction costs	432	329	1,238	979
Operating grants	16	6	35	21
B. Standard production value	14,726	13,232	43,640	39,816
Raw materials and outside services [*]	[5,836]	[5,075]	[17,274]	[14,925]
C. Value added	8,890	8,157	26,366	24,891
Labor costs [*]	[2,337]	[2,215]	[7,317]	[7,060]
D. Gross operating profit	6,553	5,942	19,049	17,831
Depreciation and amortization	[2,736]	[2,509]	[8,126]	[7,770]
Other valuation adjustments	[193]	[205]	[720]	[542]
Provisions to reserves for risks and charges	[60]	[57]	[205]	[189]
Net other income [expense]	104	21	235	170
E. Operating income	3,668	3,192	10,233	9,500
Net financial expense and net investment income	[909]	[226]	[1,955]	[1,157]
F. Income before extraordinary items and taxes	2,759	2,966	8,278	8,343
Net extraordinary income [expense]	[585]	[75]	[533]	[494]
G. Income before taxes	2,174	2,891	7,745	7,849
Income taxes for the period	[1,188]	[1,398]	[4,001]	[3,992]
H. Net income before minority interest	986	1,493	3,744	3,857
Minority interest	[456]	[361]	[1,318]	[961]
I. Net income after minority interest	530	1,132	2,426	2,896

[*] Reduced by related cost recoveries.

Results of operations for the first nine months of 2000 showed a consolidated net income of Lire 2,426 billion [Lire 3,744 billion less the minority interest of Lire 1,318 billion], a decrease of Lire 470 billion [-16.2%] compared to the first nine months of 1999.

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

The key figures are analyzed in the following paragraphs.

8 *Sales and service revenues* in the first nine months of 2000 amounted to Lire 41,567 billion, with an increase of 8.8% over the first nine months of 1999 [+2.3% with a comparable scope of consolidation].

Revenues, net of the amount due to other carriers, totaled Lire 37,495 billion and showed an increase of Lire 2,520 billion [+7.2%] over the first nine months of 1999. The growth of revenues was attributable to both the entry of the Nortel Inversora group in the scope of consolidation [Lire 2,600 billion] and the positive trend of the mobile telephone services sector [+8.5%] and the installations sector [+20.5%], which more than compensated the reduction in revenues from fixed telephone services

offered in Italy [-Lire 1,128 billion; -4.3%]. This decrease is attributable to the Parent Company, whose traffic revenues, even though the number of minutes rose by 25.2% [+Lire 1,058 billion], decreased by 13.7%; the average return on traffic during the first nine months of 2000, in fact, was Lire 76 per minute compared to Lire 116 in the same period of the prior year [-34.7%; -Lire 3,128 billion].

Revenues in the third quarter of 2000 were Lire 14,039 billion [Lire 12,824 billion in the third quarter of 1999].

8 *Raw materials and outside services* totaled Lire 17,274 billion in the first nine months of 2000 and are 15.7% higher than in the first nine months of 1999 [+9.8% with a comparable scope of consolidation]. This increase is due to the entry of the Nortel Inversora group in the scope of consolidation [Lire 941 billion] as well as the increase in costs for the operation and development of mobile telecommunications in Italy and abroad, in addition to the installation sector. The increase in raw materials and outside services was also affected by the advertising campaigns for both the institutional and the product advertising of the Parent Company.

This caption includes, moreover, Lire 810 billion of telecommunications operating fees due to the state administration, of which Lire 454 billion related to the Parent Company, Lire 268 billion to TIM and Lire 88 billion to foreign subsidiaries.

Raw materials and outside services as a percentage of revenues were 41.6% [39.1% in the first nine months of 1999].

The consumption of raw materials and outside services in the third quarter of 2000 amounted to Lire 5,836 billion [Lire 5,075 billion in the third quarter of 1999].

8 *Labor costs*, totaling Lire 7,317 billion [of which Lire 2,337 billion in the third quarter], increased by Lire 257 billion compared to the first nine months of 1999; net of the effects of the entry of the Nortel Inversora group in the scope of consolidation [Lire 390 billion] labor costs, instead, would have decreased by Lire 135 billion, mainly due to the reduction in the costs of the Parent Company [-Lire 120 billion]. As a percentage of revenues, labor costs went from 18.5% in the first nine months of 1999 to 17.6% in the corresponding period of 2000.

Personnel in the Group numbered 127,455 at September 30, 2000, with an increase, compared to December 31, 1999, of 4,793 units due to the entry of the Nortel Inversora group in the scope of consolidation [7,358 units], that was partly offset by the reduction in the workforce mainly for the fixed telephone services business in Italy [-1,736 units] and the installations sector [-929 units].

8 *Gross operating profit* of Lire 19,049 billion [Lire 6,553 billion in the third quarter] increased by Lire 1,218 billion compared to the first nine months of 1999 [+6.8%; -0.5% with a comparable scope of consolidation] and represents 45.8% of revenues [46.7% in the first nine months of 1999]. The growth of the gross operating profit is essentially due to telecommunications services, the entry of the Nortel Inversora group in the scope of consolidation [+Lire 1,316 billion] and the good performance of the mobile telecommunications business [TIM's gross operating profit rose by Lire 651 billion], partly offset by the reduction in the gross operating profit of the wireline telephone operations in Italy [-Lire 763 billion].

8 *Depreciation and amortization* totaled Lire 8,126 billion [Lire 7,770 billion in the first nine months of 1999], including Lire 1,483 billion for the amortization of

intangibles [of which Lire 286 billion for goodwill] and Lire 6,643 billion for the depreciation of fixed assets. Lire 585 billion of the increase is due to the entry of the Nortel Inversora group in the scope of consolidation and higher depreciation and amortization taken by TIM, only partly compensated by the decrease in the depreciation and amortization taken by the Parent Company owing to a lower amount of depreciable assets, the change in the mix of depreciable assets and lower depreciation on public telephony installations and the DECT assets that were written down in the 1999 financial statements and the adjustment of depreciation tariffs relating to the copper network and the switching installations in the 1999 financial statements. Amortization and depreciation in the third quarter of 2000 amounted to Lire 2,736 billion [Lire 2,509 billion in the third quarter of 1999].

8 *Other valuation adjustments* of Lire 720 billion increased by Lire 178 billion over the first nine months of 1999 and mainly refer to the writedowns of receivables from customers to adjust receivables to estimated realizable value. Of these writedowns, Lire 221 billion refer to the Parent Company, Lire 76 billion to TIM [respectively, Lire 297 billion and Lire 90 billion in the first nine months of 1999], Lire 127 billion to the Nortel Inversora group, Lire 93 billion to Tele Nordeste Celular Participacoes, Lire 59 billion to Tele Celular Sul Participacoes and Lire 48 billion to Telespazio.

8 *Provisions to reserves for risks and charges*, amounting to Lire 205 billion, increased by Lire 16 billion; the increase is mainly due to the entry of the Nortel Inversora group in the scope of consolidation.

8 *Net other income [expense]* showed an income balance of Lire 235 billion [Lire 170 billion in the first nine months of 1999] and basically refers to late payment fees charged by the telecommunications companies to customers for late payment of telephone bills [Lire 163 billion], the portion of capital grants credited during the period [Lire 107 billion], indirect duties and taxes [Lire 154 billion], together with other income and expense in the normal course of business.

8 *Operating income* of Lire 10,233 billion [Lire 3,668 billion in the third quarter], showed an improvement of Lire 733 billion over the first nine months of 1999 [+7.7%; +1.8% with a comparable scope of consolidation], representing 24.6% of revenues compared to 24.9% in the first nine months of 1999.

The increase in operating income is mainly attributable to the Nortel Inversora group [+Lire 560 billion], and the good results of TIM [which increased by Lire 379 billion], partly reduced by the lower operating income of the Parent Company [-Lire 50 billion] and 9 Telecom Reseau [-Lire 41 billion].

8 The balance of net financial expense and net investment income totaled Lire 1,955 billion and included the following:

- value adjustments on financial assets which showed a negative balance of Lire 1,307 billion [-Lire 573 billion in the first nine months of 1999]. The adjustments referred mainly to the share of income and losses of the unconsolidated companies valued using the equity method, which also included the amortization of goodwill upon the purchase of these same investments [Lire 437 billion]. The increase in the balance is due mainly to the losses of some foreign unconsolidated subsidiaries [in particular, Telekom Austria – owing to extraordinary expenses incurred to support employee

- reduction plans – Maxitel and Stream]; the amortization of the goodwill on the purchase of the investment in Seat Pagine Gialle [Lire 130 billion] also had an impact;
- net income from investments of Lire 273 billion mainly related to dividends received from unconsolidated companies for Lire 178 billion and gains realized by the Parent Company from the sale of TIM shares for Lire 44 billion;
 - other net financial expense totaled Lire 921 billion [Lire 737 billion in the first nine months of 1999]. The increase in the balance is due to the financial expenses of the Nortel Inversora group [Lire 209 billion].

8 *Net extraordinary income [expense]* showed an expense balance of Lire 533 billion [-Lire 494 billion in the first nine months of 1999], of which Lire 1,212 billion of income and Lire 1,745 billion of expense.

Extraordinary income included:

- the gains realized on the sale of Meie group [Lire 450 billion], Bharti group [Lire 107 billion], Teleleasing [Lire 41 billion], business segments and investments in the Finsiel group [Lire 46 billion];
- the gain [Lire 57 billion] realized on the sale of a building by Emsa;
- the income [Lire 91 billion] deriving from TIM's lower tax expense compared to the amount provided for in the 1999 financial statements which arose at the time of filing the 1999 tax return.

Extraordinary expense included:

- restructuring expenses of Lire 1,083 billion, mainly attributable to the Parent Company [Lire 956 billion]; Lire 734 billion in the third quarter, of which Lire 685 billion was ascribed to the reorganization plan agreed with the labor unions on March 28 and the consequent operating agreements on layoffs and unemployment compensation programs decided in July, which also includes incentive plans by-out for a larger number of employees than forecast;
- social security expenses pursuant to Law 58/1992 to guarantee uniform status under the former Telephone Employees Pension Fund [FPT] which, as established by the 2000 Finance Bill, has now become part of the general "Employees Pension Fund" [Lire 225 billion];
- extraordinary contribution to INPS, of Lire 108 billion, as a result of the aforementioned elimination of the Telephone Employees Pension Fund [FPT] and the transfer of those covered by the fund to the general Employees Pension Fund. The contribution is due for the years 2000-2002 to meet the higher financial requirements covered by the rules of the fund that was abolished;
- Lire 78 billion for the fines imposed on TIM and Omnitel Pronto Italia by the Antitrust Authorities for alleged violations of fair trade practices. The amount recorded in extraordinary expense is equal to the difference between the fine [Lire 100 billion] and the amount accrued by TIM in the 1999 financial statements [Lire 22 billion].

Extraordinary income [expense] in the third quarter of 2000 showed an expense balance of Lire 585 billion [-Lire 75 billion in the third quarter of 1999] mainly owing to the aforementioned expenses for the corporate reorganization plan.

8 *Income taxes for the period* amounted to Lire 4,001 billion, of which Lire 176 billion is due to the consolidation of the Nortel Inversora group.

The ratio of taxes to income before taxes is 51.7%, compared to 50.9% in the first nine months of 1999.

[2.2] FINANCIAL CONDITION

Consolidated balance sheets

[in billions of lire]	9.30.2000	6.30.2000	12.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	7,671	7,469	5,299
Fixed assets	48,883	48,883	45,518
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	25,318	12,828	12,326
• other	1,423	1,231	891
	83,295	70,411	64,034
B. Working capital			
Inventories	2,918	2,619	1,995
Trade accounts receivable	16,158	15,510	15,883
Other assets	3,150	3,303	3,177
Trade accounts payable	[12,139]	[12,022]	[12,870]
Reserves for risks and charges	[4,494]	[3,655]	[2,006]
Other liabilities	[11,429]	[13,956]	[13,248]
	[5,836]	[8,201]	[7,069]
C. Invested capital, net of operating liabilities	[A+B]	77,459	62,210
D. Reserve for employee termination indemnities	[3,106]	[3,032]	[2,896]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities	[C+D]	74,353	59,178
Financed by:			
F. Stockholders' equity [*]			
Parent Company interest	31,136	34,970	33,004
Minority interest	7,172	6,093	5,307
	38,308	41,063	38,311
G. Medium/long-term debt	12,210	12,009	10,002
H. Net short-term borrowings:			
• short-term borrowings	30,920	9,607	9,622
• liquid assets and short-term financial assets	[7,180]	[3,675]	[4,049]
• financial accrued expense and deferred expense net	95	174	183
	23,835	6,106	5,756
	[G+H]	36,045	18,115
I. Total	[F+G+H]	74,353	59,178
		59,178	54,069

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

The balance sheet of Telecom Italia Group showed net invested capital of Lire 74,353 billion [Lire 54,069 billion at December 31, 1999], of which 51.5% is financed by stockholders' equity [70.9% at December 31, 1999] and 48.5% by net borrowings [29.1% at December 31, 1999].

8 *Intangibles, fixed assets and long-term investments* of Lire 83,295 billion showed an increase of Lire 19,261 billion compared to December 31, 1999.

"Intangible assets" of Lire 7,671 billion increased by Lire 2,372 billion mainly on account of goodwill [Lire 1,196 billion] which arose from the purchase, by the Parent Company, of 50 million TIM ordinary shares for the purpose of increasing its investment in the company, the consolidation of the Nortel Inversora group [Lire 816 billion, of which Lire 240 billion refers to the residual goodwill on the additional

investment made in Nortel Inversora during 1999] and the purchase, through TIM Peru, of a PCS 1900 license [Lire 392 billion].

The investments for the first nine months amounted to Lire 2,881 billion while the amortization and depreciation charges for the period were Lire 1,483 billion.

“Fixed assets” of Lire 48,883 billion increased by Lire 3,365 billion mainly due to the consolidation of the Nortel Inversora group [Lire 5,625 billion], partly compensated by the exclusion from the scope of consolidation of Teleleasing, which led to a reduction in the fixed assets leased to third parties [Lire 562 billion] and a decrease in the fixed assets of the Parent Company [-Lire 1,608 billion].

Capital expenditures and the depreciation charge during the first nine months of 2000 amounted, respectively, to Lire 5,063 billion and Lire 6,643 billion.

“Long-term investments” of Lire 26,741 billion increased by Lire 13,524 billion after the investments made in Seat Pagine Gialle [Lire 11,819 billion] under the plan to merge Tin.it in Seat, and in GLB Servicos Interativos, the Internet company of Globo Organizações, [30%, for an equivalent amount of Lire 1,790 billion], in addition to the buy-back by the Parent Company, for Lire 543 billion, of No. 43,693,070 treasury savings shares with a par value of Lire 1,000 each, equal to 0.59% of the share capital, deriving from the public purchase offer voted by the ordinary stockholders’ meeting of January 14, 2000 and still in progress. Such investments were partly compensated by the consolidation of the Nortel Inversora group which was previously valued using the equity method [Lire 961 billion] and the sale of the investments in the Meie group companies [Lire 220 billion]. The investments in the first nine months of 2000 amounted to Lire 16,335 billion.

8 *Working capital* was negative for Lire 5,836 billion [-Lire 7,069 billion at December 31, 1999].

The increase of Lire 1,233 billion was due to:

- the increase in “inventories” [from Lire 1,995 billion at the end of 1999 to Lire 2,918 billion; +Lire 923 billion] attributable to the installation sector [+Lire 279 billion], the information systems sector [+Lire 273 billion], the satellite sector [+Lire 122 billion] and the manufacturing sector [+ Lire 113 billion];
- the increase in “trade accounts receivable” from Lire 15,883 billion at the end of 1999 to Lire 16,158 billion, connected with the entry in the scope of consolidation of the Nortel Inversora group [+Lire 942 billion], the increase in receivables of the information systems sector [+Lire 241 billion], partly compensated by the reduction in the receivables of the Parent Company [-Lire 636 billion] and TIM [-Lire 465 billion];
- the reduction in “other assets” from Lire 3,177 billion at the end of 1999 to Lire 3,150 billion. This item included, among other things, deferred tax assets and receivables from the Financial Administration of Lire 921 billion, collections from customers of Lire 231 billion, that are being processed by the bank and postal systems, and receivables from personnel of Lire 193 billion;
- the reduction in “trade accounts payable” from Lire 12,870 billion at the end of 1999 to Lire 12,139 billion, connected particularly to the reduction in payables of the Parent Company [-Lire 1,462 billion], TIM [-Lire 544 billion] and Tele Celular Sul Participacoes [-Lire 136 billion], that were only partly compensated by the effect of the entry in the scope of consolidation of the Nortel Inversora group [+Lire 774 billion], by the higher payables of Telespazio [+Lire 235 billion] and Italtel group [+Lire 116 billion];

- the increase in the “reserves for risks and charges” from Lire 2,006 billion at the end of 1999 to Lire 4,494 billion, mainly on account of the increase in the reserve for income taxes and the reserve for restructuring charges;
- the decrease in “other liabilities” from Lire 13,248 billion at the end of 1999 to Lire 11,429 billion. Other liabilities mainly included payables to customers for Lire 2,429 billion, taxes payable for Lire 2,126 billion, contributions to pension and social security institutions for Lire 1,796 billion, employee-related payables for Lire 1,452 billion, telecommunications operating fees payable for Lire 768 billion, capital subscriptions payable for Lire 200 billion and the residual amounts payable for investment holdings for Lire 179 billion.

8 *Stockholders' equity* totaled Lire 38,308 billion [Lire 38,311 billion at the end of 1999], of which Lire 31,136 billion [Lire 33,004 billion at December 31, 1999] was the Parent Company interest and Lire 7,172 billion [Lire 5,307 billion at December 31, 1999] was the minority interest. Compared to June 30, 2000, stockholders' equity decreased by Lire 2,755 billion principally due to the payment of dividends by the Parent Company [Lire 4,505 billion].

8 *Net debt* of Lire 36,045 billion [Lire 15,758 billion at the end of 1999], consisted of Lire 12,210 billion of medium/long-term debt [Lire 10,002 billion at the end of 1999] and Lire 23,835 billion of net short-term borrowings [Lire 5,756 billion at December 31, 1999]. The entry of the Nortel Inversora group in the scope of consolidation led to an increase in net financial debt of Lire 3,465 billion.

The increase in net debt of Lire 17,930 billion, compared to June 30, 2000, can chiefly be ascribed to the acquisition of the investment in Seat Pagine Gialle under the plan to merge Tin.it in Seat, besides the payment of dividends by the Parent Company.

Gross debt at September 30, 2000 amounted to Lire 43,130 billion [Lire 19,624 billion at December 31, 1999].

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

[in billions of lire]					9.30.2000		12.31.1999	
	Lire	%	Foreign currency [equivalent in lire]	%	Total	%	Total	%
Medium/long-term debt	7,420	24	4,790	41	12,210	28	10,002	51
Short-term debt	24,041	76	6,879	59	30,920	72	9,622	49
Total	31,461	100	11,669	100	43,130	100	19,624	100

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

[in billions of lire]				9.30.2000		12.31.1999	
	Lire	Foreign currency [equivalent in lire]	Total	Total	Total		
Up to 2.5%	1,630	1	1,631		3,411		
From 2.5% to 5%	25,441	1,180	26,621		9,671		
From 5% to 7.5%	3,496	5,747	9,243		5,240		
From 7.5% to 10%	878	3,956	4,834		1,284		
Over 10%	16	785	801		18		
Total	31,461	11,669	43,130		19,624		

In particular, the largest amount of gross debt [equal to 87%] falls in the range of interest tariffs up to 7.5% and, specifically, the 2.5% to 5% range mainly included the increase in the Parent Company's short-term debt to cover the aforementioned financing requirements using short-term credit facilities.

The range of interest tariffs up to 7.5 % included loans made by various banking institutions with 3% interest being subsidized by the Ministry of the Treasury [under Law No. 67 dated March 11, 1988], loans received from Cassa Depositi e Prestiti [under law No. 887 of December 22, 1984], and also loans made with EIB funds and short-term borrowings.

[2.3] FINANCIAL PERFORMANCE

Consolidated statements of cash flows

[in billions of lire]	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Net short-term borrowings at beginning of period	[5,756]	[4,987]
B. Cash flows - Operating activities		
Net income for the period	3,744	3,857
Depreciation and amortization	8,126	7,770
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[780]	34
Writedowns of intangibles, fixed assets and long-term investments	1,127	566
Change in working capital [*]	[1,151]	[1,583]
Net change in "reserve for employee termination indemnities"	210	216
Foreign exchange gains [losses] and other changes	[16]	[88]
	11,260	10,772
C. Cash flows - Investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	[2,881]	[1,617]
• fixed assets	[5,063]	[4,418]
• long-term investments	[16,335]	[2,372]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,415	851
Change in scope of consolidation	179	123
	[22,685]	[7,433]
D. Cash flows - Financing activities		
New borrowings	1,211	1,437
Capital contributions	197	=
Capital grants	39	118
Debt repayment	[257]	[150]
Change in medium-long term debt due within one year	[1,941]	[1,934]
	[751]	[529]
E. Dividends	[5,903]	[2,809]
F. Cash flows for the period	[B+C+D+E]	1
G. Net short-term borrowings at end of period	[A+F]	[4,986]

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

In the first nine months of 2000, net cash outflows amounted to Lire 18,079 billion, with a consequent increase of the same amount in net short-term borrowings.

This change is due to the cash used for investing and financing activities and dividends that were not entirely financed by the cash flows from operating activities [Lire 11,260 billion].

Investments totaled Lire 24,279 billion in the first nine months of 2000, of which Lire 7,944 billion were for industrial investments and Lire 16,335 billion for financial investments.

Industrial investments refer mainly to the Parent Company and TIM; they also include goodwill [Lire 1,196 billion] which arose from the purchase of 50 million TIM ordinary shares by the Parent Company and a PCS 1900 license in Peru [Lire 399 billion].

Financial investments include Lire 11,819 billion for the acquisition of the investment in Seat Pagine Gialle in August, Lire 1,790 billion for the acquisition of 30% of GLB Servicios Interativos and Lire 543 billion connected with the buy-back of No. 43,693,070 treasury savings shares deriving from the public purchase offer made from February 17, 2000 to March 17, 2000 and later buy-backs voted by the ordinary stockholders' meeting of January 14, 2000.

The investments in the third quarter of 2000 totaled Lire 15,534 billion, of which Lire 2,338 billion were for industrial investments and Lire 13,196 billion for financial investments.

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

Consolidated statements of income

[in millions of euros]	3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Sales and service revenues	7,251	6,623	21,468	19,732
Changes in inventories of work in progress, semifinished and finished goods	[3]	[25]	26	26
Changes in inventory of contract work in process	126	63	387	289
Increases in capitalized internal construction costs	223	170	639	505
Operating grants	8	3	18	11
B. Standard production value	7,605	6,834	22,538	20,563
Raw materials and outside services [*]	[3,014]	[2,621]	[8,921]	[7,708]
C. Value added	4,591	4,213	13,617	12,855
Labor costs [*]	[1,207]	[1,144]	[3,779]	[3,646]
D. Gross operating profit	3,384	3,069	9,838	9,209
Depreciation and amortization	[1,413]	[1,296]	[4,197]	[4,013]
Other valuation adjustments	[100]	[106]	[372]	[280]
Provisions to reserves for risks and charges	[31]	[30]	[106]	[98]
Net other income	54	11	122	88
E. Operating income	1,894	1,648	5,285	4,906
Net financial expense and net investment income	[469]	[116]	[1,010]	[597]
F. Income before extraordinary items and taxes	1,425	1,532	4,275	4,309
Net extraordinary income [expense]	[302]	[39]	[275]	[255]
G. Income before taxes	1,123	1,493	4,000	4,054
Income taxes for the period	[613]	[722]	[2,066]	[2,062]
H. Net income before minority interest	510	771	1,934	1,992
Minority interest	[236]	[186]	[681]	[496]
I. Net income after minority interest	274	585	1,253	1,496

[*] Reduced by related cost recoveries.

Consolidated balance sheets

[in millions of euros]	9.30.2000	6.30.2000	12.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	3,962	3,857	2,737
Fixed assets	25,246	25,246	23,508
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	13,075	6,625	6,366
• other	735	636	460
	43,018	36,364	33,071
B. Working capital			
Inventories	1,507	1,353	1,030
Trade accounts receivable	8,345	8,010	8,203
Other assets	1,627	1,706	1,641
Trade accounts payable	[6,269]	[6,209]	[6,647]
Reserves for risks and charges	[2,321]	[1,887]	[1,036]
Other liabilities	[5,903]	[7,208]	[6,842]
	[3,014]	[4,235]	[3,651]
C. Invested capital, net of operating liabilities	[A+B]	40,004	32,129
D. Reserve for employee termination indemnities	[1,604]	[1,566]	[1,496]
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities	[C+D]	38,400	30,563
Financed by:			
F. Stockholders' equity [*]			
Parent Company interest	16,080	18,060	17,045
Minority interest	3,704	3,147	2,741
	19,784	21,207	19,786
G. Medium/long-term debt	6,306	6,202	5,165
H. Net short-term borrowings			
• short-term borrowings	15,969	4,962	4,969
• liquid assets and short-term financial assets	[3,708]	[1,898]	[2,091]
• financial accrued expense and deferred expense net	49	90	95
	12,310	3,154	2,973
	[G+H]	18,616	9,356
I. Total	[F+G+H]	38,400	30,563

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

Consolidated statements of cash flows

[in millions of euros]	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Net short-term borrowings at beginning of period	[2,973]	[2,576]
B. Cash flows - operating activities		
Net income for the period	1,934	1,992
Depreciation and amortization	4,197	4,013
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[403]	17
Writedowns of intangibles and fixed assets and long-term investments	582	292
Change in working capital [*]	[594]	[818]
Net change in "reserve for employee termination indemnities"	108	112
Foreign exchange gains [losses] and other changes	[8]	[45]
	5,816	5,563
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	[1,488]	[835]
• fixed assets	[2,615]	[2,282]
• long-term investments	[8,436]	[1,225]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	731	440
Change in scope of consolidation	92	64
	[11,716]	[3,838]
D. Cash flows - financing activities		
New borrowings	625	742
Capital contributions	102	=
Capital grants	20	61
Debt repayment	[133]	[77]
Change in medium-long term debt due within one year	[1,002]	[999]
	[388]	[273]
E. Dividends	[3,049]	[1,451]
F. Cash flows for the period	[B+C+D+E] [9,337]	1
G. Net short-term borrowings at end of period	[A+F] [12,310]	[2,575]

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

3. Financial condition and results of operations of Telecom Italia

As regards the contribution, with effect from May 1, 2000, of the assets consisting of the business segments and investments inherent to the operations and marketing of online services and products by Telecom Italia to Tin.it S.p.A. and the successive merger of Tin.it in Seat Pagine Gialle on November 15, 2000, the balance sheet does not include the assets contributed to Tin.it, whereas the statement of income takes into account the data relative to Tin.it only up to April 30, 2000.

Statements of income

[in billions of lire]	3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Sales and service revenues	8,322	8,498	25,232	26,514
Changes in inventory of contract work in process	4	8	20	34
Increases in capitalized internal construction costs	6	8	18	20
Operating grants	=	=	1	3
B. Standard production value	8,332	8,514	25,271	26,571
Raw materials and outside services [*]	[3,143]	[3,254]	[9,781]	[10,161]
C. Value added	5,189	5,260	15,490	16,410
Labor costs [*]	[1,371]	[1,393]	[4,365]	[4,485]
D. Gross operating profit	3,818	3,867	11,125	11,925
Depreciation and amortization	[1,797]	[1,949]	[5,471]	[6,013]
Other valuation adjustments	[77]	[111]	[221]	[297]
Provisions to reserves for risks and charges	[4]	[35]	[98]	[144]
Net other income	124	25	239	176
E. Operating income	2,064	1,797	5,574	5,647
Net financial expense and net investment income	[293]	[163]	[694]	[629]
F. Income before extraordinary items and taxes	1,771	1,634	4,880	5,018
Net extraordinary expense	[701]	[64]	[1,186]	[430]
G. Income before taxes	1,070	1,570	3,694	4,588
Income taxes for the period	[506]	[735]	[1,779]	[2,187]
H. Net income for the period	564	835	1,915	2,401

[*] Reduced by related cost recoveries.

8 *Sales and service revenues*, amounting to Lire 25,232 billion [of which Lire 8,322 billion in the third quarter], decreased by 4.8% compared to the same period of 1999 and are recorded gross of the amount due to other domestic and international TLC carriers [Lire 4,589 billion]. The total included revenues from services of Lire 24,698 billion and revenues from sales of Lire 534 billion [respectively, Lire 25,906 billion and Lire 608 billion in the same period of 1999].

The decrease in revenues [-Lire 1,282 billion, of which Lire 176 billion referred to the third quarter], was due, like in the first half of 2000, mainly to traffic, which decreased by 13.7% even though the number of minutes rose by 25.2% [+Lire 1,058 billion in terms of revenues]. The average return on traffic during the period, in fact, was Lire 76 per minute compared to Lire 116 per minute in the same period of the prior year, [-34.7%, -Lire 3,128 billion in terms of revenues]. Such performance was negatively affected by the reduction, beginning August 1, 1999, of long-distance and international tariffs, the discount policies aimed at customer "retention", the effect of

replacing out-of-district tariffs with the less remunerative online tariffs and the application of new interconnecting tariffs, which were partly offset by the increase in basic subscription charges [+11.8%] due to tariff increases, ISDN connections and links with other carriers, especially fixed networks.

Revenues for interconnection access charges from fixed network carriers were Lire 1,086 billion [Lire 473 billion in the corresponding period of 1999], of which Lire 404 billion were in the third quarter of 2000 alone [Lire 187 billion in the third quarter of 1999].

8 *Gross operating profit* of Lire 11,125 billion [Lire 3,818 billion in the third quarter] decreased by Lire 800 billion compared to the corresponding period of 1999 [-6.7%], however, there was a notable recovery in the third quarter of 2000 where the reduction compared to the third quarter of 1999 was Lire 49 billion. The percentage of gross operating profit to sales and service revenues is lower than that of the first nine months of 1999 [44.1% against 45.0%]. The lower margin is due to the above-mentioned reduction in revenues, partly compensated by the decrease in raw materials and outside services and labor costs which fell by Lire 500 billion in total compared to the first nine months of 1999. The decrease in raw materials and outside services of Lire 380 billion [-3.7%] can be ascribed to the reduction in the amounts due to other carriers [primarily the balance between the reduction in the tariffs on fixed to mobile traffic and the increase in the amounts to be paid to fixed network operators], as well as the reduction in structure costs that were only partly compensated by the increase in marketing costs due to more institutional and product/service advertising and also to the costs of the commercial agreements with ISPs.

The decrease in labor costs compared to the corresponding period of 1999 of Lire 120 billion [-2.7%], is chiefly the result of the decrease in the average workforce which fell from 77,592 units in the first nine months of 1999 to 73,619 units during the first nine months of 2000 [-5.1%]. The impact of this reduction was partly offset by the additional costs resulting from union agreements, career changes and seniority benefits.

8 *Operating income* amounted to Lire 5,574 billion [Lire 2,064 billion in the third quarter], a decrease of Lire 73 billion from the corresponding period of 1999 [-1.3%], representing 22.1% of revenues compared to 21.3% in the first nine months of 1999. The decrease in operating income was lower than the decline in gross operating profit owing mainly to lower depreciation charges for fixed assets [-Lire 528 billion] on account of a reduction in the amount of depreciable assets, the change in the mix of depreciable assets and lower depreciation on public telephony installations and the DECT fixed assets written down in the 1999 financial statements and the adjustment of the depreciation tariffs relating to the copper network and the switching and transmission installations in the prior year's financial statements.

8 *Net income* of Lire 1,915 billion [Lire 564 billion in the third quarter] was Lire 486 billion lower [-20.2%] than that of the corresponding period of 1999. This result was impacted not only by the aforementioned operating items, but also by the balance of net financial expense and net investment income [+Lire 65 billion] and the increase in extraordinary expenses [+Lire 756 billion]. The first balance was influenced by the increase in net financial expenses [+Lire 64 billion] subsequent to

the increase in average debt exposure, the writedown of investments which rose by Lire 310 billion and the increase in net income from investments [+Lire 309 billion]. The increase in extraordinary expenses is mainly attributable to the corporate restructuring plan [Lire 956 billion; 734 billion in the third quarter, of which Lire 685 billion was ascribed to the reorganization plan agreed with the labor unions on March 28 and the consequent operating agreements on layoffs and unemployment compensation programs decided in July], which also includes incentive plans by-out for a larger number of employees than forecast. These same expenses included the extraordinary contribution to INPS, of Lire 108 billion, as a result of the aforementioned elimination [as established by the 2000 Finance Bill] of the Telephone Employees Pension Fund [FPT] and the transfer of those covered by the fund to the general Employees Pension Fund. The contribution is due for the years 2000-2002 to meet the higher financial requirements covered by the rules of the fund that was abolished.

Balance sheets

[in billions of lire]	9.30.2000	6.30.2000	12.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	2,325	2,230	2,259
Fixed assets	34,237	34,980	36,520
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	32,849	20,340	17,939
• other	1,048	823	1,705
	70,459	58,373	58,423
B. Working capital			
Inventories	284	272	233
Trade accounts receivable	10,336	9,834	10,460
Other assets	1,764	1,539	2,923
Trade accounts payable	[7,495]	[7,689]	[9,313]
Reserves for risks and charges	[2,324]	[2,157]	[1,242]
Other liabilities	[7,531]	[8,337]	[7,676]
	[4,966]	[6,538]	[4,615]
C. Invested capital, net of operating liabilities	[A+B] 65,493	51,835	53,808
D. Reserve for employee termination indemnities	[2,341]	[2,285]	[2,163]
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities	[C+D] 63,152	49,550	51,645
Financed by:			
F. Stockholders' equity			
Share capital paid-in	7,426	7,426	7,426
Reserves and retained earnings	23,670	28,167	23,101
Net income for the period	1,915	1,352	5,050
	33,011	36,945	35,577
G. Medium/long-term debt	6,901	7,326	8,220
H. Net short-term borrowings			
• short-term borrowings	26,650	6,850	10,028
• liquid assets and short-term financial assets	[3,453]	[1,686]	[2,297]
• financial accrued expense and deferred expense, net	43	115	117
	23,240	5,279	7,848
	[G+H] 30,141	12,605	16,068
I. Total	[F+G+H] 63,152	49,550	51,645

8 As far as *intangibles, fixed assets and long-term investments* are concerned, the reduction in intangibles and fixed assets compared to December 31, 1999 can be ascribed mainly to the balance between additions, amortization and depreciation, disposals and transfers to Tin.it following the demerger and contribution. Long-term investments increased by Lire 14,253 billion compared to December 31, 1999 and Lire 12,734 billion compared to June 30, 2000. The increase over December 31, 1999 was due to the following:

- new investments of Lire 15,446 billion [of which Lire 12,685 billion in the third quarter], primarily due to the investment in Seat Pagine Gialle [Lire 11,819 billion], loans for the future capital increases of Stet International Netherlands [Lire 1,015 billion] and Stet Mobile Holding [Lire 388 billion] and the purchase of 50 million TIM ordinary shares for Lire 1,231 billion in order to increase the investment in the

company;

- writedowns of holdings amounting to Lire 487 billion, mainly pertaining to Stream [Lire 283 billion] and TMI - Telemedia International Italia [Lire 164 billion];
- sales of investments for a total of Lire 310 billion, of which Lire 260 billion referred to the sale of Bitel Partecipacoes to Stet Mobile Holding;
- loans transferred to Tin.it following the demerger and contribution [Lire 1 billion];
- loan repayments for Lire 1,019 billion; these refer mainly to loans repaid by Teleleasing following the agreement for the sale of 60% of Teleleasing by Saiat to Mediobanca;
- buy-back of No. 43,693,070 treasury savings shares with a par value of Lire 1,000 each, deriving from the public purchase offer made from February 17, 2000 to March 17, 2000 and later buy-backs authorized by the ordinary Stockholders' Meeting of January 14, 2000. Such shares were recorded at a cost of Lire 543 billion at September 30, 2000.

8 *Working capital* showed a negative figure of Lire 4,966 billion [Lire 4,615 billion at December 31, 1999 and Lire 6,538 billion at June 30, 2000], thus representing, as it does traditionally, a source of operating cash flow. The change compared to December 31, 1999 [+Lire 351 billion] was mainly due to the increase in the reserves for risks and charges [+Lire 1,082 billion] - owing to movements in the reserve for taxes [the provision for taxes for the period and the set off of deferred tax assets and the payments made in advance for Irpeg and Irap in July] and the creation of the reserve for corporate restructuring expenses of Lire 670 billion consequent to the operating agreements on layoffs and unemployment compensation programs agreed with the labor unions in July - and the reduction in other assets that were only partly compensated by the reduction in trade accounts payable.

8 *Net invested capital* totaled Lire 63,152 billion [Lire 49,550 billion at June 30, 2000 and Lire 51,645 billion at December 31, 1999], and was financed by stockholders' equity for 52.3% and net borrowings for 47.7%.

8 *Stockholders' equity* amounted to Lire 33,011 billion [Lire 35,577 billion at December 31, 1999 and Lire 36,945 billion at June 30, 2000] and decreased by Lire 2,566 billion compared to December 31, 1999. The decrease represented the balance of the net income for the period [Lire 1,915 billion], the portion of capital grants that became available [Lire 24 billion, transferred from "reserves for risks and charges" to "reserves"] and the dividend payments for the year 1999 [Lire 4,505 billion]. Moreover, in connection with the public purchase offer for treasury savings shares, for which reference should be made to "long-term investments", Lire 543 billion was reclassified from the "extraordinary reserve" to the "reserve for treasury shares in portfolio".

8 *Net debt* totaled Lire 30,141 billion [Lire 16,068 billion at December 31, 1999 and Lire 12,605 billion at June 30, 2000]. The increase, compared to December 31, 1999 and June 30, 2000 [respectively of Lire 14,073 billion and Lire 17,536 billion], was attributable to the increase in short-term borrowings [Lire 16,622 billion compared to December 31, 1999 and Lire 19,800 billion in the third quarter of 2000 alone] owing to the payment of the Seat shares purchased from Huit II and through the takeover bid, which were financed by short-term credit facilities.

Gross debt amounted to Lire 33,551 billion [Lire 18,248 billion at December 31, 1999 and Lire 14,176 billion at June 30, 2000].

Statements of cash flows

[in billions of lire]	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Net short-term borrowings, at beginning of period	[7,848]	[7,127]
B. Cash flows - Operating activities		
Net income for the period	1,915	2,401
Depreciation and amortization	5,471	6,013
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[15]	72
Writedowns of intangibles and fixed assets and long-term investments	432	291
Change in working capital [*]	388	[1,112]
Net change in "reserve for employee termination indemnities"	177	193
	8,368	7,858
C. Cash flows - Investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	[831]	[701]
• fixed assets	[2,532]	[2,742]
• long-term investments [**]	[16,050]	[2,926]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	1,389	447
Assets contributed to Tin.it	64	=
	[17,960]	[5,922]
D. Cash flows - Financing activities		
New borrowings	=	1,159
Capital grants	31	112
Debt repayment	[255]	[150]
Change in medium-long term debt due within one year	[1,071]	[1,053]
	[1,295]	68
E. Dividends	[4,505]	[2,121]
F. Cash flows for the period	[B+C+D+E]	[117]
G. Net short-term borrowings, at end of period	[A+F]	[7,244]

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

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

8 *Investments* during the first nine months of 2000 were Lire 19,413 billion [Lire 14,094 billion in the third quarter of 2000], of which Lire 3,363 billion were of an industrial nature [Lire 1,177 billion in the third quarter of 2000] and Lire 16,050 of a financial nature [Lire 12,917 billion in the third quarter of 2000, of which Lire 11,819 billion related to the increase of the investment in Seat Pagine Gialle].

8 Total *cash flows* for the first nine months of 2000 presented an outflow of Lire 15,392 billion [-Lire 17,960 billion in the third quarter of 2000], with a consequent increase of the same amount in net short-term borrowings which totaled Lire 23,240 billion; this trend is attributable, as previously mentioned, to higher financing needs for long-term investments and the payment of 1999 dividends.

RESULT OF OPERATIONS, FINANCIAL CONDITION AND FINANCIAL PERFORMANCE
EXPRESSED IN EUROS

Statements of income

[in millions of euros]	3 rd quarter 2000	3 rd quarter 1999	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Sales and service revenues	4,298	4,389	13,031	13,693
Changes in inventory of contract work in process	2	4	10	18
Increases in capitalized internal construction costs	3	4	9	10
Operating grants	=	=	1	1
B. Standard production value	4,303	4,397	13,051	13,722
Raw materials and outside services [*]	[1,623]	[1,681]	[5,051]	[5,248]
C. Value added	2,680	2,716	8,000	8,474
Labor costs [*]	[708]	[719]	[2,254]	[2,316]
D. Gross operating profit	1,972	1,997	5,746	6,158
Depreciation and amortization	[928]	[1,007]	[2,826]	[3,106]
Other valuation adjustments	[40]	[57]	[114]	[153]
Provisions to reserves for risks and charges	[2]	[18]	[51]	[74]
Net other income	64	13	124	91
E. Operating income	1,066	928	2,879	2,916
Net financial expense and net investment income	[151]	[84]	[358]	[325]
F. Income before extraordinary items and taxes	915	844	2,521	2,591
Net extraordinary expense	[362]	[33]	[613]	[222]
G. Income before taxes	553	811	1,908	2,369
Income taxes for the period	[262]	[380]	[919]	[1,129]
H. Net income for the period	291	431	989	1,240

[*] Reduced by related cost recoveries.

Balance sheets

[in millions of euros]	9.30.2000	6.30.2000	12.31.1999
A. Intangibles, fixed assets and long-term investments			
Intangible assets	1,201	1,152	1,166
Fixed assets	17,682	18,066	18,861
Long-term investments:			
• investments and advances on future increases of capital contributions for investments	16,965	10,505	9,265
• other	541	425	880
	36,389	30,148	30,172
B. Working capital			
Inventories	147	140	120
Trade accounts receivable	5,338	5,079	5,402
Other assets	911	795	1,510
Trade accounts payable	[3,871]	[3,971]	[4,810]
Reserves for risks and charges	[1,200]	[1,114]	[641]
Other liabilities	[3,890]	[4,306]	[3,964]
	[2,565]	[3,377]	[2,383]
C. Invested capital, net of operating liabilities	[A+B] 33,824	26,771	27,789
D. Reserve for employee termination indemnities	[1,209]	[1,180]	[1,117]
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities	[C+D] 32,615	25,591	26,672
Financed by:			
F. Stockholders' equity			
Share capital paid-in	3,835	3,835	3,835
Reserves and retained earnings	12,225	14,548	11,931
Net income for the period	989	698	2,608
	17,049	19,081	18,374
G. Medium/long-term debt	3,564	3,784	4,245
H. Net short-term borrowings			
• short-term borrowings	13,763	3,538	5,179
• liquid assets and short-term financial assets	[1,783]	[871]	[1,186]
• financial accrued expense and deferred expense, net	22	59	60
	12,002	2,726	4,053
	[G+H]	6,510	8,298
I. Total	[F+G+H] 32,615	25,591	26,672

Statements of cash flows

[in millions of euros]	1.1 - 9.30 2000	1.1 - 9.30 1999
A. Net short-term borrowings, at beginning of period	[4,053]	[3,681]
B. Cash flows - Operating activities		
Net income for the period	989	1,240
Depreciation and amortization	2,826	3,105
[Gains] losses on sales of intangibles, fixed assets and long-term investments	[7]	37
Writedowns of intangibles and fixed assets and long-term investments	223	150
Change in working capital [*]	200	[574]
Net change in "reserve for employee termination indemnities"	91	100
	4,322	4,058
C. Cash flows - Investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	[429]	[362]
• fixed assets	[1,308]	[1,416]
• long-term investments [**]	[8,289]	[1,511]
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	718	231
Assets contributed to Tin. it	33	=
	[9,275]	[3,058]
D. Cash flows – Financing activities		
New borrowings	=	599
Capital grants	16	58
Debt repayment	[132]	[78]
Change in medium-long term debt due within one year	[553]	[544]
	[669]	35
E. Dividends	[2,327]	[1,095]
F. Cash flows for the period	[B+C+D+E] [7,949]	[60]
G. Net short-term borrowings, at end of period	[A+F] [12,002]	[3,741]

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

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

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