Telecom Italia S.p.A. 2005 Annual Report

TELECOM ITALIA

CONTENTS

Corporate Boards at December 31, 2005

Board of Directors	**Chairman**	Marco Tronchetti Provera (Executive Director)
	Deputy Chairman	Gilberto Benetton
	Chief Executive Officers	Carlo Orazio Buora (Executive Director) Riccardo Ruggiero (Executive Director)
	Directors	Paolo Baratta (Independent Director) John Robert Sotheby Boas (Independent Director) Domenico De Sole (Independent Director) Francesco Denozza (Independent Director) Luigi Fausti (Independent Director) Guido Ferrarini ((Independent Director) Jean Paul Fitoussi (Independent Director) Enzo Grilli (Independent Director) Gianni Mion Massimo Moratti Marco Onado (Independent Director) Renato Pagliaro Pasquale Pistorio (Independent Director) Carlo Alessandro Puri Negri Luigi Roth (Independent Director)
	Secretary to the Board	Francesco Chiappetta

The ordinary Shareholders' Meeting held on May 6, 2004 appointed the Board of Directors for three years up to the approval of the financial statements for the year ended December 31, 2006, establishing that the Board should be composed of 19 members. The Shareholders' Meeting held on April 7, 2005 has, among other things, revised the number of members of the Board of Directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.
The appointments of top management were made by the Board of Directors at the meetings held on May 6, 2004 (Chairman, Deputy Chairman, Chief Executive Officers Carlo Buora and Riccardo Ruggiero) and July 26, 2005 (Chief Executive Officer Marco De Benedetti).
In the meeting held on September 9, 2004, the Board of Directors chose the director Guido Ferrarini, Chairman of the Committee for Internal Control and Corporate Governance, as the lead independent director of the Company. He was attributed, among other things, the right to call specific and separate meetings of the independent directors to discuss matters considered of interest to the functioning of the Board of Directors or to the management of the company.
On October 5, 2005, the Chief Executive Officer Marco De Benedetti tendered his resignation.
On January 23, 2006, the director Giovanni Consorte tendered his resignation.

Remuneration Committee	Luigi Fausti (Chairman) Paolo Baratta Pasquale Pistorio

Members of the Remuneration Committee (a committee within the Board of Directors envisaged by the Self-Regulatory Code of the Company) were appointed by the Board of Directors in the meeting held on May 6, 2004.

Committee for Internal Control and *Corporate Governance*	Guido Ferrarini (Chairman) Domenico De Sole Francesco Denozza Marco Onado

Members of the Committee for Internal Control and Corporate Governance (a committee within the Board of Directors envisaged by the Self-Regulatory Code of the Company) were appointed by the Board of Directors in the meeting held on May 6, 2004.

Strategies Committees	Marco Tronchetti Provera Carlo Orazio Buora Domenico De Sole Marco Onado Pasquale Pistorio

The Strategies Committee was set up by resolution of the Board of Directors on September 9, 2004.

Board of Statutory Auditors	**Chairman**	Ferdinando Superti Furga
	Acting Auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda
	Alternate Auditors	Enrico Bignami Enrico Laghi

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on May 26, 2003.

Common representatives

– savings shareholders	Carlo Pasteris
– "Telecom Italia 1,5% 2001-2010 convertible bonds with a repayment premium"	Francesco Pensato
– "Telecom Italia 2002-2022 bonds at floating rates, open special , series reserved for subscription by employees of the Telecom Italia Group, in service or retired"	Francesco Pensato

The common representative of the savings shareholders was appointed for the three-year period 2004-2006 by the Special Shareholders' Meeting held on October 26, 2004.
Following the impossibility of conducting the meetings of the bondholders for the aforesaid bonds, the Milan Court decreed the appointment of the common representative for the three-year period 2005-2007 for both bonds.

Independent Auditors	Reconta Ernst & Young S.p.A.

Appointment of the audit firm was conferred by the Shareholders' Meeting held on May 6, 2004 for the three years 2004-2006. For Reconta Ernst & Young S.p.A., this is a renewal (the first) of its appointment, after expiry of the mandate voted by the shareholders of the then Olivetti in their meeting held on July 4, 2000.

Chairman's letter

To the Shareholders,

In 2005, our Group was the first in Europe to complete the integration process between fixed and mobile telephone services and the Internet. This constituted yet another step towards our aim of exploiting the enormous potential of the new technologies and broadband with a view to removing all the barriers which prevent private individuals and corporations from freely accessing multimedia services and content in a digital, interactive format, in any location, with any kind of terminal and at any time.

The merger between Telecom Italia and Tim was complex. It could not have been otherwise, considering the different history and different corporate culture of the two companies, added to the fact that they were both rivals in the same sphere. Both companies were listed on the Stock Market and both were pursuing different and, to some extent, conflicting growth opportunities. Despite this, the merger was completed in a very short time. In less than five months, we succeeded in integrating into a single company – according to the "One Company" organizational model – our combined structures and expertise in the fields of marketing, administration and control, network development and Information Technology, and the area of sales and customer care. This rapid and far-reaching transformation – approximately 14,000 people changed jobs and responsibilities – was made possible by a general awareness of the enormity of the industrial reasons for making the move and how promising the prospects were, even in the short-term.

The merger immediately generated benefits in terms of net profitability. In addition, there were the first positive results arising from important synergies and reductions in cost, which had been planned and which, it was decided, would be reinvested in marketing activities and the development of services and products. This enabled us to effectively combat the phenomena which negatively affected the Italian economy in 2005: the slowdown in economic growth, with its repercussions on the demand for telecommunications services, which was higher than the European average but noticeably in decline; the accentuation of the migration of traffic from fixed to mobile services; the increased level of competition in a market which even the most recent report published by the European Commission recognized as one of the most deregulated; the decision on the part of the Italian regulatory authorities to reduce mobile termination rates by more than what occurred for the other major European operators.

The results of 2005, which are the best in the sector at a European level, must be seen in this context. Revenues increased, and the international component now accounts for more than one fifth of total traffic; underlying profitability remained at the same level as the prior year; net income for the year reported a considerable increment; the level of indebtedness, despite higher investments and higher depreciation, decreased greatly from the level reached when the tender offer for Tim was concluded.

The business areas which contributed most to the positive trend were again those linked to innovation: broadband, hi-tech value-added services and new kinds of handsets.

With regard to fixed telephone services, we continue to record increased revenues despite the on-going reduction in volumes of "voice" traffic. In particular, this can be attributed to the strong growth of broadband access, both in Italy (+42%, to more than 5.7 million) and in France, Germany and Holland (+212%, to more than 1.3 million), the offering of content through the Alice portal and innovative services for corporations. The end of 2005 saw the commercial launch of Alice Home TV, television accessed via the Internet (IPTV) which, thanks to an ADSL connection, enables users to access films, sport, news, music and the content offered by the Internet directly through the television in their home.

With regard to mobile telephone services, the growth of Tim on the Italian market is linked to the success of its new commercial offerings, which led to a considerable recovery of clientele in the second half of the year, the strong expansion of value-added services and a good trend in sales of handsets. The growth of operations in Brazil was particularly significant: with an increase of more than 48% in the number of lines, which exceeded the 20-million mark, Tim Brasil strengthened its position as the second-largest national operator of mobile telephone services, the only company to guarantee coverage nationwide and the leader with regard to GSM technology and customer service.

Telecom Italia Media concluded the process of reorganizing and concentrating operations in the communication sector and, at the same time, invested heavily in digital terrestrial television and content destined to enhance television programming. Our commitment to improve the quality of television programs resulted in an increase in the audience share of the La7 channel (which rose to 2.7%, an increase of 14%) and an increase in revenues from advertising which was much higher than the market average.

Olivetti continued its process of industrial reorganization, amid a difficult and fiercely competitive market situation, while awaiting the effect of the launch of new products using ink-jet technology, multifunctional desk-top printers and portable photo printers.

With regard to future prospects, we are confident that important opportunities lie just around the corner. It is probable that the Italian telecommunications market will develop with a less accentuated growth trend than in the recent past, aligning itself with the European trend. However, it is certain that a radical transformation will take place, with a further reduction in the importance of traditional components and a rapid expansion of the more innovative components linked to broadband and the extensive use of the Internet Protocol, whether it be content for multimedia applications or the distribution of information technology services resident on the internet.

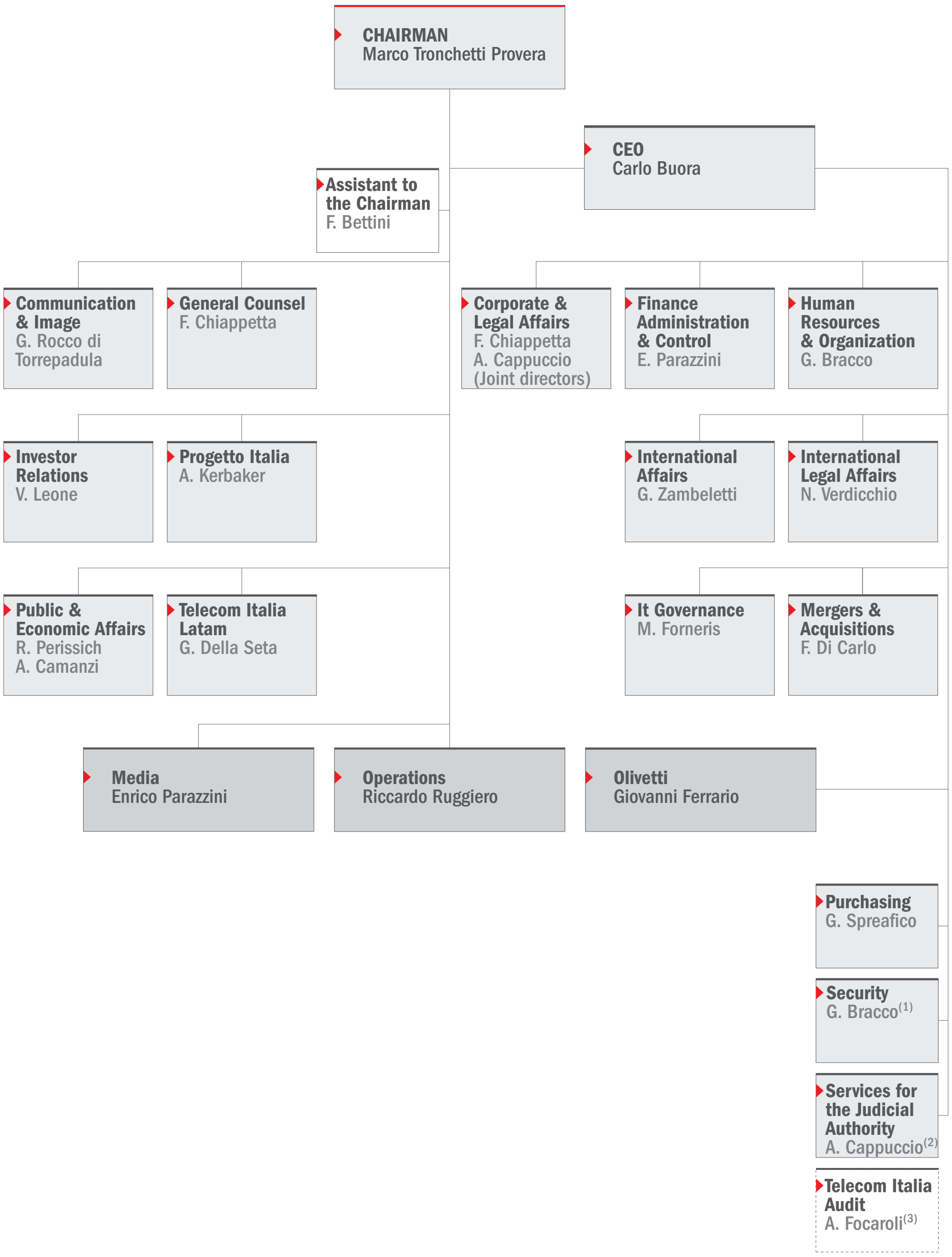
With the process of integration having been completed in the last few months, we are now better prepared to face this transformation. The unification of the fixed and mobile platforms will enable us to provide the same services and the same content using several different modes of access and through a wide variety of terminals: it will be the customer who decides where, how and when. The many new products which Telecom Italia will launch on the market in 2006 are heading in this direction: namely, increasing the broadband connection speed to 20 Mbps on the fixed network and to 3.6 Mbps on the mobile network (the so-called "Super Umts", thanks to Hsdpa technology), providing digital television for mobile phones (using Dvb-h technology) and extending the coverage of IPTV to 250 Italian cities and eight million Italian families. And then the real achievements of the convergence of fixed and mobile technology: vidoecommunication, telephones with UMA technology which are able to use both networks, the multi-access portal with services and content which can be accessed at home or on the move.

In order to be better prepared for tackling the revolution which is currently taking place in the world of telecommunications, of which these new technologies are the warning-bell, we have invented a strategy that relies on five pillars. Firstly, we must exploit the synergies which have resulted from integration by allocating a large proportion of the resources which have thus been released for researching and developing innovative technologies, for strengthening our position on the market and for implementing new projects to improve customer care. Then we shall proceed with the continuous development of the network, giving priority to the development of a single transport infrastructure based on the Internet Protocol, to bring new technologies to the market and improve the quality of service. As a result, we shall be able to concentrate our energy and initiative on the importance of the customer, by providing channels, structures and systems capable of ensuring a rapid, effective, adequate response to the new technological context. Through the new network and by giving greater attention to customer satisfaction, we are confident that we shall be able to maintain the market leadership in all areas: in fixed services, in mobile services and in convergence based on broadband. The effectiveness of such plans relies, of course, on the quality of our employees, quality which will be tailored to reflect the new technological competitive dimension towards which we are heading. It will involve large investments to enhance and raise the level of their professional skills. Over the next three years, this commitment, which will focus on training, the development of new jobs and recruitment, will involve at least 80% of our employees. In so doing, we intend to augment our level of productivity, which has already risen by 26% since 2001.

This is the basis on which we intend to build the future growth of Telecom Italia, so that it will become one of the great protagonists of the new world of digital communications: the most advanced operator from a technological point of view, and the most attractive from the point of profits.

We intend to pursue this objective while maintaining our firm commitment to respect the principles of correct conduct, transparency of corporate decisions and responsibility with regard to the various stakeholders which regulates the governance of the Group.
We intend to reinforce these principles, in keeping with our Code of Ethics and with the commitments made at a national and international level.

Macro-organization chart - Telecom Italia Group - at December 31, 2005



(1) As from January 23, 2006, responsibility for the Security Service Unit has been entrusted to Gustavo Bracco, who is also head of the Human Resources and Organization Group Function.

(2) On November 25, 2005, the Services for the Judicial Authority Service Unit was set up and reports directly to the CEO, Carlo Buora. The unit is headed by Aldo Cappuccio who is responsible for guaranteeing the coordination of relations with the Judiciary at Group level and the services rendered to the Judicial Authorities for wireline and mobile telecommunications.

(3) The consortium company is in charge of the internal auditing activities of the Group.

With the intention of maintaining a high level of competitiveness in an increasingly dynamic market, the Telecom Italia Group has recently adopted an organizational system based upon the rationale of a "one company model" and is developing its strategies upon an integrated model based on the convergence of the different areas of business and on the integration of the fixed and mobile platforms.

The integration of fixed-mobile operations under a single organizational structure has resulted in a overall reorganization of the Group which, from October 5, 2005, is structured as follows:

Central Functions, which are in charge of directing the operations of the Telecom Italia Group;

Operations, which is responsible for guaranteeing the management and development of fixed telecommunications, mobile telecommunications and internet services;

Business Units, which are responsible for the development of the Media and Olivetti businesses.

Specifically, the following report to the Chairman, Marco Tronchetti Provera:
- the *Chief Executive Officer*, Carlo Buora, who is responsible for activities connected with the direction and control of the business as well as the overall management of cross-over business issues;
- the *Chief Executive Officer* of Operations, Riccardo Ruggiero.

The following also report directly to the Chairman:
- the Central Functions of *Public and Economic Affairs*, *Communication and Image*, *Progetto Italia*, *Investor Relations*, *Telecom Italia Latam and General Counsel*;
- the ***Media*** Business Unit – with its principal areas of business being journalistic information, TV production, TV and web content offerings – headed by Enrico Parazzini.

The ***Olivetti*** Business Unit, headed by Giovanni Ferrario, instead, reports directly to the CEO, Carlo Buora. This Business Unit operates in the market of specialized applications for the banking field and retail, information and computer systems for gaming, lotteries and e-vote systems as well as in the research/development/production of products using silicon technology (from ink-jet heads to Micro-Electro-Mechanical Systems).

More particularly, the *Central Functions* – with Operations and Business Units still having responsibility for economic results and businesses – are divided into ***Group Functions*** and/or ***Service Units*** for the purpose of ensuring a more direct focus on cross-over activities in relation to their role of strategic *governing and/or common operating service*.

Committees

One of the most important tools for the management and the operational integration of the Group is the *Committee System* of the Group, which has recently been revised with the aim of:

– monitoring the implementation of strategies and the development of plans and results;
– ensuring the overall coordination of business actions and the management of the relative cross-over business issues;
– building up the necessary operating synergies between the various functions involved in the technological, business and support processes;
– supporting the integrated development of the innovation processes of the Group.

In particular, the new *Committee System* of the Group includes:

- the *Management Committee*, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
- the *Investments Committee*, which is entrusted with approving investments that exceed specific delegated limits;
- the *Business Reviews Committee for Operations*, *Media* and *Olivetti* which, for each structure, analyzes forecasts, results and operating progress and examines the advances made on the most important projects and action plans;
- the *Technological Committee*, which ensures an integrated approach to innovation and technological development processes;
- the *IT Governance Committee*, which defines the guidelines for the information strategies of the Group, addresses IT strategic decisions and investments consistently with business needs, monitors progress on the most important IT projects, the quality of solutions and cost effectiveness;
- the *IT Risk Management Committee*, which ensures the global administration of IT risk at the Group level.

International presence at December 31, 2005

SOUTH AMERICA

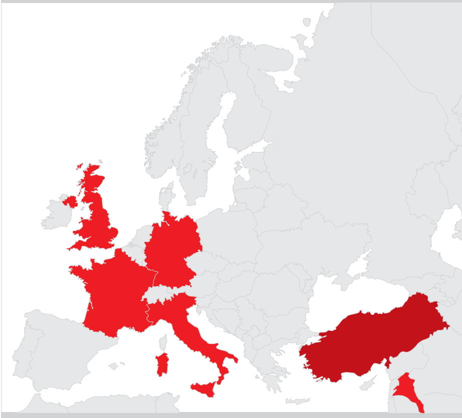
Major subsidiaries

- Entel Bolivia Group
- Latin American Nautilus Group (Latin America)
- TIM Participaçoes Group (Brazil)
- TIM Celular S.A Group (Brazil)

Major associates

- ETCSA (Cuba)
- Telecom Argentina Group
- Brasil Telecom Group

EUROPE - MEDITERRANEAN BASIN



MEDITERRANEAN BASIN

Major subsidiaries

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

Major associates

- AVEA I.H.A.S. (Turkey)

EUROPE

Major subsidiaries

- Telecom Italia Sparkle Group
- HanseNet Telekommunikation GmbH
- BBNed Group (Holland)
- Group Liberty Surf (France)
- Telecom Italia Finance (Luxembourg)
- Telecom Italia Capital (Luxembourg)

Presence through subsidiaries

Presence through affiliates

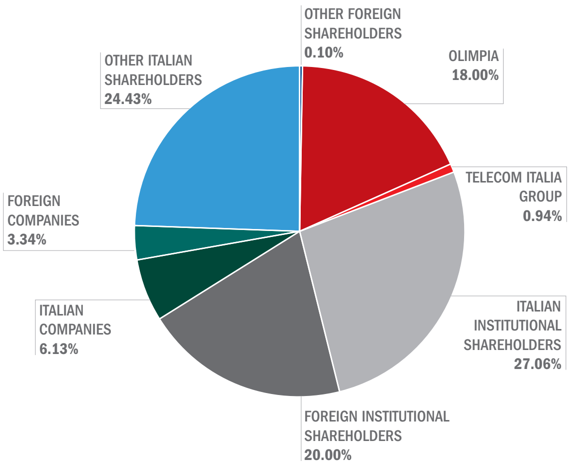
Shareholder information

Telecom Italia S.p.A. Share capital at December 31, 2005

Share capital	euro 10,668,131,549.35
Number of ordinary shares (par value of euro 0.55 each)	13,370,482,156
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Market capitalization (based on December 2005 average prices)	euro 45,210 million

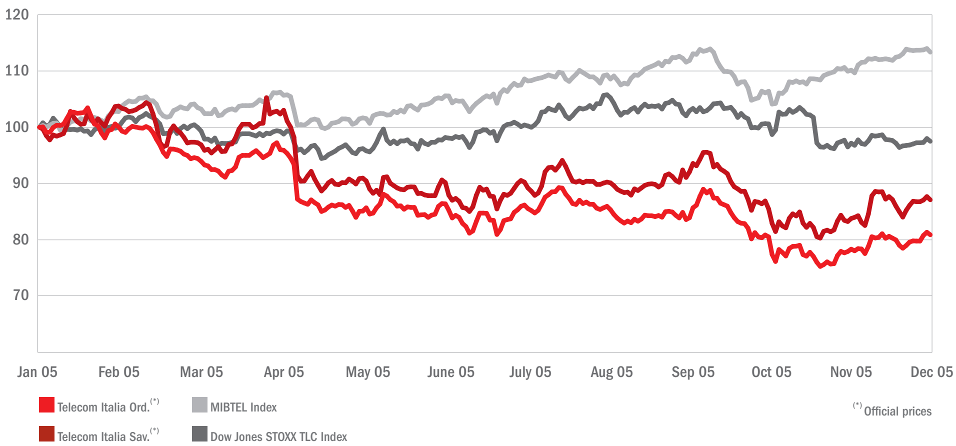
Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2005, supplemented by communications received and other sources of information (ordinary shares)

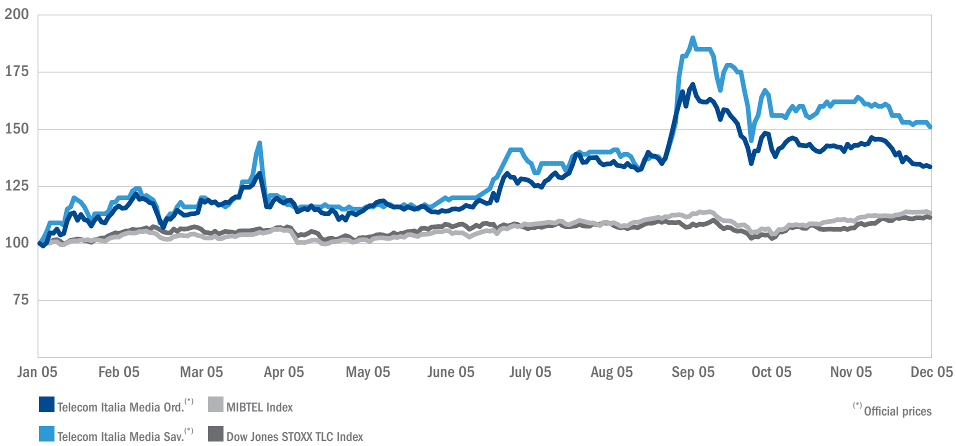


Performance of the stocks of the major companies in the Telecom Italia Group

Relative performance Telecom Italia S.p.A. 1/1/2005-12/31/2005 vs. MIBTEL Index and DJ Stoxx TLC Index
(ordinary shares) (Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 1/1/2005-12/31/2005 vs. MIBTEL Index and DJ Stoxx Media Index
(ordinary shares) (Source: Reuters)



Telecom Italia / TIM merger

With regard to the Telecom Italia/TIM merger described in detail in the Report on Operations to the 2004 Annual Report, on February 24, 2005, TIM S.p.A. proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005.
The spin-off allowed TIM Italia to succeed TIM in the officially stated titles held by TIM for providing mobile communications services in Italy, as well as in all the user rights (even those temporarily assigned to TIM on the date of the contribution of the corporate operations), in the numbering and/or radio frequencies already under concession, license, general authorization, and in the special authorizations ensuing from statements constituting declarations of the start of activities.
The Telecom Italia/TIM merger, approved by the Extraordinary Shareholders' Meetings of TIM and Telecom Italia, respectively on April 5 and 7, 2005, was signed on June 20, 2005, with effect from June 30, 2005, and effective for accounting and tax purposes as from January 1, 2005.

In short, the Telecom Italia/TIM integration was executed by the following transactions:

- Cash Tender Offer for TIM ordinary and savings shares and additional purchases of TIM shares, detailed as follows:

– 2,456,501,605 ordinary shares acquired in the Cash Tender Offer for	euro 13,757 million
– 8,463,127 savings shares acquired in the Cash Tender Offer for	euro 47 million
– 68,063,893 (1) additional purchases of ordinary and savings shares forfor	euro 379 million
of which	
42,000,057 ordinary shares for	euro 234 million
26,063,836 savings shares	euro 145 million
Total 2,533,028,625 ordinary and savings shares purchased for a total of	**euro 14,183 million**
of which	
2,498,501,662 ordinary shares for	euro 13,991 million
34,526,963 savings shares for	euro 192 million

- Telecom Italia capital increase to service the merger through the issue of:

– 2,150,947,060 ordinary shares (par value of euro 0,55 euro per share) for a total par value of	euro 1,183 million
– 230,199,592 savings shares (par value of euro 0,55 euro per share) for a total par value of	euro 127 million
Total 2,381,146,652 ordinary and savings shares issued for a total par value of	**euro 1,310 million**

(1) Of which 63,000,000 shares had already been booked in the consolidated financial statements of the Telecom Italia Group at December 31, 2004 in accordance with IFRS.

Accounting effects of the transaction

- In the consolidated financial statements of the Telecom Italia Group drawn up according to IAS/IFRS, the Telecom Italia/TIM integration transaction was recorded at fair value. The difference between the fair value of the shares purchased and the new share issue and the underlying share of TIM's net equity acquired was recorded as *goodwill* and amounted to euro 16,654 million – of which euro 11,804 million was from the Cash Tender Offer and additional purchases and euro 4,850 million from the exchange of TIM shares. The Telecom Italia shares issued to service the share exchange were valued at the market price at June 30, 2005 (euro 2.595 for each ordinary share and euro 2.156 for each savings share).

- In the financial statements of Telecom Italia S.p.A. drawn up according to Italian GAAP, the Telecom Italia/TIM integration transaction was accounted for on the basis of the carrying values; this treatment resulted in both a *cancellation deficit* of euro 35,462 million (being the difference between the carrying value of the TIM shares in portfolio, inclusive of those purchased through the Cash Tender Offer and the additional purchases, and the corresponding share of TIM's net equity acquired) and an *exchange deficit* of euro 164 million (being the difference between the capital increase to service the share exchange valued at the par value of the new share issue and the corresponding share of TIM's net equity acquired).
  The *cancellation deficit* was allocated as an increase to the carrying value of the investments in TIM Italia (euro 35,049 million) and TIM International (euro 413 million), while the *exchange deficit* was allocated as a reduction of the reserves in shareholders' equity.

Ratings at December 31, 2005

		Outlook
STANDARD&POOR'S	BBB+	Stable
MOODY'S	Baa2	Stable
FITCH IBCA	A-	Negative

At December 31, 2005, the rating agencies made no change to the ratings assigned at the time of the announcement of the merger of Telecom Italia and TIM on December 7, 2004.

Financial ratios

(euro)	2005	2004
Telecom Italia S.p.A.		
Stock prices (December average)		
– Ordinary	2.44	2.98
– Savings	2.08	2.29
Dividends per share		
– Ordinary	0.1400	0.1093
– Savings	0.1510	0.1203
Pay-out Ratio	74%	93%
Market to Book Value	2.06	2.62
Dividend Yield (based on December average)		
– Ordinary	5.74%	3.67%
– Savings	7.26%	5.25%
Telecom Italia Group (*)		
Basic earnings per share - ordinary shares	0.17	0.11
Basic earnings per share - savings shares	0.18	0.12

(*) The ratios are calculated using data based on IFRS which show earnings attributable to the Parent of euro 3,216 million in 2005 (euro 1,815 million in 2004).

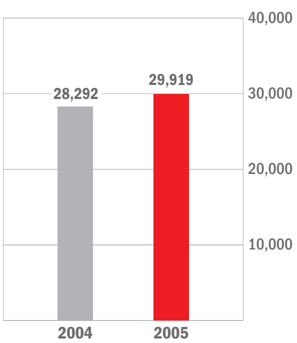
Selected operating and financial data - Telecom Italia Group

The operating and financial results of the Telecom Italia Group for the years 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRS). Consistent with the requirements of IFRS, the statement of operations and balance sheet figures relating to discontinued operations or assets held for sale (Discontinued Operations) have been presented, for all periods under comparison, in two captions of the balance sheet "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale" and in one caption of the statement of operations "Net income (loss) from discontinued operations/assets held for sale". In the economic data for the years 2004 and 2005, the following are considered discontinued operations: the Entel Chile group, Tim Hellas, the Finsiel group, Tim Perù, the Buffetti group and Digitel Venezuela. In particular, the 2005 consolidated statement of operations includes the results for the first three months of the Entel Chile group (since it was disposed of at the end of March 2005), the first five months of Tim Hellas (since it was disposed of at the beginning of June 2005), the first six months of the Finsiel group (since it was disposed of in June 2005) and the first seven months of Tim Perù (since it was disposed of in August 2005).
In the balance sheet at December 31, 2004, the following had been considered Discontinued Operations: the Finsiel group and Digitel Venezuela. In the balance sheet at December 31, 2005, "Discontinued operations/assets held for sale" include the data for Digitel Venezuela and the Buffetti group.

Besides the aforementioned Discontinued Operations, other changes in the scope of consolidation during 2005 refer to the following:
- the entry of the Liberty Surf group;
- the deconsolidation of Databank group, Televoice, Innovis, Cell-Tel, Olivetti Lexikon Nordic AB, Olivetti Servicios Y Soluciones, Olivetti Tecnost Africa and Med1IC-1.

	2005	2004
Operating and financial Data (millions of euro)		
Revenue	29,919	28,292
EBITDA	12,517	12,864
EBIT	7,499	7,603
Result from continuing operations before tax	5,535	5,606
Net income from continuing operations	3,140	2,952
Net income (loss) from discontinued operations/assets held for sale	550	(118)
Net income attributable to the Parent and minority interests	3,690	2,834
Net income attributable to the Parent	3,216	1,815
Capital expenditures:		
– Industrial	5,173	5,002
– Financial	14,934	868

Revenue (euro/mln)



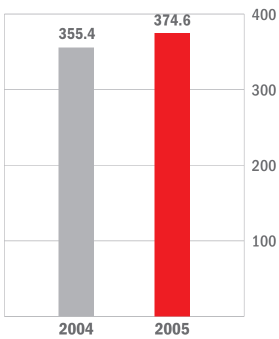
	12/31/2005	12/31/2004 restated (1)
Balance Sheet Data (millions of euro)		
Total assets	96,010	81,997
Total shareholders' equity	26,985	20,798
– attributable to the Parent	25,662	16,248
– attributable to the minority interests	1,323	4,550
Net financial debt	39,858	32,862

(1) For purposes of comparison with December 31, 2005, the figures at December 31, 2004 have been restated in order to consider as discontinued operations the same companies that are considered as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group.

EBIT (euro/mln)

	2005	2004
Profit and Financial Ratios		
EBITDA / Revenue	41.8	45.5
EBIT / Revenue (ROS)	25.1	26.9
Debt Ratio (Net financial debt/Net invested capital) (2)	59.6	61.2
Headcount (3)		
Headcount (number in Group at year-end, excluding employees relating to discontinued operations/assets held for sale)	85,484	82,620
Headcount relating to discontinued operations/assets held for sale (number at year-end)	1,047	11,402
Headcount (average number in Group, excluding employees relating to discontinued operations/assets held for sale)	79,869	79,602
Headcount relating to discontinued operations/assets held for sale (average number)	4,478	11,248
Revenue/Headcount (average number in Group) thousands of euro	374.6	355.4

Revenue/Employees (euro/thousands)



(2) Net invested capital = Total shareholders' equity + Net financial debt.
(3) The number includes persons with temp work contracts.

Operating and financial performance - Telecom Italia Group

CONSOLIDATED STATEMENTS OF OPERATIONS

(millions of euro)	2005 (a)	2004 (b)	Change (a-b) amount	%
Revenue	29,919	28,292	1,627	5.8
Other income	678	1,099	(421)	(38.3)
Total operating revenue and other income	**30,597**	**29,391**	**1,206**	**4.1**
Purchases of materials and external services	(12,937)	(11,812)	(1,125)	9.5
Personnel costs	(4,142)	(3,852)	(290)	7.5
Other operating expense	(1,468)	(1,603)	135	(8.4)
Changes in inventories	(4)	27	(31)	(114.8)
Capitalized internal constructions costs	471	713	(242)	(33.9)
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets (EBITDA)	**12,517**	**12,864**	**(347)**	**(2.7)**
Depreciation and amortization	(5,232)	(4,808)	(424)	8.8
Capital gains/losses realized on non-current assets (1)	242	(9)	251	(2,788.9)
Impairment losses/reversals of non-current assets	(28)	(444)	416	(93.7)
Operating result (EBIT)	**7,499**	**7,603**	**(104)**	**(1.4)**
Share of earnings of equity investments in associates accounted for using the equity method	23	(5)	28	(560.0)
Financial income	3,144	2,205	939	42.6
Financial expense	(5,131)	(4,197)	(934)	22.3
Income from continuing operations before tax	**5,535**	**5,606**	**(71)**	**(1.3)**
Income taxes for the year	(2,395)	(2,654)	259	(9.8)
Net income from continuing operations	**3,140**	**2,952**	**188**	**6.4**
Net income (loss) from discontinued operations/assets held for sale	550	(118)	668	(566.1)
Net income for the year	**3,690**	**2,834**	**856**	**30.2**
Net income attributable to:				
– Parent	**3,216**	**1,815**	**1,401**	**77.2**
– minority interests	474	1,019	(545)	(53.5)

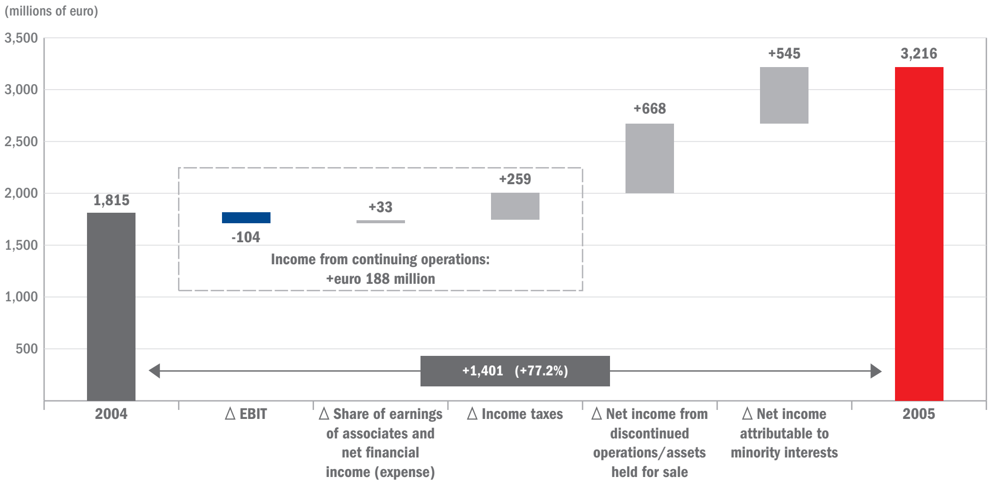
(1) Excludes capital gains/losses realized on the sale of equity investments classified as discontinued operations and equity investments other than in subsidiaries.

Consolidated net income of the Group in 2005 is euro 3,216 million (euro 3,690 million before minority interests). In 2004, the consolidated net income of the Group was euro 1,815 million (euro 2,834 million before minority interests).

The change in the consolidated net income of the Group (euro 1,401 million) is due to the following factors:

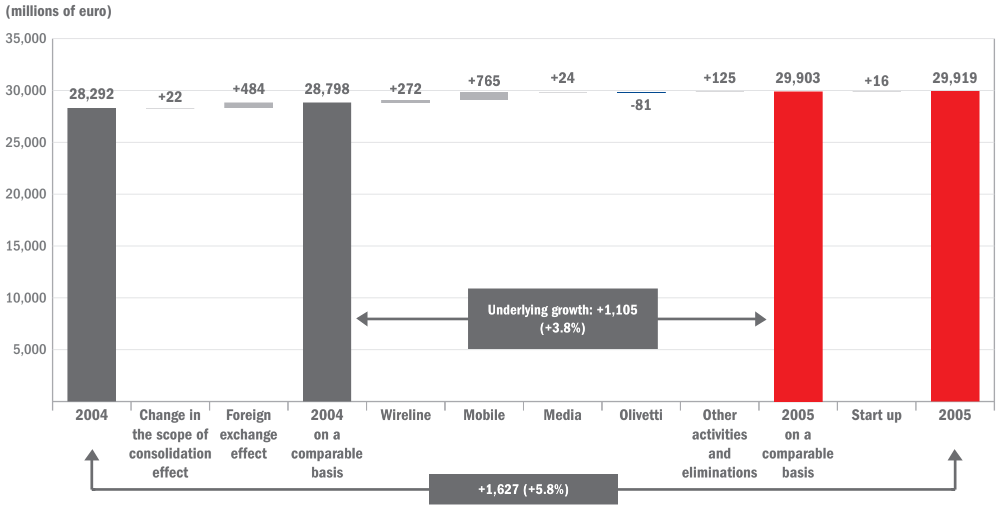
- *operating result* – euro 104 million;
- higher *share of earnings of equity investments in associates accounted for using the equity method* (euro 28 million);
- *financial expense*, net of financial income, *basically unchanged* (+euro 5 million). In particular, 2005 includes the release of reserves booked in respect of sureties issued to banks which had financed the associate AVEA I.H.A.S., since there is no longer a risk following the cancellation of the guarantees (euro 423 million), opposite to higher financial expense due to the increase in indebtedness connected with the Cash Tender Offer for TIM shares and lower gains realized on the sale of equity investments (euro 418 million);
- lower *income taxes* of euro 259 million;
- higher *net income from discontinued operations/assets held for sale* of euro 668 million, including euro 410 million relating to the net gain realized on the sale of Tim Hellas and euro 120 million relating to the net gain realized on the sale of Tim Perù;
- higher *net income attributable to the Parent* coming from minority interests (euro 545 million), mainly in connections with the merger of Tim (Cash Tender Offer and merger), which gave full control over mobile activities.

The following chart summarizes the major items which had an impact on the consolidated net income of the Group in 2005:



Revenue amounts to euro 29,919 million, with an increase of 5.8 % compared to euro 28,292 million in 2004. Excluding the positive foreign exchange effect (+euro 484 million, basically in respect of the South American companies of the Mobile Business Unit), and the change in the scope of consolidation (+euro 22 million) and the start-ups (revenue from start-up activities total euro 16 million in 2005 and refer to digital terrestrial television and new products of the Olivetti office division), underlying growth is 3.8% (euro 1,105 million).

The following chart summarizes the changes in revenue during the years under comparison:



Underlying growth particularly reflects:

- a significant contribution to revenue by the Mobile Business Unit (+euro 765 million), chiefly attributable to the activities of the Tim Brasil group (+euro 616 million) and the domestic market (+euro 153 million), thanks to the positive trend of value-added services and the sale of 3G handsets;
- an increase in the revenue of the Wireline Business Unit (+euro 272 million), achieved thanks to the expansion of the BroadBand market, enhanced offerings for wholesale services and the growth of innovative services, particularly Web services, offset by a decline in the traditional telephony market;
- an increase in revenue of the Media Business Unit (+euro 24 million) which benefits from the growth in advertising and a reduction in the sales of the Olivetti Business Unit (– euro 81 million), due to the decline in the average prices of fax machines, lower sales volumes of ink-jet heads and the fall in the volumes and prices of the Gaming and specialized printers division.

Revenue from telecommunications services is shown gross of the revenue amount due to third-party operators of euro 4,713 million (euro 4,177 million in 2004).

Foreign revenue amounts to euro 6,165 million (euro 4,556 million in 2004); 51.1% of the total is localized in the area of South America (44.7% in 2004).

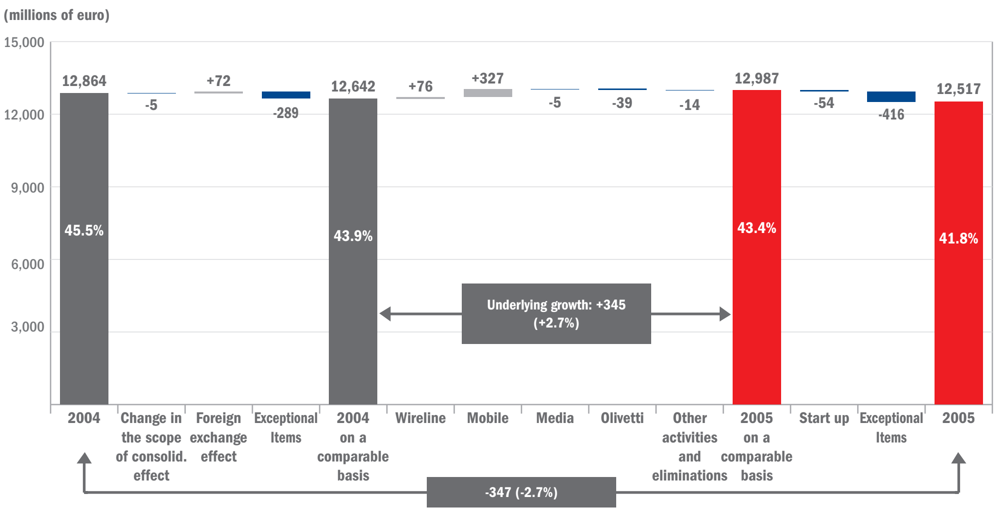
Other income amounts to euro 678 million (euro 1,099 million in 2004) and refers to:

(millions of euro)	2005 (a)	2004 (b)	Change (a-b)
Late payment fees charged for regulated telephone services	107	85	22
Release of reserves and liability items	228	162	66
Recovery of costs of personnel and services rendered	35	35	–
Capital grants	39	52	(13)
Damage compensation	20	18	2
Operating grants	8	12	(4)
Prior period income relating to the TLC fee	–	546	(546)
Sundry income and prior period income	241	189	52
Total	**678**	**1,099**	**(421)**

EBITDA amounts to euro 12,517 million and decreased by euro 347 million (– 2.7%) compared to 2004. As a percentage of revenues, EBITDA went from 45.5% in 2004 to 41.8% in 2005. Underlying growth of EBITDA is 2.7% (+euro 345 million) and is particularly due to the impact of the following:

- positive foreign exchange effect (euro 72 million);
- negative effects of the change in the scope of consolidation (– euro 5 million) and start-up activities (– euro 54 million) referring, in 2005, to digital terrestrial television and new products of the Olivetti office division);
- net negative effect of exceptional items (exceptional income and expenses) of euro 705 million, mainly in reference to, in 2005, corporate reorganization expenses (euro 305 million), settlements with Opportunity for Brasil Telecom (euro 50 million) and with customers (euro 38 million) and other exceptional expenses (euro 23 million). In 2004, the net effect was principally due to the release of the TLC fee to income (euro 546 million) and the release of the reserves for risks in respect of the subsidiary Tim Celular (euro 109 million), which were offset in part by the provision for the fine levied by the Antitrust Authority (euro 152 million), the writeoff of receivables positions (euro 120 million) and the expenses connected with the Cash Tender Offer and other expenses (for a total of euro 94 million).

The following chart summarizes the major changes in EBITDA (Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets):



In greater detail, the change in EBITDA in 2005 is impacted by the following:

- **purchases of materials and external services**, euro 12,937 million, with an increase of 9.5% compared to 2004 (euro 11,812 million). The percentage of purchases to revenues is 43.2% (41.8% in 2004);
- **personnel costs**, equal to euro 4,142 million, with an increase of 7.5% compared to 2004 (euro 3,852 million). The increase is almost entirely due to expenses employee termination incentives and mobility under Law 223/91 and to the plan for manager termination incentives amounting to euro 273 million; excluding such expenses, personnel costs would show an increase of +0.4%. Personnel costs, as a percentage of revenues, represent 13.8% compared to 13.6% in 2004. Personnel costs, when taking into account discontinued operations/assets held for sale amount to euro 4,331 million in 2005 (euro 4,290 million in 2004);
- **headcount** at December 31, 2005 is 86,531 and includes 1,047 persons relating to discontinued operations/assets held for sale. Excluding discontinued operations/assets held for sale, the headcount of the Group is 85,484. Additional details are as follows:

	12/31/2005 (a)	12/31/2004 restated [1] (b)	Change (a - b)
Italy	71,987	72,633	(646)
Abroad	13,497	9,987	3,510
Total (excluding discontinued operations/assets held for sale)	**85,484**	**82,620**	**2,864**
Italy	184	4,174	(3,990)
Abroad	863	7,228	(6,365)
Total discontinued operations/assets held for sale	**1,047**	**11,402**	**(10,355)**
Total headcount [2]	**86,531**	**94,022**	**(7,491)**

(1) For purposes of comparison with December 31, 2005, the figures at December 31, 2004 have been restated in order to consider as discontinued operations the same companies that are considered as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group.
(2) Includes persons with temp work contracts: 3,382 at 12/31/2005 and 2,650 at 12/31/2004.

The headcount reduction of 7,491 compared to December 31, 2004 is due to:

- the sale of the Entel Chile group (– 4,166), the Finsiel group (– 3,972), Tim Hellas (– 1,495) and Tim Perù (– 653);
- the hiring of 7,735 employees (of whom 514 relate to discontinued operations/assets held for sale (Discontinued Operations), the resignation of 5,603 employees (of whom 576 relate to discontinued operations) and the positive change of persons with temp work contracts +732 employees.
- the change in the scope of consolidation as a result of the acquisition of Liberty Surf (+614) and the setting up of TI Sparkle France (+24), the deconsolidation of Televoice (– 169), Innovis (– 222), Cell-Tel (– 112), Databank (– 86) and Med 1IC-1 (– 14), and the sale of the "Territorial security centers" business segment to Tecnosis S.p.A. by the Parent (– 104).
- **other operating expense**, equal to euro 1,468 million (euro 1,603 million in 2004), includes:

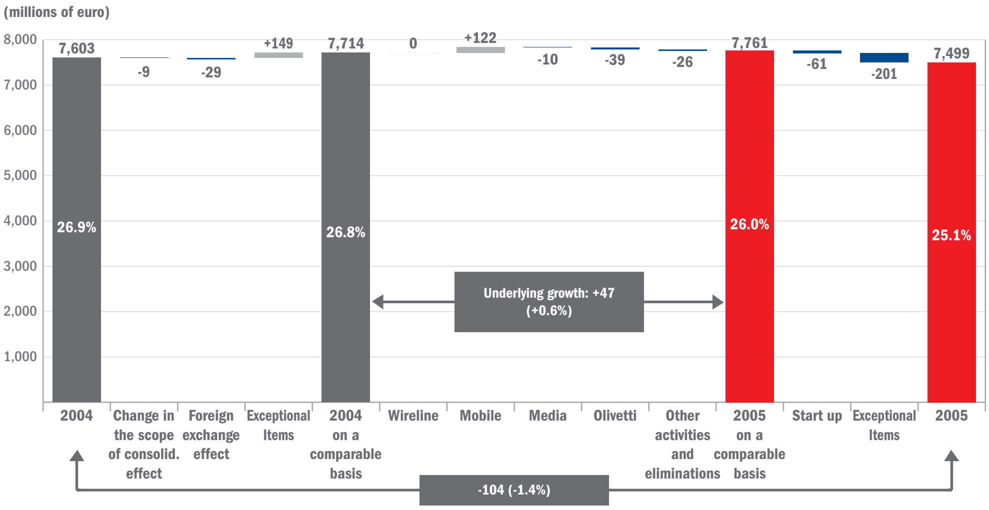
(millions of euro)	2005 (a)	2004 (b)	Change (a - b)
Impairments and expenses connected with receivables management	521	498	23
Provisions to reserves for future risks and charges	71	289	(218)
Telecommunications fees and charges	181	114	67
Taxes on revenues of South American companies	178	112	66
Indirect duties and taxes	141	153	(12)
Association dues and fees	19	18	1
Other expenses and prior period expenses	357	419	(62)
Total	**1,468**	**1,603**	**(135)**

EBIT amounts to euro 7,499 million, with a decrease of euro 104 million compared to 2004 (– 1.4%). EBIT as a percentage of revenues is equal to 25.1% (26.9% in 2004). Underlying growth of EBIT is +0.6% (+euro 47 million) and is particularly due to the impact of the following:

- negative foreign exchange effect (euro 29 million),
- negative effects of the change in the scope of consolidation (euro 9 million) and start-up activities (– euro 61 million);

- negative effect of exceptional items (exceptional income and expense) of euro 52 million, inclusive, besides the comments on EBITDA, in 2005, of the gain on the sale of real estate properties (euro 264 million) and other nonrecurring expense (euro 49 million). In 2004, exceptional items had referred to the settlement with De Agostini for the purchase of a 40% interest in Webfin (euro 282 million) and writedowns and expenses regarding consolidated companies (euro 162 million) and other income (euro 6 million).

The following chart summarizes the changes in EBIT in 2005:



In greater detail, EBIT in 2005 is impacted by:

- **depreciation and amortization** of euro 5,232 million (euro 4,808 million in 2004), with an increase of euro 424 million. The change also reflects higher investments made both this year and last year;
- **gains/losses realized on non-current asset** equal to euro 242 million (a loss of euro 9 million in 2004), include gross gains, net of expense, of euro 264 million referring to transactions for the sale of real estate properties by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale. The sale took place as part of the property sales program voted by the Board of Directors' Meeting on December 21, 2005;
- **impairment reversals/losses of non-current** assets of euro 28 million in 2005. In 2004, impairment losses had totaled euro 444 million and particularly included the expenses connected with the De Agostini settlement for the purchase of the 40% stake in Webfin (euro 282 million) and provisions and net impairment losses regarding intangible and tangible assets (euro 162 million).

The **share of earnings** (losses) of equity investments in associates accounted for using the equity method shows earnings of euro 23 million (losses of euro 5 million in 2004). Details are as follows:

(millions of euro)	**2005** (a)	**2004** (b)	**Change** (a - b)
Avea I.H.A.S.	(122)	–	(122)
ETECSA	45	(6)	51
Solpart Participaçoes S.A.	94	–	94
Sofora Telecomunicaciones S.A.	16	–	16
Other	(10)	1	(11)
Total	**23**	**(5)**	**28**

In particular:

- the amount of euro 94 million relating to Solpart is the result of reintroducing the equity method to account for the investment in this company. In fact, following the agreements signed on April 28, 2005, Telecom Italia was, among other things, reinstated its governance rights in Solpart Partecipaçoes S.A. which had been temporarily suspended in August 2002, reasserting its role in the management of the company;
- the amount of euro 16 million relating to Sofora Telecomunicaciones S.a. is the result of the significant earnings reported by Telecom Argentina after the conclusion (at the end of August 2005) of the process to restructure its debt and the consequent effect on shareholders' equity, which is now a positive figure. As you will recall, the company defaulted on its obligations in 2001 on account of the monetary crisis in Argentina.
- the amount of euro 122 million refers to the Group's share of the loss for the year of the associate Avea. In 2004, the share of the loss had not been booked since the investment had been carried at a zero balance.
- in 2004, the positive earnings adjustment referring to ETECSA was entirely offset by the writedown of goodwill.

Financial income and expense show a net expense balance of euro 1,987 million (– euro 1,992 million in 2004), with an improvement of euro 5 million compared to 2004. Details are as follows:

(millions of euro)	2005 (a)	2004 (b)	Change (a - b)
Release of Avea reserves	423	–	423
Investment management	95	212	(117)
Financial management balance	(2,505)	(2,204)	(301)
Total	**(1,987)**	**(1,992)**	**5**

The main changes are due to:

- the release of reserves for euro 423 million booked in respect of sureties issued to the banks which had financed the subsidiary AVEA, since there is no longer a risk following the cancellation of the guarantees;
- the decrease in the net amount of income from the management of investments of euro 117 million, which in 2004 had benefited from the gains realized in connection with the sale of the remaining investment in Telekom Austria (euro 86 million) as well as gains from the sale of the remaining stake in Mirror International (euro 85 million). In 2005, gains were realized on the sale of the investment in C-Mobil by the Mobile Business Unit (euro 61 million), the sale of the investment in Intelsat by Entel Bolivia (euro 2 million) and the sale of the investment in Golden Lines by Telecom Italia International (euro 5 million);
- the reduction in the balance of financial management is mainly due to disbursements made for the purchase of Tim shares in the early months of the year through the Cash Tender Offer and other purchases on the market which had an impact in terms of both higher debt exposure and lower liquidity.

Income taxes for the year amount to euro 2,395 million (euro 2,654 million in 2004). Besides the decrease in taxable income, the reduction of euro 259 million is due to the realignment made by Tim Italia, ex art. 1, paragraph 469, Law 266/2005 and ex art. 14, Law 342/2000, of the figures in the statutory financial statements with the tax figures, the latter being lower as a result of accelerated depreciation and the amortization of the UMTS license on which tax interference had already been eliminated in 2004 financial statements of TIM S.p.A. This realignment led to provision for equalization tax of euro 43 million and the reduction in the reserve for deferred taxes of euro 135 million.

Net income (loss) from discontinued operations/assets held for sale amounts to euro 550 million (– euro 118 million in 2004) and refers to the following, in particular:

- gains on the sale of Tim Hellas (euro 410 million, net of related incidental charges) and Tim Perù (euro 120 million, net of related incidental charges), and other losses and incidental expenses on the sale of the Entel Chile group, the Finsiel group and the Buffetti group, for a total of euro 24 million. In 2004, the net income (loss) from discontinued operations/assets held for sale had referred to: the writedown of the goodwill of the Entel Chile group (euro 177 million), the provision for the adjustment to the estimated sales price of the Finsiel group (euro 28 million) and other expenses and provisions connected with the companies held for sale and principally referring to the Entel Chile group (euro 14 million);

- net income by the Entel Chile group of euro 26 million, referring only to the first three months of 2005 (net income of euro 49 million in 2004);
- net loss by the Finsiel group of euro 11 million, referring only to the first six months of 2005 (net loss of euro 7 million in 2004);
- net income by Tim Hellas of euro 11 million, referring only to the first five months of 2005 (net income of euro 82 million in 2004);
- net loss by Tim Perù of euro 3 million, referring only to the first seven months of 2005 (net loss of euro 17 million in 2004);
- net income by the Buffetti group of euro 1 million (unchanged compared to 2004);
- net income by Digitel Venezuela of euro 20 million (net loss of euro 7 million in 2004).

CONSOLIDATED BALANCE SHEETS

(millions of euro)	12/31/2005 (a)	12/31/2004 restated (1) (b)	Change (a-b)	12/31/2004
ASSETS				
Non-current assets				
Intangible assets				
– Goodwill and other intangible assets with an indefinite life	43,980	26,794	17,186	27,459
– Intangible assets with a finite life	6,810	6,295	515	6,774
	50,790	33,089	17,701	34,233
Tangible assets				
– Property, plant and equipment owned	16,443	16,270	173	17,853
– Assets held under finance leases	1,598	1,626	(28)	1,653
	18,041	17,896	145	19,506
Other non-current assets				
– Investments	1,342	1,052	290	1,064
– Securities and financial receivables	996	445	551	393
– Miscellaneous receivables and other non-current assets	825	872	(47)	881
	3,163	2,369	794	2,338
Deferred tax assets	2,793	4,075	(1,282)	4,114
TOTAL NON-CURRENT ASSETS (A)	**74,787**	**57,429**	**17,358**	**60,191**
Current assets				
Inventories	294	289	5	334
Trade receivables, miscellaneous receivables and other current assets	9,191	9,676	(485)	10,155
Securities other than investments	378	457	(79)	457
Financial receivables and other current financial asset	509	681	(172)	662
Cash and cash equivalents	10,323	8,746	1,577	8,855
Current assets subtotal	**20,695**	**19,849**	**846**	**20,463**
Discontinued operations/assets held for sale				
– of a financial nature	37	225	(188)	84
– of a non-financial nature	491	4,494	(4,003)	1,096
	528	**4,719**	**(4,191)**	**1,180**
TOTAL CURRENT ASSETS (B)	**21,223**	**24,568**	**(3,345)**	**21,643**
TOTAL ASSETS (A+B)	**96,010**	**81,997**	**14,013**	**81,834**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Shareholders' equity attributable to the Parent	25,662	16,248	9,414	16,248
Shareholders' equity attributable to the minority interests	1,323	4,550	(3,227)	4,550
TOTAL SHAREHOLDERS' EQUITY (C)	**26,985**	**20,798**	**6,187**	**20,798**
Non-current liabilities				
Non-current financial liabilities	42,146	38,186	3,960	38,725
Employee severance indemnities and other employee-related reserves	1,351	1,208	143	1,222
Reserve for deferred taxes	137	114	23	170
Reserves for future risks and charges	797	797	–	815
Miscellaneous payables and other non-current liabilities	2,113	2,199	(86)	2,199
TOTAL NON-CURRENT LIABILITIES (D)	**46,544**	**42,504**	**4,040**	**43,131**
Current liabilities				
Current financial liabilities	9,812	4,207	5,605	4,400
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,384	12,245	139	12,733
Current liabilities subtotal	**22,196**	**16,452**	**5,744**	**17,133**
Liabilities relating to discontinued operations/assets held for sale				
– of a financial nature	143	1,023	(880)	188
– of a non-financial nature	142	1,220	(1,078)	584
	285	**2,243**	**(1,958)**	**772**
TOTAL CURRENT LIABILITIES (E)	**22,481**	**18,695**	**3,786**	**17,905**
TOTAL LIABILITIES (F=D+E)	**69,025**	**61,199**	**7,826**	**61,036**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)	**96,010**	**81,997**	**14,013**	**81,834**

(1) For purposes of comparison with December 31, 2005, the figures at December 31, 2004 have been restated in order to consider as discontinued operations the same companies that are considered as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group.

The balance sheet figures at December 31, 2005, in the following comments, are compared to the figures at December 31, 2004 which have been restated in order to consider as discontinued operations the same companies that are considered as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group.

Assets, equal to euro 96,010 million, consist of non-current assets of euro 74,673 million and current assets of euro 21,337 million. The increase of euro 14,013 million from December 31, 2004 can mainly be attributed to:

- the increase in non-current assets for euro 17,321 million, of which euro 16,654 million refers to goodwill from the transaction on the merger of Telecom Italia and TIM;
- the decrease in current assets for euro 3,308 million is mainly in respect of discontinued operations/assets held for sale equal to – euro 4,191 million, which is partly offset by the increase in cash and cash equivalents in current assets.

Shareholders' equity amounts to euro 26,985 million (euro 20,798 million at the end of 2004), of which euro 25,662 million is attributable to the Parent (euro 16,248 million at December 31, 2004) and euro 1,323 million to minority interests (euro 4,550 million at December 31, 2004).
The increase is mainly due to the transaction on the merger of Telecom Italia and TIM which gave rise to the following effects:

- an increase of euro 4,911 million following the capital increase to service the merger of TIM in Telecom (euro 6,013 million) net of the decrease in shareholders' equity attributable to minority interests (euro 1,102 million);
- a decrease of euro 2,124 million in the shareholders' equity attributable to minority interests following the purchase of 28.7% of TIM through the Cash Tender Offer and other stock purchases on the market.

The changes in shareholders' equity are the following:

(millions of euro)	**2005**	**2004**
At the beginning of the year	**20,798**	**20,784**
Contribution by shareholders, conversion of bonds and stock options	1,842	251
Net income attributable to the Parent and the minority interests	3,690	2,834
Income and reserves on which resolutions were passed by:	(2,342)	(2,780)
– Telecom Italia S.p.A.	*(1,912)*	*(1,730)*
– Tim S.p.A.	*(376)*	*(991)*
– Other Group companies	*(54)*	*(59)*
Tender offer for TIM and additional purchases of TIM shares	(2,124)	–
Telecom Italia/TIM merger	4,911	–
Tender offer for TI Media shares	(134)	–
Consolidation of TIM S.p.A. shares previously recorded in current assets	–	(20)
Exchange differences, changes in the scope of consolidation and other changes	344	(271)
At the end of the year	**26,985**	**20,798**

In particular, "Exchange differences, changes in the scope of consolidation and other changes" include, in 2005, positive exchange differences for euro 1,205 million which are offset by the negative effect of reimbursement of capital of Entel Bolivia for – euro 160 million, by the effect of deconsolidations for – euro 582 million and other changes for – euro 119 million.

Liabilities, equal to euro 69,025 million, consist of non-current liabilities of euro 46,544 million (euro 42,504 million at December 31, 2004, with an increase of euro 4,040 million) and current liabilities of euro 22,481 million (euro 18,695 million at December 31, 2004, with an increase of euro 3,786 million).

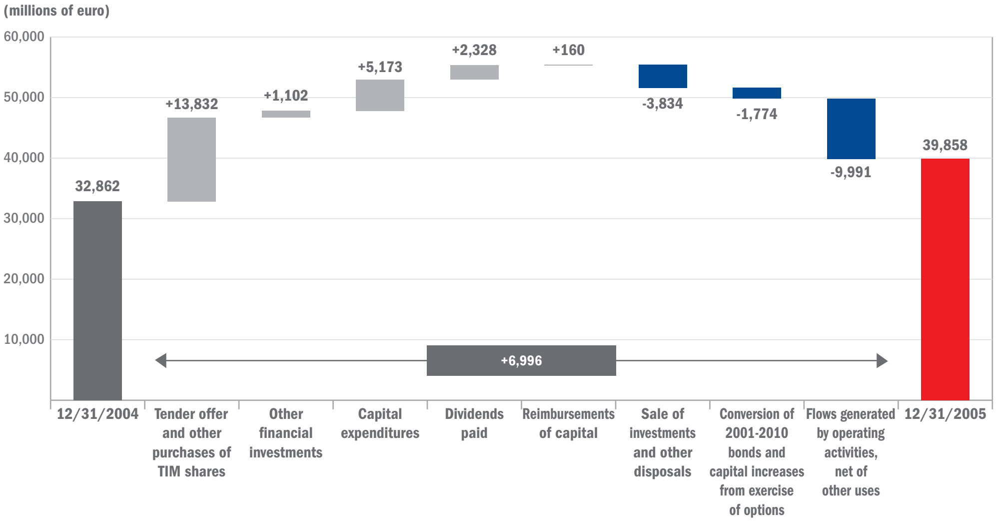
The net financial debt amounts to euro 39,858 million at December 31, 2005, with an increase of euro 6,996 million compared to euro 32,862 million at the end of 2004. It includes the net financial debt of discontinued operations (euro 106 million, euro 798 million at December 31, 2004).

The composition of the net financial debt is analyzed in the following table:

(millions of euro)	12/31/2005 (a)	12/31/2004 restated [(1)] (b)	Change (a-b)	12/31/2004 (b)
Gross financial debt				
Non-current financial liabilities				
– Financial payables	40,252	36,351	3,901	36,862
– Finance lease liabilities	1,894	1,832	62	1,860
– Other financial liabilities	–	3	(3)	3
Current financial liabilities				
– Financial payables	9,572	3,979	5,593	4,168
– Finance lease liabilities	234	223	11	227
– Other financial liabilities	6	5	1	5
Financial liabilities relating to discontinued operations/assets held for sale	143	1,023	(880)	188
Total gross financial debt (A)	**52,101**	**43,416**	**8,685**	**43,313**
Financial assets				
Non-current financial assets				
– Securities other than equity investments	8	7	1	7
– Financial receivables and other non-current financial assets	988	438	550	386
Current financial assets				
– Securities other than equity investments	378	457	(79)	457
Financial receivables and other current financial assets	509	681	(172)	662
Cash and cash equivalents	10,323	8,746	1,577	8,855
Financial assets relating to discontinued operations/assets held for sale	37	225	(188)	84
Total financial assets (B)	**12,243**	**10,554**	**1,689**	**10,451**
Net financial position (A-B)	**39,858**	**32,862**	**6,996**	**32,862**

(1) For purposes of comparison with December 31, 2005, the figures at December 31, 2004 have been restated in order to consider as discontinued operations the same companies that are considered as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group.

The following chart summarizes the major items which had an impact on the change in the net financial debt during 2005:



In particular:

- the **disbursement** of euro 13,832 million is composed of the price paid under the Cash Tender Offer, at the end of January 2005, for the purchase of 2,456,501,605 TIM ordinary shares (equal to about 29.0% of TIM ordinary share capital) and 8,463,127 TIM savings shares (equal to about 6.4% of TIM savings share capital), and the subsequent purchase of 5,063,893 TIM ordinary shares and savings shares (about 3.8% of TIM savings share capital). As a result of these transactions, the stake in TIM increased by 28.7%;
- **other financial investments** of euro 1,102 million, are principally composed of the purchase of the investment in Liberty Surf (euro 259 million, net of cash acquired and inclusive of the incidental charges connected with the transaction), financial investments in Turkey (AVEA and Oger Telecom, for a total of euro 300 million) and the buyback carried out by TI Media under the reorganization of the internet area (euro 148 million), the reorganization of the investment in the Mediterranean Nautilus group (euro 135 million), the purchase of the Elefante TV and Delta TV business segments by the Media Business Unit (euro 128 million), the incidental charges connected with the Cash Tender Offer for TIM shares (euro 98 million) as well as other financial investments (euro 34 million);
- **capital expenditures** of euro 5,173 million show an increase of euro 171 million compared to 2004 and were mainly made in the Wireline Business Unit;
- the **sale of equity investments and other disposals** of euro 3,834 million can be summarized as follows:
  - the sales of equity investments have contributed to the reduction of debt by euro 2,956 million as a result of the sale of Entel Chile, Tim Hellas, Finsiel, Tim Perù and C-Mobil (inclusive of the deconsolidation of the net financial debt of the subsidiaries sold);
  - sale of other non-current assets of euro 232 million;
  - disposals connected with the reorganization of the Mediterranean Nautilus group, equal to euro 78 million;
  - disposals of real estate properties by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale for euro 568 million. Such disposals fall under the program for the sale of properties voted by the Board of Directors' Meeting on December 21, 2005, as described in greater detail in the Notes to the financial statements at December 31, 2005.

Furthermore, the positive effect on the net financial debt of securitization transactions and the sale of receivables to factoring companies, is the following:

(millions of euro)	12/31/2005	12/31/2004
Securitization	648	-
Factoring	615	278
	1,263	**278**

The receivables securitization program, which had been included in the consolidated gross financial debt at December 31, 2004, has been excluded at December 31, 2005 following the sale to third parties of the deferred purchase price (DPP) component of securitized receivables and the deconsolidation of the special purpose securitization vehicle (TI Securitisation Vehicle S.r.l.).
Telecom Italia, in particular, signed a contract with two banks of high standing regulating the sale without recourse of DPPs generated by securitized sales with an issue date of between October 2005 and May 2006 (the last invoicing period which will be securitized before the total repayment of the securities issued and falling due in July 2006).

Comments on the financial debt of the Telecom Italia Group are as follows:

On January 28, 2005, in connection with the payment of the offer price of the Cash Tender Offer, besides euro 2,504 million paid from cash resources, euro 11,300 million was drawn from the term loan made available by a syndicate of banks on December 8, 2004.
On February 11, 2005, the first tranche of the loan was repaid in advance from the cash resources of Telecom Italia for euro 2,300 million and, consequently, cancelled.
After the aforementioned repayment, the outstanding loan amounted to a nominal amount of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months (Tranche B) and euro 3,000 million due in 60 months (Tranche C).

On August 1, 2005, Tranche B of this loan, maturing in January 2008, was replaced by a new revolving loan for the same amount with maturity extended to 2012, at better conditions. Tranche C for euro 3 billion, maturing in January 2010, instead, was changed only with respect to the margin which was lowered so that it would reflect the new better conditions offered by the market for syndicated loans. Subsequently, on October 20, 2005, euro 1.5 billion of the revolving loan for euro 6 billion, maturing in 2012, was repaid so that it is now reduced to euro 4.5 billion. Following that repayment, using cash resources, committed credit lines for euro 1.5 billion were cancelled out of the committed revolving facility of euro 6.5 billion maturing in 2007. The committed credit lines, however, remain at a total of euro 6.5 billion (euro 1.5 billion on the revolving loan maturing in 2012 and euro 5 billion on the revolving loan maturing in 2007).

Transactions regarding **bonds** in 2005 are described below:

1) NEW ISSUES

- Telecom Italia S.p.A. issued three new bond issues under the Euro Medium Term Note Programme for euro 10 billion:
  - euro 850 million, on March 17, 2005, coupon interest of 5.25%, issue price of 99.667, maturing March 17, 2055;
  - GBP 500 million (equal to euro 730 million at December 31, 2005), on June 29, 2005, coupon interest of 5.625%, issue price of 99.878, maturing December 29, 2015.
  - euro 1,000 million, on December 6, 2005, quarterly coupon interest indexed to the 3-month Euribor + 0.53%, issue price of 100, maturing December 6, 2012.

- On September 28, 2005, Telecom Italia Capital S.A. issued, under the programme of bonds issues Form F-3 for USD 10 billion decleared "effective" by Securities and Exchange Commission at August 30, 2005, a new bonds for a total of USD 2,500 million (equal to euro 2,119 million at December 31, 2005), guaranteed by Telecom Italia S.p.A., and divided into three tranches:
  - USD 700 million (equal to euro 593 million at December 31, 2005), annual coupon fixed interest at 4.875%, issue price of 99.898, maturing October 1, 2010;
  - USD 400 million (equal to euro 339 million at December 31, 2005), quarterly coupon interest indexed to the USD 3-month Libor plus 0.48%, issue price of 100, maturing February 1, 2011;
  - USD 1,400 million (equal to euro 1,187 million at December 31, 2005), annual coupon fixed interest at 5.25%, issue price of 99.370, maturing October 1, 2015.

- Telecom Italia S.p.A. 2002-2022 bonds, set aside for subscription by employees of the Group, are equal to euro 248.3 million at December 31, 2005 and increased during 2005 by euro 32.6 million (euro 215.7 million at December 31, 2004) as a result of purchases/subscriptions for euro 81.4 million and sales for euro 48.8 million by the bondholders. The maximum bond amount which can be subscribed is euro 400 million. According to the bond indenture, the Company is the sole counterpart for the purchases and sales made by holders of this bond category.

- Telecom Italia Finance S.A., on June 29, 2005, reopened its bond issue and increased amount by euro 250 million from euro 800 million to euro 1,050 million, with coupon interest at 7.75%, maturing in 2033, listed on the Luxembourg stock exchange.
  The proceeds from the issue of the new bonds, all placed with a single investor, were entirely used to repurchase, from the same investor, the full amount of Telecom Italia Finance S.A. bonds of euro 250 million, coupon interest of 7.77%, maturing in 2032, which were therefore cancelled on July 21, 2005.

On December 21, 2005, the Board of Directors of Telecom Italia S.p.A. set a new maximum ceiling for the Euro Medium Term Note Programme (ETMN), which regulates the placement, also for additional transactions, additional tranches or additional currencies, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A. The new maximum ceiling was raised to euro 15 billion against the previous euro 10 billion (of which slightly less than euro 8 billion has already been used). At the same time, the Board of Directors authorized the issue of non-convertible bonds up to a maximum of euro 4.5 billion in 2006.

2) REPURCHASE AND CANCELLATION OF BONDS

Telecom Italia Finance S.A., in 2005, repurchased bonds for a total nominal value of euro 958 million:

- euro 141 million relating to bonds exchangeable in Telecom Italia S.p.A. shares issued on November 3, 2001 for an original amount of euro 2,500 million, coupon interest of 1%, maturing November 3, 2005 with a repayment premium equal to 113.40616% of the nominal value;
- euro 229 million relating to bonds issued in 2001 for an original amount of euro 2,500 million (the residual nominal debt of which was euro 1,964 million at December 31, 2004), maturing March 15, 2006, exchangeable in Telecom Italia S.p.A. or Seat Pagine Gialle S.p.A. and Telecom Italia Media S.p.A. shares, coupon interest of 1% with a repayment premium. Following cancellation of the bonds repurchased on the market on December 22, 2005, the residual nominal debt is equal to euro 1,735 million (euro 2,042 million if the repayment premium is taken into account);
- euro 232 million relating to bonds for an original amount of euro 3,000 million, coupon interest of 6.375%, maturing April 20, 2006: these bonds repurchased, along with those purchased in 2004 for euro 255 million, were cancelled on December 22, 2005. The residual nominal debt is thus equal to euro 2,513 million;
- euro 30 million relating to bonds for an original amount of euro 1,750 million, coupon interest of 6.50%, maturing April 24, 2007: the cancellation on December 22, 2005 of the bonds repurchased brings the residual nominal debt to euro 1,720 million;
- euro 76 million relating to bonds for an original amount of euro 1,750 million, coupon interest of 5.875%, maturing January 24, 2008: the cancellation on of the bonds repurchased December 22, 2005 brings the residual nominal debt to euro 1,674 million;
- euro 250 million, with the consequent complete cancellation, of bonds issued on August 9, 2002, coupon interest of 7.77%, maturing August 9, 2032, mentioned earlier.

On December 30, 2005, own bonds in portfolio for CHF 12 million (euro 8 million) issued on June 12, 1986 were cancelled and the bonds outstanding thus went from CHF 100 million to CHF 88 million (euro 56 million at December 31, 2005).

Bonds purchased on the market prior to December 31, 2004 and not cancelled, for a total nominal amount of about euro 155 million, relating to two bond issues (originally Telecom Italia Finance S.A. for euro 1,100 million, at a floating rate, maturing January 3, 2006 and Telecom Italia Finance S.A. for euro 2,350 million, at 6.575%, maturing July 30, 2009) were, in compliance with the new IAS/IFRS accounting standards, deducted from the residual nominal debt.

3) REPAYMENTS AND CONVERSIONS

– Telecom Italia Finance S.A. repaid euro 283,000 of the nominal amount of the euro 500 million bonds maturing March 14, 2005; the amount repaid refers to the residual amount of the bonds on which the bondholders did not opt to extend the maturity date. Bonds currently outstanding and on which the bondholders extended the maturity dates total euro 499.7 million, maturing December 14, 2006, with quarterly interest indexed to the 3-month Euribor + 130 basis points.

– Telecom Italia Finance S.A. repaid, at maturity, exchangeable bonds for euro 643.4 million (net of repurchases and inclusive of the repayment premium), maturing November 3, 2005.

– In view of the requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased in 2005 by euro 2,225 million (euro 1,698 million under IFRS).

– Moreover, following the deconsolidation of the vehicle company (TI Securitisation Vehicle S.r.l.) for securitizations, mentioned previously, euro 700 million of bonds are no longer carried.

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses which can cause the early repayment of the bonds except in the event of the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of guarantees, except for the guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

On October 13, 2005, Telecom Italia Capital S.A. announced the final results of the offer for the exchange, concluded on September 30, 2005, of the Guaranteed Senior Notes ("GSN") already outstanding and not registered under the US Securities Act of 1933 (so-called Initial Notes) with registered securities having entirely the same features (so-called Exchange Notes). In detail, the exchange offer referred to the placement of USD notes on October 6, 2004 for a total amount of USD 3,500 million and the amount effectively exchanged at the closing of the offer was equal to a nominal amount of USD 3,498,520,000 (equal to about 99.96% of the equivalent amount), referring to:

- unregistered 4% GSN, maturing in 2010, initially issued for a nominal amount of USD 1.250 billion exchanged for an amount equal to USD 1,248,845,000;
- unregistered 4.95% GSN, maturing in 2014, initially issued for a nominal amount of USD 1.250 billion exchanged for an amount equal to USD 1,249,675,000;
- unregistered 6% GSN, maturing in 2034, equivalent nominal amount of USD 1 billion exchanged for the full amount.

Bonds at December 31, 2005 are carried in the financial statements for euro 35,462 million (euro 31,118 million at December 31, 2004). In terms of the nominal repayment amount, however, they are equal to euro 34,577 million, with an increase of euro 4,400 million compared to December 31, 2004 (euro 30,177 million). A breakdown of these bonds is as follows: Telecom Italia S.p.A euro 9,798 million, Telecom Italia Finance S.A. euro 16,302 million and Telecom Italia Capital S.A. euro 8,477 million.

Convertible and exchangeable bonds at December 31, 2005, are carried in the financial statements for euro 2,519 million (euro 5,106 million at December 31, 2004), of which convertible bonds issued by Telecom Italia S.p.A. total euro 483.4 million. In terms of the nominal repayment amount, however, they are equal to euro 2,642 million, with a reduction of euro 3,297 million compared to December 31, 2004 (euro 5,939 million).
A breakdown of these bonds by issuer is as follows: Telecom Italia S.p.A. euro 599.8 million and Telecom Italia Finance S.A. euro 2,041.6 million.

The following table shows the maturities of non-current financial liabilities both in terms of the expected nominal repayable amount as contractually defined and the amount according to IFRS (including the measurement under adjustments at fair value and amortized cost).
In the case of the repurchase of own bonds without cancellation, in conformity with accounting standards, such bonds have been deducted from the nominal debt.

For maturities during 2006, account was taken of the January 30, 2006 early repayment of the floating rate bonds maturing October 29, 2007 denominated "Telecom Italia S.p.A. euro 1,000,000,000 Floating Rate Notes due 2007", approved by the Board of Directors of Telecom Italia S.p.A. on December 21, 2005.

The average maturity of non-current financial liabilities is equal to 7.4 years

MATURITIES OF NON-CURRENT FINANCIAL LIABILITIES (1)(2)						
(millions of euro)	**Bonds**		**Loans and other debt**		**Total**	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Within December 2006	7,100	8,224	473	755	7,573	8,979
Within December 2007	2,970	2,979	753	755	3,723	3,734
Within December 2008	2,521	2,515	713	712	3,234	3,227
Within December 2009	3,860	3,916	328	393	4,188	4,309
Within December 2010	2,253	2,120	3,183	3,166	5,436	5,286
Beyond December 2010	18,515	18,227	6,868	7,363	25,383	25,590
	37,219	**37,981**	**12,318**	**13,144**	**49,537**	**51,125**
Discontinued Operations			123	124	123	124
Total	**37,219**	**37,981**	**12,441**	**13,268**	**49,660**	**51,249**

(1) Carring amount include the measurement under adjustments at fair value and amortized cost.
(2) Inclusive of the amounts falling due by December 31, 2006.

Financial commitments for maturities due within 12 months at December 31, 2005:

FINANCIAL LIABILITIES MATURING WITHIN 12 MONTHS (1)						
(millions of euro)	**Non current financial payables maturing within 12 months**		**Current financial payables**		**Total**	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Total	7,573	8,979	760	833	8,333	9,812
Discontinued Operations	61	62	19	19	80	81
Total	**7,634**	**9,041**	**779**	**852**	**8,413**	**9,893**

(1) Carring amount includes the measurement under adjustments at fair value.

Given such short-term financial commitments, current financial assets amounting to euro 11,227 million (euro 10,955 million at the nominal amount) thus partly cover the maturities arising in 2007.

Moreover, it should be pointed out that, at December 31, 2005, committed credit lines not drawn down and expiring in March 2007 amount to euro 5 billion, following the cancellation of euro 1.5 billion on October 20, 2005. This cancellation, however, made available euro 1.5 billion that can be drawn down on the committed Revolving credit line expiring August 2012, bringing the total committed unused and available credit lines to euro 6.5 billion.

Business outlook

The results for the current year could benefit from the effects of the merger of Telecom Italia and TIM.

As far as the trend in operations for the current year is concerned, when considered on a comparable basis in terms of consolidated companies, foreign exchange and accounting principles, revenue is expected to be at least in line with that of the previous year and with stable operating margins.

It is also expected that the increase in debt due to the Cash Tender Offer will be reduced, consistently with the course outlined in the statement to the market on 2005-2007 targets; this is a course that has already been confirmed by the trend in the debt situation in 2005.

Key data - Telecom Italia Group Business Unit

Key operating and financial data of the Telecom Italia Group Business Units

(millions of euro)		Wireline (1) (2)	Mobile	Media (1)	Olivetti (4)	Other Activities (2) (3)	Adjustments and Eliminations	Total Group
Revenue	**2005**	**17,802**	**12,963**	**180**	**452**	**1,680**	**(3,158)**	**29,919**
	2004	17,431	11,712	168	590	1,635	(3,244)	28,292
EBITDA	**2005**	**7,597**	**5,540**	**(91)**	**(15)**	**(505)**	**(9)**	**12,517**
	2004	7,809	5,421	(64)	28	(335)	5	12,864
EBIT	**2005**	**4,566**	**3,661**	**(130)**	**(38)**	**(615)**	**55**	**7,499**
	2004	4,756	3,850	(93)	17	(715)	(212)	7,603
Capital expenditures	**2005**	**2,670**	**2,118**	**65**	**19**	**308**	**(7)**	**5,173**
	2004	2,267	2,288	39	15	393	–	5,002
Headcount (5) (number at year-end)	**12/31/2005**	**55,990**	**20,767**	**886**	**1,750**	**6,091**	**–**	**85,484**
	12/31/2004	54,090	18,743	1,077	2,109	6,601	–	82,620

1) Internet activities, consistently with the disposal transaction executed in the first half of 2005, are included in the Wireline BU for all periods presented, whereas they have been considered as discontinued operations in the TI Media BU.
2) The IT Group operating activity is no longer presented since it is now included in the Wireline BU and in Other Activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.
3) The operating and financial results of Entel Bolivia have been included in Other Activities.
4) On April 5, 2005, Olivetti Tecnost changed its name to Olivetti.
5) The headcount of the Group at the end of the year does not take into account the headcount relating to Discontinued Operations.

Key operating and financial data referring to Discontinued Operations:

		Discontinued Operations						
(millions of euro)		Mobile (1)	Media (2)	Entel Chile Group	IT Market	Subtotal	Other, Adjustments and Eliminations (3)	Total
Revenue	**2005**	**734**	**126**	**238**	**289**	**1,387**	**(53)**	**1,334**
	2004	1,177	127	925	706	2,935	(142)	2,793
EBITDA	**2005**	**185**	**9**	**77**	**7**	**278**	**(34)**	**244**
	2004	325	8	274	45	652	–	652
EBIT (3)	**2005**	**60**	**4**	**36**	**(3)**	**97**	**506**	**603**
	2004	125	4	96	21	246	(202)	44
Net income (loss) from discontinued operations /assets held for sale	**2005**	**28**	**1**	**26**	**(11)**	**44**	**506**	**550**
	2004	58	1	49	(7)	101	(219)	(118)
Capital expenditures	**2005**	**87**	**3**	**27**	**5**	**122**	**–**	**122**
	2004	200	2	141	28	371	–	371
Net financial debt (liquidity)	**12/31/2005**	**90**	**16**	**–**	**–**	**106**	**–**	**106**
	12/31/2004	411	24	377	(14)	798	–	798
Headcount at year-end	**12/31/2005**	**863**	**184**	**–**	**–**	**1,047**	**–**	**1,047**
	12/31/2004	2,961	195	4,216	4,030	11,402	–	11,402

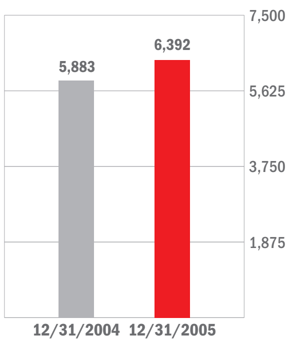
(1) Tim Hellas, Tim Perù and Digitel Venezuela.
(2) Buffetti group.
(3) The EBIT adjustments and eliminations include, among other things:
- 2005: the gain on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges) and Tim Perù (euro 120 million, net of the relative incidental charges), as well as losses and incidental charges relating to the sale of the Entel Chile group, the Finsiel group and the Buffetti group for a total of euro 24 million;
- 2004: adjustment to the estimated sales price of the Entel Chile group (– euro 177 million) and the Finsiel group (– euro 28 million).

Operating highlights - Telecom Italia Group

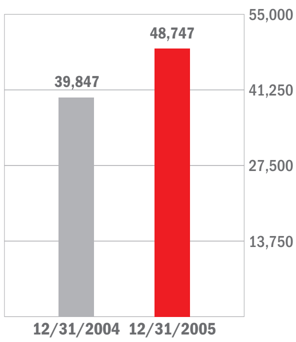
	12/31/2005	12/31/2004
WIRELINE		
Fixed network connections in Italy (thousands)	25,049	25,957
– of which ISDN	5,459	5,805
Voice plans (thousands)	6,392	5,883
BroadBand access (thousands)	7,020	4,430
– domestic (thousands)	5,707	4,010
– european (thousands)	1,313	420
Virgilio page views (millions)	9,842	7,902
Visitatori unici medi mensili Virgilio (millions)	15.7	13.9
Network infrastructure in Italy:		
– access network in copper (millions of km - pair)	105.2	105.2
– access network and transport in optical fibers (millions of km of optical fibers)	3.7	3.7
Network infrastructure abroad:		
– Fixed network connections in Italy (thousands)	51,000	39,500
MOBILE		
Tim mobile lines in Italy (at year-end, thousands)	28,576	26,259
Tim group foreign lines (at year-end, thousands) (1)	20,171	13,588
Tim group lines total (Italy + foreign in thousands) (1)	48,747	39,847
GSM penetration in Italy (% of population)	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	97.9
MEDIA		
La 7 audience share (media)	2.7	2.4
La 7 audience share (month of December)	3.1	2.6

(1) Foreign lines exclude those of the consolidated companies considered discontinued operations.

Voice plans (thousands)



Total TIM group lines (thousands)



Operating and financial performance - Telecom Italia Group Business Units

Wireline

- **Sharp increase in Italian and European broadband customer portfolio (7 million accesses reached at the end of 2005, of which more than 1.3 million in France, Germany and Holland)**
- **Further development of innovative handsets and launch of new flat-rate traffic plans to help stabilize the core telephony market**

The Business Unit

On a national level, the Wireline Business Unit operates as the consolidated market leader in wireline telephone and data services for final customers (retail) and other operators (wholesale). On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and in South America) and innovative broadband services in the most appealing metropolitan areas in France, Germany and Holland.

The structure of the Business Unit

The Business Unit is organized as follows:

WIRELINE		
Telecom Italia Wireline	**National Subsidiaries**	**International Subsidiaries**
Wireline TLC services: Retail telephone Internet Data Business National Wholesale	Loquendo S.p.A. Matrix S.p.A. Nuova Tin IT S.r.l. Path.Net S.p.A. Telecontact Center S.p.A.	BBNED Group Liberty Surf Group HanseNet Telekommunikation GmbH
	Telecom Italia Sparkle Group: Telecom Italia Sparkle S.p.A. Latin American Nautilus Group Med-1 Group Mediterranean Nautilus Group TMI Group Pan European Backbone Telecom Italia Sparkle Singapore Telecom Italia San Marino S.p.A. (ex-Intelcom San Marino) Telecom Italia Sparkle France S.A.S. Telecom Italia Sparkle of North America Inc. Telefonia Mobile Sammarinese S.p.A. Thinx S.r.l.	

Major corporate events/scope of consolidation

In 2005, the scope of consolidation changed as a result of the following corporate-related events:

- under the program to reorganize Information Technology Group, the following activities were transferred to the Wireline BU effective January 1, 2005:
  – applications development/operations of the OSS - Operational Support System and BSS - Business Support System;
  – applications development/operations and development of systems infrastructures of the VAS standards and customized for the Wireline market.

- as part of the process to rationalize the Group's operations, Telecom Italia, on June 1, 2005, executed the agreements with Telecom Italia Media for the purchase of the assets of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it.
  As a result, Telecom Italia acquired control of the following equity investments held by Telecom Italia Media:
  - a 60% interest in Finanziaria Web (which held a 66% stake in Matrix at the date the deal was finalized) and the 0.7% interest in Matrix at a total price of euro 70 million.
    At the conclusion of the transaction, Telecom Italia, which already held a 40% stake in Finanziaria Web and a 33.3% stake in Matrix through ISM (purchased from Telecom Italia Finance for consideration of euro 97.4 million), owns 100% stakes in Finanziaria Web and Matrix and thus has full control over Virgilio's operations.
    In December 2005, the companies ISM and Finanziaria Web were merged in Telecom Italia;
  - 100% of the capital of Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media conferred the Tin.it business segment. The sales price was equal to euro 880 million.

- On May 31, 2005, after approval by the French Antitrust Authorities, the agreement sealed in April 2005 was executed between Telecom Italia and Tiscali for the purchase of the equity investment held by the latter in Liberty Surf Group S.A., an important internet service provider operating on the French market. The investment corresponds to a 94.89% stake in the share capital of the company which is listed on the Paris Euronext.
  The purchase price was euro 248 million. Telecom Italia, in accordance with the requirements of the law, launched a takeover bid on July 18, 2005 for the residual outstanding capital of Liberty Surf Group S.A. The bid ended on August 8, 2005 (the results were published by the Autoritè des Marchés Financiers - AMF on August 12, 2005) and led to the possession of 97.99% of share capital (98.06% when taking into account the treasury stock held by Liberty Surf Group S.A.). Between September 12, and September 23, 2005, Telecom Italia launched a further takeover bid for all the shares of Liberty Surf Group S.A. that were not yet owned directly and not held by Liberty Surf Group S.A. which led to the possession of 98.24% of capital. On September 26, 2005, under French law, the remaining shares were transferred to Telecom Italia by a squeeze out.
  A deposit for the price, equal to euro 4,415 million, was made at BNP Paribas.
  Accordingly, from the same date, Telecom Italia hold 100% of Liberty Surf Group S.A. capital.

- in July 2005, the Telecom Italia Group executed the agreement reached last December with the minority shareholders of Med Nautilus S.A., Med Nautilus Ltd and Med 1, negotiated to resolve certain conflicting situations referring to Med Nautilus S.A.'s and Telecom Italia/Telecom Italia International's put, respectively, on 49% of Med Nautilus Ltd and Med 1 shares, and to resolve the arbitration proceedings set in motion in Luxembourg by the Fishman group (FTT) aimed at the restitution of the sums paid to Telecom Italia International in 2000 for the purchase of a 30% stake in Med Nautilus S.A.
  As a result of this agreement, which allows the Telecom Italia Group to strengthen its presence in the sector of IP services and wholesale data in the East Mediterranean, Telecom Italia and Telecom Italia International hold a 100% stake in Med Nautilus Ltd (through Med Nautilus S.A.). Concurrently, non-strategic activities were sold that referred to certain local Israeli operations, today managed by the same Med Nautilus Ltd and Med 1 (for the latter, the entire investment in Med 1 IC-1 (1999) Ltd was sold).
  As a result of this agreement, the Telecom Italia and Telecom Italia International now hold 100% stakes in Med Nautilus S.A.. Furthermore, the Fishman group, in disposing of its investment in Med Nautilus S.A., acquired 30% of the capital of the subsidiary Elettra S.p.A. and a stake of 1,5% of the capital of the greek company Forthent S.A..
  Under the same operation Telecom Italia Group sold the stake in the Israeli company Golden Lines. Overall, the agreement entailed a net disbursement of euro 49 million;

- as part of the industrial reorganization aimed at integrating the international wholesale offer for Data and IP in Telecom Italia Sparkle, the following were purchased:
  - in June 2005, the investment (100% of capital) held by Telecom Italia in Latin American Nautilus S.A.

– in December 2005, the investments held by Telecom Italia and TI International in the company Mediterranean Nautilus S.A. (100% of capital) and in the Israeli company MED-1 Submarine Cables ltd. (99.91% of capital).

- in November 2005, after approval by the Antitrust Authority, the agreement sealed on August 2, 2005 between Telecom Italia Sparkle and Tiscali was executed for the purchase of Tiscali's fiber optic network owned by "Tiscali International Network SAS" (TINet SAS), for an equivalent amount of euro 8 million. Tiscali International Network SAS owns 11,500 km of optic fiber which cross 12 European countries. The deal does not include the sale of the IP and Voice over IP international and national networks which, instead, are controlled by Tiscali International Network B.V.

- in November 2005, Tiscali Access, subsidiaries of Liberty Surf Group S.A. purchased the entire interest held by Telecom Italia Sparkle S.p.A. in Telecom Italia France S.A. After this operation Telecom Italia France S.A. was merged in Tiscali Access and changed its name in Telecom Italia S.A..

Operating and financial data

The following table shows the key results in 2005 compared to 2004. The data takes into account the acquisition of the Internet business as of January 1, 2005 as well as the IT Telecom activities that were transferred to Wireline. The figures for 2004 are restated for purposes of comparison.

(millions of euro)	2005	2004 (1)	Change amount	Change %
Revenues	17,802	17,431	371	2.1
EBITDA	7,597	7,809	(212)	(2.7)
% of Revenues	*42.7*	*44.8*		
EBIT	4,566	4,756	(190)	(4.0)
% of Revenues	*25.6*	*27.3*		
Capital expenditures	2,670	2,267	403	17.8
Headcount at year-end (number)	55,990	54,090	1,900	3.5

(1) The amounts include IT Telecom and Tin.it/Matrix.

Revenues, totaling euro 17,802 million, show an increase of 2.1% (+euro 371 million) compared to 2004; on a comparable consolidation basis and excluding the foreign exchange effect, underlying growth is 1.6% (+euro 272 million).
Such improvement was achieved thanks to the success of efforts to expand the broadband market and innovative products and services together with action to protect the core telephone market in addition to a further rise in revenues under the European Broadband Project.

Revenues by strategic business area are analyzed below:

Retail telephone
Revenues from the Telephone area, equal to euro 10,095 million, show a reduction of euro 496 million (– 4.7%) compared to 2004. This area was marked by a falloff in traffic revenues (– 10%), mainly due to the migration of volumes to the mobile network, besides the impact of regulations on the prices of fixed-mobile terminations. This reduction was limited thanks to the recovery of market share on traffic (+0.6%), the increase in flat-rate plans, which reached 6.3 million, equal to 29% of total accesses, and the growing penetration of innovative handsets (Aladino, Videotelefono and Cordless WI-FI) which arrived at a total of 3,815,000 units (with a growth of 2,260,000 units in 2005).

Videotelephones innovative handsets arrived at a total of 3,815,000.

Retail Internet
Revenues from the Internet area, equal to euro 1,197 million, grew by 17.2% (+euro 176 million), compared to 2004. The increase is due to the growth of ADSL revenues (+euro 247 million; +40.0% compared to 2004).
Wireline's portfolio of broadband customers in Italy at December 31, 2005 now totals 5,707,000 (+1,697,000 compared to the end of 2004).

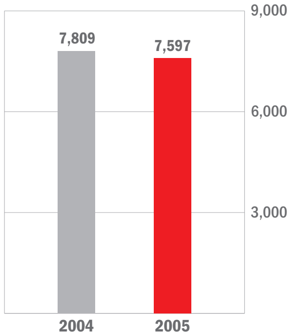
Data Business
Revenues from the Data Business area, equal to euro 2,107 million, show a overall growth of 6.3% (+ euro 125 million) compared to 2004. This increase is especially driven by the strong growth of VAS Data (Web Services and Outsourcing), which rose by euro 111 million (+25.3%) and innovative data transmission services, mainly using XDSL technologies, which are up by 15.7% (+ euro 98 million).

European Broadband Project
Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 566 million, show a strong increase (+ 109.6% compared to 2004). The European Broadband Project was given a further boost in growth by the purchase of Liberty Surf Group in France on May 31, 2005. The portfolio of broadband customers at December 31, 2005 is now 1,313,000 (+ 893,000 compared to the end of 2004), while total customers, including Narrowband, number 1,791,000.

Wholesale
Revenues from wholesale services, equal to euro 3,525 million, grew by a total of euro 336 million (+ 10.5%), compared to December 2004. National wholesale services account for euro 96 million of the increase and international wholesale services for euro 240 million.
As regards national wholesale services, in particular, there is an increase in revenues from data services (+ euro 73 million); for international wholesale services, almost the entire increase is from transit revenues (+euro 226 million) which, however, have a lower margin.

EBITDA, equal to euro 7,597 million, shows a decrease of 2.7% (– euro 212 million) compared to 2004, bringing the percentage of EBITDA to revenues to 42.7% (44.8% at the end of December 2004). Rationalization costs (for about euro 200 million) had a negative impact in 2005 while exceptional items were recorded in 2004 for a positive effect of euro 90 million. Therefore, the underlying growth, net also of changes during the year, is equal to 1%.

EBITDA (euro/mln)



EBIT is euro 4,566 million and shows a decrease of 4.0% (– euro 190 million) compared to 2004. EBIT represents 25.6% of revenues (27.3% at the end of December 2004). Besides the exceptional items mentioned above, this result is also adversely affected by the increase in depreciation charges as a result of higher capital expenditures made during 2005 and also last year. Excluding those exceptional items and the change in the scope of consolidation, the operating result is in line with that of 2004.

Capital expenditures amount to euro 2,670 million and rose by euro 403 million (+ 17.8%) compared to 2004. This increase is principally due to investments in innovative technologies and handsets and in the European Broadband Project.

Headcount is 55,990 and increased by 1,900 compared to December 31, 2004.
The change is due to the hiring of 2,657 persons, of whom 1,473 are in Italy and 560 outside Italy and 624 temp work staff (mainly in France), versus 1,899 terminations of employment (principally at Telecom Italia Wireline), intragroup transfers (+ 518), the purchase of the companies Liberty Surf Group S.A. (+ 614) and TI France SAS (+ 24) and the outsourcing of a part of MED1 Group (– 14).

Events subsequents to December 31, 2005

On January 23, 2006, Telecom Italia and Sky signed an agreement for the marketing of the Sky movie channels on *"Alice Home TV"*, the TV via Internet owned by Telecom Italia, starting from February 2006.
The agreement allows Telecom Italia to broadcast Sky movie channels devoted to the best national and international movies (Sky Cinema 1, Sky Cinema 2, Sky Cinema 3, Sky Cinema Autore, Sky Cinema Max, Sky Cinema 16:9, Sky Cinema Classics, Studio Universal and Rai Sat Cinema World). This agreement brings a broader range of films to *Alice Home TV* which already offers more than 400 movies "on demand" thanks to agreements reached with major Italian and foreign motion picture companies.

Information on operations

Some of the main operating highlights at December 31, 2005 compared to December 31, 2004 are reported in the following table.

Operating highlights	12/31/2005	12/31/2004
Fixed network connections (thousands)	25,049	25,957
– *of which ISDN*	*5,459*	*5,805*
Minutes of traffic on the fixed network (billions)	185.1	192.0
• national traffic	171.3	179.1
• international traffic	13.8	12.9
TP terminals using ISDN technology (thousands)	108.8	124.5
TP terminals using ISDN technology (thousands)		
– Dial-up users (Tin.it Free and Premium) (thousands)	950	1,291
– Broadband accesses (incl. European BB) (thousands)	7,020	4,430
Virgilio page views (millions)	9,842	7,902
Virgilio average monthly one-time visitors (millions)	15.7	13.9

A brief summary is provided below of the Business Unit's main activities, commercial initiatives and quantities and amounts in 2005, with reference to the different Strategic Areas of Business and the Domestic and International Networks.

Retail

The commercial initiatives undertaken during 2005, within the framework of the market strategies aimed at the Retail Telephone market (Access and Traffic, in particular) and the development of the Internet markets (Alice ADSL and Alice Business), Data Business (Broadband and other Data services) and VAS markets are as follows:

Telephone	Pricing (rate plans)	The portfolio of flat-rate packages directed at the Consumer and Business clienteles was enhanced by the launch of the *Teleconomy Internazionale* packages, which offer free, unlimited calls to fixed phones in Western Europe and North America, *Teleconomy Internet* and *On Line Business*, which enables customers to surf the Internet using free dial-up without limits. *Teleconomy Famiglia*, the first integration package between fixed and mobile systems, which offers customers the chance to call three mobile numbers of their choice at a very reasonable price, and *Teleconomy No Problem*, which gives customers unlimited free calls to all Telecom Italia wireline phones, are aimed at the Consumer market only. Furthermore, new packages aimed at the Enterprise clientele were launched, with very advantageous prices for International traffic and Intelligent Network services.
	Products	New products launched include the *Aladino 2*, with a color display and SIM reader and *Aladino Slide*, a cordless MMS with a camera incorporated, a mini USB and software for exchanging content, the corded *BIG*, which is compatible with hearing aids and has large keys and a back-lit display with large characters, and *Videotelefoni* with innovative features.
Internet e VOIP	Alice	Launch of the new high-speed *Alice 4 Mega* profile and speed upgrades from 640Kb to 1.2Mb and subsequently from 1.2Mb to 4 Mb for flat-rate packages. The portfolio of the *Alice* packages was also enhanced by the new Alice *Flat 640-Kb* profile, and *Alice Mia*, with the option of *Alice Mia Dect*. Finally, the *"il PC di Alice"* is being marketed for both desktops and laptops.
	Alice Business	Launch of the new *Alice Business* package with the *Alice Business Flat 640/256 Kb* entry level profile and the *Alice Business Voce* VOIP profiles, resulting in repositioning in terms of speed upgrade and pricing. The VOIP offer *Alice Business Voce* for SOHO (Small Office Home Office) offers a flat pricing rate with *In Italia con Alice* and allows unlimited calls to be made to the fixed network. Finally, *Alice Business Mobile* makes it possible to access broadband services also using a Tim mobile Windows palmheld device while the *video azienda* package makes it possible to view internet through video sites and video catalogues.
Public Telephone Services		Launch of a new type of prepaid card which allows users to make unlimited calls to fixed numbers in Italy, with descending credit for international calls or calls to mobile numbers. Other novelties in this sector include *Welcome Ricaricabile* code cards and the *No Distance* card with rates geared to ethnic international traffic. Finally, the types of commercial credit cards which can be used to call from public *Digito* phones were extended.

***Aladino Slide*, the cordless with MMS incorporating a camera.**

IPTV		Experimentation of the IPTV (Internet Protocol TV) service started, while the commercial launch began in 4 cities at the year-end. The service, called *Alice Home TV*, is one of the components of triple play, which, through an ADSL connection, involves the combined and complementary use of phone, internet and TV to access video content and to use high-speed internet, even with just the television.
Virgilio Portal		On December 1, 2005 Matrix launched the "Portale Multiaccesso" (Multiaccess Portal) which is an evolved form of Virgilio. The aim of creating this new integrated portal is both to increase the number of one-time visitors, thus ensuring a wider pool of users for advertising customers and to offer, in a single portal, simple and direct access to the information and multimedia content found on the main commercial sites of the Telecom Italia Group (Alice ADSL, Rosso Alice, Alice Home TV and I-Tim). In 2005, 9,842 million pages of the portal were visited, an increase of 24.6% compared to 2004, while the average monthly number of one-time visitors was about 15.7 million, an increase of 12.9% compared to 2004.
Data Business	Lambda	The *1.25 Gbps Long Distance* profile was launched and the price of the service was reduced. Coverage of Long Distance and City services was extended.
	Hyperway	New access profiles were introduced: *Hyperway Corporate Dial* and *Hyperway Remote Virtual Private Network* (VPN). Coverage on *Ethernity* was extended and the technologies of the equipment at customers was updated.
	Datawan	The new ADSL *Ready Mega*, *Ready Fast Plus* and *Fastway Mega* profiles were launched, with speed upgrades to 1.2Mbit/s and 2Mbit/s and new profiles at 8Mbit/s.
Telephone VAS	Services	The main promotions are the *Tutto 4 Star* package, which is offered free for 3 months to anyone purchasing an *Aladino* cordless phone or a *Videotelefono* together with free MMS from fixed phones and Free Messages to anyone purchasing a product through the Web. The service which downloads logos and ring-tones was extended to Telecom Italia's 412 portals and to *Aladino* cordless phones. A re-call service when a number is busy has also been launched with the operator Vodaphone. Since June, the new *Teleassistenza* service has provided an operations center for customers to contact when they require assistance.
ICT VAS	Desktop Management	Additions were made to the Desktop Management offering by introducing palm devices to suitably meet the needs of the Mobile Working phenomenon. A new profile was introduced for managing assets, making it possible to keep inventories of installed IT equipment up-to-date and ready for service upgrades.
	LAN Management	Updates were made to the *LAN Management* offering with new LAN apparatus that provides a Governance Room for remote hardware and software assistance to the client.
	ICT Security Services	The *ICT Security* offering was expanded to include *Real Time Security Monitoring* services.
	Data Center Services	The new *Data Center Services* offering was launched which proposes housing, collocation, storage and backup services combined with full internet access and Virtual Private Network (VPN MPLS). Backup, Storage and Outsourcing mainframe services were also launched.

***Alice Home TV*, the new IPTV service, based on television reception via the internet.**

National wholesale

In 2005, the national wholesale market was impacted by the strong boost given by alternative operators to develop their network infrastructures. This growth translated into an increase in the number of requests for collocation sites at Telecom Italia exchanges and a corresponding increase in requests for unbundling lines which other operators use to connect their customers directly to their own network. The most significant quantitative variations of the national wholesale market are the following:

Local Loop Unbundling (LLU)	LLU Lines	The number of lines directly connected to the networks of other operators totals about 1,117,000, of which about 621,000 are qualified for ADSL. The Shared Access lines with which the other operators provide ADSL access to Telecom Italia's telephone clientele number about 141,000.
Broadband access	XDSL	890,000 XDSL wholesale lines were acquired by other operators (both those with a license and Internet Service Providers).
Carrier-PreSelection	CPS Lines	At year-end, the number of access lines configured totaled approximately 4,085,000.

International wholesale

During 2005, actions continued to support the growth and profitability of Voice traffic, particularly for the transit component, by acquiring new customers, especially in areas such a s Africa, the Middle East and Eastern Europe and by continuous efforts to achieve cost efficiencies based on the development of types of Voice Over IP transport. Specifically, 91 new interconnections were acquired, of which 39 in Voice Over IP - VOIP) and the volume of Voice over IP traffic volume increased by 74% compared to 2004, with a total of 1.5 billion minutes (of which 415 million minutes were delivered through Telecom Italia San Marino S.p.A., compared to 289 million minutes in 2004).

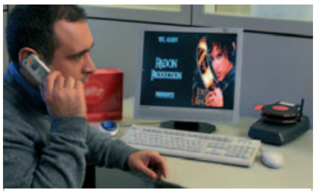
As regards international voice traffic to mobile numbers, in 2005, there was an increase in the number of direct interconnections with mobile operators which, compared to 2004, grew by 75%.

The Data & IP market, in 2005, affirmed a substantial growth of the band sold against a trend of lower prices. This phenomenon contributed to an increase in sales of innovative services of approximately 19% compared to 2004.

Domestic network

As far as the domestic network is concerned, the main activities in 2005 refer to the following:

National transmissive backbone (fiber optic evolution)	Two Marconi latest-generation high-capacity electronic frames have been installed, bringing the total restoration capabilities to 31 junctions, all located in the largest Italian cities. Furthermore, at the Roma Sud junction, the first double capacity equipment was installed. Work continued to strengthen the DWDM links already in operation, which have an overall capacity of more than 150 systems.
Metro Regional network for IP TV services	2005 saw the installation of the Metro Regional network, consisting of IP DSLAM equipment, Feeder junctions and Metro junctions connected to regional rings, using mainly fiber optic technology. At the beginning of December, the commercial IP TV service was launched in the first 4 cities (Rome, Milan, Palermo and Bologna) with the opening of about 140 exchanges. At the year-end, coverage was in the process of being extended to 17 more cities so that, in the first few months of 2006, with the creation of 360 exchanges, the service will be available in 21 cities.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (*Ethernity*, *Hyperway* and *Genius* services using GBE access). During 2005, 445 new gates with GBE access were installed, bringing the total number at year-end to 1,700 accesses. The current GBE coverage has now been extended to 24 locations across the country with 2 new MAN GBE (in Latina and Pisa) activated during the year.
ADSL Access	751 new ADSL exchanges were equipped and about 1.85 million new ADSL customers were acquired. At the end of 2005, the exchanges capable of supplying ADSL accesses numbered 4,501, and ADSL coverage nationwide is equal to about 86.4% of the population in Italy.



The IPTV service was launched in December 2005 in Rome, Milan, Palermo and Bologna.

Foreign Retail networks

With the "International Broadband" project begun in 2003, Telecom Italia created an offering for broadband access and innovative services in the European metropolitan areas of France, Germany and Holland through the subsidiaries Telecom Italia France, HanseNet and BBNED

FRANCE	During 2005, work began with the Liberty Surf Group S.A., which was acquired at the end of May, on both the integration of the Telecom Italia France customer portfolio and the integration and development of a common network. In September, an integrated Internet and Voice over IP package was launched and, in December, work began to extend coverage of the LLU service, mainly in the area of Île de France, where 100 new sites are scheduled to open early in 2006. The main achievements in 2005 are the following: • the activation of ADSL customers with new profiles (2-5-8) Mbit/s; • a massive upgrade of ADSL customers; • the Rosso Alice Portal with updating of the CDN platform; • SMS offnet, Alice Mia (full LLU), Premium Services, Toll-free numbers and Phone Center; • the activation of Wholesale ADSL customers with packages integrated with Voice services and speeds of up to 10Mbit/s; • the activation of Full LLU and Shared Access ADSL customers with packages integrated with Voice services and speeds of up to 20Mbit/s; • introduction of the IP TV platform.

GERMANY	HanseNet's main achievements during 2005 refer to the completion of the extension of the service from the Hamburg area to other areas of Germany. In particular, the following achievements are worthy of note: • Phase 1: extension of LLU coverage in 4 cities (Frankfurt, Berlin, Munich, Stuttgart), with a total of 250 new areas served by exchanges; • Phase 2: extension of LLU coverage in 10 more cities (Lüneburg, Lübeck, Offenbach am Main, Rostock, Karlsruhe, Solingen, Wuppertal, Essen, Oberhausen and Dortmund), with a total of 140 new areas served by exchanges. At the end of December, areas covered by LLU numbered 493. In 2005, the following achievements are worthy of note: • the upgrade of connection speed; • new packages for the Microbusiness clientele; • the wholesale ADSL service (Alice 2000); • the ADSL 2+ package in the areas of Hamburg, Lübeck and Rostock.
HOLLAND	BBNED's main achievements in 2005 refer to the activation of the IMSS/MSEM platform which became operational for the direct management of VOIP (Voice over IP) services.

The commercial brand *Alice* was extended to France and Germany.

International network

During 2005, work continued to develop and consolidate the IP backbone. In particular, to meet the growth of IP traffic volumes, the transmission capacity of the network was increased, particularly the transatlantic London-New York section, and a new platform for the detection and the mitigation of anomalous IP traffic was introduced to prevent any DDoS (Distributed Denial of Service) attacks.
As far as telephony is concerned, work was completed on the plan to replace conventional telephone exchanges with the new platform which is completely based on the IP protocol.
In fact, Telecom Italia Sparkle was the first European operator to introduce a platform totally based on the IP protocol for transporting international voice traffic. This project, begun in 2004, has involved 200 international operators and the migration of more than 200,000 circuits. The new platform has significantly increased traffic routing flexibility and the quality of the service and has made it possible to offer new services.
During the year, new functional characteristics were released which extend the offering of voice and signaling services to mobile operators and the offering of services for multinational companies (VOIP Off-net and PC-to-Phone and access to VPN data via Internet). In addition, a new POP was opened in Warsaw to provide retail Global Corporate Network services to Multinational Customers.

In November, the transcontinental Sea-Me-We 4 submarine cable system became operational. The system was built by a consortium of 16 international operators, including Telecom Italia Sparkle. The cable runs for about 20,000 km from France to Singapore, crossing Algeria, Tunisia, Italy, Egypt, Saudi Arabia, the United Arab Emirates, Pakistan, India, Sri Lanka, Bangladesh, Thailand and Malaysia. There are 15 terminal stations including Marseilles, Palermo, Alexandria, Mumbai and Singapore and the system has a potential capacity of 1,300 Gbit/s. The new system makes it possible to access the main hubs of European and American voice and data traffic, providing an alternative to the Pacific route, and will operate alongside previous systems which are now saturated and technologically inadequate and support the development of TLC services in one of the regions of the market with the highest growth.

Furthermore, in November, Telecom Italia Sparkle acquired the European network from the company "Tiscali International Network SAS" (TINet SAS), which extends for approximately 11,500 km across the United Kingdom, Holland, Belgium, France, Spain, Germany, Switzerland, Austria, the Czech Republic, Slovakia, Poland and Italy and also includes 7 metro rings in the cities of London, Paris, Brussels, Amsterdam, Marseilles, Madrid and Zürich. The network, which completes the Telecom Italia Sparkle's Pan European Backbone (PEB), will make it possible to extend coverage to areas of Eastern Europe and to increase the range of its presence in Central Europe. At the same time it will guarantee a diversification of routes and network suppliers with the advantage of augmenting the availability and reliability of the network as a whole.

Mobile

- **Growth of consolidated revenues driven by Brazil**
- **More than 1.7 million UMTS handsets sold in 2005**

The Business Unit

The Mobile Business Unit operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America, in particular, in Brazil.

The structure of the Business Unit

The Business Unit is organized as follows:

MOBILE	
Italia	**Brazil**
TIM Italia S.p.A. (*) Telecom Italia domestic mobile segment	TIM Brazil TIM Participaçoes TIM Nordeste Telecomunicaçoes TIM SUL S.A. TIM Celular S.A. Maxitel S.A. CRC - Centro de relacionamento com clientes Ltda Blah! S.A.

(*) With regard to the Telecom Italia/TIM merger that was described in detail in the Report on Operations to the 2004 Annual Report, on February 24, 2005, TIM S.p.A. proceeded to spin off the corporate operations relating to the mobile telecommunications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005.
The spin-off allowed TIM Italia to succeed TIM in the officially stated titles held by TIM for providing mobile communications services in Italy, as well as in all the user rights (even those temporarily assigned to TIM on the date of the contribution of the corporate operations), in the numbering and/or radio frequencies already under concession, license, general authorization, and in the special authorizations ensuing from statements constituting declarations of the start of activities.

The Telecom Italia/TIM merger, approved by the TIM and Telecom Italia Extraordinary Shareholders' Meetings, respectively, on April 5 and 7, 2005, was signed on June 20, 2005 and came into effect on June 30, 2005.

Major corporate events/scope of consolidation

Besides the merger of Telecom Italia and TIM, the following should be mentioned:

- on April 28, 2005, TIM Brasil and Brasil Telecom reached an agreement on how best to exploit the synergies arising from the integration of the fixed platforms with the mobile platforms. The agreement, which envisages a series of measures which requires approval by the relevant Brazilian authorities, provides for:
  - the transfer, by incorporation, of the activities of Brasil Telecom Celular (BRTC), a wholly-owned subsidiary of Brasil Telecom operating in Region II (which includes nine States in South and Central-East Brazil), to TIM Brasil;
  - the development of commercial and marketing activities, combining the technological know-how, the offering of services and the distribution network of the two companies;
  - the elimination of existing overlapping and the optimization of the licenses and the infrastructures of the two companies. In particular:
    - TIM Brasil will relinquish its long-distance licenses and will begin carrier services for Brasil Telecom;
    - Brasil Telecom, in abandoning the mobile business, will make its sites and infrastructures available to TIM Brasil's, accelerating the programs to expand coverage of the network.

This agreement also responds to the requests of the Brazilian National Regulatory Agency (ANATEL) to resolve the problems surrounding the overlapping of the mobile and long-distance licenses of the two operators involved.
The execution of the agreement between Brasil Telecom Celular (BRTC) and TIM Brasil, and the merger contemplated therein, is currently pending as a result of legal disputes initiated by some indirect joint shareholders in BT on different fronts;

- on May 30, 2005, the Extraordinary Shareholders' Meetings of the three interested companies unanimously approved the plan for the acquisition of the shares of the minority shareholders of TIM Sul S.A. and TIM Nordeste Telecomunicaçoes S.A. via a TIM Participaçoes S.A. capital increase. The exchange ratios were determined on the basis of economic and equity valuations performed by Banco ABN-AMRO Real S.A. TIM Participaçoes proceeded to increase capital on behalf of the shareholders of the two subsidiaries by issuing ordinary and preferred shares. On the same date, TIM Sul S.A. and TIM Nordeste Participaçoes S.A. were delisted from the Brazilian stock exchange and TIM Participaçoes then cancelled the shares reimbursed to the shareholders that exercised the right of withdrawal. The two companies, although maintaining separate legal and administrative status, are now wholly-owned subsidiaries of TIM Participaçoes;

The Brazilian President Lula meets the top management of TIM Brasil.

- on June 15, 2005, after approval by the competent authorities, TIM International N.V. executed the contract for the sale of the investment held in TIM Hellas Telecommunications S.A., equal to 80.87% of capital, to the funds managed by Apax Partners and Texas Pacific Group (TPG). The sales price was euro 1,114 million, which corresponded to an enterprise value of approximately euro 1,600 million for 100% of TIM Hellas, and is equal to about euro 16.43 per share. The sale gave rise to a gross gain of euro 410 million in the consolidated financial statements of Telecom Italia. When the sale was executed, an agreement was also sealed between TIM Italia and TIM Hellas so that the latter would be granted a user license for the TIM brand up to 2009;
- on July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom. The bid was won for USD 6,550 million by Oger Telecom, a newly-formed vehicle company controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through TIM International – made an initial investment of USD 200 million (13.33%). The partnership between Telecom Italia and Saudi Oger Limited covers mobile telecommunications, while for land-line telecommunications Oger Telecom will continue its collaboration with BT Telconsult.
After closing the deal, Telecom Italia and Oger Telecom will seal a four-year agreement for technical assistance with AVEA, the Turkish mobile operator in which stakes are held by TIM International (40.5647%), Turk Telekom (40.5647%) and the Is Bank (18.8706%).
The agreements with Saudi Oger also provide that the investment in AVEA, held by TIM International, may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom. The valuation of AVEA shares held by TIM International were initially agreed in a range of between USD 400 million and USD 600 million and then finally established at USD 500 million. Oger Telecom is expected to be listed on the Dubai stock exchange within the next three years with the possibility of TIM International investing proportionally in the initial placement. Should the listing not take place within the agreed timeframe, TIM International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares that come from the sale of the current investment in AVEA and a part, in addition to one-fourth of the Oger Telecom shares initially subscribed by TIM International for USD 50 million. If the put option is not exercised, the counterpart may exercise a call option on the same shares;
- on August 10, 2005, the entire investment held by TIM International N.V. in TIM Perù S.A.C. was sold to Sercotel S.A. de C.V. (a company controlled 100% by America Movil S.A. de C.V.);
- under the process begun to simplify the corporate organization, during December 2005, TIM International conferred its entire holding in Blah! S.A. to TIM Brasil. Afterwards, TIM Brasil conferred this holding, along with the interest held in CRC - Centro de Relacionamento com Clientes, to TIM Celular.

Operating and financial data

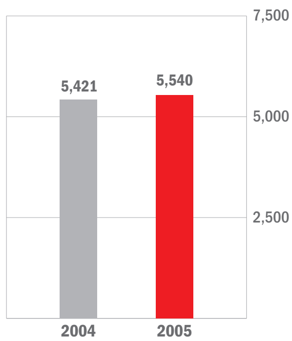
The following table shows the key results in 2005 compared to 2004. The figures do not take into account the results of TIM Hellas, TIM Perù and Digitel Venezuela, which are classified in discontinued operations.

	2005	2004	Change	
(millions of euro)			amount	%
Revenues	12,963	11,712	1,251	10.7
EBITDA	5,540	5,421	119	2.2
% of Revenues	*42.7*	*46.3*		
EBIT	3,661	3,850	(189)	(4.9)
% of Revenues	*28.2*	*32.9*		
Capital expenditures	2,118	2,288	(170)	(7.4)
Headcount at year-end (number)	20,767	18,743	2,024	10.8

Revenues for the year 2005 amount to euro 12,963 million, an increase of 10.7% compared to the prior year (euro 11,712 million). Revenues from the domestic business total euro 10,076 million (euro 9,923 million in 2004) with a 1.5% increase. Revenues of the TIM Brasil group stand at euro 2,900 million (euro 1,798 million in the prior year), with a growth of 61.3%.
Excluding the positive foreign exchange effect (euro 486 million), the underlying growth of revenues is equal to 6.3% (euro 765 million). Contributing to the underlying increase is the positive growth of operations of the TIM Brasil group (+ euro 616 million, + 34.2%) and confirmation of the good trend on the domestic market (+ euro 153 million).

EBITDA is equal to euro 5,540 million, an increase of euro 119 million over 2004 (+2.2%).
EBITDA as a percentage of revenues is 42.7% (46.3% in 2004).
EBITDA of the domestic business is euro 5,086 million (euro 5,181 million in 2004).
The TIM Brasil group reported EBITDA of euro 466 million (euro 253 million in the prior year), with a growth of 84.2%.
At comparable exchange rates and net of exceptional items, overall underlying growth is equal to euro 327 million, with an increase of 6.2%. The TIM Brasil group particularly contributed to this growth (+ euro 249 million).

EBITDA (euro/mln)



As far as costs are concerned, the following should be mentioned:

- purchases of materials and external services total euro 6,337 million and show an increase of 12.2% compared to 2004 (euro 5,650 million). The percentage of such purchases to revenues is 48.9% (48.2% in the prior year);
- personnel costs, equal to euro 708 million, show an increase of euro 77 million compared to 2004 (+12.2%); they include euro 28 million for non-employee staff (euro 25 million in 2004). The increase in personnel costs is principally due to a higher average headcount and to restructuring costs (euro 33 million). The percentage of personnel costs to revenues is 5.5% (5.4% in the prior year). Taking into account discontinued operations/assets held for sale, personnel costs amount to euro 758 million in 2005 (euro 712 million in 2004).

  Headcount at December 31, 2005 is 20,767 (18,743 at December 31, 2004).
  The breakdown follows:

	12/31/2005 (a)	12/31/2004 (b)	Change (a - b)
Italy	11,720	11,767	(47)
Abroad	9,047	6,976	2,071
Total	**20,767**	**18,743**	**2,024**

  Compared to December 31, 2004, total headcount shows an increase of 2,024 persons, mainly for the effect of increase in the headcount of the Brazilian companies in relation to the gradual expansion of operations. Headcount at December 31, 2005 includes 1,344 persons with temp work contracts (1,343 persons at December 31, 2004);

- other operating expenses amount to euro 640 million (euro 430 million in 2004) and include sundry expenses (euro 466 million), which are mainly constituted by indirect taxes of the Brazilian subsidiaries, impairments and losses on receivables (euro 150 million) and other items (euro 25 million).

EBIT is euro 3,661 million compared to euro 3,850 million in 2004 (– 4.9%).
The percentage of EBIT to revenues is 28.2% (32.9% in the prior year).
Excluding the foreign exchange effect (negative for euro 29 million) and exceptional items, the change in EBIT is an increase of euro 122 million (+3.4%), particularly as a result of the contribution of the TIM Brasil Group (+euro 90 million).

EBIT was impacted by:

- depreciation and amortization, equal to euro 1,870 million (euro 1,550 million in 2004). This is an increase of euro 320 million, due mainly to the Brazilian operations (+euro 265 million). Such change is due to continuous investments for the expansion of network infrastructures and to support the business.
  Depreciation and amortization charges as a percentage of revenues are 14.4% (13.2% in the prior year);
- impairment reversals/losses of non-current assets show an expense balance of euro 9 million in 2005 (– euro 18 million in 2004).

Capital expenditures total euro 2,118 million (euro 2,288 million in 2004). The change is due to the synergies originating from the integration process currently taking place, making it possible to continue to invest in the technological development of the networks at lower costs.

Events subsequents to December 31, 2005

Subsequent events refer to the following:

– on January 19, 2006, Telecom Italia, through its subsidiary TIM International, signed the agreement for the sale of 100% of the capital of the Venezuelan mobile operator Corporaciòn Digitel C.A. (Digitel) to the company Telvenco S.A., owned by Oswaldo Cisneros, for a price equal to USD 425 million (enterprise value). The execution of the agreement is subject to receiving the necessary authorizations from the relevant Venezuelan authorities.

Information on operations

The main operating highlights at December 31, 2005 compared to December 31, 2004 are reported below, in addition to the principal activities carried out each pertinent sector in 2005:

Operating highlights	**12/31/2005**	**12/31/2004**
Mobile lines in Italy (thousands)	28,576	26,259
Mobile lines abroad (thousands)	20,171	13,588
Mobile traffic (millions of minutes) in Italy	42,597	41,225
ARPU (euro/line/month) in Italy	28.3	29.0

During 2005, Tim Italia stepped up its development of innovative services with the aim of augmenting customer loyalty and increasing opportunities for using mobile phones. The most significant initiatives were:

FreeMove/ FIAT Agreement	A framework agreement has been signed with FIAT for the supply of pan-European mobile communications services. The agreement covers more than 20,000 lines in 17 European countries and demonstrates the strength of the alliance as a supplier of mobile telephone services and solutions to large multinational companies.
Launch of Video Sharing service	TIM and Nokia have sealed an agreement in the first quarter of 2005 to launch the Video Sharing service on the Italian market. Customers will be able to see a live video or video clip during a normal voice phone call on their cell phone, thus taking advantage of a service which is innovative and technologically on the leading edge.

Launch of the "7 su 7" package	This package, available to subscribers, designed for professional people and small businesses, allows them to make calls on week-days at a simple convenient charge of 7 eurocents (exclusive of VAT) to all fixed and mobile numbers, and at weekends, when they only have to pay the answering charge. In addition, for only euro 7 more a month, users can purchase a wide range of UMTS telephones in up to 24 monthly installments, to make free calls and videocalls to internal numbers belonging to the same corporate contract.
Launch of the "Uno per tutti" package	The plan, starting from June 2005, makes it possible to send texts and speak, at a charge of euro 1 cent a minute, to any other TIM customer. The service may also be used with international roaming and makes it possible not only to make calls, but to receive calls at a charge of euro 1 cent a minute on all the FreeMove and roaming partner networks of 37 countries, in Europe and the Americas.
Launch of "TIM MMS SuperStar"	In July 2005, a contest was held, for all TIM customers to participate in an actual casting by sending photos and videos taken with the cell phone via MMS.
World Youth Day	TIM was the technological partner for the XX World Youth Day by offering various types of services such as subscription to Infonews Chiesa Giovane, which made it possible to obtain every kind of information about the event.
TIM and the Soccer League	TIM is the sponsor for the 2005-2006 Soccer Championships of the two top Serie for the eight consecutive year.
Launch of "TIM Tribù"	At the end of September 2005, TIM launched an offer to prepaid customers that combines particularly appealing rates (1 eurocent per minute for calls and SMS in the tribe) with the opportunity of using a virtual space on the web and on the 10-Mega TIM mobile portal where blogs can be created to communicate using cell phones.
Launch of TV on cell phones using terrestrial digital technology	In October 2005, Mediaset and TIM reached an agreement which lays the groundwork for the commercial launch of TV on cell phones using terrestrial digital DVBH (Digital Video Broadcast Handheld) technology in Italy, the first country in the world. Starting in 2006 and for five years, on TIM cell phones, it will be possible to view programs of the Mediaset TV networks, Serie A TIM games and Champions League games. The Mediaset-TIM agreement is not an exclusive agreement and the new digital platform will be open to all operators of the system. The services will be transmitted on dual-mode UMTS cell phones capable of using the new technology and will be available on the market beginning in 2006.
Launch of Z-SIM	In December 2005, TIM launched the first SIM Card capable of making a mobile phone "talk" with television set-top boxes, computers, appliances and many other pieces of equipment in the home. The new SIM Card (called Z-SIM) is a world exclusive product of the Telecom Italia Group and will be on sale starting from 2006. Thanks to the new card, fitted with the latest-generation radio technology, all the telephones of TIM customers can "talk" with any handset or object equipped with the same SIM, simply by pressing a key on the mobile phone. This technology can be used in a domestic or outside environment. The new SIM guarantees the security of payment transactions because it can protect the user from intrusion and interference. The new application employs security mechanisms which, combined with the SIM Card's own authentication and identification techniques, such as the identification code known only by the user (the PIN - Personal Identification Number), will enable Telecom Italia to offer its customers a secure and effective payment solution.

***TIM Tribù*: a highly successful rate plan geared to young consumers.**

Italy

The following table shows the key results in 2005 of ex-TIM S.p.A. for transactions up to the date of the spin-off (March 1, 2005) and TIM Italia S.p.A. for the subsequent period. The data for 2004 refers to TIM S.p.A.

	2005	2004	Change	
(millions of euro)			amount	%
Revenues	10,076	9,923	153	1.5
EBITDA	5,086	5,181	(95)	(1.8
% of Revenues	*50.5*	*52.2*		
EBIT	3,856	4,010	(154)	(3.8)
% of Revenues	*38.3*	*40.4*		
Capital expenditures	1,276	1,469	(193)	(13.1)
Headcount at year-end (number)	11,720	11,767	(47)	(0.4)

Revenues amount to euro 10,076 million in 2005, with an increase of 1.5% compared to 2004 (euro 9,923 million).

Contributing, in particular, to the increase in revenues are the strong growth in VAS (value-added services), equal to euro 1,449 million (+15.4% compared to the prior year), thanks to the continuous innovation of services and the portfolio of plans and packages. The percentage of VAS revenues to total revenues is 14.4% (12.7% in 2004). Revenues of the core business (voice services), equal to euro 7,921 million, were hurt by the negative impact of the new termination price list which came into effect; without considering this impact, the change in revenues would be – 0.1% compared to 2004. A sharp increase, instead, is noted for sales of headsets, equal to euro 706 million (+23.9%), due to the success of the promotional campaign for third-generation cell phones.

EBITDA is euro 5,086 million in 2005, a decrease of euro 95 million compared to 2004 (– 1.8%). EBITDA as a percentage of revenues is 50.5% (52.2% in 2004). Net of exceptional items, EBITDA is equal to euro 5,101 million, with an increase of 1.5% compared to 2004 (euro 5,027 million). Net of the effect of the new price list for mobile terminations which came into effect, EBITDA rose by 3.3% compared to 2004.

EBIT is euro 3,856 million in 2005, a decrease of euro 154 million compared to 2004 (– 3.8%). EBIT as a percentage of revenues is 38.3% (40.4% in the prior year). Excluding exceptional items, EBIT is equal to euro 3,871 million, an increase of euro 15 million compared to 2004 (+0.4%).
The margin reflects a significant increase in depreciation and amortization charges due to recent investments for the development of third-generation network infrastructures and to support the evolution of plans and packages for new services.

Capital expenditures made during the year amount to euro 1,276 million (euro 1,469 million in 2004) and are concentrated on network infrastructures and software development.

A third-generation UMTS phone.

Brazil

TIM Brasil Group
Held by: TIM International N.V. 100%
The TIM Brasil group offers mobile telephone services using TDMA and GSM technologies.
The table shows the key results:

	2005 (millions of euro)	2004 (millions of euro)	2005 (millions of BRL)	2004 (millions of BRL)	Change in BRL %
Revenues	2,900	1,798	8,784	6,545	34.2
EBITDA	466	253	1,412	920	53.5
% of Revenues	*16.1*	*14.1*	*16.1*	*14.1*	
EBIT	(190)	(129)	(574)	(471)	(21.9)
% of Revenues	*(6.5)*	*(7.2)*	*(6.5)*	*(7.2)*	
Capital expenditures	842	817	2,551	2,973	(14.2)
Headcount at year-end (number)	9,043	6,939	9,043	6,939	30.3

The TIM Brasil group, the sole operator to have nationwide coverage, is confirmed as the leader of the GSM market with 16.6 million lines at December 31, 2005 (+88.7% compared to December 31, 2004).

Total lines at December 31, 2005 are 20.2 million - of which more than 82.3% use GSM technology. This is an increase of 6.6 million lines since the beginning of the year (+48.4%). The TIM Brasil group, with a market share of 23.4%, is confirmed in second position nationally in terms of the number of customers and is the leader for additional market share (32.0% market share of net additions).

Consolidated *revenues* of the TIM Brasil group in 2005, equal to BRL 8,784 million, grew 34.2% compared to 2004. The increase is due to the growth of the customer base, the contribution made by value-added services, which rose from 3.2% of sales in 2004 to 5% in 2005) and revenues from voice traffic.

Consolidated *EBITDA* of BRL 1,412 million in 2005 grew by BRL 492 million compared to the prior year. The 16.1% margin on sales was achieved despite the strong and persistent commercial drive to build up the customer base, confirming a positioning aimed at combining growth with an improvement in profitability.

Consolidated *EBIT* is a negative BRL 574 million in 2005 (-BRL 471 million in 2004). This result was achieved despite higher depreciation and amortization charges mainly as a result of investments made for the development of network infrastructures and information systems.

Capital expenditures made during the year amount to BRL 2,551 million (BRL 2,973 million in 2004).

Headcount grew by 2,104 compared to the end of December 2004, reflecting the growth of business.

Other areas

Turkey

AVEA ILETISIM HIZMETLERI A.S.

Held by: TIM International N.V. 40.5647%

AVEA offers mobile telephone services using GSM technology on Turkish territory and is the third most important mobile network covering 75.6% of the population.

At December 31, 2005, customers number more than 6.1 million, with an increase of 1.3 million lines compared to December 31, 2004; the market share is about 14%.

Actions by the company during the year were principally directed to the business segments (Corporate and SME) and students.

In the business segment, AVEA revised its flat-rate plans in order to meet the needs of a broader gamut of companies; it also introduced the Blackberry service.

In the student segment, AVEA launched a series of innovative promotions based upon the concept of "community" featuring competitively-priced calls and SMSs and the introduction of new services.

Media

- **La7: 14% higher audience share, from 2.4% in 2004 to 2.7% in 2005**
- **MTV: consolidated and stronger positions in the Italian advertising market and confirmed leader in the youth segment and, in terms of gross advertising on the domestic market, records a 13.5% increase compared to 2004**

The Business Unit

The Media Business Unit (the name taken after the sale of the Internet assets described below) operates in the following segments:

- Television: with La7 and MTV, in the production and broadcasting of editorial content through the television transmission networks entrusted under concession and in the marketing of advertising space in the TV programming. It is also functions as a television broadcasting network operator in analog and digital technology. Furthermore, the BU manages satellite channels and pay-per-view services using digital terrestrial TV;
- News: with TM News, a national news agency operating 24/7 under the APCom brand.

The structure of the Business Unit

MEDIA	
TV	**News**
LA 7	TM News
MTV	
TI Media Broadcasting	

The structure of the Business Unit has changed from the one presented in the 2004 Annual Report as a result of the following: deconsolidation of the companies Televoice S.p.A. in January 2005, and Databank in March 2005, the transfer of Internet operations to the Wireline Business Unit, the agreement for the sale of the Buffetti group which was finalized on January 11, 2006 as a result of which the Buffett group is considered a discontinued operation.

Major corporate events/scope of consolidation

The following transactions took place:

- on January 3, 2005, Telecom Italia Media S.p.A. sold the entire 100% investment in Televoice, a company which operates in the call center, telemarketing and teleselling services sectors, to Comdata (Altair group). The sales price was euro 1 million – in addition to the repayment of the financial payables due to Telecom Italia Media at the time of the sale – which gave rise to a gross gain of about euro 0.4 million;

- on March 14, 2005, Telecom Italia finalized the sale of Databank S.p.A., a company engaged in market research and sector studies (100% Telecom Italia Media) to Centrale dei Bilanci S.r.l. and to its subsidiary Cerved Business Information S.p.A., which acquired, respectively, 50% of the share capital. The sales price was equal to euro 5 million and in line with the carrying value of the investment in the financial statements. A loss of euro 1.2 million was realized on consolidation;

- under the strategy to rationalize the operations of the Group, on June 1, 2005, Telecom Italia executed the contractual agreements with Telecom Italia Media for the purchase of the assets of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it, approved by the respective Boards of Directors on April 4, 2005.

Under the deal, Telecom Italia purchased the following investments from Telecom Italia Media:

- a 60% interest in Finanziaria Web and a 0.7% interest in Matrix for a total price of euro 70 million. At the conclusion of the deal, Telecom Italia, which, through ISM, already held a 40% stake in Finanziaria Web and a 33.3% stake in Matrix, now holds (always through ISM) 100% stakes in Finanziaria Web and Matrix and thus has full control over Virgilio. At December 31, 2005, Finanziaria Web and ISM were merged in Telecom
Italia S.p.A.;
- 100% of the capital of Nuova Tin.it S.r.l., a newly-formed company to which Telecom Italia Media contributed the Tin.it business segment. The sales price was euro 880 million.

The aforementioned transaction also involved:

- the buyback, voted by the Telecom Italia Media Shareholders' Meeting held on May 24, 2005, of ordinary and savings shares at a price, respectively, of euro 0.40 per ordinary share and euro 0.33 per savings share, up to the limits allowed by law, for an equivalent amount of approximately euro 148 million. Based on the results of the tender offer, TI Media purchased 364,251,922 ordinary treasury shares and 6,107,723 savings treasury shares equal, respectively, to 10% of the ordinary share capital and 10% of the savings share capital of TI Media;
- the subsequent reduction in share capital by canceling the treasury stock bought back. The shares were canceled on October 18, 2005.

Since Telecom Italia did not take part in the buyback, the entire equivalent amount was earmarked for market transactions. In view of the fact that the tender offer was successful, and considering the cancellation of the shares bought back, Telecom Italia raised its share of direct control (60.4%) and indirect control (2.1% through Telecom Italia Finance) from 62.5% to 69.2% of ordinary shares.

The transaction also calls for:

- utilization of the proceeds from the sale for new investments in the media sector by Telecom Italia Media, for an estimated amount of approximately euro 250 million in the three-year period 2005-2007. Part of this amount was already utilized at June 30, 2005 following the commercial agreements for the purchase of Elefante TV and Delta TV (euro 128.5 million) as described in greater detail below;
- the merger by incorporation of La7 in Telecom Italia Media, voted by the Board of Directors of Telecom Italia Media on October 3, 2005. The merger act was signed on December 6, 2005 and takes effect for accounting and tax purposes on January 1, 2006;
- the distribution of dividends in 2006 by Telecom Italia Media for approximately euro 550 million, compatible with the financial and industrial requirements of the company;

One of LA7's studios used for sports programs.

- on September 26, 2005, Telecom Italia Media signed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of the 100% stake held in Gruppo Buffetti S.p.A. The sales price of the company (enterprise value) was about euro 76 million and differs from the price communicated at the date of that agreement (euro 77.5 million) owing to an improvement in the net financial position of Gruppo Buffetti S.p.A.
The sale of the Buffetti group signals the completion of the program for the rationalization of Telecom Italia Media's investment portfolio. In fact, after this transaction, Telecom Italia Media exits the office products distribution sector which is considered neither strategic nor synergic to its core business and obtains additional resources to develop the media business.
The sale was finalized on January 11, 2006;

- on October 28, 2005 and November 4, 2005, the agreements reached on April 29, 2005 were finalized for the acquisition of the business segments made up of the national TV broadcasting station Elefante TV and the local affiliate Delta TV by LA7 (for a total amount of euro 128.5 million). On the whole, the television broadcasting frequencies covered by these agreements signify the acquisition of the coverage of about 70% of the population and will allow Telecom Italia Media to extend both its analog and digital TV broadcasting capabilities.

Operating and financial data

The following table shows the key results in 2005 compared to 2004. For purposes of comparison, the data shown assumes the sale of the Internet business as from 2004 and the classification of the Office business unit (the Buffetti group) as a discontinued operation following the signing of the cited contract on September 26, 2005.

(millions of euro)	2005	2004	Change amount	%
Revenues	180	168	12	7.1
EBITDA	(91)	(64)	(27)	(42.2)
% of Revenues	*(50.6)*	*(38.1)*		
EBIT	(130)	(93)	(37)	(39.8)
% of Revenues	*(72.2)*	*(55.4)*		
Capital expenditures	65	39	26	66.7
Headcount at year-end (number)	886	1,077	(191)	(17.7)

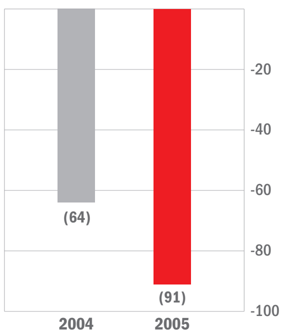
Revenues in 2005 amount to euro 180 million, with an increase of 7.1%, compared to euro 168 million in 2004. Excluding the negative effects due to the change in the scope of consolidation and the start-up of LA7 digital terrestrial TV (consisting mainly of the sale of pay-per-view events and smart carts), underlying growth is 16.4% (euro 24 million).

The following is mentioned, in particular:

- *revenues* from the Television area show a growth of euro 35 million (+25.4%), from euro 138 million in 2004 to euro 173 million in 2005, confirming the reputation for editorial content in the programming of the two TV networks and the positive start of the new digital terrestrial initiatives. In particular:
  - La7 Televisioni S.p.A. posts revenues of euro 87 million in 2005, an increase of 40.3% compared to 2004 (euro 62 million) and an underlying growth of +21.0%;
  - MTV reports revenues of euro 93 million in 2005, an increase of 16.0% compared to 2004 (euro 80 million);
- revenues from the News area amount to euro 7 million in 2005, compared to euro 5 million in 2004, an increase of euro 2 million equal to 42.6%.

EBITDA in 2005 is a negative euro 91 million (– euro 64 million in 2004). Net of the effects due to the change in the scope of consolidation, exceptional items and excluding the net costs incurred for Digital Terrestrial TV experimentation, EBITDA in 2005 is equal to – euro 63 million (– euro 58 million in 2004).

EBITDA (euro/mln)



This result reflects the EBITDA of the Television BU which went from a negative – euro 34 million in 2004 to a negative – euro 65 million in 2005, excluding the start-up costs for the launch of Digital Terrestrial TV experimentation (euro 40 million in 2005 and 13 million in 2004). The margin reflects the higher costs and investments for "content" necessary to support the growth of the analog TV audience ("Invasioni Barbariche","Forza 7", etc.) and to augment the programs on the new digital channels (e.g. La7 Sport).

In 2005, *EBIT* is equal to – euro 130 million, with a variation of – euro 37 million compared to 2004 due to the above-mentioned reduction in EBITDA and the increase in the depreciation and amortization charge for the Television area. On a comparable basis (that is, excluding changes in the scope of consolidation, exceptional items and costs incurred to launch LA7's digital terrestrial TV), the change is equal to – euro 10 million.

Capital expenditures in 2005 total euro 65 million (euro 39 million in 2004). They mainly refer to investments in the Television area connected with Digital Terrestrial Television, euro 34 million, and the acquisition of TV rights, euro 19 million.

Headcount at December 31, 2005 is 886 (1,077 at December 31, 2004).
A breakdown is as follows:

	12/31/2005 (a)	12/31/2004 (b)	Change (a - b)
Italy	886	1,064	(178)
Abroad		13	(13)
Total	**886**	**1,077**	**(191)**

Compared to December 31, 2004, the total headcount shows a reduction of 191 persons due principally to the sales of Databank, 86 and Televoice, 169, which were in part compensated by the hirings in the Television sector required for television production and the management of the new satellite channels and pay-per-view services.
Headcount at December 31, 2005 includes 49 persons with temp work contracts (44 at December 31, 2004).

Events subsequents to December 31, 2005

On January 11, 2006, in concluding the previous agreement of September 26, 2005, the contract was finalized for the sale of Gruppo Buffetti S.p.A.

Information on operations

During 2005, as a result of the disposal of non-core activities, the process of corporate re-organization was completed with greater concentration in the television sector, which strengthened its competitive positioning on the national market thanks partly to the considerable investments made in 2005 (Elefante TV and Delta TV).

LA7 Cartapiù, offers, for Digital Terrestrial television broadcasting, soccer and pay-per-view services.

In January 2005, La7 launched the pay-per-view "La7 Cartapiu" offer for the Digital Terrestrial television broadcasting of the soccer games of some Tim Serie A team home games, (currently Ascoli, Cagliari, Chievo, Empoli, Fiorentina, Lecce, Palermo, Parma and Reggina).
At December 31, 2005, almost 884,000 cards had been distributed and just over 500,000 had been activated. Digital Terrestrial television broadcasting of the La7 and MTV channels was also enhanced by numerous interactive applications (such as "Guida TV", "Ultima ora", "Video request", etc.).
In August 2005, broadcasting of La7 Sport began. This is a free channel for the first time in Digital Terrestrial technology, dedicated entirely to sport.

Today, MTV is a multichannel network which has confirmed its leadership in the music sector by launching new satellite channels (Nickelodeon and Paramount Comedy), internet applications and telephone services on the cutting edge.

Olivetti

Launch of new products using ink-jet technology (multifunctional desk-top printers and portable photo printers)

Introduction

The Olivetti Business Unit (which changed its name on April 5, 2005 from Olivetti Tecnost to Olivetti) operates through the Office Products Division in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS). Through the Gaming & Service Automation and Specialized Printers Division (formerly the Systems Division), the Business Unit provides specialized applications for the banking field and commerce and information systems for gaming and lottery operations and management. The group also operates through Wirelab S.p.A. in telephone repair services.
The reference market of the Business Unit is focused mainly in Europe and Asia.

The structure of the business unit

The Business Unit is organized as follows (the main companies are indicated):

OLIVETTI
Olivetti S.p.A. Olivetti I-Jet S.p.A. Wirelab S.p.A. Olivetti International B.V. (foreign sales companies)

and operated with the following structure in 2005:

OLIVETTI		
Office Products	**Gaming and Specialized Printers**	**Nuove iniziative industriali**
Ink-jet products/ technology and printing systems	Gaming - Banking - Retail	Phone repairs

In December 2005, a new organizational structure was introduced which eliminated the Divisions and calls for operating through the Business & Market Development office (responsible for all marketing and sales) and Product/Technology Development & Industrial Operations (responsible for manufacturing, research and logistics for the entire Olivetti Business Unit).

Major corporate events/scope of consolidation

The following transaction took place:

- on January 14, 2005, the deed was signed for the sale of 60% of the share capital of Innovis S.p.A. by Olivetti Tecnost S.p.A. to the shareholder Comdata S.p.A.; after this transaction, the investment holdings in Innovis S.p.A. are as follows: 80% Comdata S.p.A. and 20% Olivetti;

- on March 7, 2005, the agreement was signed for the sale of 65% of the share capital of Cell-Tel S.p.A. by Olivetti S.p.A to the shareholder Telis S.p.A.; after this transaction, the investment in Cell-Tel S.p.A. is now reduced to 15%;
- on March 24, 2005, the investment in Istituto RTM S.p.A. was sold by Olivetti S.p.A.;
- on April 4, 2005, the Olivetti Tecnost de Mexico de C.V. and Olivetti Mexicana S.A. merger was recorded;
- on April 15, 2005, the Olivetti Sistemas e Servicios Ltda and Olivetti do Brasil S.A. merger was registered;
- on April 19, 2005, the company Olivetti Tecnost International B.V. changed its name to Olivetti International B.V.;
- on April 30, 2005, the wind-up of the company Lexikon Nordic AB was recorded;
- on June 15, 2005, Olivetti S.p.A. sold the investment in the company Penta Service S.p.A.;
- on June 24, 2005, Olivetti International B.V. sold 100% of the capital of Olivetti Africa Pty Ltd.;
- on July 4, 2005, the sale of the investment in the company Oligulf Fzco with headquarters in Dubai (Arab Emirates) was finalized;
- on July 29, 2005, 5% of the share capital of Innovis S.p.A. was sold to the shareholder Comdata S.p.A.; Olivetti's investment in the company therefore went from 20% to 15% of capital;
- on August 29, 2005, the company Olivetti Chile S.A. was put into a wind-up;
- on October 7, 2005 a share capital increase of Olivetti S.p.A. was voted and paid in for euro 50 million;
- on October 7, 2005, the 25%-investment in the company Latina Giochi e Sistemi S.r.l. was cancelled following Olivetti S.p.A.'s rejection of any option right to recapitalize the company;
- on October 18, 2005, the company Olivetti Mexicana S.A. was put into a wind-up;
- on October 31, 2005, the company Olivetti Peruana S.A. was put into a wind-up and cancelled from the Companies' Register.

Operating and financial data

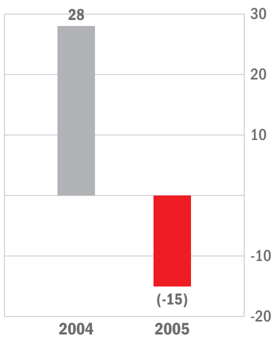
The following table shows the key results in 2005, compared to 2004.

	2005	2004	Change	
(millions of euro)			amount	%
Revenues	452	590	(138)	(23.4)
EBITDA	(15)	28	(43)	
% of Revenues	*(3.3)*	*4.7*		
EBIT	(38)	17	(55)	
% of Revenues	*(8.4)*	*2.9*		
Capital expenditures	19	15	4	26.7
Headcount at year-end (number)	1,750	2,109	(359)	(17.0)

Sales and service *revenues* amount to euro 452 million in 2005, of which euro 256 million refers to the Office Products Division, euro 157 million to the Gaming & Specialized Printers Division, euro 36 million to the sale of intellectual property rights to Telecom Italia and euro 3 million to other activities. Revenues by product are as follows: euro 266 million for hardware, euro 101 million for accessories, euro 85 million for services and other revenues.
Compared to 2004, revenues in 2005 show a reduction of euro 138 million (– 23.4%). Excluding the foreign exchange effect and the impact of the change in the scope of consolidation (with particular reference to the closing of operations in USA and Mexico and the sale of Innovis S.p.A. and Cell-Tel S.p.A.) for euro 70 million, the revenues on the sale of intellectual properties to Telecom Italia, euro 9 million, and the revenues from the start-up activities relating to the new products of the Office Division (multifunctional desk-top printers and portable photo printers) for euro 4 million, the change is a reduction of euro 81 million (– 15.3%). This change is attributable, in particular, to lower revenues of the Office Division (– euro 56 million) and the Gaming and Specialized Printers Division (– euro 23 million).

EBITDA is a negative euro 15 million. This is a higher loss of euro 43 million compared to 2004. Excluding the foreign exchange effect, the change in the scope of consolidation, the sale of intellectual properties to Telecom Italia, exceptional items and start-up costs, the variation is a negative euro 39 million basically because of lower margins of Gaming and Specialized Printers Division (– euro 34 million).

EBITDA (euro/mln)



EBIT is a negative euro 38 million and is a deterioration of euro 55 million compared to 2004. The underlying change is a negative euro 39 million, due to the above-mentioned decline in the margins of the Gaming and Specialized Printers Division.

Capital expenditures amount to euro 19 million, an increase of euro 4 million compared to 2004.

Headcount at December 31, 2005 is 1,750, of whom 1,588 in Italy and 162 abroad.
The figure includes 7 persons with temp work contracts (1 person at December 31, 2004).
The reduction of 359 persons compared to December 31, 2004 is basically due to the deconsolidation of the companies Innovis S.p.A. (222 persons) and Cell-Tel S.p.A. (112 persons).

Events subsequents to December 31, 2005

On February 28, 2006, the act was signed for the sale of 60% of the capital of Wirelab to the shareholder Urmet. Following this transaction, Wirelab S.p.A. is owned as follows: 90% Urmet S.p.A. and 10% Olivetti S.p.A.

Information on operations

The main activities carried out during 2005 are the following:

Office Products Division

During 2005, as planned, the Office Products Division developed activities for the mass-production of the new products using ink-jet technology.
The strong points of the new products (multifunctional desk-top color printers and portable photo printers) are their design and user-friendly interfacing. The proposal of these new products marks Olivetti's entry into a sure-growth market and relaunches the brand in the major European countries.
Marketing in Italy of Olivetti's new products began in August in the main mass-merchandising distribution channels. The launch was backed by an institutional communication plan in the national press.
During the last quarter, marketing of the new products began in the major European countries. A total volume of approximately 45,000 new products was sold in 2005.
The reference market proved to be extremely competitive in this last quarter of 2005.

***My_way*, the portable photo ink-jet printer.**

Revenues in 2005 are lower than in the prior year (euro 256 million compared to euro 308 million in 2004). The reasons for this are the measures designed to rationalize the product portfolio, the reduction in the average price and in the quantities of fax machines (compared to the prior year, in particular, sales to OEM customers – customers which buy the finished product and then sell it under their own brand name-were absent – although sales recovered in the last quarter of 2005) and lower demand for fax accessories using ink-jet technology.
In 2005, the profitability of the Division was a negative figure due to commercial and research costs for the new products and lower sales of accessories using ink-jet technology with a high margin.

Gaming & Service Automation and Specialized Printers Division (formerly the Systems Division)

As regards the *Gaming & Service Automation* business, in 2005, the main activities involved the definition and operation of contractual agreements with the Lottomatica group to supply approximately 34,000 gaming terminals (for a total amount of about euro 63 million with associated services) and 35,000 terminals for the operation and printing of revenue stamped paper (for a total amount of about euro 8 million with associated services).

In 2005, total revenues from this business are euro 62 million (euro 71 million in 2004), of which about euro 49 million was generated by the orders described above.

The variation in sales compared to the prior year can mainly be attributed to the considerable reduction in foreign sales (in 2004, business was boosted by the acquisition and sale of the order to supply terminals to operate electronic voting in Venezuela), but was partially compensated by increased business on the Italian market deriving from the acquisition of orders for the Lottomatica group.

Olivetti Any_way Photo - Color Multifunctional. Printer, scanner and copying machine.

In the *Specialized Printers* business, sales in 2005 showed a general reduction compared to the prior year, both in terms of sales and profitability; sales in 2005 (euro 95 million) were about euro 14 million lower than in 2004.

In the *Banking* sector there was:
- a general reduction in the sales of banking printers in Western countries which can be attributed to the effect of a reduction in prices;
- substantial stability in volumes of sales on Eastern markets, despite fierce competition in terms of prices on account of the growing number of operators in this sector.

Finally, on July 4, 2005 a lay-off plan was implemented at the Agliè (Turin) factory as part of the process to restructure production operations.

In the *Retail* market, the trend in the sale of PR4 printers showed a reduction of both volumes and profitability, while the volume of sales of fiscal cash registers on the Italian market maintained constant, despite the introduction of new products to the market.

Nuove Iniziative Industriali

During the year 2005, the company Wirelab (regeneration of telephone exchanges), with a work force of 46 employees, reported sales in line with that in 2004, with an improvement in the operating result.

Other activities

"Other Activities" of the Telecom Italia Group are formed by the Central Functions (Group Functions and Service Units) and, beginning January 1, 2005, by the foreign operations not included in other Business Units (the consolidated subsidiary Entel Bolivia, previously under the South America structure, and the associates Telecom Argentina and Brasil Telecom).

Central functions

The Central Functions are composed of the Group functions, which have responsibility for guaranteeing the coordination, direction and control of the activities under its responsibility at the Group level, the Service Units, which have the task of ensuring that the operational service activities common to the business are carried out, as per the organizational procedure dated October 5, 2005. Furthermore, as a result of the organizational procedure dated October 5, 2005, beginning January 1, 2006, the activities of ex-TILAB (now Innovation & Engineering Services) and Informatics (excluding IT Governance) will be transferred to Operations. IT Governance will be included in the Group Functions (Staff Functions).

OPERATING COSTS

(millions of euro)	2005	2004 (1)	Change amount	Change %
Group Functions (*)	(451)	(476)	25	(5.3)
Subtotal Service Units (A) (*)	(955)	(939)	(16)	1.7
Eliminations	*68*	*58*	*10*	*n.s.*
Subtotal	(1,338)	(1,357)	19	(1.4)
Innovation & Engineering Services (ex TILAB)	(125)	(132)	7	(5.3)
Informatics	(256)	(256)	–	–
Eliminations	*39*	*35*	*4*	*n.s.*
Total Central Functions	**(1,680)**	**(1,710)**	**30**	**(1.8)**

(1) Restated to take into account the different organizational structure.
(*) See tables on the following page.

The table shows the operating costs (external costs, personnel costs, the balance of other income and expenses and nonrecurring income and expenses) incurred during 2005 to conduct the above activities, compared to those of the prior year, restated to take into account the different organizational structure.

The table excludes the effects of certain nonrecurring extraordinary items (such as, for example, the OTE closing, restructuring expenses connected with the adoption of the One Company Model, the Opportunity settlement in 2005 and the settlement with Telespazio in 2004) in order to show a more meaningful and comparative representation of the operating trend of the Central Functions.
Costs decreased by euro 30 million, principally in the Group Functions as a result of the Corporate Costs Reduction Project begun during the year, which led to savings on professional fees, consulting fees, communication costs and other discretional costs.
Moreover, there was a reduction in the costs of ex-TILAB (now Innovation & Engineering Services) referring to professional fees, indirect personnel costs and ICT costs.

Details of the Group Functions and the Service Units are provided in the following paragraphs.

Group functions

Group functions include the Staff Functions of Telecom Italia S.p.A. (Human Resources & Organization excluding the Welfare function which is under the Service Units, Finance, Administration and Control, Corporate & Legal Affairs, International Legal Affairs, Public & Economic Affairs, Mergers and Acquisitions, Investor Relations, International Affairs and General Counsel), Group Communication, which includes "Progetto Italia" and Communication & Image, Telecom Italia Latam and Telecom Italia International.

OPERATING COSTS

(millions of euro)	2005	2004 (1)	Change amount	Change %
Staff Functions	(360)	(382)	22	(5.8)
Group Communication	(54)	(57)	3	(5.3)
Corporate LATAM + TI International	(37)	(37)	–	–
Subtotal	**(451)**	**(476)**	**25**	**(5.3)**

(1) Restated to take into account the different organizational structure.

The data presented includes costs received and recharged for the activities performed by the Service Units, except for Information Systems, which are comprised in Informatics (the following table).

Service Units

Service Units include the operational service activities performed for the Business Units/Central Functions/ Group Companies. The data shown takes into account internal exchanges within Telecom Italia S.p.A.

OPERATING COSTS

(millions of euro)	2005	2004 (1)	Change amount	Change %
Real Estate Activities and Services	(705)	(707)	2	(0.3)
CSA	(51)	(52)	1	(1.9)
Security	(69)	(68)	(1)	1.5
Purchasing	(33)	(30)	(3)	10.0
Welfare	(25)	(25)	–	–
Other (2)	(105)	(104)	(1)	1.0
Internal eliminations A	*33*	*47*	*(14)*	*n.s.*
Subtotal Service Units (A)	**(955)**	**(939)**	**(16)**	**1.7**
Innovation & Engineering services (ex TILAB)	(125)	(132)	7	(5.3)
Informatics	(256)	(256)	–	–
Eliminations ex TILAB and Informatics	*1*	*3*	*(2)*	*n.s.*
Subtotal Service Units (B)	**(380)**	**(385)**	**5**	**(1.3)**
Eliminations with Subtotal A	*32*	*28*	*4*	*n.s.*
Total Service Units	**(1,303)**	**(1,296)**	**(7)**	**0.5**

(1) Restated to take into account the different organizational structure.
(2) Includes Telecom Italia Audit, Telecom Italia Learning Services, TI Finance and other companies.

Real estate activities and services

Tiglio Project (Real Estate Funds)

Under the second phase of the Tiglio Project – which calls for an end to the process of appreciating the real estate assets held by Tiglio I and Tiglio II by contributing the assets to real estate funds or concluding individual sale transactions – in July, the placement of the shares on the market of the real estate investment fund "BERENICE - FONDO UFFICI - Closed-end Real Estate Fund" to public and institutional investors was closed.
The fund is seeded by 54 properties from five private parties including Tiglio I (8 buildings) and Tiglio II (37 buildings). The overall market value of the real estate assets of the Fund is approximately euro 860 million, to which about a 13% discount was applied by virtue of their

transfer in bulk. The contribution value was thus equal to approximately euro 750 million whereas the value of the Fund, net of financial debt, is equal to approximately euro 300 million.
The global offer, 93% of which was intended for the retail public in Italy, was successfully closed on July 14, 2005; trading on the stock market of the remaining amount, set aside for Italian and foreign institutional placement, began on July 19, 2005.
In September 2005, the companies Tiglio I and Tiglio II distributed capital from additional paid-in capital, respectively, for euro 29.7 million and euro 33.1 million to Telecom Italia S.p.A. Furthermore, the company, Tiglio II, voted to pay dividends and Telecom Italia S.p.A. is entitled to a total of euro 11.4 million, of which euro 8.9 million has already been received and euro 2.5 million is still to be collected.

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In addition, as part of the process to rationalize the real estate services of the Group, Tim Italia, with effect on August 1, 2005, transferred the "Purchases/Properties and Services" business segment consisting of 62 resources to Telecom Italia S.p.A.; with effect on July 1, 2005, Telecom Italia S.p.A. sold the "Territorial Security Centers" business segment made up of 104 units to Tecnosis S.p.A..

Sale of properties

As part of the activities to reorganize the physical space occupied by network equipment to gradually free part of the buildings used for such equipment, the Board of Directors of Telecom Italia S.p.A. approved the transaction for the sale of more than 1,300 properties for a total amount of about euro 1 billion. Accordingly, on December 1, 2005, Telecom Italia S.p.A. transferred a first group of 867 properties for a value of euro 698 million to the company Olivetti Multiservices (OMS) and signed the relative lease contracts at the same time.

During December 2005, Telecom Italia S.p.A. and OMS also formalized two Framework Agreements (described below) aimed at conferring the assets to closed-end real estate investment funds:

- on December 23, 2005, Telecom Italia S.p.A. and OMS signed, with the company "Pirelli & C. Real Estate SGR S.p.A." and the companies "Doria S.r.l.", "Colombo S.r.l." and "Vespucci S.r.l." (in which stakes are held in the latter companies by The Morgan Stanley Real Estate Funds for 65% and by Pirelli & C. Real Estate SGR S.p.A. for 35%), the framework agreement for the contribution of real estate assets having a total value of approximately euro 790 million to the fund "Pirelli RE Fund - Raissa - Closed-end real estate investment fund". As part of this Framework Agreement, on December 28, 2005, the company OMS transferred to the Raissa fund a first group of 561 properties for a transfer value of euro 486 million, in addition to financial debt equal to euro 286 million assumed beforehand by OMS and transferred to the fund itself. The majority of the shares of the Raissa fund was placed with institutional investors in "The Morgan Stanley Real Estate Funds". Pirelli & C. Real Estate SGR S.p.A. has a 35% investment in the Raissa fund under a joint venture with the same Funds. The transaction generated a gross gain for the Group on consolidation of euro 186 million, and a positive impact on the consolidated financial debt of the Group of euro 392 million before taxes;

- again on December 23, 2005, Telecom Italia S.p.A. and OMS signed, with the company "Pirelli & C. Real Estate S.p.A." (on behalf of the company that was in the process of being set up, "Pirelli & C. Real Estate Opportunities SGR S.p.A.") and the company "Spazio Industriale II BV" (a company controlled by Cypress Grove International Funds"), the framework agreement for the contribution of real estate assets having a total value of euro 300 million to the fund "Spazio Industriale - Closed-end real estate investment fund for speculation". As part of this Framework Agreement, on December 29, 2005, the company OMS transferred to the Spaziale Industriale fund a first group of 246 properties for a transfer value of euro 177 million, in addition to financial debt equal to euro 152 million assumed beforehand by OMS and transferred to the fund itself. The majority of the shares of the Spazio Industriale fund was placed with institutional investors in the Cypress Grove International Funds. Pirelli RE has a 35% investment in the Spazio Industriale fund under a joint venture with the same Funds. The transaction generated a gross gain for the Group on consolidation of euro 83 million, and a positive impact on the consolidated financial debt of the Group of euro 176 million before taxes.

Informatics

After the merger of IT Telecom and EPIClink in Telecom Italia at the end of 2004 and with the new organizational structure of the Group introduced on October 5, 2005, a new organizational model was devised which calls for the allocation of the Information Technologies activities according to the following scheme:

Operations

The activities relating to the development and operations of the applications of the systems OSS - Operational Support System and BSS - Business Support System - and the development, design, delivery and management of VAS for the fixed telephony market have been transferred to Operations, with the aim being to integrate end-to-end processes so as to maximize the operational synergies between demand management and development activities. This structure also includes the activities for the realization and operation of the IT Group infrastructures (Data Centers) for the purpose of taking better advantage of synergies and encouraging the convergence processes. Such activities, transferred during 2005 to IT Telecom S.r.l., were, on December 30, 2005, partly spun-off by IT Telecom S.r.l. itself and by Tim Italia to the newly formed company Telecom Italia Data Center S.r.l. This latter company was merged in Telecom Italia on December 31, 2005.
IT Telecom S.r.l. will keep the Certification Authority business.

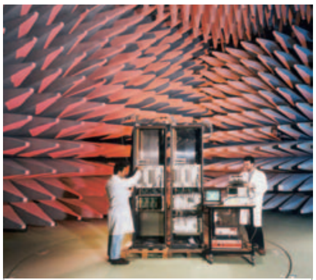
Central Functions

The activities relating to the definition of the reference architectures used in the projects of the Business Units have been transferred to Telecom Italia's Corporate Function with the aim of making IT Group strategies more uniform.

Activities in 2005

In addition to the normal infrastructural operations activities for Wireline BSS and Corporate applications, the following activities are worthy of note:

- start-up and completion of projects involving IT innovation associated with the rationalization of systems and Storage through the introduction of virtualization techniques which will augment the use of present resources;
- start-up and completion of the consolidation process of TIM's mainframe environment on the Telecom Italia systems in Bologna;
- start-up and completion of the process of taking over the infrastructures, monitoring and systematic support of services relating to the OSS applications of the Data Center in Via Oriolo Romano in Rome;



An anechoic chamber, one of TILab's work environments.

As far as Data Centers are concerned, in addition to normal operations, the following activities are worthy of note:

- the award of BS7799 certification for the processes of systems delivery & operations, Data Management infrastructures and Data Center technological systems, applied to the Data Centers in Bologna, Milan, Cesano Maderno, Rozzano, Pomezia and Bari;
- the reskilling program for technical staff working at the Data Centers. At December 31, 2005, there had been 15,115 hours of pure technical training attended by 187 employees. Reskilling activities have made it possible to internalize activities with higher added value, and to reduce the number of external employees from 122 at the beginning of the year to 38 at December 31, 2005.

With regard to the Certification Authority, in addition to the activities of digital certification within the Telecom Italia Group, the following activities are worthy of note:

- for the Lombardy Region, work continued to implement the service platform for the population with the issue of more than 5,000,000 authentication certificates;
- for the Ministry of the Interior, a customized messaging service has been released, based on the Certified E-mail standard, for users nationwide;
- within the sphere of projects concerning integration with TIM Italia, testing has begun which involves using the SIM card of a mobile phone as material support for the use of digital certificates for various applications.

International holdings

Entel Bolivia Group
Held by: Telecom Italia International through ICH/ETI 50%

The Entel Bolivia group (consolidated line-by-line) operates in the wireline (particularly long-distance national and international telephone segments), mobile, internet, data transmission, telex and telegraphy segments in Bolivia.

During 2005, the wireline business focused on consolidating the Wi-Fi service in the principal cities, on launching the "Free Dial-up Internet" service and on the promotional campaign for both the national long-distance calls "marca el 10", and for those made from Entel locations. Furthermore, the "yellow pages" guide was greatly improved by introducing new value-added services.

At December 31, 2005, fixed lines number 57 thousand and represent an increase of 14.0% compared to December 31, 2004 (50 thousand).

In the mobile business, the group has maintained its leadership position on the market and achieved a market share of 60% at year-end. The policy to promote GSM cards, as opposed to those using TDMA technology, has continued. Moreover, in the third quarter of the year, the technical platform for Edge was made available for testing in the major cities and the commercial launch is planned for the first quarter of 2006.
In January 2005, the converging fixed-mobile invoicing system came into operation.

The group's mobile clientele, numbering 1,447 thousand at December 31, 2005, increased by 26.3% compared to December 31, 2004 (1,146 thousand), even after the elimination, in November, of clients which did not generate traffic.
As previously indicated, on July 19, 2005, International Communication Holding N.V. ("ICH"), a wholly-owned subsidiary of Telecom Italia International N.V., signed a preliminary sales agreement with Cooperativa de Telecomunicaciones de Santa Cruz Cotas Ltda ("Cotas") for the sale of its investment (100%) in Euro Telecom International N.V. ("ETI"), which, in turn, holds a 50% stake in the capital of Gestore Empresa Nacional de Telecomunicaciones S.A. ("Entel Bolivia"). This agreement was annulled on December 22, 2005 as a result of the failure of the suspensive conditions to occur.
In reference to the reimbursement of capital approved by the Extraordinary Shareholders' Meeting of Entel Bolivia on September 20, 2005, equal to BOB 3,202,247,000, Euro Telecom International N.V.("ETI"), a Dutch company wholly-owned by Telecom Italia International through International Communication Holding N.V. ("ICH"), a 50% shareholder of Entel, received, on October 28, 2005, its share of the reimbursement equal to euro 162.9 million.

Telecom Argentina Group
Held by: Telecom Italia and Telecom Italia International through Nortel Inversora/Sofora 13.97%

The Group operates in sectors of wireline and mobile telephony, internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.
Land lines number 3,625 thousand at December 31, 2005 and increased by 4.0% compared to December 31, 2004 (3,484 thousand).
In the mobile business, the customer base increased by 56.8% compared to December 31, 2004, reaching 6,801 thousand (of which 9.6% is in Paraguay). The level of penetration of mobile services in Argentina is 57%.
The number of post-paid customers doubled compared to 2004 and represents 32.8% of the total customer base (against 25.3% in the prior year). In 2005, a sizable part of the clientele migrated from TDMA to GSM.
The debt restructuring plan begun in June 2004 and fully described in the 2004 Annual Report was completed on August 31, 2005 according to the terms established by the APE - Acuerdo Preventivo Extrajudicial – and approved by the relevant judge on December 28, 2005.
This restructuring mainly involved the issue of new negotiable bonds and the payment of an

amount in cash to cancel the previously pending debt. In the year 2005 shareholder's equity of Telecom Argentina was positive and consequently the carring value of Sofora was adjusted to equity (euro 16 million).

Brasil Telecom Group
Held by: Telecom Italia and Telecom Italia International through Solpart, in which a 38.00% interest is held, plus the 1.13% direct holding by Telecom Italia International

The company operates fixed telephone services in Region II (Paraná, Santa Caterina, Districo Federal, Tocantins, Mato Grosso, Mato Grosso del Sul, Rondonia, Rio Grande del Sul, Acre and Goias) covering about 2.8 million square kilometers (33% of the total area of the country), a population estimated at approximately 43 million (23% of the total population) with three metropolitan areas of more than one million inhabitants including Brasilia, the capital of the nation.
Brasil Telecom has one of the largest telecommunications networks in Brazil with a vast offering of services for telecommunications, fixed telephony, broadband and narrow band, free internet, data transmission and mobile telephony launched at the end of 2004, using GSM technology.
The land line customer base at December 31, 2005 reached 9,560 thousand, with an increase of 57 thousand compared to December 2004. The Broadband service shows a sharp increase with 1,014 thousand lines at the end of December 2005, corresponding to growth of more than 89% compared to December 2004.
The mobile business has 2,213 thousand customers at December 31, 2005; this is an increase of 1,591 thousand compared to December 2004 (622 thousand).
Brasil Telecom's market share of mobile telephony at December 31, 2005 is 8.7% of the total region.

On April 28, 2005, TIM Brasil, and Brasil Telecom reached an agreement to better exploit the synergies arising from the integration of the fixed platforms with the mobile platforms. The agreement, which envisages a series of measures which requires approval by the competent Brazilian authorities, provides for:
- the merger, by incorporation, of Brasil Telecom Celular (BRTC), a wholly-owned subsidiary of Brasil Telecom operating in Region II (which includes nine States in South and Central-East Brazil), in TIM Brasil;
- the development of sales and marketing activities, combining the technological know-how, the offering of services and the distribution network of the two companies;
- the elimination of existing overlapping and the optimization of the licenses and the infrastructures of the two companies. In particular:
- the relinquishment of TIM Brasil's long distance licenses and the utilization of the carrier services of Brasil Telecom;
- the availability of Brasil Telecom's sites and infrastructures for use by TIM Brasil, accelerating the programs to expand coverage of the network.

This agreement also responds to the requests of the Brazilian National Regulatory Agency (ANATEL) to resolve the problems surrounding the overlapping of the mobile and long-distance licenses of these two operators.
The execution of the agreement between BTC and TIM Brasil and the planned merger is currently pending as a result of legal challenges initiated by some of the indirect co-shareholders of BT on various fronts.
At the same time, an agreement was sealed between Telecom Italia International, the other co-shareholders in Solpart, Techold and Timepart, as well as Solpart, Brasil Telecom Participaçoes and Brasil Telecom whereby Telecom Italia International reclaimed its role as an industrial partner in Brasil Telecom following the cessation of the disputes concerning the reinstatement of its governance rights (temporarily suspended under the August 2002 contract). Therefore, by virtue of Telecom Italia International's governance rights, beginning from the interim financial statements for the first half of 2005, the equity method used to account for the investment in Solpart, which had been suspended in 2002, was once again used to value the investment in Solpart in the consolidated financial statements of the Telecom Italia Group. The positive effect on the statement of operations amounts to euro 94 million and the total carrying amount of the investment is euro 214 million.

On September 30, 2005, the Brasil Telecom shareholders' meeting renewed the entire board of directors, also appointing two directors, and respective alternates, designated by Telecom Italia International.

At the same time, a further agreement was reached with Opportunity which provides for:

- the purchase, by Telecom Italia, of the investments held by Opportunity in Opportunity Zain (indirect parent company of Techold) and in Brasil Telecom Partecipaçoes. Such purchase will take place after a possible agreement is sealed with the other shareholders of Opportunity, or at the latest, in 24 months;
- overcoming, via a settlement and beforehand, a series of claims laid by Opportunity, for at least USD 300 million, which could have been initiated legally against the Group.

The agreement provides for the payment of USD 378 million by Telecom Italia (for the purchase of the investments) and USD 65 million as a settlement. This latter amount was paid in June 2005, whereas the purchase of the investments held by Opportunity and the payment of the relative price is contingent upon the occurrence of specific suspensive conditions stated in the agreements.

Alternative performance measures

In this Report on Operations and in the consolidated financial statements of the Telecom Italia Group at December 31, 2005, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS.

These performance measures are presented for purposes of a better understanding of the trend of operations of the Telecom Italia Group and should not be construed as a substitute for the operating, equity and financial information required by IFRS.

Specifically, the non-IFRS measures used are described as follows:

- **Underlying Growth of Revenue, EBITDA and EBIT**. The underlying growth expresses the percentage change in Revenue, EBITDA and EBIT, excluding "exceptional items", the effects of exchange differences, the change in the scope of consolidation and activities considered to be in the start-up phase.
  The Telecom Italia Group deems that the presentation of such additional information allows the Group's operating performance to be interpreted in a more effective manner.
  Underlying Growth is also a measure used in presentations made by the Telecom Italia Group to analysts and investors.
  The Report on Operations of the Telecom Italia Group provides details and graphically represents the operating amounts used to arrive at the Underlying Growth.

- **Operating result before Depreciation and Amortization, Capital Gains/Losses Realized and Impairment Reversals/Losses of Non-current Assets (EBITDA)**. This financial measure is used by the Telecom Italia Group as the financial target in internal business plans and in external presentations (to analysts and investors) and represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and of the individual Business Units, in addition to the Operating Result (EBIT).
  As shown in the statement of operations presented in the Report on Operations, EBITDA is an intermediate financial measure that comes from the Operating Result (EBIT) to which the following are added or subtracted: certain non-monetary costs/income (Depreciation and Amortization, Impairment Reversals/Losses of Non-current Assets) as well as Capital Gains/Losses Realized on Non-current Assets (excluding those relating to discontinued operations/assets held for sale and those arising from the sale of equity investments other than consolidated companies).

- **Net Financial Debt**. The Telecom Italia Group maintains that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations, represented by Gross Financial Debt less Cash and Cash Equivalents in addition to Financial Assets.
  A table is presented in the Report on Operations that shows the amounts taken from the balance sheet and used to calculate the Net Financial Debt.

Sustainability Section

Context

"To Telecom Italia Group Sustainability is a business value, a tool for planning, management and control".

For the past nine years Telecom Italia Group has been publishing a special report about its performance towards stakeholders on which the Group depends and, at the same time, influences by its own activities: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources, Shareholders.

The Sustainability Section is included in the Annual Report, thus confirming the intention of the Group to present its financial performance together with the non-financial one.

Acknowledgements

The inclusion of Telecom Italia S.p.A. in both the categories of indexes managed by Dow Jones has been confirmed:
– The Dow Jones Sustainability World Indexes (DJSI World), including 317 companies from 24 Countries, Sustainability leaders at World level;
– The Dow Jones STOXX Sustainability Indexes (DJSI STOXX), including 156 companies from 12 Countries, Sustainability leaders at European level.

Telecom Italia S.p.A. has also been confirmed as a component of all the significant indexes (tradable and non tradable) of the FTSE4Good:
– FTSE4Good Global (740 companies): the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index;
– FTSE4Good Europe (290 companies): the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index.

Telecom Italia S.p.A. is also included the following indexes:
– ESI (Ethibel Sustainability Index): the Global index includes 180 securities, while the Europe index includes 84 securities;
– E.Capital Partners - the Global index consists of 300 securities while the Europe index consists of 150 securities;
– ASPI (Advanced Sustainable Performance Index) Eurozone includes 120 companies selected by the Vigeo agency;
– Axia: the Italian Corporate Social Responsibility index includes 30 companies while the European index consists of 40 companies.

Telecom Italia S.p.A. has been ranked among the best 100 companies at world level with reference to the quality of its Sustainability reports in the "The Global Reporters 2004 Survey" conducted by the specialised agency SustainAbility in collaboration with UNEP (United Nations Environment Programme) and the rating agency Standard & Poor's.

The Corporate Governance of the Telecom Italia Group has earned a 7+ score (on a 10-point scale) by Standard & Poor's Governance Services. This very positive rating achieved in 2005 reflects in particular the improvements in terms of transparency and quality of internal controls.

Results

- Telecom Italia Group has presented to the Financial Community its Sustainability Model, meeting in London the representatives of some Investors specifically focused on Socially Responsible Investment (SRI). The meeting was based on a presentation by the Chief Financial Officer (CFO) of the Group, followed by a session of "Q & A" and by some one to one meetings. The financial analysts expressed their appreciation for the Group Sustainability Model and offered some useful suggestions for future improvements.

- Two significant events have been organised by CSR Europe, an European organisation promoting corporate responsibility, of which Telecom Italia S.p.A. is a member:
  - the launch of the "European Roadmap of Businesses towards a Sustainable and Competitive Enterprise". The Group took part in the drawing of the document, of which Chairman M. Tronchetti Provera has been "Sponsor Ambassador" together with five other leaders of large multinational companies. The Roadmap outlines objectives and strategies aimed at consolidating the commitment of European companies on Sustainability and appeals to EU in order to integrate Corporate Responsibility into the Lisbon Strategy on competitiveness as well as to define a European Strategy on Corporate Responsibility;
  - the "European MarketPlace" on Corporate Responsibility, during which European companies presented 100 projects particularly significant in terms of application of the Corporate Responsibility concepts to business. The Group presented the projects "The intangible assets of Telecom Italia Group" coordinated by the Group Sustainability Department and "Dream Mission" coordinated by Progetto Italia.

- The Group took part in the meeting "Business Contribution to the Millennium Development Goals", the objectives identified by the United Nations (UN) to achieve equity and solidarity at world level.
  During the round table on Public Governance the representatives of the Group illustrated two proposals:
  - to create an Authority USA/EU committed to the definition of projects, to the control of consistency with respect to targets and to the control of investments;
  - to assess the convergence between EU and USA accounting principles, in order to integrate the financial and non financial performance in an equitable and sustainable business context.

- Telecom Italia S.p.A. took part in the consultations of European Commissioners Verheugen (Commission Vice President, Commissioner for Enterprise and Industry) and Spidla (Commissioner for Employment, Social Affairs and Equal Opportunities) to launch an "Alliance" between the European Commission and the European companies committed to Sustainability, in order to make Europe a pole of excellence on CSR. Such Alliance should be formalised in the first months of 2006 and involves the following activities:
  - raising awareness and improving the knowledge of CSR;
  - developing cooperation on the CSR issues;
  - ensuring a favourable environment for the development of CSR in Europe.

- With the aim of improving awareness on the Sustainability model adopted by the Group a training plan has been launched. The initiative also aims at favouring the dialogue among people operating on this issue and to standardise common knowledge.
  The following initiatives have been organised:
  - publication of a 40-page booklet intended for the about 1,400 managers operating in Italy;
  - publication on the Intranet portal of an e-learning multimedia product initially intended for managers operating in Italy and subsequently for all the Group staff;
  - realisation of classroom courses intended for staff responsible of Sustainability and the relevant data (data owners) to be held at all the central departments and Business Units of the Group.

- The guidelines relative to an "Antitrust Compliance Program" are being defined.
  The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but on the contrary an essential asset for business activities.

Objectives 2006 - 2008

In order to improve support to customers as far as the two main supply processes of the fixed telephone service, that is line connection (both traditional and high speed ADSL) and technical service, the "Evolution" project has been launched, described in detail in the "Customers" section.

The following environmental targets have been defined:
- Energy: optimising consumption.
- Waste: promoting the differentiated collection.
- Paper: promoting the reduction of consumptions and the use of recycled paper.
- Emission of carbon dioxide: reducing emissions by the corporate car fleet and by heating systems.
- Electromagnetic emissions:
  - promoting the SAR qualification (Specific Absorption Rate) for mobile terminals;
  - optimising the management of the electromagnetic field intensity for Base Transceiver Stations.

Dedicated work teams will be organised in 2006 to make sure that business management is oriented to the respect of targets.

During the year a policy concerning human rights and labour standards will be defined and applied to all subsidiaries, thus assuring adequate protection in the various countries where the Group operates.

The year 2006 will also see the definition of another policy concerning the methods adopted by Telecom Italia Group in its relationships with suppliers, to safeguard ethical, environmental and social values, consistently with the principles of the Code of Ethics of the Group.
Such policy will be published on the website http://suppliers.telecomitalia.it/ to enable consultation and sharing by all suppliers.
To ensure the respect of such policy special control procedures will be applied to the entire supply chain.

The section dedicated to Sustainability of the Group website is being reorganised in order to provide the best information service to analysts, investors and other stakeholders.

The Group is currently working to the definition of an evaluation model for intangible assets, that generally are not represented by the traditional accounting reports. The ability to innovate, human resources, the quality of service, the respect for the environment and local Communities all concur to non-financial performance, considered with increasing interest by the market. The results achieved will be presented in a convention at the Bocconi University of Milan.

Telecom Italia takes part in the drafting of guidelines aimed at minimising energy consumptions for broadband technology. The initiative has been promoted by the European Union through the Joint Research Centre and involves the most important players of the sector in the drafting of a Code of Conduct defining power management methods and technical solutions to contain energy consumptions, both by customers and providers.

References

The strategy and programs for Sustainability have been defined and implemented by Telecom Italia Group considering the guidelines issued by the most important organisations operating at world level for the orientation and standardisation of Corporate Responsibility.

> Since 2002 Telecom Italia has adhered to the principles set out by Global Compact, the most important initiative at world level, launched in 2000 by the United Nations, to promote the environment conservation, the respect of human rights and labour standards, and anti-corruption practices.

The management system for Sustainability also takes into account the main international standards specifically concerning the various stakeholders:
- the ISO 9000 and ISO 14000 certifications for Quality and Environment Management Systems, ensuring the quality of service to customers and the safeguard of the Environment;
- the Social Accountability 8000 (SA8000) standard, aimed at favouring the respect of human rights and labour standards by companies and by their suppliers;
- the methods suggested by the London Benchmarking Group (LBG) for measuring investments in the Community;
- the principles stated in the Conventions of the International Labour Organization (ILO) for the respect of the fundamental rights of workers.

The Group Corporate Governance system, aimed at protecting Shareholders and conforming to the Code of Ethics, reflects the highest national and international standards.
The basic principles are the central role of the Board of Directors and of independent Directors, the transparency of management choices, the effectiveness of the internal control system and the strict control of potential conflicts of interest. The internal control system integrates the Organizational Model, ex Legislative Decree dated June 8, 2001, No. 231, aimed at preventing offences listed in the same and including corruption, extortion and corporate crimes. Further information is included in the "Corporate Governance" section of this Annual Report.

Charters, Codes and Values

The Charters of Services describe the principles of conduct with regard to customers and the commitments undertaken by the main companies of the Group in terms of quality of the service. The Charter of Services and the General Subscription Conditions of Telecom Italia are available on the company's website (www.187.it).

Codes, procedures and principles supporting the governance system are available in the appropriate section of the www.telecomitalia.it website and on the Group Intranet, providing easy access to all the staff.

The pillar of the system is the Code of Ethics, representing the primary component of the organisational model and of the overall internal control system of Telecom Italia Group, founded on the belief that ethics in the conduct of business is a requirement for business success. The respect of the Code of Ethics is a requirement for governing bodies, management and employees of all the Companies of the Group, within the boundaries of their competences, functions and responsibilities.

The commitment of the Group to ethics issues is confirmed by the fact that also for the triennium 2006-2008 Sustainability is included among the Group objectives established by CEOs Carlo Buora and Riccardo Ruggiero. The objectives identified are the basis of the risk management system CRSA (Control and Risk Self Assessment), described in detail in the section "Shareholders".

The System of Values adopted by Telecom Italia is a constant benchmark of conduct for all the Group's employees, creating a sense of belonging to a single organisation.

Concerning executive staff, the Group System of Values involves the adoption of a Managerial Model, that is a synthesis of the standards of conduct to which the Group managers are expected to conform in their dealings with the business objectives.

Values	**Managerial Model**
Customer focus	Central importance of the customer
Taking responsibility	Creation of value
Innovation	Investing in people
Pro-action	Management of change
Efficiency	Networking and integration
Integration	
Transparency	
Professional excellence	

The year 2005 has seen the realisation of the Project for Values, known through the brand "Values in Progress", an initiative promoted by the Company's top management and aimed at improving the spread of values with special reference to transparency, customer focus, integration. During the year the Project has involved about 3,000 people in workshops, laboratories, training.

Reporting and planning

The analysis of the performance and the relevant reporting are based on a multi-stakeholder approach and on a set of approximately 300 KPI (Key Performance Indicators) developed taking into account the GRI (Global Reporting Initiative) indicators, based on the principles of Global Compact, the Social Statement indicators, developed by the Ministry of Labour and Social Politics within the framework of the project CSR-SC and the questionnaires sent by the main rating agencies (SAM for Dow Jones Sustainability Indexes, EIRIS for FTSE4Good, SIRI) for the purpose of admission to the Sustainability stock-exchange indexes.
The KPIs are grouped in macro areas relevant to the main themes being analysed.
The KPIs are managed through the centralised software platform “Everest”, also used to manage other Company's applications governing accounting, financial and control processes. This also allows data sharing among the various platforms, thus ensuring the maximum integration of Sustainability in the other Company's processes.

A Sustainability Evaluation Form has to be filled in for all the investment projects exceeding a defined amount that have to be submitted to the Investment Committee for approval.
The Evaluation Form has to report the impact in terms of Sustainability of the investment: the project managers are required to indicate whether the project submitted for approval is going to have a positive, negative or neutral impact in terms of Sustainability on some relevant areas identified for each stakeholder.
The evaluations reported on the investment forms, together with other projects reported by the Sustainability key persons for each Corporate department, are included in the Sustainability Plan, that covers 3 years.

DJSI (Dow Jones Sustainability Indexes): equity indexes including companies meeting defined Sustainability parameters, managed by Dow Jones in co-operation with SAM (Sustainable Asset Management).

FTSE4Good (Financial Times Stock Exchange): equity indexes including companies respecting defined standards of responsibility, managed by FTSE in co-operation with EIRIS (Ethical Investment Research Service).

SIRI (Sustainable Investment Research International Company): company operating in the SRI (Socially Responsible Investment) sector providing research and consultancy services.

Hot Topics

Telecommunications may substantially contribute to the improvement of the quality of life and of the environment. Audio and videoconference systems, telework, e-goverment and e-learning decrease transfer needs and consequently atmospheric emissions, increasing at the same time the potential access to tools and contents that until recently were available to a minority of people.
Distance among people is thus decreased and human relationships are generally made easier, but only if the new technologies are available to everybody. It is important that the ICT (Information and Communication Technology) operators ensure access without exclusion to their services, favouring the so-called “digital inclusion”.
The diffusion of innovative technologies, allowing the exchange of ever increasing volumes of data, involves possible data confidentiality problems and therefore the safeguarding of privacy. The multiplicity of contents easily accessible on the web involves the problem of protecting subjects potentially at risk, such as minors. For several years electromagnetism has been the subject of much debate within the scientific community and public opinion and is a relevant topic for the operators of the sector. Also significant is the attention to the respect of human rights and of labour conditions, most of all in developing Countries.

The sections describing the position of the Group on Sustainability hot topics are listed below:

– **Digital inclusion**
  - Training interventions in schools (section “The Community” - p. 104).
  - Services specifically devoted to elderly and disabled people (section “Customers” - p. 77 and section “The Community” - p. 105).

- Future Centre and Science Festival (section "The Community" - p. 103).
- Special initiatives with reference to competent international organisations such as International Telecommunications Union (ITU) (section "Competitors" - p. 82).

– **Electromagnetism and impact on local communities**
  - Technologies applied and control of emissions (section "The Environment" - p. 95 and following).

– **E-security**
  - Scientific research and protection measures applied (section "Customers" - p. 75).

– **Privacy**
  - Measures for the safeguarding and protection of data (section "Shareholders" - p. 122).

– **Protection of minors with respect to on-line contents**
  - Codes of conducts endorsed and protection measures applied (section "Customers" - p. 76).

– **Labour and human rights in Latin America**
  - Specific actions implemented in subsidiaries located in Brazil and Bolivia (section "Human Resources" - p. 120).

Further information is available from the Sustainability section of the Group website.

Added value and stakeholders

The following tables show the added value of Telecom Italia Group, calculated on the basis of accounting data, its distribution among stakeholders and the related contribution (the values for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

ADDED VALUE

(millions of euro)	12.31.2005 (a)	12.31.2004 (b)	Change % (a-b)/b
Standard production value [1]	30,409	29,010	4.8%
Raw materials and external services	(12,937)	(11,812)	9.5%
Gross added value	**17,472**	**17,198**	**1.6%**
Other items [2]	1,913	1,311	45.9%
Added value	**19,385**	**18,509**	**4.7%**

(1) Includes profits, work in progress change, inventory change, costs for internal works capitalised, contributions for operating expenses.
(2) Represent the balance between the following items of the income statement: other operating costs/other operating income, dividends distributed, value adjustments to financial assets, net income from equity investments, financial income, loss and profit from actualisation, loss and profit on exchange rates, end of year result owing to Parent Company or third parties, Discontinued Operations.

DISTRIBUTION OF ADDED VALUE AMONG STAKEHOLDERS AND OTHER PARTIES

(millions of euro)	12.31.2005 (a)	12.31.2004 (b)	Change % (a-b)/b
Employees	2,868	2,840	1.0%
Institutions	3,524	3,724	(5.4%)
of which:			
• Social security costs	807	803	0.5%
• Income taxes	2,395	2,654	(9.8%)
• Indirect taxes	141	153	(7.8%)
• TLC license fees	181	114	58.8%
Shareholders	2,342	2,780	(15.8%)
Financers	5,113	4,093	24.9%
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	5,538	5,072	9.2%
Added value distributed to stakeholders	**19,385**	**18,509**	**4.7%**

CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)		
Suppliers [1]	16,509	Consumption of raw materials and external services, industrial investments
Institutions [2]	3,524	Expenses, taxes and state contributions
Employees	2,868	Cost of labour net of compulsory contributions
Shareholders	2,342	Dividends deliberated
Financers	5,113	Interest and other financial costs

(1) The breakdown of the contribution to this stakeholder is described at the section "Suppliers".
(2) The breakdown of the contribution to this stakeholder is described at the section "Institutions".

Customers

Fixed-mobile integration

The Group is currently implementing the integration between fixed and mobile telephony, in order to get the best out of the opportunities arising from the growing convergence among technological platforms and from market development.
The evolving technological trends favour interaction both among the various infrastructures for voice/data transfer, and among offers of telecommunications and related sectors, such as information technology, media and consumer electronics, thus offering to operators the opportunity to develop new services and to improve the management and development of network infrastructures.
The spreading of the IP protocol for voice, data and video transfer, the availability of new broadband technologies for wireless access to the fixed network, the growing usage of advanced multistandard terminals, are just some among the many factors that motivate the fixed-mobile convergence.
Thanks to its ongoing integration process, the Group is able to offer top innovative services and to meet the increasingly complex communications needs of its customers, wherever they are and whichever technological media they use.

Focus on customers

The initiatives launched by the Group in view of improving customer satisfaction are described below:

- Within the framework of performance related compensation, Telecom Italia S.p.A. has a target relative to customer satisfaction. In fact, besides the income indicator (Gross Operating Profit), a Customer Loyalty indicator has a 30% incidence on performance related compensation. The latter indicator is an average of customer satisfaction with regard to services, of Customer Relationship Management, image and technical quality.
- A project, called "Evolution", has been launched in order to meet needs and expectations of Telecom Italia's customers concerning the two main features of the fixed telephone service provision, that is, access (both traditional and high speed ADSL) and maintenance. "Evolution" represents Telecom Italia's commitment, and it spreads along a three-year span. The relevant activities are due to start in January 2006, involving over 20,000 people working in call centers or in technical departments. Over 100,000 man-hours will be devoted to developing new IT tools, over 20,000 people will be trained, and investments amounting to over euro 300 million will be added in a three-year span. The most important innovations concern on the one hand, the capability of estimating the required time for problem-solution and, on the other, transparency towards customers concerning the process of problem solution, thanks to a telephone service number, 187 or 191, from which the customer will obtain professional answers and precise commitments.
- Telecom Italia S.p.A. makes use of an "Integrated Feedback System", through which customer's opinions can reach strategic and managerial levels. Customers' needs are taken in consideration when developing new services or improving existing ones.
- In order to provide an independent assurance on the safety of its services, TIM has signed a Protocol with Legambiente, promising its full availability to Legambiente technicians during their controls relative to the Radio Base Stations safety. Further information is available in the paragraph "Electromagnetic emissions", section "Environment" of present report.
- Since July 1, 2004 Italian Mobile operators provide access to C.E.I.R., the Central Equipment Identity Register of the GSM Association. The system enables customers, in the event of theft or loss of their mobile, to contact the operator free of charge and communicate their IMEI code (the terminal identification serial number) asking to bar the handset. From July 1, 2004 to December 31, 2005 TIM Italia has barred – following requests from customers – 110,000 mobile phones (including those running on other mobile operators' networks, in accordance with the relative agreement) which had been stolen or lost; 2,600 of such phones have subsequently been reactivated after being found by the customers.
- The "VAS (Value Added Services) network" project was launched in 2005 for mobile phones and expanded to fixed telephone services in 2006. A network of the Group's employees has the task of testing added value services, thus providing feedback for the fine-tuning of new commercial offers and gaining information on customer behaviour.

Effectiveness of CRM

The Group has adopted a multi-channel approach to CRM (Customer Relationship Management), providing customers with technical support centres, toll-free numbers and websites, each devoted to some particular kind of service and country.
The Group's CRM systems:

- provide information and technical support;
- manage customer calls either directly (One Call Solution) or activating the proper departments in charge of solving the detected problem;
- update customer profiles, keeping track of calls received by call centers;
- manage commercial contacts, sell and activate contracts.

The CRM staff is adequately trained from the technical and behavioural viewpoints and is supported by a portal providing guidelines for solving problems, in a One Call/On Line Solution perspective.

Customer Satisfaction is monitored on a monthly basis, through external telephone surveys on the quality of Customer Care. Feedback is focused in particular on customers' perception of the main components of service (access, courtesy and competence of the CRM Front End), besides Overall Satisfaction.
A systematic analysis of results is conducted in order to identify points of strength as well as areas for improvement, in order to plan and implement the appropriate corrective actions should critical issues be identified.

Customer satisfaction on customer care

	Customer segment	Overall satisfaction	Courtesy of operator	Competence of operator
Fixed Telephony	Consumer (1)	69.5%	93.6%	84.4%
	Business (2)	59.7%	91.9%	78%
Mobile Telephony	Consumer (3)	86.3%	– (5)	– (5)
	Business (4)	78.5%	– (5)	– (5)

(1) Satisfaction with customer service provided by 187; 2005 average.
(2) Satisfaction with customer service provided by 191; 2005 average.
(3) Satisfaction with customer service provided by 119; 2005 average.
(4) Satisfaction with customer service provided by business toll-free numbers; 2005 average.
(5) Not detected.

Innovation

Some among the most significant innovations introduced by the Group are detailed below:

Main innovations introduced on the Italian market in 2005

Wireline	**Telephony**	• Introduction of videophones with innovative features, such as remote upgrade and SIM card reader.
	Internet	• Launch of the new high speed profile "Alice 4 Mega"; to expedite usage of multimedia services on the web the launch was preceded by a speed upgrade from 640 Kbit/s to 1.2 Megabytes and subsequently from 1.2 to 4 Megabytes for Flat-rate plan offers, without increase of the monthly subscription fee paid by the customer. • The "Alice Mia" offer has been enhanced adding the option "Alice Mia Dect", the VoIp offer by Telecom, which uses the Dect/Gap telephones currently being marketed, such as the innovative Aladino telephones. • The "Alice Business" offer has been enhanced by two new options: "Alice business Voce", the VoIp offer for SOHO businesses (Small Office Home Office) allowing unlimited calls towards the fixed network against a flat rate, and "Alice Business Mobile", allowing access to broadband services also through a TIM Windows mobile palmtop.
	IPTV	• A trial of the IPTV (Internet Protocol TV) service has been launched in July involving over a thousand families: through an ADSL connection the service allows access to several programs and video content with high quality images. The commercial launch of the service will involve 21 towns, that is over 4 millions of families.

	VAS	• The new "Teleassistenza" service is available since June. A tele-assistance centre is operating over the 24 hours and may be called in case of need. • The offer relative to the management of business Desktops has been enhanced adding palmtop devices. • The "LAN Management" offer has been enhanced by a Governance Room for remote hardware and software service to customers. • The "ICT Security" offer has been enhanced adding the Real Time Security Monitoring services.
Mobile	**Network upgrade**	• The development of "TIM Turbo" in terms of coverage and data transmission speed is continuing. TIM Turbo, thanks to the EDGE and UMTS integration, allows access to the advantages offered by third generation services (3G) to the entire population covered by the GSM network, including residents of remote areas, thus contributing to the decrease of the Digital Divide. • TIM completed the upgrade of the GSM platform in support of the EDGE service through the related microcellular network coverage. • The development of UMTS continues according to a faster schedule than required by licence restrictions, aiming at increasing population coverage. UMTS coverage of 80% of the population (outdoor coverage) is planned to be achieved by 2007 through the implementation of about 11,000 Radio Stations.
	3G services	• "Turbo Call" allows two users to share and exchange in real time, anytime during a vocal call, multimedia content such as images, photos, videos. • The "Videochiamata TIM" from WEB service allows TIM customers to start or to receive videocalls from other TIM customers equipped with a videophone, directly on their home computer. This service only requires a computer equipped with the videocall software customised by TIM and an Internet connection. • The fixed-mobile videocall service allows TIM customers to start or to receive videocalls from a fixed network videophone.
	Other services	• The "TIM Talk" service is a "Voice over IP" application, based on the "Push to Talk over Cellular (PoC)" technology; it allows business customers to use the Walkie Talkie functions directly on their mobile phone, offering a one to one (between two customers) and one to many (between a sender and several recipients at the same time) communication mode. • The handset portfolio and the offer for TIM Mobile Office were enhanced thanks to the introduction of the Treo 650 EDGE terminal, the first smartphone with the Palm One operating system. The Treo is a particularly useful smartphone for the management of mobile emails, it integrates a wireless email service, a compact GSM/GPRS/EDGE mobile phone and a Palm OS organizer. • "I.Music Store" is TIM's music service. TIM customers have access, directly from their WAP terminal or from their home computer, to a wide selection of music, ringtones, sound tracks. Tracks are protected by digital rights and may be unloaded on the mobile phone or computer and enjoyed anytime. • "FleetNET Easy" is a service for the localisation and monitoring of vehicle fleets, simplified thanks to the innovative NIMBLE platform (Non Intrusive Mobile Location Environment) owned by TIM. The localisation occurs by means of radio-mobile network cells: simple terminals may be localised (provided they are equipped with 128k SIM), thus there is no need of the installation of *ad hoc* terminals on the fleet. • The "Telepay ATAC" service allows TIM customers to avail themselves, seven days a week and 24 hours a day, of the offer by the Rome City public transport company, for the paperless purchase of tickets through SMS with payment by credit card.
Media	**Television**	• The trial phase concerning Digital Terrestrial Television (DTT) was concluded in 2004 and the first few months of 2005 saw the launch of the Pay Per View (PPV) on DTT trial. The sale to the public of PPV service started in the summer 2005. • Interactive applications usable via decoder have been launched in 2005 as well as the trial phase for DVB-H technology (enabling DTT on mobile phones).

Care for the quality of service

The main policies through which the Group states its commitment to the quality of service are its Charters of Services and the General Subscription Conditions, both available on the Company websites (www.187.it; http://www.azienda.tim.it/az_hpcanale/0,,39,00.html; http://www.la7.it/cartapiu/pagedettaglio.shtml?40).

The quality of service, as perceived by customers, is constantly monitored. Some parameters are listed below, out of the several being analysed:

- BU Mobile: customer satisfaction relative to the quality of the Italian network was positive for 90.5% of consumer customers and for 89% of business customers (2005 average);
- in December 2005 73% of customers was satisfied with ADSL services in Italy (overall satisfaction about the service);
- BU Olivetti: the quality of services and products is positively perceived by 80% of consumer customers (weighted average of 95% relative to services and 75% relative to products) and by 77.4% of business customers (weighted average of 75% relative to services and 88% relative to products).

In 2005 the Group's Quality Systems achieved the following certifications:

	Certification	**Company/certified activities**
Wireline	ISO 9001/2000	Departments: Network, Sales, Marketing & Customer Care, Innovation & Engineering Services, ICT Operations
		Subsidiaries: TI Sparkle, Elettra, Pathnet, Loquendo
	ISO 14001	Departments: Network, Innovation & Engineering Services
		Subsidiaries: TI Sparkle, Elettra
	Audiweb	Matrix
	BS 7799	Provisioning, Assurance and Accounting of the Housing and Hosting services
Mobile	ISO 9001	Departments: Network, Sales, Marketing, LAN Planning, Billing
	ISO 14001	Department: Network
	QWEB	Websites: www.azienda.tim.it; www.company.tim.it
	OHSAS BSI 18001	Various TIM territorial departments
	BS 7799	Activities related to information security (management of requests by judicial authorities)
Olivetti	ISO 9001	Business & Market Development, Product & Technology Development, Industrial operations, Market Communication
	ISO 14001	Olivetti Plant at Arnad

Service security

Telecom Italia has set up a specific research group exclusively focused on the security of information and of networks. Over the last three years more than 20 patent applications have been filed to protect innovations achieved in this field.

Concerning the design and implementation of security measures Telecom Italia stands out thanks to the implementation of the most advanced standards. The approach to security deals with all the physical and logical aspects of networks and services, as well as with organisational aspects. Operatively, the management of security on network and service platforms is based on the integration of security activities with the activities required by the traditional processes of infrastructure development, provision of service to final customers and consistency of service quality.

Security activities consist of a cyclic process articulated in three distinct phases: risk analysis and design of security measures; operational management of measures adopted; assessment and review of planned actions.

Protection of minors

The Group's companies implement measures for the protection of minors with respect to online content:

- TIM has contributed to the drafting of the "Code of conduct for premium services and protection of minors" and is asking its service suppliers to endorse it.
- Telecom Italia is a member of FEDERCOMIN, which has undersigned the "Code of self-regulation concerning Internet and minors".
- The Group's television companies, MTV and La7, are signatories of the "Code of self-regulation concerning TV and minors".

In compliance with the organisational model 231 adopted by Telecom Italia Group, the BU Mobile has implemented a procedure aimed at controlling and preventing the diffusion of juvenile pornography.
An "Abuse Desk" has been set up by TIM Italia and an organisational procedure has been adopted, defining roles and responsibilities concerning activities of prevention, reporting and management of occurrences involving the diffusion and advertisement of juvenile pornography through mobile services such as chats, iblogs, MMS application to person, links and banners displayed on institutional sites.

The Security department has the role of "Company officer" with respect to the Post and Communications Police Service. The procedure involves the institution of a "moderator" of chat and iblog services who is required to take immediate action through termination or suspension of any account identified as the author of the diffusion of illicit contents.
The moderator is required to take appropriate measures so that the illicit contents detected are made inaccessible to the public. The support and collaboration of external companies providing the above services on behalf of TIM Italia, is also requested. The process to extend such procedure to the entire Group is currently ongoing.

Incident Handling and Crisis Management [1]

The protection of the Group's processes and resources is managed through activities of prevention, incident handling and crisis management. Concerning prevention activities, a methodology has been developed in 2005 for Business Operational Continuity, currently applied by two Business Units, Media and Olivetti, as well as by TIM Brazil and some sites of the Italian fixed telephony network. The methodology involves three phases:

- Business Impact Analysis;
- Risk Analysis;
- Operational Continuity Planning.

The Incident Handling activities led to:

- the development of the Incident and Crisis Center for the collection, analysis and management of reports coming from all the Group's Companies;
- the definition of a detailed Group procedure for the management and assessment of incidents, also from the economic viewpoint.

The Crisis Management activities have been aimed at completing the Group Regulatory System, with the publication of the organisational procedure for emergencies and crises involving staff and physical assets.
In the month of February 2005 a test was carried out based on the simulation of a sudden computer attack. The test involved all the components of the Group and allowed to identify possible improvement areas.

(1) Considering their impact on the Community stakeholder the activities relative to Crisis Management are included at level 3 of the London Benchmarking Group scheme (see section "The Community").

Relationships with consumers' associations

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". After several agreement protocols, Telecom Italia Group signed in 1997 a Framework Agreement with 12 among the main Associations. The company continued to collaborate with the Associations in 2005, with meetings aimed at safeguarding the consumers' rights with regard to the Group's products and services.
CEO Riccardo Ruggiero has personally presented to the Associations the main projects of organisational development possibly affecting customers, as for instance the reorganisation of Customer Care services ("Evolution Project").

In general, collaboration with Associations involves informative meetings on the launch of new services and on the relevant contractual terms. A positive outcome of the collaboration with Associations is constituted by the "parity"(1) conciliation procedures, both traditional or innovative (on-line), that since 1991 have allowed the resolution of about 35,000 disputes with customers.

The Group takes part, as a founder member, in the Consumers' Forum, which brings together Consumers' Associations, companies and research institutes. The Forum deals with consumerism themes. Within this framework the Group attends – from the organisational viewpoint – to the initiatives of joint training between Companies and Associations with regard to Conciliation. Projects and initiatives have been developed in order to promote a "collaborative consumerism" and to provide strategic feedback to the appropriate Group departments. In particular the "Consumers' Week" initiative has been planned and organised. The initiative involved a week of meetings between companies and Associations and aimed at focusing and discussing the most significant issues concerning consumers and users. From November 28 to December 3, 2005 conventions were held in several Italian cities, with attendance of the Group's managers, sparking intense interest in the public and media.

The Group's commitment with regard to consumers' rights is also shown by activities aimed at communicating special contractual conditions for disadvantaged customers and by collaboration with the Associations when defining, as best as possible from the customer viewpoint, the General Subscription Conditions concerning the Digital Terrestrial TV of "La7-Cartapiù".

Services for disabled and elderly customers

In order to improve the quality of life of people with special communication needs the Group has developed innovative services in the field of fixed and mobile telephony:

- A tele-assistance service, "Big Angel", has been activated: using a simple two-key cordless phone the customer may contact the Telbios Care Centre, where an operator is available to start support actions, either using the telephone numbers previously agreed with the customer or calling emergency services. Throughout, the operator maintains contact with the customer keeping the situation under control. An automatic free of charge monitoring system periodically checks that the device works properly.
- TIM has been awarded a special mention during the 2005 edition of the Sodalitas Social Award for its software ("Talks") allowing blind and sight-impaired people to use mobile phones thanks to vocal technologies capable of reading the information shown on display (further information is available in section "The Community").
- TIM has continued its activity of development and implementation of services and products accessible through the web in compliance with the WAI (Web Accessibility Initiatives) and W3C (World Wide Web Consortium) accessibility requirements. The innovations introduced chiefly concern the conversion into an accessible format:
  - of the Home Page of the institutional site www.tim.it;
  - of the web area TIMXTE containing the conciliation procedure for extra-judicial resolution of disputes with customers.
- Families having some definite social and economical features are granted a 50% reduction of the rental fee, which is also completely waived for the hearing/speech impaired.

(1) 'Parity' or 'equivalent' conciliation is a kind of mediation involving two parties on a paritary level without there being a third judging party. In Telecom Italia's procedure the parties are a representative of Telecom Italia and a representative of the customer (chosen by one of the consumer's Associations).

Suppliers

The contribution of the Group to the stakeholder "Suppliers" is reported below (the figures for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

TELECOM ITALIA GROUP				
(millions of euro)		Financial year 2005		Financial year 2004
Expenditure for raw materials and external services (net of TLC licence fee)		12,756		11,698
• of which correlated entities	414		552	
Industrial investments		5,173		5,002
• of which correlated entities and internal capitalization	1,006		1,132	
Total contribution		**17,929**		**16,700**
• Correlated entities and internal capitalization		(1,420)		(1,684)
Total net contribution		**16,509**		**15,016**

The qualitative level of suppliers is monitored along the entire purchasing process through specific procedures applicable at Group level:
- Qualification
- Incoming Quality
- Vendor Rating

These procedures provide guidelines for the definition of control methodologies by commodity categories; operational activities are planned and carried out on the basis of a specific model for risk assessment.
Compliance with procedures is guaranteed by a new assessment process carried out by the Purchasing department and by a set of internal checks for the purpose of correct application of company rules.

Qualification

Qualification is carried out by homogenous categories of product/service and is based on controls of various depths, graduated on the basis of the risk level of the commodity category and even turnover thresholds.

The qualification process, for which supplier access the information through an appropriate Internet site, is divided in several phases:
1) Basic qualification: assesses the general and corporate structure of the candidate, possession of the legal requisites (for instance with regard to social security, safety and the environment) and the correctness of administrative position. In this phase the supplier is requested to adhere to the principles of the Code of Ethics of Telecom Italia Group, inspired to the Global Compact principles, in order to ensure the ethical suitability of suppliers.
2) Economic/financial qualification: takes place through the evaluation of the last two financial statements, by means of an algorithm that exams the income statements and balance sheets for the purpose of verifying the solidity of the business, with specific acceptance thresholds per sector.
3) Technical/organisational qualification: ascertains the possession of means, knowledge and the supplier's specific experience in the category. Qualification is carried out with the support of evaluation diagrams based on algorithms and audits of the supplier that also allow verification of the veracity of the data shown in the qualification questionnaires.

As regard to certain commodity sectors (for instance "battery supply" and "waste disposal") special attention is paid to safety and environment issues through more accurate checks and stricter requirements as compared to standard.

A positive result from the qualification process allows the supplier to be included into the Suppliers List, which is a required condition for commercial activities with the Group. For lower risk product categories inclusion into the Suppliers Register takes place subject to self-certification of the certification of the basic requisites and signing of the commitment to comply with the principles of the Group's Code of Ethics. As far as foreign subsidiaries suppliers a simplified qualification process is applied, which however takes into account the level of commodity category.

In 2005 the control procedures on sub-suppliers have been extended. Besides control activities on fixed network works and on supply/commutation/transmission works, already scheduled in the preceding years, the Group has implemented a systematic verification process of sub-suppliers with reference to building and technological works for Base Transceiver Stations of the mobile network and for outsourcing activities (for instance Maintenance and Environmental Services). Such process involves technical-economic adequacy assessments equivalent to those of the qualification procedure, even if with less stringent thresholds and criteria. Qualification criteria for sub-suppliers are disclosed and agreed with the suppliers. The latter are also aware of the outcome of the controls carried out.

On the national territory 1,193 product categories have undergone qualification controls in approximately 650 companies. Controls yielded a negative outcome in 55 cases and determined a fixed-term qualification in 173 cases, requiring a new qualification test within a year.

Incoming quality

This is recorded by product/service category and is based on evaluations of the suppliers' conformity to the specific reference techniques.
In the initial phase of the supply or in the case of new suppliers, checks prevalently regard the products, whereas, they are mainly focused on the production process for the suppliers with whom there exists, or for whom it is wished to develop an enduring commercial relationship.
The objective is the growth of a co-making relationship with the suppliers that permit achievement of greater operating efficiency and advantages for both parties. The application of penalties on the supplier is provided for in the case of a delay, attributable to the supplier, in achieving the co-making status.
The Incoming Quality assessments carried out on the basis of "check lists" ensuring unbiased verifications, are shared with suppliers, thus providing them with full visibility on the level of satisfaction perceived by the Group and making them aware of any required improvement or corrective action later to be requested.
The achievement of high qualitative standards enables suppliers to avoid regular Incoming Quality controls on batches supplied.
At the end of 2005 a new company reorganization provided for the assignation to the Purchasing department of the responsibility for the incoming quality audits of all the Groups' companies at central level.
The new reorganization will favour an increase of the number of audits performed and an improvement of the qualitative level.
During 2005 over 500 Incoming Quality controls have been performed on approximately 1,000 product batches, delivered by more than 100 suppliers. About ten audits have been performed at foreign manufacturing sites (of which seven in territories outside the European Community). Approximately 10% of the controlled batched showed nonconformity problems with reference to the relevant specifications.
Furthermore, 7,900 audits on the execution of technical works were carried out, mainly focused on the installation phases of new plants and on the phase of provision of services and works. The decreased number of audits as compared to last year is due to the outsourcing of some facility management activities.
Out of more than 4,000 controls performed in the first six months of 2005, 200 yielded a negative outcome with respect to requirements stated on specifications and technical rules.
The results of such audits, besides affecting the Vendor Rating indicator, led to:
- inclusion in or exclusion from the Group's Suppliers Register;
- possible authorisation to subcontract activities to third-party companies;
- inclusion in or exclusion from tender lists;
- acceptance or refusal of supplies;
- eventual effects arising from contractual clauses, such as, for example, the application of penalties.

Vendor Rating

This is an indicator calculated on the basis of evaluation of the technical, commercial and administrative performance of the suppliers. This is recorded half-yearly by product-service categories and is directed at monitoring the supplier's overall performance, linking supply volumes to purchase prices through specific contractual clauses, implementing additional quality checks and evaluating the suppliers permanency in the Suppliers Register.

The Vendor Rating system was defined through the following phases:
- definition of supplier evaluation methodology with reference to each commodity category;
- identification of the suitable relevant indicators, for measuring the administrative, commercial and technical quality, and appropriate recording instruments (questionnaires, data recorded on the field, evaluations of Incoming Quality, etc.);
- attribution of the relative weighting to each indicator leading to the construction of the so-called "Vendor Rating tree structure";
- definition of the entity of the valuation sample;
- definition of the responsibility matrix and of the evaluation recording mode;
- tests on the field to verify the correctness of results, on the basis of which appropriate adjustments have to be carried out together with the company departments involved;
- disclosure of methodology to suppliers and start up of the monitoring and reporting phase;
- disclosure of the attributed vendor rating to suppliers and company departments involved, both in Italy and abroad;
- eventual application of contractual measures (penalties, bonuses, change of purchase volumes and of contract duration).

In 2005 the Vendor Rating monitoring activities increased by 40% as compared to last year. In particular:
- new procedures were defined and tested to evaluate outsourcers' performances related to the planning and management of the real estate activity, management of internal and external correspondence and of the vehicle fleet;
- monitoring has been extended to the marketing products sector;
- evaluation indicators relative to waste management have been introduced, mainly in the fields of maintenance and transmission network expansion.

Ongoing projects

The Guidelines to be applied in the analysis of the "life cycle" of products purchased by the Group were defined. Such guidelines are aimed at lowering the environmental impact of the products along their entire life cycle, from design to disposal, verifying for instance issues such as "design for environment", ecological labelling, end of life options.

Telecom Italia takes part, together with other important service and manufacturing companies operating in Italy, in the SIRF project, a Strategic Orientation working group on Sustainability and Integrity in the Relationship with Suppliers. The project defines conduct rules and implementation criteria concerning the Purchasing process through specific guidelines.

Competitors

Relations

In collaboration with the fixed network operators, Telecom Italia S.p.A. has set up a unique database containing all the numbers and elements necessary for the identification of the subscribers of the fixed network operators operating domestically. The objective is to provide consumers with an information service based on a single list that contains the names of subscribers of all the operators active in Italy. The unique database has become operative during 2005.

Telecom Italia is a signatory of the "Sanremo Pact" of March 2, 2005 aimed at the development of network content and the struggle against on-line piracy. The Pact foresees the involvement of the public and private sectors committed to the diffusion of on-line culture: the Government, suppliers of connectivity, owners of rights, music production, cinematographic, television, publishing, and entertainment houses, as well as the operators of distribution platforms.
The Pact is aimed at creating a digital environment that, while guaranteeing legal compliance, will favour the circulation of content by encouraging owners to make it available on the telematic networks.

Organizations and associations

Collaboration with competitors at national level

The participation in the activities of DGTVì, the Association for the development of the Terrestrial Digital in Italy founded by Rai, Mediaset, Bordoni Foundation, Radio Television Association and *D-free*, assured the two Group's television broadcasters – La7 and MTV Italia – full visibility on the evolution of dynamics concerning the Terrestrial Digital. In the second half of the year the objectives set out by the Association for 2005 have been achieved:
- the irreversible start up of the digitalisation process, also thanks to the strong boost given by the Association to joint activities among all the parties involved (broadcasters, producers, distributors, content providers, advertising investors, etc.);
- creation of the conditions for the realization of the so-called "all digital" areas (Sardinia and Aosta Valley). In concert with the Institutions and all the founders of the Association the deadlines for the conversion to the Terrestrial Digital in the identified regions have been fixed: March 15, 2006 for digital coverage of province chief towns and July 31, 2006 for the rest of the territory. Moreover, two working groups focusing on the various activities necessary to the Terrestrial Digital project have started, again at regional level;
- exceeding 3 millions decoders: at the end of December 2005 the figure is 3,500,000.

Telecom Italia is a member of the Radio and Television Federation (FRT) as a member of the Chairing Committee. Besides the national and satellitar broadcasters, FRT gathers 150 local TV and radio broadcasters.

Together with other operators of the sector, Telecom Italia Group participates in the Ugo Bordoni foundation, which among other things carries out research, study and consultancy in the sectors of Communications and Information Technologies, with particular reference to the Digital Television sector. The Ugo Bordoni foundation has been legally entitled to the technical supervision of experimental activities relating to Terrestrial Digital transmissions and interactive services.
The contributions of Telecom Italia and TIM to the Ugo Bordoni foundation are included in the calculation of the contribution to the "Community" stakeholder, at level 3 of the London Benchmarking Group (LBG) model (see section "The Community").

The Group participates in the activities of Ambiente Digitale (Digital Environment), an Association promoted by the Ugo Bordoni foundation, gathering all the ICT players in the Terrestrial Digital sector. The primary objective of the Association is the identification of appropriate solutions to harmonise the interactivity development of Digital TV in terms of user services and applications.

Telecom Italia S.p.A. is involved in the management of association relationship and co-ordination of lobbying and representation activities with Confindustria and the Associations belonging to the latter.
These initiatives, at national and local level, which in some cases involve concerted action with competitors, consist of actions and meetings relative to the development of the business and safeguarding the corporate interests on the economic, legislative, trade unions and labour themes.
The Group is a member of 97 territorial Associations and of the following category Federations/Associations: Federmeccanica, Federcomin, Aitech, Asstel, Assoelettrica and Assografici.

<u>Collaboration with competitors at European Community level</u>

- The Brussels Round Table (BRT), which unites various European TLC and manufacturing companies, is established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at Community level. The CEOs of the member companies attend the BRT and the top representatives of the European Institutions are invited;
- ETNO (European Telecommunications Network Operators' Association) is the largest association in the sector on the Continent and has the development of a competitive and efficient European telecommunication market amongst its objectives, to be achieved through the co-ordination among the operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and chairs the Sustainability working group;
- The EIF (European Internet Foundation) unites TLC manufacturers and operators, software providers, ISPs and content providers. The Association aims at creating, within the European Parliament and among the various communications operators represented in Brussels, a favourable environment for fast development of the Internet, broadband, convergence and multimedia technologies and services, benefiting the final consumer;
- ERT (European Round Table of Industrialists) is a forum gathering about 45 leaders of European industry for the purpose of promoting competitiveness and European economy growth;
- The ESF (European Service Forum) includes the European operators in the services sector and aims at promoting the interests of the European services industry and liberalization of the services sector worldwide in the framework of the GATS 2000 negotiations;
- ITU (International Telecommunications Union) is part of the United Nation System and aims at promoting the development of the sector internationally through cooperation between the public and private sectors. Within the sector "Development" of ITU (ITU-D Sector) Telecom Italia chairs the "Project Group Question 10/1 - Impact of the convergence of Telecommunications, Broadcasting and Information Technology", whose task is the diffusion of regulatory matters and rules on convergence in developing countries;
- BRUEGEL (Brussels European and Global Economic Laboratory) is the new European Studies Center constituted on January 18, 2005, on the basis of joint collaboration among the Governments of the European Union and the principal businesses of the continent, dedicated to the analysis of the international economy and the main important industrial sectors;
- ETP (European Telecommunication Platform) unites European TLC and manufacturing companies for the purpose of promoting and discussing common issues relative to TLC.

Antitrust activities

"Antitrust Compliance Program" guidelines are being defined. The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but on the contrary an essential asset for business activities.

As regard to the status of the procedures started by the Antitrust Authority (AGCM) and of the related administrative litigations, please make reference to the Note 24 of the Annual Report.

Regulatory framework

The regulatory framework of the telecommunications sector is now consolidated with:
- the coming into force, from September 16, 2003, of the "Electronic Communications Code" which adopted into the national regulations the EC directives of the *"'99 Review"* on networks and electronic communication services ("Access", "Authorisation", "Framework" and "Universal service" directives);
- the coming into force, from September 8, 2005 of the "Consolidating act on radio-television", which, among other things, contains the principles for convergence between radio-television and other sectors of interpersonal communications.

A summary of the principal legislative/regulatory acts adopted in 2005 is given below:

Charters of Services/Pay TV
With Resolution no. 278/04/CSP of December 10, 2004, published in the Official Journal of the Italian Republic on January 20, 2005, the Italian Communication Authority (AGCOM) fixed the minimum reference standards for the adoption of the Charters of Services for the suppliers of pay television services. The general criteria relative to the quality of services was also established.

Universal Service 1999 - Renewal of the procedure
With Resolution no. 2/05/CIR of March 9, 2005, AGCOM has started the process finalized at the renewal of the procedure for the eligibility of financial support to the net cost for the year 1999 in order to comply with Council of State ruling of July 8, 2003, following the appeal lodged by Vodafone-Omnitel. The procedure aims at ascertaining whether the contribution obligation may be extended also to mobile network operators. With resolution no. 67/05/CIR of October 5, 2005, AGCOM has concluded the renewal of the procedure defining the applicability of the mechanism to both fixed and mobile network operators. Vodafone-Omnitel lodged an appeal with TAR Lazio also against this last resolution.

Universal Service 2002
With Resolution no. 16/04/CIR, published in the no. 31 of the Official Journal of the Italian Republic of February 8, 2005, AGCOM defined the applicability of the mechanism to distribute and to evaluate the net cost for the year 2002.
AGCOM calculated a net cost equal to about euro 37 million, with a financial support of about euro 24 million in Telecom Italia's favour (of which 12 from TIM, 8 from Vodafone and 4 million from WIND). Vodafone didn't make the payment having lodged an appeal with TAR Lazio against this AGCOM resolution.

Universal Service 2003 and 2004
In compliance with the Electronic Communication Code provisions, Telecom Italia sent AGCOM an evaluation of the net cost of the Universal Service for the years 2003-2004; respectively on March 30, 2004 and March 31, 2005. On November 17, 2004 and November 7, 2005, AGCOM has published a notice on the start of the related proceedings.
Pursuant to art. 11 of the Electronic Communication Code and by a notice published in the Official Journal of the Italian Republic of March 8, 2005 the Ministry of Communications launched a public consultation on networks and electronic communication services, to verify and re-examine the regulation related to public pay telephones.
By a notice published in the Official Journal of the Italian Republic of November 17, 2005, AGCOM has started the procedure to define the Universal Service quality objectives for the year 2006.

Interconnection and unbundled access to the local network
With Resolution no. 1/05/CIR of March 9, 2005, AGCOM has approved the reference offer for 2005 that Telecom Italia published on October 29, 2004. AGCOM provided, for some services in particular, the reformulation of the supply conditions (interconnection capacity, supplementary services to the interface, internal telephone exchange links) and financial conditions (Carrier-Preselection collection, invoicing for access to services on non-geographic numbering of other operators).
AGCOM has published in the Official Journal of the Italian Republic of December 7, 2005 a notice on the start of the proceeding for the evaluation of the reference offer for the year 2006, published by Telecom Italia on October 31, 2005.

Price cap
In the framework of the revision of prices of retail services subject to "price cap" regulations, applying as from January 1, 2005 the monthly subscription fee for business customers was increased by 7.6% (from euro 17 to 18.30). A variation of price for local calls has been in force since January 23 (increase of the call set up price and decrease of the tariff per second) which, however, does not affect the customer's average telephone bill. As from March 1, 2005 a reduction of about 10% of the one-off fee for the activation of new ISDN lines for business customers was applied.
As from September 1, 2005 the termination fees of vocal calls on mobile network operators were reduced. Finally, as from January 1, 2006 the monthly subscription fee for business customers has been increased by approximately 5% (from euro 18.30 to 19.20).

Contribution referred to in article 20 of law no. 448/98
With the ruling of the European Court of Justice of September 18, 2003 the non-conformity to the European Law of the licence fee required by law no. 448/98, art. 20 was sanctioned. With reference to this law, the Regional Administrative Court (TAR) in Lazio upheld the appeal lodged by Telecom Italia with ruling no. 47/2005, published on January 4, 2005. On the basis of this ruling, the ministerial decree of March 21, 2000 regarding the "Measures for the payment of the fee established by law no. 448 of December 23, 1998, under the second paragraph of the art. 20," has been declared invalid for illegitimacy arising from such law.

Market analyses relative to electronic communications
In compliance with Recommendation EC no. 2003/497 and with Electronic Communications Code (Legislative Decree no. 259 dated August 1, 2003), with the Resolution no. 118/04/CONS of May 19, 2004, AGCOM started the preliminary consultations concerning the analyses of the 18 markets mentioned in the Recommendation and in the articles 18 and 19 of the Electronic Communication Code. The procedures' objective is "market analysis, evaluation of competitiveness, identification of possible predominant operators, and creation of a proposal regarding the cancellation, maintenance and modification of the existing requirements, that is the introduction of new requirements".

AGCOM has launched public consultations on the following markets:
- Resolution no. 410/04/CONS (Official Journal of the Italian Republic of December 24, 2004), regarding local, national and fixed/mobile telephone services markets available to the public and supplied through fixed line for residential and non residential customers (markets no. 3 and 5).
- Resolution no. 411/04/CONS (Official Journal of the Italian Republic of January 3, 2005), regarding retail leased lines (market no. 7).
- Resolution no. 414/04/CONS (Official Journal of the Italian Republic of January 4, 2005), regarding the international telephone services available to the public and supplied through fixed line to residential and non residential customers (markets no. 4 and 6).
- Resolution no. 415/04/CONS (Official Journal of the Italian Republic of January 19, 2005) regarding the market of unbundled access (including shared access) to copper network and sub-network for vocal and broadband services (market no. 11).
- Resolution no. 465/04/CONS of February 11, 2005, regarding the market of termination of vocal calls on different mobile networks (market no. 16).
- Resolution no. 30/05/CONS of February 18, 2005, relative to the markets of wholesale services for the collection, termination and transit of calls on the fixed public telephone network (markets no. 8, 9 and 10).
- Resolution no. 69/05/CONS of March 2, 2005, relative to the markets of retail service for access to the public telephone network from telephone booths for residential (market 1) and non-residential customers (market no. 2).
- Resolution no. 117/05/CONS of March 15, 2005, relative to the market of wholesale services for broadband access (market no. 12).
- Resolution no. 153/05/CONS of March 23, 2005, relative to the market of wholesale services for terminal segments of rented lines (market no. 13) and segments of rented lines on trunk circuits (market no. 14).
- Resolution no. 306/05/CONS of July 27, 2005, relative to the market for access and collection of calls on mobile public telephone networks (market no. 15).

The subsequent phases of the above-mentioned procedures provide for the new regulation drafts, modified on the basis of the results of the public consultations, to be dispatched to the Anti-Trust Authority, for a non-binding consultative opinion, and to the European Commission for a binding opinion on the definition of the significant markets and identification of the dominant operators in these markets. Following these two institutional steps, AGCOM will publish the final versions of the resolutions.

Digital TV

The Ministry of Communications, by a directive of June 20, 2005, established the methods of sending requests for prolonging the length of validity of the licences and authorisations for the transmissions of private television using the analogical technique, both nationally and locally, up to the expiry of the term (December 31, 2006) for the definitive conversion of the transmissions to the digital technique.

In December 2005 two distinct public consultations, started respectively by AGCOM and by the Ministry of Communications, were concluded. The purpose was the realization of a survey on the possible development of the DVB-H services market.

By Decree of December 29, 2005 the Ministry of Communications established a contribution equal to euro 3 million (euro 2 million for Sardinia and euro 1 million for Aosta Valley), for the purpose of realizing and broadcasting interactive services of public utility.

"12" subscribers information service

Following the coming into force of the Electronic Communications Code, the "12" subscribers information service is no longer a requirement of Universal Service supply as it can be offered in free competition among Operators.

With Resolution no. 15/04/CIR "Attribution of the usage rights for numbering of subscribers information services", published on the Official Journal of the Italian Republic of December 9, 2004, AGCOM provided for the attribution by the Ministry of Communications of the usage rights of subscribers numbers for the information services (12xy) to the operators that requested it. The operators have been authorized to begin the service from July 1, 2005, with the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 numbering.

With Resolution 12/05/CIR of May 19, 2005 AGCOM, taking into account the accumulated delays in the procedure of assigning the numbering and the request from operators, fixed October 1, 2005 for the release of the new 12xy numbering and the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 numbering.

WiMax

In October 2004 the Ministry of Communications sent operators a questionnaire regarding the broadband wireless systems (WiMax). The frequency band identified in the greater part of European countries for the development of WiMax is 3.4 - 3.8 Ghz. In Italy such frequencies are assigned to the Ministry of Defence.

At the beginning of June 2005 the Ministry of Defence has freed up a first lot of frequencies in the 3.5 Ghz band. At present these frequencies are the object of a technical experiment in the cities of Rome, Milan, Arezzo and Parma, as well as in large areas of Piedmont, Sardinia, Sicily, Aosta Valley and Abruzzo.

Public pay telephones localisation

With the Decree dated July 4, 2005, the Ministry of Communications identified the localisation of public pay telephones to which the Universal Service provision obligations may not be applied considering the wide availability in terms of operator and similar services. The identified localisations concern the central railway stations areas of 11 regional chief towns.

Quality and Charters of Services/Mobile

With Resolution no. 104/05/CSP, of July 14, 2005, AGCOM issued a directive regarding Quality and Charters of Services for mobile and personal communication services offered to the public on electronic communication terrestrial radio mobile networks. Such directive provides, among other things, the use of special quality indicators and their publication on the operators website, as well as the communication to subscribers and the publication in the national newspapers of the objectives and results achieved in terms of quality of the services.

Quality and Charters of Services/Internet

AGCOM published in the Official Journal of the Italian Republic of December 28, 2005 the notice relative to the start of the proceeding on the directive dealing with quality and charters of services for Internet access services from fixed line. The proceeding will end on September 2006.

AGCOM contribution 2005

With the Decree of July 22, 2005 the Ministry of Economics and Finance defined fees and conditions of payment for the annual contribution due by operators to AGCOM for its activity. Compared to the previous year, the Decree provided for an increase of the rates from 0.50 to 0.65 per thousand of revenues related to the financial year 2004. The Group paid euro 10.4 million, of which euro 6.5 million by Telecom Italia and euro 3.9 million by TIM.

Wi-Fi

With Decree dated October 4, 2005 the Ministry of Communications extended the Wi-Fi regulation to the entire national territory. As a matter of fact, besides parks, railway stations and shopping malls it is now possible to cover the entire territory, offering fast web access services to homes and offices.

Institutions

The contribution of the Group to the stakeholder "Institutions" is reported below (the figures for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

TELECOM ITALIA GROUP

	Financial Year 2005			Financial Year 2004		
(millions of euro)	Total	Italy	Abroad	Total	Italy	Abroad
Social security and pensions	807	750	57	803	763	40
Income taxes	2,395	2,395	0	2,654	2,549	105
Indirect taxes	141	93	48	153	111	42
TLC license fee	181	39	142	114	29	85
Total	**3,524**	**3,277**	**247**	**3,724**	**3,452**	**272**

Relations

The legislation activities of Central National Institutions (Parliament, Government) and local Institutions (Regions, Local Entities and independent sector Authorities) is constantly monitored by Telecom Italia Group. A constant and transparent relationship was established with these institutions with to the object of representing the Group's position in the areas of specific interest and monitoring the approval procedure of the main related legislation. Constant support is supplied to the competent institutions (Parliamentary Commissions, Ministry of Communications and other Ministries, local Authorities) in drafting the legislation for the relative areas of interest.

The relations with Authorities in the countries in which subsidiaries and/or associated companies operate are also the object of particular attention; similar support is supplied for drafting of the main legislation in their areas of interest.

For the purpose of monitoring the activities with a significant impact on the Group, Telecom Italia interacts with the European Commission and its Regulatory Committees (for example the Communication Committee and Radio Spectrum Policy Group regarding spectrum management), the Council of Europe, the European Parliament and ERG (European Regulators Group).

National legislation

The legislative provisions of interest to the Group, both approved or under examination, for 2005, are reported below:

Approved laws

- Law no. 43 of March 31, 2005, which modifies the Law no. 128 of May 21, 2004 ("Urbani law"), covers the interventions to counteract telematic diffusion of pirate audiovisual material, as well as in support of the cinematographic activities and entertainment.

- Law of June 24, 2005, converting Decree Law no. 63 of 2005, which introduces measures for co-ordination of the policies on intellectual rights, redefining some competences of the Ministry of Culture and Presidency of the Counsel of Ministers.

- Legislative decree no. 177 of July 31, 2005, (Consolidating act of legislation on radio and television) issued by the Government as provided in art. 16 of law no. 112 of May 3, 2004, "Gasparri law". The legislative text integrates and modifies the existing regulation for the purpose of guaranteeing the best co-ordination and application of the rules, respecting both national laws and obligations arising from the membership to the European Union.

- Constitutional Bill to change the second part of the Constitution. The Bill establishes a Federal Senate to which it entrusts the examination of the fundamental principles of concurrent legislation matter (regulations regarding communications were included, too in the original version of the Bill) leaving the Regions to establish the regulation in details. Telecom Italia has supported the modification proposal approved in the text approved by the Parliament on November 16, 2005, that brought telecommunication regulations back within the sphere of exclusive competence of State, assigned to the Chamber of Deputies. The Bill will undergo a confirmative referendum.
- Law no. 155, July 31, 2005 (converting Decree-Law no. 144/2005) on reinforcement measures to prevent and combat international terrorism. To this purpose the Law contains a provision concerning the prohibition to erase telephony and telematic traffic data, even if not stored for billing purposes, up to December 31, 2007, as well as methods to identify mobile prepaid telephony customers. Moreover, as far as business licence granting for public communications services (telephony or Internet), the law provides for the preventive recording of identity data of subjects using unsupervised public posts for telematic communications or wireless access points. With Decree dated August 16, 2005 the Ministry of Interior has established the operational monitoring and identification procedures by such provision.
- Law no. 266 of December 23, 2005, (2006 Financial Act), has confirmed for the current year a contribution of euro 10 million for the purchase of Digital Terrestrial Television decoder, a contribution however limited to the "all digital" areas (Sardinia, Aosta Valley and 4 more areas to be identified by a decree of the Ministry of Communications). The Financial Act also states that the operative cost of some Authorities and Commissions, among which AGCOM, must be supported by the relevant market. For the year 2006 the law decrees for electronic communication operators a contribution to AGCOM equal to 1.5 per thousand of revenues resulting from the last financial statements. In the subsequent years AGCOM may possibly deliberate variations to such contributions up to a maximum of 2 per thousand. Provided the operational procedures concerning the calculation are unchanged, in 2006 the Group will pay AGCOM a contribution equal to approximately euro 24 million instead of euro 10.4 million paid in 2005.
  A compulsory annual contribution for businesses has been introduced to cover the costs regarding the control of concentration activities carried out by AGCM. The contribution is applied at the maximum rate of 1.2% of the implemented transaction, establishing minimum and maximum contribution thresholds. AGCM has issued a determination establishing for 2006 the rate of 1%, with minimum and maximum threshold equal to euro 3,000 and euro 50,000 respectively.

Legislative provisions under examination

- The Bill on the fight against paedophilia. The Bill imposes the obligation on suppliers of electronic communication services to communicate to a central institute at the Ministry of the Interior to counteract this phenomenon, all information relative to companies or persons spreading paedophiliac material.
- Bill on telephone and environmental interceptions, aimed at introducing innovative regulation on telephone interceptions, forbidding more stringently the publication of records and reinforcing the guarantees of impartiality and transparency on this issue.
- Bill converting Decree-Law no. 273/2005 concerning the definition and extension of terms related to preceding legislative provisions; among other things it includes the extension from 2006 to 2008 of the deadline for the complete switchover of the television system on terrestrial frequencies from analogical to digital broadcasting.
- Bill on ownership of television transmission rights in a codified form that recognizes ownership of rights by organizers of national A and B series national championships and other sporting competitions provided for by federal regulations.
- Bill giving directives for the introduction of group action protecting consumers' and users' rights (class action).

International legislation

The Group activity focused on the following issues:

- analysis and benchmarking of the transposition into the national legislation of the 2002/95/EC Directive on the restriction of harmful components from electrical and electronic equipment and 2002/96/EC Directive on electrical and electronic equipment waste (RAEE) and subsequent amendment included in Directive 2003/108/EC;
- participation in the consultation launched by EC on the European strategy for sustainable development, which generated a proposal for revision of the strategy itself [COM(2005)37 final] and a draft of Declaration on the Guidelines Principles for sustainable development [COM(2005)218 final], which the Sustainability working group of ETNO is evaluating;
- examination of the draft proposal for a Code of Conduct on Energy Consumption of Broadband Equipment proposed by the Joint Research Center (JRC) within the initiative on the evaluation of energy efficiency of network equipment (on this issue see also section "The Environment");
- review of the "Television Without Frontier" Directive through a Directive proposal adopted by the European Commission, currently under parliamentary discussion, that distinguishes between linear (traditional television) and non linear (on demand audiovisual contents) services extending some television provisions to on demand services;
- adoption of EU recommendations on collecting societies;
- adoption by the European Commission of the proposal of a community directive on retention of data processed through electronic communication services;
- adoption of the EU directive on service market;
- adoption and approval procedure of the EU Directive on penalties for intellectual property rights infringement.

The Environment

Environmental performance indicators

The environmental performance data shown below refer to:

- waste
- water
- energy
- emissions

Data reported were obtained by processing appropriately reclassified operational data.

Waste

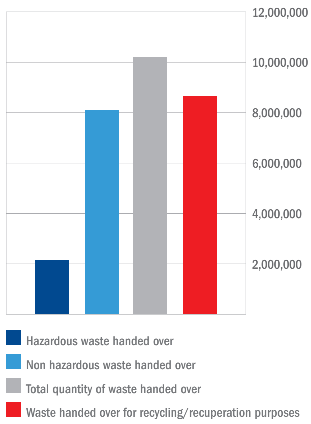
Data shown in the table below refer to the quantity of waste handed over [1] to a carrier and booked in compliance with the relevant law [2].

WASTE

		Telecom Italia S.p.A. 2005 (*)	Change % 2005 vs 2004	Change % 2005 vs 2003
Hazardous waste handed over	Kg	2,129,081	–46.31%	–41.67%
Non hazardous waste handed over	Kg	8,081,367	14.05%	22.37%
Total quantity of waste handed over	Kg	10,210,448	–7.61%	–0.42%
Waste handed over for recycling/recuperation purposes	Kg	8,635,396	–2.77%	6.44%
Ratio between recycled/recuperated waste and total waste		84.57%	5.23%	6.90%

(*) In the Environment section, tables referring to Telecom Italia S.p.A. include TI Wireline and Corporate Department. Data pertaining to the preceding years have been recalculated for homogeneous comparison purposes. Data do not include removed telephone poles, which are reported in the table at page 91.

Waste Produced (Kg)



The decrease of hazardous waste is essentially due to the lower quantity of batteries, of asbestos containing waste and equipment containing hazardous materials disposed of by TI S.p.A.. Both batteries and equipment are mainly intended for recycling/recuperation.
The increased production of non hazardous waste is due to the higher quantity of equipment not containing hazardous components disposed of in 2005.
The table below and the relevant graph show the total quantity of Group's waste handed over to carriers for recuperation, recycling or disposal and the percent incidence of Business Units.

WASTE HANDED OVER

	Group 2005	BUs' contribution as percentage of the Group total (*): Wireline and other activities (**)	Mobile	Media	Olivetti
kg	17,083,869	76.47%	17.15%	0.13%	6.25%

(*) In the Environment Section, tables referring to the BU do not include discontinued operations.
(**) In the Environment Section, tables referring to "Wireline and other activities" include: TI Wireline and all the other companies belonging to the BU Wireline, Corporate Department, TI Learning Services, IT Telecom, Entel Bolivia.

(1) The term "handed over" refers to waste delivered to carriers and destined to be recuperated, recycled or destroyed.
(2) Slight variances as compared to statements at December 31 might occur up to March 30 as data are derived from waste accounting books that are only consolidated once the real weight has been verified at destination. Such information is provided to the waste producer within three months from delivery, hence possible data variances.

Waste management

Several operation tools have been implemented over the years in order to assure the correct management of Telecom Italia waste. In compliance with current legislation computerised waste accounting books have been adopted by the main companies of the Group, in order to make waste production control easier. Appropriate provisions have been included in the agreements entered to in 2005 with recuperation and recycling service providers, in order to assure an actual recuperation of materials not lower than a pre-set per cent threshold.
Contractors collaborating with the Group are subject to periodical audits on their authorisations to operate environmental services, thus ensuring continued control on compliance to the law.
As far as the European Directive, effective from August 2006, on Waste Electrical and Electronic Equipment (2002/96/EC) is concerned, special Group guidelines are being set out to launch the recuperation of materials deriving from equipment disposal, in collaboration with the relevant collection consortiums. The Group processes as a hardware product manufacturer are also being analysed. Olivetti is ahead of schedule on this subject as it has launched, together with 16 other companies of prime importance, the pilot project "ecoRit" aimed at the realization of a Collective System for the collection and treatment of electrical/electronic waste of domestic and professional users.

Recuperation of wooden telephone poles

In compliance with the Agreement Program on wooden telephone poles, signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and Regions and recuperation companies, in 2005 the Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED

			Change %	
		Telecom Italia S.p.A. 2005	2005 vs 2004	2005 vs 2003
	Kg	9,180,761	–2.08%	31.17% (1)

(1) As the agreement was signed in 2003, recuperation activities started late in the year.

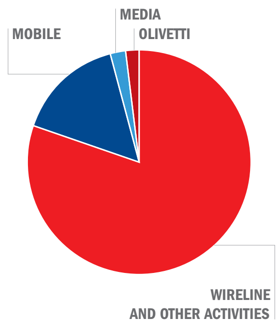
Paper

Paper consumption results are reported for each Business Unit together with single incidence values on the total volume used by the Group. As compared to 2004, a marked reduction of paper consumption is observed, which is mainly due to the optimization of purchasing procedures on one side and to the effort to raise employee awareness for a more responsible use on the other.

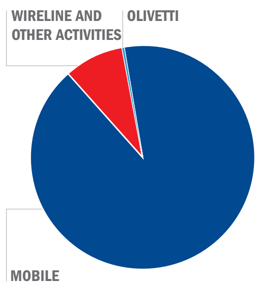
PAPER

			BUs' contribution as percentage of the Group total			
		Group 2005	Wireline and other activities	Mobile	Media	Olivetti
Non recycled paper purchased	kg	994,253	80.39%	15.58%	2.14%	1.89%
Recycled paper purchased	kg	126,265	8.79%	91.20%	–	0.01%
Total paper purchased	kg	1,120,518	72.33%	24.10%	1.90%	1.67%

Non-recycled paper purchased (%)



Recycled paper purchased (%)



An online management system for incoming/outgoing paper mail (SIGEC) has been experimentally launched in Turin. The system scans documents, classifies and sends images to addressees for consultation. The application involves many advantages, among which the optimization of paper mail transfer and the rationalization of document filing processes. Once concluded the trial phase, the system will be progressively applied to the rest of the Group.
The Group's targets, set out in the Introduction, also include the commitment to promote the use of recycled paper by all the Group Business Units.

Water

Water consumption data relative to Telecom Italia S.p.A. and Business Units are shown below:

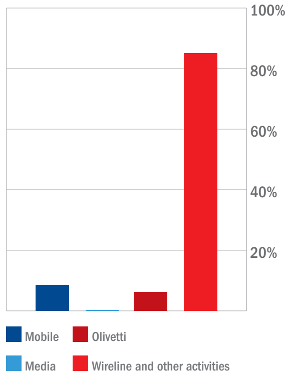
WATER CONSUMPTION

			Change %	
		Telecom Italia S.p.A. 2005	2005 vs 2004	2005 vs 2003
	m³	4,441,661	–15.17%	2.04%

WATER CONSUMPTION

			BUs' contribution as percentage of the Group total			
		Group 2005	Wireline and other activities	Mobile	Media	Olivetti
	m³	5,610,854	85.04%	8.51%	0.24%	6.21%

Water consumption



Energy

Electricity consumption data relative to Telecom Italia S.p.A. and Business Units are shown below:

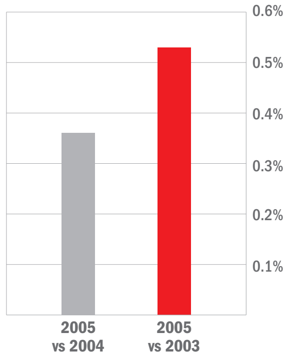
Electricity

PURCHASED OR PRODUCED ELECTRICAL ENERGY

			Change %	
		Telecom Italia S.p.A. 2005	2005 vs 2004 (*)	2005 vs 2003
Electricity from non-renewable or mixed energy sources	kWh	1,615,000,000	4.10%	7.92%
Electricity from renewable energy sources	kWh	56,000,000	–50.73%	–66.21%
Total purchased or produced electricity	kWh	1,671,000,000	0.36%	0.53%

(*) Considering aggregate variances occurred in the year 2005 in some corporate branches with high energy consumption, IT Telecom has also been included in Telecom Italia S.p.A. aggregate data for a correct comparison of energy consumption in the years compared.

Purchased or produced electrical energy



The total purchased or produced energy for 2005 is consistent with data relative to 2003 and 2004, notwithstanding the progressive increase of TLC consumptions due to the increase of services offered to customers and to interconnected operators. The decrease of energy from renewable sources is due to lower import band (energy imports from abroad) acquisitions in 2005 following the increase of customers on the free market in Italy.
Thanks to the implementation of rationalization and optimization projects concerning supply and conditioning plants, together with other energy saving initiatives, Wireline BU achieved a reduction of electricity net consumption equal to 25.4 GWh.

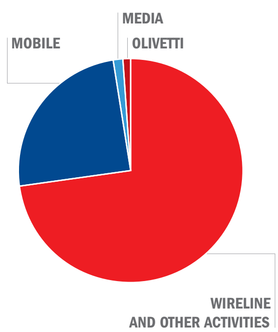
According to estimates, 30% of the energy consumed comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms, totalling approximately 500,000,000 kWh.

The table below shows data relative to purchased or produced energy at Group level with per cent distribution by Business Unit.

PURCHASED OR PRODUCED ENERGY

			BUs' contribution as percentage of the Group total			
		Group 2005	Wireline and other activities	Mobile	Media	Olivetti
Total electric energy	kWh	2,443,238,241	73.02%	24.66%	1.33%	0.98%

Purchased or produced energy (%)



Experiments with alternative sources of electrical energy to supply Base Transceiver Stations continue through photovoltaic plant technology (further details in the following box).

Photovoltaic plants
Telecom Italia has submitted to the national company for Electrical Energy System Management (GRTN) four applications for the incentives concerning energy produced by photovoltaic plants. The plants designed by Telecom Italia for its locations (Lazio, Campania and Sicily) have a 30 kWp nominal power (peak power) and should produce approximately 38,000 kWh each (energy production has been estimated assuming approximately 1,300 hours of operation) with electrical yield varying from 10 to 16%. Following a positive outcome by GRTN and approval by the Investment Committee of Telecom Italia the plants should be installed within the end of 2007.

The commitment of Telecom Italia for energy consumption containment is also substantiated by initiatives at European level in agreement with other telecommunication operators. Among these initiatives is the Code of Conduct on Energy Consumption of Broad Band Equipment promoted by the European Union through the Joint Research Centre and involving the most important players of the sector in the drafting of guidelines aimed at minimising energy consumption for broadband technology. The Code of Conduct (CoC) will define power management methods and technical solutions for the containment of energy consumption concerning both customers and providers. Adhesion to CoC is voluntary and energy savings should be achieved without compromising the technological development and the quality of services provided to customers. The document should be finalized in this current year 2006.

Heating fuels

Consumption of methane, replacing heating oil, is continuously increasing against an approximately 8% lower consumption of more polluting fuel as compared to 2004.

ENERGY CONSUMPTION FOR HEATING SYSTEMS

		Telecom Italia S.p.A. 2005	Change % 2005 vs 2004	Change % 2005 vs 2003
Energy consumed - heating fuel	Mj	159,673,768	–8.10%	–16.93%
Energy consumed - methane heating	Mj	676,930,733	0.49%	9.81%
Total energy consumed for heating	Mj	836,604,501	–1.27%	3.46%

Atmospheric emissions are dealt with in the next paragraph, including a joint assessment of emissions from heating systems, vehicles and electrical energy.

TOTAL ENERGY CONSUMPTION FOR HEATING SYSTEMS

	Group 2005	BUs' contribution as percentage of the Group total: Wireline and other activities	Mobile	Media	Olivetti
Mj	1,071,268,829	86.58%	8.58%	0.19%	4.64%

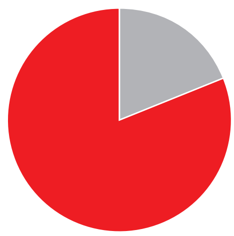
Vehicle fuel

VEHICLE FUEL CONSUMPTION

		Telecom Italia S.p.A. 2005	Change % 2005 vs 2004	Change % 2005 vs 2003
Unleaded petrol consumption	l	17,432,191	–2.95%	–16.62%
Diesel oil consumption	l	6,731,847	–15.14%	34.94%
Total consumption	l	24,164,038	–6.68%	–6.68%

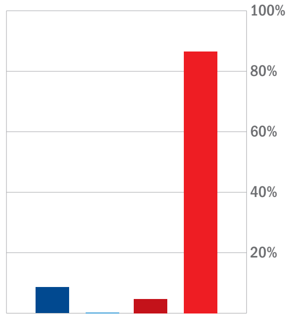
A decreasing trend for vehicle fuel consumption is confirmed for 2005. The increased consumption of diesel oil, as compared to 2003, is mainly due to a higher number of diesel vehicles.
As compared to 2004 and 2003, Telecom Italia has reduced the corporate vehicle fleet in 2005 as well as the overall distance travelled. The disposal of the most polluting vehicles has continued.

Telecom Italia S.p.A.: **breakdown of energy for heating divided by type**



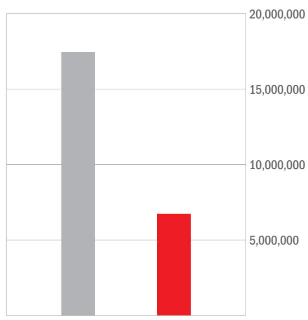
Energy consumed – heating fuel (Mj)
Energy consumed – methane heating (Mj)

Telecom Italia Group: **breakdown of energy for heating by BU**



Mobile
Olivetti
Media
Wireline and other activities

Vehicle fuel consumption (liters)



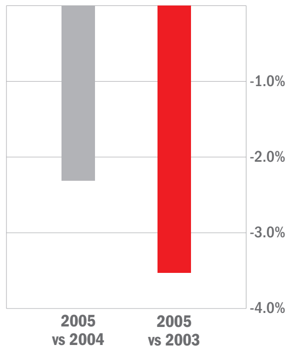
Unleaded fuel consumption
Diesel oil consumption

NUMBER OF VEHICLES AND DISTANCE TRAVELLED (1)

		Telecom Italia S.p.A. 2005	Change % 2005 vs 2004	Change % 2005 vs 2003
Total number of vehicles	no.	20,559	–1.21%	–4.93%
Number of low-emitting vehicles (2)	no.	20,459	–0.86%	–3.48%
Overall distance travelled by vehicles	km	297,199,047	–2.31%	–3.53%

(1) Data reported are relative to all vehicles (including ship consumption) used within the company (industrial, commercial, assigned to executives/middle management). These vehicles may be leased or owned.
(2) Unleaded petrol vehicles, catalytic, eco-diesel, biudiesel, EUROX (for Europe, with X≥4), GPL, electrical or vehicles using other fuels with comparable or lower emissions.

Overall distance travelled by vehicles of the corporate fleet



TOTAL NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Group 2005	BUs' contribution as percentage of the Group total: Wireline and other activities	Mobile	Media	Olivetti
Total number of vehicles	no.	24,327	86.86%	11.57%	0.47%	1.09%
Overall distance travelled by vehicles	km	370,395,634	83.59%	13.84%	0.77%	1.79%

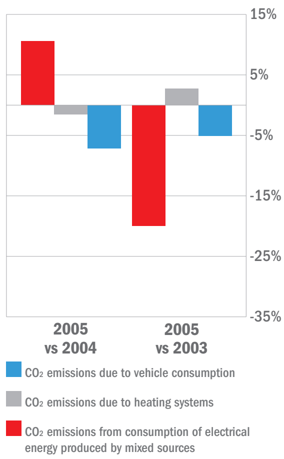
Atmospheric emissions

The only significant concern of Telecom Italia Group as to atmospheric emissions is carbon dioxide (CO_2), deriving from the consumption of energy purchased from suppliers and from fuel consumption used for heating and motor propulsion purposes. In 2005, notwithstanding the confirmed downward trend of emissions coming from vehicles consumption and heating, the increased use of energy from non-renewable sources has caused an increased of CO_2 emissions as compared to 2004 (in the comparison with 2003, CO_2 emissions show a decreasing trend).
CO_2 emissions have been calculated according to UNEP (The GHG Indicator: United Nations Environment Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations) and ETNO indications (European Telecommunications Network Operators' Association) within the framework of the "Climate Change" project.
Data pertaining to emissions from electrical energy consumption have been derived from parameters published by Enel in 2004 (2004 Environmental Report).

ATMOSPHERIC EMISSIONS

		Telecom Italia S.p.A. 2005	Change % 2005 vs 2004	Change % 2005 vs 2003
CO_2 emissions from consumption of electrical energy produced by mixed sources	kg	679,699,680	10.56%	–19.93%
CO_2 emissions due to heating systems	kg	55,768,912	–1.49%	2.70%
CO_2 emissions due to vehicle consumption	kg	56,740,814	–7.19%	–5.09%
Total CO_2 emissions	kg	792,209,406	8.15%	–17.73%

Emission change



ATMOSPHERIC EMISSIONS

		Group 2005	BUs' contribution as percentage of the Group total: Wireline and other activities	Mobile	Media	Olivetti
CO_2 emissions from consumption of electrical energy produced by mixed sources	kg	945,277,904	80.46%	17.70%	1.52%	0.33%
Total CO_2 emissions due to heating systems	kg	71,338,799	86.50%	8.43%	0.19%	4.88%
Total CO_2 emissions due to vehicle consumption	kg	93,242,374	85.32%	12.34%	0.75%	1.59%
Total CO_2 emissions	kg	1,109,859,077	81.26%	16.65%	1.37%	0.73%

The Group supports the initiative launched by ETNO and by WWF "Saving the climate at the speed of light - information & communication technology for CO_2 reductions [1]". The initiative is set out in two proposals:

- to assess the reduction of emissions achievable through the application of ICT solutions and services on the basis of the energy consumption of 17 European telecommunication operators;
- to promote with the European Commission the implementation of such services for the reduction of greenhouse gases.

The initiative aims at including ICT among the solutions supporting sustainable mobility and in particular among the tools for greenhouse gases reduction through a decreased use of combustion-powered vehicles.

Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emission issue is substantiated by the following:

1. careful and accurate management of plants along their whole life cycle, also in compliance with internal standards of efficiency and security;
2. use and continuous research of advanced technological tools for control and monitoring.

As to the Group position on the interaction between electromagnetic fields and biological systems, as well as on studies and researches carried out, please see reports on website: http://www.azienda.tim.it/az_elenco/0,,15071_15167_15171,00.html

The most significant Group activities concerning the management of electromagnetic emissions are detailed below.

Controls
Italian legislation is particularly strict on electromagnetic emission issues.
The corporate procedures adopted by TIM involve a careful management of designs, choice of locations and plant installation. The procedure authorizing the implementation of sites requires the observance of provisions included in the Electronic Communications Code as well as of rules set forth by Regions and local authorities. Each transmitting antenna is protected in order to avoid public access in the areas where exposure levels might be exceeded ("exclusion zones").

TIM also fully collaborated to the implementation of the National Monitoring Network carried out by the Ministry of Communications through the Ugo Bordoni Foundation. The activity is aimed at controlling and supervising plants. Controls are pursued by the Regional Environment Protection Agencies (ARPA) collaborating with the Ministry of Communications to the project realisation on the basis of appropriate protocols.

The monitoring of sites continued in 2005 in compliance with the Legambiente/TIM Protocol. The Protocol, signed in 2003, endorses TIM commitment to provide full support to Legambiente technicians while verifying the safety of Base Transceiver Stations, particularly concerning electromagnetic emissions.

The supervision of network structures continued in 2005 in compliance with the ISO 14000 certifications setting stricter parameters than current legislation. The network territorial structures have identified objectives related to instrument measurements, power performance controls and simulations on real models, concerning both the new plants and the existing ones. In 2005 all the targets have been achieved, also thanks to measurements taken on 4,200 plants.

(1) For further information see the Sustainability Section on the website: www.etno.be

As to the control of the electromagnetic field produced by energy transformation substations, servicing the energy stations for TLC plants, measurements have been carried out on 19 test substations. Such sample is considered significant for the assessment of emissions.

Tilting

Wherever necessary TIM Italia has carried out the appropriate modification of the radiant position (tilting) in order to optimise the signal propagation. To facilitate tilting and operate in real time, in 2005 TIM continued the updating of equipment already installed on the UMTS Base Transceiver Stations, allowing the remote electrical tilting variation of radiant systems.

The planimetric surveys of Base Transceiver Stations and of radiant systems have been added to the network database and are used to survey and optimise the electromagnetic emission parameters.

Quality measurements have been carried out on all the new UMTS sites (i.e. drops, surroundings), in order to decrease interferences and optimise electromagnetic emissions.

An improvement project for the 2G service has been implemented in 2005, aimed at expanding coverage and increasing power of some Base Transceiver Stations. Wherever possible an antenna equipment has been installed instead of a new Base Transceiver Station, thus reducing energy consumption and environmental impact.

Specific procedures and software

In 2005 TIM Italia continued to make use of the APOGEO procedure and of StereoSpace, GUARDIAN and TIMPLAN tool software to design the radio access network and to identify optimal solutions from the viewpoints of the environmental and electromagnetic impact.

– APOGEO

  The APOGEO (Antennas Procedures On Geographic Enhanced Orientation) procedure's purpose is the calculation of radio electrical parameters relative to the three-dimensional positioning of GSM and UMTS antennas.

  The accurate measurement of radio electrical parameters is essential to optimize the mobile planning process and reduce interferences on TIM Italia networks, as well as to assess the exclusion zones for environmental protection purposes. TIM can certify its own installation data assuring transparency and observance of current legislation.

  The calculation is performed through geo-referred topographic surveys made by the GPS satellite system; the precision is increased thanks to the differential correction technique provided by GEOTIM (network of permanent GPS reference stations).

– PREVISIONAL SYSTEMS

  The Guardian software calculates the exclusion zones related to sites hosting Base Transceiver Stations and assures the observance of limits established by law.

  The software can optimize site positioning and antenna orientation with respect to the surrounding context (housing, streets, meeting places) and provides objective data for the required controls (ARPA, population).

  The Guardian software functions have been extended in 2005 to the calculation of fields generated by the Digital Video Broadcasting-Handheld (DVB-H) antennas, to be added to the network in the next future.

  The TIMPLAN system has been used to design the EDGE and UMTS radio access network, aiming at the rational exploitation of radio resources and at minimization of interference and of unnecessary power emission.

– STEREOSPACE

  The StereoSpace software allows the stereoscopic visualisation directly on the computer monitor of digital georeferred aerial image pairs used to perform measurements, comparisons and updating. The tool identifies the exact position of transmitting plants, providing accurate data for frequency planning as well as for the calculation and visualization of exclusion zones.

Co-Siting

The coordinated management of issues related to population exposure to electromagnetic fields and the observance of limits established by the law involves the definition of common rules, committing the Group Companies/Business Units to play a promoting and stimulating role also towards other operators and external organizations [(1)].

Among other things the document defines specific contractual provisions such as:

- the cumulative electromagnetic field levels produced by all the operators sharing a site should not exceed the limits established by current legislation;
- should these limits be exceeded immediate action is required, i.e. adjustment, deactivation or removal of plants;
- the hosted provider/organization should adopt technologies and design procedures for transmitting systems aimed at minimizing the visual impact.

– TIM ITALIA-MUNICIPALITIES AGREEMENTS

In 2004 mobile telephony operators signed with the Municipality of Rome an agreement protocol committing themselves to providing 60 local exchanges for the continuous monitoring of electromagnetic fields emitted by Base Transceiver Stations within the municipality area. In 2005 on the basis of the same protocol TIM provided the Municipality of Rome with 15 additional local exchanges monitoring electromagnetic fields.

On January 18, 2005 an agreement protocol has been signed by TIM Italia, other mobile telephony operators and the Municipality of Catania concerning the installation, monitoring, control and rationalisation of Base Transceiver Stations. The protocol is part of the Agreement signed on December 17, 2003 between ANCI (National Association of Italian Municipalities) and the Ministry of Communications, which set out the development of relations between telecommunication operators and municipalities on the basis of dialogue and mutual collaboration.

– EMISSION MAPPING

Telecom Italia Media Broadcasting s.r.l. (TIMB), the company in charge of the maintenance and operation of the high-frequency plants of La7 and MTV, using both analogical and digital technologies, has carried out the appropriate controls on electromagnetic emissions also in 2005. The measurements have involved 80 television stations of La7, 40 of MTV and one of TIMB (main location) and were carried out in collaboration with the Department of Occupational Medicine of the University of Turin. The measurements have concerned test stations where significant emission levels could be foreseen due to the concentration of radio-television broadcasters. Emissions by La7 and MTV were within the limits established by law, as in preceding surveys, with significantly lower values for the stations on which La7 has started to experiment with digital technology for television broadcasting [(2)].

Environmental Management Systems

Environmental Management Systems (EMS) ensure the sustainable management of productive and support processes and stimulate a continuous improvement of the environmental performance.

In view of creating a single EMS for Telecom Italia Group by matching the existing different EMS and by providing consistent guidelines for new EMS, the “Guidelines for the development of Environmental Management Systems for Telecom Italia Group” have been issued in 2005. The guidelines have been drawn in collaboration with Det Norske Veritas (DNV).

(1) In 2005 the hosting of H3G plants on TIM sites has continued and the first UMTS TIM plants have been implemented on H3G sites. A frame agreement for mutual site hosting is being formalised also with Vodafone and Wind.
(2) Digital technologies allow a 75% reduction of electromagnetic emissions as compared to traditional analogical techniques.

Details related to certified systems of Group's business units and departments are reported below:

Fixed network

The Certification Board IMQ-CSQ conducted three audits with positive outcome, with reference to the new edition of the ISO 14001 certification. The audits concerned:

- the central departments of Rome headquarters;
- the premises of Florence and Genoa;
- the premises of Turin, Asti, Alessandria and Pavia.

Fifty internal audits have also been conducted to verify the implementation and application of the Environmental Management System in observance of the ISO 14001 standards and of the requirements established by corporate procedures regulating activities with environmental impact.

Mobile Network

At the end of 2004 TIM Italia has completed the project of Certification of the integrated Management System for Quality and Environment of the relevant structures. The Management System, developed in compliance with the UNI EN ISO 9001 and UNI EN ISO 14001 standards, is related to the activities of "Planning, realization and supervision of territorial mobile telecommunication networks". In 2005 the Group continued to monitor the consumptions of natural resources and energy as well as plans for the reduction and containment of waste production, particularly concerning lead accumulators. The Group also continued to monitor and control electromagnetic emissions through appropriate measurement and optimisation plans. During the year 2005 all the network structures underwent internal audits while five local structures successfully underwent external audits conducted according to the programs of the certification board.

Other structures

The ISO 14001 Certifications of TILab and Olivetti I-Jet have been confirmed for 2005.
TI Sparkle completed the ISO 14001 certification of the system in 2005.

Other environmental activities

Conventions and training

In September 2005 a convention on "Responsibility for Environment" involved about 200 executives and managers of the Group as well as important representatives of institutions, business and law. The convention is a step in the framework of a wide project of involvement of the whole staff of Telecom Italia Group on environmental issues and succeeded in raising awareness in the management representatives whose activities may have a major impact on environmental issues. The convention offered a chance to confirm the validity of environmental investments not only out of compliance to the law, but for creating value as well.
As to training activities on the Health and Safety issues please see the dedicated paragraph in the Human Resources section.

Environmental Managers

Three Environmental Managers have been appointed within the Group and are in charge of improving supervision on the management of environmental issues, thus assuring further control on these activities. Data provided by departments and Group companies are collected into appropriate centralised databases and processed to achieve the environmental indicators used to monitor and improve Telecom Italia performance as well as for information such as Sustainability reports.

Management of environmental emergencies

Environmental emergencies, if any, are dealt with on the basis of procedures included in the Environmental Management Systems of each single department and company of the Group. Environmental risks are assessed in terms of probability of happening and of consequences within the framework of the CRSA system (Control and Risk Self Assessment) as reported in detail in the "Shareholders" section.

Progetto ambiente

The project aims at issuing Guidelines on the most significant environmental issues for the Group. It involves ten project groups and should complete its tasks within three years, i.e. 2004-2006.

The Guidelines issued so far concern:
- the monitoring of suppliers and the drafting/management of contracts related to waste management;
- the definition of environmental acoustic requirements related to the Group's plants;
- control and mapping of the condition of asbestos-containing materials;
- decontamination of asbestos-containing materials;
- collection and computerised storage of data concerning tanks of the companies/Business Units of the Group;
- mapping and monitoring of polluted areas following leakage from storage tanks;
- definition of procedures to monitor and decontaminate all the Group's tanks;
- controls on the management of waste produced by Business Units;
- collaboration among operators for electromagnetic emission optimization;
- development of Group Environmental Management Systems.

These last two guidelines have been implemented in 2005.

Environmental research

Besides the GUARDIAN and TIMPLAN studies already mentioned in the "Electromagnetic emissions" paragraph, the most significant environmental projects undertaken by the Group are described below.

Low visual impact antennas
The difficulty of finding appropriate sites to host Base Transceiver Stations for mobile telephony is often due to antenna invasiveness. Two small size antenna prototypes have been realised using innovative materials and the tests conducted proved the validity of such technology.

Intelligent Transport Systems (ITS) & Infomobility Services
The primary objective of this project, carried out within the framework of Turin Wireless, is the identification and development of technologies and synergies between the world of transportation and that of wireless TLC, with significant contributions to the realisation of the Intelligent Transport Systems (ITS) of the future. Among the innovative solutions studied in view of the development and management of a "more sustainable" mobility are car pooling, park & ride, bus on demand and collective taxis.

Quality control and qualification of mobile terminals
The activities of this ongoing project aim at:
- qualification of mobile phones through radio test;
- test of protocols and test of exposure to electromagnetic field (SAR, Specific Absorption Rate);
- test on software for the management of terminal self-configuration and of the correct operation for MMS messages receipt.

Test results are studied to better understand terminal performance in terms of quality, reliability and safety in relation to human exposure to electromagnetic fields.

Environmental targets

2005 Targets

The environmental targets for 2005, reported in the 2004 Sustainability Section, were specifically focused on the transmission network. Actions undertaken and work in progress are commented below.

Atmospheric pollution (generator sets)
Generator sets are used as back-up only in case of primary energy blackout from public networks. According to current legislation no emission limits have been established for generators, however Telecom Italia has conducted a survey on 48 generator sets to measure the relevant atmospheric emission levels, using as reference more stringent limits as established for continuous operation equipment. Test units have been chosen by selecting the 10% of plants located in residential areas with > 20,000 residents.
Considering the results of analyses and the generator running procedures the environmental impact appears scarcely significant.

Electromagnetic emissions (operator co-siting)
Rules regarding operator co-siting have been established as reported in the "Electromagnetic Emissions" paragraph.

Acoustic pollution
In order to monitor the acoustic impact of plants, the Group continued its survey involving noise measurements in approximately 1,300 premises.
Concerning TIM the interventions to reduce acoustic impact are usually conducted at Base Transceiver Stations located inside or near to residential ares.
The procedure for reduction of acoustic impact involves in sequence: phonometric measurements, intervention planning, realization of project. In 2005, consistently with the program for acoustic monitoring of Base Transceiver Stations – essentially due to the presence of air conditioners and energy stations – TIM conducted 1,090 phonometric measurements followed by some corrective interventions.

Fuel consumption
The total fuel consumption for vehicles of Telecom Italia S.p.A. shows a 6.68% reduction as compared to 2004.

Visual impact
Please see paragraphs: "Electromagnetic emissions" and "Environmental research".

Soil pollution
In order to prevent possible leakages from fuel tanks servicing generator sets the Group continued the seal test survey, monitoring 1,150 underground tanks.
The last 37 transformers still in use containing PCB/PCT have been replaced and disposed of.
Still ongoing is the disposal of 10 asbestos-containing containers and the asbestos decontamination operations on generator sets. These activities will be concluded in 2006.

Targets 2006-2008

The Group's environmental targets for the three years 2006-2008 have been set as reported in the "Objectives 2006-2008" paragraph of "Context". Dedicated project groups will be appointed to ensure that business choices are consistent with such targets.

The Community

In 2005 the contribution of Telecom Italia Group companies to the Community, calculated taking into account the guidelines of the London Benchmarking Group (LBG), is equal to euro 193 million. The amount, net of costs and investments undertaken for activities more strictly linked to the core business, the so-called business basics, is equal to euro 41.8 million. Contributions have been calculated on the basis of management data appropriately reclassified and partly based on estimates [(1)].

Classification of the contribution according to the LBG model

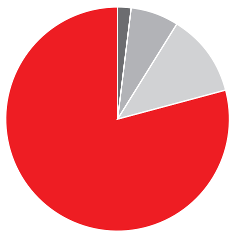
Founded in 1994 the LBG is an association comprising over 100 large international companies and represents a worldwide reference standard.
To measure and report corporate commitment to the "Community", LBG has devised a pyramid model that reclassifies contributions according to four different categories:
- activities directly linked to core business are grouped at the base;
- at the top are activities mainly characterised by the Group's sense of moral responsibility.

The criteria adopted for the allocation of contributions to the various levels of the pyramid, partially modified as compared to last year, are reported below.

LBG model (millions euro)

Charity Support to a wide range of "social" issues in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.	Contributions to national/international organisations not based on a specific medium/long term program Sponsorship of causes or events, not part of a marketing strategy Company matching of employee giving and fundraising Costs of supporting and promoting employee involvement Costs of facilitating giving by customers and suppliers
Community investments Long-term strategic involvement of the company to address a limited range of "social" issues chosen in order to enhance the company reputation.	Memberships and subscriptions Grants and donations based on a specific medium/long term program
Initiatives in the Community Activities in the Community usually by commercial departments to support directly the success of the company, promoting corporate brand and policies, also in partnership with charities and community-based organisations	Sponsorship of events, publications and activities promoting brand or corporate identity Civil protection activities Support for Universities, research and other charitable institutions Community-based care for consumers with special needs
Business basics Core business activities for the production of socially useful goods and services in a manner which is ethically, socially and environmentally acceptable.	Research activities Electromagnetism Reduction of Digital Divide Energy saving activities Reduction of the visual/acoustic impact of telephony equipment Services and products for disabled people and the elderly

Breakdown of contribution to the Community by Telecom Italia Group (%)



(1) Activities performed by sold/destined to be sold companies (discontinued operations) have not been considered in the calculation of the contribution.

Progetto Italia

The commitment of Telecom Italia Group to the Community has been supported in the last years by the Brand Enrichment Department, meant to promote and valorise the image of Telecom Italia Group with respect to institutions, society, public and private bodies, besides single citizens, both Italian and foreign, contributing to the cultural and social growth of our Country.

At the beginning of 2005, to reinforce the determination and continuity of its activity, the Group has established an ad hoc company, the Progetto Italia S.p.A., with a Board of Directors including Top Managers of the Group and an Advisory Board made up of important personalities from the world of culture and international solidarity: Susanna Agnelli, Franco Debenedetti, Tara Gandhi Bhattacharjee, Enrique V. Iglesias, Paolo Mieli, Sergio Romano, Peter Sutherland and Umberto Veronesi.

During the year the company organized in 80 Italian towns about 100 initiatives, which saw the participation of nearly 500 prominent protagonists of the world of culture, solidarity, education, show and sport.

For these initiatives, directly participated by over a million people, Progetto Italia has integrated the partners' competence with its own abilities in the field of organisation, promotion and communication.

Starting from 2006 some initiatives will be broadcasted live at no charge through the Internet on Rosso Alice and free-to-air on television through the digital channels of La7.

The year 2006 will also see the start in Brazil of activities mainly consisting of music teachings for 15,000 youngsters living in the favelas of seven towns. The activities will take place at San Paolo, in the Ibirapuera Auditorium, entirely realized by our Group thanks to a project by architect Oscar Niemeyer: music without frontiers also as a contribution to the development of the country.

The most significant areas of intervention for 2005 and the relevant initiatives, whose costs are included in the first 3 levels of the LBG pyramid, are detailed below.

The complete list of initiatives with the relevant description is available at website www.telecomprogettoitalia.it.

Culture

Progetto Italia is meant to reach out to the greater public and spread the knowledge of our artistic and literary heritage through the organisation of events involving important protagonists of the Italian and worldwide culture. Among the projects realised within this framework: "The narration of the Classics", "The rediscovery of our Country", "The contemporary".

The narration of the Classics

The rediscovery of the classics is a traditional point of strength of the cultural proposal of Progetto Italia which also in 2005 renewed its commitment finalized at drawing the greater public up to the classic culture. Among other initiatives the Project includes: "Lectura Dantis" by Vittorio Sermonti in Florence and Milan, "Reading the Odissea" and "FAI (Italian Environment Fund) - behind the curtains of your city".

The rediscovery of our Country

The general public is often unaware of the incredibly rich Italian heritage: splendid historical and artistic places not open to visitors, secrete places hidden in cities, without mentioning the many initiatives and cultural projects which never come to the fore. In any case a non-communicated value is a diminished value and the intention of Progetto Italia is to make these places and events known through differentiated projects and initiatives. Among these: "Telecom Italia Journey", "Telecom Italia Award", "Discovering masterpieces".

The contemporary

Progetto Italia contributed in 2005 to valorise the contemporary through the creation of spaces, itineraries, ad hoc events stimulating discussion on authors and works of our time, with a multifaceted approach mixing literature, art and music. Among the various initiatives of the project: the "Strega" and "Campiello" literary awards, the "Telecomcert", the "Writers' League", the "Storytellers" in Bologna.

Solidarity

Telecom Italia Group's social responsibility is shown by Progetto Italia's significant contributions to training, teaching methods and improvement in the living conditions of the less fortunate.
Within this framework these projects have been realized: "On the side of minors", "Social recovering initiatives", "Contribution to medical research", "Solidarity and sport", "Peace Paths".

On the side of minors
Children represent the future of a Country and Progetto Italia sees the need to assure a tangible help to destitute minors, victims of family violence or disease.
To enhance the hope of a better future Progetto Italia offers Telecom Italia technologies for the realisation of projects supporting children, among which the initiatives "Dream Mission" and "114 - Childhood emergency".

Social recovering initiatives
Progetto Italia's care for social issues led to the design of alternative social recovering initiatives involving music, art and new technologies as creative tools offering on one side a tangible help to the less fortunate and on the other an unusual opportunity to promote culture in our Country.
Among the various initiatives: "Music in San Vittore Prison", "Down with grey!", "Charity Home".

Contributions to medical research
Telecom Italia - Progetto Italia continues its support to two among the most significant fund raising initiatives in Italy: "Cancer Research Day" (organized by AIRC) and "Telethon".

Solidarity and Sport
Progetto Italia has always been committed to promote sport as a rehabilitation tool for disadvantaged people. The experience "Crazy about sailing" is continuing and the new one "Sailing Together" has been launched. More initiatives are being designed concerning Andrea Stella and his catamaran, with a contest for ideas that brings the experience of the disabled sailor into schools and among architects and transfers the "for everyone" approach from the world of sailing into everyday life. Among the various initiatives of the project: "The spirit of Stella", the contest "Design and realization for everyone", "Niky's boat".

Peace Paths
The non-profit humanitarian organization founded by surgeon Gino Strada, offering medical and surgical assistance to victim of wars and of the relevant social consequences, is building in Khartoum, capital of Sudan, a specialised heart surgery centre to assist the population of Sudan and of the nine bordering countries. Progetto Italia continues to ensure its support for the building of the centre, that was started in October 2004 and should be completed within 2006.

Training

In its effort towards training Progetto Italia favours new opportunities for spreading the technologies supporting the Group services, paying special attention to sectors of the population having fewer updating chances and thus contributing to the reduction of digital divide. The post-lauream preparation of young people is also considered most important, particularly in the fields of design and application of new technologies.
The projects realized to this purpose are: "Science" and "The world of school and University".

Science
Science is one of the matters for which Telecom Italia confirmed and renewed its commitment also in 2005, as indicated by the choice of scientific themes to which one of the stops of the Telecom Italia Journey is devoted. Other initiatives favour a deeper consideration of these issues, aiming at arousing interest on issues too often forgotten in everyday life, while contributing to stimulate discussion on subjects which are of crucial importance for the development and innovation of the Country.
Among the initiatives included in the project are "Dial me", "Telecom Italia Future Centre", "Festival of the Science" held in Genoa and "Rome Museums".

The world of school and University
New initiatives arose from the commitment of Progetto Italia to the school world, projects that are meant to contribute to the valorisation and re-discovery of places of the utmost importance both for the education of young generations and the development of our cultural identity. Among the various initiatives: "Domus Academy" and "Interaction Design Institute".

Sport

Sport activities promote positive values such as loyalty, teamwork and respect for opponents. Progetto Italia is committed to the spreading of sport values at the higher level, from competitions to schools, from clubs to town squares. Among projects realized on this issue: "Sport and values", "Sailing as a school for life", "Tennis and Golf, a sport for everyone".

Sport and values
Since its very beginning Progetto Italia has supported sport to promote its positive values, that is teamwork, will-power, correctness. To favour the diffusion and development of these values Progetto Italia is consolidating its commitment in schools and squares with initiatives such as: "Telecom Italia Let's Train for Life", "Athletics - live".

Sailing as a school of life
Passion for challenges, teamwork, respect for the environment: these are characteristics of the world of sailing that can easily be applied to the everyday life. In a country endowed with 7,375 km of coast Progetto Italia wishes to contribute to the development of sailing from a cultural viewpoint, favouring the interest for this sport both of the general public and young generations. Among the initiatives: "The week of the three gulfs", "Telecom Italia one thousand sails".

Tennis and Golf, a sport for everyone
The initiatives of Progetto Italia in the field of sport are aimed at favouring a wider access, besides promoting positive values. The commitment to golf, in particular, is meant to the spreading of a discipline that involves significant educational benefits most of all for young peoples, thanks to its rules, its philosophy and the places where it is practiced.

Other initiatives of Telecom Italia Group for the Community are described below, indicating the relevant category with reference to the LBG model.

Charity

Giving back the sight
The G.B. Bietti Foundation is a non-profit organisation established in 1984, legally recognised by the Presidency of the Republic for its research activities in the field of ophthalmology.
The Foundation has created an innovative treatment, not yet marketed, based on the use of eye-drops containing the NGF (Nerve Growth Factor) protein, discovered in 1986 by Rita Levi Montalcini, that can be used to treat patients suffering from corneal neutrophic ulcers, until recently considered incurable and cause of blindness.
The treatment is very expensive and the shortage of funds prevents the adequate treatment of all those who need it. TIM has contributed to the project, also involving its employees who continued to donate for 4 consecutive months. The total amount collected has been doubled by the company.

Coração Amigo Program
Through the "Best friend program", supported by the local NGO "Recife Volontario", TIM Participaçoes encourages and provides financial support to voluntary activities among its employees in favour of projects promoting youth entrepreneurship, through complementary training activities and professional qualification of youth living in social conditions that place them at risk.

Investments in the Community

Safe learning
The "Safe learning" campaign launched by TIM in collaboration with Cittadinanzattiva ONLUS (Non-profit Public Organisation) under the distinguished patronage of the Presidency of the Republic, aims at raising awareness in students on the issue of safety for themselves and for others.
The project involves several schools nationwide and is based on a direct easy language for young people. Issues dealt with are personal safety, the responsible and correct use of new technologies, the safety of buildings and eco-sustainable behaviours.
The framework of the project includes training courses intended for teachers and organized by the Territorial Management Department of the Ministry of Education (MIUR - Ministry of Education, University and Research). Moreover a campaign has been launched through the diffusion of educational contents with the aim of raising parent and citizen awareness.

Music in the schools
Now in its third edition, the project "TIM Music in the schools", stems from the partnership among Brazilian government, TIM Celular, TIM Maxitel and TIM Participaçoes.
For 2005 the objective established is social recovery, through musical education, of 12,500 children and teenagers living in conditions that place them at risk. The teachings involved 34 public schools and about 500 teachers and were based on an innovative learning method: during the weekly music courses notions of civics and peaceful coexistence are imparted to students. Teachers use novels, poetry, films, comedies, as hints for their lessons, in the attempt to attract young people to studies.
The project also includes shows organized by students in hospitals and other healthcare centres, contributing to improve the self-esteem of participants and to help their integration in society as Little Ambassadors of Peace. The project covers six towns (São Paulo, Recife, Salvador, Porto Alegre, Belem and Rio de Janeiro, added in 2005).

Responsible TV
MTV has reinforced its reputation as a TV strongly committed on the social front by realizing numerous television spots and campaigns among which:
- **No Excuse 2015**: a campaign conducted in collaboration with UN, aimed at reducing extreme poverty in the world making it more equitable and safer. The campaign is articulated on air, through the Action Idents spot, during which famous Italian and international artists tell youths about concrete actions they may perform to free the world from poverty, and on-line, through the www.mtv.it/noexcuse website.
- **Don't Drink And Drive**: a spot against drink-driving.
- **Tolerance**: a campaign whose purpose is the spread of the concept of diversity as a positive component of social life.

Initiatives in the Community

Talks
In 2004 TIM launched the "Talks" software, a revolutionary application allowing blind and sight-impaired people as well as the elderly to independently use all the functions of the mobile, thanks to an electronic voice reading the display. A personalised free-of-charge assistance service network is available to "Talks" users at customer care facilities and company shops.
In 2005 "Talks" has received a special mention from the Sodalitas Social Award, in the category devoted to service innovation of significant products from a social and environmental point of view.

ASPHI
ASPHI (Launch and Development of Projects to reduce Handicap through ICT) is a non-profit association of businesses and organizations aimed at promoting the integration of people afflicted by disabilities in the community through the use of ICT technology (Information and Communication Technology).
In 2005 TIM become a member of ASPHI thus reinforcing its collaboration, started in 2003, in the professional training of young disabled on the use of information and communication technologies. Every year TIM takes part in "HANDImatica", organized by ASPHI and presents in its stand innovative and socially useful products.

Relations with Universities

The Group continues the support, both in Italy and abroad, in favour of the University world and of training centres for young graduates, sponsoring scholarship and masters.
Thanks to a stage mechanism the Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about euro 800,000.
The time dedicated by many Group managers to internship workers and University lessons, enriches the panorama of the Group's contribution to training of youths.

Business Basics

Loquendo technologies

Loquendo is a company of Telecom Italia Group and develops innovative vocal technologies for automatic applications. The Loquendo platform allows the user to access information and transactional data with a simple telephone call, supporting sight and speech impairments. Thanks to the continuous improvements of voice recognition technology services are now available in 17 languages, with the use of "voice prints" as a biometric feature to check individual identity and even recognising whether the caller is a man or a woman. The platform also allows call centre automation, the introduction of voice services for Customer Relationship Management applications and the telephone access to Web applications.

Telemedicine and Teleassistance

Telecom Italia continues to participate in the activities of Telbios, an Italian company developing Telemedicine services and networks devoted to healthcare facilities and homecare medical assistance.

Telemedicine initiatives are as follows:

- Safe Network for National Transplant Centre, allowing the management and control of data and imaging relative to explanted organs, for optimal and immediate reimplant.
- Telecardiology and Telemonitoring, allowing to monitor the patient's vital parameters at home and then to transmit these data to the Telbios Telemedicine Service Centre - CST through a simple phone call or using a GSM mobile. The data are verified in real time by cardiologists operating at CST or are sent to specialists of other healthcare facilities taking care of the patient.

A call centre with operators specialised in the management of healthcare issues is operating 24 hours a day.

Area coverage

TIM continued its activity on coverage and improvement of the quality of service in remote areas in order to reduce the Digital Divide:

- following the agreement signed at the end of 2004 with the Piedmont Region (Department for Mountain, Forests and Environmental assets) TIM Italia has started the installation of low environmental impact plants in mountain areas, supporting tourism and improving safety;
- following the protocol of understanding signed on November 25, 2005 with the Province of Reggio Calabria, TIM Italia has started a GSM/EDGE coverage project concerning some remote areas of the National Park of Aspromonte.

Research, development and innovation

The Italian market of telecommunications is considered among the most advanced, both from the technological viewpoint and evolution of customer attitudes as well as customer consumption profiles.

To Telecom Italia Group technological innovation is therefore an essential and differentiating issue to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of the Group has allowed in these years the design, development and adoption on the field of state-of-the-art networks, terminals and services, a wealth to be used also in foreign countries where the Group operates through subsidiaries.
Technological innovation activities are carried out also by the operational and business units (Network, Market, Information Technology, Web & Media and Security) as well as by Olivetti, besides the "Innovation & Engineering Services" department (ex Telecom Italia Lab) of Operations where lie all the activities and competences concerning basic research, the assessment of developing technologies and the "intra-moenia" development.

The technological innovation of Telecom Italia Group arises moreover from the strategic partnerships with the most important manufacturers of telecommunication equipment and systems and with research centres of excellence in the most qualified academic institutions both at national and international level.
Technological innovation activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the radical review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of service quality.

During the financial year 2005 the investments of Telecom Italia Group for tangible and intangible assets related to development and innovation totalled approximately euro 3,700 million. Internal resources devoted to these activities as well as to research, in Italy and Brazil, are about 5,600, with an overall commitment equal to about euro 350 million (of which about euro 121 million already included in the investments).

In 2005 the research and development centres of Telecom Italia carried out in particular the activities detailed below:

Innovation & Engineering Services

In the new organisational structure of Telecom Italia Group, launched on October 5, 2005, innovation and research activities are a responsibility of the "Innovation & Engineering Services" department of Operations.
"Innovation & Engineering Services" inherits the experience, the resources and the know-how of the TILab research centre, supported by the resources and competences of development engineering of the network, both fixed and mobile.
Its 1,600 technicians operate to develop and engineer innovation, to make it rapidly and economically accessible to the Group customers.
Innovation is designed, created and tested in the laboratories of Turin and Rome, analysing both the fixed and mobile access network, striving to improve the transport network, developing services and platforms; all this requiring a careful analysis of the needs of both final customers and businesses, for whom the future telecommunication network is the qualifying issue enabling their competitiveness on the market at worldwide level. Among the ongoing activities, that in the next few years will be significantly perceived by the general public, the following should be mentioned: the development of mobile communications and the spreading of broadband in a perspective of evolution of the network and services projected up to 2015, with the identification of the relevant transition strategies.
Thanks to the "Innovation & Engineering Services" department, operating in strict collaboration with the Pirelli Labs, Universities, Research Centres and Industry, the future is nearer and offers advanced services in many sectors, ranging from mobile to multimedia, from home to business, ensuring quality and security.
As for the past, the opportunity to generate competitive advantages and to create value for Telecom Italia Group has been pursued also through a strategic management of relations among research, Intellectual Property Rights (IPR) and business, aimed at developing the corporate patent portfolio; within this framework 82 new patents have been registered in 2005 (86 in 2004), 3 of which following joint research projects with Pirelli Labs.

The most important results achieved in 2005, nearly all relative to activities of the pre-existing TILab, are consistent with the strategy aimed at pursuing innovations leading, on one side, to outline the technological and architectural course of the network and of user terminals, and on the other side, to open perspectives involving new services and revenues for the Group as well as favouring at the same time operational improvement.

Concerning the **Innovation of Services**, some contributions to the development and improvement of the Group offer of services are worth mentioning:

- release of the Phase II Video telephony service, completely based on the IP protocol and the interoperability of the same with mobile video communication: a step forward towards Convergence, using on the fixed network the same architecture used for the mobile network (IP Multimedia Subsystem with standard 3GPP);
- release of the Mobile Instant Messaging (MIM) Blah service on the south-American market: the TILab contribution concerned the expansion of the TIMCafè platform (implemented by TILab and already providing the MIM service, leader on the national market) with a community/chatting SMS solution successfully launched by TIM Brazil and subsequently by other TIM subsidiaries;
- improvement of the Telecom Italia Alice Mia service, thanks to the expansion to Personal Computers of functions currently available on the phone: in particular TILab has designed and released the client software that, once installed on the PC, allows the workstation to be integrated within the network and service architecture of Telecom Italia, thus enabling customers to make voice calls on IP and to take advantage of additional services such as supplementary telephone services and service quality management;
- spreading of TV contents on mobile terminals, both through the UMTS technology and DVB-H broadcasting: TILab contributed in terms of design and development of an Interactive Mobile TV platform then integrated in the DVB-H distribution chain, with some prototype characteristics that make it a world's first standard, such as the contemporary DTT and DVB-H transmission, live contents transcodification in advanced MPEG-4 format;
- spreading of charged musical content on mobile terminal: TILab contributed during the year to the realisation and installation at TIM partners' and TIM Service Centre of the i-Music Store service platform;
- contribution to the launch of the Alice Home TV service, through laboratory testing of network equipment (DSLAM-IP and Service Platform) and of the user Set Top Box as well as through a service trial with friendly users.

Concerning the **Innovation of terminals** two important initiatives should be mentioned, both aimed at increasing services available to customers and assuring at the same time adequate security levels:

- the first is related to the integration on the SIM of a mobile terminal with ZigBee proximity technology: thanks to these radiofrequency low-cost readers, easily integrable inside mobile terminals, these are enabled to interact with external devices using an analogous ZigBee technology. New services, such as tele-ticketing or automatic payment are thus enabled on the terminal;
- the second refers to the development of prototype solutions based on the use of biometric facial recognition technologies, improving the security of "sensitive" services when used through a camera-equipped mobile terminal: in this case the client face image, partly stored on the server, partly on the SIM, is compared with the real time image provided by the phone, thus ensuring a high degree of protection from illicit intrusion.

As far as the **Innovation of the Home Network**, TILab:

- has boosted to the establishment of the Home Gateway Initiative (HGI), the new Forum in which the leader vendors of the sector, including Pirelli Broadband Solutions, are participating;
- has defined, consistently with international standards, the updating specifications for the Home Network management system, thus enabling the integrated management of home network equipment. This will bring considerable advantages both to Telecom Italia as a service provider and to final customers perceiving the quality of the end-to-end service used.

In the **Innovation of the Geographic Network**, consistently with the Group strategic lines, significant contributions have been provided regarding both architectures and specific technological network junctions, as detailed below:

- during the first half of 2005 a long-term perspective has been outlined concerning a fixed-mobile network that, besides pursuing technological synergy objectives, pictures scenarios of services accessible through fixed lines, mobiles and multimodal applications within the next ten years. In this context and in collaboration with the sector vendors the specifications of collection junctions and of the IP service junctions for the target network have been developed;

- consistently with the Group's strategy to enable a Quadruple Play offer (fixed telephony, broadband Internet access, services on TV + mobile communication) TILab also made a significant step forward by completing – in advance with respect to the Vendor's roadmaps and thus influencing them – the technical specifications of the network element (QoS-Server) that will assure to the single customer the "Quality of Service" required for optimal service, and starting the first laboratory tests with commercial products;
- TILab also contributed, in the second half of 2005, to the drafting of the Group Technological Plan with regard to network architectural vision issues for the future, with particular reference to the technological drivers that will direct the development and the management of the network, to the standardisation and regulatory scenarios that are emerging and to benchmarking of other telecommunication operators;
- TILab has designed, consolidated and activated in the month of November 2005 the first version of a multi-vendor management system for the activation of innovative DSLAM-IP services, based on proprietary techniques and platform. This solution is the first functional and systematic element of the mediation layer between the network and the management systems; named Neutral Element Management and identified as one of the evolutive key solutions of the convergent management platform of Telecom Italia;
- TILab has completed within the end of 2005 (release on January 23, 2006) the co-development with Italtel of the IMS/IP Multimedia Subsystem platform, enabled to deal with advanced telecommunication services based on the SIP/Session Initiation Protocol.

In the framework of Progetto Italia, TILab has contributed to spread the image of Telecom Italia as an innovative company through a series of events held in Venice ("Robot", "The Evolution of communication beyond current horizon", "4 steps in the future"), in Genoa (Science Festival) and several other events both in Italy and abroad.

Olivetti S.p.A.

The Olivetti Business Unit devotes to the technological Research and Development sector a significant share of its resources. Over 300 employees work in the five research poles (Agliè, Arnad, Carsoli and Scarmagno in Italy; Yverdon in Switzerland), that means 17% of the entire staff.
In particular the ink-jet technology, of which Olivetti is the only proprietary European company, together with other five companies in the world, has been created and developed in the Arnad (AO) plant, where over 200 resources are involved in the complete manufacturing cycle of the thermal inkjet technology: from silicon processing to the assembling of print cartridges.
During 2005 the Olivetti research centres have been deeply committed to the development and improvement of the new generation of multifunctional printers launched in the months of August and September 2005.

Human resources

Headcount and changes in Telecom Italia Group

EMPLOYEES AND TEMPORARY STAFF

	Changes in the period					
Staff at 12.31.2004 (*)	Recruited	Terminated	Increase of temporary staff	Changes in the area of consolidation	Total	**Staff at 12.31.2005**
94,022	7,735	(5,603)	732	(10,355)	(7,491)	**86,531**

(*) includes staff on temporary contract, equal to 2,650 in 2004 and 3,382 in 2005.

Headcount at December 31, 2005 is 86,531, including 1,047 employees related to sold/destined to be sold activities (discontinued operations). Excluding these activities Group's headcount is 85,484.

The reduction of 7,491 employees as compared to December 31, 2004 is due to:
- the sale of Entel Cile Group (– 4,166 employees), Finsiel Group (– 3,972 employees), TIM Hellas (– 1,495 employees) and TIM Peru (– 653 employees);
- the entry of 7,735 employees (of which 514 related to the activities sold/destined to be sold "discontinued operations") and the termination of 5,603 employees (of which 576 relative to discontinued operations), plus an increase of 732 employees of temporary staff;
- the changes in the area of consolidation linked to the acquisition of Liberty Surf (+ 614 employees), the establishment of TIS France (+ 24 employees), the sales of Televoice (– 169 employees), Innovis (– 222 employees), Cell-Tel (– 112 employees), Databank (– 86 employees) and Med 1IC-1 (– 14 employees), as well as to the transfer of the business branch Territorial Centres of Surveillance by Telecom Italia (– 104 employees) to Tecnosis S.p.A..

Headcount and changes in Telecom Italia S.p.A.

	Changes in the period									
	Incorporated companies						Break up of business branches			
Staff at 12.31.2004 (*)	TIM 1.1.2005	TI Data Center 12.31.2005	Recruited	Terminated	Decrease of temporary staff	Transfers among Group's companies	Territorial Centres of Surveillance	TIM Italia S.p.A. 2.28.2005	Total	**Staff at 12.31.2005 (*)**
53,034	10,424	596	521	(1,494)	(177)	339	(104)	(10,399)	(294)	**52,740**

(*) includes staff on temporary contract, equal to 186 employees in 2004 and to 9 employees in 2005.

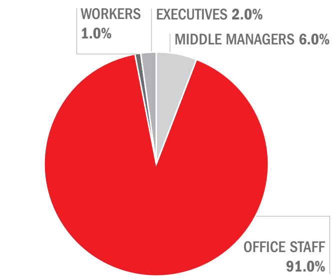
Headcount of Telecom Italia S.p.A. at December 31, 2005 is 52,740. As compared to December 31, 2004 an overall decrease of 294 employees is observed.

The merger by incorporation of TIM S.p.A. into Telecom Italia S.p.A. went into effect on June 30, 2005 with accounting and fiscal effects as from January 1, 2005. On February 24, 2005 TIM S.p.A. went ahead with the transfer of the business unit relative to mobile communication in Italy in favour of TIM Italia S.p.A., a company 100% controlled by TIM itself; the break up was performed through the increase in kind of TIM Italia's share capital freed with the award of the whole company with effect from March 1, 2005.

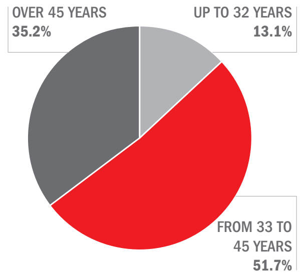
On December 31, 2005 the merger by incorporation of Telecom Italia Data Center s.r.l. into Telecom Italia S.p.A. (+ 596 employees) went into effect. On December 30, 2005 the former benefited from the partial transfer of the business unites constituted by the infra-structural assets related to the management of data centres of IT Telecom s.r.l. (540 employees) and of TIM Italia S.p.A. (56 employees) as well as of basic services (mail, office automation, management of workstations) of IT Telecom s.r.l..

In Italy the Group's payroll headcount is equal to 84.5% with the following characteristics:

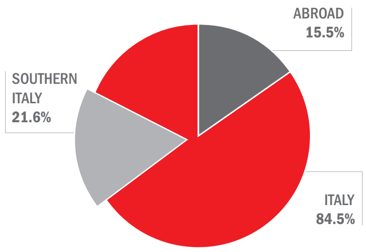
Telecom Italia Group - Italy: employee breakdown by professional category



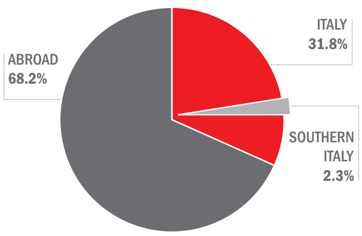
Telecom Italia Group - Italy: employee breakdown by age group



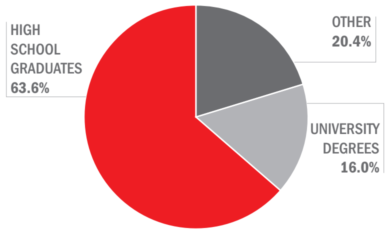
Telecom Italia Group: employee breakdown by geographic area



Telecom Italia Group: recruitment breakdown by geographic area

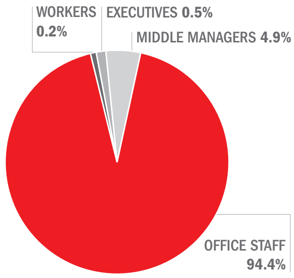


Telecom Italia Group - Italy: employee breakdown by academic qualification

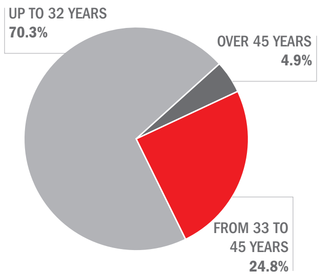


Focus on Latin America

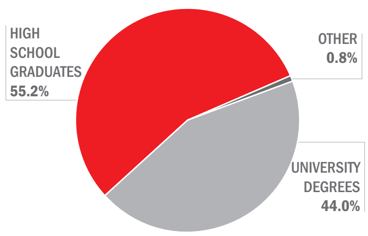
Latin America: employee breakdown by professional category



Latin America: employee breakdown by age group

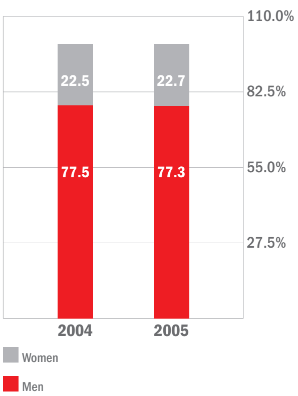


Latin America: employee breakdown by academic qualification

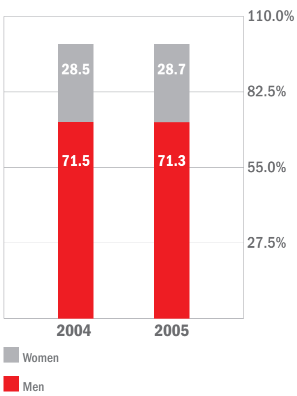


Gender balance

Distribution of men and women (2004-2005) Telecom Italia S.p.A. (%)



Distribution of men and women (2004-2005) TI Group (in Italy) (%)



In 2005 the percentage of women holding senior management positions in the Group (in Italy) was approximately 13%; at middle management level it was about 24%.

Equal opportunities
Woman Project is an integrated program launched on July 1, 2003 in the framework of corporate Welfare initiatives aimed at identifying interventions favouring women professional growth and fostering equal opportunities within Telecom Italia Group. During 2005 the project promoted and carried out the following activities:

- a web portal devoted to the project, updated with all the activities promoted in favour of employees and providing a wealth of information on maternity/paternity and raising children;
- loans for mothers: designed for employees mothers of children aged 0-3 years. The maximum amount granted is euro 2,500 for each child, to be repaid in 18-24-36 monthly instalments. Loans granted in 2005: no. 158;
- Children's Day: half-days during which employee's children may access corporate offices and visit their parents' work place. The initiative includes entertainment, play, snacks and gadget distribution;
- development of management policies (training, mentoring, coaching, intervention on flexibility, etc.) to help employees resume their jobs after maternity leave.

Development

In keeping with an action plan started last year and aimed at supporting business evolution through appropriate identification and valorization of key know-how, during 2005 the **assessment of employees' competence portfolio** (specialized knowledge and personal ability) carried out within the Group's companies in Italy was completed. The census involved approximately 66,000 employees and their managers.

The Assessment allows the company to estimate the patrimonial value of the know-how present in the Group, to evaluate the best allocation/valorization of the resources in terms of business needs and to set up measures of retention and development of key competences.

Again on the issue of the valorization of competences existing in the Group: during the year special attention has been paid to **Infragroup Mobility** with the aim of resorting to internal professionalism to cover personnel requirements, thus favouring the development of resources. During 2005 about 80 announces have been posted on the Group **Job Posting** (as compared to 34 in 2004) and about 500 curricula have been collected (as compared to 259 in 2004).

Another specific course of action followed in 2005 was keeping on in harmonizing policies and systems of developing resources **at international level** in the various companies of the Group abroad. In this framework several initiatives were launched to spread in these areas the development procedures already in use in the Italian Business Units, for example by extending to the companies in Latin America the experience of the **Knowledge Review** which allowed the identification of those resources who, thanks to their know-how, represent a professional reference point.

The **Management Review** has allowed also in 2005 to analyze the qualitative profiles of all the Group's managers, both in Italy and abroad, by assessing about 1,500 executives and managers, and to build a tableau of excellence managerial profiles, shared at top level.

Recruiting
The Project "University Tour" has been launched in 2005 with the aim of presenting the company in the most important Italian Universities. The program to recruit and select high-potential new graduates, mainly in engineering and economics, has been continued. The positive placement within the company has been verified through individual interviews to make a first assessment of the experience, to monitor satisfaction with regard to the activities, as well as to acquire a first assessment of the profile and of the correct job allocation in the Group.

Training

Training activities for the Italian staff of Telecom Italia Group in 2005 have involved approximately 2 million hours (classroom, on-line, training on the job) and about euro 32 million of outlay costs (excluding the cost of labour and logistic expenses).
Around 30,000 employees took part in **classroom training events**. Over 72,000 hours have been devoted to health and safety issues and more than 31,000 to environmental issues.
Training activities, largely carried out by Telecom Italia Learning Services, occur within two wide frameworks: a first one related to overall Group projects, the second to the safeguard of business know-how.

Overall Group Projects
- Two editions of the Learning Tour, designed for high-potential managers: the first was meant to analyze the Corporate Identity issue through visits to companies renown for business excellence in London and Paris (16 participants), while the other dealt with the role of Human Resources as strategic partner of business in European companies (22 participants).
- Training project "Public and Media Speaking" designed for 27 managers allocated to various corporate departments, aimed at developing effective media communication skills.
- Training activities devoted to Professional Families, Security, Human Resources, to the Advertisement and Promotion Professional framework and to the Buyer role (Purchasing Professional Family).
- Launch of the Project "Mastering IT", devoted to the Professional Family Information Technology, involving about 50 managers of the Family itself.
- E-learning project "Sailing Master" devoted to Group executives and aimed to consolidate the competences related to the managerial model; about 50% of the overall value of the project has been funded by Fondirigenti.
- Two editions of the seminar designed for new executives, one edition of the placement course for new graduates and one for professional resources.
- Institutional training activities related to the projects "Sarbanes Oxley (404)", "Sustainability" and "Convergence and integration".

Business training
Training activities both in Operations and other Business Units have been implemented as following.

Operations Wireline
Continuation of the projects aimed at safeguarding the competences of staff operating within **Customer Operations** (employees, supervisors, and managers in charge of Call Center, Invoicing and Credit), meant to improve relation skills with customers and develop leadership and effective management of groups. This population has also been involved in training activities related to the updating and consolidation of technical specialist know-how, with special focus on the knowledge of new products/services (ADSL, video-telephone, etc.).

Concerning **Sales**, training activities have been devoted to resources operating in the Large Business Customers facilities, focusing on the development of "advisory" skills in dealing with customers, on management of complex sales, on integration within Account Teams as well as on the consolidation of managerial role competences (Area Managers, Large Business Customers Managers and Territorial Area Managers).
Again concerning Sales, but in the Consumer segment, training activities were related to motivation issues and role adjustment of Accounts.

Innovative training projects have been designed for **Marketing** in order to reinforce the managerial skills of high-potential resources.

Concerning the BU Wireline **Network** training was mainly focused on the development of business competences and to technological evolution (particularly on ADSL issues) as well as on the development of competences related to the Cisco certification plans.
The role adjustment sessions designed for assurance and delivery front end resources have also been completed.

Updating interventions on the ICT market evolution have been designed with regard to the specific needs of the various reference targets (as for instance Network and Sales).

Special attention has been paid to the improvement of language skills also through the spreading of specific on-line applications.

TIM Operations
Training activities were mainly focused on issues such as "Employee enhancement", "Customer Care" and "Customer orientation". In the first case post assessment and post performance training plans have been made to fill specific gaps of single resources focusing on macro areas of ability. As far as the last issues two specific projects have been implemented: a project designed for customer agents aimed at spreading empowerment concepts and behaviors through an innovative methodology (reality training); the second one involved in a single event both TIM resources belonging to different departments, though operating on the same service, and business customers, and was focused on the improvement of customer orientation ability, on the effective and direct knowledge of the customer and on teamwork.

Media
Training initiatives concerned the continuation of the Business Unit overall project on "People enhancement", designed for executives and middle management and meant to stimulate integration and teamwork. Concerning the single business areas actions focused on the development of specific competences, such as the updating on Terrestrial Digital issues for technicians and journalists of La7, and the improvement of relational capabilities with customers for the Sales and Marketing departments and of Customer Care in MTV and Tin.it.

Olivetti
A managerial training project, designed for a population of selected middle management, has been implemented at the conclusion of an Assessment Centre phase. The project was focused on the soft skills required for business and management processes, with special attention to issues such as Management of Change and Team Building.
Special attention has also been paid to the updating of professional competence and reinforcement of language skills for Research and Development resources.

A professional re-qualification program has been launched for CIGS staff for the purpose of outplacement of redundant resources in the TLC equipment repair, contact management and customer service sectors.

As far as training activities concerning Telecom Italia Group **staff abroad**, the monitoring refers to Operations Mobile and South-America (Bolivia), i.e. approximately 83% of the Group's staff abroad, totaling 760,000 hours.

Internal Communication

During 2005 several Internal Communication initiatives have been launched in order to favour the integration and promotion of corporate culture.

Within this framework **Conventions** and **Meeting** play a significant role.

Some events among the most important:
- 2005 Group Convention - with the participation of about 6,000 executives and middle managers of Telecom Italia Group both in Italy and South America. 5,000 more employees attended all sessions by connecting their workstation to the Intranet portal;
- Meeting of Chairman Marco Tronchetti Provera with 124 new graduates recruited by the Group in 2004;
- Convention of the Purchasing Professional Family, involving 300 executives and middle managers;
- Workshop "Create today to innovate tomorrow", with the participation of 150 Marketing executives and middle managers;
- Human Resources Meeting, with the participation of 130 employees of the Human Resources Professional Family.

The 10th anniversary of the creation of TIM occurred in 2005 and it has been celebrated with a TIM Birthday Party and the participation of 10,000 people in main corporate offices and premises.

In order to present the **new organization** based on the One Company model the "Meeting top executives" event was organized, with streaming transmission to the entire corporate staff. At the end of the year the "Operations meeting: targets for 2006" involved about 4,500 executives and middle managers of Operations and Central Departments in order to present results and strategies; 3,000 more employee followed the event through streaming.

Corporate Press contributed most significantly to the communication of experience and information within the Group. Main publications are: noi.magazine; TIM TAM TAM; @tilab; il Notiziario Tecnico (Technical Bulletin).

The Group Intranet portal platform with profiled and restricted access to all the Group's companies, has been improved. Over one million visits to the portal have been recorded in the year.

Internal Communication Department also organized the following **Special initiatives**:
- organization of the First Literary Competition of Telecom Italia Group, with prize-giving ceremony in Turin for 150 employees, among which winners, finalists and participants, and realization of a volume including the 40 best stories selected by the jury;
- participation of employees in "Telecomcert" with Elton John in Rome.

The **Values Project** identified by the brand "Values in progress" has been launched with a view to emphasize the significance of the Group's Values. 3,000 resources of the Group took an active part in the project.

Remuneration policies

In 2005 fixed-compensation policy was based on a selective management of interventions correlated both to role and competences and aimed at improving internal equity.

The "variable" component of compensation, correlated to company/individual performance, is confirmed as the distinctive element of the compensation package. In this respect, formalised systems take on particular significance as shown by the consolidated use of the managerial incentive system MBO and of the Performance Bonus Program (PBP), introduced in 2004 and meant for resources holding relevant business positions with more of a professional than a managerial content.

In a perspective of valorization of the compensation package the commitment to harmonise policies on benefits continued, as well as that to expand the population receiving benefits.

Stock options

Stock options have been used over the years by Telecom Italia Group for retention purposes and as a long-term incentive for managers.

At the end of 2005 the stock option plans existing in the Group are related to options entitling to the subscription of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. shares.

Following the merger by incorporation of Telecom Italia Mobile into Telecom Italia, the latter took over all the Stock Option Plans previously effective in Telecom Italia Mobile: stock option holders maintained their right to subscribe, when exercising the option and at the subscription price, a number of Telecom Italia ordinary shares equal to the number of options multiplied by the exercise ratio of ordinary shares (ratio 1 to 1.73).

In 2005 a new stock option plan has been launched in Telecom Italia Media S.p.A., approved by the Company Board of Directors on February 23, 2005 ("2005 Plan").
The Plan is reserved for employees on duty at Telecom Italia Media and its Subsidiaries, holding special responsibilities and/or competences and is offered against the voluntary renunciation to options of preceding plans formerly assigned by Seat Pagine Gialle S.p.A. (2000-2002 Plan and 2002 Key People Plan).

The essential characteristics of Telecom Italia (including those formerly assigned by Tim S.p.A.) and of Telecom Italia Media Stock Option Plans are summarized in the Note "Other information - Stock option Plans of Telecom Italia Group" of the annual report.

Industrial relations

During the period collective Group bargaining mainly concerned:

Company re-organization

The Group's initiatives to focus on core business activities were carried out in accordance to legal procedures governing the transfer of the business branch Territorial Centers of Surveillance of Telecom Italia S.p.A. to Tecnosis S.p.A., effective as of July 1, 2005.

The operations described below were also carried out during Group reorganization:

– transfer of the business branch Divisione Tin.it from Telecom Italia Media S.p.A. to Società Nuova Tin.it s.r.l.;
– transfer of mobile telephony Business Unit of Telecom Italia Mobile S.p.A. to TIM Italia S.p.A.;
– transfer of the business branch Immobili e Servizi of TIM Italia S.p.A. to Telecom Italia S.p.A.;
– transfer of business branches Infrastructure Operations 1 and Infrastructure Operations 2 of TIM Italia S.p.A. and contextual transfer of the Business Unit IT Telecom s.r.l. (excluding the Certification Authority organization) to Telecom Italia Data Center S.p.A. and subsequent merger by incorporation into Telecom Italia S.p.A..

On January 29, 2005, Telecom Italia S.p.A. and the Trade Union Organizations, SLC-Cgil, FISTel-Cisl and UILCom-Uil signed an agreement concerning the statutory reform of the Association for Integrative Healthcare for Telecom Italia workers (ASSILT) and of the Telecom Italia Workers Recreational Club (CRALT).

Concerning ASSILT, the reform involves the confluence of the technical and operational activities of the Association in a specific department for Welfare in Telecom Italia, the rationalization and simplification of the member bodies of the Association, the possibility to join the Association for all the Group's companies, even with a CCNL (collective agreement) different from that of Telecommunications sector.

For CRALT the reform involves the reduction of the number of Area Councils from 22 to 12 and the confluence of Service Centers in the Welfare department of Telecom Italia.

A specific Code of Ethics has been agreed with Trade Unions to be adopted by both Associations and valid with respect to members, associates and components of associative Bodies and Offices.

On May 2, 2005 agreements have been signed with Trade Unions in order to redefine the entire internal corporate participatory and representative system.
In the first place the Industrial Relations Protocol has been updated consistently with the new corporate policies aimed at reconciling economic, social and environmental targets.
The principle of the participatory model has been confirmed as the tool to reconcile objectives aimed at safeguarding workers as well as the company's competitiveness.

Furthermore, agreements have been signed to redefine the concept of Productive Unit with respect to Trade Union representation; as a consequence the number of Trade Union Unitary Representatives and the total amount of hours granted to these organisms for their activities have been reduced, matching them to the current corporate organizational model.

Also redefined are the prerogatives granted to workers representatives participating in the organisms of the Associations ASSILT and CRALT.
The tasks of the Environmental Joint Committees, comprising internal company members and union members operating inside the company also underwent redefinition and adjustment adapting them to the new corporate requirements.

After a few months of negotiation, on November 7, 2005, an agreement has been reached with Trade Unions on the development and reorganization plan for the three-year span 2005-2007. The agreement signed by the parties is based on the industrial project for the integration of the fixed and mobile telephony businesses.
The agreement with Trade Unions also identifies some tools aimed at ensuring the correct occupational dimension and the necessary professional remix, such as the targeted introduction of new resources, the professional and intercompany mobility and mobility ex lege no. 223/91.

Consistently with the Development and Reorganization Plan on December 20, 2005 agreements have been signed with Trade Unions concerning mobility of 3,403 Telecom Italia S.p.A. workers. On the same day similar agreements have been signed with other Group companies (TIM Italia S.p.A., Telecom Italia Sparkle S.p.A., IT Telecom s.r.l., Telecom Italia Learning Services S.p.A.), over a total of 97 resources.

On December 3, 2005, after nearly a year of negotiations, a draft agreement has been signed between ASSTEL (Assotelecomunicazioni) and Trade Unions on renewal of the National Collective Labour Agreement for telecommunication service businesses.
The regulation section of CCNL relative to tlc, effective up to December 31, 2008, has been adapted to the most significant new concepts introduced by Legislative Decree no. 276/03 concerning the labour market, and those introduced by specific legislation on working hours; the economic section of the agreement, on the contrary, will be effective up to December 31, 2006.

Health and safety

At the end of 2005 the state of the art relative to some important projects launched the preceding year was the following:

– The research into wellbeing in call-centres, managed by a Scientific Committee composed of Italian university professors specialized in Psychology, Ergonometry and Medicine in the Workplace was concluded.
– The assessment of concentration levels of radon gas in some workplaces, by means of scientific collaboration with the Istituto Superiore di Sanità (Superior Health Institute) continued, in order to develop a working methodology and an accredited laboratory.
– An assessment of the biological risk occurring in underground plants, operated by Telecom Italia technical staff, is in progress.

Furthermore, in order to ensure and promote health and safety on the job, the following significant activities were carried out:

- controls and monitoring on buildings and plants;
- evacuation tests to verify the efficiency of the Emergency Plans;
- first-aid operational plans;
- health surveillance and inspections of video terminal workstations carried out with competent physicians;
- control and maintenance of TIM Safety Management System;
- training on the subject of health and safety in the workplace – about 60,000 hours by SPPA – devoted in particular to employees in charge of emergency management (over 300 employees), to first-aid (about 1,500 employees) and to workers exposed to specific risks;
- a specific training session on "safe driving" dedicated to about 200 TIM technicians.

Accidents

Data on accidents occurred in Telecom Italia S.p.A. and TIM S.p.A. are shown below:

		Telecom Italia S.p.A.	TIM S.p.A.
Total accidents	No.	873	70
Accident severity index (*)	%	0.38	0.05
Frequency rate (*)	%	10.25	4.4
Average duration	%	110.1	90.2
Unproductiveness rate (*)	%	1.13	0.4
% workers on total	%	1.68	0.7

(*) The severity, frequency and unproductiveness indexes represent respectively:
– the number of conventional days lost per year per thousand hours worked;
– the number of accidents per million hours worked;
– the number of hours lost due to accidents per thousand hours worked.

Against a marked increase in absolute terms of the number of events as compared to 2004 (attributable to normal statistical oscillation of phenomena), a significant reduction of average duration and unproductiveness index has been observed in 2005.

Initiatives for employees

Welfare

In the second half of 2005 the service department **Welfare** was established, meant to ensure the operation of the **Group Recreational and Welfare Organisations**, the provision of social services for the improvement of employees wellbeing, the implementation of **health assistance**/prevention and **medicine in the workplace** initiatives, and solutions for leisure time.

This framework includes projects and initiatives dedicated to all employees:

- Personal affairs service: management of errands (post office payments, fines, road tax, etc.), thanks to a permanent counter inside five corporate premises;
- Conventions with Hotel chains, tourist packages and car rent at reduced cost;
- Conventions for entertainment events: discounted tickets for employees;
- Renovation of some company canteens, now turned into pleasant dining rooms;
- Company loans:
  - Estate: to buy house up to a maximum of euro 17,500, to renovate up to a maximum of euro 12,500. Granted in 2005: no. 76 for the first type and no. 104 for the second;
  - Other reasons: up to a maximum of euro 2,500. Granted in 2005: no. 267.
- Prize-giving ceremonies: for employees with 25-30-35 years seniority. Awarded in 2005: 5,300;
- Intranet website: a portal for information, training and access to services favouring balance between life and work;
- Internet website: devoted to information/provision of Social Services;
- Health information: dedicated interactive section via Intranet.

Moreover, projects and initiatives for employee's children:
- Childcare centres: Telecom Italia S.p.A. has inaugurated two new childcare centres, one in Rome (Parco de' Medici) and the other, created to meet the special needs of call centre employees, in Naples (Telecontact - CDR). These structures follow those of Tim in Rivoli (Turin), Rome and Palermo;
- Local summer day centres: conventions with two summer day centres in Naples and Bari located near to the workplace and encouraging participation in sports; the initiatives are dedicated to employees' children aged 7-15. Participants in 2005: 71 children;
- Traditional summer holiday camps: 16-day holidays for Group company employees' children, aged 6-12. Activities in the camp are organised around an educational project which is periodically updated with input from university professors and experts in the sector. Participants in 2005: 4,705 children;
- Thematic summer holidays: 15-day holidays devoted to learning English and sport practice, for Group company employees' children, aged 11-14 in the first case and 7-15 in the second. Participants in 2005: 427 children;
- Scholarships: periods abroad to study English, thus favouring intercultural communication between young people and families all over the world. Four weeks for boys and girls aged 15-16 and/or one year if aged 16-17. Participants in 2005: 60 for the 4-week period (Ireland and Finland); 20 for one-year period (Europe, United States and Canada);
- Refund of university fees: refund of first-year enrolment fee for employees' children with marks at least 90/100.

ALATEL

Association for the Elderly (ALATEL and Gold Pins)
The Senior Worker's Association of Telecom Italia Group (over 26,000 members, of which a third are working employees) continued the realisation of its institutional activities, confirming the collaboration with the Olivetti Gold Pins Association (about 6,400 members).

ASSILT

At December 31, 2005 more than 215,000 were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 67,300 employees, 41,350 retirees, 107,300 family members.

As well as reimbursing healthcare expenses to integrate the National Healthcare Service (660,000 cases in 2005), Assilt conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2005 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Puglia, Lombardia, Veneto, Campania and Emilia

Romagna), as did the program for respiratory allergies, started in 2003 (Lazio, Tuscany and Sicily).

Furthermore Assilt, in collaboration with OSSFAD, supported Telecom Italia's "No Smoking" initiative for the benefit of its employees.

CRALT

The Telecommunications Workers Recreational Club of Telecom Italia Group organises tourist, sport, cultural and recreational activities for employees and retired employees from the companies of the Group.
At December 31, 2005 about 49,000 employees and 8,000 retirees had joined the Club.

Labour and human rights in Latin America

The following shows the main actions undertaken by the Group in Latin American countries – Brazil and Bolivia – to implement the principles of the Global Compact regarding human rights and safeguards for labour standards.

Human Rights
Specific regulations against race, religion and gender discrimination are effective in Brazil, both in the Federal Constitution (respecting the International Labour Organisation and Universal Declaration of Rights for Man principles) and in national legislation.
The Human Resources Department of TIM Brazil is in charge of monitoring the observance of these rules in the basic processes relating to human resources (recruitment, management and development), making use of its own holding and territorial organisations.
The first corporate Code of Ethics, distributed to all employees, includes the general principles stated in the Group Code (consistent with Global Compact principles), with appropriate adjustments based on local needs.

At Entel Bolivia the Collective Labour Contract, in force between the parties, sanctions the respect for dignity and human rights of employees and foster equal opportunities for men and women, promoting in particular female participation in company activities.

The Contract includes a Code of Ethics stating principles of conduct and of respect of human dignity and relations.

The instruments provided by the Collective Contract enabled the application of innovative policies related to industrial relations, training and internal communication, such as to arouse the interest not only of national businesses and Trade Unions but of the International Labour Organisation (ILO) as well.

Concerning juvenile labour Entel Bolivia respects the international ILO rules.

Safeguards for labour
Freedom to associate is ensured by legislation in force both in Brazil and Bolivia.

The Collective Contracts of all the operating TIM companies in Brazil have been renewed in 2005 and involve new economic wage advantages and benefits.

Entel Bolivia recognizes and actively cooperates with Trade Unions. In compliance with local labour laws freedom to associate is ensured. According to the country's Constitution no-one may be forced to perform any job without proper remuneration and Entel monitors observance of this provision.

Some data concerning unions:
- TIM Brazil: approximately 5.2% of workers are members of Trade Unions Organizations.
- Entel Bolivia: 52% of workers are members of Union Associations.

In both countries the results of negotiations affect all employees, including non members.

In case of company re-organization, the company's obligations to employees and Trade Unions differ from one country to another:

- TIM Brazil: no special formality is provided by legislation however trade unions are involved in re-organisation processes. Duties exist towards institutional bodies such as ANATEL (regulatory) and CADE (antitrust).

- Entel Bolivia has developed tools to prevent potential conflicts, by means of widespread information on corporate plans and policies.

- These tools are:
  - Foro Estratégico (Strategic Forum): meets every six months to discuss industrial policies and strategies, financial and legislative scenarios, market trends, technological innovation and investments.
  - Observatorio (Observatory): involves representatives of the company and of the workers and aims at analysing and discussing issues of general interest such as market and competition, improvement of working conditions as well as improvement and preservation of corporate profits.
  - Sistema de Informaciones (Information system): ENTEL reports information every four months to CEN of FESENTEL (executive committee of the Federation Labour Union), on the following issues:
    - developing scenarios of the sector;
    - evolution of internal occupational levels;
    - trend of main economic indicators of the sector;
    - evolution of production and investment perspectives;
    - evolution of technological and organisational aspects and their impact on work organisation;
    - significant training and professional updating programs.

On the subject of regulations protecting child labour all Group companies conform to the principles in national and international regulations.

To create a shared-values base and raise employee involvement on corporate management issues, the Group launched initiatives to spread shared values and to communicate corporate strategic plans.

Talent enhancement programs are active in TIM Brazil such as the enrolment of employees to post-graduate masters with company contributions to expenses. An internal job-posting system allows to fill vacancies through intranet or posting on company notice boards.

During the last eight years employees training activities at Entel Bolivia amounted to 578,000 hours/man and this has involved a deep change in the workers mix: in 1996 only 46% of employees consisted of professionals and skilled technicians, while in 2005 the 96% of workers has achieved a certificate, of which 15% postgrade, 56% graduation and 25% school-leaving certificate.

Shareholders

Financial communication

Consistently with preceding years also in 2005 Telecom Italia Group financial communication is accurate and immediate as well as focused on fundamental values of the ICT sector.
Investor Relations activities continue to be managed by a Central Department directly responding to the Chairman so as to ensure the fastest and most efficient communication possible.
The www.telecomitalia.it Group website provides comprehensive and accurate information through the spreading of institutional documents such as financial statements and the Sustainability Reports, *communiqués* on corporate issues and salient operations on the market, along with on line quotations of the Group's shares. At year-end 2005 a project has been undertaken for the redefinition of the website Investor Relations section to make it more appropriate with respect to investor requirements.
During 2005 the company organized over 100 formal encounters with the market (sell side analysts, institutional investors and both national and international specialized press) involving quarterly conference calls, road shows, attendance at conventions and press conferences, as well as daily contacts with financial analysts and investors both direct and by telephone.
On April 12, 2005 the yearly meeting with the financial community has been held in Milan to present the Group's targets for the three-years 2005-2007.
The industrial plan to integrate the Group's fixed and mobile communication was concluded with the merger by incorporation of TIM Italia S.p.A. into Telecom Italia S.p.A. effective as of March 1, 2006. A comprehensive and timely information campaign was provided to the market, also including a conference call to institutional investors, with the required documentation available on Telecom Italia S.p.A. website.

Safeguarding privacy and protecting data

Great significance is attached by Telecom Italia Group to issues related to personal data handling, particularly for interacting subjects (customers, employees, suppliers, etc.); the Group has therefore developed an internal organizational and regulatory system to ensure that all handling complies with legislative provisions and with the correctness principles outlined in the Group's Code of Ethics.

Within this framework also in 2005 significant initiatives were launched to ensure the observance of the laws in force concerning the protection of personal data (Legislative Decree 196/03, the so-called "Privacy Code"). The coordination of these activities is a responsibility of the "Privacy" Department, established within the Corporate and Legal Affairs Department which is in charge of controlling the correct application of sector regulations at Group level.
The actual application of these rules is monitored by Telecom Italia through an audit system based on periodic self-evaluation procedures undertaken by managers responsible for data handling and on random test audits applied by the competent central departments.
In particular, during 2005, audits were conducted at thirteen central and local facilities to ensure the observance of privacy rules relative to the management of Telecom Italia's employees, relations with customers and implementation of measures for data protection.
Actions plans are programmed for continued improvement of the operational issues associated with rule observance.
At Group level nineteen subsidiaries underwent audits on implementation of privacy rules, with the aim of ensuring the correct application of the rules as well as receiving useful indications to update and improve – through a bottom-up approach – the Group's regulation system on personal data handling.

Among other initiatives undertaken:
– Drafting of the Group normative "Regulation system for data handling", based on current laws and on the Privacy Authority "case laws" and defining for each case treated provisions and operational indications for Group companies, in order to ensure the correct and homogeneous application of the Privacy Code;

- realization of a computerized system allowing employees in charge of handling data to access, through the company intranet, the updated list of handlings performed in their departments, for improved observance of Privacy Code provisions;
- spreading of privacy culture, through constant updating of the dedicated site in the company intranet, the organization of meetings and encounters in Telecom Italia Group companies, and the drafting and diffusion of informative materials as for instance the "Summary of privacy normative" for employees dealing with data handling, the brochure "Privacy in Pills" for persons in charge, and the on-line course on privacy available to all the Group's employees.

Lastly, in compliance with provision 26 of attachment B (Technical Manual on Minimal Required Security Measures) of the Privacy Code, Telecom Italia confirms of having drawn up the Personal Data Security document (DPS) for 2005, reviewed and updated with respect to preceding editions to make it even more compliant to Privacy Authority requirements. This document describes the technical and organizational criteria adopted to protect common, sensitive and legal personal data handled with information technology tools, as well as the training plan designed for people responsible of handling personal data.

Risk Management

CRSA (Control & Risk Self Assessment) is a system aiming at the systematic identification, assessment and management of operative risks, that has been included in Telecom Italia Group's governance system more than two years ago. The system is based on a self-evaluation of risks made by the management, followed by the existing audit system and proposals, if any, for improvement. The cycle of identification and management of risks through CRSA, performed each year, involves the following operations steps:

- definition of Group's targets by Chief Executive Officers. For 2006 the following have been defined: Market Leadership and Competitiveness, Integration, Cash generation and Operative efficiency, Focus on customers, Reliability and Transparency of Information, Sustainable Management;
- definition of targets for each Business Unit and Corporate Department by the relevant persons in charge consistently with Group's targets;
- identification and consolidation of risks which may compromise the achievement of the established targets;
- assessment of identified risks in terms of impact and probability of occurrence and "weighing" of the same through the assignment of a coefficient of relevance;
- overall assessment of "weighed" risks within the Group's internal control system and identification of risks considered acceptable and of those requiring instead appropriate protection measures;
- development of action plans involving special protective measures for risks that are considered "not acceptable" and their approval by Management Committee;
- adjustment of the internal control system, if required.

The CRSA cycle for 2005 has been concluded in September 2005 with the approval of the *action plans* related to the Group Risk Portfolio (30 actions against 15 identified risks) and the definition of 313 actions with respect to the Central Department and Business Unit Risk Portfolios (436 consolidated risks).

The implementation of the mentioned action plans is being monitored by the Compliance Managers operating in the various organizations and coordinated by a Group Compliance Officer; they provide assistance and methodological support to operative management during the CRSA cycle steps.

The practical management of the cycle steps is supported by a web-based application started in September 2005 that integrates the CRSA and APM (Action Plan Monitoring) systems and allows the automatic management and monitoring of Action Plans deadlines defined by CRSA, as done for action plans deriving from audits. All employee involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

Equity investments held by Directors, Statutory Auditors and general Managers

In accordance with article 79 of the regulation for the introduction of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under resolution No. 11971 dated May 14, 1999, the following table presents the equity investments held in Telecom Italia S.p.A. and its subsidiaries by individuals who, during 2005 or a part of that year, have held the post of director, statutory auditor or general manager in Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A. pre-merger (effective as of June 30, 2005).

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA S.p.A.

Name	Company	Class of shares	Number of shares held at the end of 2004 (or at the date of appointment)	Number of shares purchased in 2005	Number of shares sold in 2005	Number of shares held at the end of 2005 (or as of the date on which individual left post, if before)
Marco TRONCHETTI PROVERA	Telecom Italia Telecom Italia	Ordinary Savings	= =	2,000,000 1,000,000	= =	2,000,000 1,000,000
Gilberto BENETTON	Telecom Italia Mobile Telecom Italia	Ordinary Savings	1,125,000 =	= 990,000	= =	1,946,250 (1) 990,000
Carlo Orazio BUORA	=	=	=	=	=	=
Marco DE BENEDETTI	=	=	=	=	=	=
Riccardo RUGGIERO General Manager	=	=	=	=	=	=
Paolo BARATTA	=	=	=	=	=	=
John Robert SOTHEBY BOAS	=	=	=	=	=	=
Giovanni CONSORTE	=	=	=	=	=	=
Francesco DENOZZA	=	=	=	=	=	=
Domenico DE SOLE	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia Mobile	Ordinary	50,000	=	46,540 (2)	5,985 (3)
Guido FERRARINI	=	=	=	=	=	=
Jean Paul FITOUSSI	=	=	=	=	=	=
Enzo GRILLI	=	=	=	=	=	=
Gianni MION	Telecom Italia Telecom Italia Telecom Italia Mobile Telecom Italia Mobile	Savings Ordinary Ordinary Savings	15,000 (4) = 3,500 (4) 5,000 (4)	8,200 20,945 (4) = =	= = = =	23,200 20,945 6,055 (5) 11,800 (6)
Massimo MORATTI	=	=	=	=	=	=
Marco ONADO	Telecom Italia Mobile Telecom Italia	Savings Ordinary	4,700 =	= 17,000	= =	11,092 (7) 17,000
Renato PAGLIARO	Telecom Italia	Savings	=	45,000	=	45,000
Pasquale PISTORIO	Telecom Italia	Ordinary	1,549,000 (8)	=	=	1,549,000
Carlo A. PURI NEGRI	=	=	=	=	=	=
Luigi ROTH	Telecom Italia Telecom Italia Mobile Telecom Italia Media	Ordinary Ordinary Ordinary	11,553 (4) 14,300 (4) 726 (4)	= = =	= = =	11,553 24,739 (9) 726
Giuseppe SALA General Manager	=	=	=	=	=	=
Rosalba CASIRAGHI	=	=	=	=	=	=
Paolo GOLIA	Telecom Italia Mobile	Ordinary	12,000	=	11,169 (2)	1,437 (10)
Salvatore SPINIELLO	=	=	=	=	=	=
Ferdinando SUPERTI FURGA	Telecom Italia Mobile	Ordinary	3,723	=	3,723	=
Gianfranco ZANDA	=	=	=	=	=	=

(1) Telecom Italia shares resulting from the exchange ratio (1.73 Telecom Italia ordinary shares for every Telecom Italia Mobile ordinary share) between Telecom Italia Mobile shares (No. 1,125,000) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(2) Telecom Italia Mobile shares delivered under the tender offer.

(3) Telecom Italia shares resulting from the exchange ratio (1.73 Telecom Italia ordinary shares for every Telecom Italia Mobile ordinary share) between Telecom Italia Mobile shares (No. 3,460) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(4) Shares held indirectly.

(5) Telecom Italia shares resulting from the exchange ratio (1.73 Telecom Italia ordinary shares for every Telecom Italia Mobile ordinary share) between Telecom Italia Mobile shares (No. 3,500) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(6) Telecom Italia shares resulting from the exchange ratio (2.36 Telecom Italia savings shares for every Telecom Italia Mobile savings share) between Telecom Italia Mobile shares (No. 5,000) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(7) Telecom Italia shares resulting from the exchange ratio (2.36 Telecom Italia savings shares for every Telecom Italia Mobile savings share) between Telecom Italia Mobile (shares No. 4,700) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(8) Including 660,000 shares held indirectly.

(9) Telecom Italia shares resulting from the exchange ratio (1.73 Telecom Italia ordinary shares for every Telecom Italia Mobile ordinary share) between Telecom Italia Mobile shares (No. 14,300) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

(10) Telecom Italia shares resulting from the exchange ratio (1.73 Telecom Italia ordinary shares for every Telecom Italia Mobile ordinary share) between Telecom Italia Mobile shares (No. 831) and Telecom Italia shares following the date the merger by incorporation of Telecom Italia Mobile in Telecom Italia became effective (June 30, 2005).

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA MOBILE S.P.A. (pre-merger)

Name	Company	Class of shares	Number of shares held at the end of 2004 (or at the date of appointment)	Number of shares purchased during the period 1/1 - 6/30/2005	Number of shares sold during the period 1/1 - 6/30/2005	Number of shares held at 6/30/2005 (or as of the date on which individual left post, if before)
Carlo BUORA (*)	=	=	=	=	=	=
Gianni MION (*)	=	=	=	=	=	=
Marco DE BENEDETTI (*)	=	=	=	=	=	=
Carlo ANGELICI						
Carlo BERTAZZO	=	=	=	=	=	=
Lorenzo CAPRIO	=	=	=	=	=	=
Giorgio DELLA SETA FERRARI CORBELLI GRECO	=	=	=	=	=	=
Enzo GRILLI (*)	=	=	=	=	=	=
Attilio Leonardo LENTATI	=	=	=	=	=	=
Gioacchino Paolo Maria LIGRESTI						
Giuseppe LUCCHINI	Telecom Italia Mobile Telecom Italia Mobile Telecom Italia Mobile	Ordinary Ordinary Ordinary	172,000 5,000 (2) 2,000 (2)	= = =	160,097 (1) = 1,861 (1)	17,042 5,000 139
Pier Francesco SAVIOTTI	Telecom Italia Mobile	Ordinary	10,000	=	=	10,000
Paolo SAVONA	=	=	=	=	=	=
Rodolfo ZICH						
Pietro ADONNINO	Telecom Italia Mobile	Ordinary	1,000	=	1,000	=
Enrico LAGHI	=	=	=	=	=	=
Gianfranco ZANDA (**)	=	=	=	=	=	=

(*) Investments held in Telecom Italia Mobile S.p.A. and its subsidiaries, if any, are reported in the previous table as they are directors of the Parent, Telecom Italia S.p.A.
(**) Investments held in Telecom Italia Mobile S.p.A. and its subsidiaries, if any, are reported in the previous table as he is a standing statutory auditor of the Parent, Telecom Italia S.p.A.
(1) Shares delivered under the tender offer.
(2) Shares held indirectly.

Telecom Italia Group consolidated financial statements

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Consolidated balance sheets

Assets

(millions of euro)	note	12/31/2005	12/31/2004
NON-CURRENT ASSETS			
Intangible assets			
– Goodwill and other intangible assets with an indefinite life	5)	43,980	27,459
– Intangible assets with a finite life	6)	6,810	6,774
		50,790	34,233
Tangible assets			
– Property, plant and equipment owned	7)	16,443	17,853
– Assets held under finance leases	7)	1,598	1,653
		18,041	19,506
Other non-current assets			
– Investments		1,342	1,064
– Securities and financial receivables		996	393
– Miscellaneous receivables and other non-current assets		825	881
	8)	3,163	2,338
Deferred tax assets	9)	2,793	4,114
TOTAL NON-CURRENT ASSETS (A)		**74,787**	**60,191**
CURRENT ASSETS			
Inventories	10)	294	334
Trade receivables, miscellaneous receivables and other current assets	11)	9,191	10,155
Securities other than investments	12)	378	457
Financial receivables and other current financial asset	13)	509	662
Cash and cash equivalents	14)	10,323	8,855
CURRENT ASSETS SUBTOTAL		**20,695**	**20,463**
Discontinued operations/assets held for sale			
of a financial nature		37	84
of a non-financial nature		491	1,096
	15)	528	1,180
TOTAL CURRENT ASSETS (B)		**21,223**	**21,643**
TOTAL ASSETS (A+B)		**96,010**	**81,834**

Shareholders' equity and liabilities

(millions of euro)	note	12/31/2005	12/31/2004
SHAREHOLDERS' EQUITY			
Share capital issued		10,668	8,865
less Treasury stock		(69)	(56)
Share capital issued net of treasury stock		**10,599**	**8,809**
Reserves		10,984	4,184
Retained earnings, net income for the year		4,079	3,255
Shareholders' equity attributable to the Parent		**25,662**	**16,248**
Shareholders' equity attributable to the Minority interests		1,323	4,550
TOTAL SHAREHOLDERS' EQUITY (C)	16)	**26,985**	**20,798**
Non-current liabilities			
Non-current financial liabilities	17)	42,146	38,725
Employee severance indemnities and other employee-related reserves	18)	1,351	1,222
Reserve for deferred taxes	9)	137	170
Reserves for future risks and charges	19)	797	815
Miscellaneous payables and other non-current liabilities	20)	2,113	2,199
TOTAL NON-CURRENT LIABILITIES (D)		**46,544**	**43,131**
Current liabilities			
Current financial liabilities	17)	9,812	4,400
Trade payables, current tax payables, miscellaneous payables and other current liabilities	21)	12,384	12,733
CURRENT LIABILITIES SUBTOTAL		**22,196**	**17,133**
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature		143	188
of a non-financial nature		142	584
	15)	285	772
TOTAL CURRENT LIABILITIES (E)		**22,481**	**17,905**
TOTAL LIABILITIES (F=D+E)		**69,025**	**61,036**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)		**96,010**	**81,834**

Consolidated statements of operations

(millions of euro)	note	2005	2004
Revenue	25)	29,919	28,292
Other income	26)	678	1,099
Total operating revenue and other income		**30,597**	**29,391**
Purchases of materials and external services	27)	(12,937)	(11,812)
Personnel costs	28)	(4,142)	(3,852)
Other operating expense	29)	(1,468)	(1,603)
Changes in inventories		(4)	27
Capitalized internal constructions costs	30)	471	713
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS/LOSSES REALIZED AND IMPAIRMENT REVERSALS/LOSSES OF NON-CURRENT ASSETS		**12,517**	**12,864**
Depreciation and amortization	31)	(5,232)	(4,808)
Capital gains/losses realized on non-current assets (1)	32)	242	(9)
Impairment losses/reversals of non-current assets	33)	(28)	(444)
OPERATING RESULT		**7,499**	**7,603**
Share of earnings of equity investments in associates accounted for using the equity method	8)	23	(5)
Financial income	34)	3,144	2,205
Financial expense	35)	(5,131)	(4,197)
INCOME FROM CONTINUING OPERATIONS BEFORE TAX		**5,535**	**5,606**
Income taxes for the year	36)	(2,395)	(2,654)
NET INCOME FROM CONTINUING OPERATIONS		**3,140**	**2,952**
Net income (loss) from discontinued operations/assets held for sale	15)	550	(118)
NET INCOME FOR THE YEAR		**3,690**	**2,834**
Net income attributable to:			
* **Parent**		**3,216**	**1,815**
* Minority interests		474	1,019

(1) Excludes capital gains/losses realized on the sale of equity investments classified as discontinued operations and equity investments other than in subsidiaries.

Earnings per share:

(euro)			
Earnings per share (basic=diluted)	37)		
• ordinary shares		0.17	0.11
• savings shares		0.18	0.12
– from continuing operations			
• ordinary shares		0.14	0.12
• savings shares		0.15	0.13
– from discontinued operations/assets held for sale			
• ordinary shares		0.03	(0.01)
• savings shares		0.03	(0.01)

Consolidated statement of changes in shareholders' equity

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR 2004

	Shareholders' equity attributable to the Parent								
(millions of euro)	Share capital	Additional paid-in capital	Reserve for net translation differences	Other income (charges) recognized directly in equity	Other reserves	Retained earnings, including net income for the year	Total	Shareholders' equity attributable to minority interests	Total share-holders' equity
Balance at December 31, 2003 in accordance with Italian GAAP	**8,854**	**88**			**4,768**	**2,382**	**16,092**	**4,497**	**20,589**
Adoption of IFRS	(56)	(56)		(18)	(521)	814	163	32	195
Balance at December 31, 2003 in accordance with IFRS	**8,798**	**32**		**(18)**	**4,247**	**3,196**	**16,255**	**4,529**	**20,784**
Changes in accounting principles/ adjustments for errors									
Balance at December 31, 2003 - IFRS, as adjusted	**8,798**	**32**		**(18)**	**4,247**	**3,196**	**16,255**	**4,529**	**20,784**
Changes in shareholders' equity during the year 2004									
Fair value adjustments of available-for-sale financial assets:									
Unrealized gains (losses) on fair value adjustments				52			52		52
Gains (losses) transferred to the statement of operations on disposal of assets, or on recognition of impairment losses				(9)			(9)		(9)
Fair value adjustments of hedging instruments:									
Unrealized gains (losses) on fair value adjustments of financial instruments designated as cash flow hedges				(313)			(313)		(313)
Gains (losses) transferred to the statement of operations when effects of hedged items flow to the statement of operations				100			100		100
Translation differences			(50)				(50)	(26)	(76)
Income taxes (deferred tax assets/ reserve for deferred taxes)				81			81		81
Total income (charges) for the year recognized directly in equity - Other Comprehensive Income			**(50)**	**(89)**			**(139)**	**(26)**	**(165)**
Net income for the year						1,815	1,815	1,019	2,834
Total comprehensive income for the year			**(50)**	**(89)**		**1,815**	**1,676**	**993**	**2,669**
Dividends approved						(1,730)	(1,730)	(1,050)	(2,780)
Conversion of bonds	1	3					4		4
Exercise of other equity instruments (stock options)	10	30					40	207	247
Dilution of TIM ownership following stock options					66		66	(66)	
Effect of consolidation of TIM shares previously recorded in current assets								(20)	(20)
Other changes					(37)	(26)	(63)	(43)	(106)
Balance at December 31, 2004 - IFRS	**8,809**	**65**	**(50)**	**(107)**	**4,276**	**3,255**	**16,248**	**4,550**	**20,798**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR 2005

	Shareholders' equity attributable to the Parent								
(millions of euro)	Share capital	Additional paid-in capital	Reserve for net translation differences	Other income (charges) recognized directly in equity	Other reserves	Retained earnings, including net income for the year	Total	Shareholders' equity attributable to minority interests	Total share-holders' equity
Balance at December 31, 2004 in accordance with Italian GAAP	**8,865**	**120**			**4,809**	**1,378**	**15,172**	**4,689**	**19,861**
Adoption of IFRS	(56)	(55)	(50)	(107)	(533)	1,877	1,076	(139)	937
Balance at December 31, 2004 in accordance with IFRS	**8,809**	**65**	**(50)**	**(107)**	**4,276**	**3,255**	**16,248**	**4,550**	**20,798**
Changes in accounting principles/ adjustments for errors									
Balance at December 31, 2004 - IFRS, as adjusted	**8,809**	**65**	**(50)**	**(107)**	**4,276**	**3,255**	**16,248**	**4,550**	**20,798**
Changes in shareholders' equity during the year 2005									
Fair value adjustments of available-for-sale financial assets:									
Unrealized gains (losses) on fair value adjustments				57			57		57
Gains (losses) transferred to the statement of operations on disposal of assets, or on recognition of impairment losses				(11)			(11)		(11)
Fair value adjustments of hedging instruments:									
Unrealized gains (losses) on fair value adjustments of financial instruments designated as cash flow hedges				(122)			(122)		(122)
Gains (losses) transferred to the statement of operations when effects of hedged items flow to the statement of operations				75			75		75
Translation differences			848				848	357	1,205
Income taxes (deferred tax assets/ reserve for deferred taxes)				(1)			(1)		(1)
Total income (charges) for the year recognized directly in equity - Other Comprehensive Income			**848**	**(2)**			**846**	**357**	**1,203**
Net income for the year						3,216	3,216	474	3,690
Total comprehensive income for the year			**848**	**(2)**		**3,216**	**4,062**	**831**	**4,893**
Dividends approved						(1,912)	(1,912)	(430)	(2,342)
Conversion of bonds	488	1,640			(315)		1,813		1,813
Exercise of other equity instruments (stock options)	6	23					29		29
Cash tender offer and other purchases of shares								(2,124)	(2,124)
Telecom Italia / TIM merger	1,309	4,768			(64)		6,013	(1,102)	4,911
Transfer of TIN.IT. from TI Media to Telecom Italia						(364)	(364)	364	
Cash tender offer for TI Media shares								(134)	(134)
Reorganization of mobile telephone area in Brazil						(14)	(14)	40	26
Reimbursement of Entel Bolivia capital								(160)	(160)
Changes in the scope of consolidation			(5)				(5)	(577)	(582)
Telecom Italia shares held by TI Finance	(13)						(13)		(13)
Other changes		(31)			(62)	(102)	(195)	65	(130)
Balance at December 31, 2005 - IFRS	**10,599**	**6,465**	**793**	**(109)**	**3,835**	**4,079**	**25,662**	**1,323**	**26,985**

Consolidated statements of cash flows

(millions of euro)	note	2005	2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES			
Net income from continuing operations		3,140	2,952
Adjustments to reconcile net income from continuing operations with cash flows generated (used) by operating activities:			
Depreciation and amortization		5,232	4,808
Impairment losses of non-current assets (including investments)		3	446
Net change in deferred tax assets and liabilities		1,347	1,124
Capital gains/losses realized on disposal of non-current assets (including investments)		(327)	(106)
Share of earnings of investments in associates accounted for using the equity method		(23)	5
Change in employee severance indemnities and other employee-related reserves		255	(39)
Change in other operating assets and liabilities:			
– Change in inventories		(5)	(24)
– Change in trade receivables		329	51
– Change in trade payables		342	1,079
– Net change in miscellaneous receivables/payables and other assets/liabilities		(357)	(30)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)		**9,936**	**10,266**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES			
Acquisition of intangible assets	6)	(1,785)	(1,882)
Acquisition of tangible assets	7)	(3,388)	(3,120)
Acquisition of equity investments in subsidiaries and businesses, net of cash acquired (I)	3, 5, 6)	(390)	(1)
Acquisition of other investments	3, 5, 8)	(14,544)	(867)
Change in financial receivables and other financial assets		(474)	424
Consideration received on the sale of investments in subsidiaries, net of cash sold (II)	15, 5)	2,052	43
Consideration received on the sale of tangible, intangible and other non-current assets and capital reimbursements		950	452
CASH FLOWS USED BY INVESTING ACTIVITIES (B)		**(17,579)**	**(4,951)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES			
Net change in current financial liabilities		(1,053)	1,247
New non-current financial liabilities (including current portion)		15,357	7,845
Repayment of non-current financial liabilities (including current portion)		(3,151)	(8,270)
Consideration received for equity instruments		102	193
Share capital increases/repurchases, net of related costs		(160)	51
Dividends paid (distribution of reserves included)		(2,328)	(2,780)
CASH FLOWS GENERATED (USED) BY FINANCING ACTIVITIES (C)		**8,767**	**(1,714)**
Cash flows generated (used) by discontinued operations/ assets held for sale (D)	15)	26	(109)
AGGREGATE CASH FLOWS (E=A+B+C+D)		**1,150**	**3,492**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)		**8,667**	**5,211**
Net effect of foreign currency translation on cash and cash equivalents (G)		141	(36)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)		**9,958**	**8,667**

OTHER INFORMATION

Income tax paid	708	1,476
Interest expense paid	2,796	2,779
Interest income received	1,067	1,025
Dividends received	61	35

(I) Net of the change in payables as a result of the relative acquisitions.
(II) Net of the change in receivables as a result of the relative sales.

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS			
(millions of euro)		**2005**	**2004**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
Cash and cash equivalents - from continuing operations		8,855	5,721
Adjustments to cash and cash equivalents to take into account discontinued operations/assets held for sale		(109)	(206)
		8,746	5,515
Cash and cash equivalents - included in discontinued operations/assets held for sale		210	206
	(A)	8,956	5,721
Bank borrowings repayable on demand - from continuing operations		(248)	(510)
Bank borrowings repayable on demand - included in discontinued operations/assets held for sale		(41)	-
	(B)	(289)	(510)
	(A + B)	**8,667**	**5,211**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash and cash equivalents - from continuing operations		10,323	8,855
Adjustments to cash and cash equivalents to take into account discontinued operations/assets held for sale		–	(109)
		10,323	8,746
Cash and cash equivalents - included in discontinued operations/assets held for sale		37	210
	(C)	10,360	8,956
Bank borrowings repayable on demand - from continuing operations		(383)	(248)
Bank borrowings repayable on demand - included in discontinued operations/assets held for sale		(19)	(41)
	(D)	(402)	(289)
	(C + D)	**9,958**	**8,667**

Note 1 - Form, content and other general information

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy.
Telecom Italia S.p.A. and its subsidiaries (the "Group") operate mainly in Europe, the Mediterranean Basin and South America.
The Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final customers (retail) and other providers (wholesale), in the development of fiber optic networks, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications, in the television sector using both analogical and digital technology, in the office products sector and in information communication technology.
The head office of the Group is located in Milan, Italy.

The consolidated financial statements of the Telecom Italia Group are expressed millions of in euro which is also the currency of the primary economies in which the Group operates.
The foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the Note "Accounting policies".

The consolidated financial statements as of and for the year ended December 31, 2005 have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS).
IFRS also includes all effective International Accounting Standards (IAS) and all related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), comprising those previously issued by the Standing Interpretations Committee (SIC).
For comparative purposes the consolidated financial statements as of and for the year ended December 31, 2004 have also been prepared in accordance with IFRS, as required by IFRS 1 (First-time Adoption of International Financial Reporting Standards).

As a result of certain clarifications and interpretations issued by the Italian Accounting Board (OIC), during 2005, certain adjustments and reclassifications have been made to the information included in the First Quarter 2005 Report in the discussion of "Transition to IAS/IFRS standards". Such changes, which had no effect on net income for the year ended December 31, 2004, reduced Shareholders' equity by an insignificant amount, as a result of recording the amount receivable from shareholders for capital contributions as a deduction from equity.

The Group did not opt for the early adoption of any IFRS in 2005.

The consolidated financial statements at December 31, 2005 and 2004 have been prepared as follows:

- in the comparative balance sheet at December 31, 2004, discontinued operations includes only the companies considered to be discontinued operations at that date (the Finsiel Group and Corporacion Digitel) as required by IFRS 5;
- the balance sheet adjusted as of December 31, 2004, reported for comparative purposes in the Report of Operations, takes into account, of all discontinued operations/ assets held for sale (Finsiel Group, Corporacion Digitel, Entel Chile Group, TIM Hellas, TIM Perù and Gruppo Buffetti) and the related liabilities;
- the statements of operations and cash flows for the year 2004 have been prepared on a basis consistent with that of 2005. The results of discontinued operations/assets held for sale have been reclassified to "Net income (loss) from discontinued operations/assets held for sale" in the statement of operations and "Cash flows generated by (used in) discontinued operations/assets held for sale" in the statement of cash flows.

As a result, the amounts described in the explanatory notes to the balance sheet for comparative purposes do not agree with the information in the statements of operations and cash flows (for example, depreciation and amortization, impairments, disposal,etc.).

Seasonal factors affecting revenues

a) Wireline
In 2005 and 2004, revenues from basic subscription charges and traffic related to fixed telecommunications were not significantly affected by seasonal factors. However, the promotional campaigns launched during 2005 had a positive impact on product sales.

b) Mobile
Revenues from voice traffic related to the domestic mobile business were not affected by seasonal factors. Marketing campaigns affected revenues from sale of products and also revenues from Value Added Services (VAS) only marginally. Nevertheless, certain seasonal factors exist relating to the number of holidays during the year.

Scope of consolidation

Excluding the effects of discontinued operations/assets held for sale (discussed below), the impact of the other changes in the scope of consolidation on the balance sheet, the results of operations and cash flows is not material.

These changes can be summarized as follows:

Compared to December 31, 2004:

a) additions to the scope of consolidation:
- *Wireline*: Rits Tele.com. B.V. (purchased in March 2005), Nuova Tin.it S.r.l. (established in May 2005), Liberty Surf Group S.A. (purchased on May 31, 2005), Telecom Italia Data Center S.r.l. (established in August 2005) and TIS France S.a.S. (established in August 2005);
- *Other Activities*: Progetto Italia S.p.A. (established in January 2005) and Ascai Servizi S.r.l. (purchased in May 2005);

b) eliminations from the scope of consolidation:
- *Wireline*: Med-1 Ic-1 (1999) Ltd (sold in July 2005) and Kmatrix (deleted from the Companies Register in July 2005);
- *Media*: Televoice S.p.A. (sold in January 2005), Databank S.p.A. and Dbk S.A. (sold in February 2005);
- *Olivetti*: Innovis S.p.A. (controlling interest sold in January 2005), Cell-Tell S.p.A. (controlling interest sold in March 2005), Olivetti Servicios y Soluciones Integrales S.A. de C.V. in liquidation (deleted from the Companies Register in March 2005), Olivetti Lexikon Nordic AB in liquidation (closed in April 2005), Olivetti Tecnost Africa Ltd (sold in July 2005) and Olivetti Peruana S.A. (deleted from the Companies Register in November 2005);

c) merged companies:
- *Wireline*: Finanziaria Web S.p.A., Ism S.r.l. and Telecom Italia Data Center S.r.l. merged in Telecom Italia S.p.A.; Tiscali Telecom S.a.S., Tiscali Contact S.A., Tiscali Media S.A., Film non Stop S.A. and Telecom Italia France S.a.S. merged in Tiscali Access S.A., then renamed Telecom Italia S.A.; Rits Tele.com B.V. merged in BBNed;
- *Mobile*: Telecom Italia Mobile S.p.A. merged in Telecom Italia S.p.A.
- *Olivetti*: Olivetti Sistema e Servicos Ltda merged in Olivetti do Brasil and Olivetti Tecnost de Mexico S.A. de C.V. merged in Olivetti Mexicana S.A..

At December 31, 2005 and 2004, Telecom Italia's subsidiaries, associates and jointly controlled companies are detailed as follows:

	12/31/2005		
	Italy	**Abroad**	**Total**
Companies:			
• Consolidated subsidiaries on a line-by-line basis	51	99	150 (*)
• Jointly controlled companies accounted for using the equity method	1	9	10
• Associates accounted for using the equity method	31	12	43
Total companies	**83**	**120**	**203**

	12/31/2004		
	Italy	**Abroad**	**Total**
Companies:			
• Consolidated subsidiaries on a line-by-line basis	79	127	206 (*)
• Jointly controlled companies accounted for using the equity method	-	9	9
• Associates accounted for using the equity method	52	23	75
Total companies	**131**	**159**	**290**

(*) Including subsidiaries held for sale.

For further details see Note "List of companies of the Telecom Italia Group".

Discontinued operations/assets held for sale

In the statement of operations for the years 2005 and 2004, the following have been classified as "Discontinued operations/assets held for sale": the Entel Chile group (sold in March 2005), the Finsiel group and Tim Hellas (sold in June 2005), Tim Perù (sold in August 2005), the Buffetti group (sold in January 2006) and Digitel Venezuela (held for sale).
In the balance sheet as of December 31, 2005, the Buffetti group and Digitel Venezuela have been classified as "Discontinued operations/assets held for sale" and in the comparative balance sheet as of December 31, 2004 the Finsiel group and Digitel Venezuela have been classified as "Discontinued operations/assets held for sale".

Note 2 - Accounting policies

Consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control is over such subsidiaries commences until the date that control ceases.

Control exists when the Group has the majority of voting rights or has the power, directly or indirectly, to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and minority interests in Shareholders' equity and in the net result for the period are disclosed separately, in consolidated Shareholders' equity and the consolidated statement of operations, respectively.

The amount of the investment in each subsidiary is eliminated against the corresponding portion of equity in each subsidiary, after adjustment, if any, of fair values at the acquisition date. Any resulting difference is treated as goodwill and recognized in intangible assets, as discussed below.

All intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated on consolidation.

The assets and liabilities of foreign consolidated subsidiaries are translated using the exchange rates in effect at the balance sheet date (the current method). Income and expenses are translated at the average exchange rate for the year. Translation differences which arise as a result of this method are classified as equity until the disposal of the investment. The average exchange rates for the year are used to translate the cash flows of foreign subsidiaries included in the consolidated statement of cash flows.

With reference to subsidiaries and associates which adopt inflation accounting to eliminate distorting effects on the result of the year, the statement of operations items have been translated at the year-end exchange rates, in accordance with IAS 29 (*Financial reporting in hyperinflationary economies*).

For the purpose of the first-time adoption of IFRS, the prior year cumulative translation differences were eliminated, as allowed by IFRS 1 (*First-time adoption of International Financial Reporting Standards*). Therefore, only accumulated translation differences generated and recorded after January 1, 2004 are included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

If losses attributable to minority shareholders in a consolidated subsidiary exceed the minority interest in the subsidiary's equity, the excess and any further losses attributable to the minority shareholders are attributed to the Parent except to the extent that the minority shareholders have a binding obligation and are able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority shareholder (Parent company) until the minority's share of losses previously absorbed by the Parent company has been recovered.

Investments in associates and in jointly-controlled companies are included in the consolidated financial statements under the equity method in according with IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*).
Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but has no control or joint control, over the financial and operating policies.
The consolidated financial statements include the Group's share in the earnings of associated companies on an equity method basis, from the date that significant influence commences until such influence ceases. When the Group's share of losses of an associated company, if any, exceeds the carrying amount of the related investment on the Group's balance sheet, the carrying amount of the investment is reduced to zero and further losses are not recognized except to the extent that the Group has an obligation to cover such losses.

Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in those entities.

The accounting treatment of intra-group transfers of shares of consolidated companies which result in changes in the percentage of ownership of the subsidiary, whose shares are transferred, is not dealt with by IFRS. In the consolidated financial statements, the Group accounts for such transactions at historical values. Such transactions have no impact on the consolidated statement of operations and total shareholders' equity. The gains or losses realized by the sellers are eliminated in full from the consolidated statements of operations and the minority interest is adjusted with a corresponding amount being recorded in the reserves of the Group in order to reflect the change.

Intangible assets

Goodwill

When the Group acquires a controlling interest in an entity or business, the identifiable assets, liabilities and contingent liabilities acquired (including minority interests) are recorded at fair value at the date of acquisition. The excess of the cost of the business combination and the Group's interest in the fair value of assets and liabilities is classified as goodwill and recorded in the balance sheet as an intangible asset with an indefinite life. The excess of fair value over cost or "badwill" is recognized in the statement of operations at the date of acquisition.

In the absence of a specific Standard or Interpretation, when the Group acquires a minority interest in controlled companies the excess of the acquisition cost over the carrying value of assets and liabilities acquired is recognized as goodwill (Parent entity extension method).

Goodwill is originally recorded at cost and is subsequently reduced by impairment losses.

In accordance with IAS 36 (*Impairment of Assets*), goodwill is tested for impairment annually or more frequently if specific events or changes in circumstances indicate that the goodwill may be impaired. Impairment losses of goodwill are not reversed.

For the purpose of the first-time adoption of IFRS, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to business combinations which occurred prior to January 1, 2004. As a result, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts (execept where other standards affect the carrying value) and was tested for impairment at the transition date.

Research and development costs

Research costs are charged to the statement of operations in the period in which they are incurred.

Costs incurred internally for the development of new products and services represent intangible assets (mainly costs for software development) or tangible assets. Such costs are capitalized only if all the following conditions are met: the project is technically feasible and the Group intends to complete the asset and make it available for internal use or sale; the ability of the Group to use or sell the asset; the existence of a market for the products or services provided by the asset or the ability to use the asset internally; the availability of adequate technical and financial resources to complete the development and sale or internal use of the asset; and the ability of the Group to measure reliably the cost of the asset during the development phase.
Capitalized development costs comprise only expenditures that can be attributed directly to the development process.
Capitalized development costs are amortized on a systematic basis from the start of production over the estimated product or service life.

Other intangible assets

Other purchased or internally-generated intangible assets are recognized as assets in accordance with IAS 38 (*Intangible assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably.
Such assets are recorded at purchase or manufacturing cost, or, for those assets existing at the transition date (January 1, 2004), at the deemed cost which for certain assets is the revalued cost, and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.
Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
Amortization is calculated on a straight-line basis over the estimated useful life of the assets.
Amortization rates are revised on a yearly basis and changed if the current estimated useful life is different from that previously estimated. The effect of such changes is recognized in the statement of operations prospectively.

Tangible assets - Property, plant and equipment owned

Property, plant and equipment owned are stated at acquisition or production cost or, for those assets existing at the transition date (January 1, 2004), at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures (including interest expenses directly attributable to the acquisition or construction of the asset) are expensed as incurred.

Capitalized cost also includes the present value of expected costs of decommissioning the asset and restoring the location if a legal or constructive obligation exists. The corresponding present value of the liability is recognized, in the year in which the obligation arises, in a balance sheet provision in "Provision for future risk and charges", these capitalized costs are depreciated and charged to the statement of operations over the economic useful life of the related tangible assets.
Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

	Depreciation rates
• Buildings	3% - 7%
• Telecommunications plant and installations	3 % - 33%
• Industrial and commercial equipment	15% - 25%
• Ships	9%
• Other tangible assets	12% - 25%

These depreciation rates are revised on a yearly basis and are modified if the current estimated useful live is different from that previously estimated. The effects of a change in the useful economic life are recognized in the statement of operations prospectively.
Land, including the land element of buildings, is not depreciated.

Tangible assets held under finance leases

Assets held under finance leases, of which the Group retains substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options.
The amount due to the lessor is included in the balance sheet as financial debt.

Gains realized on sale and lease-back transactions wich are recorded under the finance method, are deferred over the shorter of the lease term and the remaining useful life of the asset.

Assets held under finance leases are depreciated over the shorter of the lease term and their economic useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease expenditures are charged to the statement of operations on a straight-line basis over the lease terms.

Impairment of assets

Assets with a finite life

During the year, the Group assesses whether there are any indicators of impairment of tangible assets and intangible assets with a finite life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments and an excees of the carrying amount of the net assets of the Group over market capitalization.

The recoverable amount of an asset is the higher of fair value less costs to sell and the value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate is based on current market interest rates and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
When the condition that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income in the statement of operations.

Intangible assets with an indefinite life

Intangible assets with an indefinite life, including goodwill, are tested for impairment at least annually to assess the recoverable amount of the asset.
The test is conducted in conjunction with the planning process of the Group, near the end of every year. Therefore, the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment by the end of the year in which the acquisition and allocation took place.
To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating units or groups of cash-generating units wich is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes, wich is never at a higher level than that of the business segments determined in accordance with IAS 14 (*Segment Reporting*).
If the carrying amount of the cash-generating unit (or group of cash generating units) exceeds the recoverable amount, an impairment loss is recognized in the statement of operations.
The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash generating unit (or group of cash generating units) and only then proportionally applied to the carrying amount of the other assets of the cash generating unit up to the recoverable amount of the assets. The recoverable amount of a cash-generating unit, or group of cash-generating units, to which goodwill is allocated, is the higher of fair value less costs to sell and its value in use.
In calculating value in use, the pre-tax estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market interest rates and the risks specific to the asset. The future cash flows are derived from the company plans approved by the Board of Directors which generally cover a period of three years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the terminal value of the cash generating unit (or group of cash generating units) is estimated not to be higher than the average long-term growth rate of the segment, country or market in which the cash generating unit (or group of cash generating units) operate.
The value in use of cash-generating units wich operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).
Future cash flows are estimated with reference to the current operating conditions of the cash-generating unit and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash generating unit.
For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net assets held for sale) and includes the goodwill attributable to minority interests.
After conducting the goodwill impairment test for the cash-generating unit (or group of cash generating units), a second level of impairment testing is carried out, wich includes the corporate assets which do not generate positive cash flows which can not be allocated by a reasonable and consistent criteria to the single units. At this second level, the total recoverable amount of all cash generating units or groups of cash generating units is

compared to the carrying amount of all cash generating units (or groups of cash generating units), including also the net assets of those cash generating units to which no goodwill was allocated and the corporate assets.

Financial instruments

For the purpose of first- time adoption of IFRS, the Group elected to adopt of IAS 32 (*Financial instruments: disclosure and presentation*) and IAS 39 (*Financial instruments: recognition and measurement*) at January 1, 2004, instead of applying the standard for the year beginning January 1, 2005. As allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or available for sale" and as a financial liability valued at "fair value through profit or loss" has been carried out at the transition date (January 1, 2004) and not at the date of initial recognition.

As permitted by IFRS 1, where certain non-derivative financial assets and/or liabilities relating to transactions prior to January 1, 2004 have been derecognized under previous accounting policies, those assets and/or liabilities have not been recognized and recorded in accordance with IAS 39, except in circumstances where the information needed to apply IAS 39 to assets and/or liabilities derecognized in the past was available at the time of initially accounting for those transactions. The Telecom Italia Group has taken advantage of such option and is applying the derecognition of non-derivative financial assets/liabilities prospectively from January 1, 2003. As a consequence, the accounts receivables sold and derecognized during 2003 which did not meet the conditions under IAS 39 for derecognition have been accounted for as assets and a corresponding financial liability established.

Investments

Investments other than those in subsidiaries, joint ventures and associates (normally below a 20% shareholding levels) are classified upon acquisition as "assets available for sale" or "assets valued at fair value through profit or loss" and included in current or non-current assets.
Such investments are valued at fair value or at cost in the case of unlisted companies or investments whose fair value cannot be determined reliably, adjusted for impairment losses, as required by IAS 39. Changes in the fair value of investments classified as available for sale are recognized in a specific equity reserve until the financial asset is disposed of or impaired; at that moment accumulated gains and losses are reversed to the statement of operations for the year. Changes in the fair value of investments classified as assets valued at fair value through profit or loss are directly recognized in the statement of operations.

Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are measured at acquisition cost (wich generally coincides with fair value), including transaction costs. Subsequently, they are measured at amortized cost.
Under the amortized cost method, the difference between initial cost of the financial instrument, net of repayments of principal already received, and the amount to be received on maturity is recognized each period until maturity based on the effective interest rate method. Write downs are booked for impairment or uncollectability.
Securities other than equity investments classified as current assets are included in the following categories:

- held to maturity: measured at amortized cost;
- held for trading: measured at fair value through profit or loss;
- available for sale: measured at fair value with the relevant contra items classified in a specific equity reserve.

When market prices are not available, the fair value of financial instruments is measured using appropriate valuation techniques e.g. discounted cash flow based on market information available at the balance sheet date.
The increase/decrease in the value of securities other than equity investments classified as available for sale is directly recognized in a specific equity reserve (*Reserve for fair value*

adjustments of available for sale financial assets) until the financial asset is disposed of or impaired; at that moment accumulated gains and losses are reversed to the statement of operations for the year.

Receivables and loans

Receivables generated by the Group and loans classified both as non-current and current assets are measured at amortized cost.
Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at the nominal value or amortized cost.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and whose original maturity or the remaining maturity at the date of purchase does not exceed three months.

Impairment of financial assets

Assessments are made regularly as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the statement of operations for the year.

Financial liabilities

Financial liabilities include financial debt (including advances received on the assignement of accounts receivable), other financial liabilities such as derivatives, financial lease obligations and trade payables.
Financial liabilities other than derivatives are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost. The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already made, adjusted (up or down) on the basis of the "amortization" (using the effective interest method) of any differences between the initial amount and the maturity amount.
Compound financial instruments represented by bonds convertible into shares of the issuer (convertible bonds) are recognized by bifurcating the debt and the call option: the debt is included in financial liabilities under the amortized cost method while the call option value, computed as the difference between the fair value of the debt and the nominal amount of the financial instrument, is classified in a specific equity reserve (*Other equity instruments*).
Compound financial instruments represented by bonds exchangeable with shares of entities other than the issuer (exchangeable bonds) are recognized by bifurcating the debt and the call option: the debt is included in financial liabilities under the amortized cost method while the call option value is classified as a financial liability and measured at fair value. Gains and losses arising from changes in fair value are recognized in the statement of operations at each reporting date.

Financial liabilities hedged by derivative instruments disaimed to manage exposure to changes in fair value of the liabilities are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value are recognized in the statement of operations and are offset by the effective portion of the loss or gain arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments disaimed to manage exposure to variability in cash flows are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivative financial instruments

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within prefixed operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge there is formal designation and documentation of the hedging relationship;
b) the hedge is expected to be highly effective;
c) its effectiveness can be reliably measured; and
d) it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for *hedge accounting*, the following accounting treatment applies:

- Fair value hedge - Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of on asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the statement of operations. The gain or loss on the hedged item attributable to the hedged risk, adjusts the carrying amount of the hedged item and is recognized in the statement of operations.
- Cash flow hedge - Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for fair value adjustments of hedge instruments*). The cumulative gain or loss is removed from equity and recognized in the statement of operations when the hedged transaction is recorded in the statement of operations. The gain or loss associated with the ineffective portion of a hedge is recognized in the statement of operations immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss remains in the equity reserve and is recognized in the statement of operations when the related transaction occurs or an impairment loss is recorded. If the hedged transaction is no longer probable, the cumulative unrealized gains or losses included in the equity reserve are immediately recognized in the statement of operations.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the statement of operations.

Sales of receivables

The Telecom Italia Group sells a significant part of its receivables through either securitization programs or factoring transactions.

Telecom Italia regularly sells a portfolio of trade receivables without recourse to the TI Securitization Vehicle S.r.l., a Special Purpose Entity (SPE). This SPE finances the purchase of the receivables by issuing asset-backed securities (i.e. securities whose repayment and interest flow depend upon the cash flow generated by the portfolio of trade receivables). The sales price of the receivables, equal to the nominal value of the receivables less a discount which takes into account the expenses that the vehicle must bear, is paid to Telecom Italia partly as an Advanced Purchase Price (APP), at the time of sale, and partly as a Deferred Purchase Price (DPP). The deferred portion, which constitutes the credit enhancement under the Program, is paid to the assignor each time new receivables are sold, subject to the cash availability of the vehicle, and is calculated by the Program Administrator on the basis of pre-established conservative estimates of the collection times and the amounts of the credit notes that will be issued, consistent with the view of the rating agencies on a AAA or equivalent portfolio. Such estimates, and therefore also the Deferred Purchase Price, are adjusted monthly on the basis of the effective performance of the receivables. For invoices issued and sold through September 2005, with regard to the risk of uncollectability, Telecom Italia was responsible for the ultimate recovery from the debtors on the receivables sold, up to the limit of the amount of the DPP and the SPE retained the risk of uncollected amounts over the DPP. In accordance with SIC 12 (Consolidation – *Special Purpose Entities* (SPE)) through September 30, 2005, TI Securitization Vehicle S.r.l. (TISV) was included in the scope of consolidation, because the exposure of the assignor to the risk of uncollectability of the deferred purchase price implied, in substance, control over the SPE.

On December 15, 2005, the securitization program was restructured based on a Master DPP Transfer Agreement signed by Telecom Italia and certain financial institutions under which the DPP on Telecom Italia receivables relating to invoices issued between October 1, 2005 and May 31, 2006, are sold without recourse to such financial institutions.

Following the sale of the DPP without recourse, the risks and rewards of ownership of these receivables have been transferred in full to the financial institutions which take the control of SPE in accordance with SIC-12 provisions and, therefore, consolidate TISV.

The outstanding amount of receivables for DPP not sold at year end is not significant.

In addition, the Telecom Italia Group carried out some factoring transactions with or without recourse. Certain factoring agreements without recourse include deferred purchase price clauses (i.e. the payment of a minority portion of the purchase price is conditional upon the full collection of the receivables), require a first loss guarantee of the seller up to a limited amount, or include a continuing significant exposure to the cash flows arising from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for assets derecognition, since the risks and rewards have not been substantially transferred.

Consequently, all receivables sold through factoring transactions which do not meet IAS 39 derecognition requirements are reflected in the Group financial statements, although they have been legally sold without recourse, and a corresponding financial liability is recorded in the consolidated financial statements.

Receivables on construction contracts

Construction contracts, relating to contracts of both less and more than 12 months, are recognized in accordance with the stage of completion and classified as receivables among current assets. Losses on such contracts, if any, are fully recorded in the statement of operations when they become known.

Inventories

Inventories of raw materials, semi-finished goods, work in progress and finished goods are valued at the lower of cost or market, cost being determined on a weighted average cost of each purchase. The inventorie value includes the direct costs of materials, labor and indirect production costs (variable and fixed).
Provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and realizable value.

Discontinued operations / Assets held for sale

Discontinued operations/assets held for sale include assets (or groups of assets to be disposed of) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount or fair value less costs of disposal.

In accordance with IFRS, discontinued operations/assets held for sale are presented as follows in the statement of operation and the balance sheets:

- in two lines on the balance sheet: "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale"; and
- in one line on the statement of operations: "Net income (loss) from discontinued operations/assets held for sale".

Employee benefits

Reserve for severance indemnities

The Reserve for severance indemnities to be accrued by Italian companies in accordance with the Italian Civil Code, is considered a defined benefit plan and is based, among other things, on employees' years of service and remuneration earned by the employee during a pre-determined service period.

The Reserve for severance indemnities is determined by independent actuaries using the "Projected Unit Credit" method. For the purpose of the first-time adoption of IFRS and in subsequent years, the Telecom Italia Group has elected to recognize all cumulative actuarial gains and losses.

The interest expense related to the discounting of the Reserve for severance indemnities is included in Personnel costs in the statement of operations.

Equity compensation plans

The Group provides additional benefits to certain members of senior management and employees through stock compensation plans (*stock options*) which are accounted for in accordance with IFRS 2 (*Share-based Payments*). Employee stock options are measured at fair value at the grant date using models that take account of circumstances applicable at the date of grant (option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).

If the right vests after a certain period of time and/or upon attainment of certain performance conditions (vesting period), the total stock option amount must be apportioned pro-rata temporis over the vesting period and recorded in equity under "Other equity instruments", with a corresponding amount beeing recorded in the statement of operations under Personnel costs (given that this is non-monetary consideration intended to enhance employee loyalty and provide an incentive to improve business performance).

At the end of each reporting period, the previously determined fair value of each option is not restated or updated, but maintained in equity. However, the Group reviews the estimated number of options that will vest until expiry (and therefore the number of employees who will have exercise rights). The change in estimate must be deducted from "Other equity instruments" with a corresponding amount beeing recorded in the statement of operations under Personnel costs.

When the option expires, the amount reflected in "Other equity instruments" is reclassified as follows: the portion relating to exercised options is reclassified to "Additional paid-in capital" while the portion relating to non-exercised options is reclassified under "Retained earnings (accumulated losses), including the net income (loss) for the year".

The Group elected to apply the exemptions provided by paragraph 25B of IFRS 1, and therefor did not apply IFRS 2 to the stock option plans granted prior to November 7, 2002, where the terms and conditions of such plans did not change.

Reserves for future risks and charges

The Group records reserves for future risks and charges when it has an obligation, legal or constructive, to a third party, when it is probable that an outflow of Group resources will be required to satisfy the obligation and a reliable estimate of the amount can be made. Changes in estimates are reflected in the statement of operations in the period in which the change occurs.

Treasury shares

Treasury shares are reported as a deduction from shareholders' equity. In particular, the nominal value of treasury shares is reported as a deduction from the Share capital issued while exceeding portion of cost at aquisition over the nominal value is reported as a reduction of Other reserves.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or in previous financial statements, are recognized in the statement of operations.

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and the revenues can be reliably measured. Revenues are stated net of discounts, allowances, and returns. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.
Revenues from services rendered are recognized with reference to the stage of completion of the transaction and only when the outcome of the transaction can be estimated reliably.
Revenues from the activation of telephone services and from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer (principally 8 years for retail customers and 3 years for wholesale customers).
Subscriber acquisition and retention costs are recognized in the statement of operations in the year in wich they are incurred.
Revenues from construction contracts are recognized based on the percentage of completion method.

Taxes

Income taxes include all taxes calculated on the basis of taxable income of the companies of the Group.
Income taxes are recognized in the statement of operations except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity. Provisions for income taxes that could arise on the remittance of a subsidiary's retained earnings are only made where there is the intention to remit such earnings. Other taxes, other than income taxes, such as property taxes and capital taxes, are included in operating expenses.
Deferred tax assets/liabilities are provided using the balance sheet liability method.
They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying values in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries wich will not reverse in the foreseeable future.
Deferred tax assets relating to the carryforward of unused tax loss and tax credits are recognized to the extent that it is probable future profits be available against which they can be utilized. Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in the countries in which the Group companies operate that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Dividends

Dividends payable to third parties are reported as a movement in shareholders' equity in the period in which they are approved by the Shareholders' Meeting.

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group's net income attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's net income attributable to savings shares by the weighted average number of savings shares outstanding during the year.
For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares.
The Group net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

Use of estimates and judgments

The preparation of consolidated financial statements and related disclosures that conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.
Estimates are used in many areas, including accounting for revenues, bad debt provisions, inventory obsolescence and slow moving, depreciation and amortization, asset impairment, employee benefits, taxes, restructuring reserves, provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the statement of operations.
In the absence of a Standard or an Interpretation that specifically applies to a transaction, management uses its judgment in developing and applying an accounting policy that results in information that is reliable, in that the financial statements:

- represent a true and fair view of the financial position, operating result and cash flows of the entity;
- reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- are neutral, i.e. free from bias;
- are prudent; and
- are complete in all material respects.

New Principles and Interpretations endorsed by the EU but not yet effective

In accordance with IAS 8 (*Accounting Policies, Changes in Estimates and Errors*), when a new Standard or Interpretation has been issued but is not yet effective, this fact and known or reasonably estimable information are to be disclosed to assess the possible impact that application of the new Standard or Interpretation will have on the financial statements in the period of initial application.
The IFRS effective for January 1, 2006 or later are hereby disclosed.

Amendments to IAS 19 - Employee Benefits

Such amendments, introduced by IASB in December 2004 and endorsed by the European Union in November 2005 (Regulation EC 1910-2005), allow, the option to recognize actuarial gains and losses in full in the period in which they occur, outside the consolidated statements of operations and directly in a specific reserve within shareholders' equity.

The Telecom Italia Group does not intend to use this option as it accounts for all actuarial gains and losses immediately in the statement of operations in the year when they occur. Such amendments are effective commencing January 1, 2006.

IFRIC 4 - Determining whether an arrangement contains a lease

This interpretation, endorsed by the EU in November 2005 (Regulation EC 1910-2005), states that an arrangement that does not have the legal form of a lease but contains a lease has to be accounted for and classified as a finance or operating lease in accordance with IAS 17 (*Leasing*).
This Interpretation is effective commencing January 1, 2006.
Management does not expects that the application of this interpretation will have a material impact on the Group consolidated financial statements.

Amendment to IAS 39 - Cash Flow hedge accounting of forecast intragroup transactions

This amendment to IAS 39 endorsed in 2005 by the EU (Regulation EC 2106/2005) permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in cash flow hedge in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated statement of operations.
The amendment is effective commencing January 1, 2006 and will have no impact on the Telecom Italia Group consolidated financial statements.

IFRIC 6 - Liabilities arising from participating in a specific market – Waste electrical and electronical equipment

Following the adoption of the Europeans Union's Directive on Waste Electrical and Electronical Equipment (WE&EE) which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, the IFRIC issued Interpretation No. 6 (IFRIC 6) which was endorsed by the EU (Regulation CE 108/2006) in January 2006 and provides guidance on how to recognize, in the financial statements of producers, the liabilities for waste management under the above EU Directive for equipment sold to private households before August 13, 2005 (i.e. historical waste).
IFRIC 6 clarified that participation in the market during the measurement period is the obligating event under IAS 37. As a result, the liability for waste management costs for historical household equipment arises from participation in the market during the measurement period and the timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.
This Interpretation is effective commencing 2006. However the Italian Government has not yet issued and approved the necessary decrees to make the Directive effective. As a consequence, in absence of a Regulatory Framework the Group is unable, at the present time, to estimate the impacts, if any, on the financial statements arising from the application of the Interpretation.

Amendments to IAS 39 and IFRS 4 - Financial Guarantee Contracts

These amendments, endorsed by the EU in January 2006 (regulation EC 108/2006), extend the scope of IAS 39 and provide guidance on the accounting of financial garantee contracts by the issuer (garantor).
However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting policies applicable to insurance contracts, it may elect to apply either IAS 39 or IFRS 4 (*Insurance Contracts*) to such financial guarantee contracts.
Such amendments are effective from January 1, 2006.
The Telecom Italia Group applies IAS 39 to these contracts and, consequently, no impact is expected from the application of these provisions.

IFRS 7 - Financial Instruments disclosures

This Standard, endorsed by the EU in January 2006 (Regulation EC 108/2006), replaces IAS 30 (*Disclosures in the financial statements of Banks and similar financial institutions*)

and includes the Disclosure section of IAS 32 (*Financial instruments: Disclosure and presentation*) with certain amendments and integrations. As a result, IAS 32's title changes to "Financial instruments: Presentation".
IFRS 7 will be effective from January 1, 2007.

Amendments to IAS 1 - Presentation of Financial Statements Capital Disclosures

These amendments, endorsed by EU in January 2006 (Regulation EC 108/2006), state that an entity shall information to enable users of its financial statements to evaluate the entity's objectives, policies and capital management.

Such amendments will be effective from January 1, 2007.

Note 3 - Business combinations, acquisitions of minority interests and transactions among entities under common control

Business combinations

Year 2005

Acquisition of Liberty Surf Group S.A.

On May 31, 2005, after approval by the French Antitrust Authorities, the agreement signed in April 2005 was executed between Telecom Italia S.p.A. and Tiscali for the purchase of the equity investment held by the latter in Liberty Surf Group S.A., an important internet service provider operating on the French market. The investment corresponds to a 94.89% stake in the share capital of the company which is listed on the Paris Euronext.

The purchase price was approximately euro 248 million.

After the agreement was executed, Telecom Italia S.p.A., in accordance with the requirements of the law, launched two takeover bids followed by a mandatory purchase of the residual capital of Liberty Surf Group S.A. at the price of euro 2.78 per share for a cost of euro 14 million.

Following these transactions, Telecom Italia S.p.A. holds 94,074,314 Liberty Surf Group S.A. shares equal to 100% of the capital of Liberty Surf Group S.A., after cancellation of the treasury stock held by Liberty Surf Group S.A., for a total cost of euro 268 million, including incidental costs of euro 6 million.

The following table presents the effect of the accounting treatment used for the purchase of the equity investment in Liberty Surf Group S.A. The difference (euro 257 million) between the price paid (euro 268 million) and the net assets acquired (euro 11 million), excluding pre-existing goodwill (euro 34 million), was allocated as follows:

- euro 249 million to Goodwill
- euro 13 million to Intangible assets with a finite life - Customer List
- euro –5 million to the Reserve for deferred taxes
- euro 257 million

The value of the Customer List has been determined on the basis of the SAC (Subscriber Acquisition Cost) for the customers acquired. The replacement cost method was elected in lieu of the income method because the previous wholesale business generated losses at the date of purchase.
The goodwill arising on acquisition was tested for impairment at the date of purchase, taking into consideration the value in use of the company acquired and also the synergies expected from the merger with Telecom Italia France S.A.. No indication of impairment arose.

LIBERTY SURF GROUP S.A.			
(millions of euro)	Fair Value		Book Value
Goodwill	249		34
Other non-current assets (excluding goodwill)	76		63
Total current assets	68		68
Total assets	**393**		**165**
Reserve for deferred taxes	5		
Other non-current liabilities	21		21
Total current liabilities	99		99
Total liabilities	**125**		**120**
Net assets acquired	**268**	(*)	**45**
* of which			
Cost of the equity investment	262		
Incidental costs (taxes, legal fees and other expenses)	6		
Total acquisition cost	**268**		

The effect of the acquisition of Liberty Surf Group on the 2005 statement of operations is not significant while the impact on the net financial position is to increase the debt by euro 259 million (euro 268 million for the price paid net of euro 9 million of cash and cash equivalents acquired).

Acquisition of Elefante TV and Delta TV

On October 28, 2005 and November 4, 2005, after the necessary authorizations were received, the deeds were finalized for the purchase of the Elefante TV and Delta TV for euro 116 million and euro 12 million, respectively.

Overall, the television broadcasting frequencies acquired represent a coverage of approximately 70% of the Italian population and will allow Telecom Italia Media S.p.A. to extend both its analogue and digital TV broadcasting capabilities.

The transaction was carried out by the contribution of Elefante TV's and Delta TV's business segments to Telecom Italia Media Broadcasting in exchange for stock and, simultaneously, the sale to LA7 Televisioni of the shares issued by Telecom Italia Media Broadcasting.

The business segments acquired include all the assets and operations functionally required for conducting the TV broadcasting business, such as the stations and the frequencies, the "Elefante TV" brandname, the plant, equipment and sundry instruments, antennas, radio links, relay stations and other assets connected with radio and television operations using analogue or digital technology. Also contributed were the contracts for the housing and maintenance of the plant for radio and TV broadcasting and all the rights, permits, licenses, concessions (including the concession issued by the Ministry of Communications on July 28, 1999), relative to this business.

The following table presents the effect of the accounting treatment used for the purchase of the business segments.

The difference (euro 126 million) between the cash consideration (euro 128 million) and the assets acquired (euro 2 million), was allocated as follows:

- Euro 41 million to Goodwill
- Euro 126 million to Intangible assets with a finite life - Station Frequencies and TV Station Rights
- Euro –41 million to the Reserve for deferred taxes
- Euro 126 million

ELEFANTE TV - DELTA TV			
(millions of euro)	Fair Value		Book Value
Goodwill	41		
Station frequencies	114		
TV station rights	12		
Other assets	3		3
Total assets	**170**		**3**
Payables and other liabilities	1		1
Reserve for deferred taxes	41		
Total liabilities	**42**		**1**
Net assets acquired	**128**	(*)	**2**
* of which			
Cost of the business segments	127		
Incidental costs (taxes, legal fees and other expenses)	1		
Total acquisition cost	**128**		

Acquisitions of minority interests

Year 2004

Acquisition of a 40% stake in Finanziaria Web

At the end of June 2004, an agreement was reached to settle the dispute concerning the framework agreement signed on September 20, 2000 between Seat Pagine Gialle S.p.A. (now Telecom Italia Media S.p.A.) and its subsidiaries and the companies in the De Agostini group.

In particular, based on the agreement, De Agostini Invest transferred the entire investment held in Finanziaria Web to Telecom Italia Media (which already had control of the company with a 60% holding) for cash consideration of euro 287 million, in lieu of the originally agreed price of euro 700 million.

In addition to this amount, euro 38 million was paid to reimburse De Agostini Invest for the amounts paid to cover the losses and recapitalize Finanziaria Webfin since July 2001.

The effect on the statement of operations of the Telecom Italia Group was impairment loss of euro 116 million net of taxes.

Acquisition of Corporaciòn Digitel C.A. shares

With regard to the numerous disputes pending between TIM International and the other shareholders in Corpòracion Digitel (Digitel Venezuela) to the coverage of the losses incurred in 2002, a settlement agreement was reached in April 2004 wherein Tim International agreed to purchase all the other shareholders stakes (corresponding to 32.88% of Digitel's share capital).

According to the agreement, executed on July 1, 2004, Tim International purchased 1,480,562 shares held by the minority shareholders of the Venezuelan company for USD 109.6 million. The closing took place after verification of the contractual conditions put into place to protect Tim International and Digitel Venezuela.

As a result, since July 1, 2004, Tim International, holds 100% of the shares of the Venezuelan mobile operator.

Year 2005

Telecom Italia/TIM merger

The merger of Telecom Italia and TIM, described in detail in the 2004 Annual Report, was finalized on June 30, 2005.

In summary, the merger was executed by the following transactions:

- Cash tender offer for TIM Ordinary and Savings Shares and additional purchases of TIM shares, detailed as follows:

– 2,456,501,605 Ordinary Shares acquired in the cash tender offer for	euro	13,854	million
– 8,463,127 Savings Shares acquired in the cash tender offer for	euro	48	million
– 5,063,893 additional purchases of Ordinary and Savings Shares for	euro	28	million
Total 2,470,028,625 Ordinary and Savings Shares purchased for	euro	13,930	million [(1)]

(1) Including euro 98 million of costs incurred for the tender offer.

- Telecom Italia capital increase to service the merger with the issue of:

– 2,150,947,060 Ordinary Shares (euro 2.595 per share)	euro	5,582	million
for less: 24,607,520 shares issued by Telecom Italia to effect the exchange for the 14,224,000 TIM shares held by Telecom Italia Finance (euro 2.595) for	euro	(64)	million
– 230,199,592 savings shares (euro 2.156 per share) for	euro	496	million
Total 2,356,539,132 Ordinary and Savings Shares issued, net of 24,607,520 shares issued to effect the exchange for 14,224,000 TIM shares held by Telecom Italia Finance, for a total of	euro	6,014	million

The Telecom Italia/TIM merger was accounted for at fair value applying the parent-entity extension method. The difference between the fair value of the shares purchased and issued and the underlying share of TIM's net equity acquired was recorded as goodwill and amounted to euro 16,654 million, of which euro 11,804 million came from the cash tender offer and additional share purchases, and euro 4,850 million from the exchange of TIM shares.
The Telecom Italia shares issued to service the exchange were valued at the market price at June 30, 2005 (euro 2.595 for each Ordinary share and euro 2.156 for each Savings Share).

Reorganization of the Brazilian mobile telephone companies

On May 30, 2005, the Extraordinary Shareholders' Meetings of the three companies involved unanimously approved the acquisition of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. by means of a share capital increase by Tim Participaçoes S.A.. The exchange ratios were determined on the basis of economic and equity valuations performed by Banco ABN-AMRO Real S.A. Tim Participaçoes effected a capital increase on behalf of the shareholders of the two subsidiaries by issuing Ordinary and Preferred Shares. On the same date, Tim Sul S.A. and Tim Nordeste Participaçoes S.A. were delisted from the Brazilian stock exchange and Tim Participaçoes then cancelled the shares purchased from the shareholders which exercised their withdrawal rights. The two companies, although maintaining separate legal and administrative status, are now wholly-owned subsidiaries of Tim Participaçoes.

The effect on "goodwill" is as follows:

- an increase of euro 62 million for the purchase of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. through the capital increase reserved to them and effected by the parent Tim Participaçoes S.A. (euro 57 million) and euro 5 million for the purchase of Tim Participaçoes S.A. ordinary shares on the market by the subsidiary Tim Brasil;
- a decrease of euro 25 million for the derecognition of goodwill as a result of the dilution of the investment in Tim Participaçoes S.A. following the capital increase reserved to the minority shareholders.

The goodwill of euro 57 million is calculated as the difference between the market value of Ordinary and Preferred Shares issued by Tim Participaçoes subscribed by the minority shareholders of Tim Sul and Tim Nordeste Telecomunicaçoes (euro 204 million) and the underlying share of net assest attributable to the minority interests of Tim Sul and

Tim Nordeste Telecomunicaçoes at the time of the transaction and covered by the acquisition (euro 147 million).
The transaction had a negative effect of euro 14 million on the shareholders' equity attributable to the Parent and a positive effect of euro 40 million on the minority interests.

Transactions between companies under common control

Acquisition of Virgilio and Tin.it by Telecom Italia S.p.A.

As part of the process to rationalize the Telecom Italia Group's Internet operations, the following transactions were finalized on the basis of the contractual agreements signed with Telecom Italia Media on April 4, 2005:

- on May 30, 2005, Telecom Italia purchased, from Telecom Italia Finance S.A., the entire investment in ISM S.r.l. (which already held a 40% stake in Finanziaria Web which, in turn, held a 66% interest in Matrix) for a total amount of euro 98 million;
- on June 1, 2005, ISM S.r.l. (in which Telecom Italia holds a 100% interest), after having received euro 70 million from Telecom Italia in the form of an increase in share capital, acquired 60% of Finanziaria Web and 0.7% of Matrix from Telecom Italia Media S.p.A. for euro 70 million;
- on June 1, 2005, Telecom Italia S.p.A. purchased the 100% interest in Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media contributed the Tin.it business segment, at a price of euro 880 million.

At the conclusion of the foregoing transactions, Telecom Italia holds, directly and indirectly, (through ISM) full control over Virgilio's operations.

The purchase of the "Internet" business from the subsidiary Telecom Italia Media S.p.A., is considered a transaction among "shareholders" since it took place within the same group. Accordingly, the difference between the price paid and the share of underlying net assets acquired of euro 364 million was allocated as a reduction of reserves.

On June 28, 2005, the buyback of Ordinary and Savings Shares was successfully concluded for, respectively, euro 0.40 per Ordinary Share and 0.33 per Savings Share, as voted by the Shareholders' Meeting of Telecom Italia Media held May 24, 2005.

Telecom Italia Media S.p.A., after proportionally allocating the shares tendered, bought back 364,251,922 Ordinary Shares and 6,107,723 Savings Shares for a total of euro 148 million.

Following the cancellation of the shares bought back on October 18, 2005, Telecom Italia increased its direct controlling interest (60.2%) and indirect holding (2.1% through Telecom Italia Finance S.A.) from a total of 62.3% to 69.2%. The percentage investment in share capital, also taking into account the exercise of stock options, increased from 61.47% to 68.07% at December 31, 2005.

Reorganization of the Med group

In July 2005, the Telecom Italia Group executed the agreement reached last December with the minority shareholders of Med Nautilus S.A., Med Nautilus Ltd and Med 1, negotiated to resolve matters disputed under Med Nautilus S.A.'s and Telecom Italia/Telecom Italia International's put option on 49% of Med Nautilus Ltd and Med 1 shares, and to resolve the arbitration proceedings set in motion in Luxembourg by the Fishman group (FTT) aimed at the restitution of the amounts paid to Telecom Italia International in 2000 for the purchase of a 30% stake in Med Nautilus S.A.

As a result of this agreement, the Telecom Italia Group, besides strengthening its presence in the sector of IP services and wholesale data in the East Mediterranean, now holds a 100% stakes in Med Nautilus Ltd (through Med Nautilus S.A.) and in Med 1, following the purchase of minority interests for consideration of euro 135 million.

Concurrently, non-strategic activities in certain local Israeli operations were sold, which today are managed by the same Med Nautilus Ltd and Med 1 (for the latter, the entire investment in Med 1 IC-1 (1999) Ltd was sold). Furthermore, the Fishman group, in disposing of its investment in Med Nautilus S.A., acquired 30% of the capital of the subsidiary Elettra S.p.A. for approximately euro 35 million.

Overall, the agreement entailed a net cash disbursement of euro 49 million.

Note 4 - Financial risk management

Objectives and policies for the management of the financial risks of the Telecom Italia Group

The Telecom Italia Group is exposed to market risks in the ordinary course of its businesses. Such risks are mainly interest rate and exchange rate exposure in connection with the financial assets acquired and financial liabilities assumed. These principally include short-term and medium-term bank loans, ordinary and convertible bonds, finance leases, financial assets represented by securities and trade accounts receivable and payable.

Market risks are managed by:
- the definition, at a central level, of guidelines for operations
- the activities of an internal committee which monitors the level of exposure to market risks consistently with predetermined general objectives
- the identification of the most suitable financial instruments, including derivatives, to attain the prefixed objectives
- the monitoring of actual results
- the exclusion of the use of financial instruments

The monitoring activities conducted by the central treasury function and the internal committee are also aimed at assessing, on an ongoing basis, the credit worthiness of counterparties and the concentration of risk.

Market risk

The risk management policies of the Telecom Italia Group aim at diversifying market risks and minimizing interest rate exposure by suitable portfolio diversification, which is also implemented by using carefully selected derivative financial instruments.

The Telecom Italia Group, in fact, is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which the Group operates, mainly Europe, in Great Britain, the United States and Latin America.
The Group defines an optimum fixed-rate and floating-rate debt composition and uses derivative financial instruments to achieve that predetermined mix. Interest Rate Swaps (IRS), in particular, are used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or floating, to bring them in line with parameters that are considered optimum.

Taking into account the Group's operations in various sectors, in terms of risk, volatility and the amount of anticipated operating cash flows, the optimum blend of medium/long-term non-current financial liabilities has been established at 70% fixed-rate and 30% floating-rate. These percentages are established on the nominal amount of the debt.

Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards are used to convert loans and bonds issued in currencies other than euro – principally in U.S. dollars and British pounds – to the functional currencies of the operating companies.

As a result of the above policies, at December 31, 2005, the exchange risk on the financial payables of the Group denominated in currencies other than euro was completely hedged.

Derivative financial instruments are used by the Group and are designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than euro and the management of the interest rate risk on fixed-rate debt.

Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparties and are constantly monitored in order to reduce the credit risk.

The following tables present the nominal repayment/investment amount reflects that the effective interest rate exposure of the Group and, as far as financial assets are concerned, account was taken of the intrinsic nature of the transactions under consideration (financial characteristics and duration) rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame, frequent renewal) are such that the interest rate is periodically re-fixed on the basis of market parameters, even though the contract does not call for the re-fixing of the interest rate (such as in the case of bank deposits and Euro Commercial Paper), was considered in the category of floating rate.
The information in the following tables does not take into account the "Financial liabilities relating to discontinued operations/assets held for sale", the debt positions of Digitel Venezuela (non-current financial liabilities of euro 11 million) and the Buffetti group (current liabilities of euro 19 million) with the companies of the Group and, consequently, do not take into account the corresponding "Financial assets relating to discontinued operations/assets held for sale".

FINANCIAL LIABILITIES (at the nominal repayment amount)

(millions of euro)	Fixed rate	Floating rate	Total
Bonds	24,511	10,066	34,577
Convertible and exchangeable bonds	2,642	–	2,642
Loans and other payables	5,434	7,644	13,078
Discontinued operations/assets held for sale	–	*112*	*112*
Total	**32,587**	**17,822**	**50,409**

FINANCIAL ASSETS (at the nominal investment amount)

(millions of euro)	Fixed rate	Floating rate	Total
Deposits and cash	–	10,041	10,041
Euro Commercial Papers	–	326	326
Securities	4	380	384
Other receivables	24	1,038	1,062
Discontinued operations/assets held for sale	–	*37*	*37*
Total	**28**	**11,822**	**11,850**

For floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the next 12 months.

For the effective interest rate table, the amount of assets and liabilities includes the original transaction net of the effect of any derivative hedge instruments.
The information, since it is provided by class of financial assets and liabilities, was established under an average weighting method using the adjusted book value related to accruals and fair value adjustments. Therefore, this represents the amortized cost, net of accruals and any fair value adjustments as a consequence of hedge accounting.

FINANCIAL LIABILITIES

(millions of euro)	Adjusted accounting amount	Effective interest rate (%)
Bonds	34,453	5.71
Convertible and exchangeable bonds	2,505	6.39
Loans and other payables	12,891	3.93
Total	**49,849**	**5.28**

FINANCIAL ASSETS

(millions of euro)	Adjusted accounting amount	Effective interest rate (%)
Deposits and cash	10,041	3.03
Euro Commercial Papers	326	2.36
Securities	384	3.29
Other receivables	864	4.89
Total	**11,615**	**3.16**

Hedges of financial liabilities at December 31, 2005, overall, result in a reduction in the effective interest rate.

With regard to financial assets, the weighted average effective interest rate is not significanty affected by derivative instruments.

With reference to the concept of market risk, in the broad sense, the Group uses interest coupon step-ups and step-downs for certain bonds when there are changes in the rating. Such mechanisms, however, do not affect interest rate exposure, as previously described above, or the determination of the current effective interest rate. Additional information is provided in the Note "Financial liabilities - current and non-current".

As to market risks connected with derivative financial instruments, reference should be made to the Note "Financial instruments".

Credit risk

The management of the liquidity of the Group is guided by prudent criteria and is principally based on money market management and bond portfolio management. Temporary excess cash in the amount necessary to meet cash requirements within the next 12 months is invested in the money market. Excess liquidity which is expected to be required to meet cash requirements in beyond 12 months is invested in bonds.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterparty, deposits are held with leading high-credit-quality banking and financial institutions with at least an A rating. Furthermore, deposits are usually made for periods of less than 90 days. As to Other temporary investments of liquidity in Euro Commercial Paper relate to issuers with AAA, AA and A ratings and offices in Europe.
With regard to bond portfolio management, the issuers have at least an A rating.

With a view towards minimizing credit risk, the Group practices a diversification policy for its investments in liquidity. Accordingly, there are no significant positions with any one single counterparty.

Liquidity risk

The Group's objective is to achieve an adequate level of financial flexibility by maintaining a margin of current treasury resources to cover refinancing requirements for at least the next 12 months using irrevocable bank lines and liquidity.
Current financial assets at December 31, 2005 represent 114.2% of short-term financial commitments (due in 2006), allowing a further partial coverage of the amount due in 2007. 18.9% of gross financial indebtedness at December 31, 2005 will be due in the following 12 months.

Fair value

In order to determine the fair value of derivative instruments, the Telecom Italia Group uses various valuation models. The fair value of IRSs and CCIRSs reflects the difference between the fixed rate which should be paid/received and the interest rate (having the same maturity as the swap) based on market information at the measurement date.
With regards to IRSs, the notional amount does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.
The fair value of CCIRSs also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the principal, in the respective currencies of denomination, in addition to the exchange of flows of interest at the maturity date and at the intermediate payment dates.

With regard to the fair value of financial liabilities, reference should be made to the Note "Financial instruments" for the assumptions and the amounts.

Note 5 - Goodwill and other intangible assets with an indefinite life

Goodwill and other intangible assets with an indefinite life increased from euro 27,459 million at December 31, 2004 to euro 43,980 million.

The breakdown of goodwill by business segment and the changes during 2004 and 2005 are presented in the following tables:

(millions of euro)	1/1/2004	Discontinued Operations	Increase	Decrease	Exchange differences	12/31/2004
Wireline	15,079		326	(292)		15,113
Mobile	11,603	(122)	295	(7)		11,769
Media	210			(11)		199
Olivetti	6					6
Other activities (*)	574	(24)		(177)	(1)	372
Total	**27,472**	**(146)**	**621**	**(487)**	**(1)**	**27,459**

(millions of euro)	12/31/2004	Discontinued Operations	Increase	Decrease	Exchange differences	12/31/2005
Wireline	15,113		254	(3)		15,364
Mobile	11,769	(273)	16,716	(25)	199	28,386
Media	199	(20)	58	(7)		230
Olivetti	6			(6)		–
Other activities (*)	372	(372)				–
Total	**27,459**	**(665)**	**17,028**	**(41)**	**199**	**43,980**

(*) Other activities include the Finsiel Group and the Entel Chile Group which were sold during 2005.

The increase of euro 16,521 million in 2005 is due to the following transactions:

increase:
- euro 11,804 million for the purchase of TIM Ordinary and Savings Shares through the cash tender offer and on the market;
- euro 4,850 million for the share exchange of TIM Ordinary and Savings Shares following the merger in Telecom Italia;
- euro 249 million for the purchase of 100% of Liberty Surf S.A.;
- euro 199 million for exchange differences on the goodwill relating to the Brazilian companies;
- euro 62 million (exchange effect included) for the purchase of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. through a share capital increase by Tim Participaçoes S.A., and as a result of the purchase of Tim Participaçoes S.A. Ordinary Shares on the market by the parent, Tim Brasil;
- euro 41 million for the purchase of the business segments Elefante TV and Delta TV;
- euro 22 million for other transactions;

decrease:
- euro 665 million relating to discontinued operations/assets held for sale, of which euro 273 million refers to Tim Hellas, euro 20 million to the Buffetti group and euro 372 million to the Entel Chile group;
- euro 25 million for the dilution in Tim Participaçoes S.A. following the capital increase reserved for the minority shareholders;
- euro 10 million for the sale of Televoice S.p.A. and Databank S.p.A. and other minor companies;
- euro 6 million for the impairment of the goodwill relating to cash-generating unit (CGU) Olivetti.

The gross carrying amounts of goodwill and the relative impairment losses accumulated from January 1, 2004 (date of allocation to the cash-generating units) to December 31, 2005, are summarized as follows:

	12/31/2005		
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**
Wireline	(*) 15,656	(*) (292)	15,364
Mobile	28,393	(7)	28,386
Media	230		230
Olivetti	6	(6)	–
Total	**44,285**	**(305)**	**43,980**

(*) Includes euro 282 million relating to the settlement with De Agostini in 2004.

Goodwill under IAS 36 is not amortized but is subject to an impairment test at least annually. To test for impairment, goodwill must be allocated to cash-generating units or groups of cash-generating units which must not be larger than a business segment determined in accordance with IAS 14. The criteria followed for the allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes.
The business units (or groups of units) to which goodwill was allocated are as follows:

Sector	Group of units
Wireline	Liberty Surf Hansenet Wireline (exchanding Liberty Surf and Hansenet)
Mobile	Domestic Brazil
Media	TI Media

The value used to determine the recoverable amount of the groups of units to which the goodwill was allocated is the value in use, with the exception of TI Media, which is a listed company, and therefore market capitalization at December 31, 2005 was used as the measure of the entity's fair value. For Avea I.H.A.S., the amount of USD 500 million was used; being the amount at which the equity investment could be sold under the agreements reached with Saudi Oger.

The most representative basic assumptions for the calculation of the value in use of each group of cash generating units are presented in the following table:

Liberty Surf	Hansenet	Wireline	Mobile Domestic	Mobile Brazil
Number of customers	Number of customers	Ebitda margin (Ebitda/sales) during the period of the plan	Ebitda margin (Ebitda/sales) during the period of the plan	Growth rate of sales during the explicit forecast period (2005-2008)
Margin per customer during the period of the plan 2005-2012	Gross operating margin expected for 2006	Investments to maintain profit capability (in proportion to sales)	Investments to maintain profit capabilities (in proportion to sales)	Ebitda margin (Ebitda/sales) during the period of the plan
		Non-recurring expenses excluded from expected Ebitda for extrapolation in the calculation of the end amount	Non-recurring expenses excluded from expected Ebitda for extrapolation in the calculation of the end amount	Exchange rate Real/euro
Cost of capital Long-term growth rate	Cost of capital Long-term growth rate	Cost of capital Long-term growth rate	Cost of capital Long-term growth rate	Cost of capital Long-term growth rate

All the plan figures are based on the Group's most recent experience and the best estimates of management for the period of the plan 2005-2008.
In the case of Liberty Surf, the impairment test required an extension of the plan to 2012, in that the network investments needed to develop broadband in France have a long-term time frame and the aggregation of the entity acquired from Tiscali (the previous Liberty Surf) with the pre-existing TI France was effected only in November 2005.
The new Liberty Surf will begin a significant capital expenditure plan for network development in 2006 which was not considered for purposes of the net present value used in the impairment test but by assuming an appropriate proportion of results of the merged businesses to comply with IAS 36, paragraph 44. With regard to Hansenet, on the other hand, in order to eliminate the net present value of future investments in the impairment test, only the flow of the expected results for 2006 was considered, forecasting it in perpetuity.

The nominal growth rates used to estimate the end amount are the following (the growth rate of Brazil refers to flows in Brazilian reais):

Liberty Surf	Hansenet	Wireline	Mobile domestic	Mobile Brazil
+0.5%	+0.5%	– 1%	+0.5%	+6.2%

Such rates fall within the range of growth rate applied by the analysts following Telecom Italia stock (as can be seen from the reports published after November 8, 2005: the date the third-quarter 2005 results were announced).

The cost of capital was estimated using three external sources:

a) the February 4, 2006 resolution by the Italian Regulatory Agency for Communications which provides the model for determining the cost of capital for fixed telephone operators in Annex 1. The criteria for the estimate of the cost of capital proposed by the authority is CAPM - Capital Asset Pricing Model (the same criteria used by the Group to estimate the value in use and referred to in the Annex to IAS 36);

b) the weighted average cost of capital (wacc) used by the analysts following Telecom Italia S.p.A. stock in the reports published between November 8, 2005 and January 2006 and relative to the principal business segments of the group. Since there is a direct correlation between the cost of capital used by the analysts and the long-term growth rate (g) forecast for the purpose of estimating the end amount, the comparison was also made on the capitalization rates (wacc-g);

c) the Beta coefficient for business segments arrived at by using the Beta coefficients of the 12 European multibusiness incumbents (wireline, mobile and other), including Telecom Italia S.p.A. itself, adjusted to take into account the target financial structure of the Group.

On the basis of these elements, the weighted average cost of capital and the Beta coefficients were estimated for each segment/business unit as follows:

	Liberty Surf	Hansenet	Wireline (ex Liberty Surf e Hansenet)	Mobile domestic	Mobile Brasile
Wacc after taxes	7.22%	7.22%	6.00%	6.30%	14.4%
Wacc (after taxes-g)	6.72%	6.72%	7.00%	6.80%	8.2%

Having considered the nominal flows of the result for the estimate of the value in use, the discount rates are also expressed in nominal terms (in reais for Brazil).

A sensitivity analysis of the results was carried out for all segments which showed that in all cases, with the exception of Liberty Surf, the values in use remain significantly higher than the carrying amounts. A change of an increase of 50 basis points (hundredths of percentage points) would generate an impairment of the business unit of euro 42 million. However, reference to multiples of comparable companies leads to amounts significantly higher than those recorded in the financial statements.

The second level of impairment testing was effected by considering the values in use of the groups of units/segments to which goodwill was allocated, the value in use of Olivetti, the surplus assets excluded from the configuration of accounting capital to be compared with the operational value in use of the individual segments and the Corporate segment. For the latter, a negative amount was estimated. The capitalization rate of the net expenses of the Corporate structure was prudently made to coincide with the risk-free rate. At this second level, too, there is no impairment.

Note 6 - Intangible assets with a finite life

Intangible assets with a finite life increased from euro 6,774 million at December 31, 2004 to euro 6,810 million. A breakdown of the composition and movements during the year are presented in the following tables:

(millions of euro)	1/1/2004	Discontinued Operations	Additions	Amortization	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2004
Industrial patents and intellectual property rights	1,987	(50)	1,149	(1,168)	(9)	(2)	1	602	2,510
Concessions, licenses, trademarks and similar rights	3,758	(1)	18	(254)	(59)		(1)	43	3,504
Other intangible assets	67	(25)	38	(21)	(3)	(4)		–	52
Work in progress and advance payments	673	(6)	730		(2)	(10)		(677)	708
Total	**6,485**	**(82)**	**1,935**	**(1,443)**	**(73)**	**(16)**	**–**	**(32)**	**6,774**

(millions of euro)	12/31/2004	Discontinued Operations	Additions	Amortization	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2005
Industrial patents and intellectual property rights	2,510	(99)	1,276	(1,414)	(10)	(20)	91	476	2,810
Concessions, licenses, trademarks and similar rights	3,504	(365)	51	(253)		(6)	188	199	3,318
Other intangible assets	52	(16)	47	(17)				(9)	57
Work in progress and advance payments	708	(14)	411				18	(498)	625
Total	**6,774**	**(494)**	**1,785**	**(1,684)**	**(10)**	**(26)**	**297**	**168**	**6,810**

Additions made in 2005 include euro 182 million of capitalized internal construction costs.

Industrial patents and intellectual property rights at December 31, 2005 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the useful life estimated in three years). These relate mainly to the Wireline Business Unit for euro 1,473 million and the Mobile Business Unit for euro 1,233 million.

Concessions, licenses, trademarks and similar rights mainly refer to the Mobile Business Unit (euro 2,869 million) for the remaining unamortized cost of UMTS and PCS licenses, to the Wireline Business Unit (euro 287 million, of which euro 169 million refers to costs principally for Indefeasible Rights of Use - IRU) and to the Media Business Unit (euro 158 million for the costs of purchasing TV frequencies, of which euro 126 million was acquired through the purchase of the Elefante TV and Delta TV).

The remaining unamortized mobile telephone licenses totaling euro 2,869 million refer to the following licenses:

- Licenses of Tim Italia
  UMTS for euro 2,148 million expiring in 2021 (amortized in 18 years)
  Wireless Local Loop for euro 12 million expiring in 2016 (amortized in 15 years)
- Licenses of the Brazilian companies
  GSM of Tim Celular for a total of euro 539 million expiring between 2016 and 2018 (amortized in 13-15 years)
  TDMA and GSM of Maxitel for a total of euro 162 million expiring between 2012 and 2013 (amortized in 9-13 years)
  GSM of Tim Participaçoes for a total of euro 8 million expiring between 2007 and 2009.

Radio and television frequencies acquired through the purchase of the business segments Elefante TV and Delta TV are recorded, at December 31, 2005, for euro 124 million net of the amortization charge for the year of euro 2 million, and will be used for digital technology and have an estimated useful life up to 2018.

Other intangible assets include euro 13 million related to the value allocated to the Customer List on the purchase of the controlling interest in Liberty Surf Group S.A..

In 2005, impairment losses of euro 10 million, net of impairment reversals of euro 1 million, mainly refer to Maxitel. In 2004, net impairment losses were euro 73 million and mainly referred to a reorganization of the Latin American Nautilus group.

Amortization and impairment losses are recorded in the statement of operations as components of operating results.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2005 can be summarized as follows:

	12/31/2005			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	9,886	(15)	(7,061)	2,810
Concessions, licenses, trademarks and similar rights	4,457	(276)	(863)	3,318
Other intangible assets	170	(80)	(33)	57
Work in progress and advance payments	625			625
Total	**15,138**	**(371)**	**(7,957)**	**6,810**

The impairment losses in "Concessions, licenses, trademarks and similar rights" mainly refer to the Indefeasible Rights of Use (IRU) of the capacity and cables relating to the international connections acquired by LAN.

Such impairments, principally relating to the years prior to 2004, are the result of the altered and shrunken market value of international broadband compared to the expectations anticipated at the historical date of those investments. This is due to the significant reductions in the expectations of the growth of the new economy over the past years, in addition to the persisting negative economic situation in the region in which the subsidiary operates (Latin America and, in particular, Argentina).

Note 7 - Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased from euro 17,853 million at December 31, 2004 to euro 16,443 million. Details are as follows:

(millions of euro)	1/1/2004	Discontinued Operations	Additions	Amortization	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2004
Land	242	(10)				(2)	(1)	(5)	224
Civil and industrial buildings	1,428	(22)	97	(116)	(23)	(23)	(4)	121	1,458
Telecommunications plant and installations	14,237	(104)	2,054	(3,049)	(56)	(22)	(42)	1,132	14,150
Manufacturing and distribution equipment	46		34	(28)		(5)		15	62
Aircraft and ships	78			(12)	(11)				55
Other	756	(21)	293	(346)	(2)	(14)		296	962
Construction in progress and advance payments	1,615	(11)	868		9	(6)		(1,533)	942
Total	**18,402**	**(168)**	**3,346**	**(3,551)**	**(83)**	**(72)**	**(47)**	**26**	**17,853**

(millions of euro)	12/31/2004	Discontinued Operations	Additions	Amortization	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2005
Land	224	(14)				(62)	2	5	155
Civil and industrial buildings	1,458	(181)	23	(103)	(1)	(249)	19	6	972
Telecommunications plant and installations	14,150	(1,219)	2,069	(2,910)		(29)	378	468	12,907
Manufacturing and distribution equipment	62	(5)	38	(31)				8	72
Aircraft and ships	55			(9)					46
Other	962	(86)	380	(363)		(6)	99	188	1,174
Construction in progress and advance payments	942	(77)	790		(8)	(2)	59	(587)	1,117
Total	**17,853**	**(1,582)**	**3,300**	**(3,416)**	**(9)**	**(348)**	**557**	**88**	**16,443**

Additions in 2005 include euro 155 million of capitalized internal construction costs.

During 2005, the impairment losses of euro 9 million refer mainly to the writedown of telephone equipment which is being replaced by technologically advanced equipment. In 2004, the impairment losses totaled euro 83 million and resulted mainly from the reorganization of the Latin American Nautilus group.

Depreciation and impairment losses are recorded in the statement of operations within the operating result.

Disposals in 2005 include euro 304 million for 561 buildings sold to Fondo Raissa and 246 buildings sold to Fondo Spazio Industriale which are part of the agreement to sell more than 1,300 buildings for a total of approximately euro 1 billion.
These real estate transactions fall under the scope of the network restructuring process resulting from the changes in technology in the field of telecommunications which make it possible to reorganize and optimize the physical spaces occupied by the telephone exchanges and, as a result, gradually free up the relative properties.
In 2005, the transactions generated a gain on consolidation of euro 264 million, net of incidental charges, and reduced the consolidated net financial debt by euro 568 million.
This is after taking into account the recognition, in accordance with the finance method under IAS 17, of 78 buildings sold to Fondo Raissa and subsequently leased back under long-term finance leases. These buildings have therefore been reclassified from owned properties to leased properties.
The second stage of the project will be completed during the first half of 2006 when more than 500 buildings will be contributed to Fondo Raissa and Fondo Spazio Industriale for a total of approximately euro 431 million.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2005 can be summarized as follows:

	12/31/2005			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	155			155
Civil and industrial buildings	2,247	(35)	(1,240)	972
Telecommunications plant and installations	58,143	(151)	(45,085)	12,907
Manufacturing and distribution equipment	756	(5)	(679)	72
Aircraft and ships	145	(11)	(88)	46
Other	4,159	(7)	(2,978)	1,174
Construction in progress and advance payments	1,126	(9)		1,117
Total	**66,731**	**(218)**	**(50,070)**	**16,443**

Assets held under finance leases

Assets held under finance leases decreased from euro 1,653 million at December 31, 2004 to euro 1,598 million. Details on the composition and changes are as follows:

(millions of euro)	1/1/2004	Discontinued Operations	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2004
Land	8							8
Civil and industrial buildings	1,638		4	(93)			12	1,561
Telecommunications plant and installations	2	(1)						1
Aircraft and ships	22			(4)				18
Other	77		39	(43)	(2)		(6)	65
Total	**1,747**	**(1)**	**43**	**(140)**	**(2)**		**6**	**1,653**

(millions of euro)	12/31/2004	Discontinued Operations	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2005
Land	8	(3)					(5)	-
Civil and industrial buildings	1,561	(21)	14	(93)			16	1,477
Telecommunications plant and installations	1	(1)		(1)			2	1
Aircraft and ships	18			(4)				14
Other	65	(2)	46	(34)	(4)			71
Construction in progress and advance payments			28				7	35
Total	**1,653**	**(27)**	**88**	**(132)**	**(4)**		**20**	**1,598**

Depreciation and impairment losses are recorded in the statement of operations within the operating result.
Other changes in 2005 include euro 50 million representing the net carrying amount of 78 owned buildings contributed to Fondo Raissa and the long-term financial leaseback of these buildings which, in accordance with IAS 17, have been reclassified from owned properties to leased properties, and euro 2 million as a result of the acquisition of the Liberty Surf Group.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2005 can be summarized as follows:

	12/31/2005			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Civil and industrial buildings	1,967	(27)	(463)	1,477
Telecommunications plant and installations	22		(21)	1
Aircraft and ships	30		(16)	14
Other	152		(81)	71
Construction in progress and advance payments	35			35
Total	**2,206**	**(27)**	**(581)**	**1,598**

At December 31, 2005, minimum lease payments due in future years and their present value are as follows (millions of euro):

	Minimum lease payments	Present value of minimum lease payments
Within 1 year	234	218
From 2 to 5 years	868	685
Beyond 5 years	1,965	891
	3,067	**1,794**

	12/31/2005	12/31/2004
Future lease payments	3,067	3,139
Interest factor	(1,273)	(1,369)
Present value of lease payments	**1,794**	**1,770**
Finance lease liabilities	2,128	2,087
Finance lease liabilities relating to Discontinued Operations		(34)
Financial receivables for lessors' net investments	(334)	(283)
Total net finance lease liabilities	**1,794**	**1,770**

Note 8 - Other non-current assets

Other non-current assets increased from 2,338 million at December 31, 2004 to euro 3,163 million. The composition is as follows:

(millions of euro)	12/31/2005	12/31/2004
Investments in:		
• Associates accounted for using the equity method	765	585
• Jointly-controlled companies	16	
• Other companies	561	479
	1,342	1,064
Securities and financial receivables:		
• Securities other than investments	8	7
• Financial receivables and other non-current financial assets	988	386
	996	393
Miscellaneous receivables and other non-current assets:		
• Miscellaneous receivables	358	381
• Medium/long-term prepaid expenses	467	500
	825	881
Total	**3,163**	**2,338**

Major transactions involving investments

a) Acquisitions in 2004

Capital increases by ETECSA

During the first half of 2004, the Shareholders' Meeting of the Cuban company voted three increases in share capital in order to fund the extraordinary financial requirements for the payment of the new license granted by the MIC (the Ministry of Cuban Telecommunications), with the following characteristics:

- on March 4, 2004, USD 23.8 million through the issue of 165 new shares for a unit price of USD 144,190;
- on May 20, 2004, USD 31.6 million through the issue of 219 new shares for a unit price of USD 144,190;
- on June 14, 2004, USD 61.9 million through the issue of 429 new shares for a unit price of USD 144,190.

Telecom Italia International N.V. subscribed to such increases based on its investment (27%) paying, respectively, USD 6.3 million, USD 8.5 million and USD 16.7 million, and receiving in exchange, respectively, 44, 59, and 116 new shares.
Telecom Italia International N.V.'s interest has remained unchanged.

b) Divestitures in 2004

Sale of Euskaltel

On January 16, 2004, Telecom Italia International N.V. signed a contract with Araba Gertu S.A. for the sale of a 3.1% stake in Euskaltel to Araba Gertu S.A. for an total price of euro 13.6 million. This sale was conditional upon the pre-emptive right procedure provided by Euskaltel's bylaws.
The closing took place on February 19, 2004. After the pre-emption right was exercised by Iberdrola S.A., an Euskaltel shareholder, the sale of the above stake occurred through the signing of two separate contracts under which Telecom Italia International N.V. sold 149,231 shares to Araba Gertu S.A. for consideration of euro 12.1 million and 18,719 shares to Iberdrola S.A. for consideration of euro 1.5 million. The remaining 3% stake was sold in October 2005.

Sale of Netco Redes S.A.

On June 24 2004, Telecom Italia International N.V. transferred 301,404 Netco Redes shares to Auna, receiving the entire agreed amount of consideration of euro 30 million, including interest accrued up to the closing date, on June 30, 2004. A net gain of euro 6 million was realized on consolidation.

Sale of Pirelli & C. Real Estate S.p.A. shares

During 2004, all the Pirelli & C. Real Estate S.p.A. shares held (812,086) were sold for total cash proceeds of euro 24 million.

Sale of SKY Italia S.r.l.

On September 28, 2004, Telecom Italia sold its 19.9% interest in Sky Italia to the NewsCorp group. The consideration on the transaction was euro 88 million. The transaction gave rise to a gain against the carrying value at June 30, 2004 of euro 31.4 million.
Such gain offset the effects of the impairment losses recognized during the first half of the year so that the transaction had an almost no economic impact on the consolidated financial statements.

Sale of Mirror International Holding S.a.r.l.

On December 21, 2004, Mirror International Holding S.a.r.l. purchased, through a buyback, 30% of its capital held by Telecom Italia. Consideration on the transaction was euro 75 million, euro 73 million for the sale and euro 2 million for the loan repayment.
The deal gave rise to a gain on consolidation of euro 24 million for the sale of the above interest and euro 61 million for the release of the remaining part of the gain on the sale, in 2001, of 70% of Mirror International Holding, the company to which the investments in the satellite consortiums had previously been transferred.

c) Acquisitions in 2005

Privatization of Turk Telekom

On July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom. The bid was won for USD 6,550 million by Oger Telecom, a newly-formed company controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through TIM International – made an initial investment of USD 200 million (13.33%). The partnership between Telecom Italia and Saudi Oger Limited covers mobile telecommunications, while for land-line telecommunications Oger Telecom will continue its collaboration with BT Telconsult. After closing the deal, Telecom Italia and Oger Telecom will seal a four-year agreement for technical assistance with AVEA I.H.A.S., the Turkish mobile operator in which stakes are held by TIM International (40.5647%), Turk Telekom (40.5647%) and the Is Bank (18.8706%).

The agreements with Saudi Oger also provide that the investment in AVEA I.H.A.S., held by TIM International N.V., may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom. The valuation of AVEA I.H.A.S. shares held by TIM International N.V. were initially agreed in a range of between USD 400 million and USD 600 million and then finally established at USD 500 million. Oger Telecom is expected to be listed on the Dubai stock exchange within the next three years with the possibility of TIM International investing proportionally in the initial placement. Should the listing not take place within the agreed timeframe, TIM International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares resulting from the sale of the current investment in AVEA I.H.A.S., which represented one-fourth of the Oger Telecom shares initially subscribed by TIM International N.V.. If the put option is not exercised, the counterpart may exercise a call option on the same shares.

Acquisition of Luna Rossa Challenge 2007 S.L. and Luna Rossa Trademark

On July 27, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Challenge 2007 S.L., a Spanish-registered company, by subscribing to a share capital increase reserved for Telecom Italia of approximately euro 2 million.
On July 28, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Trademark S.a.r.l., a Luxembourg-registered company, from Prada S.A. for euro 10 million.

d) Divestitures in 2005

Sale of CMobil CZ

Under the process of rationalization of its international investment portfolio, on March 24, 2005, TIM finalized the sale of 7.16% of the share capital of CMobil CZ (a Dutch holding company which holds a 60.8% stake in T-Mobile CZ) with T-Mobile Global Holding.
This investment corresponds to an indirect interest of 4.35% in T-Mobile CZ, one of the largest mobile operators in the Czech Republic. The sales price was euro 70.5 million and resulted in a gain of approximately euro 61 million.

Investments in associates accounted for using the equity method are detailed as follows:

(millions of euro)	1/1/2004	Discontinued Operations	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	12/31/2004
Etecsa	392		26		(128)		290
Italtel Holding	35				(3)		32
Mirror International Holdings	48			(48)			
Netco Redes	24			(24)			
Siemens Informatica	16				(2)		14
Sky	44		55	(99)			
Tiglio I	234			(76)	(5)		153
Tiglio II	78			(25)	7		60
Other	42	(8)	2	(3)	3		36
Total	**913**	**(8)**	**83**	**(275)**	**(128)**		**585**

(millions of euro)	12/31/2004	Discontinued Operations	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	12/31/2005
Avea I.H.A.S.			122		(122)		
Brasil Telecom Participaçoes					(2)	23	21
Etecsa	290				39		329
Italtel Holding	32				6		38
Siemens Informatica	14				(10)		4
Solpart Participaçoes				(17)	142	89	214
Tiglio I	153			(41)	(17)		95
Tiglio II	60			(33)	(10)		17
Other	36		14	(7)	4		47
Total	**585**		**136**	**(98)**	**30**	**112**	**765**

The "Valuation using the equity method" includes the share of the earnings for the year and the differences on the translation of the foreign companies' financial statements.
In particular, the impact on the 2005 consolidated statement of operations relates to Avea I.H.A.S. (a decrease of euro 122 million), ETECSA (an increase of euro 45 million), Solpart Participacoes (an increase of euro 94 million) and other companies (a decrease of euro 10 million).
At December 31, 2004, the carrying value of the equity investment in Avea I.H.A.S. was zero because the contribution of the IS TIM investment to Avea I.H.A.S. took place at the pre-existing carrying value of the investment which in prior years had been written off. During 2004, the losses incurred by Avea were not recognized because the carrying value of the investment in Avea had been written off.
During 2005, the share of the losses of the associate amounted to euro 152 million and euro 122 million of that amount was recorded in the statement of operations up to the carrying amount of the associate which had increased as a result of a share capital increase.
The equity investments in Solpart Participaçoes and in Brasil Telecom Participaçoes have been valued using the equity method following the signing of agreements during the first half of 2005 which reinstated Telecom Italia governance rights in Solpart. Such rights had been temporarily suspended in August 2002.
The value of the equity investment in ETECSA includes euro 64 million for the unamortized portion of goodwill, namely the excess of the book value over the corresponding share of the underlying net assest acquired.

The investment in Italtel Holding S.p.A. is included in equity investments in associates accounted for using the equity method because, although owning a 19.37% stake (below the 20% of voting rights exercisable), Telecom Italia S.p.A. is able to exercise a significant influence through the rights attributed to it by the shareholders' agreements.
The Italtel Holding S.p.A. shareholders' meeting held on February 27, 2006 approved the filing of a request to list its ordinary shares on the Italian stock exchange.

Aggregate 2005 financial information of the major associates prepared in accordance with IFRS, based on Telecom Italia Group's share, is as follows (millions of euro):

Total assets	4,961
Total liabilities	2,606
Revenue	2,278
Earnings (losses) for the year	(114)

Investments in jointly-controlled companies include the investments in Perseo S.r.l. and Sofora Telecomunicaciones S.A., in which 50% stakes are held.

The equity investment in Sofora Telecomunicaciones S.A. was accounted for using the equity method. Since 2001, following the monetary crisis in Argentina, the net equity of the company, which controls the Telecom Argentina group, was negative. Therefore, the carrying value, including the goodwill acquired, had been written off. In 2005, the net equity of the Sofora group became positive as a result of restructuring a part of the Telecom Argentina group's debt. As a result, the carrying value was adjusted for the share of ownership (euro 16 million). However, all the reasons which led to the impairment of the investment in previous years have not been eliminated therefore, the impairment has not been reversed.

Aggregate 2005 financial information based on Telecom Italia Group's share, is as follows (millions of euro):

Non-current assets	938
Current assets	269
Total assets	**1,207**
Non-current liabilities	767
Current liabilities	299
Total liabilities	**1,066**
Revenues	787
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses on non-current assets	257
Operating result	65
Income before taxes	207
Income for the year	54

The list of companies accounted for using the equity method is presented in the Note "List of companies of the Telecom Italia Group".

Investments in other companies are presented below:

(millions of euro)	1/1/2004	Discontinued Operations	Investments	Sales and reimbursements of capital	Fair value adjustments	Reclassifications and other changes	12/31/2004
Brasil Telecom Participaçoes						17	17
CMobil	9						9
Cirsa	41			(41)			
Consortium	20						20
Euskaltel	27			(14)			13
Fin. Priv.	15						15
Forthnet	11				(1)		10
Mediobanca	123				45		168
Medio Credito Centrale	36						36
Neuf Telecom	51						51
Pirelli Real Estate	20			(20)			
Sia	11						11
Solpart Participaçoes	112					(17)	95
Other	47	(1)	1	(13)			34
Total	**523**	**(1)**	**1**	**(88)**	**44**		**479**

(millions of euro)	12/31/2004	Discontinued Operations	Investments	Sales and reimbursements of capital	Fair value adjustments	Reclassifications and other changes	12/31/2005
Brasil Telecom Participaçoes	17					(17)	
CMobil	9			(9)			
Consortium	20						20
Euskaltel	13			(13)			
Fin.Priv.	15						15
Forthnet	10			(10)			
Mediobanca	168				59		227
Medio Credito Centrale	36						36
Neuf Telecom	51						51
Oger Telecom			178				178
Sia	11						11
Solpart Participaçoes	95					(95)	
Other	34	(11)	4	(4)			23
Total	**479**	**(11)**	**182**	**(36)**	**59**	**(112)**	**561**

Investments in other companies increased by euro 82 million in 2005 mainly as a result of the investment in Oger TeleKom and the fair value adjustment of the investment in Mediobanca which was partly offset by the reclassification of Solpart and Brasil Telecom to equity investments in associates.

Financial receivables and other non-current financial assets increased by euro 602 million and include the following:

(millions of euro)	12/31/2005	12/31/2004
Financial receivables for lessors' net investments	212	173
Loans to employees	79	74
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	276	71
Other financial receivables	421	68
Total	**988**	**386**

Financial receivables for lessors' net investments refer to the non-current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.. Financial receivables for lessors' net investments also include the non-current portion of finance lease contracts with customers (which also include the performance of accessory services under the "full rent" formula) relating to assets held under lease contracts.

(millions of euro)	12/31/2005	12/31/2004
Non-current portion	212	173
Current portion	122	110
Total	**334**	**283**

Other financial receivables at the end of 2005 include euro 327 million of deposits at ABN Amro to guarantee the payment that Telecom Italia S.p.A. is required to make to Opportunity, subject to the occurrence of the conditions included in the contract for the purchase of Opportunity Zain (which indirectly holds Solpart Participacoes shares), and Brasil Telecom Participacoes shares, and euro 43 million (euro 73 million at December 31, 2004) of the medium/long-term portion of the receivable due from PTT Srbija on the sale of Telekom Srbija.

Miscellaneous receivables and other non-current assets decreased from euro 881 million to euro 825 million and include the fair value of the two call options on 50% of Sofora share capital for euro 160 million (euro 115 million at December 31, 2004), the tax credit from the advance payment of tax on the reserve for employee severance indemnities of euro 35 million (euro 41 million at December 31, 2004), prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of euro 467 million (euro 500 million at December 31, 2004).

Note 9 - Deferred tax assets and reserve for deferred taxes

Net deferred tax assets decreased from euro 3,944 million to euro 2,656 million and are presented in the balance sheet as follows:

(millions of euro)	12/31/2005	12/31/2004
Deferred tax assets	2,793	4,114
Reserve for deferred taxes	(137)	(170)
Total	**2,656**	**3,944**

Since deferred tax assets and liabilities have been accounted for in the financial statements, where applicable, by taking into account offsets made by each legal entity, their composition before offsets is presented below:

(millions of euro)	12/31/2005	12/31/2004
Deferred tax assets	3,044	4,176
Reserve for deferred taxes	(388)	(232)
Total	**2,656**	**3,944**

Changes in deferred tax assets and liabilities gave rise to a tax charge for the year ended December 31, 2005 of euro 1,386 million (see the Note "Income taxes for the year" for additional details on the tax charge). The tax effect on the income and charges recognized directly in equity in 2005 is a charge of euro 1 million which is included in the Statement of changes in shareholders for the year 2005.
The other changes during the year in deferred taxes which did not have an effect on net income mainly refer to the reduction in deferred tax liabilities (euro 99 million) on the call option component of the "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" which is lower in 2005 owing to the conversion to shares (see the Note "Shareholders' equity") and the deferred tax liabilities recorded on the business combinations recognized according to IFRS 3 (euro 46 million, of which euro 41 million relates to the purchase of Elefante TV-Delta TV and euro 5 million to the purchase of Liberty Surf Group S.A.).

Temporary differences which make up this caption at December 31, 2005 and 2004 are the following:

(millions of euro)	12/31/2005	12/31/20044
Deferred tax assets		
• Write downs for the impairment of equity investments and other	1,259	2,310
• Unrealized intragroup gains	31	92
• Reserve for pension fund integration (L. 58/92)	227	292
• Tax loss carryforwards	517	538
• Reserves for future risks and charges	276	253
• Bad debts reserve	220	159
• Recognition of revenues	177	181
• Sale and leaseback of properties	109	92
• Derivative instruments	130	99
• Other deferred tax assets	98	160
Total	**3,044**	**4,176**
Reserve for deferred taxes		
• Accelerated depreciation	(280)	(219)
• Deferred gains	(108)	(13)
Total	**(388)**	**(232)**
Total Deferred tax assets less Reserve for deferred taxes	**2,656**	**3,944**

Deferred tax assets on the writedowns for the impairment of equity investments refer to the writedowns recorded in prior years and deducted for tax purposes over a period of five years.

At December 31, 2005, the Group had tax loss carryforwards referring to the Parent, Telecom Italia, and some foreign companies (Telecom Italia Finance and TIM Celular) for a total amount of euro 7,304 million, with the following expiration dates:

Year of expiration	(millions of euro)
2006	73
2007	140
2008	1,818
2009	59
2010	22
Expiration beyond 2010	5
Without expiration	5,187
Total unutilized tax loss carryforwards	**7,304**

At December 31, 2005, deferred tax assets have been recorded on tax loss carryforwards of euro 1,567 million. No deferred taxes have been calculated on the remaining tax losses (euro 5,737 million) since their recoverability is not considered probable.

At December 31, 2005, deferred taxes have not been recognized on tax-suspension reserves, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.
Deferred taxes have not been recognized on the undistributed earnings of subsidiaries and associates in that the tax system of their parents provide for the participation exemption.

Note 10 - Inventories

Inventories decreased from euro 334 million at December 31, 2004 to euro 294 million.
The composition of inventories is as follows:

(millions of euro)	12/31/2005	12/31/2004
Raw materials and supplies	8	12
Work in progress and semifinished products	24	16
Finished goods	262	306
Total	**294**	**334**

Inventories include euro 105 million referring to the Mobile Business Unit (mobile equipment and accessories), euro 77 million to the Wireline Business Unit (telephone handsets) and euro 88 million to the Olivetti Business Unit (office products, specialized printers and gaming terminals).

Writedowns of inventories made in 2005 total euro 26 million and mainly refer to the adjustment of wireline telephone handsets to estimated realizable value.

No inventories are held as collateral.

Note 11 - Trade receivables, miscellaneous receivables and other current assets

Trade receivables, miscellaneous receivables and other current assets decreased from euro 10,155 million at December 31, 2004 to euro 9,191 million at December 31, 2005 and consist of the following:

(millions of euro)	12/31/2005	12/31/2004
Receivables on construction contracts	37	39
Trade receivables:		
• Amounts due from customers	5,960	6,556
• Amounts due from other telecommunication operators	978	1,145
	6,938	**7,701**
Miscellaneous receivables and other current assets:		
• Other receivables	1,868	2,133
• Trade and miscellaneous prepaid expenses	348	282
	2,216	**2,415**
Total	**9,191**	**10,155**

Receivables on construction contracts of euro 37 million mainly refer to Telecom Italia (euro 20 million) for network equipment, Lombardy Region health cards and telephone plants customized for customers and Telecom Italia Learning Services (euro 12 million) for training activities, conditional on the presentation of financial reports, prepared for projects carried out on behalf of local public entities.

Trade receivables amount to euro 6,938 million (euro 7,701 million at December 31, 2004) and are net of the reserve for bad debts of euro 773 million (euro 897 million at December 31, 2004).
The decrease is mainly due to the sale of the Entel Chile group, the Finsiel group, Tim Hellas and Tim Perù (for a total of euro 362 million).
The decrease is also the result of the change in the contracts for the securitization of trade receivables from residential customers made at the end of 2005 which caused a reduction of euro 648 million. The change specifically refers to the full transfer of the risk on the deferred purchase price (DPP) which, together with the purchase of the securitization vehicle (TI Securitisation Vehicle TISV) by a bank, led to the deconsolidation of this company with a consequent reduction in trade receivables.
The caption also includes euro 4 million (euro 5 million at December 31, 2004) of medium/long-term trade receivables from customers.
Trade receivables specifically refer to Telecom Italia (euro 4,001 million), Tim Italia S.p.A. (euro 1,266 million) and the foreign mobile telephone companies (euro 701 million).

Changes in the reserve for bad debts are as follows:

(millions of euro)	2005	2004
At January 1	897	905
Discontinued operations	(132)	(23)
Charged to the statement of operations	264	295
Utilization	(264)	(266)
Reversal of the reserve in excess of requirements	(15)	(8)
Exchange differences and other changes	23	(6)
At December 31	**773**	**897**

Other receivables amount to euro 1,868 million (euro 2,133 million at December 31, 2004). Details are as follows:

(millions of euro)	12/31/2005	12/31/2004
Advances to suppliers	60	45
Receivables from employees	55	60
Tax receivables	565	699
Miscellaneous receivables	1,188	1,329
Total	**1,868**	**2,133**

Tax receivables include euro 335 million of current income taxes and euro 230 million of indirect duties and taxes. The decrease of euro 134 million is mainly the result of offsetting Ires receivables against Ires payables which became possible under the consolidated national tax return system.

Miscellaneous receivables comprise receivables of euro 634 million from the Financial Administration for the TLC operating fee paid by Telecom Italia S.p.A. and Tim Italia S.p.A. for the year 1999, recognized in income in 2004 following the ruling by the TAR of Lazio Regional Administrative Court on January 4, 2005 and including interest due through December 31, 2005.

Prepaid expenses of a trading and sundry nature regard the deferral of costs referring to the recognition of revenues.

Note 12 - Securities other than investments

Securities other than investments decreased from euro 457 million at December 31, 2004 to euro 378 million. They consist of the following:

(millions of euro)	12/31/2005	12/31/2004
Held-to-maturity financial assets		
• *Securities other than investments*	*3*	*–*
Available-for-sale financial assets		
• *Securities other than investments available for sale maturing beyond 90 days*	*374*	*456*
Financial assets at fair value through profit or loss		
• *Securities other than investments held for trading*	*1*	*1*
Total	**378**	**457**

Bonds and other securities amount to euro 378 million. They include euro 374 million invested by the Luxembourg subsidiary, Telecom Italia Finance S.A., in bonds issued by counterparts with at least an A rating and with different maturities, but all are actively traded and are, therefore, readily convertible to liquidity.

Note 13 - Financial receivables and other current financial assets

Financial receivables and other current financial assets decreased from euro 662 million at December 31, 2004 to euro 509 million. They consist of the following:

(millions of euro	12/31/2005	12/31/2004
Deposits for temporary investments of excess liquidity originally due beyond 90 days but less than 12 months	90	8
Financial receivables for lessors' net investments	122	110
Other short-term financial receivables	102	489
Hedging derivatives relating to hedged items classified as current assets/ liabilities of a financial nature	195	55
Total	**509**	**662**

Deposits include euro 80 million of investments in excess liquidity made by Telecom Italia Finance S.A.

Financial receivables for lessors' net investments refer to the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.. Such receivables also include the current portion of contracts involving the sale of assets under finance leases to customers, including the performance of accessory services (the "full rent" formula).

Other short-term financial receivables include the current portion of loans to personnel for euro 10 million, the receivable from PTT Srbija on the sale of Telekom Srbija for euro 13 million and non-hedging derivatives for euro 61 million (euro 102 million at December 31, 2004).

Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature refer to accrued income on derivatives. Additional details are provided in the Note "Financial instruments".

Note 14 - Cash and cash equivalents

Cash and cash equivalents increased from euro 8,855 million at December 31, 2004 to euro 10,323 million. They consist of the following:

(millions of euro)	12/31/2005	12/31/2004
Liquid assets with banks, financial institutions and post offices	9,956	8,502
Checks	–	1
Cash	2	3
Other assets and deposits for cash flexibility	34	20
Securities other than equity investments (due within three months)	331	329
Total	**10,323**	**8,855**

The different technical forms used for the investment of available resources at December 31, 2005 can be further analyzed as follows:
- Maturities: more than 97% of deposits have a maximum maturity date of two months;
- Counterpart risk: deposits are made with leading banks and financial institutions with credit ratings at least equal to A;
- Country risk: the geographic location of deposits is principally on the London financial market.

Securities other than equity investments (due within three months) include euro 327 million (euro 329 million at December 31, 2004) of Euro Commercial Paper of Telecom Italia Finance S.A., of which euro 297 million maturing within two months and euro 30 million maturing up to February 16, 2006. The issuers all have AAA, AA and A ratings and are located in Europe.

Note 15 - Discontinued operations/assets held for sale

Discontinued operations/assets held for sale, at December 31, 2005, are considered the Entel Chile group (sold in March 2005), the Finsiel group and Tim Hellas (sold in June 2005), Tim Perù (sold in August 2005), the Buffetti group (sold in January 2006) and Digitel Venezuela (company held for sale).

As regards the data of the year ended December 31, 2004, presented for comparison purposes:

- as required by IFRS 5, discontinued operations/assets held for sale and related liabilities in the balance sheet as of December 31, 2004 include the companies so classified at that date (Finsiel group and Digitel Venezuela);
- the "adjusted" balance sheet at December 31, 2004 used for comparative purposes includes the assets and liabilities of the Finsiel group, Digitel Venezuela, Entel Chile group, TIM Hellas, TIM Perù and Gruppo Buffetti in discontinued operations/assets held for sale;
- the statement of operations and the statement of cash flows for the year 2004 have been prepared consistently with those of the 2005 statements taking into account all the discontinued operations/assets held for sale (and the related liabilities) at the end of 2005.

The balance sheet amounts relating to discontinued operations/assets held for sale are presented in two separate captions "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/ assets held for sale".

The result of operations and cash flows of discontinued operation/assets held for sale (and related liabilities) are presented in the captions "Net income (loss) from discontinued operations/assets held for sale" in the statement of operations and "Cash flow generated by (used in) discontinued operations/assets held for sale" in the statement of cash flows.

Sale of Entel Chile

On March 29, 2005, Telecom Italia, through its subsidiary Telecom Italia International N.V., sold its 54.76% investment in the Chilean company Entel Chile S.A. to Almendral S.A. (an investment holding company listed on the stock exchange in Santiago, Chile which represents local businesses including the Hurtado Vicuna group and the Matte group).
The sales price was USD 934 million (euro 723 million) with a loss of euro 1 million and euro 6 million of incidental charges.

Sale of Finsiel

On April 26, 2005, the contract was finalized for the sale of the entire interest held by Telecom Italia in Finsiel (79.5%) to the COS group. The sale is based on an enterprise value of euro 164 million. The sales terms are as follows:

- on June 28, 2005, a 59.6% interest was sold for a price of euro 87 million;
- on November 7, 2005, the remaining 19.9% was sold for a price of euro 28 million.

The sale had no effect on the statement of operations since the carrying value had been adjusted to the sales price.
The residual receivable from the COS group for the sale of the investment is equal to euro 26 million and will be collected by December 31, 2006.

Sale of TIM Hellas

On June 15, 2005, TIM International N.V. sold its 80.87% investment in TIM Hellas Telecommunications S.A. to the funds managed by Apax Partners and Texas Pacific Group (TPG) for a price of euro 1,114 million corresponding to an enterprise value of approximately euro 1,600 million for 100% of TIM Hellas or approximately euro 16.43 per share. The sale gave rise to a net gain of euro 410 million.

Sale of TIM Perù

On August 10, 2005, Tim International N.V. sold the entire investment in Tim Perù S.A.C. to Sercotel S.A. de C.V., a company controlled 100% by America Movil S.A. de C.V. for euro 330 million. The sale gave rise to a net gain of euro 120 million (net of the relative incidental charges) and a reduction in the net financial position of more than euro 400 million.

Agreement for the sale of the Buffetti group

On September 26, 2005, Telecom Italia Media signed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of its 100% stake held in Gruppo Buffetti S.p.A.. The transaction was finalized in January 2006 for a total amount of euro 76 million (enterprise value). In the 2005 financial statements, the investment value was adjusted to the sales price, resulting in a charge of euro 6 million, and included in net income attributable to the Parent.

Agreement for the sale of Corporaciòn Digitel C.A.

The agreement signed with the local wireline telephone Cantv (Compania Anonima Nacional Telefonos de Venezuela) in November 2004 for the sale of Digitel Venezuela was annulled after failure to receive authorization for the sale from the Venezuelan telecommunication authority on May 5, 2005.
On January 19, 2006, Telecom Italia signed an agreement for the sale of 100% of the capital of Digitel to the company Telvenco S.A. for a price equal to USD 425 million (enterprise value). The execution of the agreement is subject to receiving the necessary authorizations from the relevant Venezuelan authorities.

Key figures relating to discontinued operations/assets held for sale in the balance sheet and statement of operations are presented below.

The composition of **discontinued operations/assets held for sale** (and the related liabilities) is provided in the following table:

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
Discontinued operations /assets held for sale:			
Of a financial nature	37	84	225
Of a non-financial nature	491	1,096	4,494
Total	**528**	**1,180**	**4,719**
Liabilities relating to discontinued operations/ assets held for sale:			
Of a financial nature	143	188	1,023
Of a non-financial nature	142	584	1,220
Total	**285**	**772**	**2,243**

Discontinued operations/assets held for sale of a financial nature refer to:

NON-CURRENT DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE OF A FINANCIAL NATURE

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Entel Chile group	–	–	10
– Finsiel group	–	4	4
		4	**14**

CURRENT DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE OF A FINANCIAL NATURE

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Entel Chile group	–	–	112
– Finsiel group	–	36	36
– Tim Hellas	–	–	14
– Tim Perù	–	–	3
– Buffetti group	4	–	2
– Digitel Venezuela	33	44	44
	37	**80**	**211**

Discontinued operations/assets held for sale of a non-financial nature refer to:

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Entel Chile group	–	–	1,668
– Finsiel group	–	759	759
– Tim Hellas	–	–	1,240
– Tim Perù	–	–	358
– Buffetti group	113	–	132
– Digitel Venezuela	378	337	337
	491	**1,096**	**4,494**

At December 31, 2005, the item includes goodwill of euro 171 million, of which euro 12 million refers to the Buffetti group (net of the writedown of euro 7 million to adjust the amount to the sales price) and euro 158 million to Digitel Venezuela, with an increase of euro 36 million compared to January 1, 2004 for the purchase of the residual minority interest by Tim International.

At December 31, 2004 "adjusted" goodwill totaled euro 802 million, of which euro 371 million referred to the Entel Chile group, euro 273 million to Tim Hellas and euro 158 million to Digitel Venezuela.

Liabilities relating to discontinued operations/assets held for sale of a financial nature refer to:

NON-CURRENT LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE OF A FINANCIAL NATURE

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Entel Chile group	–	–	499
– Finsiel group	–	7	7
– Tim Hellas	–	–	228
– Tim Perù	–	–	82
– Buffetti group	–	–	4
– Digitel Venezuela	62	108	108
	62	**115**	**928**

At December 31, 2004 "adjusted" non-current liabilities relating to discontinued operations/assets held for sale of a financial nature include euro 171 million for bonds issued by Entel Chile maturing between 2005 and 2023.

CURRENT LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE OF A FINANCIAL NATURE

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Finsiel group	–	19	19
– Buffetti group	19	–	22
– Digitel Venezuela	62	54	54
	81	**73**	**95**

Liabilities relating to discontinued operations/assets held for sale of a non-financial nature refer to a:

(millions of euro)	12/31/2005	12/31/2004	12/31/2004 Restated
– Entel Chile group	–	–	246
– Finsiel group	–	525	524
– Tim Hellas	–	–	274
– Tim Perù	–	–	73
– Buffetti group	40	–	44
– Digitel Venezuela	102	59	59
	142	**584**	**1,220**

The net income (loss) from discontinued operations/assets held for sale included in the statement of operations can be represented as follows:

(millions of euro)		2005	2004
Income from discontinued operations/assets held for sale:			
Revenue		1,387	2,935
Other operating income		18	39
Other operating expense		(1,127)	(2,324)
Depreciation and amortization, capital gains/losses realized		(181)	(404)
Operating result		**97**	**246**
Net financial income/expense		(22)	(64)
Net income from discontinued operations/assets held for sale before tax		75	182
Income taxes		(31)	(81)
Net income from discontinued operations/assets held for sale after tax	(A)	**44**	**101**
Result of disposal:			
Writedowns/provisions relating to assets held for sale before tax		(9)	(205)
Capital gains/loss from discontinued operations		515	–
Income taxes		–	(14)
	(B)	**506**	**(219)**
Net income (loss) from discontinued operations/assets held for sale	(A+B)	**550**	**(118)**

A breakdown of the net income from discontinued operations/assets held for sale after tax (A) is as follows:

(millions of euro)	2005	2004
– Entel Chile group	26	49
– Finsiel group	(11)	(7)
– Tim Hellas	11	82
– Tim Perù	(3)	(17)
– Buffetti group	1	1
– Digitel Venezuela	20	(7)
	44	**101**

A breakdown of the results of disposal (B) is as follows:

(millions of euro)	2005	2004
– Entel Chile group	(7)	(191)
– Finsiel group	(8)	(28)
– Tim Hellas	410	–
– Tim Perù	120	–
– Buffetti group	(9)	–
– Digitel Venezuela	–	–
	506	**(219)**

Net cash flows attributable to operating activities, investing activities and financing activities relating to discontinued operations/assets held for sale is as follows:

CASH FLOWS FROM OPERATING ACTIVITIES

(millions of euro)	2005	2004
– Entel Chile group	61	289
– Finsiel group	(12)	(45)
– Tim Hellas	27	143
– Tim Perù	21	40
– Buffetti group	11	7
– Digitel Venezuela	69	58
– Other, adjustments and eliminations	13	13
	190	**505**

CASH FLOWS FROM INVESTING ACTIVITIES

(millions of euro)	2005	2004
– Entel Chile group	(12)	(98)
– Finsiel group	(3)	(20)
– Tim Hellas	(20)	(141)
– Tim Perù	(19)	(24)
– Buffetti group	(3)	(1)
– Digitel Venezuela	(47)	(21)
– Other, adjustments and eliminations	(20)	(31)
	(124)	**(336)**

CASH FLOWS FROM FINANCING ACTIVITIES

(millions of euro)	2005	2004
– Entel Chile group	(2)	(190)
– Finsiel group	15	(21)
– Tim Hellas	(17)	(55)
– Tim Perù	(8)	–
– Buffetti group	(3)	–
– Digitel Venezuela	(32)	(12)
– Other, adjustments and eliminations	7	–
	(40)	**(278)**

TOTAL CASH FLOWS GENERATED (USED) BY DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

(millions of euro)	2005	2004
Cash flows from operating activities	190	505
Cash flows from investing activities	(124)	(336)
Cash flows from financing activities	(40)	(278)
Total cash flows generated (used) by discontinued operations/assets held for sale	**26**	**(109)**

Note 16 - Shareholders' equity

Shareholders' equity includes:

(millions of euro)	12/31/2005	12/31/2004
Shareholders' equity attributable to equity holders of the Parent Company	25,662	16,248
Shareholders' equity attributable to the Minority interests	1,323	4,550
Total	**26,985**	**20,798**

Shareholders' equity attributable to equity holders of the Parent, Telecom Italia, increased by euro 9,414 million compared to December 31 2004. The increase is mainly due to the Telecom Italia/TIM
merger (euro 6,013 million), the conversion of 1,880,757,463 "Telecom Italia 1.5% 2001-2010" convertible bonds (euro 1,813 million) and the difference between dividends paid (euro 1,912 million, net of dividends on shares held by Telecom Italia Finance), and the net income for the year (euro 3,216 million).
Shareholders' equity attributable to minority interests decreased by euro 3,227 million due to the Telecom Italia/TIM merger, the sale of the Entel Chile group, the Finsiel group, TIM Hellas and Tim Perù.

The movements in share capital during 2005 are presented in the following tables:

RECONCILIATION BETWEEN THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2004 AND DECEMBER 31, 2005

Number of shares	12/31/2004	Issue of shares as a result of: Conversion of bonds	Exercise of stock option	Telecom Italia-TIM merger	12/31/2005
Ordinary shares	10,322,001,069	886,876,619	10,657,408	2,150,947,060	13,370,482,156
Less: treasury stock	(101,208,867)			(24,607,520)	(125,816,387)
Outstanding ordinary shares	10,220,792,202	886,876,619	10,657,408	2,126,339,540	13,244,665,769
Savings shares outstanding	5,795,921,069			230,199,592	6,026,120,661
Total shares issued by Telecom Italia S.p.A.	16,117,922,138	886,876,619	10,657,408	2,381,146,652	19,396,602,817
Less: treasury stock	(101,208,867)			(24,607,520)	(125,816,387)
Total outstanding shares Telecom Italia S.p.A.	16,016,713,271	886,876,619	10,657,408	2,356,539,132	19,270,786,430

RECONCILIATION BETWEEN THE VALUE OF THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2004 AND DECEMBER 31, 2005

(millions of euro)	Share capital 12/31/2004	Changes in share capital as a result of: Conversion of bonds	Exercise of stock option	Telecom Italia-TIM merger	Share capital 12/31/2005
Ordinary shares	5,677	488	6	1,183	7,354
Less: treasury stock	(56)			(13)	(69)
Outstanding ordinary shares	5,621	488	6	1,170	7,285
Savings shares outstanding	3,188			126	3,314
Share capital issued by Telecom Italia S.p.A.	8,865	488	6	1,309	10,668
Less: treasury stock	(56)			(13)	(69)
Total share capital Telecom Italia S.p.A.	8,809	488	6	1,296	10,599

Additional paid-in capital is equal to euro 6,465 million at December 31, 2005 and increased by euro 6,400 million compared to December 31, 2004. The increase refers to the following:
- an increase of euro 6,431 million due to the additional paid-in capital on the shares issued for the conversion of convertible bonds (for euro 1,640 million), the exercise of stock options (for euro 23 million) and the share capital increase to effect the merger of TIM in Telecom Italia (for euro 4,768 million);
- a decrease of euro 31 million of external costs, net of the relative tax effect, referring to the merger of TIM in Telecom Italia.

Reserve for net translation differences shows a positive euro 793 million at December 31, 2005 (a negative euro 50 million at December 31, 2004) and mainly refers to the differences on the translation of the financial statements of the Brazilian mobile telephone companies to euro.

Other income (charges) recognized directly in equity is a negative euro 109 million at December 31, 2005 (a negative euro 107 million at December 31, 2004) and include:

A) "Reserve for fair value adjustments of hedging instruments and their relative hedge items" is a negative euro 216 million at December 31, 2005 (a negative euro 174 million at December 31, 2004), attributable to the Parent for a negative euro 234 million and other Group companies for euro 18 million. This reserve is expressed net of deferred tax assets of euro 95 million (euro 90 million at December 31, 2004).
This reserve includes the current portion of gains or losses related to the fair value adjustment of derivative instruments designated to hedge the exposure of cash flow fluctuations relating to the assets or liabilities recorded in the financial statements (cash flow hedges).

B) "Reserve for fair value adjustments of available-for-sale financial assets" is a positive euro 107 million (a positive euro 67 million at December 31, 2004) almost entirely attributable to the Parent and refers to the measurement of Mediobanca shares at market price and is expressed net of deferred tax liabilities of euro 6 million.

Other reserves are a positive euro 3,835 million at December 31, 2005 (a positive euro 4,276 million at December 31, 2004) and include the other reserves of the Parent net of the value of the treasury stock held by the Parent and Telecom Italia Finance for the amount in excess of the relative par value which was deducted from "Share capital".

Other reserves show a decrease principally due to the reduction of euro 315 million in "Reserves for other equity instruments" following the conversion of 1,880,757,463 bonds.

Retained earnings, including net income for the year are a positive euro 4,079 million at December 31, 2005 (a positive euro 3,255 million at December 31, 2004) and include the net income for the year attributable to the Parent, equal to euro 3,216 million (euro 1,815 million in 2004), net of dividends declared of euro 1,912 million (euro 1,730 million in 2004).
Dividends payable to Ordinary and Savings shareholders are, respectively, euro 1,215 million (euro 0.1093 per share) and euro 697 million (euro 0.1203 per share).

Shareholders' equity of the minority interests, equal to euro 1,323 million (euro 4,550 million at December 31, 2004), includes the "Net income attributable to the minority interests", equal to euro 474 million (euro 1,019 million in 2004) and shows a decrease compared to December 31, 2004 mainly as a result of the merger of Telecom Italia/TIM (euro 3,226 million). This item principally consists of the net equity attributable to the minority shareholders of the Mobile and Media Business Units.

The following table shows the future potential change in share capital by reason of the convertible bonds and options in the stock option plans still outstanding at December 31, 2005:

	Outstanding bonds/ option rights at December 31, 2005	**Conversion/ grant ratio**	**No. of maximum shares issuable**	**Par value** (thousands of euro)	**Additional paid-in capital** (thousands of euro)	**Subscription price per share** (euro)
Additional increases voted (ord. shares)						
"Telecom Italia 1.5% 2001 - 2010 bonds"	506,707,677.00	0.471553	238,939,525	131,417	375,291	
Stock Option Plan 2000	10,699,996.00	3.300871	35,319,216	19,426	128,394	4.185259
Stock Option Plan 2001	31,862,500.00	3.300871	105,173,383	57,845	276,327	3.177343
Stock Option Plan 2002 Top	9,480,001.33	3.300871	31,292,243	17,211	70,034	2.788052
Stock Option Plan 2002	20,624,053.93	3.300871	68,076,920	37,442	160,656	
of which grants March 2002	19,905,053.50	3.300871	65,703,601	36,137	156,244	2.928015
grants August 2002	719,000.43	3.300871	2,373,319	1,305	4,412	2.409061
Stock Option Plan 2000-2002 - ex-TIM	11,735,653.00	1.73	20,302,679	11,166	64,176	3.710983
Stock Option Plan 2002-2003 - ex-TIM	22,025,000.00	1.73	38,103,250	20,957	103,925	3.277457
Stock Option Plan 2003-2005 - ex-TIM	1,915,900.00	1.73	3,314,507	1,823	7,891	2.930636
Total additional increases voted (ord. shares)			**540,521,723**	**297,287**	**1,186,694**	
Additional increases not yet voted (ord. shares)			**1,600,000,000**	**880,000**		

With regard to the "Telecom Italia 1.5% 2001 - 2010 convertible bonds with a repayment premium", it should be noted that the number of outstanding bonds at December 31, 2005 includes 8,591 bonds for which the conversion to shares had already been requested.
On January 13, 2006, the corresponding 4,049 ordinary shares were issued for a total par value of euro 2.2 thousand and additional paid-in capital of euro 6.4 thousand.

Additional details on the stock option plans are disclosed in the Note "Other information, letter e)".

The Shareholders' Meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part:

(i) (i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the option rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the subscription of the shares. They may also provide that, in the event the increase voted by the Board is not subscribed to by the deadline, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

On the basis of the motion by the Board of Directors' Meeting held on March 7, 2006, the net income for the year 2005 resulting from the separate financial statements of the Parent, Telecom Italia S.p.A., equal to euro 3,885 million, will be appropriated as dividends for euro 2,857 million for distribution to the shareholders:

- euro 0.1400 for each ordinary share
- euro 0.1510 for each savings share

before withholdings as established by law; undistributed net income will be appropriated from retained earnings.

Note 17 - Financial liabilities (current and non-current)

(millions of euro)	12/31/2005	12/31/2004
Financial payables (medium/long-term):		
· Bonds	29,281	30,060
· Convertible and exchangeable bonds	476	4,290
	29,757	34,350
· Amounts due to banks	9,462	891
· Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	730	1,256
· Other financial liabilities	303	365
	40,252	36,862
Finance lease liabilities (medium/long-term)	1,894	1,860
Other financial liabilities (medium/long-term)	–	3
Total non-current financial liabilities (A)	**42,146**	**38,725**
Financial payables (short-term):		
· Bonds	6,181	1,058
· Convertible and exchangeable bonds	2,043	816
	8,224	1,874
· Amounts due to banks	646	746
· Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	185	83
· Non-hedging derivatives	64	113
· Other financial payables	453	1,352
	9,572	4,168
· Finance lease liabilities	234	227
· Other financial liabilities	6	5
Total current financial liabilities (B)	**9,812**	**4,400**
Total financial liabilities (C) = (A)+(B)	**51,958**	**43,125**
Financial liabilities relating to discontinued operations/assets held for sale (D)	**143**	**188**
Total gross financial debt (E) = (C)+(D)	**52,101**	**43,313**

Non-current financial liabilities increased from euro 38,725 million to euro 42,146 million and current financial liabilities increased from euro 4,400 million to euro 9,812 million.

Bonds total euro 35,462 million (euro 31,118 million at December 31, 2004) and increased by euro 4,344 million. Details are as follows:

(millions of euro)	12/31/2005	12/31/2004
Non-current portion	29,281	30,060
Current portion	6,181	1,058
Total carrying amount	35,462	31,118
Adjustment to fair value and measurement at amortized cost	(885)	(941)
Total nominal repayment amount	**34,577**	**30,177**

The nominal amount of principal, notes and bonds amount to euro 34,577 million and increased by euro 4,400 million compared to December 31, 2004 (euro 30,177 million), mainly due to new bond issues by Telecom Italia S.p.A. (euro 2,580 million at December 31, 2005) and Telecom Italia Capital S.A. (euro 2,119 million at December 31, 2005), the sale of Entel Chile bonds (euro 180 million of bonds at December 31, 2004) and the difference in the USD/euro exchange rate.
The regulations and/or Offering Circular relating to the bonds described below are available on the corporate website http://www.telecomitalia.it.

Bonds, expressed at the nominal amount of principal, refer to the following:

Bonds issued by Telecom Italia S.p.A. (for a total of euro 9,798 million):
- bonds for euro 2,500 million, issued on February 1, 2002, divided into two tranches of euro 1,250 million each, at annual fixed rates, respectively, with a coupon of 5.625%, maturing February 1, 2007 and with a coupon of 6.25%, maturing February 1, 2012;
- bonds 2002-2022 reserved for subscription by employees, in service or retired, of companies, directly and indirectly, controlled by Telecom Italia, with headquarters in Italy, for euro 248 million. The quarterly interest is payable in arrears on January 1 and July 1 of each year and is indexed to the 6-month Euribor;
- bonds for euro 3,000 million, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000 million, with a quarterly coupon indexed to the 3-month Euribor + 0.33%, maturing October 29, 2007 (on December 21, 2005, the Board of Directors of Telecom Italia S.p.A. approved the early repayment of these bonds on the date of January 30, 2006); the second, for euro 750 million, with an annual fixed-rate coupon of 4.50%, maturing January 28, 2011; the third, for euro 1,250 million, with an annual fixed-rate coupon of 5.375%, maturing January 29, 2019;
- bonds for euro 110 million issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.60%, maturing March 30, 2009;
- bonds for GBP 850 million (equivalent to euro 1,240 million at December 31, 2005) issued on June 24, 2004, with an annual fixed-rate coupon of 6.375%, maturing June 24, 2019;
- bonds for euro 120 million issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.66%, maturing November 23, 2015;
- bonds for euro 850 million issued on March 17, 2005 with an annual fixed-rate coupon of 5.25%, maturing March 17, 2055;
- bonds for GBP 500 million (euro 730 million at December 31, 2005) issued on June 29, 2005, with an annual fixed-rate coupon of 5.625%, maturing December 29, 2015;
- bonds for euro 1,000 million issued on December 6, 2005 with a quarterly coupon equal to the 3-month Euribor + 0.53%, maturing December 6, 2012.

The bonds issued in 2005 fall under Telecom Italia's Euro Medium Term Note Programme for euro 10 billion approved by the Board of Directors on October 10, 2003.

Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 16,302 million):
- bonds issued April 20, 2001 on international markets for a total of euro 6,000 million (the remaining amount is equal to euro 4,513 million). The issue is divided into three tranches: the first, for euro 1,000 million at quarterly floating interest rates, maturing April 20, 2004, and therefore already repaid; the second, for euro 3,000 million and currently equal to euro 2,513 million (on December 22, 2005, the bonds repurchased

by Telecom Italia Finance S.A. were cancelled for a total of euro 487 million) with an annual fixed-rate coupon of 6.375%, maturing April 20, 2006; the third for euro 2,000 million with an annual fixed-rate coupon of 7.25%, maturing April 20, 2011;
- bonds 1999-2009 for euro 1,500 million with an annual fixed-rate coupon of 5.15%, maturing in February 9, 2009;
- bonds 1986-2046 in Swiss francs originally issued for CHF 100 million and currently equal to CHF 88 million (euro 56 million at December 31, 2005, net of the cancellation of the bonds in portfolio for CHF 12 million, equal to euro 8 million, on December 30, 2005) with an annual fixed-rate coupon of 5.625%, maturing June 12, 2046.

All of the bonds listed below were originally issued by Olivetti Finance N.V.S.A. (merged in Telecom Italia Finance S.A. effective June 1, 2004) and are guaranteed by Telecom Italia S.p.A.:
- bonds denominated "Telecom Italia Finance S.A. Euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006", maturing December 14, 2006, with a quarterly coupon indexed to the 3-month Euribor + 130 basis points. In accordance with the terms and conditions of the extendable 2002-2005 bonds, bondholders in possession of bonds totaling euro 283,000 chose not to extend the maturity term of the bonds on March 14, 2005 (original maturity date of the bonds) and the company proceeded to repay the bonds for that amount;
- bonds 2002-2006 for euro 1,100 million and currently equal to euro 1,045 million (net of the bonds repurchased in the year 2003 for a total of euro 55 million) with a quarterly coupon indexed to the 3-month Euribor + 1.25%, maturing January 3, 2006;
- bonds 2002-2007 originally for euro 1,750 million and currently equal to euro 1,720 million (bonds repurchased by Telecom Italia Finance S.A. were cancelled on December 22, 2005 for euro 30 million) with an annual fixed-rate coupon of 6.5%, maturing April 24, 2007;
- bonds 2003-2008 originally for euro 1,750 million and currently equal to euro 1,674 million (bonds repurchased by Telecom Italia Finance S.A. were cancelled on December 22, 2005 for euro 76 million) with an annual fixed-rate coupon of 5.875%, maturing January 24, 2008;
- bonds 1999-2009 originally for euro 2,350 million and currently equal to euro 2,250 million (net of bonds repurchased in 2002 for euro 100 million) with an annual fixed-rate coupon of 6.575%, maturing July 30, 2009;
- bonds 2002-2012 for euro 1,000 million with an annual fixed-rate coupon of 7.25%, maturing April 24, 2012;
- bonds 2003-2013 for euro 850 million with an annual fixed-rate coupon of 6.875%, maturing January 24, 2013;
- bonds 2002-2032 for JPY 20 billion (euro 144 million) with a 6-month fixed-rate coupon of 3.55%, maturing May 14, 2032 (callable by the issuer annually beginning from May 14, 2012);
- bonds 2003-2033 of euro 1,050 million with an annual fixed-rate coupon of 7.75%, maturing January 24, 2033.

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 8,477 million):
- issue of multi-tranche fixed-rate bonds on October 29, 2003, for USD 4,000 million. The issue is divided into three tranches as follows:
  - USD 1,000 million (euro 848 million at December 31, 2005), with an annual fixed-rate coupon of 4%, maturing November 15, 2008;
  - USD 2,000 million (euro 1,694 million at December 31, 2005), with an annual fixed-rate coupon of 5.25%, maturing November 15, 2013;
  - USD 1,000 million (euro 848 million at December 31, 2005), with an annual fixed-rate coupon of 6.375%, maturing November 15, 2033;
- issue of multi-tranche fixed-rate bonds on October 6, 2004, for USD 3,500 million. The issue is divided into three tranches as follows:
  - USD 1,250 million (euro 1,060 million at December 31, 2005) with an annual fixed-rate coupon of 4%, maturing January 15, 2010;
  - USD 1,250 million (euro 1,060 million at December 31, 2005) with an annual fixed-rate coupon of 4.95%, maturing September 30, 2014;
  - USD 1,000 million (euro 848 million at December 31, 2005) with an annual fixed-rate coupon of 6%, maturing September 30, 2034.

- issue of multi-tranche fixed-rate bonds on September 28, 2005 for USD 2,500 million. The issue is divided into three tranches as follows:
  - USD 700 million (euro 593 million at December 31, 2005) with 4.875% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2010;
  - USD 400 million (euro 339 million at December 31, 2005) with a quarterly coupon indexed to the 3-month USD Libor + 0.48%, maturing February 1, 2011;
  - USD 1,400 million (euro 1,187 million at December 31, 2005) with 5.25% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2015.

The following table shows the bonds issued to third parties, expressed at the nominal repayment amount and the market value, issued by companies in the Telecom Italia Group and divided by issuing company:

Currency	Amount (in millions)	Nominal amount repayable (in millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value (in millions of euro)
Bonds issued by Telecom Italia S.p.A.								
Euro	1,000	1,000	3-month Euribor + 0.33%	1/29/04	1/30/06 (°)	99.927	100.03	1,000
Euro	1,250	1,250	5.625%	2/1/02	2/1/07	99.841	102.685	1,284
Euro	110	110	3-month Euribor + 0.60%	4/8/04	3/30/09	100	101.869	112
Euro	750	750	4.500%	1/29/04	1/28/11	99.56	103.445	776
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	113.109	1,414
Euro	1,000	1,000	3-month Euribor + 0.53%	12/6/05	12/6/12	100	100.045	1,000
Euro	120	120	3-month Euribor + 0.66%	11/23/04	11/23/15	100	105.621	127
GBP	500	730	5.625%	6/29/05	12/29/15	99.878	102.188	746
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.07	106.539	1,332
GBP	850	1,240	6.375%	6/24/04	6/24/19	98.85	109.041	1,352
Euro	248	248	6-month Euribor (basis 365)	1/1/02	1/1/22	100	100	248
Euro	850	850	5.25%	3/17/05	3/17/55	99.667	95.584	812
Subtotal		**9,798**						**10,203**
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,045	1,045	3-month Euribor + 1.25%	5/29/02	1/3/06	99.456 (*)	100.046	1,045
Euro	2,513	2,513	6.375% (a)	4/20/01	4/20/06	99.937	101.044	2,539
Euro	500	500	3-month Euribor +1.3% (d)	12/14/04	12/14/06	100	100.045	500
Euro	1,720	1,720	6.500%	4/24/02	4/24/07	100.911 (*)	104.212	1,792
Euro	1,674	1,674	5.875%	1/24/03	1/24/08	99.937	105.106	1,759
Euro	1,500	1,500	5.15% (b)	2/9/99	2/9/09	99.633	104.675	1,570
Euro	2,250	2,250	6.575% (c)	7/30/99	7/30/09	98.649 (*)	109.650	2,467
Euro	2,000	2,000	7.25% (a)	4/20/01	4/20/11	99.214	116.137	2,323
Euro	1,000	1,000	7.25%	4/24/02	4/24/12	101.651 (*)	118.431	1,184
Euro	850	850	6.875%	1/24/03	1/24/13	99.332	117.792	1,001
JPY	20,000	144	3.550%	4/22/02	5/14/32	99.25	123.46	178
Euro	1,050	1,050	7.750%	1/24/03	1/24/33	109.646 (*)	135.863	1,427
CHF	88	56	5.625%	6/12/86	6/12/46	99.000	109.748	61
Subtotal		**16,302**						**17,846**
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	848	4.000%	10/29/03	11/15/08	99.953	96.982	822
USD	1,250	1,060	4.000%	10/6/04	1/15/10	99.732	95.461	1,012
USD	700	593	4.875%	9/28/05	10/1/10	99.898	98.32	583
USD	400	339	3-month US Libor + 0.48%	9/28/05	2/1/11	100	100.607	341
USD	2,000	1,694	5.250%	10/29/03	11/15/13	99.742	98.167	1,663
USD	1,250	1,060	4.950%	10/6/04	9/30/14	99.651	95.615	1,014
USD	1,400	1,187	5.25%	9/28/05	10/1/15	99.370	97.101	1,153
USD	1,000	848	6.375%	10/29/03	11/15/33	99.558	100.674	854
USD	1,000	848	6.000%	10/6/04	9/30/34	99.081	96.387	817
Subtotal		**8,477**						**8,259**
Total		**34,577**						**36,308**

Notes (a), (b), (c), (d): see the following paragraph "Mechanism describing how coupons change on step-up/step-down bonds".
(*) Weighted average issue price for bonds issued with more than one tranche.
(°) On December 21, 2005, the Board of Directors of Telecom Italia S.p.A. approved the early repayment of such bonds on January 30, 2006 (originally maturing on October 29, 2007).

Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating:

At December 31, 2005, the rating agencies had made no changes to the ratings assigned at the time of the announcement of the merger of Telecom Italian and Tim on December 7, 2004.

Standard & Poor's:	BBB+	stable outlook
Moody's:	Baa2	stable outlook
Fitch Ratings:	A-	negative outlook

a) Telecom Italia Finance S.A. bonds

"Euro Notes":	Euro 2,513 million, 6.375% interest, maturing April 2006
	Euro 2,000 million, 7.25% interest, maturing April 2011

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody's and S&P's, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.

Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the original coupons for these securities, respectively 6.125% and 7%, were increased by 0.25% due to a Baa2 rating assigned by Moody's in August 2003. In the case of the two securities, the increase was applied beginning from the coupon period which started in April 2004; accordingly, the coupon is equal to 6.375% for securities maturing in April 2006 and 7.25% for securities maturing in April 2011.

b) Telecom Italia Finance S.A. bonds: euro 1,500 million, 5.15% interest, maturing February 2009

These bonds carry protection for investors which would only be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).

At the beginning of every coupon period, this minimum rating will be checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.15%.

This current coupon can be further increased in relation to the level of the minimum rating:
- if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ratings higher than the minimum rating do not lead to increases in the current coupon.

Therefore, only future downgrades in the minimum rating could cause an increase in the current coupon; this coupon cannot be reduced because of upgrades in the rating.

c) Telecom Italia Finance S.A. Bonds: euro 2,250 million, 6.575% interest, maturing July 2009

These bonds carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).
At the beginning of every coupon period, this minimum rating will be checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:

- if, at the time the coupon is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;
- ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was introduced), the original coupon has been increased by 0.45% (reaching the current 6.575%).

Future upgrades/downgrades in the minimum rating could cause a reduction/increase in the coupon according to the mechanism described above.

d) Telecom Italia Finance S.A. bonds: euro 499,717,000 Floating Rate Extendable Notes (3-month Euribor + 1.3%), maturing December 2006

These bonds can be extended at the discretion of the investor. Each extension of the maturity date is for a another 21-month period with the final maturity date fixed at March 14, 2012.

In accordance with the terms and conditions of the euro 500 million extendable bonds, maturing March 14, 2005, bondholders in possession of bonds totaling euro 283,000 chose not to extend the maturity date. For those, instead, that decided to extend the maturity date, for bonds totaling euro 499,717,000, Telecom Italia Finance S.A. issued new bonds on December 14, 2004 denominated "Telecom Italia Finance S.A. euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006" with a new maturity date of December 14, 2006. These new bonds carry the same characteristics as the previous bonds but have a new ISIN Code and Common Code.

Convertible and exchangeable bonds amount to euro 2,519 million (euro 5,106 million at December 31, 2004) and decreased by euro 2,587 million. They are composed as follows:

(millions of euro)	12/31/2005	12/31/2004
Non-current portion	476	4,290
Current portion	2,043	816
Total carrying amount	2,519	5,106
Adjustment to fair value and measurement at amortized cost	123	833
Total nominal repayment amount	**2,642**	**5,939**

In terms of the nominal repayment amount, convertible and exchangeable bonds amount to euro 2,642 million. This is a decrease of euro 3,297 million compared to December 31, 2004 (euro 5,939 million) mainly on account of the requests for the conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium" (euro 2,225 million) and repurchases made by Telecom Italia Finance S.A. (euro 229 million) and the repayment, on November 3, 2005 of exchangeable bonds for euro 643.4 million (net of repurchases and inclusive of the repayment premium).

Bonds, expressed at the nominal repayment amount, refer to the following:

- bonds 2001-2010 issued by Telecom Italia S.p.A. convertible into Telecom Italia S.p.A. shares, with an annual fixed-rate coupon of 1.5% with a repayment premium equal

to 118.37825% of the nominal amount of the bonds, maturing in January 2010.
The remaining number of bonds outstanding at December 31, 2005 is equal to euro 506.7 million (at the nominal amount) corresponding to 238,935,476 Telecom Italia S.p.A. ordinary shares. These bonds thus result in a total debt of euro 599.8 million (inclusive of the repayment premium). The annual yield upon maturity is 3.5% and the conversion will be at a ratio of 0.471553 new Telecom Italia S.p.A. shares for each bond held;

- bonds issued in March 2001 by Telecom Italia Finance S.A. for euro 2,500 million, convertible into TIM or Seat Pagine Gialle shares, with the right of the issuer to settle the amount due in cash in the event of a request for conversion. The bonds have an annual fixed-rate coupon of 1% and a repayment premium of 117.69% of the issue price, maturing in March 2006. The bonds decreased by euro 536 million in September 2002 due to the purchase of own bonds by Telecom Italia Finance S.A. which were subsequently cancelled.
  The right to an early repayment at the end of third year (March 2004) was exercised by investors for an amount of euro 466,000.
  During 2005, Telecom Italia Finance S.A. repurchased its own bonds for euro 229 million (in April and May 2005 for euro 195 million, in July 2005 for euro 5 million, in October and December 2005 for euro 9 million and euro 20 million, respectively), therefore, after cancellation of the entire amount of bonds repurchased in December 22, 2005, the residual nominal debt at the end of 2005 is equal to euro 1,735 million (euro 2,042 million with the repayment premium).
  The spin-off transaction and the consequent disposal of the equity investment in the beneficiary company Nuova Seat Pagine Gialle in 2003, did not result in any changes in the terms of the bonds since their conditions allowed ample flexibility in the method of settlement.
  The bonds were convertible into 181,461,941 Tim shares at an exercise price of about euro 10.823 and, at June 30, 2005, after the conclusion of the merger between Telecom Italia and TIM, the bonds were convertible into either 313,929,158 Telecom Italia S.p.A. ordinary shares at an exercise price of about euro 6.256, or into Seat Pagine Gialle shares and TI Media shares. Following the TI Media capital increase against payment, the bonds are now convertible into 707,460,852 Seat Pagine Gialle shares and 125,746,257 TI Media shares at an exercise price of euro 2.357197842. The annual yield upon maturity is 4.25% and the conversion will be in a ratio of 159.838963073 Telecom Italia S.p.A. shares or 360.2080473 Seat Pagine Gialle shares and 64.024481 Telecom Italia Media shares for each euro 1,000 bond held.

A summary of convertible and exchangeable bonds held by third parties, expressed at the nominal repayment amount, issued by companies of the Telecom Italia Group and divided by issuing company is presented below:

Currency	**Nominal amount repayable** (millions of euro)	**Coupon**	**Convertible/ exchangeable into shares of**	**Issue date**	**Maturity date**	**Issue price** (%)	**Market price** (%)	**Market value** (millions of euro)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	600	1.50%	TI S.p.A.	11/23/01	1/1/10	100	124.948	633
Exchangeable bonds issued by Telecom Italia Finance S.A. guaranteed by Telecom Italia S.p.A.								
Euro	2,042	1.00%	TI S.p.A./TI Media / Seat Pagine Gialle	3/15/01	3/15/06	100	117.205	2,033
Total	**2,642**							**2,666**

Financial covenants / other covenants / other features of convertible bonds

The securities summarized here do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group.
For example, there are no clauses that would cause the redemption of the bonds if the ratings are downgraded to below stated thresholds.
The guarantees provided by Telecom Italia S.p.A. on bonds issued by its foreign subsidiaries are all full and unconditional.
None of the transactions summarized here carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets.
The bonds issued by Telecom Italia Capital S.A. in October 2003, guaranteed by Telecom Italia, for an amount of USD 4,000 million, were covered by a covenant that required Telecom Italia Capital S.A. and Telecom Italia to effect a SEC-registered exchange offer in order to allow investors to exchange the originally purchased bonds with listed and freely traded bonds without restrictions. The offer was executed on October 14, 2004, in fulfillment of the covenant.
Moreover, the new bonds issued by Telecom Italia Capital S.A. in October 2004, guaranteed by Telecom Italia S.p.A., for an amount of USD 3,500 million, carried a similar covenant which requires Telecom Italia Capital S.A. and Telecom Italia S.p.A. to effect a SEC-registered exchange offer. The offer was executed on October 13, 2005, in fulfillment of the covenant.

Medium/long-term **amounts due to banks** of euro 9,462 million (euro 891 million at December 31, 2004) increased by euro 8,571 million mainly as a result of the cash tender offer for TIM shares. In fact, on January 28, 2005, in connection with the payment of the offer price of the tender offer, in addition to euro 2,504 million paid from cash resources, euro 11,300 million was drawn from the loan made available by a syndicate of banks on December 8, 2004. On February 11, 2005, the first tranche of the loan was repaid in advance for euro 2,300 million from the cash resources of Telecom Italia and, consequently, cancelled. After that repayment, the outstanding loan totals a nominal amount of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months (Tranche B) and euro 3,000 million due in 60 months (Tranche C). On August 1, 2005, Tranche B of this loan, maturing in January 2008, was replaced by a new revolving loan for the same amount with maturity extended to 2012, at better conditions. Tranche C, maturing in January 2010, instead, was changed only with respect to the margin which was lowered so that it would reflect the new better conditions offered by the market for syndicated loans. Subsequently, on October 20, 2005, euro 1.5 billion of the revolving loan for euro 6 billion, maturing in 2012, was repaid so that it was reduced to euro 4.5 billion.
Short-term amounts due to banks of euro 646 million decreased by euro 100 million (euro 746 million at December 31, 2004).

Hedging derivatives relating to hedged items classified in non-current current assets/ liabilities of a financial nature amount to euro 730 million (euro 1,256 million at December 31, 2004), whereas derivatives relating to hedged items classified in current assets/liabilities amount to euro 185 million with an increase of euro 102 million compared to December 31, 2004 (euro 83 million). Additional details are provided in the Note "Financial instruments".

Medium/long-term **other financial liabilities** amount to euro 303 million (euro 365 million at December 31, 2004) and decreased by euro 62 million; they mainly include euro 162 million of the Telecom Italia Finance S.A. loan for JPY 20,000 million maturing 2029, euro 42 million of payables to the Cassa Depositi e Prestiti and euro 64 million of payables to the Ministry of Industry. Short-term other financial liabilities amount to euro 453 million with a reduction of euro 899 million compared to December 31, 2004 (euro 1,352 million); they mainly include euro 60 million of payables to the Cassa Depositi e Prestiti, euro 110 million of payables for factoring transactions and euro 211 million of payables to TI Securitization Vehicle.

Medium-long term **finance lease liabilities** totaling euro 1,894 million (euro 1,860 million at December 31, 2004) increased by euro 34 million and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 234 million with an increase of 7 million compared to December 31, 2004 (euro 227 million).

Short-term **non-hedging derivatives** totaling euro 64 million (euro 113 million at December 31, 2004) decreased by euro 49 million and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

At December 31, 2005, the unused credit lines of the Telecom Italia Group amount to euro 8,227 million (euro 20,880 million at December 31, 2004) and include unused committed credit lines for euro 5 billion and euro 1.5 billion expiring, respectively, in March 2007 and August 2012. Approximately 97% of the credit lines is denominated in euro and linked to a floating interest rate.

In the following tables, the debt positions of the "discontinued operations" are shown separately.

Gross financial debt according to the original currency of the transaction, showing the major foreing currencies and the corresponding equivalent amount in euro, is as follows:

	12/31/2005 (millions of foreign currency)	**12/31/2005** (millions of euro)
USD	10,351	8,774
GBP	1,365	1,991
BRL	1,898	687
JPY	19,888	143
CHF	90	58
EURO	–	40,305
		51,958
Discontinued operations/assets held for sale		143
		52,101

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is as follows:

(millions of euro)	**12/31/2005**
Up to a 2.5%	9,328
From 2.5% to 5%	9,055
From 5% to 7.5%	25,218
From 7.5% to 10%	5,752
Over 10%	496
Accruals/deferrals, MTM and derivatives	2,109
	51,958
Discontinued operations/assets held for sale	143
	52,101

However, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euro)	**12/31/2005**
Up to a 2.5%	8,270
From 2.5% to 5%	18,883
From 5% to 7.5%	19,432
From 7.5% to 10%	2,766
Over 10%	498
Accruals, prepaid expenses, deferred income, MTM and derivatives	2,109
	51,958
Discontinued operations/assets held for sale	143
	52,101

Gross financial debt by maturity date (divided between medium/long-term and short-term) at December 31, 2005 is as follows:

	Medium/long-term debt	**Short-term debt**	**Total**
2006 (*)	8,979	833	9,812
2007	3,734		3,734
2008	3,227		3,227
2009	4,309		4,309
2010	5,286		5,286
Beyond 2010	25,590		25,590
	51,125	833	51,958
Discontinued operations/assets held for sale	124	19	143
	51,249	**852**	**52,101**

(*) Current portion of medium/long-term debt.

Note 18 - Employee severance indemnities and other employee-related reserves

Employee severance indemnities and other employee-related reserves increased from euro 1,292 million at December 31, 2004 to euro 1,494 million. Details are as follows:

(millions of euro)		12/31/2004	Discontinued Operations	Increase	Decrease	Exchange differences	12/31/2005
Reserve for employee severance indemnities	(A)	1,181	(4)	168	(111)		1,234
Reserves for pension plans		40	(10)	6	(3)	1	34
Reserve for voluntary termination incentives		71		234	(79)		226
Other employee-related reserves	(B)	111	(10)	240	(82)	1	260
Total	(A+B)	**1,292**	**(14)**	**408**	**(193)**	**1**	**1,494**
Of which:							
Non-current portion		1,222					1,351
Current portion		70					143

Employee severance indemnities refer only to Italian Group companies. The reserve increased by euro 53 million mainly as a result of the charge to the statement of operations (euro 168 million), utilizations for indemnities paid to employees who terminated employment, advances and pension funds (euro 106 million) and other negative changes (euro 9 million).

In accordance with IAS 19 "Employee Benefits", the "Projected Unit Credit" method was used to measure employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of the future benefits include increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date;
- the *average present value of future benefits* has been calculated, at the measurement date, on the basis of the annual interest rate and on the probability that the benefit must be paid;
- the liability of the company has been determined as the average present value of future benefits for service matured by the employee at the measurement date.

The following assumptions were made:

Financial assumptions	Executives	Non-executives
Cost-of-living increases	2.0% per year	2.0% per year
Discount rate	4.0% per year	4.0% per year
Increase in remuneration (in relation to the company):		
– age equal to or less than 40 years	3.0% - 3.5% per year	3.0% - 3.25% per year
– age over 40 years but equal to or less than 55 years	2.5% - 3.0% per year	2.5% - 2.75% per year
– over 55 years of age	2.0% - 2.5% per year	2.0% - 2.25% per year

Demographic assumptions	Executives	Non-executives
Probability of death	Mortality tables RG 48 published by the Government Accounts Department	Mortality tables RG 48 published by the Government Accounts Department
Probability of disability	Tables (for both men and women) published by C.N.R. reduced by 80%	Tables (for both men and women) published by C.N.R. reduced by 80%
Probability of resignation (in relation to the company):		
– up to 40 years	3.0% - 5.0% per year	3.0% - 5.0% per year
– up to 50 years	1.5% - 3.5% per year	1.5% - 3.5% per year
– over 50 years	none	none
Probability of retirement:		
– 35 years of service (at the age of 57)	35%	60%
– over 35 years of service (at the age of 65)	15%	10%
– at 65 years of age	100%	100%

The adoption of the above assumptions resulted in a liability for employee service indemnities at December 31, 2004 and 2005 of euro 1,181 million and euro 1,234 million, respectively.

The effect on the statement of operations is as follows:

(millions of euro)	2005	2004
Current service cost	134	127
Interest expenses	45	57
Net actuarial (gains) losses recognized during the year	(11)	
Total expense	**168**	**184**
Effective return on plan assets	n/a	n/a

Reserves for pension plans principally refer to pension plans operating in foreign companies of the Group.

Reserve for voluntary termination incentives includes provisions made both for agreements regarding mobility pursuant to Law 223/91, agreed in December 2005 with the labor unions, and the plan for the voluntary termination of managers for the cases currently pending.
The increase is shown net of the positive effect of discounting to present value equal to approximately euro 6 million.

Note 19 - Reserves for future risks and charges

Reserves for future risks and charges decreased from euro 2,171 million at December 31, 2004 to euro 1,569 million at December 31, 2005. The composition and changes are as follows:

(millions of euro)	12/31/2004	Discontinued Operations	Increase	Decrease	Exchange difference	12/31/2005
Reserve for taxation and tax risks	253	(19)	27	(43)	8	226
Reserve for restoration costs	375	(16)	70	(15)	29	443
Reserve for legal disputes	152	(14)	50	(48)	8	148
Reserve for commercial risks	103		33	(14)		122
Reserves for future risks and charges on equity investments and corporate-related transactions	916		52	(544)	5	429
Other reserves for future risks and charges	372		18	(190)	1	201
Total	**2,171**	**(49)**	**250**	**(854)**	**51**	**1,569**
Of which:						
Non-current portion	815					797
Current portion	1,356					772

Reserve for restoration costs refers to the provision for the estimated cost to decommission tangible assets and restore the sites. Compared to December 31, 2004, the reserve increased mainly as a result of a higher number of sites leased and the change in the discount rates and for the charge in the statement of operations of the cumulative effect of discounting to present value in the amount of euro 14 million.
The reserve refers to Telecom Italia (euro 129 million), Tim Italia (euro 180 million) and foreign mobile telephone companies (euro 134 million).

Reserves for future risks and charges on equity investments and corporate-related transactions decreased by euro 487 million. The change mainly refers to euro 423 million for the release of reserves recorded for sureties provided to the banks which had financed Avea I.H.A.S., due to the cancellation of the guarantees in part, and to euro 96 million for the release of reserves previously recorded for the dispute with the minority shareholders of Med S.A., Med Ltd and Med1, settled in July 2005. At December 31, 2005, the residual reserve set aside for Avea I.H.A.S. is equal to euro 121 million.

Other reserves for future risks and charges include euro 115 million for the fine levied against Telecom Italia by the Antitrust Authorities for the alleged abuse of a dominant position in the market. This reserve, recorded in 2004 for euro 152 million, was reduced by euro 37 million after the sentence handed down by the Council of State on February 10, 2006.

Note 20 - Miscellaneous payables and other non-current liabilities

Miscellaneous payables and other non-current liabilities decreased from euro 2,199 million at December 31, 2004 to euro 2,113 million and consist of the following:

(millions of euro)	12/31/2005	12/31/2004
Amounts due to social security authorities	881	1,035
Capital grants	170	206
Medium/long-term deferred income	1,056	944
Other payables and liabilities	6	14
Total	**2,113**	**2,199**

Amounts due to social security authorities refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law No. 58/1992. Details are as follows:

(millions of euro)	12/31/2005	12/31/2004
Non-current payables		
Due from 2 to 5 years after the balance sheet date	753	935
Due beyond 5 years after the balance sheet date	128	100
	881	1,035
Current payables	213	217
Total	**1,094**	**1,252**

Medium/long-term deferred income includes euro 759 million for the deferral of revenues on the activation of Telecom Italia telephone service and euro 265 million for revenues from the sale of transmission capacity referring in future years.

Note 21 - Trade payables, current tax payables, miscellaneous payables and other current liabilities

Trade payables, current tax payables, miscellaneous payables and other current liabilities decreased from euro 12,733 million at December 31, 2004 to euro 12,384 million and consist of the following:

(millions of euro)	12/31/2005	12/31/2004
Trade payables:		
· Amounts due to suppliers	6,230	6,227
· Amounts due to other telecommunication operators	606	643
	6,836	6,870
Tax payables	829	512
Miscellaneous payables and other current liabilities:		
· Amounts due for employee remuneration	712	760
· Amounts due to social security authorities	375	372
· Short-term trade and miscellaneous deferred income	821	810
· Advances received	64	45
· Customer-related items	1,465	1,579
· Amounts due for the "TLC operating fee"	39	29
· Dividends approved, but yet to be paid to shareholders	22	25
· Other current liabilities	306	305
· Employee-related reserves (except for Employee severance indemnities) expected to be settled within 12 months	143	70
· Other reserves for future risks and charges, expected to be settled within 12 months	772	1,356
	4,719	5,351
	5,548	5,863
Total	**12,384**	**12,733**

Trade payables (all due within 12 months) refer to Telecom Italia S.p.A. (euro 2,185 million), Tim ItaliaS.p.A. (euro 2,354 million) and other foreign mobile telephone companies (euro 1,242 million).

Tax payables, which include current tax payables of euro 227 million (euro 48 million at December 31, 2004) and other tax payables of euro 602 million (euro 464 million at December 31, 2004), increased by euro 317 million mainly due to higher VAT payables, to Irap payables and to the substitute tax due to the adjustment of the tax and accounting bases as allowed under Law 266/2005, mainly referring to Tim Italia.

Amounts due to social security authorities include the short-term portion of the amount payable to INPS under Law 58 for euro 213 million (euro 217 million at December 31, 2004) as described in the Note "Miscellaneous payables and other non-current liabilities".

Deferred income includes euro 282 million (euro 351 million at December 31, 2004) for the deferral of revenues from the activation of Telecom Italia telephone service (current portion) and euro 38 million (euro 55 million at December 31, 2004) for the deferral of revenues from recharging Tim Italia prepaid telephone cards.

Note 22 - Financial instruments

Fair value

The majority of non-current financial liabilities of the Telecom Italia Group is composed of bonds and their measurement at fair value can be easily determined using financial instruments which because of their size and diffusion among investors are commonly exchanged on the markets (see the Note "Financial liabilities current and non-current"). Instead, for other types of loans, the following assumptions were made in order to determine fair value:

- for floating-rate loans, the nominal repayment amount was used;
- fixed-rate loans were measured at fair value (present value of future flows using December 31, 2005 market rates).

Finally, the carrying value of most of the financial assets reasonably approximates their fair value as they are highly liquid short-term financial investments.

Fair values (including interest accruals) of financial liabilities and assets at December 31, 2005 are set below:

FINANCIAL LIABILITIES

	December 31, 2005	
(millions of euro)	Carrying amount (IFRS)	Fair value (accruals included)
Bonds	35,462	37,427
Convertible and exchangeable bonds	2,519	2,680
Term Loan	7,535	7,574
Loans and other payables, liabilities for leases	6,442	6,509
	51,958	54,190
Discontinued operations/assets held for sale	143	143
Total gross financial debt	**52,101**	**54,333**

FINANCIAL ASSETS

	December 31, 2005	
(millions of euro)	Carrying amount (IFRS)	Fair value (accruals included)
Deposits and cash	9,958	9,958
Euro Commercial Paper	327	327
Deposits for temporary investments maturing beyond three months	90	90
Securities	390	390
Other receivables	1,441	1,441
	12,206	12,206
Discontinued operations/assets held for sale	37	37
Total financial assets	**12,243**	**12,243**

Derivative instruments

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to foreign exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2005 are principally used by the Group to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds and cross currency and interest rate swaps (CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRSs and IROs involve or can involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates, with the counterparts.
The same also applies to CCIRSs which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and at another date.

The following tables show the derivative transactions put into place by the Telecom Italia Group at December 31, 2005 divided between Fair Value Hedge instruments (Table 1), Cash Flow Hedge instruments (Table 2) and Non-Hedge Accounting instruments (Table 3) under IAS 39:

Table 1 - FAIR VALUE HEDGE INSTRUMENTS

Description	Notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (equivalent amount of euro 153 million at December 31, 2005)	150	2
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. bonds of GBP 850 million (equivalent amount of euro 1,240 million at December 31, 2005) issued in June 2004	1,289	(31)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2008 on the USD 1,000 million (equivalent amount of euro 848 million at December 31, 2005) five-year tranche of the Telecom Italia Capital S.A. bonds for a total of USD 4,000 million issued in October 2003	850	(32)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on bonds of JPY 20 billion (equivalent amount of euro 144 million at December 31, 2005) carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(65)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued in October 2004 for a total amount of USD 3,500 million (equivalent amount of euro 2,968 Million at December 31, 2005) by Telecom Italia Capital S.A. (five-year tranche for USD 1,250 million, ten-year tranche for USD 1,250 million and thirty-year tranche for USD 1,000 million)	2,831	45
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued in September 2005 for a total amount of USD 2,500 million (equivalent amount of euro 2,119 million at December 31, 2005) by Telecom Italia Capital S.A. (five-year tranche for USD 700 million, 5.33-year tranche for USD 400 million and ten-year tranche for USD 1,400 million)	2,068	19
Total fair value hedge instruments	**7,359**	**(62)**

- On the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. entered into a CCIRS contract for euro 150 million converting a 3-month Libor in USD to the 3-month Euribor.

- On the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.

- On the tranche maturing in November 2008 for USD 1,000 million (euro 850 million) relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the fixed rate coupon of 4% in USD to the 3-month Euribor.

- For euro 171 million, on the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V., the following transactions were put in place:
  - by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY;
  - by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.
- On the bonds of USD 3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,831 million converting the fixed rate coupon in USD to 6-month Euribor.
- On the bonds of USD 2,500 million issued by Telecom Italia Capital S.A. in September 2005, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,068 million converting the fixed rate coupon in USD to 6-month Euribor.

Table 2 - CASH FLOW HEDGE INSTRUMENTS

Description	Notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
IRS transactions put into place by Telecom Italia Finance S.A. maturing January 2006 on bonds of an original notional principal of euro 1,100 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V.S.A. (2002-2006)	1,045	–
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million carried by Telecom Italia S.p.A. (2004-2009)	110	1
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the five-year tranche C relating to the Term Loan of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A.	3,000	12
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2013 on the ten-year tranche of USD 2,000 million (equivalent amount of euro 1,694 million at December 31, 2005) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(168)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million carried by Telecom Italia S.p.A. (2004-2015)	120	–
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 730 million at December 31, 2005) issued by Telecom Italia S.p.A. in June 2005	751	(7)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 144 million at December 31, 2005) originally received from Olivetti International Finance N.V. and now carried by Telecom Italia Finance S.A.	174	(70)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the thirty-year tranche of USD 1,000 million (equivalent amount of euro 848 million at December 31, 2005) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(160)
Total cash flow hedge instruments	**7,758**	**(392)**

- On the bonds 2002-2006 of euro 1,100 million at the quarterly floating rate issued by Telecom Italia Finance S.A. maturing January 2006, Telecom Italia Finance S.A. put in place:
  - IRS contracts for euro 855 million in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a 2.68% fixed rate;
  - an IRS contract for euro 190 million in which Telecom Italia Finance S.A. receives a quarterly floating rate +1.25% and pays a 3.83% fixed rate.
- On the bonds 2004-2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put in place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%.
- In reference to the term loan for a total amount of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put in place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.

- On the tranche maturing in November 2013 for USD 2,000 million (euro 1,709 million) relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the coupon rate of 5.25% in USD to a fixed rate of 5.035% in euro.

- On the bonds 2004-2015 of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put in place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.

- On the bonds 2005-2015 of GBP 500 million (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro.

- For euro 174 million, with reference to the "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of + 0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., now carried by Telecom Italia Finance S.A., equivalent to euro 144 million at December 31, 2005, the following was put in place:
  - by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in USD to the 6-month Libor in JPY.
  - by Telecom Italia S.p.A., a CCIRS contract in which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor.
  - by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in euro to a 6.94% fixed rate up to maturity.

- On the tranche of USD 1,000 million (euro 849 million) maturing in November 2033 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the fixed rate of 6.375% in USD to the fixed rate of 6% in euro.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge instruments and Cash Flows Hedge instruments is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the hedging instrument and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be less than the risk of the item hedged:

VRR = 1 - (portfolio risk / risk of the hedged item)

The better the hedging ratio, the more VRR tends to the value 1. To establish if a hedge is effective, this ratio must be higher than the threshold over which the test identifies the hedging as "highly effective" as required by IFRS.

Table 3 - NON-HEDGE ACCOUNTING INSTRUMENTS

Description	Notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
Floating to floating IRS transactions put into place by Telecom Italia S.p.A.	41	–
IRS transactions put into place by Telecom Italia Finance S.A. maturing January 2006 on bonds with an original notional principal of euro 1,100 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V.S.A. (2002-2006)	55	–
IRS transactions put into place by Telecom Italia Finance S.A. maturing February 2009 on bonds of euro 1,500 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V. (1999-2009)	500	(6)
IRS transactions put into place by Telecom Italia Finance S.A. maturing July 2009 on bonds of euro 2,350 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International Finance N.V. (1999-2009)	850	(7)
IRS transactions put into place by Telecom Italia Finance S.A. maturing April 2011 on bonds of euro 2,000 million carried by Telecom Italia Finance S.A., originally issued by Sogerim S.A. (2001-2011)	350	6
IRS and CCIRS contracts put into place by Telecom Italia Finance S.A. on financial assets	186	(7)
Forward foreign exchange contracts put into place by Group companies	517	(5)
Total non-hedge accounting instruments	**2,499**	**(19)**

- The floating to floating IRS transactions put in place by Telecom Italia S.p.A. for a notional amount of euro 41 million refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor.

- On bonds 2002-2006 with an original notional amount of euro 1,100 million at a quarterly floating rate, issued by Telecom Italia Finance S.A., maturing January 2006, Telecom Italia Finance S.A. put in place:
  - IRS contracts for euro 45 million in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a fixed rate of 2.68%;
  - an IRS contract for euro 10 million in which Telecom Italia Finance S.A. receives a quarterly floating rate + 1.25% and pays a fixed rate of 3.83%.

- On the bonds 1999-2009 of euro 1,500 million at a 5.15% fixed rate maturing February 2009, carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., Telecom Italia Finance S.A. put in place an IRS contract for euro 500 million in which Telecom Italia Finance S.A. receives a 6-month Euribor and pays a fixed rate of 4.06%. Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro.

- On the bonds 1999-2009 with an original notional amount of euro 2,350 million at an annual 6.125% fixed rate with a step-up of + 0.45%, carried by Telecom Italia Finance S.A. (originally issued by Olivetti International Finance N.V.), maturing July 2009, Telecom Italia Finance S.A. put in place, with the same maturity dates, the following IRS transactions totaling euro 850 million:
  - an IRS contract for euro 500 million in which Telecom Italia Finance S.A. receives a semiannual floating rate in euro and pays a semiannual floating rate in euro set in arrears with the following additional transactions:
    a) purchase of a cap at 4.50%;
    b) sale of a cap at 5.50%.
    Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro.
  - sale of a floor for a notional amount of euro 350 million at the 6-month Libor in USD with interest in arrears decreasing from 3.80% to 3.15%.

- On the bonds 2001-2011 of euro 2,000 million issued by Telecom Italia Finance S.A. maturing April 2011, Telecom Italia Finance S.A. put in place IRS contracts for euro 350 million converting the annual fixed rate of 7% to a quarterly rate in SEK and with the additional following transactions:
  a) purchase of a cap at a 3.65% annual rate;
  b) sale of a floor with the annual exercise rate increasing from 1.75% to 3.20%.

- Derivative financial instruments on financial assets for a total amount of euro 186 million were put in place by Telecom Italia Finance S.A. by IRS contracts for euro 125 million converting a fixed rate of 6.035% to a floating rate in euro and CCIRS contracts for euro 61 million converting the 6-month Libor in USD to the 6-month Euribor.

- Interest rate and foreign exchange transactions for a total amount of euro 517 million are composed of:
  - foreign exchange transactions carried by Telecom Italia S.p.A. for euro 40 million;
  - foreign exchange transactions carried by Telecom Italia Finance S.A. for euro 350 million;
  - foreign exchange transactions carried by Telecom Italia Capital S.A. for euro 1 million;
  - foreign exchange transactions carried by Olivetti S.p.A. for euro 12 million;
  - foreign exchange transactions carried by TIM S.p.A. for euro 10 million;
  - foreign exchange transactions carried by TI Sparkle S.p.A. for euro 15 million;
  - interest rate and foreign exchange transactions carried by Maxitel S.A. for euro 50 million;
  - foreign exchange transactions carried by TIM Celular S.A. for euro 1 million;
  - interest rate and foreign exchange transactions carried by TIM Partecipacoes S.A. for euro 38 million.

The following table shows the derivative financial instruments of the Telecom Italia Group by type:

Type	Hedged risk	Notional amount in millions of euro	Mark to Market Spot (Clean Price) at December 31, 2005 in millions of euro	Mark to Market Spot (Clean Price) at December 31, 2004 in millions of euro
Interest Rate Swaps	Interest rate risk	–	–	52
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	7,359	(62)	(605)
Total Fair Value Hedge Instruments		**7,359**	**(62)**	**(553)**
Interest Rate Swaps	Interest rate risk	4,275	13	(6)
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	3,483	(405)	(660)
Total Cash Flow Hedge Instruments		**7,758**	**(392)**	**(666)**
Total Non-Hedge Accounting Instruments		**2,499**	**(19)**	**5(*)**
Total Telecom Italia Group Instruments		**17,616**	**(473)**	**(1,214)**

(*) Based on the same scope of consolidation the amount would have been euro 32 million.

The following table shows, for Cash Flow Hedge Instruments, the amount recognized in the Reserve for fair value adjustments of hedging instruments during 2005 and the portion reversed from the reserve to the statement of operations as an exchange adjustment, before the relative tax effect:

Description	Reserve for fair value adjustments of Cash Flow Hedge instruments at 12/31/2005 (in millions of euro)	Reserve for fair value adjustments of Cash Flow Hedge instruments at 12/31/2004 (in millions of euro)	Mark-to-Market change recognized in the Reserve for fair value adjustments of hedging instruments (in millions of euro)	Amount reversed from the Reserve for fair value adjustments of hedging instruments to the statement of operations as an exchange adjustment (in millions of euro)	Impact of cash flow hedge instruments in 2005 on the Reserve for fair value adjustments of hedging instruments (in millions of euro)
Cash Flow Hedge Instruments	(311)	(265)	274	(320)	(46)

Note 23 - Assets pledged as collateral for financial liabilities

- 2,923,168 Digitel Venezuela shares, owned by Tim International, as well as tangible and intangible assets of the subsidiary Digitel Venezuela are pledged as collateral for the loan granted in 2002 by a syndicate of banks in the form of Project Financing, for an amount of euro 122 million at December 31, 2005.

- The contracts for easy-term loans granted by the Brazilian development bank BNDES (Banco Nacional de Desevolvimento Economico e Social) to certain operating companies of the Tim Brasil group (Maxitel, Tim Celular and Tim Sul) for a total amount of euro 326 million are guaranteed by a part of the receipts of those companies which pass through bank accounts that are pledged in favor of BNDES. The bank will have access to such receipts only in the case of default by the company, otherwise the funds will be automatically transferred to accounts on which the company has full access.

Note 24 - Commitments and contingent liabilities

a) Disputes pending

The main legal and arbitration proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2005 are described below.
Except where explicitly mentioned, provisions have not been made, either for want of definite and objective grounds for doing so or because a negative outcome of the dispute is considered unlikely.

Tele2

Tele2 brought an action before the Milan Court of Appeal in June 2005 against Telecom Italia for alleged abuse of dominant position in the markets for fixed voice telephony access and services, related to Telecom Italia's "Hello gratis" offer to all users, including customers of other operators, featuring 90 minutes of calling time completely free of charge (up to 60 minutes of local calls and 30 minutes of long-distance calls every two months).
Tele2 claimed damages of more than euro 100 million, asserting that the indiscriminate application of the traffic bonus had the effect of taking traffic away from competitors, as customers were induced to make use of the bonus regardless of their possible contracts with other operators. In addition, the offer supposedly prevents comparative advertising by not allowing a direct, homogeneous comparison of telephone charges per minute.

* * *

On October 10, 2005 Telecom Italia filed an appeal from the order issued on September 28, 2005 by the Milan Court of Appeal granting Tele2's request for a preliminary injunction restraining Telecom Italia from continuing to impose "offers, in the supply of the metred wholesale ADSL service, with obligatory payment of at least 5 hours of traffic per month included in the monthly subscription fee of euro 6.30 plus VAT". Disregarding the fact that Telecom Italia's offers had been submitted to the Communications Authority in advance, the court found that the contractual conditions did not allow Tele2 to participate in the market for ADSL broadband services on an equal competitive footing.

On December 22, 2005 the court upheld Telecom Italia's appeal and revoked its September 2005 order enjoining Telecom Italia from continuing the E@asy.IP metred ADSL offer inclusive of a guaranteed minimum of 5 hours of traffic.

Meanwhile, on October 28, 2005 Tele2 had initiated proceedings on the merits of the case, claiming damages of more than euro 15 million for additional costs incurred, loss of revenue and customers and injury to its business image and reputation.

* * *

In July 2005 Tele2 notified Telecom Italia that it had filed another urgent petition to ascertain an alleged abuse of dominant position in the market for ADSL broadband data access, with reference to the "ADSL wholesale flat-rate single access" contract between the parties. The illegitimate conduct of Telecom Italia allegedly consisted in activating the service for Tele2 customers who had not requested it, in order to prevent Tele2 from providing its own ADSL services, and in delaying the deactivation of these unduly provided services.

In November 2005 the Milan Court of Appeal, partially granting the petition, ordered Telecom Italia to activate the ADSL services of Tele2 customers within the contractual time limit of 42 days from the date of Tele2's requests, apart form the cases where customers were in fact already being provided such services or had renounced them.

Telecom Italia has decided not to oppose the preliminary order, which basically calls for fulfilling the contract between the parties and therefore is unlikely to imply particular adverse effects.

On December 12, 2005 Tele2 notified Telecom Italia to appear before the Milan Court of Appeal for the proceeding on the merits of the case.

* * *

On November 22, 2005 the Milan Court of Appeal issued an order dismissing Tele2's urgent petition for a preliminary injunction restraining Telecom Italia from continuing the "Alice Free" offer of retail metred ADSL, which Telecom Italia had recently promoted on its website and which gave new customers subscribing to the offer by November 30, 2005 the possibility to navigate free of charge until December 31, 2005 without having to pay either the one-time-only fee or the activation fee.

Tele2 had asserted that the economic terms of the offer constituted an abuse of dominant position by Telecom Italia in the domestic market for broadband data access services and, in particular, a violation of the principle of equal treatment inasmuch as the retail offer had not been preceded by an adjustment of the corresponding wholesale offers that would have permitted the other OLOs to replicate these terms with their own customers.
In this regard, the Court of Appeal determined, *inter alia*, that price competition was normal at the level of retail offers and thus constituted permissible conduct, on a general basis, for the dominant operator to engage in with a view to protecting its own business interests.

In December 2005 Tele2 appealed the decision of the Milan Court of Appeal.

* * *

Telecom Italia has brought an action before the Milan Court against Tele2 and its Swedish parent company Tele2 AB for acts of unfair competition in connection with the comparative advertising campaigns run by Tele2, requesting that the two companies be held jointly and severally liable for the payment of at least euro 200 million in damages.

Tele2 has filed a counterclaim asserting that Telecom Italia's conduct, and specifically the application of the traffic bonus in the "Hello gratis" offer, constitutes a tort. Basically, Tele2 has put forward the same arguments as in the action brought before the Milan Court of Appeal challenging the legitimacy of the "Hello gratis" offer, reported above, and has claimed the same damages as in the pending case (more than euro 100 million).

Eutelia

In September 2005 Eutelia, a telecommunications operator, notified Telecom Italia that it had filed an urgent petition with the Milan Court of Appeal regarding allegedly abusive conduct in the market for broadband data access services.

The alleged abuse consists in the activation of ADSL service for customers who had not requested it, with a view to preventing Eutelia from providing its own ADSL services, and in delayed deactivation of these unduly provided services.

In addition, Eutelia objects that Telecom Italia, in violation of the regulations in force, makes activation of ADSL services contingent on the customer being a subscriber to the Company's telephony service and terminates the ADSL links of customers who decide to withdraw from the basic telephony contract.

With an order issued on November 3 the Milan Court of Appeal partially granted Eutelia's petition, temporarily enjoining Telecom Italia from deactivating the retail ADSL service for Eutelia customers who withdraw from the telephony contract signed with Telecom Italia.

Telecom Italia decided not to oppose the preliminary injunction.

In December 2005 Eutelia initiated the proceeding on the merits of the case before the Milan Court of Appeal, claiming damages of around euro 40 million.

Vodafone

On November 2, 2005 Vodafone made an extra-judicial request for the restitution of more than euro 16 million in alleged overpayments to Telecom Italia for interconnection services supplied between January 1 and July 24, 1998. The question originated from the petition with which Omnitel (now Vodafone) challenged the part of Communications Authority Resolution 1/CIR/98 (Approval of Telecom Italia's Reference Interconnection Offer) establishing that, pursuant to a ministerial decree issued on April 23, 1998, the new economic conditions for interconnections would become effective for the existing GSM licence-holders (Tim and Omnitel) from July 25, 1998 (the date Telecom Italia's Reference Offer was submitted) rather than retroactively from 1 January, as envisaged for the fixed-network operators.

The State Council annulled the Communication Authority's measure, reinstating the administrative court's ruling on the matter.

Telecom Italia has appealed the State Council's decision to the Court of Appeals on the grounds that the State Council (i) substituted its own evaluation for that of the Ministry by laying down a retroactive rule that neither the Ministry nor the Authority would have been able to adopt; and (ii) rendered ineffective Article 15 of the above-mentioned ministerial decree of April 23, 1998, which Vodafone had not challenged in its original petition.

Il numero Italia

In August 2005 Il Numero Italia Srl and its subsidiary Directory Assistance Company Srl filed an urgent petition with the Milan Court against Telecom Italia, alleging illicit conduct for non-compliance with the regulations on subscriber directory information services. The Court granted the petition, ordering Telecom Italia to cease making all references via the Company's "12" and "412" information services (terminated on 1 October and December 1, 2005, respectively) to the new numbering of subscriber information services, and rejected Telecom Italia's subsequent appeal against this order.

In September 2005 Il Numero Italia and Directory Assistance brought an action (subsequent to the preliminary order), claiming damages of euro 14.4 million for actual economic and reputational losses and of euro 60 million per year ("to be multiplied by a suitable number of years, determined using the methods commonly applied in business economics to calculate the discounted value of economic activities in the sector of subscriber information services") for losses of anticipated profits.

* * *

A preliminary injunction issued ex parte on December 2, 2005 by the Milan Court on an urgent petition filed by Il Numero Srl and its subsidiary Directory Assistance Company Srl, ordered Telecom Italia immediately to cease making any direct or indirect reference, in whatsoever form or manner, through its "412" subscriber information service to its own numbers, including "1254".

The above-mentioned petition followed a series of similar actions brought by Numero Italia against Telecom Italia, in which the plaintiff alleges that Telecom Italia has engaged in unfair practices and abuse of its dominant position such as to prevent access on equal terms to the market for subscriber information services, in violation of the regulations in force.

Although Telecom Italia had meanwhile taken every necessary operational step to comply with the regulatory prescriptions, on December 12, 2005 Il Numero Italia and its subsidiary petitioned the Milan Court to adopt every appropriate measure to ensure effective compliance by Telecom Italian with the above-mentioned order of December 2.

With an order issued on December 22, 2005 the Milan Court confirmed its ex parte decree of December 2, 2005, again ordering Telecom Italia immediately to cease making any direct or indirect reference to any of its subscriber directory information numbers by means of the "412" access service or rerouting from that service to another of its operating numbers.
The court also ordered Telecom Italia to publish the order in two national daily newspapers.
On January 2, 2006 Il Numero Italia Srl and its subsidiary Directory Assistance Company Srl brought an action to ascertain the violation by Telecom Italia of the regulations in force concerning subscriber information services and for damages, to be quantified during the proceeding, for alleged losses.

Cecchi Gori

In relation to the complex legal dispute initiated by the Cecchi Gori Group against Seat (now Telecom Italia Media) and, in particular, the action related to the resolutions adopted on April 27, 2001 by the shareholders' meetings of Cecchi Gori Communications (now HMC) approving the annual report and financial statements for the year ended December 31, 2000 and cancelling and then reconstituting the company's share capital, on November 24, 2005 the Rome Court of Appeal dismissed the Cecchi Gori Group's appeal against the ruling of the Rome Court of first instance to reject the petition for annulment of the resolutions.

The following cases remain pending in the ordinary courts:

- an appeal brought before the Rome Court of Appeal by the Cecchi Gori Group from the ruling that rejected the petition for annulment of the resolutions approved on August 11, 2000 by the extraordinary shareholders' meeting of Cecchi Gori Communications (now Holding Media Communications) concerning some amendments to the company's bylaws;
- an action brought before the Milan Court by the Cecchi Gori Group for damages for a tort resulting in injury from the conduct of Seat and of the directors it designated to the board of Cecchi Gori Communications having the alleged aim of ousting the majority shareholder, Cecchi Gori Media Holding;
- an appeal brought before the Milan Court of Appeal by the Cecchi Gori Group from the ruling issued by the court of first instance rejecting the petition for annulment or cancellation of the deed under which the Cecchi Gori Communications shares belonging to Cecchi Gori Media Holding were pledged as security.

Nhai

In September 2005 Nhai Srl (formerly Help S.p.A.) brought an action before the Rome Civil Court to establish that in the first half of the 1990s Telesoft (subsequently merged into Telecom Italia), in its capacity as member of the Consortium for Automatic Telephone Traffic Data Collection and Processing (whose participants included the petitioner and Telesoft) had competed with the consortium, in violation of the obligations provided for in the consortium's agreements and by-laws. Nhai consequently asked that Telecom be ordered to pay damages of between euro 16 million and euro 25 million for the losses incurred by the consortium and by Help, for its share, in connection with the orders not received.

Nhai also alleged that Telesoft, during the life of the consortium, had appropriated software developed by Help, in violation of the agreements between the members of the consortium, and for this claimed damages of euro 1 million.

Interministerial decree of February 22, 2005

In July 2005 H3G notified Telecom Italia, as adversarial party, that it had filed an extraordinary petition to the President of the Republic against the Ministry of Communications and the Ministry for the Economy and Finance for the annulment, following suspension, of the interministerial decree of February 22, 2005 concerning the procedures and criteria for establishing grants for the purchase of broadband Internet data transmission/reception equipment. H3G challenged the part of the decree that limited the government grants to holders of a subscription contract while failing to extend them to holders of prepaid cards.

In August Telecom Italia requested that the extraordinary petition be transferred to the Lazio Administrative Court, in order to obtain greater guarantees regarding the opportunity for all the parties to state their case and above all to have two levels of judgment. H3G filed as party in the resulting proceeding. In August H3G filed a second petition with the Lazio Administrative Court, this time for annulment of certain measures issued by the Ministry of Communications to implement the interministerial decree of February 22, 2005, requesting joint discussion of the two petitions on the grounds of related matter.

Levy pursuant to article 20.2 of Law 448/1998

The decisions with which the Lazio Administrative Court, granting the petitions submitted by Telecom Italia and TIM, annulled a decree issued by Ministry of Communications on March 21, 2000 were published on January 4, 2005.

In their petitions Telecom Italia and TIM had challenged the compatibility of Article 20 of Law 448/1998 with EU Community law, in particular with the principle that no capital charges may be imposed on telecommunications companies' over and above those provided for in EU

Community law (examination expenses, use of so-called scare resources and financing of the universal service). Telecom Italia and TIM had also demanded restitution of the amounts paid but not due in respect of the 1999 financial year, when, in connection with the initial application of the subsequently annulled decree, the first annual instalment of the new levy was paid in a total amount of more than euro 500 million. (Subsequently, considering the petitions pending, Telecom and TIM did not make payments, setting aside the contested amounts in a reserve.) With the annulment of the decree, the State is obliged to make restitution of the amounts in question.

In November 2005 a notice was sent to the Minister for the Economy and Finance and the Minister of Communications demanding restitution of the euro 362 million unduly paid by Telecom Italia and the euro 185 million unduly paid by TIM, plus interest and adjustment for inflation. Meanwhile, the time limit for appeal expired on February 19, 2006 and so the decisions by the Lazio Administrative Court granting the petitions of TIM and Telecom Italia have become final. However, in the absence of compliance by the ministries cited in the decisions of the Lazio Administrative Court (and in the Presidential Decree deciding on the extraordinary petition by Albacom and Infostrada), with repayment of the obligation due plus legal interest thereon, Telecom Italia (both on its own behalf and as universal successor to Tim Italia S.p.A. as a consequence of the merger effective from March 1, 2006) has petitioned the administrative courts to issue a compliance order for restitution by the State of the sums paid but not due.

Following the European Court of Justice's decision of September 18, 2003 on similar appeals by Albacom and Infostrada, which declared the levy to be incompatible with EU Community law, the Telecom Italia Group had already reversed euro 1,465 million of liabilities (payables and reserves for risks and charges) relating to the financial years 2000, 2001 and 2002.

In the light of the above-mentioned ruling by the Lazio Administrative Court annulling the regulation on grounds of illegitimacy, euro 546 million, plus euro 74 million of interest paid by the Group in respect of the levy for the 1999 financial year, have been included in income.

* * *

Petitions by Telecom Italia and TIM are still pending before the Lazio Administrative Court to ascertain the right not to pay any amount as a licence fee for 1998 and to obtain restitution of the euro 529 already paid. The request is based on the illegitimacy of Article 21 of Presidential Decree 318/1998, which extended the effectiveness of the licence fee even after Directive 97/13/EU came into force and the expiry of the time limit for its transposition into Italian law.

Subsequent to the Court of Justice's above-mentioned decision of September 18, 2003, additional reasons based on the levy's incompatibility with Community law were submitted on February 9, 2004, to corroborate the arguments set forth in the main proceeding.

* * *

Also pending is the petition by Telecom Italia to the Lazio Administrative Court for annulment of the note dated July 9, 2003 with which the Ministry of Communications challenged the non-inclusion of some items of income in the basis of assessment for the licence fee for 1997 and 1998.

The difference deriving from the recalculation would amount to euro 31 million for 1997 and euro 41 million for 1998. The petition follows others the Company had already filed concerning the licence fee computation method in connection with the gradual liberalization of the telecommunications sector. A provision of euro 64 million has been made for the amounts involved in these disputes.
Lastly, an appeal by TIM against the ministerial decisions on the verification of the licence fee for the years 1995, 1996, 1997 and 1998 is pending before the Lazio Administrative Court. The contested amounts, euro 14 million have been accrued in a reserve.

Galactica

The action brought by the Internet Service Provider Galactica in May 2001 over the non-renewal of an agreement for testing a flat-rate Internet access service is still pending. Galactica asserted that the non-renewal was illegitimate and claimed damages, serving notice on Telecom Italia not to interrupt provision of the service In February 2002 Galactica brought a second action against Telecom Italia, claiming damages for unfair trade practices.

The two proceedings were combined in May 2002. In October 2002 Servinternet S.p.A. (formerly Galactica S.p.A.) brought a third action against Telecom Italia before the Milan Court, seeking a judgment against Telecom Italia for tort. This proceeding has also been combined with the other two already pending before the same judge. The claims lodged by the plaintiff amount to around euro 90 million.

For its part Telecom Italia has filed a counterclaim for Galactica to be ordered to pay more than euro 5 million as consideration for the increase in traffic in the period January-July 2001.

Teleque Communications

Also pending is the proceeding opened before the Rome Court of Appeal in November 2002 by Teleque Communications S.p.A., a company operating in the field of prepaid cards for international telephony services, which brought an action against Telecom Italia for unfair trade practices, claiming damages of euro 65 million. Teleque Communications S.p.A. asserted that Telecom Italia had gained a competitive advantage by imposing additional costs on Teleque Communications S.p.A. for the supply of interconnection services that it did not charge to its own final customers in the field of prepaid international services. In the hearing of February 16, 2004 the trial was interrupted following the notification by Telecom Italia of the declaration of its extinction as a legal person as a consequence of the merger of Telecom Italia into Olivetti S.p.A.

On October 19, 2004 the trustee in bankruptcy (Teleque Communications was declared bankrupt on December 17, 2003) revived the action.

Assoprovider/Telecom Italia and Aiip-Multilink/Telecom Italia

On December 5, 2005 Assoprovider – an independent association of 190 Internet Service Providers (ISPs) – notified Telecom Italian of the filing of an urgent petition with the Court of Milan pursuant to Article 700 of the Code of Civil Procedure in which it requested that the "Teleconomy Internet" retail offer of dial-up Internet access be suspended in the absence of an equivalent wholesale offer permitting competitors to replicate it. The plaintiff alleged that this situation obstructed the creation of networks and services by other ISPs, to the detriment of competition and consumers, and provoked an illicit diversion of customers that fell with the scope of the rules against unfair competition.

In addition, on December 5, 2005 the Italian Association of Internet Providers (AIIP) and an Internet Service Provider named Multilink filed two separate urgent petitions with the Milan Court, identical in substance to that of Assoprovider, essentially seeking an order to prevent the marketing of the "Teleconomy Internet" offer.

The two proceedings were combined and the court issued an order against Telecom Italia, granting the petitions. Telecom Italia appealed and the court revoked the preliminary injunction, declaring that the subject of the petitions had ceased to exist.

Tiscali Italia/Telecom Italia

On March 3, 2006 the bench rejected Telecom Italia's appeal against the ruling issued on November 22, 2005 by the Court of Rome which, in granting a petition filed by Tiscali S.r.l., ordered Telecom Italia "to fulfil its obligations to Tiscali arising from the shared access contract concluded between the parties on July 27, 2004, supplemented by law and resolutions of the Communication Authority, permitting the immediate and automatic transfer of Telecom Italia customers who opted to change to Tiscali for the purchase of ADSL services".

The case originates in the shared access service supply contract concluded by Telecom and Tiscali on July 27, 2004. The contract calls for Tiscali to be supplied unbundled shared access to the connections of Telecom Italia's copper distribution network (with which Telecom Italia continues to supply final customers with the voice telephony service, while the Internet access service is provided by Tiscali). According to Tiscali, requests to activate the shared access service for numerous customers met with a refusal by Telecom Italia to free up the lines with which it provides Internet access services (marketed under the trademarks "Alice" and "Tin.it") to final customers, so that Telecom Italia customers who opted to use Tiscali's Internet access service in place of those supplied by Telecom Italia were in fact unable to extricate themselves from Telecom Italia, which was therefore violating both its contractual obligations in respect of Tiscali and the rules laid down by the Communications Authority.

In December 2005 Tiscali brought an action against Telecom Italia before the Court of Rome subsequent to the ruling of November 22, on its preliminary petition. Following dismissal of the appeal from that ruling, the trial is continuing.

Telecom Italia arbitration proceedings with Fastweb and Wind (Inverse interconnection)

On December 13, 2005 Telecom Italia began an arbitration proceeding with Fastweb S.p.A. to obtain a decision recognizing: (i) that Fastweb had breached the interconnection contract concluded on January 28, 2000 by unilaterally altering the economic conditions for termination on Fastweb's fixed network of traffic made to geographical numbers; (ii) that the value of termination on the Fastweb network be determined in accordance with the principle of reciprocity; and (iii) that Telecom did not owe the larger sums requested by Fastweb applying its "self-determined" termination charges.

Fastweb's conduct stems from some resolutions issued by the Communications Authority in 2003 – Resolution 11/03 CIR ("approval of the Telecom Italia's reference offer for the year 2003") and Resolution 289/03 CONS ("regulation and control of the maximum prices of the voice telephony services supplied by Telecom Italia") – that permitted OLOs to apply differentiated charges for interconnection service and, in particular, for termination service. These resolutions were challenged at the time by Telecom Italia before the Lazio Administrative Court, which rejected the petition on January 27, 2006. Telecom is preparing to appeal against the ruling by the Lazio Administrative Court to the State Council.

* * *

On December 15, 2005 Telecom Italia initiated a similar proceeding with Wind under the arbitration clause of the inverse interconnection contract concluded with Wind on December 31, 1999, claiming the illegitimacy of Wind's conduct in unilaterally altering the economic conditions for termination on Wind's fixed network of traffic made to geographical calling codes.

Wind billed Telecom Italia for such services in accordance with the economic conditions established for the whole of 2003 by the above-mentioned interconnection contract for the termination of traffic on Wind's fixed network for traffic originated by Telecom Italia's fixed network. However, beginning in October 2003 Wind, like Fastweb, imposed a new, unilateral version of the agreed economic conditions on Telecom Italia.

Fastweb/Telecom Italia

On December 29, 2005 Fastweb filed an urgent petition with the Rome Court of Appeal to obtain preliminary measures against what the plaintiff alleged to be the exclusionary strategy adopted by Telecom Italia in the broadband market, in violation of antitrust rules and consisting in: the asymmetrical exploitation of information on final customers by Telecom Italia's marketing divisions; the creation of a system of incentives for the Telecom Italia sales network with a view to excluding Fastweb from the above-mentioned market; a massive campaign of soliciting Fastweb customers with a view to convincing them to withdraw from the contracts already signed with Fastweb, *inter alia* with the use of denigrating statements and personalized, discriminatory offers reserved to such customers.

Telecom Italia contested the petition, arguing that Fastweb's accusations were unfounded and prejudicially objecting that the case did not fall within the jurisdiction of the Rome Court of Appeal. On February 24, 2006 the court sustained Telecom Italia's objection, declaring that the case did not fall within its jurisdiction but within that of the Milan Court of Appeal.

Universal service

The regulations regarding universal service envisage a mechanism for sharing the net cost of the universal service in Italy among operators of public telecommunications networks, suppliers of voice telephony services accessible to the public and the providers of mobile and personal communication services, in the event that the obligations of providing the universal service constitute an unfair burden on the entity or entities appointed to provide it (Telecom Italia).
The following actions remain pending in the complex challenge by some operators against the Communications Authority's decision concerning the universal service net cost-sharing mechanism:

Universal service net cost for 1999:

- the petition by Vodafone to the Lazio Administrative Court for the annulment of: (i) the decision with which the Communications Authority, in renewing the proceeding for the application of the universal service net cost-sharing mechanism for 1999, recalculated the amount of Vodafone's contribution; and (ii) the note dated November 30, 2005 with which the Ministry of Communications enjoined Vodafone to pay the contribution for the financing of the universal service in the amount of euro 8.6 million, as determined by the Communications Authority in the above-mentioned decision;

Universal service net cost for 2000:

- the petitions submitted respectively by Vodafone to the Lazio Administrative Court and by Wind to the Head of State for the annulment of the Communications Authority's decision governing the same cost-sharing mechanism for 2000. Vodafone has requested that the issue be referred as a preliminary matter to the European Court of Justice for a ruling on the correct interpretation of the Community directives;
- the petition by Vodafone to the Lazio Administrative Court for the annulment of the note dated April 29, 2003 with which the Ministry of Communications enjoined Vodafone to pay the contribution for the year 2000 for the financing of the universal service in the amount of euro 11 million, as determined by the Communications Authority in the above-mentioned decision;

Universal service net cost for 2001:

- the petition by Vodafone to the Lazio Administrative Court for the annulment of the Communications Authority's decision governing the cost-sharing mechanism for 2001. Despite the petition, Vodafone has paid its contribution to the fund for 2001, in the amount of euro 9 million;

Universal service net cost for 2002:

- the petitions by Vodafone and Wind to the Lazio Administrative Court for the annulment of the Communications Authority's decision governing the cost-sharing mechanism for 2002;
- the petition by Vodafone to the Lazio Administrative Court for the annulment and interim suspension of the note dated March 17, 2005 with which the Ministry for Communications requested Vodafone to pay euro 8 million, determined by the Authority in the above-mentioned decision, as its contribution for the year 2002 to finance the universal service. In November 2002 the Lazio Administrative Court rejected Vodafone's request for preliminary suspension. Vodafone appealed this ruling to the State Council, which in January 2006 rejected Vodafone's appeal for a preliminary measure.
  In January 2006 the Ministry of Communications therefore enjoined Vodafone to pay its contribution to the financing of the universal service for the years 1999, 2000 and 2002.

Alleged violations of antitrust Law

In December 2004 Telecom Italia lodged an appeal with the Lazio Administrative Court from the measure with which the Antitrust Authority, at the conclusion of Proceeding A351, had imposed a fine of euro 152 million on the Company for abuses of dominant position, requesting annulment of the measure and interim suspension of its effects. The court, in a decision published in May 2005 and appealed from by the Authority, largely upheld the pleadings of Telecom Italia, annulling the fine. Telecom Italia thereupon lodged a cross appeal from the part of the decision that did not accept some of the grounds of its objections to the measure. The proceeding is pending.

In February 2006 the State Council partly upheld the initial and cross appeals of the other applicants, rejecting Telecom Italia's cross appeal, and consequently recalculated the fine against Telecom Italia, reducing it to euro 115 million.

The Company, accordingly, has reduced the provision made in the 2004 financial year to the reserve for risks from euro 152 million to euro 115 million.

* * *

In February 2005 the Antitrust Authority decided to open an investigation (Proceeding A357) under Law 287/1990 in respect of TIM, Vodafone and Wind to ascertain possible violations of Articles 81 and 82 of the EC Treaty.

The investigation was instigated by the complaints filed by some operators, who claimed that TIM, Vodafone and Wind had abused their collective dominant position in the market for mobile network infrastructure access services and their individual dominant position in the wholesale market for termination services on each mobile network, and had entered into agreements regarding access to the market for final mobile communications services and commercial offers to their own business customers.

In particular, TIM, Vodafone and Wind (alleged jointly to hold a dominant position in the market for network infrastructure access services) supposedly refused to negotiate agreements concerning the provision of access to the mobile networks, with the intent of obstructing the entry of other operators into the market for final mobile communications services, creating an understanding in restraint of trade.

According to the Authority, moreover, TIM, Vodafone and Wind (alleged to hold an individual dominant position in the market for mobile services) favoured their own sales divisions by charging their competitors higher prices just for fixed-to-mobile termination service than those they offered to their own final business customers for integrated final fixed-mobile services.

Finally, the Authority suspects that the uniformity of such conduct in the retail market for mobile services, in terms of its exclusionary effects, could be the result of an understanding in restraint of trade.

According to the Authority, all the above-mentioned instances of conduct are likely to be detrimental to trade between the member states of the European Community inasmuch as they affect a substantial part of the common market, and consequently to violate Articles 81 and 82 of the EC Treaty

The first hearing of TIM was held at the Authority in June 2005.

In February 2006 the Authority decided to extend the scope of the proceeding by including some instances of allegedly simultaneous conduct by TIM, Vodafone and Wind consisting in a refusal to renegotiate easier economic conditions for access to roaming on the GSM networks, thereby abusing their collective dominant position in that market. In the same measure, the Authority extended the time limit for concluding the proceeding to December 14, 2006.

Challenges to measures adopted by the Communications Authority

The proceeding is pending in the appeal Telecom Italia filed with the Lazio Administrative Court in December 2004 for the annulment and interim suspension of Communications Authority Resolution No. 15/04/CIR of November 3, 2004 ("Assignment of the rights to use the numbers reserved to subscriber information services").

The Authority's resolution follows up its Resolution No. 9/03/CIR of July 3, 2003. The latter updated the Numbering Plan in the telecommunications sector, establishing that the number "12XY" would be assigned to subscriber information services. Accordingly, these services will have a number composed of the digits "12" followed by another two digits, different for each operator. The resolution provided that the implementing timetable, subjective requirements for the rights of use and the procedure for assigning the numbers dedicated to subscriber information services would be established in a subsequent resolution.

The Authority has set a very tight timetable for the cessation of all subscriber information services provided with numbers other than "12XY" (including services accessed with the addition of "4" (e.g. "412", recently added to the traditional "12") and has also established the procedures for informing customers about the "migration" of these services to other numbers. Telecom Italia considers these procedures discriminatory, since the Company is not free to use its discretion in advertising the new number the service will migrate to.

ETECSA

Since 2002 Banco Nacional de Comercio Exterior ("Bancomext") has accused ETECSA and Telan (majority shareholder of ETECSA, controlled by the Cuban government) of non-performance of alleged payment and guarantee obligations amounting to euro 300 million established in a series of contracts between ETECSA, Telan, BanCuba (Central Bank of Cuba), Intesa BCI and Bancomext.

These accusations were the subject of an action brought by Bancomext before the Italian courts and of an international arbitration proceeding subsequently initiated by Telan and ETECSA, in which they pleaded that performance was impossible owing to a Cuban legislative measure prohibiting actions aimed at satisfying Bancomext's claim.

In the award issued on August 5, 2004, the arbitration board:

- upheld ETECSA's argument that it was neither a debtor of Bancomext nor a guarantor of Telan;
- nonetheless determined that ETECSA remained obligated to satisfy the obligations to Bancomext deriving from the loan contract and to restore the procedure envisaged for the payment of dividends belonging to Telan with a view to satisfying Bancomext. This decision, whose effects are retroactive, would oblige ETECSA to transfer around $ 147 million to Telan, paying the sum into an escrow account in Bancomext's name.

ETECSA applied to the Paris Court of Appeal to declare the award null and void. In the meantime the Rome Court of Appeal, acting on a request from Bancomext, declared the award to be enforceable in Italy. The proceeding in the French courts is still pending.

ETECSA challenged the recognition of the award in Italy. On May 3, 2005 Bancomext sent a notice of the award to ETECSA and Telan, together with a request for payment of an amount equal to the dividends distributed to Telan from April 2002 on. The related enforcement proceedings, undertaken by Bancomext at Telecom Italia, Sparkle and TIM, were suspended, however, in the light of a challenge filed by ETECSA to recognition of the award's enforceability in Italy.

In November 2005, at the conclusion of the first-level trial initiated by Bancomext before the Italian courts, the Court of Turin ordered ETECSA to pay Bancomext damages of U.S. $ 168 million and to restore the mechanism for the payment of dividends belonging to Telan, as contractually provided. ETECSA has appealed the first-level judgment.

After the decision of the Court of Turin was published, in December 2005 Bancomext applied to the Court of Milan for the revival of the enforcement proceeding and the assignment of the seized goods. With this act Bancomext requested the court to convert the sequestration at Telecom Italia of the Company's claims on ETECSA, which the Court of Turin had ordered in 2002 as a precautionary measure, into seizure and to assign Bancomext the sum of euro 2.8 million due to Telecom Italia.

ETECSA has challenged the enforcement proceeding initiated by Bancomext against ETECSA at Telecom Italia and the related trial is now pending.

In the meantime Telecom Italia International (in possession of a letter from the Cuban government relieving it of any injury arising from the reward) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate ETECSA, reserving its right to take protective action.

Brazil

On April 28, 2005 a final settlement was reached between the parties to a series of disputes in different venues involving Telecom Italia and Telecom Italia International versus respectively:

- Brasil Telecom, for alleged abuses by the Group in extraordinary corporate actions undertaken by the Brazilian operator;
- (i) Techold and Timepart, partners of Telecom Italia International in Solpart Participações (controller of Brasil Telecom through Brasil Telecom Participações), in arbitration in London before the International Chamber of Commerce of Paris, and (ii) Techold and Timepart and, with them, Solpart, Brasil Telecom Participações and Brasil Telecom, before the Court of Rio de Janeiro, in both cases in connection with the agreement concluded on August 27, 2002 for the temporary reduction from 37.29% to 19% of the Group's interest in the ordinary capital of Solpart and the temporary reduction of its governance rights, with an option for the repurchase of the aforesaid equity interest.

The above-mentioned disputes were definitively closed with the homologation of the settlement.

An exception is the action brought before the Court of Rio de Janeiro by some indirect shareholders of Techold, who have challenged the validity of the transaction and succeeded in preventing its homologation. As things now stand, an objection on the matter is pending.

* * *

On May 5, 2005 some indirect shareholders of Solpart petitioned the State Court of Rio de Janeiro to stay the execution of the shareholders' agreement signed on April 28, 2005 between the partners in Solpart (Telecom Italia International, Techold and Timepart) as well as any deed that would permit persons of the Telecom Italia Group to designate or remove directors of Brasil Telecom or its subsidiaries.

The judge only stayed the effects of the changes to the shareholders' agreement. Telecom Italia International appealed the order. Timepart then filed a petition for the recusal of the judge, upon which the same judge declared that there were valid grounds for such request. Consequently, the proceeding will continue with a new judge. The plaintiffs have initiated the trial proceeding.

* * *

On June 30, 2005 Telecom Italia International filed a petition against some indirect shareholders of Solpart as well as against Techold, Timepart, Brasil Telecom Participações and Brasil Telecom, requesting a stay of the effectiveness of the Zain shareholders' agreement – Zain, an investment vehicle in which Brazilian pension funds and Citigroup-operated investment funds have interests, indirectly controls Techold – and of the put agreement executed between the above-mentioned pension funds and investment funds.

The agreements in question violate the Group's rights under the Solpart shareholders' agreement with respect to the transfer of direct or indirect shareholdings in Solpart.

Telecom obtained the temporary measure prohibiting the sale of such shareholdings to third parties and initiated the proceeding on the merits of the case. Timepart then filed a petition for the recusal of the judge, upon which the same judge declared that there were valid grounds for such request. Consequently, the proceeding will continue with a new judge. The plaintiffs have initiated the trial proceeding.

* * *

On August 1, 2005 Telecom Italia International submitted a request to the International Chamber of Commerce of Paris (ICC) for an arbitration proceeding in London versus Techold, claiming non-performance of several provisions of the Solpart shareholders' agreement and consequent damages. Telecom Italia International also petitioned for the validation of the above-mentioned change to the shareholders' agreement and, accordingly, for a declaration of Telecom Italia International's legitimate right to purchase the Solpart shares held by Techold at their fair market value less 10%. In October Techold filed its statement of reply and counterclaim, requesting: (i) that Telecom Italia be made a party to the proceeding; (ii) a declaration of the invalidity of (a) the Settlement Agreement signed for the closure of the

London arbitration proceeding of 2003 and (b) the April 2005 amendment of the shareholders' agreement; (iii) a declaration that Telecom Italia International has no right to the restoration of its governances rights in Solpart or to convert and repurchase its own shares in Solpart; and (iv) ascertainment and imposition of damages for the alleged injury to Techold.
In December Telecom Italia International filed a statement of reply to Techold's counterclaim, requesting that Techold's demands be rejected; the ICC Court was also petitioned to dismiss Techold's demand that Telecom Italia be included in the proceeding. In February 2006 the ICC Court ruled for the exclusion of Telecom Italia S.p.A. The arbitration board is now being formed.

* * *

On October 3, 2005 Telecom Italia International submitted a request to the ICC for an arbitration proceeding in Paris versus Techold and Timepart, claiming non-performance by Techold and Timepart of several provisions of the Solpart Master Agreement (SMA) signed on April 28, 2005 and consequent damages. In December Techold filed its statement of reply and counterclaim, requesting: (i) that Telecom Italia be made a party to the proceeding; (ii) that the Solpart Master Agreement be declared invalid, and (iii) that damages be ascertained and imposed for the alleged injury to Techold. In January 2006, Telecom Italia International filed a statement of reply to Techold's counterclaim, pleading its defences and requesting that Techold's demands be rejected; the ICC Court was also petitioned to dismiss Techold's demand that Telecom Italia be included in the proceeding. In February, in a prima facie ruling before the formation of the arbitration board, the ICC Court decided for the inclusion of Telecom Italia S.p.A. in the proceeding. The arbitration board is now being formed.

* * *

On May 5, 2005 some indirect shareholders of Brasil Telecom obtained two preliminary injunctions against Telecom Italia International, Tim International, Tim Brasil, several companies of the Opportunity group and other Brasil Telecom companies to prevent the progress of the merger of Brasil Telecom Celular into Tim Brasil pursuant to the agreement concluded on April 28, 2005 between Brasil Telecom, Brasil Telecom Celular, Tim Brasil and Tim International. The plaintiffs subsequently initiated the trial proceeding.

Telecom Italia International, Tim International and Tim Brasil promptly filed their defences, objecting that the plaintiffs' allegations were unfounded in fact and law and appealing from both preliminary measures. After dismissal of their appeals, Telecom Italia International, Tim International and Tim Brasil filed a special appeal before a higher body, the Federal Court, which has agreed to examine the case only after the ruling on the merits of the dispute.

Telecom Italia S.A.

France Telecom brought an action before the Commercial Court of Paris against Telecom Italia S.A. (formerly Telecom Italia France) for alleged damages deriving from unfair trade practices.

Telecom Italia S.A. requested suspension of the proceedings until completion of the preliminary investigation currently pending before the district attorneys of Marseilles and Lyons for alleged illegalities in concluding contracts with final customers, initiated by complaints filed by consumers.

b) Employee benefit obligations under Law 58/1992

Pursuant to Law 58/1992, Telecom Italia is required to provide social security coverage for all employees of STET, SIP, Italcable and Telespazio on their payrolls at February 20, 1992, as well as for all employees transferred from the public sector to the former Iritel, through the "Pension Fund for Public Telephony Employees", which on January 1, 2000 became part of the general Employee Pension Fund.

At present the liability can be estimated only approximately owing to disagreements with the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS) relating to the calculation of the amount due and the fact that at December 31, 2005 INPS had not yet notified the Company of all the positions to be covered.

The dispute with INPS concerns how the application of the criteria established by Law 29/1979 for those employees (except for those of the former Iritel) who had already applied for benefits pursuant to this law and which had not been processed by INPS. The parties have agreed that the determination of the applicable provisions is to be settled through test appeals before the ordinary courts,. While proceedings are pending, Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation. The amounts due were calculated by INPS and are to be paid in 15 equal annual deferred installments (including annual interest of 5%), starting when INPS formally submits its requests.

The principal amount of the liability attributable to Telecom Italia as of December 31, 2005 was euro 1,094 million recorded under "amounts due to social security authorities" item (euro 1,043 million as principal amount and euro 51 million as accrued interest, not yet paid) including euro 213 million due within 1 year.

c) Commitments and other guarantees

Guarantees provided amounted to euro 529 million, net of euro 474 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of affiliates (of which euro 121 million in favour of Avea and euro 142 million in favour of other leading affiliates) and others for medium and long-term loans.

In addition, the 47.80% interest in Tiglio I and the 49.47% interest in Tiglio II have been pledged to the banks that financed the two affiliates.

Purchase and sale commitments at December 31, 2005 amounted to euro 316 million and euro 489 million, respectively, and referred to the part of commitments not falling within the normal "operating cycle" of the Group still to be fulfilled.

Purchase commitments consisted mainly of:
- euro 210 million of property leasing rentals under contracts lasting more than 6 years;
- euro 59 million of orders to suppliers of Telenergia relating to the electricity supply agreements reached with Endesa for the three-year period 2004-2006.

Sale commitments consisted mainly of:
- euro 431 million in respect of agreement to sell buildings to the closed-end real estate investment funds Fondo Raissa and Fondo Spazio Industriale;
- euro 57 million in respect of the agreement to sell the interest in Gruppo Buffetti S.p.A.

Companies included in the scope of the consolidation issued letters of patronage for a total of euro 142 million, chiefly on behalf of affiliates to guarantee insurance polices, lines of credit and overdraft arrangements.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro 1,610 million) and the performance of contracts (euro 319 million). The total included sureties issued by BBVA for euro 817 million, by San Paolo IMI for euro 315 million and by Sumitomo for euro 73 million in respect of EIB loans for the TIM Mobile Network Project.

Note 25 - Revenue

Revenue amounts to euro 29,919 million in 2005, an increase of euro 1,627 million or 5.8% compared to the year ended December 31, 2004.
Details are as follows:

(millions of euro)		2005	2004
Sales:			
– of telephone products		1,952	1,595
– other goods		362	584
	(A)	**2,314**	**2,179**
Services:			
– traffic		15,577	14,687
– subscription charges		8,020	7,699
– fees		361	327
– other services		3,572	3,224
	(B)	**27,530**	**25,937**
Revenue on construction contracts	(C)	**75**	**176**
Total	(A+B+C)	**29,919**	**28,292**

For a breakdown of revenue by segment/geographic area, reference should be made to the Note "Other information - Segment information".

Note 26 - Other income

Other income amounts to euro 678 million, a decrease of euro 421 million compared to 2004 and consists of the following:

(millions of euro)	2005	2004
Compensation for late payment of regulated telephone services	107	85
Release of reserves and non-existent liabilities	228	162
Recovery of costs of personnel and services rendered	35	35
Capital grants	39	52
Damage compensation and recovery	20	18
Grants related to income	8	12
Prior period income from release of TLC operating fee	–	546
Other income	241	189
Total	**678**	**1,099**

Note 27 - Purchases of materials and external services

Purchases of materials and external services amount to euro 12,937 million, an increase of 9.5% compared to 2004 (euro 11,812 million). Details are as follows:

(millions of euro)		2005	2004
Purchases of materials and merchandise for resale	(A)	**2,506**	**2,203**
Costs for services:			
Revenue portion due to other operators		4,713	4,177
Commissions, sales commissions and other selling expenses		1,263	1,006
Advertising and promotion		593	504
Professional consulting and services		546	609
Electricity and water		308	244
Other service expenses		1,904	2,121
	(B)	**9,327**	**8,661**
Lease and rental costs:			
Property lease costs		641	624
TLC circuit lease rent and rent for use of satellite systems		274	154
Other lease and rental costs		189	170
	(C)	**1,104**	**948**
Total	(A+B+C)	**12,937**	**11,812**

Note 28 - Personnel costs

Personnel costs amount to euro 4,142 million, an increase of 7.5% compared to 2004 (euro 3,852 million). The increase is almost entirely due to charges related to agreements of mobility pursuant to Law No. 223/91 and to the extraordinary executives termination benefit plan, for approximately euro 273 million. Excluding those items, the increase in personnel costs would be equal to +0.4%.

Personnel costs consist of the following:

(millions of euro)		2005	2004
Costs of employees on the payroll			
Wages and salaries		2,577	2,566
Social security contributions		807	803
Severance indemnities		168	183
Pensions and similar obligations (defined benefits plans)		2	4
Other employee-related costs		85	59
Total costs of employees on the payroll	(A)	**3,639**	**3,615**
Temp work costs	(B)	**52**	**38**
Miscellaneous expenses for personnel and for other labor-related services rendered:			
remuneration of personnel who are not employees		18	17
charges for termination benefit incentives		151	182
charges for termination benefit incentives		273	–
other		9	–
	(C)	**451**	**199**
Total	(A+B+C)	**4,142**	**3,852**

Personnel costs include, among others, costs relating to defined contribution plans.

The decrease in the charge for "employee severance indemnities" is due to the effect of the actuarial calculation of the Reserve for severance indemnities and the turnover of personnel working at the Italian companies of the Group.
Other employee-related costs include euro 4 million for the valuation of stock options and euro 81 million for other benefits to employees.

The average equivalent number of salaried personnel, excluding those of discontinued operations/assets held for sale and inclusive of personnel with temporary work contracts, in 2005, is 79,869 (79,602 in 2004). A breakdown by category is as follows:

(number)	2005	2004
Executives	1,541	1,592
Middle management	4,744	4,597
Clerical staff	70,375	70,540
Technicians	722	920
Headcount on the payroll	77,382	77,649
Personnel with temp work contracts	2,487	1,953
Total headcount	**79,869**	**79,602**

Employees at December 31, 2005, excluding those relating to discontinued operations/assets held for sale are 85,484 (82,620 at December 31, 2004). with an increase of 2,864.

Employees by segment are analyzed in the Note "Other information - Segment information".

Note 29 - Other operating expense

Other operating expense amounts to euro 1,468 million, with a decrease of euro 135 million compared to 2004 and consists of the following:

(millions of euro)	2005	2004
Impairment and provision for bad debts	521	498
Provisions to reserves for future risks and charges	71	289
TLC operating fees	181	114
Taxes on revenues of South American companies	178	112
Indirect duties and taxes	141	153
Association fees and dues	19	18
Other expense	357	419
Total	**1,468**	**1,603**

Note 30 - Capitalized internal construction costs

Capitalized internal construction costs amount to euro 471 million, a reduction of euro 242 million, and consist of the following:

(millions of euro)		2005	2004
Intragroup revenue from the sale of:			
Intangible assets with a finite life		105	49
Tangible assets		29	18
	(A)	**134**	**67**
Capitalized internal construction costs on:			
Intangible assets with a finite life		182	473
Property, plant and equipment owned		155	173
	(B)	**337**	**646**
Total	(A+B)	**471**	**713**

The reduction from 2004 is due to the use of a different accounting method. In 2004 the external costs relating to contracts that were to be capitalized passed through the statement of operations, whereas, in 2005, such costs are booked directly to the capital asset account.

Note 31 - Depreciation and amortization

Depreciation and amortization charges amount to euro 5,232 million, an increase of euro 424 million compared to 2004. Details are as follows:

(millions of euro)		2005	2004
Amortization of intangible assets with a finite life:			
Industrial patents and intellectual property rights		1,414	1,106
Concessions, licenses, trademarks and similar rights		253	224
Other intangible assets		17	16
	(A)	**1,684**	**1,346**
Depreciation of property, plant and equipment owned:			
Civil and industrial buildings		103	103
Telecommunications plant and installations		2,910	2,869
Manufacturing and distribution equipment		31	27
Aircraft and ships		9	12
Other assets		363	313
	(B)	**3,416**	**3,324**
Depreciation of assets held under finance leases:			
Civil and industrial buildings		93	93
Telecommunications plant and installations		1	–
Aircraft and ships		4	4
Other assets		34	41
	(C)	**132**	**138**
Total	(A+B+C)	**5,232**	**4,808**

An analysis of depreciation and amortization is presented in the Note "Other information - Segment information".

Note 32 - Capital gains/losses realized on the disposal of non-current assets

Capital gains/losses realized on the disposal of non-current assets amount to euro 242 million, an increase of 251 million compared to 2004. Details are as follows:

(millions of euro)		2005	2004
Capital gains realized on the disposal of non-current assets:			
Capital gains on the retirement/sale of intangible and tangible assets		283	17
Capital gains on the disposal of business segments		–	6
Capital gains on the disposal of equity investments in consolidated subsidiaries		–	4
	(A)	**283**	**27**
Capital losses realized on the disposal of non-current assets:			
Capital losses on the retirement/disposal of intangible and tangible assets		40	27
Capital losses on the disposal of equity investments in consolidated subsidiaries		1	9
	(B)	**41**	**36**
Total	(A-B)	**242**	**(9)**

Capital gains on the retirement/disposal of intangible and tangible assets in 2005 include euro 264 million for the gain, net of incidental charges, realized on the sale of 561 properties to the Fondo Raissa and 246 properties to the Fondo Spazio Industriale under the plan which calls for the sale of more than 1,300 properties for a total amount of about euro 1 billion. Additional details are disclosed in the Note "Tangible assets".

Note 33 - Impairment reversals/losses on non-current assets

Impairment losses on non-current assets are amount to euro 28 million.
In 2004, the total was a negative euro 444 million and included the charges connected with the De Agostini settlement for the purchase of a 40% stake in Finanziaria Web (euro 282 million) in addition to the net impairment losses of intangible and tangible assets (euro 162 million).

Note 34 - Financial income

Financial income amounts to euro 3,144 million, an increase of euro 939 million compared to 2004. Details are as follows:

(millions of euro)		2005	2004
Income from investments	(A)	**95**	**212**
Other financial income:			
Income from financial receivables classified as non-current assets		15	19
Income from securities other than investments, held as non-current assets		–	1
Income from securities other than investments, held as current assets		31	52
Income other than the above:		1,955	1,125
Interest income		219	164
Foreign exchange gains		535	312
Income from fair value hedges		465	290
Reversal of the Reserve for fair value adjustments of cash flow hedges (interest rate component) to the statement of operations		180	56
Income from non-hedging derivative financial instruments		80	166
Miscellaneous financial income		476	137
	(B)	**2,001**	**1,197**
Positive fair value adjustments to:			
Fair value hedges		693	88
Underlying financial assets and liabilities of fair value hedges		167	548
Non-hedging derivative financial instruments		185	132
	(C)	**1,045**	**768**
Impairment reversals of financial assets	(D)	**3**	**28**
Total	(A+B+C+D)	**3,144**	**2,205**

Income from investments (euro 95 million) includes gains on the sale of the equity investments in C-Mobil (euro 61 million), Intelsat (euro 2 million) and Golden Lines (euro 5 million). In 2004, such income referred to the gain on the sale of the residual interest in Telekom Austria (euro 86 million) and the gain on sale of the remaining interest in Mirror International (euro 85 million).

Foreign exchange gains (euro 535 million) increased by euro 223 million compared to 2004. This amount was reduced by euro 21 million for the foreign exchange losses originating from the reversal of the *Reserve for fair value adjustments of cash flow hedges* to the statement of operations (euro 178 million in 2004).

Miscellaneous financial income increased by euro 339 million and includes the release (euro 423 million) of reserves provided in prior years in relation to sureties issued to the banks which had financed the associate AVEA, since there was no longer a risk after the guarantees were in part cancelled.

Income from fair value hedges (euro 465 million) increased by euro 175 million compared to 2004 (euro 290 million) and include euro 159 million on CCIRS contracts and euro 306 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedges (interest rate component) to the statement of operations (euro 180 million) increased by euro 124 million compared to 2004 (euro 56 million) and includes euro 125 million on CCIRS contracts and euro 55 million on IRS contracts.

Income from non-hedging derivative financial instruments (euro 80 million) decreased by euro 86 million compared to 2004 (euro 166 million) and includes euro 6 million on CCIRS contracts, euro 56 million on IRS contracts and euro 18 million on other derivative contracts.

Positive fair value adjustments to fair value hedges (euro 693 million) increased by euro 605 million compared to 2004 (euro 88 million) and include euro 612 million on CCIRS contracts and euro 81 million on IRS contracts, with a counterbalance to negative fair value adjustments of underlying financial assets and liabilities of fair value hedges, which amount to euro 689 million (euro 88 million in 2004). Additional details are provided in the Note "Financial expense".

Positive fair value adjustments of underlying financial assets and liabilities of fair value hedges (euro 167 million) decreased by euro 381 million compared to 2004 (euro 548 million). The counterbalance of such amount is represented by the negative fair value adjustments of the corresponding fair value hedges which amount to euro 157 million (euro 547 million in 2004). Additional details are provided in the Note "Financial expense".

Positive fair value adjustments of non-hedging derivative financial instruments (euro 185 million) include euro 45 million for the fair value adjustment of the call option on Sofora.

Note 35 - Financial expense

Financial expense amounts to euro 5,131 million, an increase of euro 934 million compared to 2004. Details are as follows:

(millions of euro)		2005	2004
Charges on investments	(A)	–	–
Interest expense and other borrowing costs:			
Interest expense and all other costs relating to bonds		2,056	2,064
Interest expense to banks		296	45
Interest expense paid to others		214	224
Commissions		61	82
Foreign exchange losses		433	330
Charges from fair value hedges		264	152
Reversal of the Reserve for fair value adjustments of cash flow hedges (interest rate component) to the statement of operations		255	155
Charges from non-hedging derivative financial instruments		170	114
Miscellaneous financial expense		223	156
	(B)	**3,972**	**3,322**
Negative fair value adjustments of:			
Fair value hedges		157	547
Underlying financial assets and liabilities of fair value hedges		689	88
Non-hedging derivative financial instruments		289	136
	(C)	**1,135**	**771**
Impairment losses on financial assets (investments and securities other than investments)	(D)	**24**	**104**
Total	(A+B+C+D)	**5,131**	**4,197**

Interest expense to banks (euro 296 million) increased by euro 251 million compared to 2004 (euro 45 million), mainly for the financing of the tender offer for TIM shares.

Foreign exchange losses (euro 433 million) increased by euro 103 million compared to 2004. Such amount is net of euro 341 million for the foreign exchange gains arising from the reversal of the *Reserve for fair value adjustments of cash flow hedges* to the statement of operations.

Charges from fair value hedges (euro 264 million) increased by euro 112 million compared to 2004 (euro 152 million) and include euro 89 million on CCIRS contracts and euro 175 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of operations (euro 255 million) increased by euro 100 million compared to 2004 (euro 155 million) and includes euro 138 million on CCIRS contracts and euro 117 million on IRS contracts.

Charges from non-hedging derivative financial instruments (euro 170 million) increased by euro 56 million compared to 2004 (euro 114 million) and refer to euro 121 million on CCIRS contracts, euro 22 million on IRS contracts and euro 28 million on derivative contracts.

Negative fair value adjustments to fair value hedges (euro 157 million) decreased by euro 390 million compared to 2004. The total includes euro 148 million on IRS contracts and euro 9 million on CCIRS contracts with a counterbalance by positive fair value adjustments of underlying financial assets and liabilities of fair value hedges which amount to euro 167 million (euro 548 million in 2004). Additional details are provided in the Note "Financial income".

Negative fair value adjustments of underlying financial assets and liabilities of fair value hedges (euro 689 million) increased by euro 601 million compared to 2004 (euro 88 million). Such amount is counterbalanced by the positive fair value adjustments of the corresponding fair value hedge derivatives which amount to euro 693 million (euro 88 million in 2004). Additional details are provided in the Note "Financial income".

Note 36 - Income taxes for the year

Income taxes on continuing operations for the year ended December 31, 2005 and 2004 are detailed as follows:

(millions of euro)		2005	2004
Current taxes for the year		1,017	1,387
Current taxes for prior years		29	10
Reversal of direct taxes of prior years		(37)	(16)
Total current taxes		1,009	1,381
Deferred taxes		1,386	1,273
Total income taxes on continuing operations	(A)	**2,395**	**2,654**
Current income taxes for the year		23	79
Deferred income taxes		8	16
Total income taxes on discontinued operations/assets held for sale	(B)	**31**	**95**
Total income taxes for the year	(A+B)	**2,426**	**2,749**

Incomes taxes on "Discontinued operations/assets held for sale" are classified in the statement of operations in "Net income/(loss) from discontinued operations/assets held for sale".

Income before taxes and the tax charge on income for the years ended December 31, 2005 and 2004 are summarized as follows:

(millions of euro)		2005	2004
Income before taxes:			
• from continuing operations		5,535	5,606
• from discontinued operations/assets held for sale		581	(23)
Total income before taxes		6,116	5,583
Of which:			
• Italy		5,789	6,153
• Foreign		327	(570)
Current taxes:			
• Italy		957	1,359
• Foreign		75	101
Total current taxes	(A)	1,032	1,460
Deferred taxes:			
• Italy		1,457	1,227
• Foreign		(63)	62
Total deferred taxes	(B)	**1,394**	**1,289**
Total taxes	(A+B)	**2,426**	**2,749**

The reconciliation between the nominal tax rate according to Italian law and the effective tax rate resulting from the consolidated financial statements and the corresponding theoretical and effective tax charges is the following:

(millions of euro)	2005		2004	
Income before taxes	**6,085**		**5,488**	
Taxes calculated at the 33% tax rate in force	2,008	33%	1,811	33%
Taxes losses for the year not considered recoverable	81	1%	168	3%
Taxes losses not considered recoverable in previous years and recovered during the year	(3)		(15)	
Deferred tax benefits not set aside in prior years and considered recoverable during the year	(21)		(161)	(3%)
Reversal of reserve for deferred taxes	(136)	(2%)		
Permanent differences:				
– Non-deductible costs	156	3%	290	5%
– Other net differences	(170)	(3%)	(84)	(1%)
	1,915	**32%**	**2,009**	**37%**
IRAP and other taxes calculated on a basis other than income before taxes	511	8%	740	13%
Total effective taxes booked to the statement of operations	**2,426**	**40%**	**2,749**	**50%**

Note 37 - Earnings per share

The potential shares originating from the conversions of stock options and convertible bonds have an anti-dilutive effect and therefore the corresponding shares have not been considered in the calculation of earnings per share.

The additional dividends (at an invariable amount of euro 0.011) due to the Savings Shares was allocated to continuing operations.

(millions of euro)		2005	2004
Basic and diluted earnings per share			
Net income attributable to the Parent		3,216	1,815
Less: additional dividends for savings share	(euro 0.011 per share)	(65)	(64)
		3,151	1,751
Average number of ordinary and savings shares	(millions)	18,213	16,004
Basic and diluted earnings per share - Ordinary shares	(euro)	0.17	0.11
Plus: euro 0.011 additional dividends per savings share	(euro)	0.01	0.01
Basic and diluted earnings per share - Savings shares	(euro)	0.18	0.12
Basic and diluted earnings per share from continuing operations			
Net income from continuing operations		2,666	1,933
Less: quota relating to additional dividends per savings share		(65)	(64)
		2,601	1,869
Average number of ordinary and savings shares	(millions)	18,213	16,004
Basic and diluted earnings per share from continuing operations – ordinary shares	(euro)	0.14	0.12
Plus: euro 0.011 additional dividend per savings share	(euro)	0.01	0.01
Basic and diluted earnings per share from continuing operations – savings shares	(euro)	0.15	0.13
Basic and diluted earnings per share from discontinued operations/assets held for sale			
Net income (loss) from discontinued operations/ assets held for sale		550	(118)
Average number of ordinary and savings shares	(millions)	18,213	16,004
Basic and diluted earnings (loss) per share from discontinued operations/assets held for sale – ordinary shares	(euro)	0.03	(0.01)
Basic and diluted earnings (loss) per share from discontinued operations/assets held for sale – savings shares	(euro)	0.03	(0.01)

	2005	2004
Number of ordinary shares	12,283,195,845	10,208,327,613
Number of savings shares	5,930,204,164	5,795,921,069
Total	**18,213,400,009**	**16,004,248,682**

Note 38 - Other information

a) Segment Information

The integration of fixed-mobile operations under a single organizational structure has resulted in a overall reorganization of the Group which, from October 5, 2005, is structured as follows:

Central Functions, which are responsible for directing the Telecom Italia Group's operations, have been reorganized into **Group Functions and/or Service Units**:

- **Group Functions** are responsible for ensuring coordination, direction and control at the Group level, in the spheres of activities, ensuring, in particular, the definition of policies and the overall administration of matters common to all Business Units.
- **Service Units** are responsible for guaranteeing – in close cooperation with Operations and the Business Units – the performance of common operating activities to support the business.

Operations, which is responsible for guaranteeing the management and development of fixed and mobile telecommunications and internet services. Operations, for reporting purposes in these financial statements, is divided into:

- **Wireline**, which operates on a national level by providing wireline telephone, data and internet services for final customers (retail) and other operators (wholesale). On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and in South America) and offers innovative broadband services in certain metropolitan areas in Germany, France and Netherlands.
- **Mobile**, which operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America (Brazil).

Business Units are responsible for the development of the following businesses:

- **Media**, which operates in the area of journalistic information, TV production, TV and web content offerings.
- **Olivetti**, which operates in the market of specialized applications for the banking field and retail, information and computer systems for gaming, lotteries and e-vote systems as well as in the research/development/production of products using silicon.

The macro-organizational model of the Telecom Italia Group is nevertheless interconnected in a flexible manner with the corporate structure, giving priority to the identification of competency in specific business areas/functions rather than closely following the legal organization structures.

SEGMENT CONSOLIDATED STATEMENT OF OPERATIONS

(millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Third-party revenues	16,348	15,844	12,672	11,457	176	165	400	536	323	290	-	-	29,919	28,292
Intragroup revenues	1,454	1,587	291	255	4	3	52	54	1,357	1,345	(3,158)	(3,244)	-	-
Revenue by segment	17,802	17,431	12,963	11,712	180	168	452	590	1,680	1,635	(3,158)	(3,244)	29,919	28,292
Other income	294	578	192	386	11	20	22	18	226	179	(67)	(82)	678	1,099
Total operating revenue and other income	**18,096**	**18,009**	**13,155**	**12,098**	**191**	**188**	**474**	**608**	**1,906**	**1,814**	**(3,225)**	**(3,326)**	**30,597**	**29,391**
Purchases of materials and external services	(7,485)	(6,986)	(6,337)	(5,650)	(200)	(161)	(388)	(443)	(1,565)	(1,550)	3,038	2,978	(12,937)	(11,812)
Personnel costs	(2,708)	(2,525)	(707)	(631)	(75)	(69)	(100)	(111)	(571)	(536)	19	20	(4,142)	(3,852)
Other operating expense	(557)	(995)	(640)	(430)	(12)	(27)	(11)	(25)	(278)	(123)	30	(3)	(1,468)	(1,603)
Changes in inventories	(30)	39	14	(7)	3	1	9	(1)		(5)	-	-	(4)	27
Capitalized internal construction costs	281	267	55	41	2	4	1	-	3	65	129	336	471	713
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets	**7,597**	**7,809**	**5,540**	**5,421**	**(91)**	**(64)**	**(15)**	**28**	**(505)**	**(335)**	**(9)**	**5**	**12,517**	**12,864**
Depreciation and amortization	(2,995)	(2,902)	(1,870)	(1,549)	(38)	(28)	(16)	(16)	(377)	(392)	64	79	(5,232)	(4,808)
Capital gains/losses realized on non-current assets	(25)	(25)	-	(3)	(1)	1	-	8	268	31	-	(21)	242	(9)
Impairment losses/ reversals of non-current assets	(11)	(126)	(9)	(19)	-	(2)	(7)	(3)	(1)	(19)	-	(275)	(28)	(444)
Operating result	**4,566**	**4,756**	**3,661**	**3,850**	**(130)**	**(93)**	**(38)**	**17**	**(615)**	**(715)**	**55**	**(212)**	**7,499**	**7,603**
Share of earnings of investments in associates accounted for using the equity method	2	2	(122)	-	-	-	-	-	143	(7)	-	-	23	(5)
Financial income													3,144	2,205
Financial expense													(5,131)	(4,197)
Income from continuing operations before tax													**5,535**	**5,606**
Income taxes for the year													(2,395)	(2,654)
Net income from continuing operations													**3,140**	**2,952**
Net income (loss) from discontinued operations/assets held for sale													550	(118)
Net income for the year													**3,690**	**2,834**
Net income attributable to:														
– Parent													**3,216**	**1,815**
– Minority interests													474	1,019

SEGMENT CAPITAL EXPENDITURES

(millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
– intangible assets	804	947	849	765	38	23	1	1	100	146	(7)	–	1,785	1,882
– tangible assets	1,866	1,320	1,269	1,523	27	16	18	14	208	247	–	–	3,388	3,120
	2,670	**2,267**	**2,118**	**2,288**	**65**	**39**	**19**	**15**	**308**	**393**	**(7)**	**–**	**5,173**	**5,002**

SEGMENT HEADCOUNT AT THE END OF THE YEAR (1)

(millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Consolidated total		
	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/04
Headcount	55,990	54,090	20,767	18,743	886	1,077	1,750	2,109	6,091	6,601	85,484	82,620	89,151

SEGMENT OTHER INFORMATION (1)

(millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Totale consolidato		
	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/05	12/31/04 restated	12/31/04
Operating assets by segment	35,375	35,616	41,622	22,219	591	389	305	339	4,022	4,044	(3,114)	(1,256)	78,801	61,351	64,623
Investments accounted for using the equity method	7	7	–	–	–	–	1	1	773	577	–	–	781	585	585
Discontinued operations/assets held for sale													528	4,719	1,180
Unallocated assets													15,900	15,342	15,446
Total assets													**96,010**	**81,997**	**81,834**
Operating liabilities by segment	9,632	9,653	6,106	5,508	201	155	252	287	2,711	1,752	(2,954)	(968)	15,948	16,387	16,895
Liabilities relating to Discontinued operations/assets held for sale													285	2,243	772
Unallocated liabilities													52,792	42,569	43,369
Shareholders' equity													**26,985**	**20,798**	**20,798**
Total shareholders' equity and liabilities													96,010	81,997	81,834

(1) Data as of December 31, 2005 by business unit are compared with data as of December 31, 2004 pro forma (considering discontinued operations the same companies considered as such at December 31, 2005, i.e. the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group).

Key economic and financial data referring to discontinued operations

(millions of euro)		Mobile (1)	Media (2)	Entel Chile Group	IT Market	Sub-total	Other, adjustments and eliminations (3)	Total
		Discontinued Operations						
Revenue	**2005**	**734**	**126**	**238**	**289**	**1,387**	**(53)**	**1,334**
	2004	1,177	127	925	706	2,935	(142)	2,793
Operating result before depreciation and amortization, capital gains/losses realized impairment reversals/ losses on non-current assets	**2005**	**185**	**9**	**77**	**7**	**278**	**(34)**	**244**
	2004	325	8	274	45	652	–	652
Operating result (3)	**2005**	**60**	**4**	**36**	**(3)**	**97**	**506**	**603**
	2004	125	4	96	21	246	(202)	44
Net income (loss) from discontinued/ operations/assets held for sale	**2005**	**28**	**1**	**26**	**(11)**	**44**	**506**	**550**
	2004	58	1	49	(7)	101	(219)	(118)
Capital expenditures	**2005**	**87**	**3**	**27**	**5**	**122**	**–**	**122**
	2004	200	2	141	28	371	–	371
Net financial debt	**12/31/2005**	**90**	**16**	**–**	**–**	**106**	**–**	**106**
	12/31/2004	118	–	–	(14)	104	–	104
	12/31/2004 restated (*)	411	24	377	(14)	798	–	798
Headcount at year-end (number)	**12/31/2005**	**863**	**184**	**–**	**–**	**1,047**	**–**	**1,047**
	12/31/2004	841	–	–	4,030	4,871	–	4,871
	12/31/2004 restated (*)	2,961	195	4,216	4,030	11,402	–	11,402

(*) The balance sheet amounts at December 31, 2005 are compared both with the adjusted figures at December 31, 2004 (which include as discontinued operations the same companies identified as such at December 31, 2005, namely: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù and the Buffetti group) and with the historical figures at December 31, 2004 (which include as discontinued operations the Finsiel group and Digitel Venezuela).

(1) Tim Hellas, Tim Perù and Digitel Venezuela.

(2) Buffetti group.

(3) Adjustments and eliminations relating to the operating result include, among others:
- 1/1 - 12/31/2005: the gains on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges) and Tim Perù (euro 120 million, net of the relative incidental charges), as well as other losses and incidental charges relating to the sale of the Entel Chile group, the Finsiel group and the Buffetti group, for a total of euro 24 million;
- Year 2004: the adjustment of the estimated sellings price of the Entel Chile group (a loss of euro 177 million) and the Finsiel group (a loss of euro 28 million).

b) Disclosure by geographical area

Breakdown of revenues by customer geographic location

(millions of euro)	2005	2004
Italy	23,754	23,736
Rest of Europe	2,265	1,746
North America	374	398
Central and South America	3,147	2,036
Australia, Africa and Asia	379	376
Total	**29,919**	**28,292**

Operating assets by geographic area

(millions of euro)	12/31/2005	12/31/2004
Italy	71,072	57,099
Rest of Europe	1,722	2,554
North America	14	30
Central and South America	5,962	4,885
Australia, Africa and Asia	31	55
Total	**78,801**	**64,623**

Capital expenditures in tangible and intangible assets by geographic area

(millions of euro)	**2005**	**2004**
Italy	3,992	3,955
Rest of Europe	313	204
North America	6	8
Central and South America	861	835
Australia, Africa and Asia	1	–
Total	**5,173**	**5.002**

Headcount by geographic area

Headcount at year-end (number)	**Executives**	**Middle management**	**Clerical staff**	**Technicians**	**Temporary job contracts**	**Total 12/31/2005**	**Total 12/31/2004**
Italy	1,395	4,227	63,786	660	1,919	71,987	72,828
Rest of Europe	46	210	1,781	1	782	2,820	2,893
North America	4	26	18	2	–	50	145
Central and South America	28	414	9,475	6	681	10,604	13,236
Australia, Africa and Asia	3	12	8	–	–	23	49
Total	**1,476**	**4,889**	**75,068**	**669**	**3,382**	**85,484**	**89,151**

c) Exchange rate used to translate foreign currency financial statements (1)

	Year-end exchange rates (Balance sheet items)		**Average exchange rates for the year (Statement of operations)**	
(local currency units for 1 euro)	**12/31/2005**	**12/31/2004**	**2005**	**2004**
Europe				
CHF Swiss Franc	1.55510	1.54290	1.54822	1.54382
GBP Pound Sterling	0.68530	0.70505	0.68379	0.67867
TRY Turkish Lira (*)	1.58750	1.82680	1.67000	1.76698
North America				
CAD Canadian Dollar	1.37250	1.64160	1.50924	1.61675
USD U.S. Dollar	1.17970	1.36210	1.24436	1.24390
Central and South America				
VEB Venezuelan Bolivar (*)	2,536.35500	2,615.23200	2,628.83494	2,321.68959
BOB Bolivian Boliviano	9.37862	10.92677	9.99316	9.85905
PEN Peruvian Nuevo Sol	4.05522	4.47041	4.09907	4.24376
ARS Argentinean Peso	3.57685	4.05770	3.63771	3.65974
CLP Chilean Peso	604.59625	759.37075	695.98714	757.93009
COP Colombian Peso	2,695.67349	3,200.93500	2,886.68182	3,264.30912
MXN Mexican Peso	12.58303	15.17924	13.54809	14.03686
BRL Brazilian Real	2.76132	3.61556	3.02888	3.63932
Other countries				
HKD Hong Kong Dollar	9.14740	10.58810	9.67904	9.68811
SGD Singapore Dollar	1.96280	2.22620	2.07066	2.10156
ILS Israeli Shekel	5.42426	5.87746	5.57951	5.56705
JPY Japanese Yen	138.90000	139.65000	136.84625	134.44459

(*) For the high-inflation countries (Turkey and Venezuela), the year-end exchange rates have been used to translate the statements of operations and cashflows.
(1) Source: Data processed by Central European Bank, Reuters and major central banks.

d) Related party transactions

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The economic, balance sheet and financial effects of related party transactions on the consolidated financial statements of the Telecom Italia Group at December 31, 2005 compared with those at December 31, 2004 are presented below.
The following tables present the major economic, balance sheet and financial transactions between companies consolidated line-by-line and associates.

(millions of euro)	**2005**	**2004**	
Revenue	348	320	These mainly refer to revenues in respect of Teleleasing SpA euro 230 million (euro 200 million in 2004), LI.SIT. SpA euro 68 million (euro 50 million in 2004), Shared Service Center Scrl euro 22 million (euro 32 million in 2004), Telecom Argentina SA euro 12 million (euro 10 million in 2004), Golden Lines Ltd euro 3 million (euro 10 million in 2004), ETECSA euro 6 million (euro 9 million in 2004), AVEA I.H.A.S. euro 2 million (euro 1 million in 2004) and Nordcom SpA euro 2 million.
Other income	6	5	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.
Purchases of materials and external services	272	409	These refer mainly to costs for rent from Tiglio I Srl euro 10 million (euro 50 million in 2004), Tiglio II Srl euro 12 million (euro 26 million in 2004) and Telegono Srl euro 1 million (euro 1 million in 2004), for TLC services from ETECSA euro 90 million (euro 123 million in 2004), Telecom Argentina SA euro 6 million (euro 6 million in 2004), AVEA I.H.A.S. euro 3 million (euro 1 million in 2004), for maintenance and assistance contracts from Shared Service Center Scrl euro 34 million (euro 106 million in 2004), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica SpA euro 52 million (euro 63 million in 2004), for TLC equipment from Teleleasing SpA euro 23 million (euro 15 million in 2004), sponsorship costs from Luna Rossa Challenge SL euro 17 million, costs for accessories and consumables from Baltea Srl euro 3 million (euro 4 million in 2004) and costs for remote medicine services from Telbios SpA euro 3 million (euro 1 million in 2004) and transport costs from Eurofly Service SpA euro 3 million.
Financial income	2	5	This includes accrued interest income on loans made to certain associates.
Financial expense	32	60	These refer to interest expenses from Teleleasing SpA euro 23 million (euro 20 million in 2004) for finance leases and interest expenses from Tiglio I Srl euro 4 million (euro 29 million in 2004) and Tiglio II Srl euro 4 million (euro 10 million in 2004) for sale and leaseback transactions.
Capital expenditures in tangible and intangible assets	147	71	These refer to acquisitions of computer projects from Shared Service Center Scrl euro 84 million (euro 21 million in 2004), Siemens Informatica SpA euro 42 million (euro 50 million in 2004) and Value Team SpA euro 8 million.

(millions of euro)	**12/31/2005**	**12/31/2004**	
Securities and non-current financial receivables	24	28	These refer mainly to medium/long term loans made to Aree Urbane Srl euro 21 million (euro 20 million at December 31, 2004) and Tiglio II Srl euro 3 million (euro 3 million at December 31, 2004) the decrease compared to December 31, 2004 is due to Golden Limes Ltd.
Miscellaneous receivables and other non-current assets	15	36	These refer to receivables from LI.SIT SpA euro 15 million for the residual additional paid-in capital paid.
Trade receivables, miscellaneous receivables and other current assets	214	190	These refer mainly to receivables from LI.SIT. SpA euro 102 million (euro 79 million at December 31, 2004), Teleleasing SpA euro 75 million (euro 67 million at December 31, 2004), Shared Service Center Scrl, euro 4 million (euro 7 million at December 31, 2004), Telecom Argentina SA euro 4 million (euro 8 million at December 31, 2004), Avea I.H.A.S. euro 5 million (euro 3 million at December 31, 2004), ETECSA euro 3 million (euro 2 million at December 31, 2004), Nordcom SpA euro 1 million and Tiglio I Srl euro 1 million (euro 9 million at December 31, 2004).

(millions of euro)	12/31/2005	12/31/2004	
Financial receivables and other current financial assets	0	32	The reduction from December 31, 2004 is due to the repayment of the loans made to AVEA I.H.A.S. and Telegono Srl
Cash and cash equivalents	14	1	These refer to treasury accounts with associates
Non-current financial liabilities	279	604	These refer to non-current financial payables for finance leases to Teleleasing SpA euro 203 million (euro 160 million at December 31, 2004), for sale and leaseback transactions to Tiglio I Srl euro 43 million (euro 329 million at December 31, 2004) and Tiglio II Srl euro 33 million (euro 112 million at December 31, 2004)
Miscellaneous payables and other non-current financial liabilities	10	5	These refer to the medium/long-term portion of deferred income on the sale of "IRU" transmission capacity to Telecom Argentina SA
Current financial liabilities	124	133	These refer to current financial payables for finance leases to Teleleasing SpA euro 113 million (euro 116 million at December 31, 2004), for sale and leaseback transactions to Tiglio I Srl euro 8 million (euro 11 million at December 31, 2004) and Tiglio II Srl euro 3 million (euro 4 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	118	126	These mainly refer to payables for supply transactions connected with operations and investment activities with Siemens Informatica SpA euro 56 million (euro 61 million at December 31, 2004), Shared Service Center Scrl euro 18 million (euro 34 million at December 31, 2004), LI.SIT SpA, principally for the portion of deferred investment income euro 11 million (euro 2 million at December 31, 2004), Teleleasing SpA euro 6 million (euro 10 million at December 31, 2004), ETECSA euro 11 million (euro 4 million at December 31, 2004), Tiglio I Srl euro 2 million (euro 2 million at December 31, 2004), Tiglio II Srl euro 4 million (euro 4 million at December 31, 2004), Telbios SpA euro 2 million (euro 1 million at December 31, 2004), Telecom Argentina SA euro 1 million, Baltea Srl euro 1 million (euro 1 million at December 31, 2004) and AVEA I.H.A.S. euro 1 million

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 276 million (euro 658 million at December 31, 2004) of which euro 121 million is on behalf of AVEA I.H.A.S. (euro 454 million at December 31, 2004), euro 54 million on behalf of Tiglio I S.r.l. (euro 56 million at December 31, 2004), euro 13 million on behalf of Tiglio II S.r.l. (euro 13 million at December 31, 2004), euro 44 million on behalf of Aree Urbane S.r.l. (euro 45 million at December 31, 2004) and euro 31 million on behalf of Italtel Holding S.p.A. (euro 35 million at December 31, 2004).

In addition to transactions with associates, the following table presents transactions with the companies controlled by associates. In 2005, these transactions refer to the companies of the Italtel group, a related party through the investment in the parent, Italtel Holding S.p.A., and starting from July 1, 2005, the companies of the Brasil Telecom Participacoes S.A. group through Solpart Participacoes S.A.

(millions of euro)	2005	2004	
Revenue	92	3	These refer to revenues for telecommunications services rendered to the Brasil Telecom Participacoes group euro 89 million
Purchases of materials and external services	30	23	These refer to costs for maintenance and assistance contracts from the Italtel group euro 20 million (euro 23 million in 2004) and TLC service costs from the Brasil Telecom Participacoes group euro 10 million
Capital expenditures in tangible and intangible assets	319	324	These refer to the purchase of telephone exchanges exclusively for the Italtel Group

(millions of euro)	12/31/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	8	2	These refer to telephone services rendered to the Italtel group euro 2 million (euro 2 million at December 31, 2004) and receivables from the Brasil Telecom Participacoes group connected with TLC operations euro 4 million and dividends to be collected euro 2 million
Trade payables, miscellaneous payables and other current liabilities	101	150	These refer to supply transactions connected with investment and operating activities with the Italtel group euro 100 million (euro 150 million at December 31, 2004) and connected with TLC activities euro 1 million with the Brasil Telecom Participacoes group

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through directors, statutory auditors and key managers of the Company.

(millions of euro)	**2005**	**2004**	
Revenue	33	40	These refer to revenues for information system and computer services and energy services supplied to the Pirelli group, euro 3 million (euro 5 million in 2004), and telephone services supplied to the Pirelli group, euro 7 million (euro 3 million in 2004), to the Edizione Holding group, euro 4 million (euro 5 million in 2004), to the Unipol group, euro 16 million (euro 13 million in 2004), to the ST Microelectronics group, euro 1 million (euro 2 million in 2004) and to related companies through Mr. Moratti, euro 2 million (euro 1 million in 2004). 2004 included euro 11 million of revenues with the Banca Intesa group and the Unicredito group which are no longer related parties
Purchases of materials and external services	112	120	These refer to R&D expenditures and matters regarding intellectual property rights from the Pirelli group, euro 72 million (euro 86 million in 2004), Document management services from Telepost, euro 21 million (euro 15 million in 2004), insurance services from the Unipol group, euro 10 million (euro 11 million in 2004), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A., a related company through Mr. Moratti, euro 5 million (euro 5 million in 2004), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 2 million (euro 2 million in 2004) and the purchase of electronic components from ST Microelectronics, euro 2 million (euro 1 million in 2004)
Other income	0	1	These refer to miscellaneous revenues with the Pirelli group
Other operating expenses	0	1	These refer to miscellaneous expenses with the Pirelli group
Capital expenditures in tangible and intangible assets	69	24	These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group (euro 24 million in 2004, principally in respect of TLC cable purchases)

(millions of euro)	**12/31/2005**	**12/31/2004**	
Trade receivables, miscellaneous receivables and other current assets	6	10	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group, euro 2 million (euro 8 million at December 31, 2004) and to the Edizione Holding group, euro 2 million (euro 2 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	43	65	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 34 million (euro 49 million at December 31, 2004), costs for Document Management services from Telepost, euro 7 million (euro 3 million at December 31, 2004), insurance costs from the Unipol group (euro 11 million at December 31, 2004), and the purchase of electronic components from ST Microelectronics, euro 1 million

Description of the main contracts between the Telecom Italia Group and associates, subsidiaries of associates and related parties through directors and key managers

Transactions with:

012 Golden Lines Int. Ltd
Revenue related
With regard to transactions for international telecommunications services with other operators, the contracts refer to data transmission and voice services.

Avea I.H.A.S.
Revenue related
The transactions refer to international telecommunications services, particularly roaming by Avea customers on the TIM Italia network, technical assistance services rendered and the recovery of costs for TIM Italia staff on loan to Avea.
Expense related
The transactions refer to interconnection fees for roaming traffic by TIM Italia customers on the Avea network.

Baltea S.p.A
Expense related
The transactions refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

ETECSA

Revenue related

The transactions refer to international telecommunications services, particularly voice and data transmission traffic terminating in Italy and Telecom Italia Sparkle traffic in transit and TIM Italia roaming.

Expense related

The contracts refer to the delivery of incoming international traffic to Cuba, prepaid by Telecom Italia Sparkle and by Telecom Italia San Marino, and roaming traffic originated by TIM customers on Cuba.

Eurofly Service S.p.A.

Expense related

The contract refers to the performance of non-scheduled air transport services to national and foreign destinations.

LI.SIT S.p.A.

Revenue related

The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 SL

Expense related

The contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.

Revenue related

The transactions refer to the supply of data network connections and software applications.

Expense related

The contract refers to the development of systems and computer solutions.

Shared Service Center S.c.a.r.l.

Revenue related

The contracts provide for the supply of telephone and data transmission services as well as the operation of the client's software applications at the Telecom Italia data center.

Expense related

The contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.

Expense related

The contracts provide for the supply of software services to Group companies, as well as specific services, such as: applications management services, support services for the operation of Telecom Italia OSS systems, and support services for the computer technology distributed and applications software development and technical services for TIM Italia.

Telecom Argentina group

Revenue related

The contracts refer to technical assistance provided by Telecom Italia for broadband development and technical assistance provided by TIM Italia for the study and implementation of Value Added Services, as well as data transmission and voice services as well as the supply of "IRU" transmission capacity by Telecom Italia Sparkle.

Expense related

Transactions relate to international telecommunications services.

Teleleasing S.p.A.
Revenue related
The transactions mainly arise from the application of the commercial cooperation agreement signed in 2000 between Telecom Italia and Teleleasing S.p.A., a company in the Mediobanca group. By virtue of this agreement, Telecom Italia offers customers the possibility of leasing telecommunications equipment. Teleleasing purchases the equipment from Telecom Italia and signs the leasing contract with the customer; Telecom Italia sees to the collection of lease payments after having acquired the rights.
Expense related
The contracts refer both to the lease of instrumental goods to Telecom Italia and its subsidiaries and the financial lease of a building.

Tiglio I S.r.l.
Expense related
The contracts refer to:
- the lease of buildings, premises also housing telecommunications equipment, with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia, for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Expense related
The contracts refer to:
- the lease of buildings, premises also housing telecommunications equipment, with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, for successive periods of six years, at the same terms and conditions as originally agreed.
- the lease of buildings solely for office use, for standard lease periods.

Telbios S.p.A.
Expense related
The contracts refer to the supply of services, products and hardware systems and software under remote medicine plans.

Telegono S.r.l.
Expense related
This refers to one contract for the lease of a building solely for office use, for standard lease periods.

* * *

Brasil Telecom Participaçoes group
Revenue related
The transactions between the TIM Brasil group and the Brasil Telecom group refer exclusively to trading transactions which fall under the ordinary administration of the operations of the two operators, which are regulated by market conditions normally defined and approved by the market regulatory agency. The revenue-related contracts refer to telecommunications services, interconnection services in particular, and site sharing.
Expense related
These refer to telecommunications services, interconnection services in particular, site sharing and line leases.

Italtel group
Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Edizione Holding group
Revenue related
The contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.

Expense related
The transactions refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.

Expense related
The contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the company F.C Internazionale Milano by Telecom Italia and Tim.

Pirelli & C. S.p.A.

Revenue related
The contracts provide for the supply of telecommunications and computer and information services.
Expense related
The following contracts should be noted:

- consulting and services contract regarding patent rights
  In May 2002, a contract was signed with Pirelli under which services and consulting were rendered for:
  - identification of a patent rights policy, by defining strategies which cater to business objectives, consistent for the entire Telecom Italia Group;
  - determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
  - assistance in negotiations over partnerships, licenses and cooperation contracts;
  - litigation and analyses of patents of the competition;
  - obtaining patents during each single stage (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
  - control over costs by project and/or by business;
  - training of technicians;
  - insertion of patent data and relative reports using a database;
  - control over results reached;
  - patent research;
  - filing and classification of important documents regarding patents;
  - services and consulting regarding brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the Group).
- contract regarding research and development
  The contract refers to technical cooperation between Telecom Italia and Pirelli in the areas of optical devices and advanced telecommunications networks.
  The contract provides:
  - with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
    - simple and complex devices, competence of Pirelli;
    - networks and services, competence of Telecom Italia;
    - subsystems, joint competence of Telecom Italia - Pirelli.
  - with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
    - Pirelli grants Telecom Italia an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area,
    - Telecom Italia grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices area",

  Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.
  Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, to Telecom Italia and to companies which it controls, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.

- contracts for the supply of apparatus and cables
  These contracts provide for the supply of user apparatus for network access and broadband services, the supply of "POTS Splitter" (apparatus installed in the exchange which allow the combined transmission of voice and data on the same duplex cable) as well as supplying cables;
- cooperation agreement concerning joint initiatives in the field of recycling and the disposal of end-of-life products.
  Under this contract, Pirelli has developed two research projects for Telecom Italia: one relating to the "Distributed Sensor Network" and the second to "Third-generation poles for the wireline network". The agreements state that Telecom Italia is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, such as cards of the SIM-card type or network poles, and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

Pirelli & C. Real Estate S.p.A.

Revenue related
The contracts provide for the supply of call center services, data transmission services and electrical energy.
Expense related
The contracts refer to project management (realization of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings).
Furthermore, Pirelli & C. Real Estate makes 35% investments in the capital of the companies which hold closed-end real estate investment funds to which the properties were contributed as part of the real estate transaction described in Item "Information on the Telecom Italia Group" and "Description of property", the effects of which are disclosed in Note "Tangible assets (owned and under finance leases)", and controls the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

ST Microelectronics group

Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The contracts provide for the supply of electronic components.

Telepost S.p.A.

Expense related
The contracts refer to the management of services connected with incoming and outgoing correspondence, outgoing correspondence generated on files with printing by a specialized center, management of the distribution of correspondence, management of the paper archives and management of all photocopy machines.

Unipol group

Revenue related
The contracts provide for the supply of telephone services that are operated by outsourcing with dedicated assistance and the sale of telecommunications equipment.
Expense related
The contracts refer to insurance policies for casualties (fire, third-party liability and accidents) and life insurance.

Benefits to key executives

"Key executives", that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Directors:	
Marco Tronchetti Provera	Chairman
Carlo Orazio Buora	Managing Director
Riccardo Ruggiero	Managing Director General Manager
Executives:	
Gustavo Bracco	Head of the Human Resources and Organization Group Function
Enrico Parazzini	Head of the Finance, Administration and Control Group Function Head of the Media Business Unit Managing Director of Telecom Italia Media S.p.A.
Massimo Castelli	Chief Marketing Officer Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of the Corporate and Legal Affairs Group Function
Luca Luciani	Head of Sales in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Giuseppe Sala	General Manager Head of Top Client and Customer Services in Operations
Germanio Spreafico	Head of Purchasing Service Unit

The total compensation paid by Telecom Italia or by companies controlled by the Group to key managers was euro 25 million, divided as follows:

(millions of euro)	**2005**
Short-term compensation	23
Other long-term compensation	2

e) Stock Option Plans of the Telecom Italia Group

Some listed companies of the Group have awarded forms of stock incentives to their employees (executives and middle management) using stock option plans.
At the end of 2005, the existing stock option plans relate to options which give the right to the subscription of Telecom Italia S.p.A. ordinary shares (including the options at one time granted by TIM S.p.A.) and Telecom Italia Media S.p.A. ordinary shares.
During 2005, the only new option grants refer to the Stock Option Plan of Telecom Italia Media S.p.A.
The stock option plans granted starting from January 1, 2005 are recognized in accordance with IFRS 2 (Share-Based Payment).
For the valuation of stock option plans, the Telecom Italia Group uses the binomial "Cox-Ross-Rubenstein (CRR)" model. This model calculates the possible values which the underlying stock can assume over the life of the option.

The stock option plans of the Group are described below.

Telecom Italia S.p.A. Stock Option Plans

In reading the description of the Telecom Italia S.p.A. stock option plans, account should be taken of the mergers that previously took place and which are described below:

- merger of Telecom Italia S.p.A. in Olivetti S.p.A.: starting from the date the merger came into effect (August 4, 2003), the holders of the options of the merged company and the merging company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the respective plans (one share for each option) was changed on the basis of the assignment ratio established for the shareholders of the two companies. In particular, each option of the pre-merger Telecom Italia S.p.A.

stock option plans allows the subscription of 3.300871 new post-merger Telecom Italia S.p.A. Ordinary Shares, whereas each option of the Olivetti S.p.A. stock option plans (which at December 31, 2005 are all ended) allowed the subscription of 0.471553 new Telecom Italia new ordinary shares post-merger. Accordingly, the subscription price of each Telecom Italia S.p.A. ordinary share coming from the exercise of the option was adjusted for each plan, dividing the exercise price of the options already determined by the respective assignment ratio;

- merger of TIM S.p.A. in Telecom Italia S.p.A.: starting from the date the merger came into effect (June 30, 2005), the holders of the options of the merged company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the TIM S.p.A. plans (one share for each option) was changed on the basis of the exchange ratio established for the shareholders of TIM S.p.A.
  Therefore, each option of the pre-merger TIM S.p.A. stock option plans allows the subscription of 1.73 post-merger Telecom Italia S.p.A. ordinary shares. Accordingly, the subscription price of each Telecom Italia S.p.A. ordinary share coming from the exercise of the options was adjusted for each plan, dividing the exercise price of the options already determined by the exchange ratio.

In describing the stock option plans, for the purpose of rendering the representation of the options homogeneous with that of the underlying subscribable shares to which they correspond, and to facilitate their measurement on the basis of the relative subscription prices, the Group has used the concept of “equivalent options”. By “equivalent options” is meant a quantity of options equal to those that would be necessary for the subscription of post-merger Telecom Italia S.p.A. Ordinary Shares to the extent of one share for each option exercised, or, more simply, a quantity of options equal to the number of Telecom Italia S.p.A. ordinary shares subscribable post-merger.
In this manner, the weighted average prices and the exercise prices indicated below, since they refer, depending on the cases, to the list prices of the assignable shares (eventually adjusted following the above mergers) or equivalent options, are consistent and directly comparable among each other.

The Telecom Italia S.p.A. stock option plans for the two-year period 2004 and 2005 are presented below.

- In the Olivetti S.p.A. meeting held on February 24, 2000, the Board of Directors voted to introduce the “Stock Option Plan 2002-2004”, with 29,500,000 options granted at an exercise price which was originally equal to euro 3.705 for each option and, after the adjustment for the capital increases against payment made by Olivetti in 2001, to euro 3.308 for each option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 13,910,814 equivalent options at an exercise price of euro 7.015118 per equivalent option.
  On February 9, 2001, 28,170,000 options of the Stock Option Plan 2002-2004 were cancelled after options were granted under the “Stock Option Plan February 2002-December 2004”, described below. The remaining 1,330,000 options, granted to managers who had terminated employment with Olivetti, remained outstanding.
  At December 31, 2003, 800,000 options of the Stock Option Plan 2002-2004 were outstanding and corresponded to 377,241 equivalent options, at an exercise price equal to euro 7.015118 per equivalent option.
  On December 15, 2004, the deadline for exercising the options expired and all the relative residual rights were forfeit. The plan is consequently ended.

- In the meeting held on February 9, 2001, the Olivetti S.p.A. Board of Directors voted to introduce the “Stock Option Plan February 2002-December 2004”, with 29,000,000 options granted at an exercise price which was originally equal to euro 2.81 for each option and, after the adjustment for the capital increases against payment made by Olivetti in 2001, to euro 2.515 for each option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 13,675,037 equivalent options at an exercise price of euro 5.333441 per equivalent option.
  The options of the Stock Option Plan February 2002-December 2004 were granted to replace the options in the Stock Option Plan 2002-2004 which, as described above, were canceled on that date.

At December 31, 2003, 5,940,000 options of the Stock Option Plan February 2002-December 2004 were outstanding, corresponding to 2,800,995 equivalent options, at an exercise price equal to euro 5.333441 per equivalent option.
On December 31, 2004, the deadline for exercising the options expired and all the relative residual rights were forfeit. The plan is consequently ended.

- In the meetings held on October 28, 1999 and December 17, 1999, the Telecom Italia S.p.A. Board of Directors voted to introduce the "Stock Option Plan 1999", with 16,595,400 options granted to top management at an exercise price of lire 13.150 per option (equal to euro 6.79). Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., corresponded to 54,779,275 equivalent options, at an exercise price of euro 2.057033 per equivalent option.

  The options were divided as follows:
  - a lot of 4,905,500 options, exercised by the end of 1999;
  - a lot of 5,754,900 options, which would have vested during the period January 2001 to December 2003, on condition that the average market price of Telecom Italia ordinary shares reached a pre-fixed performance parameter in December 2000;
  - a lot of 5,935,000 options, which would have vested during the period January 2002 to December 2004, on condition that the average market price of Telecom Italia ordinary shares reached a pre-fixed performance parameter in December 2001;

  The performance parameters were both met and the options all were vested.

  At December 31, 2003, 4,511,901 options of the Stock Option Plan 1999 were outstanding, corresponding to 14,893,133 equivalent options, at an exercise price equal to euro 2.057033 per equivalent option.

  At December 31, 2004, the deadline for exercising the options of the last lot expired and the options of the Stock Option Plan 1999 had been completely exercised. The plan is consequently ended.

- In the meeting held on September 11, 2000, the Telecom Italia S.p.A. Board of Directors voted to introduce the "Stock Option Plan 2000", with 51,430,000 options granted at an exercise price of euro 13.815 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 169,763,796 equivalent options, at an exercise price of euro 4.185259 per equivalent option.

  The options were divided into three lots of 15,460,000 options each, vesting, respectively, in July 2001, 2002 and 2003 and an extraordinary fourth lot of 5,050,000 options vesting in July 2003. The Stock Option Plan 2000 provides for different expiration dates depending on the date the options vest: the first lot expires in July 2006, the second in June 2007, the third lot and the extraordinary lot in June 2008. For each of the first three lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The options of the extraordinary lot, instead, would have vested when the third lot vested only if, in addition to the conditions being met for the third lot, another performance parameter had been met which provided that the average price of Telecom Italia ordinary shares had not been lower than a specified minimum amount. If, in reference to one of the option lots, the performance criteria had not been met in a specific financial year, but were met during the course of the following year, then the options of that lot would be considered vested in that last year. The first and second lots met the performance criteria and, consequently, the options vested. The third lot and the extraordinary lot did not meet the performance criteria and, therefore, such options did not vest and were forfeit in 2003.

  At December 31, 2005, the same as at December 31, 2004, 10,699,996 options of the Stock Option Plan 2000 were outstanding, corresponding to 35,319,216 equivalent options, at an exercise price equal to euro 4.185259 per equivalent option.

  At the end of 2004 and 2005, the market price of Telecom Italia S.p.A. ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on July 27, 2001, the Telecom Italia S.p.A. Board of Directors voted to introduce the "Stock Option Plan 2001", with 67,025,000 options granted to managers and middle management of the Group at an exercise price of euro 10.488 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 221,240,879 equivalent options, at an exercise price of euro 3.177343 per equivalent option.
  The options were divided into two lots of 33,512,500 options each, vesting, respectively, in April 2002 and 2003, expiring, respectively, in April 2007 and 2008.
  For each of the two lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia S.p.A. ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The first lot met the performance criteria and, consequently, the options vested. The second lot, instead, did not meet the performance criteria and, therefore, such options did not vest and were forfeit in 2003.
  At the beginning of 2005, 31,895,000 options of the Stock Option Plan 2001 were outstanding. During 2005, the rights to 32,500 options elapsed due to the termination of employment. At the end of 2005, 31,862,500 options are outstanding, corresponding to 105,173,383 equivalent options, at an exercise price equal to euro 3.177343 per equivalent option.
  At the end of 2004 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on February 13, 2002, the Telecom Italia S.p.A. Board of Directors voted to introduce the "Stock Option Plan 2002 Top", with 11,800,000 options granted to sixteen top managers of the Group at an exercise price of euro 9.203 per option. Such options, following the merger of Telecom Italia S.p.A., in Olivetti S.p.A. correspond to 38,950,278 equivalent options, at an exercise price of euro 2.788052 per equivalent option.
  The options were divided into three lots, respectively, of 3,540,000, 3,540,000 and 4,720,000 options, vesting, respectively, in February 2003, 2004 and 2005 and expiring, respectively, in February 2008, 2009 and 2010. The Stock Option Plan 2002 Top could be exercised at the end of the vesting period and was not subject to performance parameters.
  At the beginning of 2005, 10,500,000 options of Stock Option Plan 2002 Top are outstanding. During 2005, 810,885 options were exercised and the rights to 209,115 options elapsed due to the termination of employment. At December 31, 2005, 9,480,001.33 options are outstanding, corresponding to 31,292,243 equivalent options, at an exercise price equal to euro 2.788052 per equivalent option.
  At the end of 2004, the market value of Telecom Italia ordinary shares was higher than the exercise price per equivalent option whereas at the end of 2005 it was lower.

- In the meeting held on March 26, 2002, the Telecom Italia S.p.A. Board of Directors considered the objective ineffectiveness of the Stock Option Plan 2000 as an incentive and as a means of retaining management loyalty, in relation to the exercise price of the options compared to the general market trend of the stock market. As a result, the Board voted to introduce the "Stock Option Plan 2002", set aside for management of the Group who were already grantees of the Stock Option Plan 2000 and other managers hired after July 27, 2001 (starting date of the Stock Option Plan 2001). The grantees of the original Stock Option Plan 2000, on condition of voluntarily relinquishing the relative options, could take part in the new plan. The Stock Option Plan 2002 can be exercised at the end of the vesting period and is not subject to performance parameters.
  The options were granted in March, in August and in October 2002. In particular, mention of the following should be made:

  1. in March 2002, 29,958,000 options were granted at an exercise price of euro 9.665 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 98,887,493 equivalent options, at an exercise price of euro 2.928015 for each equivalent option.

The options were divided into three lots, respectively, of 8,987,400, 8,987,400 and 11,983,200 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.
At the beginning of 2005, 22,412,501 options granted in March 2002 were outstanding. During 2005, 1,707,447 options were exercised and the rights to 800,000 options elapsed due to the termination of employment. At December 31, 2005, 19,905,053.50 options are outstanding, corresponding to 65,703,601 equivalent options, at an exercise price equal to euro 2.928015 per equivalent option.
At the end of 2004, the market value of Telecom Italia S.p.A. ordinary shares was higher than the exercise price per equivalent option whereas at the end of 2005 it was lower;

2. in August 2002, 840,000 options were granted at an exercise price of euro 7.952 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 2,772,732 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.
The options were divided into three lots, respectively, of 252,000, 252,000 and 336,000 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.
At the beginning of 2005, 780,000 options granted in August 2002 were outstanding. During 2005, 61,000 options were exercised. At December 31, 2005, 719,000.43 options are outstanding, corresponding to 2,373,319 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.
At the end of 2004 and 2005, the market value of Telecom Italia S.p.A. ordinary shares was higher than the exercise price per equivalent option;

3. in October 2002, 200,000 options were granted at an exercise price of euro 7.721 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 660,173 equivalent options, at an exercise price equal to euro 2.339080 per equivalent option.
The options were divided into three lots, respectively, of 60,000, 60,000 and 80,000 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.
At the beginning of 2005, 200,000 options granted in October 2002 were outstanding. During 2005, they were completely exercised. At December 31, 2005, therefore, there are no options of the Stock Option Plan 2002 granted in October 2002 outstanding at that date.

The stock option plans at one time awarded by TIM (pre-merger with Telecom Italia S.p.A.) and by TIM Hellas (sold in 2005) for the two-year period 2004-2005 are described below.

- In the meeting held on December 22, 1999, the TIM S.p.A. Board of Directors voted to introduce the "Stock Option Plans 2000-2002", with 21,210,000 options granted at an exercise price of euro 6.42 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., correspond to 36,693,300 equivalent options, at an exercise price of euro 3.710983 per equivalent option.
The options were divided into three lots, respectively, of 6,999,300, 6,999,300 and 7,211,400 options, vesting, respectively in May 2000, June 2001 and 2002 and all expiring in December 2008. This date represents an extension of the original expiration date of December 31, 2005. The options can be exercised subject to reaching an objective minimum parameter to be measured with reference to the results achieved by the company in terms of E.V.A. (Economic Value Added), net of financial investments, compared to the minimum measurement indicated in the annual budget, respectively, in the years 1999, 2000 and 2001. The parameter was reached and, consequently, the options became exercisable in a continuing manner.
At the beginning of 2005, 12,302,319 options of the Stock Option Plans 2000-2002 were outstanding. During 2005, the rights to 566,666 options elapsed due to the termination of employment. At December 31, 2005, 11,735,653 options are outstanding, corresponding to 20,302,679 equivalent options, at an exercise price equal to euro 3.710983 per equivalent option.

At the end of 2004, the market value of TIM Ordinary Shares was lower than the exercise price per option and at the end of 2005, the market value of Telecom Italia S.p.A. ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on December 19, 2000, the TIM S.p.A. Board of Directors voted to introduce the "Stock Option Plans 2001-2003", with 44,790,000 options granted at an exercise price of euro 8.671 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., correspond to 77,486,700 equivalent options, at an exercise price of euro 5.012139 per equivalent option.
  The options were divided into three lots of 14,780,700, 14,780,700 and 15,228,600 options, vesting, respectively, in December 2001, 2002 and 2003 and all expiring in December 2005. For each of the three lots, the options can be exercised on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of TIM Ordinary Shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. All the lots met the performance criteria and, consequently, the options became exercisable.
  At the beginning of 2005, 1,190,000 options of the Stock Option Plans 2001-2003 were outstanding, corresponding to 2,058,700 equivalent options, at an exercise price equal to euro 5.012139 per equivalent option. On December 31, 2005, the deadline for exercising the options expired and all the relative residual rights are forfeit. The plans are consequently ended.

- In the meeting held on May 10, 2001, the TIM S.p.A. Board of Directors voted to supplement the "Stock Option Plans 2001-2003" and to introduce the "Supplementary Plans 2001-2003", with another 12,047,000 options granted at an exercise price of euro 7.526 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., correspond to 20,841,310 equivalent options, at an exercise price of euro 4.350289 per equivalent option.
  The options of the Supplementary Plans 2001-2003 had the same features and were subject to the same performance conditions as the Stock Option Plans 2001-2003 except for the different grant date.
  The options were divided into three lots of 3,975,510, 3,975,510 and 4,095,980 options, vesting, respectively, in December 2001, 2002 and 2003 (only options which vested could be exercised also in the months of March, June, September and December in the years from 2002 to 2005 inclusive), all expiring in December 2005. All the lots met the performance criteria and, consequently, the options became exercisable.
  At the beginning of 2005, 499,000 options of the Supplementary Plans 2001-2003 were outstanding, corresponding to 863,270 equivalent options, at an exercise price equal to euro 4.350289 per equivalent option. On December 31, 2005, the deadline for exercising the options expired and all the relative residual rights were forfeit. The plans are consequently ended.

- In the meeting held on February 12, 2002, the TIM S.p.A. Board of Directors voted to introduce the "Stock Option Plans 2002-2003", with 25,510,000 options granted to managers and employees at an exercise price of euro 5.67 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., correspond to 44,132,300 equivalent options, at an exercise price of euro 3.277457 per equivalent option.
  The options were divided into two lots of 12,755,000 options each, vesting, respectively, in December 2002 and 2003 and all expiring in December 2008. The Stock Option Plans 2002-2003 could be exercised at the end of the vesting period and were not subject to performance parameters.
  At the beginning of 2005, 23,280,000 options of the Stock Option Plans 2002-2003 were outstanding. During 2005, the rights to 1,255,000 options elapsed due to the termination of employment. At the end of 2005, 22,025,000 options are outstanding, corresponding to 38,103,250 equivalent options, at an exercise price equal to euro 3.277457 per equivalent option.
  At the end of 2004, the market value of TIM Ordinary Shares was lower than the exercise price per option and at the end of 2005 the market value of Telecom Italia S.p.A. ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on May 6, 2002, the TIM S.p.A. Board of Directors voted to introduce the "Stock Option Plans 2003-2005" set aside for management of the Group who already held options in the Stock Option Plans 2001-2003 and Supplementary Plans 2001-2003 and new grantees. The grantees who already held options in the previous plans could take advantage of the new plans, on condition of voluntarily relinquishing the relative options beforehand. The Stock Option Plans 2003-2005 provide for 50,057,000 options to be granted at an exercise price equal to euro 5.07 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., correspond to 86,598,610 equivalent options, at an exercise price of euro 2.930636 per equivalent option. Of the total options, 48,142,000 were granted to grantees of the previous plans and 1,915,000 were granted to new grantees.
  The options were divided into three lots, respectively, of 16,518,810, 16,518,810 and 17,019,380 options, vesting, respectively, in May 2003, May 2004 and December 2004 and expiring, respectively, in December 2008, 2009 and 2010. The Stock Option Plans 2003-2005 could be exercised at the end of the vesting period and were not subject to performance parameters
  At the beginning of 2005, 7,861,000 options of the Stock Option Plans 2003-2005 were outstanding, corresponding to 13,599,530 equivalent options. During 2005, 5,945,100 options, corresponding to 10,285,023 equivalent options, were exercised. At the end of 2005, 1,915,900 options are outstanding, corresponding to 3,314,507 equivalent options, at an exercise price equal to euro 2.930636 per equivalent option.
  At the end of 2004, the market value of TIM S.p.A. Ordinary Shares was higher than the exercise price per option and at the end of 2005, the market value of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- With reference to TIM Hellas S.A., during 2004, 100,000 new options were granted and exercised together with 583,500 options previously issued. Furthermore, during 2004, 114,500 options previously issued had expired. Therefore, at the end of 2004, all the TIM Hellas S.A. plans had ceased to exist.

Movements in the TIM S.p.A. and TIM Hellas S.A. stock option plans for the period January 1, 2004 to June 30, 2005, effective date of the merger of TIM S.p.A. in Telecom Italia S.p.A. are presented in the following table.

	Number of options	**Weighted average price per option (in euro)**
Options outstanding at December 31, 2003	85,516,318	5.54
Exercised	(37,536,700)	5.16
Granted	100,000	10.24
Expired and forfeit (1)	(2,947,299)	5.56
Options outstanding at December 31, 2004	45,132,319	5.87
Exercised	(5,945,100)	5.07
Elapsed (2)	(1,136,666)	5.90
Options outstanding at June 30, 2005	38,050,553	5.99
Equivalent options at June 30, 2005 (3)	65,827,457	3.46

(1) These options expired since they were not exercised during the stated period or were forfeit since they did not become vested because of failure to reach the performance parameters.
(2) These options elapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).
(3) Equivalent number of options and relative weighted average price deriving from the application of the TIM S.p.A. - Telecom Italia S.p.A. conversion ratio equal to 1.73.

The following table presents, with reference to the TIM S.p.A. stock option plans outstanding at December 31, 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants:

	Options outstanding at December 31, 2004			Equivalent options exercisable at December 31, 2004	
Price range (euro)	**Options**	**Residual weighted average life (years)**	**Weighted average grant price (euro)**	**Options**	**Weighted average grant price (euro)**
5.07 - 5.67	31,141,000	4.09	5.52	31,141,000	5.52
6.42 - 8.67	13,991,319	3.64	6.65	13,991,319	6.65
	45,132,319			45,132,319	

Movements in all the Telecom Italia stock option plans for the year 2004 and 2005 (including plans granted by TIM S.p.A.) are presented below:

	Number of equivalent options	Weighted average price per equivalent option (in euro)
Outstanding at December 31, 2003	284,339,845	3.14
Elapsed on January 1, 2004	(1,788,412)	2.93
Exercised	(18,057,012)	2.18
Expired and forfeit (1)	(11,264,330)	3.69
Outstanding at December 31, 2004	253,230,091	3.18
Elapsed on January 1, 2005	(755,890)	3.02
Exercised	(9,174,215)	2.83
Elapsed (2)	(4,623,274)	3.04
Expired and forfeit (1)	(2,921,970)	4.82
Equivalent options coming from the acquired company TIM S.p.A. (3)	65,827,456	3.46
Outstanding at December 31, 2005	301,582,198	3.24

(1) These equivalent options expired since they were not exercised during the stated period or were forfeit since they did not become vested because of failure to reach the performance parameters.

(2) These equivalent options elapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

(3) Equivalent number of options coming from the merged company TIM S.p.A. outstanding at June 30, 2005 (effective date of the merger with Telecom Italia S.p.A.). Additional details are provided in the TIM S.p.A. stock options plans pre-merger.

The following tables present, with reference to the Telecom Italia S.p.A. stock option plans outstanding at December 31, 2005 and 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants.

	Equivalent options outstanding at December 31, 2005			Equivalent options exercisable at December 31, 2005	
Price range (euro)	**Equivalent options**	**Residual weighted average life (years)**	**Weighted average grant price (euro)**	**Equivalent options**	**Weighted average grant price (euro)**
2.41	2,373,319	3.30	2.41	2,373,319	2.41
2.78 - 2.94	100,310,351	3.34	2.88	100,310,351	2.88
3.17 - 3.72	163,579,312	1.90	3.27	163,579,312	3.27
4.18 - 5.01	35,319,216	1.00	4.19	35,319,216	4.19
	301,582,198			301,582,198	

	Equivalent options outstanding at December 31, 2004			Equivalent options exercisable at December 31, 2004	
Price range (euro)	**Equivalent options**	**Residual weighted average life (years)**	**Weighted average grant price (euro)**	**Equivalent options**	**Weighted average grant price (euro)**
2.34 - 2.41	3,234,844	4.31	2.39	1,861,686	2.39
2.79 - 2.93	109,114,801	4.26	2.88	65,280,732	2.89
3.18 - 4.19	140,880,446	2.22	3.43	140,880,446	3.43
	253,230,091			208,022,864	

Telecom Italia Media S.p.A. Stock Option Plans

All the options in the stock option plans of Telecom Italia Media give the right to subscribe to a quantity of Telecom Italia Media Ordinary Shares equal to the number of options exercised, at a specific exercise price.

The Telecom Italia Media S.p.A. stock option plans for the two-year period 2004 and 2005 are presented below.

- In the meeting held on January 25, 2001, the Telecom Italia Media S.p.A. (formerly Seat S.p.A.) Board of Directors voted to introduce the "Stock Option Plan 2000-2002", with 26,687,334 options granted at an exercise price of euro 1.220.
  The options were divided into three lots, respectively, of 14,678,034, 6,004,650 and 6,004,650 options, vesting, respectively, in May 2001, 2002 and 2003 and expiring, respectively, in April 2004, 2005 and 2006.
  At December 31, 2004, 940,313 options of the Stock Option Plan 2000-2002 were outstanding. During 2005, the following changes took place: 428,210 options were relinquished by the grantees to be able to take advantage of the Plan 2005, the rights relating to 278,030 options elapsed due to the termination of employment and the date expired for the exercise of the remaining 234,073 options. At December 31, 2005, therefore, there are no longer any options outstanding.

- In the meeting held on May 17, 2002, the Telecom Italia Media S.p.A. (formerly Seat S.p.A.) Board of Directors voted to introduce the "Key People Plan", with 46,400,000 options granted at an exercise price of euro 0.8532.
  The options were divided into three lots, respectively, of 13,920,000, of 13,920,000 and 18,560,000 options, vesting, respectively, in May 2003, 2004 and 2005 and all expiring in May 2008.
  At December 31, 2004, 14,900,000 options of the Key People Plan were outstanding. During 2005, the following changes took place: 11,350,00 options were relinquished by the grantees to be able to take advantage of the Plan 2005, the rights relating to 1,300,000 options elapsed due to the termination of employment. At December 31, 2005, 2,250,000 options are outstanding.
  At the end of 2004 and 2005, the market value of Telecom Italia Media ordinary shares was lower than the exercise price.

- In the meeting held on February 23, 2005, the Telecom Italia Media S.p.A. Board of Directors voted to introduce the "Plan 2005", set aside for employees in service at Telecom Italia Media and its subsidiaries, identified on the basis of their specific responsibilities and/or expertise who were already grantees of the Stock Option Plan 2000-2002 and the Key People Plan. The grantees of the previous plans, on condition of voluntarily relinquishing the relative options beforehand, could take part in the new plan. The previous plans, however, remain in place at the same conditions, procedures and regulations for the employee grantees of the other Companies of the Telecom Italia Group, for retired employees and for employees of the Media Business Unit who did not relinquish the options.
  Under the Plan 2005, 39,725,000 options were granted at an exercise price of euro 0.3826.
  The options are divided into three lots, respectively of 15,890,000, 11,917,500 and 11,917,500 options, vesting, respectively, in July 2005, January 2006 and January 2007 and all expiring in December 2008.
  During 2005, 11,005,170 options were exercised and 3,465,000 elapsed due to the termination of employment. At December 31, 2005, the total number of options outstanding is 25,254,830. At the end of 2005, the market value of Telecom Italia Media ordinary shares was higher than the exercise price.

  On February 23, 2005, at the same time the options relating to the Plan 2005 were granted, the fair value of these options was determined, using the binomial CRR model on the basis of the following variables:
  - average price of the share coming from the exercise of the options: euro 0.3826 (average of the official market prices of Telecom Italia Media ordinary shares from January 23, 2005 to February 23, 2005 - opening and closing dates included);
  - exercise price: equal to the price of the share coming from the exercise of the options (euro 0.3826);

- volatility: at the date of valuation, the historical volatility of the stock of 37.30% was used;
- option period: 3.85 years (from February 23, 2005 to December 31, 2008), corresponding to the end of the life of the option);
- expected dividend yield: zero, on the basis of the consideration that Telecom Italia Media S.p.A. up to February 23, 2005 has never paid out dividends;
- risk-free interest rate: the rate on Italian Government securities (BTP) was considered, interpolated at the expiration date of the option: December 31, 2008. Therefore, a rate of 2.282% was applied.

The fair value was determined as euro 0.1246 per option.

Movements in the Telecom Italia Media S.p.A. stock option plans for the years 2004 and 2005 are presented in the following table.

	Number of options	Weighted average price per option (in euro)
Options outstanding at December 31, 2003	20,119,299	0.91
Expired (1) and elapsed (2)	(4,278,986)	1.06
Options outstanding at December 31, 2004	15,840,313	0.87
Granted	39,725,000	0.38
Exercised	(11,005,170)	0.38
Expired and forfeit (1)	(234,073)	1.22
Elapsed (2)	(16,821,240)	0.77
Options outstanding at December 31, 2005	27,504,830	0.42

(1) These equivalent options expired since they were not exercised during the stated period or were forfeit since they did not become vested because of failure to reach the performance parameters.
(2) These equivalent options elapsed since they could no longer be exercised as a result of the termination of employment and/or for other reasons (e.g. relinquished by the interested party).

The following tables present, with reference to the stock option plans outstanding at December 31, 2005 and 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants:

	Options outstanding at December 31, 2005			Options exercisable at December 31, 2005	
Price range (euro)	Options	Residual weighted average life (years)	Weighted average grant price (euro)	Options	Weighted average grant price (euro)
0.38	25,254,830	3.00	0.38	4,044,830	0.38
0.85	2,250,000	2.42	0.85	2,250,000	0.85
	27,504,830			6,294,830	

Of the 27,504,830 options outstanding at December 31, 2005, the number of options exercisable is 6,294,830. 50% of the remaining 21,210,000 options will become exercisable (10,605,000) on January 1, 2006 and remaining will become exercisable on January 1, 2007.

	Options outstanding at December 31, 2004			Options exercisable at December 31, 2004	
Price range (euro)	Options	Residual weighted average life (years)	Weighted average grant price (euro)	Options	Weighted average grant price (euro)
0.85	14,900,000	3.43	0.85	8,940,000	0.85
1.22	940,313	0.85	1.22	940,313	1.22
	15,840,313			9,880,313	

f) Research and development

During the year 2005, research and development activities at Telecom Italia Group were mainly carried out by the "Innovation & Engineering Services" function (formely Telecom Italia Lab) under Operations, in collaboration with Pirelli Labs, and by Olivetti S.p.A.

Total costs incurred in 2005 amounted to approximately euro 180 million (euro 181 million in the prior year), include external costs, labor costs of dedicated staff and depreciation and amortization.
Such costs were mainly incurred by the Wireline and Mobile Business Units. The research activities expensed during the year amount to euro 128 million (euro 144 million in 2004).
The development activities, which were made available for use during the year, were capitalized to the network or to software costs for an amount equal to euro 52 million (euro 37 million in 2004).

Research and development activities conducted by the Telecom Italia Group are detailed in the Report on Operations in the "Sustainability Section under "Research, Development and Innovation".

g) Operating leases

a) Revenue-related

The Group has signed lease contracts for direct connections, in particular numeric and analogic lines, offered under wholesale plans to interconnecting operators. At December 31, 2005, the amount of lease installments receivable on non-cancelable lease contracts is the following:

(millions of euro)	**Operating lease payments receivable**
Within 1 year	152
From 2 to 5 years	88
Beyond 5 years	–
Total	**240**

b) Expense-related

The Group has signed lease contracts for buildings (for periods from 6 to 9 years).
At December 31, 2005, the amount of lease installments payable on non-cancelable lease contracts is the following:

(millions of euro)	**Operating lease payments payable**
Within 1 year	233
From 2 to 5 years	716
Beyond 5 years	311
Total	**1,260**

Note 39 - Events subsequent to December 31, 2005

Sale of Corporaciòn Digitel C.A.

On January 19, 2006, Telecom Italia, through its subsidiary TIM International N.V., signed the agreement for the sale of the 100% interest in the Venezuelan mobile operator Corporaciòn Digitel C.A. (Digitel Venezuela) to Telvenco S.A., on the basis of an enterprise value of the company equal to USD 425 million.
The execution of the agreement is subject to the receipt of the necessary authorizations from the relevant Venezuelan authorities.
The sale will reduce the net financial debt of the Group by approximately euro 425 million.
The sale of the investment in Corporaciòn Digitel C.A. falls under the strategy to rationalize the portfolio of international investments and focus the presence of the Telecom Italia Group in countries where it is possible to take better advantage of the potential to integrate the fixed and mobile platforms and where there is a national license.

Agreement with Sky for movie Channels on Alice Home TV

On January 23, 2006, Telecom Italia and Sky signed an agreement for the marketing of the Sky movie channels on “Alice Home TV”, the TV via Internet owned by Telecom Italia, starting from February 2006.
The agreement allows Telecom Italia to broadcast Sky movie channels (Sky Cinema 1, Sky Cinema 2, Sky Cinema 3, Sky Cinema Autore, Sky Cinema Max, Sky Cinema 16:9, Sky Cinema Classics, Studio Universal and Rai Sat Cinema World) dedicated to the best national and international movies.
This agreement brings a broader range of films to “Alice Home TV” which already offers more than 400 movies on demand thanks to agreements reached with major Italian and foreign motion picture companies.
The “movie package” will be offered at a cost of euro 16 per month (inclusive of VAT) and can be purchased, not only when the request is made to activate “Alice Home TV”, but also through the TV by those who already have Telecom Italia's IPTV service.
Starting from February 2006, the “Alice Home TV” service, launched in 2005 in Bologna, Milan, Palermo and Rome was extended to a further 17 Italian cities (Alessandria, Bari, Biella, Brescia, Cagliari, Catania, Florence, Genoa, Modena, Naples, Padua, Reggio Emilia, Sondrio, Turin, Trieste, Venice and Verona), reaching about 4 million families.

Repayment of Notes - Telecom Italia Finance S.A.

On January 3, 2006, the “Telecom Italia Finance S.A. repaid on maturity the euro 1,100,000,000 Floating Rate Notes due 2006” issued by Telecom Italia Finance S.A. on May 29, 2002, indexed to the 3-month Euribor plus a spread of 1.25%, for a residual amount of euro 1,045.4 million.

Early repayment of Notes - Telecom Italia S.p.A.

On January 30, 2006, the first permissible date allowed by the bond indenture, the floating rate bonds maturing October 29, 2007 denominated “Telecom Italia S.p.A. euro 1,000,000,000 Floating Rate Notes due 2007” were repaid in advance, after the resolution passed by the Telecom Italia S.p.A. Board of Directors' meeting held on December 21, 2005.

Repurchase of Own Treasury Notes - Telecom Italia Finance S.A.

In January 2006, own bonds were repurchased by Telecom Italia Finance S.A. for euro 48 million out of the notes for euro 2,513 million, maturing April 20, 2006. The residual nominal debt is thus equal to euro 2,465 million.

In addition, notes convertible into Telecom Italia S.p.A. or Seat Pagine Gialle S.p.A. and Telecom Italia Media S.p.A. shares with a repayment premium, maturing March 15, 2006 were purchased for a nominal amount of euro 25 million (euro 29 million is the repayment amount of the notes repurchased) and notes for euro 2,250 million, with coupon interest of 6.575%, maturing July 30, 2009 were repurchased for a nominal amount of euro 20 million. The residual nominal debt of those notes issues is thus equal to euro 1,710 million and euro 2,230 million, respectively.

Note 40 - List of Companies of the Telecom Italia Group

AIn accordance with Consob resolution No. 11971 dated May 14, 1999 and subsequent amendments (articles 18 and 126 of the Regulations), the list is provided here of the significant companies and investments of the Group.

The list is divided by type of control, consolidation method and business segment.

For each company, the following is indicated: name, head office, country and share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders' meeting, if different than the percentage holding of share capital, and which companies hold the investment.

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

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
Wireline						
BBEYOND B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	82,430,000	99.9939		TELECOM ITALIA INTERNATIONAL N.V.
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		MEDITERRANEAN NAUTILUS S.A.
EMAX TRADE S.r.l. (in liquidation) (Internet site management)	MILAN (ITALY)	EUR	100,000	100.0000		MATRIX SPA
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	HAMBURG (GERMANY)	EUR	91,521,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
INTERCALL S.A. (sell of prepaid cards and audiotex services)	PARIS (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	2,000,000	99.9700 0.0300		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS LTD
LATIN AMERICAN NAUTILUS BOLIVIA SRL (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9999 0.0001		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	105,353,711	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES LTDA LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	105,354,710	99.9999 0.0001		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS LTD
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	8,779,132,671	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA' (COLOMBIA)	COP	4,148,521,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO D.F. (MEXICO)	MXN	100,000	99.9900 0.0100		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	43,374,195	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS S.A. (holding company)	LUXEMBOURG	USD	55,500,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLES (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEB	43,425,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LIBERTY SURF GROUP S.A. (internet provider)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.

List of companies consolidated on a line-by-line basis

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
LIBERTY SURF NETWORK B.V. (telephony services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.
LIBERTY SURF COMMUNICATIONS LTD (in liquidation) (telephony services)	LONDON (UK)	GBP	1,000	100.0000		LIBERTY TELECOM B.V.
LIBERTY TELECOM B.V. (wireline)	AMSTERDAM (HOLLAND)	EUR	3,871,142	100.0000		LIBERTY SURF NETWORK B.V.
LOQUENDO SOCIETÀ PER AZIONI (research, development and marketing of technologies and equipment regarding voice synthesis recognition and/or interaction)	TURIN (ITALY)	EUR	3,573,741	99.9846		TELECOM ITALIA S.p.A.
MATRIX S.p.A. (internet services)	MILAN (ITALY)	EUR	1,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,151	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l. (installation and management submarine cable systems in Italian seas)	ROME (ITALY)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
MED-1 SUBMARINE CABLES Ltd (installation and management of cable Lev)	TEL AVIV (ISRAEL)	NIS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (installation and management of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	DELAWARE (USA)	USD	500	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ISRAEL Ltd (TLC services. installation and management of submarine cable systems)	TEL AVIV (ISRAEL)	NIS	1,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ITALY S.p.A.. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLIN (IRELAND)	USD	153,259	100.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	LUXEMBOURG	USD	118,000,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA FINANCE S.A.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURKEY)	YTL	350,000	99.9988 0.0003 0.0003 0.0003 0.0003		MEDITERRANEAN NAUTILUS BV MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ITALY S.p.A.. MEDITERRANEAN NAUTILUS ISRAEL Ltd MEDITERRANEAN NAUTILUS GREECE Ltd
NUOVA TIN.IT S.r.l. (internet services)	MILAN (ITALY)	EUR	10,000,000	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	REPUBLIC OF SAN MARINO	EUR	1,550,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	HAMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA S.A. (supply and internet access)	PARIS (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC.
TELECOM MEDIA INTERNATIONAL ITALY-CANADA INC. (in liquidation) (telecommunications services)	MONTREAL (CANADA)	CAD	952,100	100.0000		TMI - TELEMEDIA INTERNATIONAL LTD

List of companies consolidated on a line-by-line basis

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TELECONTACT CENTER S.p.A.. (telemarketing services)	NAPLES (ITALY)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A.. (mobile telephony services)	REPUBLIC OF SAN MARINO	EUR	78,000	51.0000		TELECOM ITALIA SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	NEW JERSEY (USA)	USD	154,022,889	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l. (housing and hosting)	REPUBLIC OF SAN MARINO	EUR	25,800	99.9999 0.0001		TELECOM ITALIA SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GMBH (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI UNITED KINGDOM Ltd (telecommunications services)	LONDON (UK)	GBP	4,150,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALAI SPARKLE FRANCE S.A.S. (installation and maintenance of tlc services for wireline and afferent activities)	PUTEAUX (FRANCE)	EUR	3,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA (telecommunications services)	SAO PAULO (BRAZIL)	BRL	2,589,317	100.0000		TMI - TELEMEDIA INTERNATIONAL LTD
Mobile						
BLAH! INC (mobile network services)	FLORIDA (USA)	USD	23,464,000	100.0000		TIM INTERNATIONAL N.V.
BLAH! SOCIEDADE ANÔNIMA DE SERVIÇOS E COMÉRCIO (internet services)	RIO DE JANEIRO (BRAZIL)	BRL	92,383,315	100.0000		TIM CELULAR S.A.
CRC - Centro de Relacionamento com Clientes LTDA (call center services)	SAO PAULO (BRAZIL)	BRL	98,433,599	100.0000		TIM CELULAR S.A.
MAXITEL S.A. (mobile telephony operator)	BELO HORIZONTE (BRAZIL)	BRL	1,200,769,399	100.0000		TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	10,948,214,541	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAULO (BRAZIL)	BRL	10,135,186,929	100.0000		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000		TELECOM ITALIA S.p.A.
TIM ITALIA S.p.A.. (mobile telephony operator)	MILAN (ITALY)	EUR	413,552,203	100.0000		TELECOM ITALIA S.p.A.
TIM NORDESTE TELECOMUNICAÇÕES S.A. (mobile telephony operator)	JABOATÃO DOS GUARARAPES (BRAZIL)	BRL	535,995,597	100.0000		TIM PARTICIPAÇÕES S.A.
TIM PARTICIPACOES (holding company for operating companies providing mobile network services)	RIO DE JANEIRO (BRAZIL)	BRL	1,472,074,525	19.8798	50.3335	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM SUL S.A. (mobile telephony operator)	CURITIBA (BRAZIL)	BRL	1,001,243,386	100.0000		TIM PARTICIPAÇÕES S.A.
Media						
BEIGUA S.r.l. (purchase. sale. management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI.IT S.r.l. (in liquidation) (research, design, development, production of information and telematic products for tourism)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA E COMUNICAZIONE PUBBLICITÀ S.r.l. (in liquidation) (purchase/sale of ad space and management of advertising on radio/TV stations/channels)	ROME (ITALY)	EUR	10,000	100.000		HOLDING MEDIA E COMUNICAZIONE HMC S.p.A.

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HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	ROME (ITALY)	EUR	5,064,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
LA7 TELEVISIONI S.p.A. (purchase. management and maintenance of technical transmission systems for audio and video broadcasting)	ROME (ITALY)	EUR	6,200,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		LA7 TELEVISIONI S.p.A.
MTV PUBBLICITÀ S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	ROME (ITALY)	EUR	600,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A. (management of all activities connected with the handling of information)	ROME (ITALY)	EUR	100,327,259.46	65.8300 2.2500	66.9200 2.2900	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM MEDIA NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	120,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TI MEDIA BROADCASTING S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	10,034,532	100.0000		LA7 TELEVISIONI S.p.A.
TIN WEB S.r.l. (in liquidation) (internet site development consultino)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
Olivetti						
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	ROME (ITALY)	EUR	52,000	60.0000 40.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAULO (BRAZIL)	BRL	5,135,417	100.0000		OLIVETTI DO BRASIL S.A.
MULTIDATA S/A ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000		OLIVETTI DO BRASIL S.A.
OLIVETTI AUSTRIA Ges.m.b.H (sale of office equipment and accessories)	VIENNA (AUSTRIA)	EUR	36,336	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI FRANCE S.A. (sale of office equipment and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI INTERNATIONAL B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	355,027,092	100.0000		OLIVETTI S.p.A.
OLIVETTI UK Ltd. (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (sale and maintenance of office equipment)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI CHILE S.A. (in liquidation) (sale and maintenance of office equipment, accessories and software)	SANTIAGO (CHILE)	CLP	2,574,015,843	99.9999 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI COLOMBIANA S.A.(in liquidation) (sale of office and industrial equipment)	BOGOTA' (COLOMBIA)	COP	2,500,000,000	90.5200 9.4700 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A. OLIVETTI CHILE (in liquidation)
OLIVETTI DE PUERTO RICO, Inc. (office equipment in the United States and Central America)	SAN JUAN (PUERTO RICO)	USD	1,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and holding company)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A. (manufacture and sale of typewriters, accessories, parts and assistance)	SAO PAULO (BRAZIL)	BRL	111,660,625	96.6446 3.3554		OLIVETTI INTERNATIONAL B.V. OLIVETTI MEXICANA S.A. (in liquidation)
OLIVETTI ENGINEERING S.A. (ex YMINDS) (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.p.A.

List of companies consolidated on a line-by-line basis

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OLIVETTI I-JET S.p.A. (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA - ITALY)	EUR	15,000,000	100.0000		OLIVETTI S.p.A.
OLIVETTI MEXICANA S.A. (in liquidation) (manufacture and sale, import-export of typewriters, adding machines, accessories and parts, technical assistance services)	MEXICO CITY (MEXICO)	MXN	34,637,065	99.9999 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI S.p.A. (manufacture and sale of products and accessories for office equipment)	IVREA (TURIN - ITALY)	EUR	128,000,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI TECNOST (H.K.) LTD (in liquidation) (sale of equipment and systems in the Pacific area and other areas)	HONG KONG	HKD	200,000	99.5000 0.5000		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI TECNOST ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9863		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST NEDERLAND B.V. (sale of office equipment and accessories)	LEIDERDORP (HOLLAND)	EUR	6,468,280	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST PORTUGAL, S.A (sale of office equipment and accessories)	LISBON (PORTUGAL)	EUR	275,000	99.9927		OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI (L'AQUILA - ITALY)	EUR	1,040,000	100.0000		OLIVETTI S.p.A.
TIESSE S.c.p.A. (installation and assistance for electromechanical, electronic, computer, telematic and telecommunications equipment)	ROME (ITALY)	EUR	103,292	42.0000 19.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO (BARI - ITALY)	EUR	564,650	91.2100		OLIVETTI S.p.A.
WIRELAB S.p.A. (repairs, management and assistance of fixed telecommunications and other equipment)	SCARMAGNO (TURIN - ITALY)	EUR	300,000	70.0000		OLIVETTI S.p.A.
Other activities						
ASCAI SERVIZI S.r.l. (insurance mediation)	ROME (ITALY)	EUR	73,337	64.9599		SAIAT SOCIETÀ ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A.
CONS. FORM. PROF.MEZZOGIORNO D'ITALIA E PAESI AREA MEDITERRANEA-NAUTILUS (professional training)	ROME (ITALY)	EUR	30,000	31.0000 20.0000		TELECOM ITALIA LEARNING SERVICES S.p.A. MEDITERRANEAN NAUTILUS Ltd
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (coordination of power for fixed and mobile networks of consortia)	ROME (ITALY)	EUR	10,000	50.0000 50.0000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
DATACOM S.A. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	100.0000		ENTEL S.A.-EMPRESA NACIONAL DE TELECOMUNICACIONES
DOMUS ACADEMY S.p.A. (specialized design courses)	MILAN (ITALY)	EUR	140,000	67.3336		TELECOM ITALIA S.p.A.
EDOTEL S.p.A. (holding company)	TURIN (ITALY)	EUR	4,847,193	100.0000		TELECOM ITALIA FINANCE S.A.
EMSA Servizi S.p.A. (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
ENTEL S.A. - EMPRESA NACIONAL DE TELECOMUNICACIONES S.A. - ENTEL BOLIVIA (telecommunications services)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000		ETI-EURO TELECOMINTERNATIONAL N.V.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000		ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
EUSTEMA S.p.A. (design, research. development and marketing of software, information and online systems)	ROME (ITALY)	EUR	312,000	67.3333		TELECOM ITALIA S.p.A.
I.T. TELECOM S.r.l. (other software development and software consulting)	MILAN (ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000		TELECOM ITALIA S.p.A.

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NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (real estate purchases, exchanges and sales)	IVREA (TURIN - ITALY)	EUR	100,000	50.1000		OLIVETTI MULTISERVICES S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN - ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.p.A. (real estate services)	IVREA (TURIN - ITALY)	EUR	1,300,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI INTERNATIONAL (SERVICE) S.A. (in liquidation) (administrative services)	LUGANO (SWITZERLAND)	CHF	50,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20.337.161	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (real estate management)	YOKOHAMA (JAPAN)	JPY	100,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OMS HOLDING B.V. (financing)	AMSTERDAM (HOLLAND)	EUR	20,000	100.0000		OLIVETTI MULTISERVICES S.p.A.
PROGETTO ITALIA S.p.A. (development and improvement of the Telecom Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000		TELECOM ITALIA S.p.A.
RUF GESTION S.A.S. (real estate services)	PUTEAUX (FRANCE)	EUR	266,300	100.0000		OMS HOLDING B.V.
SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS LLC (financing)	DELAWARE (USA)	USD	27,166,100	56.9626 17.8476		TELECOM ITALIA LAB SA TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000		TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design. development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9917		TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and promotional services)	SAO PAULO (BRAZIL)	BRL	43,614,072	99.9996		TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT - SCARL (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	81.8182 18.1818		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG	EUR	2,336,000	99.9990 0.0010		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG	USD	163,870	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA LEARNING SERVICES DO BRASIL LIMITADA (information consulting and services)	SAO PAULO (BRAZIL)	BRL	174,040	99.9989		TELECOM ITALIA LEARNING SERVICES S.p.A.
TELECOM ITALIA LEARNING SERVICES S.p.A. (professional training)	MILAN (ITALY)	EUR	1,560,000	100.0000		TELECOM ITALIA S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	80.0000 20.0000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	496,661,807	100.0000		TELECOM ITALIA FINANCE S.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TIAUDIT LATAM S.A. (internal auditing)	SAO PAULO (BRAZIL)	BRL	1,500,000	99.9995		TELECOM ITALIA AUDIT - SCARL
TRAINET S.p.A. (in liquidation) (development, operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.

LIST OF CONSOLIDATED COMPANIES HELD FOR SALE

Name	Head Office	Currency	Share Capital	% owner-ship	% of voting rights	Held by
CORPORACION DIGITEL C.A. (telecommunications services)	CARACAS (VENEZUELA)	VEB	41,214,946,687	100.0000		TIM INTERNATIONAL N.V.
GRUPPO BUFFETTI S.p.A. (manufacture of products regarding the paper industry, printing and publishing)	ROME (ITALY)	EUR	11,817,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
OFFICE AUTOMATION PRODUCTS S.r.l. (in liquidation) (wholesale of magnetic supports)	ROME (ITALY)	EUR	90,000	100.0000		GRUPPO BUFFETTI S.p.A.
SK DIRECT S.r.l. (graphic arts)	ROME (ITALY)	EUR	1,570,507	100.0000		GRUPPO BUFFETTI S.p.A.

LIST OF ASSOCIATED AND JOINTLY CONTROLLED COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Name	Head Office	Currency	Share Capital	% owner-ship	% of voting rights	Held by
ARCHEO S.p.A. (in liquidation) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6499 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A..
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
AVEA ILETISIM HIZMETLERI A.S. (mobile telephony operator)	ISTANBUL (TURKEY)	TRY	7,024,867,230,970,000	40.5647		TIM INTERNATIONAL N.V.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN - ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A.
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	REPUBLIC OF SAN MARINO	EUR	258,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CABLE INSIGNIA S.A. (in liquidation) (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	2,600,000,000	75.0000		TELECOM PERSONAL S.A.
CONSORZIO DREAM FACTORY (in liquidation) (promotion of new economy development in the weak areas of the country)	ROME (ITALY)	EUR	20,000	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	30,987	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO IRI TELEMATICA CALABRIA - TELCAL (planning and development of the "Piano Telematico Calabria" project)	CATANZARO (ITALY)	EUR	877,975	24.0000		TELECOM ITALIA S.p.A.
CONSORZIO REISS FORM (training and consulting services for training and management)	ROME (ITALY)	EUR	51,646	50.0000		TELECOM ITALIA LEARNING SERVICES S.p.A.
CONSORZIO S.I.A.R.C. (in liquidation) (supply of information products and services)	NAPLES (ITALY)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (professional training)	NAPLES (ITALY)	EUR	129,114	20.0000		TIM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,460	33.3333		TELECOM ITALIA S.p.A.
EMPRESA DE TELECOMUNICACIONES DE CUBA S.A. ETEC-SA (telecommunications services)	HAVANA (CUBA)	USD	1,749,313,080	27.0030		TELECOM ITALIA INTERNATIONAL N.V.
IM.SER S.p.A. (real estate management)	TURIN (ITALY)	EUR	889,950	40.0000		TELECOM ITALIA S.p.A.
IN.VA. S.p.A. (information systems)	AOSTA (ITALY)	EUR	520,000	40.0000		TELECOM ITALIA S.p.A.
INTERCALL HELLAS (telecommunications services and sale of prepaid telephone cards)	ATHENS (GREECE)	EUR	496,696	29.4100		INTERCALL S.A.
ISCE Investors in Sapient & Cuneo Europe S.A. (investment company)	LUXEMBOURG	EUR	4,334,400	25.0000		TELECOM ITALIA MEDIA S.p.A.
ITALTEL HOLDING S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LI.SIT. - LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information and TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.

List of associated and jointly controlled companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
LUNA ROSSA CHALLENGE 2007 S.L. (development, organization delle regate veliche inclusa la Coppa America)	VALENCIA (SPAIN)	EUR	4,000,000	49.0000		TELECOM ITALIA S.p.A.
LUNA ROSSA TRADEMARK s.a.r.l. (acquisition, maintenance, development of intellectual property)	LUXEMBOURG	EUR	20,000,000	49.0000		TELECOM ITALIA S.p.A
MATERIAL CONNEXION MILANO S.r.l. (maintenance of software)	MILAN (ITALY)	EUR	100,000	20.0000		DOMUS ACADEMY S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROME (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A.
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	210,000	99.9900 0.0100		TELECOM ARGENTINA S.A. PUBLICOM S.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA LAB SA
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	MILAN (ITALY)	EUR	582,716	20.0000		TELECOM ITALIA S.p.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	78,633,050	51.0400	67.7883	SOFORA TELECOMUNICACIONES SA
NUCLEO S.A. (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	175,200,000,000	67.5000		TELECOM PERSONAL S.A.
OCN-TRADING S.r.l. (in liquidation) (trading company)	IVREA (TURIN - ITALY)	EUR	40,800	40.0000		TELECOM ITALIA S.p.A.
OLITECNO S.A. DE C.V. (in liquidation) (manufacture and sale of products for the telecommunications industry)	MEXICO D.F. (MEXICO)	MXN	1,000,000	50.0000		OLIVETTI MEXICANA S.A. (in liquidation)
PERSEO S.r.l. (acquisition, sale, change, lease, administration and maintenance of registered real estate for every use and destination)	CASELLE TORINESE (TURIN - ITALY)	EUR	20,000	50.0000		TELECOM ITALIA S.p.A.
PUBLICOM S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	16,000,000	99.9900 0.0100		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
SHARED SERVICE CENTER SCARL (planning, design, installation running of computer services	MILAN (ITALY)	EUR	1,756,612	40.9090 4.5455 4.5455		TELECOM ITALIA S.p.A. OLIVETTI S.p.A. TIM ITALIA S.p.A.
SIEMENS INFORMATICA S.p.A. (supply of innovating solutions in the field of electronic and mobile business)	MILAN (ITALY)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
SOLPART PARTICIPACOES S.A. (holding company for investment in Brasil Telecom Participaçoes S.A.)	RIO DE JANEIRO (BRAZIL)	BRL	1,657,200,000	38.0000		TELECOM ITALIA INTERNATIONAL N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	4,083,330	31.0345		TELECOM ITALIA S.p.A.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54.7364		NORTEL INVERSORA S.A.
TELECOM ARGENTINA USA INC. (telecommunications services)	DELAWARE (USA)	USD	219,973	100.0000		TELECOM ARGENTINA S.A.
TELECOM PERSONAL S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	310,514,481	99.9923 0.0077		TELECOM ARGENTINA S.A. PUBLICOM S.A.
TELEGONO S.r.l. (real estate management)	ROME (ITALY)	EUR	1,000,000	40.0000		TELECOM ITALIA S.p.A.
TELELEASING - LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (financial leasing of real estate and other assets)	MILAN (ITALY)	EUR	9,500,000	20.0000		SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (real estate management)	MILAN (ITALY)	EUR	14,185,288	49.4707		TELECOM ITALIA S.p.A.
UBA - NET S.A. (in liquidation) (teleteaching systems)	BUENOS AIRES (ARGENTINA)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidation)
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH

OTHER SIGNIFICANT INVESTMENTS IN ACCORDANCE WITH CONSOB RESOLUTION NO. 11971 DATED MAY 14, 1999

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROME (ITALY)	EUR	3,150,406	19.9000		TELECOM ITALIA S.p.A.
CEFRIEL S.r.l. (updating and research in the sector of electronics engineering)	MILAN (ITALY)	EUR	100,000	5.8000 5.8000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
CELL-TEL S.p.A. (telecommunications equipment, installations and systems)	IVREA (TURIN - ITALY)	EUR	500,000	15.0000		OLIVETTI S.p.A.
FIN.PRIV. S.r.l. (financing)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INNOVIS S.p.A. (computer, online and telecommunications equipments and services)	IVREA (TURIN - ITALY)	EUR	325,000	15.0000		OLIVETTI S.p.A.
INSULA S.p.A. (telecommunications services)	VENICE-MESTRE (ITALY)	EUR	2,064,000	12.0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (Internet services)	CALIFORNIA (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
LEISURE LINK HOLDINGS ltd (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
LOCATIONET SYSTEM Ltd (development of middle-ware platform for the supply of location services)	NETANYA (ISRAEL)	NIS	0	12.9700		TELECOM ITALIA LAB S.A.
OGER TELECOM LIMITED (holding company)	DUBAY (UNITED ARAB EMIRATES)	USD	1,500,000,000	13.3300		TIM INTERNATIONAL N.V.
PAS GROUP - Professional Application Software S.r.l. (software production)	MILAN (ITALY)	EUR	91,800	16.6700		EUSTEMA S.p.A.
PIEDMONT INTERNATIONAL S.A. (financing)	LUXEMBOURG	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,129,484	13.6500		OLIVETTI S.p.A.
TWICE SIM S.p.A. (investment services)	MILAN (ITALY)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.
USABLENET INC (development of software for the analysis of web site usability)	DELAWARE (USA)	USD	4	18.1081		TELECOM ITALIA LAB SA
WAVEMARKET INC. (holding company)	DELAWARE (USA)	USD	25,183	11.0100		SATURN VENTURE PARTNERS LLC

Note 41 - Transition to international financial reporting standards (IFRS)

Until the end of 2004, Telecom Italia prepared its consolidated financial statements and other interim information (including quarterly and six-month data) in accordance with Italian accounting principles (Italian GAAP).
Beginning from the year 2005, Telecom Italia prepares its interim consolidated financial statements and annual consolidated financial statements in accordance with IFRS. Beginning from the year 2006, Telecom Italia will also prepare its Italian statutory financial statements in accordance with these same standards.
Given the Recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 and containing guidelines for companies listed within the EU regarding the transition to IFRS, the information required by IFRS 1 is provided. Such information regards the impact that the conversion to International Financial Reporting Standards (IFRS) has as of and for the year ended December 31, 2004, on the consolidated financial position, the consolidated statements of operations and cash flows presented.

The footnotes describe the basis for the transition for the first-time application of IFRS (IFRS 1) and the other IFRS elected, including the assumptions made by the directors on the IFRS standards and interpretations in force and on the accounting policies adopted for the preparation of the first complete financial statements in accordance with IFRS at December 31, 2005.

As described in greater detail in the following paragraphs, the consolidated balance sheets and the consolidated statement of operations in accordance with IFRS have been derivee from the consolidated data, prepared in accordance with the provisions of Italian law, by making the appropriate IFRS adjustments and reclassifications to reflect the changes in the presentation, recognition and valuation required by IFRS.

In particular, adjustments have been made to conform with IFRS in effect as of December 31, the 2005 and which have been used for preparation of the opening balance sheet at January 1, 2004 and the consolidated financial statements prepared in accordance with IFRS at December 31, 2004.

The accounting statements and the reconciliations have been prepared solely for purposes of preparing the first complete consolidated financial statements in accordance with IFRS.

For purposes of the presentation of the effects of the transition to IFRS and to satisfy the rules for disclosure indicated in paragraphs 39 a) and b) and 40 of IFRS 1 of the effects of the first-time application of IFRS, the Telecom Italia Group has followed the example contained in paragraph IG 63 of IFRS 1.
The effects of the transition to IFRS are the result of changes in accounting principles and, consequently, as required by IFRS 1 are reflected in the opening shareholders' equity at the date of transition (January 1, 2004). In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IFRS has required the calculation of estimates in accordance with different methods.

Rules for the first-time adoption, accounting options elected in the IFRS first-time adoption and ifrs selected by the Telecom Italia Group

The restatement of the opening consolidated balance sheet at January 1, 2004 and of the consolidated financial statements for the year ended December 31, 2004 has also required the Telecom Italia Group to elect the following options among those provided by IFRS:

- **financial statement presentation**: the "current/non-current" classification has been adopted for the balance sheet, which is generally applied by industrial and commercial enterprises, while the classification of expenses by nature has been elected for the statement of operations. This has required the reclassification of the historical financial statements prepared in accordance with the formats provided by Legislative Decree 127/1991;

- **optional exemptions provided by IFRS 1 upon first-time application of IFRS (January 1, 2004):**
  - **valuations of property, plant and equipment, investment property and intangible assets at fair value or, alternatively, at revalued cost as the deemed cost:** for certain categories of property, plant and equipment, revalued cost has been adopted instead of cost;
  - **share-based payments**: the Group chosen to apply the exemptions allowed in IFRS 1, paragraph 25 B, and has therefore not applied IFRS 2 to stock options plans granted before November 7, 2002, partly in view of the fact that there were no changes in the terms and conditions of those plans;
  - **business combinations**: for purposes of the first-time application of IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004. This has led to the cessation of amortization of goodwill and of differences on consolidation recorded at January 1, 2004;
  - **reserve for net translation differences deriving from the translation of the financial statements of foreign operations**: as allowed by IFRS 1, the cumulative net translation differences deriving from previous translations of the financial statements of foreign operations have not been recognized at the date of transition (January 1, 2004); only those arising subsequent to that date, instead, have been recognized;
  - **classification and measurement of financial instruments:** IAS 32 (Financial Instruments: Disclosures and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), have been adopted earlier, as allowed, on January 1, 2004 (instead of application starting from the financial statements for the periods beginning on or after January 1, 2005);
  - **designation date of financial instruments as instruments at fair value through profit or loss or as available for sale:** as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" has been carried out at the transition date (January 1, 2004) instead of at the date of initial recognition provided by IAS 39;
  - **derecognition of financial assets and liabilities**: in accordance with IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. The Telecom Italia Group has taken advantage of such option and has applied the "derecognition of non-derivative financial assets/liabilities" prospectively from January 1, 2003;

The election of the above options was mainly dictated by the simplicity of their application exception for the "Classification and measurement of financial instruments" and the "Designation date of financial instruments as instruments at fair value through profit or loss or as available for sale" for which early adoption at January 1, 2004 was elected (instead of January 1, 2005) to correspond with the transition date to IFRS.

- **accounting treatments selected** from the accounting options provided by IFRS:
  - **inventories**: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The Telecom Italia Group has elected to use the weighted average cost method for each movement;
  - **valuation of tangible assets and intangible assets**: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The Telecom Italia Group has elected to adopt the cost method;
  - **valuation of investment property**: in accordance with IAS 40, a property held as an investment property should be initially recorded at cost, including directly chargeable incidental costs. Subsequently, that property may be valued at fair value or at cost. The Telecom Italia Group has elected to adopt the cost method;

- **borrowing costs**: for the purposes of recording borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, IAS 23 provides that an entity may apply the benchmark accounting treatment, which provides for the immediate expensing of borrowing costs, or the allowed alternative accounting treatment, which provides, in the presence of certain conditions, for the capitalization of borrowing costs. The Telecom Italia Group has elected to record borrowing costs in the statement of operations;
- **accounting for interests in joint ventures in the consolidated financial statements**: in accordance with IAS 31, interests in joint ventures may be accounted for by using the equity method or, alternatively, using the proportionate consolidation method. The Telecom Italia Group has elected to adopt the equity method.

Principal impact of the application of IFRS on the opening Balance Sheet at January 1, 2004 and the Consolidated Financial Statements at December 31, 2004

The differences arising from the application of IFRS compared to Italian GAAP as well as Telecom Italia's election of the accounting options provided by IFRS described above, require a restatement of the financial statements prepared in accordance with the previous Italian regulations on financial statements resulting in significant effects, in some cases, on shareholders' equity and net financial debt of the Group, which can be summarized as follows:

- **Opening balance sheet at January 1, 2004**:

(millions of euro)	Italian GAAP	IFRS Adjustments	IFRS
Total shareholders' equity:			
· attributable to the Parent	16,092	163	16,255
· attributable to Minority interests	4,497	32	4,529
Total	**20,589**	**195** (*)	**20,784**

(*) Following the publishing of the "Operating guide for the transition to the IFRS international accounting standards" by the O.I.C in October 2005, the amounts due from shareholders for subscribed capital unpaid of euro 4 million at January 1, 2004 were reversed from assets and recorded directly as a deduction of the shareholders' equity attributable to the Parent.

- **Consolidated financial statements at December 31, 2004**:

(millions of euro)	Italian GAAP	IFRS Adjustments	IFRS
Total shareholders' equity:			
· attributable to the Parent	15,172	1,076	16,248
· attributable to Minority interests	4,689	(139)	4,550
Total	**19,861**	**937** (*)	**20,798**
Net income for the year:			
· attributable to the Parent	781	1,034	1,815
· attributable to Minority interests	1,121	(102)	1,019
Total	**1,902**	**932**	**2,834**

(*) Following the publishing of the "Operating guide for the transition to the IFRS international accounting standards" by the O.I.C in October 2005, the amounts due from shareholders for subscribed capital unpaid of euro 45 million at December 31, 2004 were reversed from assets and recorded for euro 3 million directly as a deduction of the shareholders' equity attributable to the Parent and for euro 42 million directly as a deduction of the shareholders' equity attributable to the minority interests.

In particular, the principal adjustments can be summarized as follows:

(millions of euro)	Shareholders' equity at January 1, 2004	Shareholders' equity at December 31, 2004	Net income year 2004
Total amount (attributable to the Parent and the minority interests) according to Italian GAAP	**20,589**	**19,861**	**1,902**
less: minority interests	**(4,497)**	**(4,689)**	**(1,121)**
Attributable to the Parent according to Italian GAAP	**16,092**	**15,172**	**781**
Adjustments to items of the financial statements according to Italian GAAP:			
1. goodwill and differences on consolidation	–	1,549	1,549
2. scope of consolidation	141	78	(46)
3. factoring transactions	–	–	–
4. sale and leaseback of properties	(199)	(290)	(91)
5. reserves for future risks and charges	340	(1)	(318)
6. bonds (including convertible and exchangeable bonds)	489	406	(83)
7. derivative financial instruments	(65)	(283)	(17)
8. treasury stock	(393)	(393)	–
9. recognition of revenues	(320)	(530)	(210)
10. deferred tax assets	240	190	(50)
11. land	86	91	5
12. employee severance indemnities	80	70	(10)
13. write off of start-up and expansion costs	(86)	(61)	32
14. value adjustments to tangible and intangible assets produced within the Group	(110)	(83)	27
15. restoration costs	(68)	(111)	(43)
16. equity investments in listed companies and call options on shares measured at fair value	79	122	2
17. reversal of amounts due from shareholders for subscribed capital unpaid	(4)	(45)	–
other	(15)	(88)	(57)
Tax effect on items in reconciliation		316	242
Items in reconciliation attributable to minority interests	(32)	139	102
Attributable to the Parent according to IFRS	**16,255**	**16,248**	**1,815**

The individual adjustments are presented in the table before taxes and minority interests; the tax effects on the reconciliation items and the reconciliation items attributable to minority interests are shown as two separate adjustment items. Moreover, the amounts relating to the effects on assets, liabilities, expenses and revenues presented in the comments on the aforementioned adjustments include the corresponding amounts related to discontinued operations/assets held for sale which, under IFRS 5, in the balance sheet at January 1, 2004 and in the balance sheet at December 31, 2004, have, instead, been classified separately and grouped in the captions "Discontinued operations/*assets held for sale*" and *"Liabilities relating to discontinued operations/assets held for sale"* and in the statement of operations in the caption *"Net income (loss) from discontinued operations/assets held for sale"*.

(millions of euro)	At January 1, 2004	At December 31, 2004
Net financial debt according to Italian GAAP	**33,346**	**29,525**
Reclassifications: inclusion, in the net financial debt, of non-current receivables from associates and loans to employees and third parties	(204)	(151)
	33,142	**29,374**
Adjustments to items of the financial statements according to Italian GAAP:		
1. goodwill and differences on consolidation	–	–
2. scope of consolidation	799	1,079
3. factoring transactions	351	760
4. sale and leaseback of properties	1,651	1,603
5. reserves for future risks and charges	–	–
6. bonds (including convertible and exchangeable bonds)	(425)	(280)
7. derivative financial instruments	28	303
8. treasury stock	–	–
9. recognition of revenues	–	–
10. deferred tax assets	–	–
11. land	–	–
12. employee severance indemnities	–	–
13. write-off of start - up and expansion costs	–	–
14. value adjustments to tangible and intangible assets produced within the Group	–	–
15. restoration costs	–	–
16. equity investments in listed companies and call options on shares measured at fair value	–	–
17. reversal of amounts due from shareholders for subscribed capital unpaid	–	–
other	34	23
Net financial debt according to IFRS	**35,580**	**32,862**

A commentary is presented here on the principal IFRS adjustments (the contents of which were previously described) made to the Italian GAAP amounts:

1) **goodwill and differences on consolidation**: such items are no longer amortized systematically in the statement of operations but are subject to a test, carried out at least annually, to an impairment test. To this end, cash-generating units have been identified to which the relative goodwill has been allocated. Impairment tests were carried out which confirmed the amounts recorded under Italian GAAP.
The impact of the application of IFRS 3 is an increase in total net income for the year 2004 (and therefore total shareholders' equity at December 31, 2004) of euro 1,549 million (of which euro 1,525 million attributable to the Parent) and is entirely due to the elimination of amortization;

2) **scope of consolidation**: the change in the scope of consolidation has led to the inclusion of Special Purpose Entities (SPEs) set up for specific transactions. Furthermore, the line-by-line consolidation of controlling equity investments also determined the elimination of the holdings classified in current assets. Consequently, this principally resulted in: (i) the consolidation at January 1, 2004 of the TIM shares classified in current assets; (ii) the consolidation of the special purpose entity TISV (set up for the securitization transactions) to which receivables are sold and for whose financial needs securities are issued that are subscribed to by third-party investors; and (iii) the consolidation of companies in a wind-up. Moreover, as part of the corporate integration of Telecom Italia and TIM, on December 21, 2004, Telecom Italia concluded an agreement, called "Confirmation of Share Basket Option Transaction" for the purchase of call options and the sale of put options, both up to a maximum number of 25 million, each having an underlying basket of shares composed of 2 TIM Ordinary Shares and 1 TIM Savings Share. The exercise price is equal to euro 5.57 for each Ordinary and Savings Share. On February 3, 2005, Telecom Italia exercised the call options on 21 million TIM savings shares for a total outlay of euro 117 million.
On February 8, 2005, the counterpart exercised the put option rights and thus on February 11, 2005, Telecom Italia purchased 42 million TIM Ordinary Shares for a total outlay of euro 234 million. The irrevocable commitment which arose at the end of 2004 to purchase the above-mentioned TIM shares in the early months of 2005 determines, for IFRS purposes, the consolidation of a further equity interest in TIM at December 31, 2004 with the consequent recording of a financial liability equal to the total outlay of euro 351 million and the booking of additional goodwill of euro 294 million. This accounting treatment thus has the following impact:
   - *at January 1, 2004*: an increase in total shareholders' equity of euro 141 million (of which euro 178 is attributable to the Parent) owing to the consolidation of TIM shares (and the consequent booking of differences on consolidation in intangible assets) and an increase in net financial debt of euro 799 million owing to the consolidation of TISV;
   - *at December 31, 2004*: an increase in total shareholders' equity of euro 78 million due mainly to the consolidation of the TIM shares referring to the above put/call options and an increase in the net financial debt of euro 1,079 million of which euro 728 million is due to the consolidation of TISV and euro 351 million relative to the put/call options on TIM shares.

   As for securitization transactions and the consequent line-by-line consolidation of the TISV payable, the maximum risk to Telecom Italia is limited solely to the Deferred Purchase Price (DPP) which is equal to about 10% of the receivables sold and which represents the deferred component of the sale price; this risk is therefore considerably lower than the amount of the payable which the application of the accounting policies requires to be consolidated;

3) **factoring transactions**: the adoption of IAS 39 and in particular the provisions concerning the derecognition of financial assets (receivables) results in a more restrictive interpretation of the requirements for the recognition of the sale of receivables without recourse (for IFRS purposes, the sale is recognized on condition that all the risks and rewards have substantially been transferred). Accordingly, the receivables sold are added back to the assets and the consideration collected is booked as an advance received.

This treatment has the following impact:
- *at January 1, 2004*: an increase in the net financial debt of euro 351 million attributable to the recording of a short-term financial payable (advance received) of euro 351 million, with an increase in trade receivables for the same amount;
- *at December 31, 2004*: an increase in the net financial debt of euro 760 million attributable to a short-term financial payable (advance received) of euro 760 million, with an increase in trade receivables for the same amount;

4) **sale and leaseback of properties**: some transactions for the sale of properties carried out by the Telecom Italia Group in prior years have been recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, entries are made in the assets for the assets sold and leased back and, in the liabilities, for the residual payable. In the statement of operations, entries are made for the depreciation charge and interest expense instead of the lease payments whereas the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact for the Telecom Italia Group:
   - *at January 1, 2004*: a decrease in total shareholders' equity of euro 199 million (entirely attributable to the Parent), before a positive tax effect of euro 39 million. Such effects have come from an increase in tangible assets (buildings) of euro 1,363 million, an increase in financial payables of euro 1,651 million (including defferred gains), an increase in deferred tax assets (net of the reserve for deferred taxes) of euro 39 million and a decrease of euro 89 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties;
   - *at December 31, 2004*: a decrease in total shareholders' equity, entirely attributable to the Parent, of euro 290 million (before a positive tax effect of euro 70 million), of which euro 91 million is attributable to a reduction in the net income for the year before tax. Such effects came from an increase in tangible assets (buildings) of euro 1,282 million, an increase in financial payables of euro 1,603 million (with a consequent increase in the net financial debt the same amount), an increase in deferred tax assets (net of the reserve for deferred taxes) of euro 70 million, and a decrease of euro 31 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties. The negative effect on 2004 net income of euro 91 million, before a tax effect of euro 31 million, came from a decrease in operating expenses of euro 106 million (including euro 187 million for the reversal of the lease payments that were partly compensated by an increase of euro 81 million for higher depreciation of the assets leased), an increase in net financial expenses of euro 139 million and the reversal of the gains previously deferred and credited to the statement of operations in 2004 for euro 58 million;

5) **reserves for future risks and charges**: the recognition of these liabilities, in accordance with IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that are expected to be paid beyond 12 months. In particular, the IFRS opening balance sheet of the Telecom Italia Group at January 1, 2004 benefits from a positive adjustment to opening shareholders' equity for the derecognition of certain reserves for risks and charges recorded in the financial statements in accordance with Italian GAAP. This different accounting treatment, in the IFRS financial statements at December 31, 2004, causes a reduction of net income as a consequence of the reversal of the releases to the statement of operations of the reserves for risks and charges recorded in 2004 under Italian GAAP.
   Such impact can be summarized as follows:
   - *at January 1, 2004*: an increase in total shareholders' equity of euro 340 million (of which euro 225 million attributable to the Parent), before a negative tax effect of euro 101 million (euro 60 million attributable to the Parent), to derecognize certain reserves for risks and charges not recognized under IFRS and for the discounting of the other reserves with maturities due beyond 12 months;
   - *at December 31, 2004*: a decrease in total shareholders' equity of euro 1 million, including a decrease in total net income of euro 318 million (of which euro 200 million attributable to the Parent) before a positive tax effect of euro 102 million, caused by an increase in operating expenses of euro 318 million (mainly for the reversal of the releases of the reserves recorded during the year) and a reduction in income taxes of euro 102 million;

6) **bonds (including convertible and exchangeable bonds)**: in accordance with Italian GAAP, bonds (including convertible or exchangeable bonds) are recorded at the residual nominal amount (principal); an any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
Under IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity. The amount of compound financial instruments (convertible or exchangeable bonds), under IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular:
   - for *bonds convertible into own shares*, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue in reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of shareholders' equity;
   - for *bonds exchangeable with other financial instruments issued by companies of the Group and/or third parties*, the amount of the component relative to the derivative financial instrument is extracted and recorded, like sold options, in financial liabilities and valued at fair value (with a contra-entry to the statement of operations) at the end of each period.

   These recording methods have the following impact:
   - *at January 1, 2004*: a decrease in the net financial debt of euro 425 million and an increase in total shareholders' equity of euro 489 million (of which euro 488 million attributable to the Parent), before a negative tax effect of euro 157 million, including euro 175 million of deferred taxes on the equity component relative to "Telecom Italia 2001 - 2010" convertible bonds. The decrease in debt is principally due to the reclassification of the part of the liability related to convertible bonds to shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the reserves for future risks and charges to financial liabilities;
   - *at December 31, 2004*: a decrease in the net financial debt of euro 280 million and an increase in total shareholders' equity of euro 406 million (euro 405 million attributable to the Parent), before a negative tax effect of euro 133 million, including euro 175 million of deferred taxes on the equity component relative to the "Telecom Italia 2001 - 2010" convertible bonds. The decrease in shareholders' equity is due to a reduction in pre-tax income of euro 83 million (entirely attributable to the Parent) mainly as a result of the application of the "amortized cost" method. The decrease in the net financial position is principally due to the reclassification of the part of the liability related to convertible bonds to shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the reserves for future risks and charges to financial liabilities;

7) **derivative financial instruments**: under Italian GAAP, derivative financial instruments are normally presented as "off-balance sheet" items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value. The manner of representing the accounting impact changes according to the purpose the derivative financial instrument is used for:
   - hedging instruments designated as fair value hedges must be recorded in assets (liabilities); the derivative financial instrument and the relative hedged item are stated at fair value and the respective changes in value (which generally tend to offset one another) are recognized in the statement of operations;
   - hedging instruments designated as cash flow hedges must be recorded in assets (liabilities); the derivative is stated at fair value and the changes in value are recognized, for the effective hedging component, directly in a reserve in equity which is released to the statement of operations in the years in which the cash flows of hedged items will affect the statement of operations;

- derivative financial instruments for managing interest rate and foreign exchange risks, which do not meet the formal conditions for hedge accounting according to IFRS, are recorded in the balance sheet in financial assets/financial liabilities and the changes in value are recognized in the statement of operations.

The recognition in the financial statement of derivative financial instruments at fair value has the following impact:

- *at January 1, 2004*: an increase in the net financial debt of euro 28 million (substantially attributable to cash flow hedges) and a reduction in total shareholders' equity of euro 65 million, before a positive tax effect of euro 20 million (euro 64 million attributable to the Parent before a positive tax effect of euro 20 million);
- *at December 31, 2004*: an increase in the net financial debt of euro 303 million (substantially attributable to cash flow hedges) and a decrease in total shareholders' equity of euro 283 million (attributable to the Parent), before a positive tax effect of euro 106 million, and with a negative impact of euro 17 million on the pre-tax income (before a positive tax effect of euro 7 million).

8) **treasury stock**: in accordance with Italian GAAP, treasury stock is recorded in assets and a specific restricted reserve is set up in shareholders' equity. In accordance with IFRS, such stock, instead, is recognized as a reduction of shareholders' equity. The impact of this different accounting treatment is a reduction in total shareholders' equity at January 1, 2004 and at December 31, 2004 of euro 393 million (entirely attributable to the Parent) and a reversal of treasury stock in assets for the same amount;

9) **recognition of revenues**: revenues from the activation of telephone services, from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (principally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method has the following impact, for IFRS purposes:
   - *at January 1, 2004*: a decrease in total shareholders' equity of euro 320 million (of which euro 292 million attributable to the Parent), before a positive tax effect of euro 108 million (of which euro 103 million attributable to the Parent);
   - *at December 31, 2004*: a decrease in total shareholders' equity of euro 530 million (of which euro 486 million attributable to the Parent), before a positive tax effect of euro 180 million (of which euro 172 million is relative to the Parent); pre-tax income decrease of euro 210 million (of which euro 194 million attributable to the Parent) before a positive tax effect of euro 71 million (of which euro 69 million attributable to the Parent);

10) **deferred tax assets**: the recognition of deferred tax assets in accordance with IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, has the following impact, under IFRS:
   - *at January 1, 2004*: a increase in total shareholders' equity of euro 240 million (entirely attributable to the Parent) with the recognition of an asset for deferred taxes on the same amount;
   - *at December 31, 2004*: a increase in total shareholders' equity of euro 190 million (euro 196 million attributable to the Parent) with the recognition of an asset for deferred taxes of euro 205 million and also a negative impact of euro 50 million on total net income (of which euro 44 million attributable to the Parent);

11) **land**: in accordance with Italian GAAP, land pertaining to buildings is depreciated together with the same buildings, while in accordance with IFRS it must be classified separately and no longer depreciated. This impact of this different accounting is as follows:
   - *at January 1, 2004*: an increase in total shareholders' equity of euro 86 million (euro 85 million attributable to the Parent), before a negative tax effect of euro 32 million (for the provision to the reserve for deferred taxes of the same amount), due to the increase of non-current tangible assets of euro 86 million for the reversal of the accumulated depreciation;
   - *at December 31, 2004*: an increase in total shareholders' equity of euro 91 million (entirely attributable to the Parent) of which euro 6 million is relative to pre-tax income (entirely attributable to the Parent) due to lower depreciation (before a negative tax effect of euro 1 million). In the balance sheet, non-current tangible assets increase by euro 91 million and a liability for deferred taxes is recognized for euro 34 million;

12) **employee severance indemnities**: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with the statutory regulations. Under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Under IFRS, all actuarial gains and losses have been recognized at the date of transition to IFRS. The impact of this different accounting is as follows:
    - *at January 1, 2004*: an increase in total shareholders' equity of euro 80 million (of which euro 78 million attributable to the Parent), before a negative tax effect of euro 25 million (for the provision to the reserve for deferred taxes of the same amount), due to a decrease in the reserve for employee severance indemnities of euro 80 million;
    - *at December 31, 2004*: an increase in total shareholders' equity of euro 70 million (euro 67 million attributable to the Parent) before a negative tax effect of euro 24 million (for the provision to the reserve for deferred taxes of the same amount), due to a decrease in the reserve for employee severance indemnities of euro 70 million. The total pre-tax income decreases by euro 10 million (entirely attributable to the Parent) as a result of higher accruals to the reserve for employee severance indemnities (before a positive tax effect of euro 3 million);

13) **derecognition of start-up and expansion costs**: in accordance with IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in shareholders' equity at the date of the transaction; and other start-up and expansion costs are charged to the statement of operations, since the requirements to recognize an intangible asset have not been met.
    This impact of these different accounting treatment is the following:
    - *at January 1, 2004*: a decrease in total shareholders' equity of euro 86 million (euro 79 million attributable to the Parent), before a positive tax effect of euro 13 million (for the recognition of deferred tax assets), due to a decrease in assets no longer capitalizable of euro 86 million;
    - *at December 31, 2004*: a decrease in total shareholders' equity of euro 61 million (euro 55 million attributable to the Parent) before a positive tax effect of euro 8 million (for the recognition of deferred tax assets), due to a decrease in assets no longer capitalizable of euro 61 million. The total pre-tax income increases by euro 32 million (euro 29 million attributable to the Parent) due to lower amortization, before a relative negative tax effect of euro 11 million;

14) **value adjustments to tangible and intangible assets produced within the Group**: the adjustment regards the elimination of intragroup gains on the disposal of tangible and intangible assets produced within the Group prior to 1994. The impact of these adjustments is the following:
    - *at January 1, 2004*: a decrease in total shareholders' equity of euro 110 million (attributable to the Parent), before a positive tax effect of euro 41 million (for the recognition of an asset for deferred taxes) due to the reduction in assets of euro 110 million;
    - *at December 31, 2004*: a decrease in total shareholders' equity of euro 83 million (attributable to the Parent), before a positive tax effect of euro 31 million (for the recognition of an assets for deferred taxes), due to the reduction in assets of euro 83 million. The pre-tax income increases by euro 27 million (attributable to the Parent) due to lower depreciation and amortization, before a relative negative tax effect of euro 10 million;

15) **restoration costs**: under IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site.
    The corresponding liability is recognized at fair value in the period in which it arises in a balance sheet reserve under reserves for future risks and charges, with a contra-entry to the tangible assets with which it is associated; and the capitalized cost is recognized as an expense in the statement of operations by depreciation of the related tangible assets over their useful lives.

The impact of the application of this accounting treatment is the following
- *at January 1, 2004*: a decrease in total shareholders' equity of euro 68 million (of which euro 51 million attributable to the Parent), before a positive tax effect of euro 23 million;
- *at December 31, 2004*: a decrease in total shareholders' equity of euro 111 million (of which euro 78 million attributable to the Parent) before a positive tax effect of euro 35 million; the pre-tax income decreases by euro 43 million (of which euro 24 million attributable to the Parent) due to higher depreciation, before a positive relative tax effect of euro 13 million (of which euro 8 million attributable to the Parent);

16) **investments in listed companies and call options on shares measured at fair value**: in accordance with IFRS, investments in listed companies other than subsidiaries and associates are classified in "assets available-for-sale" or in "assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments recorded, respectively, in a specific equity reserve, except for impairment effects, or through profit or loss; and, optional derivatives have been classified "as assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments, through profit or loss. The impact of application of this method is the following:
- *at January 1, 2004*: an increase in total shareholders' equity of euro 79 million (euro 80 million attributable to the Parent), before a positive tax effect of euro 1 million (euro 2 million attributable to the Parent);
- at *December 31, 2004*: an increase in total shareholders' equity of euro 122 million (entirely attributable to the Parent) which reflects an increase in pre-tax income of euro 2 million.

17) **derecognition of amounts due from shareholders for subscribed capital unpaid**: amounts due from shareholders for subscribed capital unpaid are derecognized. If relating to shareholders of the Parent, they are deducted from the shareholders' equity attributable to the Parent; and if related to minority shareholders of subsidiaries, they are deducted from minority interests. The application of this method has determined the following impact:
- *at January 1, 2004*: a decrease in the shareholders' equity attributable to the Parent of euro 4 million;
- *at December 31, 2004*: a decrease in the shareholders' equity attributable to the Parent of euro 3 million and shareholders' equity attributable to minority interests of euro 42 million.

Principal changes made to the statement of cash flows

The statement of cash flows prepared by the Telecom Italia Group up to the financial statements prepared for the year ended December 31, 2004 had the purpose of identifying the net financial requirements or surplus of the Group arising from the change in the net financial debt during the year, whereas the statement of cash flows as defined under IAS 7 tends to reflect the Telecom Italia Group's ability to generate "cash and cash equivalents". According to such principle, other cash equivalents represent highly-liquid short-term financial investments which can readily be converted into cash and which are subject to an irrelevant risk of a change in their value. Therefore, a financial investment is usually classified as a cash equivalent only when it is short term, that is, three months or less to maturity. Financial investments in shares do not fall in the category of cash equivalents.

Bank borrowings generally fall under financing activities unless they are repayable on demand and form an integral part of the management of cash or cash equivalents of an enterprise, in which case they are classified as a reduction of cash and cash equivalents.

IAS 7 requires the statement of cash flows to separately disclose cash flows attributable to operating activities, to investing activities and to financing activities, as follows:

- **cash flows attributable to operating activities**: cash flows attributable to operating activities relate to the Group's main revenue-producing activities and are represented by the Telecom Italia Group using the indirect method. According to this method, the net income for the year is adjusted for the effects of transactions which did not involve disbursements or did not give rise to cash (non-monetary transactions) such as, for example, depreciation and amortization, changes in receivables and payables, etc.;

- **cash flows attributable to investing activities**: investing activities are disclosed separately because, among other things, they reflect investments/disinvestments effected for the purpose of obtaining future revenues and cash inflows;

- **cash flows attributable to financing activities**: financing activities are flows that affect the amount and composition of shareholders' equity and borrowings obtained.

Attached is the 2004 statement of cash flows prepared in accordance with IFRS.

STATEMENTS OF CASH FLOWS

(millions of euro)		Year ended December 31, 2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES		
Net income from continuing operations		2,876
Adjustments to reconcile net income from continuing operations with cash flows generated (used) by operating activities:		
Depreciation and amortization		5,134
Impairment/losses of non-current assets (including investments)		637
Net change in deferred tax assets and liabilities		1,143
Capital gains/losses realized on disposal of non-current assets (including investments)		(106)
Share of earnings of investments in associates accounted for by the equity method		4
Change in employee severance indemnities and other employee-related reserves		(41)
Change in other operating assets/liabilities:		
– Change in inventories		(26)
– Change in trade receivables		109
– Change in trade payables		1,091
– Net change in miscellaneous receivables/payables and other assets/liabilities		(103)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES	**(A)**	**10,718**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES		
Acquisition of intangible assets		(1,935)
Acquisition of tangible assets		(3,389)
Acquisition of investments in subsidiaries and businesses, net of cash acquired (I)		(1)
Acquisition of other investments		(867)
Change in financial receivables and other financial assets		480
Consideration received on the sale of investments in subsidiaries, net of cash sold (II)		43
Consideration received on the sale of tangible, intangible and other non-current assets and capital reimbursements		457
CASH FLOWS USED BY INVESTING ACTIVITIES	**(B)**	**(5,212)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES		
Net change in current financial liabilities		1,155
New non-current financial liabilities (including current portion)		7,845
Repayment of non-current financial liabilities (including current portion)		(8,413)
Consideration received for equity instruments		193
Share capital increases/repurchases, net of related costs		51
Dividends paid (distribution of reserves included)		(2,780)
CASH FLOWS USED BY FINANCING ACTIVITIES	**(C)**	**(1,949)**
Cash flow used by discontinued operations/assets held for sale	(D)	(65)
AGGREGATE CASH FLOWS	**(E=A+B+C+D)**	**3,492**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**(F)**	**5,211**
Net effect of foreign currency translation on cash and cash equivalents	(G)	(36)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(H=E+F+G)**	**8,667**

OTHER INFORMATION

Income tax paid	1,476
Interest espense paid	2,779
Interest income received	1,025
Dividends received	35

(I) Net of the change in payables as a result of the relative acquisitions.
(II) Net of the change in receivables as a result of the relative sales.

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS

(millions of euro)		Year ended December 31, 2004
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
Cash and cash equivalents - from continuing operations		5,721
Adjustments to cash and cash equivalents to take into account discontinued operations/assets held for sale		(142)
		5,579
Cash and cash equivalents - included in discontinued operations/assets held for sale		142
	(A)	**5,721**
Bank borrowings repayable on demand - from continuing operations		(510)
Bank borrowings repayable on demand - included in discontinued operations/ assets held for sale		–
	(B)	**(510)**
	(A + B)	**5,211**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash and cash equivalents - from continuing operations		8,855
Cash and cash equivalents - included in discontinued operations/ assets held for sale		80
	(C)	**8,935**
Bank borrowings repayable on demand - from continuing operations		(249)
Bank borrowings repayable on demand - included in discontinued operations/ assets held for sale		(19)
	(D)	**(268)**
	(C + D)	**8,667**

Consolidated Balance Sheets at January 1, 2004 and December 31, 2004 according to IFRS and the Consolidated Statement of Operations for the year ended at December 31 2004 according to IFRS

In addition to the reconciliations of shareholders' equity at January 1, 2004 and December 31, 2004, net income for the year 2004 and net financial debt at January 1, 2004 and December 31, 2004, accompanied by comments on the adjustments made to the balances prepared in accordance with Italian GAAP, the balance sheets at January 1, 2004 and December 31, 2004 and the statement of operations for the year 2004 are attached wherein the following is presented for each item in separate columns:

– amounts according to Italian GAAP reclassified in accordance with IFRS presentation;
– adjustments to conform to IFRS;
– adjusted amounts according to IFRS.

However, those amounts relative to the balance sheet at December 31, 2004 and the statement of operations for the year 2004 exclude the components relative to "discontinued operations/assets held for sale, as set forth by IFRS 5, and the relative effects have been presented in a separate column. As stated earlier, to this end, for the year 2004, discontinued operations/assets held for sale are considered the Finsiel group and Digitel Venezuela.

Reclassifications made to show the components making up discontinued operations/assets held for sale (only for the balance sheet at December 31, 2004 and the statement of operations for the year 2004) are shown separately, for the balance sheet components, in an asset caption (discontinued operations/assets held for sale) and in a liability caption (liabilities relating to discontinued operations/assets held for sale) and, for the statement of operations components, in a caption (net of taxes and minority interests) before the net income for the year 2004 (Net income (loss) from discontinued operations/assets held for sale).

CONSOLIDATED BALANCE SHEET AT JANUARY 1, 2004 (1)				
(millions of euro)	Italian GAAP reclassified		IFRS adjustments	IFRS
ASSETS				
Non-current assets				
Intangible assets				
– Goodwill and other intangible assets with an indefinite life	27,145	a)	327	27,472
– Intangible assets with a finite life	6,571	b)	(86)	6,485
	33,716		241	33,957
Tangible assets				
– Property, plant and equipment owned	18,149	c)	253	18,402
– Assets held under finance leases	313	d)	1,433	1,746
	18,462		1,686	20,148
Other non-current assets				
– Investments	1,863	e)	(427)	1,436
– Securities and financial receivables	517	(*)	(240)	277
– Miscellaneous receivables and other non-current assets	474	f)	460	934
	2,854		(207)	2,647
Deferred tax assets	5,013	g)	243	5,256
TOTAL NON-CURRENT ASSETS (A)	**60,045**		**1,963**	**62,008**
Current Assets				
Inventories	321	h)	3	324
Trade receivables, miscellaneous receivables and other current assets	10,122	i)	1,201	11,323
Investments	878	l)	(166)	712
Securities other than investments	1,987	(*)	(1,334)	653
Financial receivables and other current financial assets	1,427	(*)	(291)	1,136
Cash and cash equivalents	5,721	(*)	–	5,721
Current Assets subtotal	***20,456***		***(587)***	***19,869***
Discontinued operations/assets held for sale:				
of a financial nature		(*)		
of a non-financial nature				
	–		–	–
TOTAL CURRENT ASSETS (B)	**20,456**		**(587)**	**19,869**
TOTAL ASSETS (A+B)	**80,501**		**1,376**	**81,877**
SHAREHOLDERS' EQUITY AND NON-CURRENT LIABILITIES				
Shareholders' equity				
Attributable to the Parent	16,092		163	16,255
Attributable to Minority interests	4,497		32	4,529
TOTAL SHAREHOLDERS' EQUITY (C)	**20,589**		**195**	**20,784**
Non-current liabilities:				
Non-current financial liabilities	30,915	(*)	825	31,740
Employee severance indemnities and other employee-related reserves	1,373	m)	(102)	1,271
Reserve for deferred taxes	252	n)	3	255
Reserves for future risks and charges	1,197	o)	(243)	954
Miscellaneous payables and other non-current liabilities	1,780	p)	706	2,486
TOTAL NON-CURRENT LIABILITIES (D)	**35,517**		**1,189**	**36,706**
Current Liabilities:				
Current financial liabilities	11,879	(*)	(252)	11,627
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,516	q)	244	12,760
Current Liabilities subtotal	***24,395***		***(8)***	***24,387***
Liabilities relating to discontinued operations/assets held for sale				
– of a financial nature		(*)		
– of a non-financial nature				
	–		–	–
TOTAL CURRENT LIABILITIES (E)	**24,395**		**(8)**	**24,387**
TOTAL LIABILITIES (F=D+E)	**59,912**		**1,181**	**61,093**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)	**80,501**		**1,376**	**81,877**

(1) The balance sheet data has been prepared in accordance with IFRS in effect at December 31, 2005.
(*) Item included in the net financial debt.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2004 (1)

(millions of euro)	Italian GAAP reclassified		IFRS adjustments	IFRS including Discontinued Operations	Discontinued Operations/ assets held for sale Finsiel group - Digitel Venezuela	IFRS
ASSETS						
Non-current assets						
Intangible assets						
Goodwill and other intangible assets with an indefinite life	25,641	a)	1,978	27,619	(160)	27,459
Intangible assets with a finite life	6,897	b)	(61)	6,836	(62)	6,774
	32,538		1,917	34,455	(222)	34,233
Tangible assets						
Property, plant and equipment owned	17,846	c)	162	18,008	(155)	17,853
Assets held under finance leases	207	d)	1,446	1,653	–	1,653
	18,053		1,608	19,661	(155)	19,506
Other non-current assets						
Investments	1,457	e)	(374)	1,083	(19)	1,064
Securities and financial receivables	557	(*)	(173)	384	9	393
Miscellaneous receivables and other non-current assets	329	f)	568	897	(16)	881
	2,343		21	2,364	(26)	2,338
Deferred tax assets	3,706	g)	455	4,161	(47)	4,114
TOTAL NON-CURRENT ASSETS (A)	**56,640**		**4,001**	**60,641**	**(450)**	**60,191**
Current assets:						
Inventories	339	h)	1	340	(6)	334
Trade receivables, miscellaneous receivables and other current assets	9,231	i)	1,412	10,643	(488)	10,155
Securities other than investments	604	(*)	(147)	457	–	457
Financial receivables and other current financial assets	904	(*)	(239)	665	(3)	662
Cash and cash equivalents	8,891	(*)	21	8,912	(57)	8,855
Current Assets subtotal	***19,969***		***1,048***	***21,017***	***(554)***	***20,463***
Discontinued operations/assets held for sale						
of a financial nature		(*)			84	84
of a non-financial nature					1,096	1,096
	–		–	–	**1,180**	**1,180**
TOTAL CURRENT ASSETS (B)	**19,969**		**1,048**	**21,017**	**626**	**21,643**
TOTAL ASSETS (A+B)	**76,609**		**5,049**	**81,658**	**176**	**81,834**
SHAREHOLDERS' EQUITY AND NON-CURRENT LIABILITIES						
Shareholders' equity						
Attributable to the Parent	15,172		1,076	16,248	–	16,248
Attributable to Minority interests	4,689		(139)	4,550	–	4,550
TOTAL SHAREHOLDERS' EQUITY (C)	**19,861**		**937**	**20,798**	**–**	**20,798**
Non-current liabilities:						
Non-current financial liabilities	36,937	(*)	1,889	38,826	(101)	38,725
Employee severance indemnities and other employee-related reserves	1,369	m)	(77)	1,292	(70)	1,222
Reserve for deferred taxes	225	n)	(51)	174	(4)	170
Reserves for future risks and charges	831	o)	–	831	(16)	815
Miscellaneous payables and other non-current liabilities	1,458	p)	746	2,204	(5)	2,199
TOTAL NON-CURRENT LIABILITIES (D)	**40,820**		**2,507**	**43,327**	**(196)**	**43,131**
Current Liabilities:						
Current financial liabilities	3,393	(*)	1,061	4,454	(54)	4,400
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,535	q)	544	13,079	(346)	12,733
Current Liabilities subtotal	***15,928***		***1,605***	***17,533***	***(400)***	***17,133***
Liabilities relating to discontinued operations/assets held for sale:						
– of a financial nature		(*)			188	188
– of a non-financial nature					584	584
	–		–	–	**772**	**772**
TOTAL CURRENT LIABILITIES (E)	**15,928**		**1,605**	**17,533**	**372**	**17,905**
TOTAL LIABILITIES (F=D+E)	**56,748**		**4,112**	**60,860**	**176**	**61,036**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)	**76,609**		**5,049**	**81,658**	**176**	**81,834**

(1) The balance sheet data has been prepared in accordance with IFRS in effect at December 31, 2005.
(*) Item included the net financial debt.

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004 (1)

(millions of euro)	Italian GAAP reclassified	IFRS adjustments	IFRS including Discontinued operations/ assets held for sale	Discontinued Operations/ assets held for sale Finsiel group -/Digitel Venezuela	IFRS
Revenue	31,231 a)	(146)	31,085	(795)	30,290
Other income	1,158 b)	(30)	1,128	(23)	1,105
Total operating revenue and other income	**32,389**	**(176)**	**32,213**	**(818)**	**31,395**
Purchases of materials and external services	(13,339) c)	(109)	(13,448)	437	(13,011)
Personnel costs	(4,285) d)	(5)	(4,290)	278	(4,012)
Other operating expense	(1,684) e)	(43)	(1,727)	33	(1,694)
Changes in inventories	31	(1)	30	(1)	29
Capitalized internal construction costs	742	(4)	738	(21)	717
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets	**13,854**	**(338)**	**13,516**	**(92)**	**13,424**
Depreciation and amortization	(6,646) f)	1,451	(5,195)	61	(5,134)
Capital gains/losses realized on non-current assets (*)	(10)	(2)	(12)	1	(11)
Impairment losses/reversals of non-current assets	(641) g)	(21)	(662)	27	(635)
Operating result	**6,557**	**1,090**	**7,647**	**(3)**	**7,644**
Share of earnings of equity investments in associates accounted for using the equity method	(11)	8	(3)	(1)	(4)
Financial income	1,705 h)	553	2,258	(35)	2,223
Financial expense	(3,408)	(911)	(4,319)	51	(4,268)
Income from continuing operations before tax	**4,843**	**740**	**5,583**	**12**	**5,595**
Income taxes for the year	(2,941) i)	192	(2,749)	30	(2,719)
Net income from continuing operations	**1,902**	**932**	**2,834**	**42**	**2,876**
Net income (loss) from discontinued operations/assets held for sale				(42)	(42)
Net income for the year	**1,902**	**932**	**2,834**	**–**	**2,834**
Net income (loss) attributable to:					
– Parent	**781**	**1,034**	**1,815**	**–**	**1,815**
– Minority interests	1,121	(102)	1,019	–	1,019

(1) The statement of operations data has been prepared in accordance with IFRS in effect at December 31, 2005.
(*) Excludes capital gains/losses realized on the sale of equity investments classified as discontinued operations and equity investments other than in subsidiaries.

Comments on the principal IFRS adjustments made to the balance sheets at January 1, 2004 and December 31, 2004 and the statement of operations for the year 2004

Information on the principal adjustments is presented below with brief comments and references to the adjustments presented in the reconciliations of shareholders' equity and net income, previously illustrated.

The effects of the changes relating to the financial assets and liabilities included in the net financial debt are presented in the relative reconciliation.

Adjustments to the consolidated balance sheet - Assets

a) *Goodwill and other intangible assets with an indefinite life*; these adjustments refer to:
   - at January 1, 2004 (an increase of euro 327 million) recognition of additional goodwill following the consolidation of TIM shares classified in accordance with Italian GAAP in current assets (see adjustment No. 2);
   - at December 31, 2004 (an increase of euro 1,978 million) principally the reversal of the amortization of goodwill of euro 1,554 million (see adjustment No. 1), recognition of additional goodwill of euro 149 million on consolidation of the aforementioned TIM shares classified in accordance with Italian GAAP in current assets, and goodwill of euro 295 million for the acquisition of TIM shares under to the irrevocable purchase commitment connected with the put/call option (see adjustment No. 2);

b) *intangible assets with a finite life*; these adjustments (a decrease of euro 86 million at January 1, 2004 and a decrease of euro 61 million at December 31, 2004) principally regard the derecognition of certain start-up and expansion costs which do not meet the requirements under IFRS for recognition in intangible assets (see adjustment No. 13);

c) *property, plant and equipment owned*; these adjustments (an increase of euro 253 million at January 1, 2004 and an increase of euro 162 million at December 31, 2004) principally regard:
   - the elimination of the accumulated depreciation of land pertaining to buildings, equal to euro 84 million at January 1, 2004 and euro 91 million at December 31, 2004, which must be separated from the buildings and no longer depreciated, in accordance with IFRS (see adjustment No. 11);
   - the capitalization of restoration costs of euro 213 million at January 1, 2004 and euro 263 million at December 31, 2004 (see adjustment No. 15);
   - the elimination of intragroup gains on tangible assets produced within the Group with the consequent decrease in the amount of these same assets of euro 60 million at January 1, 2004 and euro 83 million at December 31, 2004 (see adjustment No. 14);
   - the elimination of monetary revaluations made to tangible assets of the Entel Chile group of euro 25 million at December 31, 2004;

d) *assets held under finance leases* (an increase of euro 1,433 million at January 1, 2004 and an increase of euro 1,446 million at December 31, 2004); these adjustments principally regard:
   - the recognition of euro 1,363 million at January 1, 2004 and euro 1,282 million at December 31, 2004, in non-current assets of buildings subject to sale and leaseback transactions in prior years since they have the characteristics of finance leases (see adjustment No. 4);
   - the recognition, equal to euro 70 million at January 1, 2004 and euro 58 million at December 31, 2004, in non-current assets of tangible assets under finance lease contracts;

e) *investments* (non-current) (a decrease of euro 427 million at January 1, 2004 and a decrease of euro 374 million at December 31, 2004); these adjustments principally regard:
   - the reversal of treasury stock of euro 393 million at January 1, 2004 and at December 31, 2004, which is accounted for as a reduction of shareholders' equity in accordance with IFRS (see adjustment No. 8);
   - the adjustment to fair value of equity investments in companies other than subsidiaries and associates, equal to euro 15 million at January 1, 2004 and euro 55 million at December 31, 2004 (see adjustment No. 16);

f) *miscellaneous receivables and other non-current assets* (an increase of euro 460 million at January 1, 2004 and an increase of euro 568 million at December 31, 2004); these adjustments principally regard:
   - the recognition of prepaid expenses related to the deferral of costs associated with the recognition of revenues (see adjustment No. 9), of euro 560 million at January 1, 2004 and euro 496 million at December 31, 2004;

- the reversal of expenses on notes and bonds as a result of the application of the amortized cost method to financial liabilities of euro 136 million at January 1, 2004 and euro 107 million at December 31, 2004;
- the recognition at fair value of derivative financial instruments (see adjustments Nos. 7 and 16) equal to euro 67 million at January 1, 2004 and euro 60 million at December 31, 2004;

g) *deferred tax assets* (an increase of euro 243 million at January 1, 2004 and an increase of euro 455 million at December 31, 2004); these adjustments regard the contra-entry in assets of the tax effect on the items in reconciliation as well as the recognition of deferred tax assets that were not recorded under Italian GAAP because the requirement of reasonable certainty was not met (see adjustment No. 10);

h) *inventories* (an increase of euro 3 million at January 1, 2004 and an increase of euro 1 million at December 31, 2004); these adjustments principally regard the adoption of the weighted average cost method;

i) *trade receivables, miscellaneous receivables and other current assets* (an increase of euro 1,201 million at January 1, 2004 and an increase of euro 1,412 million at December 31, 2004); these adjustments principally regard:
- the re-recognition of trade receivables and miscellaneous receivables sold through factoring transactions that are not recognized under IFRS (see adjustment No. 3) of euro 351 million at January 1, 2004 and euro 760 million at December 31, 2004;
- the re-recognition of trade receivables sold through securitization transactions that are not recognized under IFRS (see adjustment No. 2) of euro 799 million at January 1, 2004 and euro 728 million at December 31, 2004;

l) *investments* (a decrease of euro 166 million at January 1, 2004); this adjustment regards the reversal of TIM shares, following their consolidation, recorded in accordance with Italian GAAP in current assets (see adjustment No. 2).

Adjustments to the consolidated balance sheet - Liabilities

m) *employee severance indemnities and other employee-related reserves* (a decrease of euro 102 million at January 1, 2004 and a decrease of euro 77 million at December 31, 2004); these adjustments mainly regard the application of actuarial methods to employee severance indemnities;

n) *reserve for deferred taxes* (an increase of euro 3 million at January 1, 2004 and a decrease of euro 51 million at December 31, 2004); these adjustments regard the contra-entry in liabilities for the tax effect on items in reconciliation;

o) *reserves for future risks and charges* (a decrease of euro 243 million at January 1, 2004 and no impact at December 31, 2004); these adjustments principally regard:
- the derecognition of certain reserves due to the absence of the requirements necessary for their recognition (actual, legal or constructive obligation) equal to euro 276 million at January 1, 2004 and euro 68 million at December 31, 2004;
- the provision to the reserve for restoration costs (see adjustment No. 15) of euro 281 million at January 1, 2004 and euro 378 million at December 31, 2004;
- the reclassification to financial liabilities of the portion of the repayment premium due on the exchangeable bonds "Telecom Italia Finance 2001-2006" of euro 218 million at January 1, 2004 and euro 264 million at December 31, 2004;

p) *miscellaneous payables and other non-current liabilities* (an increase of euro 706 million at January 1, 2004 and an increase of euro 746 million at December 31, 2004); these adjustments principally regard deferred income for the deferral of the revenues on the activation of Telecom Italia telephone service;

q) *trade payables, current tax payables, miscellaneous payables and other current liabilities* (an increase of euro 244 million at January 1, 2004 and an increase of euro 544 million at December 31, 2004); these adjustments principally regard deferred income for the deferral of revenues on the activation of Telecom Italia S.p.A. telephone service and revenues on the recharge of TIM S.p.A. prepaid cards.

Adjustments to the consolidated statement of operations for the year 2004

a) *revenue (a decrease of euro 146 million)*: principally regard the deferral of revenues on the activation of telephone service and the recharge of prepaid telephone cards over the estimated duration of the relationship with the customer (see adjustment No. 9);

b) *other income (a decrease of euro 30 million)*: this adjustment principally regards the derecognition of the reserves for risks and charges which do not meet the requirements under IFRS for recognition (see adjustment No. 5);

c) *purchases of materials and external services (an increase of euro 109 million)*: these adjustments principally regard:
   - as a decrease, the reversal of financial lease payments relating to the sale and leaseback transactions on buildings, of euro 187 million (see adjustment No. 4), and to financial lease transactions on tangible assets, of euro 32 million;
   - as an increase, the reversal, of euro 224 million, of the release of certain reserves for risks and charges (not recognized under IFRS) recorded in the statement of operations in the year 2004 under Italian GAAP (see adjustment No. 5) and the effect of deferring the costs related to the revenues for the activation of telephone service and the recharge of prepaid cards for an increase of euro 113 million (see adjustment No. 9);

d) *personnel costs (an increase of euro 5 million)*: these adjustments principally regard the higher provision to the reserve for employee severance indemnities, of euro 18 million, and the increase in the principal amount of the payable relating to Law 58/92, of euro 9 million, and the decrease for the reversal of personnel costs related to the deferral of revenues for the activation of telephone service and the recharge of prepaid cards, equal to euro 22 million (see adjustment No. 9);

e) *other operating expense (an increase of euro 43 million)*: these adjustments principally regard the higher expenses consequent to the consolidation of the special purpose entity, TISV, set up for securitization transactions (see adjustment No. 2);

f) *depreciation and amortization (a decrease of euro 1,451 million)*: these adjustments principally reflect:
   - as a decrease, the reversal, of euro 1,559 million, for goodwill amortization (see adjustment No. 1), lower depreciation, of euro 26 million, in connection with the elimination of intragroup gains (see adjustment No. 14) and the reversal, of depreciation of euro 6 million, relating to the land pertaining to the buildings (see adjustment No. 11);
   - as an increase, the recognition, of the depreciation charge of euro 81 million on buildings that were the subject of a sale and leaseback under finance lease contracts (see adjustment No. 4); euro 40 million for the depreciation charge on other finance leases and euro 5 million for the depreciation charge on restoration costs;

g) *impairment losses of non-current assets (an increase of euro 21 million)*: these adjustments principally regard the impairment of the difference on consolidation relating to Entel Chile to bring the carrying amount in line with the sales amount;

h) *net financial expense (an increase of euro 358 million)*: these adjustments principally regard the recognition of financial expenses, of euro 197 million, included in finance lease payments for the sale and leaseback of properties (see adjustment No. 4), the recognition of higher financial expenses, of euro 83 million, consequent to the application of the "amortized cost" method to convertible and exchangeable notes and bonds (see adjustment No. 6), the elimination of impairment reversals, of euro 32 million, and dividends of euro 10 million, relating to the shares of consolidated companies classified according to Italian GAAP in current assets;

i) *income taxes for the year (a decrease of euro 192 million)*: this decrease includes euro 242 million relating to the positive net tax effect on the above-described adjustments offset by deferred tax assets of euro 50 million recorded in the Italian GAAP 2004 financial statements but already included in the IFRS financial statements at January 1, 2004 (see adjustment No. 10).

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Independent auditors' report
pursuant to article 156 of Legislative Decree of February 24, 1998, No. 58
(Translation from the original Italian text)

To the Shareholders of
Telecom Italia S.p.A.

We have audited the consolidated financial statements of Telecom Italia S.p.A. and subsidiaries (the "Telecom Italia Group") as of and for the year ended December 31, 2005, comprising the consolidated balance sheet, the consolidated statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by Telecom Italia S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with the same accounting principles. In addition, Note No. 41 to the consolidated financial statements explains the effects of the transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published as an attachment to the Telecom Italia Group's Quarterly Report for the 1st Quarter 2005, and which have been audited by us. Reference should be made to our audit report dated June 14, 2005 .

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In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Telecom Italia Group as of December 31, 2005, and for the year then ended in accordance with IFRS as adopted by the European Union.

Milan, Italy
March 22, 2006

Reconta Ernst & Young S.p.A.
Signed by - Nadia Locati, Partner

Annual corporate governance report

Introduction

Telecom Italia has adopted the self-regulatory Code of Conduct drawn up by the Committee for the Corporate Governance of Listed Companies in the ways and within the limits set out here. In fact this section of the report describes the Company's system of *corporate governance*, which consists of a series of principles, rules and procedures that are updated constantly and, where necessary, adapted to legislative and regulatory developments and changes in international best practice.

As indicated in earlier annual corporate governance reports, Telecom Italia's system of corporate governance hinges on the central role of the Board of Directors in providing strategic guidance, the complete transparency of operational decisions, both internal and in relation to the market, the efficiency and effectiveness of the internal control system, the strict regulation of potential conflicts of interest and rigorous rules for transactions with related parties.

In what follows the system is analyzed in the light of the important decisions taken during the year, which saw the completion of the convergence of the Wireline and Mobile telecommunications businesses.

Board of directors

Role and tasks

Effective and correct *corporate governance* requires the Board to play an active role in the strategic guidance of the Company and the control of operations, with powers to direct the business as a whole and intervene in a series of decisions.

In the first place Telecom Italia has embraced the principle that the Board of Directors has the right (and the duty) to direct the Company's activity and pursue the ultimate objective of creating value for its shareholders.

To that end, among the tasks reserved exclusively to the Board under the Company's Self- Regulatory Code, the following are especially noteworthy:

- examining and approving strategic, business and financial plans;
- reviewing and approving the annual *budget*;
- examining and approving transactions – including investments and disinvestments – with a significant impact on the Company's activity in view of their nature, strategic importance or size;
- verifying the adequacy of the general organizational and administrative structure of the Company and the Group;
- preparing and adopting the Company's *corporate governance* rules and the Group's governance guidelines;
- appointing the Supervisory Panel set up under Legislative Decree 231/2001;
- nominating the persons who are to hold the offices of Chairman and Managing Director in strategic subsidiaries, as well as of General Manager;
- assessing the overall performance of operations, particularly as regards conflicts of interest and with special account taken of the reports received from the Managing Directors and the Internal Control and *Corporate Governance* Committee;
- examining and approving the periodic financial reports.

Meetings

In 2005 the Board of Directors met eleven times. Board meetings were always well attended, with more than 88% of the directors present on average (the independent directors recorded an attendance rate above 94%).

When board meetings were to be held, documentation permitting effective participation in the proceedings was normally provided well in advance.

In November 2005 the Company released a calendar providing for five meetings in 2006. It should also be noted that in 2006 Telecom Italia has again opted to publish its annual financial statements and half-yearly report respectively within 90 days of the close of the fiscal year and 75 days of the close of the half year (which allows it to benefit from the exemption from the obligation to prepare the last quarterly report for 2005 and the second quarterly report for 2006).

Appointment of directors

The members of the Board of Directors are elected using the slate system (Article 9 of the bylaws).

This solution, which means that the Company does not need to have a nominations committee and that it also complies with the rules on the appointment of directors introduced by the recent law on the protection of savings, is intended to ensure the presence on the Board of persons elected from slates submitted by minority shareholders (in fact slates may be submitted by shareholders who alone or together with other shareholders hold shares representing at least 1% of the share capital entitled to vote in the ordinary shareholders' meeting).

The present Board of Directors was appointed by the shareholders' meeting of 6 May 2004 on the basis of two slates, one submitted by the majority shareholder of Olimpia S.p.A. and the other by a group of Italian institutional investors.

The slates were accompanied by the profiles of the individual candidates to enable shareholders to evaluate their personal and professional qualifications and, for some candidates, by evidence of their satisfying the requirements laid down in Telecom Italia's Self-Regulatory Code to qualify as independent directors. The résumés submitted when the slates were presented are available on the Company's website under Investors/ Governance.

The composition of the Board changed during the year in connection with the merger of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A. In fact on 7 April 2005, after approving the merger, the shareholders' meeting voted to increase the membership of the Board from 19 to 21 and to appoint two new directors, Marco De Benedetti and Enzo Grilli, both of whom had previously been on the board of Telecom Italia Mobile. These appointments were made without using the slate system, which the bylaws require only when the entire Board has to be appointed. However, the candidacy of Enzo Grilli was put forward by the independent directors, coordinated by the Lead Independent Director, and the two candidates' résumés were made available at the Company's registered office and at the market operating company fifteen days before the shareholders' meeting Since Enzo Grilli qualifies as independent, Telecom Italia's Board still has a majority of independent directors (11 out of 21).

On 26 July 2005, as part of the process of integrating Telecom Italia and Tim, the Board of Directors made Marco De Benedetti a managing director of Telecom Italia, with responsibility for the Mobile Business Unit.

In October the process of integrating fixed and mobile telecommunications was concluded, in terms of corporate structure, with the start of the merger of Tim Italia into Telecom Italia and, from the organizational point of view, with the termination of the separation of operations between the *Wireline and Mobile Business Units* and the adoption of the "One Company Model". This led to the entire business being placed under the management of one person, Mr. Ruggiero. Subsequently, Mr. De Benedetti resigned his directorship and gave up all his operational responsibilities within the Group.

Composition

Telecom Italia's bylaws provide for the Board of Directors to have not less than 7 and not more than 23 members. The shareholders' meeting of 7 April 2005 fixed the number of directors at 21 but, following Marco De Benedetti's resignation, at 31 December 2005 it had 20 members.

Marco Tronchetti Provera	Chairman
Gilberto Benetton	Deputy Chairman
Carlo Buora	Managing Director
Riccardo Ruggiero	Managing Director and General Manager
Paolo Baratta	Member of the Remuneration Committee
John Robert Sotheby Boas	
Giovanni Consorte	
Domenico De Sole	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Francesco Denozza	Member of the Internal Control and Corporate Governance Committee
Luigi Fausti	Chairman of the Remuneration Committee
Guido Ferrarini	Chairman of the Internal Control and Corporate Governance Committee (Lead Independent Director)

Jean Paul Fitoussi	
Enzo Grilli	
Gianni Mion	
Massimo Moratti	
Marco Onado	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Renato Pagliaro	
Pasquale Pistorio	Member of the Remuneration Committee and of the Strategy Committee
Carlo Alessandro Puri Negri	
Luigi Roth	

The composition of the Board changed again on 23 January 2006 following the resignation of Giovanni Consorte and it now has 19 members, of whom 11 are independent.
The positions held by the directors in other listed companies and other large financial, banking and insurance companies are shown below:

Marco Tronchetti Provera	Chairman of Camfin, GPI - Gruppo Partecipazioni Industriali S.p.A., Marco Tronchetti Provera & C. S.a.p.a, Olimpia S.p.A., Pirelli & C. S.p.A. and Pirelli & C. Real Estate S.p.A.
Gilberto Benetton	Chairman of Autogrill S.p.A. and Edizione Holding S.p.A.; Deputy Chairman of Olimpia S.p.A.; Director of Autostrade S.p.A., Benetton Group S.p.A., Lloyd Adriatico S.p.A., Mediobanca S.p.A., Pirelli & C. S.p.A. and Schemaventotto S.p.A.
Carlo Buora	Managing Director of Pirelli & C. S.p.A.; Director of Mediobanca S.p.A., Olimpia S.p.A., Pirelli & C. Real Estate S.p.A., Ras S.p.A. and Rcs Mediagroup S.p.A.
Riccardo Ruggiero	Director of Safilo Group S.p.A.
Paolo Baratta	Director of Banca Finnat Euroamerica and Edizione Holding S.p.A.
John Robert Sotheby Boas	–
Domenico De Sole	Director of Delta Airlines and Bausch & Lomb
Francesco Denozza	Chairman of the Board of Auditors of Siemens S.p.A. and member of the Board of Auditors of Siemens Holding
Luigi Fausti	Chairman of Patrimonio Immobiliare dello Stato S.p.A.; Director of Monrif S.p.A.
Guido Ferrarini	Chairman of TLX S.p.A.; Director of Autostrade S.p.A.
Jean Paul Fitoussi	–
Enzo Grilli	Director of Generali S.p.A.
Gianni Mion	Managing Director of Edizione Holding S.p.A.; Director of Autogrill S.p.A., Autostrade S.p.A., Benetton Group S.p.A., Cartiere Burgo S.p.A., Luxottica Group S.p.A., Olimpia S.p.A., Schemaventotto S.p.A. and 21Investimenti S.p.A.
Massimo Moratti	Director of Interbanca S.p.A. and Pirelli & C. S.p.A.
Marco Onado	Chairman of Pioneer Global Asset Management S.p.A.
Renato Pagliaro	Director of Cartiere Burgo S.p.A. and RCS Mediagroup S.p.A.; Co-General Manager of Mediobanca S.p.A.
Pasquale Pistorio	Honorary Chairman of STMicroelectronics S.p.A.; Director of Fiat S.p.A.
Carlo Alessandro Puri Negri	Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A.; Deputy Chairman of Camfin S.p.A. and Pirelli & C. S.p.A.; Director of Capitalia S.p.A. and Olimpia S.p.A.
Luigi Roth	Chairman of Fondazione Fiera di Milano and Terna S.p.A.; Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

The directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the slate presented by the group of institutional investors and the others from the slate presented by Olimpia S.p.A., which at present holds approximately 18% of the ordinary share capital.

Board performance evaluation

In 2005, for the first time, the directors carried out a *Board performance evaluation*, in line with international best practice. The evaluation (carried out through the use of specific questionnaires) permitted two objectives to be pursued: on the one hand to check the working of the Board as a whole and on the other to assess the contributions to its activity and the conduct of the executive directors, the non-executive directors and the independent directors.

The analysis of the responses to the questionnaires revealed a generally positive assessment of the Board and its members but also some aspects susceptible to improvement.
This permitted the identification of measures to make the organization of the Board more efficient and enhance its effectiveness, basically by increasing the involvement of the Board as a whole in issues addressed in a specialist manner by Board committees and organizing structured meetings with the management, with a consequent heightening of individual directors' appreciation of the matters of interest to the Company.

Independent directors

In conformity with international *best practice* and the recommendations of the Italian corporate governance code, known as the Preda Code, Telecom Italia has laid down a set of principles by means of which to establish directors' independence. According to the Board of Directors' annual assessment of the declarations submitted by the directors concerned, at present 11 of the 19 members of the Board qualify as independent, namely: Paolo Baratta, John Robert Sotheby Boas, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Enzo Grilli, Marco Onado, Pasquale Pistorio and Luigi Roth. The composition of the Board also complies with the recently adopted law on the protection of savings, according to which at least one director must satisfy the independence requirements for the members of the Board of Auditors laid down in Legislative Decree 58/1998, as amended by the law on the protection of savings.

Telecom Italia's Self-Regulatory Code (available on the Internet at *www.telecomitalia.it* under *Investors/ Governance/ Codes, Principles and Procedures*) defines independent directors as those who neither have nor have recently had business dealings with Group companies or executive directors or members of their families on a scale able to influence their judgement and who are not in a position to exercise a significant influence over the Company as a consequence of the shares they hold or their participation in shareholders' agreements.
This requirement is interpreted extensively, in order to assess "substantial" independence; accordingly, directors who have material dealings with natural or legal persons who are parties to a shareholders' agreement do not qualify as independent.

In addition, since 2004 the Company's Board of Directors has also had a L*ead Independent Director*, who is intended to provide a point of reference and coordination for the needs and inputs of the *independent directors*. At present the position is held by Professor Guido Ferrarini, Chairman of the Internal Control and *Corporate Governance* Committee.

Among other things, the Lead Independent Director is authorized to call, at his own initiative or at the request of other directors, special meetings of the independent directors (*Independent Directors' Executive Sessions*) to discuss issues related to the working of the Board or the management of the business.

Five Independent *Directors' Executive Sessions* were held in 2005; the main extraordinary corporate actions were examined as well as some issues concerning management remuneration and incentives. In accordance with international best practice, the independent directors also carried out a *management evaluation*, the results of which were shared with the other non-executive directors in a special executive session of the Board.
The overall assessment was positive: in a context marked by fast-changing strategic scenarios, technologies and markets, Telecom Italia's *management* had shown itself to be aware of the scale and rapidity of the transformation under way and of the dangers (but also the opportunities) for the Group. In particular, it had identified the strategy of convergence as the means of creating a long-term competitive advantage and achieving the growth and earnings objectives, notwithstanding the increasing pressure on market shares and prices.

Executive directors

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects and limits, their duration and the intervals at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.
In 2004 the Board of Directors appointed Marco Tronchetti Provera as Chairman and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors; Gilberto Benetton was made Deputy Chairman.

Following the merger with Tim and until the adoption of the One Company Model, from July to October Marco De Benedetti was also a Managing Director.

Despite the broad scope of the mandates granted to the executive directors, the power to take decisions on transactions of particular significance continues to be exercised by the Board as a whole, even when they are theoretically within the limits of the executive directors' mandates. This is because delegating powers is not considered a way of attributing exclusive competences but as a means of ensuring, from the standpoint of organizing the management function, the greatest possible operational flexibility, both within the Company and in relation to third parties. During the year this concept was taken a step further by reclassifying what had originally been defined as substantial limits (in terms of eligible transactions and amounts) as mere internal limits to the relationship of trust between the Board that delegates powers and the persons who exercise them. In fact the Chairman and the Managing Directors are all legal representatives of the Company and they are individually authorized to carry out any transaction relating to the Company's activity.

On 5 October 2005, consistently with the adoption of the One Company Model, responsibility for the development of fixed, mobile and Internet services was assigned to the same person. This provides for the unitary direction of the *business* in addition to the *unitary direction* of corporate affairs. The consequent allocation of functions and related organizational responsibilities is set out below:

– Riccardo Ruggiero, Managing Director, is responsible for operations from the standpoint of the management and development of the *business*;
– Carlo Buora, Managing Director, is responsible for the guidance and control of the business and for matters of a transversal nature affecting the entire business;
– Marco Tronchetti Provera, Chairman, is entrusted with coordinating the activity of the two Managing Directors and with establishing, together with them, the strategic guidelines for the Group and its development, with direct responsibility for the following areas: institutional affairs, communications and image, and investor relations.

As regards the reports the Chairman and the Managing Directors are required to make to the Board of Directors and the Board of Auditors, the Company has adopted procedures formalizing the rules and methods for gathering and transmitting information on their activity, transactions with major implications for the profitability, financial position and/or assets and liabilities of the Company and the Group, transactions with related parties (including intra-group business) and atypical or unusual transactions.

Directors' remuneration

The shareholders' meeting of 7 April 2005, after voting to increase the number of directors on the Board from 19 to 21 and in accordance with the first paragraph of Article 2389 of the Civil Code, augmented the maximum total annual remuneration of the Board for the second and third years of its mandate, from euro 2,700,000 to euro 3,000,000. It left the method of allocating this amount unchanged:

- euro 114,000 to be paid to each director in office;
- an additional euro 63,000 to be paid to each of the four members of the Internal Control and Corporate Governance Committee (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado);
- an additional euro 52,000 to be paid to each of the three members of the Remuneration Committee (Luigi Fausti, Paolo Baratta and Pasquale Pistorio);
- an additional euro 20,000 to be paid to each of the three members of the Strategy Committee other than the Chairman of the Board and the Managing Director Carlo Buora (Domenico De Sole, Marco Onado and Pasquale Pistorio);
- an additional euro 20,000 to be paid to the director appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Guido Ferrarini).

Set up in 2000, the Board's Remuneration Committee consists exclusively of independent directors and is charged with fact-finding and advisory functions. Since 6 May 2004 the membership has been as follows: Paolo Baratta, Pasquale Pistorio and Luigi Fausti, chairman. In 2005 the Committee met three times; the average attendance rate was approximately 90%.

The Committee is charged with putting forward proposals with regard to the remuneration of the directors who hold particular offices and the criteria for the remuneration of the Company's senior management. Last year it also made an assessment of the appropriateness and effectiveness of the compensation and incentive schemes for managers and executive directors.

The current remuneration system for executive directors provides for them to receive a fixed component and an additional payment subject to the achievement of the objective for consolidated EBIT with positive Delta EVA, in other words when value is created for all investors.

There is no provision for stock options for directors.(1)

Further information on the compensation paid to the executive directors can be found in the relevant table in the Notes to the financial statements.

The remuneration system for *management* provides performance and loyalty incentives on top of a basic salary. The incentives include both cash payments and stock options. Details on the latter are contained in the "Human resources" section of the Report on Operations.

The internal control system

The internal control system is one of the aspects of *corporate governance* to which Telecom Italia has devoted the most attention. It has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability, corner-stones of the Company's entrepreneurial activity, as laid down in the Group Code of Ethics.
The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

The cardinal rules of the Company's internal control system concern:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the traceability and constant visibility of decisions;
- decision-making on an objective basis.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies that it is adequate and works effectively, making sure that the main corporate risks are appropriately identified and managed. To this end the Board uses the Internal Control and Corporate Governance Committee and a suitably independent person appointed to be responsible for internal control and endowed with sufficient resources to perform the function.

The Managing Director Carlo Buora is charged with the task of determining the mechanisms of the system and the manner in which it is to be implemented in accordance with the guidelines established by the Board; he is also responsible for ensuring the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework.

The basic functions assigned to the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to propose appropriate remedies.

The Board has appointed the Company's internal auditor (Telecom Italia Audit), in the person of the director assigned to the task, to be responsible for its internal control system. The person responsible for internal control reports on its activity to the Internal Control and *Corporate Governance* Committee and the Board of Auditors.

Any maintenance work on the internal control system is performed by the competent sectors of the Company or Group companies. In order to ensure the implementation of improvements to the internal control system and foster the dissemination of a methodology and culture of governance and risk management, managers of particular standing and authority within the organization are appointed as "persons responsible for implementation". In order to improve the deployment of the Group. The internal control system, in 2005 the position of *Group Compliance Officer* was created to ensure the overall coordination of the various implementation plans and thus guarantee, with the assistance of Telecom Italia Audit, methodological correctness in the management of risk. To further strengthen the system, the persons responsible for implementation have been flanked by *compliance managers* coordinated by the *Group Compliance Officer*.

As mentioned earlier, internal auditing has been entrusted to the consortium company Telecom Italia Audit, in which TI Media also holds an interest, with the aim of maximizing the

(1) Managing Director Riccardo Ruggiero is an exception in this respect since, prior to his being co-opted to the Boardof Directors, as General Manager he was among the beneficiaries of a stock-option plan.

independence of the person responsible for internal control from Telecom Italia's corporate structures, with respect to which the *audit function* is completely autonomous.
As regards *compliance* with the provisions implementing the Sarbanes-Oxley Act, last year saw further progress in carrying out Project 404, which involves the whole Group and, under the guidance of the related *Steering Committee*, is intended to equip the Company with the most suitable instruments to ensure timely compliance with the attestation *requirements* introduced by Section 404 of the Act with regard to the internal control system and procedures for financial reporting, requirements to which Telecom Italia will be subject as of its annual report for 2006.
The Company's internal control system is completed by the so-called 231 Organizational Model, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company's name and on its behalf.
More specifically, the model comprises "principles for dealings with governmental bodies" (elaborated as a set of rules for relations with representatives of such bodies) and "internal control checklists" (i) listing the main stages of every process, (ii) the offences that may be committed in relation to individual processes, and (iii) the control activities to prevent the related risks from arising.
The organizational model is reviewed periodically in the light of experience in its application and changes to the law subsequent to the initial framework created by Legislative Decree 231/2001, including the broadening of its scope to encompass other cases. In 2005 the Company verified, in accordance with the discipline established by Legislative Decree 231/2001, the adequacy of the internal control system with respect to the new types of offence considered, with special reference to violations of company law. For the most part the results of the checks were satisfactory; for cases that were not fully regulated the 231 Organizational Model was supplemented as necessary with the adoption of some new internal control checklists for operational and instrumental processes exposed to the risk of offences being committed. At present the model is being fine tuned to incorporate the risks associated with the legislation on market abuse.
Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and *Corporate Governance* Committee (Guido Ferrarini) and the person responsible for the internal control system. This ensures that the members of the Panel embody all the professional skills involved in the control of the Company's operations.
The Supervisory Panel will encourage the Board of Directors to adapt the model as needed to changes in the legislative and regulatory framework, the nature of the Company's business activities and the ways they are conducted. It reports to the Board of Directors, the Internal Control and *Corporate Governance* Committee and the Board of Auditors on the checks performed and their results.
The shareholders' meeting of 6 May 2004 resolved that the member of the Board of Auditors serving on the Supervisory Panel should be paid a gross annual fee of euro 20,000, the same as that assigned by the Board of Directors to the member of the Internal Control and *Corporate Governance* Committee serving on the Panel.
Lastly, it should be noted that a special unit (the 231 Support Group) has been created within Telecom Italia Audit to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

The Internal Control and Corporate Governance Committee

Since 2000 the Board of Directors of Telecom Italia has had an Internal Control and *Corporate Governance* Committee, charged with advisory functions and the formulation of proposals.
In particular the Committee:
- evaluates the adequacy of the internal control system;
- evaluates the work plan prepared by the person responsible for internal control, from whom it receives periodic reports;
- assesses, together with the heads of the Company's administrative departments and the external auditors, whether the accounting policies have been correctly applied and are homogeneous for the purpose of preparing the consolidated financial statements;
- evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in the letter of suggestions;

– reports to the Board of Directors on the activity performed and the adequacy of the internal control system;
– performs the additional tasks that may be assigned to it by the Board of Directors, particularly as regards relations with the external auditors; and
– monitors compliance with the rules of *corporate governance* and their periodic updating.

The Committee is composed entirely of independent directors, in its meeting on 6 May 2004 the Board of Directors appointed Francesco Denozza, Domenico De Sole, Marco Onado and Guido Ferrarini (Chairman).
In 2005 the Committee met eleven times; attendance at the meetings was 100 per cent. Committee meetings are also attended by the Chairman of the Board of Auditors or by the auditor he designates.
Where it is deemed desirable in the light of the issues on the agenda, the Committee and the Board of Auditors may hold joint meetings.
During the year the Committee contributed to the implementation of the Company's instruments of *corporate governance* and participated in the process of analyzing, specifying and updating them. It also played an active role in the integration of Telecom Italia and Tim, verifying the procedural correctness of valuations and the fairness of the operation.
It examined the plan for the restructuring of the Group, with special reference to the merger of Tim into Telecom Italia and the concentration of the Group's Internet operations in the parent company. In addition, it analyzed the application of IAS/IFRS to the financial statements and kept abreast of the progress made by Project 404.
As well as monitoring transactions that the Board deemed to be especially delicate, the Committee examined and approved the basic elements of the internal audit plan for 2006 and the quarterly plans of the person responsible for internal control. It periodically assessed the work of Telecom Italia Audit, paying particular attention to the company's report on internal auditing activity in 2005 and the checks it performed, and the progress made by the Group projects known as Control Risk Self-Assessment and Check-Up of Administrative Systems.
Lastly, the Committee discussed the plan for the 2006 statutory audits with representatives of the external auditors, Reconta Ernst & Young.

The Strategy Committee

Since 2004 the Board of Directors of Telecom Italia has had a Strategy Committee to increase the involvement of the Board in the Company's strategic decision-making, especially as regards guiding the evolutionary processes under way in the Group's business in the light of the rapid transformation of technologies and markets.
The Strategy Committee consists of the Chairman of the Board (who ensures the alignment and coordination of the activities of the Committee, the Board and *management*), the Managing Director charged with ensuring the guidance and control of the business (Carlo Buora), and three independent directors (Domenico De Sole, Marco Onado and Pasquale Pistorio) specialized in the fields of technology, organizational strategies and *corporate finance*.
The Committee is entrusted with the task of assisting the Board of Directors in making strategic choices in the light of competitive developments, with special reference to decisions concerning:
- the potential evolution of the structure of the telecommunications industry;
- the strategic positioning and business models of the Group;
- the evolution of the Group's organization in relation to its *business* models;
- the evolution of the Group's corporate and financial structure;
- the monitoring of the stage reached in the process of change.

In addition to calling on the heads of units within the Company, the Committee may employ consultants and external experts.
The Committee met four times in 2005, generally at the same time as a meeting of the Board of Directors and with an attendance rate of 95%. The meetings were attended by *managers* of the Group, invited according to their specific expertise to provide inputs with regard to the matters on the agenda. The Committee examined and produced recommendations on the following subjects:

- Market scenarios: technological trends, evolution of consumption patterns, convergence initiatives by the main telecommunications operators - analysis of regulatory frameworks and the strategy and positioning of the Group with regard to telecommunications and, more generally, to information and communication technology (ICT).
- Internet: plans for the integration of platforms and business models (Tin.it, Virgilio and Rosso Alice).
- Sharpening the focus of the business.
- Strategic projects and international positioning: Europe, Mediterranean basin, Latin America.
- Integrated organizational model: basic principles, business objectives and the *One Company Model*.

Board of Auditors

The Company's Board of Auditors took office in May 2003 and consists of five auditors: Ferdinando Superti Furga (Chairman), Salvatore Spiniello and Gianfranco Zanda (elected from the slate presented by Olimpia) and Rosalba Casiraghi and Paolo Golia (elected from the slate presented by institutional investors).
The offices held by the members of the board of auditors in other listed companies are shown below:

Ferdinando Superti Furga	Director of Parmalat S.p.A. and Risanamento S.p.A.; member of the board of auditors of Arnoldo Mondadori Editore S.p.A. and Edison S.p.A.
Rosalba Casiraghi	Member of the board of auditors of Banca Intesa S.p.A.
Paolo Golia	–
Salvatore Spiniello	Director of Fondiaria Sai S.p.A. and Immobiliare Lombarda S.p.A.; member of the board of auditors of Edison S.p.A. and Telecom Italia Media S.p.A.
Gianfranco Zanda	–

The Board of Auditors plays a key role in the Company's system of *corporate governance*.
In addition to the fifteen meetings it held during the year (some jointly with the Internal Control and *Corporate Governance* Committee and with an attendance rate of 96%), its members participated in the eleven meetings of the Board of Directors and periodically received the reports submitted by the bodies with delegated powers, as provided for in the relevant procedure.
The importance of the Board of Auditors is confirmed by the choices made with regard to US company law. Specifically, under the applicable provisions, the existence of the Board of Auditors makes it unnecessary for the Company to set up a separate *Audit Committee*.
In view of the requirement that the *Audit Committee* approve all the services the auditing firm (and associated persons) supply to the issuer and its directly and indirectly controlled subsidiaries, the Company has adopted a Group Procedure for the Appointment of Auditors. In particular, this provides on a general basis for the centralized control of relations with auditing firms to prevent engagements for non-audit services being granted that fail to comply with the applicable Italian or US law and that ultimately could undermine auditor independence. The procedure (which appears to be consistent with the requirements introduced by the new law on the protection of savings) regulates the engagement of auditing firms and persons associated with them on a continuous basis, distinguishing between engagements that must be individually authorized in advance by the Board of Auditors and those falling within categories subject to a generic authorization. The procedure significantly restricts the power of the Board of Directors (and the management) while enhancing the independent control function performed by the Board of Auditors.
The Company has also adopted the principle of employing the same auditing firm throughout the Group; in fact the appointment of other firms must be agreed in advance with the parent company following a reasoned request on which Telecom Italia's Board of Auditors gives its opinion on the basis of inquiries made by the person responsible for internal control.
In order to make available the broad range of information needed by the Board of Auditors to perform its control function effectively, a procedure has been put in place, as mentioned earlier, for the collection and transmission to the members of the Board of Auditors (and the directors) of information on: the activity carried out by the Company; the transactions of greatest significance for the Company's profitability, financial position and assets and

liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions.
The above-mentioned procedures are available on the Company's website under *Investors/ Governance*.
In view of its responsibilities under Italian law and the obligations deriving from US law, in 2005 the Board of Auditors adopted a procedure for receiving, retaining and treating the reports it receives.
Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be censurable;
- complaints by any person, thus including non-shareholders, concerning alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- complaints specifically regarding accounting, internal accounting controls, or auditing matters;
- confidential, anonymous submissions of "concerns" by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company's website under Investors/Governance.
In addition to the tasks performed in its Audit Committee capacity, the Board of Auditors carried out supervisory functions provided for under Italian law: verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking the adequacy of the organizational structure. The Board of Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions. Lastly, it investigated the reports it received under Article 2408 of the Civil Code and the complaints submitted to it during the year, as described in its report to the shareholders' meeting.
More detailed information on the activity of the Board of Auditors can be found in its report pursuant to Article 153 of Legislative Decree 58/1998, which is included in the 2005 Annual Report.

Shareholders' meetings

Ordinary and extraordinary shareholders' meetings were held on 7 April 2005. In the extraordinary meeting the shareholders approved the plan for the merger of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. and approved the consequent amendments to Article 5 of the bylaws (under the heading Share Capital - Shares - Bonds). In the ordinary meeting, in addition to approving the annual report for 2004, the shareholders brought the Board of the "new" Telecom Italia up to full strength following approval of the merger plan by appointing Marco De Benedetti and Enzo Grilli as directors [see the "Appointment of directors" section of this corporate governance report]. At the same time, in accordance with Article 2389 of the Civil Code, the meeting augmented the maximum total annual remuneration of the Board from € 2.7 million to € 3 million [see the "Directors' remuneration" section of this corporate governance report].
As usual, the Company sought to increase shareholders' attendance at the meetings by providing the documents needed for informed participation to all those who requested them and, as provided for in the bylaws, ordinary shareholders were able to vote by mail. Furthermore, pursuant to the bylaws, the Company made special areas available to associations of employee shareholders in which to provide information and collect proxy forms.

Code of Ethics

The Code of Ethics of the Telecom Italia Group can be considered as lying upstream from the whole system of *corporate governance* and as enshrining the set of fundamental values and principles that serve to ensure an ethically-oriented conduct of business.
The Code, which has gradually been adopted by all the companies belonging to the Group,

specifies the objectives to be aimed at and the values to be fostered in relation to all the main *stakeholders* Telecom Italia interacts with every day: shareholders, financial markets, customers, local communities and employees.
Like all the Company's other instruments of *corporate governance*, the Group Code of Ethics is continuously reviewed in the light of developments in the applicable law and operational and market practices, and with consideration also given to the results of the monitoring of units' compliance by the person responsible for internal control.
The present version of the Code takes account of the requirements of the US discipline, primarily as regards the *Code of Ethics* referred to in the *Sarbanes-Oxley Act* and the *Code of Conduct* required by the listing standards of the New York Stock Exchange, which make it mandatory to have a code of conduct for certain categories of officers (*executives and financial and accounting officers*).
The Company's other governance documents are tied in with the Group Code of Ethics and thus increasingly enhance the importance of its role at the centre of the internal control system.
The Code is available on the Company's website, together with the other governance documents referred to, under *Investors/Governance*.

Rules of conduct for transactions with related parties

In 2002 the Company adopted guidelines (available on the Company's website under *Investors/Governance*) for carrying out transactions with related parties. They are intended to ensure both procedural and substantial fairness and transparency by entrusting the related decisions to the Board of Directors.
In fact the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions, apart from those of a customary nature to be concluded at *standard* conditions. To this end, provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction, the Company's interest in its implementation and the associated risks. Moreover, if the related party is a director or a party related via a director, he or she may only provide clarifications and must leave the meeting when the motion is examined and put to a vote. Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by outside experts in order to prevent contracts being concluded at inappropriate conditions.
The rules are consistent with the legal framework established by the reform of company law known as the Vietti reform and in 2006, despite Consob not having issued the indications provided for, were supplemented by a procedure designed to provide an objective basis for the treatment of concrete situations. Before any transaction is carried out, it will be necessary to consult an expert system (appropriately interfaced with a database that is being added to as the system is deployed) that will automatically provide – on the basis of information gathered using ad hoc checklists – indications concerning decision-making powers, internal information flows for reporting purposes, and the need for an external opinion in evaluating the congruousness of transactions.
More detailed information on transactions with related parties can be found in the Company's Report on Operations in the section "Related party transactions". In this respect it should be noted that on two occasions the Board of Directors exonerated directors who were related to the counterparty of the transaction on the agenda from leaving the meeting since a discussion was not considered necessary in light of the information received in preparation for the meetings.

Management of information

Transparent relations with the market and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the *management* and all the employees of the Telecom Italia Group.
Confidential information is dealt with by the Chairman of the Board of Directors on the basis of procedures for the internal processing and disclosure to third parties of documents and information concerning the Company. The procedure for disclosing price-sensitive

information was replaced in 2006 by a more general procedure for the disclosure of inside information, which takes account of the legislation on market abuse and provides for the creation, with effect from 1 April 2006, of a register of persons with access to inside information.
The adoption of the new procedure is the most tangible result of the activity of the working group the Company set up to evaluate the effects of the transposition into Italian law of the Market Abuse Directive (Community Law 2004).
The decision to set up the working group was taken at the initiative of the *Disclosure Committee*, a body made up of managers that provides assistance to the Board of Directors and *top management* on the processing and handling of the data and news necessary for correct disclosure. The Committee is charged with assisting in the preparation and checking of periodic financial reports, prospectuses and corporate disclosures in general.
The role and operating rules of the *Disclosure Committee* are likely to be revised in the process of adapting the Company's system of corporate governance to the requirements of the recent law on the protection of savings (including the introduction of the "manager responsible for preparing the Company's financial reports").
The *Disclosure Committee Rules* are posted on the Company's website under *Investors/Governance*.

Code of Conduct on Insider Dealing

IThe Company's Code of Conduct on *Insider Dealing*, adopted in December 2002 and laying down the rules of conduct and the disclosure requirements applicable to transactions involving financial instruments issued by Group companies carried out by persons who have access to material information as a consequence of their positions will be superseded, as of 1 April 2006, with the entry into force of a Consob regulation issued pursuant to Legislative Decree 58/1998, as amended by the law on market abuse.
The law imposes a disclosure obligation for so-called insider-dealing transactions on, among others, the directors and members of the board of auditors of a listed company and "persons performing administrative, supervisory and management functions in a listed issuer and managers who have regular access to inside information and the power to make managerial decisions affecting the future development and prospects of the issuer". Telecom Italia has chosen to identify such persons in the key managers referred to in IAS/IFRS 24 and in executive officers for the purposes of US applicable law.
In 2005 the Company made 10 filings in accordance with Article 2.6.4 of Borsa Italiana's Market Rules. These filings can be found on the Company's website under *Investors/Governance*.

Meeting regulations

As provided for in the bylaws, the shareholders' meeting has approved a set of regulations for shareholders' meetings.

The document also contains the procedure for ordinary shareholders to vote by mail, as provided for in the bylaws, so as to ensure the fullest possible guidance on the organizational and procedural aspects of this important moment in shareholders' participation in the life of the Company.

The Meeting Regulations are available on the Company's website, under *Investors/ Governance*.

Investor Relations

A special unit, headed by the Chairman, is responsible for handling relations with the financial community in Italy and abroad. In 2006 the scope of the unit's activity was extended to include *retail investors*.

More detailed information can be found can be found in this report in the section "Financial communications".

Additional information can be obtained from the following addresses:

Institutional investors:
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investor_relations@telecomitalia.it

Retail investors:
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investitori.individuali@telecomitalia.it

Shareholders' agreements

At 31 December 2005 the largest shareholder of Telecom Italia was still Olimpia S.p.A., with approximately 18% of the ordinary share capital (2,407 million ordinary shares).
The shareholders of Olimpia S.p.A. have concluded a number of shareholders' agreements; notices containing extracts of the following have been published in the Italian press:

- agreement between Pirelli & C. S.p.A. (formerly Pirelli S.p.A.) and Edizione Holding S.p.A. - Edizione Finance International S.A., concluded on 7 August 2001 and subsequently amended;
- agreement between Pirelli & C. S.p.A. (formerly Pirelli S.p.A.), Unicredito Italiano S.p.A. and Banca Intesa S.p.A., concluded on 14 September 2001 and subsequently amended;
- agreement between Pirelli & C. S.p.A. (formerly Pirelli S.p.A.), Banca Intesa S.p.A:, Unicredito Italiano S.p.A., Edizione Holding S.p.A. - Edizione Finance International S.A., Hopa S.p.A. and Olimpia S.p.A. concluded on 21 February 2003 and subsequently amended. On 14 February 2006 a notice was published announcing the notification to Hopa S.p.A. of the withdrawal from the agreement of Pirelli & C. S.p.A., Banca Intesa S.p.A:, Unicredito Italiano S.p.A., Edizione Holding S.p.A. - Edizione Finance International S.A. and Olimpia S.p.A., effective 8 May 2006.

The shareholders of Olimpia S.p.A. are currently Pirelli & C. S.p.A. (57.66%), Edizione Finance International S.A. (8.4%), Edizione Holding S.p.A. (8,4%), Hopa S.p.A. (16%), Unicredito Italiano S.p.A. (4.77%) and Banca Intesa S.p.A. (4.77%).

Assessment by Standard & Poor's

Telecom Italia considered it desirable to have its *corporate governance* system assessed independently by Standard & Poor's. Upon completion of the analysis, the Company was assigned an overall corporate governance score of 7+, the highest ever published by an Italian company.

The *rating* company recognized that Telecom Italia had progressively created a solid system of governance and strengthened the independence and effectiveness of the Board of Directors, which, with a majority of independent directors, stands out with respect to the majority of Italian listed companies by providing a forum for discussion and effective supervision of *management*.

In its report Standard & Poor's also noted that Telecom Italia's corporate governance system was marked by a high level of transparency and disclosure, combined with strong internal controls and effective supervision of the audit process provided by both the Board of Auditors and the Internal Control and *Corporate Governance* Committee.

The Parent Telecom Italia S.p.A.

The Report on Operations and the financial statements of Telecom Italia S.p.A. at December 31, 2005 have been prepared in accordance with Italian accounting principles.

Selected operating and financial data - Telecom Italia S.p.A.

The Report on Operations and the financial statements of Telecom Italia S.p.A. at December 31, 2005 have been prepared in accordance with Italian accounting principles.

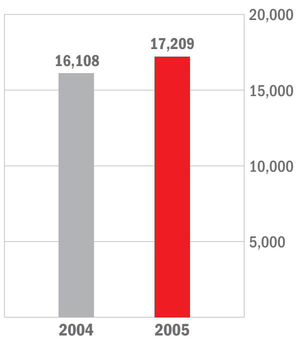
	2005	2004
Operating and financial Data (millions of euro)		
Revenue	17,209	16,108
EBITDA	6,863	6,982
EBIT	4,082	4,106
Result before tax	4,803	3,182
Net income	3,885	2,135
Capital expenditures:		
– Industrial	2,474	2,330
– Financial	15,977	1,695

	12/31/2005	12/31/2004
Balance Sheet Data (millions of euro)		
Total assets	82,348	63,729
Shareholders' equity	21,968	16,811
Net financial debt	44,412	31,106

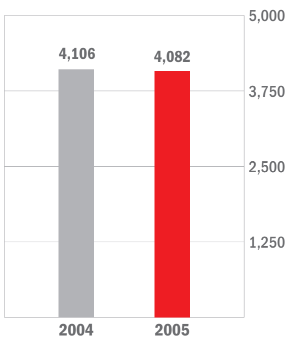
	2005	2004
Profit and Financial Ratios		
EBITDA / Revenue	39.9%	43.3%
EBIT / Revenue (ROS)	23.7%	25.5%
Debt Ratio (Net financial debt/Net invested capital)(1)	66.9%	64.9%
Headcount (2)		
Headcount (number at year-end)	52,740	53,034
Headcount (average number)	53,108	53,949
Revenue/Headcount (average number) thousands of euro	324.0	298.6

(1) Net invested capital = Total shareholders' equity + Net financial position
(2) The number includes employees with temp work contracts

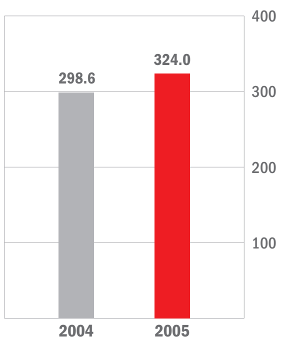
Revenues (euro/millions)



EBIT (euro/millions)



Revenues/Headcount (euro/thousands)



Operating and financial performance - Telecom Italia S.p.A.

The results of operations, the financial condition and the cash flows of Telecom Italia S.p.A. for the year 2005 reflect the results arising from the following corporate transactions:

- merger by incorporation of TIM S.p.A. in Telecom Italia S.p.A., executed on June 30, 2005, with effect for accounting purposes from January 1, 2005, as well as the following transactions related and preliminary thereto:
  - voluntary partial Cash Tender Offer launched by Telecom Italia for TIM ordinary and savings shares;
  - spin-off by TIM, effected on February 24, 2005, of the corporate operations of the mobile telecommunications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of the same TIM; the spin-off was carried out by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005;
- merger by incorporation of the wholly-owned subsidiaries ISM S.r.l. and Finanziaria Web S.p.A., executed on December 31, 2005, with effect for accounting purposes from January 1, 2005.
- merger by incorporation of the wholly-owned subsidiary Telecom Italia Data Center, executed on December 31, 2005. Prior to the merger in Telecom Italia, the company Telecom Italia Data Center was the beneficiary, on December 30, 2005, of the partial spin-off of the corporate operations consisting of the infrastructural assets for the management of the IT data centers of IT Telecom S.r.l. and TIM Italia S.p.A., as well as the basic services (mail, office automation, workstation management) of IT Telecom S.r.l.).

Particular mention is made of the fact that the 2005 statement of operations includes the operating results of the TIM business segment for the first two months of 2005, which was then spun-off to TIM Italia S.p.A., effective March 1, 2005.

Moreover, in order to ensure a greater consistency in disclosure, the operating results, balance sheet and financial results of Telecom Italia S.p.A., prepared in accordance with Italian accounting principles, are represented in the following pages using the same presentation as the consolidated financial statements of the Telecom Italia Group, which are drawn up in accordance with IFRS.

STATEMENT OF OPERATIONS

(millions of euro)	Year 2005	Year 2004	Changes amount	Changes %
Revenue	17,209	16,108	1,101	6.8
Other income	403	642	(239)	(37.2)
Total operating revenues and other income	**17,612**	**16,750**	**862**	**5.1**
Purchases of materials and external services	(7,196)	(6,625)	(571)	8.6
Personnel costs	(3,110)	(2,868)	(242)	8.4
Other operating expense	(722)	(914)	192	(21.0)
Changes in inventories	(5)	38	(43)	°
Capitalized internal constructions costs	284	601	(317)	(52.7)
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets (EBITDA)	**6,863**	**6,982**	**(119)**	**(1.7)**
Depreciation and amortization	(3,079)	(2,892)	(187)	6.5
Capital gain/losses realized on non-current assets	306	16	290	°
Impairment reversals/losses of non-current assets	(8)		(8)	
Operating result (EBIT)	**4,082**	**4,106**	**(24)**	**(0.6)**
Financial income	3,543	1,819	1,724	94.8
Financial expense	(2,822)	(2,743)	(79)	2.9
Income before tax	**4,803**	**3,182**	**1,621**	**51.0**
Income taxes for the year	(918)	(1,047)	129	(12.3)
Net income for the year	**3,885**	**2,135**	**1,750**	**82.0**

The Parent, **Telecom Italia S.p.A.,** reports a net income of euro 3,885 million for the year 2005, an increase of euro 1,750 million compared to 2004.
The increase is mainly due to an improvement in the balance of *financial income and expense* (+euro 1,645 million), as a result of higher dividends from subsidiaries, lower *income taxes* (– euro 129 million) and a slight decrease (– euro 24 million) in the *operating result*.

In order to ensure a homogeneous comparison, the following table shows the results for the year 2005 net of the effects of the merger with TIM and exceptional items compared to those of 2004 net of exceptional items.

	Year 2005	Merger effect TIM	Exceptional items effect	Year 2005 net of the merger TIM and exceptional items	Year 2004	Exceptional items effect	Year 2004 net of the exceptional items	Changes (d-g)	
(millions of euro)	(a)	(b)	(c)	(d=a-b-c)	(e)	(f)	(g=e-f)	amount	%
Revenue	17,209	1,270	–	15,939	16,108	–	16,108	(169)	(1.1)
Other income	403	6	37	360	642	362	280	80	28.7
Total operating revenues and other income	**17,612**	**1,276**	**37**	**16,299**	**16,750**	**362**	**16,388**	**(89)**	**(0.5)**
Purchases of materials and external services	(7,196)	(473)	(84)	(6,639)	(6,625)	(18)	(6,607)	(32)	0.5
Personnel costs	(3,110)	(89)	(271)	(2,750)	(2,868)	–	(2,868)	118	(4.1)
Other operating expense	(722)	(17)	(92)	(613)	(914)	(273)	(641)	28	(4.4)
Changes in inventories	(5)	26	(20)	(11)	38	–	38	(49)	°
Capitalized internal constructions costs	284	7	–	277	601	–	601	(324)	(53.9)
Operating result before depreciation and amortization, capital gains/losses realized and impairment reversals/losses of non-current assets (EBITDA)	**6,863**	**730**	**(430)**	**6,563**	**6,982**	**71**	**6,911**	**(348)**	**(5.0)**
Depreciation and amortization	(3,079)	(210)		(2,869)	(2,892)	–	(2,892)	23	(0.8)
Capital gain/losses realized on non-current assets	306	2	325	(21)	16	27	(11)	(10)	90.9
Impairment reversals/losses of non-current assets	(8)		(26)	18			–	18	
Operating result (EBIT)	**4,082**	**522**	**(131)**	**3,691**	**4,106**	**98**	**4,008**	**(317)**	**(7.9)**

Revenue, gross of the revenue portion due to other TLC operators, amounts to euro 17,209 million and increased by euro 1,101 million (+6.8%) compared to 2004. The caption includes the revenue of the merged company TIM (euro 1,270 million) during the months of January and February 2005.

Excluding the effects of the merger with TIM, revenue in 2005 (euro 15,939 million) decreased by euro 169 million (– 1.1%) compared to 2004.

That change of euro 169 million is due to the following factors:

- increase in Internet revenues (+euro 100 million) as a result of the growth of ADSL plans;
- decrease in revenue from the telephony area (– euro 498 million) chiefly on account of lower traffic revenues, which were partly absorbed by higher sales of products (mainly telephone handsets);
- increase in revenue from the Data Business area (+euro 122 million) thanks to higher VAS Data revenues (+euro 112 million) mostly as a result of the growth of Web services;
- increase in revenue from the national Wholesale area (+euro 80 million);
- decrease in other retail revenue (– euro 16 million);
- increase in real estate service revenues (+euro 43 million) following the sale of the Emsa Servizi business operations to Telecom Italia, from January 1, 2005.

EBITDA amounts to euro 6,863 million and decreased by euro 119 million (– 1.7%) compared to 2004. It includes the effects of the merger with TIM, amounting to euro 730 million. As a percentage of revenues, EBITDA is equal to 39.9% (43.3% in 2004).

Excluding the effects of the merger with TIM and exceptional items (exceptional income and expenses), *EBITDA for the year 2005 is equal to euro 6,563 million and decreased by euro 348 million (– 5.0%) compared to 2004. As a percentage of revenues, EBITDA is equal to 41.2% (42.9% in 2004).*

Specifically, exceptional items show a negative change of euro 501 million compared to 2004, with the total amounting to a negative euro 430 million in 2005 against a positive euro 71 million in 2004. In 2005, exceptional items include expenses and provisions for employee termination (euro 271 million) of which euro 247 million related to the provisions set aside for both the operating agreement concerning mobility (Law 223/91) and the plan for manager termination incentives, expenses related to the settlement with Opportunity falling under the process to restructure operations in Brazil (euro 50 million) and other expenses and provisions of a nonrecurring nature (euro 170 million). The effect of the above was in part compensated by the release of contractual risk reserves (euro 37 million) following the decision handed down by the Council of State which reduced the fine levied by the Antitrust Authorities in the prior year. In 2004, exceptional items principally referred to prior period income in respect of the telecommunications operating fee (euro 362 million), in part offset by the provision for the fine levied by the Antitrust Authority (euro 152 million) and other expenses of an exceptional nature (euro 139 million).

With regard to the components of EBITDA, net of the effects of the merger with TIM and exceptional items, the following is mentioned in particular:

- the decrease in capitalized internal construction costs (– euro 324 million) is due to the fact that, following the merger by incorporation of IT Telecom in Telecom Italia on December 31, 2004, starting in 2005, the capital accounts were directly charged with the external costs which, in 2004, had been incurred by the acquired company IT Telecom and which gave rise, upon the merger, to internal capitalizations;
- the decrease in personnel costs (– euro 118 million) is mainly due to the reduction in the average headcount (– 2,578);
- purchases of materials and external services increased by euro 32 million compared to 2004 due principally to the increase in purchases of merchandise;
- the decrease in other operating expenses (– euro 28 million) is mainly due to lower expenses for transactions with other telephone operators and lower provisions for risks.

EBIT is equal to euro 4,082 million and decreased by euro 24 million (– 0.6%) compared to 2004. It includes the effects of the merger with TIM, amounting to euro 522 million. EBIT as a percentage of revenues is equal to 23.7% (25.5% in 2004).

Excluding the effects of the merger with TIM and exceptional items, EBIT for the year 2005 is equal to euro 3,691 million and decreased by euro 317 million (– 7.9%) compared to 2004. As a percentage of revenues, EBIT is equal to 23.2% (24.9% in 2004).

Specifically, exceptional items show a negative change of euro 229 million, with the total amounting to a negative 131 million in 2005 and a positive 98 million in 2004. In 2005, besides those which had an effect on EBITDA, exceptional items include the gains on the sale of a first group of 867 buildings to Olivetti Multiservice (euro 325 million). The sale was made under the framework of the reorganization of the physical spaces occupied by the network plants which calls for gradually freeing those parts of the buildings used for such plants, and impairments of tangible assets (euro 26 million). In 2004, apart from those which had an impact on EBITDA, exceptional items included the gains on the sale of equity investments and business segments (euro 27 million).

Financial income and expense is a positive euro 721 million, with an improvement of euro 1,645 million compared to 2004, made up of financial income (euro 3,543 million) and financial expense (euro 2,822 million).

The improvement is due to the receipt of dividends (euro 716 million) on the TIM shares acquired in the tender offer and subsequent share purchases made in 2005 in addition to higher dividends recorded under the maturity principle from the subsidiary TIM Italia (+euro 714 million), as a result of a higher stake held in the subsidiary consequent to the merger transaction. These positive effects are partially offset by an increase in net financial expense mainly for the higher average debt exposure in connection with the TIM tender offer in terms of both higher expenses for the funding transactions put into place and lower income from investments of liquidity.

Income taxes for the year total euro 918 million and decreased by euro 129 million compared to 2004 as a result of lower taxable income.

BALANCE SHEETS

(millions of euro)		At 12.31.2005	At 12.31.2004	Changes
Non-current assets				
Intangible assets				
Goodwill and other intangible assest with an indefinite life		1	3	(2)
Intangible assets with a finite life		1,681	1,625	56
		1,682	1,628	54
Tangible assets				
Property, plant and equipment owned		10,687	11,238	(551)
		10,687	11,238	(551)
Other non-current assets				
Investments		51,672	34,235	17,437
Securities and financial receivables		475	388	87
Miscellaneous receivables and other non-current assets		677	486	191
		52,824	35,109	17,715
Deferred tax assets		1,854	2,391	(537)
Total non current assets	(A)	**67,047**	**50,366**	**16,681**
Current assets				
Inventories		76	113	(37)
Trade receivables, miscellaneous receivables and other current assets		8,452	6,638	1,814
Financials receivables and other current financial asset		172	604	(432)
Cash and cash equivalents		6,601	6,008	593
Total current assets	(B)	**15,301**	**13,363**	**1,938**
Total assets	(A+B)	**82,348**	**63,729**	**18,619**
Shareholders' equity				
– Share capital		10,668	8,865	1,803
– Reserves and retained earnings		7,415	5,811	1,604
– Net income		3,885	2,135	1,750
Total shareholders' equity	(C)	**21,968**	**16,811**	**5,157**
Non-current liabilities				
Non-current financials liabilities		39,148	33,374	5,774
Employee severance indemnities and other employee-related reserves		1,196	1,043	153
Reserve for deferred taxes		–	–	–
Reserves for future risks and charges		338	386	(48)
Miscellaneous payables and other non-current liabilities		514	646	(132)
Total non-current liabilities	(D)	**41,196**	**35,449**	**5,747**
Current liabilities				
Current financial liabilities		12,512	4,732	7,780
Trade paybles, current tax paybles, miscellaneous payables and other current liabilities		6,672	6,737	(65)
Total current liabilities	(E)	19,184	11,469	7,715
Total liabilities	(F=D+E)	**60,380**	**46,918**	**13,462**
Total shareholders' equity and liabilities	(C+F)	**82,348**	**63,729**	**18,619**

Assets amount to euro 82,348 million and increased by euro 18,619 million compared to December 31, 2004. They consist of non-current assets of euro 67,047 million and current assets of euro 15,301 million. In particular, non-current assets increased by euro 16,681 million primarily as a result of the following factors:

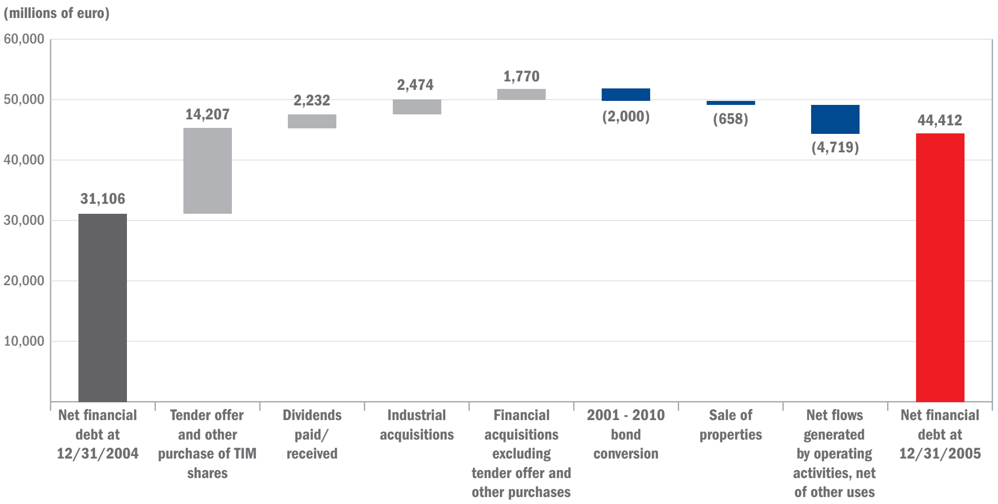
- the assets acquired in the Telecom Italia/TIM merger (in particular, TIM Italia and TIM International shares to which the merger deficit originating from the tender offer for TIM shares was allocated);
- the contribution of the ISM and Finanziaria Web investments (merged in Telecom Italia at December 31, 2005) in Matrix and the allocation of the cancellation deficit on the merger transaction on Matrix;
- the assets acquired in the purchase of Tin.it and Liberty Surf Group.

Shareholders' equity amounts to euro 21,968 million and increased by euro 5,157 million compared to December 31, 2004 (euro 16,811 million). The following table shows the changes in shareholders' equity during 2005:

(millions of euro)	2005
At the beginning of the year	**16,811**
Distribution of dividends	(1,923)
Share capital increase to service the Telecom Italia/TIM merger	1,310
Share capital increase consequent to the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" and the exercise of stock options	494
Increase in Additional paid-in capital consequent to the conversion of "Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium" and the exercise of stock options	1,549
Other changes	(158)
Net income for the year	3,885
At the end of the year	**21,968**

Net financial position (euro 44,412 million) increased by euro 13,306 million compared to December 31, 2004 (euro 31,106 million).

The following chart summarizes the major items which had an impact on the change in the net financial position during the course of 2005:



Particular mention should be made of the following:

- the disbursement for the tender offer on the purchase of TIM ordinary and savings shares totaling euro 13,804 million, in addition to disbursements for the purchase of TIM ordinary and savings shares for euro 379 million and charges incidental to the Telecom Italia/TIM merger for euro 24 million;
- the dividends paid totaling euro 2,301 million refer to dividends paid to third parties by Telecom Italia (euro 1,923 million) and by the merged company TIM (euro 378 million) and dividends received from Group companies (euro 69 million);
- financial investments mainly include the purchase of the assets of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it from Telecom Italia Media (for a total of euro 950 million), the acquisition from Telecom Italia Finance of ISM – merged by incorporation in Telecom Italia at December 31, 2005 – (euro 97 million), the purchase of the investment in Liberty Surf Group S.A. (euro 262 million) and the subsequent payments made against the investment account (euro 207 million) to meet the financial needs of the company as well as the purchase of further investment stakes and payments to cover the losses and subscription to the capital increases of Mediterranean Nautilus S.A. (euro 91 million);

- the amount relating to the sale of the buildings refers to the price of a first group of 867 buildings sold to Olivetti Multiservice under the framework of the reorganization of the physical spaces occupied by the network plants which calls for gradually freeing those parts of the buildings used for such plants.

Net financial position benefits from the effects of securitization transactions and sales of receivables to factoring companies for a total, at December 31, 2005, of euro 854 million. Of this amount, euro 723 million refers to securitization and euro 131 million to factoring transactions (euro 1,698 million at December 31, 2004, of which euro 786 million relates to securitization and euro 912 million to factoring transactions).

Net financial position is detailed in the following table:

(millions of euro)		At 12.31.2005	At 12.31.2004	Changes
Gross financial debt				
Non-current financial liabilities				
– Financial payables		39,148	33,374	5,774
Passività finanziarie correnti				
– Financial payables		12,508	4,728	7,780
– Other financial liabilities		4	4	–
Total gross financial debt	(A)	**51,660**	**38,106**	**13,554**
Financial assets				
Financial receivables and other non-current financial assets		475	388	87
Financial receivables and other current financial assets		172	604	(432)
Cash and cash equivalents		6,601	6,008	593
Total financial assets	(B)	**7,248**	**7,000**	**248**
Net financial indebtedness	(A-B)	**44,412**	**31,106**	**13,306**

At December 31, 2005, current financial liabilities (euro 12,512 million) include the current portion of the nominal amount of non-current debt due within 12 months, equal to euro 6,590 million (euro 2,238 million at December 31, 2004), of which euro 5,415 million refers to the portion of loans payable to Group companies.
The debt position with Group companies amounts to euro 26,067 million (euro 20,651 million due beyond 12 months); the debt position with third parties totals euro 19,671 million (euro 18,497 million due beyond 12 months).

The maturities of long-term financial liabilities (including the short-term portion due within 12 months) is presented in the following table:

MATURITIES OF MEDIUM/LONG-TERM FINANCIAL PAYABLES

(millions of euro)	Bonds	Subsidiaries and associates of the Group	Other payables	Total (*)
Within December 2006	1,000	5,415	174	6,590
Within December 2007	1,250	2,587	507	4,344
Within December 2008			390	390
Within December 2009	110	850	36	996
Within December 2010	600	270	3,036	3,906
Beyond December 2010	12,988	11,395	5,128	29,511
Total	**15,948**	**20,517**	**9,273**	**45,738**

(*) The amounts include the portion of medium/long-term debt due within 12 months.

***

Financial risk objectives and management policies are described in detail in the Note 4 - "Financial risk management" in the notes to the consolidated financial statements of the Telecom Italia Group.

Mention should also be made of the following:

On January 28, 2005, in connection with the payment of the tender offer, besides euro 2,504 million paid from cash resources, an amount of euro 11,300 million was drawn from the loan made available by a syndicate of banks on December 8, 2004. On February 11, 2005, the first tranche of the loan was repaid in advance from the cash resources of Telecom Italia for euro 2,300 million and, consequently, cancelled. Therefore, the outstanding loan amounted to a nominal amount of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months and euro 3,000 million due in 60 months.
The partial early refinancing and the amendment to the Term Loan signed last December in respect for purposes of the TIM tender offer was executed on August 1, 2005. In particular, tranche B of that loan amounting to euro 6 billion, maturing in January 2008, was replaced by a new revolving loan for the same amount with maturity extended to 2012, at better conditions. Tranche C for euro 3 billion, maturing in January 2010, instead, was changed only with respect to the margin which was lowered so that it would reflect the new better conditions offered by the market for syndicated loans. Subsequently, on October 20, 2005, euro 1.5 billion of the revolving loan for euro 6 billion, maturing in 2012, was repaid so that the amount utilized is now reduced to euro 4.5 billion. Following that repayment, using a part of the cash resources accumulated during the year, committed credit lines for euro 1.5 billion were cancelled out of the unused facility of euro 6.5 billion maturing in 2007 bringing the total available amount down to euro 5 billion.

During 2005, Telecom Italia S.p.A. issued new bonds under the Telecom Italia Euro Medium Term Note Programme for a total of euro 10 billion approved by the Board of Directors' Meeting held on October 10, 2003. In particular, on March 17, 2005, bonds were issued for a total of euro 850 million, coupon interest of 5.25%, issue price of 99.667, maturing March 17, 2055. On June 29, 2005 bonds were issued for GBP 500 million (equal to euro 733 million), coupon interest of 5.625%, issue price 99.878, maturing December 29, 2015.
On December 6, 2005, bonds were issued for euro 1,000 million, quarterly coupon interest indexed to the 3-month Euribor + 0.53%, issue price of 100%, maturing December 6, 2012.

Telecom Italia 2002-2022 bonds, set aside for subscription by employees of the Group, totaling euro 248.3 million at December 31, 2005, increased by euro 32.6 million in 2005 (euro 215.7 million at December 31, 2004) as a result of bond purchases/subscriptions for euro 81.4 million and sales by bondholders for euro 48.8 million. The maximum amount of bonds that can be subscribed is equal to euro 400 million. According to the bond indenture, the Company is the obligatory counterpart of the purchases and sales made by holders of this bond category.

In view of the requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased by euro 2,225 million, resulting in a positive effect on the net financial debt of euro 2,000 million, as can be seen in the above diagram.

Highlights of the major subsidiaries of Telecom Italia S.p.A.

Telecom Italia Sparkle S.p.A.

Held by: Telecom Italia 100%

The following table shows the key results:

(millions of euro)	2005	2004	Change amount	%
Revenues	2,044	1,801	242	13.5
EBITDA	277	214	63	29.3
% of Revenues	*13.6*	*11.9*		
EBIT	189	128	61	47.3
% of Revenues	*9.2*	*7.1*		
Capital expenditures	75	67	8	11.9
Headcount at year-end (number)	873	880	(7)	(0.8)

Revenues amount to euro 2,044 million in 2005 and increased by euro 242 million compared to the prior year. The increase is due to the growth of voice traffic (+euro 211 million), in connection with an increase in the transit traffic component, and to a significant rise in Data/IP sales (+euro 31 million with an increase of 16%), attributable to a considerable gain in the bandwidth sold.

EBITDA shows an increase of euro 63 million compared to 2004 due particularly to an improvement in the balance of nonrecurring items for euro 50 million (net of provisions) owing to a lower impact from exceptional items compared to 2004.

EBIT is equal to euro 189 million, with an increase of euro 61 million compared to the prior year, which includes higher depreciation and amortization charges of approximately euro 3 million.

TIM Italia S.p.A.

Held by: Telecom Italia S.p.A. 100%

This company, set up at the end of 2004, was the recipient of the business segment for mobile telecommunications in Italy contributed by TIM S.p.A. on February 24, 2005, effective March 1, 2005, as part of the Telecom Italia/TIM merger. For a review of the overall trend of domestic business operations, reference should be made to the comments made earlier about the operations in Italy.
The following table shows the key results:

(millions of euro)	2005
Revenues	8,544
EBITDA	4,207
% of Revenues	*49.2*
EBIT	3,178
% of Revenues	*37.2*
Capital expenditures	1,232
Headcount at year-end (number)	11,720

Revenues total euro 8,544 million in the first ten months of operations and are presented gross of the revenue portion due to other operators, equal to euro 1,331 million.

EBITDA is euro 4,207 million. As a percentage of revenues, EBITDA is equal to 49.2%.

The major items which affected EBITDA, apart from the foregoing revenues, are:

- prior period income and other income for a total of euro 155 million;
- purchases of materials and external services, equal to euro 3,952 million. As a percentage of revenues, such purchases are equal to 46.3%;

- personnel costs, equal to euro 449 million, which include euro 23 million relating to personnel who are not employees. Personnel costs are 5.3% of revenues;
- other operating expense, equal to euro 115 million, mainly in reference to impairments and losses on receivables (euro 27 million), provisions to reserves for future risks and charges (euro 22 million), prior period expenses (euro 39 million) and miscellaneous expenses (euro 27 million);
- change in inventories, equal to euro 19 million;
- capitalized internal construction costs, equal to euro 43 million.

EBIT is euro 3,178 million; as a percentage of revenues, EBIT is equal to 37.2%.
Particular mention is made of depreciation and amortization charges which are equal to euro 1,030 million, of which euro 485 million relates to the amortization of intangible assets and euro 545 million to the depreciation of tangible assets, representing 12.1% of revenues.

Capital expenditures total euro 1,232 million and refer to intangible assets of euro 590 million and tangible assets of euro 642 million.

Telecom Italia Media S.p.A.

Holding by: Telecom Italia 59,43%

The following table shows the key results:

(millions of euro)	2005	2004	Change amount	%
Revenues	114	265	(151)	(57.0)
EBITDA	10	38	(28)	(73.7)
% of Revenues	*8.8*	*14.3*		
EBIT	(6)	(1)	(5)	°
% of Revenues	*(5.3)*	*(0.4)*		
Capital expenditures	8	16	(8)	(50.0)
Headcount at year-end (number)	51	391	(340)	(87.0)

Revenues total euro 114 million and decreased by euro 151 million compared to 2004 consequent to the sale of the TIN.it Division on June 1, 2005.

EBITDA, equal to euro 10 million in 2005, declined by euro 28 million compared to 2004 and represents 8.8% of revenues (9.4% in 2004). The decrease should be viewed in relationship to the sale of the TIN.it Division (– euro 32 million).

EBIT in 2005 is a negative euro 6 million in 2005, with a deterioration of euro 5 million compared to 2004 due to the aforementioned sale of the TIN.it Division.

Olivetti S.p.A.

Held by: Telecom Italia 100%

The following table shows the key results:

(millions of euro)	2005	2004	Change amount	%
Revenues	402	489	(87)	(17.8)
EBITDA	(26)	28	(54)	
% of Revenues	*(6.5)*	*5.7*		
EBIT	(67)	5	(72)	
% of Revenues	*(16.7)*	*1.0*		
Investimenti industriali	9	8	1	12.5
Personale a fine esercizio (unità)	1,081	1,150	(69)	(6.0)

Revenues in 2005 amount to euro 402 million and decreased by euro 87 million compared to 2004 (– 17.8%).

EBITDA is a negative euro 26 million, with a deterioration of euro 54 million compared to 2004. This result was negatively affected by the decline in revenues and by the costs associated with the development of the new products of the Office Division.

EBIT for 2005 is a negative euro 67 million. EBIT has worsened by euro 72 million compared to 2004 due to the effect of the costs of the Office Division, the lower revenues mentioned above and the impairment, for euro 23 million, of goodwill recorded in prior years in view of the decline in the earnings forecast for the businesses that were purchased in the past.

Events subsequent to december 31, 2005

Agreement with Sky for movie channels on Alice Home TV

On January 23, 2006, Telecom Italia and Sky signed an agreement for the marketing of the Sky movie channels on "Alice Home TV", the TV via Internet owned by Telecom Italia, starting from February 2006.

The agreement allows Telecom Italia to broadcast Sky movie channels (Sky Cinema 1, Sky Cinema 2, Sky Cinema 3, Sky Cinema Autore, Sky Cinema Max, Sky Cinema 16:9, Sky Cinema Classics, Studio Universal and Rai Sat Cinema World) dedicated to the best national and international movies.

This agreement brings a broader range of films to "Alice Home TV" which already offers more than 400 movies on demand thanks to agreements reached with major Italian and foreign motion picture companies.

The "movie package" will be offered at a cost of euro 16 per month (inclusive of VAT) and can be purchased, not only when the request is made to activate "Alice Home TV", but also through the TV by those who already have Telecom Italia's IPTV service.

Starting from February 2006, the "Alice Home TV" service, launched in 2005 in Bologna, Milan, Palermo and Rome will be extended to another 17 Italian cities (Alessandria, Bari, Biella, Brescia, Cagliari, Catania, Florence, Genoa, Modena, Naples, Padua, Reggio Emilia, Sondrio, Turin, Trieste, Venice and Verona), reaching about 4 million families.

Early repayment of bonds - Telecom Italia S.p.A.

On January 30, 2006, the first permissible date allowed by the bond indenture, the floating rate bonds maturing October 29, 2007 denominated "Telecom Italia S.p.A. euro 1,000,000,000 Floating Rate Notes due 2007" were repaid in advance, after the resolution passed by the Telecom Italia S.p.A. Board of Directors' meeting held on December 21, 2005.

Merger by incorporation of Tim Italia S.p.A. in Telecom Italia S.p.A.

The merger by incorporation of TIM Italia in Telecom Italia became effective as of March 1, 2006, as per the deed filed by the notary public Prof. Piergaetano Marchetti on February 22, 2006.
As of March 1, 2006, Telecom Italia therefore succeeded TIM in all sales and purchases positions, as well as in its rights and obligations acquiring, with no interruption, the entire patrimony and all the legal relationships that were held by the merged company.
From an accounting standpoint, all the assets and liabilities of TIM Italia were summed with those of Telecom Italia, whereas the revenues and costs of the merged company will be included in the income statement of Telecom Italia as from March 1, 2006.

Related party transactions

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the Company. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.
The following tables present the operating, balance sheet and financial effects of transactions with subsidiaries and associates on the financial statements of Telecom Italia S.p.A. at December 31, 2005.

(millions of euro)	**2005**	**2004**	
Revenue	1,377	1,364	This refers mainly to revenues from TIM Italia, euro 557 million (euro 634 million in 2004 from the merged company TIM S.p.A.) for mobile – fixed interconnecting fees and line leases; Teleleasing, euro 230 million (euro 200 million in 2004) for product sales; Telecom Italia Sparkle, euro 99 million (euro 74 million in 2004) for international telecommunications services; Nuova Tin.it, euro 144 million (euro 156 million in 2004 from Telecom Italia Media) for internet services; Path.Net, euro 115 million (euro 119 million in 2004) for telecommunications services and infrastructures dedicated to the Public Administration; LI.SIT., euro 59 million (euro 30 million in 2004) for health card sales to the Lombardy Region
Purchases of materials and external services external services	2,225	2,365	These refer mainly to amounts to be paid for telecommunications services and interconnecting costs to TIM Italia, euro 726 million (euro 996 million in 2004 to the merged company TIM S.p.A.), Telecom Italia Sparkle, euro 439 million (euro 470 million in 2004) and Telecom Italia Media, euro 158 million (euro 179 million in 2004); computer and information system costs and maintenance expenses from IT Telecom S.r.l., euro 296 million; purchases of energy services from Telenergia, euro 147 million (euro 131 million in 2004); computer and information system costs from Siemens Informatica, euro 30 million (euro 43 million in 2004); rent costs from Tiglio I, euro 12 million (euro 53 million in 2004) and Tiglio II, euro 15 million (euro 24 million in 2004)
Financial income	2,984	1,439	This includes euro 2,051 million for the receipt of dividends from TIM Italia S.p.A. for the year 2005 (euro 1,337 million in 2004) and euro 716 million for the receipt of dividends relating to 2004 on TIM shares purchased through the tender offer on TIM ordinary and savings shares and subsequent share purchases made in 2005
Financial expense	1,256	1,181	This mainly includes interest expense from Telecom Italia Finance, euro 961 million (euro 980 million in 2004, including euro 254 million relating to Olivetti Finance, merged in 2004 in Telecom Italia Finance) and from Telecom Italia Capital, euro 230 million (euro 99 million in 2004)
Capital expenditures in tangible and intangible assets	187	44	These refer to acquisitions of computer projects and equipment from Shared Service Center, euro 75 million (euro 6 million in 2004), IT Telecom S.r.l. (euro 43 million), Siemens Informatica, euro 38 million (euro 14 million in 2004) and Eustema (euro 12 million)

(millions of euro)	**12/31/2005**	**12/31/2004**	
Securities and non-current financial receivables	24	89	These refer mainly to medium/long term loans made to Aree Urbane, euro 21 million (euro 20 million at December 31, 2004) and Tiglio II (euro 3 million)
Miscellaneous receivables and other non-current assets	597	378	These mainly include receivables under the national consolidated tax return of which euro 589 million refers to TIM (euro 376 million at December 31, 2004)

(millions of euro)	12/31/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	3,517	2,086	These refer mainly to: receivables for TLC activities from TIM Italia, euro 191 million (euro 204 million at December 31, 2004 from the merged company TIM), Telecom Italia Sparkle, euro 64 million (euro 70 million at December 31, 2004), Path.Net, euro 45 million (euro 23 million at December 31, 2004), Nuova Tin.it, euro 44 million (euro 55 million at December 31, 2004 from Telecom Italia Media) and TI France (euro 34 million); receivables from LI.SIT, euro 109 million (euro 36 million at December 31, 2004) for the supply of telephone cards to the Lombardy Region and receivables from Teleleasing, euro 75 million (euro 67 million at December 31, 2004) for TLC product and service sales. They also include receivables (euro 494 million) from TIM Italia connected with the Group VAT procedure (euro 108 million) and the consolidated tax return (euro 372 million) and the monetary adjustment arising on the spin-off of the TIM domestic mobile telecommunications business to TIM Italia (euro 14 million). At December 31, 2005, receivables include euro 2,051 million for dividends recorded under the maturity principle from TIM S.p.A. (euro 1,337 million at December 31, 2004)
Financial receivables and other current financial assets	0	131	The reduction is mainly due to the repayment of the loans made to Telecom Italia Media, Mediterranean Nautilus and Telegono
Cash and cash equivalents	603	584	These refer mainly to the aforementioned short-term loan made to Olivetti Tecnost, euro 440 million (euro 460 million at December 31, 2004) and receivables for current account transactions euro 35 million (euro 27 million at December 31, 2004) and IT Telecom S.r.l. (euro 67 million).
Non-current financial liabilities	15,101	16,573	These refer to financial payables to Telecom Italia Finance, euro 7,042 million (euro 10,966 million at December 31, 2004) and to Telecom Italia Capital, euro 8,059 million (euro 5,603 million at December 31, 2004) for subscriptions of bonds issued by Telecom Italia
Current financial liabilities	10,250	3,698	These refer to liabilities for loans and current accounts with Telecom Italia Finance, euro 5,978 million (euro 2,691 million at December 31, 2004), TIM Italia, euro 3,236 million (euro 638 million at December 31, 2004), Telecom Italia Capital (euro 62 million), Telecom Italia Media (euro 400 million) and Telecom Italia Sparkle, euro 352 million (euro 198 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	1,132	1,268	These mainly refer to payables for supply transactions connected with operations and investment activities and miscellaneous payable to TIM Italia, euro 191 million (euro 642 million at December 31, 2004 to the merged company TIM S.p.A.), Telecom Italia Sparkle, euro 276 million (euro 317 million at December 31, 2004), IT Telecom S.r.l. (euro 81 million), Telecom Italia Media, euro 144 million (euro 51 million at December 31, 2004), Olivetti, euro 37 million (euro 33 million at December 31, 2004), Siemens Informatica, euro 26 million (euro 34 million at December 31, 2004), Shared Service Center, euro 14 million (euro 27 million at December 31, 2004), LA7 (euro 24 million), Path.NET, euro 19 million (euro 19 million at December 31, 2004) Telenergia (euro 13 million), Telecontact, euro 19 million (euro 18 million at December 31, 2004) and Telecom Italia Learning Services, euro 27 million (euro 22 million at December 31, 2004)
Miscellaneous payables are other non-current liabilities	100	153	These mainly include liabilities for the national consolidated tax return of which euro 35 million refers to LA7 (euro 20 million at December 31, 2004), Olivetti euro 34 million (euro 22 million at December 31, 2004), Telecom Italia Media euro 7 million (euro 99 million at December 31, 2004) and IT Telecom S.r.l. euro 12 million.
Guarantees provided	28,116	26,082	These include sureties provided mainly on behalf of Telecom Italia Finance, euro 18,960 million (euro 19,989 million at December 31, 2004) and Telecom Italia Capital, euro 8,618 million (euro 5,696 million at December 31, 2004) for bond issues; Avea I.H.A.S. (euro 90 million), Latin American Nautilus Group (euro 100 million), Tiglio I, euro 53 million (euro 54 million at December 31, 2004) and Olivetti (euro 47 million).
Purchases and sales commitments	449	1,785	These decreased by euro 1,336 million compared to December 31, 2004 mostly on account of the sale of the assets held by Tiglio I and Tiglio II to real estate investment funds. These refer to purchases commitments, euro 9 million (euro 1,785 million at December 31, 2004) and sales commitments, euro 440 million. Purchase commitments refer to lease obligations with Tiglio I, euro 6 million (euro 1,251 million at December 31, 2004) and Tiglio II, euro 2 million (euro 291 million at December 31, 2004). Sales commitments refer to commitments with Olivetti Multiservice following the agreements for the sale of a total of 1,300 buildings under the project to appreciate and optimize property assets.

The following table presents transactions with subsidiaries of associates. Such subsidiaries refer exclusively to companies of the Italtel group, a related party through the investment in the parent Italtel Holding.

(millions of euro)	2005	2004	
Revenue	3	3	This refers to revenues for telephone services.
Purchases of materials and external services	18	21	These refer to costs for maintenance and assistance contracts.
Capital expenditures in tangible and intangible assets	275	297	These consist of purchases of telephone exchanges.

(millions of euro)	12/31/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	2	2	These refer to telephone services
Trade payables, miscellaneous payables and other current liabilities	80	140	These refer to supply transactions connected with operations and investment activities

Lastly, the following table presents the major operating, balance sheet and financial transactions between Telecom Italia and other parties related to Telecom Italia through directors, Statutory Auditors and key managers of the Company.

(millions of euro)	2005	2004	
Revenues	26	21	These mainly refer to revenues for telephone services to the Pirelli group, euro 3 million (euro 2 million at December 31, 2004) to the Edizione Holding group, euro 3 million (euro 4 million at December 31, 2004) to the Unipol group, euro 16 million (euro 12 million at December 31, 2004) and to related companies through Mr. Moratti, euro 2 million.
Purchases of materials and external services	97	102	These refer to R&D expenditures and intellectual property rights from the Pirelli group, euro 61 million (euro 77 million at December 31, 2004), Document Management services from Telepost, euro 21 million, insurance services from the Unipol group, euro 10 million (euro 11 million at December 31, 2004), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti euro 3 million (euro 1 million at December 31, 2004) and commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million (euro 1 million at December 31, 2004).
Investments in tangible and intangible assets	68	23	These mainly refer to purchases of cables, modems and other ADSL equipment from the Pirelli group.

(millions of euro)	12/31/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	3	6	These mainly refer to the services mentioned above under revenues rendered to the Pirelli group, euro 1 million (euro 5 million at December 31, 2004) to Edizione Holding, to related companies through Mr. Moratti and ST Microelectronics.
Trade payables, miscellaneous payables and other current liabilities	38	54	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 30 million (euro 43 million at December 31, 2004) and costs for Document Management services from Telepost, euro 7 million.

As for a description of the main contracts between Telecom Italia S.p.A. with associates and subsidiaries of associates and related parties through directors, Statutory Auditors and key managers, reference should be made to the Note 38 - Other information, letter d) in the notes to the consolidated financial statements of the Telecom Italia Group.

Stock Option

Subsequent to the merger by incorporation of Telecom Italia Mobile in Telecom Italia, Telecom Italia succeeded Telecom Italia Mobile in all its Stock Option plans previously in force, that is, "Stock Option Plan 2000 - 2002", " Stock Option Plan 2001 - 2003", " Stock Option Supplementary Plans 2001 - 2003", "Stock Option Plan 2002 - 2003" and "Stock Option Plan 2003 - 2005".

From the date the merger became effective, the grantees of such stock option plans have retained the right to subscribe, at the time the option is exercised and at the previously determined price, a number of Telecom Italia ordinary shares equal to the number of options multiplied by the "grant ratio" corresponding to the exchange ratio established for ordinary shares (1 to 1.73). The subscription price per share of the ordinary shares resulting from the exercise of the options is consequently revised for each existing Plan.

To this end, on April 7, 2005, the Telecom Italia Shareholders' Meeting, at the same time the merger plan was approved, voted to increase share capital, divided into tranches, all divisible, one for each of those Plans, for the issue of new Telecom Italia ordinary shares to service the exercise of the option rights already granted by TIM. Article 5 of the Telecom Italia bylaws includes this capital increase, which came into effect on the same date as the merger.
During the first half of 2005, the exercise of Telecom Italia and Telecom Italia Mobile option rights was suspended starting March 18, 2005 (10 trading days prior to the date of the first call of the Shareholders' Meetings) until April 18, 2005 (first day the shares were listed "ex dividend"). The shares were again suspended from June 20, 2005 (the date the merger took effect) until June 29, 2005. After the merger became effective, that is, from June 30, 2005, Telecom Italia succeeded Telecom Italia Mobile in its Stock Option Plans and the option rights could again be exercised.
On December 31, 2005, the terms expired for the exercise of the "Stock Option Plan 2001-2003" and the "Supplementary Plans 2001-2003"; accordingly, all the rights relating to the respective option rights expired.

In accordance with the recommendation contained in Consob Directive No. 11508 dated February 15, 2000, the following tables summarize the basic terms of the Stock Options Plans in effect during 2005. For purposes of ensuring consistency in reading the tables of the Stock Options Plans of Telecom Italia Mobile, the amounts indicated therein (the market prices and the subscription prices of the shares resulting from the exercise of the options), relative to the quantity, exercise, expiration dates, forfeitures or lapsed options which took place before the effective date of the merger, have been adjusted on the basis of the grant ratio and thus rendered homogeneous with the prices relative to the ordinary shares of Telecom Italia.

(Amount in euro)		Options existing at 1/1/2005	New options granted during the year	Options exercised during the year	Options expired and not exercised or forfeited during the year	Options lapsed during the year due to termination of employment	Options existing at 12/31/2005	Of which vested at 12/31/2005
Plan 2000	No. of options	10,699,996.00	–	–	–	–	10,699,996.00	10,699,996.00
	Grant ratio	3.300871	–	–	–	–	3.300871	3.300871
	Subscription price	4.185259	–	–	–	–	4.185259	4.185259
	Market price	3.062	–	–	–	–	2.477	2.477
Plan 2001	No. of options	31,895,000.00 (**)	–	–	–	32,500.00	31,862,500.00	31,862,500.00
	Grant ratio	3.300871	–	–	–	3.300871	3.300871	3.300871
	Subscription price	3.177343	–	–	–	3.177343	3.177343	3.177343
	Market price	3.062	–	–	–	2.867 (*)	2.477	2.477
Plan 2002	No. of options	23,392,501.09 (***)	–	1,968,446.79	0.37	800,000	20,624,053.93	20,624,053.93
	Grant ratio	3.300871	–	3.300871	3.300871	3.300871	3.300871	3.300871
	Subscription price	2.906507	–	2.852095	2.339080	2.928015	2.910	2.910
	Market price	3.062	–	3.040 (*)	2.370 (*)	2.702 (*)	2.477	2.477
Plan 2002 TOP	No. of options	10,500,000.98	–	810,884.76	–	209,114.89	9,480,001.33	9,480,001.33
	Grant ratio	3.300871	–	3.300871	–	3.300871	3.300871	3.300871
	Subscription price	2.788052	–	2.788052	–	2.788052	2.788052	2.788052
	Market price	3.062	–	3.114 (*)	–	2.402 (*)	2.477	2.477
Plan 2000/2002	No. of options	12,302,319	–	–	–	566,666	11,735,653	11,735,653
	Grant ratio	1.73	–	–	–	1.73	1.73	1.73
	Subscription price	3.710983	–	–	–	3.710983	3.710983	3.710983
	Market price	3.193	–	–	–	2.657 (*)	2.477	2.477
Plan 2001/2003	No. of options	1,190,000	–	–	1,190,000	–	–	–
	Grant ratio	1.73	–	–	1.73	–	–	–
	Subscription price	5.012139	–	–	5.012139	–	–	–
	Market price	3.193	–	–	2.477	–	–	–
Supplementary Plan 2001/2003	No. of options	499,000	–	–	499,000	–	–	–
	Grant ratio	1.73	–	–	1.73	–	–	–
	Subscription price	4.350289	–	–	4.350289	–	–	–
	Market price	3.193	–	–	2.477	–	–	–
Plan 2002/2003	No. of options	23,280,000	–	–	–	1,255,000	22,025,000	22,025,000
	Grant ratio	1.73	–	–	–	1.73	1.73	1.73
	Subscription price	3.277457	–	–	–	3.277457	3.277457	3.277457
	Market price	3.193	–	–	–	2.904 (*)	2.477	2.477
Plan 2003/2005	No. of options	7,861,000	–	5,945,100	–	–	1,915,900	1,915,900
	Grant ratio	1.73	–	1.73	–	–	1.73	1.73
	Subscription price	2.930636	–	2.930636	–	–	2.930636	2.930636
	Market price	3.193	–	3.205 (*)	–	–	2.477	2.477

(*) Weighted average price
(**) net of 85,000 rights lapsed due to the termination of employment on December 31, 2004
(***) net of 144,000 rights lapsed due to the termination of employment on December 31, 2004

Plan	Grant ratio	Subscription price of the resulting shares (euro)	Number of options granted at 12/31/2005 and vesting from					Total	Maximum duration of options
			2001	2002	2003	2004	2005		
Plan 2000	3.300871	4.185259	5,349,998.00	5,349,998.00	–	–	–	10,699,996.00	5 years beginning from each year
Plan 2001	3.300871	3.177343	–	31,862,500.00	–	–	–	31,862,500.00	April 15, 2007
Plan 2002	3.300871 3.300871 3.300871	2.928015 2.409061 2.339080	– – –	– – –	5,588,549.22 201,000.13 –	5,871,304.28 222,000.04 –	8,445,200.00 296,000.26 –	19,905,053.50 719,000.43 –	5 years beginning from each year
Plan 2002 TOP	3.300871	2.788052	–	–	2,640,000.66	2,640,000.66	4,200,000.01	9,480,001.33	5 years beginning from each year
Plan 2000/2002	1.73	3.710983	5,709,046	6,026,607	–	–	–	11,735,653	December 31, 2008
Plan 2001/2003	1.73	5.012139	–	–	–	–	–	–	December 31, 2005
Supplementary plan 2001/2003	1.73	4.350289	–	–	–	–	–	–	December 31, 2005
Plan 2002/2003	1.73	3.277457	–	11,012,500	11,012,500	–	–	22,025,000	December 31, 2008
Plan 2003/2005	1.73	2.930636	–	–	419,100 (*)	1,496,800 (**)	–	1,915,900	May 2008 May 2009 May 2010

(*) exercisable up to May 2008
(**) of which 544,100 options are exercisable up to May 2009 and 952,700 up to May 2010

Research, development and innovation

The Italian market of telecommunications is considered among the most advanced, both from the technological viewpoint and evolution of customer attitudes as well as customer consumption profiles.

To Telecom Italia S.p.A. technological innovation is therefore an essential and differentiating issue to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of Telecom Italia S.p.A. has allowed in these years the design, development and adoption on the field of state-of-the-art networks, terminals and services.

Technological innovation activities are carried out besides the "Innovation & Engineering Services" department (ex Telecom Italia Lab) of Operations where lie all the activities and competences concerning basic research, the assessment of developing technologies and the "intra-moenia" development, also by the operational and business units (Network, Market, Information Technology, Web & Media and Security).

The technological innovation of Telecom Italia S.p.A. arises moreover from the strategic partnerships with the most important manufacturers of telecommunication equipment and systems and with research centres of excellence in the most qualified academic institutions both at national and international level.

Technological innovation activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the radical review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of service quality.

During the financial year 2005 the innovative investments of Telecom Italia S.p.A. for tangible and intangible assets related to development and innovation totalled approximately euro 1,700 million. Internal resources devoted to these activities as well as to research, are about 3,800, with an overall commitment equal to about euro 230 million (of which about euro 121 million already included in the investments).

For additional details on work conducted by the "Innovation & Engineering Services" function (ex-Telecom Italia Lab) reference should be made to the Report on Operations of the Telecom Italia Group, "Sustainability".

Telecom Italia S.p.A. Financial Statements at December 31, 2005

Balance sheet

Assets

(euro)

		12.31.2005		12.31.2004
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS				**3,206,226**
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
– INTANGIBLE ASSETS				
Start-up and expansion costs		0		11,541,727
Industrial patents and intellectual property rights		1,495,353,237		1,278,654,018
Concessions, licenses, trademarks and similar rights		4,598,920		1,349,771
Goodwill		1,160,583		3,063,804
Work in progress and advances to suppliers		214,937,648		382,132,313
Other intangibles		205,807,496		168,493,582
TOTAL INTANGIBLE ASSETS		1,921,857,884		1,845,235,215
– FIXED ASSETS				
Land and buildings		768,126,493		1,163,533,198
Plant and machinery		8,750,992,876		9,323,365,395
Manufacturing and distribution equipment		16,871,058		14,414,369
Other fixed assets		305,056,197		77,798,067
Construction in progress and advances to suppliers		606,664,893		440,935,714
TOTAL FIXED ASSETS		10,447,711,517		11,020,046,743
– LONG-TERM INVESTMENTS				
Equity investments in				
subsidiaries		51,304,651,004		33,771,060,795
affiliated companies		147,639,085		245,740,410
other companies		206,135,625		204,537,838
Total equity investments		51,658,425,714		34,221,339,043
Advances on future capital contributions		11,543,020		12,064,440
Accounts receivable	(*)		(*)	
subsidiaries	1,566,386	598,661,009	4,612,671	448,325,750
affiliated companies	42,711	24,304,332	2,840,981	25,544,080
other receivables	22,638,075	436,131,012	18,974,624	107,908,692
Total accounts receivable	24,247,172	1,059,096,353	26,428,277	581,778,522
Treasury stock (total par value euro 700 thousand at 12/31/2005)		2,298,156		2,298,156
TOTAL LONG-TERM INVESTMENTS		52,731,363,243		34,817,480,161
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		**65,100,932,644**		**47,682,762,119**
CURRENT ASSETS				
– INVENTORIES				
Contract work in process		20,006,146		31,188,677
Finished goods and merchandise				
merchandise		75,574,397		113,485,810
TOTAL INVENTORIES		95,580,543		144,674,486
– ACCOUNTS RECEIVABLE	(* *)		(* *)	
Trade accounts receivable		3,588,537,828		3,121,009,218
Accounts receivable from subsidiaries		3,906,896,902		2,663,711,114
Accounts receivable from affiliated companies		208,896,217		126,474,697
Taxes receivable		377,650,717		494,318,645
Deferred tax assets	45,569	1,853,551,225	1,078,918,207	2,391,462,536
Other receivables due from				
Government and other public entities for grants and subsidies		27,972,797		27,128,862
other receivables		877,520,322		1,099,190,612
Total other receivables		905,493,118		1,126,319,474
TOTAL ACCOUNTS RECEIVABLE		10,841,026,007		9,923,295,684
– SHORT-TERM FINANCIAL ASSETS				
Equity investments in subsidiaries		91,936		52,323
Other equity investments				7,694
Other securities				0
TOTAL SHORT-TERM FINANCIAL ASSETS		91,936		60,017
– LIQUID ASSETS				
Bank and postal accounts		5,993,681,978		5,423,499,500
Checks		39,673		35,239
Cash and valuables on hand		579,743		524,067
TOTAL LIQUID ASSETS		5,994,301,394		5,424,058,806
TOTAL CURRENT ASSETS		**16,930,999,880**		**15,492,088,993**
ACCRUED INCOME AND PREPAID EXPENSES				
Issue discounts and similar charges		74,987,119		102,832,115
Accrued income and other prepaid expenses		241,887,501		448,151,668
TOTAL ACCRUED INCOME AND PREPARED EXPENSES		**316,874,620**		**550,983,784**
TOTAL ASSETS		**82,348,807,144**		**63,729,041,122**

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

Liabilities and shareholders equity

(euro)

		12.31.2005		12.31.2004
SHAREHOLDERS' EQUITY				
– SHARE CAPITAL		10,668,131,549		8,864,857,176
– ADDITIONAL PAID-IN CAPITAL		1,669,188,158		120,380,400
– RESERVES FOR INFLATION ADJUSTMENTS - Law No. 413, 12/30/1991		1,128,827		1,128,827
– LEGAL RESERVE		1,953,493,714		1,953,493,714
– RISERVA PER AZIONI PROPRIE IN PORTAFOGLIO		2,298,156		2,298,156
– MISCELLANEOUS RESERVES				
· Reserve Law No. 488/1992		103,083,000		142,365,063
· Reserve L.D. No. 124/1993, ex art. 13		391,352		391,352
· Reserve D.P.R. No. 917/1986, ex art. 74		5,749,710		5,749,710
· Reserve for capital grants		537,726,934		510,993,216
· Other reserves		142,373,654		4,499,029
· Merger surplus reserve		2,010,152,440		2,188,528,994
TOTAL MISCELLANEOUS RESERVES		2,799,477,090		2,852,527,363
– RETAINED EARNINGS		989,556,008		881,028,354
– NET INCOME		3,884,820,804		2,134,847,902
TOTAL SHAREHOLDERS' EQUITY		**21,968,094,306**		**16,810,561,892**
RESERVES FOR RISKS AND CHARGES				
Reserve for pensions and similar obbligations		4,871,698		0
Reserve for taxes and reserve for deferred taxes		139,578,770		168,547,308
Other reserves		895,480,360		779,403,253
TOTAL RESERVES FOR RISKS AND CHARGES		**1,039,930,828**		**947,950,561**
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES		**1,109,941,539**		**1,042,919,286**
LIABILITIES	(**)		(**)	
Debentures	15,348,249,822	15,348,249,822	12,701,250,006	12,701,250,006
Convertible debentures	599,821,511	599,821,511	2,824,946,617	2,824,946,617
Due to banks	8,847,943,349	9,335,987,757	489,633,645	905,642,739
Due to other lenders	250,705,043	528,402,371	785,210,733	1,044,720,870
Advances		47,107,220		32,583,929
Trade accounts payable		2,132,006,094		2,032,076,395
Accounts payable to subsidiaries	15,201,277,680	25,732,136,464	16,722,346,123	20,728,305,818
Accounts payable to affiliated companies		52,443,010	4,059,996	224,858,943
Taxes payable		322,194,138		265,867,920
Contributions to pension and social security institutions	331,872,656	517,098,668	400,827,571	568,364,856
Other liabilities	52,805	1,800,831,500	52,805	1,967,562,657
TOTAL LIABILITIES	**40,579,922,866**	**56,416,278,555**	**33,928,327,495**	**43,296,180,750**
ACCRUED EXPENSES AND DEFERRED INCOME		**1,814,561,916**		**1,631,428,633**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**82,348,807,144**		**63,729,041,122**

(**) Amounts due beyond one year

Memorandum accounts

(euro)

	12.31.2005	12.31.2004
GUARANTEES PROVIDED		
Sureties		
on behalf of subsidiaries	27,881,386,408	25,932,062,486
on behalf of affiliated companies	239,650,716	149,789,992
on behalf of others	122,763,913	119,420,162
TOTAL GUARANTEES PROVIDED	**28,243,801,037**	**26,201,272,640**
PURCHASES AND SALES COMMITMENTS	**4,566,254,607**	**4,264,890,849**
OTHER MEMORANDUM ACCOUNTS	**61,351,324**	**64,094,726**
TOTAL MEMORANDUM ACCOUNTS	**32,871,406,968**	**30,530,258,215**

Statements of income

(euro)

	2005	2004
PRODUCTION VALUE		
Sales and service revenues	17,219,633,069	16,126,291,213
Changes in inventory of contract work in process	(11,182,531)	(17,703,175)
Increases in capitalized internal construction costs	284,017,525	601,232,263
Other revenues and income		
operating grants	4,908,579	7,659,368
other	218,845,616	204,480,064
Total other revenues and income	223,754,195	212,139,432
TOTAL PRODUCTION VALUE	**17,716,222,258**	**16,921,959,733**
PRODUCTION COSTS		
Raw materials, supplies and merchandise	775,341,730	614,505,552
Services	5,629,994,090	5,387,698,414
Use of property not owned	667,928,011	620,892,813
Personnel costs		
wages and salaries	1,844,273,615	1,837,882,348
social security contributions	592,156,340	587,147,217
termination indemnities	139,812,490	137,117,728
other costs	50,944,082	51,994,528
Total pay - roll	2,627,186,527	2,614,141,821
temporary labour	3,847,370	7,280,396
Total personnel costs	2,631,033,897	2,621,422,217
Amortization, depreciation and writedowns		
amortization of intangible assets	883,136,901	671,342,802
depreciation of fixed assets	2,196,450,036	2,220,634,370
writedowns of receivables included in current assets and liquid assets	153,004,984	101,456,333
Total amortization, depreciation and writedowns	3,232,591,921	2,993,433,505
Changes in inventory of raw materials, supplies and merchandise	4,721,882	(37,801,087)
Provisions for risks	27,544,439	49,137,824
Other provisions	350,000	
Miscellaneous operating costs		
losses on disposals of assets	22,682,230	17,430,802
TLC operating fees	25,695,010	23,249,802
other miscellaneous costs	337,675,765	397,915,445
Total miscellaneous operating costs	386,053,005	438,596,049
TOTAL PRODUCTION COSTS	**(13,355,558,975)**	**(12,687,885,287)**
OPERATING INCOME	**4,360,663,283**	**4,234,074,446**
FINANCIAL INCOME AND EXPENSE		
Income from equity investments		
dividends from subsidiaries	2,860,163,796	1,392,082,651
dividends from affiliated companies	11,608,214	
dividends from other companies	9,803,811	8,755,033
other income from equity investments	11,236,130	5,993,068
Total income from equity investments	2,892,811,951	1,406,830,752
Other financial income from		
accounts receivable included in long-term investments		
subsidiaries	2,050,280	3,725,104
affiliated companies	806,896	1,789,550
other	6,884,687	7,084,652
Total from accounts receivable included in long-term investments	9,741,863	12,599,306
securities, other than equity investments, included in current assets	0	240,273
other income		
interest and fees from subsidiaries	26,263,610	25,140,833
interest and fees from affiliated companies	39,831	50,519
interest and fees from others and miscellaneous income	369,489,118	189,070,664
Total other income	395,792,559	214,262,016
Total other financial income	405,534,423	227,101,595
Interest and other financial expense		
interest and fees paid to subsidiaries	825,430,867	770,635,971
iinterest and fees paid to affiliated companies	180,280	445,769
interest and fees paid to others and miscellaneous expense	1,598,792,065	1,225,196,564
Total interest and other financial expense	(2,424,403,212)	(1,996,278,304)
Foreign exchange gains and losses	32,757,852	(2,417,782)
TOTAL FINANCIAL INCOME AND EXPENSE	**906,701,013**	**(364,763,740)**

(euro)

	2005	2004
VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
Upward adjustments of		
equity investments	937,319	84,506,670
Total upward adjustments	937,319	84,506,670
Writedowns of		
equity investments	272,524,246	30,333,749
securities, other than equity investments, included in current assets		95,535
Total writedowns	(272,524,246)	(30,429,284)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	**(271,586,927)**	**54,077,386**
EXTRAORDINARY INCOME AND EXPENSE		
Income		
gains on disposals	330,044,544	58,203,414
elimination of tax interference	0	932,387
miscellaneous	409,238,156	507,682,674
Total income	739,282,700	566,818,475
Expense		
losses on disposals	28,646,280	3,595,672
prior years' taxes	16,973,886	2,278,747
provisions and writedowns of equity investments	7,262,530	632,312,672
miscellaneous	868,493,071	654,450,031
Total expense	(914,113,237)	(1,292,637,122)
TOTAL EXTRAORDINARY ITEMS	**(174,830,537)**	**(725,818,647)**
INCOME BEFORE TAXES	**4,820,946,832**	**3,197,569,445**
Income taxes, current and deferred	(936,126,028)	(1,062,721,543)
NET INCOME	**3,884,820,804**	**2,134,847,902**

Notes to the financial statements

Introduction

The statutory financial statements for the year ended December 31, 2005 of Telecom Italia S.p.A. have been prepared in accordance with the provisions of the Italian Civil Code, amended by the introduction of the reform of corporate law pursuant to Legislative Decree No. 6 dated January 17, 2003 and successive amendments, and consist of the balance sheet, the statement of operations and these notes to the financial statements. The statement of cash flows constitutes an integral part of the statutory financial statements.

Reclassifications to certain captions of the financial statements have also been made to the financial statements at December 31, 2004 for purposes of comparison.

As stated in the comments on the reclassified statement of operations, balance sheet and statement of cash flows included in the Report on Operations of Telecom Italia S.p.A., the figures for the year 2005, presented in the balance sheet, statement of operations and notes to the financial statements, take into account the effects – as from January 1, 2005 for accounting and tax purposes – of the following transactions:

- merger by incorporation of TIM S.p.A. in Telecom Italia S.p.A. executed on June 30, 2005, as well as the following transactions related and connected thereto:
  - partial cash tender offer launched by Telecom Italia for TIM ordinary and savings shares;
  - spin-off by TIM, on February 24, 2005, of the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005. The spin-off allowed TIM Italia to succeed TIM in the officially stated titles held by TIM for providing mobile communications services in Italy, as well as in all the user rights (even those temporarily assigned to TIM on the date of the contribution of the corporate operations), in the numbering and/or radio frequencies already under concession, license, general authorization, and in the special authorizations ensuing from statements constituting declarations of the start of activities;

- merger by incorporation of ISM S.r.l., Finanziaria Web S.p.A. and Telecom Italia Data Center S.r.l. in Telecom Italia S.p.A., executed on December 31, 2005. Prior to its incorporation in Telecom Italia, on December 30, 2005, Telecom Italia Data Center was the beneficiary of the partial spin-off of the corporate operations consisting of the infrastructural assets for the management of the IT data centers of IT Telecom S.r.l. and TIM Italia S.p.A., as well as the basic services (mail, office automation and workstation management) of IT Telecom S.r.l..

The notes present the effects of the merger between Telecom Italia and TIM by disclosing in the balance sheet the contributions of the merged company at January 1, 2005 and the impact of the spin-off of the corporate operations of the domestic mobile communications business in Italy. The column "Effects of other mergers" shows the contributions, at December 31, 2005, made by the merger by incorporation of ISM S.r.l., Finanziaria Web S.p.A. and Telecom Italia Data Center S.r.l. in Telecom Italia S.p.A..

During 2005, there were no exceptional cases causing recourse to the departures allowed by art. 2423, paragraph 4, of the Italian Civil Code.
All amounts are stated thousands of euro, unless otherwise indicated.

Accounting policies

Intangible assets
Intangible assets are recorded at acquisition or production cost and are amortized using the straight-line method over their estimated period of benefit.
Intangible assets are written down when there is a permanent impairment to below their net

book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code. The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.

Intangible assets specifically refer to the following:

"Start-up and expansion costs" are amortized over a period of five years starting from the time the asset produces an economic benefit.

"Industrial patents and intellectual property rights" are amortized over their estimated period of benefit on a five-year basis (industrial patents) or on a three-year basis (software), starting from the time the asset produces an economic benefit.

"Concessions, licenses, trademarks and similar rights" refer mainly to satellite utilization rights and are amortized over the contract period.

"Goodwill" relates to the acquisition of business segments and companies and is amortized over five years.

"Other intangibles" refer almost entirely to leasehold improvements. Amortization is calculated on the basis of the lesser of the period of future economic benefit or the residual lease period, starting from the time the expenses are incurred or from the time the asset produces an economic benefit

"Research, development and advertising costs" are charged to income in the year incurred.

Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated using the straight-line method at rates determined on the basis of their estimated remaining useful life and include inflation adjustments.

Fixed assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code. The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.

Construction in progress is stated at the amount of direct costs incurred (materials used for or intended for installations, third-party services, miscellaneous expenses, internal design costs, as well as company labor). The value of fixed assets does not include maintenance costs incurred for their upkeep to guarantee their expected useful life, their original capacity and productivity, and costs borne to repair malfunctions and failures; such expenses are charged to the statement of operations in the year incurred.

Depreciation is calculated on the basis of the estimated useful lives of the installations.

Total accumulated depreciation on fixed assets was upwardly adjusted, in the cases provided, according to the above-cited special laws.

The elimination, disposal or sale of fixed assets is recorded in the financial statement by eliminating the cost and accumulated depreciation from the financial statements and booking the related gain or loss in the statement of operations.

Equity investments

Equity investments considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

For equity investments in long-term investments and short-term financial assets, the cost flows are determined by reference to the "weighted average cost method for each movement".

Acquisition cost is increased by statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981, as well as the cancellation deficit, attributed to TIM and TIM International shares which arose from the merger of TIM S.p.A. in Telecom Italia S.p.A., being the difference between the carrying amount of the cancelled shares and the underlying share of net equity of the merged company.

The carrying amount of investments recorded in long-term investments is adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of such equity investments is written down and the impairment in value in excess of the corresponding carrying amount is recorded in "*reserves for risks and charges*".

Equity investments included under current assets are stated at the lower of the cost of acquisition and estimated realizable value and market value, represented by the year-end prices on the electronic trading market of the Italian stock exchange.
The cost of investments in foreign companies has been translated at the historical exchange rates prevailing at the time of acquisition or subscription or at the year-end rate, if lower, in the case the reduction is considered a permanent impairment.
Writedowns of equity investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

Inventories

Inventories – consisting of goods intended for sale, as well as stock on hand of technical materials and replacement parts to be used in the business during the year and for maintenance – are valued at the lower of cost, calculated using the weighted-average method, and realizable value.
The carrying amount of goods in stock is reduced, through appropriate writedowns, for obsolete materials.
Inventories include work on behalf of third parties in progress at the end of the year, valued according to "cost" criteria determined on the basis of the completed contract method.

Accounts receivable and liabilities

Accounts receivable are stated at estimated realizable value and classified under long-term investments or current assets. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers, already billed or still to be billed, as well as invoices for the sale of telephone and on-line equipment.
Liabilities are shown at their nominal amount.

Transactions in foreign currency

Monetary assets and liabilities are accounted for at the exchange rate as of the transaction date and adjusted to the exchange rates prevailing at year-end, taking into account derivative hedging contracts. Unrealized positive and negative differences arising the adjustment of such items to the year-end exchange rate are recorded in the statement of operations and any unrealized net exchange gain is set aside in a specific reserve until realization.

Securitization

The total amount of receivables sold under securitization transactions commenced in 2001 is reversed from the balance sheet as the contra-entry for the consideration received on the sale; the amount paid is represented by the non-repeatable amount received immediately (without recourse) whereas the deferred portion is recorded in *Other receivables (financial)* in current assets. This balance sheet caption is presented net of the relative allowance account calculated on the basis of estimated realizable value; the change in the allowance account is booked in *Financial expense* in the statement of operations. The difference between the carrying amount of the receivables sold and the agreed consideration on the sale is recognized in the statement of operations in *Miscellaneous operating costs*, for the trading portion, and in *Interest and other financial expense*, for the financial portion.

Accruals and deferrals

These items are recorded on the accrual basis. "*Issue discounts and similar charges*" consist of costs in connection with long-term loans, which are charged to the statement of operations over the period of the loan in proportion to the accrued interest.

Reserves for risks and charges

'Reserve for pensions and similar obligations'

This reserve includes the customer supplementary indemnity, managed internally, and represents the portion of indemnity due and payable to agents upon termination of the contractual relationship

"Reserve for taxes, reserve for deferred taxes"

This reserve includes provisions for estimated tax charges, including any sanctions and late payment interest, on positions not yet agreed or in dispute, and deferred taxes calculated as described in the note on "income taxes".

"Other reserves"
These reserves relate primarily to provisions to cover risks and charges for losses or liabilities of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the data available.

Reserve for employee severance indemnities

The amount of this reserve is determined in accordance with current laws (in particular Law No. 297 dated May 29, 1982, which provides for fixed and variable cost-of-living adjustments) and collective bargaining agreements. The reserve is adjusted to the liability matured at the end of the year for personnel in force at that date and is net of advances paid.

Due to shareholders for loans

"Shareholders" are considered parties which hold directly at least 2% of share capital at the end of the year. At December 31, 2005, shareholders holding at least 2% of the share capital of Telecom Italia had made no loans to the company.

Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia's obligation under Law No. 58/1992 to guarantee a uniform insurance status under the Telephone Workers' Social Security Fund (which became part of the general "Employees Pension Fund" beginning January 1, 2000) to all employees in service as of February 20, 1992 in the companies Stet, Sip, Italcable and Telespazio, as well as those who moved from the Public Administration to Iritel, Article 66, paragraph 1 of Legislative Decree 331/1993 and converted into Law No. 427/1993, specifies that the sums due to the Fund should be recorded in the financial statements and are tax deductible in the years in which the fifteen equal annual deferred installments are paid to discharge this obligation.
At the present time, the amount of the liability, which will be determined by the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS), can be estimated only roughly, due to disagreements relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess (at December 31, 2005, INPS had notified the Company of around 97% of the positions which give rise to expenses for Telecom Italia under the uniform insurance status).
A dispute concerning the application and interpretation of this law arose with INPS regarding the exclusion from the estimates under Law No. 58/1992 of all employees (except for employees of the former Iritel) who had already filed an application to join pursuant to Law No. 29/1979 before February 20, 1992, even though that application had not been processed by INPS. The position of the Telecom Italia is that the criteria set forth in Law No. 29/1979 – and, therefore, payment of the respective obligations – apply to these employees.
At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals for a final determination of the correct interpretation of the law in question. While awaiting these decisions, Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation.
Having said that, a reasonable estimate of the principal amount of the liability attributable to Telecom Italia (net of the amounts attributed to Group companies for the employees transferred to those companies) could vary between euro 962 million (partial application of Law 29/1979) and euro 1,196 million (full application of Law 58/1992), of which euro 656 million has already been paid, depending on conflicting interpretations and taking into account all personnel involved. In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, paragraph 3 of Law No. 58/1992, the payments requested by INPS are made in fifteen equal annual deferred installments (including annual interest of 5%), based on notification of the expenses by INPS.
The remaining liability for obligations under Law No. 58/1992, to be paid in fifteen annual installments on the basis of the positions notified by INPS up to December 31, 2005 and the interpretation of said positions, totals (net of the amounts attributed to Group companies for the employees transferred to those companies) euro 818 million, of which euro 629 million is for the principal amount and euro 189 million for accrued interest.

Moreover, these financial statements at December 31, 2005 of Telecom Italia include euro 402,081 thousand of residual payables to INPS (net of the amount attributed to Group companies for the employees transferred to those companies), relating to the estimate referring to the employees of the former State Company for Telephone Services (ASST) which the special Ministerial Commission established under Law No. 58/1992 had made upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.
The expenses recorded in 2005 in "extraordinary expenses" amount to euro 149 million and include accrued interest. This amount takes into account the above-mentioned expenses paid by Telecom Italia to INPS also on behalf of other Group companies for those employees transferred to them and covered by the obligation of a uniform insurance position under Law No. 58/1992. The recovery from these same companies of the amounts paid is recorded in the statement of operations under "extraordinary income" and amounts to euro 2 million.

Grants

Both operating grants (directly credited to the statement of operations) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures.
Capital grants and grants for installation are recorded under *"deferred income"* and credited to the statement of operations in relation to the depreciation taken on the assets to which the grants refer.

Revenues and expenses

Revenues and expenses are recorded on an accrual basis. Revenues relating to telecommunications services are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production costs.
Fees for new access lines and line transfers are recorded as income when the service is provided.
Dividends from subsidiaries are recorded on the maturity principle, that is, in the year when the income from which they are paid is earned by the subsidiaries, providing there is a substantial certainty that they will be paid, and, in any event, when the shareholders' resolution declaring the dividend is passed or when the appropriation of net income is set forth in the preliminary financial statements prepared by management of the subsidiaries prior to the Board Meeting of the parent company that resolves upon the financial statements.
Dividends from affiliated companies and other companies, on the other hand, are recognized in the statement of operations according to the accrual principle, that is, in the year in which the respective right to the receivable arises, following the declaration of dividends approved by the shareholders' resolution of those companies.

Income taxes

Current income taxes are computed on the basis of a realistic estimate of the income tax charge according to the tax laws in force; the related income tax payable is shown net of payments on account, withholding taxes and tax credits in "taxes payable". Any net receivable position is shown in "taxes receivable" under current assets.
Deferred income taxes are calculated on the basis of the temporary differences between the value attributed to the assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes. Deferred tax assets, including benefits from tax loss carryforwards, are booked in "deferred tax assets" in current assets. The tax benefit relating to tax loss carryforwards is recorded only when there is reasonable certainty of recovery.
Deferred tax assets and liabilities are offset, whenever the assumptions for doing so exist.
Deferred taxes on tax-deferred reserves and funds are booked if such reserves will be distributed or, in any case, utilized and their distribution or utilization gives rise to a tax charge.

Leased assets

Assets purchased under a financial lease are recognized in the financial statements by a method consistent with current legislation, which requires that leasing payments be recorded as operating costs.

Memorandum accounts

"*Guarantees provided*" are shown for the amount of the remaining liability or other obligation guaranteed; those provided in foreign currencies are translated at year-end exchange rates.

"*Purchases and sales commitments*" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

Derivative financial instruments

Derivative financial instruments are used by Telecom Italia S.p.A. to hedge exposure to interest rate and exchange rate risks.
For derivative financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of operations in "*financial income and expense*" based on the accrual principle.
For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the spot rate at the date of stipulating the contract and the forward rate) is recorded in the statement of operations in "financial income and expense" based on the accrual principle.
Premiums relating to option-type financial instruments are recorded in "other liabilities" or "other receivables" and, if exercised, are considered as an incidental charge to the purchase or sale value of the underlying instruments; if the option is not exercised the premium is recorded in the statement of operations under financial income (financial expense).
In this manner, the derivative financial instruments are valued consistently with the underlying asset and liability, for each transaction, and any net expense is recognized in the statement of operations.
Option-type derivative financial instruments existing at the end of the year are valued at the lower of cost and market value at the balance sheet date.

Balance sheets - assets

Intangibles, fixed assets and long-term investments

Intangible assets

euro 1,921,858 thousand

(euro 1,845,235 thousand at December 31, 2004)

A summary of the changes in intangible assets during the year is presented below:

(thousands of euro)	2005
– TIM merger	3,363,659
– spin-off of domestic mobile telecommunications business segment	(3,295,506)
– other mergers	101,401
– additions	803,749
– amortization	(883,137)
– eliminations and other movements	(13,543)
Total	**76,623**

An analysis of the composition and the changes in intangible assets during the year is presented in the following tables:

(thousands of euro)	12/31/2004 Cost	Upward adjustments	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	153,277			(141,735)	11,542
Industrial patent and intellectual property rights	5,024,534			(3,745,880)	1,278,654
Concessions, licenses, trademarks and similar rights	96,408			(95,058)	1,350
Goodwil	9,516			(6,452)	3,064
Work in progress and advances to suppliers	382,132				382,132
Other intangibles (*)	450,816			(282,323)	168,493
Total	**6,116,683**	**0**	**0**	**(4,271,448)**	**1,845,235**
(*) of which:					
Leasehold improvements	*450,415*			*(281,922)*	*168,493*

(thousands of euro)	CHANGES DURING THE YEAR TIM merger	Spin-off of business segment (a)	Additions	Reclassi-fications	Sales/ Retirements (a)/Other movements	Ammortization	Total
Start-up and expansion costs					103	(11,645)	(11,542)
– *of which: ISM merger*					*103*	*(103)*	*0*
Industrial patent and intellectual property rights	720,768	(767,489)	702,971	297,533	72,415	(809,499)	216,699
– *of which: merger with Telecom Italia Data Center*					*85,119*	*(144)*	*84,975*
Concessions, licenses, trademarks and similar rights	2,296,163	(2,273,597)	3,124	629	(1)	(23,069)	3,249
Goodwill	17,250	(15,972)				(3,181)	(1,903)
Work in progress and advances to suppliers	243,780	(141,137)	67,904	(337,557)	(184)		(167,194)
– *of which: merger with Telecom Italia Data Center*					*139*		*139*
Other intangibles (*)	85,698	(97,311)	29,750	39,395	15,525	(35,743)	37,314
– *of which: merger with Telecom Italia Data Center*					*16,040*	*(11)*	*16,029*
Total	**3,363,659**	**(3,295,506)**	**803,749**	**0**	**87,858**	**(883,137)**	**76,623**
(*) of which:							
Leasehold improvements	*85,698*	*(97,311)*	*29,750*	*39,395*	*15,525*	*(35,743)*	*37,314*

(a) Broken down as follows:

	Cost	Upward adjustments	Writedowns	Accumulated amortization	Net book value
Start-up and expansion costs	*0*			*0*	*0*
– of which spin-off of business segment to TIM Italia	*0*			*0*	*0*
Industrial patent and intellectual property rights	*(2,623,547)*			*1,836,941*	*(786,606)*
– of which spin-off of business segment to TIM Italia	*(2,596,469)*			*1,828,980*	*(767,489)*
Concessions, licenses, trademarks and similar rights	*(2,433,799)*			*160,201*	*(2,273,598)*
– of which spin-off of business segment to TIM Italia	*(2,433,798)*			*160,201*	*(2,273,597)*
Goodwill	*(23,000)*			*7,028*	*(15,972)*
– of which spin-off of business segment to TIM Italia	*(23,000)*			*7,028*	*(15,972)*
Work in progress and advances to suppliers	*(141,460)*				*(141,460)*
– of which spin-off of business segment to TIM Italia	*(141,137)*				*(141,137)*
Other intangibles	*(254,192)*			*156,748*	*(97,444)*
– of which spin-off of business segment to TIM Italia	*(244,794)*			*147,483*	*(97,311)*
Total	***(5,475,998)***			***2,160,918***	***(3,315,080)***
– of which spin-off of business segment to TIM Italia	*(5,439,198)*			*2,143,692*	*(3,295,506)*

	12/31/2005				
(thousands of euro)	**Cost**	**Upward adjustments**	**Writedowns**	**Accumulated amortization**	**Total**
Start-up and expansion costs	172,228			(172,228)	0
Industrial patent and intellectual property rights	6,193,827			(4,698,474)	1,495,353
Concessions, licenses, trademarks and similar rights	100,160			(95,561)	4,599
Goodwill	9,516			(8,355)	1,161
Work in progress and advances to suppliers	214,938			0	214,938
Other intangibles (*)	528,940			(323,133)	205,807
Total	**7,219,609**	**–**	**–**	**(5,297,751)**	**1,921,858**
(*) of which:					
Leasehold improvements	*513,902*	*–*	*–*	*(308,095)*	*205,807*

In particular:

"*Industrial patents and intellectual property rights*" consist almost entirely of applications software purchased outright and user licenses for an indefinite time period

"*Goodwill*" relates to the acquisition, by Telecom Italia, of the "administrative services" business segments from Holding Media e Comunicazioni, TIM, Finsiel and Telecom Italia Media. It also includes the goodwill on acquisition, by the merged company IT Telecom, in 2002, of the companies Telesoft and Netsiel and, in 2003, of the Enterprise business from Finsiel.

"*Work in progress and advances to suppliers*" mainly refers to software projects for network and operating program applications.

"*Other intangibles*" refer to leasehold improvements made to properties owned by third parties and include the costs incurred to meet the operating requirements of the Company in the rented premises.

Reclassifications refer to assets that came into use during the year in respect of purchases made in prior years.

Fixed assets

euro 10,447,711 thousand

(euro 11,020,047 thousand at December 31, 2004)

A summary of the changes in fixed assets during the year is presented as follows:

(thousands of euro)	**2005**
– TIM merger	2,196,390
– spin-off of domestic mobile telecommunications business segment	(2,098,174)
– other mergers	210,019
– additions	1,669,446
– depreciation	(2,196,450)
– disposals and other movements	(353,567)
Total	**(572,336)**

An analysis of the composition and the changes in fixed assets during the year is presented in the following tables:

	12/31/2004				
(thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	2,070,004	391,207	(4,651)	(1,293,027)	1,163,533
. non-industrial	20,049	741		(999)	19,791
. industrial	2,049,955	390,466	(4,651)	(1,292,028)	1,143,742
Plant and installations	47,731,935	723,067	(727,730)	(38,403,907)	9,323,365
Manufacturing and distribution equipment	542,185	2,690		(530,460)	14,415
Other fixed assets	1,429,455	4,236		(1,355,893)	77,798
Construction in progress and advances to supplies	440,936				440,936
Total	**52,214,515**	**1,121,200**	**(732,381)**	**(41,583,287)**	**11,020,047**

	CHANGES DURING THE YEAR							
(thousands of euro)	TIM merger	Spin-off of business segment (a)	Additions	Reclassifi-cations	Sales/ Retirements (a)/Other movements	Writedowns/ Writebacks	Depreciation	Total
Land and buildings								
– non-industrial	614	(614)	123	137	13,814		(97)	13,977
– industrial	10,263	(9,927)	6,415	7,729	(345,302)		(78,562)	(409,384)
	10,877	(10,541)	6,538	7,866	(331,488)	0	(78,659)	(395,407)
Plant and installations	1,785,205	(1,723,493)	1,268,214	199,960	(70,503)	924	(2,032,679)	(572,372)
– of which merger with Telecom Italia Data Center					17,173		(16)	17,157
Manufacturing and distribution equipment	34,892	(32,361)	4,765	4,173	423		(9,436)	2,456
– of which merger with Telecom Italia Data Center					430		(1)	429
Other fixed assets	208,742	(204,605)	48,634	(74)	250,237		(75,676)	227,258
– of which merger with Telecom Italia Data Center					192,346		(201)	192,145
Construction in progress and advances to supplies	156,674	(127,174)	341,295	(211,925)	14,559	(7,700)		165,729
– of which merger with Telecom Italia Data Center					70			70
Total	**2,196,390**	**(2,098,174)**	**1,669,446**	**0**	**(136,772)**	**(6,776)**	**(2,196,450)**	**(572,336)**

(a) Broken down as follows:

	Cost	*Upward revaluations*	*Writedowns*	*Accumulated depreciation*	*Net amount*
Land and buildings					
– non-industrial	*(1,715)*	*(19)*	*13*	*77*	*(1,644)*
– industrial	*(629,253)*	*(177,306)*	*1,166*	*455,461*	*(349,932)*
	(630,968)	*(177,325)*	*1,179*	*455,538*	*(351,576)*
– of which spin-off of business segment to TIM Italia	*(26,353)*	*(1,997)*		*17,809*	*(10,541)*
Plant and installations	*(8,502,211)*	*(6,409)*	*711,291*	*6,051,788*	*(1,745,541)*
– of which spin-off of business segment to TIM Italia	*(6,104,741)*	*(344)*		*4,381,592*	*(1,723,493)*
Manufacturing and distribution equipment	*(120,451)*	*(42)*		*88,118*	*(32,375)*
– of which spin-off of business segment to TIM Italia	*(118,796)*	*(2)*		*86,437*	*(32,361)*
Other fixed assets	*(712,116)*	*(165)*		*507,430*	*(204,851)*
– of which spin-off of business segment to TIM Italia	*(701,992)*	*(7)*		*497,394*	*(204,605)*
Construction in progress and advances to supplies	*(112,652)*				*(112,652)*
– of which spin-off of business segment to TIM Italia	*(127,174)*				*(127,174)*
Total	***(10,078,398)***	***(183,941)***	***712,470***	***7,102,874***	***(2,446,995)***
– of which spin-off of business segment to TIM Italia	*(7,079,056)*	*(2,350)*	*0*	*4,983,232*	*(2,098,174)*

(thousands of euro)	12/31/2005 Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings					
– non-industrial	32,517	2,840	(766)	(823)	33,768
– industrial	1,450,940	213,039	(2,706)	(926,915)	734,358
	1,483,457	215,879	(3,472)	(927,738)	768,126
Plant and installations	46,699,654	717,002	(15,515)	(38,650,148)	8,750,993
Manufacturing and distribution equipment	550,361	2,649		(536,139)	16,871
Other fixed assets	2,298,420	4,078		(1,997,442)	305,056
Construction in progress and advances to supplies	614,365		(7,700)		606,665
Total fixed assets	**51,646,257**	**939,608**	**(26,687)**	**(42,111,467)**	**10,447,711**

In December 2005, a first group of 867 buildings occupied by the network plants was sold for a net book value of euro 336,322 thousand to Olivetti Multiservice. The transaction falls under the framework of the reorganization of the physical spaces occupied by the network plants which calls for gradually freeing those parts of the buildings used for such plants. The entire transaction is described in detail in the Report on Operations under "Other activities – Real Estate Activities and Services".

In 2005, the tangible assets for the CATV service (pay cable TV) were retired after the supply of this service ceased. This service had been provided using the Socrate network which was completely written off in the financial year 1998.

Accumulated depreciation at December 31, 2005 is considered sufficient in relation to the remaining period of utilization of the assets determined on the basis of the estimated useful lives of the installations making up the domestic telecommunications network. Depreciation is calculated at the rates used in the previous year. Accumulated depreciation, net of impairments, covers 80.1% of fixed assets at December 31, 2005 compared to 79.1% at December 31, 2004.
Reclassifications refer to fixed assets that came into use during the year in respect of purchases made in prior years.

Assets purchased under finance lease contracts

The Company has fixed assets acquired under sale and leaseback transactions and under finance lease contracts. These are accounted for using the operating method by which lease payments are charged to costs under the use of property not owned caption. Gains on the sale of assets under sale and leaseback transactions realized in prior years were recognized immediately in the statement of operations; any subsequent gains are recognized over the lease term.
Had the finance lease contracts been accounted for using the finance method, entries would have been made in the statement of operations for the interest on the financed principal and for the depreciation charge of the value of the assets purchased by lease; additionally, entries would have been made in the balance sheet to record the fixed assets under assets and the residual debt under liabilities. Furthermore, use of this method would also have resulted in the deferral, on a straight-line basis, of any gains on sale and leaseback transactions of buildings over the finance lease term, even if realized in prior years.

The effects of this accounting treatment are described in the following table:

BALANCE SHEET	millions of euro
Assets	
a) Outstanding contracts	
Net book value of leased assets under finance contracts at December 31, 2004, net of accumulated depreciation of euro 274 million at the end of the prior year	1,336
Assets acquired under finance lease contracts during the year (+)	135
Assets under finance lease contracts redeemed during the year (–)	(6)
Depreciation charge for the year (–)	(84)
Writedowns/writebacks on assets under finance lease contracts during the year (+/–)	(1)
Net book value of leased assets under finance contracts at December 31, 2005, net of accumulated depreciation of euro 433 million	1,380
b) Assets redeemed	
Total higher value of assets redeemed, calculated according to the financial method, compared to their accounting net book value, at December 31, 2005	–
c) Prepaid expenses	**–**
d) Liabilities	
Implicit liabilities for finance lease transactions at December 31, 2004 (of which euro 58 million due within 1 year, euro 1,189 million due between 2 and 5 years and euro 399 million due beyond 5 years)	1,646
Implicit liabilities arising during the year (+)	178
Repayment of principal and assets redeemed during the year (–)	(69)
Implicit liabilities for finance lease transactions at December 31, 2005 (of which euro 106 million due within 1 year, euro 1,211 million due between 2 and 5 years and euro 438 million due beyond 5 years)	1,755
e) Total gross effect at December 31, 2005 (a+b+c–d)	**(375)**
f) Tax effect	**(81)**
g) Effect on shareholders' equity at December 31, 2005 (e–f)	**(294)**

STATEMENT OF OPERATIONS	in millions of euro
a) Reversal of installments on finance lease transactions (+)	202
b) Recognition of financial expenses on finance lease transactions (–)	(133)
Recognition of:	
- depreciation charge:	
c) - on outstanding contracts (–)	(84)
d) - writedowns/writebacks on assets under finance lease contracts (–)	(2)
e) Effect on income before taxes (+/–) (a+b+c+d)	**(17)**
f) Recognition of tax effect (+/–)	(3)
g) Effect on net income for the year 2005 of leasing transactions recognized using the financial method (e–f)	**(14)**

Had the sale and leaseback transactions been accounted for using the finance method, shareholders' equity would have been lower by euro 246 million at December 31, 2005 and the net income for the period would have been higher by euro 5 million.

Long-term investments

euro 52,731,364 thousand

(euro 34,817,480 thousand at December 31, 2004)

Details are as follows:

(thousands of euro)	12/31/2004	12/31/2005
Equity investments in:		
• subsidiaries	33,771,061	51,304,651
• affiliated companies	245,740	147,639
• other companies	204,538	206,136
	34,221,339	**51,658,426**
Advances on future capital contributions	**12,064**	**11,543**
Accounts receivable:		
• subsidiaries	448,326	598,661
• affiliated companies	25,544	24,305
• other receivables	107,909	436,131
	581,779	**1,059,097**
Treasury stock	**2,298**	**2,298**
Total	**34,817,480**	**52,731,364**

Equity investments

euro 51,658,426 thousand

Changes in equity investments in subsidiaries, affiliated companies and other companies during 2005 are presented in the following table:

(in thousands of euro)	12.31.2004	Effect of merger TIM							12.31.2005
		TIM contribution 1/1/2005	Spin-pff of business segment	Tender offer and other purchases of TIM shares (*)	Cancellation of TIM shares	Allocation of the cancellation deficit to investments in TIM Italia and TIM International	Effect other mergers	Other movements during the year	
Equity investments in:									
– Subsidiaries	33,771,061	4,583,521	3,939,468	14,207,194	(41,672,280)	35,461,632	(176,581)	1,190,636	51,304,651
– Affiliated companies	245,740	99	(99)	–	–	–	–	(98,101)	147,639
– Other companies	204,538	36	(36)	–	–	–	–	1,598	206,136
	34,221,339	**4,583,656**	**3,939,333**	**14,207,194**	**(41,672,280)**	**35,461,632**	**(176,581)**	**1,094,133**	**51,658,426**

(*) The amount is inclusive of capitalized costs relative to the tender offer of euro 24,454 thousand.

Annexes 1 and 2 present the changes in each investment during 2005 and the corresponding values at the beginning and the end of the year, as well as the list of investments held in subsidiaries and affiliated companies in accordance with point 5 of art. 2427 of the Italian Civil Code.

The effects of the merger with TIM include the contribution of the equity investments held by TIM at January 1, 2005, the cash tender offer by Telecom Italia for TIM ordinary and savings shares and additional purchases of TIM ordinary and savings shares, the spin-off of the TIM domestic mobile telecommunications business to TIM Italia, the cancellation of TIM shares held by Telecom Italia and the allocation of the cancellation deficit on the merger (euro 35,461,632 thousand) to the equity investments in TIM Italia (euro 35,048,711 thousand) and TIM International (euro 412,921 thousand). This deficit is the result of the difference between the carrying amount of the shares of the merged company that were cancelled (euro 41,672,280 thousand) and the share of underlying net equity (euro 6,210,648 thousand) equal to 84.42%.

The effects of the other mergers (incorporation of ISM S.r.l., Finanziaria Web S.p.A. and Telecom Italia Data Center S.r.l. in Telecom Italia S.p.A.) include the cancellation of the investment in ISM, the effects of the spin-off of IT Telecom S.r.l. and TIM Italia to Telecom Italia Data Center, the cancellation of the investment in Telecom Italia Data Center, the contribution of the investment in Matrix held by ISM and Finanziaria Web, as well as the allocation of the cancellation deficit arising on the merger transaction (euro 6,898 thousand) on the investment in Matrix.

In summary, equity investments in subsidiaries, affiliated companies and other companies increased by euro 17,437,087 thousand compared to December 31, 2004, as illustrated in the following tables:

INCREASES:		(thousands of euro)
• **Acquisition of the following equity investments at January 1, 2005, subsequent to the merger by incorporation of TIM S.p.A. in Telecom Italia S.p.A.:** TIM Italia (120), TIM International (4,582,279), Scuola Superiore Alta Formazione Universitaria Federico II (26), Consorzio Energia Gruppo Telecom Italia (5), Telenergia (10), Telecom Italia Audit (500), Consorzio Nazionale Imballaggi - Conai (1), Cefriel (33), Idroenergia (1) Consorzio ABI Lab (1), Shared Service Center (99) and Saturn Venture Partners (581)		4,583,656
• **Subscription** of TIM Italia shares following the spin-off, to that company, of the domestic mobile telecommunications business segment		3,940,009
• **Tender offer for TIM ordinary and savings shares and other share purchases**		14,207,194
• **Allocation of the cancellation deficit on the merger with TIM to the investments in TIM Italia and TIM International**		35,461,632
• **Acquisition of the investment in Matrix following the merger by incorporation of ISM S.r.l. and Finanziaria Web S.p.A. in Telecom Italia S.p.A.**		158,811
• **Allocation of the cancellation deficit on the investment in Matrix following the merger by incorporation of ISM S.r.l. and Finanziaria Web S.p.A. in Telecom Italia S.p.A.**		6,898
• **Acquisitions, subscriptions, recapitalization of capital and loss coverage of:** ISM (97,392), Mediterranean Nautilus S.A. (91,389), Liberty Surf Group (261,535), Nuova TIN.IT (880,000), Olivetti (50,000), Progetto Italia (1,000), Telecom Italia Learning Services (4,393), Latin American Nautilus (30,961), TILAB S.A. (6,233), TIM ITALIA (3,640), EUROFLY SERVICES (1,273), Luna Rossa Challenge 2007 (1,960), Luna Rossa Trademark (10,000), MED -1 (804), IM.SER (210), Telecom Italia Data Center (10), Perseo (5), Telecom Italia AUDIT (500), Ancitel (164) and Istituto Europeo di Oncologia (2,116)		1,443,585
• **Subscription to capital increases by using financial receivables relating to:** Mediterranean Nautilus S.A. (12,701), MED - 1		16,517
• **Definitive capital increase from advances on future capital contributions relating to:** Liberty Surf Group (207,300), IT Telecom S.r.l. (21,000) and TIM International (4,800)		233,100
• **Impairment reversals** of Saturn Venture Partners (37) and Cartesia (50)		87
Total increases	**(A)**	**60,051,489**

DECREASES:		
• **Sales/reductions of shares/quotas in:** Finsiel (111,000), Mediterranean Nautilus (55,966), Latin American Nautilus (9,209), Cartesia (50), MED - 1 (988), CERM L'AQUILA (266), ITALTEL Cerm S. Maria Capua Vetere (192) and Azienda Esercizio Gas (1)		(177,672)
• **Distribution of reserves and dividends:** Tiglio I (38,845) and Tiglio II (33,145)		(71,990)
• **Cancellation of the investment in TIM following the merger by incorporation of the same company**		(41,672,280)
• **Cancellation of investments following the merger by incorporation of ISM S.r.l., Finanziaria Web S.p.A. and Telecom Italia Data Center in Telecom Italia S.p.A.:** ISM (97,392) and Telecom Italia Data Center (10)		(97,402)
• **Sale of investments following the spin-off of the mobile telecommunications business segment in Italy by TIM to TIM Italia:** Scuola Superiore Alta Formazione Universitaria Federico II (26), Consorzio Energia Gruppo Telecom Italia (5), Telenergia (10), Telecom Italia Audit (500), Consorzio Nazionale Imballaggi - Conai (1), Cefriel (33), Idroenergia (1) Consorzio ABI Lab (1) and Shared Service Center (99)		(676)
• **Spin-off of IT Telecom S.r.l. and TIM Italia to Telecom Italia Data Center:** IT Telecom S.r.l. (129,835) and TIM Italia (115,053)		(244,888)
• **Writedowns for impairment losses charged to the statement of operations of:** Telecom Italia Finance (144,329), Olivetti (57,374), Tiglio I (25,484), Mediterranean Nautilus S.A. (7,262). Domus Academy (1,714), IT Telecom S.r.l. (9,472), Telecom Italia Learnings Service (1,560), Netesi (289), AREE URBANE (417), Fratelli Alinari (191), LI.SIT. (11,236), Telbios (929), TILAB S.A. (1,128), IM.SER (210), Consorzio EO (16), Edindustria (29) and Consorzio COREP (10)		(261,650)
• **Writedowns for impairment losses covered by the reserve for losses of subsidiaries and affiliates of:** Mediterranean Nautilus S.A. (55,214), Eurofly Service (1,273), Latin American Nautilus (21,752), TILAB S.A. (3,112), Telecom Italia Learnings Service (2,833), Med - 1 (3,632), Consorzio Laboratorio della Conoscenza (10), Consorzio Telemed (10), Diomedea (6) and Consorzio Energia Fiera District (2)		(87,844)
Total decreases	**(B)**	**(42,614,402)**
Net change for the year	**(A+B)**	**17,437,087**

In particular, the following should be mentioned:

- with regard to the Telecom Italia/TIM merger described in detail in the Report on Operations to the 2004 Annual Report, during the year, Telecom Italia purchased 2,533,028,625 TIM shares for a value equal to euro 14,207,194 thousand following the tender offer for TIM ordinary and savings shares and additional purchases of TIM shares. Such shares, together with the TIM shares owned before the tender offer, were cancelled following the merger of the two companies, effective as of June 30, 2005, and with effect for accounting and tax purposes as of January 1, 2005.
  Moreover, on February 24, 2005, TIM S.p.A. (subsequently merged in Telecom Italia) proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005. The value of company operations conferred was equal to euro 3,940,009 thousand. Moreover, as previously mentioned, the cancellation deficit resulting from the merger was allocated to the investments in TIM Italia and TIM International, respectively, for euro 35,048,711 thousand and euro 412,921 thousand;
- As part of the process to rationalize the Internet operations of the Group, the following transactions were effected by Telecom Italia:
  - on May 30, 2005, Telecom Italia purchased, from Telecom Italia Finance, the entire investment in the company ISM S.r.l. (which already held a 33.3% stake in Matrix S.p.A. and a 40% stake in Finanziaria Web S.p.A. which, in turn, held a 66% interest in Matrix S.p.A.) for a total amount of euro 97,793 thousand;
  - on June 1, 2005, ISM S.r.l. (a wholly-owned subsidiary of Telecom Italia), after having received a payment against its investment from Telecom Italia for euro 70 million, acquired 60% of Finanziaria Web and 0.7% of Matrix from Telecom Italia Media for euro 70 million;
  - on June 1, 2005, Telecom Italia purchased a 100% interest in Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media conferred the Tin.it business segment, at a price of euro 880 million;
  - on May 31, 2005, the purchase of a 94.89% holding in Liberty Surf Group S.A. from Tiscali was finalized. Liberty Surf Group is a leading internet service provider operating of the French market. The purchase price was euro 248,324 thousand and takes into account a positive net financial position at May 31, 2005 of Liberty Surf Group S.A. of about euro 10,344 thousand. Furthermore, Telecom Italia, in accordance with the requirements of the law, launched a takeover bid during the period July 21, 2005 - August 8, 2005 for the remaining share capital of Liberty Surf Group S.A. at a price of euro 2.78 per share. At the end of that period, 2,920,719 shares were acquired for an outlay of euro 8,120 thousand. After this transaction, Telecom Italia came to hold 92,242,963 shares representing 97.99% of share capital. In September 2005, Telecom Italia launched a further takeover bid for all the shares of Liberty Surf Group S.A. that were not yet owned directly and not held by Liberty Surf Group S.A., again for a price of euro 2.78 per share. It acquired 243,225 shares, representing 0.26% of share capital for euro 676 thousand. This transaction was followed by a squeeze-out, as provided by French law, for the remaining 1,588,126 Liberty Surf Group S.A. shares at euro 2.78 per share, representing 1.68% of share capital, for which a deposit of euro 4,415 thousand was made at BNP Paribas. After these transactions, Telecom Italia held 94,074,314 Liberty Surf Group S.A. shares equal to 99.93% of share capital. Liberty Surf Group S.A. held treasury stock for the remaining 0.07% of capital. On December 27, 2005, Liberty Surf Group S.A. cancelled 65,082 treasury shares equal to 0.07% which brought Telecom Italia's interest to 100%;
  - on December 31, 2005, the companies ISM S.r.l. and Finanziaria Web S.p.A. were merged by incorporation in Telecom Italia. As a result, Telecom Italia acquired the entire investment in Matrix S.p.A.
- on June 28, 2005, on the basis of the contract executed on April 26, 2005, Telecom Italia sold the COS group a 59.6% stake in its investment in Finsiel S.p.A. (79.5%). The sales price was equal to euro 85,616 thousand in addition to a monetary adjustment of euro 1,199 thousand received in September. On November 7, 2005, as stated in the above-mentioned contract, Telecom Italia exercised the option to sell the remaining 19.9% interest in Finsiel at a price of euro 28,508 thousand.

Previously, on November 3, 2005, the ordinary shareholders' meeting of Finsiel had voted to distribute its reserves to the shareholders: Telecom Italia S.p.A.'s share was equal to euro 601 thousand;

- with regard to the reorganization of the MED group, Telecom Italia carried out the following transactions:
  - on July 5, 2005, Telecom Italia purchased 8,746,285 Mediterranean Nautilus S.A. shares from FTT INVESTMENTS for the nominal amount of USD 10 each for euro 63,578 thousand. Consequent to this transaction, the stake held by Telecom Italia in Mediterranean Nautilus S.A. went from 62.51% to 89.30% of share capital;
  - on December 5, 2005, Telecom Italia subscribed to the recapitalization of the capital of Mediterranean Nautilus S.A., previously reduced to cover the losses, and to a further capital increase for a payment of euro 27,781 thousand and the conversion of euro 12,701 thousand in financial receivables;
  - on December 23, 2005, Telecom Italia sold the entire investment held in Mediterranean Nautilus S.A. to Telecom Italia Sparkle for euro 41,753 thousand, realizing a loss of euro 14,213 thousand, and the investment held in Med - 1 at the price of euro 988 thousand.
- on July 27, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Challenge 2007, a Spanish-registered company, by subscribing to a share capital increase reserved for Telecom Italia for an amount of euro 1,960 thousand. On July 28, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Trademark S.a.r.l., a Luxembourg-registered company, from Prada S.A. for euro 10,000 thousand;
- as part of the corporate and business reorganization of Telecom Italia's operations in France, in November 2005, Telecom Italia made two payments against the purchase of investments, on November 15, 2005 and November 22, 2005, to the subsidiary Liberty Surf Group for a total of euro 207,300 thousand. Such payments were converted to share capital on December 27, 2005. The first payment of euro 74,300 thousand was used by Liberty Surf Group to purchase the investment held by Telecom Italia Sparkle in Telecom Italia France. The second payment of euro 133,000 thousand was used by Liberty Surf Group to subscribe to the capital increase of the same Telecom Italia France;
- on December 31, 2005, the merger by incorporation of Telecom Italia Data Center S.r.l. in Telecom Italia S.p.A. was executed. On December 30, 2005, Telecom Italia Data Center became the beneficiary of the partial spin-off of the corporate operations consisting of the infrastructural assets for the management of the IT data centers of IT Telecom S.r.l. and TIM Italia S.p.A., as well as the basic services (mail, office automation and workstation management) of IT Telecom S.r.l. Therefore, at December 31, 2005, the value of the investment in Telecom Italia Data Center was cancelled and the carrying amounts of the investments in IT Telecom S.r.l. and Tim Italia S.p.A. were reduced by the share of underlying net equity of the company operations sold, respectively, euro 129,835 thousand and euro 115,053 thousand;
- the investment in Telecom Italia Finance was written down by euro 144,329 thousand, of which euro 78,321 thousand relates to the writedown of the carrying amount of Telecom Italia ordinary shares, held by the same Telecom Italia Finance, on the basis of an independent valuation which attributed a per share value of not less than euro 3.17 to the above shares;
- some investments in subsidiaries and affiliated companies are recorded at a amount in excess of the corresponding share of the underlying net equity, less dividends.
  These investments are maintained at their carrying amounts since they are expected to show future earnings and their assets are worth more than their respective book values.
  In particular, with regard to the investment in TIM Italia, the higher carrying amount compared to the underlying share of net equity is due to the allocation of the cancellation deficit resulting from the Telecom Italia/TIM merger;

A comparison between the market price of listed shares at December 31, 2005 and their carrying amount shows an unrealized gain of euro 391,490 thousand. Further details are provided in Annex 3.

Advances on future capital contributions euro 11,543 thousand

Advances on future capital contributions decreased by euro 521 thousand, compared to December 31, 2004, and are shown net of the relative allowance accounts of euro 9,653 thousand.
These advances are composed of payments made to Telegono (euro 4,240 thousand), to Matrix (euro 3,829 thousand), to Loquendo (euro 3,224 thousand) and to Perseo (euro 250 thousand)

Accounts receivable euro 1,059,097 thousand

Accounts receivable increased by euro 477,318 thousand compared to December 31, 2004. Details are as follows:

	12/31/2004	Changes during the year					12/31/2005
		TIM merger effect	Spin-off of business segment	Effects of other mergers	Increase	Decrease	
Accounts receivables:							
• subsidiaries	448,326	(376,308)	–	–	598,661	(72,018)	598,661
• affiliated companies	25,544	–	–	–	1,562	(2,801)	24,305
• other receivables	107,909	22,020	(20,815)	1,888	344,291	(19,162)	436,131
	581,779	**(354,288)**	**(20,815)**	**1,888**	**944,514**	**(93,981)**	**1,059,097**

Subsidiaries euro 598,661 thousand

Accounts receivable from subsidiaries refer to the adoption of the national consolidated tax procedure for TIM Italia. As a result of the merger with TIM, the receivable at December 31, 2004 due from that company by Telecom Italia for the consolidated tax return was cancelled.

Affiliated companies euro 24,305 thousand

Accounts receivable from affiliated companies refer to loans made mainly to the companies Aree Urbane (euro 21,523 thousand) and Tiglio II (euro 2,739 thousand).

Other receivables euro 436,131 thousand

Other receivable mainly refer to:

- the deposits at Abn Amro Bank (euro 327,475 thousand) to guarantee the payment that Telecom Italia has to pay Opportunity, if the suspensive conditions stated in the contract occur, for the purchase of the investments held in Opportunity Zain (which indirectly holds Solpart Participaçoes shares) and in Brasil Telecom Participaçoes;
- the remaining loans receivable from employees (euro 61,112 thousand);
- the prepayment of the tax on the reserve for employee severance indemnities (euro 40,760 thousand), required under Law No. 662 dated December 23, 1996, revalued as set forth by law;
- security deposits of euro 3,319 thousand.

As regards accounts receivable included in long-term investments, the portion due within and beyond five years is presented in the attached Annex 4.

Treasury stock euro 2,298 thousand

Treasury stock remains unchanged compared to December 31, 2004 and refers to 1,272,014 ordinary shares originally held by ex-Olivetti.

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The following table presents details of the revaluations effected in the past for the assets included in the financial statements at December 31, 2005, as required by art. 10 of Law 72/1983.

Description	**Fixed assets**						**Equity investments**	
(thousands of euro)	**Land and buildings**	**Plant and installations**	**Manufac-turing and distribution equipment**	**Other fixed assets**	**Construction in progress and advances to suppliers**	**Total**	**Subsidiaries**	**Affiliates**
Historical cost of additions to 12/31/2005:								
– Upward adjustments under special laws	397,620	1,944,057	3,388	8,058	–	2,353,123	24,120	2,417
– Not revalued	1,085,837	44,755,597	546,973	2,290,362	614,365	49,293,134	59,381,107	218,245
Total	**1,483,457**	**46,669,654**	**550,361**	**2,298,420**	**614,365**	**51,646,257**	**59,405,227**	**220,662**
Upward adjustments:								
– under Law No. 74 of 2/11/1952	96	–	–	–	–	96		
– under Law No. 823 of 12/19/1973	716	–	–	–	–	716		
– under Law No. 576 of 12/2/1975	11,522	26,771	299	438	–	39,029	1,077	
– under Law No. 72 of 3/19/1983	90,962	690,231	2,350	3,640	–	787,184	5,004	1,424
– under Law No. .413 of 12/30/1991	112,583	–	–	–	–	112,583		
– Voluntary revaluation 1981	–	–	–	–	–	–	5,535	
Total	**215,879**	**717,002**	**2,649**	**4,078**	**–**	**939,608**	**11,616**	**1,424**
Grand total	**1,699,336**	**47,416,656**	**553,010**	**2,302,498**	**614,365**	**52,585,865**	**59,416,843**	**222,086**

Current assets

Inventories

euro 95,581 thousand

(euro 144,675 thousand at December 31, 2004)

Inventories consist of the following:

(thousands of euro)	12/31/2004	12/31/2005	Change
Contract work in process	31,189	20,006	(11,183)
Merchandise	113,486	75,575	(37,911)
Total	**144,675**	**95,581**	**(49,094)**

Inventories decreased by euro 49,094 thousand compared to December 31, 2004. They are net of writedowns for euro 20,172 thousand.

Accounts receivable

euro 10,841,026 thousand

(euro 9,923,295 thousand at December 31, 2004)

Accounts receivable increased by euro 917,731 thousand compared to December 31, 2004. A breakdown and the changes that occurred during the year are provided in the table below:

	12/31/2004	Changes during the year							12/31/2005
(thousands of euro)		TIM merger effects	Spin-of of business segment	Utilization of allowance for doubtful accounts	Provision to allowance for doubtful accounts	Effects of other mergers	Other reasons	Total change	
Trade accounts receivable	3,467,780	1,264,381	(1,214,531)			4,703	385,017	439,570	3,907,350
Allowance for doubtful accounts	(346,771)	(131,000)	133,000	168,705	(145,305)		2,559	27,959	(318,812)
Total trade accounts receivable	**3,121,009**	**1,133,381**	**(1,081,531)**	**168,705**	**(145,305)**	**4,703**	**387,576**	**467,529**	**3,588,538**
Accounts receivable from subsidiaries	2,663,712	(1,346,591)	(27,609)			(46,911)	2,664,296	1,243,185	3,906,897
Total accounts receivable from subsidiaries	**2,663,712**	**(1,346,591)**	**(27,609)**	**0**	**0**	**(46,911)**	**2,664,296**	**1,243,185**	**3,906,897**
– of which financial	706,952	178,443				(2,228)	(294,931)	(118,716)	588,236
Accounts receivable from affiliated companies	126,475	1,639	(1,667)				82,449	82,421	208,896
Allowance for doubtful accounts of affiliated companies	–	(24)	24					0	–
Total accounts receivable from affiliated companies	**126,475**	**1,615**	**(1,643)**			**0**	**82,449**	**82,421**	**208,896**
– of which financial	113	–					14,241	14,241	14,354
Taxes receivable	**494,318**	**1,138**					**(117,805)**	**(116,667)**	**377,651**
Deferred tax assets	**2,391,462**	**649,727**	**(104,809)**			**11,410**	**(1,094,239)**	**(537,911)**	**1,853,551**
Other receivables	**1,126,319**	**616,825**	**(622,949)**	**0**	**0**	**5,582**	**(220,284)**	**(220,826)**	**905,493**
Government and other public entities for grants and subsidies	27,129	12,210	(12,210)				844	844	27,973
Other	1,135,134	604,615	(610,739)			5,582	(221,265)	(221,807)	913,327
Allowance for doubtful accounts	(35,944)						137	137	(35,807)
Total	**9,923,295**	**1,056,095**	**(1,838,541)**	**168,705**	**(145,305)**	**(25,216)**	**1,701,993**	**917,731**	**10,841,026**

Trade accounts receivable

euro 3,588,538 thousand

Trade accounts receivable increased by euro 467,529 thousand compared to December 31, 2004 and are shown net of the relative allowance accounts (euro 318,812 thousand, of which euro 145,305 thousand was provided during the year). The item includes euro 583,447 thousand of receivables due from other wireline and mobile telecommunications operators. The increase from the end of 2004 is principally due to the fact that at December 31, 2004 the receivables sold to factoring companies had totaled euro 861,943 thousand whereas at December 31, 2005 the amount is euro 169,450 thousand, as described in the following paragraphs.

Accounts receivable securitization and factoring transactions show the following:

Securitization

The program for the securitization of trade accounts receivable generated by services rendered to Telecom Italia Wireline clientele begun during 2001 has continued during 2005.
The total amount of trade accounts receivable sold under the securitization program during the year is equal to euro 8,926 million and refers to Telecom Italia's receivables from consumer and microbusiness customers. At December 31, 2005, receivables sold amount to euro 828,864 thousand (euro 808,961 thousand at December 31, 2004), of which euro 729,965 thousand is not yet due.
The securitization transaction led to an improvement in the net financial debt of euro 722,571 thousand at December 31, 2005 (euro 785,946 thousand at December 31, 2004).
Furthermore, Telecom Italia posted a short-term financial payable (euro 210,352 thousand) for loans received from TI Securitisation Vehicle S.r.l. out of the excess liquid resources generated by the securitization transaction.

Factoring

In 2005, trade accounts receivable without recourse were sold to leading factoring companies for a total amount of euro 347,310 thousand (of which euro 169,450 thousand at December 31, 2005). Factoring transactions by Telecom Italia in 2005 had a positive impact on the net financial debt at December 31, 2005 of euro 130,795 thousand (euro 841,100 thousand at December 31, 2004).

Accounts receivable from subsidiaries **euro 3,906,897 thousand**

Accounts receivable from subsidiaries include trade, financial and other receivables and increased by euro 1,243,185 thousand, compared to December 31, 2004, principally as a result of higher dividends due from TIM Italia as a result of an increase in the stake held in that company, booked according to the maturity principle.
Financial receivables, equal to euro 588,236 thousand, reflect current account transactions carried out at market rates for cash management purposes and loans. They principally include accounts receivable from Olivetti (euro 440,000 thousand), IT Telecom S.r.l. (euro 67,191 thousand), Telecom Italia Learning Services (euro 35,140 thousand), Path.Net (euro 16,949 thousand) and Matrix (euro 14,042 thousand). Trade accounts receivable (euro 589,880 thousand) relate to TLC services rendered mainly to TIM Italia (euro 187,688 thousand), Telecom Italia Sparkle (euro 63,276 thousand), Path.Net (euro 38,817 thousand), Nuova TIN.it (euro 34,960 thousand) and TI France (euro 34,357 thousand). They also include receivables from Olivetti Multiservice (euro 174,593 thousand) principally in connection with the sale of buildings occupied by network plants.
Other receivables (euro 2,728,781 thousand) mainly include dividends booked under the maturity principle due from TIM Italia (euro 2,051,219 thousand) and Telecom Italia Sparkle (euro 85,000 thousand), receivables from the adoption of the consolidated tax return (euro 375,142 thousand, with euro 372,417 thousand due from TIM Italia) and receivable positions connected with the Group's VAT settlement system (euro 126,800 thousand, with euro 108,102 thousand due from TIM Italia).

Accounts receivable from affiliated companies **euro 208,896 thousand**

Accounts receivable from affiliated companies include trade, financial and other receivables and increased by euro 82,421 thousand compared to December 31, 2004.
Financial receivables total euro 14,354 thousand and reflect current account transactions carried out at market rates for cash management purposes and loans. They refer almost entirely to receivables from Teleleasing (euro 13,993 thousand). Trade accounts receivable total euro 185,072 thousand and refer, in particular, to LI.SIT (euro 102,000 thousand), for the project for the supply of health cards to the Lombardy Region, and Teleleasing (euro 74,850 thousand), for the sale of TLC products and services. Other receivables total euro 9,470 thousand and refer to transactions with LI.SIT (euro 6,967 thousand) and dividends from Tiglio II (euro 2,503 thousand).

Taxes receivable

euro 377,651 thousand

Taxes receivable decreased by euro 116,668 thousand compared to December 31, 2004 principally as a result of the compensation, euro 182,746 thousand, of the prior year's excess IRES taxes receivable with the IRES taxes payable on the consolidated tax return for the year 2005.

Taxes receivable specifically include:

- direct income taxes receivable, euro 311,320 thousand, of which euro 248,367 thousand refers to IRES taxes receivable on the consolidated tax return and euro 49,289 thousand for a higher payment in advance made for IRAP taxes during the year;
- VAT refunds receivable, euro 12,034 thousand;
- other indirect taxes receivable, euro 54,297 thousand, chiefly in reference to the refund receivable for IRPEG, ILOR and IRAP taxes for the years 1997, 1999 and 2000 (euro 31,571 thousand), the refund receivable for ILOR taxes paid in 1991 on earnings reinvested in the south of Italy for which an exemption was filed in the 1992 tax return (euro 17,359 thousand), and the receivable for the refund of 1997 IRPEG taxes regarding TIM (euro 3,333 thousand).

Deferred tax assets

euro 1,853,551 thousand

These are shown net of the reserve for deferred taxes (euro 288,986 thousand).
The nominal tax rates in Italy are 33% for the Corporate Income Tax (IRES), introduced beginning January 1, 2004 by Legislative Decree No. 344/2003, and 4.25% for the Regional Tax on Production Activities (IRAP), calculated on a different taxable base.
Deferred tax assets and liabilities at December 31, 2005 take into account these rates.

The balance of deferred tax assets and liabilities is made up as follows:

	12/31/2004 Amounts due				12/31/2005 Amounts due			
(thousands of euro)	Within 1 year	From 2 to 5 years	Beyond 5 years	Total	Within 1 year	From 2 to 5 years	Beyond 5 years	Total
Deferred tax assets	1,329,119	1,088,587	–	2,417,706	1,860,702	230,769	51,067	2,142,538
Reserve for deferred taxes	(16,575)	(9,668)	–	(26,243)	(52,720)	(187,539)	(48,728)	(288,987)
Net receivable balance	**1,312,544**	**1,078,919**	**–**	**2,391,463**	**1,807,982**	**43,230**	**2,339**	**1,853,551**

Details of the major components, divided by nature, constituting the net receivable balance of deferred tax assets and changes from the prior year are presented in the following table:

(thousands of euro)	12/31/2004	Net effect TIM and TI Data Center merger	Benefit Statement of Operations	Charge Statement of Operations	12/31/2005
Deferred tax assets, details:		**increase**	**increase**	**decrease**	
Reserves for risks and charges	96,890	69,457	128,804	(69,448)	225,703
Allowance for doubtful accounts	82,900	0	115,578	(51,215)	147,263
nvestment writedowns and other	1,730,815	513,484	74,241	(1,134,739)	1,183,801
Tax losses	450,606	0	43,464	0	494,070
Other deferred tax asset items	56,495	3,692	97,260	(65,746)	91,701
Deferred tax liabilities, details:		**increase**	**decrease**	**increase**	
Deferred tax gains	(13,156)	0	12,881	(107,543)	(107,818)
Dividends	(1,202)	0	1,202	(1,403)	(1,403)
Accumulated accelerated depreciation	0	(7,407)	0	(153,512)	(160,919)
Other deferred tax liability items	(11,885)	0	4,965	(11,927)	(18,847)
Total:					
Net balance in balance sheet	**2,391,463**	**579,226**	**478,395**	**(1,595,533)**	**1,853,551**

Specifically, the main items which give rise to deferred taxes are the investment writedowns made in 2002 and 2003 as a result of applying Legislative Decree 209/2002, as well as the residual tax losses from 2003 of Telecom Italia and the merged companies IT Telecom and ISM which, at December 31, 2005, amount in total to euro 1,497,182 thousand and led to the posting of deferred tax assets insofar as their utilization by the expiration date is considered reasonably certain.
During 2005, deferred tax assets were booked for euro 183,099 thousand which, in prior years, had not been booked in that their recoverability was not certain; the corresponding temporary tax differences – which mainly refer to taxed reserves for risks and charges, sundry writedowns and capital grants – will reverse in future years in which there is a reasonable certainty of the existence of future taxable earnings. Therefore, all deferred tax assets have now been booked in the financial statements.
The main items which give rise to the reserve for deferred taxes are accelerated depreciation recorded during the year and the gains realized on the sale of buildings to Olivetti Multiservices, which are deferred for tax purposes.

At December 31, 2005, the company has tax-deferred capital reserves which are subject to taxation in the event of distribution and/or utilization for euro 2,379,664 thousand. No taxes have been set aside on these tax-deferred reserves since no transactions are expected to be entered into that would warrant their distribution or utilization.

Other receivables — euro 905,493 thousand

Other receivables decreased by euro 220,826 thousand compared to December 31, 2004 and particularly refer to the receivable from the Financial Administration (euro 419,885 thousand) for the amount of prior period income recorded in 2004 for the TLC operating fee paid by Telecom Italia for the year 1999, increased by the relative interest earned up to December 31, 2005, credit positions (net of the relative allowance account) due from TI Securitisation Vehicle S.r.l. for the deferred portion of trade accounts receivable securitization transactions (euro 74,915 thousand), receipts from customers in transit with the banking and postal systems (euro 68,548 thousand), employee-related receivables (euro 46,114 thousand); receivables from the Ministry of Industry, Commerce and Handicrafts, the European Union and the Ministry of Instruction, University and Research for grants in respect of research and training projects (euro 27,973 thousand), and advances to suppliers and Group companies (euro 35,549 thousand).

* * *

The breakdown of receivables by geographical area is presented in Annex 6 as required by art. 2427, art. 6 of the Italian Civil Code.

Short-term financial assets — euro 92 thousand

(euro 60 thousand at December 31, 2004)

The composition and changes during the year are shown in the following table:

(thousands of euro)	12/31/2004	Changes during the year				12/31/2005
		Acquisitions	Sales/ reimbursements/other movements	Writedowns/ Writebacks	Total changes	
Equity investments in subsidiaries	52	11	–	29	40	92
Other equity investments	8	–	(8)		(8)	
Total	**60**	**11**	**(8)**	**29**	**32**	**92**

At December 31, 2005, short-term financial assets total euro 92 thousand and refer solely to Telecom Italia Media savings shares purchased for subsequent sale.

Further details are provided in Annex 3

Liquid assets

euro 5,994,301 thousand

(euro 5,424,059 thousand at December 31, 2004)

Liquid assets increased by euro 570,242 thousand compared to December 31, 2004 and are composed of the following:

(thousands of euro)	12/31/2004	Changes during the year			12/31/2005
		TIM merger effect	Spin-off of business segment	Other movements	
Bank and postal accounts	5,423,500	1,784	(3,173)	571,571	5,993,682
Checks	35	–	–	4	39
Cash and valuables on hand	524	334	(356)	78	580
Total	**5,424,059**	**2,118**	**(3,529)**	**571,654**	**5,994,301**

Accrued income and prepaid expenses

euro 316,875 thousand

(euro 550,984 thousand at December 31, 2004)

Accrued income and prepaid expenses decreased by euro 234,109 thousand, compared to December 31, 2004, and include the following:

(thousands of euro)	12/31/2004	Changes during the year: TIM merger effect	Spin-off of business segment	Effects of other mergers	Other changes	12/31/2005
Issue discounts and similar charges	**102,832**	**–**	**–**	**–**	**(27,845)**	**74,987**
Accrued income						
– financial	60,472	4,791	–	–	6,972	72,235
– trade	–	25	–	–	–	25
– other	4,669	–	–	–	(4,669)	–
	65,141	4,816	–	–	2,303	72,260
Other prepaid expenses						
– trade	87,412	51,824	(56,200)	408	13,326	96,770
– financial	270,510	–	–		(222,083)	48,427
– other	25,089	–	–	9	(667)	24,431
	383,011	51,824	(56,200)	417	(209,424)	169,628
Accrued income and other prepaid expenses	**448,152**	**56,640**	**(56,200)**	**417**	**(207,121)**	**241,888**
Total	**550,984**	**56,640**	**(56,200)**	**417**	**(234,966)**	**316,875**

Issue discounts and similar charge

euro 74,987 thousand

“Issue discounts and similar charges” refer to incidental costs on loans (euro 35,422 thousand) and costs relating to the issue of bonds (euro 39,565 thousand).

Accrued income and other prepaid expenses

euro 241,888 thousand

Accrued financial income mainly includes euro 65,869 thousand of income on derivative financial instruments, euro 5,877 thousand of sundry financial income on bank deposits, as well as euro 257 thousand of interest income subsidized until 1991 by the government under Law No. 67/1988, equivalent to three percentage points of the cost of the loans which replaced those assigned to the Company, through Cassa Depositi e Prestiti, under Law No. 887/1984.

Other prepaid expenses mainly pertain to building rents (euro 37,460 thousand), facility fees (euro 24,421 thousand), insurance premiums (euro 30,294 thousand) and rental and maintenance charges (euro 9,727 thousand). They also include financial expenses (euro 45,874 thousand) for the portion of the premium on the repayment of convertible bonds relating to future years. Such expenses decreased by euro 224,636 thousand from December 31, 2004 due to the fact that the repayment premium was no longer due to bondholders that had requested conversion of bonds to shares during the year.

***

A breakdown of receivables and accrued income by maturity and type is presented in Annex 4.

Balance sheets - liabilities and shareholders' equity

Shareholders' equity

euro 21,968,095 thousand

(euro 16,810,562 thousand at December 31, 2004)

Shareholders' equity is composed of the following:

(thousands of euro)	12/31/2004	12/31/2005
Share capital	8,864,857	10,668,132
Additional paid-in capital	120,380	1,669,188
Reserves for inflation adjustments - Law No. 413, 12/30/1991	1,129	1,129
Legal reserve	1,953,494	1,953,494
Reserve for treasury stock in portfolio	2,298	2,298
Miscellaneous reserves		
• Reserve Law No. 488/1992	142,365	103,083
• Reserve L.D. 124/1993, ex art. 13	391	391
• Reserve DPR No. 917/1986, ex art. 74	5,750	5,750
• Reserve for capital grants	510,993	537,727
• Other reserves	4,499	142,374
• Merger surplus reserve	2,188,529	2,010,152
Retained earnings	881,029	989,556
Net income for the year	2,134,848	3,884,821
Total	**16,810,562**	**21,968,095**

Share capital

euro 10,668,132 thousand

The share capital of Telecom Italia S.p.A. at December 31, 2005 amounts to euro 10,668,132 thousand and consists of 13,370,482,156 ordinary shares and 6,026,120,661 savings shares, all with a par value of euro 0.55 each.
Share capital increased by euro 1,803,275 thousand compared to December 31, 2004 due to the following movements:

- conversion of 1,880,757,463 "Telecom Italia 1.5% 2001 - 2010 convertible bonds with a repayment premium" with the issue of 886,876,619 new shares for a par value of euro 487,782 thousand;
- exercise of 3,228,666 stock options set aside for employees of the company with the issue of 10,657,408 new shares for a par value of euro 5,862 thousand;
- issue of 2,150,947,060 ordinary shares, for euro 1,183,021 thousand, and 230,199,592 savings shares for euro 126,610 thousand for the capital increase to service the merger by incorporation of TIM in Telecom Italia.

Furthermore, euro 1,190,779 thousand of the share capital of Telecom Italia is tax-deferred of which euro 404,174 thousand is attributable to the merger of TIM in Telecom Italia. In fact, the upward adjustment reserve of euro 100,347 thousand which was already restricted in the share capital of TIM was transferred to the share capital of Telecom Italia and the realignment reserve ex art. 14, Law 342/2000 of euro 303,827 thousand already in the equity of TIM was attributed, upon the merger, to the share capital of Telecom Italia (art. 172, paragraph 5, second point, TUIR).

Additional paid-in capital

euro 1,669,188 thousand

Additional paid-in capital amounts to euro 1,669,188 thousand at December 31, 2005 with an increase of euro 1,548,808 thousand compared to December 31, 2004. The increase is due to the additional paid-in capital relating to the issue of shares against the conversion of bonds for euro 1,392,976 thousand and the exercise of stock option rights for euro 23,338 thousand. Additional paid-in capital also includes euro 132,494 thousand for the reclassification, from debentures payable, of the repayment premium already earned but not due to bondholders that requested conversion of their bonds to shares during the year.

Reserves for inflation adjustments - Law No. 413, 12/30/1991

euro 1,129 thousand

This reserve remains unchanged compared to December 31, 2004. The reserve was replenished at June 30, 2004 pursuant to the Shareholders' Meeting of May 6, 2004, after the reserve was entirely utilized at December 31, 2003 to cover the loss for the year 2002 of the merging company Olivetti.

Legal reserve

euro 1,953,494 thousand

The reserve is unchanged from December 31, 2004.

Reserve for treasury stock in portfolio

euro 2,298 thousand

The reserve is unchanged from December 31, 2004.

Miscellaneous reserves

euro 2,799,477 thousand

Miscellaneous reserves total euro 2,799,477 thousand at December 31, 2005, with a decrease of euro 53,050 thousand from December 31, 2004. The various components of miscellaneous reserves are analyzed in the following paragraphs.

Reserve Law No. 488/1992: this reserve, equal to euro 103,083 thousand, decreased by euro 39,282 thousand compared to December 31, 2004 as a result of the appropriation of a part of the 2004 profits, as voted by the Shareholders' Meeting held April 7, 2005, in order to obtain the benefits stated in Law 488/92 for the investment projects in the south of Italy (euro 103,083 thousand). The reduction is also due to the amount reclassified to Other reserves (euro 142,365 thousand) after the restrictions that applied for the completion of the investment projects begun in prior years were cancelled.

Reserve L.D. 124/1993, ex art. 13: this reserve, equal to euro 391 thousand at December 31, 2005, is unchanged from December 31, 2004;

Reserve DPR No. 917/1986, ex art. 74: this reserve, equal to euro 5,750 thousand at December 31, 2005, is unchanged from December 31, 2004;

Reserve for capital grants: this reserve, equal to euro 537,727 thousand at December 31, 2005, increased by euro 26,734 thousand compared to December 31, 2004. The increase is due to the transfer of the portion of grants that became available during the year of euro 12,053 thousand from the "reserves for risks and charges" and the reclassification of euro 14,681 thousand from the "Merger surplus reserve" in order to replenish the tax-deferred Reserve for capital grants already booked in the financial statements at December 31, 2004 of the merged company TIM.

Other reserves: these reserves, equal to euro 142,374 thousand at December 31, 2005, consist of the portion of the Reserve Law 488/1992 (euro 142,365 thousand) that was restricted in prior year and which was released when the restrictions on the completion of the investment projects were cancelled, and the Reserve for payments for future capital increases (euro 9 thousand). Other reserves increased by euro 137,875 thousand from December 31, 2004 as a result of the reclassification from the Reserve Law 488/1992, the shares issued in 2005 – against stock option rights exercised and the conversion of bonds in December 2004 (for a total of euro 4,499 thousand) – and new payments following requests for the conversion of bonds during the year (euro 9 thousand).

Merger surplus reserve: this reserve, equal to euro 2,010,152 thousand at December 31, 2005 shows a reduction of euro 178,377 thousand compared to December 31, 2004. The decrease is due to the utilization of this reserve for the replenishment of the Reserve for capital grants of the merged company TIM and for the cancellation deficit on the share exchange resulting from the Telecom Italia and TIM merger transaction (euro 163,696 thousand).

Retained earnings

euro 989,556 thousand

Retained earnings include the appropriation of net income for the year 2003 (euro 881,029 thousand) and for the year 2004 (euro 108,527 thousand) as voted, respectively by the Shareholders' Meetings held May 6, 2004 and April 7, 2005.

In order to complete disclosure on shareholders' equity, the following statements are presented:

- statement showing the reserves subject to restrictions for statutory purposes and the tax treatment applicable in the event of distribution;
- statement prepared according to ex art. 2427, paragraph 7 - bis, showing the items in shareholders' equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in prior years;
- statement of changes in shareholders' equity during the prior year and during 2005.

RESERVES IN SHAREHOLDERS' EQUITY - STATUTORY RESTRICTIONS AND TAX REGIME FOR PURPOSES OF INCOME TAXES

(thousands of euro)	Amounts not subject to statutory restrictions (a)	Amounts subject to statutory restrictions (b)	December 31, 2005 (c)=(a+b)=(d+e+f)	Amounts of reserves which, in the event of distribution, form part of the taxable income of the company (d)	Amounts of other income reserves (e)	Amounts of reserves which, in the event of distribution, do not form part of the taxable income of the company (f)
Reserves and retained earnings						
Additional paid-in capital	1,489,056	180,132	1,669,188	–	–	1,669,188
Legal reserve	–	1,953,494	1,953,494	1,834,667	643	118,184
Reserve for treasury stock in portfolio	–	2,298	2,298	–	2,298	–
Merger surplus reserve	2,010,152	–	2,010,152	–	–	2,010,152
Reserve Law No. 488/92	–	103,083	103,083	–	103,083	–
Reserve, L.D. No. 124/93, ex art. 13	391	–	391	391	–	–
Reserve D.P.R. No. 917/86 ex art. 74	5,750	–	5,750	5,750	–	–
Reserve for capital grants	537,727	–	537,727	537,727	–	–
Reserve for inflation adjustments Law No. 413/91	1,129	–	1,129	1,129	–	–
Other reserves	142,365		142,365	–	122,090	20,275
Payments for future capital increases		9	9			9
Retained earnings	989,556	–	989,556	–	989,556	–
Total reserves and retained earnings	**5,176,126**	**2,239,016**	**7,415,142**	**2,379,664**	**1,217,670**	**3,817,808**

The amount of **distributable reserves** with no tax charges to be borne by the Company is equal to euro 4,631,129 thousand.

Pursuant to art. 109, paragraph 4, letter b) of TUIR, accelerated depreciation was taken in the current year with an off-book deduction with a note on the tax return for euro 441,894 thousand.

This system gives rise to a restriction on all the equity reserves, without distinction, for an amount equal to the off-book deduction net of the relative deferred taxes.
This restriction will remain until such time as the accelerated depreciation is reabsorbed in the accounts.

Pursuant to art. 176, paragraph 5 TUIR, moreover, the transfer of assets with fiscally misaligned values fiscally due to corporate-related transactions carried out with no tax effect also requires the transfer of the relative restriction on the shareholders' equity to the companies that are the beneficiaries of the transaction.

Therefore, taking into consideration the transactions which took place during the year, the financial statement situation regarding the shareholders' equity necessary in order to satisfy the restriction can be illustrated as follows:

(thousands of euro)	
Off-book deductions at 12/31/2004	**196**
2005 Accelerated depreciation Telecom Italia	441,894
Misalignment due to 2005 accelerated depreciation on assets conferred to TIM Italia	(29,991)
Misalignment due to 2005 accelerated depreciation on TI Data Center assets (merged)	19,884
Off-book deductions at December 31, 2005	**431,983**
Deferred taxes (Ires and Irap)	(160,914)
Restriction on shareholders' equity at December 31, 2005	**271,069**

STATEMENT ACCORDING TO EX ART. 2427, NO. 7-BIS OF THE ITALIAN CIVIL CODE

Nature/description (thousands of euro)	Amount	Possibility of utilization	Amount available	Summary of the amounts utilized during the last three years: for absorption of losses	Summary of the amounts utilized during the last three years: for other reasons (*)
Share capital	**10,668,132**				**10,961**
Capital reserves:					
Additional paid-in capital	1,669,188	A, B, C	1,669,188	3,700,751	
Legal reserve	1,952,851	B	0	920,810	
Reserve Law No. 488/92	0	A, B	0		
Reserve, L.D. No. 124/93, ex art. 13	391	A, B, C	391		
Reserve D.P.R. No. 917/86 ex art. 74	5,750	A, B, C	5,750		
Reserve for capital grants	537,727	A, B, C	537,727		
Payments for future capital increases	9	A, B	9		
Miscellaneous reserves	20,275	A, B, C	20,275	28,816	
Merger surplus reserve	2,010,152	A, B, C	2,010,152		
Income reserves:					
Legal reserve	643	B	0		
Revaluation reserve Law No. 413/91	1,129	A, B, C	1,129	1,129	
Reserve for treasury stock in portfolio	2,298	–	0		
Reserve Law No. 488/92	103,083	A, B	103,083		
Miscellaneous reserves	122,090	A, B, C	122,090		
Retained earnings	989,556	A, B, C	989,556		
Total			**5,459,350**	**4,651,505**	**10,961**
Amount not distributable (1)			283,224		
Remaining amount distributable			**5,176,126**		

Key:
A: for share capital increase
B: or absorption of losses
C: for distribution to shareholders
(*) The amounts utilized do not include reclassifications among the various reserves of shareholders' equity.

(1) This represents the amount that is not distributable due to the reserve Law 488/1922 (euro 103.083 thousand), the reserve for payments for future capital increases (euro 9 thousand) and the part of additional paid-in capital necessary to integrate the legal reserve in order for it to reach one-fifth of share capital (euro 180,132 thousand).

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of euro)	Share capital	Additional paid-in capital	Revaluation rreserve Law No. 413/91	Legal reserve	Reserve for treasury stock in portfolio	Reserve Law No. 488/92	Reserve L.D. No. 124/93, ex art. 13	Reserve D.P.R. No. 917/86 ex art. 74	Reserve for capital grants	Payments for future capital increases	Miscella-neous reserves	Merger surplus reserve	Retained earnings	Net income	Total
Balance at January 1, 2004	**8,853,991**	**88,377**	**0**	**1,834,687**	**2,298**	**118,678**	**186**	**5,750**	**498,701**	**0**	**119,012**	**2,188,529**	**0**	**2,645,903**	**16,356,111**
Appropriation of 2003 profit (as voted by the Shareholders' Meeting held May 6, 2004)															
– Declaration of dividends (€ 0.1041 per ordinary share; € 0.1151 per savings share)														(1,740,058)	(1,740,058)
– Other appropriations			1,129			23,687							881,029	(905,845)	
Other changes:															0
– Conversion of 3,881,157 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	671	1,916								1,293					3,880
– Exercise of stock options	10,195	30,087								3,206					43,488
– Reclassification from miscellaneous reserves to adjust the legal reserve to the amount required by law				118,807							(118,807)				
– Exercise of warrants for ordinary shares of Telecom Italia ex Olivetti 1999-2004															0
– Transfer from the "Reserves for risks and charges" of the portion of grants which became available during the period									12,292						12,292
– Reclassification following the replenishment of the tax-deferred reserves of the merged company IT Telecom S.p.A.							205				(205)				0
Net income for the year 2004														2,134,848	2,134,848
Balance at December 31, 2004	**8,864,857**	**120,380**	**1,129**	**1,953,494**	**2,298**	**142,365**	**391**	**5,750**	**510,993**	**4,499**	**0**	**2,188,529**	**881,029**	**2,134,848**	**16,810,562**
Appropriation of 2004 profit (as voted by the Shareholders' Meeting held April 7, 2005):															
– Declaration of dividends (€ 0.1093 per ordinary share; € 0.1203 per savings share)														(1,923,238)	(1,923,238)
– Other appropriations						103,083							108,527	(211,610)	0
– Reclassification to "Miscellaneous reserves" after the restrictions were withdrawn owing to the completion of the investment projects						(142,365)					142,365				0
Other changes:															
– Conversion of 1,880,757,563 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	487,782	1,525,469								(1,284)					2,011,967
– Exercise of stock options	5,862	23,339								(3,206)					25,995
– Reclassification from the "Reserve for payments for future capital increases" for the bond conversions															0
– Issue of 2,150,947,060 ordinary shares and 230,199,592 savings shares for the capital increase to service the Telecom Italia/TIM merger	1,309,631														1,309,631
– Transfer from the "Reserves for risks and charges" of the portion of grants which became available during the period									12,053						12,053
– Reclassification to reinstate the tax-deferred reserves of the merged company TIM									14,681			(14,681)			
– Reclassification to cancel the exchange deficit relating to the Telecom Italia/TIM merger												(163,696)			(163,696)
Net income for the year 2004														3,884,821	3,884,821
Balance at December 31, 2005	**10,668,132**	**1,669,188**	**1,129**	**1,953,494**	**2,298**	**103,083**	**391**	**5,750**	**537,727**	**9**	**142,365**	**2,010,152**	**989,556**	**3,884,821**	**21,968,095**

The following table shows the future potential change in share capital by reason of the convertible bonds and options in the stock option plans still outstanding at December 31, 2005:

	Outstanding bonds/option rights at December 31, 2005	Conversion/ grant ratio	No. of maximum shares issuable	Par value (thousands of euro)	Additional paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases voted (ord. shares)						
"Telecom Italia 1.5% 2001 - 2010 bonds"	506,707,677	0.471553	238,939,525	131,417	375,291	
Stock Option Plan 2000	10,699,996.00	3.300871	35,319,216	19,426	128,394	4.185259
Stock Option Plan 2001	31,862,500.00	3.300871	105,173,383	57,845	276,327	3.177343
Stock Option Plan 2002 Top	9,480,001.33	3.300871	31,292,243	17,211	70,034	2.788052
Stock Option Plan 2002	20,624,053.93	3.300871	68,076,920	37,442	160,656	
of which grants March 2002	19,905,053.50	3.300871	65,703,601	36,137	156,244	2.928015
grants August 2002	719,000.43	3.300871	2,373,319	1,305	4,412	2.409061
Stock Option Plan 2000-2002 - ex-TIM	11,735,653.00	1.73	20,302,679	11,166	64,176	3.710983
Stock Option Plan 2002-2003 - ex-TIM	22,025,000.00	1.73	38,103,250	20,957	103,925	3.277457
Stock Option Plan 2003-2005 - ex-TIM	1,915,900.00	1.73	3,314,507	1,823	7,891	2.930636
Total additional increases voted (ord. shares)			**540,521,723**	**297,287**	**1,186,694**	
Additional increases not yet voted (ord. shares)			**1,600,000,000**	**880,000**		

With regard to the "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the number of bonds outstanding at December 31, 2005 includes 8,591 bonds for which the conversion to shares has already been requested. On January 13, 2006, the corresponding 4,049 ordinary shares were issued for a total par value of euro 2.2 thousand, in addition to additional paid-in capital of euro 6.4 thousand.

Additional details on the stock option plans are provided in the Report on Operations.

Lastly, the May 6, 2004 Shareholders' Meeting also gave the directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part

(i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the option rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the Board is not subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

Reserves for risks and charges

euro 1,039,931 thousand

(euro 947,950 thousand at December 31, 2004)

The reserves for risks and charges increased by euro 91,981 thousand, compared to December 31, 2004. The composition and changes in these reserves are described as follows:

	12/31/2004	Changes during the year							12/31/2005
(thousands of euro)		TIM merger effect	Spin-off of business segment	Effects of other mergers	Provision	Utilization	Release to statement of ooperations	Reclassifi–cations/ other	
Reserve for pensions and similar obligations	–	2,989	(2,989)	–	419	(46)	–	4,499	4,872
Reserve for taxes and reserve for deferred taxes	168,547	95,388	(136,979)	–	264,306	(48,633)	–	(203,050)	139,579
Other reserves	779,403	341,982	(130,127)	427	229,431	(167,732)	(145,853)	(12,051)	895,480
Reserve for litigation	126,061	1,023	(1,023)	117	19,143	(26,637)	–	(2,274)	116,410
Reserve for capital grants	76,584	–	–	–	–	–	–	(12,052)	64,532
Reserve for losses of subsidiaries and affiliated companies	95,025	–	–	–	8,529	(88,612)	(821)	659	14,780
Reserve for corporate restructuring	47,951	19,520	(5,588)	310	188,008	(29,800)	–		220,401
Reserve for contractual risks and other risks	433,782	321,439	(123,516)	–	13,751	(22,683)	(145,032)	1,616	479,357
Total	**947,950**	**440,359**	**(270,095)**	**427**	**494,156**	**(216,411)**	**(145,853)**	**(210,602)**	**1,039,931**

Reserve for pensions and similar obligations

The reserve for pensions and similar obligations amounts to euro 4,872 thousand and refers to the customer supplementary indemnity representing the portion of indemnity due and payable to representative agents upon termination of the contractual relationship.

Reserve for taxes and reserve for deferred taxes

These reserves amount to euro 139,579 thousand and decreased by euro 28,968 thousand compared to December 31, 2004 mainly as a result of the conclusion of the dispute with Olivetti over the usufruct of shares.

Other reserves

Other reserves amount to euro 895,480 thousand and increased by euro 116,077 thousand compared to December 31, 2004.

In particular:

- utilization of the reserve for losses of subsidiaries and affiliated companies mainly to cover the losses and recapitalize the capital of Latin American Nautilus (euro 21,752 thousand) and to cover the losses of Mediterranean Nautilus up to December 31, 2004 (euro 55,214 thousand) after the purchase, from FTT INVESTMENTS B.V. under the settlement agreement, of a 26.79% interest in the same Mediterranean Nautilus;
- provision to the reserve for corporate restructuring relating to the employee termination incentive plan and extraordinary mobility initiated by the Company at the end of the year;
- the reserve for contractual risks and other risks includes euro 90,701 thousand of guarantees still existing at December 31, 2005, provided to the financing banks of Avea. This reserve, which came from the merged company TIM, was released to the statement of operations in 2005 for euro 107,567 thousand as a result of both the adjustment to the year-end exchange rate and the cancellation of a part of the guarantees. The reserve for contractual risks also includes euro 115,000 thousand for the fine levied on Telecom Italia by the Antitrust Authority for the alleged abuse of a dominant position. The reserve, set up in 2004 for euro 152,000 thousand, was released to the statement of operations for euro 37,000 thousand, following the decision of the Council of State on February 10, 2006 to reduce the fine.

Reserve for employee severance indemnities

euro 1,109,942 thousand

(euro 1,042,919 thousand at December 31, 2004)

The reserve for employee severance indemnities increased by euro 67,023 thousand compared to December 31, 2004. The amount and changes during the year are presented below:

(thousands of euro)	
Balance at December 31, 2004	**1,042,919**
TIM merger	104,974
Spin-off of business segment	(106,931)
Effects of other mergers	10,264
Changes during the year:	
– Provisions charged to income for amounts to fund employee severance indemnities accrued in favor of employees during the year plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	139,813
– Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the year	(45,301)
• Advances	(16,323)
• Supplementary benefits (Telemaco)	(17,093)
• Equalization tax on the revaluation of the reserve	(2,791)
– Transfers to/from subsidiaries and other movements	411
Balance at December 31, 2005	**1,109,942**

Liabilities

euro 56,416,277 thousand

(euro 43,296,181 thousand at December 31, 2004)

Liabilities increased by euro 13,120,096 thousand, compared to December 31, 2004. Details are as follows:

	12/31/2004	**Changes during the year**				**12/31/2005**
(thousands of euro)		**TIM merger effect**	**Spin-off of business segment**	**Effects of other mergers**	**Other movements**	
Debentures	12,701,250	–	–	–	2,647,000	15,348,250
Convertible debentures	2,824,947	–	–	–	(2,225,125)	599,822
Due to banks	905,643	24	(44)	–	8,430,364	9,335,987
Due to other lenders	1,044,721	18,373	(2,460)	–	(532,232)	528,402
Advances	32,584	–	–	–	14,523	47,107
Trade accounts payable	2,032,076	2,480,250	(2,046,830)	167,844	(501,334)	2,132,006
Accounts payable to subsidiaries	20,728,306	(1,250,255)	(109)	(151,135)	6,405,329	25,732,136
Accounts payable to affiliated companies	224,859	3,166	(4,637)	–	(170,945)	52,443
Taxes payable	265,868	102,085	(91,650)	2	45,889	322,194
Contributions to pension and social security institutions	568,365	20,886	(19,342)	87	(52,897)	517,099
Other payables	1,967,562	613,273	(525,594)	4,152	(258,562)	1,800,831
Total	**43,296,181**	**1,987,802**	**(2,690,666)**	**20,950**	**13,802,010**	**56,416,277**

Debentures

euro 15,348,250 thousand

Debentures include the following:

– bonds for euro 9,549,940 thousand issued under the "Global Medium Term Note Programme" as follows:
  - bonds for euro 2,500,000 thousand, issued on February 1, 2002, divided into two tranches of euro 1,250,000 thousand each, at annual fixed rates, respectively, with a coupon of 5.625% maturing on February 1, 2007 and a coupon of 6.250% maturing on February 1, 2012;
  - bonds for euro 3,000,000 thousand, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000,000 thousand, with an annual coupon indexed to the 3-month Euribor + 33 basis points, maturing October 29, 2007; the second, for euro 750,000 thousand, with an annual fixed-rate coupon of 4.50%, maturing on January 28, 2011; the third, for euro 1,250,000 thousand, with an annual fixed-rate coupon of 5.375%, maturing on January 29, 2019;

- bonds for euro 110,000 thousand issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor rate + 0.60%, maturing March 30, 2009;
- bonds for GBP 850,000 thousand (equivalent to euro 1,240,333 thousand) issued on June 24, 2004, with a coupon of 6.375%, maturing June 24, 2019;
- bonds for GBP 500,000 thousand (equivalent to euro 729,607 thousand) issued on June 29, 2005, with a coupon of 5.625%, maturing December 29, 2015;
- bonds for euro 120,000 thousand issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.66%, maturing November 23, 2015;
- bonds for euro 850,000 thousand issued on March 17, 2005, with a coupon of 5.25%, maturing March 17, 2055;
- bonds for euro 1,000,000 thousand issued on November 29, 2005 with a quarterly coupon equal to the 3-month Euribor + 0.53%, maturing December 6, 2012;

– 2002-2022 bonds for euro 248,310 thousand reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy. The 20-year bonds, with a nominal amount of euro 50 each, issued at the nominal amount, are not listed and can only be traded with Telecom Italia at the nominal amount. The semiannual interest is payable in arrears on January 1 and July 1 of every year and is indexed to the 6-month Euribor;

– 2002-2012 bonds for euro 2,500,000 thousand originally subscribed to by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance effective June 1, 2004), with a fixed-rate coupon of 7.375% (issued June 26, 2002);

– 2002-2012 bonds for euro 1,400,000 thousand originally subscribed to by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance effective June 1, 2004), with a fixed-rate coupon of 6.625% (issued December 23, 2002);

– 2001-2011 bonds for euro 1,500,000 thousand subscribed to by Telecom Italia Finance, with a fixed-rate coupon of 7.250% (issued May 31, 2001);

– 2001-2011 bonds for euro 150,000 thousand subscribed to by Telecom Italia Finance, with a fixed-rate coupon of 6.875% (issued December 28, 2001).

Convertible debentures **euro 599,822 thousand**

Details are as follows:

(thousands of euro)	12/31/2004	Changes during the year	12/31/2005
Telecom Italia 1.5% 2001-2005 convertible bonds with a repayment premium			
· residual nominal amount	2,386,173	(1,879,474)	506,699
· repayment premium	438,774	(345,651)	93,123
Total	**2,824,947**	**2,225,125**	**599,822**

For an analysis of the change in bonds, reference should be made to the comments on Share capital, Additional paid-in capital and Miscellaneous reserves under Shareholders' equity.

Due to banks **euro 9,335,987 thousand**

Due to banks increased by euro 8,430,344 thousand, compared to December 31, 2004. They include medium/long-term debt totaling euro 8,847,943 thousand and short-term borrowings amounting to euro 488,044 thousand, relating to bank overdrafts. In particular, the medium/long-term amounts due to banks include the loan made by a syndicate of banks to service the cash tender offer for TIM ordinary and savings shares under the Telecom Italia/TIM merger. At December 31, 2005, this loan amounts to euro 7,500,000 thousand after the repayment, in October 2005, of euro 1,500,000 thousand.

Due to other lenders **euro 528,402 thousand**

Due to other lenders decreased by euro 516,319 thousand, compared to December 31, 2004. They consist of medium/long-term financing totaling euro 250,705 thousand and short-term loans payable amounting to euro 277,697 thousand.

Medium/long-term financing principally refers to liabilities for transactions in derivatives (euro 143,162 thousand) put into place with various banks to hedge loans made by subsidiaries, loans made by Cassa Depositi e Prestiti (euro 101,038 thousand), and by the Fondo per l'innovazione tecnologica (euro 69,288 thousand).
Short-term loans refer almost entirely to loans made by TI Securitisation Vehicle S.r.l. deriving from excess cash resources generated by securitization transactions.

Trade accounts payable — euro 2,132,006 thousand

Trade accounts payable increased by euro 99,930 thousand compared to December 31, 2004. The balance includes euro 349,637 thousand due to other telecommunications operators.

Accounts payable to subsidiaries — euro 25,732,136 thousand

Accounts payable to subsidiaries increased by euro 5,003,830 thousand, compared to December 31, 2004, principally as a result of the increase in payables for short-term deposits, in particular, to TIM Italia and consist of financial payables, trade accounts payable and other payables. Financial payables (euro 24,725,805 thousand) refer to current account transactions negotiated at market rates for cash management purposes and above all to loans payable to Telecom Italia Finance (euro 12,457,948 thousand), Telecom Italia Capital (euro 8,058,693 thousand), TIM Italia (euro 3,236,460 thousand), Telecom Italia Media (euro 430,420 thousand) and Telecom Italia Sparkle (euro 352,176 thousand). Trade accounts payable (euro 464,105 thousand) mainly consist of accounts payable to TIM Italia (euro 155,980 thousand), Telecom Italia Sparkle (euro 140,662 thousand) and Nuova TIN.It (euro 39,134 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, Telecom Italia Learning Services (euro 22,983 thousand), Telecontact (euro 19,245 thousand) and Olivetti (euro 17,105 thousand) for supply transactions. Other payables (euro 542,226 thousand) mainly refer to the adoption of the consolidated national tax return procedure (euro 252,934 thousand) and the amount due to Telecom Italia Media (euro 106,884 thousand), Olivetti (euro 53,944 thousand) and LA 7 (euro 55,459 thousand). They also include payables to Olivetti Multiservice (euro 138,589 thousand) in connection with the Group VAT procedure and to IT Telecom S.r.l (euro 74,750 thousand) for adjustment on the partial spin-off of the company operations for the management of the data centers to Telecom Italia Data Center and the subsequent merger of the latter company in Telecom Italia.

Accounts payable to affiliated companies — euro 52,443 thousand

Accounts payable to affiliated companies decreased by euro 172,416 thousand, compared to December 31, 2004 and refer almost entirely to trade accounts payable (euro 52,255 thousand). They particularly refer to supply transactions with Share Service Center (euro 13,859 thousand), Siemens Informatica (euro 25,933 thousand) and Teleleasing (euro 5,848 thousand).

Taxes payable — euro 322,194 thousand

Taxes payable increased by euro 56,326 thousand, compared to December 31, 2004, and mainly refer to VAT payables for euro 282,244 thousand, withholding taxes payable to the Italian Treasury as the substitute taxpayer for euro 16,649 thousand and other taxes payable for euro 14,393 thousand.

Contributions to pension and social security institutions — euro 517,099 thousand

Contributions to pension and social security institutions decreased by euro 51,266 thousand, compared to December 31, 2004. Contributions to pension and social security institutions decreased by euro 402,081 thousand payable to INPS for the estimated pension fund integration charges pursuant to Law No. 58/1992, described under the accounting policies.

Other liabilities — euro 1,800,831 thousand

Other liabilities decreased by euro 166,731 thousand, compared to December 31, 2004. They include, in particular, liabilities for:

- customer-related items totaling euro 1,051,056 thousand, comprising, among other things, deposits by subscribers against telephone conversations and pre-billed basic charges;
- employee-related items amounting to euro 503,244 thousand;
- lease installments amounting to euro 28,109 thousand.

Accrued expenses and deferred income

euro 1,814,562 thousand

(euro 1,631,429 thousand at December 31, 2004)

Accrued expenses and deferred income increased by euro 183,133 thousand, compared to December 31, 2004, and include the following:

	12/31/2004	Changes during the year				12/31/2005
(thousands of euro)		TIM merger effect	Spin-off of business segment	Effects of other mergers	Other changes	
Accrued expenses						
• trade	86	–	(1,686)	–	1,642	42
• financial	1,027,506	53	(80)	–	74,629	1,102,108
	1,027,592	53	(1,766)	–	76,271	1,102,150
Deferred income						
• trade	502,689	3,760	(2,615)	–	74,243	578,077
• financial	4,409	550	(513)	102	(235)	4,313
• other	96,739	6,150	(5,997)	–	33,130	130,022
• of which capital grants and investment grants	91,569	6,150	(5,997)	–	(10,268)	81,454
	603,837	10,460	(9,125)	102	107,138	712,412
Total	**1,631,429**	**10,513**	**(10,891)**	**102**	**183,409**	**1,814,562**

Accrued expenses refer to lease payments.
Accrued financial expenses mainly regard interest on long-term loans from subsidiaries (euro 414,291 thousand), interest on bonds (euro 524,149 thousand), as well as interest on derivative financial transactions (euro 81,836 thousand).

Deferred income mainly includes pre-billed basic subscriber charges, rentals and maintenance of telephone equipment (euro 243,654 thousand), interconnecting fees and line lease revenues from Telecom Italia Sparkle and TIM Italia, the unavailable portion of capital grants received after December 31, 1992 and financial items principally connected with loans to employees.

* * *

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 5.

Disclosure required by art. 2427, art. 6 of the Italian Civil Code regarding the breakdown of liabilities by geographical area is presented in Annex 6.

Memorandum accounts

Memorandum accounts total euro 32,871,407 thousand at December 31, 2005 and can be analyzed as follows:

Guarantees provided **euro 28,243,801 thousand**

Guarantees provided mainly consist of sureties (net of counter-guarantees received totaling euro 511,968 thousand), of which euro 27,848,332 thousand is provided on behalf of subsidiaries, euro 239,651 thousand on behalf of affiliated companies and euro 122,764 thousand on behalf of others. They also include other guarantees (euro 33,054 thousand) provided on behalf of Digitel. The guarantees are provided mainly in respect of the bonds issued by Telecom Italia Finance (under the Global Medium Term Note Programme) for euro 18,960,482 thousand, by Telecom Italia Capital for euro 8,618,116 thousand, and other medium/long-term financial transactions and supply contracts.

Purchases and sales commitments **euro 4,566,255 thousand**

This item consists of commitments for purchases of euro 4,124,720 thousand and commitments for sales of euro 441,535 thousand.
Commitments for purchases particularly include:
– 9- to 21-year future lease obligations on buildings equal to euro 3,946,774 thousand;
– other future lease obligations, increased by the purchase option (euro 138,567 thousand).

Commitments for sales refer to the commitment to sell buildings to the subsidiary Olivetti Multiservice (euro 439,962 thousand) under the plan for the reorganization of the physical spaces occupied by the network plants which call for gradually freeing the part of the buildings used for these plant , as well as the commitment to sell the investment in LI.SIT. to Lombardia Informatica for euro 1,573 thousand, at the expiry of the contract (September 15, 2009).

Other memorandum accounts **euro 61,351 thousand**

Other memorandum accounts specifically refer to assets of third parties on loan, on deposit for safekeeping and securities of third parties held as guarantees.

* * *

Moreover:
- the company issued weak letters of patronage totaling euro 346,381 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance polices, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amount to euro 354,719 thousand, and mainly consist of equipment leased to customers and the shares of the investments in Tiglio 1 (euro 90,738 thousand) and Tiglio II (euro 14,190 thousand) pledged to the lending banks of those two companies;
- guarantees provided by others for company obligations amount to euro 1,921,999 thousand and refer to sureties provided by third parties for loans (euro 1,609,924 thousand) and guarantees for the proper performance of contractual obligations (euro 312,075 thousand). The amount includes, in particular, euro 816,668 thousand relative to sureties provided by BBVA, euro 315,000 provided by Sanpaolo IMI and euro 73,500 thousand provided by Sumitomo on behalf of EIB for loans made by EIB for the TIM Mobile Network Project;
- the shares of employees and shareholders deposited at December 31, 2005 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., are equal to euro 3,003,519 thousand, those awaiting assignment total euro 589 thousand, while the amount of shares held by the dealers of TIM Italia is equal to euro 2,864 thousand;
- the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting held June 21, 1999, amounts to euro 1,997 thousand at December 31, 2005.

Derivative financial instruments

Transactions in derivative financial instruments at December 31, 2005 include combined cross currency & interest rate swaps (to convert some loan contracts in British pounds, U.S. dollars and Japanese yen to euro) and interest rate swaps (to covert loans originally at floating interest rates to fixed interest rates or vice-versa and to convert the indexing of debt linked with domestic parameters to the 6-month Euribor).

The following tables show the notional amounts and the mark-to-market (clean price) amounts of derivative transactions put into place by the Telecom Italia S.p.A. at December 31, 2005:

Description	Notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (equivalent amount of euro 153 million at December 31, 2005)	150	2
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. bonds of GBP 850 million (equivalent amount of euro 1,242 million at December 31, 2005) issued in June 2004	1,289	–31
CCIRS transactions on the floating-rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A. on the 5-year tranche of USD 1,000 million (equivalent amount of euro 848 million at December 31, 2005) on the total of USD 4,000 million issued by Telecom Italia Capital S.A. in October 2003	850	–4
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on bonds of JPY 20 billion (equivalent amount of euro 144 million at December 31, 2005) carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2032)	171	–58
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million carried by Telecom Italia S.p.A. (2004-2009)	110	1
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the five-year tranche C relating to the Term Loan of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A.	3,000	12
CCIRS transactions on the floating-rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A. on the 10-year tranche of USD 2,000 million (equivalent amount of euro 1,695 million at December 31, 2005) on bonds for a total of USD 4,000 million issued by Telecom Italia Capital S.A. in October 2003	1,709	–145
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million carried by Telecom Italia S.p.A. (2004-2015)	120	0
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 730 million at December 31, 2005) issued by Telecom Italia S.p.A. in June 2005	751	–7
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 144 million at December 31, 2005) originally received from Olivetti International Finance N.V. and now carried by Telecom Italia Finance S.A.	174	–91
CCIRS transactions on the floating-rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A. on the 30-year tranche of USD 1,000 million (equivalent amount of euro 848 million at December 31, 2005) bonds for a total of USD 4,000 million issued by Telecom Italia Capital S.A. in October 2003	849	–203
Floating-to-floating rate IRS transactions put into place by Telecom Italia S.p.A.	41	0
Foreign exchange transactions	40	-2
Total	**9,254**	**–526**

- on the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. put into place a CCIRS contract for euro 150 million converting a 3-month Libor in USD to the 3-month Euribor;
- on the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor;
- for euro 850 million on the intragroup loan, received from the subsidiary Telecom Italia Capital S.A., after the bonds issued in October 2003 for a total amount of USD 4,000 million, Telecom Italia S.p.A. put into place CCIRS transactions converting the floating rate in USD to the 3-month Euribor;
- for euro 171 million with reference to the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V., Telecom Italia S.p.A. put into place a CCIRS contract on a floating rate intragroup loan in JPY in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.
- on the bonds 2004-2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put into place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%;
- in reference to the term loan for a total amount of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put into place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010;
- CCIRS transactions put into place by Telecom Italia S.p.A. for euro 1,709 million on the floating rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A., after bonds were issued in October 2003 for a total amount of USD 4,000 million, converting it into a fixed rate in euro of 5.035%;
- on the bonds of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put into place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%;
- on the bonds 2005-2015 of GBP 500 million (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put into place CCIRS contracts converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro;
- for euro 174 million, with reference to the "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of + 0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., now carried by Telecom Italia Finance S.A., equivalent to euro 144 million at December 31, 2005, the following was put into place:
  - by Telecom Italia S.p.A., a CCIRS in which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor.
  - by Telecom Italia S.p.A., an IRS with the conversion of the semiannual floating rate in euro to a 6.94% fixed rate up to maturity.
- CCIRS transactions put into place by Telecom Italia S.p.A. for euro 849 million on the floating rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A., after bonds were issued in October 2003 for a total amount of USD 4,000 million, converting it into a fixed rate in euro of 6%;
- floating-to-floating rate IRS transactions put into place by Telecom Italia S.p.A. for a notional amount of euro 41 million refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor;
- foreign exchange transactions carried by Telecom Italia S.p.A. amount to euro 40 million.

The following table shows the derivative financial instruments carried by Telecom Italia S.p.A. by type:

Type	Hedged risk	Notional amount in millions of euro	Mark to Market Spot (Clean Price) at December 31, 2005 in millions of euro	Mark to Market Spot (Clean Price) at December 31, 2004 in millions of euro
Interest rate swaps	Interest rate risk	3,271	13	12
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	5,943	–537	–929
Foreign exchange transactions	Foreign currency exchange rate risk	40	–2	0
Total derivatives		**9,254**	**–526**	**–917**

Statements of operation

Production value

euro 17,716,222 thousand

(euro 16,921,960 thousand in 2004)

Production value includes the following captions:

Sales and service revenues

euro 17,219,633 thousand

Sales and service revenues increased by euro 1,093,342 thousand compared to 2004.
The increase is principally due to revenues of the merged company TIM (euro 1,269,558 thousand) relating almost entirely to traffic revenues for the months of January and February 2005.
Revenues are shown gross of the revenue portion due to other operators (euro 3,121,187 thousand), which are included in costs for "services".

The breakdown of revenues by business segment, expressly required by art. 2427, point 10, of the Italian Civil Code, is presented in the following table, while the breakdown of revenues by geographical area, also required by the same article of the Italian Civil Code, is presented in Annex 6:

Breakdown by business segment

(thousands of euro)	2005	2004	Change
Sales:			
– telephone products	929,521	726,292	203,229
– other goods	402	8,529	(8,127)
	929,923	**734,821**	**195,102**
Services:			
– traffic	7,282,954	6,536,700	746,254
– basic subscription charges	8,038,913	7,917,676	121,237
– fees	322,270	385,068	(62,798)
– miscellaneous income	645,573	552,026	93,547
	16,289,710	**15,391,470**	**898,240**
Total	**17,219,633**	**16,126,291**	**1,093,342**

Traffic revenues are detailed as follows:

(thousands of euro)	2005	2004	Change
• Retail traffic:			
– phone	4,545,491	4,989,746	(444,255)
– internet (online dial up and ADSL)	548,052	529,231	18,821
– data and other retail traffic	231,706	234,975	(3,269)
	5,325,249	**(5,753,952)**	**(428,703)**
• National wholesale traffic	800,460	782,748	17,712
• TIM contribution 1/1- 2/28/2005	1,157,245	–	1,157,245
Total	**7,282,954**	**6,536,700**	**746,254**

Revenues from basic subscription charges are detailed below:

(thousands of euro)	2005	2004	Change
• Retail subscription charges:			
– phone	4,975,374	5,045,144	(69,770)
– ADSL	472,250	367,444	104,806
– data and other retail subscription charges	1,455,854	1,417,085	38,769
	6,903,478	**6,829,673**	**73,805**
• National wholesale subscription charges	1,169,153	1,088,003	81,150
• TIM contribution 1/1- 2/28/2005	(33,718)	–	(33,718)
Total	**8,038,913**	**7,917,676**	**121,237**

Revenues from fees to activate service are detailed below:

(thousands of euro)	2005	2004	Change
• Retail fees:			
– phone	142,590	157,906	(15,316)
– ADSL	42,458	76,195	(33,737)
– data and other retail fees	39,285	52,756	(13,471)
	224,333	**286,857**	**(62,524)**
• National wholesale fees	95,552	98,211	(2,659)
• TIM contribution 1/1- 2/28/2005	2,385	–	2,385
Total	**322,270**	**385,068**	**(62,798)**

Revenues from sales (euro 929,923 thousand) increased by euro 195,102 thousand compared to 2004, mainly driven by the development of new products (particularly Aladino cordless phones and Web services) and the sales channel.
The increase was also impacted by the sales of mobile telephone products of the merged company TIM for the months of January and February 2005 for euro 37,569 thousand, the sales of phone products (+euro 45,428 thousand) and the sales of products for data services (+euro 105,947 thousand).

Miscellaneous income includes euro 103,068 thousand of income from the recharging of telephone cards of the merged company TIM recorded in January and February 2005.

Changes in inventory of contract work in process – euro 11,183 thousand

Changes in inventory of contract work in process represents the increase for new work (in particular, for LI.SIT., relating to the health cards for the Lombardy Region) and the decrease on the contracts already concluded.

Increases in capitalized internal construction costs euro 284,018 thousand

These consist entirely of capitalized labor costs. Increases in capitalized internal construction costs decreased by euro 317,214 thousand compared to 2004. The change is due to the fact that, following the merger by incorporation of IT Telecom in Telecom Italia on December 31, 2004, starting in 2005, the capital accounts were directly charged with the external costs which, in 2004, had been incurred by the merged company IT Telecom and which gave rise, upon the merger, to internal capitalizations.

Other revenues and income euro 223,754 thousand

Other revenues and income increased by euro 11,614 thousand compared to 2004.
They include the following:

(thousands of euro)	2005	2004	Change
Operating grants	4,909	7,660	(2,751)
Gains on disposal of assets used in the production process	8,065	4,914	3,151
Reimbursements of costs for employees on loan at Group companies	16,658	23,725	(7,067)
Capital grants recorded in income	13,285	19,524	(6,239)
Late payment fees	94,100	76,302	17,798
Recovery of centralized expenses	30,189	28,990	1,199
Release of reserves following the OTE settlement	23,254	–	23,254
Compensation, reimbursements, recoveries and other miscellaneous income	33,294	51,025	(17,731)
Total	**223,754**	**212,140**	**11,614**

Production costs

euro 13,355,559 thousand

(euro 12,687,885 thousand in 2004)

Production costs include the following:

Raw materials, supplies and merchandise

euro 775,342 thousand

Raw materials, supplies and merchandise increased by euro 160,837 thousand compared to 2004 (euro 614,505 thousand). The increase is mainly due to higher purchases of inventory materials (+euro 149,433 thousand), of which euro 77,210 thousand is from the merged company TIM.

They principally include "costs for purchases of telephone equipment to be resold to customers" for euro 345,389 thousand, "costs for purchases of inventory materials" for euro 375,533 thousand, "costs for purchases of materials for the management of corporate assets" for euro 28,204 thousand and "costs for purchases of supply materials" for euro 19,365 thousand.

Services

euro 5,629,994 thousand

Costs for services increased by euro 242,295 thousand compared to 2004 principally as a result of the costs of the merged company TIM (euro 246,229 thousand).

They consist of the following:

(thousands of euro)	2005	2004	Change
Advertising and promotion	154,460	154,617	(157)
Selling expenses	342,801	268,898	73,903
Maintenance	132,139	219,696	(87,557)
Professional and consulting fees	323,021	356,042	(33,021)
Electricity	192,485	166,156	26,329
Telephone bill mailing expenses	55,827	42,971	12,856
Outsourcing costs	334,752	368,988	(34,236)
Interconnection costs	34,343	34,993	(650)
Insurance	25,994	27,896	(1,902)
Amounts due to other operators	3,121,187	3,024,020	97,167
Distribution and logistics expenses	73,232	49,359	23,873
Meal tickets	57,448	59,258	(1,810)
Travel and lodging	54,339	67,709	(13,370)
Centralized expenses recharged to subsidiaries	29,691	29,303	388
Company security	34,595	17,620	16,975
Training	19,472	15,547	3,925
Bank and postal service commissions	35,445	36,935	(1,490)
Other services	608,763	447,691	161,072
Total	**5,629,994**	**5,387,699**	**242,295**

In particular, the following is mentioned:

- the increase in selling expenses is principally due to the costs of the merged company TIM for commissions paid to agents and salesmen and other expenses connected with sales (euro 64,732 thousand);
- the decrease in maintenance expenses is principally due to the effects of the merger with IT Telecom; in fact, as a result of the merger, such expenses are now borne internally;
- the decrease in professional and consulting fees is partly due to the above merger with IT Telecom. In 2004, in fact, the caption had included information technology services carried out by IT Telecom which, in 2005, have been performed internally;
- the increase in amounts due to other operators for telecommunications services is principally in relation to the amount to be paid to other operators by the merged company TIM (euro 84,681 thousand);
- the increase in other services is attributable to the costs of the merged company TIM, costs for the purchase of intellectual property rights regarding research and development projects from Olivetti and costs connected with the purchase of the Emsa Servizi S.p.A. corporate operations on January 1, 2005.

Use of property not owned

euro 667,928 thousand

Costs for the Use of property not owned increased by euro 47,035 thousand compared to 2004 principally due to the addition of the costs of the merged company TIM (euro 38,802 thousand), referring almost entirely to building rents.
These costs consist of:

(thousands of euro)	2005	2004	Change
Rentals	518,430	471,401	47,029
Hires	87,964	120,783	(32,819)
Lease installments	28,646	21,713	6,933
Other	32,888	6,996	25,892
Total	**667,928**	**620,893**	**47,035**

In particular, the decrease in hire costs is due to the elimination of hardware and software rent payments to the merged company IT Telecom; the increase in other costs can be ascribed to the purchase of the television rights to broadcast Serie A and B games on the Rosso Alice portal.

Personnel costs

euro 2,631,034 thousand

Personnel costs increased by euro 9,612 thousand compared to 2004. They comprise "wages and salaries" (euro 1,844,274 thousand), "social security contributions" (euro 592,156 thousand), "employee severance indemnities" (euro 139,813 thousand), "other costs" (euro 50,944 thousand) and "temp work" expenses (euro 3,847 thousand). Personnel costs include the costs of employees on loan to other Group companies (euro 16,658 thousand) and recovered from the same Group companies; the income from the recovery of such costs is recorded in "*Other revenues and income*".
A comparative breakdown of the average number of employees by professional category in 2005 and 2004 is presented as follows:

	2005	2004
Executives	1,009	1,005
Middle management	2,644	2,573
Clerical staff	49,163	49,848
Technicians	144	233
Headcount on the payroll	**52,960**	**53,659**
Temp work employees	148	290
Total headcount	**53,108**	**53,949**

Amortization, depreciation and writedowns

euro 3,232,592 thousand

Details of this caption are provided as follows:

Amortization of intangible assets

euro 883,137 thousand

Amortization of intangible assets increased by euro 211,794 thousand, compared to 2004, and refers to the following assets:

(thousands of euro)	2005	2004	Change
Start-up and expansion costs	11,645	11,557	88
Industrial patents and intellectual property rights	809,499	626,872	182,627
Concessions, licenses, trademarks and similar rights	23,069	173	22,896
Goodwill	3,181	1,903	1,278
Other intangibles	35,743	30,838	4,905
Total	**883,137**	**671,343**	**211,794**

The increase in intangible assets (+euro 211,794 thousand) is principally due to the addition of the costs of the merged company TIM and the increase in the amount of amortizable industrial patents and intellectual property rights.

Depreciation of fixed assets

euro 2,196,450 thousand

Depreciation of fixed assets decreased by euro 24,185 thousand compared to 2004.
The average depreciation rate referring to assets being depreciated is equal to 8.3%.

The following table shows the depreciation charge for each asset category in 2005 and the related depreciation rate.

(thousands of euro)	Depreciation rate	2005	Depreciation rate	2004	Change
Land and building	3.3%	78,659	3.3%	79,457	(798)
Plant and installations	8.5%	2,032,679	8.3%	2,105,685	(73,006)
Manufacturing and distribution equipment	22.3%	9,436	19.9%	7,589	1,847
Other fixed assets	22.8%	75,676	24.9%	27,904	47,772
Total		**2,196,450**		**2,220,635**	**(24,185)**

Other writedowns of fixed assets **euro 7,700 thousand**

Other writedowns of fixed assets refer to the writedown of telephone material.

Writedowns of receivables included in current assets and liquid assets **euro 145,305 thousand**

This caption includes the provision to the allowance for doubtful trade accounts receivables from customers.

Changes in inventory of raw materials, supplies and merchandise **euro 4,722 thousand**

The change is mainly due to the consumption of merchandise and materials for maintenance of the Wireline Business Unit of Telecom Italia which is partly compensated by the inventories of the merged company TIM in the months of January and February 2005. The amount includes writedowns of euro 20,172 thousand.

Provisions for risks **euro 27,544 thousand**

Provisions for risks refer to provisions made to the "reserve for litigation" to cover expenses connected with the potential outcome of disputes with third parties and other provision for risks connected with contractual relationships with third parties.

Miscellaneous operating costs **euro 386,053 thousand**

Miscellaneous operating costs decreased by euro 52,543 thousand, compared to 2004, and include the following:

Losses on disposal of assets **euro 22,682 thousand**

These losses mainly refer to the disposal of fixed assets.

TLC operating fees **euro 25,695 thousand**

TLC operating fees mainly include the fee for the assignment of telephone numbers (euro 8,290 thousand) and the fee for the use of radio frequencies (euro 8,522 thousand) provided by the Ministerial Decree of February 5, 1998, in addition to the fee for the operation of the Regulatory Body (euro 8,527 thousand).

Other miscellaneous costs **euro 337,676 thousand**

Other miscellaneous costs decreased by euro 60,239 thousand, compared to 2004, and include the following:

(thousand of euro)	2005	2004	Change
• other indirect duties and annual taxes, relating mainly to local property taxes, local duties, stamp and register tax, vehicle tax, production and electrical energy consumption taxes and permits and government concession taxes	82,998	93,386	(10,388)
• association dues and membership fees	14,282	15,307	(1,025)
• losses due to settlements	94,028	104,839	(10,811)
• losses on the sale of receivables	93,337	89,231	4,106
• other costs, essentially relating to compensation due to customers for delays in hookups or line transfers, damages paid to third parties for line installations and maintenance	53,031	95,152	(42,121)
Total	**337,676**	**397,915**	**(60,239)**

Financial income and expense

euro 906,701 thousand

(–euro 364,763 thousand in 2004)

Net financial income and expense is a positive amount of euro 906,701 thousand, detailed as follows:

(thousand of euro)		**2005**	**2004**	**Change**
Income from equity investments	(A)	2,892,812	1,406,831	1,485,981
Other financial income	(B)	405,534	227,102	178,432
Interest and other financial expense	(C)	(2,424,403)	(1,996,278)	(428,125)
Foreign exchange gains and losses	(D)	32,758	(2,418)	35,176
Total	(A+B-C+D)	**906,701**	**(364,763)**	**1,271,464**

Income from equity investments refers to the following:

(thousand of euro)	**2005**	**2004**	**Change**
Dividends from subsidiaries, affiliated companies and other companies	2,881,576	1,400,838	1,480,738
Other income from equity investments	11,236	5,993	5,243
Total	**2,892,812**	**1,406,831**	**1,485,981**

Dividends can be analyzed as follows:

(thousands of euro)	**2005**			**2004**			**Change**
Dividends from subsidiaries	**Accrued**	**Received**	**Total (a)**	**Accrued**	**Received**	**Total (a)**	
· TIM		715,995	**715,995**	1,337,378	9,805	1,347,183	(631,188)
· TIM Italia	2,051,219		**2,051,219**				2,051,219
· Telecom Italia Capital		1,900	**1,900**				1,900
· PathNet	6,050		**6,050**	6,200		6,200	(150)
· Telsy				700		700	(700)
· Telecom Italia Sparkle	85,000		**85,000**	38,000		38,000	47,000
	2,142,269	717,895	**2,860,164**	1,382,278	9,805	1,392,083	1,468,081
Dividends from affiliated companies	**Accrued**	**Received**	**Total (a)**	**Accrued**	**Received**	**Total (b)**	
· ASSCOM INSURANCE BROKERS		200	200				200
· Tiglio II		11,408	11,408				11,408
		11,608	**11,608**				11,608
Dividends from other companies	**Accrued**	**Received**	**Total (a)**	**Accrued**	**Received**	**Total**	
· MCC		1,084	1,084		770	770	314
· Mediobanca		6,777	6,777		5,647	5,647	1,130
· Pirelli Real Estate					1,145	1,145	(1,145)
· SIA		307	307		307	307	–
· Finsiel		601	601				601
· Emittenti Titoli		98	98		100	100	(2)
· FIN.PRIV.		937	937		786	786	151
		9,804	**9,804**		8,755	8,755	1,049
Total	2,142,269	739,307	**2,881,576**	1,382,278	18,560	1,400,838	1,480,738

Dividends from subsidiaries, affiliated companies and other companies increased by euro 1,480,738 thousand compared to 2004 owing both to the dividends for 2004 received on the shares of the merged company TIM, that were acquired under the tender offer or as a result of other purchases (euro 715,995 thousand), and the higher dividends from the subsidiary TIM Italia for 2005 as a result of the tender offer and the merger.

Other income from equity investments refers to the *recovery of the excess price from LI.SIT.*

Other financial income includes the following:

(thousands of euro)	2005 Included in long-term investments	Included in current assets	Total	2004	Change
Interest and fees on:					
• accounts receivable					
– from subsidiaries	2,050	26,264	28,314	28,866	(552)
– from affiliated companies	807	40	847	1,840	(993)
– other	6,885	–	6,885	7,085	(200)
• securities	–	–	–	240	(240)
• bank and postal accounts	–	66,808	66,808	38,114	28,694
	9,742	**93,112**	**102,854**	**76,145**	**26,709**
Income on derivative financial instruments			275,121	130,153	144,968
Other income			27,559	20,804	6,755
			405,534	**227,102**	**178,432**

Interest and other financial expense can be analyzed as follows:

(thousands of euro)	2005	2004	Change
Interest and fees paid to subsidiaries	825,431	770,636	54,795
IInterest and fees paid to affiliated companies	180	446	(266)
Interest and fees paid to others and miscellaneous expense			
• on due to banks	255,178	27,104	228,074
• on debentures	843,120	809,274	33,846
• on due to other lenders	21,595	25,129	(3,534)
• on other items			
– Accrued portion of issue discounts and similar charges on loans	44,484	54,722	(10,238)
– Provision to the allowance for doubtful accounts for the "Deferred Purchasing Price"	24,044	23,015	1,029
– Expenses on derivative financial instruments	301,089	214,886	86,203
– Facility fees and put option expenses	64,236	32,448	31,788
– Other financial expense	45,046	38,618	6,428
Total	**2,424,403**	**1,996,278**	**428,125**

In particular, the increase of euro 428,125 thousand is mainly due to higher debt exposure as a result of the effects of the cash tender offer for TIM shares.

Foreign exchange gains and losses — euro 32,758 thousand

Foreign exchange gains and losses show a positive balance of euro 32,758 thousand and increased by euro 35,176 thousand compared to 2004. The balance consists of foreign exchange gains of euro 55,747 thousand (euro 32,074 thousand for gain adjustments and euro 23,673 thousand for realized gains) and foreign exchange losses of euro 22,989 thousand (euro 916 thousand for loss adjustments and euro 22,073 thousand for realized losses).
As required disclosure under art. 2427, point 7-bis of the Italian Civil Code, the adjustment of foreign currency positions existing at December 31, 2005 to year-end exchange rates gave rise to unrealized gains of euro 37,894 thousand. Therefore, at the time of the appropriation of the net income for the year, a reserve will be booked for foreign exchange gains of the same amount that will not be available for distribution until the gains are realized.

Value adjustments to financial assets

– euro 271,587 thousand

(euro 54,077 thousand in 2004)

Value adjustments to financial assets include upward adjustments (euro 937 thousand) and writedowns of equity investments (euro 272,524 thousand).
In particular, the writedowns of equity investments refer to the following companies:

(thousand of euro)		2005 Writedowns to carrying amounts	2005 Writedowns recorded in the reservei for losses of subsidiaries and affiliates	2005 Total	2004	Change
Recorded in long-term investments						
• Tecnoservizi Mobili		–	3,746	3,746	–	3,746
• Olivetti		57,374	–	57,374	–	57,374
• TILAB S.A.		1,128	–	1,128	3,160	(2,032)
• Telecom Italia Finance		144,329	–	144,329	–	144,329
• IT Telecom S.r.l.		9,472	–	9,472	–	9,472
• Telecom Italia Learning Services		11,167	2,530	13,697	15,855	(2,158)
• Trainet		–	253	253	752	(499)
• Domus Academy		1,714	–	1,714	–	1,714
• Telbios		929	–	929	3,178	(2,249)
• Tiglio I		25,484	–	25,484	–	25,484
• LI.SIT		11,236	–	11,236	5,993	5,243
• Other companies		1,162	2,000	3,162	1,376	1,786
	(A)	**263,995**	**8,529**	**272,524**	**30,314**	**242,210**
Recorded in short-term financial assets						
• Telecom Italia Media		–	–	–	7	(7)
• Portal Software		–	–	–	13	(13)
	(B)	**–**	**–**	**–**	**20**	**(20)**
Total	(A+B)	**263,995**	**8,529**	**272,524**	**30,334**	**242,190**

Extraordinary income and expense

– euro 174,830 thousand

(– euro 725,819 thousand in 2004)

The balance is detailed as follows:

(thousand of euro)		2005	2004	Change
Income				
· gains on disposals		330,045	58,203	271,842
· elimination of tax interference		–	932	(932)
· recovery and release of liabilities and reserve for risks in respect of TLC operating fee Law 448/98		–	410,838	(410,838)
· release of the reserve for Avea		107,567	–	107,567
· prior period income relating to the cancellation of the withholding tax		72,325	–	72,325
· release of the reserve for contractual risks and other risks relating to the Antitrust fine		37,000	–	37,000
· income tax refunds		32,504	24,707	7,797
· recoveries under Law 58/1992 and damage compensation		19,179	10,369	8,810
· prior period income from the writeoff of past payable items		86,451	–	86,451
· other		54,212	61,770	(7,558)
	(A)	**739,283**	**566,819**	**172,464**
Expense				
· expenses under Law 58/1992		149,657	149,377	280
· losses on disposal		28,646	3,596	25,050
· provisions and writedowns relating to equity investments		7,263	632,313	(625,050)
· prior years' income taxes		16,974	2,279	14,695
· expenses and provisions for corporate restructuring (employee termination incentives, territorial mobility and other layoffs, CIGS)		362,497	145,819	216,678
· provision for the Antitrust fine		–	152,000	(152,000)
· expenses connected with Telecom Italia/TIM merger		120,200	19,365	100,835
· expenses for the settlement with Opportunity		50,368	–	50,368
· expenses for damage compensation to third parties		8,473	36,959	(28,486)
· expenses for corporate-related transactions		11,836	24,315	(12,479)
· expenses connected to property transactions		11,300	–	11,300
· writeoff of past receivable items		86,971	46,384	40,587
· expenses on payable items		–	27,013	(27,013)
· expenses for Antitrust proceedings		11,321	–	11,321
· other		48,607	53,218	(4,611)
	(B)	**914,113**	**1,292,638**	**(378,525)**
Total	(A-B)	**(174,830)**	**(725,819)**	**550,989**

In particular, extraordinary income includes the following:

- gains realized on the sale of non-current assets (euro 329,605 thousand) connected with the sale of a first group of 867 buildings to Olivetti Multiservice). The sale was made under the framework of the reorganization of the physical spaces occupied by the network plants which calls for gradually freeing those parts of the buildings used for such plants;
- release (euro 107,567 thousand) of the reserve for risks in respect of guarantees provided by Telecom Italia for a loan granted to Avea. This release was made as a result of both the adjustment to the year-end exchange rate and the cancellation of a part of the guarantees;
- prior period income (euro 72,325 thousand) from both the writeoff of financial payables due to Group companies relating to 2004 and the booking of receivables for amounts that had already been paid after the abolition of withholding taxes on interest earned on the contracts for loans made to Group companies residing in the European Union. Such abolition is effective retroactively from January 1, 2004;Tale abolizione ha efficacia retroattiva dal 1° gennaio 2004;

- release of the reserve for contractual risks for euro 37,000 thousand following the decision handed down by the Council of State on February 10, 2006 which reduced Telecom Italia's fine for the alleged abuse of a dominant position to euro 115,000 thousand (originally established by the Antitrust Authorities at euro 152,000 thousand);
- prior year income as a result of the IRPEG, ILOR and IRAP tax refund received for the years 1997, 1999 and 2000 (euro 31,571 thousand);
- prior period income relating to the writeoff of past payable items (euro 86,451 thousand);
- recovery of the pension fund integration charges pursuant to Law 58/1992 from Group companies (euro 1,411 thousand) and damage compensation received from third parties (euro 17,768 thousand);

Extraordinary expenses include:

- expenses connected with the Telecom Italia - TIM merger (euro 120,200 thousand) incurred by the two companies mainly for advisors, legal fees, fairness opinions and communications expenses;
- provisions connected with corporate-related transactions (euro 11,836 thousand) for the purchase of Virgilio's and Tin.it's assets as part of the rationalization of Internet operations (euro 5,660 thousand) and the purchase of the investment, held by Tiscali, in Liberty Surf Group S.A. (euro 6,176 thousand);
- expenses and provisions for employee termination incentives and extraordinary mobility of employees (euro 362,497 thousand) inclusive of the provisions set aside for both the operating agreement concerning mobility (Law 223/91), agreed in December 2005 with the labor unions, and the plan for manager termination incentives;
- prior period expenses relating to the writeoff of prior years' receivables (euro 86,971 thousand);
- expenses for the settlement with Opportunity (euro 50,368 thousand).

Income taxes, current and deferred — euro 936,126 thousand

Income taxes for the year, equal to euro 936,126 thousand (euro 1,062,722 thousand in 2004) decreased by euro 126,596 thousand as a result of the reduction in the taxable base.

Income taxes are composed of:

(thousand of euro)	IRES	IRAP	Total
Current income taxes	(496,959)	315,947	(181,012)
Deferred income taxes	1,091,267	25,871	1,117,138
Total	**594,308**	**341,818**	**936,126**

Current income taxes benefit from euro 496,959 thousand following the transfer of tax losses of euro 1,505,936 thousand generated by Telecom Italia to the consolidated tax return. Dividends, as a result of Legislative Decree 344/2003, no longer carry the relative tax credit and, in view of adhering to the consolidated national tax return procedure, are basically excluded from the formation of the income of the company.

Income taxes also include the effects of the deferred tax assets of Telecom Italia and the merged companies which became recoverable

The reconciliation between theoretical taxes, deriving from the application of the nominal rate, and taxes effectively booked in the statement of operations, is presented in the following table:

(thousand of euro)	IRES	IRAP	Total
Income before taxes	4,820,947	(*)	4,820,947
Theoretical taxes	1,590,913	305,013	1,895,926
Permanent differences:			
– permanent increases	249,099	30,252	279,351
– dividends posted to statement of operations	(949,133)	0	(949,133)
– permanent decreases	(65,778)	(2,804)	(68,582)
– tax adjustments	(230,793)	9,357	(221,436)
Taxes booked to statement of operations	**594,308**	**341,818**	**936,126**

(*) IRAP calculated on a taxable base of euro 7,176,788 thousand.

* * *

Other information

Remuneration to Directors, Statutory Auditors and General Managers

In compliance with art. 78 giving effect to Legislative Decree 58 dated February 24, 1998, adopted by Consob under resolution No. 11971 of May 14, 1999, the following table presents the remuneration to which all the individuals were entitled who, during 2005 or a part of that year, have held the post of director, statutory auditor or general manager of Telecom Italia S.p.A. and Telecom Italia Mobile S.p.A. pre-merger (effective as of June 30, 2005).

In particular:

- the column "Remuneration for the post" shows the remuneration, by period of reference, voted by the Shareholders' Meetings of Telecom Italia and Telecom Italia Mobile and the remuneration ex art. 2389, paragraph 3, of the Italian Civil Code;
- the column "Non-cash benefits" indicates the fringe benefits subject to taxes based on current tax laws;
- the column "Bonuses and other incentives" include one-off remuneration;
- the column "Other remuneration" includes: (i) remuneration due for posts held in listed and unlisted subsidiaries; (ii) employee compensation (gross of the employees' portion of social security charges and taxes, excluding the employers' portion of obligatory social security contributions and expenses for employee severance indemnities); (iii) compensation at the end of the term of office.

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA S.P.A.

Individual	Description of post		Remuneration (thousands of euro)			
First and last name	Post held	Period during which post was held	Remuneration for the post	Non-cash benefits	Bonuses and other incentives	Other remuneration
Marco TRONCHETTI PROVERA	Chairman of the Board of Directors.	1/1-12/31/2005	2,314 (1)		2,900 (2)	
Gilberto BENETTON	Deputy Chairman	1/1-12/31/2005	114			
Carlo Orazio BUORA	CEO	1/1-12/31/2005	2,077 (1)		2,250 (3)	80 (4)
Marco DE BENEDETTI	CEO	4/7-10/5/2005	94 (1)(5)		2,856 (6)	8,597 (7)
Riccardo RUGGIERO	CEO General Manager	1/1-12/31/2005	554 (1) (8)	5 (9)	4,527 (10)	982 (11)
Paolo BARATTA	Director	1/1-12/31/2005	166 (12)			
John Robert Sotheby BOAS	Director	1/1-12/31/2005	114			
Giovanni CONSORTE	Director	1/1-12/31/2005	114			
Francesco DENOZZA	Director	1/1-12/31/2005	177 (13)			
Domenico DE SOLE	Director	1/1-12/31/2005	197 (14)			
Luigi FAUSTI	Director	1/1-12/31/2005	166 (12)			
Guido FERRARINI	Director	1/1-12/31/2005	197 (15)			
Jean Paul FITOUSSI	Director	1/1-12/31/2005	114			
Enzo GRILLI	Director	4/7-12/31/2005	85			57 (16)
Gianni MION	Director	1/1-12/31/2005	114 (17)			95 (17) (18)
Massimo MORATTI	Director	1/1-12/31/2005	114			
Marco ONADO	Director	1/1-12/31/2005	197 (14)			
Renato PAGLIARO	Director	1/1-12/31/2005	114 (19)			
Pasquale PISTORIO	Director	1/1-12/31/2005	186 (20)			
Carlo A. PURI NEGRI	Director	1/1-12/31/2005	114			
Luigi ROTH	Director	1/1-12/31/2005	114			
Giuseppe SALA	General Manager	1/1-12/31/2005		5	1,700 (21)	788 (22)
Ferdinando SUPERTI FURGA	Chairman of the Board of Statutory Auditors.	1/1-12/31/2005	191 (23)			
Rosalba CASIRAGHI	Acting Auditor	1/1-12/31/2005	128			
Paolo GOLIA	Acting Auditor	1/1-12/31/2005	128			
Salvatore SPINIELLO	Acting Auditor	1/1-12/31/2005	128			32 (24)
Gianfranco ZANDA	Acting Auditor	1/1-12/31/2005	128			146 (25)

(1) The amount includes the remuneration ex art. 2389, paragraph 3, of the Italian Civil Code.

(2) This refers to variable remuneration ex art. 2389 paragraph 3 of the Italian Civil Code for the year 2004, paid in 2005 since it was subject to reaching a consolidated EBIT 2004 budget target, with a positive EVA change, and an extraordinary bonus voted by the Telecom Italia S.p.A. Board of Directors' meeting of April 7, 2005. With regard to 2005, the Board of Directors has anticipated additional remuneration of euro 1,400,000.00 (unchanged compared to 2004) the payment of which, in 2006, is subject to reaching a consolidated EBIT 2005 budget target, with a positive EVA change.

(3) This refers to variable remuneration ex art. 2389 paragraph 3 of the Italian Civil Code for the year 2004, paid in 2005 since it was subject to reaching a consolidated EBIT 2004 budget target, with a positive EVA change, and an extraordinary bonus voted by the Telecom Italia S.p.A. Board of Directors' meeting of April 7, 2005. With regard to 2005, the Board of Directors has anticipated additional remuneration of euro 1,250,000.00 (unchanged compared to 2004) the payment of which, in 2006, is subject to reaching a consolidated EBIT 2005 budget target, with a positive EVA change.

(4) Remuneration for the post of Chairman of Telecom Italia Mobile S.p.A. for the period January 1 to June 30, 2005 and for the post of Chairman of Tim Italia S.p.A., not received but paid over to Telecom Italia S.p.A.

(5) The amount relating to remuneration ex art. 2389, section 1, of the Italian Civil Code was paid to Telecom Italia S.p.A.

(6) The amount includes remuneration paid in respect of Management By Objectives (MBO) and Long-Term Incentives (LTI).

(7) The amount includes remuneration paid upon termination of the employment relationship with Telecom Italia and with Tim Italia, the amount relating to gross remuneration as an employee, comprised of a lump-sum payment of the variable compensation relating to the year 2005, amounts relating to remuneration ex art. 2389 paragraphs 1 and 3 of the Italian Civil Code received in Telecom Italia Mobile S.p.A. and in Tim Italia S.p.A., extraordinary remuneration ex art. 2389 paragraph 3 of the Italian Civil Code as the CEO of Telecom Italia Mobile S.p.A., and the remuneration received as a member of the Supervisory Panel under Law 231/2001 of Progetto Italia S.p.A. The amounts ex art. 2389 paragraph 1 of the Italian Civil Code are paid over to Telecom Italia S.p.A.

(8) The amount relating to remuneration ex art. 2389, section 1, of the Italian Civil Code is not paid to the individual.

(9) The amount includes the conventional amount of accident insurance.

(10) The amount includes the remuneration paid in respect of Management By Objectives (MBO) and Long-Term Incentives (LTI), the retention payment plan installment and remuneration consisting of the extraordinary bonus ex art. 2389 paragraph 3 of the Italian Civil Code.

(11) The amount includes gross employment income and the compensation ex art. 2389 paragraph 1 of the Italian Civil Code for the post of CEO held in Tim Italia S.p.A. during the period October 5 to December 31, 2005 paid over to Telecom Italia.

(12) The amount includes the remuneration paid as a member of the Remuneration Committee.

(13) The amount includes the remuneration paid as a member of the Committee for Internal Control and Corporate Governance.

(14) The amount includes the remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Strategies Committee.

(15) The amount includes the compensation paid as a member of the Committee for Internal Control and Corporate Governance and a member of the Supervisory Panel under Legislative Decree 231/2001.

(16) The amount includes remuneration as a Director and member of the Remuneration Committee in Telecom Italia Mobile S.p.A. (January 1 to June 30, 2005) and as a Director in Tim Italia S.p.A. (January 1 to April 7, 2005).

(17) Remuneration not received but paid over to Edizione Holding.

(18) The amount includes the remuneration paid for the post of Deputy Chairman in Telecom Italia Mobile (January 1 to June 30, 2005), Deputy Chairman in Tim Italia S.p.A. (January 1 to December 31, 2005) and Director in Telecom Italia Media S.p.A. (January 1 to April 3, 2005).

(19) Remuneration not received but paid over to Mediobanca.

(20) The amount includes the remuneration received as a member of the Remuneration Committee and the Strategies Committee.

(21) The amount includes the remuneration paid in respect of Management By Objectives (MBO), Long-Term Incentives (LTI) and the retention plan installment.

(22) Employment income.

(23) The amount includes the remuneration paid as a member of the Supervisory Panel under Legislative Decree 231/2001.

(24) The amount includes remuneration for the post of Acting Statutory Audit in Telecom Italia Media S.p.A.

(25) The amount includes remuneration for the post of Chairman of the Board of Statutory Auditors of IT Telecom S.p.A. and Acting Statutory Auditor in the companies Finsiel S.p.A. (January 1 to June 28, 2005), Telecom Italia Mobile S.p.A. (January 1 to June 30, 2005) and Tim Italia S.p.A.

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA MOBILE S.P.A. PRE-MERGER

Individual	Description of post		Remuneration (thousands of euro)			
First and last name	**Post held**	**Period during which post was held**	**Remuneration for the post**	**Non-cash benefits**	**Bonuses and other incentives**	**Other remuneration**
Carlo BUORA (*)	Chairman of the Board of Directors	1/1 - 6/30/2005	=	=	=	=
Gianni MION (*)	Deputy Chairman	1/1 - 6/30/2005	=	=	=	=
Marco DE BENEDETTI (*)	CEO	1/1 - 6/30/2005	=	=	=	=
Carlo ANGELICI	Director	1/1 - 4/27/2005	37 (1)			13 (2)
Carlo BERTAZZO	Director	1/1 - 6/30/2005	40 (3)			20 (2)(3)
Lorenzo CAPRIO	Director	1/1 - 6/30/2005	58 (4)			22 (5)
Giorgio DELLA SETA FERRARI CORBELLI GRECO	Director	1/1 - 6/30/2005	40			6 (6)
Enzo GRILLI (*)	Director	1/1 - 6/30/2005	=	=	=	=
Attilio Leonardo LENTATI	Director	1/1 - 6/30/2005	46 (7)			20 (2)
Gioacchino Paolo Maria LIGRESTI	Director	1/1 - 6/30/2005	40			20 (2)
Giuseppe LUCCHINI	Director	1/1 - 6/30/2005	40			20 (2)
Pier Francesco SAVIOTTI	Director	1/1 - 6/30/2005	40			20 (2)
Paolo SAVONA	Director	1/1 - 6/7/2005	46 (1)			17 (2)
Rodolfo ZICH	Director	1/1 - 6/30/2005	46 (7)			20 (2)
Pietro ADONNINO	Chairman of the Board of Statutory Auditors.	1/1 - 6/30/2005	50 (8)			50 (9)
Enrico LAGHI	Acting Auditor	1/1 - 6/30/2005	45 (10)			40 (11)
Gianfranco ZANDA (**)	Acting Auditor	1/1 - 6/30/2005	=	=	=	=

(*) The remuneration received in Telecom Italia Mobile S.p.A. and in Tim Italia S.p.A. is presented in the preceding table under "other remuneration" since they are Directors of the parent Telecom Italia S.p.A.
(**) The remuneration received in Telecom Italia Mobile S.p.A. and in Tim Italia S.p.A. is presented in the preceding table under "other remuneration" since he is an acting statutory auditors of the parent Telecom Italia S.p.A.

(1) The amount includes the compensation paid as a member of the Internal Control Committee for the period January 1 to April 5, 2005.
(2) Remuneration for the post of Director in Tim Italia S.p.A.
(3) Remuneration not received but paid over to Edizione Holding.
(4) The amount includes the compensation paid as a member of the of the Internal Control Committee for the period January 1 to April 5, 2005 and as a member of the Supervisory Panel under Legislative Decree 231/2001.
(5) Remuneration for the post of Director and as a member of the Supervisory Panel under Legislative Decree 231/2001 in Tim Italia S.p.A.
(6) Remuneration for the post of Director in Tim Italia S.p.A. for the period May 5 to June 30, 2005.
(7) The amount includes the remuneration paid as a member of the Remuneration Committee.
(8) Remuneration not received but paid over to Studio Adonnino, Ascoli P. Casavola Scamoni.
(9) Remuneration for the post of Chairman of the Board of Statutory Auditors of Tim Italia S.p.A.
(10) The amount includes the remuneration paid as a member of the Supervisory Panel under Legislative Decree 231/2001.
(11) Remuneration for the post of Acting Statutory Audit and as a member of the Supervisory Panel under Legislative Decree 231/2001 in Tim Italia S.p.A.

The following table has been prepared according to the format in the Regulations for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution No. 11971 dated May 14, 1999 and subsequent amendments and supplements, relating to the stock options granted to the directors and general managers of the Company.

		Options held at the beginning of 2005			**Options granted during 2005**			**Options exsercised during 2005**			**Options expired in 2005**	**Options held at the end of 2005**		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)= 1+4 -7-10	(12)	(13)
Name	Post held	Number of options (*)	Average exercise price (**)	Average expiration date	Number of options	Average exercise price	Average expiration date	Number of options	Average exercise price	Average market price during year	Number of options	Number of options (*)	Average exercise price (**)	Average expiration date
Riccardo Ruggiero	CEO/GM	750,000	3.177343	2007								750,000	3.177343	2007
		200,000	2.788052	2010								200,000	2.788052	2010

Note:
(*) Each option corresponds to the subscription or purchase of 3.300871 Telecom Italia ordinary shares.
(**) The average exercise price is the average subscription price of Telecom Italia ordinary shares deriving from the exercise of options.

		Options held at the beginning of 2005			**Options granted during 2005**			**Options exsercised during 2005**			**Options expired in 2005**	**Options held at the end of 2005**		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)= 1+4 -7-10	(12)	(13)
Name	Post held	Number of options (*)	Average exercise price (**)	Average expiration date	Number of options	Average exercise price	Average expiration date	Number of options	Average exercise price	Average market price during year	Number of options	Number of options (*)	Average exercise price	Average expiration date
Marco De Benedetti	CEO	566,667	3.710983	2008								566,667	3.710983	2008
		1,000,000	3.277457	2008								1,000,000	3.277457	2008

Note:
(*) Each option corresponds to the subscription or purchase of 1.73 Telecom Italia ordinary shares.
(**) The average exercise price is the average subscription price of Telecom Italia ordinary shares deriving from the exercise of options.

* * *

The following Annexes numbered 1 to 7 are an integral part of these notes.

Annex N. 1

LONG-TERM INVESTMENTS AND ADVANCES ON CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12.31.2004				Changes of the year									12.31.2005			
(in thousands of euro)	Cost	Upward adjustments	Write-downs	Carrying value	TIM merger contribution at 1.1.2005	Effects of other mergers	Spin-off of business segment	Purchases/ Subscriptions	Reclassifications	Disposals/ absorption of losses (1)	Writedowns (-)/Writebacksi of value (+)	Capital Replenishments	Total	Cost	Upward adjustments	Write-downs	Carrying value
Investments in subsidiaries																	
DOMUS ACADEMY	2,400	–	–	2,400							(1,714)		(1,714)	2,400	–	(1,714)	686
EMSA SERVIZI	5,000	–	–	5,000									–	5,000	–	–	5,000
EUSTEMA	465	–	–	465									–	465	–	–	465
FINSIEL	364,680	–	(253,680)	111,000					(27,784)	(83,216)			(111,000)	–	–	–	–
ISM	–	–	–	–		(97,392)		97,392					–	–	–	–	–
IT TELECOM SRL	132,773	–	–	132,773		(129,835)			21,000		(9,472)		(118,307)	23,938	–	(9,472)	14,466
IRIDIUM ITALIA (in liquidation)	1,720	–	–	1,720									–	1,720	–	–	1,720
LATIN AMERICAN NAUTILUS S.A.	46,042	–	(46,042)	–					(21,752)	(9,209)		30,961	–	–	–	–	–
LIBERTY SURF GROUP	–	–	–	–				261,535	207,300				468,835	468,835	–	–	468,835
LOQUENDO	7,820	–	(7,820)	–									–	7,820	–	(7,820)	–
MATRIX	–	–	–	–		165,709							165,709	165,709	–	–	165,709
MED-1 Submarine Cables	5	–	(5)	–				804	184	(988)			–	–	–	–	–
MEDITERRANEAN NAUTILUS S.A.	14,352	–	–	14,352				91,389	(42,513)	(55,966)	(7,262)		(14,352)	–	–	–	–
NETESI (in liquidation)	435	–	(79)	356							(289)		(289)	435	–	(368)	67
NUOVA TIN.IT	–	–	–	–				880,000					880,000	880,000	–	–	880,000
OFI CONSULTING	78,940	–	(43,831)	35,109									–	78,940	–	(43,831)	35,109
OLIVETTI GESTIONI IVREA	2,667	–	(508)	2,159									–	2,667	–	(508)	2,159
OLIVETTI MULTISERVICES	41,042	–	(639)	40,403									–	41,042	–	(639)	40,403
OLIVETTI	99,525	–		99,525				50,000			(57,374)		(7,374)	149,525	–	(57,374)	92,151
PATH.NET	25,823	–	–	25,823									–	25,823	–	–	25,823
PROGETTO ITALIA	–	–	–	–				1,000					1,000	1,000	–	–	1,000
SAIAT	34,743	11,616	–	46,359									–	34,743	11,616	–	46,359
SATURN VENTURE PARTNERS	–	–	–	–	581						37		618	618	–	–	618
TECNO SERVIZI MOBILI	53	–	–	53									–	53	–	–	53
TECO SOFT ARGENTINA (in liquidation)	6,685	–	(6,685)	–									–	6,685	–	(6,685)	–
TELECOM ITALIA AMERICA LATINA	13,220	–	(13,220)	–									–	13,220	–	(13,220)	–
TELECOM ITALIA AUDIT	1,750	–	–	1,750	500		(500)	500					500	2,250	–	–	2,250
TELECOM ITALIA CAPITAL SA	2,388	–	–	2,388									–	2,388	–	–	2,388
TELECOM ITALIA DATA CENTER	–	–	–	–		(10)		10					–	–	–	–	–
TELECOM ITALIA DEUTSCHLAND HOLDING	243,201	–	–	243,201									–	243,201	–	–	243,201
TELECOM ITALIA INTERNATIONAL	4,629,735	–	(2,381,110)	2,248,625									–	4,629,735	–	(2,381,110)	2,248,625
TELECOM ITALIA LEARNING SERVICES	1,560	–	(1,560)	–				2,833	(2,833)		(1,560)	1,560	–	1,560	–	(1,560)	–
TELECOM ITALIA MEDIA	2,046,631	–	(1,340,203)	706,428									–	2,046,631	–	(1,340,203)	706,428
TELECOM ITALIA MOBILE	27,380,942	84,144	–	27,465,086				14,207,194	(41,672,280)				(27,465,086)	–	–	–	–
TELECOM ITALIA SAN MARINO	–	–	–	–									–	–	–	–	–
TELECONTACTCENTER	489	–	–	489									–	489	–	–	489
TELENERGIA	40	–	–	40	10		(10)						–	40	–	–	40
TELSY	14,512	–	–	14,512									–	14,512	–	–	14,512
TI FINANCE	1,786,234		–	1,786,234							(144,329)		(144,329)	1,786,234		(144,329)	1,641,905
TI LAB SA	131	–	(131)	–				6,233	(3,112)		(1,128)		1,993	2,678	–	(685)	1,993
TIM ITALIA	–	–	–	–	120	(115,053)	3,940,009	3,640	35,048,711				38,877,427	38,877,427	–	–	38,877,427
TIM INTERNATIONAL	–	–	–	–	4,582,279				417,721				5,000,000	9,102,000	–	(4,102,000)	5,000,000
TI SPARKLE	784,765	–	–	784,765									–	784,765	–	–	784,765
TRAINET (in liquidation)	674	–	(674)	–									–	674	–	(674)	–
Consorzio IRIS	15	–	–	15					(15)				(15)	–	–	–	–
Consorzio Energia Gruppo Telecom Italia	5	–	–	5	5		(5)						–	5	–	–	5
Consorzio SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II	–	–	–	–	26		(26)						–	–	–	–	–
Consorzio TURISTEL	26	–	–	26					(26)				(26)	–	–	–	–
	37,771,488	**95,760**	**(4,096,187)**	**33,771,061**	**4,583,521**	**(176,581)**	**3,939,468**	**15,602,530**	**(6,075,399)**	**(149,379)**	**(223,091)**	**32,521**	**17,533,590**	**59,405,227**	**11,616**	**(8,112,192)**	**51,304,651**

(1)	TELECOM ITALIA LEARNINGS SERVICE	LATIN AMERICAN NAUTILUS S.A.	FINSIEL	TILAB S.A.	MEDITERR. NAUTILUS S.A.	MED - 1 Submarine Cables
Cost	4,393	77,003	273,397	3,686	118,443	4,625
Writedowns	(4,393)	(67,794)	(190,181)	(3,686)	(62,477)	(3,637)
	–	9,209	83,216	–	55,966	988

(in thousands of euro)	12.31.2004 Cost	Upward adjust-ments	Write-downs	Carrying value	Changes of the year TIM merger contri-bution at 1.1.2005	Effects of other mergers	Spin-off of business segment	Purcha-ses/ Subscrip-tions	Reclassi-fications	Disposals/ absorption of losses (1)	Writedowns (-)/Write-backs of value (+)	Capital Replenish-ments	Total	12.31.2005 Cost	Upward adjust-ments	Write-downs	Carrying value
Investments in affiliated companies																	
AREE URBANE	5,589	–	–	5,589							(417)		(417)	5,589	–	(417)	5,172
ASSCOM INSURANCE BROKERS	20	–	–	20									–	20	–	–	20
CARTESIA (in liquidation)	50	–	(50)	–						(50)	50		–	–	–	–	–
EUROFLY SERVICE	2,304	–	(2,304)	–				598	(1,273)			675	–	–	–	–	–
IM.SER	356	–	–	356				210			(210)		–	356	–	–	356
IN.VA.	206	–	(45)	161									–	206	–	(45)	161
LI.SIT.	37,400	–	(9,251)	28,149							(11,236)		(11,236)	37,400	–	(20,487)	16,913
LUNA ROSSA CHALLENGE 2007	–	–	–	–				1,960					1,960	1,960	–	–	1,960
LUNA ROSSA TRADEMARK	–	–	–	–				10,000					10,000	10,000	–	–	10,000
NORDCOM	29,045	–	(26,902)	2,143									–	29,045	–	(26,902)	2,143
OCN TRADING (in liquidation)	1	–	–	1									–	1	–	–	1
PERSEO	8	–	(1)	7				5					5	13	–	(1)	12
SHARED SERVICES CENTER	919	–	–	919	99		(99)						–	919	–	–	919
SIEMENS INFORMATICA	2,417	1,424	–	3,841									–	2,417	1,424	–	3,841
SINOPIA INFORMATICA (in failure)	–	–	–	–										–	–	–	–
SOFORA TELECOMUNICACIONES S.A.	1	–	–	1									–	1	–	–	1
TELBIOS	1,267	–	(77)	1,190							(929)		(929)	1,267	–	(1,006)	261
TELEGONO	413	–	–	413									–	413	–	–	413
TIGLIO I	155,067	–	–	155,067						(38,845)	(25,484)		(64,329)	116,222	–	(25,484)	90,738
TIGLIO II	47,335	–	–	47,335						(33,145)			(33,145)	14,190	–	–	14,190
Consorzio DREAM FACTORY (in liquidation)	89	–	(89)	–									–	89	–	(89)	–
Consorzio EO (in liquidation)	16	–	–	16							(16)		(16)	16	–	(16)	–
Consorzio LABORATORIO DELLA CONOSCENZA	14	–	(4)	10					(10)				(10)	–	–	–	–
Consorzio NAVIGATE CONSORTIUM	300	–	–	300									–	300	–	–	300
Consorzio S.I.A.R.C. (in liquidation)	1	–	–	1									–	1	–	–	1
Consorzio TELCAL (in liquidation)	211	–	–	211									–	211	–	–	211
Consorzio TELEMED (in liquidation)	10	–	–	10					(10)				(10)	–	–	–	–
Consorzio TURISTEL	–	–	–	–					26				26	26	–	–	26
	283,039	**1,424**	**(38,723)**	**245,740**	**99**	**–**	**(99)**	**12,773**	**(1,267)**	**(72,040)**	**(38,242)**	**675**	**(98,101)**	**220,662**	**1,424**	**(74,447)**	**147,639**

(1)	**CARTESIA (in liquidation)**	**EUROFLY SERVICE**	**TIGLIO I**	**TIGLIO II**	**Consorzio TELEMED**	**IM.SER**	**Consorzio LAB. DELLA CONOSCENZA**
Cost	50	3,578	38,845	33,145	10	210	14
Writedowns	–	(3,578)	–	–	(10)	(210)	(14)
	50	–	38,845	33,145	–	–	–

(in thousands of euro)	12.31.2004 Cost	Upward adjust-ments	Write-downs	Carrying value	Changes of the year TIM merger contri-bution at 1.1.2005	Effects of other mergers	Spin-off of business segment	Purcha-ses/ Subscrip-tions	Reclassi-fications	Disposals/ absorption of losses (1)	Writedowns (-)/Write-backsi of value (+)	Capital Replenish-ments	Total	12.31.2005 Cost	Upward adjust-ments	Write-downs	Carrying value
Investments in other companies																	
ANCITEL	93	–	–	93				164					164	257	–	–	257
ATESIA	663	–	–	663									–	663	–	–	663
AZIENDA ESERCIZIO GAS	1	–	–	1						(1)			(1)	–	–	–	–
BIOINDUSTRY PARK DEL CANAVESE	52	–	–	52									–	52	–	–	52
CAF ITALIA 2000	–	–	–	–									–	–	–	–	–
CEFRIEL	36	–	–	36	33		(33)						–	36	–	–	36
CERM L'AQUILA	266	–	–	266						(266)			(266)	–	–	–	–
CONSORTIUM	19,527	–	–	19,527									–	19,527	–	–	19,527
DIOMEDEA (in liquidation)	6	–	–	6					(6)				(6)	6	–	(6)	–
EDINDUSTRIA	44	–	(6)	38							(29)		(29)	44	–	(35)	9
EMITTENTI TITOLI	424	–	–	424									–	424	–	–	424
FIN. PRIV.	15,375	–	–	15,375									–	15,375	–	–	15,375
FINSIEL	–	–	–	–					27,784	(27,784)			–	–	–	–	–
Fratelli ALINARI	2,974	–	(2,273)	701							(191)		(191)	2,320	–	(1,810)	510
FUNIVIE DEL PICCOLO S. BERNARDO	–	–	–	–									–	–	–	–	–
IDROENERGIA	1	–	–	1	1		(1)						–	1	–	–	1
IMSER 60	59	–	–	59									–	59	–	–	59
INSULA	248	–	–	248									–	248	–	–	248
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	5,256	–	(1,424)	3,832									–	5,256	–	(1,424)	3,832
ISTITUTO EUROPEO DI ONCOLOGIA	–	–	–	–				2,116					2,116	2,116	–	–	2,116
ISTUD	6	–	–	6									–	6	–	–	6
ITALTEL CERM PALERMO	217	–	(24)	193									–	217	–	(24)	193
ITALTEL CERM S. MARIA CAPUA VETERE	255	–	(63)	192						(192)			(192)	–	–	–	–
MCC	36,018	–	–	36,018									–	36,018	–	–	36,018
MEDIOBANCA	113,119	–	–	113,119									–	113,119	–	–	113,119
MIX	10	–	–	10									–	10	–	–	10
MONTEROSA	20	–	–	20									–	20	–	–	20
PAR. FIN. (in failure)	256	–	(256)	–									–	–	–	–	–
PILA	6	–	–	6									–	6	–	–	6
S.A.G.I.T.	1	–	–	1									–	1	–	–	1
SIA	11,278	–	–	11,278									–	11,278	–	–	11,278
SODETEL	4	–	–	4									–	4	–	–	4
UBAE	1,898	–	–	1,898									–	1,898	–	–	1,898
Consorzio ABI LAB	1	–	–	1	1		(1)						–	1	–	–	1
Consorzio CIES	26	–	–	26									–	26	–	–	26
Consorzio COREP	10	–	–	10							(10)		(10)	10	–	(10)	–
Consorzio DISTRETTO AUDIOVISIVO E dell'ICT	5	–	–	5									–	5	–	–	5
Consorzio DISTRETTO TECNOLOGICO CANAVESE	117	–	–	117									–	117	–	–	117
Consorzio ELIS	3	–	–	3									–	3	–	–	3
Consorzio ENERGIA FIERA DISTRICT	2	–	–	2					(2)				(2)	–	–	–	–
Consorzio IRIS	–	–	–	–					15				15	15	–	–	15
Consorzio Nazionale Imballaggi - CONAI	1	–	–	1	1		(1)						–	1	–	–	1
Consorzio QUALITAL	–	–	–	–									–	–	–	–	–
Consorzio TECHNAPOLI	206	–	–	206									–	206	–	–	206
Consorzio TOPIX	100	–	–	100									–	100	–	–	100
	208,584	**–**	**(4,046)**	**204,538**	**36**	**–**	**(36)**	**2,280**	**27,791**	**(28,243)**	**(230)**	**–**	**1,598**	**209,445**	**–**	**(3,309)**	**206,136**
Total Equity investments	**38,263,111**	**97,184**	**(4,138,956)**	**34,221,339**	**4,583,656**	**(176,581)**	**3,939,333**	**15,617,583**	**(6,048,875)**	**(249,662)**	**(261,563)**	**33,196**	**17,437,087**	**59,835,334**	**13,040**	**(8,189,948)**	**51,658,426**

(1)	**Fratelli Alinari**	**CERM L'AQUILA**	**CERM S. MARIA CAPUA VETERE**	**PARFIN (in failure)**	**FINSIEL**	**AZIENDA ESERCIZIO GAS**	**Consorzio ENERGIA FIERA DISTRICT**
Cost	654	266	255	256	91,283	1	2
Writedowns	(654)		(63)	(256)	(63,499)	–	(2)
	–	**266**	**192**	**–**	**27,784**	**1**	**–**

Advances on capital contributions	12.31.2004				Changes of the year									12.31.2005			
(in thousands of euro)	Cost	Upward adjust-ments	Write-downs	Carrying value	TIM merger contribution at 1.1.2005	Effects of other mergers	Spin-off of business segment	Purchases/ Subscriptions	Reclassifications	Disposals/ absorption of losses (1)	Writedowns (-)/Writebacks of value (+)	Capital Replenishments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
FINSIEL	–			–				13,500		(13,500)			–	–			–
ISM	–	–	–	–		(70,401)		70,401					–	–	–	–	–
IT TELECOM S.r.l.	–	–	–	–				21,000	(21,000)				–	–	–	–	–
LIBERTY SURF GROUP	–	–	–	–				207,300	(207,300)				–	–	–	–	–
LOQUENDO	3,270	–	(46)	3,224									–	3,270	–	(46)	3,224
MATRIX	–	–	–	–		3,829							3,829	3,829	–	–	3,829
PERSEO	–	–	–	–				250					250	250	–	–	250
TELECOM ITALIA LEARNING SERVICES	4,094	–	(4,094)	–				9,607			(9,607)		–	9,607	–	(9,607)	–
TIM INTERNATIONAL	–	–	–	–	4,800				(4,800)				–	–	–	–	–
TELEGONO	8,840	–	–	8,840						(4,600)			(4,600)	4,240	–	–	4,240
Total Advances on capital contributions	**16,204**	**–**	**(4,140)**	**12,064**	**4,800**	**(66,572)**	**–**	**322,058**	**(233,100)**	**(18,100)**	**(9,607)**	**–**	**(521)**	**21,196**	**–**	**(9,653)**	**11,543**

(1)	TELECOM ITALIA LEARNING SERVICES	FINSIEL	TELEGONO
Cost	4,094	13,500	4,600
Writedowns	(4,094)	–	
	–	**13,500**	**4,600**

Annex N. 2

LIST OF INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES AT 12/31/2005

(in thousands of euro)	Head office		Share capital (1)	Share-holders' equity (1) (2)	Net income/ (loss) (1)	Percentage owner-ship (%)	Share of net equity (A) (3)	Carryng value (B) (4)	Difference (B-A)
Investments in subsidiaries									
DOMUS ACCADEMY	Milan		140	1,019	490	67.33%	686	686	–
EMSA SERVIZI	Rome		5,000	6,631	52	100.00%	6,631	5,000	(1,631)
EUSTEMA	Rome		312	2,670	404	67.33%	1,798	465	(1,333)
IT TELECOM SRL	Milan		7,000	14,466	(9,472)	100.00%	14,466	14,466	–
IRIDIUM ITALIA (in liquidation)	Rome		2,575	3,335	14	65.00%	2,168	1,720	(448)
LIBERTY SURF GROUP S.A.	Paris		282,559	411,763	5,675	100.00%	217,605 [6]	468,835	251,230
LOQUENDO	Turin		3,574	4,409	863	99.98%	4,408	3,224	(1,184)
MATRIX	Milan		1,100	31,483	26,554	100.00%	31,483	169,538	138,055
NETESI (in liquidation)	Milan		435	66	(179)	100.00%	67	67	–
NUOVA TIN.IT	Milan		10,000	49,233	11,501	100.00%	49,234	880,000	830,766
OFI CONSULTING (ex OLIVETTI FINANZIARIA INDUSTRIALE)	Ivrea (Turin)		95	43,199	2,505	100.00%	43,199	35,109	(8,090)
OLIVETTI GESTIONI IVREA	Ivrea (Turin)		1,300	2,716	556	100.00%	2,716	2,159	(557)
OLIVETTI MULTISERVICES	Ivrea (Turin)		20,337	42,567	3,950	100.00%	42,567	40,403	(2,164)
OLIVETTI	Ivrea (Turin)		128,000	103,716	(45,809)	100.00%	92,151 [6]	92,151	–
PATH.NET	Rome		25,800	35,056	6,372	100.00%	29,006	25,823	(3,183)
PROGETTO ITALIA	Milan		1,000	1,428	428	100.00%	1,428	1,000	(428)
SAIAT	Turin		35,745	44,644	1,545	100.00%	44,644	46,359	1,715
SATURN VENTURE PARTNERS	Dover Delaware (USA)		27,166 23,028	4,086 3,464	(349) (296)	17.85%	618	618	–
TECNO SERVIZI MOBILI	Rome		26	1,796	493	51.00%	916	53	(863)
TECO SOFT ARGENTINA (in liquidation)	Bueno Aires (Argentina)	Arg. Pesos (,000)	12 3	(1,228) (343)	– –	99.99%	(343) [5]	–	343
TELECOM ITALIA AMERICA LATINA	San Paolo (Brazil)	R $ (,000)	43,614 15,795	2,484 900	48 17	99.99%	– 900	– –	– (900)
TELECOM ITALIA AUDIT	Milan		2,750	2,483	(62)	81.82%	2,032 [5]	2,250	218
TELECOM ITALIA CAPITAL SA	Luxembourg		2,336	3,418	1,939	99.99%	3,418	2,388	(1,030)
TELECOM ITALIA DEUTSCHLAND HOLDING	Hamburg (Germany)		25	256,596	3,419	100.00%	256,596	243,201	(13,395)
TELECOM ITALIA INTERNATIONAL	Amsterdam (Holland)		2,399,483	2,335,090	86,465	100.00%	2,335,090	2,248,625	(86,465)
TELECOM ITALIA LEARNING SERVICES	Milan		1,560	(2,530)	(13,697)	100.00%	(2,530) [5]	–	2,530
TELECOM ITALIA MEDIA	Rome		100,327	1,073,545	781,677	65.82%	663,524 [6][8]	706,428	42,904
TELECOM ITALIA SAN MARINO	San Marino		1,550	1,317	(711)	0.0001%	–	–	–
TELECONTACTCENTER	Naples		770	5,467	160	100.00%	5,467	489	(4,978)
TELENERGIA	Rome		50	3,409	1,832	80.00%	2,727	40	(2,687)
TELSY	Turin		390	12,776	1,713	100.00%	12,776	14,512	1,736
TI FINANCE	Luxembourg		542,090	1,641,905	(215,171)	99.99%	1,641,905	1,641,905	–
TI LAB SA	Luxembourg	US$ (,000)	164 139	2,351 1,993	(878) (744)	99.99%	– 1,993	– 1,993	– –
TI SPARKLE	Rome		200,000	973,747	89,754	100.00%	814,741 [6]	784,765	(29,976)
TIM INTERNATIONAL	Amsterdam (Holland)		555,431	4,834,061	688,958	100.00%	4,834,061	5,000,000	165,939
TIM ITALIA	Milan		413,552	5,879,882	2,054,806	100.00%	3,828,663	38,877,427	35,048,764
TRAINET (in liquidation)	Rome		674	(1,453)	(250)	100.00%	(1,453) [5]	–	1,453
Consorzio Energia Gruppo Telecom Italia	Rome		10	10		50.00%	5	5	–
								51,311,704	**36,326,342**

List of investments in subsidiaries and affiliated companies at 12/31/2005

(in thousands of euro)	Head office		Share capital (1)	Share-holders' equity (1) (2)	Net income/ (loss) (1)	Percentage owner-ship (%)	Share of net equity (A) (3)	Carryng value (B) (4)	Difference (B-A)
Investments in affiliated companies									
AREE URBANE	Milan		308	18,744	1,350	31.65%	5,932	5,172	(760)
ASSCOM INSURANCE BROKERS	Milan		100	1,258	1,083	20.00%	252	20	(232)
IM.SER	Turin		890	763	(129)	40.00%	305 (5)	357	52
IN.VA.	Aosta		520	1,763	396	40.00%	705	161	(544)
LI.SIT.	Milan		6,500	20,075	(25,774)	24.20%	4,858	16,913	12,055
LUNA ROSSA CHALLENGE 2007	Valencia (Spain)		4,000	22,088	4,319	49.00%	10,823	1,960	(8,883)
LUNA ROSSA TRADEMARK	Luxembourg		20,000	19,463	(547)	49.00%	9,537	10,000	463
NORDCOM	Milan		5,000	5,638	93	42.00%	2,368	2,143	(225)
OCN TRADING (in liquidation)	Ivrea (Turin)		41	(57)	(23)	40.00%	(23) (5)	1	24
PERSEO	Caselle Torinese (Turin)		20	32	(488)	50.00%	16 (5)	262	246
SHARED SERVICES CENTER	Milan		1,757	2,145	0	40.91%	878 (5)	919	42
SIEMENS INFORMATICA	Milan		6,192	6,780	(21,873)	49.00%	3,322	3,841	519
SOFORA TELECOMUNICACIONES SA	Buenos Aires (Argentina)	Pesos Arg.	439,702 122,932	139,702 39,058	(184,000) (51,443)	32.50%	12,694	– 1	(12,693)
TELBIOS	Milan		4,083	871	(2,982)	31.03%	270	261	(9)
TELEGONO	Rome		1,000	12,094	3,066	40.00%	4,838	4,653	(185)
TIGLIO I	Milan		5,256	198,556	(25,701)	45.70%	90,738	90,738	–
TIGLIO II	Milan		14,185	34,986	3,377	49.47%	17,308	14,190	(3,118)
Consorzio DREAM FACTORY (in liquidation)	Rome		20	0	(33)	20.00%	0 (5)	–	0
Consorzio EO (in liquidation)	Rome		19	(15)	(2)	50.00%	(8) (5)	–	8
Consorzio NAVIGATE CONSORTIUM	Milan		583	586	0	20.00%	117 (5)	300	183
Consorzio SIARC (in liquidation)	Naples		26	21	(1)	30.00%	6	1	(5)
Consorzio TELCAL (in liquidation)	Catanzaro		878	878	0	24.00%	211	211	–
Consorzio TURISTEL	Rome		77	77	0	33.33%	26	26	–
								152,130	**(13,044)**

(1) Data taken from the latest approved financial statements.
(2) Includes net income (loss).
(3) Net of dividends paid.
(4) Includes advances on future capital contributions of subsidiaries and affiliated companies.
(5) Covered by reserve for losses of subsidiaries and affiliated companies.
(6) Data taken from the consolidated financial statements.
(7) Does not include stock included in short-term financial assets.
(8) Dividend included.

Annex N. 3

COMPARISON OF THE CARRYING VALUE OF LISTED SHARES WITH MARKET PRICES AT DECEMBER 31, 2005

		Market value		Carrying value		Difference	
	Number of shares held	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)
		(A)		(B)		(A-B)	
Investments							
MEDIOBANCA	14,118,350	16.09	227,108	8.01	113,119	8.07	113,989
TELECOM ITALIA MEDIA							
– ordinary shares	2,201,183,545	0.45	983,929	0.32	706,428	0.13	277,501
Total			1,211,037		819,547		391,490
Short - term financial assets							
TELECOM ITALIA MEDIA							
- saving shares	221,000	0.42	92	0.42	92	–	–

Annex N. 4

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in thousands of euro)	12/31/2005 Amounts due				12/31/2004 Amounts due			
	Within one year	From two to five years	Beyond five years	Total	Within one year	From two to five years	Beyond five years	Total
Accounts receivable in long-term investments								
– subsidiaries	1,566	597,095		598,661	4,613	443,713		448,326
– affiliated companies	43	24,261		24,304	2,841	22,703		25,544
– others								
• customers	3,320			3,320				0
• employees	7,776	37,857	15,479	61,112	7,092	34,878	12,971	54,941
• security deposits	2,946	3	370	3,319	7	3,139	371	3,517
• miscellaneous	8,596	359,735	50	368,381	11,876	36,629	946	49,451
	24,247	**1,018,951**	**15,899**	**1,059,097**	**26,429**	**541,062**	**14,288**	**581,779**
Accounts receivable in current assets								
Other financial receivables from								
– subsidiaries	588,236			588,236	706,952			706,952
– affiliated companies	14,354			14,354	113			113
– others	78,280			78,280	345,876			345,876
	680,870			**680,870**	**1,052,941**			**1,052,941**
Trade accounts receivable from								
– customers	3,588,538			3,588,538	3,121,009			3,121,009
– subsidiaries	589,880			589,880	493,728			493,728
– affiliated companies	185,072			185,072	114,444			114,444
– others	68,548			68,548	78,030			78,030
	4,432,038			**4,432,038**	**3,807,211**			**3,807,211**
Other receivables from								
– subsidiaries	2,728,781			2,728,781	1,463,032			1,463,032
– affiliated companies	9,470			9,470	11,918			11,918
– taxes receivable	377,651			377,651	494,318			494,318
– deferred tax assets	1,807,982	43,231	2,338	1,853,551	1,312,544	1,078,919		2,391,463
– miscellaneous:								
• Government and other public entities for grants subsidies	27,973			27,973	27,129			27,129
• miscellaneousi	730,693			730,693	675,284			675,284
	5,682,550	**43,231**	**2,338**	**5,728,119**	**3,984,225**	**1,078,919**		**5,063,144**
Total accounts receivable in current assets	**10,795,457**	**43,231**	**2,338**	**10,841,026**	**8,844,377**	**1,078,919**		**9,923,296**
Accrued income								
– financial	72,234			72,234	60,472			60,472
– trading	25			25				
– miscellaneous				0	4,669			4,669
	72,259	**0**	**0**	**72,259**	**65,141**	**0**	**0**	**65,141**

Annex N. 5

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in thousands of euro)	12/31/2005 Amounts due				12/31/2004 Amounts due			
	Within one year	From two to five years	Beyond five years	Total	Within one year	From two to five years	Beyond five years	Total
Medium and long-term financial debt								
– Debentures	1,000,000	1,360,000	12,988,250	15,348,250		2,360,000	10,341,250	12,701,250
– Convertible debentures		599,822		599,822			2,824,947	2,824,947
– Due to banks	107,002	3,883,397	4,964,546	8,954,945	180,433	488,874	759	670,066
– Due to other lenders	67,345	135,059	115,646	318,050	47,850	348,875	436,336	833,061
– Accounts payable to subsidiaries	5,415,499	3,706,635	11,394,507	20,516,641	2,008,332	10,494,415	6,074,574	18,577,321
– Accounts payable to affiliated companies				0	1,353	4,060		5,413
	6,589,846	**9,684,913**	**29,462,949**	**45,737,708**	**2,237,968**	**13,696,224**	**19,677,866**	**35,612,058**
Short-term borrowings								
– Due to banks	381,042			381,042	235,577			235,577
– Due to other lenders	210,352			210,352	211,660			211,660
– Accounts payable to subsidiaries	4,209,164			4,209,164	967,781			967,781
– Accounts payable to affiliated companies	188			188	485			485
– Other payables	15,736			15,736	46,176			46,176
	4,816,482			**4,816,482**	**1,461,679**			**1,461,679**
Trade accounts payable								
– Accounts payable to suppliers	2,132,006			2,132,006	2,032,076			2,032,076
– Accounts payable to subsidiaries	464,105			464,105	553,755			553,755
– Accounts payable to affiliated companies	52,255			52,255	218,201			218,201
	2,648,366			**2,648,366**	**2,804,032**			**2,804,032**
Other payables (1)								
– Accounts payable to subsidiaries	442,090	100,136		542,226	476,092	153,357		629,449
– Accounts payable to affiliated companies				0	760			760
– Taxes payable	322,194			322,194	265,868			265,868
– Contributions to pension and social security institutions	185,226	331,873		517,099	167,538	302,165	98,662	568,365
– Other liabilities	1,785,043	53		1,785,096	1,921,333	53		1,921,386
	2,734,553	**432,062**	**0**	**3,166,615**	**2,831,591**	**455,575**	**98,662**	**3,385,828**
Total liabilities (1)	**16,789,247**	**10,116,975**	**29,462,949**	**56,369,171**	**9,335,270**	**14,151,799**	**19,776,528**	**43,263,597**
Accrued expenses								
– financial	1,102,108			1,102,108	1,027,506			1,027,506
– trading	42			42	86			86
	1,102,150	**0**	**0**	**1,102,150**	**1,027,592**	**0**	**0**	**1,027,592**

(1) Not including the caption "Advances".

Annex N. 6

ACCOUNTS RECEIVABLES AND LIABILITIES AT DECEMBER 31, 2005 - GEOGRAPHICAL AREA (customer/supplier location)

(in thousands of euro)	Italy	Rest of Europe	North America	Centro and Sud America	Other areas	Total
Accounts receivable in long-term investments						
• subsidiaries	598,661		–			598,661
• affiliated companies	24,305		–		–	24,305
• others	108,656	327,475	–	–	–	436,131
Total	**731,622**	**327,475**	**–**	**–**	**–**	**1,059,097**
Accounts receivable in current assets (*)						
• customers	3,562,613	21,263	1,175	3,119	368	3,588,538
• subsidiaries	3,826,245	77,783		2,869		3,906,897
• affiliated companies	203,720			4,805	371	208,896
• taxes receivable	377,650			1		377,651
• others	905,493					905,493
	8,875,721	**99,046**	**1,175**	**10,794**	**739**	**8,987,475**
Liabilities						
• Debentures	9,798,250	5,550,000				15,348,250
• Convertible debentures	599,822					599,822
• Due to banks	677,020	8,658,967				9,335,987
• Due to other lenders	528,402					528,402
• Advances	47,107					47,107
• Accounts payable to suppliers	2,093,496	29,011	6,660	2,069	770	2,132,006
• Accounts payable to subsidiaries	5,215,467	20,516,669				25,732,136
• Accounts payable to affiliated companies	52,443					52,443
• Taxes payable	322,194					322,194
• Contributions to pension and social security security institutions	517,099					517,099
• Other liabilities	1,800,831					1,800,831
Total	**21,652,131**	**34,754,647**	**6,660**	**2,069**	**770**	**56,416,277**

REVENUES YEAR 2005 - GEOGRAPHICAL AREA (customer location)

	Italy	Rest of Europe	North America	Centro and Sud America	Other areas	Total
Sales and service revenues	**17,153,017**	**57,329**	**4,127**	**4,860**	**300**	**17,219,633**

(*) Not including the caption "Deferred tax assets".

Annex N. 7

STATEMENTS OF CASH FLOWS		
(milllions of euro)	2005	2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES		
Net income of the year	3,885	2,135
Adjustments to reconcile net income with cash flows generated (used) by operating activities:		
Ammortamenti	3,080	2,892
Depreciation and amortisation	286	545
Impairment reversals/losses of non-current assets (including equity investments)	1,136	839
Net change in deferred tax assets and liabilities	(287)	(64)
Change in other operating assets and liabilities		
Capital gains/losses realized on disposal of non-current assets (including equity investments)	*215*	*(64)*
Change in employee severance indemnities and other employee-related reserves	*(2,557)*	*1,592*
Change in other operating assets and liabilities	*12*	*(38)*
Change in receivables	*(1,008)*	*881*
Change in trade payables	*(112)*	*(229)*
Net change in miscellaneous receivables/payables and other assets/liabilities	*(1,449)*	*978*
Elimination of dividends received from as a result of merger	(2,053)	–
CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)	**3,705**	**7,875**
Cash flows attributable to investing activities		
Acquisitions of tangible assets (*)	(1,670)	(1,299)
Acquisitions of intangible assets (*)	(804)	(1,031)
Acquisitions of other non-current assets (*)	(15,977)	(1,695)
Change in financial receivables and other financial assets	500	(121)
Consideration received on the sale of tangible, intangible and other non-current assets and capital reimbursements (**)	872	2,185
CASH FLOWS USED BY FINANCING ACTIVITIES (B)	**(17,079)**	**(1,961)**
Cash flows attributable to financing activities		
Net change in financial liabilities	3,126	(6,972)
New non-current financial liabilities (including current portion)	14,834	14,615
Repayment of non-current financial liabilities (including current portion)	(3,028)	(5,734)
Consideration received for equity instruments	97	44
Capital grants	3	
Dividends paid to third parties (distribution of reserves included)	(2,302)	(1,739)
CASH FLOWS GENERATED BY FINANCING ACTIVITIES (C)	**12,730**	**214**
AGGREGATE CASH FLOWS (D=A+B+C)	**(644)**	**6,128**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	**5,438**	**(690)**
Net effect of foreign currency translation on cash and cash equivalents (F)	–	–
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G=D+E+F)	**4,794**	**5,438**

(*) Net of the change in payables as a result of the relative acquisitions.
(**) Net of the change in receivables as a result of the relative sales.

(millions of euro)	2005	2004
OTHER INFORMATION:		
Income tax paid	(587)	934
Interest expense paid	(1,606)	(1,180)
Interest income received	369	134
Dividends received	2,122	1,329
RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS		
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**5,438**	**(690)**
Cash and cash equivalents	6,008	1,043
Bank overdrafts repayable on demand	(570)	(1,733)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4,794**	**5,438**
Cash and cash equivalents	6,601	6,008
Bank overdrafts repayable on demand	(1,807)	(570)

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Independent auditors' report
pursuant to article 156 of Legislative Decree of February 24, 1998, No. 58
(Translation from the original Italian text)

To the Shareholders
of Telecom Italia S.p.A.

1. We have audited the financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2005. These financial statements are the responsibility of Telecom Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For our opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated March 16, 2005.

3. In our opinion, the financial statements of Telecom Italia S.p.A. comply with the Italian regulations governing financial statements; accordingly, they present clearly and give a true and fair view of the financial position of Telecom Italia S.p.A. as of December 31, 2005, and the results of its operations for the year then ended.

4. We draw your attention to the information presented in the notes to the financial statements, "Accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law No. 58/1992.

Milan, Italy
March 22, 2006

Reconta Ernst & Young S.p.A.
Signed by - Nadia Locati, Partner

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Report of the Board of Auditors to the Shareholders' Meeting of Telecom italia S.p.A. pursuant to article 153 of legislative decree 58/1998

Dear Shareholders,

During the year ended 31 December 2005 the Board of Auditors of Telecom Italia S.p.A. (the "Company") performed the supervisory activities required by law, taking into account the standards recommended by the Italian Accounting Profession and the indications of Consob concerning controls and the activity of the Board of Auditors.

As in previous years, we obtained the information we needed for the performance of our duties of general supervision by holding hearings with managers in the various organizational units and regularly attending the meetings of the Board of Directors, which, even in cases that fall within the scope of the delegated powers of the executive directors, has reserved to itself the task of examining and deciding on transactions of particular significance, i.e. those that are likely, in view of their nature, strategic importance or size, to have a substantial impact on the Company's activity. Moreover, the Board of Directors – acting in its collegial capacity, and therefore in our presence – is required to give advance approval to transactions with related parties, including intra-group transactions (except for those of a typical or customary nature to be concluded at standard conditions), in accordance with the "Rules of Conduct for Transactions with Related Parties", which the Company adopted in 2002 on a self-regulatory basis and updated in 2005 in the light of the subsequent amendments to the law.

In addition, in accordance with another self-regulatory measure ("Procedure for Compliance with the Requirements of Article 150.1 of Legislative Decree 58/1998"), we received sufficient information on the action taken by the executive directors using their delegated powers and on the implementation of transactions approved by the Board of Directors. In fact this procedure governs the collection and transmission of information on the activity carried out by the Company; the transactions of greatest significance for its profitability, financial position and assets and liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions.

1. On the basis of the information we received and the analyses we performed, the transactions having major economic, financial and balance-sheet effects entered into by the Company, including those entered into through companies in which it owned a direct or indirect interest, were essentially the following:
   - in January 2005, as part of the reorganization of the Group Information Technology business, the following activities were transferred to the Wireline Business Unit: (i) the development and operation of the applications of the Operational Support System (OSS) and the Business Support System (BSS); and (ii) the development, delivery and operation of infrastructure for standard and personalized VAS for the Wireline market;
   - in March 2005, Telecom Italia, through its subsidiary Telecom Italia International N.V., sold its interest in Entel Chile S.A. to Almendral S.A.;
   - in April 2005 the contract for the sale of Telecom Italia's entire 79.5% interest in Finsiel to the Cos group was executed; the sale was made in two steps: 59.6% on 28 June 2005 and the remaining 19.9% on 7 November 2005;
   - in May 2005, after the French Antitrust Authority had authorized the transaction, the contract was executed for Telecom Italia's purchase from Tiscali of the latter's holding in Liberty Surf Group S.A., an internet service provider operating in France; the preliminary agreement had been signed in April 2005;

- in June 2005, after the competent authorities had cleared the transaction, the contract was executed for the sale by Tim International N.V. of its interest in TIM Hellas Telecommunications S.A. to the funds managed by Apax Partners and Texas Pacific Group (TPG);
- in June 2005 the merger of Tim S.p.A. into Telecom Italia S.p.A. was completed following completion of the two transactions that were a prerequisite of the merger: (i) the tender offer by Telecom Italia for Tim ordinary and savings shares; and (ii) the spin-off by Tim, completed in February 2005, of its mobile telephony business in Italy to a wholly-owned subsidiary, Tim Italia S.p.A.;
- in June 2005, as part of the rationalization of the Group's activities, Telecom Italia entered into agreements with Telecom Italia Media for the purchase of the assets owned by Virgilio and Tin.it.;
- in July 2005 the tender for the privatization of a majority interest (55%) in the Turkish telecommunications operator Turk Telekom was completed. The successful bidder was the investment company controlled by Oger Telecom, a new company headed by the Saudi Arabian-Lebanese group Saudi Oger Limited, in which Telecom Italia holds an interest via Tim International;
- in August 2005 Tim International N.V. sold its 100% interest in Tim Perù S.A.C. to Sercotel S.A. de C.V.;
- in September 2005 Telecom Italia Media executed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of its 100% interest in Gruppo Buffetti S.p.A.;
- in November 2005, after clearance of the transaction by the Antitrust Authority, the contract was executed for Telecom Italia's purchase of Tiscali's optical fibre network (TINet SaS); the preliminary agreement had been signed by Telecom Italia Sparkle and Tiscali on 2 August 2005;
- in December 2005, as part of the reorganization of the premises occupied by network equipment with a view to making them partially available, Telecom Italia S.p.A. approved the disposal of more than 1,300 buildings. A first group of 867 was transferred to the company Olivetti Multiservices (OMS), with the simultaneous conclusion of rental agreements. Telecom Italia S.p.A. and OMS also concluded two Framework Agreements for the contribution of the assets to closed-end real-estate funds (Fondo Raissa, to which a first group of 561 buildings was contributed, and Fondo Spazio Industriale, to which a first group of 246 buildings was contributed);

* * *

- in 2005 Telecom Italia made three new note issues under the Euro Medium-Term Note Programme approved for a total of euro 10 billion by the Board of Directors on 10 October 2003:
  - on 17 March 2005 for a total of euro 850 million: coupon 5.25%, issue price 99.667, maturity 17 March 2055;
  - on 29 June 2005 for a total of £ 500 million (euro 733 million): coupon 5.625%, issue price 99.878, maturity 29 December 2015;
  - on 6 December 2005 for a total of euro 1 billion: coupon 3-month Euribor + 0.53%, issue price 100, maturity 6 December 2012.

  On 21 December 2005 the Company's Board of Directors raised the Programme's ceiling from euro 10 billion to euro 15 billion;
- on 29 June 2005 Telecom Italia Finance S.A. increased its issue of 7.75% notes listed on the Luxembourg stock exchange and maturing in 2033 by euro 250 million, from euro 800 million to euro 1,050 million. The proceeds of the new notes, placed with a single investor, were used to buy back from the same investor the entire euro 250 million Telecom Italia Finance S.A. 7.77% note issue maturing in 2032, which was accordingly cancelled on 21 July 2005;

– on 28 September 2005 Telecom Italia Capital S.A. issued $ 2,500 million (euro 2,119 million) of notes guaranteed by the parent company and divided into the following tranches:
- $ 700 million with a 4.875% annual coupon, payable half-yearly, issue price 99.898, maturity 1 October 2010;
- $ 400 million with a quarterly coupon equal to 3-month USD Libor + 0.48%, issue price 100, maturity 1 February 2011;
- $ 1,400 million with a 5.25% annual coupon, payable half-yearly, issue price 99.370, maturity 1 October 2015.

* * *

– in January 2006 Telecom Italia, through its subsidiary Tim International, entered into an agreement for the sale of its 100% interest in the Venezuelan mobile operator Corporaciòn Digitel C.A. (Digitel) to Telvenco S.A. The execution of the contract is subject to clearance of the transaction by the competent Venezuelan authorities;

– on 1 March 2006 the merger of Tim Italia into Telecom Italia became effective. Accordingly, as of that date Telecom Italia assumed all of Tim Italia's assets and liabilities and legal rights and obligations.

* * *

The above transactions are described in the Board of Directors' Report on Operations and/or in the notes to the financial statements of Telecom Italia S.p.A. and the Telecom Italia Group.
We verified that the above transactions were carried out in conformity with the law, the bylaws and the principles of proper management and that they were not manifestly imprudent or reckless, in contrast with the resolutions approved by the shareholders' meeting or such as to compromise the integrity of the Company's patrimony.

2. We did not find evidence of any atypical and/or unusual transactions entered into with third parties or related parties (including Group companies) during 2005 or subsequent to the balance-sheet date.
With regard to transactions potentially involving a conflict of interest, the directors describe the main transactions with Group companies and other related parties in the section of the Report on Operations of the Company's Annual Report devoted to transactions with related parties and in their comments on the individual items of the notes to the financial statements of Telecom Italia S.p.A. and the Telecom Italia Group. Reference should therefore be made to these sections for a description of the features of the transactions and a discussion of their economic effects.
We verified, where appropriate with the assistance of the audit firm, Reconta Ernst & Young, and the person responsible for internal control, that Telecom Italia S.p.A. had adopted specific practices to control that the transactions in question were concluded in the interest of the Company and/or the Group, were part of the ordinary course of business and, when not concluded at standard conditions or on specific terms prescribed by statutory or regulatory provisions (tariffs), were settled at arm's length conditions.
In 2005 Telecom Italia continued to apply the "Rules of Conduct for Transactions with Related Parties" (amended, as mentioned earlier, during the year) to ensure transparency and procedural and substantial fairness in deciding on and implementing such transactions. It is worth noting in this respect the introduction of a concept of normality for intra-group transactions. More details on how Telecom Italia's Board of Directors applies the Rules referred to above are to be found in the Corporate Governance section of the Report on Operations.
It should also be noted that on 7 March 2006 the Board of Directors approved a new procedure for transactions with related parties, as anticipated in our report to last year's general meeting. This procedure, intended to put the handling of related-party transactions on an objective footing, provides for the prior consultation, by completing checklists, of an expert system, i.e. a computer program (interfaced with a database that is in the process of being built up) capable of automatically providing indications with regard to decision-making powers, internal information flows for reporting purposes, and the need for external opinions in evaluating the fairness of transactions.

3. The information given in the Report on Operations and in the notes to the consolidated financial statements regarding the Company's transactions with related parties and intra-group transactions is adequate in relation to the size and structure of the Company and the Group.

4. On 22 March 2006 the audit firm, Reconta Ernst & Young, issued the reports pursuant to Article 156 of Legislative Decree 58/1998 attesting that the financial statements of Telecom Italia S.p.A. and the consolidated Group financial statements for the year ended 31 December 2005 complied with the provisions governing the preparation of financial statements, had been drawn up clearly and gave a true and fair view of the balance-sheet situation, financial position and results for the year. The report on the Company's financial statements contains an emphasis of matter paragraph concerning the accounting treatment of the pension totalization costs regulated by Law 58/1992.

5. During the shareholders' meeting held on 7 April 2005 we received two complaints pursuant to Article 2408 of the Civil Code concerning: (i) the failure of the directors to come to the extraordinary shareholders' meeting at the second call on 6 April 2005 (when the quorum was not reached, as the Company had indicated was probable in a notice published in the press); and (ii) an alleged omission by the directors who, it was claimed, had failed to call a meeting in good time of the holders of Telecom Italia convertible bonds and ordinary bonds issued under Italian law. During the year we received another complaint pursuant to Article 2408 of the Civil Code to the effect that the directors had omitted to call the meeting of the holders of "Telecom Italia 1,5% 2001-2010 convertibile con premio al rimborso" bonds to appoint a new common representative in time to ensure the position was held without a break, in view of the failure of the previous holder of the position to do so.
   With reference to the merger of Tim into Telecom Italia, approved by the extraordinary shareholders' meetings of the two companies on 5 and 7 April 2005 respectively, we inform you that a shareholder notified us of his intention to bring actions against both companies for compensatory damages for the losses he had allegedly incurred owing to the misleading information Telecom Italia published in connection with the tender offer for Tim shares and Tim's failure to recognize shareholders' withdrawal rights and for possible additional losses caused by the unfair determination of the exchange ratio, which he claimed had been established arbitrarily on the basis of incomplete and inaccurate data.
   We carried out appropriate inquiries into all the complaints without finding omissions, censurable facts or irregularities to report to the shareholders' meeting.

6. During the year we also received twenty-two petitions (or groups of petitions, dealt with together when more than one was received from the same person, even at different times), basically concerning technical, commercial and accounting problems.
   We carried out appropriate inquiries into all the petitions without finding irregularities to report to the shareholders' meeting.

* * *

In its capacity as the Company's Audit Committee, the Board of Auditors was required by the applicable US legislation to have adopted procedures by 31 July 2005 for the receipt, retention and treatment of complaints submitted by any person regarding "accounting, internal accounting controls or auditing matters" and "concerns" submitted anonymously or otherwise by employees regarding "questionable accounting or auditing matters". We have adopted the required procedure and extended its scope to include the complaints and petitions of the kind referred to in points 5 and 6 of this report. The Company's website contains, under Investors/Governance, the instructions for submitting reports (statements of violations, petitions, complaints and concerns) in paper-based and electronic form. We inform you that we have received some reports at the e-mail address reserved for this purpose.

7. During the 2005 fiscal year the Company engaged Reconta Ernst & Young and entities linked to it by continuing relationships and/or part of the Ernst & Young international network to perform some services other than the statutory audit (so-called "audit services" and "audit-related services"). The table below shows the fees for this work, excluding out-of-pocket expenses and VAT. These fees appear appropriate in relation to the scope, complexity and characteristics of the work carried out.

(Euro)	
• Fairness opinion pursuant to Article 2501-sexies of the Civil Code for the merger of Tim S.p.A. into Telecom Italia S.p.A. (engagement conferred by Tim S.p.A.)	2,700,000.00
• Tests on the pro forma reclassified financial statements of the Telecom Italia Group for the year ended 31 December 2004 considering the merger of Tim S.p.A. into Telecom Italia S.p.A.	110,000.00
• Limited review of the consolidated reporting package for the half-year ended 30 June 2005 in respect of Finsiel - Consulenza e Applicazioni Informatiche S.p.A., prepared in accordance with the IFRS international accounting standards	14,000.00
• Contractual supplement for the audit of the comparative accounting data for 2004 prepared in accordance with IFRS	480,000.00
• Agreed test procedures for the issue of comfort letters for the offering circular regarding the update of the "Euro Medium-Term Note Programme"	130,000.00
• Agreed test procedures for the issue of comfort letters for the "Telecom Italia Issue of euro 850,000,000 5.25% Notes due 2055 under the Company's euro 10,000,000,000 Euro Medium-Term Note Programme"	70,000.00
• Audit procedures performed in connection with the issue of the Auditors' Report and the Translation Report on the "Garantie de Cours sur les actions de la société Liberty Surf Group S.A. in accordance with the Règlement Générale de l'Autorité des Marchés Financiers"	80,000.00
• Professional services provided in connection with the preparation and filing of Forms F-4 and F-3 for the registration with the SEC of bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia	400,000.00
• Agreed test procedures for the issue of comfort letters for the "Telecom Italia Issue of £ 500,000,000 5.625% Notes due 2015 under the Company's euro 10,000,000,000 Euro Medium-Term Note Programme"	60,000.00
• Audit procedures performed in connection with the "Report on Material Subsidiaries of Telecom Italia as of December 31, 2004"	10,000.00
• Agreed test procedures for the issue of comfort letters for the offering circular regarding the update of the "Euro Medium-Term Note Programme"	90,000.00
• Agreed test procedures for the issue of comfort letters for the "Telecom Italia Issue of euro 1,000,000,000 Floating Rate Callable Notes under the Company's euro 10,000,000,000 Euro Medium-Term Note Programme"	30,000.00
• Test procedures and assistance with the plan for the sale and leaseback of certain Telecom Italia real-estate properties with a view to applying to the Office of the Chief Accountant of the SEC for pre-clearance of certain accounting treatments	900,000.00
Total	**5,074,000.00**

We remind you that the audit engagement conferred on Reconta Ernst & Young S.p.A. by the shareholders' meeting of 6 May 2004 for the three years 2004-06 comes to an end with the issue of the report on the annual financial statements of Telecom Italia and the Telecom Italia Group for the year ending 31 December 2006. Particularly as regards the last year of the mandate, we inform you that the audit firm has submitted a request for a revision of its fees to take account of the changed nature of the engagement owing to the innovations in the regulatory framework consequent on the introduction of IFRS (which will also be applied to the Company's annual financial statements for 2006) and the completion of the merger of Tim Italia S.p.A. into Telecom Italia S.p.A.
On the basis of applicable Italian law and performance of the tasks attributed to the Board of Auditors as the Company's Audit Committee under US law (to which Telecom Italia is subject as a company registered with the SEC with securities listed on the New York Stock Exchange under an ADR programme), we expressed a favourable opinion on the proposed supplement to the fees, which is included with the documentation prepared by the Board of Directors concerning the resolutions on the agenda.
We also inform you that we expressed a favourable opinion on the audit firm's request for an ex post adjustment of the fees for the audit of the 2005 financial statements (the annual financial statements of Telecom Italia and the Telecom Italia Group for the year ended 31 December 2005 and the half-yearly report for the period ended 30 June 2005).

8. In 2005 the Company had some services performed by persons linked to Reconta Ernst & Young by continuous work relationships and/or companies belonging to the Ernst &Young international network (in particular Ernst & Young Financial - Business Advisors S.p.A.). The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below:

(Euro)	
Ernst & Young Financial - Business Advisors S.p.A.	
• Ernst & Youg Test procedures regarding the adjustment of regulatory accounting to comply with the new regulatory framework established by Italy's Communications Authority (cost accounting, data warehouse)	370,000.00
• Implementation of the project to adjust regulatory accounting to the new Community framework	285,000.00
• Test procedures regarding the adjustment of regulatory accounting to comply with the new regulatory framework established by Italy's Communications Authority (quantitative data)	55,000.00
Ernst & Young S.L. (Spain)	
• Agreed test procedures in connection with the "Luna Rossa" investment project	40,000.00
Total	**750,000.00**

9. During the year we issued two opinions to the Board of Directors concerning the remuneration of the executive directors (the Chairman and the Managing Directors), pursuant to Article 2389, third paragraph of the Civil Code.

10. In 2005 the Board of Directors of the Company held 11 meetings, in all of which we participated.
The Internal Control and Corporate Governance Committee met 11 times, while the Remuneration Committee held 3 three meetings and the Strategy Committee 4.
The Board of Auditors met 15 times and participated in all of the meetings held by the Internal Control and Corporate Governance Committee, either in joint meetings or represented by its Chairman or another auditor designated by him, depending on the subjects to be discussed.
We participated in the ordinary and extraordinary shareholders' meetings of the Company held on 7 April 2005.

11. For matters within its sphere of authority, the Board of Auditors monitored compliance with the principles of proper management by carrying out direct checks and investigations, gathering information from the heads of functional units, and holding meetings with the person responsible for internal control at the Company, the Internal Control and Corporate Governance Committee and the audit firm, Reconta Ernst & Young (in the latter case for the exchange of data and information relevant for the performance of their respective duties, in accordance with Article 150.2 of Legislative Decree 58/1998).
More specifically, as regards the decision-making of the Board of Directors, we verified, by participating in the directors' meetings, the compliance of operational decisions with law and the bylaws. We also checked that the resolutions in question were backed by analyses and opinions – produced internally or when necessary by external experts – concerning the economic and financial fairness of transactions and their correspondence with the Company's interest.
We are of the opinion that many of the corporate governance mechanisms adopted by the Company are an effective means of ensuring compliance with the principles of correct management of operations and we express a basically positive opinion on them and the other corporate governance mechanisms the Company has adopted.

12. We obtained information and monitored the adequacy of the Company's organizational structure through reports from the competent structures, hearings of the heads of functional units, and meetings with the persons responsible for the internal and external audit functions.
The organizational structure of the Group underwent far-reaching changes during the year as a consequence of the completion of the merger of Tim S.p.A. into Telecom Italia and the adoption of the so-called "one company model" by the Board of Directors on 5 October 2005. The new model provides for the unitary and integrated management and

development of fixed and mobile telephony and Internet services in place of the previous Business Units devoted to the two different forms of telecommunications and has led to the redistribution of delegated powers among the executive directors. The process of integration was taken a step further with the merger of Tim Italia (the wholly-owned subsidiary of Telecom Italia to which the domestic mobile telephony business had been spun off) into Telecom Italia with effect from 1 March 2006.
In Latin America two processes are under way, the first involving the concentration of mobile telephony companies and the second the simplification of group structures in order to take the fullest possible advantage of the scope for synergy offered by the integration of fixed and mobile platforms. As regards the latter process, it should be noted that legal disputes initiated in various fora by some indirect shareholders of Brasil Telecom have made it necessary to put the implementation of the plans on hold for the moment.
As of October 2005 the organization of the Group has been configured as follows: Central Functions (responsible for the working of the Group), Operations (responsible for the unitary management and development of fixed and mobile telephony and Internet services) and Business Units responsible for the development of the Media and Olivetti businesses).
The Central Functions can be configured as Group Functions (responsible for the coordination, direction and control at Group level of the activities for which they are competent, and in particular for the formulation of policies for and overall governance of matters of transversal interest), and/or as Service Units (responsible for the performance of shared operational activities), in order to ensure a sharper focus for activities of transversal interest with respect to the typical role of providing strategic direction and/or shared operational services.
The Chairman is entrusted with coordinating the two Managing Directors (responsible respectively for Operations and for the guidance and control of the business and the overall governance of matters of a transversal nature) and is directly responsible for some Central Functions (Public and Economic Affairs, Communication and Image, Progetto Italia, Investor Relations, Telecom Italia Latam and the Office of the General Counsel) and the Media Business Unit.
The integration of the Group is based primarily on the notion of Professional Families, which link the human resources with homogeneous professional know-how present at various hierarchical levels across the organization and promote the development, utilization and coordination of the special skills present in the various Functions. It is up to the individual Central Functions to control and guarantee the implementation of policies, the coordination of processes and the quality of the results, which are monitored by means of key indicators.
The Group Committees – which are a means of forging links and making comparisons with a view to providing support for top management's guidance and control role, guaranteeing the effective overall governance of the business and integrating the Group's operations – have been reorganized to make it possible to: (i) monitor the implementation of strategies, the drawing up of plans and the achievement of results; (ii) ensure the overall coordination of business activities and the management of matters of transversal interest; (iii) increase the necessary operational synergy between the various processes involved in technological, business and support functions; and (iv) foster the integrated development of innovation within the Group. In particular, it is worth mentioning the following committees:
– the *Management Committee*, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
– the *Investment Committee*, which is entrusted with approving investments that exceed the thresholds established;
– the "*Technological Innovation Committee*", which ensures an integrated approach to the processes of technological innovation and development;
– the "*Information Technology Governance Committee*", which defines the information technology guidelines for the Group, establishes the IT strategies and investments in accordance with the needs of the business, and monitors the progress of the main IT initiatives and the quality and cost effectiveness of the solutions;
– the "*Information Technology Risk Management Committee*", which provides overall governance of IT risk at Group level.
In addition, the new organizational arrangements include "Business Reviews" of Operations and the Media and Olivetti businesses, with the aim of checking the results achieved by each structure against the original forecasts and planning any necessary remedial action.

Lastly, it is worth noting that for some time the Company has had a procedure for the appointment of the governing bodies of subsidiary and affiliated companies.

13. We monitored the adequacy of the Company's internal control system, among other things through meetings with the person responsible for internal control and the Internal Control and Corporate Governance Committee and by examining documents. It did not find any serious weaknesses.
For some time now the performance of the internal audit function within the Company and the Group has been entrusted to a consortium company called Telecom Italia Audit S.c.a.r.l., whose primary object is the impartial and independent performance, on behalf of the members of the consortium and the Group as a whole, of "internal auditing", i.e. the activities aimed at checking and improving the effectiveness and efficiency of the internal control and risk management system. In view of the activity carried out by Telecom Italia Audit, Telecom Italia (in the same way as the other Group company in the consortium, Telecom Italia Media) has made the internal audit consortium company, in the person of the director designated by the Company, the "person responsible for internal control".
Telecom Italia Audit works in collaboration with Mr. Buora, the Managing Director responsible for deciding on remedial action (to be carried out by "Implementation Officers"), the Board of Auditors and the Internal Control and Corporate Governance Committee.
The activity of the person responsible for internal control is based on quarterly programmes (comprising interventions identified autonomously by the person responsible for internal control himself or following indications received from the Company's management, the control bodies or the audit firm). The existence of these plans obviously does not exclude ad hoc unplanned interventions in response to requests from the Company or the control bodies or made necessary by problems that arise during the year. The person responsible for internal control reports periodically on the results obtained to top management and the control bodies.
The internal control system is completed by TI Audit Latam, charged with overseeing the auditing of the business of Group companies in Latin America.
In 2005 the position of Group Compliance Officer was created, reporting directly to the Managing Director Mr. Buora. and charged with linking and coordinating plans for improving the Group's internal control system and with overseeing and facilitating the relationship between management and the system. The Group Compliance Officer is also required to ensure, in agreement with and with the support of Telecom Italia Audit, the soundness of the methods employed in the management of risk.
At the same a number of specialists on the staff of Telecom Italia Audit were appointed as Compliance Managers under the Group Compliance Officer with the task of providing support to the Implementation Officers for the operational coordination of their activities.
Further progress was made in implementing two transversal projects involving the internal control system of the entire Group:
- the results of the Administrative Systems Checkup project, aimed at verifying the effectiveness of the methods used in producing and controlling accounting data for internal use and disclosure to the market, provide the basis for the "404 Project", intended to ensure the traceability and documentation of the controls serving to provide basic financial and non-financial information and to achieve full compliance, as of the Annual Report for 2006, with Section 404 of the Sarbanes-Oxley Act as regards the attestations to be made on internal controls over financial reporting;
- the Control Risk Self-Assessment project, aimed at providing management with support in the monitoring, analysis and assessment of the main operational risks encountered in the Group's various businesses and identifying appropriate remedial measures. The project led during 2005 to the identification of a Portfolio of Group Risks and to the adoption of appropriate action plans for those considered of greatest importance.

As part of the check on the ability of the internal control system to ensure compliance with applicable legislation, especially the provisions of Legislative Decree 231/2001 regarding administrative liability for offences committed by employees and collaborators, we remind you that in 2003 the Company adopted an "Organizational Model" based on "Rules of conduct for dealings with governmental bodies" and "internal control checklists" listing the main phases of every process, the offences that can be committed in connection with individual processes and the control activities serving to forestall the related risks.

The Model is revised periodically, both to take account of the experience gained in its application and to incorporate additional cases provided for by law. In 2005 the Model was supplemented by some new checklists for processes in which offences can be committed (especially in connection with: purchases of shareholdings in public interest companies; prevention of the distribution and publicizing of child pornography; and donations and non-profit organizations). The Company is examining the desirability of a further extension of the Model to take account of the risks deriving from the discipline concerning market abuse.
Monitoring of the functioning of the model and compliance is performed by a Supervisory Panel made up of a member of the Board of Auditors, an independent director on the Internal Control and Corporate Governance Committee and the person responsible for the internal control system. A special unit has been created within Telecom Italia Audit to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

14. We monitored the adequacy of the administrative and accounting system and its reliability in correctly representing transactions. We performed this task by obtaining information from the heads of the competent organizational structures, examining company documents and analyzing the results of the work carried out by the audit firm, Reconta Ernst & Young.
As regards the procedures used by management to value and verify the fairness of the book values of the Group's equity investments, we examined the results of the checks made by the audit firm, Reconta Ernst & Young, and followed the work of the Company's Internal Control and Corporate Governance Committee with regard to the correct application of the accounting standards adopted and their uniformity for the purpose of preparing the consolidated financial statements.

15. We examined the instructions issued by Telecom Italia to its subsidiaries pursuant to Article 114.2 of Legislative Decree 58/1998 and deemed that they were adequate for the purpose of fulfilling the Company's disclosure obligations under that law. It should be noted in this respect that Telecom Italia has formal procedures governing the flow of information from subsidiaries to its top management on corporate events and other major transactions. In the case of price-sensitive information, in 2005 the Company used the "Procedure for the disclosure of price sensitive information to the market". Among other things, the procedure specified the information that subsidiaries were required to send to the parent company to enable it to fulfill its disclosure obligations. In view of the changes introduced by the recent legislation on market abuse, this procedure was replaced in March 2006 by the "Procedure for the management and public disclosure of inside information"; this also contains the rules for the register of persons having access to inside information, mandatory as of 1 April 2006.

16. We checked – through direct verification and information obtained from the audit firm, Reconta Ernst & Young – the Company's compliance with the rules and regulations governing the layout and preparation of the financial statements of Telecom Italia S.p.A., the consolidated financial statements for the Telecom Italia Group and the Reports on Operations. In particular, we inform you: (i) that the Group results by business sector and geographical area are presented taking account of IAS 14 (in accordance with the relevant Consob regulations); and (ii) that the disclosures referred to in Articles 2427-bis and 2428, second paragraph, point 6-bis of the Civil Code have been made. We also took note of the checks and analyses carried out by Reconta Ernst & Young on the Sustainability Report.

17. The Company complies – through its Self-Regulatory Code, which was last amended in October 2003 at the time of the merger of Telecom Italia into Olivetti – with the principles and recommendations contained in the Code of Conduct (known as the Preda Code) drawn up in 1999 by the Committee for the Corporate Governance of Listed Companies and amended in July 2002.

The Company's Board of Directors (at present made up of 19 directors following the resignations of two members) has 16 non-executive directors, 11 of whom the Board considers to qualify as independent.
The Board has established an Internal Control and Corporate Governance Committee and a Remuneration Committee, both of which are made up entirely of independent directors.
It has also established a Strategy Committee to assist it in making the strategic choices required by the changing competitive environment.
In 2004 the company created the position of Lead Independent Director (in the person of the Chairman of the Internal Control and Corporate Governance Committee), who is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and, inter alia, is authorized to call "Independent Directors' Executive Sessions", i.e. special meetings of independent directors to discuss issues related to operations or the working of the Board.
The Company has not established a nominating committee since the slate voting system laid down in the bylaws for the election of the Board of Directors ensures the presence of directors chosen from minority slates.
In 2005, for the first time, the directors carried out a Board performance evaluation, in line with international best practice. For more details on the results of the evaluation, we refer you to the relevant section of the Corporate Governance chapter of the Report on Operations.
As required by Borsa Italiana, in December 2002 the Company adopted a Code of Conduct for Insider Dealing, which imposed conduct and disclosure obligations on "relevant" persons that were qualitatively and quantitatively much more stringent than those prescribed by Borsa Italiana.
However, that Code will no longer be in force as of 1 April 2006, the date of the entry into force of new Consob regulations implementing the Consolidated Law on Finance as amended by the recent legislation on market abuse.
As regards the Company's compliance with the transparency and disclosure requirements deriving from the SEC's adoption of the rules implementing the Sarbanes-Oxley Act of 2002, we inform you that, as mentioned earlier, the Board of Auditors has adopted a procedure in its capacity as Telecom Italia's Audit Committee for receiving, retaining and treating complaints by any person regarding "accounting, internal accounting controls, or auditing matters" and confidential, anonymous submissions of "concerns" by employees regarding "questionable accounting or auditing matters".
To conclude, we inform you that we were constantly involved in the analysis and implementation of Telecom Italia's system of corporate governance, on which we pass a basically favourable judgement.

18. The oversight, monitoring and control activities we carried out as described above did not bring to light any significant facts or circumstances that needed to be mentioned in this Report or reported to the Company's control bodies or the supervisory authorities.
Nor did we find any objections in the reports issued, pursuant to Articles 153 and 156 of Legislative Decree 58/1998, by the board of auditors and audit firm of Telecom Italia Media (a subsidiary whose shares are listed on the market organized and managed by Borsa Italiana S.p.A.) or by those of Olivetti (a Business Unit set up as a separate Company).

19. As regards the fine imposed by the Antitrust Authority at the end of an investigation (no. A351) into alleged abuses of dominant position by Telecom Italia, which we discussed in our report to the shareholders' meeting of 16 March 2005, we inform you that in 2005 we continued, together with the Committee for Internal Control and Corporate Governance, to monitor the Company's compliance with the conditions laid down by the Authority in its order.

We also inform you that in its ruling on the appeal lodged by the Antitrust Authority against the decision of the Lazio Administrative Court (which in February 2005 quashed the measure imposing the fine of euro 152 million on Telecom Italia), the Council of State upheld part of the petitioner's case, while dismissing the Company's interlocutory appeal, but reduced the fine to euro 115 million. Telecom Italia has reduced the amount set aside accordingly.

20. After examining the Company's financial statements for the year ended 31 December 2005, we have no objections to the resolutions proposed by the Board of Directors regarding the allocation of the net income for the year or the size of the dividend to be paid.

In a report that also served to comply with Article 159.1 of Legislative Decree 58/1998 we expressed a favourable opinion on the proposed change to the audit engagement and the consequent increase in the audit fees for the last of the three years 2004-06.

The mandate granted to us by the shareholders' meeting of the Company (at the time called Olivetti) on 26 May 2003 expires with the shareholders' meeting called to approve the Company's financial statements for the year ended 31 December 2005.
We therefore invite you to elect a new Board and to appoint its Chairman.

Milan, 22 March 2006

The Board of Auditors
Chairman

Resolutions

Financial Statements for the year ended 31 December 2005 - Related and consequent resolutions

Dear shareholders,

The draft financial statements submitted for approval by the shareholders' meeting show net income for the year of euro 3,884,820,803.95.
This result, which is cause for satisfaction as regards the effectiveness of the work performed and the initiatives undertaken in 2005, makes it possible to propose the payment of a dividend of euro 0.1400 for each ordinary share and of euro 0.1510 for each savings share, with a significant increase on the previous year.
The total dividend amount will depend on the number of shares with dividend entitlement outstanding on the dividend payment day, excluding treasury shares (1,272,014 ordinary shares) and taking into account shares that are subscribed for in connection with the capital increases provided for in Article 5 of the Company's bylaws and actually issued by that date. Dividends will be paid as of 27 April 2006, while 24 April 2006 has been set as the ex dividend date.
In addition to allocations to the legal reserve and the reserve set up under point 8-bis of Article 2426 of the Italian Civil Code, the proposed allocation of the net income for the year includes the setting aside in a special reserve of euro 100,333,000.00 in connection with the investment plans presented by Tim S.p.A. (subsequently substituted by Tim Italia S.p.A., which was finally merged into Telecom Italia S.p.A. with effect from 1 March 2006) when applying for financial support under Law 488/1992. In this respect it should be noted that the contribution of equity serves to maintain the support provided by the Ministry for Productive Activities.

In light of the foregoing the Board of Directors invites you to approve the following

Resolution

The shareholders' meeting of Telecom Italia S.p.A.,
- having examined the Company's financial statements for the year ended 31 December 2005;
- having examined the Report on Operations;
- having taken note of the reports of the Board of Auditors and the independent auditor, Reconta Ernst & Young S.p.A.;
- considering that the shares with dividend entitlement at the proposed ex dividend date will number not more than 13,909,731,865 ordinary shares and 6,026,120,661 savings shares;
- having taken note of the intervening merger into Telecom Italia S.p.A. of the wholly-owned subsidiary Tim Italia S.p.A. and taking into account the applications for financial support submitted by Tim S.p.A., to which Tim Italia S.p.A. afterwards succeeded, under Law 488/1992, which require the contribution of euro 100,333,000.00 of own funds in relation to investment projects totaling euro 125,300,000.00;

resolves

1. to approve the Report on Operations prepared by the Board of Directors and the balance sheet, the statement of income and the notes to the financial statements of Telecom Italia S.p.A. for the year ended 31 December 2005, which show net income for the year of euro 3,884,820,803.95;
2. with regard to the net income for the year,
   a. to allocate to the legal reserve a maximum of euro 194,241,040.20 and in any case not more than the amount necessary for such reserve to be equal to one fifth of the Company's share capital at the time this resolution is adopted;
   b. to allocate euro 37,894,271.56 to the reserve set up under point 8-bis of Article 2426 of the Civil Code, corresponding to the net foreign exchange gain not realized during the year;
   c. to allocate up to a maximum of euro 2,857,306,680.92 to the distribution of dividends to shareholders, calculated on the basis of the following amounts per share, which will be applied to the ordinary and savings shares that they own (thus excluding treasury shares) on the ex dividend day:

- euro 0.1400 for each ordinary share,
- euro 0.1510 for each savings share,

gross of the withholdings required by law. It is to be understood that net income not distributed as dividends will be allocated to retained earnings;

d. to allocate euro 100,333,000.00 to the reserve under Law 488/1992 for the whole duration of the programmes receiving financial support, of which:
   - euro 15,389,000.00 for project no. 81378-12 (Puglia region),
   - euro 8,530,000.00 for project no. 81380-12 (Sardinia region),
   - euro 39,372,000.00 for project no. 81379-12 (Sicily region),
   - euro 37,042,000.00 for project no. 81377-12 (Campania region);

e. to carry forward the remaining amount (equal to euro 695,045,811.27);

3. to authorize the Board of Directors – and on its behalf its Chairman and each Managing Director – to determine in due course, on the basis of the actual number of shares for which dividends are paid, the amount of net income distributed to shareholders and the amount carried forward as retained earnings.
4. to pay the above dividends starting on 27 April 2006, ex dividend on 24 April 2006.

Appointment of the board of auditors

Determination of the number of members
Appointment of members and alternates
Appointment of the chairman
Determination of the members' compensation

Dear shareholders,

You are called upon to appoint a new Board of Auditors in place of that appointed by the shareholders' meeting of the then Olivetti S.p.A. on 26 May 2003 for the three years 2003/2005, whose mandate expires with today's meeting.
Under applicable law and the Company's bylaws, the shareholders' meeting must therefore:
- determine the number of members of the Board of Auditors (five or seven);
- appoint the members and alternates;
- appoint the Chairman;
- determine the members' compensation.

The Board of Directors invites shareholders to follow the procedure laid down in Article 17 of the Company's bylaws in appointing the new Board of Auditors.
In this respect it should be noted that, as amended by Law 262/2005, Article 148 of Legislative Decree 58/1998 provides for the Chairman of the Board of Auditors to be appointed by the shareholders' meeting from among the members elected by the minority shareholders, i.e. from among those elected from the minority slates. Accordingly, the bylaw providing for the Chairman to be elected by the members of the Board of Auditors will be disapplied.
Lastly, it should be remembered that the last paragraph of Article 2400 of the Italian Civil Code requires the meeting to be informed, at the time the members of the Board of Auditors are elected and before they accept the appointment, of the executive and control positions they hold in other companies. Accordingly, candidates are requested to submit a declaration containing this information together with their CVs, which the bylaws require them to send before the meeting, and to ensure it is updated to the date of the meeting.

In light of the foregoing the Board of Directors, taking into consideration the provisions of applicable law and the Company's bylaws concerning the composition and term of office of the Board of Auditors and the procedure for the election of the Board of Auditors and its Chairman,

invites the shareholders' meeting

- to determine the number of members of the Board of Auditors for the years 2006, 2007 and 2008;
- to vote for the slates of candidate members and alternates presented and made public in the manner and within the time limits laid down in Article 17 of the Company's bylaws;
- to appoint the Chairman of the Board of Auditors from among the members elected from the minority slates;
- to determine the compensation of the members of the Board of Auditors.

Decisions consequent on the resignations of two directors

Dear shareholders,

Marco De Benedetti gave up his operational responsibilities within the Group and resigned as a director of Telecom Italia with effect from 5 October 2005. Subsequently, in January 2006, Giovanni Consorte also resigned as a director of the Company.
The Board of Directors has not co-opted any directors to replace those who have resigned and left it to the meeting to take the necessary decisions. We therefore invite you to put forward suitable proposals.
It should be noted in this respect that the slate system is not applicable to decisions to restore the Board of Directors to its full complement since the bylaws provide for it to be used only when the entire Board of Directors has to be elected. According to applicable law (Article 147-ter of Legislative Decree 58/1998, recently added by Law 262/2005), directors must be elected by secret ballot.

In light of the foregoing the Board of Directors

invites

the meeting to take the decisions consequent on the resignations of two directors.

Authorization to purchase and dispose of treasury shares

Dear shareholders

We invite you to approve the request for authorization to purchase and dispose of treasury shares after assessing the reasons, procedures and time limits set out below.

1. Reasons for the request for authorization

The main objectives that the Board of Directors intends to pursue by means of the transactions whose authorization is proposed are as follows:
– to intervene, in compliance with the applicable rules and regulations, directly or via intermediaries, to curb anomalous price movements and restore orderly trading conditions in the event of distortions linked to excessive volatility or a lack of liquidity;
– to offer shareholders an additional means of turning their investments into cash;
– to use treasury shares for stock-based incentive plans reserved to directors and/or employees and/or collaborators of the Company or its subsidiaries;
– to use treasury shares as a form of investment allowing an efficient use of the liquidity generated by ordinary operations.

It should be noted that the request for authorization to buy back shares is not currently part of a plan to reduce the Company's share capital by canceling the shares purchased.
As regards the disposal of treasury shares, the Board considers this to be desirable not only in the context of the possible stock-based incentive plans referred to above but also to take advantage of opportunities to maximize value that market conditions may create – and thus also in a trading perspective – or in connection with transactions of strategic importance for the Company.

2. Maximum number, class and par value of the shares to which the authorization refers

At the date of writing the share capital of Telecom Italia S.p.A. is represented by 19,406,691,185 shares, of which 13,380,570,524 are ordinary shares and 6,026,120,661 are savings shares; all the shares have a par value of euro 0.55.

We propose that you should authorize the purchase of ordinary and/or savings shares, in proportions to be established without restriction by the Board, up to the maximum permitted by law, that is up to 10% of the share capital, with account taken of the treasury shares held directly and of the Company's shares held by subsidiaries.
We also propose that an upper limit of euro 1,000,000,000 be set on the amount that can be spent on buy-backs and that it is also to be understood that buy-backs may not be made for amounts exceeding the available reserves as stated in the Company's latest approved financial statements.

3. Information serving to assess compliance with paragraph 3 of Article 2357 of the Italian Civil Code
At the date of writing the Company holds 1,272,014 ordinary treasury shares, which represent approximately 0.007% of the share capital. In addition, subsidiaries hold approximately 124,544,373 ordinary shares, which represent approximately 0.642% of the share capital.
It follows that, at the date of writing, the maximum quantity of shares that can be purchased is equal to 1,814,852,731 ordinary and/or savings shares, without prejudice to the limits referred to in the last paragraph of Section 2.
It should also be noted that the draft annual financial statements for the year ended 31 December 2005, which are submitted for approval by the same shareholders' meeting as is invited to approve this proposal to authorize share buy-backs, show available reserves amounting to euro 4,631,129 thousand.
Whenever shares are purchased or sold, exchanged, contributed or written down, appropriate entries must be made in the accounting records in accordance with the applicable law and accounting standards. In the event of shares being sold, exchanged, contributed or written down, the corresponding amount may be reused for further purchases until the expiration of the authorization, without prejudice to the limits on the quantity of shares that can be purchased and the amount that can be spent and any other conditions laid down by the shareholders' meeting.

4. Duration of the authorization
The requested authorization will be effective for 18 months from the date the shareholders' meeting adopts the relevant resolution. The Board will be able to carry out the transactions authorized on one or more occasions and at any time.

5. Minimum and maximum prices
The Board proposes that the purchase price of treasury shares be established on each occasion, with account taken of the method chosen for carrying out the transaction and in compliance with any applicable rules and regulations or accepted market practices, with a minimum price and a maximum price fixed in accordance with the following criteria:
- the minimum purchase price may not be less than the weighted average of the official prices of shares of the same class recorded by Borsa Italiana S.p.A. on the ten trading days prior to the date of the purchase or of the determination of the purchase price, reduced by 20%;
- the maximum purchase price may not be more than the weighted average of the official prices of shares of the same class recorded by Borsa Italiana S.p.A. on the ten trading days prior to the date of the purchase or of the determination of the purchase price, augmented by 20%.

As regards the disposal of treasury shares, the Board will set the criteria for determining on each occasion the price taking into account the methods used for the disposal, the performance of the share price in the period preceding the transaction and the best interest of the Company.

6. Ways of carrying out transactions
In view of the different objectives that can be pursued by means of transactions involving treasury shares, the Board proposes that the authorization be granted for purchases made in any of the ways permitted by the applicable rules and regulations, to be chosen on each occasion at the Board's discretion and therefore at present by means of:
- cash and exchange tender offers;
- purchases on regulated markets, in the manner laid down by Borsa Italiana S.p.A.;
- purchases and sales of derivatives traded on regulated markets that provide for the delivery of the underlying shares, at the conditions laid down by Borsa Italiana S.p.A.;
- the allotment of put options to shareholders on a pro rata basis.

As regards disposals, the Board proposes that the authorization allow any method to be used that is suited to the objectives pursued.

7. Possible cancellation of treasury shares purchased
As mentioned earlier, share buy-backs are not at present intended to serve the purpose of reducing the Company's share capital by canceling the shares purchased.

In light of the foregoing the Board of Directors invites you to approve the following

Resolution

The ordinary shareholders' meeting of Telecom Italia S.p.A.,
- having examined the report on purchases and disposals of treasury shares prepared by the Board of Directors,
- having examined the financial statements for the year ended 31 December 2005,

resolves

1. o authorize, for a period of 18 months from the date this resolution is adopted, the purchase, on one or more occasions and at any time, of Telecom Italia S.p.A. ordinary and/or savings shares up to the limits established by law and in any case with a limit of euro 1,000,000,000 on the amount that can be spent.
   The purchase price must lie between a minimum and a maximum corresponding to the weighted average of the official prices of shares of the same class recorded by Borsa Italiana S.p.A. on the ten trading days prior to the date of the purchase or of the determination of the purchase price, respectively reduced and augmented by 20%.
   Buy-backs must in any case be made within the limit of the available reserves as stated in the Company's latest approved financial statements.
   Purchases may be made in any of the ways permitted by the applicable rules and regulations, at the Board's discretion;
2. to authorize, for the same period of 18 months from the date this resolution is adopted, the disposal, on one or more occasions and at any time, of all or some of the Telecom Italia S.p.A. ordinary and/or savings shares held by the Company.
   Disposals, including of treasury shares already held by Telecom Italia S.p.A. at the date this resolution is adopted, may be made at the price set according to the criteria established by the Board of Directors taking account of the methods used for the disposal, the performance of the share price in the period preceding the transaction and the best interest of the Company.
   Disposals may be made in any of the ways permitted by the applicable rules and regulations, at the discretion of the Board of Directors;
3. to charge the Board of Directors with arranging for the appropriate accounting entries to be made whenever shares are purchased, sold, exchanged or contributed in accordance with the law and accounting standards applicable on each occasion, drawing on or replenishing (as the case may be) the reserves used for transactions involving treasury shares. In the event of shares being sold, exchanged, contributed or written down, the corresponding amount may be reused for further purchases until the expiration of the authorization, without prejudice to the limits on the quantity of shares that can be purchased and the amount that can be spent and any other conditions laid down in this resolution;
4. to charge the Chairman of the Board of Directors and each of the Managing Directors, jointly and severally and by means of agents, with undertaking the transactions that are the subject of this resolution.

Change to the audit engagement for the last fiscal year of the period 2004-06

Dear shareholders,

The audit engagement awarded to Reconta Ernst & Young S.p.A. by the shareholders' meeting of 6 May 2004 will terminate with the issue of its report on Telecom Italia's financial statements and the Group's consolidated financial statements for the year ending 31 December 2006.
It has become necessary, however, to revise the conditions for the third and last fiscal year of the engagement, which were established on the basis of an offer made in February 2004. In particular, the auditing firm, considering the results for the first two years of the engagement (marked by the change in the legal framework following the introduction of IFRS, which the Company will also apply for the first time to its own financial statements for the year ending 31 December 2006) and the completion of the merger of Tim Italia S.p.A. (effective 1 March 2006), has submitted a request for a revision of the conditions, which the Board of Directors, after obtaining the favourable opinion of the Board of Auditors in accordance with the "Group Procedure for the Appointment of Auditors", deems to be fair.

	Original conditions of the engagement		New conditions proposed	
Document	**No. of hours per year**	**Fee in euros**	**No. of hours per year**	**Fee in euros**
Company financial statements	11,800	1,010,000	13,540	1,200,000
Consolidated financial statements	1,500	140,000	1,840	200,000
Half-yearly reports	1,900	160,000	2,980	280,000

The hours and the fee for the audit of the Company's financial statements include the amounts in connection with the activity referred to in Article 155.1a) of Legislative Decree 58/1998 concerning infrannual checks to ensure that companies' accounts are kept properly and their transactions reported correctly in the accounting records.
The amounts indicated do not include expenses (which will be charged at cost in the manner established in the original proposal) or VAT. No part of the supervision fee that the auditor is required to pay to Consob will be charged to the Company.
As specified in Consob Communication no. 96003556 of 18 April 2006, the fees may be adjusted ex post in accordance with the criteria specified in such communication if exceptional or unforeseeable circumstances occur during the engagement that increase or decrease the planned commitments in terms of resources and time.

In light of the foregoing the Board of Directors invites you to approve the following

Resolution

The shareholders' meeting of Telecom Italia S.p.A.,
– having seen the resolution adopted by the shareholders' meeting of 6 May 2004;
– having examined the relevant report prepared by the Board of Directors;
– having taken note of the opinion of the Board of Auditors;

resolves

1. to revise the conditions of the engagement awarded to Reconta Ernst & Young S.p.A. (entered in the special register of auditing firms) for the third and last fiscal year of the engagement by increasing the fees payable to Reconta Ernst & Young S.p.A. for the audit of the annual financial statements of Telecom Italia S.p.A. and the consolidated annual financial statements of the Telecom Italia Group, to euro 1,200,00 for the company financial statements and to euro 200,000 for the consolidated financial statements;
2. to revise the conditions of the engagement awarded to Reconta Ernst & Young S.p.A. for the audit of the Telecom Italia company and consolidated half-yearly reports for the period ending on 30 June 2006 by increasing the fee payable to the auditing firm to euro 280,000;
3. that the above-mentioned fees may be adjusted ex post if exceptional or unforeseeable circumstances occur during the engagement that increase or decrease the planned commitments in terms of resources and time.

Opinion of the Board of Auditors on the revision of the engagement and fees for the audit of the Company and Consolidated annual financial statements for the year ending 31 December 2006 and the limited review of the Company and Consolidated half-yearly reports for the period ending 30 June 2006, issued in accordance with article 159.1 of legislative decree 58/1998

Dear shareholders,

the Board of Auditors of Telecom Italia S.p.A.,

Whereas

- the shareholders' meeting of Telecom Italia S.p.A. of 6 May 2004 appointed Reconta Ernst & Young S.p.A. to audit the company and consolidated annual financial statements and to conduct a limited review of the company and consolidated half-yearly reports for the three years 2004-06;
- the audit firm has submitted a request for a revision of the engagement for the 2006 fiscal year (company and consolidated annual financial statements for the year ending on 31 December 2006 and the company and consolidated half-yearly reports for the period ending 30 June 2006);
- the audit firm has justified its request on the basis of the change in the engagement compared with what was envisaged in the original proposal dated 11 February 2004, in particular as regards the change in the legal framework following the introduction of the IAS/IFRS international accounting standards (which made it mandatory to apply these standards in preparing the consolidated annual financial statements as of the fiscal year ended on 31 December 2005 and the company annual financial statements as of the fiscal year ending on 31 December 2006) and the completion of the merger of Tim Italia into Telecom Italia, effective 1 March 2006;
- the audit firm's original proposal dated 11 February 2004 provided, in the event of exceptional and/or unforeseeable circumstances, for a revision of the audit hours and consequently of the fees;
- on 7 March 2006 the Company's Board of Directors, after consulting the Board of Auditors, approved the submittal to the ordinary shareholders' meeting (convened on 12 April 2006 at the first call and on 13 April 2006 at the second call) of the proposal to revise the engagement awarded to Reconta Ernst & Young for the third and last fiscal year of the period 2004-06 and increase the fees for its audit activity accordingly;
- we confirm our earlier favourable assessment of the technical and organizational adequacy of Reconta Ernst & Young S.p.A.;
- Reconta Ernst & Young S.p.A. meets the independence requirements of the applicable laws and regulations;
- we are required to express our opinion pursuant to Article 159.1 of Legislative Decree 58/1998;

Considering

- that the reasons given for the request to revise the engagement appear valid, so as to ensure that the level of audit activity for the 2006 fiscal year remains adequate in relation to the breadth and complexity of the mandate;
- that the fees requested appear fair and reasonable;

Expresses

a favourable opinion on the proposal to revise the conditions of the engagement awarded to Reconta Ernst & Young S.p.A. for the third and last fiscal year of the period 2004-06 by increasing the fees payable for the audit of the company and consolidated annual financial statements and the company and consolidated half-yearly reports in accordance with the request submitted by the audit firm and set out in the Board of Directors' report to the shareholders' meeting.

Milan, 22 March 2006

The Board of Auditors
Chairman

Useful information

A free copy of this report can be obtained by:

Calling to	Free Number 800020220 (for calls inside Italy) or number +39 011 4356503 (for calls outside Italy) to disposal for information and help to shareholders
E- mail	corporate.affairs@telecomitalia.it
Internet	Users of the world wide can access the 2005 Annual Report and obtain information about Telecom Italia and its products and services at the following address: http://www.telecomitalia.it
Investor Relations	+ 39 - 0285954131 / 0285954132 (fax)
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