



first half 2004 report »

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On September 9, 2004, the Board of Directors approved the first - half 2004 report.

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## ■ CORPORATE BOARDS

Board of Directors <sup>(1)</sup>	<b>Chairman</b> <sup>(2)</sup>	Marco Tronchetti Provera (E)	<p>♦ (1) Appointed by the Shareholders' Meeting held on May 6, 2004.</p> <p>♦ (2) Appointed by the Board of Directors' Meeting held on May 6, 2004.</p> <p>♦ (E) Executive director.</p> <p>♦ (I) Independent director.</p>
	<b>Deputy Chairman</b> <sup>(2)</sup>	Gilberto Benetton	
	<b>Managing Directors</b> <sup>(2)</sup>	Carlo Orazio Buora (E) Riccardo Ruggiero (E)	
	<b>Directors</b>	Paolo Baratta (I) John Robert Sotheby Boas (I) Giovanni Consorte Domenico De Sole (I) Francesco Denozza (I) Luigi Fausti (I) Guido Ferrarini (I) Jean Paul Fitoussi (I) Gianni Mion Massimo Moratti Marco Onado (I) Renato Pagliaro Pasquale Pistorio (I) Carlo Alessandro Puri Negri Luigi Roth (I)	
	<b>Secretary to the Board</b> <sup>(2)</sup>	Francesco Chiappetta	
Remuneration Committee <sup>(3)</sup>	<b>Chairman</b>	Luigi Fausti	<p>♦ (3) Set up by the Board of Directors' Meeting held on May 6, 2004.</p>
	<b>Members</b>	Paolo Baratta Pasquale Pistorio	
Committee for Internal Control and Corporate Governance <sup>(3)</sup>	<b>Chairman</b>	Guido Ferrarini	
	<b>Members</b>	Domenico De Sole Francesco Denozza Marco Onado	
General Managers <sup>(4)</sup>		Riccardo Ruggiero Giuseppe Sala	<p>♦ (4) Appointed by the Board of Directors' Meeting held on August 4, 2003.</p>
Board of Statutory Auditors <sup>(5)</sup>	<b>Chairman</b>	Ferdinando Superti Furga	<p>♦ (5) Appointed by the Shareholders' Meeting held on May 26, 2003.</p>
	<b>Acting auditors</b>	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda	
	<b>Alternate auditors</b>	Enrico Bignami Enrico Laghi	
Independent auditors <sup>(6)</sup>		Reconta Ernst & Young S.p.A.	<p>♦ (6) Appointment conferred by the Shareholders' Meeting held on May 6, 2004.</p>

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## ■ HIGHLIGHTS

### ■ FIRST HALF OF 2004

#### ■ Improvement in economic results

**Revenues:** euro 15,222 million, + 0.5% compared to the first half of 2003; excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth is equal to 5.3%.

**Gross operating profit:** euro 7,089 million, +2.4% compared to the first half of 2003; on a comparable basis (excluding the effects of the TLC license fee from the first half of 2003), the increase is equal to 0.7% and the underlying growth is 4.3%;

**Operating income pre-amortization of differences on consolidation:** euro 4,373 million, +2.6% compared to the first half of 2003;

**Operating income:** euro 3,596 million, +9.6% compared to the first half of 2003; on a comparable basis, the increase is equal to 5% and the underlying growth is 9.4%.

**Net income - Parent Company interest pre-amortization of differences on consolidation:** euro 1,171 million (euro 2,011 million in the first half of 2003).

**Net income - Parent Company interest:** euro 405 million (euro 1,056 million in the first half of 2003).

#### ■ Reduction of indebtedness

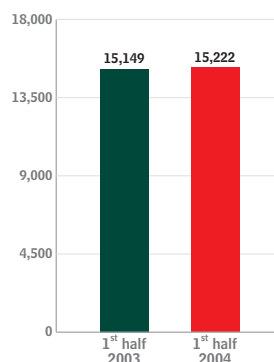
**Net financial indebtedness** is equal to euro 33,217 million and shows a reduction of euro 129 million compared to December 31, 2003, after the distribution of dividends of euro 2,780 million.

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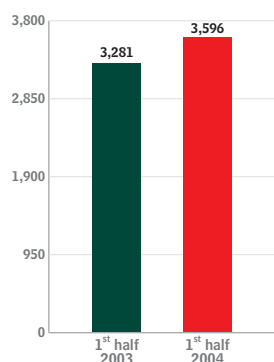
## SELECTED ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

During the course of the first half of 2004, the only significant change in the scope of consolidation compared to the first half of 2003 refers to Nuova Seat Pagine Gialle, which is no longer consolidated as from the month of August 2003. Therefore, the economic data for the first half of 2003 includes Nuova Seat Pagine Gialle while the economic data for the year 2003 includes the company's results of operations for the first seven months of 2003.

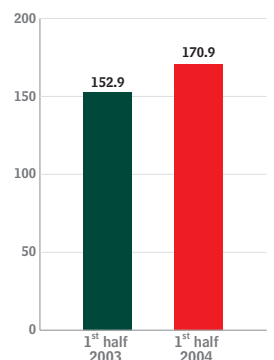
Revenues (euro/millions)



Operating income (euro/millions)



Revenues/Employees (euro/thousands)



	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003	Year 2003
<b>Economic and Financial Data</b> (millions of euro)			
Sales and service revenues	15,222	15,149	30,850
Gross operating profit	7,089	6,921	14,280
Operating income pre-amortization of differences on consolidation	4,373	4,263	8,619
Operating income	3,596	3,281	6,789
Income before income taxes	2,345	1,304	3,442
Net income - Parent Company interest and minority interest pre-amortization of differences on consolidation	1,640	2,574	4,258
Net income - Parent Company interest pre-amortization of differences on consolidation	1,171	2,011	2,983
Income before minority interest	863	1,592	2,428
Net income (loss)	405	1,056	1,192
Free cash flows from operations	4,223	4,850	9,233
Investments:			
- Industrial	1,993	1,723	4,894
- Differences on consolidation	329	4,583	5,096
- Financial	106	1,159	1,464
<b>Balance Sheet Data</b> (millions of euro)			
Total assets	76,439	89,101	80,501
Net invested capital	51,801	57,560	53,935
Shareholders' equity	18,584	20,116	20,589
- Parent company interest	14,730	16,018	16,092
- Minority interest	3,854	4,098	4,497
Net financial indebtedness	33,217	37,444	33,346
<b>Profit and Financial Indexes</b>			
Gross operating profit/Revenues	46.6%	(*) 45.7%	46.3%
Operating income pre-amortization of differences on consolidation/Revenues	28.7%	(*) 28.1%	27.9%
Operating income/Revenues (ROS)	23.6%	(*) 21.7%	22.0%
Free cash flows/Revenues	27.7%	32.0%	29.9%
Debt ratio (Net financial indebtedness/ Net invested capital)	64.1%	65.1%	61.8%
<b>Employees</b>			
Employees (number in Group at period-end)	93,178	102,541	93,187
Employees (average number in Group)	89,053	99,091	95,804
Revenues/Employees (average number in Group), euro/thousands	170.9	152.9	322.0

(\*) For purposes of a homogeneous comparison with the first half of 2004, the following shows the indexes for the first half of 2003 excluding the effects of the TLC license fee which was cancelled following the verdict handed down by the European Court of Justice in September 2003:

Gross operating profit/Revenues	46.5%
Operating income pre-amortization of differences on consolidation/Revenues	29.1%
Operating income/Revenues (ROS)	22.6%

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## ■ KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS / FUNCTIONS

Key economic and financial data of the Telecom Italia Group Business Units / Functions

		Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Olivetti Tecnost	Sub-total	Other activities and eliminations	Consolidated total
(millions of euro)				(1)	(2)					(3)	
Sales and service revenues	1st Half 2004	8,684	6,152	533	306	355	454	306	16,790	(1,568)	15,222
	1st Half 2003	8,569	5,534	559	863	358	465	332	16,680	(1,531)	15,149
	Year 2003	17,216	11,782	1,111	1,297	891	1,100	655	34,052	(3,202)	30,850
Gross operating profit (loss)	1st Half 2004	4,124	2,918	195	17	30	31	22	7,337	(248)	7,089
	1st Half 2003	3,979	2,624	197	246	30	24	17	7,117	(196)	6,921
	Year 2003	8,255	5,502	407	322	84	96	40	14,706	(426)	14,280
Operating income (loss) pre-amortization of differences on consolidation	1st Half 2004	2,643	2,012	70	(24)	13	(39)	10	4,685	(312)	4,373
	1st Half 2003	2,434	1,877	73	122	10	(39)	(2)	4,475	(212)	4,263
	Year 2003	4,972	3,885	153	125	60	(36)	4	9,163	(544)	8,619
Operating income (loss)	1st Half 2004	2,639	1,967	67	(39)	12	(39)	10	4,617	(1,021)	3,596
	1st Half 2003	2,433	1,826	69	80	9	(39)	(3)	4,375	(1,094)	3,281
	Year 2003	4,969	3,786	145	63	58	(36)	2	8,987	(2,198)	6,789
Industrial investments	1st Half 2004	1,089	670	54	20	14	50	8	1,905	88	1,993
	1st Half 2003	1,075	406	61	39	15	60	10	1,666	57	1,723
	Year 2003	2,302	1,957	129	102	30	174	20	4,714	180	4,894
Number of employees at:	6/30/2004	51,329	19,723	5,039	1,778	4,782	3,431	2,289	88,371	4,807	93,178
	6/30/2003	52,672	18,963	5,228	7,505	5,457	4,443	3,036	97,304	5,237	102,541
	12/31/2003	50,766	18,888	4,953	2,029	4,827	4,107	2,395	87,965	5,222	93,187

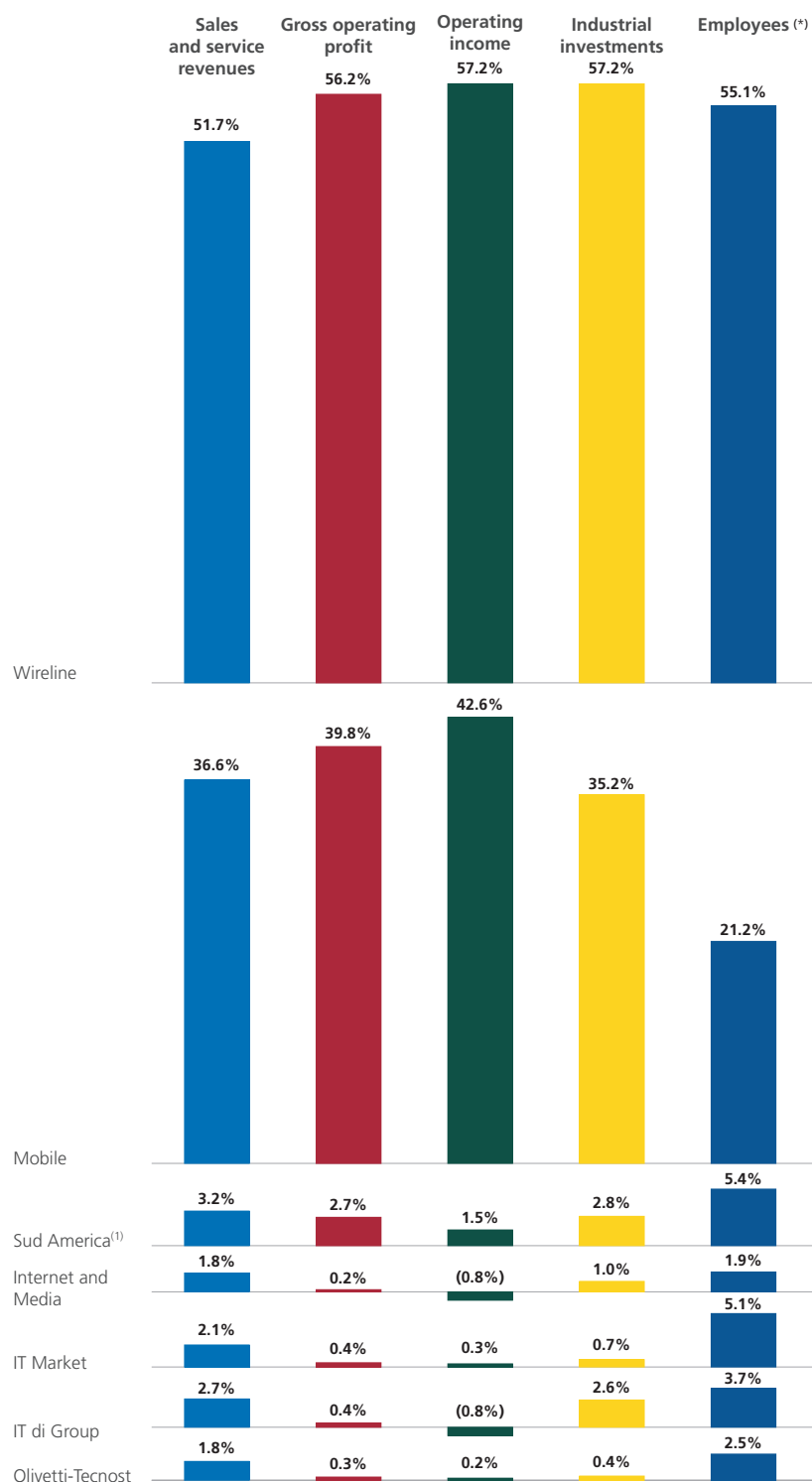
(1) The data relates to the Entel Chile group and to the Entel Bolivia group. Beginning March 1, 2004, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia are consolidated in Other Activities. The 2003 data has been restated for purposes of comparison.

(2) Nuova Seat Pagine Gialle, the beneficiary company of the spin-off from Seat Pagine Gialle which took place in July 2003, was sold as from August 8, 2003. The figures for 2003 include the economic data for the first seven months of the Nuova Seat Group, later sold.

(3) The data presented above includes the activities of International Affairs, TILAB, the centralized group services and the staff functions, the financial companies, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia.

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## Major economic and operating performance indicators for the first half of 2004 by Business Unit/Function



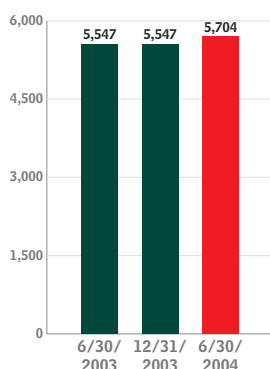
(\*) 5.2% of employees work in Other Activities of the Telecom Italia Group.

(1) The data relates to the Entel Chile group and the Entel Bolivia group. Beginning March 1, 2004, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia are consolidated in Other Activities.

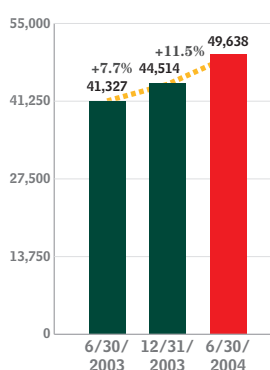
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## ■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat - rate plans (thousands)



TIM group lines total (thousands)



	6/30/2004	12/31/2003	6/30/2003
<b>WIRELINE</b>			
Fixed network connections in Italy (thousands)	26,264	26,596	27,079
- of which digital (equivalent ISDN channels)	5,941	6,027	6,000
Voice flat-rate plans (thousands)	5,704	5,547	5,547
Broadband access (thousands)	3,273	2,200	1,375
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	105.2	105.2	104.7
- access network and transport in optical fibers (km of optical fibers in millions)	3.6	3.6	3.6
Network infrastructure abroad			
- European backbone (km of optical fibers)	39,500	39,500	39,500
<b>MOBILE</b>			
TIM lines in Italy (at period-end, thousands)	26,011	26,076	25,610
TIM group foreign lines (at period-end, thousands) <sup>(1)</sup>	23,627	18,438	15,717
TIM group lines total (Italy + foreign in thousands) <sup>(1)</sup>	49,638	44,514	41,327
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	97.9	97.9
<b>INTERNET AND MEDIA</b>			
Internet:			
Page Views Virgilio (millions)	3,833	6,612	3,280
Active Users ISP (at period-end, thousands)	2,926	2,514	2,360
La 7 audience share	2.3%	2.2%	2.1%

(1) The foreign lines include those of the affiliate TT&TIM Turchia (Aria - IS TIM for 2003) and the subsidiary T-Mobile CZ (ex-Radiomobil).



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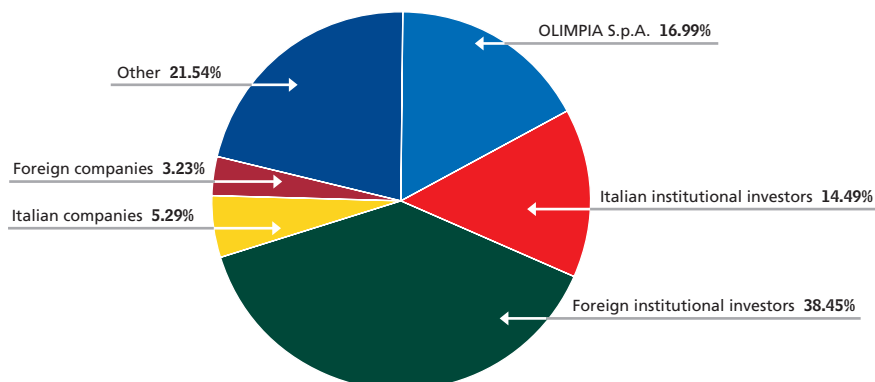
## ■ SHAREHOLDER INFORMATION

### ■ Telecom Italia S.p.A. Share capital at June 30, 2004

Share capital	euro 8,857,323,681.80
Ordinary shares (par value euro 0.55 each)	No. 10,308,303,807
Savings shares (par value euro 0.55 each)	No. 5,795,921,069
Market capitalization (based on June 2004 average prices)	euro 37,130 million

### ■ Shareholders

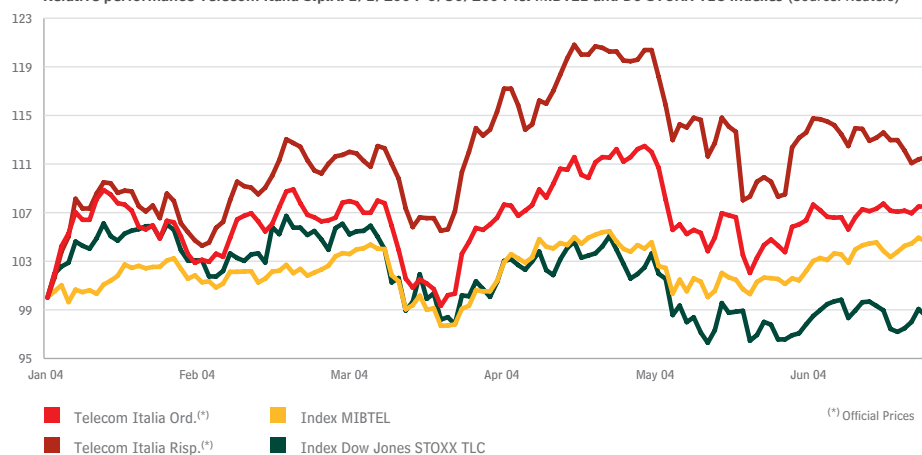
**Composition of Telecom Italia S.p.A. shareholders according to the Shareholder book at June 30, 2004 supplemented by notices received and other available information (ordinary shares)**



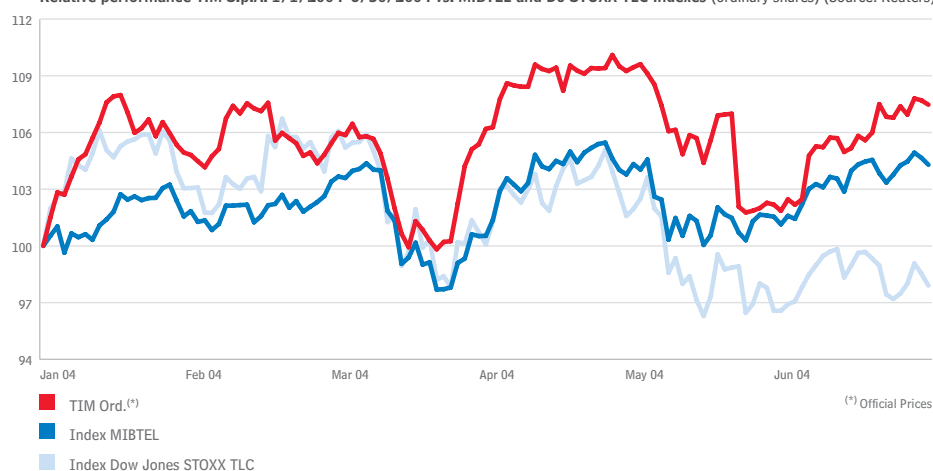
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## ■ PERFORMANCE OF THE STOCKS OF THE MAJOR COMPANIES OF THE TELECOM ITALIA GROUP

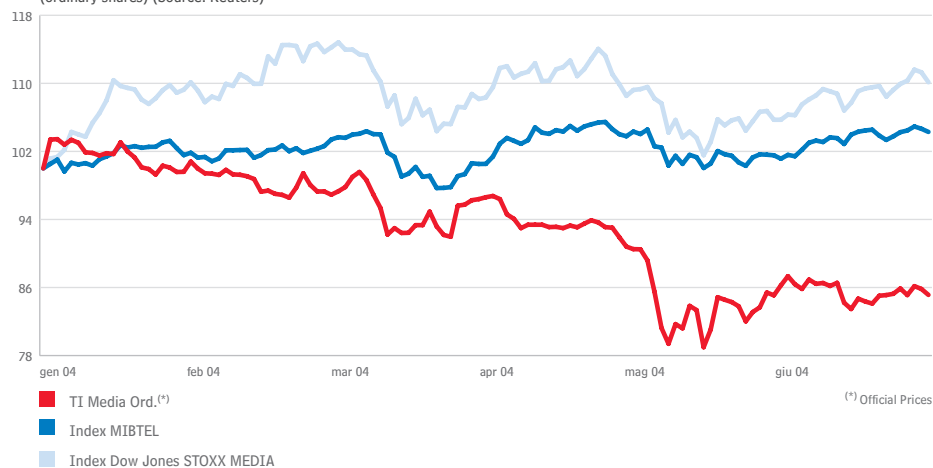
Relative performance Telecom Italia S.p.A. 1/1/2004-6/30/2004 vs. MIBTEL and DJ STOXX TLC Indexes (Source: Reuters)



Relative performance TIM S.p.A. 1/1/2004-6/30/2004 vs. MIBTEL and DJ STOXX TLC Indexes (ordinary shares) (Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 1/1/2004-6/30/2004 vs. MIBTEL e DJ STOXX MEDIA Indexes (ordinary shares) (Source: Reuters)



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## ■ RATINGS AT JUNE 30, 2004

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

On July 31, 2003, S&P gave a BBB+ rating, with a stable outlook, to the company resulting from the merger. This was the rating previously attributed to Telecom Italia. On that occasion, S&P stressed how, in spite of the temporary increment in the total debt due to the tender offer, the merger between Olivetti and Telecom Italia brought a considerable improvement to the debt structure of the Group. On November 26, 2003, S&P raised the outlook to positive, thus reflecting expectations of a generation of strong cash flows, a solid operating performance and a continuous focus on the part of Telecom Italia to reduce its debt.

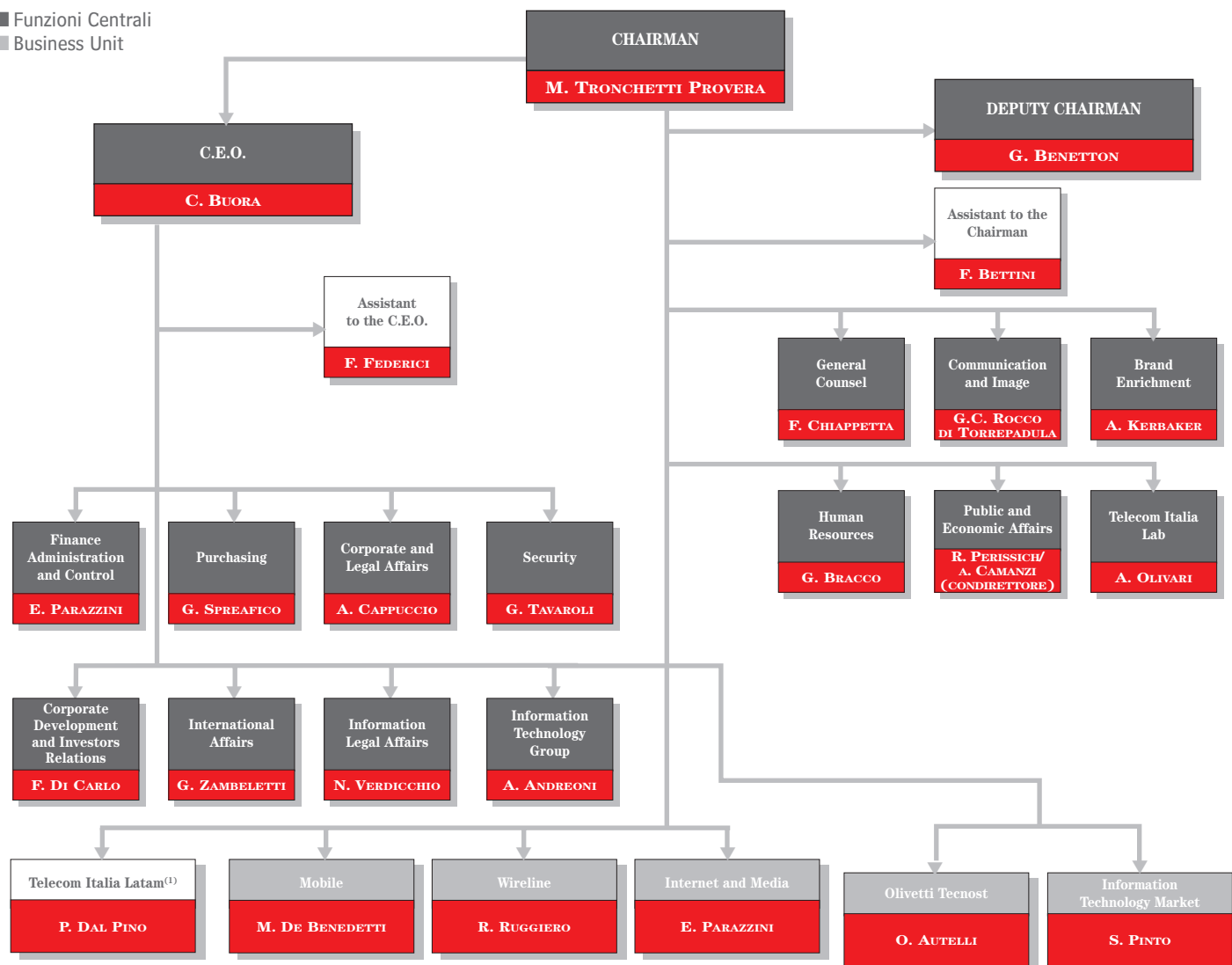
On August 5, 2003, Fitch also gave the new company the A- rating given to Telecom Italia, with a stable outlook, commenting on the robustness of the new financial structure of the Group and the established capacity of management to reduce debt.

On August 12, 2003, Moody's assigned the new company the Baa2 rating previously attributed to Olivetti, with a stable outlook.

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## ■ MACRO-ORGANIZATION CHART TELECOM ITALIA GROUP

■ Funzioni Centrali  
■ Business Unit



(1) Telecom Italia Latam assumed the new role of the "delocalized" Corporate function in Latin America, consistent with the Group's chosen strategy to consolidate and develop its international presence in the Latin America geographical area. The Business Units – with their present corporate organization structure – are nevertheless responsible for the results of the subsidiaries in Latin America under their control.

The Internal Auditing activities are carried out to the consortium company Telecom Italia Audit which chairman is Armando Focaroli.

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## INTERNATIONAL PRESENCE AT JUNE 30, 2004



- Presence through subsidiaries
- Presence through affiliates

### EUROPE

#### Subsidiaries

##### WIRELINE

- Telecom Italia Sparkle Group \*
- Telecom Italia Deutschland GmbH
- HanseNet Telekommunikation GmbH\*
- BBNet Group (Netherland)

##### INTERNATIONAL AFFAIRS

- Telecom Italia International (Netherland)

##### OTHER ACTIVITIES

- Telecom Italia Finance (Luxembourg)
- Telecom Italia Capital (Luxembourg)

### MEDITERRANEAN BASIN

#### Subsidiaries

##### WIRELINE

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

##### MOBILE

- Stet Hellas Telecommunications S.A. (Greece) \*

#### Affiliates

##### MOBILE

- TT & TIM I.H.A.S. (Turkey)

### SOUTH AMERICA

#### Subsidiaries

##### WIRELINE

- Latin American Nautilus Group (Latin America) \*
- Entel Chile Group (Chile) \*
- Entel Bolivia Group (Bolivia) \*

##### MOBILE

- Tele Celular Sul Participações Group (Brazil) \*
- Tele Nordeste Celular Participações Group (Brazil)\*
- Maxitel S.A. (Brazil) \*
- TIM Celular S.A (Brazil)\*
- Starcel Ltda (Brazil)
- TIM Perú S.A.C. (Perù) \*
- Corporacion Digitel C.A. (Venezuela) \*
- Blah ! (ex TimNet Com S.A.) (Brazil)
- Entel Chile Group (Chile) \*
- Entel Bolivia Group (Bolivia) \*

#### Affiliates

##### WIRELINE

- Telecom Argentina Group \*

##### MOBILE

- Telecom Argentina Group \*

##### INTERNATIONAL AFFAIRS

- Etec S.A. (Cuba)



\* Comments on the main economic and financial performance of these companies are provided in the report.

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## ■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

### RESULTS OF OPERATIONS

The **consolidated net income of the Group** for the first half of 2004 was euro 405 million (euro 863 million before minority interest). The consolidated net income of the Group for the first half of 2003 was euro 1,056 million (euro 1,592 million before minority interest).

The reduction in the consolidated net income of Group (– euro 651 million) was due to the following factors:

- increase in *operating income* (+euro 315 million, of which euro 143 million was due to the cancellation of the TLC license fee following the verdict handed down by the European Court of Justice in September 2003);
- improvement in *net financial income (expenses)* and *net investment income (expenses)* (+euro 342 million);
- improvement in *net extraordinary income and expenses* (+euro 384 million);
- lower minority interest in earnings (–euro 78 million);
- higher *income taxes* of euro 1,770 million, due to the improvement of net income and to the non – posting of deferred tax assets (euro 1,286 million) in the first half of 2003 income taxes showed a credit balance of euro 288 million due to the already said booking of deferred tax assets which became recoverable thanks to the merger of Olivetti and Telecom Italia.

**Sales and service revenues** for the first half of 2004 amounted to euro 15,222 million, with an increase of 0.5% compared to euro 15,149 million for the same period of 2003. Excluding the negative foreign exchange effect (– euro 47 million, of which – euro 27 million relates to the South American telecommunications companies) and the change in the scope of consolidation (euro 642 million, of which euro 563 million relates to the sale of Nuova Seat Pagine Gialle (August 2003), underlying growth was 5.3% (euro 762 million).

Underlying growth particularly reflected:

- a significant contribution by the Mobile Business Unit (+euro 664 million), both on the domestic market of voice traffic and valued-added services (+euro 304 million) and on the Brazilian market (+euro 360 million);
- an increase in the revenues of the Wireline Business Unit (+euro 74 million), achieved thanks to the success of development initiatives in the Broadband market and innovative services, particularly Web services, combined with a stable core Telephone market and enhanced offerings for wholesale services;
- an increase in the revenues of the Internet and Media (+euro 48 million), IT Market (+euro 17 million) and Olivetti Tecnost (+euro 14 million) Business Units;
- a reduction in the sales of the wireline and integrated telecommunications companies in Latin America (–euro 45 million, mainly the Entel Chile group).

Revenues from telecommunications services are shown gross of the portion due to third-party operators of euro 2,271 million (euro 2,268 million in the first half of 2003).

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The breakdown of sales and service revenues by customer geographic location is the following:

Geographic area (millions of euro)	1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003	
Italy	12,071	79.3%	12,216	80.6%
Rest of Europe	1,225	8.0%	1,228	8.1%
North America	243	1.6%	308	2.0%
Central and South America	1,442	9.5%	1,175	7.8%
Australia, Africa and Asia	241	1.6%	222	1.5%
<b>Total</b>	<b>15,222</b>	<b>100.0%</b>	<b>15,149</b>	<b>100.0%</b>

**Gross operating profit** amounted to euro 7,089 million and increased to euro 168 million (+ 2.4%) compared to the first half of 2003.

Moreover, excluding the effect of the TLC license fee from the first half of 2003 (euro 119 million), the **gross operating profit** rose by euro 49 million (+ 0.7%). As a percentage of revenues, the gross operating profit was 46.6% for the first half of 2004 (46.5% for the first half of 2003 on a comparable basis).

Excluding the foreign exchange effect (– euro 10 million) and the effect due to the change in the scope of consolidation (– euro 236 million, mainly as a result of the sale of Nuova Seat Pagine Gialle), underlying growth was 4.3% (+euro 295 million). Such growth mostly took place in the Mobile Business Unit (+euro 245 million, of which +euro 185 million refers to the domestic market) and in the Wireline Business Unit (+euro 78 million).

In greater detail, gross operating profit was impacted by:

- **raw materials and outside services**, equal to euro 6,453 million, rose by 1.3% compared to the first half of 2003.

Net of the TLC license fee, the increase was 3.2%. The percentage of raw materials and outside services to revenues was 42.4% (41.3% for the first half of 2003 on a comparable basis).

- **labor costs**, equal to euro 2,052 million, were euro 175 million lower than the first half of 2003 (– 7.9%). Besides the change in the scope of consolidation (principally relating to the Internet and Media Business Unit), the decrease was due to a reduction in the average workforce of the Parent Company. The percentage of labor costs to revenues was 13.5%, compared to 14.7% for the first half of 2003.

Employees at June 30, 2004 numbered 93,178 (93,187 at December 31, 2003). A breakdown is presented as follows:

	6/30/2004 (a)	12/31/2003 (b)	6/30/2003	Change (a - b)
Italy	77,478	78,069	83,362	(591)
Outside Italy	15,700	15,118	19,179	582
<b>Total employees</b>	<b>93,178</b>	<b>93,187</b>	<b>102,541</b>	<b>(9)</b>

Compared to December 31, 2003, the reduction of 9 employees was due to the difference between an increase of 605 persons reflecting turnover (difference between 3,357 hired and 2,952 terminated employment) principally due to the hired in Telecontact, to the development of Telecom Italia France and to the increase of employment in the Brazilian Mobile Telecommunications companies and a decrease of 614 persons owing to the change in the scope of consolidation. A significant portion of the decrease

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regarded the outsourcing of the "Document Management" business (–257 by Telecom Italia to Emsa Services) and the sales of CIPI and the GPP Group in the Internet and Media Business Unit (–311 in all).

**Operating income pre-amortization of differences on consolidation**, equal to euro 4,373 million, increased, compared to the first half of 2003, by euro 110 million (+2.6%).

*Excluding the effect of the TLC license fee from the first half of 2003 (euro 143 million), **operating income pre-amortization of differences on consolidation** fell by euro 33 million (–0.7%). The percentage of operating income pre-amortization of differences on consolidation to revenues represented 28.7% of revenues (29.1% for the first half of 2003 on a comparable basis).*

**Operating income**, equal to euro 3,596 million, increased by euro 315 million (+9.6%) compared to the first half of 2003.

*Excluding the effect of the TLC license fee from the first half of 2003 euro 143 million, **operating income** grew by euro 172 million (+5.0%). Operating income to revenues rose from 22.6% for the first half of 2003 (on a comparable basis) to 23.6% for the first half of 2004. Moreover, excluding the foreign exchange effect and the effect due to the change in the scope of consolidation, underlying growth was 9.4% (+euro 310 million).*

In greater detail, gross operating profit was impacted by the following factors:

- the **amortization of the differences on consolidation**, equal to euro 777 million (euro 982 million for the first half of 2003), showed a reduction of euro 205 million, principally in connection with the sale of Nuova Seat Pagine Gialle and the writedowns made in 2003;
- the **amortization of other intangibles and the depreciation of fixed assets**, equal to euro 2,435 million (euro 2,375 million for the first half of 2003), showed an increase of euro 60 million, mainly attributable to the amortization of TIM's UMTS license (euro 67 million).

The breakdown is as follows:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Other intangibles	713	572	141
Fixed assets	1,722	1,803	(81)
<b>Total amortization and depreciation</b>	<b>2,435</b>	<b>2,375</b>	<b>60</b>

The percentage of the amortization of other intangibles and the depreciation of fixed assets to revenues was 16.0% (15.7% for the first half of 2003);

- **other valuation adjustments**, equal to euro 133 million, chiefly regarded writedowns to reduce trade accounts receivable to estimated realizable value.  
They mainly refer to Telecom Italia (euro 38 million), TIM (euro 22 million), foreign mobile telephony companies (euro 24 million), the Entel Chile group (euro 22 million) and Telecom Italia Sparkle (euro 12 million). Other valuation adjustments show a reduction of euro 69 million compared to the first half of 2003 due mainly to lower provisions made by the Parent Company (euro 51 million);
- **provisions to reserves for risks and charges**, amounting to euro 38 million, presented a reduction of euro 33 million (of which euro 24 million was for provisions in the first half of 2003 relating to the TLC license fee and euro 17 million for the change in the scope of consolidation following the sale of Nuova Seat Pagine Gialle);



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– **net other income (expenses)** showed an expense balance of euro 110 million (an expense balance of euro 10 million for the first half of 2003). Details are as follows:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Indirect duties and taxes	(66)	(62)	(4)
Losses on sale of fixed assets and intangibles	(14)	(8)	(6)
Expenses connected with credit management	(53)	(29)	(24)
Late payment fees charged by TLC companies to customers	42	42	-
Portion of capital grants credited to income during the period	26	32	(6)
Sundry other income and expense	(45)	15	(60)
<b>Total</b>	<b>(110)</b>	<b>(10)</b>	<b>(100)</b>

**Net financial income (expenses)** showed an expense balance of euro 1,012 million, an improvement of euro 184 million compared to the first half of 2003. Details are as follows:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Net financial income (expenses)	(1,009)	(1,197)	188
Value adjustments to financial assets, other than equity investments	(3)	1	(4)
<b>Total</b>	<b>(1,012)</b>	<b>(1,196)</b>	<b>184</b>

The improvement in net financial expenses was mainly due to the absence, compared to the first half of 2003, of the provision (euro 143 million) for the early exercise of the JP Morgan put/call options on Seat Pagine Gialle shares, as well as expenses and commissions connected with the merger transaction (euro 47 million).

**Net investment income (expenses)** showed an income balance of euro 81 million (an expense balance of euro 77 million for the first half of 2003) with an improvement of euro 158 million compared to the first six months of 2003. Details are as follows:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Net investment income	103	7	96
Net revaluations (writedowns) of equity investments	(15)	(77)	62
Amortization of differences on consolidation, regarding investments accounted for using the equity method	(7)	(7)	-
<b>Total</b>	<b>81</b>	<b>(77)</b>	<b>158</b>

In particular, net investment income included euro 62 million of gains on the sale of the remaining stake in Telekom Austria in January 2004 and euro 24 million from the release to income of the remaining portion of the gain on the sale, in 2002, of Mobikom Austria to the same Telekom Austria. This caption also included dividends on TIM shares recorded in current assets (euro 10 million).

Net revaluations (writedowns) of equity investments for the first half of 2004 included the writeback of the value of TIM shares in current assets for euro 13 million (written down by euro 1 million in the first half of 2003), the equity in the earnings (losses) of Etec S.A. Cuba (earnings of euro 20 million, euro 18 million in the first half of 2003), Sky Italia (losses of euro 31 million, euro 64 million in the first half of 2003) and other companies (losses of euro 17 million, euro 30 million in the first half of 2003).

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**Net extraordinary income (expenses)** showed an expense balance of euro 320 million (an expense balance of euro 704 million for the first half of 2003), with an improvement of euro 384 million.

In particular:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Gains from divestitures of long-term investments and business segments	69	46	23
Other extraordinary income	77	134	(57)
<b>Total extraordinary income</b>	<b>146</b>	<b>180</b>	<b>(34)</b>
Extraordinary expenses	(466)	(884)	418
<b>Total net extraordinary income (expenses)</b>	<b>(320)</b>	<b>(704)</b>	<b>384</b>

Other extraordinary income, equal to euro 77 million, decreased by euro 57 million mainly on account of lower prior period income by TIM.

Extraordinary expenses, equal to euro 466 million, decreased by euro 418 million principally in relation to expenses charged in 2003 on the transaction for the sale of Nuova Seat Pagine Gialle (euro 252 million), the Telecom Italia and Olivetti merger (euro 110 million), the settlement with Pagine Italia (euro 55 million), the writedown of EPIClink goodwill and other provisions relating to investments, (euro 70 million), the elimination of prior years' receivables balances (euro 93 million) and the adjustment of estimates for unused prepaid telephone cards (euro 56 million). In the first half of 2004, instead, was impacted by euro 282 million for the settlement with De Agostini, in detail described in the chapter "Acquisition and divestitures of investments" that ended with the purchase of 40% of Webfin (which holds a 66% stake in Matrix) at the price of euro 325 million (of which euro 287 million, in lieu of the originally agreed price of euro 700 million and euro 38 million to reimburse the expenses sustained by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001) compared to a value established by independent valuers of euro 43 million.

They also include:

- euro 45 million (euro 86 million in the first half of 2003) of expenses and provisions for employee cutbacks and layoffs (of which euro 36 million was borne by the Parent Company; euro 58 million for the first half of 2003);
- euro 39 million for expenses under ex Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT) (euro 43 million in the first half of 2003);
- euro 3 million of indirect taxes and prior period taxes (euro 30 million in the first half of 2003 for the portion of the cost of the tax amnesty not covered by the reserve for income taxes);
- euro 2 million of losses on the sale of fixed assets (euro 6 million in the first half of 2003), euro 11 million of provisions to reserves and euro 84 million of prior period expenses and other extraordinary expenses (euro 83 million for the first half of 2003).

**Income taxes** for the first half of 2004 amounted to euro 1,482 million (in the first half of 2003 the result was positively impacted by euro 288 million due to the posting of euro 1,286 million of deferred tax assets which became recoverable thanks to the Olivetti/Telecom Italia merger).

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## FINANCIAL CONDITION

**Intangibles, fixed assets and long-term investments**, amounting to euro 53,055 million, decreased by euro 1,518 million compared to the end of 2003.

Details are as follows:

- **intangibles** decreased from euro 33,853 million at the end of 2003 to euro 33,049 million at June 30, 2004; As difference between investments (euro 1,005 million), amortization (euro 1,772 million) and change in the scope of consolidation, foreign exchange gains and losses and other movements (-euro 37 million);
- **fixed assets** decreased from euro 18,324 million at the end of 2003 to euro 17,808 million at June 30, 2004; the reduction is principally due to the difference between investments (euro 1,317 million), depreciation during the period (euro 1,722 million) and disposals, changes in the scope of consolidation, foreign exchange gains and losses and other (- euro 111 million);
- **long-term investments** decreased from euro 2,396 million at the end of 2003 to euro 2,198 million at June 30, 2004; the decrease is due to the difference between investments (euro 106 million), disposals and reimbursements of long-term receivables (euro 236 million) and equity value and other (-euro 68 million). The value of the associated company TT&TIM was kept at a nil balance and the receivables from Is TIM, also completely written off, were converted into capital of IS Tim as part of the merger with Aycell.

**Investments** totaled euro 2,428 million (euro 7,465 million in the first half of 2003).

Details are as follows:

(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b)
Industrial investments	1,993	1,723	270
Differences on consolidation	329	4,583	(4,254)
Financial investments	106	1,159	(1,053)
<b>Total investments</b>	<b>2,428</b>	<b>7,465</b>	<b>(5,037)</b>

Industrial investments, equal to euro 1,993 million, increased compared to the first half of 2003 by euro 270 million. They mainly refer to the Wireline BU (euro 1,089 million) and the Mobile BU (euro 670 million).

Differences on consolidation for the first half of 2004 refer to the settlement with De Agostini which ended with the purchase of 40% of Webfin (which holds a 66% stake in Matrix) at the price of euro 325 million (of which euro 38 million to reimburse the expenses sustained by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001) compared to a value of euro 43 million established by external valuers and the share of net equity of euro 1 million. Investments during the first half of 2003 chiefly referred to the difference (euro 4,551 million) between the payment for the tender offer by Olivetti for Telecom Italia shares (euro 5,274 million) and the share of net equity acquired (euro 723 million).

Financial investments in the first half of 2004 were in reference to investments in equity interests, particularly the planned investments in the share capital of Etec S.A. Cuba (euro 26 million), Sky Italia (euro 36 million) and other financial investments (euro 44 million). In the first half of 2003, investments had mainly related to the share of the net equity of the merged company acquired under the tender offer (euro 723 million), the purchase of the treasury stock by the acquired company, cancelled at the time of the merger (euro 47 million) the purchase of the equity interest in LI.SIT. (euro 54 million), increases in the share capital of Sky Italia (euro 269 million), and other financial investments (euro 66 million).

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**Working capital** showed a negative balance of euro 1,254 million (a negative balance of euro 638 million at December 31, 2003). The change of euro 616 million was affected by the sale of Telekom Austria (euro 708 million) and the tax charge for the period (euro 1,482 million), which were offset by the changes in trade accounts receivable/payable and other items (euro 1,574 million).

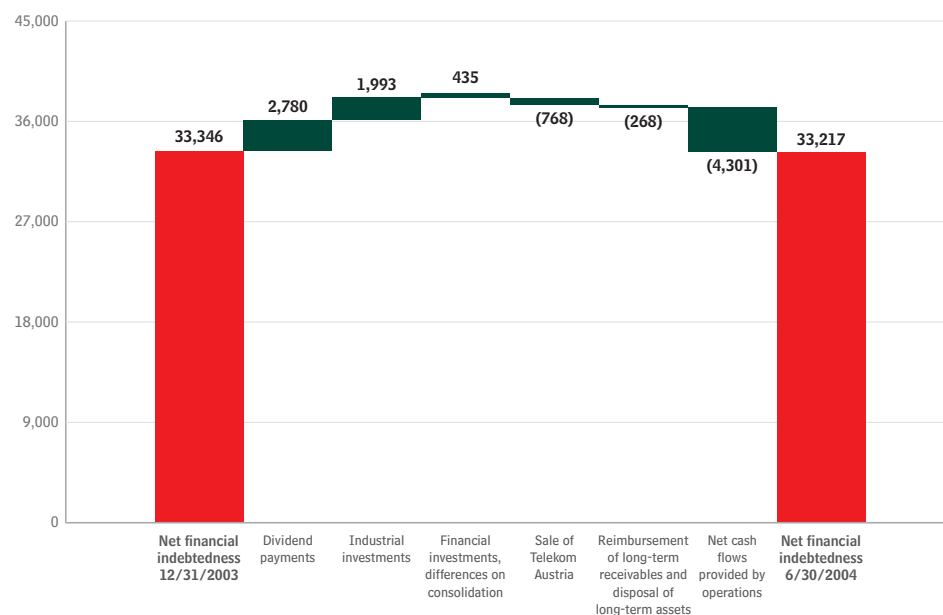
**Shareholders' equity** amounted to euro 18,584 million (euro 20,589 million at the end of 2003), of which the Parent Company interest was euro 14,730 million (euro 16,092 million at December 31, 2003) and the minority interest was euro 3,854 million (euro 4,497 million at December 31, 2003).

The changes in shareholders' equity are the following:

(millions of euro)	1 <sup>st</sup> half 2004	Year 2003
<b>At beginning of period</b>	<b>20,589</b>	<b>20,624</b>
Share capital increase	12	33
Net income of the Parent Company and minority interest	863	2,428
Dividends and reserves distributed to third parties paid by:	(2,780)	(1,049)
- <i>Telecom Italia</i>	(1,730)	(794)
- <i>TIM S.p.A.</i>	(991)	(185)
- <i>Other Group companies</i>	(59)	(70)
Effects of the share withdrawals, the tender offer, the cancellation of treasury stock bought back by Telecom Italian and the Telecom Italia shares held by Olivetti and reclassified from working capital to long-term investments	-	(1,117)
Deconsolidation of Nuova Seat Pagine Gialle	-	(126)
Translation adjustments and other changes	(100)	(204)
<b>At end of period</b>	<b>18,584</b>	<b>20,589</b>

**Net financial indebtedness** amounted to euro 33,217 million at June 30, 2004, with a decrease of euro 129 million compared to euro 33,346 million at the end of 2003.

The following chart summarizes the major items which had an impact on the change in net indebtedness during the course of the first half of 2004:



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In particular :

- disbursements for financial investments and differences on consolidation, equal to euro 435 million, referred to transactions involving subsidiaries and associated companies and long-term receivables of euro 110 million (including Etec S.A. Cuba for euro 26 million and Sky Italia for euro 36 million) and the purchase of a 40% holding in Webfin from the De Agostini Group for euro 325 million;
- "reimbursements of long-term receivables and disposals of long-term assets, euro 268 million, referred for euro 130 million to the sales of Euskaltel (euro 14 million), CIPI (euro 10 million), Cirsà (euro 31 million), Netco Redes (euro 30 million) and receipts from Tiglio I as a reimbursement for the loan from shareholders and as a distribution of reserves (euro 45 million) and other sales and reimbursements of long-term receivables (euro 138 million).

Transactions for the securitization and factoring of trade accounts receivable led to a reduction in net financial indebtedness of euro 1,037 million at June 30, 2004 (euro 1,201 million at the end of 2003), of which euro 874 million refers to securitization and euro 99 million to transactions finalized in December 2003.

Net financial indebtedness is detailed in the following table:

(millions of euro)	Within 12 months	Beyond 12 months	Total 6/30/2004	Total 12/31/2003
Debentures	4,051	27,135	31,186	30,053
Convertible debentures	-	5,596	5,596	7,312
<b>Total debentures</b>	<b>4,051</b>	<b>32,731</b>	<b>36,782</b>	<b>37,365</b>
Due to banks	1,299	1,073	2,372	2,460
Due to other lenders	454	604	1,058	1,012
Other liabilities	68	56	124	519
Payables to subsidiaries and affiliated companies	30	18	48	42
Taxes payable	5	-	5	58
Trade accounts payable	3	3	6	9
<b>Total other financial payables</b>	<b>1,859</b>	<b>1,754</b>	<b>3,613</b>	<b>4,100</b>
<b>Total gross financial indebtedness</b>	<b>5,910</b>	<b>34,485</b>	<b>40,395</b>	<b>41,465</b>
Liquid assets	(5,699)		(5,699)	(4,877)
Other securities in current assets	(1,054)		(1,054)	(2,719)
Other accounts receivable	(537)		(537)	(796)
Receivables for the sale of securities	(13)		(13)	(60)
Receivables from subsidiaries and affiliated companies	(24)		(24)	(30)
<b>Total financial receivables in current assets and liquid assets</b>	<b>(7,327)</b>	<b>0</b>	<b>(7,327)</b>	<b>(8,482)</b>
Accrued expenses and deferred income	1,064	32	1,096	1,330
Accrued income and prepaid expenses	(595)	(352)	(947)	(967)
<b>Balance of financial accruals and deferrals</b>	<b>469</b>	<b>(320)</b>	<b>149</b>	<b>363</b>
<b>Net financial indebtedness at June 30, 2004</b>	<b>(948)</b>	<b>34,165</b>	<b>33,217</b>	<b>33,346</b>

Gross indebtedness due beyond one year (euro 34,485 million) on total gross indebtedness amounting to euro 40,395 million, went from 74% at December 31, 2003 to 85% at June 30, 2004.

At June 30, 2004, short-term borrowings, equal to euro 5,910 million, included the current portion of medium/long-term debt falling due within one year, amounting to euro 4,724 million (euro 9,289 million at December 31, 2003) of which euro 3,550 million relating to the bond 1999-2004 maturing on July 2004.

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During the first half of the year, Telecom Italia S.p.A. issued three new bonds falling under the Euro Medium Term Note Program of euro 10 billion:

- On January 29, 2004, euro 3,000 million was issued divided into three tranches:
  - euro 1,000 million, coupon interest at the 3-month Euribor + 0.33%, issue price of 99.927, maturing on October 29, 2007;
  - euro 750 million, coupon interest at 4.50%, issue price of 99.56, maturing January 28, 2011;
  - euro 1,250 million, coupon interest at 5.375%, issue price of 99.07, maturing January 29, 2019.
- On April 8, 2004, floating rate bonds of euro 110 million under a private placement, coupon interest at the 3-month Euribor + 0.60%, issue price of 100, maturing on March 30, 2009;
- On June 24, 2004, GBP 850 million, equal to euro 1,289 million, (issue price 98.85) fixed rate, coupon interest at 6.375%, maturing June 24, 2019.

During the first half, bonds were redeemed for a total of euro 4,247 million, of which:

- euro 1,331 million on January 1, 2004 relating to convertible bonds issued by Telecom Italia S.p.A.;
- euro 385 million on March 19, 2004 relating to convertible bonds issued by Telecom Italia Finance N.V.S.A. and guaranteed by Telecom Italia S.p.A.;
- euro 1,500 million on March 22, 2004 relating to bonds issued by Telecom Italia S.p.A., original maturity date of June 21, 2005, called in advance by exercising the right stated in the bond indenture;
- euro 1,000 million on April 20, 2004 relating to bonds issued by Telecom Italia Finance S.A. (originally Sogerim);
- euro 31 million relating to bonds issued by Entel Chile.

During the first half, Telecom Italia also repurchased bonds referring to the 2002-2022 bond issue reserved for subscription by the employees of the Group for an equivalent face value of euro 8 million. The purchase took place as the Company, in accordance with the bond indenture, is the counterpart required for the sales made by the holders of this category of securities; the bonds thus purchased are held for possible future trading.

On March 26, 2004, euro 850 million of securities, repurchased in prior years, issued by Telecom Italia Finance N.V.S.A. were cancelled. Such securities included euro 650 million of bonds maturing July 2004 out of a total of euro 4,200 million (the amount still outstanding is euro 3,550 million) and euro 200 million of bonds maturing February 2005, which, after this transaction, have been totally cancelled.

On March 30, 2004, a new 3-year credit line was signed for euro 6.5 billion. This new line replaces the syndicated credit line of the same amount, obtained by the merging company Olivetti as part of the merger transaction in 2003. The first tranche (euro 4.5 billion) was due in April 2004. The new credit line is for a longer period and at lower costs. There is no financial covenant and the type of commitment negotiated with the banks guarantees unconditional availability of the credit for the line in question.

The following tables show the composition of gross financial indebtedness:

Composition (millions of euro)	At 6/30/2004				At 12/31/2003			
	Euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	28,585	84	5,900	93	34,485	85	30,852	74
Short-term borrowings	5,489	16	421	7	5,910	15	10,613	26
<b>Total</b>	<b>34,074</b>	<b>100</b>	<b>6,321</b>	<b>100</b>	<b>40,395</b>	<b>100</b>	<b>41,465</b>	<b>100</b>

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The following table shows the maturities of gross financial indebtedness:

Maturities (millions of euro)	Medium/long-term			Short-term	Total
	Bonds	Loans and other debt	Sub-total		
by June 2005	4,051	673	4,724	1,186	5,910
by June 2006	6,870	525	7,395	-	7,395
by June 2007	3,097	502	3,599	-	3,599
by June 2008	2,753	288	3,041	-	3,041
by June 2009	2,436	63	2,499	-	2,499
beyond June 2009	17,575	376	17,951	-	17,951
<b>Total</b>	<b>36,782</b>	<b>2,427</b>	<b>39,209</b>	<b>1,186</b>	<b>40,395</b>

At June 30, 2004, liquid assets and financial receivables amounted to euro 7,327 million (euro 8,482 at the end of 2003). Details are as follows:

#### LIQUID ASSETS AND FINANCIAL RECEIVABLES

(millions of euro)		
Liquid assets (classified by technical type)		
- Deposits	5,301	
- Current accounts and other types	398	
<b>Total</b>	<b>(A)</b>	<b>5,699</b>
Other securities in current assets		
- Euro Commercial Paper	304	
- Own bonds	293	
- Bonds	375	
- Other securities	82	
<b>Total</b>	<b>(B)</b>	<b>1,054</b>
	<b>(C = A + B)</b>	<b>6,753</b>
Other financial receivables	(D)	574
<b>Total liquid assets and financial receivables</b>	<b>(C + D)</b>	<b>7,327</b>

The financial structure will make it possible to meet debt obligations at maturity in the next 18 months:

#### MEDIUM AND LONG-TERM DEBT MATURING IN JULY 2004 - DECEMBER 2005

(millions of euro)	Notes	Loans e other debts	Total
July 2004 - June 2005	4,051	673	4,724
July 2005 - December 2005	805	384	1,189
<b>Total</b>	<b>4,856</b>	<b>1,057</b>	<b>5,913</b>
Financed by:			
Liquid assets and securities in current assets at June 30, 2004			<b>6,753</b>

Futhermore, unused committed lines of credit at 6/30/2004 and maturing in March 2007 amounted to euro 6,500 million.

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## SELECTED QUARTERLY ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

	2004			2003			Change % 2004/2003		
(millions of euro)	1st Quarter	2nd Quarter	1st Half	1st Quarter	2nd Quarter	1st Half	1st Quarter	2nd Quarter	1st Half
Sales and service revenues	7,418	7,804	15,222	7,291	7,858	15,149	1.7%	-0.7%	0.5%
<i>Change 2Q/1Q</i>		5.2%			7.8%				
Gross operating profit	3,494	3,595	7,089	3,308	3,613	6,921	5.6%	-0.5%	2.4%
<i>Change 2Q/1Q</i>		2.9%			9.2%				
% Gross operating profit to Revenues	47.1%	46.1%	46.6%	45.4%	46.0%	45.7%			
Operating income pre-amortization of differences on consolidation	2,173	2,200	4,373	2,018	2,245	4,263	7.7%	-2.0%	2.6%
<i>Change 2Q/1Q</i>		1.2%			11.2%				
% Operating income pre-amortization of differences on consolidation to Revenues	29.3%	28.2%	28.7%	27.7%	28.6%	28.1%			
Operating income	1,788	1,808	3,596	1,527	1,754	3,281	17.1%	3.1%	9.6%
<i>Change 2Q/1Q</i>		1.1%			14.9%				
Operating income to Revenues	24.1%	23.2%	23.6%	20.9%	22.3%	21.7%			



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## TELECOM ITALIA GROUP

### CONSOLIDATED STATEMENTS OF INCOME

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Year 2003	Change (a - b)	
(millions of euro)	(a)	(b)	(c)	amount	%
<b>A. Sales and service revenues</b>	<b>15,222</b>	<b>15,149</b>	<b>30,850</b>	<b>73</b>	<b>0.5</b>
Changes in inventories of work in progress, semifinished and finished goods	1	7	13	(6)	
Changes in inventory of contract work in process	42	25	(87)	17	68.0
Increases in capitalized internal construction costs	326	330	805	(4)	(1.2)
Operating grants	3	8	14	(5)	(62.5)
<b>B. Standard production value</b>	<b>15,594</b>	<b>15,519</b>	<b>31,595</b>	<b>75</b>	<b>0.5</b>
Raw materials and outside services <sup>(1)</sup>	(6,453)	(6,371)	(13,018)	(82)	1.3
<b>C. Value added</b>	<b>9,141</b>	<b>9,148</b>	<b>18,577</b>	<b>(7)</b>	<b>(0.1)</b>
Labor costs <sup>(1)</sup>	(2,052)	(2,227)	(4,297)	175	(7.9)
<b>D. Gross operating profit</b>	<b>7,089</b>	<b>6,921</b>	<b>14,280</b>	<b>168</b>	<b>2.4</b>
Amortization of other intangibles and depreciation of fixed assets	(2,435)	(2,375)	(4,949)	(60)	2.5
Other valuation adjustments	(133)	(202)	(477)	69	(34.2)
Provisions to reserves for risks and charges	(38)	(71)	(94)	33	(46.5)
Net other income (expense)	(110)	(10)	(141)	(100)	1,000.0
<b>E. Operating income pre-amortization of differences on consolidation</b>	<b>4,373</b>	<b>4,263</b>	<b>8,619</b>	<b>110</b>	<b>2.6</b>
Amortization of differences on consolidation	(777)	(982)	(1,830)	205	(20.9)
<b>F. Operating income</b>	<b>3,596</b>	<b>3,281</b>	<b>6,789</b>	<b>315</b>	<b>9.6</b>
Net financial income (expenses) <sup>(2)</sup>	(1,012)	(1,196)	(2,192)	184	(15.4)
Net investment income (expenses)	81	(77)	(72)	158	(205.2)
<b>G. Income before extraordinary items and taxes</b>	<b>2,665</b>	<b>2,008</b>	<b>4,525</b>	<b>657</b>	<b>32.7</b>
Net extraordinary income (expenses)	(320)	(704)	(1,083)	384	(54.5)
<b>H. Income before taxes</b>	<b>2,345</b>	<b>1,304</b>	<b>3,442</b>	<b>1,041</b>	<b>79.8</b>
Income taxes	(1,482)	288	(1,014)	(1,770)	(614.6)
<b>I. Net income for the period before minority interest</b>	<b>863</b>	<b>1,592</b>	<b>2,428</b>	<b>(729)</b>	<b>(45.8)</b>
Minority interest - net (income) loss	(458)	(536)	(1,236)	78	(14.6)
<b>L. Net income (loss) for the period parent company interest</b>	<b>405</b>	<b>1,056</b>	<b>1,192</b>	<b>(651)</b>	<b>(61.6)</b>

(1) Reduced by related cost recoveries

(2) Includes value adjustments to financial assets, other than equity investments

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## CONSOLIDATED BALANCE SHEETS

	At 6/30/2004 (a)	At 12/31/2003 (b)	At 6/30/2003	Change (a - b)
(millions of euro)				
<b>A. Intangibles, fixed assets and long-term investments</b>				
Intangible assets:				
• differences on consolidation	26,391	27,137	31,651	(746)
• other intangible assets	6,669	6,716	6,526	(47)
Fixed assets	17,797	18,324	18,737	(527)
Long-term investments:				
• equity investments and advances on future capital contributions	1,322	1,470	1,696	(148)
• other	876	926	1,168	(50)
(A)	<b>53,055</b>	<b>54,573</b>	<b>59,778</b>	<b>(1,518)</b>
<b>B. Working capital</b>				
Inventories	580	426	636	154
Trade accounts receivable, net	7,788	7,080	8,359	708
Other assets	1,877	3,960	4,738	(2,083)
Trade accounts payable	(5,490)	(5,964)	(5,438)	474
Other liabilities	(6,235)	(6,671)	(8,172)	436
Reserves for employee termination indemnities and pensions and similar obligations	(1,376)	(1,338)	(1,435)	(38)
Capital and/or investment grants	(236)	(263)	(293)	27
Deferred tax assets net of reserve for income taxes	4,226	4,609	4,818	(383)
Other reserves for risks and charges	(2,388)	(2,477)	(5,431)	89
(B)	<b>(1,254)</b>	<b>(638)</b>	<b>(2,218)</b>	<b>(616)</b>
<b>C. Net invested capital (A + B)</b>	<b>51,801</b>	<b>53,935</b>	<b>57,560</b>	<b>(2,134)</b>
Financed by:				
<b>D. Shareholders' equity</b>				
Parent company interest	14,730	16,092	16,018	(1,362)
Minority interest	3,854	4,497	4,098	(643)
	<b>18,584</b>	<b>20,589</b>	<b>20,116</b>	<b>(2,005)</b>
<b>E. Medium/long-term debt</b>	<b>34,165</b>	<b>30,545</b>	<b>33,464</b>	<b>3,620</b>
<b>F. Net short-term financial borrowings (liquidity)</b>				
Short-term borrowings	5,910	10,613	7,347	(4,703)
Liquid assets and short-term financial receivables	(7,327)	(8,482)	(9,060)	1,155
Financial accrued expenses (income) and deferred expenses (income), net	469	670	408	(201)
	<b>(948)</b>	<b>2,801</b>	<b>(1,305)</b>	<b>(3,749)</b>
<b>G. Financial indebtedness for tender offer and withdrawals</b>	-	-	5,285	-
<b>H. Total net financial indebtedness (E + F + G)</b>	<b>33,217</b>	<b>33,346</b>	<b>37,444</b>	<b>(129)</b>
<b>I. Total net financing (D + H)</b>	<b>51,801</b>	<b>53,935</b>	<b>57,560</b>	<b>(2,134)</b>

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Year 2003
<b>A. Net financial indebtedness, at beginning of period</b>	<b>(33,346)</b>	<b>(33,399)</b>	<b>(33,399)</b>
Operating income	3,596	3,281	6,789
Depreciation of fixed assets and amortization of intangible assets	3,212	3,357	6,779
Investments in fixed assets and intangible assets <sup>(1)</sup>	(1,993)	(1,723)	(4,894)
Proceeds from disposal of fixed assets and intangible assets	14	28	27
Change in operating working capital and other changes	(606)	(93)	532
<b>B. Free cash flows from operations</b>	<b>4,223</b>	<b>4,850</b>	<b>9,233</b>
Investments in long-term investments and differences on consolidation <sup>(1)</sup>	(435)	(5,742)	(6,560)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	254	138	741
Spin-off and sale of nuova seat pagine gialle	-	-	3,681
Change in non-operating working capital and other changes <sup>(2)</sup>	(1,145)	(2,243)	(6,026)
<b>C.</b>	<b>(1,326)</b>	<b>(7,847)</b>	<b>(8,164)</b>
<b>D. Net cash flows before distribution of income/ reserves and contributions by shareholders</b> (B + C)	<b>2,897</b>	<b>(2,997)</b>	<b>1,069</b>
<b>E. Distribution of income/reserves</b>	<b>(2,780)</b>	<b>(1,049)</b>	<b>(1,049)</b>
<b>F. Contributions by shareholders/withdrawals</b>	<b>12</b>	<b>1</b>	<b>33</b>
<b>G. Change in net financial indebtedness</b> (D + E + F)	<b>129</b>	<b>(4,045)</b>	<b>53</b>
<b>H. Net financial indebtedness, at end of period</b> (A + G)	<b>(33,217)</b>	<b>(37,444)</b>	<b>(33,346)</b>

The change in net financial indebtedness is the result of the following:

(millions of euro)			
Increase (decrease) in medium/long-term debt	3,620	172	(2,747)
Increase (decrease) in short-term borrowings	(3,749)	(1,412)	2,694
Increase in financial indebtedness for tender offer and withdrawals	-	5,285	-
<b>Total</b>	<b>(129)</b>	<b>4,045</b>	<b>(53)</b>

(1) Total cash used for investments can be analyzed as follows:

(millions of euro)			
Industrial investments:	1,993	1,723	4,894
- other intangible assets	676	542	1,783
- fixed assets	1,317	1,181	3,111
Differences on consolidation	329	4,583	5,096
Investment in long-term investments	106	1,159	1,464
<b>Cash used for investments</b>	<b>2,428</b>	<b>7,465</b>	<b>11,454</b>

(2) The caption can be analyzed as follows:

(millions of euro)			
Net financial income (expenses)	(1,012)	(1,196)	(2,192)
Utilization of risk reserve for early exercise of JP Morgan put option	-	-	(1,942)
Payment of income taxes	(400)	(410)	(771)
Payment of other taxes (remission and withholding tax)	(159)	(108)	(186)
Extraordinary items and other	426	(529)	(935)
<b>Change in non-operating working capital and other changes</b>	<b>(1,145)</b>	<b>(2,243)</b>	<b>(6,026)</b>

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## ■ ACQUISITIONS AND DIVESTITURES OF INVESTMENTS

### ■ Acquisition of a 40% interest in Webfin by Telecom Italia Media

At the end of June, a settlement agreement was reached to close the dispute concerning the framework contract signed on September 20, 2000 between Seat Pagine Gialle S.p.A. (now Telecom Italia Media) and its subsidiaries and the companies in the De Agostini group, regarding, among other things, the purchase of 40% of Webfin (which holds a 66% stake in Matrix, owner of the Virgilio portal).

In particular, based on the agreement – which supersedes that of September 20, 2000 – De Agostini Invest transferred the entire investment held in Webfin to Telecom Italia Media (which already had control of the company with a 60% holding) for 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 added to reimburse the expenses sustained by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001.

On the financial front, the agreement led to an immediate and temporary increase of euro 325 million in Telecom Italia Media's indebtedness. On June 28, 2004, a loan of euro 280 million made available to the company by Telecom Italia at market rates, in keeping with the commitments undertaken last year when control was relinquished in Nuova Seat Pagine Gialle (the beneficiary company of the spin-off), so that Telecom Italia Media would have the resources necessary to meet the liabilities and commitments existing at the date the spin-off took effect.

Another two transactions were entered into by Telecom Italia Media that are related to this transaction in order to improve its financial and equity position:

- sale of the investment in Webfin purchased from De Agostini Invest, carried out on July 9, 2004, to Vertico (a wholly-owned subsidiary of Telecom Italia and a shareholder of Matrix with a 33.3% holding) for a price of euro 42.6 million. This sale has allowed Telecom Italia Media to reduce its financial exposure with Telecom Italia while maintaining the control over Matrix unchanged and, on the other hand, to consolidate its commercial cooperation relationships in the Internet area that already exist between Telecom Italia and Matrix/Virgilio;
- share capital increase against payment with option rights for a total equivalent amount (including additional paid-in capital) of euro 120 million, which will be submitted for approval to the Shareholders' Meeting on September 10, 2004.

Telecom Italia will ensure its support for this initiative by subscribing to its share of the capital increase and any residual amount that might remain unopted.

The economic effect of the aforementioned transactions have given rise to a loss, net of the tax effect, of euro 130 million for Telecom Italia Media S.p.A. and euro 112 million for Telecom Italia S.p.A..

The net loss for the Telecom Italia Group on consolidation is equal to euro 116 million.

### ■ Is TIM/Aycell merger

On February 19, 2004, the merger of Is TIM and Aycell was finalized. The transaction was effected by conferring the assets and liabilities of Is TIM and Aycell to TT&TIM (owned 40% by TIM International, 40% by Turk Telekom and 20% by the Is Bank group) and by canceling Is TIM and Aycell from the Companies Register.

### ■ Restructuring of TIM subsidiaries in Brazil

On May 28, 2004, the Boards of Directors of Tele Celular Sul Participações S.A. and Tele Nordeste Celular Participações S.A., both controlled by TIM Brasil, approved the start of the operation for the merger of Tele Nordeste Celular Participações S.A. in Tele Celular Sul Participações S.A..

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The merger calls for the issue of new Tele Celular Sul Participações S.A. shares of the same class which will be assigned to the shareholders of Tele Nordeste Celular Participações S.A.. On July 19, 2004, the Boards of Directors of these same companies approved the merger plan. Tele Celular Sul Participações S.A. will also change its company name to TIM Participações S.A..

The merger should be completed by the end of the third quarter of this year.

#### ■ Purchase of Digitel shares by TIM International

With regard to the numerous disputes pending between TIM International and its co-shareholders in Digitel, in connection with the absorption of the loss for the year 2002, carried out at the beginning of 2003, a settlement agreement was signed on April 19, 2004 under which TIM International pledged to purchase the holdings held by all the co-shareholders (corresponding to a 32.88% holding in Digitel's share capital).

According to this agreement, finalized on July 1, 2004, TIM International purchased 1,480,562 shares held by the minority shareholders of the Venezuelan company for US\$ 109.6 million. The closing took place after verification of the contractual conditions put into place by TIM International and Digitel. As from the date of July 1, 2004, TIM, through TIM International, holds 100% of the shares of the Venezuelan mobile operator.

#### ■ Sale of Telekom Austria

On January 21, 2004, Telecom Italia International NV signed a Private Placement agreement under which it sold, on January 27, 2004, its entire remaining 14.78% investment in the share capital of Telekom Austria for a total gross value of euro 780 million.

The net gain for the Telecom Italia Group was euro 62 million..

#### ■ Sale of Netco Redes S.A.

On March 4, 2004, Telecom Italia International N.V. signed a contract with Auna for the sale of its entire 30% investment in the Spanish company Netco Redes S.A. for consideration of euro 30 million. On June 24, 2004, following the fulfillment of the suspensive conditions stated in the contract (including the receipt of authorization from the competent Spanish authorities), Telecom Italia International N.V. transferred 301,404 shares held in Netco Redes S.A. 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. After this sale, the only equity interest currently held by Telecom Italia International N.V. in Spain is represented by the 3% holding in Euskaltel.

The net gain for the Telecom Italia Group was euro 6 million.

#### ■ Sale of an interest in Euskaltel

On January 16, 2004, Telecom Italia International N.V. signed a contract with the company Araba Gertu S.A. for the sale of a 3.1% stake in Euskaltel for a total of euro 13.6 million. This sale was subject to the pre-emptive right of the shareholders as stated in Euskaltel's by-laws.

The closing of the transaction took place on February 19, 2004. Following the exercise of the pre-emptive right by Iberdrola S.A., an Euskaltel shareholder, the sale of the above-mentioned stake was executed by two separate contracts according to which Telecom Italia International N.V. sold 149,231 shares to Araba Gertu for a total of euro 12.1 million and 18,719 shares to Iberdrola for a total of euro 1.5 million.

Upon completion of the transaction, Telecom Italia International N.V. still retains a 3% stake in Euskaltel.

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#### ■ Sale of Webegg

On June 3, 2004, IT Telecom S.p.A., 100%-controlled by Telecom Italia, signed an agreement with Value Partners S.p.A. for the sale of the stock held in Webegg S.p.A. equal to 69.8% of its share capital, at a price of euro 43 million. The remaining 30.2% interest is held by Finsiel. The transaction calls for Finsiel to keep its investment in Webegg and recognize reciprocal sale and purchase options between Finsiel and Value Partners.

On July 15, 2004, after authorization was received from the Antitrust Authority, the agreement was finalized with Value Partners and the sale took place.

#### ■ Capital increases of Etec S.A. - Cuba

During the first half of 2004, the Shareholders' Meeting of the Cuban company voted three capital increases, with the aim of funding the extraordinary financial requirements resulting from the payment of the new license granted by the MIC (Ministry of Cuban Telecommunications), which have the following features:

- on March 4, 2004, an amount of US\$ 23.8 million through the issue of 165 new shares with a per unit value of US\$ 144,190;
- on May 20, 2004, an amount of US\$ 31.6 million through the issue of 219 new shares with a per unit value of US\$ 144,190;
- on June 14, 2004, an amount of US\$ 61.9 million through the issue of 429 new shares with a per unit value of US\$ 144,190.

Telecom Italia International N.V. subscribed to such increases based on its share of the investment (27%) paying, respectively, US\$ 6.3 million, US\$ 8.5 million and US\$ 16.7 million, and receiving, in order, 44, 59, and 116 new shares.

Telecom Italia International N.V.'s share of the investment remained unchanged.

#### ■ Reduction of share capital of Solpart - Brazil

The Extraordinary Shareholders' Meeting of Solpart, held April 26, 2004, voted to reduce share capital by Brazilian reais 173,350,000.00. After deducting from that amount Brazilian reais 1,980,319.91 which constitutes the amount to cover the losses for prior years, Brazilian reais 41,898,263.09 will be reimbursed in cash and the remaining amount will be reimbursed through the distribution of 3,474,342,842 ordinary shares and 3,491,253,373 preferred shares of the subsidiary Brasil Telecom Participações S.A.. The valuation of the amount of the reimbursement of capital in shares was made on the basis of the weighted average price of the shares at the close of trading on the San Paolo Stock Exchange on April 23, 2004, equal to Brazilian reais 17.65 per lot (1,000 shares) of ordinary shares and Brazilian reais 19.52 per lot (1,000 shares) of preferred shares.

As a consequence of this resolution, Telecom Italia International has the right to receive Brazilian reais 15,917,669.18 in cash and 1,319,945,886 ordinary shares and 1,326,370,406 preferred shares. The reduction in Solpart's share capital did not involve a change in the number of ordinary and preferred shares held by each shareholder, whereas the value per share was reduced.

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## ■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.P.A.

### RESULTS OF OPERATIONS

The Parent Company, **Telecom Italia S.p.A.**, reported net income of euro 514 million for the first half of 2004, euro 1,066 million less than the first half of 2003.

The reduction in earnings for the period was due to the following factors:

- improvement in *operating income* (+euro 177 million, of which euro 79 million was due to the impact of the expenses that were no longer payable as a result of the cancellation of the TLC license fee following the verdict handed down by the European Court of Justice in September 2003);
- improvements in *net financial income (expenses)* (+euro 331 million);
- worsening of *net investment income (expenses)* (– euro 527 million);
- improvements in *net extraordinary income (expenses)* (+euro 725 million);
- increase of *income taxes* (+euro 1,772 million) principally due to the improvement of net income and to the non – posting of deferred tax assets (euro 1,286 million). In the first half of 2003 income taxes showed a credit balance of euro 1,229 million due to the already said booking of deferred tax assets which became recoverable thanks to the merger of Olivetti and Telecom Italia.

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first half of 2004 but are recorded at the end of the year in accordance with the accrual principle.

**Sales and service revenues**, gross of the portion due to other TLC operators, amount to euro 7,964 million and decreased by euro 71 million, – 0.9%, compared to the first half of 2003. The decrease is mainly on account of the absence of revenues from the resale of satellite capacity (euro 54 million), as Telespazio took over direct relations with the satellite consortia, and a reduction in retail revenues (– euro 13 million).

The trend in retail revenues can be ascribed to the reduction in revenues from the telephone area (– euro 44 million) – mainly following the decrease in traffic revenues that were partly absorbed by the sale of products, especially the *Aladino* cordless phone – and the VAS (valued-added services) area (–euro 114 million) – owing to the contraction of premium services that were offset in part by the growth of innovative services.

Such reductions have almost been entirely compensated by the increase in Internet revenues (+euro 131 million) – achieved, in particular, as a result of the growth of the *ADSL Alice* and *ADSL Smart* plans – and the Data Business plan (+euro 13 million).

For the first half of 2004, sales and service revenues net of the portion due to other operators were equal to euro 6,451 million and increased by euro 33 million compared to the first half of 2003.

**Gross operating profit**, equal to euro 3,723 million, increased by euro 86 million compared to the first half of 2003 (+2.4%).

*Excluding the effects of the TLC license fee from the first half of 2003 (euro 59 million), the gross operating profit shows a growth of euro 27 million, equal to 0.7%.*

As a percentage of revenues, the gross operating profit was 46.7% (45.3% for the first half of 2003; 46% on a comparable basis).

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The increase in gross operating profit, on a comparable basis, was principally the result of the reduction in raw materials and outside services (– euro 40 million), the decrease in labor costs (–euro 55 million) and higher capitalized internal construction costs (+ euro 7 million), that were absorbed in part by lower operating grants (– euro 4 million) and the above reduction in revenues.

The decrease in labor costs was mainly due to the reduction in the average workforce (–3,510 persons compared to the first half of 2003; –6.5%).

**Operating income**, equal to euro 2,261 million, increased by euro 177 million compared to the first half of 2003 (+8.5%).

*Excluding the effects of the TLC license fee from the first half of 2003 (euro 79 million), operating income shows a growth of euro 98 million, equal to 4.5%.*

As a percentage of revenues, operating income was 28.4% (25.9% for the first half of 2003; 26.9% on a comparable basis).

The increase in operating income, on a comparable basis, can mainly be attributed to lower depreciation and amortization charges (–euro 85 million) and lower other valuation adjustments (– euro 51 million).

Such effects, combined with the cited increase in the gross operating profit, fully compensate the higher provisions to the reserves for risks and charges and higher expenses connected mainly with the management of relations with other telephone operators and transactions involving the sale of receivables.

**Net financial income (expenses)** showed an expense balance of euro 871 million (–euro 1,202 million for the first half of 2003), with an improvement of euro 331 million. During the first half of 2003, this caption had included the expenses relating to the JP Morgan put option on Seat Pagine Gialle shares (euro 208 million) and expenses (euro 104 million) referring to the repurchase of bonds subscribed by Telecom Italia Finance.

**Net investment income (expenses)** is composed of the following:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Value adjustments to financial assets	(58)	(196)	138
Income from investments, net	15	680	(665)
<b>Total</b>	<b>(43)</b>	<b>484</b>	<b>(527)</b>

In particular, the following can be said:

- value adjustments to financial assets mainly referred to writedowns of investments for euro 70 million and revaluations of euro 12 million relating to the writeback of the writedown of TIM shares in current assets.  
Writedowns refer mainly to Sky Italia (euro 31 million), IT Telecom (euro 21 million), Telecom Italia Learning Services (euro 7 million), LI.SIT (euro 3 million) and EPIClink (euro 3 million). The reduction (–euro 126 million) compared to the first half of 2003 was principally due to the writedowns made in 2003 on the investments in Sky Italia (+euro 33 million), Olivetti International (euro 33 million), IT Telecom (+euro 26 million), Latin American Nautilus (+euro 8 million) and Telecom Italia Learnings Services (+euro 10 million);



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- the decrease of income of investments net (–euro 665 million) is principally due to the recorded, in the first half 2003, of the distribution of dividends by Telecom Italia to Olivetti before the merger became effective (euro 511 million), of the distribution of reserves by the subsidiary TIM (–euro 81 million) and to non – posting of tax credits on dividends (euro 79 million in the first half 2003) following the tax reform introduced by Legislative Decree No. 344/2003.

**Net extraordinary income (expenses)** showed an expense balance of euro 290 million (–euro 1,015 million for the first half of 2003), with an improvement of euro 725 million.

Extraordinary income, equal to euro 28 million, decrease by euro 36 million, compared to the first half of 2003, principally for the lower gains realized on the sale of long-term assets.

They include:

- gains realized on the sale of a part of the holding in Pirelli Real Estate (euro 4 million) and the sale of the “Document Management” business segment (euro 1 million);
- the elimination of prior period tax interference (euro 1 million), pursuant to Legislative Decree No. 6 dated January 17, 2003, including the Corporate Law Reform, following accelerated depreciation taken in prior years by the acquiring company Olivetti as allowed by tax laws;
- the recovery of expenses from companies of the Group relating to Law 58/1992 (euro 2 million) and from third parties for damage compensation (euro 5 million);
- other prior period income of euro 15 million.

Extraordinary expenses, equal to euro 318 million, decrease by euro 761 million, compared to the first half of 2003, because in the first half of 2003, were recorded the following items:

- writedown of Seat Pagine Gialle (euro 347 million);
- expenses connected with the Olivetti - Telecom Italia merger and the sale of Nuova Seat Pagine Gialle (euro 167 million);
- expenses related to the elimination of prior years' receivables balances (euro 93 million) and the adjustment of estimates for unused prepaid telephone cards (euro 56 million);
- expenses related to the settlement with Pagine Italia (euro 55 million).

In the first half of 2004, instead, was impacted by the writedown of the investment in Telecom Italia Media (euro 112 million) following the loss of value consequent to the expenses sustained by the subsidiary for the settlement agreement with the De Agostini group.

Moreover they include:

- expenses under ex Law 58/1992 (euro 123 million) to cover employees under the former “Telephone Employees Pension Fund” (FPT), which became part of the “Employees Pension Fund”, in accordance with the 2000 Finance Bill;
- expenses (euro 36 million) for corporate restructuring relating to employee cutbacks and layoffs;
- expenses for damages sustained to the assets of the company as a result of natural disasters or by third parties (euro 11 million);
- expenses (euro 4 million) following the guarantees connected with corporate transactions and the provisions associated with the sale of the “Document Management” business segment (euro 2 million);
- other prior period expenses for euro 30 million.

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**Income taxes** totaling euro 543 million (a credit balance of euro 1,229 million in the first half of 2003) increased by euro 1,772 million (+euro 1,746 million on a comparable basis) compared to the same period of 2003 which, as mentioned, had benefited from deferred tax assets (euro 1,286 million) which became recoverable thanks to the Olivetti/Telecom Italia merger.

**Employees** at June 30, 2004 numbered 51,489. The reduction of 872 persons compared to 52,361 employees at December 31, 2003 was due to operating turnover 744 (144 hired and 888 terminations) and employees who left the company as a result of the sale of the "Document Management" business segment, 189, and employees who transferred from companies in the Group (+61).

## FINANCIAL CONDITION

**Intangibles, fixed assets and long-term investments** at June 30, 2004 amounted to euro 48,087 million and decreased by euro 517 million compared to December 31, 2003. Specifically:

- intangibles, equal to euro 1,604 million, increased by euro 119 million compared to December 31, 2003 and was represented by the difference between investments (euro 393 million), amortization (euro 267 million) and other movements (– euro 7 million);
- fixed assets amounted to euro 11,447 million, with a reduction of euro 396 million compared to December 31, 2003 and was represented by the difference between investments (euro 657 million), depreciation (euro 1,044 million), disposals (euro 15 million) and other movements (+euro 6 million);
- long-term investments, equal to euro 35,036 million, decreased by euro 240 million compared to December 31, 2003 and was represented by the difference between investments (euro 51 million), writedowns (euro 176 million) and disposals (euro 115 million).

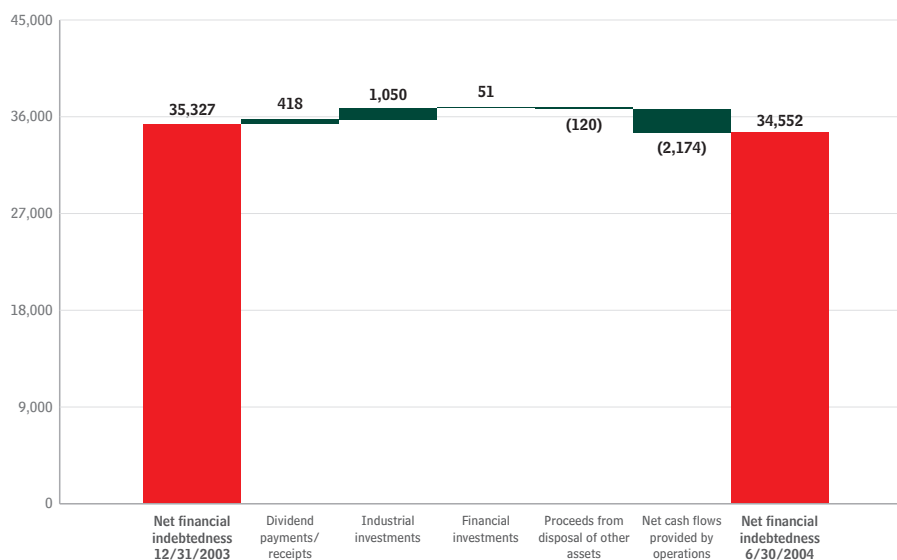
**Investments** made during the first half of 2004 amounted to euro 1,101 million (euro 7,028 million during the first half of 2003). The breakdown was as follows:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Industrial investments	1,050	1,360	(310)
Financial investments	51	5,668	(5,617)
- of which tender offer	-	5,274	(5,274)
<b>Total investments</b>	<b>1,101</b>	<b>7,028</b>	<b>(5,927)</b>

**Net financial indebtedness** (euro 34,552 million) decreased by euro 775 million compared to December 31, 2003 (euro 35,327 million). This reduction was due to free cash flows provided by operations (euro 2,506 million) which more than offset requirements for the payment of 2003 dividends and the flows from financial and extraordinary income and expenses.

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The following chart summarizes the major components which had an impact on the change in net financial indebtedness at June 30, 2004:



Net financial indebtedness benefited from the effects of the securitization and sale of receivables to factoring companies for a total amount of euro 1,013 million at June 30, 2004, of which euro 874 million related to securitization and euro 139 million to factoring transactions (euro 1,186 million at December 31, 2003, of which euro 851 million for securitization and euro 335 million for factoring transactions).

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Net financial indebtedness is detailed in the following table:

(millions of euro)	Within 12 months	Beyond 12 months	Total 6/30/2004	Total 12/31/2003
Debentures	-	12,655	12,655	9,765
Convertible debentures	-	2,828	2,828	4,160
<b>Total debentures</b>	-	<b>15,483</b>	<b>15,483</b>	<b>13,925</b>
Payables to subsidiaries and affiliated companies	5,480	12,991	18,471	19,304
Due to banks	930	343	1,273	1,191
Due to other lenders	428	335	763	783
Other liabilities	7	-	7	62
Taxes payable	5	-	5	23
<b>Total other financial payables</b>	<b>6,850</b>	<b>13,669</b>	<b>20,519</b>	<b>21,363</b>
<b>Total gross financial indebtedness</b>	<b>6,850</b>	<b>29,152</b>	<b>36,002</b>	<b>35,288</b>
Liquid assets	(95)	-	(95)	(205)
Receivables from subsidiaries and affiliated companies	(1,080)	-	(1,080)	(838)
Other accounts receivable	(481)	-	(481)	(367)
Other securities in current assets	(8)	-	(8)	(16)
<b>Total financial receivables in current assets and liquid assets</b>	<b>(1,664)</b>	<b>-</b>	<b>(1,664)</b>	<b>(1,426)</b>
Accrued expenses and deferred income	501	76	577	1,832
Accrued income and prepaid expenses	(82)	(281)	(363)	(367)
<b>Balance of financial accruals and deferrals</b>	<b>419</b>	<b>(205)</b>	<b>214</b>	<b>1,465</b>
<b>Net financial indebtedness at June 30, 2004</b>	<b>5,605</b>	<b>28,947</b>	<b>34,552</b>	<b>35,327</b>

Gross indebtedness due beyond one year, amounting to euro 29,152 million, rose from 59% at December 31, 2003 to 81% at June 30, 2004, as a percentage of total gross indebtedness.

Gross financial indebtedness is detailed in the following table:

	At 6/30/2004				At 12/31/2003			
(millions of euro)	Euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	27,410	89	1,742	34	29,152	81	20,915	59
Short-term borrowings	3,480	11	3,370	66	6,850	19	14,373	41
<b>Total</b>	<b>30,890</b>	<b>100</b>	<b>5,112</b>	<b>100</b>	<b>36,002</b>	<b>100</b>	<b>35,288</b>	<b>100</b>

At June 30, 2004, short-term borrowings (euro 6,850 million) included the current portion of medium/long-term debt falling due within one year, amounting to euro 406 million (euro 5,759 million at December 31, 2003).

Debt positions with Group companies totaled euro 24,016 million (euro 18,540 million falling due beyond one year); debt position with third parties amounted euro 11,987 million (euro 10,612 million falling due beyond one year).

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## TELECOM ITALIA

### STATEMENTS OF INCOME

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Year 2003	Change (a - b)	
(millions of euro)	(a)	(b)	(c)	amount	%
<b>A. Sales and service revenues</b>	<b>7,964</b>	<b>8,035</b>	<b>16,033</b>	<b>(71)</b>	<b>(0.9)</b>
Changes in inventory of contract work in process	2	2	6		
Increases in capitalized internal construction costs	33	26	60	7	°
Operating grants	2	6	9	(4)	(66.7)
<b>B. Standard production value</b>	<b>8,001</b>	<b>8,069</b>	<b>16,108</b>	<b>(68)</b>	<b>(0.8)</b>
Raw materials and outside services <sup>(1)</sup>	(3,071)	(3,170)	(6,209)	99	(3.1)
<b>C. Value added</b>	<b>4,930</b>	<b>4,899</b>	<b>9,899</b>	<b>31</b>	<b>0.6</b>
Labor costs <sup>(1)</sup>	(1,207)	(1,262)	(2,466)	55	(4.4)
<b>D. Gross operating profit</b>	<b>3,723</b>	<b>3,637</b>	<b>7,433</b>	<b>86</b>	<b>2.4</b>
Depreciation and amortization	(1,311)	(1,396)	(2,919)	85	(6.1)
Other valuation adjustments	(38)	(89)	(199)	51	(57.3)
Provisions to reserves for risks and charges	(16)	(32)	(15)	16	(50.0)
Net other income (expense)	(97)	(36)	(161)	(61)	°
<b>E. Operating income</b>	<b>2,261</b>	<b>2,084</b>	<b>4,139</b>	<b>177</b>	<b>8.5</b>
Net financial income (expenses)	(871)	(1,202)	(2,404)	331	(27.5)
Net investment income (expenses)	(43)	484	1,645	(527)	-
<b>F. Income before extraordinary items and taxes</b>	<b>1,347</b>	<b>1,366</b>	<b>3,380</b>	<b>(19)</b>	<b>(1.4)</b>
Net extraordinary income (expenses)	(290)	(1,015)	(1,652)	725	(71.4)
<b>G. Income before taxes</b>	<b>1,057</b>	<b>351</b>	<b>1,728</b>	<b>706</b>	<b>°</b>
Income taxes	(543)	1,229	918	(1,772)	-
<b>H. Net income for the period</b>	<b>514</b>	<b>1,580</b>	<b>2,646</b>	<b>(1,066)</b>	<b>(67.5)</b>

<sup>(1)</sup> reduced by related cost recoveries

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## BALANCE SHEETS

	6/30/2004 (a)	12/31/2003 (b)	6/30/2003	Change (a - b)
(millions of euro)				
<b>A. Intangibles, fixed assets and long-term investments</b>				
Intangible assets	1,604	1,485	1,355	119
Fixed assets	11,447	11,843	12,330	(396)
Long-term investments:				
• equity investments and advances on future capital contributions	34,813	34,995	38,736	(182)
• other	223	281	356	(58)
(A)	<b>48,087</b>	<b>48,604</b>	<b>52,777</b>	<b>(517)</b>
<b>B. Working capital</b>				
Inventories	119	88	95	31
Trade accounts receivable, net	5,077	4,542	4,805	535
Other assets	2,101	3,693	3,306	(1,592)
Trade accounts payable	(2,851)	(3,138)	(3,183)	287
Other liabilities	(4,012)	(3,476)	(4,973)	(536)
Reserves for employee termination indemnities and pensions and similar obligations	(1,013)	(973)	(1,016)	(40)
Capital and/or investment grants	(183)	(199)	(216)	16
Deferred tax assets net of reserve for income taxes	2,941	3,111	3,318	(170)
Other reserves for risks and charges	(565)	(569)	(3,528)	4
(B)	<b>1,614</b>	<b>3,079</b>	<b>(1,392)</b>	<b>(1,465)</b>
<b>C. Net invested capital (A + B)</b>	<b>49,701</b>	<b>51,683</b>	<b>51,385</b>	<b>(1,982)</b>
Financed by:				
<b>D. Shareholders' equity</b>				
Share capital	8,857	8,854	8,846	3
Retained earnings and reserves	5,778	4,856	4,826	922
Net income for the period	514	2,646	1,580	(2,132)
	<b>15,149</b>	<b>16,356</b>	<b>15,252</b>	<b>(1,207)</b>
<b>E. Medium/long-term debt</b>	<b>28,947</b>	<b>20,692</b>	<b>20,036</b>	<b>8,255</b>
<b>F. Net short-term financial borrowings (liquidity)</b>				
Short-term borrowings	6,850	14,373	11,047	(7,523)
Liquid assets and short-term financial receivables	(1,664)	(1,426)	(1,618)	(238)
Financial accrued expenses (income) and deferred expenses (income), net	419	1,688	1,383	(1,269)
	<b>5,605</b>	<b>14,635</b>	<b>10,812</b>	<b>(9,030)</b>
<b>G. Financial indebtedness for tender offer and withdrawals</b>	-	-	5,285	-
<b>H. Total net financial indebtedness (E + F + G)</b>	<b>34,552</b>	<b>35,327</b>	<b>36,133</b>	<b>(775)</b>
<b>I. Total net financing (D + H = C)</b>	<b>49,701</b>	<b>51,683</b>	<b>51,385</b>	<b>(1,982)</b>

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## STATEMENTS OF CASH FLOWS

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Year 2003
<b>A. Net financial indebtedness, at beginning of year</b>	<b>(35,327)</b>	<b>(30,622)</b>	<b>(30,622)</b>
Net financial indebtedness, at beginning of year of merged company TILAB	-	(169)	(169)
<b>B. Adjusted net financial indebtedness, at beginning of year</b>	<b>(35,327)</b>	<b>(30,791)</b>	<b>(30,791)</b>
Operating income	2,261	2,084	4,139
Depreciation of fixed assets and amortization of intangible assets	1,311	1,396	2,919
Investments in fixed assets and intangible assets <sup>(1)</sup>	(1,050)	(1,360)	(2,534)
Proceeds from capital and/or investment grants		3	5
Proceeds from disposal of intangible assets and fixed assets	5	315	314
Change in operating working capital and other changes	(21)	(164)	(141)
<b>C. Free cash flow from operations</b>	<b>2,506</b>	<b>2,274</b>	<b>4,702</b>
Investments in long-term investments <sup>(1)</sup>	(51)	(5,668)	(6,918)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	120	75	3,102
Change in non-operating working capital and other changes <sup>(2)</sup>	(72)	(1,229)	(4,661)
<b>D.</b>	<b>(3)</b>	<b>(6,822)</b>	<b>(8,477)</b>
<b>E. Net cash flows before distribution of income/ reserves and contributions by shareholders</b> (C + D)	<b>2,503</b>	<b>(4,548)</b>	<b>(3,775)</b>
<b>F. Distribution of income/ reserves</b>	<b>(1,740)</b>	<b>(794)</b>	<b>(794)</b>
<b>G. Contributions by shareholders</b>	<b>12</b>	<b>-</b>	<b>33</b>
<b>H. Change in net financial indebtedness</b> (E + F + G)	<b>775</b>	<b>(5,342)</b>	<b>(4,536)</b>
<b>I. Net financial indebtedness, at end of period</b> (A + H)	<b>(34,552)</b>	<b>(36,133)</b>	<b>(35,327)</b>

The change in net financial indebtedness is the result of the following:

(millions of euro)			
Increase (decrease) in medium/long-term debt	8,255	(3,670)	(3,014)
Increase (decrease) in short-term borrowings	(9,030)	3,896	7,719
Increase in financial indebtedness for tender offer and withdrawals	-	5,285	-
<b>Total</b>	<b>(775)</b>	<b>5,511</b>	<b>4,705</b>

(1) Total cash used for investments can be analyzed as follows

(millions of euro)			
Industrial investments:	1,050	1,360	2,534
- intangible assets	393	290	767
- fixed assets	657	1,070	1,767
Investment in long-term investments	51	5,668	6,918
<b>Cash used for investments</b>	<b>1,101</b>	<b>7,028</b>	<b>9,452</b>

(2) the caption can be analyzed as follows:

(millions of euro)			
Net financial income (expenses)	(871)	(1,202)	(2,404)
Receipt of dividends	1,323	433	428
Utilization of risk reserve for early exercise of JP Morgan put option			(1,942)
Payment of income taxes	(163)	(123)	(246)
Extraordinary items and other	(361)	(337)	(497)
<b>Change in non-operating working capital and other changes</b>	<b>(72)</b>	<b>(1,229)</b>	<b>(4,661)</b>

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## ■ SUBSEQUENT EVENTS

The principal events which occurred subsequent to June 30, 2004 are listed below:

### Purchase of Digitel shares by TIM International

On July 1, 2004, the settlement agreement signed in April between TIM International and the minority shareholders of the Venezuelan subsidiary Digitel was finalized when TIM International purchased 1,480,562 shares held by the minority shareholders for US\$ 109.6 million. The execution of the agreement brings an end to the dispute with these shareholders that began at the beginning of last year. The closing was finalized after verification of the contractual conditions put into place by TIM International and Digitel. As from the date of July 1, 2004, TIM, through TIM International, holds 100% of the shares of the Venezuelan mobile operator.

### Sale of Atesia to the cos Group

Effective July 1, 2004, the business segment which was engaged in customer care services for wireline telephony was sold by Atesia to Telecontact Center S.p.A..

On July 2, 2004, Telecom Italia signed an agreement with Communication Services S.p.A. (included in the COS Group leader, in Italy, in the outsourcing of Contact Center and of CRM services) for the sale of 80.1% of the stock of Atesia S.p.A.. The sale only regards the activities conducted for TIM and the external market. The finalization of this transaction with the COS Group will take place once authorization is obtained from the Antitrust Authority.

### Sale of Webfin to Vertico

On July 9, 2004, Telecom Italia Media S.p.A. sold 40% of the investment in Finanziaria Web, previously purchased from De Agostini, to Vertico S.p.A. (a 100%-indirectly owned company of Telecom Italia) at the price of euro 42.6 million. This transaction falls under a series of transactions related to the settlement of the dispute with De Agostini.

### Sale of Webegg

On July 15, 2004, after authorization was received from the Antitrust Authority, the agreement with Value Partners S.p.A. for the sale of the stock held in Webegg S.p.A. equal to 69.8% of its share capital was finalized with the payment of price (euro 43 million).

### Sale of Pirelli & C. Real Estate shares

On July 24, 2004, the amount of euro 3 million, related to the sale, in June 2004, of 99,186 Pirelli & C. Real Estate shares, was paid. In August, further 383,400 shares were sold amounting to euro 11 million. After this transaction all Pirelli & C. Real Estate shares were sold.

### Reduction of share capital - Solpart

At the end of period provided by Brazilian law, Solpart arranged to pay its shareholders prorata for the reduction in share capital voted by the Extraordinary Shareholders' Meeting of the company held April 26, 2004. On July 7, 2004, Telecom Italia International received 1,319,945,886 ordinary shares and 1.326.370.406 preferred shares of Brasil Telecom Participações S.A. and, on July 8, 2004, the cash portion equal to Brazilian reais 15,917,669.18.



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#### Repurchase of bonds

In July 2004, Telecom Italia Finance S.A. bought back:

- euro 135.1 million of bonds relating to the euro 3,000 million bond issue maturing April 20, 2006, with coupon interest at 6.375%, issued by ex-Sogerim (a company merged in 2002 by Telecom Italia Finance);
- euro 8 million relating to the euro 3,550 million bond issue maturing July 30, 2004, with coupon interest of 5.825%, issued by Olivetti Finance S.A. (a company merged by Telecom Italia Finance with effect on June 1, 2004).

#### Planned merger of IT Telecom and Epiclink into Telecom Italia

On September 9, 2004, the Board of Directors examined and approved the plan to merge 100%-owned subsidiaries IT Telecom S.p.A. and Epiclink S.p.A. into Telecom Italia. This move falls within the broader restructuring of the Group's information technology operations.

Bringing operations undertaken by these two subsidiaries into the heart of Telecom Italia will rationalize the use of resources and technological competencies, as well as significantly simplifying operational, administrative and corporate management practices.

As provided for in their respective company bylaws, the merger resolution shall be taken by the Boards of Directors of the three companies concerned, in compliance with the terms and conditions set forth in Article 2505 of the Italian Civil Code, final paragraph.

The process should be completed by the end of the year.

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## ■ BUSINESS OUTLOOK: FOR THE CURRENT YEAR

The Telecom Italia Group confirms the outlook previously announced to the market, namely, that it expects a positive evolution of operating income and the net financial indebtedness which, at year-end, will not be higher than euro 30 billion.

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## ■ RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, concluded in the first half of 2004 are not neither unusual nor exceptional, falling 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 data of the Telecom Italia Group at June 30, 2004 are presented in the following table.

The economic, balance sheet and financial transactions between Telecom Italia S.p.A. and subsidiaries and affiliated companies are reported, as a supplement to this disclosure, in the individual notes to the statutory financial statements of Telecom Italia S.p.A.

The principal economic, balance sheet and financial transactions among consolidated companies and unconsolidated subsidiaries and affiliates are described below.

(millions of euro)		
Sales and service revenues	129	These mainly comprise revenues from Teleleasing (euro 67 million), Shared Service Center (euro 18 million), Lombardia Integrata Servizi Informatici (euro 18 million), Consorzio Mael (euro 6 million) and Telecom Argentina (euro 4 million)
Raw materials and outside services	207	These mainly comprise rent payable to Tiglio I (euro 34 million) and Tiglio II (euro 13 million) as well as TLC service costs from Etec SA Cuba (euro 61 million), Telecom Argentina (euro 2 million) and maintenance and assistance contracts from Shared Service Center (euro 54 million), Siemens Informatica (euro 25 million and Italtel group (euro 2 million)
Net other (income) expense	2	These mainly relate to cost recoveries for personnel on loan to certain subsidiaries and affiliates
Net financial (income) expense	2	These include accrued interest income on loans made to certain subsidiaries and affiliates
Loans in long-term investments	106	These mainly comprise medium/long-term loans made to TT&TIM Turchia (euro 53 million), Aree Urbane (euro 31 million) and Telegono (euro 6 million)
Financial receivables	24	These mainly comprise short-term loans made to Telecom Media International Italy- Canada (euro 9 million) , Olivetti Servicios Y Soluciones (euro 7 million) and Tin Web (euro 5 million)
Financial payables	49	These refer mainly to payables to Teleleasing (euro 22 million), Alladium in liquidation (euro 8 million), Shared Service Center (euro 7 million) and Edotel ( euro 5 million)
Trade and other accounts receivable	232	They mainly regard receivables from Sky Italia (euro 8 million, net of the relative allowance accounts), Teleleasing (euro 48 million), Lombardia Integrata Servizi Informatici (euro 50 million), Shared Service Center (euro 16 million), Italtel group (euro 8 million), Tiglio 1 (euro 7 million) and Consorzio Mael (euro 5 million) . A prepaid expenses (euro 60 million) related to the purchase (by the subsidiary Telecom Italia Sparkle ) by Etec S.A. of traffic to Cuba in the period June - December 2004
Trade and other accounts payable	248	They mainly include supply transactions connected with investment and operational activities: Italtel group (euro 104 million), Shared Service Center (euro 28 million) and Siemens Informatica (euro 45 million)
Guarantees and collateral provided	893	These mainly comprise sureties provided on behalf of TT&TIM Turchia (euro 648 million), Consorzio Csia (euro 81 million), Tiglio I (euro 55 million), Aree Urbane (euro 36 million), Italtel group (euro 36 million) and Tiglio II (euro 13 million)
Purchases and sales commitments	7	These refer to commitments with Etec SA Cuba for capital increases
Investments in fixed assets and intangibles	145	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 125 million) and computer projects from Shared Service Center (euro 7 million) and Siemens Informatica (euro 13 million)

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Related party transactions, other than with companies of the Group, during the first half of 2004, also comprise those by the Telecom Italia Group with the Pirelli group, the Edizione Holding group, the Unipol group, the ST Microelectronics group and the companies associated with Mr. Moratti.

As for transactions with the Banca Intesa group and the Unicredito group, the economic data refers to the first quarter of 2004 in that the Directors, through which the companies were considered related parties, ended their term of office on the date of the Shareholders' Meeting of May 6, 2004.

The principal economic, balance sheet and financial transactions among consolidated companies and related parties with Telecom Italia through Directors and key managers of the Company, are described below.

(millions of euro)		
Sales and service revenues	20	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 2 million) and telephone services to the Pirelli group (euro 2 million), to the Edizione Holding group (euro 3 million), to the Unipol group (euro 1 million), to the companies associated with Mr Moratti (euro 1 million), to the Banca Intesa group (euro 3 million) and to the Unicredito group (euro 8 million)
Raw materials and outside services	51	These essentially refer to R&D expenditures and consulting services in the area of computers, tax and intellectual property rights from the Pirelli group (euro 43 million), insurance services from the Unipol group (euro 5 million), sponsoring and content provider costs in reference to F.C. Internazionale Milano S.p.A. – a related party through Mr. Moratti (euro 2 million) and commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million)
Trade and other accounts receivable	11	These mainly refer to the above-mentioned telephone services rendered to the Pirelli group (euro 10 million) and to the Edizione Holding group (euro 1 million)
Trade and other accounts payable	41	These mainly refer to supply transactions connected to the performance of services, investment activities from the Pirelli group (euro 38 million), sponsoring costs in reference to F.C. Internazionale Milano S.p.A – a related company through Mr. Moratti (euro 2 million) and commissions paid to Autogrill S.p.A. (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million)
Investments in fixed assets and intangibles	6	These mainly refer to purchases of telecommunications cables from the Pirelli group

Furthermore:

- Sale of the “Document Management” business segment  
Under the policy to optimize the processes associated with “Facility Management” activities, on February 27, 2004, Telecom Italia and Emsa Servizi signed a contract for the sale of their respective “Document Management” business segments to Telepost S.p.A., a newly established company, in which stakes are also held by TNT Mail, Pirelli Real Estate Facility Management and Comdata. Telepost specializes in Document Management operations (management and distribution of incoming and outgoing correspondence, archive management, etc.). On the same date, Telecom Italia and Emsa Servizi signed a contract with Telepost, with effect from March 1, 2004, whereby the latter company will distribute services connected with Document Management activities;
- in March 2004, under the Group's Information Technology program, TIM contributed a business segment operating in development and applications maintenance in the SAP environment, to the company Shared Service Center – a limited liability consortium company, purchasing 4.55% of the company. The value of the business segment, determined by an expert appointed by the Milan Courts, was euro 65,000;

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- on July 23, 2004 Telecom Italia S.p.A. and Emsa Servizi S.p.A. signed an agreement with “MP Facility S.p.A. (joint venture, 50%, between Pirelli & C. Real Estate Facility Management S.p.A. e Manutencoop Facility Management S.p.A.) related for the sale of their business segment “Manutenzioni” e “Servizi Ambientali”, and also the contract for the outsourcing of the same services. The execution of the contract will be in the last quarter of 2004;
- on September 8, 2004, the Board of Directors of I.T. Telecom S.p.A. voted to contribute its following business segments to Shared Service Center S.c.r.l.: ERP Solutions, engaged in the development and maintenance of ERP systems, and Application Operations – Administration & Finance, which guarantees the applications management for systems in the administration and finance area.

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## ■ ADOPTION OF IAS/IFRS PRINCIPLES

With regard to the adoption of IAS/IFRS principles, during the first half of 2004 the Telecom Italia Group continued the activities necessary for the implementation of the operating processes described in the 2003 Annual Report.

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## ■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS/FUNCTIONS

### WIRELINE

- ▶ Continuous growth of revenues and improvement in margins
- ▶ Large increase in Broadband access
- ▶ Growth of investments to sustain the development of innovative infrastructures and Broadband activities in the domestic and international spheres

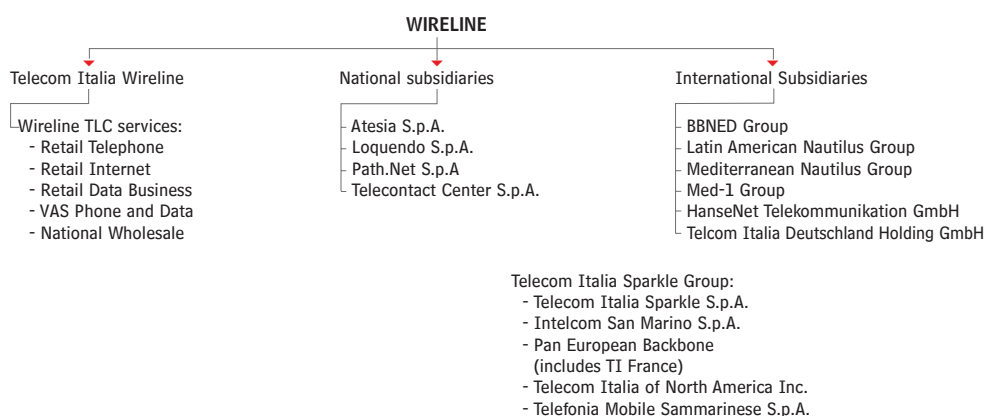
### ■ THE BUSINESS UNIT

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

During the first half of 2004, the market was again fraught with aggressive competition. This was more accentuated in the case of national traffic, and was countered with new plans offered as part of actions to retain customers.

### ■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the first half of 2004, the scope of consolidation changed as a result of the line-by-line consolidation, beginning January 1, 2004, of the company "Telefonia Mobile Sammarinese S.p.A", 51%-owned by Intelcom San Marino S.p.A..

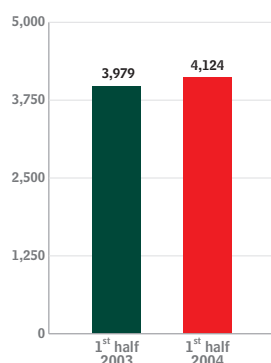
Furthermore, in February 2004, Atesia was partially spun-off to Telecontact Center. The transaction involved the transfer of the entire corporate complex consisting of two call centers located in Caltanissetta and Catanzaro. The accounting value of the structures transferred was equal to euro 3.5 million. The transaction did not cause a change in the scope of consolidation since both companies had been consolidated by Wireline.

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## ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2004 compared to the first half of 2003 and the year 2003.

Gross operating profit



(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b) <sup>(1)</sup>	Year 2003	Change (a - b) amount	%
Sales and service revenues	8,684	8,569	17,216	115	1.3
Gross operating profit	4,124	3,979	8,255	145	3.6
% of revenues	47.5%	46.4%	47.9		
Operating income pre-amortization of differences on consolidation	2,643	2,434	4,972	209	8.6
Operating income	2,639	2,433	4,969	206	8.5
% of revenues	30.4%	28.4%	28.9		
Investments:					
- industrial	1,089	1,075	2,302	14	1.3
- goodwill	-	-	43	-	
Employees at period-end (number) <sup>(2)</sup>	51,329	52,672	50,766	563	1.1

(1) Restated to reflect the inclusion of BBNet in Wireline's scope of consolidation as from September 2003.

(2) The change in employees has been calculated in reference to the data at the end of 2003.

*Sales and service revenues*, totaling euro 8,684 million, increased by 1.3% (+euro 115 million) compared to the first half of 2003, thus improving the already positive economic performance of 2003 and showing an increase of 1.0%. On a comparable consolidation basis, underlying growth was 0.9%.

This positive performance was achieved thanks to the success of efforts to develop the Broadband market and innovative services, particularly Web services. Furthermore, the core telephone market continued to be successful, and the range of wholesale services was enhanced. The contribution to revenues by the Individual Strategic Areas of Business is as follows:

### Retail Telephone

Retail telephone revenues, equal to euro 5,144 million, show a slight decrease of 0.8% (–euro 44 million) compared to the first half of 2003. The strategy of building customer loyalty continues to be the primary aim of marketing strategy. This takes the form of adding attractive features to the flat rate plans and launching the new Tutto 4\* and Chat SMS packages, which, at June 30, 2004, had reached 1,200,000 customers. This was possible thanks partly to the evolution of the Aladino range, with new telephones equipped with an ever-broader range of options to support innovative services. At June 30, 2004, the Aladino cordless portfolio exceeded 500,000.

### Retail Internet and Data Business

Revenues from the Internet and the Data Business areas, equal to euro 1,232 million, showed overall growth of approximately 13% compared to the first half of 2003 (+euro 145 million, of which euro 131 million referred to Internet Consumer services and + euro 14 million referred to Data Business). This was generated, in particular, by the ADSL Alice and ADSL Smart packages (+euro 147 million, +134%) and by innovative data transmission services (+euro 50 million, +20%). Conversely, there was a decrease in revenues from traditional data transmission services, (including leased lines), and Internet dial-up traffic (respectively, –euro 44 million and –euro 19 million).

In the period under examination, the Broadband portfolio, reached a total of 3,273,000 access lines, + 1,073,000 access lines compared to 12.31.2003.

In the domestic market the access lines are 2,975,000 with an increase of 935,000 access lines compared to 12.13.2003.



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In the European market the access lines are 298,000 with an increase of 138,000 access lines compared to 12.13.2003 sustained by the development of the "Europei" projects (in France with Telecom Italia France and Germany with HanseNet) and by the increase of lines of BBNet, in Netherland. During the coming months, with regard to the "Europei" projects in France and Germany, the range of Broadband services will be further enhanced by the launch of new VAS services and innovative handsets.

#### Retail VAS (Value Added Services)

Revenues from VAS services, equal to euro 486 million, showed a decrease of euro 115 million (- 19%) compared to the first half of 2003, following the contraction of premium services (- euro 176 million). This was partly compensated by the growth of innovative services (+ euro 61 million, +21%) achieved thanks especially to the trend of Web services.

#### Wholesale

Revenues from wholesale services, equal to euro 1,647 million, increased by a total of euro 45 million, +3%, compared to the first half of 2003. Growth was sustained by national wholesale services (euro 27 million), particularly the Data segment, and by international wholesale operations (euro 18 million), thanks to the trend of revenues from traffic.

*Gross operating profit*, equal to euro 4,124 million, registered an increase of euro 145 million, +3.6%, compared to the first half of 2003.. Excluding the charge for TLC license fee, gross operating profit increased by euro 85 million, +2.1%.

This represents 47.5% of revenues (46.4% for the six months ending June 30, 2003; 47.1% excluding the charge for TLC license fee).

On a comparable consolidation basis, underlying growth was +2.0%.

This improvement, together with the trend in revenues, is the result of careful management geared to achieving ever-higher levels of efficiency, with a significant improvement in personnel costs and in terms of costs not directly related to the development of business.

*Operating income* was euro 2,639 million, and presented an increase of 8.5% (+euro 206 million) compared to the first half of 2003. This was the result of not only the factors already mentioned with regard to the gross operating profit, but also lower amortization and depreciation and provisions. This increase is reduced to 4.8% after excluding the charge for the TLC license fee for 2003.

Operating income represented 30.4% of revenues (28.4% in the first half of 2003; 29.4% excluding the charge for TLC license fee). On a comparable consolidation basis, organic growth was +5.3%.

*Industrial investments* amounted to euro 1,089 million, and presented an increase of euro 14 million (+1.3%). This was the result of policies to develop innovative infrastructures and, particularly, Broadband operations in the domestic and international sphere.

The number of *employees* increased by 563 compared to December 31, 2003. This was due to the hiring of 1,226 persons, including 860 in Telecontact who had been self-employed and operating in Atesia, and the increase in resources for the companies involved in the "Europei" project, offset by 904 resignations (mainly in Telecom Italia Wireline). There were also organizational changes - concerning the activities conducted by the company's telephone exchange services - which brought 216 persons to Wireline. In addition, there were intercompany transfers involving 19 persons and the acquisition of the company Telefonía Mobile Sammarinese which brought 6 persons.

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## ■ INFORMATION ON OPERATIONSE

The following table shows the main operating highlights at June 30, 2004 compared to June 30, 2003 and December 31, 2003, in addition to the principal commercial initiatives carried out during the first half of 2004.

Operating highlights	6/30/2004	6/30/2003	12/31/2003
Fixed network connections (in thousands)	26,264	27,079	26,596
- of which ISDN	5,941	6,000	6,027
Minutes of traffic on the fixed network (billions)	113.8	117.5	226.6
• national traffic	107.6	112.0	215.2
• international traffic	6.2	5.5	11.4
TP terminals using ISDN technology (in thousands)	126.9	116.7	128.0

## ■ Retail

A brief description follows of the main plans and packages and commercial initiatives during the first half of 2004, 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 Smart Adsl packages), Data business (Broadband and other Data services) and VAS.

Telephone services	Pricing (rate plans)	<p><b>Families:</b> <i>Telecomy quando vuoi</i> and <i>Telecomy Aziende quando vuoi</i> were launched, offering families and <i>SOHO</i> (Small Office Home Office) the option of choosing the time-band during which to make all national calls free of charge.</p> <p><b>Small Medium Enterprises (SME):</b> launch of the <i>Pronto Business</i> and <i>Programma Business</i> packages, the first directed at the professional clientele and small/medium-size businesses and the second at the top range of SME. <i>Opzione mondo</i> is directed at customers who already subscribe to the <i>Pronto Business</i> and the new <i>Telecomy Professional</i> and <i>Programma Business</i> rate plans.</p> <p><b>Executive:</b> launch of price lists based on consumption for International Incoming Toll-free Numbers and the Universal Toll-free number services aimed at big spender customers.</p>
	Products	A promotion campaign was launched focusing on the <i>Aladino cordless</i> phone and fax machines with sales based on a single installment or on six two-monthly installments. Finally, in June, the launch of the video-telephone was announced.
Public Telephone Services		Launch of new types of prepaid phone cards, one for regular customers which permits unlimited calls to all wireline numbers for four months and the other directed at the main international routes with a strong ethnic presence.
Internet	Adsl Alice	Increased speed free of charge for all the Alice packages from 256/128 Kbps to 640/256 Kbps. Launch of <i>Alice Free "solo linea"</i> and launch of the formula based on consumption also for the Alice Sat package. "Estate Gratis" promotion for the <i>Free</i> package which allows new customers to surf the Internet free of charge during the summer months. Size of the e-mailbox combined with the Alice ADSL plans was increased from 50MB to 100MB and the ISP <i>look&amp;feel</i> services associated with the plan and accessed from the Rosso Alice portal were upgraded.
	Adsl Smart	Launch of the Smart PRO packages which include the sale in bundles of connectivity and VAS and WEB services provided by the platform (messaging, FAX, SMS, security, videocommunication and websites).
Data Business	Private Wi-Fi	Launch of the marketing of the <i>Basic One</i> option dedicated to small customer premises which require only one cable <i>Access Point</i> .
	Public Wi-Fi	Development continues to offer Public Wi-Fi service coverage, currently based at more than 160 prestigious locations. A prepaid Wi-Fi card was also launched in addition to the <i>Hot spot in a box</i> package to augment the coverage of Wi-Fi areas to include small commercial businesses, hotels, sports centers, etc..
	Hyperway	Start of the marketing of new ADSL Broadband profiles based on a flat rate and on consumption. Various existing profiles underwent repricing and upgrading. Launch of the marketing of the <i>Company Kit</i> package based on Broadband Hyperway MPLS connectivity and on hi-tech applications such as professional E-mail, corporate portals, integrated Internet access with centralized firewalling and antivirus services. Extension of the IP multimedia option to ADSL and CDN entry level profiles and GBE profiles.

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	Lambda Wave	<i>Lambda Wave Metro</i> is the ideal inter CED connectivity solution, particularly for disaster recovery/business continuity activities. Launch of the marketing of the new 622-Mbit/s profiles, for urban and long distance applications, and the 10-Gbit/s profile for urban applications.
	Dark Fiber	Launch of the new customized packages of infrastructures in dark fiber. The <i>Dark Fiber</i> design solutions supplement the range of Telecom Italia's commercial proposals for the medium-high segment of customers who require very broad band solutions.
	Interbusiness	Launch of new profiles based on <i>Broadband ADSL</i> flat rates and on consumption. Launch of the <i>Enterprise Kit</i> package based on hi-tech Broadband Interbusiness connectivity applications such as professional <i>E-mail</i> , storage of sensitive data, <i>firewalling</i> and <i>Enterprise Kit antivirus</i> solutions.
Telephone VAS	Services	<u>Families</u> : launch of the <i>Tutto 4*</i> service, which makes information services and content available to customers, "all included" in the basic subscription charge. The MMS service was made available from the wireline network with TIM. Option 3 of the 3 service was extended with a new service which enables subscribers to know the name of the caller of an unanswered call. Charity SMSs that can be used by customers during special charity campaigns. The 4888 <i>Pay for Me</i> package was further enhanced with the opening up of the service to WIND.  <u>Small Medium Enterprises</u> : launch of the <i>Tutto 4 * Office</i> service which includes hi-tech telephone services (answerphone and the number of the last unanswered call), messaging services (SMS, Voice Messages) and access to information content (stock market, taxi services, weather forecasts, etc.) of the 4* portal in a single subscription package.
Data & Web VAS	Full Business Company	A new release of the service has been implemented allowing the activation of outgoing fax functions for all SAM messaging service customers.
	Security	The range of Security packages has been extended from the point of view of utility, to meet the requirements of small/medium-size businesses with regard to firewalling and controlling access to websites.

#### ■ National wholesale

During the first half of 2004, the national wholesale market continued to expand, driven by the growth of Broadband Internet access services. In particular, access speed was increased from 256 Kbit/s to the current 640 Kbit/s. Furthermore, the market began to request faster ADSL access; in fact, there are approximately 20,000 connections at 1.2 Mbit/s and 2 Mbit/s compared to 5,000 at the end of 2003.

The growth of Broadband also drives the LLU service. The percentage of unbundled lines assigned to operators for ADSL use increased to 48%, compared to 43% in December 2003.

Details of the most significant quantitative changes are as follows:

Broadband access	XDSL	Approximately 750,000 XDSL access lines were acquired by other operators, with an increase of 40% compared to December 2003.
Local Loop Unbundling	LLU Lines	The number of lines directly connected to the networks of other operators reached 640,000 with an increase of 26% compared to the end of the prior year.
Carrier-PreSelection	CPS Lines	More than 1,100,000 requests were dealt with to configure lines in Carrier PreSelection during the first half of 2004. At June 2004 approximately 3,837,000 access lines had been configured, an increase of about 120,000 lines compared to December 2003.

#### ■ International wholesale

In Europe, Telecom Italia Sparkle maintained its leadership position in the Voice market and continued to play an important role in the IP & Data transmission segment. The Voice business showed a steady growth in volumes, equal to approximately 15%, compared to the first half of 2003 (excluding traffic from Telecom Italia Wireline customers). A decisive contribution to this increase was generated by transit traffic which increased by approximately 32%, thanks to the competitiveness of the offering on the international market.

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The growth in volumes was also achieved through interconnections with new international carriers and a higher level of interconnection to and from other Italian operators. With regard to the IP & Data Transmission market, during the first half of 2004, the downward trend of prices was accompanied by a substantial growth in the band sold in the wholesale market, a phenomenon which contributed to an increase in revenues from innovative services of approximately 41% compared to the first half of 2003.

#### ■ National network

The national network in statistics at June 30, 2004 was as follows:

Exchange areas	about 10,350
Switching areas	615, served by 628 line Urban Group Stages (SGU)
Gateway Areas	33
Copper access network	105.2 million of kilometers-pair
Fiber optic access network	430,000 kilometers-line
Fiber optic carrier network	3.2 million of kilometers-line
Direct dialing circuits	3.9 million
Network for direct digital circuits (PARD)	455,991 access points with speed up to 2 Mbit/s
Network for direct analog circuits (PARD)	93,400 access points
Frame Relay Accesses	85,678 gates at 2Mbit/s
PoP main data networks	32

As far as the national network is concerned, the following took place in the first half of 2004:

<b>National transmissive backbone (fiber optic evolution)</b>	Another 21 Marconi latest generation high-capacity electronic frames have been acquired and are in the process of being installed, bringing the restoration capabilities to a total of 27 junctions, all located in the largest Italian cities. All of TIM customers are in the process of being switched to this infrastructure. Furthermore, 24 DWDM systems were acquired to strengthen the already existing links, bringing the total capacity to more than 150 systems.
<b>Gigabit Ethernet Access</b>	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology ( <i>Ethernity and Hyperway MPLS</i> services based on GBE access). In the first half of 2004 276 gates with GBE access were activated.
<b>ADSL Access</b>	398 new exchanges were equipped and 997,000 new lines were added. There are now 3,454 exchanges that can provide ADSL access and there are 3.3 million ADSL lines of which 2.8 million are in use. This has increased coverage to 81% of the national territory.
<b>National Backbone</b>	The migration of long-distance phone traffic from a backbone based on circuit switching technologies to the innovative one based on packet switching technologies was completed. The migration also involved OLO connections.

#### ■ Foreign Retail Networks

By launching the *"International Broadband"* project, Telecom Italia created access and innovative Broadband service packages in the key European cities by exploiting its know-how and technological assets. The project, conceived in 2003, currently involves France and Germany through the subsidiaries TI France and HanseNet.

##### France

The main achievements of TI France during the first half of 2004 were as follows:

- introduction of the Unbundling Local Loop service in Paris, Lyon, Marseille (which also serves Aix-en-Provence) and Nice, with connections to ADSL at 640, 1,024 and 2,048 Kbit/s, through 129 exchanges;
- introduction of the wholesale ADSL service and Carrier Preselection in-house in the areas of Ile de France (Paris) and the cities of Nantes, Strasbourg, Lille and Bordeaux;
- technical preparation of 80 exchanges with a view to activating LLU services in the area of Île de France (Paris) and in the cities of Nantes, Strasbourg, Lille and Bordeaux.

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The TI France network in statistics at June 30, 2004 is as follows:

POPs	5
Local exchanges for the unbundling service	129
Fiber optic cable	3,844 km
Number of circuits interconnected with France Telecom and other operators	330 at 2 Mbit/s

#### Germany

The main achievements of HanseNet during the first half of 2004 were as follows:

- activation of two new IMMS (Italtel Multi Service Solution) exchanges in the city of Hamburg which allow access to new value added services through Telecom Italia's Intelligent Network platform;
- migration of interconnectivity using DTAG on new exchanges;
- start of a project to extend Voice & Data services to other cities in Germany.

The HanseNet network in statistics at June 30, 2004 is as follows:

POPs	3
Local exchanges for the unbundling service	100
Fiber optic cable	1,090 km
Number of circuits interconnected with Deutsche Telecom and other operators	720 at 2 Mbit/s

#### ■ International network

The international network in statistics at June 30, 2004 is as follows:

Network operators connected	270
- of which by direct dialing	270
- of which by ISDN	74
Switching exchanges	9 in Italy (5 in Milan, 3 in Rome and 1 in Palermo); 7 in Europe (through PEB), 1 in U.S.A. (through TI North America)
Extent of European backbone	39,500 kilometers-line
Bands	2 rings of 100,000 Mbit/s, 1 ring of 20,000 Mbit/s and 1 ring of 30,000 Mbit/s

As far as telephone services are concerned, during the first half of 2004, the switching capacity of international gateways was increased and new services were introduced to accommodate the range of innovative services and new modes of interconnection (Mobile Number Portability, ISUP v2, etc.). The ToIP platform was also adapted to support services which are establishing themselves as market standards (T.38 Fax Relay, DTMF Out of Band, etc.) and the billing platform was completely renovated to support the evolution of the business model.

Work continued to develop the IP backbone, particularly in the U.S.A., where, in the NAPs of Newark (New York), Miami, Palo Alto and Ashburn, approximately 3.5 Gbit/s of new peerings were activated. In Europe, the transmission capacity of the backbone was increased and a PoP (Point of Presence) was opened in Hamburg with the aim of creating synergies with HanseNet.

With regard to development of the transmission network, Telecom Italia Sparkle is participating in a consortium to create the new Sea-Me-We 4 submarine cable system which will connect the area of the Mediterranean to the Middle and Far East through 15 landing points including Marseille, Palermo, Alexandria, Mumbai and Singapore, covering a distance of approximately 20,000 km and with a potential capacity of 1,300 Gbit/s. The system is scheduled to become operational in the third quarter of 2005.

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## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

The following events took place:

- on June 30, 2004 (effective July 1), Loquendo S.p.A. signed an agreement with Citec S.p.A. (a company specialized in planning and developing integrated voice and data systems) for the sale of its "Applications" business segment which designs projects based on advanced voice technologies. At the same time, an agreement was signed to confer the role of Master Distributor for Loquendo technologies for Italy to Citec;
- effective July 1, 2004, the business segment which was engaged in customer care services for wireline telephony was sold by Atesia to Telecontact Center S.p.A.. On July 2, 2004, Telecom Italia signed an agreement with Communication Services S.p.A. (included in the COS Group, leader in Italy, in the outsourcing of Contact Center and of CRM services) for the sale of 80.1% of the stock of Atesia S.p.A..  
The sale only regards the activities conducted for TIM and the external market.  
The finalization of this transaction with the COS Group will take place once authorization is obtained from the Antitrust Authority.

## ■ MAJOR SUBSIDIARIES



Atesia S.p.A.

*Held by: Telecom Italia 100%*

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

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	31	44	(29.5)
Gross operating profit	3	14	(78.6)
Operating income (loss)	(1)	8	(112.5)

Activities during the first half of 2004:

- as part of the reorganization program of Customer Care activities of the Telecom Italia Group, the company sold the two production sites at Catanzaro and Caltanissetta, where the "187" and 191" services are operated, to Telecontact S.p.A.. The change in the results above should be interpreted in the light of the above-mentioned sale, together with the reduction in volumes handled and the pricing towards the captive market.
- development of the new commercial package for the third-party market, in synergy with the Wireline sales networks, thanks partly to the new CRM-Atesia technological platform;

Loquendo S.p.A.

*Held by: Telecom Italia 99.98%*

The company is involved in the research, development and marketing of technologies, equipment and services for voice synthesis, voice recognition and/or voice interaction.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	7	5	40.0
Gross operating loss	-	(3)	
Operating loss	(1)	(4)	75.0

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Activities during the first half of 2004:

- sales and support activities to companies in the group (Telecom Italia, TIM, IT Market) and third parties (in Italy, Spain, Greece, France, Germany, the U.S.A., Canada and South America).
- 15 languages have been developed and, in the meantime, the company has continued to implement different types of both male and female voices (35 at the end of June 2004).

## P.A<sup>th</sup>Net

P.Ath. Net S.p.A.

*Held by: Telecom Italia 99.99%, IT Telecom 0.01%*

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

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	64	49	30.6
Gross operating profit	5	3	66.7
Operating income	5	2	150.0

Activities during the first half of 2004:

- acquisition of new orders worth euro 11.4 million;
- broadening of the range with the introduction of new Broadband services;
- completion and launch of the school network (approximately 11,000 schools);
- development of a new CRM system which enhances the quality of RUPA services.

Telecontact Center S.p.A.

*Held by: Telecom Italia 100%*

The company conducts contact center activities and deals with the residential and business clientele of Telecom Italia S.p.A. who contact the "187" and "191" services.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	17	7	142.9
Gross operating profit	3	2	50.0
Operating income	2	1	100.0

Activities during the first half of 2004:

- as part of the program for the reorganization of the Customer Care activities of the Telecom Italia Group, the company acquired two new production sites at Catanzaro and Caltanissetta, the operating centers for the "187" and "191" services, through a partial and proportional spin-off from Atesia S.p.A.. The company continued to operate the "191" service from its base in Naples.

Gruppo BBNet

*Held by: Telecom Italia International 97,56%*

The group operates in Netherlands in the market of broadBand access services for ISP and business customer.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	31	16	93.7
Gross operating profit	6	(3)	300.0
Operating income	-	(8)	

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Activities during the first half of 2004:

- Completed the activities for the development of network and OSS platform (329 Co – locations to the national network operator KPN);
- Extension of customer base: 123,900 customers at the end of the first half 2004;
- Extension of services through the launch of Voice over DSL, for the SME customers.

#### Latin American Nautilus Group

*Held by: Telecom Italia 100%*

The group operates a portfolio of a range of International Wholesale services (Bandwidth, IP) geared to a clientele with interests in the American continent.

The table shows the key economic highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of U.S.\$)	1 <sup>st</sup> half 2003 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	11	27	14	30	(53.3)
Gross operating profit	1	1	1	2	(50.0)
Operating loss	(3)	(7)	(4)	(8)	50.0

Activities during the first half of 2004:

- extension of the customer base in the areas under its control and, in particular, consolidation of its presence in Venezuela;
- development and consolidation of the range of IP services in Latin America in synergy with Telecom Italia Sparkle;
- launch of a plan to reduce operating costs (mainly general and administrative and network costs through the renegotiation of contracts with the company's main suppliers).

#### Mediterranean Nautilus Group

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

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

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

The table shows the key economic highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of U.S.\$)	1 <sup>st</sup> half 2003 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	28	30	35	33	6.1
Gross operating profit	8	10	10	11	(9.1)
Operating loss	(19)	(16)	(23)	(17)	(35.3)

Activities during the first half of 2004:

- on the commercial front, positioning on the Israeli market was consolidated with the finalization of some important contracts, partly offsetting the problems on the Greek market;
- continuation of the debt restructuring phase by rescheduling repayments falling due, whereas, on the internal front, the company made particular efforts to reduce operating costs;
- renewal of the MECMA (Mediterranean Cable Maintenance Agreement) contract and extension of cable-laying and survey operations to the power and oil and gas sectors.



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#### Med-1 Group

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

The group ensures the operation of the LEV-1 cable (Italy - Cyprus - Israel) and the IC1 domestic Israeli network.

The table shows the key economic highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of U.S.\$)	1 <sup>st</sup> half 2003 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	7	10	9	11	(18.2)
Gross operating profit	5	6	7	7	-
Operating income	2	3	3	3	-

Activities during the first half of 2004:

- supply of maintenance services to the customers of the LEV1 cable, operation of the Israeli IC1 domestic network and supply of carrier and data center services.

#### HanseNet Telekommunikation GmbH

Held by: Telecom Italia Deutschland Holding GmbH 100%

The company operates in the market of Broadband telecommunications (access developed mainly using local loop unbundling and VAS services) in the Hamburg area.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 (*)	Change (%)
Sales and service revenues	68	47	44.7
Gross operating profit	12	7	71.4
Operating loss	(10)	(13)	23.1

◀ (\*) In the first half of 2003 the company was not part of the Telecom Italia S.p.A. Group

Activities during the first half of 2004:

- continuation of the development of plans and packages for the residential and business clientele in the Hamburg area;
- by June 30, customers numbered 180 thousand (105 thousand at the end of the prior year).

#### Telecom Italia Sparkle Group

Held by: Telecom Italia 100%

The Group operates in the "transport phase" for Voice, Data and Internet Protocol services.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	874	815	7.2
Gross operating profit	109	140	(22.1)
Operating income	38	65	(41.5)

Activities during the first half of 2004:

The Group continued to develop the International Wholesale business, where it is ranked one of the best in its class in the world. The trend in results was affected by the start-up of TI France, launched at the end of 2003.

In particular, activities during the first half of 2004 included:

- creation of new interconnection with carriers, to augment business opportunities;
- increase of the network capacity, to satisfy the requirements of the IP & Data transmission market;
- improvement of the efficiency of traffic delivery;
- development of the IP backbone, particularly in the U.S.A., with the opening of new NAP - Network Access Points.

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## MOBILE

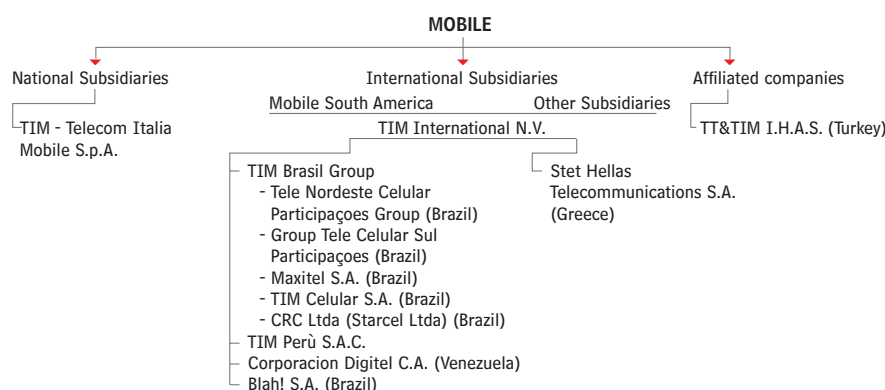
- ▶ Growth of revenues, driven by Italy and Brazil
- ▶ Expansion of the customer base in Brazil
- ▶ Growth of gross operating profit
- ▶ Agreement with Digitel's minority shareholders
- ▶ Completion of the Aria-IsTIM and Aycell merger

### ■ THE BUSINESS UNIT

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

### ■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the first half of 2004:

- in January 2004, the five operating companies of the Tele Nordeste Celular Participações group were merged into the subsidiary Telpel Celular. The acquiring company took the name of TIM Nordeste Telecomunicações S.A. and is now the only operating company in which Tele Nordeste Celular Participações S.A. has a holding. The transaction has made it possible for the Group to simplify the company structure and achieve greater efficiency in the costs supporting the business;
- on February 3, 2004, Stet Hellas announced the change in its brand from Telestet to TIM, which will enable the company to reinforce its image as a dynamic and innovative operator in Greece;
- on February 19, 2004, Aria-Is TIM, the mobile operator owned by TIM International (49%) and the IsBank group (51%), was merged with Aycell, the GSM operator entirely owned by Turk Telekom, Turkey's state-owned wireline operator.  
The new company (TT&TIM) resulting from the merger is held 40% by TIM International,

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40% by Turk Telekom and the remaining 20% by the Is Bank group. The net financial position of Is TIM at the time of the transaction was a borrowings position of US\$ 1.3 billion and reflected the conversion to share capital of all the loans and advances against future increases in capital received from the shareholders (about US\$ 2.3 billion).

Furthermore, as presented in the 2002 and 2003 financial statements, the value of the investment in TIM and the advances against future increases in capital showed a nil balance. The 2003 financial statements still presented, in reference to Is TIM, the reserves for risks and charges of euro 572 million in addition to the allowance for doubtful receivables of euro 279 million, which brought the balance of receivables from Is TIM to a zero.

At June 30, 2004, the carrying value of the associated company TT&TIM is shown at a nil balance until such time as the company is fully operational and the first operating results are consolidated. In view, also, of the counterguarantee issued by the TIM Group on behalf of Is TIM, now TT&TIM, the reserves for risks and charges recorded in the financial statements at December 31, 2003 have been kept, except for a partial utilization of euro 12 million following the acquisition of a loan from Telecom Italia Finance that had previously been guaranteed by the TIM Group. This financial receivable was converted to share capital of Is TIM. Moreover, the TIM group has pledged, for the period 2004/2006, to subscribe to share capital increases up to a maximum of US\$ 150 million and to issue guarantees to financial companies for a maximum amount of US\$ 150 million;

- on March 1, 2004, under the Group's program for information technology, TIM contributed a business segment which develops and maintains software applications in the SAP environment to the company Shared Service Center, a limited liability consortium company, purchasing a 4.55% stake. The value of the business segment was determined by an expert appointed by the Milan Courts at euro 65 thousand;
- on March 31, 2004, under the plan for the reorganization of the Information Technology area of the Telecom Italia Group, TIM purchased, effective on April 1, 2004, the software design and development activities previously carried out by a specialized team of IT Telecom resources. This business segment that was purchased carries out activities that IT Telecom currently provides to TIM in the areas of:
  - innovative services, based on IP networks, known also as e-business or web services, directed at the business and mass-market segments;
  - telecommunications software development and maintenance activities.

These activities will be integrated with the resources that today already operate in IT development at TIM, making it possible to improve the synergies for the management of the current platforms and the development of their evolution. The sale price, based also upon an external valuation drawn up by Milestone Advisory House S.p.A. in Milan, was agreed between the parties at euro 23 million. 551 resources were transferred to TIM as of April 1, 2004;

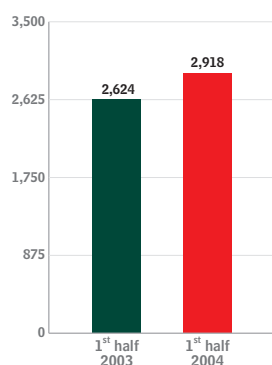
- with regard to the numerous disputes pending between TIM International and its co-shareholders in Digitel, in connection with the absorption of the loss for the year 2002, carried out at the beginning of 2003, a settlement agreement was signed under which TIM International pledged to purchase the holdings held by all the co-shareholders (corresponding to a 32.88% holding in Digitel's share capital). As stated in the paragraph on subsequent events, the agreement was finalized on July 1, 2004;
- on May 28, 2004, the Boards of Directors of Tele Celular Sul Participações and Tele Nordeste Celular Participações, approved the start of the operation for the merger of Tele Nordeste Celular in Tele Celular.

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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2004 compared to the first half of 2003 and the year 2003.

Gross operating profit



(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Year 2003	Change (a - b) amount	%
Sales and service revenues	6,152	5,534	11,782	618	11.2
Gross operating profit	2,918	2,624	5,502	294	11.2
% of revenues	47.4%	47.4%	46.7%		
Operating income pre-amortization of differences on consolidation	2,012	1,877	3,885	135	7.2
Operating income	1,967	1,826	3,786	141	7.7
% of revenues	32.0%	33.0%	32.1%		
Investments:					
- industrial	670	406	1,957	264	65.0
- differences on consolidation	-	-	7		
Employees at period-end (number) <sup>(1)</sup>	19,723	18,963	18,888	835	4.4

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003

*Sales and service revenues* during the first half of 2004 amounted to euro 6,152 million, with an increase of 11.2% compared to the first half of 2003. Excluding the negative foreign exchange effect, revenues increased by euro 664 million (+12.1%).

*Gross operating profit* was euro 2,918 million in the first half of 2004 and showed an increase of 11.2% compared to the same period of 2003 (euro 2,624 million). Excluding the negative foreign exchange effect and the TLC license fee (equal to euro 59 million in the first half of 2003), the gross operating profit increased by 9.2%. The gross operating profit amounted to 47.4% of total revenues (48.5% in the first half of 2003, after excluding the effect of the TLC license fee).

*Operating income* was euro 1,967 million and showed an increase of 7.7% compared to the first half of 2003 (euro 1,826 million). Underlying growth (calculated by excluding the effects of the TLC license fee for the first half of 2003 and using the same exchange rate) was 4.2%. Operating income represented 32.0% of total revenues (34.1% in the first half of 2003 after excluding the effect of the TLC license fee). Beginning January 2004, considering that TIM's UMTS service was already in operation and being used by a pool of test users, the amortization process was started for the relative license. This license had already previously been amortized (with effect from January 2002) in the TIM S.p.A. statutory financial statements so as not to compromise the benefit of the tax deductibility of the amortization charge. The increase in consolidated operating income for the first half of 2004 is thus influenced by the consequent higher amortization charge of euro 67 million.

*Industrial investments* amounted to euro 670 million, of which euro 226 million referred to intangible assets and euro 444 million to fixed assets. Investments were mainly designated for technology and expansion of the network.

The number of *employees* increased by 835, compared to December 31, 2003. This increase was due principally to the above-mentioned acquisition of the IT Telecom business segment by TIM S.p.A. and by the further increase of employees in Brazil.

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## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

The following events took place:

- on July 1, 2004, the settlement agreement signed in April between TIM International and the minority shareholders of the Venezuelan subsidiary, Digitel, was finalized upon TIM International's purchase of 1,480,562 shares of the subsidiary from the minority shareholders for US\$ 109.6 million. The execution of the agreement places an end to the dispute with these shareholders that began at the beginning of last year. The closing took place after verification of the contractual conditions put into place by TIM International and Digitel. As from the date of July 1, 2004, TIM, through TIM International, holds 100% of the shares of the Venezuelan mobile operator.
- on July 19, 2004, the Boards of Directors of Tele Celular Sul Participações and Tele Nordeste Celular Participações approved the plan for the merger of Tele Nordeste Celular Participações in Tele Celular Sul Participações. Tele Celular Sul Participações will also change its company name to TIM Participações S.A..



## ■ TELECOM ITALIA MOBILE S.P.A.

*Held by: Telecom Italia 54.82%, Telecom Italia Finance 0.17%*

The table shows the key economic data:

	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b) (%)
(millions of euro)			
Sales and service revenues	4,803	4,499	6.8
Gross operating profit	2,632	2,388	10.2
Operating Income	2,057	1,824	12.8

*Sales and service revenues* increased in the first half of 2004 by 6.8%, reaching euro 4,803 million (euro 4,499 million in the first half of 2003). Traffic revenues, for a total of euro 3,548 million, grew by 2.6%. Revenues from Value-Added Services (which represent 12.4% of total revenues and 13.0% of revenues from services) amounted to euro 594 million, an increase of 26.1%.

*Gross operating profit* in the first half of 2004 amounted to euro 2,632 million, an improvement of 10.2% compared to euro 2,388 million in the first half of 2003. On a comparable consolidation basis, excluding the effects of the cancellation of the TLC license fee, which, in the first half 2003 amounted to euro 59 million, the gross operating profit increased by 7.6%.

*Operating income*, equal to euro 2,057 million in the first half of 2004 (euro 1,824 million in the same period of 2003), showed an even better performance than gross operating profit, with an increase of 12.8%. Excluding the TLC license fee from the first half of 2003, the growth in operating income was 9.2%.

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The following table shows the main operating highlights at June 30, 2004 compared to June 30, 2003 and December 31, 2003, in addition to the principal activities carried out during the period by each sector:

Operating highlights	6/30/2004	6/30/2003	12/31/2003
TIM lines in Italy (thousands)	26,011	25,610	26,076
Mobile traffic (millions of minutes)	20,088	18,508	38,420
ARPU (euro/ line/month)	28.6	27.6	28.2

#### Details of activities during the first half of 2004:

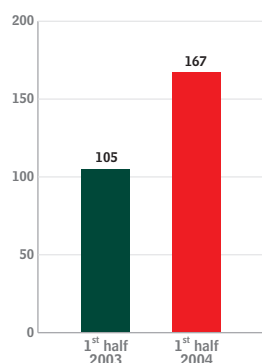
Launch of "S.O.S. Ricarica"	The service allows customers to make calls even with zero credit when it is not possible to recharge the phone immediately, by calling the free number 4916, which grants euro 2 credit for immediate use. The next time the phone is recharged, euro 3 is deducted from the total (including euro 1 to cover the administrative costs of the service).
Launch of "MAXXI TIM Messaggi"	The package, directed at prepaid customers, for the sum of euro 10, allows users to send 400 SMS and 100 MMS within 30 days. The offer is automatically renewed for another 30 days if the remaining credit is at least euro 13.
Agreement with "3"	The agreement signed with "3" extends the sphere of commercial collaboration and re-defines agreements with regard to roaming, sharing sites and interconnection. The agreement also establishes the sharing of the broadcasting rights, via cell phones, of sporting events involving the Series A TIM and B TIM football teams, owned by the two operators.
Launch of "MAXXI TIM Parole"	This is a plan allowing customers to acquire large packages of minutes at highly advantageous prices continuously throughout the year, and the option of choosing the solution best suited to their needs from the many combinations available.
Launch of EDGE and "TIM Turbo"	In April, TIM (the first company to do so in Italy) launched EDGE, the Broadband mobile network for high-speed data transmission, a service which complements the UMTS service. TIM customers will be able to use the new line of dual mode "TIM TURBO" phones which can use both the EDGE and UMTS networks, which provide the highest-quality services. At the end of May, TIM launched a new line of third generation services, marking the commercial launch of the combined Edge-UMTS network for TIM customers. The new range of TIM Turbo phones enables users to access third generation multimedia services, such as fast Internet connection and the reception and transmission of digital images, videos, photographs and music files, at a transmission speed of approximately 100 Kbit/s.
Launch of the FreeMove brand	On March 29, 2004 the members of the Alliance (Orange, Telefonica Moviles, TIM and T-Mobile) presented the new brand FreeMove, illustrating the first tangible results of the Alliance. These include the conclusion of preferential supply agreements with Siemens and Motorola and the joint acquisition of 6 million handsets for 2004, with an average reduction in cost of 10%.
Solidarity Pony	TIM and the Rome City Council signed a protocol agreement to launch the 2004 Solidarity Pony. This ensures that elderly citizens left alone during the summer holiday have access to assistance for their daily needs or, more simply, a bit of company, until June 2005.
Open Mobile Terminal Platform	TIM and other major mobile telephone operators (mm02, NTT DoCoMo, Orange, SMART Communications, Telefonica Moviles, T-Mobile and Vodafone) have announced their intention to define the requisites that have a broad consensus for an Open Mobile Terminal Platform (OMTP), with the aim of supplying standard open interfaces which ensure that users have a more effective, broader "user experience" when using different handsets. At the same time, this will enable individual operators and suppliers to differentiate and customize their offering. The OMTP group intends to promote the use of existing standards and to encourage the development of new standards, thanks to the presentation of the OMTP requisites. The OMTP group is an association open to all. Amena, Hutchinson/3, KPN, One Austria, SFR and Telenor have all expressed their intention to join the group.

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## ■ ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

The key economic and financial highlights of the Mobile Business Unit operations in Latin America are presented in the following table.

Gross operating profit



(millions of euro)	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Year 2003	Change (a - b) Amount	%
Sales and service revenues	951	674	1,547	277	41.1
Gross operating profit	167	105	196	62	59.0
% of revenues	17.6%	15.6%	12.7%		
Operating loss pre-amortization of differences on consolidation	(88)	(74)	(237)	(14)	(18.9)
Operating loss	(94)	(80)	(248)	(14)	(17.5)
% of revenues	(9.9%)	(11.9%)	(16.0%)		
Investments:					
- industrial	228	143	641	85	59.4
Employees at period-end (number) <sup>(1)</sup>	7,917	7,451	7,502	415	5.5

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

During the first half of 2004, the operations of the Mobile Business Unit in Latin America generated *revenues* of euro 951 million, an increase of 41.1% compared to the first half of 2003, despite the impact of the negative foreign exchange effect. Excluding the foreign exchange effect, revenues increased by approximately euro 323 million.

*Gross operating profit* amounted to 167 million. In this case, excluding the foreign exchange effect, the *gross operating profit* increased by approximately euro 72 million, influenced by the improved performance of the start-up of the GSM service in Brazil.

The *operating result* was a loss of euro 94 million and was impacted by higher amortization associated with investments to develop technical and services infrastructures.

*Industrial investments* amounted to euro 228 million, of which euro 35 million referred to intangible assets and euro 193 million to fixed assets.

The number of *employees* increased by 415, compared to December 31, 2003 mainly due to the increases resulting from start-up activities in Brazil.

## ■ AFFILIATED COMPANIES

### ■ Europe

Stet Hellas Telecommunications

Held by: TIM International N.V. 81.40%, TI Finance 0.13%

The company operates the GSM service in Greece.

The table shows the main economic and operating data:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	413	379	9.0
Gross operating profit	125	134	(6.7)
Operating income	56	75	(25.3)
Number of lines at period-end (thousands)	2,467	2,672	(7.7)

Activities during the first half of 2004:

- first operator in Greece to launch 3G services, reconfirming its technological leadership on the Greek market;



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- change of the brand name from Teletet to TIM. This initiative will make it possible to reinforce the corporate image with a brand name that is known internationally for its know-how, technological competence and high level of service;
- launch of numerous innovative services, such as TIM Immagine which enables users to access the company's VAS services through a dynamic, attractive color menu with music and images;
- for the second consecutive year Stet Hellas was included in the "Info tech-100" list of 100 top technology companies in the Business Week Magazine.

#### ■ Latin America



##### Tele Nordeste Celular Participações Group

Held by: TIM Brasil Serviços e Participações S.A. 23.87%

The group operates mobile network services using TDMA and GSM technologies in the northeast of Brazil.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of reais)	1 <sup>st</sup> half 2003 (millions of reais)	Change in reais (%)
Sales and service revenues	149	148	542	528	2.7
Gross operating profit	73	68	264	245	7.8
Operating income	33	35	119	124	(4.0)
Number of lines at period-end (thousands)			2,385	2,030	17.5

Activities during the first half of 2004:

- merger by incorporation of the operating companies Telasa, Telpa, Telecearà, Telepisa and Telern in Telpa (now called TIM Nordeste Telecomunicações);
- launch of new VAS services, such as Tons, Image and Video, "TIM Click", "TIM Fotomensagem" and "TIM Videomensagem";
- launch of "Business Control", a prepaid plan which enables Corporate customers to monitor the costs of calls made by employees using mobile phone services;
- strengthening and development of partnerships with numerous dealers;
- launch of commercial plans aimed at migration from TDMA to GSM technology;
- expansion of the GSM network.



##### Tele Celular Sul Participações Group

Held by: TIM Brasil Serviços e Participações S.A. 23.60%

The group operates mobile network services using TDMA and GSM technology in the south of Brazil.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of reais)	1 <sup>st</sup> half 2003 (millions of reais)	Change in reais (%)
Sales and service revenues	196	160	714	573	24.6
Gross operating profit	72	64	261	231	13.0
Operating income	32	33	118	119	(0.8)
Number of lines at period-end (thousands)			2,418	1,812	33.4

Activities during the first half of 2004:

- launch of packages focusing on the acquisition of high-profile clientele;
- launch of new VAS services, such as Tons Image and Video, "TIM Click", "TIM Fotomensagem" and "TIM Videomensagem";
- implementation of Number Portability to facilitate migration towards GSM technology;
- expansion of the GSM network in the states of Paraná, Santa Caterina and Pelotas.



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Maxitel S.A.

Held by: TIM International 58.70%, TIM Brasil Serviços e Participações S.A. 41.30%

The group operates mobile network services using TDMA and GSM technology in Brazil in the states of Minas Gerais, Bahia and Sergipe.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of reais)	1 <sup>st</sup> half 2003 (millions of reais)	Change in reais (%)
Sales and service revenues	134	123	489	440	11.1
Gross operating profit	31	47	111	168	(33.9)
Operating income (loss)	(4)	20	(16)	72	∞
Number of lines at period-end (thousands)			1,878	1,461	28.5

Activities during the first half of 2004:

- intensification of retention and loyalty programs for high-profile customers;
- promotional packages for prepaid service customers;
- development of VAS services;
- expansion of the GSM network.

TIM Celular S.A.

Held by: TIM Brasil Serviços e Participações S.A. 100%

The company operates mobile network services using GSM technology in the north, center and south (Rio Grande do Sul) of Brazil and in the states of São Paulo, Rio de Janeiro, Espírito Santo as well as in the Federal District.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of reais)	1 <sup>st</sup> half 2003 (millions of reais)	Change in reais (%)
Sales and service revenues	325	114	1,185	409	∞
Gross operating loss	(39)	(100)	(141)	(359)	60.7
Operating loss	(135)	(144)	(493)	(514)	4.1
Number of lines at period-end (thousands)			3,736	976	∞

Activities during the first half of 2004:

- launch of numerous marketing campaigns aimed at increasing the customer base;
- promotions focusing on the younger clientele, such as "TIM Cartoon" and "Super Troca TIM";
- launch of "TIM Light" and "Mega TIM" to develop the post-paid and prepaid clientele segments, respectively;
- development of VAS services.

TIM Perú S.A.C.

Held by: TIM International N.V. 100%

The company operates mobile telephone services in Perú.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of nuevo soles)	1 <sup>st</sup> half 2003 (millions of nuevo soles)	Change in nuevo soles (%)
Sales and service revenues	71	58	304	223	36.3
Gross operating profit (loss)	8	(4)	34	(15)	∞
Operating loss	(11)	(23)	(49)	(87)	43.7
Number of lines at period-end (thousands)			772	484	59.5



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Activities during the first half of 2004:

- launch of new marketing campaigns and strengthening of the commercial network with the aim of reinforcing the company's position on the market;
- launch of the GPRS service with the aim of developing the use of MMS and increasing customer loyalty.



Corporacion Digitel C.A.

Held by: TIM International N.V. 67.12%

The company operates mobile telephone services in Venezuela.

The table shows the main economic and operating data:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of bolivares)	1 <sup>st</sup> half 2003 (millions of bolivares)	Change in bolivares (%)
Sales and service revenues	80	72	187,690	131,367	42.9
Gross operating profit	25	23	57,607	42,574	35.3
Operating loss	0	(1)	(334)	(1,992)	83.2
Number of lines at period-end (thousands)			1,231	1,003	22.7

Activities during the first half of 2004:

- introduction of innovative services such as "TIM Click" and "TV Movil"
- launch of the "Controlame" service which warns customers when they reach a certain level of credit;
- implementation of new ways of electronically recharging phones using POSs, ATMs and the Internet.

## ■ AFFILIATED COMPANIES

### ■ Mediterranean Basin

TT&TIM I.H.A.S.

Held by: TIM International N.V. 40%

The company operates mobile telephone services in Turkey. It was created by the merger of Aria - IS TIM and Aycell, began operations on February 19, 2004; share capital is owned by TIM International, 40%, Turk Telecom, 40% and Is Bank Group, 20%.

Activities during the first half of 2004:

The company has operated since February 20, 2004 and is continuing the industrial integration project of operating activities. "Avea" is the new corporate brand, supported by commercial and advertising campaigns. By June 30, 2004 the company had installed 4.7 million lines and had reached a market share of 15.3%.

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## SOUTH AMERICA

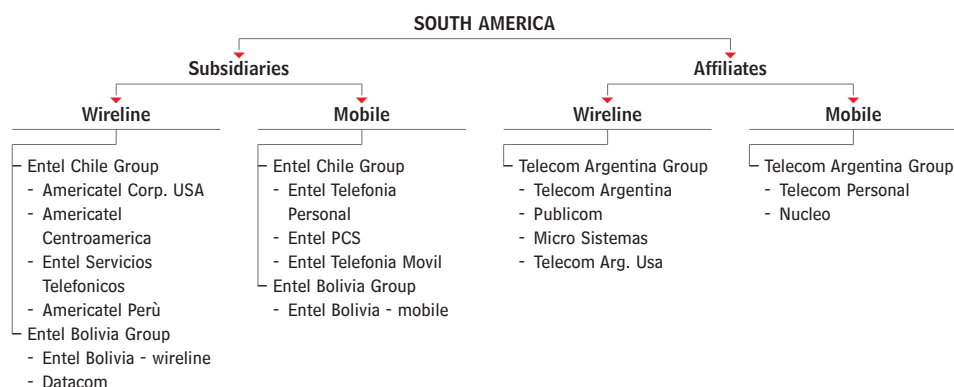
### ■ STRUCTURE

With effect from March 1, 2004, the former Latin America Operations structure has been disbanded and the Telecom Italia Latam structure took over the role of the "delocalized" Corporate function, in keeping with the strategic policies of the Group to consolidate and develop its presence in Latin America.

Effective March 1, 2004, Paolo Dal Pino was appointed the representative of the Telecom Italia Group in Latin America, reporting directly to the Chairman.

At the same time, the Wireline and Mobile Business Units, with no change in the corporate control structure, are responsible for the results of the subsidiaries in Latin America.

The structure of the Latin American is organized as follows:



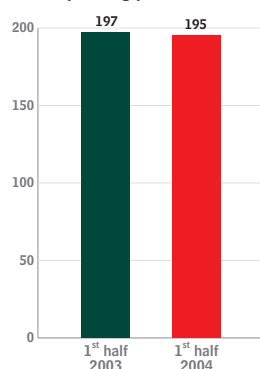
### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

Compared to December 31, 2003, the company Telecom Italia America Latina and the Argentine Branch of Telecom Italia, which became part of the Corporate structure, have been excluded from the scope of consolidation of South America.

### ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results of the Entel Chile group and the Entel Bolivia group for the first half of 2004, compared to the restated figures for the first half of 2003 and the year 2003.

Gross operating profit



	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Year 2003	Change (a - b)	
(millions of euro)				amount	%
Sales and service revenues	533	559	1,111	(26)	(4.7)
Gross operating profit	195	197	407	(2)	(1.0)
% of revenues	36.6%	35.2%	36.6%		
Operating income pre-amortization of differences on consolidation	70	73	153	(3)	(4.1)
Operating income	67	69	145	(2)	(2.9)
% of revenues	12.6%	12.3%	13.1%		
Investments:					
- industrial	54	61	129	(7)	(11.5)
Employees at period-end (number) <sup>(1)</sup>	5,039	5,228	4,953	86	1.7

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

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*Sales and service revenues* amounted to euro 533 million, with a reduction of euro 26 million, – 4.7%, compared to the same period of 2003. This reduction was mainly attributable to a contraction of the revenues of the Entel Chile group. Exchange rate fluctuations generated an overall positive impact equal to approximately euro 19 million, of which +euro 30 million referred to the Chilean peso and – euro 11 million to the Bolivian peso. Excluding the exchange effect, consolidated revenues showed a reduction of euro 45 million, equal to – 7.8%. The fluctuations described also influenced profit performance. In particular, *gross operating profit* decreased by euro 2 million (– 1.0%) compared to the first half of 2003, with a positive exchange effect of approximately euro 6 million. Excluding the exchange effect, gross operating profit decreased by 3.9% compared to the first half of 2003. The gross operating profit represented 36.6% of total revenues (compared to 35.2% in the same period of 2003).

*Operating income*, equal to euro 67 million, decreased by euro 2 million (– 2.9%) compared to the same period of 2003 and was affected by a positive foreign exchange effect of approximately euro 2 million. Excluding the foreign exchange effect, the operating income decreased by 5.6% compared to the first half 2003. The operating income represented 12.6% of total revenues (compared to 12.3% in the same period of the prior year).

*Industrial investments* of euro 54 million showed a declining trend compared to the first half 2003, with a reduction of 11.5%.

At June 30, 2004 *employees* numbered 5,039, an increase of 86 (+1.7%) compared to December 31, 2003. The increase can be attributed to a rise in the number of employees of the Entel Chile group.

The following table shows the key results of the wireline and mobile telephone businesses for the first half of 2004, compared to the first half of 2003.

	1 <sup>st</sup> half 2004				1 <sup>st</sup> half 2003			
	Fixed	Mobile	Elimi-nations	Total	Fixed	Mobile	Elimi-nations	Total
(millions of euro)								
Sales and service revenues	339	259	(65)	533	378	241	(60)	559
Gross operating profit	89	106		195	92	105		197
% of revenues	26.3%	40.9%		36.6%	24.3%	43.6%		35.2%
Operating income pre-amortization of differences on consolidation	8	62		70	13	60		73
Operating income	8	62	(3)	67	11	60	(2)	69
% of revenues	2.4%	23.9%		12.6%	2.9%	24.9%		12.3%
Investments:								
- industrial	22	32		54	35	26		61
Employees at period-end (number)	3,269	1,770		5,039	3,620	1,608		5,228

## ■ SUBSIDIARIES



Entel Chile Group  
Held by: Telecom Italia International 54.76%

The group operates in the sectors of fixed and mobile telephone services, data transmission and Internet access services in Chile. The group's wireline business is focused on national and international long-distance service while its presence in the local domestic telephone segment is limited partly because it has not occupied a historical place as an operator in this market.

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The table shows the key economic and operating highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of pesos)	1 <sup>st</sup> half 2003 (millions of pesos)	Change in pesos (%)
Sales and service revenues	462	486	345,106	388,199	(11.1)
Gross operating profit	162	163	121,032	130,269	(7.1)
Operating income	56	65	41,492	52,053	(20.3)
No. of fixed lines at period-end (thousands)			98	98	-
No. of mobile customers at period-end (thousands)			2,922	2,456	19.0
No. of Internet customers at period-end (thousands)			246	253	(2.8)

The following table shows the key results of the wireline and mobile telephone businesses of Entel Chile group for the first half of 2004, compared to the first half of 2003:

	1 <sup>st</sup> half 2004				1 <sup>st</sup> half 2003			
(millions of euro)	Fixed	Mobile	Elimi- nations	Total	Fixed	Mobile	Elimi- nations	Total
Sales and service revenues	299	226	(63)	462	331	214	(59)	486
Gross operating profit	71	91		162	71	92		163
% of revenues	23.7%	40.3%			21.5%	43.0%		
Operating income	5	53	(2)	56	11	56	(2)	65
% of revenues	1.7%	23.5%			3.3%	26.2%		
Employees at period-end (number)	2,649	1,508		4,157	2,914	1,436		4,350

Activities during the first half of 2004 in the wireline business:

- promotion of commercial Broadband packages based on competitive prices was stepped up with the launch of "Promoción Banda Ancha" (first month free of charge) in January and "Promoción Banda Ancha Full 128 kbs" for the residential market and "Super ADSL" (local telephone services bundling and ADSL Internet) for the business segment in March;
- re-launch of voice services: "Promoción cobro revertido automático" in January, "Autocontrol 500 minutos" in March and "Entelticket" in May;
- in May, sealing of the agreements with mobile operators to send SMSs via the Internet which cover the whole of the Chilean mobile market.

Activities during the first half of 2004 in the mobile business:

- in February, re-launch of the SMS roaming service for prepaid customers;
- in March, launch of the "TV Móvil" service and the GPRS/MMS roaming service for all customers;
- in June, GSM 1900 coverage for Easter Island. The company is the only one to offer this service.

Entel Bolivia Group

*Held by: Telecom Italia International through ICH/ETI 50%*

The group operates in the sectors of fixed (in particular on national and international long distance service, as already mentioned in Entel Chile Group) and mobile telephone services, Internet, data transmission, telex and telegraphy services in Bolivia.

The table shows the key economic and operating highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of bolivianos)	1 <sup>st</sup> half 2003 (millions of bolivianos)	Change in bolivianos (%)
Sales and service revenues	72	74	695	619	12.3
Gross operating profit	33	34	316	285	10.9
Operating income	11	4	107	30	256.7
No. of fixed lines at period-end (thousands)			45	60	(25.0)
No. of mobile customers at period-end (thousands)			999	583	71.4
Internet customers at period-end (thousands)			14	15	(6.7)

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The following table shows the key results of the wireline and mobile telephone businesses of Entel Bolivia group for the first half of 2004, compared to the first half of 2003:

	1 <sup>st</sup> half 2004				1 <sup>st</sup> half 2003			
	Fixed	Mobile	Eliminations	Total	Fixed	Mobile	Eliminations	Total
(millions of euro)								
Sales and service revenues	40	33		73	47	27		74
Gross operating profit	18	15		33	21	13		34
% of revenues	45.0%	45.5%			44.7%	48.1%		
Operating income	3	8		11	0	4		4
% of revenues	7.5%	24.2%			-	14.8%		
Employees at period-end (number)	620	262		882	706	172		878

Activities during the first half of 2004 in the wireline business:

- launch of the Wi-Fi service in Bolivia's three largest cities (La Paz, Santa Cruz and Cochabamba);
- a dynamic commercial boost was given to sales of telephone services through price reviews, the re-launch of the prepaid "UNICA" card and the launch of the new product "Aquí Entel- Telefonía Pública";

Activities during the first half of 2004 in the mobile business:

- at June 30, the company reached the significant milestone of one million customers, an impressive achievement in a country where the penetration of mobile telephone services is very low;
- launch of the GPRS service;
- extension of GSM network coverage;
- new international roaming agreements and reaching a figure of 100 operators in the five continents;
- promotional launch of free SMS service.

## ■ AFFILIATED COMPANIES



Telecom Argentina Group

*Held by: Telecom Italia and Telecom Italia International through*

*Nortel Inversora 13.97%*

The group operates in the sector of fixed and mobile telephone services, data transmission and Internet access services in Argentina.

The table shows the key economic and operating highlights:

	1 <sup>st</sup> half 2004 (millions of euro)	1 <sup>st</sup> half 2003 (millions of euro)	1 <sup>st</sup> half 2004 (millions of pesos)	1 <sup>st</sup> half 2003 (millions of pesos)	Change in pesos (%)
Sales and service revenues	580	525	2,070	1,747	18.5
Gross operating profit	309	320	1,102	1,064	3.6
Operating income	67	27	239	90	165.6
No. of fixed lines at period-end (thousands)			3,409	3,287	3.7
No. of mobile customers at period-end (thousands)			3,544	2,770	27.9
Internet customers at period-end (thousands)			216	187	15.5

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#### Activities during the first half of 2004:

In a macroeconomic scenario that was still fraught with uncertainty and frozen fixed telephone rates, the group continued the process of optimizing costs and investments and, at the same time, exploited the growth opportunities emerging in the mobile telephone services sector. The measures implemented made it possible to achieve a gross operating profit with a 53% margin and reduce the level of net financial indebtedness, although this figure remains very high.

On June 22, 2004, Telecom Argentina S.A. launched an appeal to obtain proxies from among its creditors for the approval and signing of an Acuerdo Preventivo Extrajudicial ("APE"), regulated by Argentine law, which is a necessary part of the process to restructure the company's debt.

On August 23, 2004 Telecom Argentina S.A. announced that 94.4% had agreed to support the proposed appeal.

On July 2, 2004, Telecom Personal, a subsidiary of Telecom Argentina presented its creditors with a proposal to restructure its debt, similar to the conditions adopted by the parent company.

On the operations front, the Argentine market reflects the economic recovery currently taking place, despite the fact that it is happening in a fairly conflictual political situation. In this context, the Telecom Argentina group closed the first half of 2004 with a significant increase in revenues, to which the following activities contributed:

#### in the wireline business:

- launch of semi-flat rate plans for national long-distance and Internet services;
- commercial launch of the Wi-Fi offering;
- extension of the Broadband customer base;

#### in the mobile business:

- commercial launch of the GSM service;
- development of the range of innovative services: "Personal Click" in March and "Me Llamás?", "TV Personal" and "Quién Llamó" in April;
- increase in SMS traffic, which more than doubled in the first half of 2004, compared to December 2003;
- reorganization of the indirect sales channel and redefinition of market segments based on customers' economic value.

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## INTERNET AND MEDIA

- ▶ **TIN.IT:** number of customers served reaches 2.9 million (+24%)
- ▶ **VIRGILIO:** its position as the leading Italian portal is confirmed with 13.9 million individual visitors (+21.9%) and 3.8 billion page views (+16.9%)
- ▶ **La7:** audience share remains steady at above 2%
- ▶ **MTV :** number of companies advertising on MTV increases by 18%
- ▶ **Office Products:** positive inversion of the sales trend compared to previous years (+1%)

### ■ THE BUSINESS UNIT

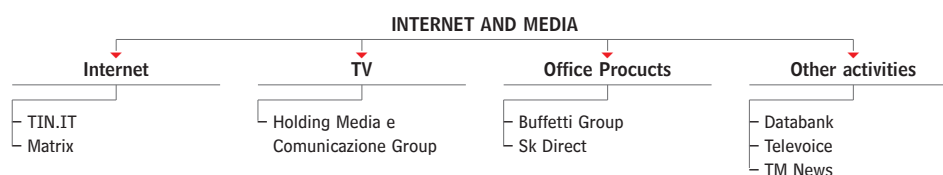
The Internet and Media Business Unit operates in the following segments:

- Internet: in the management of access services (ISP) with Tin.it, in the management and development of the Virgilio portals with Matrix, and in web services, where it occupies a leadership position in the Italian market;
- Television: La7 with MTV, both in the production and broadcasting of publishing content through television transmission networks entrusted under concession and in the marketing of advertising space in TV programming;
- Office Products and Services: through the distribution of products, services and solutions for the office through the Buffetti retail store network.

### ■ THE STRUCTURE OF THE BUSINESS UNIT

The structure of the Business Unit has changed since the issue of the Annual Report 2003 and First-Quarter 2004 Report owing to the sale of Gruppo Professional Publishing (GPP) on June 16, 2004.

As a result, the Business Unit is organized as follows (the main consolidated companies/business areas are shown below):



### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the first half of 2004:

- as part of the process of rationalizing the business portfolio, on January 29, 2004, the 60% investment in CIPI S.p.A. was sold to Promoinvestments S.r.l. for euro 6.5 million;
- on February 3, 2004, the City of Pesaro and La7 Televisioni S.p.A. signed a memorandum of understanding for the experimentation of land-based digital television (DDT) directed to the development and broadcasting of publicly-useful interactive services for the City of Pesaro.

The experiment, which involves 100 families, will bring the city's interactive services into the homes of its citizens and will be able to be accessed simply by using the TV remote control;



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- on February 11, 2004, Telecom Italia Media S.p.A., Sun Microsystems Italia (a leader in network systems), and CSP Innovation in ICT (Centro per la ricerca e la sperimentazione di tecnologie informatiche e telematiche avanzate) signed an agreement for the experimentation of innovative services for land-based digital television in the Province of Turin;
- on June 15, 2004, as part of the rationalization of its business portfolio, the 100% investment in GPP Group was sold to Wise Venture Sgr for euro 10.5 million;
- on June 28, 2004, Telecom Italia Media reached an agreement with the De Agostini Group for the settlement of the dispute, under arbitration, relating to the contract signed on September 20, 2000 which covered, among other things, the purchase of the 40% holding in Webfin (which holds a 66% stake in Matrix, owner of the Virgilio portal).

The main economic/financial effects at June 30, 2004 can be summarized as follows:

- Telecom Italia Media group: decrease of euro 189 million in the net result before minority interests for the period and an increase in net financial indebtedness of euro 325 million;
- Telecom Italia Media S.p.A.: decrease of euro 130 million in the net result for the period (due to the effect of the income from the revaluation of the carrying value of the investment in Matrix), and an increase in net financial indebtedness of euro 325 million.

With the aim of bringing Telecom Italia Media S.p.A.'s equity and financial position into equilibrium, its share capital is expected to be increased by approx. euro 120 million by the end of the year. As a result, on July 27, 2004, the Board of Directors of the company put forward a motion to increase share capital, convening a Shareholders' Meeting to approve the resolution.

## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2004, compared to the first half of 2003 and the year 2003, restated to include only the businesses that were not sold. All the percentages were calculated on the basis of data expressed in thousands of euro.

### TELECOM ITALIA MEDIA GROUP

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003		Year 2003	Change (a - b)	Change (a - c)	
		Restated	Historical			amount	%
		Same scope of conso- lidation	Total				
(millions of euro)	(a)	(b)	(c)	Histo- rical values		amount	%
Sales and service revenues	306	258	300	863	1,297	48	8.8
Gross operating profit	17	(2)	4	246	322	19	13
% of revenues	5.6%	(0.7%)	1.4%	28.5%	24.8%		
Operating loss pre-amortization of differences on consolidation	(24)	(37)	(32)	122	125	13	35.1
Operating income (loss)	(39)	(53)	(48)	80	63	14	26.2
% of revenues	(12.7%)	(20.4%)	(15.9%)	9.3%	4.9%		
Investments:							
- industrial	20	28	28	39	102	(8)	(25.6)
- differences on consolidation	5	5	5	32	61		
Employees at period-end (number) <sup>(1)</sup>	1,778	1,720	2,154	7,505	2,029	(251)	(12.4)

(1) The change in employees has been calculated in reference to the data at the end of 2003.

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*Sales and service revenues* amounted to euro 306 million in the first half of 2004 and showed an increase of euro 6 million, 1.9%, compared to the same period of 2003.

On a comparable consolidation basis, revenues increased by euro 48 million (+18.8%) compared to the same period of the prior year (euro 258 million).

In particular:

- revenues from the *Internet* area totaled euro 152 million in the first half of 2004, with an increase of euro 34 million (+28.9%) compared to the first half of 2003.  
The increase in revenues is attributable to the positive trend of both activities of the sector (Internet access and portal) and, more particularly, to the growth of revenues from the sale of ADSL products;
- revenues from the Television area amounted to euro 66 million in the first half of 2004, with an increase of euro 15 million (+30.5%) compared to the first half of 2003;
- revenues from the *Office Products & Services* business area amounted to euro 71 million in the first half of 2004. On a comparable consolidation basis (that is, net of the effect of the exclusion from the scope of consolidation in April 2003 of Incas Production S.r.l. and IS Products S.p.A., both companies operating in the field of consumer products) these revenues show an increase compared to the first half of 2003, thanks to growth in the sales of new products, offset by a slight reduction in sales of traditional products.

*Gross operating profit* was euro 17 million in the first half of 2004, with an improvement of euro 13 million compared to the first half of 2003; on a comparable consolidation basis, there was an increase in gross operating profit of euro 19 million.

The improvement is attributable to both higher volumes of revenues, as mentioned, and the measures taken during the year to improve the efficiency of the operating structures.

*Investments* in the first six months of 2004 amounted to euro 25 million (euro 33 million in the first half of 2003) and refer principally to Digital Land-based Television and the updating of Internet infrastructures.

The number of *employees* was 1,778 at June 30, 2004 (2,029 at December 31, 2003). The overall reduction of 251 persons compared to December 31, 2003 is mainly attributable to the sale of CIPI and GPP.

## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

The following events took place:

- on July 9, 2004, Telecom Italia Media S.p.A. sold 40% of the investment in Finanziaria Web, previously purchased from De Agostini, to Vertico S.p.A. (a 100%-indirectly owned company of Telecom Italia) at the price of euro 42.6 million. This transaction falls under a series of transactions related to the settlement of the dispute with De Agostini;
- in early July 2004, the new fall programming schedule in which both traditional programming, La7 TV's strong point, as well as new and important acquisitions (awards-winning TV series in the United States) was presented. New light entertainment, sit-coms, in-depth historical and European culture programs will also be broadcast;
- on July 14, 2004, Telecom Italia Media signed the ten "Global Compact" principles, the international initiative announced in 1999 by the Secretary General of the United Nations Kofi Annan.

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## ■ TELECOM ITALIA MEDIA S.P.A.

Held by: Telecom Italia 59.42%, TI Finance 2.03%, IT Telecom 0.02%

The company operates in the Internet sector, in the management of access services (ISP), in the operation and development of portals and web services, and occupies a leadership position on the Italian market.

The following table shows the key economic highlights compared to restated data (relating only the results of the business that were not sold) and historical data. All the percentages were calculated on the basis of data expressed in thousands of euro.

RESTATED	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b) (%)
(millions of euro)			
Sales and service revenues	136	107	26.9
Gross operating profit	21	11	88.4
Operating result	0	(9)	

HISTORICAL	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Change (a - b) (%)
(millions of euro)			
Sales and service revenues	136	520	(73.8)
Gross operating profit	21	230	(90.7)
Operating result	0	135	

*Sales and service revenues*, equal to euro 136 million, increased by euro 29 million (+26.9%) compared to the first half of 2003 (euro 107 million). The increase is entirely attributable to the TIN.IT Division, thanks to the positive trend of its services (dial-up products and ADSL Broadband, TIN.IT and Alice).

*Gross operating profit*, equal to euro 21 million, increased by euro 10 million compared to the first half of 2003 (+88.4%) and represents 15.6% of total sales and service revenues (10.5% in the same period of 2003).

The *operating result*, basically a breakeven, showed an improvement of euro 9 million compared to the first half of 2003.

Activities during the period:

<b>Internet Users</b>	Dial Up (Tin.it Free and Premium)	At June 30, 2004, Internet users numbered 1.4 million, a slight reduction (– 0.2 million) compared to June 30, 2003 following the migration of customers towards Broadband products.
	ADSL Tin.it	At June 30, 2004, users numbered 230 thousand (83 thousand at June 30, 2003).
	ADSL Alice	At June 30, 2004, users numbered 1,278 thousand (616 thousand at June 30, 2003).

## ■ MAJOR SUBSIDIARIES

Matrix S.p.A

Held by: Finanziaria WEB 66.0%, NV Vertico 33.3%, Telecom Italia Media 0.7%

The company operates in the Internet sector with the Virgilio portal.

The 40% holding in Finanziaria Web, purchased on De Agostini transaction, was posted in the current asset as was sold on July 9, 2004 to Vertico S.p.A..

The table shows the key economic highlights:

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
(millions of euro)			
Sales and service revenues	18	15	25.4
Gross operating loss	0	(1)	
Operating loss	(3)	(5)	29.3

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Activities during the first half of 2004:

- in March 2004, the new home page of Virgilio was launched, with innovative graphics and new surfing. The new home page was created using flash technology, which, among other things, makes it possible to use more eye-catching advertising with greater impact on visitors to the page: the amount of Home Page advertising (excluding dialers) during the three-month period from April to June 2004 more than tripled compared to the same quarter of the prior year;
- with regard to Web services, the Rosso Alice portal, operated by Matrix, was released online in mid-March. This portal will transmit live broadcasting of sporting events (Series "A" football championship matches and play-offs of the Italian basketball championships) and concerts.

Holding Media e Comunicazione Group

*Held by: Telecom Italia Media 100%*

The group operates in the radio and television broadcasting sector.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change (%)
Sales and service revenues	66	50	30.0
Gross operating loss	(11)	(17)	37.7
<i>Operating loss pre-amortization of differences on consolidation</i>	<i>(22)</i>	<i>(25)</i>	<i>10.3</i>
Operating loss	(23)	(26)	10.0

Activities during the first half of 2004:

- during the first half of 2004, La7 continued its broadcasting of information programs alternated by news, culture and entertainment, as well as the programs that are the real strength of the network covering in-depth information, info-tainment, and sports talk-shows. As usual, high priority was given to news events with live broadcasts and special news programs. The broadcasting of the European Football Championships was particularly successful with an average audience share of 8.5%, with peaks of 16.9%. Collaboration continued with the Centro Sperimentale di Cinematografia (Experimental Film Center) to create a program entitled "La 25<sup>o</sup> ora" ("The 25<sup>th</sup> hour");
- the MTV channel also consolidated and strengthened its position on the Italian advertising market. In particular, the growth in the advertising business was driven by the increase in the number of companies advertising on MTV (179, an increase of 18%), the significant contribution of new customers, the increase in the average investment per customer and the increase in the average cost of advertising spots. During the first half of 2004, innovative programming resulted in the channel receiving a great deal of coverage in the daily Press and in periodicals. The level of weekly coverage was confirmed with 14.5 million viewers, whereas the level of daily coverage increased by 5%, exceeding 8 million viewers. At the same time, efforts continued to develop the multimedia side of the MTV brand, which is now broadcast using specific channels on all technological platforms, especially the Internet, through the MTV.it website and via satellite.

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Buffetti Group

Held by: Telecom Italia Media 100%

The group operates in the office products and services sector.

The table shows the key economic highlights.

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated (*)	Change (%)
(millions of euro)			
Sales and service revenues	71	71	1.2
Gross operating profit	8	7	12.7
Operating income	5	5	8.9

(\*) Data restated excluding the consumer products activities, sold in March 2003, and CIPI S.p.A., sold in January 2004.

Activities during the first half of 2004:

- during the first half of 2004, sales in the technological sectors (office automation, telephone products and accessories) increased, whereas the more traditional sectors reported a slight reduction in. New products increased by 9.1% compared to the first half of 2003. Sales of traditional products were slightly lower than the prior year, despite the stagnation in consumption of office products.

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## INFORMATION TECHNOLOGY MARKET

- ▶ Consolidation of the position on key markets
- ▶ Further rationalization of the scope of consolidation
- ▶ Effectiveness and efficiency in operations

### ■ INTRODUCTION

The Telecom Italia IT Market Business Unit joins the information technology companies and activities of the Group destined for the external market. The BU, as a whole, is among the ICT leaders at national level, the largest Italian-owned ICT group, the foremost in providing solutions for the public administrations and transportation companies, and one of the top five supplying solutions for banks.

The customers of the ITM BU include some of the largest central public administrations, the leading Italian banking groups, companies belonging to the national railway group Ferrovie dello Stato, more than 1,000 local organizations, health and transportation authorities, social security offices and insurance groups.

As in 2003, during the first half of 2004, the operations of the IT Market BU consolidated its position on the three key markets through far-reaching measures to reduce costs, innovate and expand its range of products on the market and further rationalize the scope of consolidation.

### ■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is currently organized as follows (the main consolidated companies are shown):

#### Information Technology Market

- Finsiel Group:
  - Finsiel S.p.A.
  - Banksiel S.p.A.
  - Insiet S.p.A.
  - Tele Sistemi Ferroviari S.p.A.
- Webegg Group: (\*)
  - Webegg S.p.A.
  - Software Factory S.p.A.
  - Teleap S.p.A.
  - Eustema S.p.A.

(\*) The Webegg group owned by Telecom Italia Group, through IT Telecom (69.8%) and Finsiel (30.2%), is part of the scope of consolidation of BU IT Market, as for business core, is part of Finsiel group.

On June 3, 2004, IT Telecom S.p.A., 100%-controlled by Telecom Italia, signed an agreement with Value Partners S.p.A. for the sale of the stock held in Webegg S.p.A. equal to 69.8% of its share capital, at a price of euro 43 million. The remaining 30.2% interest is held by Finsiel. The transaction calls for Finsiel to keep its investment in Webegg and recognize reciprocal sale and purchase options between Finsiel and Value Partners.

On July 15, 2004, after authorization was received from the Antitrust Authority, the agreement was finalized with Value Partners and the sale took place.

As a result, as from July 1, the Webegg group is no longer part of the scope of consolidation of the ITM BU.

### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the first half of 2004:

- the sale, effective January 1, 2004, of the "Facility Management" business to Emsa Servizi S.p.A. by Finsiel S.p.A.:
- on May 4, 2004, Finsiel sold the 49% holding in Datasiel S.p.A. to Finanziaria Ligure per lo Sviluppo Economico - F.I.L.S.E. S.p.A..

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## ■ ECONOMIC AND FINANCIAL DATA

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	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated	1 <sup>st</sup> half 2003	Year 2003	Change (a - b)	
	(a)	(b)			amount	%
<b>Gross operating profit</b>						
(millions of euro)						
Sales and service revenues	355	338	358	891	17	5.0
Gross operating profit	30	31	30	84	(1)	(3.2)
% of revenues	8.5%	9.2%	8.4%	9.4%		
Operating income pre-amortization of differences on consolidation	13	12	10	60	1	8.3
Operating income	12	11	9	58	1	9.1
% of revenues	3.4%	3.3%	2.5%	6.5%		
Investments:						
- industrial	14	14	15	30		
Employees at period-end (number) <sup>(1)</sup>	4,782	4,976	5,457	4,827	(45)	(0.9)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

*Sales and service revenues* increased by euro 17 million in the first half 2004 compared to the same period of the prior year, restated for purposes of comparison. This change is mainly attributable to increased revenues by Tele Sistemi Ferroviari and Agrisian.

*Gross operating profit* fell by euro 1 million compared to the same period of the prior year restated. This reduction is mainly attributable to Tele Sistemi Ferroviari (– 2 million), Banksiel (– 2 million), the Webegg group (– 2 million) and Eustema (– 1 million), and was partly compensated by an improvement in the result of Finsiel (+6 million).

*Operating income* in the first half of 2004 increased by euro 1 million compared to the first six months of the prior year, restated. The increase is mainly attributable to Finsiel (+4 million) and Eustema (+1 million), and was offset by a worsening of the result of Webegg (– 2 million) and Banksiel (– 2 million).

*Industrial investments* amounted to euro 14 million and remain unchanged compared to the first half of 2003.

At June 30, 2004 *employees* numbered 4,782, with a decrease of 45 compared to December 31, 2003.

## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

On July 14, 2004, Banksiel signed a contract with IAK s.r.l for the purchase of 100% of share capital. The finalization of this transaction will take place once authorization is obtained from the Antitrust Authority.

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## ■ INFORMATION ON OPERATIONS

The following important contracts were acquired in the first half of 2004:

- **Finsiel**, as part of a temporary association of companies including Hewlett Packard, won the bid announced by the Ministry of Justice to develop and operate a centralized data bank listing information about all assets seized or confiscated from criminal organizations, as part of a series of measures for the preservation of cultural assets;
- **Finsiel - Territory and Environment**, in a temporary association of companies with Telespazio and Agriconsulting, won the bid to produce annual agricultural statistics about crops and trees (the AGRIT Project), partly through the use of remote monitoring and partly through on-the-spot observation, on behalf of the Ministry of Agriculture and Forestry;
- **Finsiel** won the bid announced by the Central Criminal Police Headquarters of the Ministry for Home Affairs, of which the Scientific Police Service is part, to supply systems for acquiring digital palm-prints as well as the relative installation, training and support services for Police Headquarters in the southern regions of Italy;
- **Finsiel** won the contract to create a computer system to manage the securitization of receivables at INPDAP;
- **Tele Sistemi Ferroviari** signed agreements for outsourcing activities with Ferservizi and RFI, extending its Traffic Control Systems and public information announcements to stations in Lombardy, which plan to add this service by the end of 2005, to RFI. Furthermore, outside the state railways system, Tele Sistemi Ferroviari won the bid, in a consortium with MET, to develop an administration and accounting system based on SAP technology for CTP in Naples;
- **Banksiel** won contracts with nine of the leading banking groups for projects to develop and update their systems to the new IAS and Basel 2 regulations. In confirmation of its leadership in the field of the Basel 2 regulations, Banksiel and "Il Sole 24 Ore" have designed software for self-evaluating credit capacity, which will enable companies to assess their capacity, simply and rapidly, to access bank loans;
- **Insiel** created an e-business system for Danieli C. S.p.A. so that all the project documentation can be shared between the company's project managers and its customers. Danieli, founded in 1914, is the world's third-largest producer of innovative machinery and plant for the iron and steel industry and exports 99% of its production;
- **Finsiel Romania**, headquartered in Bucharest, created the Global Biodiversity Information Facility portal, the website for collecting data about biodiversity on a worldwide scale, dedicated to the scientific community;
- **Krenesiel**, in a temporary association of companies with Insiel and Dianoema, won the bid announced by Local Health Authority No. 6 of Sanluri (Province of Cagliari) to develop and operate the computer system of the hospital and the Center for Immuno-deficient diseases and Blood Transfusion;
- **Finsiel and TIBCO Software**, one of the world's top suppliers of business integration software, signed a partnership agreement for the resale of user licenses for the Public Administration, Transportation and Finance markets;
- **Banksiel and Microsoft** signed a partnership agreement to supply value-added services to banks and insurance companies. The scope of the partnership involves multichannel banking, and the operation of services and some areas of corporate governance, including consolidated financial statements and management of corporate investments;
- **Insiel and Neta** (a company of the Engineering group) one of the leading suppliers in Italy of global solutions for the Energy & Utility market, developed a new information system for IRIS, a public services company in the Province of Gorizia.



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## MAJOR SUBSIDIARIES



### Finsiel Group

Held by: Telecom Italia 79.50%

The Finsiel group is the second-largest supplier in Italy of IT solutions and services and leader in ICT in the sector of the Public Administration, with customers in the most important state administrations and in more than 1,000 local organizations and health agencies.

Its knowledge of processes, gained over the years working alongside its customers, is the common denominator behind all its solutions, expertise and technological partnerships, enabling the Finsiel group to position itself on the market as a Business Solution Provider.

The table shows the key economic and operating highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 (*)	Change (%)
Sales and service revenues	302	283	6.7
Gross operating profit	26	25	4
Operating income	12	9	33.3

(\*) The first half of 2003 has been restated on a comparable consolidation basis with the first half of 2004, excluding the share of the Enterprise business segment sold by Finsiel on October 1, 2003.

#### Activities during the first half of 2004:

- During the first half of 2004, the activities of the Finsiel group included the acquisition of new bids and the continuation of actions to improve overall efficiency and reduce costs. Furthermore, restructuring operations begun in 2003 continued during the first few months of 2004, with particular reference to the sale of some of Finsiel S.p.A.'s business segments.

### Webegg Group

Held by: Finsiel 30.20% IT Telecom 69.80%

The Webegg group is a multifunctional group with a network of international partners; its corporate business purpose is to place companies on-line.

It operates mainly through the company Telemedia Applicazioni S.p.A., which supplies CRM systems, while Software Factory S.p.A. concentrates on developing software exclusively for the banking and insurance sector and Webegg S.p.A. offers its expertise to network projects.

The table shows the key economic highlights:

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 (*)	Change (%)
Sales and service revenues	37	38	(2.6)
Gross operating profit	2	4	(50.0)
Operating income	0	2	(100.0)

(\*) The first half of 2003 has been restated on a comparable consolidation basis with the first half of 2004, excluding the Domus Academy.

#### Activities during the first half of 2004:

- the activities of the Webegg Group during the first half of 2004 focused on improving efficiency and consolidating the positioning of its principal companies. As mentioned earlier, following the sale by IT Telecom of the investment held in Webegg S.p.A., with effect from July 1, 2004, the Webegg group will no longer be part of the scope of consolidation of the IT Market BU.

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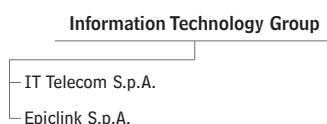
## INFORMATION TECHNOLOGY GROUP

### ■ THE FUNCTION

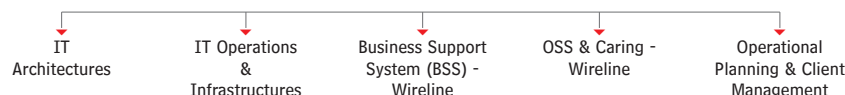
The Information Technology Group Function is responsible for coordinating technological innovation and service information technology activities within the Telecom Italia Group. The function focuses on the core business of TLC, pursuing objectives such as the increment, the efficiency and the improvement of quality and innovation, with the aim of implementing economies of scale and achieving advancements in terms of performance.

### ■ THE STRUCTURE OF THE OPERATING ACTIVITY

The companies reporting to the Function are those dedicated to the Group's information systems, within the framework of the project to integrate the various companies.



The Function, after the sale of the "Development" business segment to TIM S.p.A. effective April 1, 2004, is organized as follows:



**IT Architectures** - design and creation of applications and infrastructure architectures, ensuring rationalization and standardization;

**IT Operations & Infrastructures** - development and management of the IT infrastructures required for the functioning of Group systems and applications and guarantee of the running of IT systems and solutions for the Wireline BU;

**Business Support System (BSS) - Wireline** - design and development, for the business segment, of IT systems solutions and applications for the Wireline BU;

**OSS & Caring - Wireline** - design, development and maintenance, for the network segment, of IT systems, solutions and applications for the Wireline BU; ensures the development and system integration of hi-tech IT solutions and the operation of caring services outsourced by the BU;

**Operational Planning & Client Management** - coordination and support for the operational functions responsible for planning, staffing, operational control and the monitoring of the main projects and preparation of the systems plan.

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## ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the first half of 2004:

- on March 31, 2004, under the program for the reorganization of Telecom Italia Group's information technology area, the "Development" business segment was sold to TIM S.p.A., effective April 1, 2004.  
The "Development" business segment carries out activities currently conducted by IT Telecom S.p.A. for TIM regarding:
  - innovative services, based on IP networks, known also as e-business or web services, directed at the business and mass-market segments;
  - telecommunications software development and maintenance activities.
 These activities will be integrated with the resources that today already operate in IT development in the Mobile BU, making it possible to improve the synergies for the management of the current platforms and the development of their evolution.  
The sale price, based also upon an outside appraisal by Milestone Advisory House S.p.A. in Milan, was agreed between the parties at euro 23 million. 551 resources were transferred;
- on April 6, 2004, a contract was finalized for the sale of the 75% investment held in Telesoft Russia ZAO for consideration of US\$ 24,000, as voted by the Board of Directors of IT Telecom on February 24, 2004;
- on April 6, 2004, Tecosoft Argentina SA, a company controlled 99.99% by IT Telecom S.p.A. was put into liquidation. The wind-up is scheduled to be completed by the end of 2004;
- on May 26 and 27, 2004, the Boards of Directors of the companies EPIClink S.p.A. and IT Telecom S.p.A. approved the start and the basic guidelines of the operation for the total merger of IT Telecom S.p.A. and EPIClink S.p.A. in Telecom Italia S.p.A..  
This transaction was approved by the Board of Directors of Telecom Italia S.p.A. on May 20, 2004;
- on June 3, 2004, IT Telecom S.p.A. signed an agreement with Value Partners S.p.A. for the sale of the stock held in Webegg S.p.A., equal to 69.8% of its share capital, at a price of euro 43 million. The agreement was finalized on July 15, 2004 after authorization was obtained from the Antitrust Authority.

Furthermore, on September 8, 2004, the Board of Directors of I.T. Telecom S.p.A. voted to contribute its following business segments to Shared Service Center S.c.r.l. (SSC) owned to 40.91%: ERP Solutions, engaged in the development and maintenance of ERP systems, and Application Operations - Administration & Finance, which guarantees the applications management for systems in the administration and finance area.

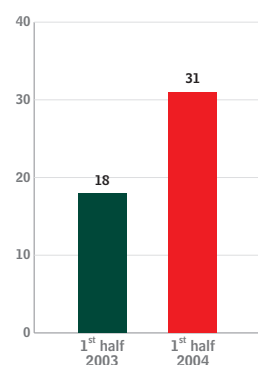
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## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the main results, which refer almost entirely to the parent company IT Telecom S.p.A., for the first half of 2004, compared to the first half of 2003 and the year 2003, restated for the purposes of comparison following the changes in the scope of consolidation of the Function. These changes resulted from the sale of the "Development" business segment to TIM S.p.A., the sale of the investment in the subsidiary Telesof Russia ZAO and the wind-up of Tecosoft Argentina, which took place in the first half of 2004, as well as the acquisition, in July 2003, of the "Enterprise" business segment from Finsiel:

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated	1 <sup>st</sup> half 2003 historical data	Year 2003 historical data	Change (a - b)	
(millions of euro)	(a)	(b)			amount	%
Gross operating profit						
Sales and service revenues	454	445	465	1,100	9	2.0
Gross operating profit	31	18	24	96	13	72.2
% of revenues	6.8%	4.0%	5.2%	8.7%		
Operating loss pre-amortization of differences on consolidation	(39)	(45)	(39)	(36)	6	13.3
Operating loss	(39)	(45)	(39)	(36)	6	13.3
% of revenues	(8.6%)	(10.1%)	(8.4%)	(3.3%)		
Investments:						
- industrial	50	60	60	174	(10)	(16.7)
Employees at period-end (number) <sup>(1)</sup>	3,431	4,034	4,443	4,107	(676)	(16.5)

Gross operating profit



Consolidated *revenues* showed an increase of euro 9 million compared to the first half 2003 as a result of the increase in activities related to institutional projects for Corporate, such as the SAP Value Program and the development of the Group Portal. On the other hand, activities conducted on behalf of Telecom Italia Wireline on projects such as Usage Collection, Trouble & Job Management and Network Creation led to an increase in work in progress, compared to the same period of 2003, of euro 11 million. Activities in 2004 included Telecom Italia's new project, begun in 2003, called "International Operators", and outsourcing activities on behalf of the Wireline network.

*Gross operating profit* showed a growth of euro 13 million as a result of the above-mentioned increase in work in progress and revenues, for a total of euro 20 million, which was partly offset by higher operating costs (+euro 7 million). The increase in operating costs is due, on the one hand, to higher outside costs (+euro 26 million), following higher business volumes, and, on the other, to a reduction in labor costs (–euro 19 million) as a result of the restructuring process currently in progress.

*Operating income*, negative for euro 39 million, (–euro 45 million in the first half 2003) improves by euro 6 million; the improvement, attributed mainly to the above-mentioned increase in the gross operating profit and the net balance of miscellaneous operating income and costs (+euro 2 million), was partly absorbed by the increase in amortization and depreciation charges (+euro 3 million) and provisions to the reserves for pending litigation (euro 5 million).

*Industrial investments* amounted to euro 50 million and reflected the continuation of infrastructure projects begun at the end of 2003. This related, in particular, to the continuation of work to overhaul and expand local networks and the refurbishment of the direct interconnections of 47 companies, including 5 foreign companies, out of a total of 54 companies involved in the plan, whereas the projects relating to the UNICA platforms were completed. The reduction of euro 10 million compared to the first half of 2003, which resulted despite the start-up of new projects relating, in particular, to Griffon, to the development of the Group SAP initiative and to the e-Foundation project, can be attributed to the conclusion, last year, of investment projects begun following the reorganization of the IT segment.

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

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At June 30, 2004 *employees* numbered 3,431: this is 676 less than at December 31, 2003. The reduction is mainly due to the continuation of restructuring activities begun during the prior year.

## ■ INFORMATION ON OPERATIONS

During the first half of 2004, activities continued in order to rationalize and standardize the architectures and infrastructures of the Parent Company. In particular, activities went ahead for the development of the "Group Network" and the "Virtual Data Center Network" infrastructure projects, and the new "eFoundation" project was begun, aimed at the applications integration at the Enterprise level on the different chains of business. In addition, the Network and Safety infrastructures of IT Telecom Data Centers were released.

The release of the International Backbone with the TIM group is nearing completion. So far, the backbone connects Brazil, Chile, Venezuela, Peru, Turkey, Greece and Holland.

Finally, during the first half of 2004, the center in charge of operating the development systems at the Naples headquarters became fully operational and the operating systems of the "Reporting and Consolidation" application were transferred from the Data Center in Turin to the Data Center in Milan.

As far as the development of BSS and OSS for the Business Units is concerned, the following events are worthy of note:

### for Telecom Italia Wireline:

in the area of BSS

- conclusion of the process of migration of the Business and MicroBusiness clientele to the new CRM platform which manages the sales, order management, customer care and billing processes;
- entry into operation of the new Usage Collection platforms (for managing telephone traffic, data and services) and front-end credit (PACI);
- entry into operation of the new e\_Commerce platform, allowing payment by credit card;
- updating of all the information systems in the Business Intelligence area to comply with Resolution No. 180 (concerning permission to release personal information);

in the area of OSS

- continuation of the integration of the chain of systems supporting the management of complaints and technical failures and elimination of pre-existing legacy environments;
- continuation of the program to expand Broadband in Europe;
- start of work, with reference to National Wholesale, to comply with Resolution No. 340/440 of the TLC Authority and completion of the band upgrade for ADSL services;
- completion of work on the projects to technologically update and integrate the UNICA platform (TLC network and services inventory);
- introduction of architectural developments to the whole chain of ADSL provisioning to support the enormous increase in customers acquiring ADSL services;
- continuation of the work to improve the efficiency of the Service Delivery platform and the rationalization of the Network Assurance process.

### for TIM:

the sale of the "Development" business segment to TIM S.p.A. by IT Telecom S.p.A. signaled the end of the activities conducted until March 31, 2004, which consisted mainly of the following:

- maintenance of the back-end systems to support the new commercial rate plans and the systems relating to the prepaid and business intelligence areas and the evolution of Charging & Billing systems with the aim of launching new packages;
- development of services for the WEB i-TIM portal and WAP i-TIM, as well as activities with foreign subsidiaries.

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## OLIVETTI TECNOST

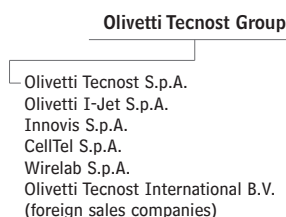
### ■ INTRODUCTION

The Olivetti Tecnost group Business Unit operates through the Office Products Division in the sector of ink-jet products for the office and digital printing systems, the development and production of products associated with silicon technology (ink-jet print-heads and MEMS) and through the Systems Division in specialized applications for the banking field and commerce and information systems for gaming and lottery management. In addition, the group collaborates with Nuove Iniziative Canavese in document management services and fixed and cell phone repairs.

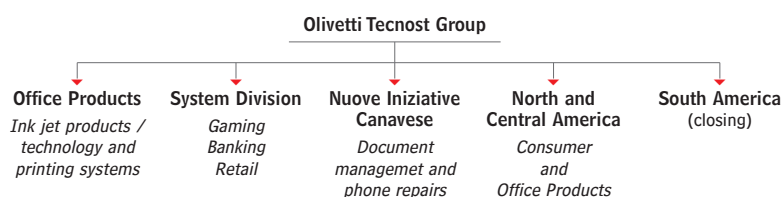
The reference market of the BU is focused mainly in Europe, Asia and North America.

### ■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit comprises the following (the main companies are indicated):



The company operates with the following organizational structure:



With reference to the operational structure at December 31, 2003, the development and production activities relating to ink-jet print-heads and MEMS (Olivetti I-Jet) became part of the Office Products Division, and the remaining part of the Industrial Operations division (document management services and fixed and cell phone repairs with the companies Innovis, CellTel and WireLab) has been given the new name of Nuove Iniziative Canavese.

### ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

Effective January 1, 2004, as part of an operation to rationalize and reorganize the help-desk and customer care activities, the CRM business segment (comprising 14 staff) of Olivetti Tecnost S.p.A. was sold to the Comdata group and an outsourcing contract was negotiated with this company.

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Moreover, a decision was taken to wind-up the following companies, which, accordingly, are no longer included in the scope of consolidation:

- Olivetti de Venezuela C.A. (January 30, 2004); the wind-up was concluded on June 11, 2004;
- Olitecno S.A. de C.V., 50%-owned (February 17, 2004);
- Olivetti Peruana S.A. (February 20, 2004);
- Diaspron do Brasil S.A. (March 5, 2004);
- Multidata S.A. Eletronica Industria e Comercio (March 5, 2004);
- Olivetti Argentina S.A.C.e.I. (April 14, 2004);
- Olivetti Colombiana S.A. (May 3, 2004);
- Olivetti Servicios y Soluciones Integrales S.A. de C.V., Mexico (May 20, 2004).

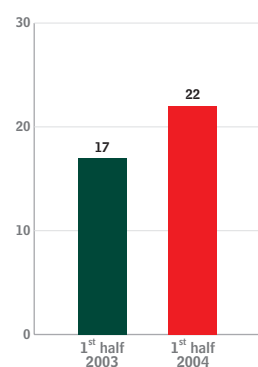
On April 23, 2004, a memorandum of understanding was signed for the sale to local management of the North American operations of the company Royal Consumer Information Products, Inc. (U.S.A.) and the operational business segment of the subsidiary Olivetti Mexicana S.A..

To facilitate this transaction, on May 26, 2004, the company Royal Consumer Information Products de Mexico S. de R.L. de C.V. (a subsidiary of Royal Consumer Information Products Inc.) was set up for the purpose of acquiring the business segment of Olivetti Mexicana S.A. under the above-mentioned management buy-out deal.

## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2004, compared to the first half of 2003 and the year 2003.

Gross operating profit



	1 <sup>st</sup> half 2004 (a)	1 <sup>st</sup> half 2003 (b)	Year 2003	Change (a - b)	
(millions of euro)				amount	%
Sales and service revenues	306	332	655	(26)	(7.8)
Gross operating profit	22	17	40	5	29.4
% of revenues	7.2%	5.1%	6.1%		
Operating income (loss) pre-amortization of differences on consolidation	10	(2)	4	12	
Operating income (loss)	10	(3)	2	13	
% of revenues	3.3%	(0.9%)	0.3%		
Investments:					
- industrial	8	10	20	(2)	(20.0)
Employees at period-end (number) (*)	2,289	3,036	2,395	(106)	(4.4)

(\*) The change in the number of employees has been calculated in reference to the data at the end of 2003.

*Sales and service revenues* in the first half of 2004 amounted to euro 306 million, of which euro 161 million referred to the Office Products Division, euro 95 million to the Systems Division, euro 12 million to Nuove Iniziative Canavese and euro 38 million to other operations. Revenues by product were as follows: euro 178 million for hardware, euro 68 million for accessories, euro 60 million for services and other revenues.

Compared to the first half of 2003, revenues showed a reduction of euro 26 million (– 7.8%). This resulted from an “underlying” increase of euro 14 million (+ 4.8%) and a reduction of euro 40 million resulting from the change in the scope of consolidation (and particularly referred to the sale of activities in Latin America).

*Gross operating profit* and *operating income* improved significantly compared to the first half of 2003, benefiting from the restructuring operations implemented in the prior year which led to a reduction in fixed costs, and a more favorable mix of products sold.

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*Industrial investments* amounted to euro 8 million, a reduction of euro 2 million compared to the first half of 2003.

At June 30, 2004 *employees* numbered 2,289 of whom 1,995 were employed in Italy and 294 abroad. Compared to December 31, 2003, this shows a reduction of 106 persons, mainly as a result of employee cutbacks in Italy.

## ■ INFORMATION ON OPERATIONS

The main activities carried out during the first half of 2004 are the following:

### Office Products

The first half of 2004 confirmed the improvement in the most important operating indicators which began in 2003 in the Office Business division, including Olivetti I-Jet.

In the range of ink-jet fax machines, growth was confirmed together with the division's position of European leadership. Quantities ordered by customers increased by 43% compared to the first half of 2003.

Sales of digital photocopiers, another important segment of the office business, increased by more than 15% compared to the first half of 2003.

New investments will be made to support activities to develop and produce new models of fax machines and other new products on an industrial scale.

With reference to the process of rationalizing the European network, the back-office activities of foreign affiliates were outsourced and concentrated in the services center of the Accenture group in Prague.

### Nuove Iniziative Canavese

The activities of this structure increased significantly over the first half of 2003.

During the first half of 2004, Cell-Tell acquired new customers and extended its line of service to repairing and regenerating fixed telephone equipment.

Innovis, which is operational in the back-office sector, and Wirelab, which repairs and re-generates telephone exchanges, increased both their business and their number of employees.

### Systems Division

As far as this division is concerned, results for the first half of 2004 were much in line with forecasts, both from the economic and financial point of view and from the standpoint of initiatives to promote geographical and product diversification.

In particular, in the *Gaming* sector, an important contract was signed for the supply of 20,000 terminals for operating the electronic voting system in Venezuela.

In addition, the division has begun to supply terminals for video-games to the Czech Republic and won an order worth more than US\$ 2 million for a total supply of 2,000 terminals per automated gaming in China (Shanghai Lottery). The first 1,000 terminals were delivered and activated in June and the rest of the supply is scheduled for completion by the end of 2004.

In the *Banking* sector, in a generalized market scenario which was substantially unchanged in Western countries compared to 2003, Eastern markets showed a gain in sales volumes.

This can be attributed to the Chinese market, where the profitability profile was in line with expectations despite the unfavorable foreign exchange effect.

In the *Retail* sector, sales of the PR4 product range were level with forecasts. Meanwhile, commercial initiatives are in progress to find channels or customers suitable for the new range of products developed in 2003.

The performance of the Shop Automation business was stable with regard to volumes of conventional fiscal Cash Registers.



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## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

The following events took place:

- on July 26, 2004, the Extraordinary Shareholders' Meeting voted to wind-up the company Dedita S.p.A.;
- on July 27, 2004, Olivetti I-Jet S.p.A. finalized the acquisition, from third parties, of 61.4% of the capital of Yminds SA (in which Olivetti I-Jet already held a 27.2% stake and Olivetti Tecnost International BV a 11.4% interest), a Swiss-registered company that conducts research and development for products based on ink-jet technology.

The transaction is subject to the authorization of the Antitrust Authority. As part of a corporate reorganization, Olivetti I-Jet will also purchase the remaining 11.4% investment held by Olivetti Tecnost International BV.

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## OTHER ACTIVITIES

The "Other Activities" of the Telecom Italia Group are principally constituted by the TILAB and Corporate International Affairs Central Functions, by the companies which provide centralized services to the Group and the Corporate Functions, as well as subsidiaries which conduct financial activities for the Group.

## TELECOM ITALIA LAB

### ■ THE FUNCTION

Telecom Italia Lab is responsible for supervising technological innovation within the Telecom Italia Group. This is achieved by scouting out new technologies, preparing and examining research and feasibility studies and developing prototypes and emulators of new services and products, with a special focus on the main topics of strategic interest to the individual Business Units. It operates to promote the Group's technological leadership and also exploits collaboration with Pirelli Labs.

The activities can be broken down into the Group's main innovative areas of interest, such as: developing the access network to cope with the growing demand for band availability, developing the carrier network, with a gradual transition towards optical technologies, developing telephone services, in view of the convergence of the network architecture towards an "all-IP" model, developing third generation hi-tech services and terminals of the new generation for the mobile area and contributing to the evolution of the Internet and multimedia.

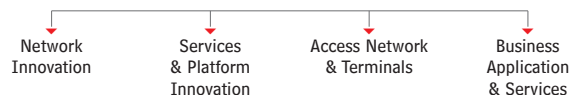
Telecom Italia Lab relies on the expertise of Telsy, the Telecom Italia Group company which, since 1971, has worked to develop and produce equipment for security in telecommunications with cryptographic functions.

### ■ THE STRUCTURE

Since April 1, 2004, the structure is organized as follows:



TILAB medium- and long-term research activities are organized as follows:



*Network Innovation* and *Access Network & Terminals*: are devoted to short and medium/long-term R&D projects on fixed and mobile network infrastructures, with a focus on the segment of core networking, radio access, Broadband access and innovative terminals;

*Services & Platforms Innovation* and *Business Applications & Services*: concentrate on the creation of services and the testing of prototypes through innovative platforms, for the consumer and business markets, respectively.

TILAB also has access to Testing Laboratories, which are used to test both equipment acquired from suppliers and prototypes developed through research.

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## ■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On January 13, 2004, Telecom Italia sold the 40% investment held in the associated company Siosistemi to I.NET S.p.A. for euro 1.6 million. The sale falls under the program for the divestiture of investments that are no longer considered strategic to the core business.

## ■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2004, compared to the first half of 2003 and the year 2003.

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated	Year 2003 restated	Change (a - b)	
(millions of euro)	(a)	(b)		amount	%
Operating costs	69	73	150	(4)	(5.5)
Amortization and depreciation	5	8	16	(3)	(37.5)
Operating grants	(2)	(6)	(9)	4	(66.7)
<b>Total net costs TILAB</b>	<b>72</b>	<b>75</b>	<b>157</b>	<b>(3)</b>	<b>(4.0)</b>
Costs recharged to TI BUs	59	61	128	(2)	(3.3)
Revenues from third parties	8	6	15	2	33.3
<b>Total</b>	<b>67</b>	<b>67</b>	<b>143</b>		
<b>Operating income (loss)</b>	<b>(5)</b>	<b>(8)</b>	<b>(14)</b>	<b>3</b>	<b>(37.5)</b>
Investments:					
- industrial	2	2	8		
Employees at period-end (number) <sup>(*)</sup>	1,107	1,177	1,142	(35)	(3.1)

◀ (\*) The change in the number of employees has been calculated in reference to the data at the end of 2003.

During the first half of 2004, total *net costs*, equal to euro 72 million reduced by euro 3 million compared to the first half of 2003 restated even if the operating grants reduce.

For the purposes of comparison, in the first half and in the year 2003, the costs of the research collaboration contract with Pirelli Labs and the contract for consultancy services regarding industrial properties secured by the Telecom Italia Group from the Industrial Properties Function of Pirelli & C. are included, even if they were under Telecom Italia's Corporate Function (totaling euro 9 million for the first half and euro 18 million for the year 2003).

The general reduction in costs is due to the reduction of operating costs (– 5.5%) and to decrease in amortization and depreciation consequent to the sale of real estate property within the framework of the Dedalo Project.

The decrease in revenues from costs *recharged to TI BUs* relating to activities specially commissioned by the Group is attributable to the decline in prices that began in the prior year, made possible by the implementation of policies to cut operating costs.

*Industrial investments* remained in line with those in the first half of 2003.

At June 30, 2004 *employees* numbered 35 less than at December 31, 2003.

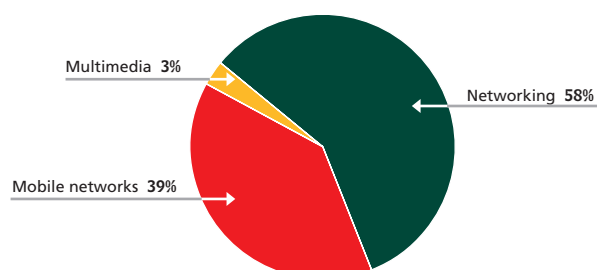
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## ■ INFORMATION ON OPERATIONS

The growing emphasis on finding opportunities to generate a competitive advantage and create value for the Telecom Italia Group was partly pursued through the strategic management of the relationships between research, Intellectual Property Right (IPR) and business with the aim of developing the Group's patent portfolio. In this context, during the first half of 2004, 31 new patent applications were filed (compared to 19 in the first half of 2003), of which 3 are joint applications with Pirelli.

The patent applications were distributed among the various sectors of activity as follows:

Networking	18
Mobile networks	12
Multimedia	1
<b>Total</b>	<b>31</b>



The main results achieved by TILAB during the first quarter of 2004 can be summarized as follows:

### Innovation of Broadband services

- release to Wireline of the SMART VIDEO system which allows multi-videoconferencing from PCs with up to 4 participants, supported by remote "cooperative work" tools and accessible on the [www.191.it](http://www.191.it) portal, with consequent activation of the service in May 2004;
- start of collaboration with URMET to develop a videotelephone on the General Telephone Network using innovative video signaling and coding technology;
- integration of high-quality videocommunication functions on NEXTBOX Rel.1, the ADSL television multiservice set-top-box, based on Pirelli-Telsey hardware;
- release of the DTTRUN platform to develop interactive Digital Land-based TV services based on the European MHP (Multimedia Home Platform) standard and development of the first interactive application broadcast by La 7 (real-time consultation of departures/arrivals information boards located at 13 of Italy's main railway stations) and T-government applications for the local Public Administration.

### Innovation in Mobile Services

- collaboration with TIM and with the world's main GSM operators to start the strategic OMTP (Open Mobile Terminal Platform) Alliance, the aim of which is to ensure that operators have greater control over cell phones terminals by jointly developing the specification for an innovative software platform;
- launch of the TIMMAP service which allows customers with GPRS smartphones (shortly EDGE) to surf town maps, see points of interest on screen and work out routes; certification by NOKIA of the relative "client" software to be used on the next NOKIA cell phones to be marketed with the TIM brand;
- release of the DOMUSLIFE VIDEO system, which enables customers to remotely control (via SMS) one or more close-circuit cameras connected to a DomusLife control board, and to receive (via MMS) sounds, sensor data and alarms from the areas of the home under control;

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- integration with TIM's MMS-C (MMS Center) system of TILAB's own JOE EXPRESS technology for creating "avatars" (virtual characters) transmitted as audio/video content in MMS through the portal [www.i-tim.it](http://www.i-tim.it);
- release to TIM of the PCFONINO which makes videocommunication possible between any PC equipped with a webcam and a UMTS terminal.

### Network innovation

- release of a new version of the STARSIP platform, which will be integrated by Italtel in Wireline's Next Generation Network solution and used to create new APT (Advanced Personal Telephony) services and scheduled for the second half of 2004;
- release, integration and activation of the REGMAN 1.2 operating system, which allows the "fast provisioning", remote diagnosis and remote update of software of the ADSL services supplied to the Microbusiness clientele;
- technical and economic feasibility study, with special reference to GPON (Gigabit Passive Optical Network) technology, with the aim of introducing mixed fiber-copper solutions into the access network which can supply individual customers with 10-100 Mbit/s at a lower cost;
- application of the CANTO system developed by TILAB to conduct the ADSL quality survey activated by Wireline for establishing the standards for the supply of 4-6 Mbit/s ADSL services;
- release to Wireline of the D-NET planning tool for defining the new structural plans of the Regional Transmission Network, based on Next Generation SDH technology;
- first tests of HSDPA (High Speed Downlink Packet Access) technology which should enable users to download up to 2-10 Mbit/s at peak times;
- application to TIM's Mobile TV service of the DCCA (Dynamic Conditional Content Accounting) system, which allows "content-based" rate-charging for value-added IP services;
- release of the LISA (Light Information Security Assessment) platform which allows automatic analysis of the level of security reached with regard to the ISO BS7799 standard;
- transfer to Wireline of the SIGENT+ system for the remote management of the NT1+ type of ISDN network termination and the GMP system for the automatic diagnosis of users' telephone lines;
- release to Wireline of two "work management" systems: DAILYWORKS (which optimizes the allocation of jobs to work centers) and REMOTER (which makes it possible to pass on operational expertise acquired in the field to technical personnel).

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## CENTRALIZED GROUP SERVICES

Centralized Group Services includes the operating activities, at virtually a nil profit margin, of the centralized services for the Business Units/Central Functions/Companies of the Group.

The following table shows operating costs (outside costs and labor costs) incurred during the first half of 2004 compared to the first half of 2003, restated for purposes of comparison to take into account the different scope of consolidation.

The data considers the internal exchanges within Telecom Italia S.p.A..

### OPERATING COSTS

(millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated	Change	
			amount	%
Real Estate Activities and Services	361	356	5	1.4
Central Administrative Services (CSA)	26	25	1	4.0
Security	27	26	1	3.8
Other <sup>(1)</sup>	37	39	(2)	(5.1)
<b>Centralized services total</b>	<b>451</b>	<b>446</b>	<b>5</b>	<b>1.1</b>

<sup>(1)</sup> Includes TI Audit, Telecom Italia Learning Services, TI Finance and other companies.

Centralized Group Services showed an increase in costs of euro 5 million compared to the first half of 2003 restated, mainly attributable to the increase in lease costs incurred by "Real Estate Activities and Services" as a result of the sale of real estate properties under the Dedalo project. This increase was largely compensated by lower depreciation and amortization, as well as the financial benefits resulting from the sale of the properties.

The increase in Security costs is the result of the adoption of higher safety standards in offices and for systems.

While costs increased, as shown in the table, depreciation and amortization of Centralized Group Services decreased by euro 10 million, from euro 76 million in the first half of 2003 to euro 66 million in the first half of 2004.

Real estate activities and services concern the planning of the sites and installations of the Group, the design and construction of civil works, the maintenance of the properties and technological plant, in addition to providing real estate and general services. Such services are provided both through internal structures to Telecom Italia S.p.A. – essentially for the activities conducted on behalf of the Business Units and Functions of Telecom Italia itself – and through the subsidiary Emsa Servizi S.p.A., which directs its activities towards the other companies in the Group, as well as the companies in the ex-Olivetti group which operate in the real estate sector: Olivetti Multi Services S.p.A. (OMS, 100%-controlled by Telecom Italia), O & B Costruzioni S.p.A. (50.1%-controlled by OMS), OMS Holding BV (100%-controlled by OMS), RUF Gestion Sas (100%-controlled by OMS Holding BV) and Olivetti Systems Technology (100% - controlled by Telecom Italia Finance).

On January 1, 2004 the "Facility Management" business segment of the company Finsiel was incorporated by Emsa Servizi S.p.A.. This transaction followed the sale of the "Facility Management" business segments of TIM and IT Telecom to Emsa Servizi S.p.A. on December 1, 2003.

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### Fintecna project

On January 16, 2004, Telecom Italia S.p.A. and Fintecna S.p.A., as decided in December 2003, signed contracts for the lease of seven buildings owned by Fintecna S.p.A., as well as a contract containing reciprocal options for the purchase and sale (put / call) of the buildings for a total of euro 72 million.

On June 22, 2004, Telecom Italia S.p.A., after exercising the option in April 2004, signed the deed for the purchase of the seven properties owned by Fintecna S.p.A. for the contractually agreed price.

On the same date, Telecom Italia ceased leases payments for these buildings.

### Tiglio Project (Real Estate Funds)

Under the second stage of the Tiglio project – which calls for an end to the process of leveraging the real estate assets held by Tiglio I and Tiglio II by contributing the assets to real estate funds or by realizing profits through individual sale transactions – the first half of the year marked the successful placement on the market of the real estate funds “TECLA - FONDO UFFICI”, a closed mutual fund, and “CLOE FONDO UFFICI”, a real estate fund by contribution designated for qualified investors, both managed by Pirelli & C Real Estate Sgr S.p.A..

“TECLA - FONDO UFFICI”, – the placement of which was concluded on March 1, 2004 – had received, through the contribution on the part of Tiglio I (45.70%-owned by Telecom Italia), real estate assets made up of 65 buildings for a total market value of about euro 926 million, to which a 15% discount was applied by virtue of their transfer en masse, in addition to a cash contribution of 25 million. The total placement offer, net of financial indebtedness equal to 60% of the contribution value, was equal to euro 288 million, of which 10% of the quotas kept by Tiglio I, 2% subscribed by Pirelli & C Real Estate Sgr S.p.A. in its role as the manager of the fund, while the remaining 88% was entirely placed on the market.

As for the “CLOE FONDO UFFICI”, placed on the market on June 29, 2004, the company Tiglio 1 contributed 39 properties for a total market value of euro 877 million to which a 15% discount was applied by virtue of their transfer en masse.

The total placement offer, net of financial indebtedness equal to 60% of the value contributed, was about euro 298 million, 5% of which was subscribed by Pirelli & C Real Estate Sgr S.p.A. in its role as the manager of the fund, while the remaining 95% was entirely placed on the market, with Italian investors picking up about 70% and foreign investors 30%.

Following these transactions, in June 2004, Tiglio I proceeded to distribute cash to the shareholders in the form of capital reimbursements (additional paid-in capital) and reimbursements of loans, totally euro 45 million, of which euro 43 million to Telecom Italia S.p.A..

### Sale of the “Document Management” business segment

Under the policy to optimize the processes associated with “Facility Management” activities, on February 27, 2004, Telecom Italia and Emsa Servizi signed a contract for the sale of their respective “Document Management” business segments to Telepost S.p.A., a newly established company, in which stakes are also held by TNT Mail, Pirelli Real Estate Facility Management and Comdata. Telepost specializes in Document Management operations (management and distribution of incoming and outgoing correspondence, archive management, etc.).

On the same date, Telecom Italia and Emsa Servizi signed a contract with Telepost, with effect from March 1, 2004, whereby the latter company will distribute services connected with Document Management activities.

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## ■ EVENTS SUBSEQUENT TO JUNE 30, 2004

On July 23, 2004 Telecom Italia S.p.A. and Emsa Servizi S.p.A. signed an agreement with "MP Facility S.p.A. (joint venture, 50%, between Pirelli & C. Real Estate Facility Management S.p.A. e Manutencoop Facility Management S.p.A.) related for the sale of their business segment "Manutenzioni" e "Servizi Ambientali", and also the contract for the outsourcing of the same services.

The execution of the contract will be in the last quarter of 2004.

## CORPORATE

Corporate includes the Staff Functions of Telecom Italia S.p.A (Human Resources, Finance Administration and Control, Purchasing, Corporate and Legal Affairs, International Legal Affairs, Public and Economic Affairs, Corporate Development & Investor Relations and General Counsel), Group Communication, which comprises the Brand Enrichment and Communication and Image Functions (concerning the costs of the "Italia Project"), the costs of Corporate information systems, and Corporate Latin America.

The following table shows the operating costs (outside costs and labor costs) incurred during the first half of 2004 to conduct the above-mentioned activities, compared with the same period of the prior year, restated to take into account the different scope of consolidation. The figures include costs recharged for the activities conducted by Centralized Group Services.

### OPERATING COSTS

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003 restated	Change	
			amount	%
(millions of euro)				
Staff Functions	163	148	15	10.1
Information System	63	28	35	125.0
Group Communication	14	14		
Corporate LATAM	11	12	(1)	(8.3)
<b>Corporate</b>	<b>251</b>	<b>202</b>	<b>49</b>	<b>24.3</b>

Corporate costs show an increase of euro 49 million due mainly to an increase of euro 35 million for the development of information systems and euro 15 million for the costs of the Staff Functions.

The increase in costs for the development of information systems is mainly connected to projects started during 2003 (rationalization and standardization of architecture and infrastructure solutions and dedicated functional systems, etc.), the full economic effects of which will be felt in 2004.

The increase in the costs of staff functions is principally attributed to personnel costs. Corporate shows a reduction in amortization and depreciation charges of euro 10 million, from euro 25 million in 2003 to euro 15 million in 2004, due to the end of the amortization of start-up and expansion costs relating to the former company Olivetti S.p.A..



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## ■ DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

An updated situation of the main disputes, litigations and legal proceedings involving the Telecom Italia Group compared to the situation disclosed in the 2003 financial statements and in the first-quarter 2004 report is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions to risk reserves because of the absence of definite and objective elements and/or because a negative outcome to the litigation is not considered probable.

### ■ TI Media / De Agostini arbitration

At the end of June, a settlement agreement was reached to close the dispute concerning the framework contract signed on September 20, 2000 between Seat Pagine Gialle S.p.A. (now Telecom Italia Media) and its subsidiaries and the companies in the De Agostini group, regarding, among other things, the purchase of 40% of Webfin (which holds a 66% stake in Matrix, owner of the Virgilio portal).

In particular, based on the agreement – which supersedes that of September 20, 2000 – De Agostini Invest transferred the entire investment held in Webfin to Telecom Italia Media (which already had control of the company with a 60% holding) for 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 added to reimburse the expenses sustained by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001.

The parties therefore can reciprocally lay no claims since they renounced the petition and the acts regarding the arbitration proceedings begun in 2001.

### ■ Fee concerning ex art. 20, paragraph 2, Law No. 448 dated December 23, 1998

Telecom Italia, Tim, Wind and Omnitel (through an appeal to the TAR of Lazio) as well as Infostrada and Albacom (through an extraordinary appeal to the Head of State) had at the time contested the Ministerial Decree of March 21, 2000 which had established the procedure for a license fee to be paid by telecommunication operators, introduced by art. 20 of Law No. 448 dated December 23, 1998, based upon a declining percentage (from 3% to 1.5%) calculated on revenues generated in the year prior to payment.

Under the extraordinary appeals to the Head of State, the Council of State raised the preliminary question, before the European Court of Justice, of the compatibility of the fee with Community regulations relating to telecommunications and, on September 18, 2003, the Court expressed its opinion affirming that the member states are not allowed to ask for the payment of fees over and above those contemplated by community regulations.

In light of this sentence, on July 6, 2004, the Council of State made known its opinion on the extraordinary appeals proposed by Albacom and Infostrada, declaring the Ministerial Decree dated March 21, 2002 illegal.

The decision, obviously, also has a bearing in the cases pending before the TAR of Lazio.

In this sense, in the meantime, by order dated June 8, 2004, the Court of Justice decided on the preliminary questions raised by the TAR of Lazio in favor of the operators, confirming, also in this case, the applicability of its sentence of September 18, 2003

TAR of Lazio will re-examine the question at the hearing set for November 17, 2004.

### ■ Ex-Olivetti - sale of the personal computers business

In relation to the disposal by Olivetti of the personal computers business in 1997, lawsuits brought against Olivetti (now Telecom Italia) are still pending and include, among others, action brought by some former employees of OP Computers S.p.A. (the vehicle company that was used

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to confer the activities for purposes of its sale) who, in March, did not accept the reconciliation that the Company had instead reached with the majority of the plaintiffs.

The action is aimed at declaring the transfer of the business null and void and obtaining reinstatement as employees of Olivetti, with payment of salary differences and damages. In June, a first verdict was handed down in favor of the Company.

Based upon a prudent evaluation of the various causes connected with the sale of the personal computers business, Telecom Italia has set up a specific reserve in its financial statements.

#### ■ Finsiel - Ministry of Instruction, University and Research

During the first quarter of 2003, the temporary association of companies between IBM Italia (agent) and Finsiel, Pirelli & C. Real Estate Facility Management and others (called "RTI IBM") won the bid held by the Ministry of Instruction, University and Research (called "MIUR") for the assignment of a service contract for the development and management of the Instruction Information System. The value of the contract is equal to euro 231 million (Finsiel's share is equal to approximately euro 85 million).

In April 2003, the temporary association of companies headed by Electronics Data System Italia S.p.A. (called RTI EDS), awarded second place in the list of competitors competing in the bid held by MIUR, filed an appeal with the TAR of Lazio against RTI IBM for the cancellation of the ordinance awarding the contract.

While a decision was being reached by the administrative judge, RTI IBM took over from the previous supplier in providing the services, and only on October 28, 2003 did TAR uphold the appeal by RTI EDS and pronounce itself in favor of the cancellation of the ordinance awarding the bid.

RTI IBM and the State's law office filed an appeal to the Council of State which turned down the appeal under sentence of March 22, 2004, maintaining that RTI IBM's admission to the bidding was not legal. Moreover, in answering the appeal by the other bidder (EDA - Enterprise Digital Architects S.p.A.), the Council of State, to a large degree, cancelled the evaluation procedures relating to the ordinance.

On April 7, 2004, RTI IBM filed an appeal with the United Sections of Cassation for violation of the limits placed on the jurisdiction of the legitimacy of the administrative judge and the administration, through the State's law office and the State, became a party to the appeal. Nonetheless, and despite the specific appeal before the TAR of Lazio, MIUR's General Direction offices for Information Systems cancelled the ordinance awarding the bid to RTI IBM. The company then charged its lawyers to bring further action to protect itself aimed at contesting the legitimacy of the initiative.

By ordinance of July 30, 2004, the Council of State ordered the administration to reconvene the Commission that judged the bidding for purposes – in particular – of proceeding to conduct a new evaluation of the bids at that time presented by EDA and EDS.

#### ■ Telecom Italia / Vodafone Omnitel arbitration

In July 2003, Telecom Italia initiated arbitration proceedings in order to obtain compensation, from Vodafone Omnitel, for damages connected with the radiomobile operator's decision to bar its clients from access to information services provided by the 12 numbering service. In particular, Omnitel shut off access to this service as of August 2002 up until about mid-April 2003. Telecom Italia is claiming damages for approximately euro 38.7 million. Vodafone Omnitel reiterated its correct conduct and proceeded to file a counterclaim for a corresponding amount. The arbitration board in its decision of July 2, 2004 stated that the proceedings could not continue because certain formal steps had not been executed. Telecom Italia, therefore, in August, fulfilled the obligations requested and repropounded the application for arbitration with the same contents.

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#### ■ Digitel

July 1, 2004 marked the date of the finalization of the settlement agreement signed in April between TIM International and the minority shareholders of the Venezuelan subsidiary, Digitel, ending the dispute with these shareholders that began at the beginning of 2003. TIM International thus purchased the investments held by the minority shareholders for US\$ 109.6 million and now owns 100% of the shares of the Venezuelan mobile operator.

Following the transfer of the shares, the Digitel Shareholders' Meeting approved the 2003 financial statements (approval was previously held back because of the above dispute).

#### ■ Solpart

In March 2004, the Brazilian Antitrust Authority (CADE) temporarily prevented Telecom Italia International from carrying out acts aimed at exercising its control over Brasil Telecom and suspended the repurchase by the same Telecom Italia International of 18.3% of the ordinary share capital of Solpart Participações (parent company Brasil Telecom), that had been sold to the co-shareholders Timepart Participações and Techold Participações on August 27, 2002. This sale had taken place under a transaction which contemplated the resumption of certain shareholders rights and a reciprocal resale/repurchase right subject to certain conditions in order to restore the *quo ante* situation.

The antitrust proceeding was set in motion on the imitative of the Brazilian association of minority shareholders of telecommunications companies listed on the stock exchange (Animec), with the aim of obtaining an order that would declare Telecom Italia International's re-entry in the control of Solpart Participações as an "unfair trade practice".

CADE has not yet returned a decision but on June 30, 2004 it reviewed its previous decision and authorized Telecom Italia International's re-entry in the control of Solpart Participações, although with certain limitations.

#### ■ Iridium

Following the decision by the U.S. District Court for the District of Delaware rejecting the defense's case of the defendants and also turning down the request to exclude Telecom Italia from the case, stating that it was ready to hand down a verdict in the case brought by Chase Manhattan Bank (now JP Morgan Chase Bank) against the shareholders of Iridium LLC, regarding the loan of US\$ 800 million made in 1998 to Iridium Operating LLC (a subsidiary of Iridium LLC), Telecom Italia asked to immediately file an appeal, in light of the fact that the defense's strategy was not taken into consideration. In particular, the judge rejected Telecom Italia's plea to be excluded from the case, against recommendation of the investigating magistrate at the time of the facts as the Company was not a direct shareholder of Iridium LLC owing to the sale of the investment to Iridium Italia.

In view of this, a specific provision was made to the reserve for risks.

Chase Manhattan Bank also decided to separately sue Iridium Italia, in liquidation, a 30%-owned affiliate of Telecom Italia with the remaining stake equally divided between TIM and Telespazio.

#### ■ Mediterranean Nautilus

In October 2003, FTT Investments (the Israeli minority shareholder of Mediterranean Nautilus S.A.) served a request for international arbitration, with the aim of obtaining the cancellation of the agreement signed with Telecom Italia International, Telecom Italia and Mediterranean Nautilus S.A. in March 2001, regarding the transfer of 30% of the share capital of Mediterranean Nautilus S.A. from Telecom Italia International to FTT Investments.

FTT Investments claims it was misled in purchasing the investment on the basis of false representation (specifically, information omitted concerning the existence of a put option on Mediterranean Nautilus S.A. regarding the Mediterranean Nautilus Ltd. shares owned by the minority shareholders). Accordingly, FTT invokes invalid consent as a result of fraudulent intent on

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the part of the Telecom Italia Group, or, in any case, invokes that it would have been led into error over the subject of the contract, asking for the restitution of the price paid (approximately US\$ 98 million) in addition to interest and save the right to make additional claims. Telecom Italia has asked for the dismissal of arbitration proceedings stating that initially no specific request was made to it by FTT Investments.

Moreover, in May 2004, FTT filed additional claims, reiterating the request that had been made in the first hearing before the arbitration board to extend the demand for the restitution of the price paid also to Telecom Italia and Med Nautilus S.A., which had initially been made solely to the seller Telecom Italia International. The arbitration board has reserved the right to decide on the procedural admissibility of this new request when the decision is taken on the merits of the dispute.

#### ■ Telekom Srbija

At the end of May 2003, OTE, a Greek telecommunications company, served Telecom Italia with two notices of arbitration, alleging breaches of the shareholder agreement dated June 9, 1997 and the bilateral agreement between Telecom Italia and OTE dated June 4, 1997, with regard to Telecom Italia's sale of its 29% stake in Telekom Srbija to PTT Serbia.

OTE specifically protests that, as a result of this sale, Telecom Italia (i) would have violated the preemptive right to which it was entitled according to the aforementioned agreement of June 4, 1997 (a right, however, that was subject to the consent of the Serbian government which, in this case, was denied), (ii) would not have proceeded to fully pay the percentage of management fees to which it was entitled and which was referred to in the technical assistance contract mentioned in the above June 4, 1997 agreement and (iii) would have violated the shareholder agreement in that, according to the same OTE, Telecom Italia could not sell its investment without the consent of the other shareholders.

OTE also presented two requests for arbitration to PTT Serbia for different reasons.

Under the sale agreements, PTT Serbia agreed to relieve Telecom Italia of any and all responsibilities with regard to OTE resulting from the shareholder agreement of June 9, 1997, the technical assistance agreement and any other contract related thereto. Nonetheless, a specific reserve for risks was set aside in the financial statements of Telecom Italia International.

The arbitration board has not yet met following a request to suspend the arbitration proceedings by OTE, which has also requested a time limit up to November 30, 2004 in which to add to its claims. However, talks between the parties are underway to reach a settlement and renounce the arbitration proceedings.

#### ■ Stet Hellas

On August 1, 2004, the final award was issued in the arbitration ongoing since 1996 between the Greek dealer Mobitel and Stet Hellas before the Paris International Chamber of Commerce concerning reciprocal requests for damages as a result of the breach of the exclusive distribution contract signed between the parties in 1993.

The arbitration board only upheld a part of the requests for compensation presented by the parties (which amounted in total to about euro 140 million for Mobitel and about euro 890 million for Stet Hellas) ruling that Stet Hellas should pay about euro 31 million, inclusive of the reimbursement for legal costs and expenses, almost half of which refers to interest from the date of the claims up to the date of the arbitration award.

The Greek subsidiary, during the first half of 2004, had set aside a specific provision in its financial statements for this risk.

#### ■ Etec S.A.

Prior to the investment by Telecom Italia International ("TII") in ETECSA (the Cuban telecommunications operator in which TII has a 27% stake), the Cuban Central Bank ("Bancuba") had signed a US\$ 350 million loan contract with Bancomext, an entity controlled by the Mexican central bank, due in December 2006. On the basis of the agreements signed also by Telefonica

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Antillana SA ("Telan" - the majority shareholder of Etecsa) and Etecsa (loan contract and letter of credit contract), a part of the dividends due Telan were restricted, in an escrow account, to guarantee repayment of the above loan.

In April 2002, the Cuban government issued a decree law in which Etecsa and Telan were prohibited from performing any act to satisfy Bancomext's loan, with the government directly assuming every commitment and guarantee with Bancomext. In August of the same year, following the interruption of payments, Bancomext brought action against Etecsa and Telan, succeeding, among other things, in obtaining a precautionary measure from the Courts of Turin to seize Etecsa's and Telan's assets held by third parties for a total amount of about euro 43 million.

Etecsa and Telan then separately proposed international arbitration before the Paris International Chamber of Commerce in order to find (i) with regard to Etecsa, that Bancomext's claim of holding it jointly and severally liable with Telan is illegitimate, or that the responsibility for restitution of the loan rests with the latter guarantor and (ii) that the nature of the above-mentioned decree law exempts it from the obligation of restitution. The proposition of bringing arbitration action caused a stay in Bancomext's action in the ordinary courts.

In August 2004, the arbitration panel expressed its opinion, stating that Etecsa is not a debtor of Bancomext nor guarantor or surety of Telan, but that the above-mentioned decree law does not constitute a circumstance beyond one's control such that Etecsa is exempted from its obligations deriving from the loan contract and the opening of credit contract existing with Bancomext and Telan. Therefore, the award calls for Etecsa to re-establish the mechanism stated in the opening of credit contract by transferring the dividends due to Telan to the aforementioned escrow account, effective retroactively from April 2002.

Etecsa is considering whether to contest the award.

In the meantime, TII (in possession of a letter issued by the Cuban government relieving it of responsibility for any detrimental consequences deriving from the award) has asked the Cuban government, Bancuba and Telan to take all actions necessary to avoid consequences harmful to its investment in Etecsa, reserving every action for its protection.

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## ■ SUSTAINABILITY SECTION

Briefly listed below are the actions carried out by the Telecom Italia Group during the first semester of 2004, they implemented the chosen model of Sustainability in coherence with the Group's commitments:

- The Group actively participated in the Global Compact Leaders Summit which took place at the United Nations headquarters in New York, chaired by Kofi Annan. The June 24<sup>th</sup> Summit was attended by 260 corporations, 19 heads of state, the European Commission, 63 company and workers Associations and Brazilian President Lula Da Silva. During the said Summit the 10th principle was introduced: **"Businesses should work against corruption in all its forms, including extortion and bribery"**.

Telecom Italia and TIM proposed:

- the creation of a permanent Sustainability Forum where "corporate citizenship" can be discussed;
- the launching of a project regarding the values of a multicultural city or a city of peace;
- the integration of criteria for the evaluation of the so-called "intangibles" between Europe and the USA.

- Starting from 20 September 2004, Telecom Italia SpA has been selected as an index component for both indexes managed by Dow Jones:
  - Dow Jones Sustainability Indexes World (DJSI World) which include 300 companies from 24 countries, Sustainability leader at world level;
  - Dow Jones Sustainability Indexes STOXX (DJSI STOXX) which include 167 companies from 13 countries, Sustainability leader at European level.

The companies admitted are grouped in clusters according to the registered score.

In both indexes Telecom Italia has been included in the first cluster.

- Telecom Italia Media adhered to the Global Compact, thus completing the subscription of all the Group's listed companies, that confirm the commitment to promote and implement the 10 basic principles regarding protection of human rights, safeguarding of environment, respect for working standards and anti-corruption practices. To the present day, more than 1400 important corporations all over the world have subscribed to the Global Compact and the number is increasing every day following the examples of sustainable companies.
- Sustainability was listed as second amongst the 5 objectives of the Group declared by the C.E.O. C. Buora.
- The first phase of the CRSA (Control & Risk Self Assessment) project has come to a conclusion. A methodology of self-assessment of the potential risks by the managers was introduced into the Group in relation to defined business objectives. Operative deployment begun, requiring the application of this methodology within the process of Group Planning through an organizational procedure regulating the flow of the different activities: this procedure will represent the methodological benchmark for the whole Group. Furthermore, a web-based information system was prepared and distributed to support the principal phases of CRSA: the assignment of objectives, risk identification and evaluation, control analysis and the definition of an action plan. During 2004 this methodology is expected to spread to areas in the international sectors not covered previously such as Latin America (TIM Perù, Corporación Digitel, Entel Chile Group) and Europe (HanseNet Telekommunikation, BBNET Group, TI France, TIM Hellas).

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- The operative implementation phase of the "231" project continued within the framework of the Group. In addition to the 44 companies that already adopted the Organization Model in 2003, another 23 of the Group companies formally adopted the Organization Model ex Legislative Decree 231/2001 of the Telecom Italia Group with a special resolution from the respective Board of Directors. This Model, based on the Group Code of Ethics, is essentially a pyramidal system of principles and regulations and is chiefly divided in: i) general principles for internal control; ii) principles of conduct towards public administration; iii) internal control guidelines focused on risky processes. These guidelines identify rules and procedures which have to be followed in order to reasonably prevent the committing of crime. Special Security Teams were nominated within the Group companies, made up of independent professionals and administrators responsible for implementing the Organization Model adopted.
- The Group signed the "Sustainability Charter", a document that represents the natural evolution of the Environmental Charter launched in 1996 which obtained wide recognition at an international level. The Sustainability Charter, specifically directed towards the Telecommunications sector, integrates and improves commitments taken on previously. Its contents essentially regard environmental protection, it proposes new challenges in keeping with the principles of the United Nations' Global Compact and with policies that Italy and the European Union are developing as regards to corporate responsibility.
- The Environment Project was started up, and organised into 10 working groups. The representatives of the Companies/BU interested took part in the project with the aim of unifying the Environmental Management System and extending it to all the Business Units. Special attention is paid to the guidelines on noise pollution and ground contamination, to the mapping and treatment of asbestos and to areas at risk of contamination. Within the framework of this project, the go ahead was given for the implementation of a register for the gathering and elimination of waste material, the analysis of product life cycles and the development of a communication and training plan on environmental subject-matters.
- From January 1, 2004, all investment projects proposed by the Group Companies involving an investment superior to a certain set amount, must be accompanied by a "Sustainability Form" in which the project manager will evaluate the impact of the investment on 15 chosen areas of interest to meet the stakeholders' expectations and to improve their satisfaction. The evaluation given must indicate whether the investment increases, reduces or maintains the level of satisfaction of the stakeholder to whom it refers compared to the previous situation. The 15 areas of interest are subdivided according to the 8 institutional stakeholders:
  - Customers (Customer Relationship Management; Quality of service);
  - Suppliers (product life cycles);
  - Competitors (reducing dominant position on the market);
  - The State and institutions (Public Funds; Collaboration with the Institutions);
  - Environment (CO<sub>2</sub> emissions from energy and fuel; Management of environmental and electromagnetic incidents; Waste disposal management);
  - The Community (Objectives of social utility; Digital Divide);
  - Human Resources (Employees' health and safety; enhancement and talent attraction);
  - Shareholders (Transparency in resolution processes; Project Risk Management).



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## CUSTOMERS

### ■ INNOVATIVE SERVICES

#### ■ Wireline

To widen and innovate the range of services offered to our customers:

- the speed of all "Alice" services was increased without charge from 256/128 Kbps to 640/256 Kbps in order to improve both access and surfing the Internet;
- from the beginning of 2004 all "Alice" customers can obtain free of charge the "Alice ti aiuta" ("Alice can help you") service, a new way of solving any kind of problem linked with ADSL connection. The extremely simple software can be used even by those who do not have any technical experience and allows for a rapid diagnosis of software through the verification of the web link and the configuration of e-mail;
- the "Tutto 4\*" service was activated offering information services all inclusive in the subscription contract;
- "Tutto 4\* Office" was launched which consists in advanced telephone services such as answering machines (Segreteria, Chi è), messages (SMS, Vocal Messages) and access to various information services of the 4\* portal (Stock Exchange, Taxi, Weather forecasts etc.), all included in one subscription;
- the "3" service was amplified. In the case of an unanswered call, the caller's number can be seen and a short message may be left;
- in collaboration with TIM, the possibility of sending MMSs was also extended to fixed line telephones;
- the "Alice Sat" offer was strengthened allowing for ADSL connection by satellite in areas not covered by the service;
- two new kinds of prepaid phone cards were distributed; one for loyal customers allowing unlimited calls towards fixed line numbers for four months; the other oriented towards the most requested international numbers;
- regarding the metropolitan framework, marketing of the "Lambda Wave Metro" service was started based on new 622 Mbit/s and 10 Gbit/s profiles. This is a solution for companies with a considerable demand for inter data processing centers connection, interested in disaster recovery/business continuity activities. The service makes use of DWDM (Dense Wavelength Division Multiplexing) technology allowing to satisfy with success the ever growing demand for voice services and high speed data;
- regarding the long distance framework, marketing of the new 622 Mbit/s profile of the "Lambda Wave Long Distance" service was started. This is also based on DWDM technology and is considered the solution for broadband connection amongst the data processing centers of the more important companies spread throughout the country;
- the "4888 Pay for Me" offer was launched which allows for calls from TIM or Wind mobile phones towards fixed line numbers to be charged to the latter;
- the "Company Kit" offer was started providing a large range of Value Added services for the small-medium enterprises. It is based on Hyperway MPLS (Multi Protocol Label Switching Link) broadband connection and permits the production of virtual private networks (VPN IP) with leading technology that does not make use of public IP addresses and is therefore safe, flexible and totally resistant to external interference. This service allows remote access to developed applications such as professional E-mails, company portals, as well as access to Internet integrated with centralized firewalling and antivirus services;
- coverage through the public Wi-Fi service continued to develop, present in more than 160 prestigious locations to date. Prepaid Wi-Fi cards and the "Hot spot in a box" offer were launched to extend cover of Wi-Fi areas to residential zones, such as small business activities, hotels and sports centres;



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- advertising of the first videophone was launched in June allowing videocalls from fixed line numbers. This product has the advantage of immediate visible communication, the possibility of taking and memorising photos, sending and receiving text messages, E-mails, fax and allows rapid access to the world of Telecom Italia services including the “4\*” service.

The SIA project (Sistema Integrato d'Ascolto) became operative during the first six months of 2004. The main objective of this project is to bring customers' comments to strategic and management levels, in order to have a better understanding of customer needs, leading to the development of new services and to the improvement of services already existing.

The customers' viewpoints can be gathered in two ways:

- 1) through research activities supporting business development. This takes place during the planning phase of new products and services (through focus groups, qualitative analysis leading to evaluation of appeal, satisfaction and potentiality) as well as during the deployment phase (through qualitative focus groups that check usability, satisfaction and functionality);
- 2) through the customers' negative and positive observations regarding service delivery. The negative and positive opinions expressed are very important for the company because in this manner service quality can be improved, making the loss of customers unlikely. Quality levels were monitored for the whole year during all phases of the service delivery process and for all kinds of customers by way of interviews, carried out on 300.000 customers.

#### ■ Mobile

TIM started to develop EDGE technology (Enhanced Data rates for Global Evolution) together with a new UMTS (Universal Mobile Telecommunications System) network for third generation mobile communication, with the aim of building a radiomobile network characterized by high quality standards and the maximum level of territorial coverage. UMTS is the main third generation mobile system amongst those mentioned by ITU (International Telecommunications Union). It is based on WCDMA (Wideband Code Division Multiple Access) technology with standards set by the 3GPP (Third Generation Partnership Project) that coordinates the system on a world level. WCDMA technology supports traditional voice services as well as multimedia services that combine voice, video and data components, each one having their own service characteristics.

EDGE technology is considered the evolution of GSM/GPRS in terms of greater efficiency in the use of radio resources and increase in band available for the customer. It supports many of the “third generation” services including videophone on a GSM platform. EDGE therefore improves GPRS performance increasing GPRS speed from 40 kbit/s to 200 kbit/s almost equal to UMTS speed. This technology can be implemented by updating the GSM/GPRS network and therefore making the maximum use of the infrastructures already existing, radio stations in particular. EDGE will make multimedia services on the consumer market such as MMS or video streaming even more satisfactory for customers and for companies using Internet and Intranet. Furthermore, EDGE will allow for coverage in areas not yet reached by UMTS guaranteeing high-level service quality for customers.

By June 2004 coverage reached the main towns of each region and province. The programme foresees the diffusion of EDGE technology in all areas covered by GSM (corresponding to 99,8% of the population to date) by 2004, and the progressive enlargement of areas with UMTS service starting from the main regional towns already covered in June 2004.

As regards to service offers, TIM continues to focus on innovation with the aim of increasing the level of customer satisfaction:

- “Welcome to TIM” aims to facilitate access to TIM's innovative services through “push” configuration of mobile phones that are not configured when registered for the first time on the

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TIM network and the "free trial" offer of advanced services differing by technology (WAP, MMS, Java, Symbian...) and by terminals (TIM and others).

- "DomusLife video" allows the reception of pictures, brief cartoons and informative SMSs directly on mobile phones sent from home or wherever the camera has been installed. Thanks to a simple graphic interface to be downloaded on the mobile phone, the customer can set methods and criteria of picture or SMS reception for any event or change that takes place (when a movement or a variation of the pre-set temperature is registered) or on request (the camera can be set to take and send a photo or SMS with the indication of the temperature registered at home).
- The "TIM Turbo" programme for companies is an integrated solution for data transmission in mixed mobility: GPRS Pc Card + data subscription profile + dedicated data SIM card. The possibility of technological upgrading is foreseen towards Edge and/or UMTS Pc Card based on a parallel and integrated EDGE and UMTS development programme with the aim of making "mobile broadband" services available to all TIM customers as of 2004. It is considered the first operative step of the UMTS and EDGE/GSM "dual mode" integration strategy to supply continuity of service to the customer regardless of the technology used.
- "Maxxi TIM Parole" is a new range of services that allows the customer to choose 4 different offers:
  - "MaxxiTIM Night Weekend 300" (300 minutes free for calls made during the evening and week-end);
  - "MaxxiTIM Sempre 400" (400 minutes free for calls towards TIM and fixed network numbers);
  - "MaxxiTIM Tutti 1000" (1000 minutes free for calls towards all mobile phones, fixed line numbers and answering machines);
  - "MaxxiTIM All inclusive 2000" (2000 minutes free for calls towards all mobile phones, fixed line numbers and answering machines as well as 250 SMS/MMS free of charge).
- "SOS ricarica" is a service offered only by TIM allowing communication even when telephone credit has been used up: with a simple free call to 4916, TIM will provide a 2 euros credit of telephone traffic. When the customer recharges, the amount of 3 euros will be detracted which includes the cost of the "SOS Ricarica" service.
- During the first six months of 2004, TIM continued to develop and implement Web products and services available to all customers with the aim of satisfying specific demands regardless of the navigator's "ability". Access to information is guaranteed even for browsers with reduced functionalities (Mobile phones, PDA) and for navigators that use reading aids or slow connections.
- In this context, the "TIM Accessible" site and the "119 Self Service" obtained the maximum level triple A certificate in conformity with the most recent standards of WAI accessibility (Web Accessibility Initiative) of the W3C (World Wide Web Consortium).

#### ■ TI Media

In order to widen and diversify the range of services offered to the Groups' customers:

- TIN.IT consolidated and strengthened broadband wireless connection services for the Internet by increasing the number of "Hot Spot TIN.IT" network locations (488 Hot Spots in total, of which 357 are active and 131 soon to be activated). The "Gettone Virtuale per navigare in Wi-Fi" service was activated for internet connection through the "Hot Spot TIN.IT" network using a temporary code of access obtainable on-line or by credit card. This service can also be used by non TIN.IT customers.
- The "TIN.IT Posta" offer was launched which allows for a 50 MB mail box to deal with particularly long/heavy messages. This service is always available using any kind of connection and setting and it works with all providers.
- The "HELPEXpress" project, started in 2003, has been consolidated. This service helps TIN.IT ADSL customers to solve any problems linked to internet connection and electronic mail in a simple and automatic way.

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- The innovative **Autom@il** system was implemented. This system, created by TIN.IT deals automatically with TIN.IT Free customers' requests for help with clear and full answers given rapidly (1 minute).
- **Matrix** created "Spazio Web di XOOM.it" within Virgilio. This is a hosting service offered to the subscriber to design and put his own site on line, is available for customers with free or pay. profile. Spazio Web is offered to Virgilio subscribers as a separate free service "Create your own site" in the Community context.
- In collaboration with TIN.IT, a new service of on-line photo printing was activated in partnership with external suppliers; this service allows photo print orders in different sizes and the possibility of receiving them directly at home as well as being able to file the photos on the web.
- In collaboration with other Telecom Italia Group companies, **La7** continued with digital terrestrial broadcasting tests. This new technology will allow subscribers to obtain numerous benefits such as access to a larger number of TV channels with superior video/audio quality, the possibility of having a wider range of programmes available thanks to video/data/audio integration, the availability of added value interactive services, working on TLC channels of access.
- **Buffetti** (retail trade dealing with stationery and office equipment) has created a site in order to improve communications with their customers. All commercial offers can be found here such as a web center where customers can send requests for assistance to the call center, order tracking to check orders made, the Geomarketing service which allows each business customer to receive information regarding its own market, the resident population, the typology of potential clients, the number and typology of the competitors.
- "Buffetti Pod" portal was created offering a printing service with the possibility of being able to order and personalize headed paper, envelopes and visiting cards.
- **TM News** started to supply news services on Internet and Intranet portals, making use of the new solutions.

## ■ CONSUMER RIGHTS

As far as relations with consumer associations are concerned, the adhesion of Confconsumatori to the "Framework Agreement" with Telecom Italia was formalized. This agreement regulates the procedure of joint conciliation for the extra-judicial resolution of disputes between the Company and its fixed line customers. Confconsumatori joined the 11 Consumer Associations already adhering to the Agreement and therefore widening collaboration between Telecom and Consumer Associations. The support activity to the procedure of joint conciliation for the extra-judicial settlement of disputes with clients continued through conventions, seminars, training courses and press releases.

On July 23, 2004 an agreement Protocol was signed by TIM and the 12 main national Consumer Associations that introduces an on-line conciliation procedure for settling extra-judicial disputes with clients customers. This Protocol guarantees the continuity of the commitments made in previous agreements between TIM and the Consumer Associations and offers the opportunity to settle any possible disputes quickly and free of charge by initiating the procedure on a Web platform.

The on-line conciliation procedure will begin after the summer and for the first four trial months will be operative at the Consumer Associations offices with the possibility of extending the service nation wide in future.

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## SUPPLIERS

During the first semester of 2004 the Purchasing division continued to focus on the quality aspect of the procurement process. The Quality Purchasing Division in particular, planned to extend to all suppliers the ethical suitability selection already in act for the qualification and admission to the Group Register. As a consequence of this process, which will commence at the end of July, only suppliers who can certify adhesion and respect the principles stated in the Code of Ethics and Code of Conduct adopted by the Group, can conduct business relations with the Group itself.

The Supplier's Qualification process and Vendor Rating monitoring started with the main suppliers of some overseas subsidiary companies: TIM Brasile, TIM Peru, Entel Chile, Entel Bolivia, Digitel and TIM Hellas. The results of these audits will be available as of September.

The activity of Authorizing of subcontracts, carried out mainly by the Purchasing Division for all Group companies, was extended to subcontractors proposed by Network suppliers of the Wireline Business Unit and to subcontractors for the installation of equipment and antennas for Base Transmission Stations of the Business Unit "Mobile".

## COMPETITORS AND OUTLINE REGULATIONS

### COMPETITORS

#### ■ RELATIONS

The most significant activities carried out together with competitors during the first six months of 2004 are outlined below:

#### ■ Telecom Italia

In the field of Digital TV testing, Telecom Italia and its competitors took part in conventions, seminars, workshops and round tables regarding the most important technical, economical and regulatory matters in the industry with particular reference to the development of innovative services. The Telecom Italia Group joined the digital TV sector through La7 and MTV and participates in the digitalization of the national television network using digital terrestrial services as a point of convergence for the integration of television, broadband Internet connection and mobile telephony and by continuing testing digital TV on its own sites.

The Group actively contributes to television associations and together with RAI, Mediaset and the Ugo Bordon Foundation, is a member of the DGTvI Association, established at the beginning of 2004 and open to all operators in the industry. The aim of this Association is to encourage the conversion to Digital Terrestrial TV and to deal with all problems linked to the interoperability of the networks built by the various television operators.

Telecom Italia has promoted numerous meetings in collaboration with other fixed network operators in order to create a framework agreement for the constitution and functioning of a unique database containing numbers and necessary elements for the identification of subscribers to the national fixed network operators. The main objective is to supply Italian customers with a directory containing the names of all subscribers to the operators active in Italy.

A similar database for the mobile phone sector is also in the pipeline.

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## ■ TIM

Under the Italian Communications Authority (AGCOM) sponsorship, TIM reached an agreement with other mobile telephone operators for the creation of a database of mobile terminal identity codes (IMEI - International Mobile Equipment Identity) which identifies stolen phones and makes them unusable thanks to connection to CEIR (Central Equipment Identity Register). This is a centralized database set up by the GSM Association. The Agreement was made operative as of July 1, 2004. According to AGCOM sources, 2,372 stolen or lost mobile phones have activated the blocking procedure since July 13, 2004. An agreement for the possible integration with other systems existing in Europe is planned in the future.

## ■ PARTNERSHIPS

Collaboration with European competitors continued through various associations and events:

- the Brussels Round Table proposes outlining future scenarios of telecommunications market development with particular attention to broadband services by organizing a series of events;
- ETNO (European Telecommunications Network Operators' Association), the principal policy group for European telecommunications, aims to develop an efficient and competitive European telecommunications market through the coordination of its operators and through dialogue with the institutions. Telecom Italia is a member of the Executive Board and chairs the Sustainability working group;
- EIF (European Internet Foundation) comprises telecommunications service operators and manufacturers, software providers, ISPs and content providers. The association aims to create a favourable environment between the European Parliament and the various communications operators in Brussels in order to promote the fast development of Internet, broadband services, convergent and multimedia services and technologies for the benefit of the end consumer;
- ERT (European Round Table of Industrialists) is a forum joining 45 leaders of European industry with the aim of promoting competitiveness and the growth of European economy;
- ESF (European Service Forum) is made up of European operators in the services sector aiming to promote the European services industry and the liberalization of the services sector on a worldwide level according to GATS 2000 negotiations;
- ITU (International Telecommunications Union) is an international organization within the United Nations System, which aims to promote the development of the industry internationally through cooperation between the public and private sectors.

## ■ REGULATORY FRAMEWORK

The sector's regulatory framework was consolidated with the new "Electronic Communications Code" which came into effect on September 16, 2003 assimilating in the national regulatory framework the Community Directives ("99 Review") regarding electronic communications services and networks ("Access & Interconnection", "Authorization", "Framework", "Universal Services" directives).

The most significant points adopted by the competent Authorities during the first six months of 2004 are summarized below:

### Information subscribers Service "12"

Following the coming into effect of the Electronic Communications Code that states the non applicability of the obligation to supply Universal Service for the directory enquiries service ("12"), Telecom Italia published the new offer conditions valid from November 1, 2003, January 1, 2004 and July 1, 2004.

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#### GSM service public consultation

With resolution n. 54/04/CONS dated March 11, 2004, AGCOM announced a public consultation regarding the procedure for the assignment of the rights to use frequencies for GSM public services to a new operator and to already existing operators.

#### WLL service public consultation

With resolution n. 54/04/CONS dated March 11, 2004, the Authority announced a public consultation regarding the procedure for the assignment of the rights to use frequencies available for broadband point-multipoint radio networks for Wireless Local Loop systems.

#### Interconnection and local loop unbundling

With resolution n. 16/03/CIR dated December 23, 2003, AGCOM announced a public consultation regarding the approval of the interconnection offer for 2004 made public by Telecom Italia on October 31, 2003. On April 15, 2004, the AGCOM Commission on infrastructure and networks approved the offer basically confirming the proposal put forward by Telecom Italia which aims to reduce interconnection costs compared to last year. This is in line with the network cap system programme introduced by the same Authority.

#### Assessment of the digital terrestrial television program offer

On May 27, 2004, AGCOM presented a report in compliance with article 1 of regulation no. 43 dated February 24, 2004, converting legislative decree no. 352/2003 regarding "Urgent instructions concerning means and times of definitive suspension of the transitory regime of law n. 249 dated July 31, 1997". This law assigned AGCOM the task of examining the complete offer of digital terrestrial television programmes within April 30, 2004 with the aim of verifying:

- the percentage of the population covered by the new digital networks, which must not be less than 50%;
- the presence on the national market of decoders at accessible prices;
- the effective offer to the public of programmes on the said networks, which differ from those transmitted on the analogical network.

In its report AGCOM came to the conclusion that the conditions indicated by law were registered, according to the overall evaluation relative to the three criteria specified by the law.

#### Market Analysis

In compliance with Recommendation CE n°2003/497 and Electronic Communications Code Legislative Decree n. 259 dated August 1, 2003, on May 5, 2004 AGCOM gave start to procedures ("procedimenti istruttori") regarding the analysis of the 18 markets mentioned in the above Recommendation and in the articles 18 and 19 of the Electronic Communications Code. The deadline fixed by AGCOM for the closure of the above procedures was 120 days after the publishing on the Official Journal of the assignment of responsibilities, which happened on June 8, 2004.

#### Net cost of the Universal Service

The net cost of euro 185 million for Universal Service in 2002 was communicated by Telecom Italia to AGCOM on June 16, 2003 (including indirect benefits to be evaluated by Auditors nominated by the Authority). As a result of tender bid, in January 2004, AGCOM officially assigned the task to the Auditor (Europe Economics) and started the verification of what Telecom Italia had submitted.

On April 30, 2004, AGCOM with resolution n. 2/04/CIR, started a public consultation on the basis of the above verification with the aim of proposing measures regarding the applicability of the mechanism for distributing and evaluating of the net cost for 2002, containing the results of the inspection carried out.

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### Price cap

Regarding cost revisions of final access services under price cap regulations, applying from January 1, 2004, the cost of non recurring new line fee for residential clients was increased by 25% (from euro 100 to 125) and the cost of non recurring take-over fee was increased by 20% (from euro 50 to 60). The cost of fixed-mobile conversation was reduced by 2% applying from July 2, 2004.

### Contribution to AGCOM

With the July 20<sup>th</sup> 2004 Decree, the Ministry of Economics and Finance set amounts and methods of payment of the contributions due to the Authority for 2004 by operators in the telecommunications service sector. Last year percentage rate (0.05%) of revenues net of payments to the other operators was confirmed also for this year. The contribution paid by Telecom Italia totalled 4,9 million Euro.

## THE STATE AND INSTITUTIONS

### ■ LOCAL INSTITUTIONS

The legislative activities of Regions and Local Authorities (regional laws, resolutions, orders) and the activities of the local regulatory authorities are constantly monitored by the Group. The main issues are: implementation of network infrastructures, electromagnetic pollution, local finance and EU funding for specific regional projects. Relations have been continued with local Institutions and Associations of Municipalities, with the representation of the Group's positions.

### ■ NATIONAL INSTITUTIONS

Telecom Italia Group's activities towards the main national Institutions (Parliament, Government and independent sectorial Authorities) aim to create a constant and transparent relationship with the objective of representing the Group's position on different issues of interest and ensuring that it is taken into account in the approval of the principal regulatory proceedings concerning the aforesaid issues. In relation to this, the company offers constant support to the competent institutions (parliamentary commissions, Ministry of Communications and other Departments) in the drawing up of regulations through preparation of position papers, amendments, sector studies and opinions.

### ■ INTERNATIONAL INSTITUTIONS

With the aim of monitoring activities that have a significant impact on the Group, Telecom Italia interacts with the European Commission and related Institutions (such as the Communication Committee and the Radio Spectrum Policy Group concerning spectrum management), the European Council, the European Parliament and the European Regulators Group (ERG). Many meetings have been organized to discuss and start up different projects: "Local Loop Unbundling", "Partial circuit", "Recommendation on remedies", "Intellectual Property Rights" (IPR), "eEurope", "2005 Action Plan", "Regulatory policies in the broadband sector", "TV Without Frontiers" "General Interest Services (SIG)", "Non requested commercial communications (SPAM)", "Digital Rights Management Systems", "Data retention", "eMoney", "Spectrum trading", "VoIP", "Fiber to the home", "Collecting societies", "Software patentability".



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## ■ NATIONAL REGULATORY ACTIVITY

These are the most significant measures regarding the Telecom Italia Group's activities during the first semester of 2004:

- The bill with the aim to change the second part of the Constitution (AC 4862), regarding the wider issues of institutional reform, assigns the examination of the fundamental principles of concurrent legislation to the federal Senate, including the communications system and delegates legislative authority regarding specific issues to the Regions. Monitoring and relevant actions took place regarding these measures;
- law no. 5 dated January 16, 2004 converting legislative decree no. 315/2003 deals with authorizations for the installation of electronic communication equipments;
- law no. 45 dated February 26, 2004 converting legislative decree no. 354/2003 contains provisions to modify various articles of legislative decree no. 196/2003 "Code on protection of personal data" regarding the conservation of telephone traffic data.  
It is foreseen the mandatory conservation, from the operator, of the telephone traffic data for 24 months for investigation and repression of violations, and a further 24 months with the exclusive aim of investigation and repression of crimes, including those against informatic or telematic systems;
- law no. 112 dated May 3, 2004 (Gasparri law) identifies the general principles of the national, regional and local television broadcasting system and adapts them to the new digital technologies and to the convergence process between television and other mass and interpersonal communications sectors such as telecommunications, publishing including electronic publishing and Internet in all its applications. As owners of television channels La7 and MTV, Telecom Italia has particular interest regarding the Gasparri law as well as for the aspects concerning antitrust regulations;
- law no. 128 dated May 21, 2004 converting legislative decree no. 72/2003 (Urbani decree) proposes measures to contrast the illegal telematic diffusion of works protected by copyright;
- law no. 350 dated December 24, 2003 (2004 Financial law) has reconfirmed for 2004 a state contribution of euro 150 for the purchase of Digital Terrestrial television receivers and euro 75 for broadband access to Internet. Application measures for operators have been set by inter-ministerial decrees dated December 24, 2003 and December 30, 2003 and implemented by Ministry of Communications decree on February 12, 2004.

With reference to the audit records, a constant trend in the number of parliamentary questions and interpellations is noted compared to the first semester 2003.

## ■ INTERNATIONAL REGULATORY ACTIVITY

The Group's actions regarding Sustainability issues have been concentrated on the following measures:

- "Proposal for a directive of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage": proposed by the Environment General Direction of the European Commission and adopted on March 30, 2004. The adoption procedure has been followed by the ETNO Sustainability working group.
- "Communication from the Commission to the Council and the European Parliament - Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward" (May 2003). In the framework of this action plan a public consultation is under way regarding the remuneration of the Board of Directors in order to issue a



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Recommendation. A synthesis of the contribution to the consultation has been published. Regarding short term actions mentioned in the action plan, the Commission has issued a "Proposal for a Directive on the legal control of European Union accounts, that amends directives 78/660/EC and 83/349/EC" (COM177). The proposal was passed on to the European Parliament and Council in March. The adoption procedures for both measures have been followed by the Telecom Italia Brussels Office.

- "Proposal for a Directive of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields)": the task force on electromagnetic fields created by ETNO Sustainability working group has issued a Reflection Document - RD171 - in collaboration with the GSM Europe and Mobile Manufacturers Forum, which has already been sent to the European Commission. The Reflection Document on electromagnetic emissions, addressed to the European Parliament members, aims to highlight the safeguarding of public health initiatives by the telecommunications industry as well as current scientific knowledge and problems regarding the implementation of 3G networks. The proposal was adopted on April 29, 2004 with directive 2004/40/EC and takes into account the comments received by the operators of the telecommunications sector.
- "Proposal for a Directive of the European Parliament and of the Council On establishing a framework for the setting of Eco-design requirements for Energy-Using Products and amending Council Directive 92/42/EEC (COM/2003/0453 final - COD 2003/0172)" launched by the European Commissions' DG Enterprise and followed by ETNO Sustainability working group.

## ENVIRONMENT

A project was launched at the beginning of the year aiming to guarantee the support of environmental issues in a coherent and coordinated way by all Group Companies. This project aims to develop a set of actions spread over a three-year period (2004-2006), which will guarantee a more prompt and efficient support process and allow to operate in a synergic way and to make use of the best practises available.

The actions essentially regard the implementation and certification of Environmental Management Systems, training and information programmes, oil tank management, monitoring of acoustic emissions, computerized waste management, analysis of product life cycles and services.

The extension of ISO14001 quality certification continued and in March 2004 the aforementioned certificate for Environmental Management System was awarded to the Elettra TLC company.

### ■ DISINSTALLED PINEWOOD TELEGRAPH POLES

The Framework Agreement Program between Telecom Italia and the institutional interlocutors (The Ministry of the Environment and of the safeguarding of the territory, The Ministry of industry, The regional governments) regarding the management of disinstalled pinewood telegraph poles, continued to be carried out during the first semester of 2004.

As regards to the obsolete poles situation, 70,000 were disinstalled during the first semester. The disposal of another 130.000 obsolete poles is planned by next December, in accordance with the Framework Agreement Programme.

The computerization of the register for waste gathering and disposal was prepared.

This instrument is jointly used by Telecom Italia, network undertakings and waste disposal companies and will allow for the use of a single register for each site.

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## ■ ELECTROMAGNETIC EMISSIONS

Electromagnetic emissions are constantly monitored using advanced means and technology such as a laboratory capable of reaching the most inaccessible sites where radiomobile terminals are installed.

Monitoring activity makes use of computerized procedures that allows for the evaluation of the levels of electromagnetic fields, the visualization of all interventions and of the main notifications made by the customers.

The Group's commitment to the control of electromagnetic emissions is based on:

- absolute compliance with Italian law, which is the strictest among European legislation, regarding limits enforced for the safeguarding of the population from electromagnetic emissions;
- careful and scrupulous management of company installations throughout the whole life cycle;
- use of, and constant research for, leading-edge technology tools for monitoring and investigation activities;
- cooperation and support in medical-scientific studies.

## THE COMMUNITY

### ■ "PROGETTO ITALIA"

"Progetto Italia" continued its activities during 2004 focusing on supporting culture and sports and social initiatives. The Project stands out for the close collaboration with its scientific partners, to whom Telecom Italia has given technological aid as well as support in communication and organization.

In this manner, important collaborations have developed with private and public institutes, local administrations, associations and organizations. What makes "Progetto Italia" so particular is the direct organization of chosen initiatives and the quality and uniqueness of planned events.

A budget of 30 million euro has been confirmed for "Progetto Italia" 2004.

Initiatives supported by the Group in the first months of 2004 are listed below by subject.

### ■ CULTURE

- **Telecom Journey:** inspired by a dominant theme that reflects particular aspects of each city visited. This Journey represents a new element of Project Italia 2004 and consists of a charming three-day cultural event discovering the history and traditions of Italy. Art, music, theatre, dance, and mime, are the elements used during this cultural itinerary. The first two towns of the Telecom Journey were Cosenza (21-23 May, theme "Utopia and Heresy") and Perugia (4-6 June, theme "Spirituality and Poetry").
- **Telecom Prize:** The "Premio Telecom - contagiare bellezza" was presented in Milan directed towards projects aiming to make the most of art, culture, the environment, to put it in one word, beauty. The jury included Umberto Eco, Riccardo Chiaberge, Dario Del Corno, Philippe Daverio, Andrea Kerbaker, Marco Magnifico, Renato Mannheimer, Vittorio Sermonti, Andrée Ruth Shammah, Guido Vergani, Massimo Vitta Zelman and Ugo Volli. The most original projects will be awarded in May 2005.
- **Digitami:** Telecom Italia has made its own know how and technology available to the Milan digital library located at the Sormani library. On [www.digitami.it](http://www.digitami.it) it is possible to read rare books free of charge that due to fragility cannot be lent out but only consulted in loco.

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The virtual library differs from an ordinary search engine due to the certification of the quality of the on-line text, which can be personalized by notes in the margin thanks to conversion in the "word" format.

- **Lectura Dantis by Vittorio Sermoni in Florence - Purgatory:** the Lectura Dantis continued with the recital of the second part of the poem at the Cenacolo Di Santa Croce in Florence . The number of spectators totalled 12.500 in 33 performances.
- **The Strega Award:** Telecom Italia, as an institutional partner, commissioned the writer Melania Mazzucco (winner of the Strega Award with the novel "Vita") to write a book, "L'anno marziano o il compleanno della tigre". This book, together with the works of Domenico Starnone and Margaret Mazzantini (winner of previous editions of the Strega Award) has become part of a series called "I libri Stregati" produced by Project Italia to promote contemporary literature.
- **Digital Laboratory for the National School of Cinema:** new courses for 2003-2004 have begun at the Experimental Centre of Cinematography directed by Francesco Alberoni.
- **Digital Laboratory of "La Sapienza" University of Rome:** regarding the laboratory set up at the Department of Communications directed by Maurizio Costanzo, new courses for the academic year have also begun. Work carried out by the students will be promoted at the end of the summer session.
- **History of Art Conversations - Rome:** series of lectures held by the most important experts in the sector (university professors and Italian and overseas Museum directors) at the Casino dell'Aurora in Palazzo Pallavicini Rospigliosi.
- **7 poets for 7 cities:** in partnership with the Corriere della Sera Foundation, this initiative has an ambitious objective : the diffusion of poetry. A series of 12 meetings were held in 7 Italian cities during the first six months of 2004. Exponents of the literary world participated along with famous actors reciting poetry.
- **FAI - Italian Environment Foundation:** Telecom Italia contributes to the restoration of the Necchi Campiglio house in Milan. It is a historical building dating from the beginning of the century and is the only example of a perfectly preserved urban town house in the city centre. The initiative was presented by Telecom Italia's president, Marco Tronchetti Provera together with FAI president, Giulia Maria Mozzoni Crespi.

## SOCIAL ACTIVITIES

Regarding social solidarity, various fund-raising initiatives have been organized.

### ■ Solidarity

- **Dream mission:** Telecom Italia supports this no-profit association with the "Web cam con vista" project for hospitalized children at the Cancer Institute of Milan. In order to lighten the hardships of a long stay in hospital, the Group has put its technology at the patients' disposal (computers, webcams, adsl connections). Young patients can communicate with their families at a distance and keep up with school lessons by connecting to the [www.missionesogni.org](http://www.missionesogni.org) site using a simple password.
- **The Stella spirit:** TIM and "Progetto Italia" support a new social sailing project. Andrea Stella, the disabled owner of a catamaran, organizes a tour of Italy each year by boat allowing people affected by serious pathologies of the spinal cord to participate.
- **Mad about sailing:** the social sailing initiative dedicated to patients affected by psychological disorders, continues this year. Backed by a team of doctors and voluntary workers, these patients take part in major regattas (Millevele Telecom Italia, 3 Gulf Week, Pirelli Trophy) and in therapeutic trips around Italy in sailing boats which end with a participation in the Barcolana.

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- **114 Child emergency:** support of the 114 service continues in collaboration with the Ministries of the Interior, of Equal Opportunities and of Communications and run by "Telefono Azzurro", an organization chaired by Prof. Ernesto Caffo who has been dealing with child abuse for many years.

#### ■ Spreading of Culture

**Telecom Italia Future Centre (Venice):** the centre has stepped up its activities with various new initiatives including: the San Salvador talks/discussions, Wednesdays at the Future Centre, Art Experience and the presentation of Gianni Marocco's album (founder of the Italian rock group, Litfiba) for a total of 26 events. Many important representatives from the arts and culture took part in the Discussions which were organized by art history expert, Philippe Daverio. The multidisciplinary feature common to the "Wednesday" initiatives and the Discussions has allowed for an exchange of experiences regarding the changes in our lifestyles produced by information and communication technology. On the other hand, contemporary art was the protagonist of "Art Experience", a series of workshops lasting a week carried out in collaboration with Domus Academy. Thanks to "Art Experience" the Future Centre public was able to take part in interactive seminars with world famous artists.

More than 25,000 people took part in the centre's activities and 50,000 contacts were made through videostreaming.

**IDI - Interaction Design Institute Ivrea:** founded by Senator Franco Debenedetti, the best designers in the world graduate from IDI every year. Telecom Italia supports their activities with solid contributions in the form of student scholarships.

## SPORT

**Telecom Alleniamoci alla Vita (Telecom fit for life):** 15,000 papers were submitted by Italian students in order to take part in the second edition of the "A caccia di valori" ("a hunt for values") competition as part of the "Telecom alleniamoci alla vita" initiative. "Atleti in diretta" ("Athletes live") was also part of the aforementioned initiative in which famous sports personalities held a series of meetings with students of Italian schools. The aim of this project, which makes use of didactic material for teachers, students and their families, is to introduce positive values to young people.

**Marco Anelli Exhibition in Rome:** the exhibition was prepared by Marco Anelli, a photographer from the Grazia Neri agency who portrayed the most important Italian tennis players during the 2003 edition of Telecom Italia Masters in black and white. The exhibition was visited by 5,000 people.

#### ■ MOBILE

The most significant initiatives accomplished by the Business Unit "Mobile" during the first six months of 2004 are listed below.

##### Santa Lucia Foundation

The lack of research funds is considered as one of the main causes of the scarcity in competitive and innovative ideas of the Italian competitive system. TIM, being aware of the basic importance of research, has carried out various initiatives in the medical sector. With the aim of supporting the most important projects, one medical research project will be selected each year for the assignment of major funds. The Santa Lucia Foundation has been chosen for 2004 and funding has been directed towards the development of research projects, which will be presented to the European Commission. The St. Lucia Institute, a legally qualified hospital famous in Italy for highly

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specialized neuromotorial rehabilitation, deals mainly with patients suffering from damage of the nervous system or muscular osteo-articular apparatus, and takes care of their rehabilitation. Furthermore, the S.Lucia Institute carries out intense and qualified research in the neuromotorial rehabilitation sector. The hospital is supported by various Italian and foreign experts who have contributed to the creation of numerous research laboratories within the hospital where important studies are carried out on neural damage and its motorial and cognitive consequences. The results are published in Italian and international journals.

#### Libera Onlus Project

TIM confirms its collaboration in 2004 with Libera - Gruppo Abele, an association chaired by Don Luigi Ciotti, which operates in the social and voluntary services sector with the aim of coordinating and soliciting the commitment of civil society against all kinds of illegal practices. In accordance with a consolidated objective (collaboration dates back to 1996), TIM supports the association with the "Libera" project. The project is the result of an Agreement Protocol between TIM and Libera and foresees a series of actions involving different sectors : the "School" project which encourages cultural growth; the "Libera Sport" project which promotes the values of civil society through sport; the "Libera Terra" project which uses land confiscated from the mafia in order to create agricultural co-operatives; Gruppo Abele which helps drug addicts and ex-prisoners to be reinserted into society.

#### Health and human rights for immigrants project

Médecins sans Frontières (MSF) is an international independent humanitarian organization working in about 85 countries thanks to more than 3000 voluntary workers amongst whom doctors, nurses and support staff. These people assure health aid to the victims of war, epidemics and natural disasters. During 2004, TIM supported the association with the "Human rights for immigrants - Southern Italy" project which aims to improve health care for illegal immigrants placed in (CPT-Centri di Permanenza Temporanea) specific temporary accomodation units located in Siracusa, Vittoria, Pozzallo and Ragusa in Sicily. Cooperation between MSF and TIM includes the organization of meetings with MSF managers regarding the association's activities with particular attention to the project supported by TIM.

#### Save the Children

This is the most important international independent humanitarian organization for the safeguarding and promotion of children's rights. For more than 80 years the organization has been operating in more than 120 countries around the world to actually improve the living conditions of millions of children.

From April 2002, TIM has chosen to collaborate with Save the Children Italia for the "Doniamo la luna ai bambini del Brasile" (Let's give the moon to Brazilian children) project within the MilleunaTIM points-for-prizes program.

All Tim customers who have signed up to this programme can actually contribute to improving living conditions of millions of children by choosing to donate the "lune" (moons/points) accumulated in favour of the Save the Children project.

Funds raised, doubled by TIM, have been used to finance various initiatives in the states of Bahia and Pernambuco in the north-east of Brazil: assuring education for all children; spreading more information on contagious diseases; making young people aware of environmental risks and preparing them to deal with possible emergencies caused by floods; helping children who are victims of violence and working for the abolition of child labour.

## ■ INTERNET AND MEDIA

During the first six months of 2004 Telecom Italia Media worked on initiatives and projects through business Internet and television.

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Internet Matrix and TIN.IT (Internet sector), continue to pay particular attention to social and ethical issues, often in collaboration with other Telecom Italia Group companies.

Various important initiatives regarding the community (voluntary work, solidarity, protecting the environment, protecting citizen/consumer rights, public health, safety at home and other) were publicised on the different channels of the Virgilio portal, mainly the social channel, and during institutional meetings and events of public interest.

Advertising spaces and banners were offered free of charge during social and cultural events or specific campaigns of particular interest for the community.

La7 and MTV (Television sector) continue to turn their attention towards significant cultural and social events.

La7 regularly includes cultural and formative programmes on its channel whilst MTV has contributed to the organization of events and initiatives regarding safeguarding health, education and culture, solidarity and humanitarian aid.

These are the most significant initiatives:

- The "Free Your Mind" social campaign in favour of Unicef, St. Francis Deed, Greenpeace, Handicap International, against the use of synthetic drugs, in favour of blood donations (Avis), against torture and the death penalty (Amnesty International), pro tolerance, against drunk driving , in memory of September 11, against AIDS and in favour of the liberation of Burma;
- support of Médecins sans Frontières, Nessuno tocchi Caino (organization against the death penalty), Emergency, WWF;
- special program day events: Peace Day - War is not the answer, World Aids Day;
- special programmes: True Life, Forum, Staying Alive, Loveline, Drugline, live transmission on a worldwide level of the "We are the Future" concert held in Rome on the May 16, 2004.

## RESEARCH AND DEVELOPMENT

During the first six months of 2004, Telecom Italia Group's research and development initiatives were mainly carried out by TILAB, also in collaboration with Pirelli Labs, and by the Olivetti - Tecnost Business Unit.

Overall costs for research totalled around 70 million Euro in the first semester 2004 of which 2 million Euro covered by capital grants and low interest loans that have been cashed or waiting to be cashed. 1,259 employees were involved in these initiatives. Research and development initiatives carried out by TILAB and by the divisions "Office products" and "System division" of Olivetti Tecnost are fully described in the "TI Group Business Units/Central Functions trends" section of the Report on operations.

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## HUMAN RESOURCES

### ■ TELECOM ITALIA GROUP EMPLOYEES

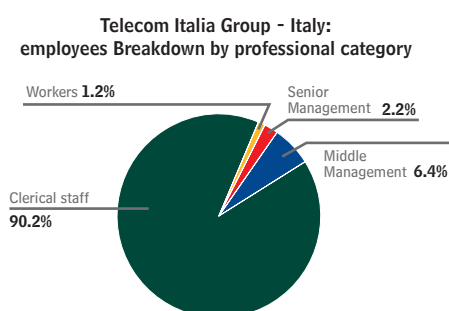
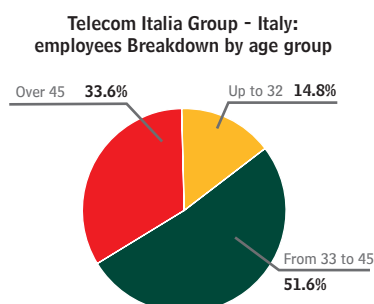
Employees at 12.31.2003	Changes during the period				Employees at 6.30.2004
	Hired	Terminations	Changes due to consolidation area	Total	
93,187	3,557	(2,952)	(614)	(9)	93,178

As of 30 June 2004, Telecom Italia Group employed 93,178 people. The overall variation compared to the situation at 31 December 2003, was the result of employee turn over (605 people) and staff reduction (614 people left the Group). The more significant movements within the Group regarded sale of the "Document Management" business segment (- 257 people) and sales of CIPI and the GPP Group (respectively -188 and -123 people) from Business Unit "Internet and Media".

### ■ TELECOM ITALIA SPA EMPLOYEES

Employees at 12.31.2003	Changes during the period					Employees at 6.30.2004
	Hired	Terminations	Transfers from Group companies	Transfer of "Document Management" business segment	Total	
52,361	144	(888)	61	(189)	(872)	51,489

Italian personnel makes up 83% of the Group and has the following characteristics:



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## ■ DEVELOPMENT

Following the logic of actions carried out during the last financial year, activities of personnel development in the first semester of 2004 continued to be oriented towards strengthening the Managerial Model and developing individual capacities, in coherence with the system of corporate values, through a series of Group and Business Unit projects.

More precisely, the Development Center experience, involving the Group's management over the last two years, has been extended to the management of the LATAM societies. Individual Assessment Center projects have also got under way for Telecom Italia Mobile directors in Latin America.

During the first semester of 2004, a series of initiatives took place aiming to implement the Professional Group System.

Various evaluation projects have been carried out relative to the portfolio of skills held by the human resources and their orientation values, amongst which the most significant in Wireline involved professionals in staff functions, sales areas and the network.

These initiatives are a coherent part of a more extensive "knowledge mapping" project necessary for business, which started at the beginning of the year and that will involve by December thousands of people in a process of self-evaluation and consequent validation by the persons in charge to be concluded by next year.

At the end of this initiative an important data base will be made available on SAP with which it will be possible to carry out gap analysis regarding the skills of a person compared to those expected by his role, thus activating development and training initiatives.

Still regarding actions in favour of assigning value to people, specific projects were started in "IT Telecom Italia" and "Telecom Italia Media" as well as in other Group contexts aiming to develop and to increase the management's knowledge on how to handle their resources.

Within this framework a Group project has started involving three teams of managers and human resources professionals. By making valuable use of past experience, the project shall deal with new initiatives aimed at promoting organization, process and skills necessary for a more and more careful and mature use of personnel.

## ■ TRAINING

Training activities within the Telecom Italia Group were carried out in the first semester of 2004 for a total of 800,000 hours (classroom and online learning and on-the-job coaching for employees in Italy) and around 13 million euros in actual costs (excluding the cost of labour and logistics expenses). These activities were largely delivered by Telecom Italia Learning Services and mainly concerned the following subjects:



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#### ■ Group Projects

- Completion of the management training plan for senior managers finalized to the "change management", according to the managerial model defined at the Group level ("Tools for change") and the "Aim: Image" project for all Group senior managers with the aim of spreading an organization culture directed towards the safeguarding and strengthening of the company's image.
- Start up of the first edition of a training course for the recruitment of new graduates into the Telecom Italia Group in order to provide a common knowledge of the Group's organization and values and to acquire the basic skills of the "trade".
- Development of the first edition of the 2004 Learning Tour which involved a full immersion of 15 Business Unit managers in outstanding American corporations with the theme of "Business Innovation".
- Continuation of the educational plans dedicated to the departments of "Human Resources", "Finance, Administration and Control".

#### ■ Training within the Business Units

Training carried out within the Business Units was mainly dedicated to the development of the necessary skills for the guidance of each business.

In particular:

- In Wireline, training projects continued for front end personnel on customer orientation (for example, Evolution Project for SAT, Coaching Project, Minerva Project) and training projects for sales personnel aiming to reach excellent levels both in skills regarding products, Telecom Italia services and offers as well as customer relations (for example Negotiation Project, Organizational Development of Business Sales, for Public Telephony Department and Residential Customer Department).
- The main initiatives at TIM regarded its multinationality and they are aimed at encouraging integration and networks between TIM Italia and foreign corporations and also the "Valorizzazione delle persone" initiative with an educational plan for senior and middle managers to examine Performance Management.
- At IT Telecom, the "Orienteering" educational plans started at the end of 2003 continued with the aim of providing managers the tools for the development of skills and the motivation of their collaborators.
- At Olivetti Tecnost SpA requalification of personnel continued in relation to the reorientation towards new industrial initiatives.

Regarding the training of Telecom Italia Group's personnel working abroad (monitoring refers to Mobile and Latin American Wireline, roughly 92% of the Group's personnel working abroad) about 225,000 hours were delivered during the first semester of 2004.

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## ■ EMPLOYEE SATISFACTION

A survey on employee attitude known as the "Group Photo" was carried out between May and June 2004 by use of online questionnaires.

It involved more than 76,000 Group employees in Italy and the participation of employees in Greece for the first time.

About 70% of Group employees took part in the survey in Italy and about 50% in Greece.

Employee satisfaction shows an increase for the third consecutive year with values around 6.25 (on a scale from 1 to 10) in Italy and 3.77 (on a scale from 1 to 5) in Greece.

Results of the survey were released to all Group employees.

## ■ INTERNAL COMMUNICATION

During 2004 Internal Communication implemented a number of initiatives for Telecom Italia Group employees, some of which are highlighted below:

- 2004 Group Convention: held on April 7, 2004 in Italy and South America and involving about 7,000 Telecom Italia Group senior and middle managers.
- Two editions of the Group's "noi.magazine" were published.
- A questionnaire was sent out to a significant sample of Telecom Italia Group's white and blue collar workers, senior and middle managers, to evaluate the success of the "noi.magazine" and examine ways of improving it.
- A questionnaire was sent out to evaluate the success of the 2004 calendar and agenda and to prepare new initiatives for 2005.
- Launching of the Human Resources departments newsletter for about 1000 group professionals.
- Launch of a quarterly newsletter that periodically informs all Group employees about the economic results of the Telecom Italia Group.
- Wide use of email for informing Group employees in the case of special events
- Set up of Intranet sites for "Progetto Donna", Olivetti Tecnost, Telecom Italia Audit.
- Set up of connection between Italy and South America which guarantees access to all "Open" Intranet contents and reserved areas.
- Launching, between April and June 2004, of the new version of the Group's Intranet portal "noi.portal" for Telecom Italia Media and Central Functions' employees.
- Consolidation of the "Sono" project in Business Unit "Wireline".
- Start up of the "Tim people" project for TIM employees.

## ■ EQUAL OPPORTUNITIES

On July 1, 2003 the "Progetto Donna" was launched, an integrated programme with a series of initiatives to promote womens' professional development and to spread an equal opportunities culture within the Telecom Italia Group.

The project has analysed obstacles met by women employees in carrying out their work and in professional growth opportunities, resulting in the following objectives:

- investment in female capabilities;
- introduction of support elements for a better balance between work and family commitments;

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- elimination of all cultural and organizational obstacles that prevent women from obtaining top corporate positions.

During the first semester 2004, objectives were transformed into the following working proposals:

- Proposals for the development of organizational conduct (development, training and recruitment initiatives) aiming at giving value to different skills;
- Proposals for organizational development (Job sharing, Telework, Easy job, innovative models of organized functioning) to increase attention to personal demands and time management;
- Proposals for career opportunities (observatory for quality/quantity monitoring, training and development initiatives) to support, direct and offer career opportunities and empowerment both for men and women independent on gender.

## ■ HEALTH & SAFETY

As regards to the Group's initiatives concerning the safeguarding of employees' and all corporation workers' health, Telecom Italia SpA has implemented the "Smokeless Project" which introduced no smoking rules on all corporate premises as from June 1, 2004.

The inspiring idea was that of protecting non-smokers from the risks of passive smoking and to encourage smokers to stop through an internal communications campaign and support programmes.

## ■ INDUSTRIAL RELATIONS

Within the Group's activities towards focusing on core business, procedures were completed for the transfer of Telecom Italia SpA's and EMSA Servizi SpA's "Document Management" business segments to Telepost SpA, and TIM SpA's "Sistemi Amministrativi" business segments to Shared Service Center Scrl.

Procedures were also carried out for corporate reorganization regarding the transfer of IT Telecom SpA's "Business Solutions Mobile" business segment to TIM SpA.

An agreement has been reached with the trade union organizations regarding the Atesia SpA's reorganization plan. This agreement foresees the transfer of ATESIA's fixed telephony business to Telecontact Center and the transfer of the remaining part of Atesia's (dedicated to TIM and third parties) to an operator of the same industrial sector.

The agreement guarantees the adaptation of staff's contracts on the basis of the "Riforma Biagi".

An agreement has been reached with the trade union representatives of the Groups' managers regarding health assistance, allowing Assida's Board of Directors to redefine the government fund system by statutory change. In this way, Assida's members are guaranteed greater involvement and a reduction in authority organs thus being able to act in a more prompt and efficient way in the pursuit of institutional targets of the fund itself.

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Telecom Italia, in compliance with the 68/1999 Law, aims to implement a project, which guarantees placement of the disabled into the working world by innovative use of all conventional tools foreseen by the law.

The project has begun with the undersigning of the workers' trade union organizations to a protocol agreement. There are two phases in the implementation of the project to be shared by the Ministry of Labour and by the associations for the disabled.

During the first phase, which will be completed by 2006, the recruitment of 200 disabled workers is foreseen spread throughout the whole country. This will take place according to set protocol plans and adopting contracts normally in use in the Company as well as specific contracts regarding telework and remote work.

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## ■ STOCK OPTION

During the first semester of 2004, for the Shareholders' meeting, Telecom Italia SpA's stock options were suspended as from April 24, 2004 (tenth trading day previous to the first calling of the meeting) until May 21, 2004 inclusive.

In compliance with the recommendation contained in the Consob Communication no. 11508 dated February 15, 2000, the following table summarizes the key features of the Stock Option Plan in force in 2004.

In relation to the items indicated in the chart, it is noted that the stock option holders have the right to subscribe, at the subscription price, a total number of shares obtained by multiplying the number of options held by the assignment ratio, rounded down to the nearest whole number.

(amount in euro)		Options existing at 01/01/2004	New options granted during the semester	Options exercised during the semester	Options expired and not exercised during the semester	Options forfeited during the semester due to termination of service	Options existing at 06/30/2004	Of which exercisable at 06/30/2004
1999	No. options	4,511,901.243	-	1,110,246.356	-	-	3,401,654.887	3,401,654.887
Plan	Exercise ratio	3.300871	-	3.300871	-	-	3.300871	3.300871
	Subscription price	2.057033	-	2.057033	-	-	2.057033	2.057033
	Market price	2.403		2.550 (*)		-	2.564	
2000	No. options	10,699,996	-	-	-	-	10,699,996	10,699,996
Plan	Exercise ratio	3.300871	-	-	-	-	3.300871	3.300871
	Subscription price	4.185259	-	-	-	-	4.185259	4.185259
	Market price	2.403	-	-	-	-	2.564	
2001	No. options	32,340,000	-	-	-	245,000	32,095,000	32,095,000
Plan	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Subscription price	3.177343	-	-	-	3.177343	3.177343	3.177343
	Market price	2.403	-	-	-	2.587 (*)	2.564	
2002	No. options	25,744,700	-	-	-	1,270,700	24,474,000	14,706,000
Plan	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Average subscription price	2.906507	-	-	-	2.928015	2.905390	2.905424
	Market price	2.403	-	-	-	2.558 (*)	2.564	
2002	No. options	11,340,000	-	-	-	90,000	11,250,000	6,750,000
Top Plan	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Subscription price	2.788052	-	-	-	2.788052	2.788052	2.788052
	Market price	2.403	-	-	-	2.537	2.564	
2002-	No. options (**)	800,000	-	-	-	-	800,000	533,332
2004	Exercise ratio	0.471553	-	-	-	-	0.471553	0.471553
Plan	Subscription price	7.015118	-	-	-	-	7.015118	7.015118
	Market price	2.403	-	-	-	-	2.564	-
Feb. 2002-	No. options (***)	5,940,000	-	-	-	100,000	5,840,000	3,893,342
Dec. 2004	Exercise ratio	0.471553	-	-	-	0.471553	0.471553	0.471553
Plan	Subscription price	5.333441	-	-	-	5.333441	5.333441	5.333441
	Market price	2.403	-	-	-	2.556	2.564	-

(\*) weighted-average price

(\*\*) referring to no. 1,330,000 assigned options

(\*\*\*) referring to no. 29,000,000 voted options, of which 26,475,000 assigned

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Plan	Exercise ratio	Subscription price of shares (euro)	No. of options granted at 06/30/2004 and exercisable from					Total	Maximum period of options
			2001	2002	2003	2004	2005		
1999	3.300871	2.057033	-	3,401,654.887	-	-	-	3,401,654.887	12/31/2004
2000	3.300871	4.185259	5,349,998	5,349,998	-	-	-	10,699,996	5 years beginning from each year
2001	3.300871	3.177343	-	32,095,000	-	-	-	32,095,000	04/15/2007
2002	3.300871	2.928015	-	-	7,041,000	7,041,000	9,352,000	23,434,000	5 years beginning from each year
	3.300871	2.409061	-	-	252,000	252,000	336,000	840,000	
	3.300871	2.339080	-	-	60,000	60,000	80,000	200,000	
2002 Top	3.300871	2.788052	-	-	3,375,000	3,375,000	4,500,000	11,250,000	5 years beginning from each year
2002-2004	0.471553	7.015118	-	266,666 <sup>(1)</sup>	266,666 <sup>(1)</sup>	266,668 <sup>(1)</sup>	-	800,000	12/15/2004
Feb. 2002-dec. 2004	0.471553	5.333441	-	1,946,671 <sup>(2)</sup>	1,946,671 <sup>(2)</sup>	1,946,658 <sup>(2)</sup>	-	5,840,000	12/31/2004

(1) exercisable from November 1 to December 15 of each year, or otherwise cumulatively at successive annual expiration dates until the last

(2) exercisable from December 1 to December 31 of each year, or otherwise cumulatively at successive annual expiration dates until the last

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## ■ CORPORATE GOVERNANCE

Against a background of continuing development of the Company's corporate governance mechanisms, the first half of 2004 saw the implementation of principles and procedures that constitute the fabric of the system and the introduction of some changes to the bylaws, partly with the aim of adapting them to the new provisions of Italian company law following the entry into force of the so-called Vietti reform.

It should be remembered that the Board of Directors was appointed, as part of the process of combining Olivetti (incorporating company) and Telecom Italia (the absorbed company), by the Olivetti shareholders' meeting on the basis of the old Olivetti bylaws, which did not provide for use of the slate system. On that occasion the shareholders' meeting basically confirmed the Board of Directors of Telecom Italia (the absorbed company), which included three directors elected from lists submitted in October 2001 by minority shareholders (one from the Ministry for the Economy and Finance and the other from institutional investors). In the meantime Olivetti's shareholders' meeting adopted new bylaws, modeled on those of the absorbed company and providing, among other things, for use of the slate system for the election of the Board of Directors. In order to permit the amendments to the bylaws concerning the slate system to take effect without delay, the Olivetti shareholders' meeting decided that the Board of Directors would remain in office for only one financial year, that is until the meeting called to approve the accounts for 2003.

Accordingly, a new Board of Directors was appointed by the shareholders' meeting of 6 May 2004.

The new Board was elected on the basis of competing lists pursuant to the bylaws and has nineteen members: Paolo Baratta, Gilberto Benetton, John Robert Sotheby Boas, Carlo Orazio Buora, Giovanni Consorte, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Gianni Mion, Massimo Moratti, Marco Onado, Renato Pagliaro, Pasquale Pistorio, Carlo Alessandro Puri Negri, Luigi Roth, Riccardo Ruggiero and Marco Tronchetti Provera. The directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the list presented by institutional investors, while the others were elected from the list presented by Olimpia S.p.A., the holder of about 17% of the ordinary share capital.

As indicated in the Report on Corporate Governance for 2003, in classifying directors as independent, the Company applies criteria conforming with best international practice and the recommendations of the Preda Code. On the basis of these criteria and in light of the declarations made by the persons concerned, 10 of the 19 directors, that is the majority, are deemed to be independent: Paolo Baratta, John Robert Sotheby Boas, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Marco Onado, Pasquale Pistorio and Luigi Roth.

The curricula vita the candidates submitted when the lists were presented contain information on their personal histories and professional experience; they can be found on the Company's website, [www.telecomitalia.it](http://www.telecomitalia.it), under Investor Relations.

In its first meeting on 6 May 2004 the Board of Directors of Telecom Italia appointed Marco Tronchetti Provera as Chairman, Gilberto Benetton as Deputy Chairman, and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors. The new Board is made up of three executive directors (the Chairman and the two Managing Directors) and sixteen non-executive directors, ten of whom, as mentioned earlier, are independent.

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Before describing the complex set of powers delegated to the Company's executive directors it needs to be stressed that in practice it is the Board of Directors that decides on transactions of particular importance – by approving or authorizing them – even if in theory they fall within the scope of the powers delegated to the executive directors. In fact the system of delegated powers described below is not intended to attribute an exclusive competences but rather to be a way of facilitating the performance of the Company's activities when dealing with third parties. Besides, as explained in the Report on Corporate Governance for 2003, the Board has exclusive competence for examining and approving transactions with a substantial impact on the Company's activity in view of their nature (for instance, transactions with related parties and those that are atypical or unusual), strategic importance, size or the commitments they are likely to entail.

Following the resolutions adopted by the Board of Directors in the meeting referred to above, the system of delegated powers is configured as follows:

- Marco Tronchetti Provera (Chairman) is entrusted with the powers needed to carry out every transaction relating to the various aspects of the Company's activity, except for investments and transfers of shareholdings involving control or affiliation, and of businesses or business segments where the value of the transaction exceeds euro 250 million. Moreover, the Chairman must sign jointly with a Managing Director when issuing guarantees for obligations of Telecom Italia or its subsidiaries where the amount exceeds euro 250 million and for obligations of third parties where the amount exceeds euro 100 million. The Chairman is also authorized to act as a matter of urgency in the matters for which the Board of Directors is competent and is entrusted with the tasks of overseeing the management of confidential information and ensuring the effectiveness and adequacy of the internal control system;
- Carlo Buora (Managing Director) is entrusted with the powers needed to carry out every transaction relating to the various aspects of the Company's activity, except for investments and transfers of shareholdings involving control or affiliation, and of businesses or business segments, and in general of goods and services where the value of each single transaction exceeds euro 150 million. Moreover, Mr. Buora must sign jointly with the other Managing Director, Riccardo Ruggiero when issuing guarantees for obligations of Telecom Italia or its subsidiaries amounting individually to between euro 150 million and euro 250 million and for obligations of third parties amounting individually to between euro 50 million and euro 100 million.
- Riccardo Ruggiero (Managing Director) is entrusted with the powers needed to carry out every transaction relating to the various aspects of the Company's activity, except for investments and transfers of shareholdings involving control or affiliation, and of businesses or business segments, and in general of goods and services where the value of each single transaction exceeds euro 75 million. Moreover, Mr. Ruggiero may issue guarantees for obligations of subsidiaries or Telecom Italia itself amounting individually to not more than euro 75 million and for obligations of third parties amounting individually to not more than euro 25 million.

For the purposes of compliance with the above-mentioned thresholds, a set of transactions that individually fall below the relevant threshold but are interconnected within the same strategic or executive structure are considered to constitute a single transaction and, accordingly, may exceed the threshold.

In its meeting on 6 May 2004 the Board of Directors has also proceeded to appointed the members of the Committee for Internal Control and Corporate Governance (Domenico De Sole, Francesco Denozza, Guido Ferrarini and Marco Onado) and of the Directors' Remuneration Committee (Paolo Baratta, Luigi Fausti e Pasquale Pistorio). It should be noted that both committees are made up exclusively of independent directors and that the Committee for Internal Control and Corporate Governance now has four members (one more than before).



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Guido Ferrari was appointed Chairman of the Committee for Internal Control and Corporate Governance in its meeting on 17 May 2004 and Luigi Fausti was appointed Chairman of the Directors' Remuneration Committee in its meeting on 20 May 2004.

Again in its meeting on 6 May 2004 the Board of Directors appointed the following to the Supervisory Panel, established pursuant to Legislative Decree 231/2001: Guido Ferrarini (Chairman of the Committee for Internal Control and Corporate Governance), Armando Focaroli (Responsible for Internal Control) and Ferdinando Superti Furga (Chairman of the Board of Auditors). Ferdinando Superti Furga was appointed Chairman of the Supervisory Panel in its first meeting on 17 May 2004.

The shareholders' meeting of 6 May 2004 changed the fees to be paid to the Board of Auditors approved by the shareholders' meeting of May 2003 since, after the appointment of the auditors (and the approval of their fees) the Company adopted organizational solutions and internal procedures that led to the Board of Auditors being assigned functions (such as that of audit committee within the meaning of US legislation) that made the sums approved in May 2003 insufficient in relation to its activities and responsibilities.

The shareholders' meeting of 6 May 2004 also approved some amendments to the bylaws, both to adapt them to the new rules of company law introduced by the so-called Vietti reform and to take advantage of some of the new opportunities this created, although with the intention of keeping the organizational structure basically unchanged.

Lastly, the same shareholders' meeting adopted rules of proceeding for the shareholders' meeting, in order to ensure the orderly and effective conduct of business and as provided for in the bylaws. The rules are basically the same as those that were in force before the Company was merged into Olivetti, which had been found to be an effective support for conducting shareholders' meetings. The rules have therefore only been updated and simplified in some sections and supplemented by others on postal voting, so as to ensure the document provides the fullest possible organizational and procedural guidance for an important moment in shareholders' participation in the life of the Company. The rules of proceeding are posted on the Company's website, [www.telecomitalia.it](http://www.telecomitalia.it), under Investor Relations.



# consolidated financial statements at June 30, 2004

Telecom Italia Group



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## ■ CONSOLIDATED BALANCE SHEETS

### ASSETS

(in millions of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS</b>			
- PORTION CALLED IN	-	-	-
- PORTION NOT CALLED IN	4	4	4
<b>TOTAL RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS</b>			
- INTANGIBLE ASSETS			
Start-up and expansion costs	46	51	62
Industrial potents and intellectual property rights	2,000	1,850	1,437
Concessions, licenses, trademarks and similar rights	3,629	3,761	4,012
Goodwill	6	8	15
Differences on consolidation	26,391	27,137	31,651
Work in progress and advances to suppliers	629	742	697
Other intangibles	348	304	303
<b>TOTAL INTANGIBLE ASSETS</b>	<b>33,049</b>	<b>33,853</b>	<b>38,177</b>
- FIXED ASSETS			
Land and buildings	1,824	1,814	2,208
Plant and machinery	14,004	14,302	13,994
Manufacturing and distribution equipment	42	46	61
Other fixed assets	570	597	642
Construction in progress and advances to suppliers	1,368	1,565	1,832
<b>TOTAL FIXED ASSETS</b>	<b>17,808</b>	<b>18,324</b>	<b>18,737</b>
- LONG-TERM INVESTMENTS			
Equity investments in:			
unconsolidated subsidiaries	21	5	7
affiliated companies	838	955	1,099
other companies	417	501	590
<b>Total equity investments</b>	<b>1,276</b>	<b>1,461</b>	<b>1,696</b>
Advances on future capital contributions	46	9	-
Accounts receivable:	(*)	(*)	(*)
unconsolidated subsidiaries	5	3	14
affiliated companies	53	54	10
other receivables	75	281	94
<b>Total accounts receivable</b>	<b>133</b>	<b>338</b>	<b>118</b>
Other securities	10	12	15
Treasury stock (total par value of euro 56 million at 6/30/2004)	393	393	393
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>2,198</b>	<b>2,396</b>	<b>2,864</b>
<b>TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS</b>	<b>53,055</b>	<b>54,573</b>	<b>59,778</b>
<b>CURRENT ASSETS</b>			
- INVENTORIES			
Raw materials and supplies	21	24	38
Work in progress and semifinished goods	21	22	25
Contract work in process	145	105	216
Finished goods and merchandise:			
finished goods	1	7	26
merchandise	392	267	329
Advances to suppliers	-	1	2
<b>TOTAL INVENTORIES</b>	<b>580</b>	<b>426</b>	<b>636</b>
- ACCOUNTS RECEIVABLE	(* *)	(* *)	(* *)
Trade accounts receivable	-	1	12
Accounts receivable from unconsolidated subsidiaries	-	30	-
Accounts receivable from affiliated companies	-	149	-
Taxes receivable	34	69	57
Deferred tax assets	2,955	3,172	2,197
Other receivables	43	64	51
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>3,032</b>	<b>3,306</b>	<b>2,317</b>
- SHORT-TERM FINANCIAL ASSETS			
Equity investments in unconsolidated subsidiaries	183	170	169
Equity investments in affiliated companies	-	708	895
Other equity investments	-	-	1
Other securities	1,054	2,719	2,296
Receivables for sales of securities	13	60	69
<b>TOTAL SHORT-TERM FINANCIAL ASSETS</b>	<b>1,250</b>	<b>3,657</b>	<b>3,430</b>
- LIQUID ASSETS			
Bank and postal accounts	5,689	4,870	5,940
Cash and valuables on hand	10	7	17
<b>TOTAL LIQUID ASSETS</b>	<b>5,699</b>	<b>4,877</b>	<b>5,957</b>
<b>TOTAL CURRENT ASSETS</b>	<b>21,996</b>	<b>24,599</b>	<b>27,428</b>
<b>ACCRUED INCOME AND PREPAID EXPENSES</b>			
Issue discounts and similar charges	250	240	268
Accrued income and other prepaid expenses	1,134	1,085	1,623
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>1,384</b>	<b>1,325</b>	<b>1,891</b>
<b>TOTAL ASSETS</b>	<b>76,439</b>	<b>80,501</b>	<b>89,101</b>

(\*) Amounts due within one year (\*\*) Amounts due beyond one year

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## LIABILITIES AND SHAREHOLDERS' EQUITY

(in millions of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>SHAREHOLDERS' EQUITY</b>			
<b>PARENT COMPANY INTEREST IN:</b>			
- SHARE CAPITAL	8,857	8,854	8,846
- RESERVE FOR TREASURY STOCK IN PORTFOLIO OF THE PARENT COMPANY AND UNCONSOLIDATED SUBSIDIARIES	393	393	393
- RESERVES AND RETAINED EARNINGS	5,075	5,653	5,723
- NET INCOME (LOSS) FOR THE PERIOD	405	1,192	1,056
<b>TOTAL PARENT COMPANY INTEREST</b>	<b>14,730</b>	<b>16,092</b>	<b>16,018</b>
<b>MINORITY INTEREST IN:</b>			
- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS	3,396	3,261	3,562
- NET INCOME FOR THE PERIOD	458	1,236	536
<b>TOTAL MINORITY INTEREST</b>	<b>3,854</b>	<b>4,497</b>	<b>4,098</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>18,584</b>	<b>20,589</b>	<b>20,116</b>
<b>RESERVES FOR RISKS AND CHARGES</b>			
Reserve for pensions and similar obligations	37	42	59
Reserve for taxes and reserve for deferred taxes	638	404	607
Consolidation reserve for future risks and charges	1	1	-
Other reserves	2,388	2,476	5,431
<b>TOTAL RESERVES FOR RISKS AND CHARGES</b>	<b>3,064</b>	<b>2,923</b>	<b>6,097</b>
<b>RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES</b>	<b>1,339</b>	<b>1,296</b>	<b>1,376</b>
<b>LIABILITIES</b>	<b>(*)</b>	<b>(*)</b>	<b>(*)</b>
Debentures	27,135	31,186	23,323
Convertible debentures	5,596	5,596	5,597
Due to banks	1,073	2,372	1,182
Due to other lenders	604	1,058	670
Advances	-	177	-
Trade accounts payable	3	5,291	4
Notes payable	-	-	5,857
Accounts payable to unconsolidated subsidiaries	-	37	12
Accounts payable to affiliated companies	18	234	18
Taxes payable	13	1,282	170
Contributions to pension and social security institutions	1,103	1,360	2
Other liabilities	59	2,785	1,476
<b>TOTAL LIABILITIES</b>	<b>35,604</b>	<b>51,378</b>	<b>32,056</b>
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>			
Issue premiums	36	39	39
Accrued expenses and deferred income	2,038	2,347	2,302
<b>TOTAL ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>2,074</b>	<b>2,386</b>	<b>2,344</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>76,439</b>	<b>80,501</b>	<b>89,101</b>

(\*\*) Amounts due beyond one year

## MEMORANDUM ACCOUNTS

(in millions of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>GUARANTEES PROVIDED</b>			
Sureties:			
on behalf of unconsolidated subsidiaries	1	4	7
on behalf of affiliated companies	894	864	779
on behalf of others	186	195	241
<b>Total sureties</b>	<b>1,081</b>	<b>1,063</b>	<b>1,027</b>
Endorsements:			
on behalf of others	-	-	-
Other guarantees:			
on behalf of unconsolidated subsidiaries	1	1	1
on behalf of affiliated companies	-	-	-
on behalf of others	84	91	90
<b>Total other guarantees</b>	<b>85</b>	<b>92</b>	<b>91</b>
<b>TOTAL GUARANTEES PROVIDED</b>	<b>1,166</b>	<b>1,155</b>	<b>1,118</b>
<b>COLLATERAL PROVIDED</b>			
For obligations of others, of affiliated companies	-	107	115
For own obligations, not including liabilities	7	7	2
<b>TOTAL COLLATERAL PROVIDED</b>	<b>7</b>	<b>114</b>	<b>117</b>
<b>PURCHASES AND SALES COMMITMENTS</b>	<b>237</b>	<b>208</b>	<b>2,796</b>
<b>OTHER MEMORANDUM ACCOUNTS</b>	<b>138</b>	<b>105</b>	<b>101</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>1,548</b>	<b>1,582</b>	<b>4,132</b>

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## ■ CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)

	1st half 2004	1st half 2003	Year 2003
<b>PRODUCTION VALUE</b>			
Sales and service revenues	15,222	15,149	30,850
Changes in inventories of work in progress, semifinished and finished goods	1	7	13
Changes in inventory of contract work in process	42	25	(87)
Increases in capitalized internal construction costs	326	330	805
Other revenue and income:			
operating grants	3	8	14
other	126	162	331
Total other revenue and income	129	170	345
<b>TOTAL PRODUCTION VALUE</b>	<b>15,720</b>	<b>15,681</b>	<b>31,926</b>
<b>PRODUCTION COSTS</b>			
Raw materials, supplies and merchandise	1,126	878	1,973
Semifinished and finished goods	40	78	108
Services	4,816	4,715	9,684
Use of property not owned	544	577	1,156
Personnel costs:			
wages and salaries	1,474	1,598	3,078
social security contributions	441	478	921
termination indemnities	98	105	200
other costs	42	48	104
Total personnel costs	2,055	2,229	4,303
Amortization, depreciation and writedowns:			
amortization of intangible assets	1,490	1,554	3,109
depreciation of fixed assets	1,722	1,803	3,670
other writedowns of intangibles and fixed assets	1	2	6
writedowns of receivables included in current assets and liquid assets	132	200	471
Total amortization, depreciation and writedowns	3,345	3,559	7,256
Changes in inventory of raw materials, supplies and merchandise	(124)	(24)	40
Provisions for risks	34	61	70
Other provisions	4	10	24
Miscellaneous operating costs	284	317	523
<b>TOTAL PRODUCTION COSTS</b>	<b>12,124</b>	<b>12,400</b>	<b>25,137</b>
<b>OPERATING INCOME</b>	<b>3,596</b>	<b>3,281</b>	<b>6,789</b>
<b>FINANCIAL INCOME AND EXPENSE</b>			
Income from equity investments:			
dividends from unconsolidated subsidiaries	10	2	3
dividends from other companies	2	3	6
other income from equity investments	91	2	8
Total income from equity investments	103	7	17
Other financial income from:			
accounts receivable included in long-term investments:			
affiliated companies	2	10	21
other	5	8	8
Total from accounts receivable included in long-term investments:	7	18	29
securities, other than equity investments, included in long-term investments	2	-	-
securities, other than equity investments, included in current assets	24	77	174
other income			
interest and fees from unconsolidated subsidiaries	-	-	1
interest and fees from affiliated companies	-	2	2
interest and fees from others and miscellaneous income	326	221	610
Total other income	326	223	613
Total other financial income	359	318	816
Interest and other financial expense:			
interest and fees paid to affiliated companies	(1)	(18)	(11)
interest and fees paid to others and miscellaneous expense	(1,321)	(1,474)	(2,949)
Total interest and other financial expense	(1,322)	(1,492)	(2,960)
Foreign exchange gains and losses	(46)	(23)	(27)
<b>TOTAL FINANCIAL INCOME AND EXPENSE</b>	<b>(906)</b>	<b>(1,190)</b>	<b>(2,154)</b>

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(in millions of euro)

	1st half 2004	1st half 2003	Year 2003
<b>VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>			
Upward adjustments of:			
equity investments	38	30	65
securities, other than equity investments, included in current assets	-	3	3
Total upward adjustments	38	33	68
Writedowns of:			
equity investments	(60)	(114)	(154)
long-term investments, other than equity investments, included in current assets	(3)	-	(5)
securities, other than equity investments, included in current assets	-	(2)	(19)
Total writedowns	(63)	(116)	(178)
<b>TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>(25)</b>	<b>(83)</b>	<b>(110)</b>
<b>EXTRAORDINARY INCOME AND EXPENSE</b>			
Income:			
gains on disposals	69	46	105
miscellaneous	77	134	1,746
Total income	146	180	1,851
Expense:			
losses on disposals	(2)	(6)	(237)
prior years' taxes	(3)	(30)	(48)
provisions and writedowns of equity investments	(282)	(253)	(879)
miscellaneous	(179)	(595)	(1,770)
Total expense	(466)	(884)	(2,934)
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>(320)</b>	<b>(704)</b>	<b>(1,083)</b>
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>2,345</b>	<b>1,304</b>	<b>3,442</b>
Income taxes for the period, current and deferred	(1,482)	288	(1,014)
<b>NET INCOME (LOSS) BEFORE MINORITY INTEREST</b>	<b>863</b>	<b>1,592</b>	<b>2,428</b>
Minority interest	(458)	(536)	(1,236)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>405</b>	<b>1,056</b>	<b>1,192</b>

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# ■ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## INTRODUCTION

The consolidated financial statements for the six months ended June 30, 2004 of the Telecom Italia Group have been prepared in accordance with art. 81 and Annex 3C-bis of Consob Resolution No. 11971 dated May 14, 1999, and later amendments and additions, as well as the provisions of the Italian Civil Code relating to consolidated financial statements and the changes and supplements to the formats of the balance sheet and statement of income introduced by the reform of corporate law pursuant to Legislative Decree No. 6 dated January 17, 2003, as amended. The consolidated statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these financial statements and the Notes to the consolidated financial statements.

The scope and principles of consolidation, the summary of significant accounting policies, along with the composition and changes in the individual components of the consolidated financial statements are set out below.

## ■ SCOPE OF CONSOLIDATION

The scope of consolidation at June 30, 2004 includes the Italian and foreign companies listed in Annex 5, in which Telecom Italia holds a majority of voting rights, and all other companies in which it exercises a dominant influence.

Companies in which Telecom Italia holds between a 10% (if listed), 20% (if unlisted) and a 50% investment in share capital, with voting rights, including jointly controlled companies and companies in which the Parent Company exercises a significant influence, have been accounted for using the equity method.

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

Since June 30, 2003:

a) added to the scope of consolidation:

- for *Wireline*:  
Telecom Italia Deutschland Holding GmbH (purchased in August 2003), Hansenet TelekomuniKation GmbH (purchased in September 2003) and Telefonía Mobile Sammarinese S.p.A. (formerly accounted for using the equity method);
- for *South America*:  
Diveo Perù Inc. (purchased in December 2003);
- for *Internet and Media*:  
Telecom Media News S.p.A. (purchased in September 2003);
- for *Olivetti Tecnost*:  
Wirelab S.p.A. (purchased in July 2003);
- for *Other activities*:  
TI Audit Latam SA (purchased in September 2003) and Telecom Italia Capital SA (formerly accounted for using the equity method);

b) eliminated from the scope of consolidation:

- for *Mobile*:  
CTMR Celular SA and Telesc Celular SA (sold in August 2003);
- for *Internet and Media*:  
all the companies involved in the spin-off of the SEAT Group composed principally of the following business segments: Directories business (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group, Pan-Address and Net Creations). Furthermore, for the current TI MEDIA Group: Free Finance, TTG Italia, OPS, Teleprofessional, Webnext Office Automation Products and HMC e Pubblicità (put into liquidation), IMR, IS Products, Incas Productions, Globo Europa, CIPI S.p.A., GPP S.p.A., Editoriale Quasar, Editoriale JCE S.p.A. Group, Editoriale Faenza Editrice S.p.A. Group, Quasar e Associati S.r.l., Faenza Editrice Iberica S.L., Faenza Editrice do Brasil Ltda and Promo Advertising S.r.l. (sold in June 2004);
- for *IT Market*:  
Netikos S.p.A. and Netikos Finland OY (sold in July 2003) and @live S.r.l. (put into liquidation);
- for *IT Group*:  
Teco Soft Argentina SA (put into liquidation) and Telesoft Russia Zao (sold in April 2004);

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– for *Olivetti Tecnost*:

Gotoweb S.p.A. (sold in July 2003), Olivetti De Venezuela (liquidation closed in April 2004), Consorzio Mael, Olivetti Colombiana S.A., Diaspron do Brasil, Olivetti Servicios y Soluciones Integrales S.A. de C.V., Olivetti Peruana S.A., Alladium S.p.A., Multidata S.A. Elettronica Industria e Commercio, Olivetti Lexikon Nordik AB, Olivetti Argentina S.A.C.e.I. and Olivetti Latin America Trading Associates SA (put into liquidation);

– for *Other activities*:

Olivetti System & Services UK Ltd (liquidation closed in November 2003), Olivetti International (Service) S.A., Olivetti International N.V., Olivetti International Finance N.V., TILab General Partner S.A. (put into liquidation), TILab B.V. (sold in March 2004) and FMP Italy S.r.l. (sold in July 2003);

c) companies involved in mergers, besides the merger of Telecom Italia S.p.A. in Olivetti S.p.A.:

– for *Mobile*:

TIM Brasil SA in Bitel Participagoes SA (now TIM Brasil Serviços e Participagoes S.A.); Telesoft Hellas SA in Stet Hellas SA; Telepisa Celular S.A., Telecearà Celular S.A., Telern Celular S.A., Telpa Celular S.A. and Telasa Celular in TIM Nordeste Telecomunicaciones (former Telpe);

– for *South America*:

Americatel Perú S.A. in Diveo Telecomunicaciones del Perú (which took the name of Americatel Perú S.A.);

– for *IT Market*:

Eis S.p.A. in Finsiel S.p.A.;

– for *Olivetti Tecnost*:

Oliweb S.p.A., Technoproduzioni S.p.A. and Tecnosistemi S.p.A. in Olivetti Tecnost S.p.A., Olivetti da Amazonia Industria e Commercio Ltd in Olivetti do Brasil SA;

– for *Other activities*:

Olivetti International SA in Telecom Italia Finance SA and Olivetti Finance NV SA in Telecom Italia Finance SA.

Since December 31, 2003:

a) added to the scope of consolidation:

– for *Wireline*:

Telefonia Mobile Sammarinese S.p.A (formerly accounted for using the equity method);

b) eliminated from the scope of consolidation:

– for *Internet and Media*:

CIPI S.p.A. (sold in January 2004), GPP S.p.A., Editoriale Quasar S.r.l., Editoriale JCE S.p.A. Group, Editoriale Faenza Editrice S.p.A. Group, Quasar e Associati S.r.l., Faenza Editrice Iberica S.L., Faenza Editrice do Brasil Ltda and Promo Advertising S.r.l. (sold in June 2004);

– for *IT Group*:

Teco Soft Argentina SA (put into liquidation), Telesoft Russia Zao (sold in April 2004);

– for *Olivetti Tecnost*:

Olivetti De Venezuela C.A. (liquidation closed in April 2004), Olivetti Colombiana S.A., Diaspron Do Brasil, Olivetti Servicios y Soluciones Integrales S.A. de C.V., Olivetti Peruana S.A., Alladium S.p.A., Multidata S.A. Elettronica Industria e Commercio, Olivetti Lexikon Nordik AB, Olivetti Argentina S.A.C.e.I. and Olivetti Latin America Trading Associates S.A. (put into liquidation);

– for *Other activities*:

Olivetti International (Service) S.A., Olivetti International N.V., Olivetti International Finance N.V. and TILab General Partner S.A. (put into liquidation);

c) companies involved in mergers:

– for *Mobile*:

Telepisa Celular S.A., Telecearà Celular S.A., Telern Celular S.A., Telpa Celular S.A. and Telasa Celular in TIM Nordeste Telecomunicaciones (former Telpe);

– for *South America*:

Americatel Perú S.A. in Diveo Telecomunicaciones del Perú (which took the name of Americatel Perú S.A.);

– for *Olivetti Tecnost*:

Olivetti da Amazonia Industria e Commercio Ltd in Olivetti do Brasil SA;

– for *Other activities*:

Olivetti International SA in Telecom Italia Finance SA, Olivetti Finance NV SA in Telecom Italia Finance SA.



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At June 30, 2004, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 7, are categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
- consolidated line-by-line	66	120	186				186
- valued by the equity method	1	4	5	36	31	67	72
- valued at cost	23	19	42	30	9	39	81
<b>Total companies</b>	<b>90</b>	<b>143</b>	<b>233</b>	<b>66</b>	<b>40</b>	<b>106</b>	<b>339</b>

## ■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and principles of consolidation adopted in the preparation of the financial statements for the first six months of 2004 are consistent with those used in the preparation of the annual consolidated financial statements, to which reference should be made, with the exception of certain adjustments and adaptations required by the nature of half-year disclosures.

In the six-month consolidated financial statements, the current income taxes of the individual consolidated companies, along with deferred taxes, are recorded in the "Reserve for taxes" and in the "Reserve for deferred taxes" under "Reserves for risks and charges". Income taxes of individual consolidated companies for the six-month period are calculated according to the best possible estimate based on available information and upon a reasonable estimate of performance for the year up to the end of the tax period. Account was also taken of the positive effect of the anticipated applications of the consolidated tax position at a national level.

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

The exchange rates used are those presented in "Other information".

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## ■ CONSOLIDATED BALANCE SHEETS ASSETS

### INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

#### ■ INTANGIBLE ASSETS

euro 33,049 million

(euro 33,853 million at December 31, 2003)

*Intangible assets* decreased by euro 804 million compared to December 31, 2003. A breakdown of the composition and the changes in this account are provided below:

(in millions of euro)	12/31/2003	Additions	Amortization	Other changes	6/30/2004
Start-up and expansion costs	51	-	(13)	8	46
Industrial patents and intellectual property rights	1,850	150	(534)	534	2,000
Concessions, licenses, trademarks and similar rights	3,761	4	(124)	(12)	3,629
Goodwill	8	-	(2)	-	6
Consolidation difference	27,137	329	(777)	(298)	26,391
Work in progress and advances to suppliers	742	512	-	(625)	629
Other intangibles	304	10	(40)	74	348
<b>Total</b>	<b>33,853</b>	<b>1,005</b>	<b>(1,490)</b>	<b>(319)</b>	<b>33,049</b>

#### ■ Start-up and expansion costs

Start-up and expansion costs refer primarily to underwriting commissions paid in connection with capital increases by the Parent Company.

#### ■ Industrial patents and intellectual property rights

Industrial patents and intellectual property rights consist mainly of applications software either owned outright or acquired under a license for an unspecified period of time.

#### ■ Concessions, licenses, trademarks and similar rights

Concessions, licenses, trademarks and similar rights decreased by euro 132 million and refer to the Mobile BU for euro 3,288 million, principally for the residual cost on the UMTS and PCS licenses (of which euro 2,364 million relates to TIM), and to other Telecom Italia Group companies for euro 341 million, mainly for Indefeasible Rights Of Use (IRU).

#### ■ Differences on consolidation

Differences on consolidation decreased by euro 746 million compared to December 31, 2003 (net of amortization and writedowns). Additions mainly refer to the difference on consolidation booked following TI Media's purchase of a 40% stake in the company Webfin from De Agostini Group (euro 324 million), written down by euro 282 million.

The balance of euro 26,391 million at June 30, 2004 refers not only to the difference on consolidation of euro 24,191 million which arose following the acquisition of the control of Telecom Italia by Olivetti and subsequent purchases of Telecom Italia shares, before the merger, but also to:

(millions of euro)	6/30/2004
TIM	657
TI Media	486
Entel Chile	465
Holding Media e Comunicazione	132
Corporacion Digitel	111
Other companies	349
<b>Total</b>	<b>2,200</b>

The remaining amount of the differences on consolidation reflects the existence of favorable future prospects and higher values intrinsic in the investment holdings.

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#### ■ Work in progress and advances to suppliers

Work in progress and advances to suppliers decreased by euro 113 million, compared to December 31, 2003, and represent the difference between the capitalization of costs incurred mainly by Telecom Italia for the projects which came into use during the period.

#### ■ Other intangibles

Other intangibles, totaling euro 348 million (euro 304 million at December 31, 2003), mainly refer to leasehold improvements.

### ■ FIXED ASSETS

**euro 17,808 million**

*(euro 18,324 million at December 31, 2003)*

Fixed assets decreased by euro 516 million, compared to the end of 2003, mainly as a result of the balance between additions and depreciation during the period, as well as the foreign exchange effect and are shown net of the relative accumulated depreciation and writedowns. An analysis of fixed assets is provided in the following table:

(in millions of euro)	Owned assets			Leased assets			6/30/2004	12/31/2003
	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value	Net book value	Net book value
Land and buildings	3,163	1,473	1,690	159	25	134	1,824	1,814
Plant and machinery	59,114	45,111	14,003	16	15	1	14,004	14,302
Manufacturing and distribution equipment	700	658	42	-	-	-	42	46
Other fixed assets	2,088	1,548	540	60	30	30	570	597
Construction in progress and advances to suppliers	1,368	-	1,368	-	-	-	1,368	1,565
<b>Total</b>	<b>66,433</b>	<b>48,790</b>	<b>17,643</b>	<b>235</b>	<b>70</b>	<b>165</b>	<b>17,808</b>	<b>18,324</b>

A summary of the changes in fixed assets during the period is shown in the following table:

(in millions of euro)	1 <sup>st</sup> half 2004	Year 2003
<b>Opening balance</b>	<b>18,324</b>	<b>19,449</b>
- Additions	1,317	3,111
- Disposals and contributions	(24)	(404)
- Depreciation for the period	(1,722)	(3,670)
- Change in the scope of consolidation	(11)	(197)
- Translation adjustment and other	(76)	35
<b>Closing balance</b>	<b>17,808</b>	<b>18,324</b>

Additions in the period amounting to euro 1,317 million (euro 1,181 million in the first half of 2003) include the purchase of buildings from Fintecna. Details by Business Unit are as follows:

(in millions of euro)	1 <sup>st</sup> half 2004	Year 2003
Wireline	714	777
Mobile	444	266
South America	49	58
Internet and Media	6	10
Information Technology Market	10	7
Information Technology Group	22	38
Olivetti-Tecnost	8	7
Other operations and intra-Group eliminations	64	18
<b>Total</b>	<b>1,317</b>	<b>1,181</b>

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## ■ LONG-TERM INVESTMENTS

(euro 2,396 million at December 31, 2003)

euro 2,198 million

Long-term investments, which decreased by euro 198 million from December 31, 2003, comprise the following:

(in millions of euro)	6/30/2004	12/31/2003	Change
Equity investments in:			
- unconsolidated subsidiaries	21	5	16
- affiliated companies	838	955	(117)
- other companies	417	501	(84)
	<b>1,276</b>	<b>1,461</b>	<b>(185)</b>
Advances on future capital contributions	46	9	37
	<b>1,322</b>	<b>1,470</b>	<b>(148)</b>
Accounts receivable:			
- unconsolidated subsidiaries	5	5	-
- affiliated companies	101	117	(16)
- other receivables	367	399	(32)
	<b>473</b>	<b>521</b>	<b>(48)</b>
Other securities	10	12	(2)
Treasury stock	393	393	-
<b>Total</b>	<b>2,198</b>	<b>2,396</b>	<b>(198)</b>

### ■ Equity investments in unconsolidated subsidiaries

Equity investments in unconsolidated subsidiaries, amounting to euro 21 million, increased by euro 16 million compared to December 31, 2003, following the deconsolidation of the Olivetti Tecnost Business Unit companies operating in Latin America.

### ■ Equity investments in affiliated companies

Equity investments in affiliated companies, amounting to euro 838 million, decreased by euro 117 million compared to December 31, 2003. Equity investments in affiliated companies refer to the following:

(in millions of euro)	12/31/2003	Additions	Disposals / reimbursements of capital	Valuation using equity method (*)	6/30/2004
Etec S.A.	392	26		(35)	383
Italtel Holding	35			(6)	29
LI.SIT	49			(5)	44
Mirror International Holding	48				48
Netco Redes	24		(24)		-
Sky Italia	44			(23)	21
Tiglio I	234		(41)	(6)	187
Tiglio II	78			1	79
Other	51	2	(2)	(4)	47
<b>Total</b>	<b>955</b>	<b>28</b>	<b>(67)</b>	<b>(78)</b>	<b>838</b>

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

Investments valued using the equity method include the unamortized portion of the excess of book values over the corresponding share of the underlying net equity at current values at the time of purchase. The excess amounts in total to euro 94 million (euro 101 million at December 31, 2003), of which euro 91 million refers to Etec S.A. Cuba.

On February 19, 2004, the merger of Is TIM and Aycell was finalized. The transaction was effected by conferring the assets and liabilities of Is TIM and Aycell to TT&TIM (owned 40% by TIM International, 40% by Turk Telekom and 20% by the Is Bank group).

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At June 30, 2004, the carrying value of the affiliated company TT&TIM is a nil balance until such time as the company is fully operational and the first operating results are consolidated.

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

#### ■ Equity investments in other companies

Equity investments in other companies, amounting to euro 417 million, decreased by euro 84 million from December 31, 2003 mainly on account of the sale of Cirsia, 3.1% of Euskaltel, Pirelli & C. Real Estate shares and the reimbursement following the reduction in the share capital of Solpart.

Equity investments in other companies refer to the following:

(in millions of euro)	6/30/2004	12/31/2003
Mediobanca	113	113
Solpart Participações	90	111
Neuf Telecom (former Ldcom)	51	51
Cirsia	-	41
Medio Credito Centrale	36	36
Consortium	20	20
Fin. Priv.	15	15
Euskaltel	13	27
Intelsat	12	12
Forthnet	11	14
Sia	11	11
Pirelli Real Estate	9	15
Other	36	35
<b>Total</b>	<b>417</b>	<b>501</b>

#### ■ Advances on future capital contributions

Advances on future capital contributions at June 30, 2004 mainly refer to advances made by the Parent Company to Sky Italia (euro 36 million) and Telegono (euro 9 million).

#### ■ Accounts receivable from unconsolidated subsidiaries

Accounts receivable from unconsolidated subsidiaries, amounting to euro 5 million, are represented by non-interest-earning loans made by Matrix S.p.A. to Giallo Market S.p.A. in liquidation and to Emax-Trade S.p.A. in liquidation and by H.M.C. to H.M.C. Pubblicità in liquidation.

#### ■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies, amounting to euro 101 million, decreased by euro 16 million compared to December 31, 2003. Such receivables mostly refer to loans made to TT&TIM Turchia (euro 53 million), Aree Urbane (euro 31 million), Telegono (euro 6 million), Tiglio II (euro 3 million) and other minor affiliated companies (euro 8 million).

#### ■ Other receivables

Other receivables decreased from euro 399 million at December 31, 2003 to euro 367 million. They mainly refer to the receivable from PTT Srbija for the remaining amount due on the sale of Telekom Srbija (euro 75 million) and the booking of the cost of the two call options on the share capital of Sofora Argentina (euro 49 million). Moreover, this caption comprises the receivable from the prepayment of taxes on the reserve for employee termination indemnities (euro 62 million), loans made to employees (euro 90 million), security deposits and other long-term receivables (euro 91 million).

#### ■ Other securities

Other securities, amounting to euro 10 million, decreased by euro 2 million compared to December 31, 2003 and chiefly refer to shares in the closed investment fund Saturn Venture Partners LLC.

#### ■ Treasury stock

Treasury stock includes 101,208,867 Telecom Italia ordinary shares, of which 1,272,014 are held by the Parent Company and 99,936,853 shares held by Telecom Italia Finance.

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## CURRENT ASSETS

### ■ INVENTORIES

euro 580 million

(euro 426 million at December 31, 2003)

Inventories included the following:

(in millions of euro)	6/30/2004	12/31/2003	Change
Raw materials and supplies	21	24	(3)
Merchandise	392	267	125
	<b>413</b>	<b>291</b>	<b>122</b>
Work in progress and semifinished goods	21	22	(1)
Finished goods	1	7	(6)
	<b>22</b>	<b>29</b>	<b>(7)</b>
Contract work in process	145	105	40
Advances to suppliers	-	1	(1)
	<b>145</b>	<b>106</b>	<b>39</b>
<b>Total</b>	<b>580</b>	<b>426</b>	<b>154</b>

Inventories are held by companies providing telecommunications services for euro 311 million (euro 203 million at December 31, 2003), companies in the information technology sector for euro 117 million (euro 83 million at December 31, 2003), the Olivetti Tecnost group for euro 108 million and other minor companies for euro 44 million.

The increase in inventories refers to TIM's summer marketing campaign to launch third-generation phones for euro 68 million and to higher inventories by the Parent Company connected with the marketing of Aladino cordless phones and products for ADSL for euro 31 million.

"Raw materials and supplies" and "work in progress and semifinished goods" approximate current costs.

### ■ ACCOUNTS RECEIVABLE

euro 14,467 million

(euro 15,639 million at December 31, 2003)

A breakdown of accounts receivable, which decreased by euro 1,172 million, is provided below:

(in millions of euro)	6/30/2004	12/31/2003	Change
Trade accounts receivable	8,305	7,640	665
- allowance for doubtful accounts	(844)	(790)	(54)
Total trade accounts receivable	7,461	6,850	611
Accounts receivable from unconsolidated subsidiaries	37	30	7
Accounts receivable from affiliated companies	159	149	10
Taxes receivable	341	1,653	(1,312)
Deferred tax assets	4,864	5,013	(149)
Other receivables	1,605	1,944	(339)
<b>Total</b>	<b>14,467</b>	<b>15,639</b>	<b>(1,172)</b>

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#### ■ Trade accounts receivable

Gross trade accounts receivable total euro 8,305 million and consist, for the most part, of receivables for telecommunications services. Receivables have been adjusted to estimated realizable value by the allowance for doubtful accounts. Trade accounts receivable refer, in particular, to Telecom Italia (euro 4,527 million) and TIM (euro 1,198 million). The increase from December 31, 2003, equal to euro 665 million, is principally due to lower sales of receivables to factoring companies by Telecom Italia (–euro 327 million). This caption also includes euro 1,300 million of receivables due from other telecommunications operators.

Furthermore, the following securitization transactions were carried out:

#### Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Wireline commenced during 2001 has continued into the first half of 2004.

During the first six months of 2004, the total amount of trade accounts receivable sold under the securitization program was equal to euro 4,436 million and refers to Telecom Italia's receivables from consumer and microbusiness clientele. At June 30, 2004, receivables sold amount to euro 894 million (of which euro 761 million is not yet due).

The securitization transaction led to a reduction in net financial indebtedness of euro 874 million at June 30, 2004 (euro 851 million at the end of 2003).

At June 30, 2004, Telecom Italia also booked a short-term financial payable of euro 347 million for loans made by TI Securitisation Vehicle S.r.l. from the excess liquidity generated by the securitization transaction.

#### Factoring

In the first half of 2004, Telecom Italia, TIM and Olivetti Tecnost sold trade accounts receivables without recourse for a total of euro 1,626 million, of which euro 375 million is not yet due.

These factoring transactions led to a reduction in net financial indebtedness at June 30, 2004 of euro 163 million, of which euro 64 million refers to transactions executed in the first half of 2004 and euro 99 million to transactions concluded in December 2003.

#### ■ Accounts receivable from unconsolidated subsidiaries

Accounts receivable from unconsolidated subsidiaries include loans of euro 23 million and trade accounts receivables and other receivables from unconsolidated subsidiaries of euro 14 million.

#### ■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies of euro 159 million increased by euro 10 million and refer to trade, financial and other receivables. The most significant amounts relate to LI.SIT. (euro 50 million), Sky Italia (euro 40 million, written down by euro 32 million), Teleleasing (euro 48 million) and Shared Service Center (euro 16 million).

#### ■ Taxes receivable

Taxes receivable amount to euro 341 million (euro 1,653 million at December 31, 2003). The decrease of euro 1,312 million mainly refers to Telecom Italia for the sale of IRPEG receivables to TIM to be used to pay the 2004 on-account payment for IRES (euro 1,103 million).

#### ■ Deferred tax assets

Deferred tax assets amount to euro 4,864 million (euro 5,013 million at December 31, 2003) and decreased owing to the set-off against the reserve for taxes, in respect of taxes relating to the period.

#### ■ Other receivables

Other receivables total euro 1,605 million (euro 1,944 million at December 31, 2003). Details are as follows:

- financial receivables, totaling euro 537 million (euro 796 million at December 31, 2003), decreased by euro 259 million mainly on account of the termination of Olivetti Finance's (now Telecom Italia Finance) contract for "securities lending" on its bonds (euro 300 million). Financial receivables for the most part refer to the deferred portion of the trade accounts receivable securitization transactions by Telecom Italia (euro 470 million);

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- other receivables, totaling euro 1,068 million ( euro 1,148 million at December 31, 2003), refer to the following:

(in millions of euro)	6/30/2004	12/31/2003
Customer payments in transit	168	91
Employees	69	68
Other receivables	831	989
<b>Total</b>	<b>1,068</b>	<b>1,148</b>

Other receivables include receivables sold through factoring transactions (euro 330 million, euro 412 million at December 31, 2003).

## ■ SHORT-TERM FINANCIAL ASSETS

euro 1,250 million

(euro 3,657 million at December 31, 2003)

Short-term financial assets decreased by 2,407 million compared to December 31, 2003; they include the following:

(in millions of euro)	6/30/2004	12/31/2003	Change
Equity investments in unconsolidated subsidiaries	183	170	13
Equity investments in affiliated companies	-	708	(708)
Other securities	1,054	2,719	(1,665)
Receivables for sales of securities	13	60	(47)
<b>Total</b>	<b>1,250</b>	<b>3,657</b>	<b>(2,407)</b>

Equity investments in unconsolidated subsidiaries mainly refer to listed shares purchased for trading, mainly TIM shares.

Equity investments in affiliated companies show a nil balance following the sale of Telekom Austria in January 2004 (euro 708 million).

Other securities consist of own bonds (euro 293 million), other bonds (euro 435 million) and commercial papers (euro 304 million) held by Telecom Italia Finance and other bonds held by the Parent Company (euro 8 million) and other companies (euro 14 million).

The decrease of euro 1,665 million from December 31, 2003 refers to the cancellation, on March 26, 2004, of Euro 850 million of securities, repurchased in prior years, originally issued by Olivetti Finance N.V.S.A. (merged by Telecom Italia Finance effective June 1, 2004). Such securities include euro 650 million of bonds maturing July 2004 out of a total of euro 4,200 million (the amount still outstanding is euro 3,550 million) and euro 200 million of bonds maturing February 2005, which, after this transaction, have been totally cancelled. A further decrease (– euro 815 million) is due to the sale of securities.

The carrying values of equity investments at the end of the period have been aligned to market values; other securities have been recorded at the lower of purchase cost and estimated realizable value which are represented by market prices at the end of the period.

## ■ LIQUID ASSETS

euro 5,699 million

(euro 4,877 million at December 31, 2003)

Liquid assets consist mainly of funds on deposit in Italian and foreign banks in current accounts. The increase of euro 822 million is partly due to the aforementioned sale of securities and partly to meet the commitment for the redemption of bonds scheduled for July 2004.

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



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## ■ LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

euro 18,584 million

(euro 20,589 million at December 31, 2003)

A breakdown of shareholders' equity is presented below:

(in millions of euro)	6/30/2004	12/31/2003	Change
Parent Company interest	14,730	16,092	(1,362)
Minority interest	3,854	4,497	(643)
<b>Total</b>	<b>18,584</b>	<b>20,589</b>	<b>(2,005)</b>

Telecom Italia's interest in shareholders' equity decreased by euro 1,362 million compared to December 31, 2003. The decrease is mainly due to the difference between dividends paid (euro 1,730 million, net of dividends on shares held by Telecom Italia Finance) and the result for the period (euro 405 million, euro 1,192 million in 2003).

#### ■ Share capital

Share capital of Telecom Italia amounts to euro 8,857 million (euro 8,854 million at December 31, 2003) and consists of 10,308,303,807 ordinary shares and 5,795,921,069 savings shares, both with a par value of euro 0.55 each. The increase compared to the previous year (euro 3 million) is due to the conversion of convertible bonds and the exercise of stock options by employees.

#### ■ Reserve for treasury stock in the portfolio of the Parent Company and unconsolidated subsidiaries

The Reserve for treasury stock in the portfolio of the Parent Company and unconsolidated subsidiaries amounts to euro 393 million, which is unchanged from December 31, 2003. This item refers to 101,208,867 Telecom Italia ordinary shares of which 1,272,014 shares are held by the Parent Company, having been purchased in previous years, and 99,936,853 shares held by Telecom Italia Finance (originally held by Olivetti International S.A.), having been received in exchange for the shares of Tecnost S.p.A. following the merger of Tecnost in Olivetti in 2000.

#### ■ Parent Company interest in reserves and retained earnings

The Parent Company interest in reserves and retained earnings of euro 5,075 million decreased by euro 578 million principally due to the payment of dividends (euro 538 million).

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

The reconciliation of Telecom Italia's financial statements with the consolidated financial statements as regards shareholders' equity and net result for the period, and the changes in the components of consolidated shareholders' equity, are provided in Annexes 3 and 4.

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## RESERVES FOR RISKS AND CHARGES

euro 3,064 million

(euro 2,923 million at December 31, 2003)

These reserves increased by euro 141 million from December 31, 2003 and refer to the following:

### ■ Reserve for pensions and similar obligations

The reserve for pensions and similar obligations, amounting to euro 37 million (euro 42 million at December 31, 2003), includes the reserve for agents' leaving indemnities and the liabilities related to pension funds set up for the employees of certain foreign subsidiaries.

### ■ Reserve for taxes and reserve for deferred taxes

The reserve for taxes, amounting to euro 458 million (euro 152 million at December 31, 2003), consists of the taxes set aside in the period and estimated tax liabilities on positions still to be agreed or in dispute. The increase is for the most part in reference to TIM (euro 296 million).

The reserve for deferred taxes, amounting to euro 180 million (euro 252 million compared to December 31, 2003), includes deferred taxes provided by the individual consolidated companies on the income components subject to deferred taxation and on consolidation adjustments. The reserve decreased following the payment of withholding taxes by Telecom Italia Finance.

### ■ Consolidation reserve for future risks and charges

The consolidation reserve for future risks and charges, amounting to euro 1 million, refers to the negative difference that arose at the time of purchase, between the price paid by Americatel Perù and the Entel Chile group to Diveo Inc. and Megalink Inc. for the 100% equity interest acquired in the company Diveo Perù Inc., the sole shareholder of Diveo Telecomunicaciones del Perù S.r.l., and the underlying share of net equity.

### ■ Other reserves

Other reserves, amounting to euro 2,388 million, decreased by euro 88 million compared to December 31, 2003.

Other reserves include:

- TIM's reserves totaling euro 560 million, which decreased by euro 12 million compared to December 31, 2003 for the writedown of a receivable converted into the capital of Is TIM. Such reserves, set aside in 2002 following counter-guarantees provided to Is TIM's lending banks, are still in force since the guarantees still exist in respect of the payables of the company resulting from the merger of Is TIM and TurkCell (TT & TIM).
- reserve provided by TIM International for euro 59 million in connection with the acquisition of total control of Digitel and the conclusion of the dispute with the minority shareholders of this company and the reserve for TIM Celular of euro 113 million set aside by TIM Brasil;
- the reserves for contractual risks and other risks for a total of euro 461 million, mainly in respect of operating activities;
- the reserves for corporate restructuring totaling euro 184 million, mainly relating to employee cutbacks and layoffs, of which euro 121 million regards Telecom Italia;
- the reserves for technological revisions and future risks inherent to the regulatory framework of TIM amounting to euro 345 million;
- the reserve of euro 235 million, relating to financial expenses for the premium on the redemption of notes issued by Telecom Italia Finance and euro 35 million for risks on derivative contracts;
- the reserve for the losses of subsidiaries and affiliates of euro 150 million and for extraordinary corporate transactions of euro 246 million.

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## RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,339 million

(euro 1,296 million at December 31, 2003)

The reserve for employee termination indemnities increased by euro 43 million compared to December 31, 2003 and relates only to Italian Group companies.

(in millions of euro)

<b>January 1</b>	<b>1,296</b>
Change during the period:	
provisions charged to income	98
utilizations for:	
- indemnities paid to employees who terminated employment	(16)
- advances	(10)
- pension funds	(14)
- equalization tax on revaluation of employee termination indemnities	(4)
other changes	(11)
<b>June 30</b>	<b>1,339</b>

Other changes mainly refer to the change in the scope of consolidation.

## LIABILITIES

euro 51,378 million

(euro 53,307 million at December 31, 2003)

A breakdown of liabilities, which decreased by euro 1,929 million from December 31, 2003, is presented below:

(in millions of euro)	6/30/2004		12/31/2003	
	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables
Debentures	31,186		30,053	
Convertible debentures	5,596		7,312	
<b>Total debentures</b>	<b>36,782</b>		<b>37,365</b>	
Due to banks	2,372		2,460	
Due to other lenders	1,058		1,012	
Advances	-	177	-	141
Trade accounts payable	6	5,285	9	5,848
Notes payable	-	-	-	-
Accounts payable to unconsolidated subsidiaries	20	17	9	9
Accounts payable to affiliated companies	28	206	33	137
Taxes payable	5	1,277	58	1,418
Contributions to pensions and social security institutions	-	1,360	-	1,514
Other liabilities	124	2,661	519	2,775
<b>Total</b>	<b>40,395</b>	<b>10,983</b>	<b>41,465</b>	<b>11,842</b>

### ■ Debentures

Debentures total euro 31,186 million and increased by euro 1,133 compared to December 31, 2003 (euro 30,053 million). The regulations and/or Offering Circular relating to the notes described below are available on the corporate website <http://www.telecomitalia.it/>.

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Details are as follows:

Notes issued by Telecom Italia S.p.A. (for a total of euro 7,106 million):

- notes 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 on February 1, 2007 and a coupon of 6.25% maturing on February 1, 2012. The issue is part of the "Global Medium Term Note Program";
- notes 2002-2022 reserved for subscription by employees, in service and retired, of companies directly and indirectly controlled by Telecom Italia, with headquarters in Italy, for euro 207 million;
- notes of euro 3,000 million, issued January 29, 2004, divided into three tranches: the first, for euro 1,000 million, with an annual coupon indexed to the 3-month Euribor + 33 basis points, maturing October 29, 2007; the second, for euro 750 million, with an annual fixed-rate coupon of 4.50%, maturing on January 28, 2011; the third, for euro 1,250 million, with an annual fixed-rate coupon of 5.375%, maturing on January 29, 2019;
- notes of euro 110 million issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor rate + 0.60%, maturing March 30, 2009;
- notes of GBP 850 million (equivalent to euro 1,289 million) issued on June 24, 2004, with a coupon of 6.375%, maturing June 24, 2019.

The notes issued in 2004 fall under Telecom Italia's Euro Medium Term Note Program (EMTN) for a total of euro 10 billion approved by the Board of Directors on October 10, 2003.

Notes issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 20,617 million):

- notes issued by the subsidiary Sogerim (merged in Telecom Italia Finance S.A. in 2002) on international markets for a total of euro 6,000 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 redeemed; the second, for euro 3,000 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;
- notes 1999-2009 (originally Olivetti International N.V.) for euro 1,500 million with an annual fixed-rate coupon of 5.15%, maturing in February 2009;
- notes 1986-2046 (originally Olivetti International N.V.) for CHF 100 million equivalent to euro 66 million with an annual fixed-rate coupon of 5.625%, maturing in June 2046;

All of the notes listed below were originally issued by Olivetti Finance N.V. S.A. (merged in Telecom Italia Finance effective June 1, 2004) and are guaranteed by Telecom Italia S.p.A. under the Euro Medium Term Note Program (EMTN):

- notes 1999-2004 (originally Olivetti International Finance N.V.) for euro 3,550 million with an annual fixed-rate coupon of 5 3/8% + a 0.45% "step-up", maturing in July 2004;
- notes 2002-2005 for euro 500 million with a quarterly coupon indexed to the 3-month Euribor + 130 basis points, maturing in March 2005. The noteholder has the option of extending maturity for successive periods of 21 months, up to a total maximum of 10 years;
- notes 2002-2006. for euro 1,100 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 1.25%, maturing in January 2006;
- notes 2002-2007 for euro 1,750 million with an annual fixed-rate coupon of 6.5%, maturing in April 2007;
- notes 2003-2008 for euro 1,750 million with an annual fixed-rate coupon of 5.875%, maturing in January 2008;
- notes 1999-2009 (originally Olivetti International Finance N.V.) for euro 2,350 million with an annual fixed-rate coupon of 6 1/8% + a 0.45% step-up, maturing in July 2009;
- notes 2002-2012 for euro 1,000 million with an annual fixed-rate coupon of 7.25%, maturing in April 2012;
- notes 2003-2013 for euro 850 million with an annual fixed-rate coupon of 6.875%, maturing in January 2013;
- notes 2002-2032 for JPY 20 billion (equivalent to euro 151 million) with a six-month fixed-rate coupon of 3.55%, maturing in May 2032 (callable by the issuer annually beginning from the tenth year);
- notes 2002-2032 for euro 250 million with an annual fixed-rate coupon of 7.77%, maturing in August 2032;
- notes 2003-2033 for euro 800 million with an annual fixed-rate coupon of 7.75%, maturing in January 2033.

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Notes issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 3,291 million):

- issue of multi-tranche fixed-rate notes for USD 4,000 million. The issue is divided into three tranches as follows:
  - Serie A, for USD 1,000 million (equivalent to euro 823 million), with an annual fixed-rate coupon of 4%, maturing in November 2008;
  - Serie B, for USD 2,000 million (equivalent to euro 1,645 million), with an annual fixed-rate coupon of 5.25%, maturing in November 2013;
  - Serie C, for USD 1,000 million (equivalent to euro 823 million), with an annual fixed-rate coupon of 6.375%, maturing in November 2033.

Notes issued by Entel Chile (for a total of euro 172 million):

- notes maturing between 2007 and 2023 issued by Entel Chile.

The following table shows the notes issued to third parties by companies in the Telecom Italia Group, divided by issuing company:

Currency	Amount (in millions)	Equivalent amount in euro (in millions)	Coupon	Issue date	Maturity date	Issue price (%)
<b>Notes issued by Telecom Italia S.p.A.</b>						
Euro	1,250	1,250	5.625%	2/1/02	2/1/07	99.841
Euro	1,000	1,000	3-month Euribor + 0.33%	1/29/04	10/29/07	99.927
Euro	110	110	3-month Euribor + 0.60%	4/8/04	3/30/09	100
Euro	750	750	4.500%	1/29/04	1/28/11	99.56
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.07
GBP	850	1,289	6.375%	6/24/04	6/24/19	98.85
Euro	207	207	6-month Euribor	01/01/02	1/1/22	100
<b>Subtotal</b>		<b>7,106</b>				
<b>Notes issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.</b>						
Euro	3,550	3,550	5.825%	7/30/99	7/30/04	99.786
Euro	500	500	3-month Euribor + 1.3%	3/14/02	3/14/05	100
Euro	1,100	1,100	3-month Euribor + 1.25%	5/29/02	1/3/06	99.6673
Euro	3,000	3,000	6.375% (a)	4/20/01	4/20/06	99.937
Euro	1,750	1,750	6.500%	4/24/02	4/24/07	99.637
Euro	1,750	1,750	5.875%	1/24/03	1/24/08	99.937
Euro	1,500	1,500	5.15% (b)	2/9/99	2/9/09	99.633
Euro	2,350	2,350	6.575% (c)	7/30/99	7/30/09	99.272
Euro	2,000	2,000	7.25% (a)	4/20/01	4/20/11	99.214
Euro	1,000	1,000	7.25%	4/24/02	4/24/12	99.602
Euro	850	850	6.875%	1/24/03	1/24/13	99.332
JPY	20,000	151	3.550%	4/22/02	5/14/32	99.25
Euro	250	250	7.770%	8/9/02	8/9/32	100.2
Euro	800	800	7.750%	1/24/03	1/24/33	99.239
CHF	100	66	5.625%	6/12/86	6/12/46	99.000
<b>Subtotal</b>		<b>20,617</b>				
<b>Notes issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.</b>						
USD	1,000	823	4.000%	10/29/03	11/15/08	99.953
USD	2,000	1,645	5.250%	10/29/03	11/15/13	99.742
USD	1,000	823	6.375%	10/29/03	11/15/33	99.558
<b>Subtotal</b>		<b>3,291</b>				
<b>Notes issued by Entel Chile</b>						
CLP	132,704	172	Between 5.93 % and 8.06%	Between 2000 and 2002	Between 2007 and 2023	
<b>Subtotal</b>		<b>172</b>				
<b>Total</b>		<b>31,186</b>				

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## ■ Mechanism of how coupons change on step-up/step-down notes in relation to the rating

### (a) TI Finance SA notes

"Euro Notes": euro 3,000 million, 6.125%, maturing April 2006  
euro 2,000 million, 7%, 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 (or in the spread above the Euribor for floating-rate securities) by 0.25%, starting from the coupon 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, these securities are currently subject to a 0.25% increase in interest due to the rating of Baa2 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.

The ratings assigned to Telecom Italia by the various agencies are the following:

Standard & Poor's: BBB+, positive outlook  
Moody's: Baa2, stable outlook  
Fitch IBCA: A-, stable outlook

### (b) TI Finance SA notes

Euro 1,500 million, 5.15%, maturing February 2009

These notes carry protection for investors which would be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, Baa2 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, instead, cannot be reduced because of upgrades in the rating.

### (c) TI Finance SA Notes

Euro 2,350 million, 6.575%, maturing July 2009

These securities 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, Baa2 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).

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Starting from the initial level of coupon interest at issue (6.125%), the coupon that will effectively 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%;
- 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 first 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.

#### ■ Convertible debentures

Convertible debentures total euro 5,596 million and decreased by euro 1,716 million compared to December 31, 2003 (euro 7,312 million).

Details are as follows:

- bonds 2001-2010 issued by Telecom Italia S.p.A. (former Olivetti S.p.A.) for euro 2,390 million convertible into Telecom Italia S.p.A. shares, with an annual fixed-rate coupon of 1.5% and a premium on redemption of 118.37825% of the issue price, maturing in January 2010. Those bonds result in a total liability of euro 2,828 million. The annual yield upon maturity is 3.5% and the conversion will be at a rate of 0.471553 new Telecom Italia S.p.A. shares for each bond held;
- bonds 2000-2005 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.S.A.) for euro 708 million, redeemable in new Telecom Italia ordinary shares, with the right of the issuer to pay off the amount due in cash, with an annual fixed-rate coupon of 1% and a premium on redemption of 113.40616% of the issue price, maturing in November 2005. Those bonds, which, accordingly, result in a total liability of euro 804 million, are convertible into 166,364,879 shares (exercise price of approximately euro 4.2577 per share). The annual yield upon maturity is 3.5% and the conversion will be at a ratio of 234,8685064 newly issued Telecom Italia shares for each euro 1,000 bond held;
- bonds issued in March 2001 by Sogerim (merged in 2002 in 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 pay off the amount due in cash, with an annual fixed-rate coupon of 1% and a premium on redemption of 117.69% of the issue price, maturing in March 2006. The spin-off transaction and the consequent disposal of the equity investment in the beneficiary company Nuova Seat Pagine Gialle, did not result in any changes in the terms of the bonds since their conditions allowed ample flexibility in the method of settlement. These are five-year bonds and the right to redemption before maturity at the end of the third year (March 2004) was exercised by the bondholders for euro 466,000. 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 bonds are currently equal to euro 1,964 million. Such bonds are convertible into 180,453,860 TIM shares at an exercise price of about euro 10.88 or into 707,460,852 Seat Pagine Gialle shares at an exercise price of about euro 2.01 and 125,606,848 TI Media shares at an exercise price of about euro 4.3. The annual yield upon maturity is 4.25% and the conversion will be in at a ratio of 91,879193537 TIM shares or 360,2080473 Seat Pagine Gialle shares and 63,953500 TI Media shares for each euro 1,000 bond held.

A summary of convertible bonds held by third parties issued by companies of the Telecom Italia Group, by issuer company, is presented below:

Currency	Amount (in millions)	Coupon	Underlying shares	Issue date	Maturity date	Issue price (%)
<b>Convertible bonds issued by Telecom Italia S.p.A.</b>						
Euro	2,828	1.50%	TI S.p.A.	11/23/01	1/1/10	100
<b>Convertible bonds issued by Telecom Italia Finance S.A. and guaranteed by TI S.p.A.</b>						
Euro	804	1.00%	TI S.p.A.	11/3/00	11/3/05	100
Euro	1,964	1.00%	TIM/TI Media/ Seat Pagine Gialle	3/15/01	3/15/06	100
<b>Total</b>	<b>5,596</b>					

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#### Financial covenants / other covenant / other features

Securities summarized here do not contain either financial covenants or clauses that would force the early redemption of the notes in relation to events other than the solvency of Telecom Italia Group.

For example, there are no clauses that would cause the redemption of the notes if the ratings are downgraded to below the stated thresholds. The guarantees provided by Telecom Italia S.p.A. on notes 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 notes have been placed principally with institutional investors on major world capital markets (Euromarket and U.S.A.), the terms which regulate the notes are in line with the market practice for similar transactions effected on these same markets.

In particular, the notes 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, by December 31, 2004, a SEC-registered exchange offer in order to allow investors to exchange the originally purchased notes with listed and freely traded notes without restrictions. On September 2, 2004, following registration with the SEC, the exchange offer began and will end on September 30, 2004.

#### ■ Due to banks

Due to banks, totaling euro 2,372 million (euro 2,460 million at December 31, 2003), are secured by collateral of euro 116 million, mainly referring to Maxitel. TIM International also pledged Digitel shares to guarantee a credit facility granted to Digitel in 2002, as well as TIM Perù shares to guarantee a loan secured from International Finance Corporation (IFC).

#### ■ Due to other lenders

Due to other lenders, totaling euro 1,058 million, increased by euro 46 million compared to December 31, 2003. This caption refers mainly to payables by:

- Telecom Italia, for euro 807 million, principally for derivative financial transactions with various banking institutions to hedge loans made by subsidiaries (euro 161 million), for short-term loans made by TI Securitization Vehicle S.r.l. from excess liquid resources generated by securitization transactions (euro 347 million), for loans made by Cassa Depositi e Prestiti (euro 213 million) and for loans made by the Fondo per l'innovazione tecnologica (euro 36 million);
- Telecom Italia Finance (originally Olivetti International Finance N.V.), for euro 151 million, for the loan due October 29, 2029 made by a Japanese investor and originally set up in the form of bonds. Telecom Italia put into place a CCIRS on this loan to cancel the Japanese yen/euro exchange and interest rate risk, after which the debt is equal to euro 174 million.

#### ■ Advances

Advances, totaling euro 177 million, increased by euro 36 million compared to December 31, 2003.

#### ■ Trade accounts payable

Trade accounts payable amount to euro 5,291 million, and decreased by euro 566 million from December 31, 2003, essentially as a result of the reduction in payables by the Mobile BU (euro 322 million), the Parent Company (euro 184 million) and the Information Technology Group function (104 million). The reduction was partly offset by the increase in the payables of the Olivetti Tecnost BU (euro 31 million).

This item also includes euro 741 million of amounts due to other telecommunications operators.

It should be mentioned that the TIM group pledged Maxitel shares to guarantee the supply contract between Maxitel and Ericsson.

#### ■ Accounts payable to unconsolidated subsidiaries

Accounts payable to unconsolidated subsidiaries amount to euro 37 million and increased by euro 19 million from December 31, 2003. The balance includes financial payables of euro 20 million and trade accounts payable and other payables of euro 17 million.

#### ■ Accounts payable to affiliated companies

Accounts payable to affiliated companies, totaling euro 234 million, increased by euro 64 million compared to December 31, 2003. They include financial payables for euro 28 million (euro 22 million due to Teleleasing) and trade accounts payable and other payables for euro 205 million including payables due to the Italtel group (euro 104 million), Siemens Informatica (euro 45 million) and Shared Service Center (euro 28 million).

#### ■ Taxes payable

Taxes payable amount to euro 1,282 million and decreased by euro 194 million compared to December 31, 2003. Taxes payable include euro 30 million of income taxes payable, euro 1,246 million of payables for VAT, indirect taxes and withholdings withheld by the companies as substitute taxpayers and euro 5 million for payables of a financial nature relating to the Parent Company.



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#### ■ Contributions to pensions and social security institutions

Contributions to pensions and social security institutions total euro 1,360 million and decreased by euro 154 million compared to December 31, 2003; they refer to amounts owed to social security and health institutions. This item includes euro 1,255 million payable to INPS for the remaining balance of employee benefit obligations estimated pursuant to Law No. 58/1992, of which euro 536 million was assessed for employees of the former IRI TEL and euro 719 million for the other employees of the Telecom Italia Group.

#### ■ Other liabilities

Other liabilities, totaling euro 2,785 million, decreased by euro 509 million compared to December 31, 2003. A breakdown is provided below:

- financial payables total euro 124 million (euro 519 million at December 31, 2003), of which euro 395 million relates to the termination of the securities lending transaction carried out by Olivetti Finance, now Telecom Italia Finance (euro 300 million). They include euro 82 million for the residual liabilities of the Mobile BU on the UMTS licenses in Greece and the GSM license in Brazil;
- sundry liabilities total euro 2,661 million (euro 2,775 million at December 31, 2003). Details are as follows:

(in millions of euro)	6/30/2004	12/31/2003
Customer-related items	1,690	1,672
Employee-related items	689	826
Telecommunications license fee	32	24
Other recurring and miscellaneous items	250	253
<b>Total</b>	<b>2,661</b>	<b>2,775</b>

In particular, customer-related items consist of deposits paid by customers, pre-billed basic subscriber charges, as well as prepaid traffic.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

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## ■ MEMORANDUM ACCOUNTS

Memorandum accounts at June 30, 2004 total euro 1,548 million and decreased, compared to December 31, 2003, by euro 34 million.

Memorandum accounts are detailed as follows:

(in millions of euro)	6/30/2004	12/31/2003
Guarantees provided	1,166	1,155
Collateral provided	7	114
Purchases and sales commitments	237	208
Other memorandum accounts	138	105
<b>Total</b>	<b>1,548</b>	<b>1,582</b>

### ■ GUARANTEES PROVIDED

Guarantees provided, net of counter-guarantees received of euro 452 million, total euro 1,166 million and mainly consist of sureties provided by Telecom Italia and TIM on behalf of affiliated companies (of which euro 648 million was in the interests of TT&TIM Turchia) and on behalf of others for medium/long-term loan transactions and guarantees on telephone licenses issued abroad.

### ■ COLLATERAL PROVIDED

Collateral provided amounts to euro 7 million (a reduction of euro 107 million compared to December 31, 2003. The reduction is mainly due to the removal of obligations deriving from the supply contracts signed between Is TIM and Ericsson and Siemens following the execution of the merger of Is TIM in TT&TIM).

### ■ PURCHASES AND SALES COMMITMENTS

Purchases and sales commitments at the end of the period, respectively, of euro 229 million and euro 8 million, refer to commitments, for the portion still to be executed, which do not fall within the normal "operating cycle" of the Group.

In particular, commitments for purchases refer mainly to orders to Telenergia's suppliers (euro 168 million) relating to the agreement to supply electrical energy reached with the company Endesa Italia for the three - year period 2004-2006.

\* \* \*

Furthermore, there are commitments to purchase the stakes held by the minority shareholders (equal to 49% of the companies) of Mediterranean Nautilus Ltd and Med-1 Submarine Cables Ltd based on the market value of the companies.

### ■ OTHER MEMORANDUM ACCOUNTS

Other memorandum accounts of euro 138 million refer mainly to third-party assets held by the individual consolidated companies, principally those in the information technology sector and the Tecnost group.

Furthermore:

- with regard to the merger of Is TIM and Aycell, the TIM Group is committed, up to December 31, 2006, to pay a maximum of USD 150 million for capital increases and to provide sureties up to a maximum of USD 150 million;
- the consolidated companies of the Group issued weak letters of patronage totaling euro 237 million chiefly on behalf of affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;

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- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amount to euro 210 million and consist mainly of equipment leased to customers;
- collateral received amounts to euro 6 million, mainly for guarantees received by TIM (euro 4 million) and referring to supply contracts;
- guarantees received amount to euro 234 million, mainly for guarantees received by TIM (euro 178 million) and referring to supply contracts;
- guarantees provided by others for obligations of Group companies, which consist primarily of sureties to guarantee the proper performance of non-financial contractual obligations, total euro 839 million, of which euro 528 million refers to the Parent Company. They also comprise euro 207 million related to the surety policy issued by Fondiaria Assicurazioni S.p.A. in the interest of Agrisian on behalf of MIPAF - Ministry of Agriculture and Forest Policies;
- the value of the shares of employees and private shareholders deposited at June 30, 2004 at the companies of the Group amount to approximately euro 81 million;
- the total amount of Telecom Italia commitments at June 30, 2004 for building lease obligations on contracts for a period of 9 to 21 years, is euro 4,137 million.

## ■ DERIVATIVE FINANCIAL 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 prefixed operational limits.

Derivative financial instruments at June 30, 2004 are principally used by the Group for the management of its 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 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 eventually at another date.

### ■ Foreign exchange risk

At June 30, 2004, the Telecom Italia Group companies had forward foreign exchange contracts and options outstanding for the purchase and sale of foreign currency at specified exchange rates for an equivalent amount of euro 803 million, of which:

#### EUROPEAN COMPANIES

Description	Notional amount in millions of euro
Transactions put into place by Telecom Italia Finance S.A.	256
Transactions put into place by Telecom Italia S.p.A.	180
Transactions put into place by TIM S.p.A.	10
<b>Total European Companies</b>	<b>446</b>

#### LATIN AMERICAN COMPANIES

Description	Equivalent notional amount in millions of euro
Currency forward transactions put into place by Entel Chile S.A.	296
Currency Forward transactions put into place by TIM Perú S.A.C.	61
<b>Total Latin American Companies</b>	<b>357</b>

Given the limited core of the currency market on Latin American currencies, the contracts are often carried out for short-terms and then renewed each time for successive maturity dates.

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#### ■ Interest rate risk

At June 30, 2004, the Telecom Italia Group companies had contracts relating to financial liabilities recorded in the financial statements, for total principal equal to an equivalent amount of euro 13,870 million. Details by European companies and Latin American companies are the following:

Description	Notional amount in millions of euro
Floating to fixed IRS transactions put into place by Telecom Italia S.p.A.	6
Floating to floating IRS transactions put into place by Telecom Italia S.p.A.	232
CCIRS transactions put into place by Telecom Italia S.p.A.	5,272 (*)
IRS transactions effected by Telecom Italia Finance S.A. maturing March 2005 on bonds of euro 500 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2005)	500
IRS transactions (with cap and floor structures) effected by Telecom Italia Finance S.A. maturing January 2006 on bonds of euro 1,100 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2006)	1,100
IRS transactions effected by Telecom Italia Finance S.A. maturing April 2007 on bonds of euro 1,750 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2007)	1,750
IRS transactions effected by Telecom Italia Finance S.A. maturing January 2008 on bonds of euro 1,750 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2003-2008)	1,550
IRS transactions (with cap structures) maturing February 2009 put into place by Telecom Italia Finance S.A. on bonds of euro 1,500 million (1999-2009) carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V.	500
IRS transactions (with cap and floor structures) effected 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)	2,050
IRS transactions effected by Telecom Italia Finance S.A. maturing April 2012 on bonds of euro 1,000 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2012)	650
IRS transactions put into place by Telecom Italia Finance S.A. maturing June 2046, on bonds of CHF 100 million (1986-2046) carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V.	66
<b>Total</b>	<b>13,676</b>

(\*) The protection structure is conditional on the loans being maintained performing by Telecom Italia S.p.A. for € 345 million.

The relative transactions are analyzed below, excluding those that have largely been terminated (because of certainty of all remaining financial flows), but have not yet expired.

- The floating to fixed IRS transactions (4.68%) put into place by Telecom Italia S.p.A. for a notional amount of euro 6 million refer to EIB loans at floating rates.
- The floating to floating IRS transactions put into place by Telecom Italia S.p.A. for a notional amount of euro 232 million refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor.
- CCIRS transactions put into place by Telecom Italia S.p.A. and amounting to euro 5,272 million refer to:
  - for euro 3,409 million with reference to the floating rate intragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A. following the bonds issued in October 2003 for a total amount of USD 4,000 million, with conversion of the loan to:
    - quarterly floating rate in euro maturing November 2008 for euro 851 million;
    - emiannual average 5.04% fixed rate in euro maturing November 2013 for euro 1,709 million, of which euro 470 million through two distinct and linked transactions;
    - semiannual 5.99% fixed rate in euro maturing November 2033 for euro 849 million.

Moreover, with regard to the fixed-rate bond issue of USD 4,000 million (euro 3,291 million at the euro/U.S. dollar exchange rate at June 30, 2004), Telecom Italia Capital S.A. put IRS contracts into place to convert the semiannual fixed-rate coupon of 4% on USD 1,000 million maturing November 2008, of 5.25% on USD 2,000 million maturing November 2013, of 6.375% on USD 1,000 million maturing November 2033 to quarterly floating interest rates in USD;

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- 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., the following was put into place:
    - by Telecom Italia Finance S.A., an IRS in which Telecom Italia Finance S.A. converts the 5.00% fixed rate in USD to the 6-month Libor in JPY.
    - by Telecom Italia S.p.A., a CCIRS in which Telecom Italia S.p.A., with regard to the infragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor. This protection structure is conditional on the loan being maintained performing by Telecom Italia S.p.A.;
    - by Telecom Italia S.p.A., an IRS with the conversion of the semiannual floating rate in euro to a 6.13% fixed rate up to October 2004 and after that to an annual 6.68% fixed rate (or a semiannual floating rate in euro as elected by the counterpart) up to maturity;
  - for euro 171 million, with reference to the bonds 2002/2032 in JPY 20 billion, with a 3.55% fixed rate coupon maturing May 2032 originally issued by Olivetti Finance N.V., the following was put into 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 2.37% fixed rate in JPY up to 2012 and after that a semiannual floating rate in JPY;
    - by Telecom Italia S.p.A., a CCIRS contract on a floating rate infragroup loan in JPY in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor. This protection structure is conditional on the loan being maintained performing by Telecom Italia S.p.A.;
  - for euro 79 million, CCIRSs linked to an EIB loan in GBP were put into place with conversion to a floating rate in euro;
  - for euro 150 million, CCIRSs linked to an EIB loan in USD were put into place with conversion to a floating rate in euro;
  - for euro 1,289 million, with regard to bonds 2004/2019 with an annual 6.375% fixed rate in GBP, maturing June 2019, CCIRSs were put into place with three-year maturities with conversion to the semiannual Euribor rate.
- On the bonds 2002/2005 of euro 500 million at a quarterly floating rate maturing March 2005 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.), the company Telecom Italia Finance S.A. put into place:
- IRS contracts for euro 500 million, in which Telecom Italia Finance S.A. receives a quarterly floating rate in euro and pays a quarterly 3.43% fixed rate to September 2004 and after that a floating rate indexed to the quarterly rate in USD set in arrears.
- On the bonds 2002/2006 of euro 1,100 million at a quarterly floating rate maturing January 2006 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.) the company Telecom Italia Finance S.A. put into place:
- an IRS contract for euro 600 million, in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a 2.27% fixed rate until July 2004 and after that a floating interest rate indexed to the semiannual rate in USD set in arrears and with the following additional coverage:
    1. purchase of a digital cap which can be activated when the semiannual rate in USD in arrears is higher than 3.75%;
    2. sale of a cap at 4.25% on the semiannual rate in USD set in arrears;
  - an IRS contract for euro 200 million, in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a quarterly 3.83% fixed rate;
  - an IRS contract for euro 300 million, in which the quarterly floating interest rate is converted to a floating rate indexed to the 2-year USD swap rate set in arrears quarterly.
- On the bonds 2002/2007 of euro 1,750 million with a 6.50% fixed rate coupon maturing April 2007 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.), the company Telecom Italia Finance S.A. put into place:
- an IRS contract for euro 500 million, in which the fixed rate is converted to a semiannual rate in euro;
  - an IRS contract for euro 650 million, in which the fixed rate is converted to a quarterly rate in euro;
  - an IRS contract for euro 350 million, in which the fixed rate is converted to a 5.86% fixed rate until October 2004 and after that to a semiannual rate in USD through the following additional transactions:
    - a) purchase of a cap with an increasing rate from 2.75% to 3.75% starting April 2005;
    - b) sale of a cap with an increasing rate from 3.75% to 4.75% starting April 2005;
    - c) sale of a cap with an increasing rate from 4.40% to 5.40% starting April 2005;
  - an IRS contract for euro 250 million, in which the annual 6.50% fixed rate is converted to an annual 6.07% fixed rate up to April 2005, 6.11% from April 2005 to April 2006 and 5.88% from April 2006 to maturity. In the last year, receipt of the annual 6.50% fixed rate is applicable as long as the 10-year swap rates in GBP remain above 3.80%.

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- On the bonds 2003/2008 of euro 1,750 million with a 5.875% fixed rate coupon maturing January 2008 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.), the company Telecom Italia Finance S.A. put into place, for euro 1,550 million:
  - an IRS contract for euro 250 million, in which the annual 5.875% fixed rate is converted to a 12-month Euribor floating rate set in arrears semiannually and settlement semiannually, with the following additional coverage:
    - a) purchase of a cap at 3.55% with a knock-out at increasing rates from 4.25% to 5.70% starting January 2005;
    - b) sale of a floor with an increasing rate from 2.33% to 3.73% starting January 2005;
  - an IRS contract for euro 250 million, in which the annual 5.875% fixed rate is converted to an annual 5.51% fixed rate up to January 2005, 5.53% up to January 2006 and 5.38% from January 2006 up to maturity. In the last two years, the receipt of the annual 5.875% fixed rate is applicable as long as the 10-year swap rates in GBP remain above 3.80%.
  - an IRS contract for euro 500 million, in which the annual 5.875% fixed rate is converted to an annual 5.73% fixed rate up to January 2005 and 5.47% from January 2005 up to maturity. In the last two years, the receipt of the annual 5.875% fixed rate is applicable as long as the 10-year swap rates in USD remain above 3.45%.
  - an IRS contract for euro 350 million, in which the annual 5.875% fixed rate is converted to an annual 5.73% fixed rate up to January 2005 and 4.82% from January 2005 up to maturity. In the last two years, the receipt of the annual 5.875% fixed rate is applicable as long as the difference between the 10-year swap rates in USD and the semiannual floating rates in euro remains above 1.50%.
  - an IRS contract for euro 200 million, in which Telecom Italia Finance S.A. receives a semiannual 5.12% fixed rate in January 2005 and pays, at the same date, a semiannual 4.84% fixed rate. Afterwards and up to maturity, Telecom Italia Finance S.A. will receive the semiannual 10-year swap rate in USD and will pay, at the same maturity dates, a semiannual floating rate in euro.
- On the bonds 1999/2009 of euro 1,500 million at 5.15% maturing February 2009, carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., the company Telecom Italia Finance S.A. put into place the following transactions:
  - an IRS for euro 500 million with conversion of the annual 5% fixed rate to a quarterly 3.37% fixed rate up to August 2004 and 3.52% from August 2004 up to maturity. Starting February 2005, the 3.52% fixed rate paid can be replaced by a quarterly floating rate in euro set in arrears if such rate is higher than 5.75%. Moreover, the flow to be received by Telecom Italia Finance S.A. in the last two years is applicable as long as the 5-year swap rates in euro remain above the 1-year swap rates in euro.
- On the bonds 1999/2009 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.), the company Telecom Italia Finance S.A. put into place the following transactions, at the same maturity dates, for euro 2,050 million:
  - an IRS contract for euro 900 million, in which the annual 6.125% fixed rate is converted to a semiannual floating rate in euro;
  - an IRS contract for euro 500 million, in which the annual 6.125% fixed rate is converted to a semiannual floating rate in euro set in arrears through the following additional transactions:
    1. purchase of a cap at 4.75% from January 2005 with a knock-out on January 31, 2005 if the 2-year swap rate in euro, at that date, is higher than 3.50%;
    2. sale of a cap at 7.00% from July 2005 with a knock-out if, starting January 31, 2005, the 2-year swap rate in USD goes below the 3% threshold;
    3. sale of a floor with an increasing rate from 3.25% to 4.25% starting July 2005.
 Moreover, the flow to be received by Telecom Italia Finance S.A. in the last three years is applicable as long as the 5-year swap rate remain above the 1-year swap rate.
  - an IRS contract for euro 650 million with conversion of the annual 6.125% fixed rate to an annual 5.73% fixed rate through the following additional transactions:
    - a) sale of a cap at 7.25% on the semiannual floating rate in USD set in arrears starting January 2006;
    - b) sale of a floor on the semiannual floating rate in USD set in arrears starting January 2006 and with an increasing rate from 2.60% to 3.25%.
- On the bonds 2002/2012 of euro 1,000 million with a 7.25% fixed rate maturing April 2012 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.), the company Telecom Italia Finance S.A. put into place the following transactions for euro 650 million:
  - an IRS contract for euro 400 million, in which Telecom Italia Finance S.A. receives an annual 7.25% fixed rate (from April 2006, the receipt of the annual fixed rate is applicable as long as the 10-year swap rate remains above the 2-year swap rate) and pays a quarterly 6.09% fixed rate;

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- an IRS contract for euro 100 million, in which Telecom Italia Finance S.A. receives an annual 7.25% fixed rate (from April 2006, the receipt of the annual fixed rate is applicable as long as the 10-year swap rate remains above the 2-year swap rate) and pays a quarterly 5.75% fixed rate up to maturity. From April 2006, if the quarterly floating rate in euro is higher than 6.25%, Telecom Italia Finance S.A. will pay a quarterly floating rate in euro instead of the 6.25% fixed rate;
  - an IRS contract for euro 150 million, in which Telecom Italia Finance S.A. receives an annual 7.25% fixed rate and pays the higher of the quarterly floating rate in euro and the quarterly floating rate in USD.
- On the bonds 1986/2046 of CHF 100 million (equivalent to euro 66 million at June 30, 2004) at a 5.625% fixed rate maturing June 2046 carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., the company Telecom Italia Finance S.A. put an IRS contract into place with the same amount and maturity date by which the annual fixed rate is converted to a semiannual floating rate in CHF.

#### LATIN AMERICAN COUNTRIES

Description	Equivalent notional amount in millions of euro
CCIRS transactions put into place by Tele Celular Sul Participações S.A.	7
CCIRS transactions put into place by Tele Nordeste Celular Participações S.A.	13
CCIRS transactions put into place by TIM Celular S.A.	7
CCIRS transactions put into place by Maxitel S.A.	27
IRS transactions put into place by Entel Chile S.A.	90
IRO transactions put into place by Entel Chile S.A.	50
<b>Total Latin American Companies</b>	<b>194</b>

In addition to the derivative financial instruments managing indebtedness, at June 30, 2004, the Luxembourg subsidiary Telecom Italia Finance S.A. put IRSs and Currency Forwards into place on financial assets for approx. euro 335 million.

Consistent with the accounting principles disclosed previously, the negative difference, if any, on the valuation of the above detailed derivative financial instruments at fair value, is recognized in the statement of income under financial expenses.

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## ■ CONSOLIDATED STATEMENTS OF INCOME

### ■ SALES AND SERVICE REVENUES

**euro 15,222 million**

*(euro 15,149 million in the first half of 2003)*

Sales and service revenues amount to euro 15,222 million and increased by euro 73 million (+0.5% compared to the first half of 2003). This increase is essentially due to the positive trend of mobile and wireline telephone services (euro 736 million), reduced by the change in the scope of consolidation (euro 642 million) mainly as a result of the spin-off and sale of Nuova Seat Pagine Gialle, effective August 1, 2003 (euro 563 million). Revenues were also impacted by the reduction in the revenues of the South America Business Unit (euro 20 million) and the Olivetti Tecnost Business Unit (euro 33 million).

A breakdown by Business Unit is presented below:

		Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Olivetti - Tecnost	Sub-total	Other activities and Intra-group eliminations	Consolidated Group revenues
(in millions of euro)											
1 <sup>st</sup> half 2004	Third parties	7,762	6,032	531	205	322	15	291	15,158	64	15,222
	Intragroup	922	120	2	101	33	439	15	1,632	(1,632)	0
	<b>Total</b>	<b>8,684</b>	<b>6,152</b>	<b>533</b>	<b>306</b>	<b>355</b>	<b>454</b>	<b>306</b>	<b>16,790</b>	<b>(1,568)</b>	<b>15,222</b>
1 <sup>st</sup> half 2003	Third parties	7,657	5,401	551	767	308	22	324	15,030	119	15,149
	Intragroup	912	133	8	96	50	443	8	1,650	(1,650)	0
	<b>Total</b>	<b>8,569</b>	<b>5,534</b>	<b>559</b>	<b>863</b>	<b>358</b>	<b>465</b>	<b>332</b>	<b>16,680</b>	<b>(1,531)</b>	<b>15,149</b>

Revenues from telecommunications services are shown gross of the amount due to other operators of euro 2,271 million (euro 2,268 million in the first half of 2003).

## FINANCIAL INCOME AND EXPENSE

**– euro 906 million**

*(– euro 1,190 million in the first half of 2003)*

Financial income and expense refers to the following items:

(in millions of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Income from equity investments	103	7	96
Other financial income	359	318	41
Interest and other financial expense	(1,322)	(1,492)	170
Foreign exchange gains and losses	(46)	(23)	(23)
<b>Total</b>	<b>(906)</b>	<b>(1,190)</b>	<b>284</b>

### ■ Income from equity investments

Income from equity investments, net, totals euro 103 million (euro 7 million in the first half of 2003). In particular, this caption includes euro 62 million of gains on the sale of the residual stake held in Telekom Austria in January 2004 and euro 24 million for the release of the residual portion of the gain on the sale of Mobilkom Austria to the same Telekom Austria in 2002. Dividends on TIM shares posted in current assets (euro 10 million) are also included here.



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#### ■ Other financial income

Other financial income of euro 359 million (euro 318 million in the first half of 2003), includes the following:

(in millions of euro)	1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003		Change
Interest and capital gains on securities	26		77		(51)
Interest and fees from:					
- affiliated companies	-		2		
- banks	77	77	99	101	(24)
Income on derivative financial instruments	204		20		184
Other	52		120		(68)
<b>Total</b>	<b>359</b>		<b>318</b>		<b>41</b>

Other financial income includes euro 20 million (euro 45 million in the first half of 2003) of income from the application of inflation accounting principles.

#### ■ Interest and other financial expense

Interest and other financial expense amount to euro 1,322 million (euro 1,492 million in the first half of 2003) and include the following:

(in millions of euro)	1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003		Change
Interest and fees paid to:					
- affiliated companies	1		18		
- banks	44		81		
- suppliers and other lenders	18	63	55	154	(91)
Interest and other charges on note issues	978		871		107
Expenses on derivative financial instruments	140		55		85
Other financial expenses	141		412		(271)
<b>Total</b>	<b>1,322</b>		<b>1,492</b>		<b>(170)</b>

Other financial expenses comprise euro 1 million (euro 10 million in the first half of 2003) of expenses from the application of inflation accounting principles.

#### ■ Foreign exchange gains and losses

Foreign exchange gains and losses show a net loss balance of 46 million (a net loss balance of euro 23 million in the first half of 2003). Details are as follows:

(in millions of euro)	1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003		Change
Foreign exchange gains	42		128		(86)
Foreign exchange losses	(88)		(151)		63
<b>Total</b>	<b>(46)</b>		<b>(23)</b>		<b>(23)</b>

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## EXTRAORDINARY INCOME AND EXPENSE

– euro 320 million

(– euro 704 million in the first half of 2003)

Extraordinary income and expense show a net expense balance of euro 320 million (a net expense balance of euro 704 million in the first half of 2003), which includes euro 146 million of income and euro 466 million of expense.

Extraordinary income of euro 146 million comprises:

- euro 69 million relating to gains on the disposals of investments, fixed assets and business segments (euro 46 million in the first half of 2003);
- euro 77 million of prior period income and other extraordinary income essentially representing euro 46 million of prior period cost and revenue adjustments, euro 4 million for the release of reserves and euro 27 million of other income. In the first half of 2003, this item amounted to euro 134 million, of which euro 131 million was for prior period income arising from the recovery of accrued pre-amortization interest on expenses subject to Law 58/1992.

Extraordinary expense of euro 466 million decreased by euro 418 million mainly in respect of the expenses charged in the first half of 2003 relating to the transaction for the sale of Nuova Seat (euro 252 million), the merger of Telecom Italia and Olivetti (euro 110 million), the settlement with Pagine Italia (euro 55 million), the writedown of goodwill relating to EPIClink and other provisions relating to equity investments (euro 70 million), the elimination of prior years' receivable balances (euro 93 million) and the adjustment to the estimated value of unused prepaid telephone cards (euro 56 million). They comprise:

- expenses (euro 282 million) for the settlement with De Agostini, described in greater detail in the section "Acquisition and Divestitures of investments", that ended with the purchase of 40% of Webfin (which holds a 66% stake in Matrix) for euro 325 million (of which euro 287 million, in lieu of the originally agreed price of euro 700 million, and euro 38 million for the reimbursement of expenses incurred by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001) compared to a value established by independent valuers of euro 43 million;
- euro 45 million (euro 86 million in the first half of 2003) of expenses and provisions for employee cutbacks and layoffs (of which euro 36 million was borne by the Parent Company; euro 58 million in the first half of 2003);
- euro 39 million for expenses under ex Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT) (euro 43 million in the first half of 2003);
- euro 3 million of indirect taxes and prior period taxes (euro 30 million in the first half of 2003 for the portion of the cost of the tax amnesty not covered by the reserve for income taxes);
- euro 2 million of losses on the sale of fixed assets (euro 6 million in the first half of 2003), euro 11 million of provisions to reserves and euro 84 million of prior period expenses and other extraordinary expenses (euro 83 million for the first half of 2003).

## ■ INCOME TAXES FOR THE PERIOD, CURRENT AND DEFERRED

– euro 1,482 million

(+ euro 288 million in the first half of 2003)

Current taxes are determined on the basis of the best possible estimate in relation to available information and on the reasonable projection of annual performance to the end of the tax period. Consideration was also given to the positive effect of the anticipated applications of the consolidated tax position at a national level.

The higher taxes of euro 1,770 million are principally due to a better first-half result and the absence of deferred tax credits recorded in the first half of 2003 (euro 1,286 million). In the first half of 2003, income taxes showed a credit balance of euro 288 million due to the aforementioned posting of deferred tax assets which became recoverable thanks to the merger of Olivetti and Telecom Italia.

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## OTHER INFORMATION

### ■ EMPLOYEES

At June 30, 2004, the headcount of the Group is 93,178 (93,187 at December 31, 2003). Compared to December 31, 2003, there is an increase of 605 persons reflecting turnover and a decrease of 614 persons owing to the change in the scope of consolidation. A significant portion of the decrease regards the outsourcing of the "Document Management" business (– 257) and the sales of CIPI and the GPP Group in the Internet and Media Business Unit (a total of – 311).

Employees are distributed by sector as follows:

	6/30/2004	12/31/2003	Change
Wireline	51,329	50,766	563
Mobile	19,723	18,888	835
South America	5,039	4,953	86
Internet and Media	1,778	2,029	(251)
IT Market	4,782	4,827	(45)
IT Group	3,431	4,107	(676)
Olivetti-Tecnost	2,289	2,395	(106)
Other activities	4,807	5,222	(415)
<b>Total</b>	<b>93,178</b>	<b>93,187</b>	<b>(9)</b>

and by geographical area and category as indicated below:

	Executives	Middle management	Clerical staff	Technicians	6/30/2004
Italy	1,712	4,935	69,903	928	77,478
Rest of Europe	40	354	2,051	1	2,446
North, Central and South America	138	838	12,195	32	13,203
Australia, Africa and Asia	5	25	21	-	51
<b>Total</b>	<b>1,895</b>	<b>6,152</b>	<b>84,170</b>	<b>961</b>	<b>93,178</b>

The equivalent average number of salaried employees was 89,053 in the first half of 2004 (99,091 in the first half of 2003).

A breakdown by category follows:

	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003
Executives	1,925	2,237
Middle management	6,049	6,429
Clerical staff	80,102	84,160
Technicians	977	6,265
<b>Total</b>	<b>89,053</b>	<b>99,091</b>

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## ■ EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

(currency/euro)	Period-end exchange rates (balance sheet items)			Average exchange rate for the period (statement of income items)		
	6/30/2004	12/31/2003	% Change	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	% Change
<b>Europe</b>						
Romanian leu	0.000024615	0.000024297	1.3	0.000024615	0.000026553	(7.3)
Pound sterling	1.490868431	1.418842225	5.1	1.484714861	1.458555155	1.8
Turkish lira	0.000000553	0.000000573	(3.5)	0.000000553	0.000000616	(10.2)
Hungarian forint	0.003974563	0.003809524	4.3	0.003904533	0.004044543	(3.5)
Russian rouble	0.028306728	0.027082796	4.5	0.028324913	0.028836178	(1.8)
Polish zloty	0.221062870	0.212679980	3.9	0.211310165	0.234086233	(9.7)
Swiss franc	0.656081879	0.641889723	2.2	0.643865252	0.670200859	(3.9)
Swedish krona	0.109348176	0.110132159	(0.7)	0.109113009	0.109144330	(0.03)
<b>North America</b>						
USA dollar	0.822706705	0.791765637	3.9	0.814770153	0.904977376	(10.0)
<b>South America</b>						
Venezuelan bolivar	0.000428493	0.000494854	(13.4)	0.000428493	0.000546950	(21.6)
Bolivian boliviano	0.103785363	0.101566975	2.2	0.103386315	0.119336014	(13.4)
Costa Rican colon	0.001881677	0.001893406	(0.6)	0.001904723	0.002330435	(18.3)
Peruvian nuevo sol	0.236988726	0.228339175	3.7	0.234521026	0.260071936	(9.8)
Argentinean peso	0.278129302	0.270227180	2.9	0.280294197	0.312540000	(10.3)
Chilean peso	0.001292954	0.001336539	(3.3)	0.001338489	0.001252107	6.9
Colombian peso	0.000305453	0.000284941	7.1	0.000301635	0.000311882	(3.3)
Brazilian real	0.264748476	0.274043178	(3.4)	0.274243841	0.279470906	(1.8)
Mexican peso	0.071384517	0.070523354	1.2	0.072846211	0.085156535	(14.5)
<b>Asia</b>						
Hong Kong dollar	0.105481894	0.101989821	3.4	0.104629325	0.116038088	(9.8)
Israeli shekel	0.183027159	0.180974839	1.1	0.180920815	0.194453789	(7.0)
Japanese yen	0.007552870	0.007404665	2.0	0.007513530	0.007624977	(1.5)
<b>Africa</b>						
South African rand	0.131273219	0.120082617	9.3	0.121747071	0.112557221	8.1

The following Annexes numbered 1 to 7 are an integral part of these notes.

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## ■ ANNEX 1

### ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in millions of euro)	6/30/2004 Amount due				12/31/2003 Amount 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
<b>Accounts receivable in long-term investments</b>								
Unconsolidated subsidiaries	5	-	-	5	3	2	-	5
Affiliated companies	53	14	34	101	54	26	37	117
Others	75	236	56	367	281	90	28	399
	<b>133</b>	<b>250</b>	<b>90</b>	<b>473</b>	<b>338</b>	<b>118</b>	<b>65</b>	<b>521</b>
<b>Accounts receivable in current assets</b>								
Other financial receivables from:								
Unconsolidated subsidiaries	23	-	-	23	15	-	-	15
Affiliated companies	1	-	-	1	15	-	-	15
Others	537	-	-	537	796	-	-	796
	<b>561</b>	<b>-</b>	<b>-</b>	<b>561</b>	<b>826</b>	<b>-</b>	<b>-</b>	<b>826</b>
Trade accounts receivables from:								
Customers	7,461	-	-	7,461	6,849	1	-	6,850
Unconsolidated subsidiaries	12	-	-	12	12	-	-	12
Affiliated companies	136	-	-	136	114	-	-	114
Others	179	-	-	179	104	-	-	104
	<b>7,788</b>	<b>-</b>	<b>-</b>	<b>7,788</b>	<b>7,079</b>	<b>1</b>	<b>-</b>	<b>7,080</b>
Other receivables from:								
Unconsolidated subsidiaries	2	-	-	2	3	-	-	3
Affiliated companies	22	-	-	22	20	-	-	20
Tax authorities	307	34	-	341	1,584	69	-	1,653
Deferred tax assets	1,909	2,682	273	4,864	1,841	2,857	315	5,013
Others	846	39	4	889	980	58	6	1,044
	<b>3,086</b>	<b>2,755</b>	<b>277</b>	<b>6,118</b>	<b>4,428</b>	<b>2,984</b>	<b>321</b>	<b>7,733</b>
<b>Total accounts receivable</b>	<b>11,435</b>	<b>2,755</b>	<b>277</b>	<b>14,467</b>	<b>12,333</b>	<b>2,985</b>	<b>321</b>	<b>15,639</b>
<b>Accrued income</b>	<b>504</b>	<b>-</b>	<b>-</b>	<b>504</b>	<b>495</b>	<b>-</b>	<b>-</b>	<b>495</b>

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## ■ ANNEX 2

### LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in millions of euro)	6/30/2004 Amount due				12/31/2003 Amount 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
<b>Medium and long-term financial debt</b>								
Debentures	4,051	12,388	14,747	31,186	6,730	10,449	12,874	30,053
Convertible debentures		2,768	2,828	5,596	1,715	2,768	2,829	7,312
Due to banks	555	1,052	21	1,628	684	1,140	42	1,866
Due to other lenders	101	252	352	705	88	257	413	758
Trade accounts payable	3	3	-	6	5	4	-	9
Accounts payable to affiliated companies	9	15	3	27	9	19	4	32
Taxes payable	5	-	-	5	23	-	-	23
Other liabilities	-	56	-	56	35	53	-	88
	<b>4,724</b>	<b>16,534</b>	<b>17,951</b>	<b>39,209</b>	<b>9,289</b>	<b>14,690</b>	<b>16,162</b>	<b>40,141</b>
<b>Short-term financial debt</b>								
Due to banks	744	-	-	744	594	-	-	594
Due to other lenders	353	-	-	353	254	-	-	254
Trade accounts payable	-	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-	-
Accounts payable to unconsolidated subsidiaries	20	-	-	20	9	-	-	9
Accounts payable to affiliated companies	1	-	-	1	1	-	-	1
Taxes payable	-	-	-	-	35	-	-	35
Other liabilities	68	-	-	68	431	-	-	431
	<b>1,186</b>	<b>-</b>	<b>-</b>	<b>1,186</b>	<b>1,324</b>	<b>-</b>	<b>-</b>	<b>1,324</b>
<b>Trade accounts payable <sup>(1)</sup></b>								
Accounts payable to suppliers	5,285	-	-	5,285	5,848	-	-	5,848
Accounts payable to unconsolidated subsidiaries	1	-	-	1	3	-	-	3
Accounts payable to affiliated companies	204	-	-	204	113	-	-	113
	<b>5,490</b>	<b>-</b>	<b>-</b>	<b>5,490</b>	<b>5,964</b>	<b>-</b>	<b>-</b>	<b>5,964</b>
<b>Other payables</b>								
Accounts payable to unconsolidated subsidiaries	16	-	-	16	6	-	-	6
Accounts payable to affiliated companies	2	-	-	2	24	-	-	24
Taxes payable	1,264	13	-	1,277	1,416	2	-	1,418
Contributions to pension and social security institutions	257	932	171	1,360	326	1,017	171	1,514
Other liabilities	2,658	3	-	2,661	2,761	14	-	2,775
	<b>4,197</b>	<b>948</b>	<b>171</b>	<b>5,316</b>	<b>4,533</b>	<b>1,033</b>	<b>171</b>	<b>5,737</b>
<b>Total liabilities <sup>(1)</sup></b>	<b>15,597</b>	<b>17,482</b>	<b>18,122</b>	<b>51,201</b>	<b>21,110</b>	<b>15,723</b>	<b>16,333</b>	<b>53,166</b>
<b>Accrued expenses</b>	<b>1,107</b>	<b>-</b>	<b>-</b>	<b>1,107</b>	<b>1,298</b>	<b>6</b>	<b>23</b>	<b>1,327</b>

(1) not including advances

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## ■ ANNEX 3

### RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES IN THE FINANCIAL STATEMENTS AT JUNE 30, 2004

	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
(in millions of euro)								
<b>Financial statements of Telecom Italia at June 30, 2004</b>	<b>8,857</b>	<b>5,777</b>	<b>514</b>	<b>15,148</b>				<b>15,148</b>
Net income of consolidated companies for the period			578	578		482	482	1,060
Share capital and reserves of consolidated companies		23,026		23,026	2,175		2,175	25,201
- carrying value of investments in consolidated companies		(56,004)		(56,004)				(56,004)
Consolidation adjustments:								
- valuation of investments using the equity method		(202)	3	(199)				(199)
- positive differences on purchase of investments		26,981	(758)	26,223	188	(20)	168	26,391
- intra-Group dividends		19	(23)	(4)	2	(6)	(4)	(8)
- losses of subsidiaries included in the results of parent companies and extraordinary writedowns of investments		7,092	(133)	6,959	1,317	(28)	1,289	8,248
- gains on sales of investments		(226)	36	(190)	(72)	12	(60)	(250)
- elimination of intra-Group profits included in fixed assets and intangibles		(102)	15	(87)	(7)	1	(6)	(93)
- elimination of intra-Group profits on investments		(389)		(389)	(248)		(248)	(637)
- other		(504)	173	(331)	41	17	58	(273)
<b>Consolidated financial statements at June 30, 2004</b>	<b>8,857</b>	<b>5,468</b>	<b>405</b>	<b>14,730</b>	<b>3,396</b>	<b>458</b>	<b>3,854</b>	<b>18,584</b>

## ■ ANNEX 4

### STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY IN THE FIRST HALF OF 2004

	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
(in millions of euro)								
<b>Consolidated financial statements at December 31, 2003</b>	<b>8,854</b>	<b>6,046</b>	<b>1,192</b>	<b>16,092</b>	<b>3,261</b>	<b>1,236</b>	<b>4,497</b>	<b>20,589</b>
Appropriation of 2003 net income:								
- Dividends distributed		(538)	(1,192)	(1,730)		(1,050)	(1,050)	(2,780)
- Transfer to reserves					186	(186)		
Contribution by shareholders, bond conversions and stock options	3	9		12				12
Translation adjustments on the conversion of financial statements in foreign currencies and other		(49)		(49)	(51)		(51)	(100)
Net income for the period			405	405		458	458	863
<b>Consolidated financial statements at June 30, 2004</b>	<b>8,857</b>	<b>5,468</b>	<b>405</b>	<b>14,730</b>	<b>3,396</b>	<b>458</b>	<b>3,854</b>	<b>18,584</b>

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## ■ ANNEX 5

### LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
<b>Wireline</b>						
ATESIA -Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	EUR	3,150,406	100.0000		TELECOM ITALIA S.p.A.
BBNED N.V. (telecommunications services)	Amsterdam (Holland)	EUR	82,425,000	97.5648		TELECOM ITALIA INTERNATIONAL N.V.
BBEYOND B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,000	100.0000		BBNED N.V.
ELETTTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	Rome (Italy)	EUR	10,329,200	100.0000		MEDITERRANEAN NAUTILUS S.A.
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	Hamburg (Germany)	EUR	91,521,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
INTELCOM 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.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	Buenos Aires (Argentina)	ARS	12,000	99.9917 (*)		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS BOLIVIA Srl (installation and maintenance of submarine cable systems)	La Paz (Bolivia)	BOB	5,110,600	99.9980 0.0020		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	86,865,371	99.9999 0.0001		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	Santiago (Chile)	CLP	7,113,341,592	99.9900 (*)		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	Bogotá (Colombia)	COP	28,430,000	99.9930 (*)		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 City (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 PERÙ S.A. (installation and maintenance of submarine cable systems)	Lima (Perù)	PEN	35,750,475	100.0000 (*)		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS S.A. (holding company)	Luxembourg	USD	6,500,000	99.9999 (*)		TELECOM ITALIA S.p.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Miami (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	St Croix (USA)	USD	1,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	Miami (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	Caracas (Venezuela)	BOB	21,925,000	99.9954 (*)		LATIN AMERICAN NAUTILUS S.A.
LOQUENDO - SOCIETA' 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.
MED 1 IC-1 (1999) Ltd (installation and maintenance of ICI cable system))	Tel Aviv (Israel)	ILS	1,000	99.9000 0.1000		MED-1 SUBMARINE CABLES MED-1 ITALY S.r.l.
MED-1 (NETHERLANDS) B.V. (holding company)	Amsterdam (Holland)	EUR	18,151	100.0000		MED-1 SUBMARINE CABLES
MED-1 ITALY S.R.L. (installation and maintenance of submarine cable systems in Italian territorial waters)	Rome (Italy)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.



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Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
MED-1 SUBMARINE CABLES Ltd (installation and maintenance of cable Lev)	Tet Aviv (Israel)	ILS	100,000	27.8250 23.1750		TELECOM ITALIA INTERNATIONAL N.V. TELECOM ITALIA S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	Amsterdam (Holland)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (telecom services, installation and maintenance of submarine cable systems)	Athens (Greece)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	Delaware (USA)	USD	3,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ISRAEL Ltd (telecom services, installation and maintenance of submarine cable systems)	Tet Aviv (Israel)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Ltd (telecom services, installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	100,000	51.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD	326,480,000	62.5092 7.4908		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
MEDITERRANEAN NAUTILUS TELEKOMÜNİKASYON HİZMETLERİ TİCARET ANONİM ŞİRKETİ (telecommunications services)	Istambul (Turkey)	TRL	350,000,000,000	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
PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	EUR	25,800,000	99.9900 0.0100		TELECOM ITALIA S.p.A. TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	Hamburg (Germany)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR	70,307,800	100.0000		TELECOM ITALIA SPARKLE 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 OF NORTH AMERICA, INC. (telecommunications promotional services)	New York (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.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 S.p.A. (public and private telecommunication services)	Rome (Italy)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECONTACT CENTER S.p.A. (telemarketing)	Naples (Italy)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services) mobile)	Republic of San Marino	EUR	78,000	51.0000		INTELCOM SAN MARINO S.p.A
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD	154,022,889	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	Brussels (Belgium)	EUR	3,000,000	100.0000		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 (Oerlikon) (Switzerland)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNIKATIONDIESTE 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	3,855,000	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 LUXEMBOURG S.A. (holding company)	Luxembourg	EUR	82,150,675	100.0000		TELECOM ITALIA SPARKLE S.p.A.

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<b>Mobile</b>						
BLAH! INC (ex TIMNET USA Inc) (mobile services)	Miami (USA)	USD	19,474,200	100.0000 (*)		TIM INTERNATIONAL N.V.
BLAH! SOCIEDADE ANÔNIMA DE SERVIÇOS E COMÉRCIO (internet services)	Rio de Janeiro (Brazil)	BRL	78,000,000	100.0000 (*)		TIM INTERNATIONAL N.V.
CORPORACION DIGITEL C.A. (telecommunications services)	Caracas (Venezuela)	VEB	42,823,450,241	67.1188 (*)		TIM INTERNATIONAL N.V.
CRC - Centro de Relacionamento com Clientes LTDA (ex STARCEL LTDA) (call center services)	Sao Paulo (Brazil)	BRL	50,000,000	100.0000 (*)		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
MAXITEL S.A. (mobile telephony operator)	Belo Horizonte (Brazil)	BRL	677,679,703	58.7000 41.3000 (*)	43.1500 56.8500	TIM INTERNATIONAL N.V. TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony operator)	Athens (Greece)	EUR	127,285,627	81.4040 0.1304		TIM INTERNATIONAL N.V. TELECOM ITALIA FINANCE S.A.
TELE CELULAR SUL PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL	456,265,808	23.60 (*)	53.0000	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TELE NORDESTE CELULAR PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Jaboatão Dos Guararapes (Brazil)	BRL	428,237,920	23.87 (*)	53.4800	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TELECOM ITALIA MOBILE S.p.A. (mobile telephony operator)	Turin (Italy)	EUR	513,964,433	54.8196 0.1661 0.0105	55.6781	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A. TELECOM ITALIA MOBILE S.p.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL	8,656,999,999	100.0000 (*)		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	Sao Paulo (Brazil)	BRL	6,800,304,498	100.0000 (*)		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	Amsterdam (Holland)	EUR	555,429,000	100.0000		TELECOM ITALIA MOBILE S.p.A.
TIM NORDESTE TELECOMUNICAÇÕES S.A. (mobile telephony operator)	Jaboatão Dos Guararapes (Brazil)	BRL	508,798,763	81.82 (*)	94.1100	TELE NORDESTE CELULAR PARTICIPAÇÕES S.A.
TIM PERÙ S.A.C. (mobile telephony operator)	Lima (Perù)	PEN	1,337,542,452	100.0000 (*)		TIM INTERNATIONAL N.V.
TIM SUL S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL	971,469,987	81.7305 (*)	90.6500	TELE CELULAR SUL PARTICIPAÇÕES S.A.
<b>South America</b>						
AMERICASKY CORPORATION (telecommunications services)	Miami (USA)	USD	1,000	80.0000 20.0000		ENTEL USA HOLDING INC. ENTEL INTERNATIONAL B.V.I. CORP.
AMERICATEL CENTROAMERICA S.A. (telecommunications services)	Ciudad de Guatemala (Guatemala)	USD	2,649,608	78.6464		ENTEL CHILE
AMERICATEL CORP. USA (telecommunications services)	Miami (USA)	USD	62,372,553	79.9997		ENTEL INTERNATIONAL B.V.I. CORP.
AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San Salvador (El Salvador)	USD	1,143,572	85.0000 15.0000		AMERICATEL CENTROAMERICA ENTEL CHILE
AMERICATEL GUATEMALA S.A. (telecommunications services)	Ciudad de Guatemala (Guatemala)	GTQ	450,000	100.0000		AMERICATEL CENTROAMERICA
AMERICATEL HONDURAS S.A. (telecommunications services)	Tegucigalpa (Honduras)	HNL	500,000	96.0000		AMERICATEL CENTROAMERICA
AMERICATEL PERÙ SA (telecommunications services)	Lima (Perù)	PEN	129,256,053	43.2201 36.3542 20.4257		ENTEL INVERSIONES S.A. ENTEL CHILE DIVEO PERÙ INC
CHILE WIRELESS S.A. (holding company)	Santiago (Chile)	CLP	117,289,487	99.0000 1.0000		ENTEL TELEFONÍA LOCAL S.A. ENTEL INVERSIONES S.A.
DATAKOM S.A. (data transmission services)	La Paz (Bolivia)	BOB	66,938,200	100.0000		ENTEL BOLIVIA

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DIVEO PERU INC (holding company)	Fort Lauderdale (USA)	USD	24,878,347	100.0000		AMERICATEL PERÙ S.A.
EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP LTDA. (telecommunications services)	Santiago (Chile)	CLP	2,341,703,541	99.9999 (*)		ENTEL TELEFONÍA PERSONAL S.A.
EMPRESA NACIONAL DE TELECOMUNICACIONES S.A. - ENTEL CHILE (telecommunications services)	Santiago (Chile)	CLP	412,177,259,387	54.7642		TELECOM ITALIA INTERNATIONAL N.V.
ENTEL S.A. - EMPRESA NACIONAL DE TELECOMUNICACIONES S.A. - ENTEL BOLIVIA (telecommunications services)	La Paz (Bolivia)	BOB	1,280,898,800	50.0000		ETI N.V.
ENTEL CALL CENTER S.A. (telecommunications services)	Santiago (Chile)	CLP	10,935,696,765	90.0000 10.0000		ENTEL CHILE ENTEL INVERSIONES S.A.
ENTEL INTERNATIONAL B.V.I. CORP. (telecommunications services)	Tortola (British Virgin Island)	CLP	32,748,695,725	100.0000		ENTEL CHILE
ENTEL INVERSIONES S.A. (holding company)	Santiago (Chile)	CLP	3,255,630,785	99.9910 (*)		ENTEL CHILE
ENTEL PCS TELECOMUNICACIONES S.A. (mobile services)	Santiago (Chile)	CLP	99,352,712,557	99.9000 0.1000		ENTEL TELEFONÍA PERSONAL S.A. ENTEL CHILE
ENTEL SERVICIOS TELEFÓNICOS S.A. (telecommunications services)	Santiago (Chile)	CLP	1,114,514,717	91.4198 8.5802		ENTEL CHILE ENTEL INVERSIONES S.A.
ENTEL TELEFONÍA LOCAL S.A. (local telecommunications services)	Santiago (Chile)	CLP	23,345,129,099	99.0000 1.0000		ENTEL CHILE ENTEL INVERSIONES S.A.
ENTEL TELEFONÍA MOVIL S.A. (mobile services)	Santiago (Chile)	CLP	1,902,809,278	99.9200 0.0800		ENTEL TELEFONÍA PERSONAL S.A. ENTEL CHILE
ENTEL TELEFONÍA PERSONAL S.A. (holding company)	Santiago (Chile)	CLP	128,529,467,413	94.6395 5.3605		ENTEL CHILE ENTEL INVERSIONES S.A.
ENTEL USA HOLDINGS INC. (telecommunications services)	Miami (USA)	USD	1,000	100.0000		ENTEL INTERNATIONAL B.V.I. CORP.
ENTEL VENEZUELA C.A. (telecommunications services)	Caracas (Venezuela)	BOB	709,500,000	100.0000		ENTEL CHILE
MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP	3,266,063,200	99.9900 0.0100		ENTEL CHILE ENTEL INVERSIONES S.A.
RED DE TRANSACCIONES ELECTRÓNICAS S.A. (telecommunications services)	Santiago (Chile)	CLP	1,646,053,601	93.7650		ENTEL CHILE
SATEL TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP	2,807,486,249	99.9000 0.1000		ENTEL CHILE ENTEL INVERSIONES S.A.

#### Internet and Media

BEIGUA S.r.l. (purchase, sale, management and maintenance of installations for radio and TV broadcasting repairs and distribution)	Rome (Italy)	EUR	51,480	51.0004		LA7 TELEVISIONI S.p.A.
DATABANK S.p.A. (market information)	Milan (Italy)	EUR	937,300	98.4825		TELECOM ITALIA MEDIA S.p.A.
DBK S.A. (market information)	Madrid (Spain)	EUR	99,000	99.9967		DATABANK S.p.A.
FINANZIARIA WEB S.p.A. (financial)	Rome (Italy)	EUR	9,606,074	60.0000 40.0000 (\$)		TELECOM ITALIA MEDIA S.p.A. VERTICO S.p.A.
GIAROLO S.r.l. (purchase, sale, management and maintenance of installations for radio and TV broadcasting repairs and distribution)	Rome (Italy)	EUR	50,490	100.0000		LA7 TELEVISIONI S.p.A.
GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rome (Italy)	EUR	11,817,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
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		HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.

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Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
MATRIX S.p.A. (Internet services)	Milan (Italy)	EUR	1,100,000	66.0000 33.3000 0.7000		FINANZIARIA WEB S.p.A. VERTICO S.p.A. 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.
PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and marketing of business software)	Rome (Italy)	EUR	127,500	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.
TELECOM ITALIA MEDIA S.p.A. (production and sale of publishing and advertising, data information and distribution)	Rome (Italy)	EUR	93,893,995	59.4200 2.0300 0.0168	60.4100 2.0700 0.0168	TELECOM ITALIA S.p.A. TI FINANCE IT TELECOM
TELECOM MEDIA NEWS S.p.A. (multimedia journalistic information)	Rome (Italy)	EUR	120,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELEVOICE S.p.A. (teleselling, telemarketing and call centers)	Cernusco sul Naviglio (Milan - Italy)	EUR	1,000,000	100.0000		TELECOM ITALIA MEDIA S.p.A.

#### Information Technology Market

AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A. (consulting and services for agriculture)	Rome (Italy)	EUR	10,330,000	50.8600		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
ASPASIEL S.R.L. (information systems)	Rome (Italy)	EUR	260,000	50.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
BANKSIEL S.p.A. (design, installation, operation and maintenance of information systems for bank, financial and insurance)	Milan (Italy)	EUR	10,400,000	55.5000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza) (Italy)	EUR	769,585	98.0000 2.0000		BANKSIEL S.p.A. FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR	516,600	47.0000	51.0000	BANKSIEL S.p.A.
EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	EUR	312,000	67.3333		TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.
FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A. (conception and implementation of projects for information technology applications)	Rome (Italy)	EUR	59,982,385	79.5000 0.6300		TELECOM ITALIA S.p.A. FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
FINSIEL ROMANIA S.R.L. (information systems)	Bucharest (Romania)	ROL	11,841,500,000	97.9732		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
INSIEL - INF.PER SIS.ENTI LOCALI S.p.A. (information systems)	Trieste (Italy)	EUR	7,755,000	52.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
INTERSIEL S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza - Italy)	EUR	240,200	100.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
KRENESIEL - SOCIETÀ SARDA DI INFORMATICA S.p.A. (information systems)	Sassari (Italy)	EUR	2,582,300	41.0000 10.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A. INSIEL - INF.PER SIS.ENTI LOCALI S.p.A.
SOFTWARE FACTORY S.p.A. (software applications)	Milan (Italy)	EUR	1,500,000	100.0000		W.P. WINNER PROJECT B.V.
TELEMEDIA APPLICAZIONI S.p.A. (design, installation, operation and maintenance of information systems)	Ivrea (Turin) (Italy)	EUR	1,560,000	100.0000		WEBEGG S.p.A.
TELE SISTEMI FERROVIARI S.p.A. - TSF (information systems)	Rome (Italy)	EUR	77,003,670	60.9997		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
VENEZIA INFORMATICA E SISTEMI - VENIS S.p.A. (information systems for the City of Venice and other public entities)	Venice (Italy)	EUR	1,549,500	30.6000 20.4000		INSIEL - INF.PER SIS.ENTI LOCALI S.p.A. FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.

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W.P. WINNER PROJECT B.V. (web solutions)	Rotterdam (Holland)	EUR	18,151	100.0000		WEBEGG S.p.A.
WEBEGG S.p.A. (web solutions)	Milan (Italy)	EUR	33,107,160	69.8000 30.2000		TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A. FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
WEBRED S.p.A. (information systems)	Perugia (Italy)	EUR	1,560,000	51.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.

#### Information Technology Group

EPICLINCK S.p.A. (telecommunications services)	Cesano Maderno (Milan - Italy)	EUR	450,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A. (information e communication technology)	Rome (Italy)	EUR	96,853,000	100.0000		TELECOM ITALIA S.p.A.

#### Olivetti Tecnost Group

CELL-TEL S.p.A. (telecommunications equipment, installations and systems)	Ivrea (Turin - Italy)	EUR	1,500,000	80.0000		OLIVETTI TECNOST S.p.A
DEDITA S.p.A. (systems products and services and electromechanical and electronic devices)	Ivrea (Turin - Italy)	EUR	250,000	100.0000		OLIVETTI TECNOST S.p.A
INNOVIS S.p.A. (computer, online and telecommunications products and services)	Ivrea (Turin - Italy)	EUR	1,000,000	80.0000		OLIVETTI TECNOST S.p.A
OLIVETTI CHILE S.A. (sale of office equipment, accessories and software)	Santiago (Chile)	CLP	2,511,234,969	99.9994 0.0006		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI PERUANA S.A. (in liquidazione)
OLIVETTI DE PUERTO RICO, Inc. (sale and maintenance of office equipment, accessories and software)	San Juan (Porto Rico)	USD	1,000	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A. (sale of office equipment, accessories and software)	Sao Paulo (Brazil)	BRL	111,660,625	96.6446 3.3554		OLIVETTI TECNOST INTERNATIONAL BV OLIVETTI MEXICANA S.A.
OLIVETTI I-JET S.p.A. (sale of office equipment, accessories and software)	Arnad (Aosta - Italy)	EUR	15,000,000	100.0000		OLIVETTI TECNOST S.p.A
OLIVETTI LEXIKON BENELUX S.A. (sale of office equipment, accessories and software)	Zaventem (Belgium)	EUR	380,463	99.9997 0.0003		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A
OLIVETTI MEXICANA S.A. (sale of office equipment, accessories and software)	Mexico City (Mexico)	MXN	195,190,636	99.9999 0.0001		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A
OLIVETTI SISTEMA E SERVICOS LIMITADA (sale of office equipment, accessories and software)	Sao Paulo (Brazil)	BRL	410,000	100.0000		OLIVETTI DO BRASIL S.A.
OLIVETTI TECNOST (H.K.) Ltd. (sale of office equipment, accessories and software)	Hong Kong (China)	HKD	200,000	99.5000 0.5000		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A
OLIVETTI TECNOST AFRICA (PTY) Ltd. (sale of office equipment, accessories and software)	Sandton (South Africa)	ZAR	601	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST AUSTRIA Ges.m.b.H (sale of office equipment, accessories and software)	Vienna (Austria)	EUR	36,336	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST de MEXICO S.A. de C.V. (manufacture and sale of office equipment, accessories and software)	Tetla (Mexico)	MXN	234,895,310	99.9999 0.0001		OLIVETTI MEXICANA S.A. OLIVETTI TECNOST S.p.A
OLIVETTI TECNOST DEUTSCHLAND GmbH (sale of office equipment and holding company)	Nurnberg (Germany)	EUR	25,600,000	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST ESPANA S.A. (sale and maintenance of office equipment, consulting and online network operations)	Barcelona (Spain)	EUR	1,229,309	99.9912		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST FRANCE S.A. (sale of office equipment, accessories and software)	Puteaux (France)	EUR	2,200,000	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST INTERNATIONAL B.V. (holding company)	Amsterdam (Holland)	EUR	355,027,092	100.0000		OLIVETTI TECNOST S.p.A
OLIVETTI TECNOST NEDERLAND B.V. (sale of office equipment, accessories and software)	Leirderdorp (Holland)	EUR	6,468,280	100.0000		OLIVETTI LEXIKON BENELUX S.A.

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OLIVETTI TECNOST PORTUGAL S.A. (sale of office equipment, accessories and software)	Lisbon (Portugal)	EUR	275,000	99.9927		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI TECNOST S.p.A. (manufacture and sale of products and accessories for office equipment)	Ivrea (Turin - Italy)	EUR	78,000,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI TECNOST UK Ltd. (sale of office equipment, accessories and software)	Milton Keynes (UK)	GBP	6,295,712	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
ROYAL CONSUMER INFORMATION PRODUCTS Inc. (sale of office equipment, accessories and software)	Wilmington (USA)	USD	1,176	100.0000		OLIVETTI TECNOST 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 TECNOST S.p.A.
TIESSE S.c.p.A. (installation and maintenance of electronic, computer, online and telecommunications equipment)	Rome (Italy)	EUR	103,292	42.0000 19.0000		OLIVETTI TECNOST S.p.A. TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	Modugno (Bari - Italy)	EUR	1,022,500	50.3667		OLIVETTI TECNOST S.p.A.
WIRELAB S.p.A. (repairs, assistance for fixed telecommunications and other equipment)	Scarmagno (Turin - Italy)	EUR	300,000	70.0000		OLIVETTI TECNOST S.p.A.
<b>Other Operations</b>						
DOMUS ACADEMY S.p.A. (course in design)	Milan (Italy)	EUR	140,000	67.3336		TELECOM ITALIA S.p.A.
EMSA Servizi S.p.A. (real estate services management)	Rome (Italy)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	Amsterdam (Holland)	EUR	50,050	100.0000		ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	Amsterdam (Holland)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
ISM S.r.l. (holding company)	Turin (Italy)	EUR	10,000	100.0000		TELECOM ITALIA FINANCE S.A.
NETESI S.p.A. (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. (financial)	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. (financial company)	Amsterdam (Holland)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (property management)	Ivrea (Turin - Italy)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI RAP S.A. (company and investment management)	Barcelona (Spain)	EUR	63,613,800	90.0000 10.0000		OLIVETTI HOLDING B.V. TELECOM ITALIA FINANCE S.A.
OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (property management)	Yokohama (Japan)	JPY	100,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI TELEMEDIA INVESTMENT B.V. (in liquidation) (investment management)	Amsterdam (Holland)	EUR	24,957,920	100.0000		OLIVETTI HOLDING B.V.
OMS HOLDING B.V. (financial holding)	Amsterdam (Holland)	EUR	20,000	100.0000		OLIVETTI MULTISERVICES S.p.A.
RUF GESTION S.A.S. (property management)	Puteaux (France)	EUR	266,300	100.0000		OMS HOLDING B.V.
SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A. (financial)	Turin (Italy)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI s.r.l. (management of movable assets)	Rome (Italy)	EUR	26,000	51.0000 49.0000		TELECOM ITALIA S.p.A. MEDIOCREDITO CENTRALE S.p.A.

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TELECOM ITALIA AMERICA LATINA S.A. (telecommunications promotional services)	San Paolo (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	63.6364 18.1818 18.1818		TELECOM ITALIA S.p.A. TELECOM ITALIA MOBILE S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financial company)	Luxembourg	EUR	2,336,000	99.9990 0.0010		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financial company)	Luxembourg	EUR	1,162,562,615	99.9999	(*)	TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (financial 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)	San Paolo (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 SRL (import, export, purchase, sale and exchange of electrical energy)	Rome (Italy)	EUR	50,000	80.0000 20.0000		TELECOM ITALIA S.p.A. TELECOM ITALIA MOBILE S.p.A.
TELSI Unlimited (financial company)	London (Uk)	EUR	603,565,000	99.9999	(*)	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 of Telecom Italia Group)	San Paolo (Brazil)	BRL	1,500,000	100.0000	(*)	TELECOM ITALIA AUDIT - SCARL
VERTICO S.p.A. (holding company)	Rome (Italy)	EUR	100,000	100.0000		ISM S.r.l.

(\*) The percentage of ownership includes ordinary shares/quotas held by members of the Board of Directors/Managers, as required by local laws in order to hold the post of Director /Manager, or held by trustees.

(§) Includes the 40% stake purchased by Telecom Italia Media S.p.A. on June 28, 2004 and sold to Vertico S.p.A. on July 9, 2004.



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### LIST OF COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
<b>Subsidiaries</b>						
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR	15,080,542	60.0000 40.0000		TELECOM ITALIA S.p.A. TELECOM ITALIA MOBILE S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD. (telecommunications services)	Singapore	USD	2	50.0000 50.0000		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA OF NORTH AMERICA
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD	952,100	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing e hosting)	Republic of San Marino	EUR	258,000	100.0000		INTELCOM SAN MARINO S.p.A
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	San Paolo (Brazil)	BRL	2,579,817	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
<b>Affiliated Companies</b>						
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. -
ASCAI SERVIZI S.R.L. (promotion of communications strategies and process)	Rome (Italy)	EUR	73,337	35.2113		SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A.
ASSCOM INSURANCE BROKERS s.r.l (insurance mediation)	Milan (Italy)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
ATENA SERVIZI S.p.A. (financial services)	Rome (Italy)	EUR	31,000,000	100.0000		TELEPIÙ S.p.A.
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 TECNOST S.p.A
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of San Marino	EUR	258,000	20.0000		INTELCOM SAN MARINO S.p.A
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP	1,841,258,210	50.0000		ENTEL TELEFONÍA PERSONAL S.A.
CHANNEL DIGITALE S.r.l. (multimedia services)	Milan (Italy)	EUR	10,000	100.0000		TELEPIÙ S.p.A.
E-UTILE S.p.A. (ICT solutions and services for utility and public service companies)	Milan (Italy)	EUR	482,000	51.0000		SIEMENS INFORMATICA S.p.A
EISYS S.p.A. (software development)	Rome (Italy)	EUR	619,200	25.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	Havana (Cuba)	USD	1,717,302,900	27.0011		TELECOM ITALIA INTERNATIONAL N.V.
GAMMA TELEVISIVA S.p.A (multimedia services)	Rome (Italy)	EUR	260,000	100.0000		OMEGA TV S.p.A.
EUROFLY SERVICE S.p.A. (purchase, sale and chartering of airplanes)	Caselle Torinese (Turin - Italy)	EUR	8,275,000	24.5508		TELECOM ITALIA S.p.A.
012 GOLDEN LINES INTERNATIONAL COMMUNICATION SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS	3,000,000	26.4000		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.
ISTITUTO R.T.M. S.p.A. (study and research of automation and ) mechanical technologies	Vico Canavese (Turin - Italy)	EUR	773,714	23.2638		OLIVETTI TECNOST S.p.A
ITALCOM S.p.A. (multimedia systems and devices)	Milan (Italy)	EUR	103,200	100.0000		ITALTEL S.p.A.
ITALDATA S.p.A. (solutions and services for the web economy)	Avellino (Italy)	EUR	3,096,000	100.0000		SIEMENS INFORMATICA S.p.A
ITALTEL A.O. (telecommunications systems)	S.Petersburg (Russia)	RUB	20,000	100.0000		ITALTEL BV
ITALTEL ARGENTINA S.A. (telecommunications systems)	Buenos Aires (Argentina)	ARS	600,000	96.0000 4.0000		ITALTEL BV ITALTEL S.p.A.



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#### List of companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
ITALTEL BV (trading and financial company)	Amsterdam (Holland)	EUR	12,731,200	100.0000		ITALTEL S.p.A.
ITALTEL BRASIL LTDA (trading company)	San Paolo (Brazil)	BRL	2,018,302	51.4400 48.5600		ITALTEL S.p.A. ITALTEL BV
ITALTEL CERM PALERMO S.c.p.A. (scientific and technological research)	Palermo (Italy)	EUR	2,125,000	90.0000 10.0000		ITALTEL S.p.A. TELECOM ITALIA S.p.A.
ITALTEL DE CHILE S.A. (telecommunications systems)	Santiago (Chile)	CLP	52,139,427	90.0000 10.0000		ITALTEL BV ITALTEL S.p.A.
ITALTEL DEUTSCHLAND GmbH (trading company)	Dusseldorf (Germany)	EUR	40,000	60.0000 40.0000		ITALTEL HOLDING S.p.A. ITALTEL BV
ITALTEL ESPANA S.A. (telecommunications systems)	Madrid (Spain)	EUR	13,191,950	100.0000		ITALTEL BV
ITALTEL FRANCE S.a.s (trading company)	Paris (France)	EUR	40,000	100.0000		ITALTEL HOLDING S.p.A.
ITALTEL INC. LTD (trading company)	Delaware (USA)	USD	100	60.0000 40.0000		ITALTEL HOLDING S.p.A. ITALTEL BV
ITALTEL KENYA LTD (telecommunications systems)	Nairobi (Kenya)	KES	500,000	99.9800 0.0200		ITALTEL BV ITALTEL S.p.A.
ITALTEL S.p.A. (telecommunications systems)	Settimo Mil. (Milan - Italy)	EUR	196,830,400	100.0000		ITALTEL HOLDING S.p.A.
ITALTEL TELECOM HELLAS EPE (telecommunications systems)	Athens (Greece)	EUR	18,000	80.0000 20.0000		ITALTEL HOLDING S.p.A. ITALTEL S.p.A.
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LATINA GIOCHI E SISTEMI S.r.l. (lotteries and telephone and telematic games)	Milan (Italy)	EUR	520,000	25.0000		OLIVETTI TECNOST 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.
MIRROR INTERNATIONAL GmbH (holding company)	Frankfurt (Germany)	EUR	25,000	100.0000		MIRROR INTERNATIONAL HOLDING SARL
MIRROR INTERNATIONAL HOLDING SARL (holding company)	Luxembourg	EUR	250,000	30.0000		TELECOM ITALIA S.p.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	Rome (Italy)	EUR	133,333	24.9998		TELECOM ITALIA LAB S.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	67.7882 (#)	100.0000	SOFORA TELECOMUNICACIONES S.A.
NUCLEO S.A. (telecommunications services)	Asunción (Paraguay)	PYG	175,200,000,000	67.5000		TELECOM PERSONAL S.A.
OLI GULF FZCO (marketing of office and computer equipment)	Jebel Ali (Dubai - Uae)	AED	500,000	40.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OMEGA TV S.p.A. (multimedia services)	Rome (Italy)	EUR	11,000,000	100.0000		TELEPIÙ S.p.A.
ONE-ANS S.p.A. (sale of information technology products)	Monza (Milan - Italy)	EUR	1,013,874	100.0000		ITALTEL 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, development and installation of information systems services)	Milan (Italy)	EUR	1,144,000	40.9091 4.5500 4.5500		TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A. TELECOM ITALIA MOBILE S.p.A. OLIVETTI TECNOST S.p.A.
SIEMENS INFORMATICA S.p.A. (innovating solutions in the field of electronic and mobile business)	Milan (Italy)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Palermo (Italy)	EUR	2,066,000	49.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
SKY ITALIA s.r.l. (multimedia services)	Rome (Italy)	EUR	261,507,000	19.9000		TELECOM ITALIA S.p.A.

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SKY NEWS ITALIA S.r.l. (multimedia services)	Rome (Italy)	EUR	10,000	100.0000		SKY ITALIA S.r.l.
SKY TV ITALIA S.r.l. (multimedia services)	Milan (Italy)	EUR	146,710,000	100.0000		SKY ITALIA S.r.l.
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.
TELBIO S.p.A. (technological services supporting the health sector)	Milan (Italy)	EUR	2,948,332	31.0345		TELECOM ITALIA S.p.A.
TELECARE S.p.A. (financial services)	Rome (Italy)	EUR	8,000,000	100.0000		ATENA SERVIZI S.p.A.
TELECOM ARGENTINA S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	984,380,978	54.7417		NORTEL INVERSORA S.A.
TELECOM ARGENTINA USA INC. (telecommunications services)	Delaware (USA)	USD	249,873	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.
TELE+ S.r.l. (multimedia services)	Milan (Italy)	EUR	10,000	100.0000		TELEPIÙ S.p.A.
TELEPIÙ S.p.A. (multimedia services)	Milan (Italy)	EUR	10,625,000	100.0000		SKY TV ITALIA S.r.l.
TELEPIÙ FUNDING S.A. (multimedia services)	Luxembourg	EUR	64,600,000	99.9900 0.0100		TELEPIÙ S.p.A. OMEGA TV
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.
TT&TIM ILETISIM HIZMETLERI A.S. (mobile service operator)	Istanbul (Turkey)	TRL	6,628,185,029,970,000	40.0000		TIM INTERNATIONAL N.V.
USABLENET INC (development of software for the analysis of web site usability)	Delaware (USA)	USD	3	25.0936		TELECOM ITALIA LAB S.A.
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	Schwerin (Germany)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH
YMINDS S.A. (research and development of products based on ink-jet technology)	Yverdon Les Bains (Switzerland)	CHF	100,000	27.2000 11.4000		OLIVETTI I-JET S.p.A. OLIVETTI TECNOST INTERNATIONAL BV

(#) At June 30, 2004, the percentage of ownership of ordinary share capital is 50%, while the percentage of ownership of net equity, taking into account the rights of the preferred shares, is 51.04%.

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### LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
<b>Subsidiaries</b>						
@LIVE S.R.L. (in liquidation) (international training and web solutions)	Turin (Italy)	EUR	10,000	100.0000		WEBEGG S.p.A.
ALLADIUM S.p.A. (in liquidation) (manufacture of photocopiers, accessories and office equipment)	Ivrea (Turin - Italy)	EUR	1,500,000	100.0000		OLIVETTI TECNOST S.p.A.
BUFFETTI S.R.L. (in liquidation) (sale of stationery, books and office supplies)	Rome (Italy)	EUR	10,000	100.0000		GRUPPO BUFFETTI S.p.A.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	Sao Paulo (Brazil)	BRL	5,135,417	99.9999 0.0001		OLIVETTI DO BRASIL S.A. OLIVETTI SISTEMA E SERVICOS LIMITADA
EMAX TRADE S.R.L. (in liquidation) (management of Internet sites)	Milan (Italy)	EUR	100,000	100.0000		MATRIX S.p.A.
EURO DATACOM Ltd (in liquidation) (telecommunications services)	Huddersfield (UK)	LST	306,666	1000.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
GIALLO MARKET S.R.L. (in liquidation) (owner of Virgilio.it domain)	Milan (Italy)	EUR	10,000	90.0000 10.0000		MATRIX S.p.A. TELECOM ITALIA MEDIA S.p.A.
GIALLO VIAGGI. It S.R.L. (in liquidation) (research, design, development, production of information and online products for tourism)	Milan (Italy)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA & COMUNICAZIONE PUBBLICITÀ S.R.L. (in liquidation) (purchase/sale of ad space and management of advertising on radio/TV stations/channels)	Rome (Italy)	EUR	516,500	100.0000		HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of stationery, books and office supplies)	Rome (Italy)	EUR	2,233,507	89.7018		GRUPPO BUFFETTI S.p.A.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	Rome (Italy)	EUR	2,575,000	35.0000 30.0000		TELECOM ITALIA MOBILE S.p.A. TELECOM ITALIA S.p.A.
KMATRIX S.R.L. (in liquidation) (creation and management of Internet sites)	Milan (Italy)	EUR	100,000	100.0000		MATRIX S.p.A.
LOQUENDO INC (in liquidation) (development of software for web voice interaction)	San Francisco (USA)	USD	14,021,000	100.0000		LOQUENDO S.p.A.
MULTIDATA S/A ELETTRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	Manaus (Brazil)	BRL	5,583,350	99.9999 0.0001		OLIVETTI DO BRASIL S.A. OLIVETTI SISTEMA E SERVICOS LIMITADA
NEW WORLD TELECOM S.A. (telecommunications services)	Santiago (Chile)	CLP	14,000,000	99.9000 (*)		LATIN AMERICAN NAUTILUS CHILE S.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.
OLIVETTI LATIN AMERICA TRADING ASSOCIATES S.A. (in liquidation) (trading activities)	Panama (Panama)	USD	10,000	100.0000		OLIVETTI TECNOST 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	99.9999 0.0001		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI PERUANA S.A. (in liquidation)
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	Bogotá (Colombia)	COP	2,500,000,000	90.5382 9.4616		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A.
OLIVETTI INTERNATIONAL (SERVICE) S.A. (in liquidation) (administrative services)	Lugano (Switzerland)	CHF	50,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI INTERNATIONAL FINANCE N.V. (in liquidation) (financial company)	Curacao (Dutch Antilles)	EUR	3,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI INTERNATIONAL N.V. (in liquidation) (financial company)	Curacao (Dutch Antilles)	EUR	3,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI LEXIKON NORDIC AB (in liquidation) (sales of accessories and office equipment)	Stockholm (Sweden)	SEK	10,100,000	100.0000		OLIVETTI TECNOST INTERNATIONAL B.V.
OLIVETTI PERUANA S.A. (in liquidation) (sale and assistance for office equipment and machines)	Lima (Perù)	PEN	4,654,920	99.9998 0.0002		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A.
OLIVETTI SERVICIOS Y SOLUCIONES INTEGRALES S.A. de C.V. (in liquidation) (hardware maintenance and other services and integration of engineering projects)	Mexico City (Mexico)	MXN	7,025,226	99.9999 0.0001		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A.

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#### List of other subsidiaries and affiliated companies

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
OR.M.A. INFORMATICA S.R.L. (in liquidation) (wholesale of computer products)	Rome (Italy)	EUR	15,000	100.0000		GRUPPO BUFFETTI S.p.A.
ROYAL CONSUMER INFORMATION PRODUCTS de MEXICO. S. de R.L. de C.V (sale of office products and accessories)	Mexico City (Mexico)	MXN	3,000	99.9000		ROYAL CONSUMER INFORMATION PRODUCTS. Inc
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.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	Buenos Aires (Argentina)	ARS	12,000	99.9917		TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A
TELECOM ITALIA LAB GENERAL PARTNER S.A. (in liquidation) (research and development)	Luxembourg	USD	40,000	99.9750 0.0250		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TIMNET.COM PERÙ S.A.C. (in liquidation) (mobile network services)	Lima (Perù)	PEN	1,000	100.0000	(*)	TIM PERÙ S.A.C.
TIN WEB S.R.L. (in liquidation) (consulting for the creation of Internet sites)	Milan (Italy)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TRAINET S.p.A. (in liquidation) (development, operation and sales of online teaching systems)	Rome (Italy)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.
TRIUMPH ADLER WOHNUNGSBAU GMBH (purchase of property for residential use by employees)	Nurnberg (Germany)	DEM	50,000	100.0000		OLIVETTI TECNOST DEUTSCHLAND GmbH
UNDERWOOD LTD (in liquidation) (manufacture and sale of office equipment)	Toronto (Canada)	CAD	3	100.0000		OLIVETTI HOLDING B.V.
WEBNEXT S.R.L. (in liquidation) (development and management of virtual communities)	Milan (Italy)	EUR	100,000	100.0000		MATRIX S.p.A
ZD TECH ITALIA S.p.A. (in liquidation) (creation and management of Internet sites)	Milan (Italy)	EUR	100,000	51.0000		MATRIX S.p.A

#### Affiliated Companies

ARCHEO S.p.A. (in liquidation) (services)	Bari (Italy)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
CABLE INSIGNIA S.A. (in liquidation) (telecommunications services)	Asunción (Paraguay)	PYG	2,600,000,000	75.0000		TELECOM PERSONAL S.A.
CARTESIA - CARTOGRAFIA DIGITALE S.p.A. (in liquidation) (design, development, marketing of numeric cartography)	Rome (Italy)	EUR	100,000	50.0000		TELECOM ITALIA S.p.A.
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR	100,000	50.0000		SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation)
CROME S.R.L. (in liquidation) (hardware maintenance)	P. San Giovanni (Perugia - Italy)	EUR	41,317	50.0012		WEBRED S.p.A.
CYGENT. INC. (in liquidation) (software development and sale)	San Francisco (USA)	USD	52,437,893	25.2080		TELECOM ITALIA LAB S.A.
IN.VA. CONSULTING S.R.L. (information systems development)	Aosta (Italy)	EUR	75,400	55.0000		IN.VA. S.p.A.
IN.VA. S.p.A. (computer activities)	Aosta (Italy)	EUR	520,000	40.0000		TELECOM ITALIA S.p.A.
IN.VA. SISTEMI INFORMATIVI TERRITORIALI S.R.L. (computer activities)	Aosta (Italy)	EUR	75,000	55.0000		IN.VA. S.p.A.
INTERNATIONAL INFORMATION SERVICES (marketing of information systems and software products)	Moscow (Russia)	RUB	1,000,000	50.0000		OLIVETTI HOLDING B.V.
ISCE Investors in Sapient & Cuneo Europe S.A. (investment company)	Luxembourg	EUR	4,334,400	25.0000		TELECOM ITALIA MEDIA S.p.A.
LI.SIT. - LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (computer services and products for the local public administration)	Milan (Italy)	EUR	6,500,000	24.2000 11.0000		TELECOM ITALIA S.p.A. FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
MESNIL HOLDING S.A. (internet)	Luxembourg	EUR	78,000	99.9987		ISCE S.A.
MIAECONOMIA S.R.L. (publishing in the field of personal finance)	Rome (Italy)	EUR	1,000,000	30.0000		MATRIX S.p.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 marketing of telecommunications equipment)	Mexico City (Mexico)	MXN	1,000,000	50.0000		OLIVETTI MEXICANA S.A.
OPS S.R.L. (call center services)	Milan (Italy)	EUR	10,200	45.0000		TELEVOICE S.p.A. (ex GIALLO VOICE)

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PARCO DORA BALTEA S.p.A. (various services connected with the real estate sector)	Ivrea (Turin - Italy)	EUR	300,000	33.3333		OLIVETTI MULTISERVICES S.p.A.
PORTALE ITALIA S.p.A. (in liquidation) (multimedia services)	Rome (Italy)	EUR	100,000	99.0000		TEAM TV (in liquidation)
TEAM TV S.p.A. (in liquidation) (multimedia services)	Rome (Italy)	EUR	103,300	100.0000		SKY ITALIA S.r.l.
UBA- NET S.A. (in liquidation) (online teaching services)	Buenos Aires (Argentina)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidation)
VOICEMAIL INTERNATIONAL Inc. (in liquidation) (voice message services)	Santa Clara (USA)	USD	48,581	37.0718		TELECOM ITALIA S.p.A.
<b>Consortium Subsidiaries</b>						
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 MOBILE S.p.A. TELECOM ITALIA S.p.A.
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of Cultural Works and the Environment)	Rome (Italy)	EUR	171,600	90.9000 9.1000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A. TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	Rome (Italy)	EUR	52,000	60.0000 40.0000		OLIVETTI TECNOST S.p.A. TIEMME SISTEMI S.r.l.
CONSORZIO FORMAZIONE PROFESSIONALE MEZZOGIORNO D'ITALIA E PAESI AREA MEDITERRANEA - NAUTILUS (professional training)	Roma (Italy)	EUR	30,000	31,0000 20,0000		TELECOM ITALIA LEARNING SERVICES S.p.A. MEDITERRANEAN NAUTILUS Ltd
CONSORZIO SESIT (in liquidation) (realization of the integrated information system for the Ministry of Transport and Navigation)	Rome (Italy)	EUR	51,646	70.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CONSORZIO TURISTEL (online systems for tourism)	Rome (Italy)	EUR	77,469	33.3333 33.3333		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A. TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.
<b>Consortium Affiliates</b>						
ARS - CONSORZIO ANTICHITA RICERCA E SVILUPPO (in liquidation) (designs to improve and renovate cultural works)	Rome (Italy)	EUR	51,646	25.0000		TELECOM ITALIA S.p.A.
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the Air Force)	Rome (Italy)	EUR	6,120	33.3333		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	Bologna (Italy)	EUR	180,760	20.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CONSORZIO CSIA (in liquidation) (information systems for the State agency and for the agricultural market)	Rome (Italy)	EUR	206,583	44.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CONSORZIO DREAM FACTORY (in liquidation) (promotion and development of new economy in the weak areas of the Nation)	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 E-TELEVISION (professional training)	Rome (Italy)	EUR	10,000	50.0000		TELECOM ITALIA LEARNING SERVICES S.p.A.
CONSORZIO IRI TELEMATICA CALABRIA - TELCAL (planning and development of the organic project "piano telematico Calabria")	Catanzaro (Italy)	EUR	877,975	24.0000 24.0000		INTERSIEL S.p.A. TELECOM ITALIA S.p.A.
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for innovative remote professional training and platforms in Naples)	Naples (Italy)	EUR	51,646	25.0000 25.0000		TELECOM ITALIA S.p.A. TELECOM ITALIA LEARNING SERVICES S.p.A.
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Perugia (Italy)	EUR	2,582	50.0000		WEBRED S.p.A.
CONSORZIO REISS FORM (services and consulting regarding professional 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 computer products and services)	Naples (Italy)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.

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#### List of other subsidiaries and affiliated companies

Name	Head Office	Currency	Share Capital	% Ownership	% of voting rights	Held by
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (professional training)	Naples (Italy)	EUR	127,500	20.0000		TELECOM ITALIA MOBILE S.p.A.
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	Rome (Italy)	EUR	51,646	45.0000		FINSIEL - CONSULENZA E APPLICAZIONI INFORMATICHE S.p.A.
CONSORZIO STOAMED CONSORZIO FORMAZIONE MEDITERRANEO - STOÀ (projects and management of technologically advanced services regarding professional training)	Ercolano (Naples - Italy)	EUR	10,000	30.0000		TELECOM ITALIA LEARNING SERVICES S.p.A.
CONSORZIO TELEMED (in liquidation) (online social and health assistance activities)	Rome (Italy)	EUR	103,291	33.3300		TELECOM ITALIA S.p.A.
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	Milan (Italy)	EUR	566,738	20.0001		TELECOM ITALIA S.p.A.

[\*] The percentage of ownership includes ordinary shares/quotas held by members of the Board of Directors/Managers, as required by local laws in order to hold the post of Director /Manager, or held by trustees.

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## ■ ANNEX 8

### OTHER SIGNIFICANT INVESTMENTS IN ACCORDANCE WITH CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
ANCITEL S.p.A. (telecommunications services)	Rome (Italy)	EUR	1,087,232	8.5500 7.1320		TELECOM ITALIA S.p.A. INSIEL S.p.A.
BEMAR SERVEIS OFIMATICS S.L. (import-export of articles for the office)	Barcelona (Spain)	EUR	12,000	15.0000		OLIVETTI TECNOST ESPANA S.A.
CIFRA S.c.a.r.l. (training and advanced research for information technology activities)	Cagliari (Italy)	EUR	92,964	16.6700		KRENESIEL S.p.A.
COMUNICARE VIA SATELLITE S.R.L. (in liquidation) (sale of services relating to TV business)	Republic of San Marino	EUR	72,000	15.0000		INTELCOM SAN MARINO S.p.A.
ELETTROCLICK S.p.A. (in bankruptcy) (software production)	Milan (Italy)	EUR	127,420	14.7000		TELECOM ITALIA MEDIA S.p.A.
FIN.PRIV., S.R.L. (financial company)	Milan (Italy)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (design and development of call center solutions)	Genoa (Italy)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INSULA S.p.A. (telecommunications services)	Venice-Mestre (Italy)	EUR	2,064,000	12.0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (management of Internet sites)	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	7,809,618	10.9476		TELECOM ITALIA FINANCE S.A.
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. (financial company)	Luxembourg	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
RETAIL NETWORK SERVICES B.V. (investment holding company)	Amsterdam (Holland)	EUR	15,129,484	13.6500		OLIVETTI TECNOST S.p.A.
SOLPART PARTICIPACOES S.A. (holding company for investment in Brasil Telecom Participações S.A.)	Rio de Janeiro (Brazil)	BRL	1,837,900,000	31.5900	19.0000	TELECOM ITALIA INTERNATIONAL N.V.
TWICE SIM S.p.A. (investment services)	Milan (Italy)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.



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## BALANCE SHEETS

### ASSETS

(in thousand of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS</b>	-	-	-
<b>INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS</b>			
- INTANGIBLE ASSETS			
Start-up and expansion costs	17,256	23,008	36,752
Industrial patents and intellectual property rights	1,027,151	882,699	693,384
Concessions, licenses, trademarks and similar rights	804	850	5,821
Goodwill	1,011	1,145	947
Work in progress and advances to suppliers	404,231	477,639	517,489
Other intangibles	153,281	99,238	100,363
<b>TOTAL INTANGIBLE ASSETS</b>	<b>1,603,734</b>	<b>1,484,579</b>	<b>1,354,756</b>
- FIXED ASSETS			
Land and buildings	1,144,018	1,106,851	1,144,485
Plant and machinery	9,501,316	10,050,719	9,984,557
Manufacturing and distribution equipment	7,162	10,049	11,940
Other fixed assets	49,166	48,847	61,407
Construction in progress and advances to suppliers	745,422	626,257	1,127,379
<b>TOTAL FIXED ASSETS</b>	<b>11,447,084</b>	<b>11,842,723</b>	<b>12,329,768</b>
- LONG-TERM INVESTMENTS			
Equity investments in			
subsidiaries	34,158,746	34,188,395	37,828,039
affiliated companies	385,475	450,394	562,733
other companies	213,277	220,159	220,210
Total equity investments	34,757,498	34,858,948	38,610,982
Advances on future capital contributions	56,047	136,238	125,360
Accounts receivable	(*)	(*)	(*)
subsidiaries	41	2,891	67,098
affiliated companies	137	95	54,489
other receivables	14,719	68,614	157,429
Total accounts receivable	14,897	71,600	31,049
Treasury stock (total par value euro 700 thousand at 6/30/2003)	2,298	2,298	2,298
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>35,036,263</b>	<b>35,276,500</b>	<b>39,092,772</b>
<b>TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS</b>	<b>48,087,081</b>	<b>48,603,802</b>	<b>52,777,296</b>
<b>CURRENT ASSETS</b>			
- INVENTORIES			
Contract work in process	25,063	23,341	18,934
Finished goods and merchandise			
merchandise	94,396	65,194	75,929
<b>TOTAL INVENTORIES</b>	<b>119,459</b>	<b>88,535</b>	<b>94,863</b>
- ACCOUNTS RECEIVABLE	(* *)	(* *)	(* *)
Trade accounts receivable	4,194,286	3,703,450	3,959,431
Accounts receivable from subsidiaries	3,124,326	3,075,289	2,100,324
Accounts receivable from affiliated companies	106,482	96,774	55,895
Taxes receivable	45,005	1,362,329	1,160,708
Deferred tax assets	2,055,139	2,055,138	2,617,728
Other receivables due from			
Government and other public entities for grants and subsidies	28,505	30,748	34,626
other receivables	880,416	807,654	1,021,237
Total other receivables	0	0	0
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>11,451,512</b>	<b>12,306,160</b>	<b>11,820,890</b>
- SHORT-TERM FINANCIAL ASSETS			
Equity investments in subsidiaries	178,515	166,190	164,911
Other equity investments	12	21	1,115
Other securities	7,524	16,179	37,177
Receivables for the sale of securities		-	970
<b>TOTAL SHORT-TERM FINANCIAL ASSETS</b>	<b>186,051</b>	<b>182,390</b>	<b>204,173</b>
- LIQUID ASSETS			
Bank and postal accounts	94,347	204,635	577,048
Checks	39	47	234
Cash and valuables on hand	575	569	532
<b>TOTAL LIQUID ASSETS</b>	<b>94,961</b>	<b>205,251</b>	<b>577,814</b>
<b>TOTAL CURRENT ASSETS</b>	<b>11,851,983</b>	<b>12,782,336</b>	<b>12,697,740</b>
<b>ACCRUED INCOME AND PREPAID EXPENSES</b>			
Issue discounts and similar charges	120,974	110,622	140,808
Accrued income and other prepaid expenses	423,872	453,189	897,226
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>544,846</b>	<b>563,811</b>	<b>1,038,034</b>
<b>TOTAL ASSETS</b>	<b>60,483,910</b>	<b>61,949,949</b>	<b>66,513,070</b>

(\*) Amounts due within one year    (\*\*) Amounts due beyond one year

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## LIABILITIES AND SHAREHOLDERS' EQUITY

(in thousand of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>SHAREHOLDERS' EQUITY</b>			
- SHARE CAPITAL	8,857,324	8,853,991	8,845,641
- SHARE CAPITAL INCREASES AWAITING REGISTRATION	-	-	-
- ADDITIONAL PAID-IN CAPITAL	97,537	88,377	64,683
- REVALUATION RESERVES No. 413 of 12/30/1991	1,129	-	-
- LEGAL RESERVE	1,834,687	1,834,687	20
- RESERVE FOR TREASURY STOCK IN PORTFOLIO	2,298	2,298	2,298
- MISCELLANEOUS RESERVES			
Reserve Law No. 488/92	142,365	118,678	-
Reserve Law No. 342 of 11/21/2000, art. 14		-	-
Reserve, L.D. No. 124/93, ex art. 13	185	185	-
Reserve D.P.R. No. 917/86 ex art. 74	5,750	5,750	-
Riserva straordinaria	-	-	-
Reserve for capital grants	504,880	498,701	6,493
Miscellaneous reserves	119,012	119,012	119,011
Merger surplus reserve	2,188,529	2,188,529	4,633,630
TOTAL MISCELLANEOUS RESERVES	2,960,721	2,930,855	4,759,134
- RETAINED EARNINGS (ACCUMULATED DEFICIT)	881,029	-	-
- NET INCOME	514,013	2,645,903	1,579,842
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>15,148,738</b>	<b>16,356,111</b>	<b>15,251,618</b>
<b>RESERVES FOR RISKS AND CHARGES</b>			
Reserves for taxes and reserve for deferred taxes	131,020	119,410	170,426
Other reserves	648,789	657,917	3,624,118
<b>TOTAL RESERVES FOR RISKS AND CHARGES</b>	<b>779,809</b>	<b>777,327</b>	<b>3,794,544</b>
<b>RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES</b>	<b>1,012,705</b>	<b>972,413</b>	<b>1,015,555</b>
<b>LIABILITIES</b>	(*)	(*)	(*)
Debentures	12,655,330	8,264,983	13,259,187
Convertible debentures	2,828,181	2,829,006	4,177,027
Due to banks	342,769	286,787	3,339,686
Due to other lenders	335,320	462,538	605,621
Advances	25,767	22,723	52,807
Trade accounts payable	1,746,208	1,929,794	2,035,140
Accounts payable to subsidiaries	12,990,363	9,071,134	11,075,225
Accounts payable to affiliated companies	115,268	84,771	116,619
Taxes payable	1,035,505	379,080	1,024,090
Contributions to pension and social security institutions	466,544	466,544	529,899
Other liabilities	441	441	7,889,819
<b>TOTAL LIABILITIES</b>	<b>29,618,948</b>	<b>21,381,433</b>	<b>44,216,141</b>
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>1,210,625</b>	<b>2,448,626</b>	<b>2,235,212</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>60,483,910</b>	<b>61,949,949</b>	<b>66,513,070</b>

(\*\*) Amounts due beyond one year

## MEMORANDUM ACCOUNTS

(in thousand of euro)

	6/30/2004	12/31/2003	6/30/2003
<b>GUARANTEES PROVIDED</b>			
Sureties			
on behalf of subsidiaries	28,154,798	29,654,576	28,202,223
on behalf of affiliated companies	151,838	106,451	119,038
on behalf others	129,015	153,080	167,706
<b>TOTAL GUARANTEES PROVIDED</b>	<b>28,435,651</b>	<b>29,914,107</b>	<b>28,488,967</b>
<b>PURCHASES AND SALES COMMITMENTS</b>	<b>107,070</b>	<b>159,844</b>	<b>2,517,448</b>
<b>OTHER MEMORANDUM ACCOUNTS</b>	<b>13,943</b>	<b>18,549</b>	<b>16,496</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>28,556,664</b>	<b>30,092,500</b>	<b>31,022,911</b>

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## ■ STATEMENTS OF INCOME

(in thousand of euro)

	1st half 2004	1st half 2003	Year 2003
<b>PRODUCTION VALUE</b>			
Sales and service revenues	7,963,688	8,034,732	16,033,201
Changes in inventory of contract work in process	1,722	2,025	6,432
Increases in capitalized internal construction costs	33,472	26,566	59,848
Other revenue and income			
operating grants	2,061	6,119	8,812
other	89,773	117,414	211,339
Total other revenue and income	91,834	123,533	220,151
<b>TOTAL PRODUCTION VALUE</b>	<b>8,090,716</b>	<b>8,186,856</b>	<b>16,319,632</b>
<b>PRODUCTION COSTS</b>			
Raw materials, supplies and merchandise	233,773	172,482	378,201
Services	2,567,051	2,615,016	5,215,924
Use of property not owned	302,071	353,038	639,564
Personnel costs			
wages and salaries	860,076	899,080	1,757,079
social security contributions	272,474	285,746	557,588
termination indemnities	65,787	69,989	131,362
other costs	20,693	21,577	50,386
Total personnel costs	1,219,030	1,276,392	2,496,415
Amortization, depreciation and writedowns			
amortization of intangible assets	267,354	268,496	614,766
depreciation of fixed assets	1,043,999	1,127,693	2,304,066
other writedowns of intangibles and fixed assets	-	-	-
writedowns of receivables included in current assets and liquid assets	38,426	88,682	198,983
Total amortization, depreciation and writedowns	1,349,779	1,484,871	3,117,815
Changes in inventory of raw materials, supplies and merchandise	(29,202)	(23,133)	(12,398)
Provisions for risks	16,132	32,217	14,431
Other provisions	-	-	-
Miscellaneous operating costs			
losses on disposals of assets	13,484	7,614	15,612
TLC license fee	11,655	69,633	21,817
other miscellaneous costs	146,408	114,733	293,134
Total miscellaneous operating costs	171,547	191,980	330,563
<b>TOTAL PRODUCTION COSTS</b>	<b>(5,830,181)</b>	<b>(6,102,863)</b>	<b>(12,180,515)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,260,535</b>	<b>2,083,993</b>	<b>4,139,117</b>
<b>FINANCIAL INCOME AND EXPENSE</b>			
Income from equity investments			
dividends from subsidiaries	9,804	597,929	1,908,322
dividends from affiliated companies	-	-	5,200
dividends from other companies	2,322	2,821	6,022
other income from equity investments	3,146	78,735	87,165
Total income from equity investments	15,272	679,485	2,006,709
Other financial income from			
accounts receivable included in long-term investments			
subsidiaries	1,838	1,696	3,443
affiliated companies	1,084	3,166	6,169
other	3,494	7,145	6,817
Total from accounts receivable included in long-term investments	6,416	12,007	16,429
securities, other than equity investments, included in long-term investments	-	-	-
securities, other than equity investments, included in current assets	171	1,213	1,788
other income			
interest and fees from subsidiaries	14,826	16,981	29,964
interest and fees from affiliated companies	31	535	409
interest and fees from others and miscellaneous income	70,614	27,291	68,378
Total other income	85,471	44,807	98,751
Total other financial income	92,058	58,027	116,968
Interest and other financial expense			
interest and fees paid to subsidiaries	384,639	293,921	849,565
interest and fees paid to affiliated companies	92	174	306
interest and fees paid to others and miscellaneous expense	578,579	969,459	1,669,541
Total interest and other financial expense	(963,310)	(1,263,554)	(2,519,412)
Foreign exchange gains and losses	(159)	3,557	(1,774)
<b>TOTAL FINANCIAL INCOME AND EXPENSE</b>	<b>(856,139)</b>	<b>(522,485)</b>	<b>(397,509)</b>

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(in thousand of euro)

	1st half 2004	1st half 2003	Year 2003
<b>VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>			
Upward adjustments of			
equity investments	12,336	-	76,570
Total upward adjustments	12,336	-	76,570
Writedowns of			
equity investments	70,216	195,586	437,583
securities, other than equity investments, included in current assets	56	-	128
Total writedowns	(70,272)	(195,586)	(437,711)
<b>TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>(57,936)</b>	<b>(195,586)</b>	<b>(361,141)</b>
<b>EXTRAORDINARY INCOME AND EXPENSE</b>			
Income			
gains on disposals	5,242	32,533	36,532
elimination of tax interference	932		
miscellaneous	21,730	31,225	1,014,507
Total income	27,904	63,758	1,051,039
Expense			
losses on disposals	-	40,127	387,804
prior years' taxes	1,292	4,522	6,750
provisions and writedowns of equity investments	112,416	433,502	1,278,545
miscellaneous	203,886	600,248	1,030,248
Total expense	(317,594)	(1,078,399)	(2,703,347)
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>(289,690)</b>	<b>(1,014,641)</b>	<b>(1,652,308)</b>
<b>INCOME BEFORE TAXES</b>	<b>1,056,770</b>	<b>351,281</b>	<b>1,728,159</b>
Income taxes for the period, current and deferred	(542,757)	1,228,561	917,744
<b>NET INCOME</b>	<b>514,013</b>	<b>1,579,842</b>	<b>2,645,903</b>

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## ■ NOTES TO THE FINANCIAL STATEMENTS

### ■ INTRODUCTION

The statutory financial statements for the six months ended June 30, 2004 of Telecom Italia S.p.A. have been prepared in accordance with art. 81 and Annex 3C-bis of Consob Resolution No. 11971 dated May 14, 1999, and later amendments and additions, as well as the provisions of the Italian Civil Code relating to statutory financial statements and the changes and supplements to the formats of the balance sheet and statement of income introduced by the reform of corporate law pursuant to Legislative Decree No. 6 dated January 17, 2003, as amended.

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

Lastly, consolidated financial statements and the relative Notes have been prepared and are presented together with the statutory financial statements of Telecom Italia S.p.A. as required by the aforementioned art. 81 of Consob Resolution No. 11971 dated May 14, 1999 and later amendments and additions.

All amounts are stated in thousands of euro, unless otherwise indicated.

#### ■ Summary of significant accounting policies

The accounting policies adopted in the preparation of the financial statements for the first six months of 2004 are consistent with those used in the preparation of the annual statutory financial statements, to which reference should be made, taking into account certain adjustments and adaptations required by the nature of half-year disclosures.

In particular, current income taxes for the period, along with deferred taxes, are recorded in the "Reserve for taxes" and in the "Reserve for deferred taxes" under "Reserves for risks and charges". Income taxes for the six-month period are calculated according to the best possible estimate based on available information and upon a reasonable estimate of performance for the year up to the end of the tax period.

Moreover, in accordance with the changes introduced by Legislative Decree No. 6 dated January 17, 2003, in reference to the Reform of Corporate Law, and taking into account recent indications provided by the institutions and the tax authorities of reference, tax interference relative to provisions set aside in prior years exclusively for tax purposes has been eliminated with a contra-entry to extraordinary income.

As a result of this law, Telecom Italia proceeded to eliminate accelerated depreciation of euro 932 thousand as described in the note on "Fixed assets".

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the first-half 2004 result but are recorded at the end of the year in accordance with the maturity principle.

With regard to employee benefit obligations according to Law 58/1992, an updated situation at June 30, 2004 is provided below.

#### ■ 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 - FPT (part of the general "Employees Pension Fund" beginning January 1, 2000) to all employees in service in the Group's telephone companies (Stet, Sip, Italcable and Telespazio) as of February 20, 1992, as well as those who 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 problems relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess (at June 30, 2004, INPS had notified the Company of around 97% of the positions, the uniform insurance status of which gives rise to expenses for Telecom Italia).

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 Company is that the criteria set forth in Law No. 29/1979 – and, therefore, payment of the respective obligations – apply to these employees.

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At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals, with recourse to the Court of Appeals being waived for a final determination of the correct interpretation of the law in question. While the proceedings are pending, 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 954 million (partial application of Law 29/1979) and euro 1,275 million (full application of Law 58/1992), of which euro 568 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 installments in arrears (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 formal requests made by INPS up to June 30, 2004 and the interpretation of said requests, totals (net of the amounts attributed to Group companies for the employees transferred to those companies) euro 946 million, of which euro 691 million is for the principal amount and euro 255 million for accrued interest.

Nevertheless, these financial statements of Telecom Italia at June 30, 2004, include euro 530 million of residual payables to INPS (net of the amount attributed to Group companies for the employees transferred to those companies), relating to the estimate made for the employees of the former State Company for Telephone Services (ASST) by the special Ministerial Commission established under Law No. 58/1992 upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.

The expenses recorded in the first half of 2004 in "extraordinary expenses" amount to euro 123 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 and covered by the obligation of a uniform insurance status under Law No. 58/1992, recovering the amounts paid from these same companies. The recovery is recorded in the statement of income under "extraordinary income" and amounts to euro 2 million.

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## BALANCE SHEETS - ASSETS

### INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

#### INTANGIBLE ASSETS

euro 1,603,734 thousand

(euro 1,484,579 thousand at December 31, 2003)

A summary of the changes in intangible assets during the period is presented as follows:

(in thousands of euro)	1 <sup>st</sup> half 2004
- additions	392,602
- amortization	(267,354)
- eliminations and other movements	(6,093)
<b>Total</b>	<b>119,155</b>

An analysis of the composition and the changes in intangible assets during the period is shown below:

#### 12/31/2003

(in thousands of euros)	Cost	Upward adjustment	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	152,755			(129,747)	23,008
Industrial patents and intellectual property rights	4,102,823			(3,220,124)	882,699
Concessions, licenses, trademarks and similar rights	92,506			(91,656)	850
Goodwill	1,335			(190)	1,145
Work in progress and advances to suppliers	477,639				477,639
Other intangibles (*)	416,695			(317,457)	99,238
<b>Total</b>	<b>5,243,753</b>	<b>-</b>	<b>-</b>	<b>(3,759,174)</b>	<b>1,484,579</b>
(*) of which:					
Leasehold improvements	416,294			(317,056)	99,238

#### CHANGES DURING THE PERIOD

(in thousands of euro)	Additions	Reclassifications	Sales/ Retirements/ Other movements	Amortization	Total
Start-up and expansion costs				(5,752)	(5,752)
Industrial patents and intellectual property rights		394,634		(250,182)	144,452
Concessions, licenses, trademarks and similar rights				(46)	(46)
Goodwill				(134)	(134)
Work in progress and advances to suppliers	392,602	(459,917)	(6,093)		(73,408)
Other intangibles (*)		65,283		(11,240)	54,043
<b>Total</b>	<b>392,602</b>	<b>0</b>	<b>(6,093)</b>	<b>(267,354)</b>	<b>119,155</b>
(*) of which:					
Leasehold improvements	-	65,283	0	(11,240)	54,043

#### (a) Broken down as follows

	Cost	Revaluations	Writedowns	Accumulated amortization	Net value
Industrial patents and intellectual property rights	(11)			11	0
Work in progress and advances to suppliers	(6,093)				(6,093)
Other intangibles	(58,993)			58,993	0
<b>TOTAL</b>	<b>(65,097)</b>			<b>59,004</b>	<b>(6,093)</b>

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6/30/2004

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	152,755			(135,499)	17,256
Industrial patents and intellectual property rights	4,497,446			(3,470,295)	1,027,151
Concessions, licenses, trademarks and similar rights	92,506			(91,702)	804
Goodwill	1,335			(324)	1,011
Work in progress and advances to suppliers	404,231			0	404,231
Other intangibles (*)	422,985			(269,704)	153,281
<b>Total</b>	<b>5,571,258</b>	<b>-</b>	<b>-</b>	<b>(3,967,524)</b>	<b>1,603,734</b>
(*) of which:					
Leasehold improvements	422,584	-	-	(269,303)	153,281

In particular:

"Start-up and expansion costs" consist of underwriting commissions connected with share capital increases.

"Industrial patents and intellectual property rights" consist almost entirely of applications software.

"Work in progress and advances to suppliers" mainly refer to software projects for network and operating program applications. All acquisitions of intangibles are managed through specific work orders and recorded in this caption.

"Other intangibles" almost completely comprise 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 intangible assets that came into use during the period.

*In the first half of 2004, the purchases of intangibles from subsidiaries and affiliated companies amount to euro 248,246 thousand and mainly refer to software projects from I.T. Telecom (euro 211,753 thousand) and Italtel (euro 29,823 thousand).*

## ■ FIXED ASSETS

euro 11,447,084 thousand

(euro 11,842,723 thousand at December 31, 2003)

A summary of the changes in fixed assets during the period is presented as follows:

(in thousands of euro)	1 <sup>st</sup> half 2004
- additions	657,123
- disposals and other movements	(8,763)
- depreciation	(1,043,999)
<b>Total</b>	<b>(395,639)</b>



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An analysis of the composition and the changes in fixed assets during the period is presented in the following tables:

#### 12/31/2003

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings					
- Non-industrial	21,258	792		(1,189)	20,861
- Industrial	1,899,094	392,275	(4,827)	(1,200,552)	1,085,990
	1,920,352	393,067	(4,827)	(1,201,741)	1,106,851
Plant and machinery	46,662,097	730,392	(727,730)	(36,614,040)	10,050,719
Manufacturing and distribution equipment	767,875	2,693		(760,519)	10,049
Other fixed assets	554,248	4,251		(509,652)	48,847
Construction in progress and advances to suppliers	626,257				626,257
<b>Total</b>	<b>50,530,829</b>	<b>1,130,403</b>	<b>(732,557)</b>	<b>(39,085,952)</b>	<b>11,842,723</b>

#### CHANGES DURING THE PERIOD

(in thousands of euros)	Additions	Reclassifications	Sales/ Retirements/ Other movements (a)	Writedowns/ Reinstatements	Depreciation	Total
Land and buildings						
- Non-industrial		6	(55)		(80)	(129)
- Industrial		77,280	(1,519)		(38,465)	37,296
	0	77,286	(1,574)	0	(38,545)	37,167
Plant and machinery		453,522	(13,439)		(989,486)	(549,403)
Manufacturing and distribution equipment		934	(58)		(3,763)	(2,887)
Other fixed assets		11,474	830		(12,205)	99
Construction in progress and advances to suppliers	657,123	(543,216)	5,478			119,385
<b>Total</b>	<b>657,123</b>	<b>0</b>	<b>(8,763)</b>	<b>0</b>	<b>(1,043,999)</b>	<b>(395,639)</b>

#### (a) Broken down as follows

	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings					
- non-industrial buildings	(55)				(55)
- industrial buildings	(2,492)	(1,227)	55	2,145	(1,519)
	(2,547)	(1,227)	55	2,145	(1,574)
Plant and machinery	(153,446)	(2,273)		142,280	(13,439)
Manufacturing and distribution equipment	(238,316)			238,258	(58)
Other fixed assets	(1,469)	(14)		2,533	1,050
Construction in progress and advances to suppliers	5,258				5,258
<b>TOTAL</b>	<b>(390,520)</b>	<b>(3,514)</b>	<b>55</b>	<b>385,216</b>	<b>(8,763)</b>

#### 6/30/2004

(in thousand of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings					
- Non-industrial	21,209	792		(1,269)	20,732
- Industrial	1,973,882	391,048	(4,772)	(1,236,872)	1,123,286
	1,995,091	391,840	(4,772)	(1,238,141)	1,144,018
Plant and machinery	46,962,173	728,119	(727,730)	(37,461,246)	9,501,316
Manufacturing and distribution equipment	530,493	2,693		(526,024)	7,162
Other fixed assets	564,253	4,237		(519,324)	49,166
Construction in progress and advances to suppliers	745,422				745,422
<b>Total</b>	<b>50,797,432</b>	<b>1,126,889</b>	<b>(732,502)</b>	<b>(39,744,735)</b>	<b>11,447,084</b>

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Purchases of fixed assets are managed using specific work orders and recorded in "construction in progress and advances to suppliers". Reclassifications refer to fixed assets that came into use during the period.

Accumulated depreciation at June 30, 2004 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 writedowns, covered 77.6% of fixed assets at June 30, 2004, compared to 76.7% at December 31, 2003.

In accordance with the contract signed January 16, 2004 by Telecom Italia S.p.A. and Fintecna S.p.A., containing reciprocal options for the purchase and sale (put / call) of seven properties owned by Fintecna S.p.A., at a total price of euro 72,000 thousand, on June 22, 2004, Telecom Italia S.p.A., after exercising the option in April 2004, signed the deed for the purchase of the seven properties for the contractually agreed price.

Moreover, starting from the first half of 2004, in accordance with the changes introduced by Legislative Decree No. 6 dated January 17, 2003, with reference to the Reform of Corporate Law, and taking into account recent indications provided by the institutions and the tax authorities of reference, tax interference relative to accelerated depreciation charges (euro 932 thousand) made in prior years by the merging company Olivetti, in accordance with tax laws, has been eliminated with a contra-entry to extraordinary income; the related reserve for deferred taxes was booked with a contra-entry to other extraordinary expenses.

*In the first half of 2004, purchases of fixed assets from subsidiaries and affiliated companies amount to euro 90,677 thousand and refer principally to the acquisition of telephone exchanges from Italtel (euro 79,415 thousand) and the purchase of hardware systems from IT Telecom (euro 7,077 thousand).*

## ■ LONG-TERM INVESTMENTS

euro 35,036,263 thousand

(euro 35,276,500 thousand at December 31, 2003)

Details are as follows:

(in thousands of euro)	6/30/2004	12/31/2003
Equity investments in:		
• subsidiaries	34,158,746	34,188,395
• affiliated companies	385,475	450,394
• other companies	213,277	220,159
	34,757,498	34,858,948
Advances on future capital contributions	56,047	136,238
Accounts receivable from:		
• subsidiaries	71,560	67,098
• affiliated companies	42,661	54,490
• other receivables	106,199	157,428
	220,420	279,016
Treasury stock	2,298	2,298
<b>Total</b>	<b>35,036,263</b>	<b>35,276,500</b>

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## ■ Equity investments

euro 34,757,498 thousand

Annex 1 presents the changes in each investment during the period together with the corresponding amount at the beginning of the year and at June 30, 2004.

In summary, investments in subsidiaries, affiliates and other companies decreased by euro 101,450 thousand compared to December 31, 2003, as shown below:

INCREASES:		(in thousands of euro)
• <b>Subscription to capital increases, recapitalizations and loss coverage of:</b>		
Consorzio S.I.A.R.C. (1), IM.SER (126), EUROFLY SERVICES (1,334), Consorzio ABI LAB (1), Consorzio DISTRETTO AUDIOVISIVO e dell'ICT (5)		1,467
• <b>Definitive capital increases</b> of advances on future capital contributions relating to I.T. Telecom (110,439), Netesi (435), Sky Italia (7,960)		
		118,834
<b>Total increases</b>	(A)	<b>120,301</b>
DECREASES:		(in thousands of euro)
• <b>Sales/reductions of shares/quotas in:</b>		
Olivetti Gestioni Ivrea (4,849 due to the distribution of additional paid-in capital), Siosistemi (1,600), Tiglio I (38,845), Pirelli Real Estate (6,167)		51,461
• <b>Writedowns for losses of value charged to the statement of income of:</b>		
Telecom Italia Media (112,416), IT Telecom (21,182), Latin American Nautilus (1,973), Netesi (55), TILAB SA (48), Sky Italia (31,281), L.I.SIT. (3,146)		170,101
• <b>Writedowns for losses of value covered by the reserve for losses of subsidiaries and affiliates of:</b>		
IM.SER (168), Consorzio S.I.A.R.C. (1), Consorzio CO.TIM (2), Consorzio CI.MARK (3), Consorzio di BIOINGEGNERIA ED INFORMATICA MEDICA (15)		189
<b>Total decreases</b>	(B)	<b>(221,751)</b>
<b>Net change for the period</b>	(A-B)	<b>(101,450)</b>

In particular:

- On February 20, 2004, the Shareholders' Meetings of Olivetti International S.A. and Telecom Italia Finance approved the plan for the merger of Olivetti International S.A. in Telecom Italia Finance. Following this transaction, Telecom Italia Finance issued 30,000,000 new shares to Telecom Italia (the sole shareholder of Olivetti International S.A.) in exchange for the shares of the merged company. The merger is effective for accounting purposes as from January 1, 2004;
- under the second stage of the Tiglio project (which calls for an end to the process of enhancing the real estate assets held by Tiglio I and Tiglio II by contributing the assets to real estate funds or by realizing profits through individual sale transactions), the affiliated company Tiglio I contributed real estate assets to "TECLA - FONDO UFFICI" made up of 65 buildings for a total market value of about euro 926 million, to which a 15% discount was applied by virtue of their transfer en masse, in addition to a cash contribution of 25 million. As for the "CLOE FONDO UFFICI", Tiglio I contributed 39 properties for a total market value of euro 877 million, to which a 15% discount was applied by virtue of their transfer en masse.  
With reference to "TECLA - FONDO UFFICI", its placement was concluded on March 1, 2004. The total placement offer, net of indebtedness of 60% of the value contributed, was equal to euro 288 million. 10% of this amount – as a voluntary gesture – was kept by Tiglio I, 2% was subscribed by Pirelli & C. Real Estate Sgr S.p.A., as manager of the fund, while the remaining 88% was entirely placed on the market. As for "CLOE - FONDO UFFICI", placed on the market on June 29, 2004, the offer totaled euro 298 million. 5% was subscribed by Pirelli & C Real Estate Sgr S.p.A. as manager of the fund, while the remaining 95% was entirely placed with Italian investors picking up about 70% and foreign investors 30%.  
Following these transactions, in June 2004, Tiglio I proceeded to distribute cash to the shareholders in the form of capital reimbursements (additional paid-in capital) and loan repayments for a total of euro 45 million, of which euro 43 million was paid to Telecom Italia S.p.A..
- some investments in subsidiaries and affiliated companies are recorded at a amount in excess of the corresponding share of the underlying shareholders' equity, net of dividends and after consolidation adjustments. These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values. In particular, with regard to the investment in TIM, the higher carrying value compared to the underlying net equity and the stock market price is due to the allocation of the merger deficit on the Olivetti - Telecom Italia merger. However, taking into account the current strategic positioning of the business as well as its potential for further growth, it is believed, consistent with a recent valuation conducted by an external consultant, that the carrying value is aligned to the effective value of the investment.

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A comparison between the market price of listed shares at June 30, 2004 and their carrying value shows an unrealized loss of euro 5,287,715 thousand. Further details are given in Annex 2.

#### ■ Advances on future capital contributions euro 56,047 thousand

Advances on future capital contributions decreased by euro 80,191 thousand compared to December 31, 2003, and are shown net of the relative allowance accounts of euro 6,016 thousand.

They consist of payments made to Sky Italia (euro 35,820 thousand), Telegono (8,840 thousand), EPIClink (euro 8,115 thousand), Loquendo (euro 2,552 thousand) and Edotel (euro 720 thousand).

#### ■ Accounts receivable euro 220,420 thousand

Accounts receivable decreased by euro 58,596 thousand compared to December 31, 2003, and are analyzed as follows:

	12/31/2003	Changes during the period			6/30/2004
		Disburse- ments	Reimburse- ments	Other reasons	
(in thousands of euro)					
Subsidiaries	67,098	4,139		323	71,560
Affiliated companies	54,489	925	(3,913)	(8,840)	42,661
Other receivables	157,429	8,404	(59,634)	-	106,199
<b>Total</b>	<b>279,016</b>	<b>13,468</b>	<b>(63,547)</b>	<b>(8,517)</b>	<b>220,420</b>

#### Subsidiaries euro 71,560 thousand

Accounts receivable from subsidiaries refer to a loan made in 2001 to *Stet Hellas for the acquisition of UMTS licenses (euro 60,000 thousand) and Mediterranean Nautilus (euro 11,519 thousand) to meet financial requirements.*

#### Affiliated companies euro 42,661 thousand

Accounts receivable from affiliated companies refer mainly to loans made to the companies *Aree Urbane (euro 30,967 thousand), Telegono (euro 6,400 thousand) and Tiglio II (euro 2,574 thousand) for the purchase of properties and to Mirror International Holding (euro 2,252 thousand).*

#### Other receivables euro 106,199 thousand

Other receivable mainly refer to:

- the remaining loans receivable from employees (euro 48,354 thousand);
- the prepayment of the tax on the reserve for employee termination indemnities (euro 51,227 thousand), required under Law No. 662 of December 23, 1996, revalued as set forth by law;
- security deposits of euro 3,917 thousand.

#### ■ Treasury stock euro 2,298 thousand

Treasury stock remains unchanged compared to December 31, 2003.

\* \* \*

As regards accounts receivable included in long-term investments, the portion due within and beyond five years, as required by art. 2427, point 6, of the Italian Civil Code, is presented in the attached Annex 3.

## CURRENT ASSETS

#### ■ INVENTORIES euro 119,459 thousand

(euro 88,535 thousand at December 31, 2003)

Inventories increased by euro 30,924 thousand compared to December 31, 2003 principally due to higher inventories connected with the marketing of Aladino cordless phones and products for ADSL.

Inventories consist of "contract work in process" (euro 25,063 thousand) and "merchandise" (euro 94,396 thousand).

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## ■ ACCOUNTS RECEIVABLE

euro 11,451,512 thousand

(euro 12,306,160 thousand at December 31, 2003)

Accounts receivable decreased by euro 854,648 thousand compared to December 31, 2003. A breakdown and the changes that occurred during the period are given in the table below:

	12/31/2003	Changes during the period				6/30/2004
(in thousands of euro)		Utilizations	Provisions	Other	Total changes	
Trade accounts receivable	4,021,325			505,995	505,995	4,527,320
- allowance for doubtful accounts	(317,875)	23,267	(38,426)		(15,159)	(333,034)
<b>Total trade accounts receivable</b>	<b>3,703,450</b>	<b>23,267</b>	<b>(38,426)</b>	<b>505,995</b>	<b>490,836</b>	<b>4,194,286</b>
Accounts receivable from subsidiaries	3,078,742			49,037	49,037	3,127,779
- allowance for doubtful accounts of subsidiaries	(3,453)	-	-	-	-	(3,453)
<b>Total accounts receivable from subsidiaries</b>	<b>3,075,289</b>			<b>49,037</b>	<b>49,037</b>	<b>3,124,326</b>
- of which financial receivables	823,919			256,506	256,506	1,080,425
Accounts receivable from affiliated companies	123,574			15,036	15,036	138,610
- allowance for doubtful accounts of affiliated companies	(26,800)			(5,328)	(5,328)	(32,128)
<b>Total accounts receivable from affiliated companies</b>	<b>96,774</b>			<b>9,708</b>	<b>9,708</b>	<b>106,482</b>
- of which financial receivables	13,718			(13,605)	(13,605)	113
<b>Taxes receivable</b>	<b>1,362,329</b>			<b>(1,317,324)</b>	<b>(1,317,324)</b>	<b>45,005</b>
<b>Deferred tax assets</b>	<b>3,229,916</b>			<b>(157,424)</b>	<b>(157,424)</b>	<b>3,072,492</b>
<b>Other receivables</b>	<b>838,402</b>	<b>17,359</b>		<b>53,160</b>	<b>70,519</b>	<b>908,921</b>
- Government and other public entities for grants and subsidies	30,748			(2,243)	(2,243)	28,505
- other receivables	860,176			55,403	55,403	915,579
- allowance for doubtful accounts	(52,522)	17,359			17,359	(35,163)
<b>Total</b>	<b>12,306,160</b>	<b>40,626</b>	<b>(38,426)</b>	<b>(856,848)</b>	<b>(854,648)</b>	<b>11,451,512</b>

## ■ Trade accounts receivable

euro 4,194,286 thousand

Trade accounts receivable increased by euro 490,836 thousand compared to December 31, 2003 principally due to lower sales of receivables to factoring companies (-euro 326,904 thousand) during the first half. Trade accounts receivable are shown net of the relative allowance accounts (euro 333,034 thousand, of which euro 38,426 thousand were provided in the period).

They include euro 726,819 thousand of receivables from other wireline and mobile telecommunications carriers.

As for accounts receivable discounting and securitization transactions, the following is pointed out:

### • Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Wireline initiated during 2001 has continued into the first half of 2004.

During the first six months of 2004, the total amount of trade accounts receivable sold under the securitization program was equal to euro 4,436 million and refers to Telecom Italia's receivables from consumer and microbusiness clientele. At June 30, 2004, receivables sold amount to euro 894,217 thousand (euro 874,368 thousand at December 31, 2003), of which euro 761,000 thousand is not yet due.

The securitization transaction led to a reduction in net financial indebtedness of euro 874,217 thousand at June 30, 2004 (euro 851,302 thousand at December 31, 2003).

Telecom Italia also booked a short-term financial payable of euro 347,337 thousand for loans made by TI Securitisation Vehicle S.r.l. from the excess liquid resources generated by the securitization transaction.

### • Factoring

In the first half of 2004, trade accounts receivable without recourse were sold to leading factoring companies for a total amount of euro 52,367 thousand (euro 379,271 thousand at December 31, 2003). The factoring transactions by Telecom Italia led to a reduction in net financial indebtedness at June 30, 2004 of euro 138,681 thousand (euro 334,909 thousand at December 31, 2003), of which euro 39,298 thousand refers to transactions executed in the first half of 2004 and euro 99,383 thousand to transactions concluded in December 2003.

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#### ■ Accounts receivable from subsidiaries euro 3,124,326 thousand

Accounts receivable from subsidiaries increased by euro 49,037 thousand, compared to December 31, 2003, and include trade, financial and other receivables.

Financial receivables, equal to euro 1,080,425 thousand, reflect current account transactions carried out at market rates for cash management purposes and loans. They principally comprise accounts receivable from *Olivetti Tecnost* (euro 438,816 thousand), *Telecom Italia Media* (euro 280,000 thousand, including the loan to *TI Media* – euro 325,000 thousand – for the aforementioned purchase of the 40% stake in *Webfin* from *De Agostini*), *IT Telecom* (euro 234,793 thousand), and *Finsiel* (euro 23,778 thousand). Trade accounts receivable (euro 626,668 thousand) relate to TLC services rendered mainly to *Telecom Italia Sparkle* (euro 160,517 thousand), *TIM* (euro 164,612 thousand), *IT Telecom* (euro 90,841 thousand), *Telecom Italia Media* (euro 48,836 thousand), *Path.Net* (euro 47,402 thousand), *Telecom Italia Learning Services* (euro 29,053 thousand) and management fees from *Telecom Italia International* (euro 23,063 thousand). Other receivables (euro 1,417,233 thousand) primarily refer to the receivable from *TIM* (euro 1,103,000 thousand) for the sale of tax receivables and credit positions connected with the Group's VAT settlement system, specifically from the same *TIM* (euro 296,586 thousand).

#### ■ Accounts receivable from affiliated companies euro 106,482 thousand

Accounts receivable from affiliated companies increased by euro 9,708 thousand compared to December 31, 2003, and include trade, financial and other receivables.

Financial receivables total euro 113 thousand. Trade accounts receivable (euro 91,768 thousand) refer to TLC services rendered principally to *Teleleasing* (euro 47,678 thousand), *LI.SIT* (euro 17,865 thousand), *Italtel* (euro 8,124 thousand) and *Sky Italia* (euro 6,935 thousand, net of the related allowance for doubtful accounts of euro 13,740 thousand). Other receivables (euro 14,601 thousand) mainly refer to *Tiglio I* (euro 7,035 thousand) and *LI.SIT*. (euro 7,277 thousand).

The allowance for doubtful accounts increased during the period following the reclassification, from the reserve for risks and charges of euro 5,328 thousand, of receivables due from *Sky Italia* waived by the Telecom Italia Group.

#### ■ Taxes receivable euro 45,005 thousand

Taxes receivable decreased by euro 1,317,324 thousand from December 31, 2003 owing mainly to the sale of IRPEG receivables of euro 1,103,000 thousand to *TIM* to be used to pay the 2004 on-account payment for IRES.

They specifically include:

- VAT receivable, euro 12,036 thousand;
- direct income taxes receivable, euro 20,453 thousand;
- other indirect taxes receivable, euro 12,516 thousand.

#### ■ Deferred tax assets euro 3,072,492 thousand

Deferred tax assets amount to euro 3,072,492 thousand and decreased by euro 157,424 thousand compared to December 31, 2003 due to the set-off against the reserve for taxes.

#### ■ Other receivables euro 908,921 thousand

Other receivables total euro 908,921 thousand and mainly include credit positions (net of the relative allowance account) from *TI Securitisation Vehicle S.r.l.* for the deferred portion of trade accounts receivable securitization transactions (euro 470,445 thousand), customer payments in transit with the banking and postal systems (euro 164,105 thousand), employee-related receivables (euro 63,948 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 28,505 thousand).

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## ■ SHORT-TERM FINANCIAL ASSETS

euro 186,051 thousand

(euro 182,390 thousand at December 31, 2003)

The composition and changes during the period are shown in the following table:

	12/31/2003	Changes during the period				6/30/2004
		Acquisitions	Sales/Reim- bursements	Writedowns/ Reim- bursements	Other movements	
(in thousands of euro)						
Equity investments in subsidiaries	166,190	-	-	12,325	12,325	178,515
Other equity investments	21	-	-	(9)	(9)	12
Other securities						
- sundry	16,179	-	(8,599)	(56)	(8,655)	7,524
<b>Total</b>	<b>182,390</b>	<b>-</b>	<b>(8,599)</b>	<b>12,260</b>	<b>3,661</b>	<b>186,051</b>

Short-term financial assets total euro 186,051 thousand and mainly include the following:

- euro 178,471 thousand of TIM ordinary shares and euro 44 thousand of Telecom Italia Media savings shares purchased for trading;
- C.C.T. and B.T.P. treasury bills for a total of euro 7,524 thousand, of which euro 4,519 thousand is pledged as collateral for a loan, maturing July 1, 2004, granted by the Sanpaolo IMI bank.

Further details are provided in Annex 2.

\* \* \*

A breakdown of receivables and accrued income by maturity and type is presented in Annex 3.

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## ■ LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

euro 15,148,738 thousand

(euro 16,356,111 thousand at December 31, 2003)

The change in shareholders' equity during the first six months of 2004 is as follows:

	12/31/2003	Changes during the period				30/06/2004
		Appropriation net income 2003	Other changes	Net income	Total	
(in thousands of euros)						
Share capital	8,853,991	-	3,333	-	3,333	8,857,324
Additional paid-in capital	88,377	-	9,160	-	9,160	97,537
Revaluation reserves Law No. 413 of Dec. 30, 1991	-	1,129	-	-	1,129	1,129
Legal reserve	1,834,687	-	-	-	-	1,834,687
Reserve for treasury stock in portfolio	2,298	-	-	-	-	2,298
Miscellaneous reserves						
- Reserve Law No. 488/92	118,678	23,687	-	-	23,687	142,365
- Reserve, L.D. No. 124/93, ex art. 13	185	-	-	-	-	185
- Reserve D.P.R. No. 917/86 ex art. 74	5,750	-	-	-	-	5,750
- Reserve for capital grants	498,701	-	6,179	-	6,179	504,880
- Miscellaneous reserves	119,012	-	-	-	-	119,012
- Merger surplus reserve	2,188,529	-	-	-	-	2,188,529
Retained earnings	-	881,029	-	-	881,029	881,029
Net income for the year	2,645,903	(905,845)	(1,740,058)		(2,645,903)	-
Net income for the period				514,013	514,013	514,013
<b>Total shareholders' equity</b>	<b>16,356,111</b>	<b>-</b>	<b>(1,721,386)</b>	<b>514,013</b>	<b>(1,207,373)</b>	<b>15,148,738</b>

### ■ SHARE CAPITAL

The share capital of Telecom Italia S.p.A. at June 30, 2004 amounts to euro 8,857,324 thousand and consists of 10,308,303,807 ordinary shares and 5,795,921,069 savings shares, all with a par value of euro 0.55 each.

Share capital increased by euro 3,333 thousand compared to December 31, 2003 due to the following movements:

- conversion of 916,644 "Telecom Italia 1.5% 2001-2010 convertible bonds with a premium on redemption" for the issue of 432,175 new shares, for a par value of euro 238 thousand;
- exercise of 1,704,971 stock options set aside for employees of the company for the issue of 5,627,889 new shares for a par value of euro 3,095 thousand.

### ■ ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital at June 30, 2004 amounts to euro 97,537 thousand, with an increase of euro 9,160 thousand compared to December 31, 2003. The change is due to the additional paid-in capital on the above increases in share capital.

### ■ REVALUATION RESERVE LAW NO. 413 OF DECEMBER 30, 1991

This revaluation reserve, which showed a nil balance at December 31, 2003 following its complete utilization to cover the loss for the year 2002 of the merging company Olivetti, was replenished at June 30, 2004 for the entire amount, equal to euro 1,129 thousand, pursuant to the resolution passed by the Shareholders' Meeting on May 6, 2004.



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## ■ LEGAL RESERVE

The legal reserve amounts to euro 1,834,687 thousand at June 30, 2004, unchanged compared to December 31, 2003.

## ■ RESERVE FOR TREASURY STOCK IN PORTFOLIO

This reserve amounts to euro 2,298 thousand at June 30, 2004, unchanged from December 31, 2003.

## ■ MISCELLANEOUS RESERVES

Miscellaneous reserves amount in total to euro 2,960,721 thousand at June 30, 2004, with an increase of euro 29,867 thousand compared to December 31, 2003. The various components of miscellaneous reserves are analyzed in the following paragraphs.

Reserve Law No. 488/1992: this reserve, euro 142,365 thousand at June 30, 2004, increased by euro 23,687 thousand compared to December 31, 2003 as a result of the appropriation of net income for the year 2003, as voted by the Shareholders' Meeting on May 6, 2004, in order to obtain the benefits stated in Law 488/92 under the projects for investments in the South of Italy.

Reserve Law No. 124/1993, ex art. 13: this reserve, euro 185 thousand at June 30, 2004, is unchanged compared to December 31, 2003.

Reserve DPR No. 917/1986 ex art. 74: this reserve, euro 5,750 thousand at June 30, 2004, is unchanged compared to December 31, 2003.

Reserve for capital grants: this reserve, euro 504,880 thousand at June 30, 2004, increased by euro 6,179 thousand compared to December 31, 2003 due to the transfer of the portion of grants that became available during the period from the "reserves for risks and charges".

Miscellaneous reserves: these reserves, euro 119,012 thousand at June 30, 2004, are unchanged compared to December 31, 2003.

Merger surplus reserve: this reserve, euro 2,188,529 thousand at June 30, 2004, is unchanged compared to December 31, 2003.

## ■ RETAINED EARNINGS

Retained earnings refer to the appropriation of net income for the year 2003, euro 881,029 thousand, pursuant to the resolution passed by the Shareholders' Meeting of May 6, 2004.

In order to complete disclosure on the amounts and the changes in shareholders' equity, reserves that are subject to restrictions for statutory purposes and the tax treatment applicable in the event of distribution are described in the following table.

### SHAREHOLDERS' EQUITY RESERVES - STATUTORY RESTRICTIONS AND TAX TREATMENT FOR PURPOSES OF INCOME TAXES

	Amounts not subject to statutory restrictions	Amounts subject to statutory restrictions	Amounts at June 30, 2004	Amounts of reserves which, in the event of distribution, form part of the taxable income of the company	Amounts of other income reserves	Amounts of reserves which, in the event of distribution, do not form part of the taxable income of the company
(in thousands of euros)	(a)	(b)	(c) = (a + b) = (d + e + f)	(d)	(e)	(f)
<b>Reserves and retained earnings</b>						
Additional paid-in capital	97,537	-	97,537	-	-	93,537
Legal reserve	63,222	1,771,465	1,834,687	1,834,667	-	20
Reserve for treasury stock in portfolio	-	2,298	2,298	-	2,298	-
Merger surplus reserve	2,188,529	-	2,188,529	-	-	2,188,529
Reserve Law No. 488/92	-	142,365	142,365	-	122,090	20,275
Reserve, L.D. No. 124/93, ex art. 13	185	-	185	185	-	-
Reserve D.P.R. No. 917/86 ex art. 74	5,750	-	5,750	5,750	-	-
Reserve for capital grants	504,880	-	504,880	504,880	-	-
Reserve for inflation adjustments Law No. 413/1991	1,129	-	1,129	1,129	-	-
Miscellaneous reserves	101,756	17,256	119,012	-	643	118,369
Retained earnings	881,029	-	881,029	-	881,029	-
<b>Total reserves and retained earnings</b>	<b>3,844,017</b>	<b>1,933,384</b>	<b>5,777,401</b>	<b>2,346,611</b>	<b>1,006,060</b>	<b>2,424,730</b>

The amount of **distributable reserves** on which the Company does not bear tax charges is equal to euro 3,268,871 thousand.

\* \* \*

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As far as future potential changes in share capital are concerned, at June 30, 2004, the following are still outstanding:

- 2,389,136,818 “Telecom Italia 1.5% 2001-2010 convertible bonds with a premium on redemption” (formerly known as “Olivetti 1.5% 2001-2010 convertible bonds with a premium on redemption”), net of 37,181 bonds on which conversion into shares had already been requested on June 30, 2004, with the consequent reduction in the quantity of bonds still convertible with a contra-entry for a liability with future shareholders (the corresponding 17,525 ordinary shares were issued on July 14, 2004).  
Such bonds originally allowed conversion into Olivetti shares, in a ratio of one Olivetti share for every bond converted.  
As a result of the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital of the merging company and in light of the ratio indicated above, such bonds now allow the conversion to Telecom Italia shares in a ratio of 0.471553 Telecom Italia ordinary shares for every bond converted.  
Against the above bonds that can still be converted, therefore, a maximum 1,126,604,633 Telecom Italia ordinary shares could be issued, for a total par value of euro 619,633 thousand, plus additional paid-in capital of euro 1,769,504 thousand.
- 800,000 options of the ex Olivetti “Stock Option Plan 2002-2004”.  
Such options were originally valid for the subscription of the same number of Olivetti shares at a price which, after the adjustment for the capital increases against payment by Olivetti in 2001, were equal to euro 3.308 for every option exercised.  
Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute share capital and on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 0.471553 Telecom Italia ordinary shares each, at a price of about euro 7.015 per share.  
Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 377,241 new Telecom Italia ordinary shares could be issued, for a total par value of euro 207 thousand, plus additional paid-in capital of euro 2,439 thousand.
- 5,840,000 options of the ex Olivetti “Three-year Stock Option Plan February 2002-December 2004”.  
Such options were originally valid for the subscription of the same number of Olivetti shares at a price which, after the adjustment for the capital increases against payment by Olivetti in 2001, were equal to euro 2.515 for every option exercised.  
Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute share capital and on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 0.471553 Telecom Italia ordinary shares each, at a price of about euro 5.333 per share.  
Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 2,753,840 new Telecom Italia ordinary shares could be issued, for a total par value of euro 1,515 thousand, plus additional paid-in capital of euro 13,173 thousand.
- 3,401,654,887 options of the ex Telecom Italia “Stock Option Plan 1999”.  
Such options were originally valid for the subscription of the same number of shares of the merged company Telecom Italia at a price of euro 6.79 for every option exercised.  
Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital and in light of the exchange ratio of 3.300871 new Telecom Italia S.p.A. (former Olivetti S.p.A.) ordinary shares for every old Telecom Italia ordinary share, such options are now valid for the subscription of 3.300871 Telecom Italia ordinary shares each, at a price of about euro 2.057 per share.  
Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 11,228,353 new Telecom Italia ordinary shares could be issued, for a total par value of euro 6,176 thousand, plus additional paid-in capital of euro 16,921 thousand.
- 10,699,996 options of the ex Telecom Italia “Stock Option Plan 2000”.  
Such options were originally valid for the subscription of the same number of shares of the merged company Telecom Italia at a price of euro 13.815 for every option exercised.  
Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital and in light of the exchange ratio indicated above, such options are now valid for the subscription of 3.300871 Telecom Italia ordinary shares each, at a price of about euro 4.185 per share.  
Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 35,319,216 new Telecom Italia ordinary shares could be issued, for a total par value of euro 19,426 thousand, plus additional paid-in capital of euro 128,394 thousand.

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– 32,095,000 options of the ex Telecom Italia “Stock Option Plan 2001”.

Such options were originally valid for the subscription of the same number of shares of the merged company Telecom Italia at a price of euro 10.488 for every option exercised.

Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital and in light of the exchange ratio indicated above, such options are now valid for the subscription of 3.300871 Telecom Italia ordinary shares each, at a price of about euro 3.177 per share.

Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 105,940,827 new Telecom Italia ordinary shares could be issued, for a total par value of euro 58,267 thousand, plus additional paid-in capital of euro 278,343 thousand.

– 11,250,000 options of the ex Telecom Italia “Stock Option Plan 2002 Top”.

Such options were originally valid for the subscription of the same number of shares of the merged company Telecom Italia at a price of euro 9.203 for every option exercised.

Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital and in light of the exchange ratio indicated above, such options are now valid for the subscription of 3.300871 Telecom Italia ordinary shares each, at a price of about 2.788 per share.

Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder, therefore, a maximum 37,134,780 new Telecom Italia ordinary shares could be issued, for a total par value of euro 20,424 thousand, plus additional paid-in capital of euro 83,110 thousand.

– 24,474,000 options of the ex Telecom Italia “Stock Option Plan 2002”.

Such options were originally valid for the subscription of the same number of shares of the merged company Telecom Italia at the following prices for each option held: 23,434,000 options at a price of euro 9.665, 840,000 options at a price of euro 7.952 and 200,000 options at the price of euro 7.721.

Subsequent to the merger of Telecom Italia S.p.A. in Olivetti S.p.A., following the process to redistribute the share capital and in light of the exchange ratio indicated above, such options are now valid for the subscription of 3.300871 Telecom Italia ordinary shares each, at a price of, respectively, about euro 2.928, about euro 2.409 and about euro 2.339 per share.

Against the above options that can still be exercised, taking into account the maximum quantities of the shares that can be subscribed by each holder and the different subscription prices, therefore, a maximum 80,785,062 new Telecom Italia ordinary shares could be issued, for a total par value of euro 44,432 thousand, plus additional paid-in capital of euro 190,280 thousand.

The Shareholders' Meeting of May 6, 2004 also conferred the Board of Directors with the right (which, to date, has not been exercised), and for a period of a maximum 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 di 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 58/1992.

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 shall 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.

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## RESERVES FOR RISKS AND CHARGES

euro 779,809 thousand

(euro 777,327 thousand at December 31, 2003)

These increased by euro 2,482 thousand, compared to December 31, 2003. The composition and changes in these reserves are described as follows:

	12/31/2003	Changes during the period					6/30/2004
(in thousands of euro)		Provisions	Utilizations	Released to income	Reclassifications/ Other	Total changes	
Reserve for taxes and reserve for deferred taxes	119,410	572,757	(26,394)	-	(534,753)	11,610	131,020
Other reserves	657,917	25,127	(21,808)	(834)	(11,613)	(9,128)	648,789
Reserve for litigation	113,489	16,133	(7,166)	-	-	8,967	122,456
Reserve for capital grants	88,876	-	-	-	(6,179)	(6,179)	82,697
Reserve for losses of subsidiaries and affiliates	10,264	6,494	(250)	-	-	6,244	16,508
Reserve for corporate restructuring	121,144	-	(152)	-	-	(152)	120,992
Reserve for contractual risks and other risks	324,144	2,500	(14,240)	(834)	(5,434)	(18,008)	306,136
<b>Total</b>	<b>777,327</b>	<b>597,884</b>	<b>(48,202)</b>	<b>(834)</b>	<b>(546,366)</b>	<b>2,482</b>	<b>779,809</b>

### ■ Reserve for taxes and reserve for deferred taxes

Reserve for taxes and reserve for deferred taxes amount to euro 131,020 thousand and increased by euro 11,610 thousand, compared to December 31, 2003. The increase refers to the provision for income taxes for the period. Reclassifications refer to the set off of the reserve for taxes with receivables for taxes.

### ■ Other reserves

Other reserves amount to euro 648,789 thousand and decreased by euro 9,128 thousand compared to December 31, 2003.

In particular:

- the provision to the reserve for losses of subsidiaries and affiliates, euro 6,494 thousand, is principally due to losses in excess of the carrying values of Telecom Italia Learning Services for euro 4,846 thousand and Trainet for euro 1,000 thousand;
- the movements in the reserve for contractual risks and other risks mainly regard utilizations for euro 14,240 thousand and reclassifications/other reasons for euro 5,434 thousand.

The utilizations mainly refer to expenses incurred both for the dispute with OP Computers of euro 5,854 thousand and guarantees provided by Telecom Italia with regard to the sale of Telespazio.

Reclassifications principally relate to transfers to the allowance for doubtful accounts for a total of euro 5,328 thousand as a result of receivables due from Sky Italia waived by the Telecom Italia Group.

## RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,012,705 thousand

(euro 972,413 thousand at December 31, 2003)

This reserve increased by euro 40,292 thousand compared to December 31, 2003. The amount and changes during the period are presented below:

(in thousands of euro)	
<b>Balance at December 31, 2003</b>	<b>972,413</b>
Changes during the period:	
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the period plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	65,787
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	(2,757)
• Advances	(6,795)
• Supplementary benefits (Telemaco)	(8,895)
• Substitute tax on the revaluation of the reserve	(3,067)
- Amounts transferred to/from subsidiaries	(3,981)
<b>Balance at June 30, 2004</b>	<b>1,012,705</b>

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## LIABILITIES

euro 42,332,033 thousand

(euro 41,395,472 thousand at December 31, 2003)

A breakdown of liabilities and accrued expenses by due date, as set forth in point 6 of art. 2427 of the Italian Civil Code, is provided in Annex 4.

Liabilities, which increased by euro 936,561 thousand compared to December 31, 2003, include the following:

(in thousands of euro)	6/30/2004			12/31/2003		
	Financial	Trade and other	Total	Financial	Trade and other	Total
Debentures	12,655,330	-	12,655,330	9,764,983	-	9,764,983
Convertible debentures	2,828,181	-	2,828,181	4,159,570	-	4,159,570
Due to banks	1,272,612	-	1,272,612	1,191,094	-	1,191,094
Due to other lenders	763,614	-	763,614	781,885	-	781,885
Advances	-	25,767	25,767	-	22,273	22,273
Trade accounts payable	-	1,746,208	1,746,208	-	1,929,794	1,929,794
Accounts payable to subsidiaries	18,469,740	1,022,393	19,492,133	19,303,264	1,240,256	20,543,520
Accounts payable to affiliated companies	872	114,396	115,268	1,027	83,744	84,771
Taxes payable	5,229	1,030,276	1,035,505	23,430	355,650	379,080
Contributions to pension and social security institutions	-	576,126	576,126	626,769	-	626,769
Other liabilities	6,834	1,814,455	1,821,289	62,245	1,849,038	1,911,283
<b>Total</b>	<b>36,002,412</b>	<b>6,329,621</b>	<b>42,332,033</b>	<b>35,287,498</b>	<b>6,107,974</b>	<b>41,395,472</b>

### ■ Debentures

euro 12,655,330 thousand

Debentures include the following:

- euro 6,898,572 thousand relating to notes issued under the "Global Medium Term Note Program" as follows:
  - euro 2,500,000 thousand fixed-rate notes issued on February 1, 2002 in two tranches of euro 1,250,000 thousand each, maturing February 1, 2007 and February 1, 2012;
  - euro 3,000,000 thousand notes issued January 29, 2004, divided into three tranches: the first for euro 1,000,000 thousand, maturing October 29, 2007; the second for euro 750,000 thousand, maturing January 28, 2011; the third for euro 1,250,000 thousand, maturing January 29, 2019;
  - euro 110,000 thousand notes issued April 8, 2004, maturing March 30, 2009;
  - GBP 850 million (for an equivalent amount of euro 1,288,572 thousand) issued June 24, 2004, maturing June 24, 2019;
- euro 206,758 thousand relating to the 2002-2022 notes reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy. The 20-year notes, with a face value of euro 50 each, issued at face value, are not listed and can only be traded with Telecom Italia at face value. The semiannual interest is payable in arrears on January 1 and July 1 of every year and is indexed to the 6-month Euribor;
- euro 2,500,000 thousand relating to 2002-2012 fixed-rate notes originally subscribed to by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance as from January 1, 2004), (issued June 26, 2002):
- euro 1,400,000 thousand relating to 2002-2012 fixed-rate notes originally subscribed to by subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance as from January 1, 2004), (issued December 23, 2002):
- euro 1,500,000 thousand fixed-rate notes subscribed to by the subsidiary Telecom Italia Finance 2001-2011 (issued May 31, 2001):
- euro 150,000 thousand fixed-rate notes subscribed to by the subsidiary Telecom Italia Finance 2001-2011 (issued December 28, 2001):

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#### ■ Convertible debentures

euro 2,828,181 thousand

These are detailed as follows:

	12/31/2003	Changes during the period	6/30/2004
(in thousands of euro)			
<b>Telecom Italia 1.5% 2001-2004 convertible bonds with a premium on redemption</b>			
- Residual face value	1,266,268	(1,266,268)	-
- Premium on redemption	64,296	(64,296)	-
<b>Total</b>	<b>1,330,564</b>	<b>(1,330,564)</b>	<b>-</b>
<b>Telecom Italia 1.5% 2001-2010 convertible bonds with a premium on redemption</b>			
- Residual face value	2,389,802	(702)	2,389,100
- Premium on redemption	439,204	(123)	439,081
<b>Total</b>	<b>2,829,006</b>	<b>(825)</b>	<b>2,828,181</b>
<b>Total</b>	<b>4,159,570</b>	<b>(1,331,389)</b>	<b>2,828,181</b>

Telecom Italia 1.5% 2001-2004 convertible bonds with a premium on redemption were repaid on January 1, 2004.

#### ■ Due to banks

euro 1,272,612 thousand

These increased by euro 81,518 thousand, compared to December 31, 2003. They comprise medium/long-term debt totaling euro 662,252 thousand – of which euro 4,090 thousand is secured by collateral – and short-term borrowings totaling euro 610,360 thousand, relating to bank overdrafts.

#### ■ Due to other lenders

euro 763,614 thousand

These decreased by euro 18,271 thousand, compared to December 31, 2003. They consist of medium/long-term financing of euro 416,214 thousand and short-term loans payable of euro 347,401 thousand.

Medium/long-term financing principally refers to liabilities for derivatives transactions (euro 161,486 thousand) put into place with various banks to hedge loans made by subsidiaries, loans made by Cassa Depositi e Prestiti (euro 212,827 thousand) and the Fondo per l'innovazione tecnologica (euro 35,714 thousand).

Short-term loans (euro 347,337 thousand) refer almost entirely to loans made by TI Securitisation Vehicle S.r.l. deriving from excess financial resources generated by securitization transactions.

#### ■ Trade accounts payable

euro 1,746,208 thousand

These decreased by euro 183,586 thousand compared to December 31, 2003. The balance includes euro 462,983 thousand due to other telecommunications operators.

#### ■ Accounts payable to subsidiaries

euro 19,492,133 thousand

These decreased by 1,051,387 thousand, compared to December 31, 2003. They consist of financial payables, trade accounts payable and other payables. Financial payables (euro 18,469,740 thousand) refer to current account transactions negotiated at market rates for cash management purposes and mainly include loans payable to *Telecom Italia Finance* (euro 14,509,363 thousand), *Telecom Italia Capital* (euro 3,290,827 thousand), *TIM* (euro 460,000 thousand) and *Telecom Italia Sparkle* (euro 91,589 thousand). Trade accounts payable (euro 990,653 thousand) mainly consisted of accounts payable to *TIM* (euro 201,738 thousand), *Telecom Italia Sparkle* (euro 182,798 thousand) and *Telecom Italia Media* (euro 37,729 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and *IT Telecom* (euro 461,732 thousand) for supply transactions. Other payables (euro 31,740 thousand) mainly refer to payables for capital contributions, particularly to *Path.Net* (euro 18,616 thousand), and sundry payables to *Telecom Italia Sparkle* (euro 10,856 thousand).

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#### ■ Accounts payable to affiliated companies euro 115,268 thousand

These increased by euro 30,497 thousand, compared to December 31, 2003. They refer to financial payables, trade accounts payable and other payables. Financial payables (euro 872 thousand), relative to current account transactions negotiated at market rates for cash management purposes, mainly relate to payables to *Sky Italia* (euro 238 thousand), *Consorzio Telcal* (euro 392 thousand) and *Teleleasing* (euro 207 thousand). Trade accounts payable (euro 114,395 thousand) mainly refer to payables for supply transactions with *Italtel* (euro 89,079 thousand), *Siemens Informatica* (euro 12,094 thousand) and *Tiglio II* (euro 4,146 thousand). Other payables (euro 1 thousand) refer to payables for capital contributions to *Sofora Telecomunicaciones*.

#### ■ Taxes payable euro 1,035,505 thousand

These increased by euro 656,425 thousand, compared to December 31, 2003, and mainly refer to:

- the VAT liability, totaling euro 844,304 thousand, paid in August 2004;
- the payable to the tax authorities for withholding taxes as the substitute taxpayer, totaling euro 169,634 thousand;
- the financial payables (euro 5,229 thousand), relating to both the agreement reached with the Tax Administration over assessments received in 2001 (euro 4,560 thousand) and the Company's decision to take advantage of the tax amnesty under the 2003 Finance Bill (euro 669 thousand).

#### ■ Contributions to pension and social security institutions euro 576,126 thousand

These decreased by euro 50,643 thousand, compared to December 31, 2003. They include amounts owed to social security and health institutions with regard to personnel. These specifically include euro 529,869 thousand payable to INPS for the estimated charges assessed pursuant to Law No. 58/1992, described under the accounting policies.

#### ■ Other liabilities euro 1,821,280 thousand

These decreased by euro 89,990 thousand, compared to December 31, 2003. They include, in particular, liabilities for:

- customer-related items totaling euro 1,262,727 thousand, including, among other things, deposits by subscribers against telephone conversations and pre-billed basic subscriber charges;
- employee-related items amounting to euro 411,598 thousand.

\* \* \*

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 4.



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## ■ MEMORANDUM ACCOUNTS

Memorandum accounts total euro 28,556,664 thousand at June 30, 2004 and can be analyzed as follows:

### ■ GUARANTEES PROVIDED

**euro 28,435,651 thousand**

Guarantees provided consist of sureties (net of counter-guarantees received totaling euro 1,427,159 thousand), of which euro 28,154,798 thousand is provided on behalf of subsidiaries, euro 151,838 thousand on behalf of affiliated companies and euro 129,015 thousand on behalf of third parties. The guarantees are provided mainly in respect of the notes issued by Telecom Italia Finance (under the Global Medium Term Note Program) for euro 23,535,049 thousand, by Telecom Italia Capital for euro 4,360,345 thousand, and for other medium/long-term financial transactions, supply contracts and telephone licenses issued abroad.

### ■ PURCHASES AND SALES COMMITMENTS

**euro 107,070 thousand**

This item consists of commitments for purchases of euro 105,497 thousand and commitments for sales of euro 1,573 thousand. Commitments for purchases particularly include future lease obligations plus related purchase options (euro 58,312 thousand). Commitments for sales refer to the sale of 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 13,943 thousand**

These mainly 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 967,257 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amount to euro 208,040 thousand, and mainly consist of equipment leased to customers;
- guarantees provided by others for company obligations amount to euro 528,453 thousand to guarantee the proper performance of non-financial contractual obligations;
- the shares of employees and private shareholders deposited at June 30, 2004 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., are equal to euro 68,700 thousand, whereas those awaiting assignment or in the process of being replaced total euro 87 thousand;
- the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting of June 21, 1999, amounts to euro 2,103 thousand at June 30, 2004;
- the total amount of commitments at June 30, 2004 for building lease obligations to be paid on contracts for a duration of 9 to 21 years amount to euro 4,137,266 thousand.

### ■ DERIVATIVE FINANCIAL INSTRUMENTS

Transactions in derivative financial instruments at June 30, 2004 include combined cross currency & interest rate swaps (to covert some loan contracts in British pounds, US dollars and Japanese yen to euro) and interest rate swaps (to covert some loans originally at floating interest rates to fixed interest rates and to convert the indexing of debt linked with domestic parameters to the 6-month Euribor). The following table shows the notional values of the derivatives at June 30, 2004 hedging medium/long-term debt.

DESCRIPTION	Notional amount in millions of euro
Floating to fixed IRS transactions put into place by Telecom Italia S.p.A.	6
Floating to floating IRS transactions put into place by Telecom Italia S.p.A.	232
CCIRS transactions put into place by Telecom Italia S.p.A.	(*) 5,272
<b>Total</b>	<b>5,510</b>

(\*) The protection structure is conditional on the loans being maintained performing by Telecom Italia S.p.A. for euro 345 million.



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- The floating to fixed IRS transactions (4.68%) put into place by Telecom Italia S.p.A. for a notional amount of euro 6 million refer to EIB loans at floating rates;
- The floating to floating IRS transactions put into place by Telecom Italia S.p.A. for a notional amount of euro 232 million refer to the indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor;
- CCIRS transactions put into place by Telecom Italia S.p.A. and amounting to euro 5,272 million refer:
  - for euro 3,409 million, with reference to the floating rate infragroup loan in USD, received by the subsidiary Telecom Italia Capital S.A. following the bonds issued in October 2003 for a total amount of USD 4,000 million, with conversion of the loan to:
    - quarterly floating rate in euro maturing November 2008 for euro 851 million;
    - semiannual average 5.04% fixed rate in euro maturing November 2013 for euro 1,709 million, of which euro 470 million through two distinct and linked transactions;
    - semiannual 5.99% fixed rate in euro maturing November 2033 for euro 849 million.
  - for euro 174 million, with reference to the Dual Currency loan with a notional principal of JPY 20 billion with a 5% fixed interest rate and 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., 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 infragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor. This protection structure is conditional on the loan being maintained performing by Telecom Italia S.p.A.;
    - by Telecom Italia S.p.A., an IRS with the conversion of the semiannual floating rate in euro to a 6.13% fixed rate up to October 2004 and after that to an annual 6.68% fixed rate (or a semiannual floating rate in euro as elected by the counterpart) up to maturity;
  - 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. the following was put into place:
    - by Telecom Italia S.p.A., a CCIRS contract on a floating rate infragroup loan in JPY in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor. This protection structure is conditional on the loan being maintained performing by Telecom Italia S.p.A.;
    - for euro 79 million, CCIRSs linked to an EIB loan in GBP with conversion to a floating rate in euro;
    - for euro 150 million, CCIRSs linked to an EIB loan in USD with conversion to a floating rate in euro;
    - for euro 1,289 million, with regard to bonds 2004/2019 with an annual 6.375% fixed rate in GBP, maturing June 2019, CCIRSs with three-year maturities with conversion to the semiannual Euribor.

At June 30, 2004, Telecom Italia S.p.A. has exchange rate transactions put into place for treasury management purposes for a notional amount of euro 180 million.

Consistent with the accounting principles disclosed previously, the negative difference, if any, on the valuation of the above detailed derivative financial instruments at fair value, was recognized in the statement of income under financial expenses.

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## ■ STATEMENTS OF INCOME

### ■ SALES AND SERVICE REVENUES

euro 7,963,688 thousand

Sales and service revenues decreased by euro 71,044 thousand compared to the first half of 2003 and are shown gross of the amount due to other operators (euro 1,513,408 thousand), which are included in "service costs".

The breakdown of revenues by business segment and geographical area, expressly required by art. 2427, point 10, of the Italian Civil Code, is presented in the following table:

#### Breakdown by business segment

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
<b>Sales:</b>			
- telephone products	250,389	169,734	80,655
- other goods	65	131	(66)
	<b>250,454</b>	<b>169,865</b>	<b>80,589</b>
<b>Services:</b>			
- Traffic	3,325,716	3,547,594	(221,878)
- Basic subscription charges	3,978,886	3,923,872	55,014
<i>(of which) for lines leased to other TLC operators</i>	<i>563,293</i>	<i>564,660</i>	<i>(1,366)</i>
- Fees	178,825	135,659	43,166
- Miscellaneous income	229,807	257,742	(27,935)
	<b>7,713,234</b>	<b>7,864,867</b>	<b>(151,633)</b>
<b>Total</b>	<b>7,963,688</b>	<b>8,034,732</b>	<b>(71,044)</b>

#### Breakdown by geographical area

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Italy	7,716,247	7,797,874	(81,627)
Rest of Europe	154,490	143,731	10,759
North America	8,992	9,426	(434)
Central and South America	23,874	28,359	(4,485)
Australia, Africa and Asia	60,085	55,342	4,743
<b>Total</b>	<b>7,963,688</b>	<b>8,034,732</b>	<b>(71,044)</b>

Traffic revenues are detailed as follows:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
<b>• Retail traffic:</b>			
- phone	2,354,400	2,423,899	(69,499)
- internet (on-line dial-up and Adsl)	261,742	239,605	22,137
- VAS and data	326,442	514,717	(188,275)
	<b>2,942,584</b>	<b>3,178,221</b>	<b>(235,637)</b>
<b>• National wholesale traffic</b>	<b>383,132</b>	<b>369,373</b>	<b>13,759</b>
<b>Total</b>	<b>3,325,716</b>	<b>3,547,594</b>	<b>(221,878)</b>

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Revenues from basic subscription charges are detailed below:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
• Retail subscription charges:			
- phone	2,481,440	2,519,136	(37,696)
- Adsl	171,616	100,287	71,329
- VAS and data	762,496	739,849	22,647
	<b>3,415,552</b>	<b>3,359,272</b>	<b>56,280</b>
• National wholesale subscription charges	563,334	564,600	(1,266)
<b>Total</b>	<b>3,978,886</b>	<b>3,923,872</b>	<b>55,014</b>

Revenues from fees to activate service are detailed below:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
• Retail fees:			
- phone	82,663	68,107	14,556
- Adsl	34,630	3,717	30,913
- VAS and data	23,392	15,335	8,057
	<b>140,685</b>	<b>87,159</b>	<b>53,526</b>
• National wholesale fees	38,140	48,500	(10,360)
<b>Total</b>	<b>178,825</b>	<b>135,659</b>	<b>43,166</b>

Revenues from sales (euro 205,454 thousand) increased, compared to the first half of 2003, by euro 80,589 thousand, mainly as a result of higher sales of cordless phones (in particular, the Aladino model) and web service products.

*Revenues from sales and services include euro 622,222 thousand regarding transactions with subsidiaries and affiliated companies.*

*In particular they refer to:*

- *TIM (euro 308,921 thousand) - revenues for mobile-fixed interconnections and lines leased;*
- *Teleleasing (euro 67,029 thousand) - sales of telecommunications products and services;*
- *Telecom Italia Media (euro 77,511 thousand) - telecommunications services;*
- *Path.Net (euro 55,324 thousand) - telecommunications services and infrastructures dedicated to the Public Administration;*
- *Telecom Italia Sparkle (euro 30,070 thousand) - telecommunications services;*
- *IT Telecom (euro 15,686 thousand) - telecommunications services.*

## ■ RAW MATERIALS, SUPPLIES AND MERCHANDISE

**euro 233,773 thousand**

These increased by euro 61,291 thousand compared to the first half of 2003, mainly on account of higher purchase costs for telephone equipment to be resold to customers (in particular, the cordless Aladino phone and products for ADSL).

They mainly include "costs for purchases of telephone equipment to be resold to customers" for euro 123,736 thousand, "costs for purchases of inventory materials" for euro 76,798 thousand, "costs for purchases of materials for the management of corporate assets" for euro 18,021 thousand and "costs for purchases of supply materials" for euro 13,502 thousand.

*Raw materials, supplies and merchandise costs include euro 20,930 thousand of transactions with subsidiaries and affiliated companies mainly in reference to IT Telecom (euro 8,082 thousand), Teleleasing (euro 4,386 thousand) and Olivetti Tecnost (euro 2,946 thousand).*

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## ■ SERVICES

euro 2,567,051 thousand

Service costs decreased by euro 47,965 thousand, compared to the first half of 2003. Details follow:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Advertising and promotion	69,160	69,814	(654)
Selling expenses	135,373	124,200	11,173
Maintenance	152,727	106,046	46,681
Professional and consulting fees	82,810	74,059	8,751
Electricity and water	75,308	77,753	(2,445)
Telephone bill mailing expenses	21,004	21,596	(592)
Outsourcing costs	147,933	147,524	409
Interconnection costs	27,071	26,640	431
Insurance	14,210	12,275	1,935
Amounts due to other operators	1,513,408	1,617,289	(103,881)
Distribution and logistics expenses	24,121	19,883	4,238
Other services	303,926	317,937	(14,011)
<b>Total</b>	<b>2,567,051</b>	<b>2,615,016</b>	<b>(47,965)</b>

Service costs include euro 1,065,746 thousand of transactions with subsidiaries and affiliated companies. They mainly regard:

- TIM (euro 506,776 thousand) - telecommunications services and interconnection costs;
- Telecom Italia Sparkle (euro 175,936 thousand) - telecommunications services and interconnection costs;
- IT Telecom (euro 154,896 thousand) - professional fees, maintenance and selling expenses;
- Telecom Italia Media (euro 94,717 thousand) - telecommunications services and selling expenses;
- Telenergia (euro 59,269 thousand) - electricity;
- Atesia (euro 11,882) - outsourcing costs for call center and assistance activities.

## ■ USE OF PROPERTY NOT OWNED

euro 302,071 thousand

These costs decreased by euro 50,967 thousand, compared to the first half of 2003, mainly due to the absence of costs for the purchase of satellite capacity (euro 53,892 thousand) after Telespazio directly took over relations with satellite consortia.

These costs consist of:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Rentals	230,496	219,820	10,676
Hires	63,465	124,709	(61,244)
Lease installments	6,274	7,259	(985)
Other	1,836	1,250	586
<b>Total</b>	<b>302,071</b>	<b>353,038</b>	<b>(50,967)</b>

This item comprises euro 100,225 thousand of costs for the use of property not owned relating to transactions with subsidiaries and affiliated companies, specifically with Telecom Italia Sparkle (euro 35,736 thousand) for line leases, Tiglio I (euro 32,789 thousand) and Tiglio II (euro 12,699 thousand) for building rentals and IT Telecom (euro 16,195 thousand) for hardware rentals.

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## FINANCIAL INCOME AND EXPENSE

– euro 856,139 thousand

The expense balance of euro 856,139 thousand is composed of the following:

(in thousands of euro)		1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Income from equity investments	(A)	15,272	679,485	(664,213)
Other financial income	(B)	92,058	58,027	34,031
Interest and other financial expense	(C)	963,310	1,263,554	(300,244)
Foreign exchange gains and losses	(D)	(159)	3,557	(3,716)
<b>Total</b>	<b>(A + B - C + D)</b>	<b>(856,139)</b>	<b>(522,485)</b>	<b>(333,654)</b>

Income from equity investments refers to the following:

(in thousands of euro)		1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
Dividends from subsidiaries, affiliated companies and other companies		12,126	600,750	(588,624)
Other income from equity investments:				
• tax credits on dividends		-	78,735	(78,735)
• sundry income from equity investments		3,146	-	3,146
<b>Total</b>		<b>15,272</b>	<b>679,485</b>	<b>(664,213)</b>

The reduction in dividends (– euro 588,624 thousand) is for the most part due to the distribution, in the first half of 2003, of both dividends from the merged company Telecom Italia and Olivetti before the merger came into effect (euro 511,245 thousand) and reserves from the subsidiary TIM (euro 80,769 thousand).

Moreover, beginning in fiscal 2004, dividend tax credits are no longer recognized (euro 78,735 thousand in the first half of 2003) following the tax reform introduced by Legislative Decree No. 344/2003.

*Dividends from subsidiaries, affiliated companies and other companies mainly refer to TIM shares recorded in current assets (euro 9,804 thousand) and Pirelli Real Estate shares (euro 1,145 thousand).*

*Sundry income from equity investments refers to the recovery of additional paid-in capital from the company LI.SIT.*

Other financial income includes the following:

(in thousands of euro)		1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003	Change
	Recorded in long-term investments	Recorded in current assets	Total		
Interest and fees on:					
• accounts receivable from					
- subsidiaries	1,838	14,826	16,664	18,676	(2,012)
- affiliated companies	1,084	31	1,115	3,701	(2,586)
- others	3,494	-	3,494	7,146	(3,652)
• securities	-	171	171	1,213	(1,042)
• banks and the Postal Administration	-	14,200	14,200	12,595	1,605
	<b>6,416</b>	<b>29,228</b>	<b>35,644</b>	<b>43,331</b>	<b>(7,687)</b>
Income on derivative financial instruments			45,454	7,973	37,481
Other income			10,960	6,723	4,237
			<b>92,058</b>	<b>58,027</b>	<b>34,031</b>

*Other financial income includes euro 17,779 thousand of interest and fees on receivables from subsidiaries and affiliated companies, almost all of which refers to interest on current accounts for cash management purposes, mainly with:*

- Olivetti Tecnost (euro 6,113 thousand);
- IT Telecom (euro 3,823 thousand);
- Telecom Italia Finance (euro 1,385 thousand).

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Interest and other financial expense can be analyzed as follows:

(in thousands of euro)	1 <sup>st</sup> half 2004			1 <sup>st</sup> half 2003	Change
	Medium/long-term debt	Short-term borrowings	Total		
Interest and fees paid to subsidiaries	272,389	112,250	384,639	293,921	90,718
Interest and fees paid to affiliated companies	-	92	92	174	(82)
Interest and fees paid to others and miscellaneous expenses					
• on due to banks	9,884	4,025	13,909	49,701	(35,792)
• on debentures	383,418	-	383,418	611,985	(228,567)
• on due to other lenders	5,729	9,080	14,809	17,241	(2,432)
• on other items					
- Early exercise of JP Morgan put/call option	-	-	-	143,000	(143,000)
- Accrued portion of issue discounts and similar charges on loans	-	36,412	36,412	26,255	10,157
- Provision to the allowance for doubtful accounts on financial accounts receivable from affiliated companies	-	-	-	6,538	(6,538)
- Provision to the allowance for doubtful accounts for the "Deferred Purchasing Price"	-	4,292	4,292	14,705	(10,413)
- Expenses on derivative financial instruments		94,796	94,796	27,139	67,657
- Other financial expenses	11,439	19,504	30,943	72,894	(41,951)
<b>Total</b>	<b>682,859</b>	<b>280,451</b>	<b>963,310</b>	<b>1,263,554</b>	<b>(300,244)</b>

Interest and other financial expense includes euro 384,731 thousand of interest and fees on payables to subsidiaries and affiliated companies relating to interest expenses accrued on current accounts for cash management services, mainly with:

- Olivetti Finance (euro 139,586 thousand);
- Telecom Italia Finance (euro 134,774 thousand);
- Telecom Italia Capital (euro 34,999 thousand);
- TIM (euro 25,091 thousand).

Moreover, interest and other similar charges on debentures (euro 383,418 thousand) include interest by Telecom Italia Finance (euro 82,122 thousand) and by Olivetti Finance (euro 114,646 thousand) for the debentures subscribed to by these companies and described in a specific note to the financial statements.

Foreign exchange gains and losses are composed of:

(in thousands of euro)	1 <sup>st</sup> half 2004		1 <sup>st</sup> half 2003	Change
Foreign exchange gains	(A)	3,929	12,801	(8,872)
Foreign exchange losses	(B)	4,088	9,244	(5,156)
<b>Total</b>	<b>(A-B)</b>	<b>(159)</b>	<b>3,557</b>	<b>(3,716)</b>

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## EXTRAORDINARY INCOME AND EXPENSE

– euro 289,690 thousand

The balance is detailed as follows:

(in thousands of euro)	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Change
<b>Income</b>			
- gains on disposals	5,242	32,533	(27,291)
- elimination of tax interference	932	-	932
- recoveries under Law 58/1992 and damage compensation	6,048	2,937	3,111
- other	15,682	28,288	(12,606)
(A)	<b>27,904</b>	<b>63,758</b>	<b>(35,854)</b>
<b>Expense</b>			
- expenses under Law 58/1992	123,075	122,490	585
- losses on disposal	-	40,127	(40,127)
- provisions and writedowns of equity investments	112,416	85,799	26,617
- restructuring costs and provisions for corporate restructuring (employee reduction plans, territorial and other layoffs, CIGS)	35,879	58,467	(22,588)
- prior period expenses for telephone cards	-	56,434	(56,434)
- expenses on Olivetti/Telecom Italia merger and sale of Nuova Seat	-	166,729	(166,729)
- provisions for sale of Seat Pagine Gialle	-	347,703	(347,703)
- expenses for Pagine Italia settlement	-	55,000	(55,000)
- prior years' receivables writeoffs	-	92,566	(92,566)
- expenses for damages by third parties	10,711	7,101	3,610
- expenses and provisions for corporate transactions	6,348	-	6,348
- prior years' taxes	1,292	4,522	(3,230)
- other	27,873	41,461	(13,588)
(B)	<b>317,594</b>	<b>1,078,399</b>	<b>(760,805)</b>
<b>Total</b>	<b>(A-B)</b>	<b>(1,014,641)</b>	<b>724,951</b>

Extraordinary income, equal to euro 27,904 thousand, relates to the following:

- gains realized principally on the sale of a part of the holding in Pirelli Real Estate (euro 3,905 thousand) and the sale of the "Document Management" business segment (euro 1,000 thousand);
- elimination of prior period tax interference (euro 932 thousand), pursuant to Legislative Decree No. 6 dated January 17, 2003, including the Corporate Law Reform, following accelerated depreciation taken in prior years by the acquiring company Olivetti as allowed by tax laws;
- recovery of expenses from companies of the Group relating to Law 58/1992 (euro 1,540 thousand) and from third parties for damage compensation (euro 4,508 thousand);
- other prior period income of (euro 15,682 thousand).

Extraordinary expense, equal to euro 317,594 thousand, comprises the following:

- expenses under Law 58/1992 (euro 123,075 thousand) to cover employees under the former fund "Telephone Employees Pension Fund" (FPT), which became part of the general "Employees Pension Fund", in accordance with the 2000 Finance Bill;
- provisions on the equity investment in Telecom Italia Media (euro 112,416 thousand);
- expenses and provisions (euro 35,879 thousand) for corporate restructuring relating to employee cutbacks and layoffs;
- expenses for damages sustained to assets as a result of natural disasters or by third parties (euro 10,711 thousand);
- expenses of euro 3,848 thousand, following the guarantees connected with corporate transactions and the provisions associated with the sale of the "Document Management" business segment (euro 2,500 thousand);
- other prior period expenses of euro 29,165 thousand.

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## INCOME TAXES FOR THE PERIOD, CURRENT AND DEFERRED

euro 542,757 thousand

Income taxes totaling euro 542,757 thousand, (a credit balance of euro 1,228,561 thousand in the first half of 2003) increased by euro 1,771,318 thousand compared to the corresponding period of 2003. This increase is not only due to a better first-half result but also to the absence of deferred tax credits (euro 1,286,000 thousand) recorded in the first half of 2003 which became recoverable thanks to the merger of Olivetti and Telecom Italia.

Income taxes are determined on the basis of the best possible estimate in relation to available information and on the reasonable projection of annual performance to the end of the tax period.

## OTHER INFORMATION

### ■ EMPLOYEES

Headcount at June 30, 2004 is 51,489 compared to 52,361 at December 31, 2003. A breakdown of the equivalent average number of employees by professional category at the end of the period compared to the first half of 2003 and the year 2003 is presented as follows:

EQUIVALENT AVERAGE NUMBER OF EMPLOYEES	1 <sup>st</sup> half 2004	1 <sup>st</sup> half 2003	Year 2003
Executives	899	924	928
Middle management	1,952	1,865	1,902
Clerical staff	47,199	45,802	46,940
Technicians	245	5,214	3,360
<b>Total</b>	<b>50,295</b>	<b>53,805</b>	<b>53,130</b>

The following Annexes numbered 1 to 4 are an integral part of these notes.



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## ■ ANNEX 1

### LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/2003										6/30/2004			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns(-)/ Reinstat. of value(+)	Capital Repleni- shments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
<b>Equity investments in subsidiaries</b>														
ATESIA	3,707	-	-	3,707		(380)				(380)	3,327	-	-	3,327
Consorzio Energia Gruppo Telecom Italia	5	-	-	5						-	5	-	-	5
DOMUS ACCADEMY	2,400	-	-	2,400						-	2,400	-	-	2,400
EDOTEL	9,056	-	(6,914)	2,142						-	9,056	-	(6,914)	2,142
EMSA SERVIZI	5,000	-	-	5,000						-	5,000	-	-	5,000
EPIClink	450	-	(450)	-						-	450	-	(450)	-
FINSIEL	364,680	-	(115,000)	249,680						-	364,680	-	(115,000)	249,680
I.T. TELECOM	171,521	-	(114,871)	56,650		110,439		(21,182)		89,257	167,089	-	(21,182)	145,907
INTELCOM SAN MARINO	-	-	-	-						-	-	-	-	-
IRIDIUM ITALIA (in liquidation)	775	-	(775)	-						-	775	-	(775)	-
LATIN AMERICAN NAUTILUS S.A.	5,241	-	(3,268)	1,973				(1,973)		(1,973)	5,241	-	(5,241)	-
LOQUENDO	7,820	-	(7,820)	-						-	7,820	-	(7,820)	-
MED-1 Submarine Cables	5	-	-	5						-	5	-	-	5
MEDITERRANEAN NAUTILUS S.A.	14,352	-	-	14,352						-	14,352	-	-	14,352
NETESI	14,745	-	(14,745)	-		435		(55)		380	435	-	(55)	380
OFI CONSULTING (ex OLIVETTI FINANZIARIA)				-						-				
INDUSTRIALE	78,940	-	(43,831)	35,109						-	78,940	-	(43,831)	35,109
OLIVETTI GESTIONI IVREA (ex THEMA)	7,516	-	-	7,516			(4,849)			(4,849)	2,667	-	-	2,667
OLIVETTI INTERNATIONAL	442,740	-	(162,177)	280,563		(280,563)				(280,563)	-	-	-	-
OLIVETTI MULTISERVICES	41,042	-	(639)	40,403						-	41,042	-	(639)	40,403
OLIVETTI TECNOST	78,000	-	(27,749)	50,251						-	78,000	-	(27,749)	50,251
PATH.NET	25,820	-	-	25,820						-	25,820	-	-	25,820
SAIAT	34,743	11,616	-	46,359						-	34,743	11,616	-	46,359
TECNO SERVIZI MOBILI	53	-	-	53						-	53	-	-	53
TELECOM ITALIA AMERICA LATINA	13,220	-	(13,220)	-						-	13,220	-	(13,220)	-
TELECOM ITALIA AUDIT (ex IN.TEL.AUDIT)	1,750	-	-	1,750						-	1,750	-	-	1,750
TELECOM ITALIA CAPITAL SA	2,388	-	-	2,388						-	2,388	-	-	2,388
TELECOM ITALIA DEUTSCHLAND HOLDING	243,201	-	-	243,201						-	243,201	-	-	243,201
TELECOM ITALIA INTERNATIONAL	7,851,463	-	(3,545,848)	4,305,615						-	7,851,463	-	(3,545,848)	4,305,615
TELECOM ITALIA LEARNING SERVICES	1,560	-	(1,560)	-						-	1,560	-	(1,560)	-
TELECOM ITALIA MEDIA	1,974,913	-	(1,227,787)	747,126				(112,416)		(112,416)	1,974,913	-	(1,340,203)	634,710
TELECOM ITALIA MOBILE	27,182,687	84,144	-	27,266,831						-	27,182,687	84,144	-	27,266,831
TELECONTACTCENTER	110	-	-	110		380				380	490	-	-	490
TELENERGIA	40	-	-	40						-	40	-	-	40
TELSY	14,512	-	-	14,512						-	14,512	-	-	14,512
TI FINANCE	607,507	38,057	(645,564)	-		280,563				280,563	888,070	38,057	(645,564)	280,563
TI LAB GENERAL PARTNER	33	-	(12)	21						-	33	-	(12)	21
TI LAB SA	131	-	(83)	48				(48)		(48)	131	-	(131)	-
TI SPARKLE	784,765	-	-	784,765						-	784,765	-	-	784,765
TRAINET (in liquidation)	674	-	(674)	-						-	674	-	(674)	-
	39,987,565	133,817	(5,932,987)	34,188,395	-	110,874	(4,849)	(135,674)	-	(29,649)	39,801,797	133,817	(5,776,868)	34,158,746
<b>(1)</b>														
	<b>OLIVETTI GESTIONI</b>				<b>IT TELECOM</b>				<b>NETESI</b>					
	<b>IVREA</b>													
Cost	4,849				114,871				15,960					
Writedowns					(114,871)				(15,960)					
	4,849				-				-					

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(in thousands of euro)														
Equity investments in affiliated companies														
AREE URBANE	5,589	-	-	5,589						-	5,589	-	-	5,589
ASSCOM INSURANCE BROKERS	20	-	-	20						-	20	-	-	20
CARTESIA	50	-	-	50						-	50	-	-	50
Consorzio ARS (in liquidation)	-	-	-	-						-	-	-	-	-
Consorzio DREAM FACTORY	89	-	(89)	-						-	89	-	(89)	-
Consorzio EO (in liquidation)	16	-	-	16						-	16	-	-	16
Consorzio LABORATORIO DELLA CONOSCENZA	14	-	(4)	10						-	14	-	(4)	10
Consorzio NAVIGATE CONSORTIUM	300	-	-	300						-	300	-	-	300
Consorzio S.I.A.R.C. (in liquidation)	1	-	-	1	1	(1)				-	1	-	-	1
Consorzio TELCAL	211	-	-	211						-	211	-	-	211
Consorzio TELEMED (in liquidation)	10	-	-	10						-	10	-	-	10
EUROFLY SERVICE	-	-	-	-		2,035				2,035	2,312	-	(277)	2,035
IM.SER	399	-	-	399		(168)			126	(42)	357	-	-	357
IN.VA.	206	-	(45)	161						-	206	-	(45)	161
LI.SIT.	37,400	-	(3,258)	34,142				(3,146)		(3,146)	37,400	-	(6,404)	30,996
LOCALPORT	145	-	(145)	-						-	-	-	-	-
MIRROR INTERNATIONAL HOLDING	124,689	-	(70,000)	54,689						-	124,689	-	(70,000)	54,689
NORDCOM	29,045	-	(26,902)	2,143						-	29,045	-	(26,902)	2,143
OCN TRADING (in liquidation)	1	-	-	1						-	1	-	-	1
SIEMENS INFORMATICA	2,417	1,424	-	3,841						-	2,417	1,424	-	3,841
SINOPIA INFORMATICA (in bankruptcy)	-	-	-	-						-	-	-	-	-
SIOSISTEMI	3,305	-	(1,705)	1,600			(1,600)			(1,600)	-	-	-	-
SITEBA	-	-	-	-						-	-	-	-	-
SKY ITALIA (former Stream)	282,358	-	(238,279)	44,079		7,960		(31,281)		(23,321)	52,040	-	(31,282)	20,758
SOFORA TELECOMUNICACIONES S.A.	1	-	-	1						-	1	-	-	1
TELBIOS	3,375	-	-	3,375						-	3,375	-	-	3,375
TELEGONO	413	-	-	413						-	413	-	-	413
TIGLIO I	227,273	-	-	227,273			(38,845)			(38,845)	188,428	-	-	188,428
TIGLIO II	72,070	-	-	72,070						-	72,070	-	-	72,070
VOICE MAIL INTERNATIONAL (in liquidation)	3,801	-	(3,801)	-						-	3,801	-	(3,801)	-
	793,198	1,424	(344,228)	450,394	1	9,826	(40,445)	(34,427)	126	(64,919)	522,855	1,424	(138,804)	385,475
(1)	SIOSISTEMI		LOCALPORT		Cons. S.I.A.R.C.		IM.SER		TIGLIO I		Sky Italia			
Cost	3,305		145		1		168		38,845		238,278			
Writedowns	(1,705)		(145)		(1)		(168)		-		(238,278)			
	1,600		-		-		-		38,845		-			

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(in thousands of euro)														
Equity investments in other companies														
ANCITEL	93	-	-	93						-	93	-	-	93
AZIENDA ESERCIZIO GAS	1	-	-	1						-	1	-	-	1
BIOINDUSTRY PARK DEL CANAVESE	52	-	-	52						-	52	-	-	52
CAF ITALIA 2000	-	-	-	-						-	-	-	-	-
CERM L'AQUILA	266	-	-	266						-	266	-	-	266
CONSORTIUM	19,527	-	-	19,527						-	19,527	-	-	19,527
Consorzio ABI LAB	-	-	-	-	1					1	1	-	-	1
Consorzio C.I. MARK	3	-	-	3		(3)				(3)	-	-	-	-
Consorzio CAISI (in liquidation)	-	-	-	-						-	-	-	-	-
Consorzio CEFRIEL	36	-	-	36						-	36	-	-	36
Consorzio CIES	26	-	-	26						-	26	-	-	26
Consorzio CO.TIM (in liquidation)	4	-	(2)	2		(2)				(2)	-	-	-	-
Consorzio COREP	10	-	-	10						-	10	-	-	10
Consorzio CRATI	-	-	-	-						-	-	-	-	-
Consorzio BIOINGEGNERIA INFORMATICA MEDICA	15	-	-	15		(15)				(15)	-	-	-	-
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 GE.SE.CE.DI.	73	-	-	73						-	73	-	-	73
Consorzio MULTIMEDIA	-	-	-	-						-	-	-	-	-
Consorzio Nazionale Imballaggi - CONAI	1	-	-	1						-	1	-	-	1
Consorzio NETTUNO	41	-	-	41						-	41	-	-	41
Consorzio QUALITAL	-	-	-	-						-	-	-	-	-
Consorzio TECHNAPOLI	206	-	-	206						-	206	-	-	206
Consorzio TECNEDIN (in liquidation)	-	-	-	-						-	-	-	-	-
Consorzio TOPIX	100	-	-	100						-	100	-	-	100
DIOMEDEA (in liquidation)	6	-	-	6						-	6	-	-	6
EDINDUSTRIA	44	-	(6)	38						-	44	-	(6)	38
EMITTENTI TITOLI	424	-	-	424						-	424	-	-	424
EUROFLY SERVICE	978	-	(277)	701	1,334	(2,035)				(701)	-	-	-	-
FIN. - PRIV.	15,375	-	-	15,375						-	15,375	-	-	15,375
Fratelli ALINARI	2,974	-	(2,273)	701						-	2,974	-	(2,273)	701
FUNIVIE DEL PICCOLO S. BERNARDO	-	-	-	-						-	-	-	-	-
IDROENERGIA	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
ISTUD	6	-	-	6						-	6	-	-	6
ITALTEL CERM PALERMO	217	-	(24)	193						-	217	-	(24)	193
ITALTEL CERM S. MARIA CAPUA VETERE	255	-	(63)	192						-	255	-	(63)	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

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#### Equity investments in other companies

	12/31/2003							6/30/2004						
(in thousands of euro)	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/ Reinstat. of value(+)	Capital Repleni-shments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
PAR. FIN. (in bankruptcy)	256	-	-	256						-	256	-	-	256
PILA	6	-	-	6						-	6	-	-	6
PIRELLI RE	15,199	-	-	15,199			(6,167)			(6,167)	9,032	-	-	9,032
S.A.G.I.T.	1	-	-	1						-	1	-	-	1
SIA	11,278	-	-	11,278						-	11,278	-	-	11,278
SODETEL	4	-	-	4						-	4	-	-	4
TELEPORTO ADRIATICO	-	-	-	-						-	-	-	-	-
UBAE	1,898	-	-	1,898						-	1,898	-	-	1,898
	224,228	-	(4,069)	220,159	1,340	(2,055)	(6,167)	-	-	(6,882)	217,067	-	(3,790)	213,277
<b>Total equity investments</b>	<b>41,004,991</b>	<b>135,241</b>	<b>(6,281,284)</b>	<b>34,858,948</b>	<b>1,341</b>	<b>118,645</b>	<b>(51,461)</b>	<b>(170,101)</b>	<b>126</b>	<b>(101,450)</b>	<b>40,541,719</b>	<b>135,241</b>	<b>(5,919,462)</b>	<b>34,757,498</b>

#### (1)

	Consorzio BIOINGEGNERIA INFORMATICA		Consorzio C.I.MARK		Consorzio COTIM (in liquidaz.)		PIRELLI RE	
Cost	15		3		4		6,167	
Writedowns	(15)		(3)		(4)		-	
	-		-		-		6,167	

	12/31/2003							6/30/2004						
(in thousands of euro)	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications/ Contributions by merged Company	Disposals (1)	Write-downs (-)/ Reinstat. of value (+)	Capital Repleni-shments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
<b>Advances on future capital contributions of subsidiaries and affiliated companies</b>														
EDOTEL	720	-	-	720						-	720	-	-	720
EPIClink	14,029	-	(3,091)	10,938				(2,823)		(2,823)	14,029	-	(5,914)	8,115
I.T. TELECOM	110,440	-	-	110,440		(110,440)				(110,440)	-	-	-	-
LOCALPORT	-	-	-	-	61	(61)				-	-	-	-	-
LOQUENDO	3,270	-	(46)	3,224				(672)		(672)	3,270	-	(718)	2,552
NETESI	1,650	-	(1,215)	435		(435)				(435)	-	-	-	-
SKY ITALIA (ex Stream)	7,960	-	-	7,960	35,820	(7,960)				27,860	35,820	-	-	35,820
TELECOM ITALIA LEARNING SERVICES	31,344	-	(28,823)	2,521				(2,521)		(2,521)	31,344	-	(31,344)	-
TELEGONO	-	-	-	-		8,840				8,840	8,840	-	-	8,840
<b>Total advances on future capital contributions of subsidiaries and affiliated companies</b>	<b>169,413</b>	<b>-</b>	<b>(33,175)</b>	<b>136,238</b>	<b>35,881</b>	<b>(110,056)</b>	<b>-</b>	<b>(6,016)</b>	<b>-</b>	<b>(80,191)</b>	<b>94,023</b>	<b>-</b>	<b>(37,976)</b>	<b>56,047</b>

#### (1)

	LOCALPORT	
Cost	61	
Writedowns	(61)	
	-	

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## ■ ANNEX 2

### COMPARISON OF THE CARRYING VALUE OF LISTED SHARES WITH MARKET PRICES AT JUNE 30, 2004

	Number of shares held	Market value		Carrying value		Difference	
		Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)
(A)	(B)	(A-B)					
Long-term investments							
MEDIOBANCA	14,118,350	10.00	141,155	8.01	113,119	1.99	28,037
PIRELLI & C. REAL ESTATE	482,586	30.95	14,936	18.72	9,032	12.23	5,904
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	4.67	21,943,892	5.81	27,266,831	(1.13)	(5,322,939)
TELECOM ITALIA MEDIA							
- ordinary shares	1,859,629,225	0.34	635,993	0.34	634,710	-	1,283
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	4.67	178,471	4.67	178,471	-	-
TELECOM ITALIA MEDIA							
- savings shares	164,997	0.27	44	0.27	44	-	-
PORTAL SOFTWARE INC.	4,000	2.99	12	2.99	12	-	-

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## ■ ANNEX 3

### ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in thousands of euro)	6/30/2004 Amounts due				12/31/2003 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
<b>Accounts receivable in long-term investments</b>								
- subsidiaries	41	71,519		71,560	2,891	64,207		67,098
- affiliated companies	137	9,010	33,514	42,661	95	17,363	37,031	54,489
- others								
customers	66	16		82	269	67		336
employees	5,960	30,164	12,230	48,354	14,981	23,255	9,249	47,485
security deposits	70	3,476	371	3,917	262	3,110	12,566	15,938
time deposit on behalf of Getronics					32,067			32,067
miscellaneous	8,623	45,223		53,846	21,035	40,568		61,603
	<b>14,897</b>	<b>159,408</b>	<b>46,115</b>	<b>220,420</b>	<b>71,600</b>	<b>148,570</b>	<b>58,846</b>	<b>279,016</b>
<b>Accounts receivable in current assets</b>								
<b>Other financial receivables from</b>								
- subsidiaries	1,080,425			1,080,425	823,919			823,919
- affiliated companies	113			113	13,718			13,718
- others	481,438			481,438	366,594			366,594
	<b>1,561,976</b>			<b>1,561,976</b>	<b>1,204,231</b>			<b>1,204,231</b>
<b>Trade accounts receivable from</b>								
- customers	4,194,286			4,194,286	3,703,450			3,703,450
- subsidiaries	626,668			626,668	679,507			679,507
- affiliated companies	91,768			91,768	70,955			70,955
- others	164,105			164,105	87,984			87,984
	<b>5,076,827</b>			<b>5,076,827</b>	<b>4,541,896</b>			<b>4,541,896</b>
<b>Other receivables from</b>								
- subsidiaries	1,417,233			1,417,233	1,571,863			1,571,863
- affiliated companies	14,601			14,601	12,101			12,101
- taxes receivables	45,005			45,005	1,362,329			1,362,329
- deferred tax assets	1,017,353	2,055,139		3,072,492	1,174,778	2,055,138		3,229,916
- miscellaneous:								
Government and other public entities for grants and subsidies	28,505			28,505	30,748			30,748
miscellaneous	234,873			34,873	353,076			353,076
	<b>2,757,570</b>	<b>2,055,139</b>		<b>4,812,709</b>	<b>4,504,895</b>	<b>2,055,138</b>		<b>6,560,033</b>
<b>Total accounts receivable in current assets</b>	<b>9,396,373</b>	<b>2,055,139</b>		<b>11,451,512</b>	<b>10,251,022</b>	<b>2,055,138</b>		<b>12,306,160</b>
<b>Accrued income</b>	<b>21,041</b>			<b>21,041</b>	<b>20,698</b>			<b>20,698</b>

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## ■ ANNEX 4

### LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in thousands of euro)	6/30/2004 Amounts due				12/31/2003 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
<b>Medium and long-term financial debt</b>								
- Debentures		2,360,000	10,295,330	12,655,330	1,500,000	1,250,000	7,014,983	9,764,983
- Convertible debentures			2,828,181	2,828,181	1,330,564		2,829,006	4,159,570
- Due to banks	319,483	341,758	1,010	662,251	393,819	286,508	279	680,606
- Due to other lenders	80,893	185,255	150,066	416,214	77,552	213,131	249,407	540,090
- Accounts payable to subsidiaries		8,536,747	4,453,616	12,990,363	2,434,000	8,431,867	639,267	11,505,134
- Taxes payable	5,229			5,229	23,430			23,430
	<b>405,605</b>	<b>11,423,760</b>	<b>17,728,203</b>	<b>29,557,568</b>	<b>5,759,365</b>	<b>10,181,506</b>	<b>10,732,942</b>	<b>26,673,813</b>
<b>Short-term financial debt</b>								
- Due to banks	610,360			610,360	510,488			510,488
- Due to other lenders	347,401			347,401	241,795			241,795
- Accounts payable to subsidiaries	5,479,377			5,479,377	7,798,130			7,798,130
- Accounts payable to affiliated companies	872			872	1,027			1,027
- Other payables	6,834			6,834	62,245			62,245
	<b>6,444,844</b>			<b>6,444,844</b>	<b>8,613,685</b>			<b>8,613,685</b>
<b>Trade accounts payable</b>								
- Accounts payable to suppliers	1,746,208			1,746,208	1,929,794			1,929,794
- Accounts payable to subsidiaries	990,653			990,653	1,148,987			1,148,987
- Accounts payable to affiliated companies	114,395			14,395	59,405			59,405
	<b>2,851,256</b>			<b>2,851,256</b>	<b>3,138,186</b>			<b>3,138,186</b>
<b>Other payables <sup>(1)</sup></b>								
- Accounts payable to subsidiaries	31,740			31,740	91,269			91,269
- Accounts payable to affiliated companies	1			1	24,339			24,339
- Taxes payable	1,030,276			1,030,276	355,650			355,650
- Contributions to pension and social security institutions	109,582	295,942	170,602	576,126	160,225	295,942	170,602	626,769
- Other liabilities	1,814,014	441		1,814,455	1,848,597	441		1,849,038
	<b>2,985,613</b>	<b>296,383</b>	<b>170,602</b>	<b>3,452,598</b>	<b>2,480,080</b>	<b>296,383</b>	<b>170,602</b>	<b>2,947,065</b>
<b>Total liabilities <sup>(1)</sup></b>	<b>12,687,318</b>	<b>11,720,143</b>	<b>17,898,805</b>	<b>42,306,266</b>	<b>19,991,316</b>	<b>10,477,889</b>	<b>10,903,544</b>	<b>41,372,749</b>
<b>Accrued expenses</b>	<b>502,237</b>	<b>75,522</b>		<b>577,759</b>	<b>1,763,678</b>	<b>64,644</b>		<b>1,828,322</b>

(1) Not including advances

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## ■ INDEPENDENT AUDITOR'S REPORT



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### AUDITORS' REPORT ON THE REVIEW OF THE MANAGEMENT REPORT FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2004 OF TELECOM ITALIA S.p.A. (Translation from the original Italian version)

To the Shareholders of  
 Telecom Italia S.p.A.

1. We have performed the review of the Management Report of Telecom Italia S.p.A. for the six months period ended June 30, 2004, represented by the Balance Sheets and the Statements of Income and related Notes of Telecom Italia S.p.A. (Parent Company Statements) and the Telecom Italia Group (Consolidated Statements). We have also reviewed that part of the financial information presented by the Board of Directors in the Management Report with respect of their discussions and analyses of the operations, solely for the purpose of evaluating its consistency with the above mentioned statements and related Notes.
2. Our review was conducted in accordance with auditing standards governing review of interim financial statements recommended by CONSOB (the Italian Stock Exchange Regulatory Agency) in its resolution No. 10867 of July 31, 1997. A review consists mainly of obtaining information with respect to the accounts included in the statements identified in paragraph 1 of this report and the consistency of the accounting principles applied through discussions with appropriate members of management, and analytical procedures applied to the financial data presented in such statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities. Consequently, the scope of a review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the statements and related Notes identified in paragraph 1 of this report of Telecom Italia S.p.A. as of and for the six months period ended June 30, 2004, as we do in connection with reporting on our full scope audits of the annual Parent Company and Consolidated Statements of Telecom Italia S.p.A..
3. With respect to the Parent Company and the consolidated comparative data as of and for the year ended December 31, 2003 and for the six months period ended June 30, 2003, reference should be made to our audit and review reports issued on April 15, 2004 and on September 3, 2003 respectively.

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4. Based on our review, we did not become aware of any significant modifications that should be made to the statements and related Notes identified in paragraph 1 of this report, in order for them to be in conformity with the criteria for the presentation of the semi-annual Management Report, stated by art. 81 of CONSOB regulations as approved in its resolution No. 11971 of May 14, 1999 and subsequent modifications.
5. The Notes describe the accounting criteria utilized by Telecom Italia S.p.A. for the employee benefit obligations as required by Law no.58/1992.

Turin, September 13, 2004

Reconta Ernst & Young S.p.A.  
Signed by: Felice Persico  
Partner

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## ■ USEFUL INFORMATION

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Corporate Affairs  
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00198 Roma

Calling to

Free number 800020220  
Free number is to disposal for information and help to shareholders

E-mail

corporate.affairs@telecomitalia.it

Internet

User of the world wide web can acces the  
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