FIRST-HALF 2005 REPORT

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TELECOM ITALIA GROUP

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THE PARENT COMPANY, TELECOM ITALIA S.p.A.

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CORPORATE BOARDS

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

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

Remuneration Committee	Luigi Fausti (Chairman)
	Paolo Baratta
	Pasquale Pistorio

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

Committee for Internal Control and Corporate Governance	Guido Ferrarini

Domenico De Sole
Francesco Denozza
Marco Onado

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

<u>Strategies Committee</u>	Marco Tronchetti Provera
	Carlo Orazio Buora
	Domenico De Sole
	Marco Onado
	Pasquale Pistorio

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

<u>General Managers</u>	Riccardo Ruggiero
	Giuseppe Sala

The General Managers in office were appointed by the Board of Directors on August 4, 2003.

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

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

<u>Common representatives</u>

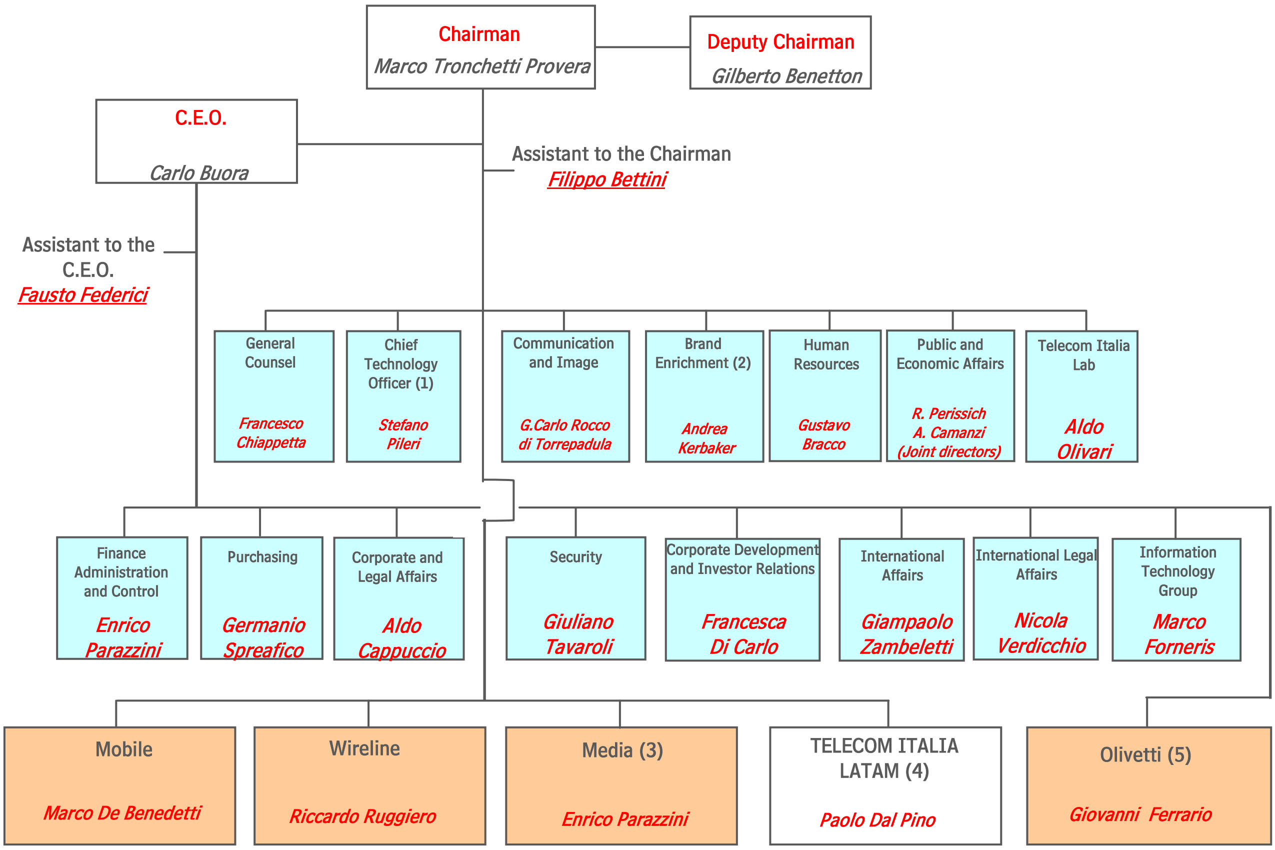
- savings shareholders	Carlo Pasteris
- "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	Francesco Pensato
- "Telecom Italia 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired"	Francesco Pensato

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

<u>Independent Auditors</u>	Reconta Ernst & Young S.p.A.

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

MACRO-ORGANIATION CHART - TELECOM ITALIA GROUP AT JUNE 30, 2005



Internal Auditing of the Group is entrusted to the consortium company Telecom Italia Audit; the Chairman is Armando Focaroli.

(1) Beginning June 8, 2005, the Group Chief Technology Officer is responsible for ensuring the course of action and the coordination of the fixed-mobile integration plans for the innovation and the technological development of the telecommunications networks.

(2) The central function Brand Enrichment corresponds to Progetto Italia S.p.A.

(3) Starting June 1, 2005, the Business Unit took the name of Media; it was previously called Internet and Media.

(4) Telecom Italia Latam has the role of the "delocalized" Corporate function in Latin America. The Business Units – with their present corporate organization structure – are nevertheless responsible for the results of the subsidiaries in Latin America under their control.

(5) Starting April 5, 2005, the Business Unit took the name of Olivetti; it was previously called Olivetti Tecnost.

Beginning July 8, 2005, Antonio Sanna – reporting directly to the CEO – assumed the role of Group Compliance Officer with responsibility for ensuring the overall coordination of the implementation programs for the improvement of the internal control system of the Group.

Committees

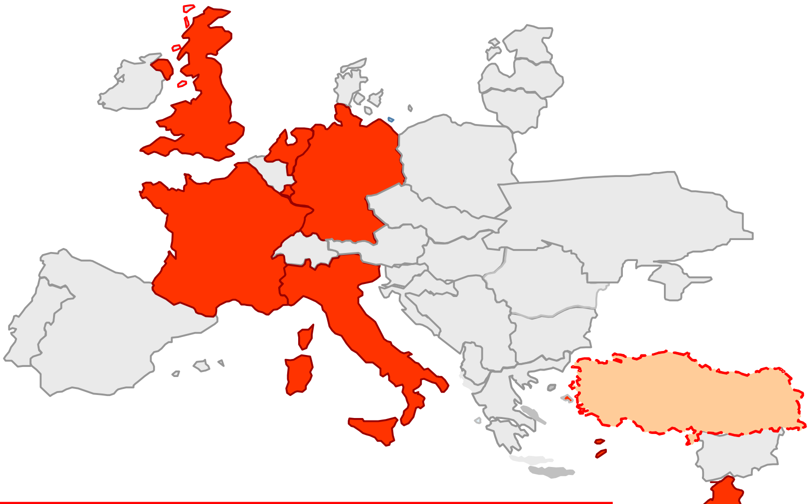
The Group has the following committees:

- the **"Telecom 2007" Steering Committee**, which evaluates business trends, generally ensures governance over integration plans and monitors the progress made, with specific reference to VAS innovation, to technological, network and IT innovation, to customer operations and business support systems and purchasing and the supply chain;
- the **Management Committee**, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
- the **Disclosure Committee**, which provides assistance and support to the Board of Directors and top management in the processing and management of data and news necessary for the correct dissemination of information to the market;
- the **Business Reviews**, which check the results achieved by each Business Unit, analyzing forecasts and operations progress reports, and decide on action plans, where necessary;
- the **Investments Committee**, which is entrusted with approving investments that exceed specific delegated limits;
- the "**Project 404" Steering Committee**, which is responsible for implementing the Group-wide Project 404, which aims to guarantee the timely completion of the preliminary actions necessary for Telecom Italia to fulfill its internal control disclosure obligations under Section 404 of the 2002 Sarbanes-Oxley Act
- the **Purchasing Committee**, which coordinates purchases throughout the Group, monitoring progress and maximizing synergies among the Business Units/Companies;
- the **IT Governance Committee**, which defines the guidelines for the information strategies of the Group and directs the relative plans and monitors their progress;
- the **Publishing Committee**, which defines strategic policy for the publishing guidelines of the Group; the Operational Committee for the Purchase of Content reports to the Publishing Committee with the aim of ensuring a unitary vision of the initiatives developed by the Business Units, enriching the content of the Group's plans and packages and establishing a synergic approach to external suppliers;
- the **Technological Committee**, which ensures an integrated approach to innovation and technological development processes;
- the **IT Security Committee**, which ensures an integrated approach to the management of IT security within the Group;
- the **Latin America Purchasing Committee**, which coordinates purchasing throughout Latin America, monitoring progress and maximizing synergies among the operating companies;
- the **Latin America Image and Advertising Committee**, which ensures the overall consistency of the Group's advertising and image initiatives in Latin America;
- the **Latin America Regional Coordination Committee**, which ensures the overall consistency of the Group's activities in Latin America in order to achieve a unitary approach in the development and implementation of business strategies.

INTERNATIONAL PRESENCE OF THE TELECOM ITALIA GROUP AT JUNE 30, 2005

Presence through subsidiaries

Presence through affiliates



EUROPE

Major subsidiaries

WIRELINE

- Telecom Italia Sparkle Group
- Telecom Italia Deutschland GmbH
- HanseNet Telekommunikation GmbH
- Telecom Italia France
- BBNed Group (Holland)

OTHER ACTIVITIES

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

MEDITERRANEAN BASIN

Major subsidiaries

WIRELINE

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

Major affiliated companies

MOBILE

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

SOUTH AMERICA

Major subsidiaries

WIRELINE

- Latin American Nautilus Group (Latin America)
- Entel Bolivia Group (Bolivia)

MOBILE

- TIM Participaçoes Group (Brazil)
- Maxitel S.A. (Brazil)
- TIM Celular S.A (Brazil)
- Starcel Ltda (Brazil)
- TIM Perù S.A.C. (Peru)
- Corporacion Digitel C.A. (Venezuela)
- Blah ! (ex-TIMNet Com S.A.) (Brazil)
- Group Entel Bolivia (Bolivia)

Major affiliated companies

WIRELINE

- Telecom Argentina Group

MOBILE

- Telecom Argentina Group

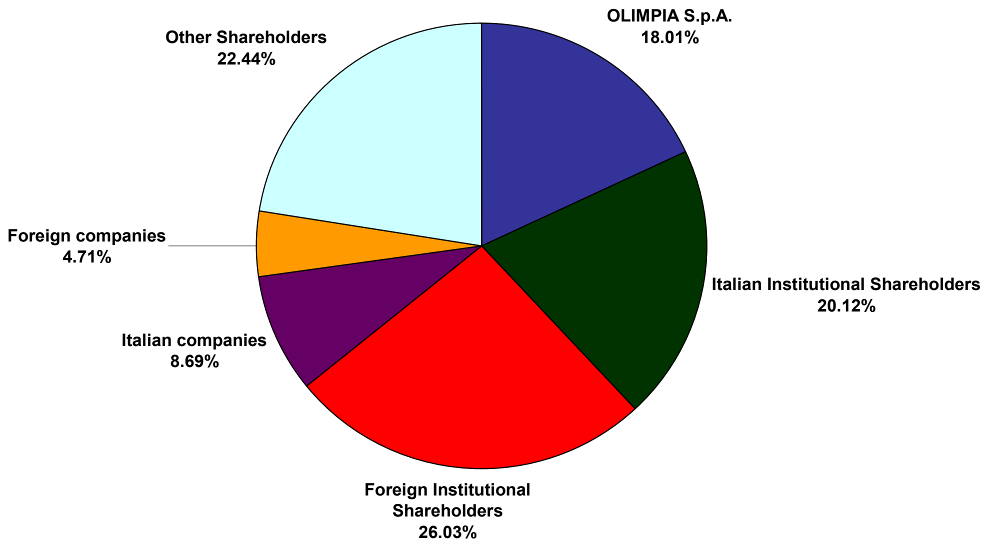
SHAREHOLDER INFORMATION

TELECOM ITALIA S.p.A. SHARE CAPITAL AT JUNE 30, 2005

Share capital	euro 10,667,339,007.05
Ordinary shares (par value of euro 0.55 each)	No. 13,369,041,170
Savings shares (par value of euro 0.55 each)	No. 6,026,120,661
Telecom Italia ordinary treasury stock	No. 1,272,014
Telecom Italia ordinary shares held by Telecom Italia Finance	No. 124,544,373
Market capitalization (based on June 2005 average prices)	euro 47,685 million

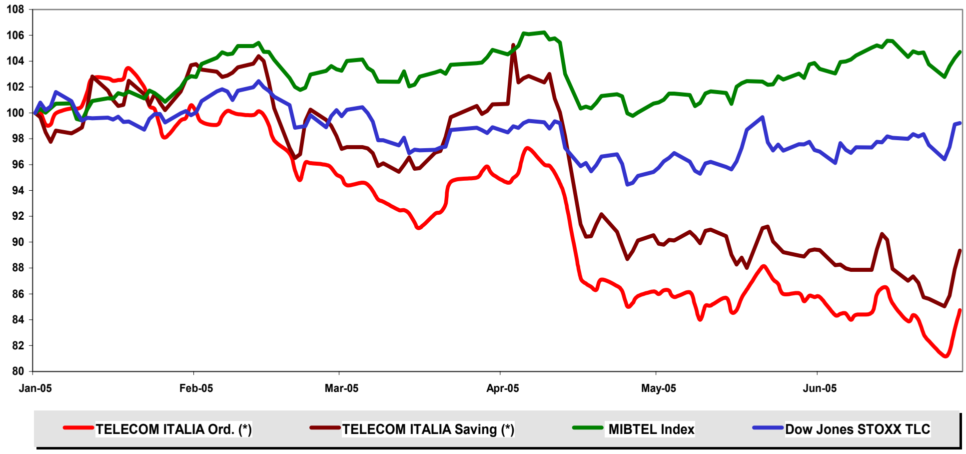
SHAREHOLDERS

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at June 30, 2005, supplemented by communications received and other sources of information (ordinary shares)

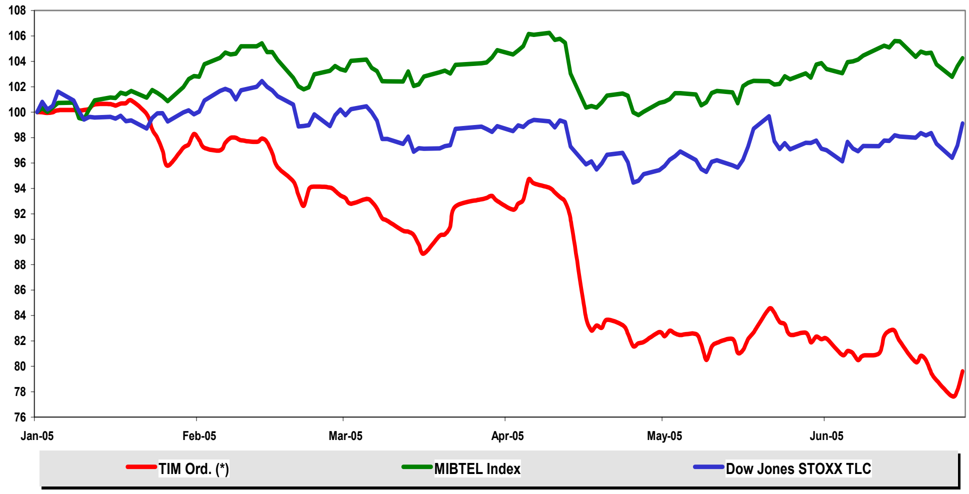


PERFORMANCE OF THE STOCKS OF THE MAJOR COMPANIES IN THE TELECOM ITALIA GROUP

Relative performance
TELECOM ITALIA S.p.A.
1/1/2005 – 6/30/2005
vs. MIBTEL and DJ Stoxx TLC Indexes

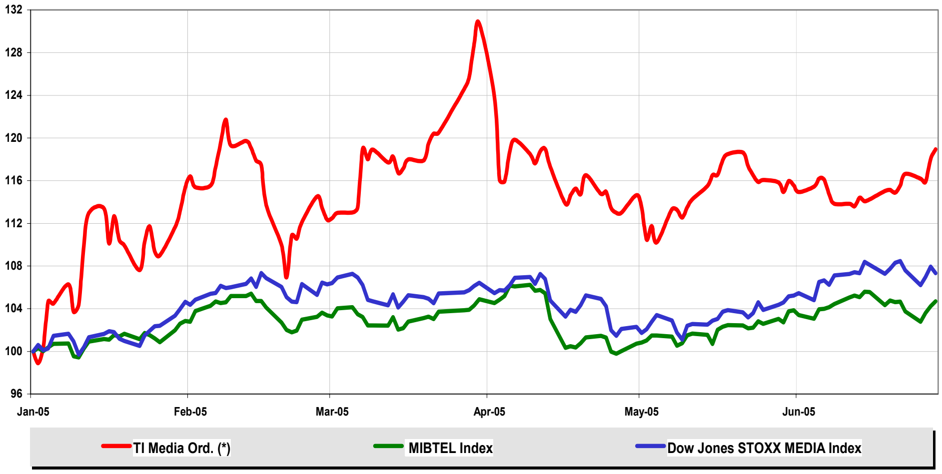


Relative performance
TIM S.p.A.
1/1/2005 – 6/29/2005
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)
(official prices up to June 29, 2005, last day of TIM S.p.A. stock listing)

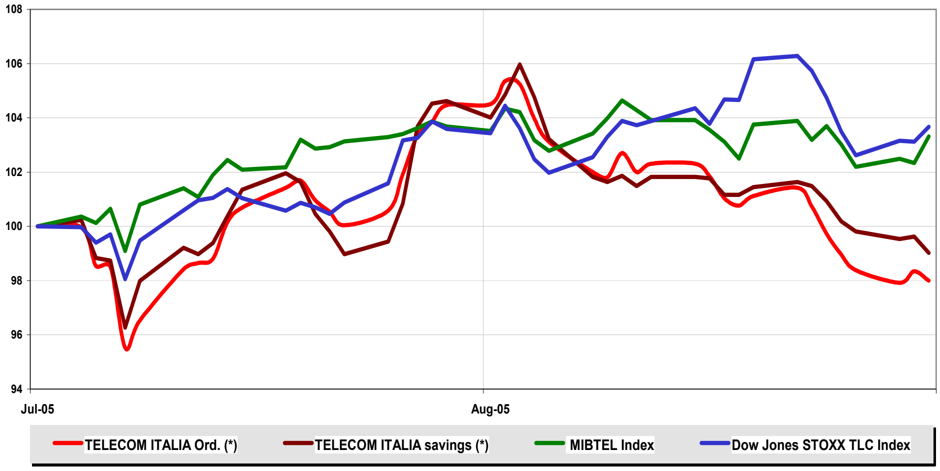


(*) Official prices up to June 29, 2005, last day of TIM S.p.A. stock listing.

Relative performance
TELECOM ITALIA MEDIA S.p.A.
1/1/2005 – 6/30/2005
vs. MIBTEL and DJ Stoxx TLC Indexes
(ordinary shares)
(Source: Reuters)



Relative performance
TELECOM ITALIA S.p.A.
7/1/2005 – 8/31/2005
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



RATINGS AT JUNE 30, 2005

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

During the first six months of 2005, no changes were made to the ratings assigned by the agencies upon the announcement of the merger of Telecom Italia and TIM on December 7, 2004.

TELECOM ITALIA / TIM MERGER

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

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

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

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

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

√	2,150,947,060 ordinary shares (par value of euro 0.55 euro per share) for a total par value of	euro	1,183	million
√	230,199,592 savings shares (par value of euro 0.55 euro per share) for a total par value of	euro	127	million
	Total 2,381,146,652 ordinary and savings shares issued for a total par value of	**euro**	**1,310**	**million**

Accounting effects of the transaction

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

- In the consolidated financial statements of the Telecom Italia Group drawn up according to IAS/IFRS, the Telecom Italia/TIM integration transaction was recorded at fair value. The difference between the fair value of the shares purchased and the new share issue and the underlying share of TIM's net equity acquired was recorded as goodwill and amounted to euro 16,654 million - of which euro 11,804 million was from the cash tender offer and additional purchases and euro 4,850 million from the exchange of TIM shares. The Telecom Italia shares issued to service the share exchange were valued at the market price at June 30, 2005 (euro 2,595 for each ordinary share and euro 2,156 for each savings share).

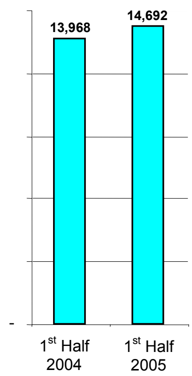
- In the financial statements of Telecom Italia S.p.A. drawn up according to Italian GAAP, the Telecom Italia/TIM integration transaction was accounted for on the basis of the carrying values; this treatment resulted in both a cancellation deficit of euro 35,462 million (being the difference between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

SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

The economic and financial results of the Telecom Italia Group for the first half of 2005 and the periods under comparison have been prepared in accordance with IAS/IFRS issued by the IASB and approved by the European Union, as provided by article 81 of the Regulation for Issuers No. 11971 issued by Consob on May 14, 1999 and subsequent amendments and additions.

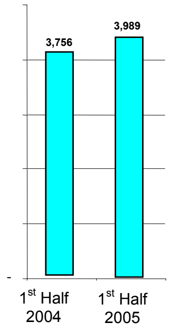
Consistent with the requirements of the new IAS/IFRS, the statement of income and balance sheet information relating to discontinued operations /assets held for sale has been presented, for all periods under comparison, in two captions of the balance sheet and in one caption of the statement of income and is no longer being presented line-by-line. In the periods under comparison, the following have been considered discontinued operations / assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas. In particular, the interim financial statements for the first half of 2005 include the statement of income for the first three months of the Entel Chile group (since it was disposed of at the end of March 2005), for the first five months of TIM Hellas (since it was disposed of in June 2005) and the entire first six months for the Finsiel group (since it was disposed of in June 2005).
Besides the aforementioned discontinued operations, in the first half of 2005, the following were deconsolidated: the Databank group, Televoice, Innovis, Cell-Tel, Olivetti Lexikon Nordic AB and Olivetti Servicios Y Soluciones.

Revenues (euro/millions)



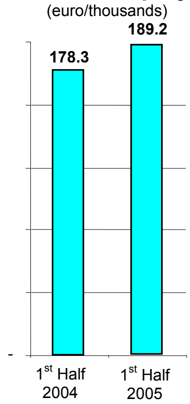
	1st Half 2005	1st Half 2004	Year 2004
Economic and Financial Data (millions of euro)			
Revenues	14,692	13,968	28,573
EBITDA	6,519	6,353	12,902
EBIT	3,989	3,756	7,597
Income from continuing operations before taxes	3,112	2,705	5,592
Net income from continuing operations	1,758	1,394	2,935
Net income (loss) from discontinued operations/assets held for sale (*)	421	24	(101)
Net income attributable to the Parent Company and minority interests	2,179	1,418	2,834
Net income attributable to the Parent Company	1,775	979	1,815
Investments:			
- Industrial	2,181	1,892	5,041
i. Financial	14,456	398	872

EBIT
(euro/millions)



Balance Sheet Data (millions of euro)	6/30/2005	12/31/2004	6/30/2004
Total assets	93,372	82,607	80,335
Total shareholders' equity	25,784	20,843	19,276
- attributable to the Parent Company	24,128	16,251	15,404
- attributable to minority interests	1,656	4,592	3,872
Net financial debt	44,111	32,862	35,489

Revenues/Employees



	1st Half 2005	1st Half 2004	Year 2004
Profit and Financial Indexes			
EBITDA / Revenues	44.4%	45.5%	45.2%
EBIT / Revenues (ROS)	27.2%	26.9%	26.6%
Debt Ratio (Net financial debt/Net invested capital) (1)	63.1%	64.8%	61.2%
Employees			
Employees (number in Group at period-end, excluding employees relating to discontinued operations/assets held for sale)	82,397	82,091	80,799
Employees relating to discontinued operations or assets held for sale (number at period-end)	824	11,092	10,573
Employees (average number in Group, excluding employees relating to discontinued operations/assets held for sale)	77,670	78,344	78,450
Employees relating to discontinued operations/assets held for sale (average number)	7,044	10,714	10,447
Revenues/Employees (average number in Group) thousands of euros	189.2	178.3	364.2

(1) Net invested capital = Total shareholders' equity + Net financial debt

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

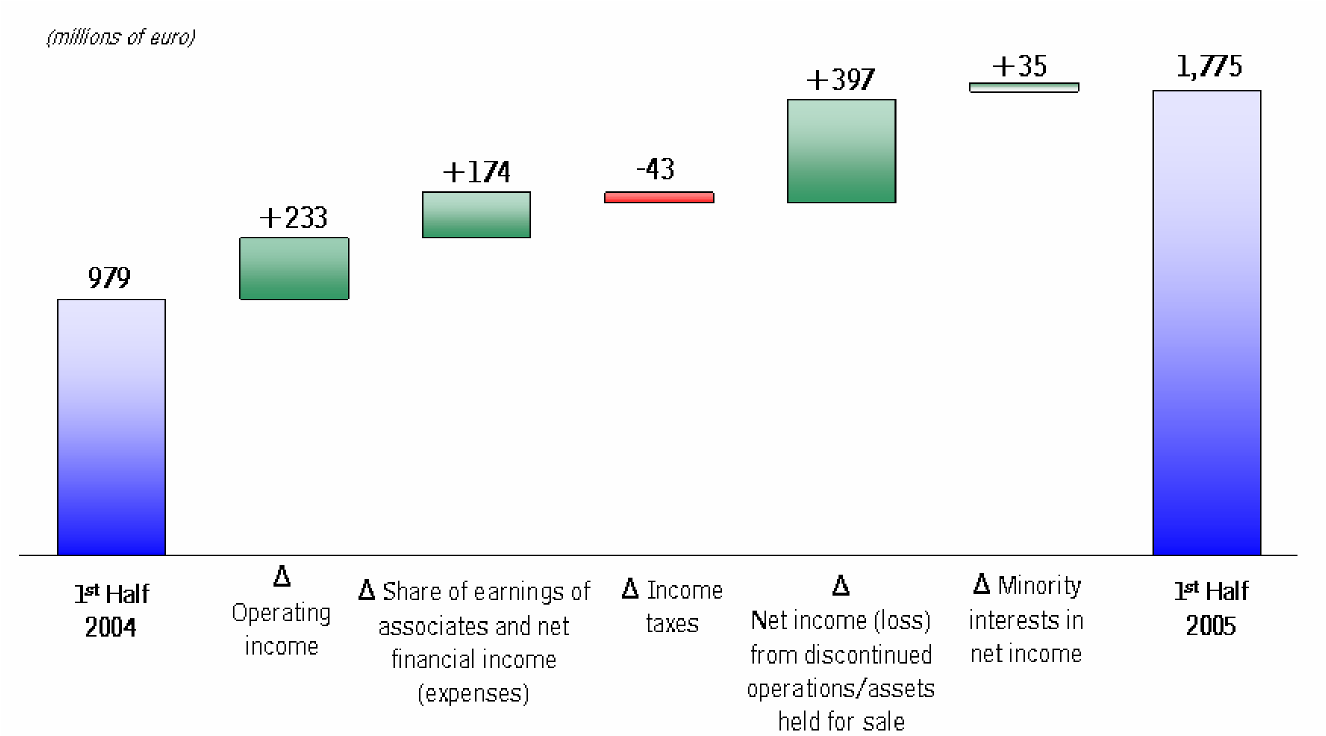
(in millions of euro)	1st half 2005 (a)	1st half 2004 (b)	Year 2004	Change (a-b)	Change % (a/b)
Revenues	14,692	13,968	28,573	724	5.2
Other income	224	177	1,100	47	26.6
Total revenues and operating income	**14,916**	**14,145**	**29,673**	**771**	**5.5**
Purchases of materials and external services	(6,116)	(5,769)	(12,052)	(347)	6.0
Personnel costs	(1,919)	(1,892)	(3,842)	(27)	1.4
Other operating expenses	(650)	(548)	(1,617)	(102)	18.6
Changes in inventories	77	113	26	(36)	(31.9)
Capitalized internal construction costs	211	304	714	(93)	(30.6)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)	6,519	6,353	12,902	166	2.6
Depreciation and amortization	(2,520)	(2,305)	(4,852)	(215)	9.3
Gains/losses on disposals of non-current assets (I)	(1)	(6)	(9)	5	(83.3)
Impairment losses/reversals on non-current assets	(9)	(286)	(444)	277	(96.9)
OPERATING INCOME (EBIT)	3,989	3,756	7,597	233	6.2
Share of earnings of equity investments in associates accounted for by the equity method	(15)	(18)	(4)	3	(16.7)
Financial income	1,374	754	1,806	620	82.2
Financial expenses	(2,236)	(1,787)	(3,807)	(449)	25.1
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	3,112	2,705	5,592	407	15.0
Income taxes for the period	(1,354)	(1,311)	(2,657)	(43)	3.3
NET INCOME FROM CONTINUING OPERATIONS	1,758	1,394	2,935	364	26.1
Net income (loss) from discontinued operations/assets held for sale	421	24	(101)	397	[illegible]
NET INCOME FOR THE PERIOD	2,179	1,418	2,834	761	53.7
Attributable to:					
* Parent Company	1,775	979	1,815	796	81.3
* Minority interests	404	439	1,019	(35)	(8.0)

(I) Excluding gains/losses on disposals of discontinued operations/assets held for sale and equity investments other than subsidiaries.

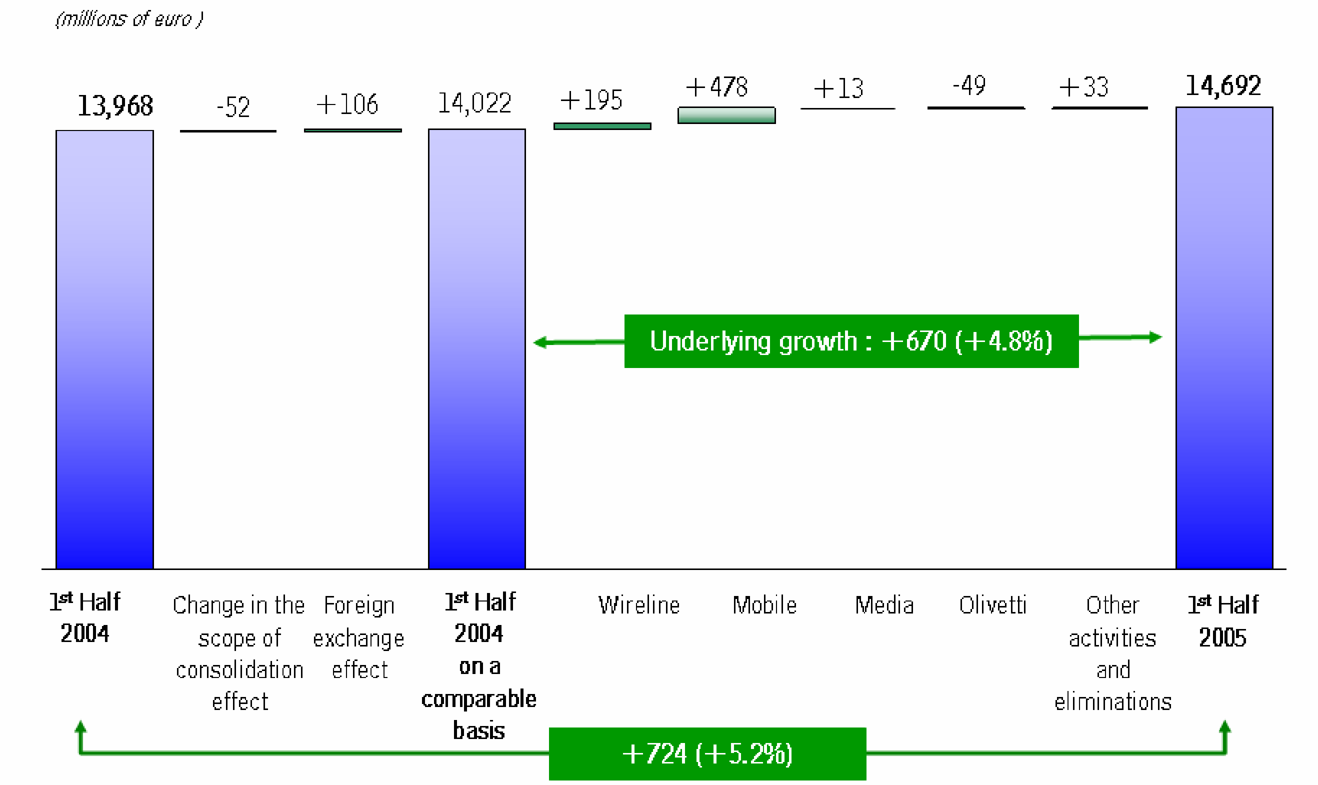
Consolidated **net income of the Group** in the first half of 2005 is euro 1,775 million (euro 2,179 million before minority interests); in the first half of 2004, the consolidated net income of the Group was euro 979 million (euro 1,418 million before minority interests).
The change in the consolidated net income of the Group (euro 796 million) is due to the following factors:

- improvement in *operating income* (+euro 233 million);
- higher *share of earnings of equity investments in associates accounted for by the equity method* (+euro 3 million);
- lower *financial expenses*, net of financial income (euro 171 million). In particular, in the first half of 2005, financial income includes the release of reserves booked in respect of sureties issued to banks which had financed the associate AVEA, since there is no longer a risk following the cancellation of part of the guarantees (euro 343 million), and higher financial expenses due to the increase in indebtedness connected with the cash tender offer for TIM shares;
- higher *income taxes* of euro 43 million;
- higher *net income (loss) from discontinued operations/assets held for sale* of euro 397 million, including euro 410 million relating to the net gain realized on the sale of TIM Hellas;
- lower *minority interests in net income* (euro 35 million).

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



Revenues amount to euro 14,692 million, with an increase 5.2% compared to euro 13,968 million in the first half of 2004. Excluding the positive foreign exchange effect (+euro 106 million, of which euro 119 million relates to the South American companies of the Mobile Business Unit) and the negative effect of the change in the scope of consolidation (euro 52 million), underlying growth is equal to 4.8% (euro 670 million).
The following chart summarizes the major items which had an impact on revenues in the first half of 2005:



Underlying growth particularly reflects:

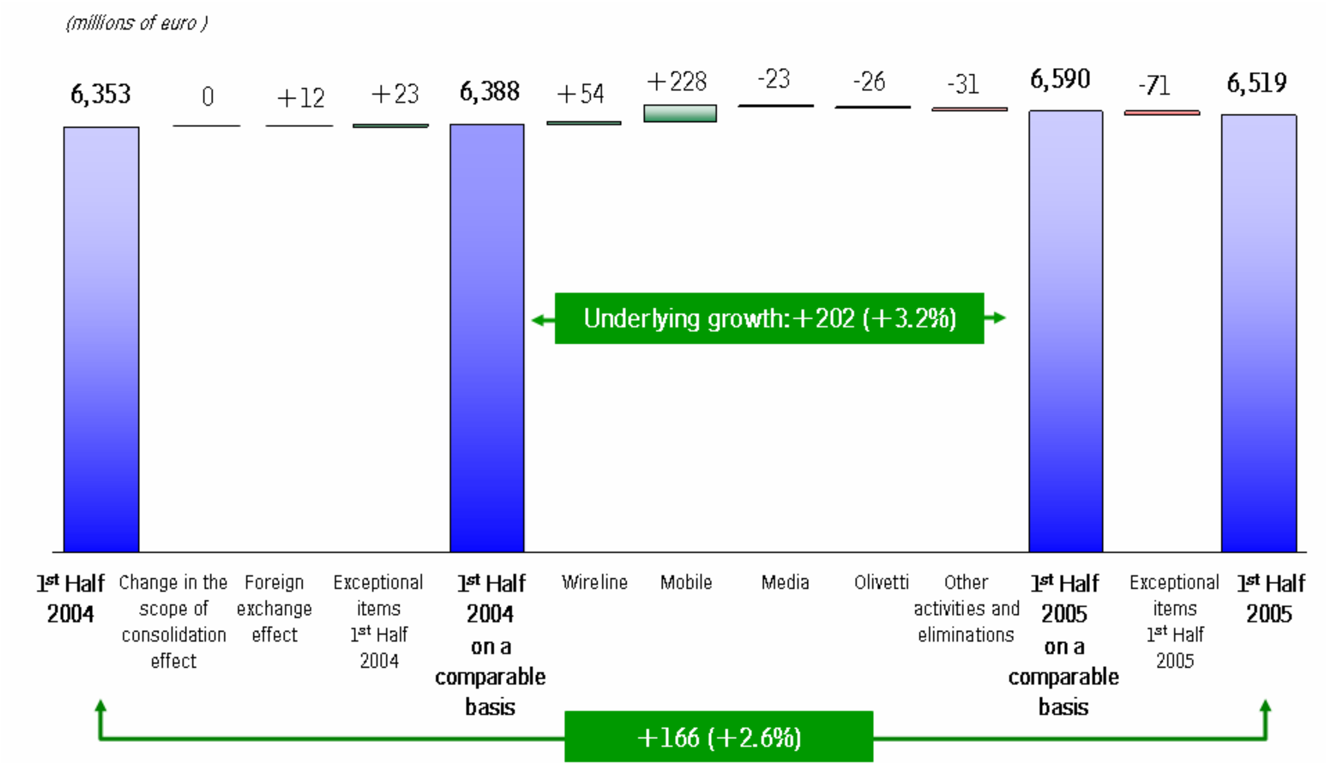
- a significant contribution to revenues by the Mobile Business Unit (+euro 478 million), mainly due to the positive input from operations in Brazil (+euro 312 million) and the good performance of value-added services on the domestic market (+euro 142 million);
- an increase in the revenues of the Wireline Business Unit (+euro 195 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 revenues of the Media Business Unit (euro 13 million), which benefits from the growth of the TV segment, and a reduction in sales of the Olivetti Business Unit (-euro 49 million) due to the decline in the average prices of fax machines and lower sales volumes of Ink-jet heads and photocopy machines, in addition to a fall in the volumes of the Gaming Division and specialized printers.

Revenues from telecommunications services are shown gross of the portion due to third-party operators of euro 2,261 million (euro 2,057 million in the first half of 2004).

Foreign revenues amount to euro 2,757 million (euro 2,213 million in the first half of 2004); 51.9% of the total is localized in the area of South America (43.5% in the first half of 2004).

EBITDA amounts to euro 6,519 million and grew by euro 166 million (+2.6%) compared to the first half of 2004. As a percentage of revenues, EBITDA went from 45.5% in the first half of 2004 to 44.4% in the first half of 2005.
Excluding the positive foreign exchange effect (euro 12 million) and the negative effect of exceptional items (exceptional income and expenses for a net negative amount of euro 48 million are principally in reference to settlements with Opportunity, for Brasil Telecom, and with customers), underlying growth is equal to 3.2% (euro 202 million).

The following chart summarizes the major items which had an impact on operating income before depreciation and amortization, gains/losses and impairment losses/reversals on non-current assets (EBITDA):

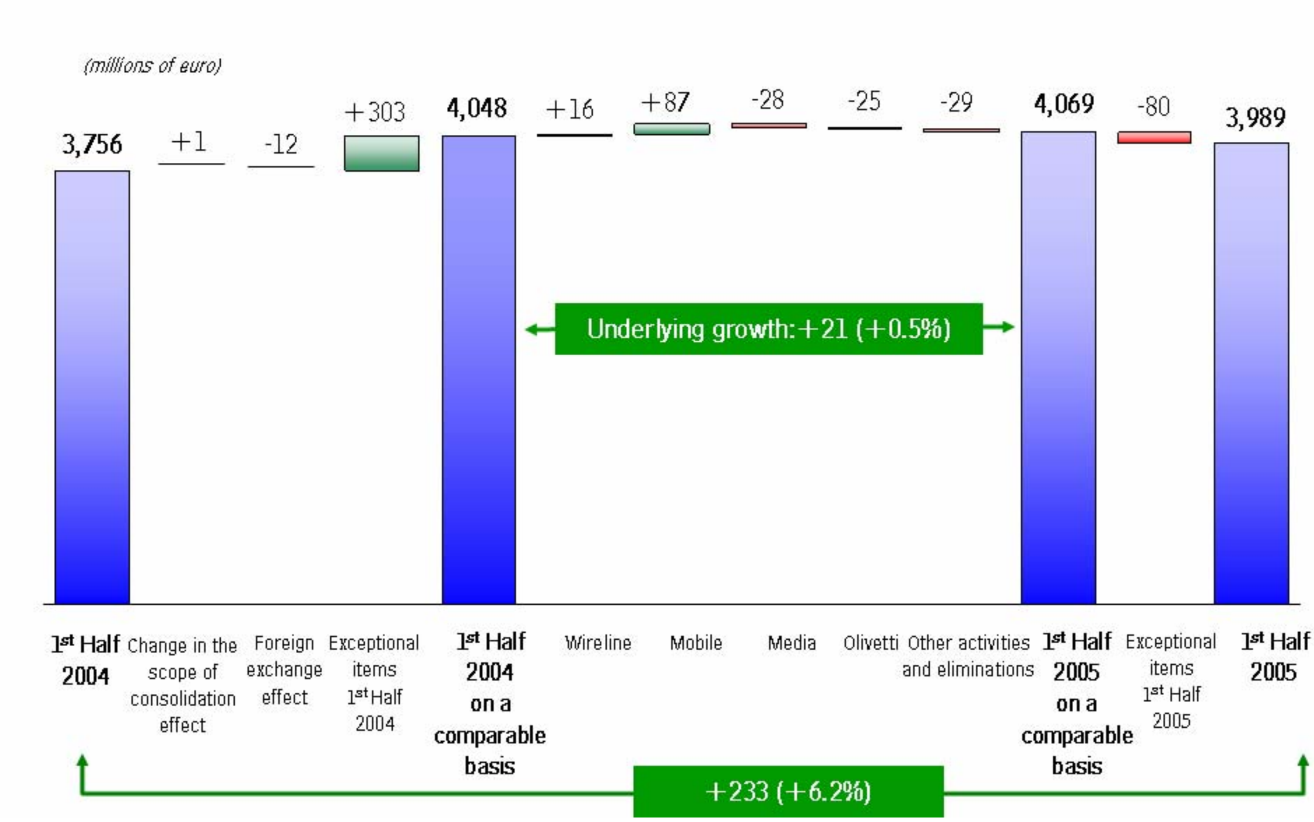


The underlying growth of EBITDA mainly reflects:

- a significant contribution by the Mobile Business Unit (+euro 228 million), chiefly attributable to the good trend in the domestic market (+euro 85 million), and the position boost that came from operations in Brazil (+euro 116 million);
- an increase in the Wireline Business Unit (+euro 54 million) and a negative contribution by the Media and Olivetti Business Units. The Media Business Unit, in particular, was impacted by higher expenses for digital terrestrial testing (euro 17 million), while the Olivetti Business Unit had to absorb costs associated with the development of new products in the Office Products Division and a decline in the results of the Gaming and Specialized Printers Division.

EBIT is euro 3,989 million, with an increase of euro 233 million compared to the first half of 2004 (+6.2%). EBIT as a percentage of revenues is equal to 27.2% (26.9% in the first half of 2004).
Excluding the effects of foreign exchange (-euro 12 million), the change in the scope of consolidation (+euro 1 million) and exceptional items (inclusive of euro 282 million relating to the settlement with De Agostini in the first half of 2004), underlying growth is equal to 0.5% (euro 21 million).

The following chart summarizes the major items which had an impact on the operating income in the first half of 2005:



EBIT was particular impacted by the increase in depreciation and amortization charges as a result of higher investments in the previous year.

The **share of earnings of equity investments in associates accounted for by the equity method** is a loss of euro 15 million (a loss of euro 18 million in the first half of 2004). This caption includes:

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Change (a – b)
Solpart	64	-	64
Avea I.H.A.S.	(95)	-	(95)
Etec S.A.	19	20	(1)
Sky	-	(31)	31
Other	(3)	(7)	4
Total	**(15)**	**(18)**	**3**

In particular:

- the amount of euro 64 million, relating to Solpart, is the result of reintroducing the equity method to account for the investment in this company. In fact, following the agreements signed on April 28, 2005, Telecom Italia was, among other things, reinstated its governance rights in Solpart which had been temporarily suspended in August 2002, reasserting its role in the management of the company;
- the negative amount of euro 95 million refers to the Group's share of the loss for the period of the associate Avea. In the first half of 2004, the share of the loss had not been booked since the investment was carried at a zero balance.

Financial income and expenses show a net expense balance of euro 862 million (a net expense balance of euro 1,033 million in the first half of 2004), with an improvement of euro 171 million compared to the first half of 2004. Such improvement is mainly attributable to:

- the positive effect of the release of reserves for a total of euro 343 million booked in respect of sureties issued to banks which had financed the subsidiary AVEA, since there is no longer a risk following the cancellation of part of the guarantees;
- the negative effect of disbursements made as a result of the cash tender offer and other purchases of TIM shares which had an impact on the first half of 2005 in terms of both higher debt exposure and lower liquidity;
- the gains on the sale of the investment in C-Mobil by the Mobile Business Unit (euro 61 million) and the sale of the investment in Intelsat by Entel Bolivia (euro 2 million), as well as the fair value adjustment to the call option on Sofora shares (euro 40 million).
  In the first half of 2004, management of the investment portfolio generated a positive amount of euro 96 million, mainly as a result of the gain on the sale of the residual stake in Telekom Austria.

Net income (loss) from discontinued operations/assets held for sale amounts to a net income of euro 421 million (euro 24 million in the first half of 2004) and refers to the following, in particular:

- net income of euro 26 million by the Entel Chile group, referring only to the first three months of 2005 (euro 26 million in the first half of 2004).
- net loss of euro 11 million by the Finsiel group (-euro 6 million in the first half of 2004);
- a breakeven by Digitel Venezuela and euro 11 million by TIM Hellas (respectively, a net loss of euro 25 million and a net income of euro 29 million in the first half of 2004).
- the gain on the sale of TIM Hellas (euro 410 million, net of the relative incidental charges), and other losses and incidental charges on the sale of Entel Chile and the Finsiel group for a total of euro 15 million.

CONSOLIDATED BALANCE SHEETS

(in millions of euro)	Note	6/30/2005 (a)	12/31/2004 (b)	6/30/2004	Change (a-b)
Non-current assets					
Intangible assets					
- Goodwill and other intangible assets with an indefinite life	3)	44,105	26,814	26,532	17,291
- Intangible assets with a finite life	4)	6,598	6,456	5,879	142
		50,703	33,270	32,411	17,433
Tangible assets	5)				
- Property, plant and equipment owned		16,749	16,428	16,513	321
- Assets held under finance leases		1,603	1,581	1,645	22
		18,352	18,009	18,158	343
Other non-current assets	6)				
- Equity investments		1,305	1,053	1,290	252
- Securities and financial receivables		677	445	438	232
- Miscellaneous receivables and other non-current assets		831	796	826	35
		2,813	2,294	2,554	519
Deferred tax assets	7)	4,433	4,493	5,515	(60)
TOTAL NON-CURRENT ASSETS (A)		76,301	58,066	58,638	18,235
Current assets					
Inventories	8)	398	308	398	90
Trade receivables, miscellaneous receivables and other current assets	9)	10,203	9,905	9,648	298
Securities	10)	444	786	641	(342)
Financial receivables and other current financial assets	11)	1,537	765	859	772
Cash and cash equivalents	12)	4,106	8,401	5,566	(4,295)
TOTAL CURRENT ASSETS (B)		16,688	20,165	17,112	(3,477)
Discontinued operations/Assets held for sale	13)				
of a financial nature		37	368	428	(331)
of a non-financial nature		346	4,008	4,157	(3,662)
TOTAL DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (C)		383	4,376	4,585	(3,993)
TOTAL ASSETS (A+B+C)		93,372	82,607	80,335	10,765
Shareholders' equity	14)				
attributable to Parent Company		24,128	16,251	15,404	7,877
attributable to minority interests		1,656	4,592	3,872	(2,936)
TOTAL SHAREHOLDERS' EQUITY (D)		25,784	20,843	19,276	4,941
Non-current liabilities					
Non-current financial liabilities	15)	42,037	38,229	35,111	3,808
Employee severance indemnities and other employee-related reserves	16)	1,259	1,211	1,208	48
Reserve for deferred taxes	7)	612	524	503	88
Reserves for future risks and charges	17)	839	777	821	62
Miscellaneous payables and other non-current liabilities	18)	2,100	2,200	2,376	(100)
TOTAL NON-CURRENT LIABILITIES (E)		46,847	42,941	40,019	3,906
Current liabilities					
Current financial liabilities	19)	8,725	4,336	7,066	4,389
Trade payables, current tax payables, miscellaneous payables and other current liabilities	20)	11,799	12,321	11,657	(522)
TOTAL CURRENT LIABILITIES (F)		20,524	16,657	18,723	3,867
Liabilities relating to discontinued operations/assets held for sale	13)				
of a financial nature		150	1,062	1,244	(912)
of a non-financial nature		67	1,104	1,073	(1,037)
TOTAL LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (G)		217	2,166	2,317	(1,949)
TOTAL LIABILITIES (H=E+F+G)		67,588	61,764	61,059	5,824
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (D+H)		93,372	82,607	80,335	10,765

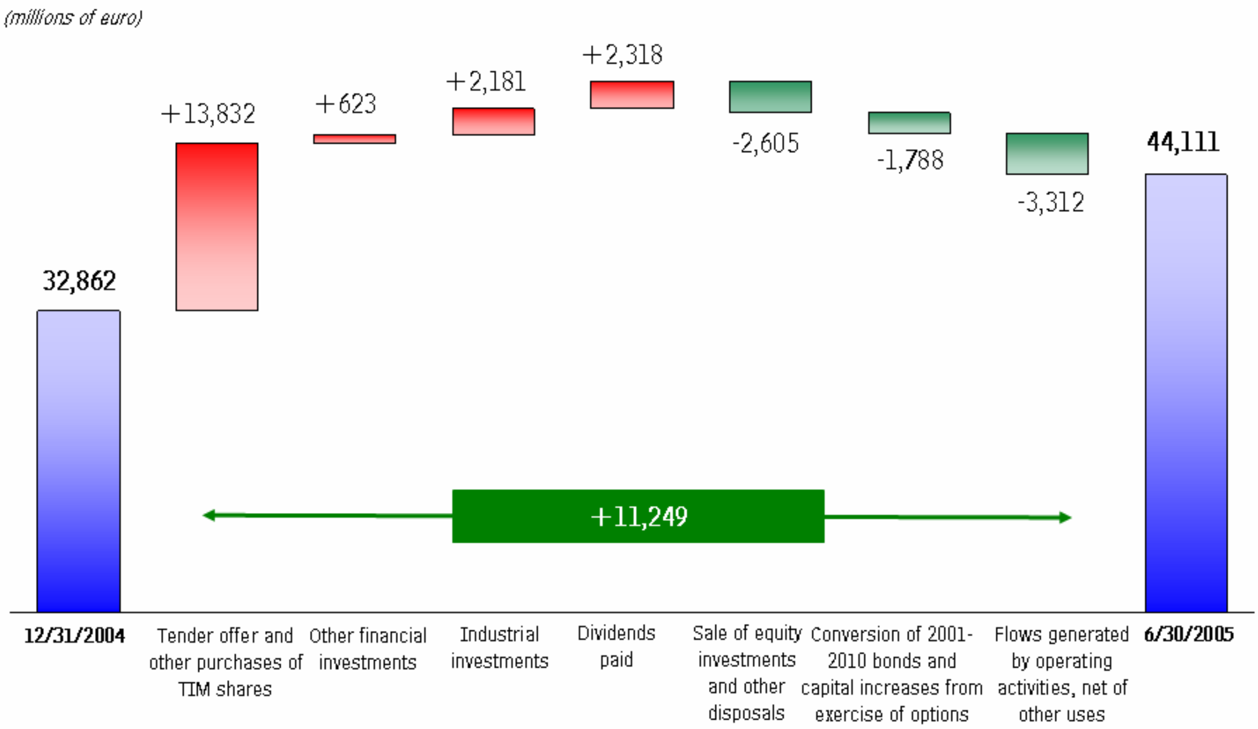
Assets, equal to euro 93,372 million, show an increase of euro 10,765 million compared to December 31, 2004 and are comprised of non-current assets of euro 76,301 million, current assets of euro 16,688 million and assets held for sale of euro 383 million. Additional details are provided in the notes to the consolidated financial statements at June 30, 2005.

Shareholders' equity amounts to euro 25,784 million (euro 20,843 million at the end of 2004), of which euro 24,128 million is attributable to the Parent Company (euro 16,251 million at December 31, 2004) and euro 1,656 million to the minority interests (euro 4,592 million at December 31, 2004). The effects of the Telecom Italia/TIM merger on shareholders' equity are as follows:

- an increase of euro 6,014 million following the increase in share capital to service the merger, valued at the fair value of the Telecom Italia shares exchanged in execution of the merger;
- a reduction in the shareholders' equity attributable to the minority interests following the additional stake acquired in TIM (+28.7%) through the tender offer and other purchases of TIM shares.

Net financial debt amounts to euro 44,111 million at June 30, 2005, with an increase of euro 11,249 million compared to euro 32,862 million at the end of 2004. It also includes the net financial position of discontinued operations of euro 113 million (euro 694 million at December 31, 2004).

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



- the **tender offer and other purchases of TIM shares** (euro 13,832 million) are composed of the price paid under the tender offer, at the end of January 2005, for the purchase of 2,456,501,605 TIM ordinary shares (equal to about 29.0% of TIM ordinary share capital) and 8,463,127 TIM savings shares (equal to about 6.4% of TIM savings share capital), and the subsequent purchase of 5,063,836 TIM savings shares (about 3.8% of TIM savings share capital);

- **other financial investments** (euro 623 million) are principally composed of the purchase of the investment in Liberty Surf (euro 245 million, net of cash acquired and other costs of operation), the capital increase in the associate AVEA (euro 122 million), the buyback carried out by TI Media under the reorganization of the Internet area (euro 148 million), as well as incidental charges connected with the cash tender offer for TIM shares (euro 98 million);
- **industrial investments (**euro 2,181 million) increased by euro 289 million compared to the first half of 2004, mainly in the Wireline and Mobile Business Units;
- **sale of equity investments and other disposals** (euro 2,605 million) refers mainly to the proceeds collected on the sale of Entel Chile, TIM Hellas and Finsiel (for a total of euro 2,453 million, inclusive of the deconsolidation of the net financial debt of the subsidiaries) and the sale of the investment in C-Mobil (euro 70 million) and other non-current assets.

Net financial debt is detailed in the following table:

NET FINANCIAL DEBT

(in millions of euro)	6/30/2005 (a)	12/31/2004 (b)	6/30/2004	Change (a-b)
GROSS FINANCIAL DEBT				
Non-current financial liabilities				
- Financial payables	40,195	36,392	33,312	3,803
- Finance lease liabilities	1,841	1,834	1,798	7
- Other financial liabilities	1	3	1	(2)
Current financial liabilities				
- Financial payables	8,491	4,107	6,841	4,384
- Finance lease liabilities	229	224	220	5
- Other financial liabilities	5	5	5	-
Financial liabilities relating to discontinued assets/assets held for sale	150	1,062	1,244	(912)
TOTAL GROSS FINANCIAL DEBT (A)	50,912	43,627	43,421	7,285
FINANCIAL ASSETS				
Non-current financial assets				
- Securities other than equity investments	6	7	9	(1)
- Financial receivables and other non-current financial assets	671	438	429	233
Current financial assets				
- Securities other than equity investments	444	786	641	(342)
- Financial receivables and other current financial assets	1,537	765	859	772
- Cash and cash equivalents	4,106	8,401	5,566	(4,295)
Financial assets relating to discontinued operations/assets held for sale	37	368	428	(331)
TOTAL FINANCIAL ASSETS (B)	6,801	10,765	7,932	(3,964)
NET FINANCIAL DEBT (A-B)	44,111	32,862	35,489	11,249

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

On January 28, 2005, in connection with the offer price of the tender offer, euro 2,504 million was paid from cash resources and euro 11,300 million was drawn from the loan made available by a syndicate of banks on December 8, 2004. Subsequently, on February 11, 2005, the first tranche of the loan was repaid in advance from the cash resources of Telecom Italia for euro 2,300 million and, consequently, cancelled. As of today's date, therefore, the outstanding loan amounts to a face value of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months and euro 3,000 million due in 60 months.

Transactions regarding bonds in the first half of 2005 are described below:

- Telecom Italia issued two new note issues under the Euro Medium Term Note Program for euro 10 billion:
  - euro 850 million, on March 17, 2005, coupon interest of 5.25%, issue price at 99.667, maturing March 17, 2055;
  - GBP 500 million (equal to euro 742 million), on June 29, 2005, coupon interest of 5.625%, issue price of 99.878, maturing December 29, 2015.

- Telecom Italia 2002-2022 bonds, set aside for subscription by employees of the Group, increased during the six months by euro 13 million as a result of purchases/subscriptions for euro 36 million and sales by the bondholders for euro 23 million. According to the bond indenture, the Company is the obligatory counterpart for the purchases made by holders of this bond category.

- On June 29, 2005, Telecom Italia Finance placed an additional euro 250 million of its euro 800 million bond issue on the market. The bonds are listed on the Luxembourg stock exchange and carry coupon interest of 7.75%, maturing in 2033. The new bonds, after 40 days have elapsed from issue, will be entirely interchangeable with those already issued, since the bonds have the same characteristics. The bonds were placed with a single investor and the proceeds were used to repurchase, from the same investor, the entire amount of Telecom Italia Finance bonds of euro 250 million, 7.77% interest, maturing 2032, which was cancelled on July 21, 2005.

- During the first half of 2005, Telecom Italia Finance S.A. repurchased bonds, in addition to those mentioned previously, for a total face value of euro 499 million:
  - euro 163 million relating to bonds for an original amount of euro 3,000 million, maturing April 20, 2006, 6.376% coupon interest, issued by Sogerim (a company merged in Telecom Italia Finance in 2002); after these bond repurchases, the residual nominal debt is thus equal to euro 2,582 million;
  - euro 141 million relating to bonds of euro 708 million repayable with new Telecom Italia ordinary shares or by repayment in cash, originally issued by Olivetti Finance N.V., maturing November 3, 2005, 1% coupon interest and with a repayment premium: following the bond repurchases, the residual nominal debt is thus equal to euro 567 million;
  - euro 195 million relating to bonds issued in 2001 by Sogerim, for an original amount of euro 2,500 million, maturing March 15, 2006, convertible into TI S.p.A. or Seat PG and TI Media shares, 1% coupon interest and with a repayment premium: after these bond repurchases, the residual nominal debt is thus equal to euro 1,769 million (euro 2,082 million with a repayment premium).

    The securities repurchased previously for a face value of euro 163 million and relating to three bond issues were, in compliance with the new IAS/IFRS, used to reduce the residual nominal debt.

- Bonds were repaid for a total face value of euro 0.283 million. They refer to bonds for an original amount of euro 500 million with maturity in 2002-2005 issued by Telecom Italia Finance S.A. with quarterly interest indexed to the 3-month Euribor + 130 basis points: this amount refers to the residual portion on which the bondholders did not opt to extend the maturity date.

- In view of the requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased by euro 2,225 million (euro 1,689 million under IAS/IFRS).

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

The following table shows the maturities of non-current financial liabilities as the expected nominal repayable amount in terms of the contractually agreed repayment flows. Therefore, no account is taken, subsequent to the introduction of IAS/IFRS, either of their financial valuation or the effect of their treatment under hedge accounting with a derivative or the valuation of the derivatives in the strict sense. The only exception is in the case of the repurchase of own bonds which, in conformity with standards, have been deducted from the nominal debt and thus the maturities take into this reclassification.

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Maturities of gross financial debt (millions of euro)	Medium/long-term		
	Bonds	Loans and other debt	Total
by June 2006	6,352	605	6,957
by June 2007	4,200	597	4,797
by June 2008	2,750	6,921	9,671
by June 2009	2,437	171	2,608
by June 2010	3,884	3,139	7,023
beyond June 2010	15,898	1,799	17,697
Total	**35,521**	**13,232**	**48,753**

Moreover, it should be pointed out that, at June 30, 2005, credit lines not be drawn down and expiring in March 2007 amount to euro 6,500 million.

BUSINESS OUTLOOK

The results for the current year will be impacted by the Telecom Italia and TIM merger. The increase in financial expenses arising from higher net financial debt following the cash tender offer, at the level of results, will be more than compensated by the effect of the acquisition (through the tender offer and merger) of the stake held by the minority interests in the subsidiary. As far as the trend in operations for the current year is concerned, it is expected that the evolution of the operating result will at least be in line with that of the previous year, when considered on a comparable basis in terms of consolidated companies, foreign exchange and accounting principles. It is also expected that the increase in debt due to the tender offer will be reduced consistent with course outlined in the statement to the market about 2005-2007 targets; a course that has already been confirmed by the trend in the debt situation in the first half of 2005.

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS

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

(millions of euros)		Wireline (1)(2)	Mobile	Media (1)	Olivetti (4)	Other activities (2) (3)	*Adjustments and eliminations*	**Total Group**
Revenues	1st Half 2005	8,844	6,248	154	223	808	*(1,585)*	**14,692**
	1st Half 2004	8,658	5,651	157	298	844	*(1,640)*	**13,968**
	Year 2004	17,431	11,875	295	590	1,635	*(3,253)*	**28,573**
EBITDA	1st Half 2005	3,965	2,827	(43)	2	(220)	*(12)*	**6,519**
	1st Half 2004	3,908	2,586	(22)	20	(140)	*1*	**6,353**
	Year 2004	7,809	5,451	(56)	28	(335)	*5*	**12,902**
EBIT	1st Half 2005	2,528	1,910	(62)	(6)	(408)	*27*	**3,989**
	1st Half 2004	2,506	1,844	(35)	12	(293)	*(278)*	**3,756**
	Year 2004	4,756	3,841	(90)	17	(715)	*(212)*	**7,597**
Industrial investments	1st Half 2005	1,428	609	23	8	117	*(4)*	**2,181**
	1st Half 2004	1,104	609	14	8	176	*(19)*	**1,892**
	Year 2004	2,267	2,325	41	15	393	-	**5,041**
Employees at period-end (number)	6/30/2005	54,637	19,013	1,039	1,809	5,899	-	**82,397**
	6/30/2004	54,423	17,473	1,207	2,289	6,699	-	**82,091**
	12/31/2004	53,428	18,034	1,228	2,108	6,001	-	**80,799**

1) Internet activities, consistent with the disposal transaction executed in the first half of 2005, are included in the Wireline BU for all periods presented, whereas they have been considered as discontinued operations in the Media Business Unit.
2) The IT Group operating activity is no longer presented since it is now included in the Wireline Business Unit and in Other activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.
3) The economic and financial results of Entel Bolivia have been included in Other activities.
4) On April 5, 2005, Olivetti Tecnost changed its name to Olivetti.

Key economic and financial data referring to discontinued operations/assets held for sale

(millions of euro)		Discontinued Operations/Assets held for sale: Mobile (1)	Entel Chile Group	IT Market	*Other, adjustments and eliminations*	**Total**
Revenues	1st Half 2005	440	238	289	(41)	926
	1st Half 2004	494	462	353	(69)	1,240
	Year 2004	985	925	706	(104)	2,512
EBITDA	1st Half 2005	113	77	7	(32)	165
	1st Half 2004	139	141	20	-	300
	Year 2004	295	274	45	-	614
EBIT (2)	1st Half 2005	40	36	(3)	395	468
	1st Half 2004	54	58	9	-	121
	Year 2004	135	96	21	(202)	50
Net income (loss) from discontinued operations / assets held for sale	1st Half 2005	11	26	(11)	395	421
	1st Half 2004	4	26	(6)	-	24
	Year 2004	74	49	(7)	(217)	(101)
Industrial investments	1st Half 2005	29	27	5	-	61
	1st Half 2004	60	50	14	-	124
	Year 2004	163	141	28	-	332
Net financial debt	6/30/2005	113	-	-	-	113
	6/30/2004	409	434	(27)	-	816
	12/31/2004	331	377	(14)	-	694
Employees at period-end (number)	6/30/2005	824	-	-	-	824
	6/30/2004	2,250	4,157	4,685	-	11,092
	12/31/2004	2,327	4,216	4,030	-	10,573

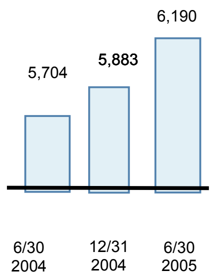
(1) TIM Hellas and Digitel Venezuela

(2) The EBIT adjustments and eliminations include, among other things:

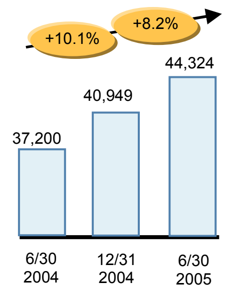
- 1st half 2005: the gain on the sale of TIM Hellas (euro 410 million, net of the relative incidental charges), as well as losses and incidental expenses relating to the sale of Entel Chile and the Finsiel group for a total of euro 15 million;
- Year 2004: adjustment to the estimated sales price of Entel Chile (-euro 177 million) and the Finsiel group (-euro 28 million).

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat-rate plans
(thousands)



Total TIM group lines
(thousands)



	6/30/2005	12/31/2004	6/30/2004
WIRELINE			
Fixed network connections in Italy (thousands)	25,615	25,957	26,264
- of which ISDN	5,673	5,805	5,941
Voice flat-rate plans (thousands)	6,190	5,883	5,704
Broadband access (thousands)	5,568	4,430	3,273
- domestic (thousands)	4,615	4,010	2,975
- European (thousands)	953	420	298
Virgilio page views (millions)	4,565	7,902	3,833
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	105.2	105.2	105.2
- access network and transport in optical fibers (millions of km of optical fibers)	3.7	3.7	3.6
Network infrastructure abroad:			
- European backbone (km of optical fibers)	39,500	39,500	39,500
MOBILE			
TIM lines in Italy (at period-end, thousands)	26,117	26,259	26,011
TIM group foreign lines (at period-end, thousands) (1)	18,207	14,690	11,189
TIM group lines total (Italy + foreign in thousands) (1)	44,324	40,949	37,200
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
MEDIA			
La 7 audience share (average)	2.6	2.4	2.3
La 7 audience share (month of June)	2.8	2.6	2.7

(1) Foreign lines exclude those of the consolidated companies considered discontinued operations/assets held for sale.

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

WIRELINE

- Strong boost given for development of VAS and innovative terminals to lend stability to the core telephony market
- Continuing growth of the broadband market in Italy and Europe, due in part to the acquisition of Liberty Surf in France

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

<table>
<tr><th>Telecom Italia Wireline</th><th>National subsidiaries</th><th>International Subsidiaries</th></tr>
<tr><td rowspan="2">Wireline TLC services:
. Retail telephone
. Internet
. Data Business
. VAS Phone and Data
. National Wholesale</td><td>Loquendo S.p.A.
Path.Net S.p.A.
Telecontact Center S.p.A.
Telecom Italia Media – Tin.it
Matrix S.p.A.
Nuova Tin IT S.r.l.
Web Fin S.p.A.
ISM S.r.l.</td><td>BBNED Group
Liberty Surf Group
Mediterranean Nautilus Group
Med-1 Group
HanseNet Telekommunikation GmbH
Telecom Italia Deutschland Holding GmbH</td></tr>
<tr><td colspan="2">Telecom Italia Sparkle Group:
- Telecom Italia Sparkle S.p.A.
- Intelcom San Marino S.p.A.
- Pan European Backbone (includes Telecom Italia France)
- Telecom Italia Sparkle of North America Inc.
- Telefonia Mobile Sammarinese S.p.A.
- Thinx S.p.A.
- Group TMI
- Telecom Italia Sparkle Singapore
- Latin American Nautilus Group</td></tr>
</table>

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- under the program to reorganize Information Technology Group, the following activities were transferred to the Wireline BU effective January 1, 2005:
  - ➢ applications development/operations of the OSS and BSS systems;
  - ➢ applications development/operations and development of systems infrastructures of standard and customized VAS for the Wireline market.
- as part of the process to rationalize the Group's operations, Telecom Italia, on June 1, 2005, executed the April 4, 2005 agreements with Telecom Italia Media for the purchase of the assets

of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it. As a result, Telecom Italia acquired control of the following investments held by Telecom Italia Media:

- a 60% interest in Finanziaria Web (which currently holds a 66% stake in Matrix) and a 0.7% interest in Matrix at a total price of euro 70 million. At the conclusion of the transaction, Telecom Italia, which already holds a 40% stake in Finanziaria Web and a 33.3% stake in Matrix through ISM (purchased from Telecom Italia Finance for consideration of euro 97.4 million), owns 100% stakes in Finanziaria Web and Matrix and thus has full control over Virgilio's operations;
- a 100% stake in Nuova Tin.it S.r.l., a newly-formed company to which Telecom Italia Media conferred the Tin.it business segment. The sales price was euro 880 million.

- In April 2005, Telecom Italia signed an agreement with Tiscali for the purchase of its investment in Liberty Surf Group S.A., an important internet service provider operating on the French market. The investment corresponds to a 94.89% stake in the share capital of the company which is listed on the Paris Euronext. The agreement was executed on May 31, 2005 after approval was received from the French antitrust authority. The purchase price was about euro 248 million. Telecom Italia, in accordance with the requirements of the law, launched a takeover bid on July 18, 2005 for the remaining 5% of the outstanding share capital of Liberty Surf Group S.A.. The bid ended on August 8, 2005 (the results were published by AMF on August 12, 2005) and gave Telecom Italia possession of 97.99% of share capital (98.06% when taking into account the treasury stock held by Liberty Surf Group S.A.) and 98.05% of the voting rights of Liberty Surf Group. Moreover, Telecom Italia intends to launch a further takeover bid for all the shares of Liberty Surf Group that are not yet owned directly and not held by Liberty Surf Group S.A.;

- On June 30, 2005, the company Telecom Italia Sparkle purchased a 100% interest in the Latin America Nautilus Group from Telecom Italia.

ECONOMIC AND FINANCIAL DATA

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

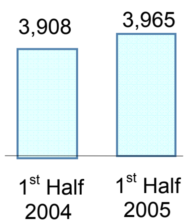
(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b) (1)	Year 2004 (2)	Change (a-b) amount	Change (a-b) %
Revenues	8,844	8,658	17,431	186	2.1
EBITDA	3,965	3,908	7,809	57	1.5
% of Revenues	*44.8*	*45.1*	*44.8*		
EBIT	2,528	2,506	4,756	22	0.9
% of Revenues	*28.6*	*28.9*	*27.3*		
Industrial investments	1,428	1,104	2,267	324	29.3
Employees at period-end (number) (2)	54,637	54,423	53,428	1,209	2.3

(1) The amounts include IT Telecom and Tin.it / Matrix.
(2) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues, totaling euro 8,844 million, show an increase of 2.1% (+euro 186 million) compared to the first half of 2004. On a comparable consolidation basis and excluding the foreign exchange effect, underlying growth is 2.3% (+euro 195 million).
Such improvement was achieved thanks to the success of efforts to expand the broadband market and increase innovative products and services together with action to protect the core telephone market in addition to a further rise in revenues under the European Broadband Project. Revenues by strategic business area are analyzed below:

Retail telephone
Revenues from the Telephone area, equal to euro 5,169 million, show a reduction of euro 156 million (-2.9%) compared to the first half of 2004. This change reflects an increasingly lower reduction in revenues thanks to the policy to expand VAS and innovative terminals. This policy is contributing to a reduction in the migration of traffic towards mobile networks, supported by the level of traffic on the Internet, which since the second half of 2004 has become more and more competitive.
The portfolio of telephone plans had reached 2,516,000 customers in June 2005, thanks also to the launch of the new Alicia Mia Personal Communication services (65,000 customers in June 2005); the portfolio of Innovative Terminals (Aladino, Videotelefono and Cordless Wi-Fi) had arrived at 2,810,000 units in June 2005.

EBITDA



Retail Internet
Revenues from the Internet area, equal to euro 593 million, grew by 21% (+euro 103 million), compared to the first half of 2004. The increase is due to the growth of ADSL revenues (+euro 150 million; +58.8% compared to the first half of last year).
Wireline's portfolio of broadband customers at June 30, 2005 reached a total of 5,568,000 customers. Of these, access lines in Italy stood at 4,615,000 (+605,000 compared to the end of 2004) and 953,000 in the rest of Europe (+533,000 compared to the end of 2004, thanks also to the acquisition of Liberty Surf Group in France).

Data Business
Revenues from the Data Business area, equal to euro 1,011 million, show a overall gain of 8.2% (+euro 77 million) compared to the first half of 2004. This increase is especially driven by the strong growth of VAS Data (Web Services and Outsourcing), which brought higher revenues of euro 62 million (+38.0%) compared to the first half of 2004, and innovative data transmission services, mainly using XDSL technologies, which are up by 19.5% (+euro 58 million).

European Broadband Project
Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 212 million, are up sharply (+84.2% compared to the first half of 2004). The European Broadband Project was given a further boost in growth by the purchase of Liberty Surf Group in France on May 31, 2005. Wireline's overall portfolio of European customers at June 30, 2005 is now up to 1,417,000.

Wholesale
Revenues from wholesale services, equal to euro 1,706 million, grew by a total of euro 124 million (+7.8%) compared to the first half of 2004. National wholesale services account for euro 48 million of the increase and international wholesale services for euro 76 million.
As regards national wholesale services, in particular, there was an increase in revenues from data services (+euro 42 million) and from regulated intermediate services, connected especially with local loop unbundling; in contrast, revenues from lines decreased.

EBITDA, amounting to euro 3,965 million, shows an increase of 1.5 % (+euro 57 million) compared to the first half of 2004, bringing the percentage of EBITDA to revenues to 44.8% (45.1% in the first half of 2004). Without considering the European Broadband Project, EBITDA as a percentage of revenues is 46.1% (45.8% to June 30, 2004). Underlying growth, on a comparable consolidation basis and net of foreign exchange effects and exceptional items, is equal to 1.4%.

EBIT is euro 2,528 million and presents an increase of 0.9% (+ euro 22 million) compared to the first half of 2004. EBIT represents 28.6% (28.9% to June 30, 2004) of revenues. Underlying growth, on a comparable consolidation basis, net of foreign exchange effects and exceptional items, is equal to 0.7%.

Industrial investments amount to euro 1,428 million and are euro 324 million (+29.3%) higher than the same period of 2004. This increase is principally due to investments in innovative technologies and terminals and in the international project.

The number of *employees*, equal to 54,637, increased by 1,209 compared to December 31, 2004. The change is due to the hiring of 1,238 persons, of whom 831 are in Italy and 407 outside Italy, versus 705 terminations of employment (principally at Telecom Italia Wireline), infragroup transfers (+62) and the purchase of the company Liberty Surf Group (+614).

EVENTS SUBSEQUENT TO JUNE 30, 2005

The following events took place:

- In July 2005, the Telecom Italia Group perfected an agreement reached last December with the minority shareholders of Med SA, Med Ltd and Med 1, negotiated to resolve certain conflicting situations referring to Med SA's and Telecom Italia/Telecom Italia International's put, respectively, on 49% of Med Ltd and Med 1 shares, and to resolve the arbitration proceedings set in motion in Luxembourg by the Fishman group (FTT) aimed at the restitution of the sums paid to Telecom Italia International in 2000 for the purchase of a 30% stake in Med SA.
  As a result of this agreement, which allows the TI Group to strengthen its presence in the sector of IP services and wholesale data in the Middle East, Telecom Italia and Telecom Italia International now hold 100% stakes in the capital of Med Ltd (through Med SA) and Med 1. At the same time, the non-strategic assets of certain local Israeli operations were sold. Today those assets are managed by the same Med Ltd and Med 1, (as regards the latter, the entire investment in Med 1 IC-1 (1999) Ltd was sold). Furthermore, the Fishman group, in disposing of its investment in Med SA, acquires 30% of the capital of the subsidiary Elettra S.p.A.
  Overall, the agreement resulted in a net disbursement of euro 49 million;
- On August 2, 2005, Telecom Italia Sparkle sealed an agreement with Tiscali to purchase Tiscali's fiber optic network owned by "Tiscali International Network SAS" (TINet SAS), for an equivalent amount of euro 8 million. Tiscali International Network SAS owns 15,000 km of optic fiber which cross 12 European countries. The deal, subject to the approval of the competent authorities, does not include the sale of the IP and Voice over IP international and national networks which, instead, are controlled by Tiscali International Network B.V.

INFORMATION ON OPERATIONS

The following table shows the main operating highlights at June 30, 2005 compared to December 31, 2004 and June 30, 2004, in addition to the principal commercial initiatives undertaken during the first half of 2005.

Operating highlights	6/30/2005	12/31/2004	6/30/2004
Fixed network connections (thousands)	25,615	25,957	26,264
- *of which ISDN*	5,673	5,805	5,941
Minutes of traffic on the fixed network (billions)	96.9	192.0	104.0
• national traffic	89.9	179.1	97.8
• international traffic	7.0	12.9	6.2
TP terminals using ISDN technology (thousands)	118.4	124.5	126.9
Internet users:			
- Dial-up users (Tin.it Free and Premium) (thousands)	1,102	1,291	1,408
- Broadband accesses (incl. European BB) (thousands)	5,568	4,430	3,273
Virgilio page views (millions)	4,565	7,902	3,833

- RETAIL

A brief description follows of the main plans and packages and commercial initiatives during the first half of 2005, under the framework of the market strategies aimed at the Retail Telephone market (Access and Traffic, in particular) and the development of the Internet (Alice Adsl and Smart Adsl packages), Data Business (Broadband and other Data services) and VAS markets.

Telephone	Pricing (rate plans)	Launch of *Alice Mia Voce*, the new package which offers unlimited calls and VAS services to numbers of *Alice Mia.* Expansion of the *Programma Business* plan with four new use packages geared to the medium-high segment of the *Enterprise* clientele.
	Products	Extension of the *Aladino* cordless range of phones with the launch of *Aladino 2*, a low-cost product with a color display enabling users to send SMSs, e-mails and faxes. Launch of *Big Angel*, a special telephone for the Remote Assistance service which, together with a small extra device, turning it into a speakerphone, enables users to communicate with an operator 24 hours a day.

Internet	Alice	Massive upgrade from *Alice Flat (640Kb)* to *Alice Mega (1.2 Mb).* Start of the marketing of *Alice Security*, a centralized firewall with a navigation system that is protected from viruses and external interference. Launch, finally, in April of the new *Alice 4 Mega* package, and repricing in June with a simultaneous massive upgrade from *Alice Mega* to *Alice 4 Mega*.
	Alice Business	Launch of a new range of Internet access plans for companies with *Alice Business,* which will have improved service in terms of speed and guaranteed band. In particular, the *4 Mega* package is also available in the *Alice Business* range and is specially designed for *SOHO* customers.

Virgilio Portal		The Home Page of the Virgilio portal was renewed in order to route user traffic more efficiently to the various topic areas and to make it possible to distribute two versions: a smaller, faster version for users of narrowband, and another version with graphical material and hi-tech advertising formats for broadband users. Furthermore, with the latest release, the Virgilio portal began to promote Alice ADSL. During the six-month period, there were 4,565 million page-views of the Virgilio portal, an increase of 19% compared to the first half of 2004.

Data Business	Lambda	Launch of the *1.25 Gbps Long Distance* package and extension of geographical coverage.
	Hyperway	Repositioning in terms of speed upgrade and the pricing of ADSL access, and launch of MPLS access from 2M up to 100M using GBE technology. Introduction of new access apparatus and extension of *Ethernity* coverage.
	Public Wi-Fi	Coverage of the *WiFi Pubblico* service was extended further. It is now in more than 350 prestigious locations and the same number of small locations (commercial businesses, sports centers and recreational clubs etc.). The service can also be used in another 800 locations through National Roaming agreements and in 20,000 foreign locations, thanks to International Roaming agreements.

Telephone VAS	Services	Launch of "*Tutto 4 Star gratis con Aladino e Videotelefono*", which offers customers using one of the *Aladino* cordless models or a Videotelephone the chance to use the services included in the *Tutto 4 Star* package for three months free of charge.

ICT VAS	Desktop Management	Launch of a new Desktop operating package for businesses, including a Single Point of Contact for solving all potential computer problems (both for desktops and laptops).
	LAN Management	Launch of the new *LAN Management* package which includes a Governance Room which guarantees hardware and software support, also remote support where necessary, for the equipment and according to the configuration of the customer's LAN.
	ICT Security Services	Launch of the new *ICT Security Services* package which includes *Security Device Management* services for outsourcing the management of customers' security infrastructures.
	Full VoIP	Launch of the *HyperCentrex* service, a package with three different versions depending on the intensity with which the service is used.

In July 2005, Telecom Italia began a period of free testing of the IPTV (Internet Protocol TV) service which will initially involve more than one thousand households in four Italian cities (Rome, Milan, Bologna and Palermo).
The commercial launch of the service, which will use an ADSL connection to provide numerous programs and video content with high-quality images, is scheduled for next autumn and will initially involve 21 cities (Rome, Milan, Bologna, Palermo, Bari, Naples, Padua, Cagliari, Genoa, Florence, Alessandria, Modena, Venice, Verona, Turin, Trieste, Catania, Brescia, Biella, Sondrio and Reggio Emilia).
Then, at the end of the experimental phase, to begin with, more than 4 million Italian households will be able to have IPTV.
In addition to the conventional programs offered by some television channels, in the experimental phase, the catalog includes many contents in the video-on-demand mode which customers can select when they wish, without any time restrictions, with the option of stopping and re-starting the chosen program/film with a special remote-control device.
Telecom Italia's commercial IPTV service will be further enhanced by live coverage of the Serie A TIM and Serie B TIM football championship games and the top basketball championship games, a vast film library with an initial choice of 600 films (to which 30 new titles will be added each month), reality shows and live appointments proposed by "Alice Live" with famous TV personalities, and well-known names from the cinema and the spheres of music and science.

- NATIONAL WHOLESALE

  The first half of 2005 was marked by significant growth in requests for sites by other operators, requests favored by the extraordinary interventions for market growth promoted by Telecom Italia for the two-year period 2005-2006. Such interventions also gave momentum to the commercial action of other operations which extended their broadband access offers to customers, based upon

solutions associated with local loop unbundling or shared access.
In the first half of 2005, details of the most significant quantitative changes in the national wholesale market are as follows:

Local Loop Unbundling (LLU)	LLU Lines	The number of lines directly connected to the networks of other operators exceeded 905,000. In June 2005, about 80,000 Shared Access lines were activated, which other operators use to provide ADSL access to TI's telephone clientele.
Broadband access	XDSL	About 754,000 XDSL Wholesale lines were acquired by other operators (both those with a license and Internet Service Providers).
Carrier-PreSelection	CPS Lines	By the end of the period, approximately 4,191,000 access lines had been configured.

- INTERNATIONAL WHOLESALE

  Telecom Italia Sparkle again reported major growth in its economic results and market share. In the first half of 2005, the Voice business reported a considerable increase in volumes equal to approximately +16%, compared to the corresponding period of 2004 (excluding traffic from Telecom Italia Wireline customers). A decisive contribution to this increase was the performance of transit traffic (+20%). This performance was sustained by the policy to acquire new customers, especially in areas such as Africa and the Middle East (37 new interconnections, of which 16 in Voice Over IP – VOIP) and by continuous efforts to achieve cost efficiencies, based on the development of types of VOIP transport (704 million minutes, of which 243 million were delivered through Intelcom San Marino, compared to 292 million minutes, of which 81 were delivered through Intelcom San Marino, in the first half of 2004).

  With regard to the IP & Data Transmission market, in the first half of 2005, the trend of lower prices was offset by a substantial growth of the band sold, a phenomenon which contributed to an increase in revenues from innovative services of approximately 38% compared to the same period of 2004.

- DOMESTIC NETWORK

  With regard to the national network, the following took place in the first half of 2005:

National transmissive backbone (fiber optic evolution)	Two more Marconi latest-generation high-capacity electronic frames have been installed, bringing the total restoration capabilities to 29 junctions, all located in the largest Italian cities. Work continued to strengthen the DWDM links already in operation, which have an overall capacity of more than 150 systems. In addition, approximately 880 km of G655 cable were realized in the northeast.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (*Ethernity*, *Hyperway* and *Genius* services using GBE access). In the first half of 2005, 170 new gates with GBE access were installed (a total of approximately 600 by the end of June), bringing the current GBE coverage to 22 locations in Italy.
ADSL Access	In the first half of 2005, 278 new exchanges were equipped and approximately 560 thousand lines were added. There are now 4,028 exchanges that can provide ADSL access. At the end of June, total ADSL coverage of the national territory was approximately 84%.

- 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 the presence of its technological assets. The project, conceived in 2003, currently involves France, Germany and Holland through the subsidiaries Telecom Italia France, HanseNet and BBNED.
In the second half of 2005, Telecom Italia has reinforced the technical support supplied to BBNED, which operates on the Dutch market, to encourage the activation and launch of the IMSS/MSEM platform and allow direct management of voice services (Voice over DSL).
Following the completion of the acquisition of the company Liberty Surf Group on May 31, 2005, activities began to integrate the company with Telecom Italia France, which already operates in France. In particular, efforts were mainly geared to integrating the customer portfolio of the two companies, integrating and developing a common network and designing a single commercial package by September 2005.

FRANCE	The main achievements by Telecom Italia France (TIF) during the first half of 2005, involved development of the following services: • Activation of ADSL customers with new profiles (2-5-8 Mbit/s) • Massive band upgrade for ADSL customers • Shared access and CPS • "Rosso Alice" Portal – alignment with the CDN platform • SMS offnet • Premium services • Toll-free number

GERMANY	HanseNet's main achievements during the first half of 2005 involved the extension of the service from the Hamburg area to other areas of Germany (Munich, Berlin, Stuttgart, Frankfurt and Lübeck) and were identified with the acronym of Germany Extension (GE). Worthy of note are: • With regard to the activation of new sites, E2E 253 new MDFs were delivered in GE phase 1. • IP Backbone: a 2,179-km fiber optic link was created with 5 POPs and 26 re-generation/amplification sites • The access network was extended to GE phase 1 by building new metropolitan links in the areas of Munich, Berlin, Stuttgart, Frankfurt and Lübeck • The GE phase 2 service was extended to other cities (Lüneburg, Lübeck, Offenbach am Main Meno, Rostock, Karlsruhe, Solingen, Wuppertal, Essen, Oberhausen and Dortmund) thus reaching a total of 140 more MDFs. • With regard to services, the speed upgrade for Microbusiness customers was accompanied by the introduction of the "*activation, de-activation, change order*" and "*product change, move*" packages.

HOLLAND	During the six-month period, the main achievements of BBNED involved the activation and launch of the IMSS/MSEM platform for the direct operation of voice services. Its main achievements are as follows: • Completion of HW testing of both the IMSS and MSEM platforms in Amsterdam; • Basic calling tests were carried out on Italtel Test Plans, using VoiceGW Zhone based on a V5.2 interface; • Definition of the list of supplementary services, default profiles and screening masks for user configurations; • The sharing of traffic routing policies in order to carry out interconnection tests with KPN is nearing completion. • The definition of the training program for the IMSS and MSEM platforms.

- INTERNATIONAL NETWORK

During the first half of 2005, work continued to develop and consolidate the IP backbone by increasing the transmissive capacity of the European backbone and the trans-Atlantic band in order to satisfy the continuous growth of IP traffic volumes.
As far as telephony is concerned, the switching capacity of international telephone exchanges was expanded to support the increase in volumes and make it possible to create interconnections with new operators. In addition, new functional characteristics were released which extend the range of voice and signaling services to mobile operators.
A new POP was opened in Warsaw to offer Global Corporate Network retail services to Multinational Customers
Finally, Telecom Italia Sparkle's commitment continued with regard to the 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, scheduled to become operational in the second half of 2005.

MOBILE

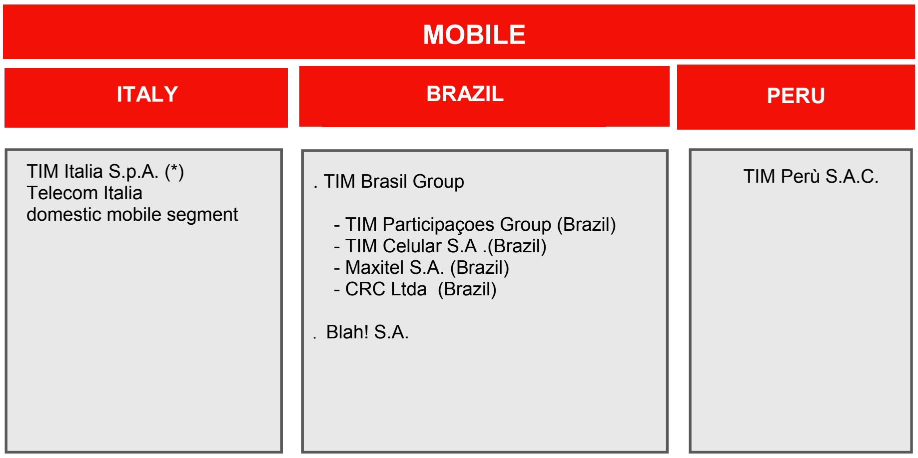
- Increase in consolidated economic results
- Continuation of the corporate reorganization process in Brazil
- Sale of TIM Hellas and TIM Perù

THE BUSINESS UNIT

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

LA STRUTTURA DELLA BUSINESS UNIT

The structure of the Business Unit (below) has changed from that presented in the 2004 Annual Report since Digitel Venezuela is considered a discontinued operation and TIM Hellas was sold.



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

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

- Apart from the Telecom Italia/TIM merger, on June 15, 2005, after approval by the competent authorities, TIM International N.V. executed the contract for the sale of the investment held in TIM Hellas Telecommunications S.A., equal to 80.87% of capital, to the funds managed by Apax Partners and Texas Pacific Group (TPG). The sales price was euro 1,114 million, which corresponded to an enterprise value of approximately euro 1,600 million for 100% of TIM Hellas, and was equal to about euro 16.43 per share. The sale gave rise to a gross gain of approximately euro 451 million in the consolidated financial statements of Telecom Italia. When the sale was executed, an agreement was also sealed between TIM Italia and TIM Hellas so that the latter would be granted a user license for the TIM brand up to 2009.

- on April 28, 2005, TIM International N.V. and its subsidiary TIM Brasil Serviços e Participaçoes S.A., on one hand, and Brasil Telecom S.A. (BT) and Brasil Telecom Celular (BTC) on the other, signed an agreement which provides, after approval by ANATEL – the TLC Brazilian Authority – for the merger of BTC in TIM Brasil and the transfer, at the same time, of the assets thus received to TIM Sul S.A. for area 5 (Region II) and to TIM Celular S.A. for areas 6 and 7 (Region II). In order to resolve the problems connected with the overlapping of the licenses, the agreement provides for the restitution to ANATEL, (i) by BTC, of the mobile service license in Region II and, (ii) by TIM Celular, of the license for long distance national and international services. The purpose of the deal is to maximize the synergies between TIM Brasil and BT also by developing commercial and marketing activities, combining technological know-how, service offerings and the distribution network of the two companies.
- on May 30, 2005, the Extraordinary Shareholders' Meetings of the three companies unanimously approved the plan for the acquisition of the shares of the minority shareholders of TIM Sul S.A. and TIM Nordeste Telecomunicaçoes S.A. via a TIM Participaçoes S.A. capital increase. The exchange ratios were determined on the basis of economic and equity valuations performed by Banco ABN-AMRO Real S.A. TIM Participaçoes proceeded to increase capital on behalf of the shareholders of the two subsidiaries by issuing ordinary and preferred shares. On the same date, TIM Sul S.A. and TIM Nordeste Participaçoes S.A. were delisted from the Brazilian stock exchange and TIM Participaçoes then cancelled the shares reimbursed to the shareholders that exercised the right of withdrawal. The two companies, although maintaining separate legal and administrative status, are now wholly-owned subsidiaries of TIM Participaçoes.

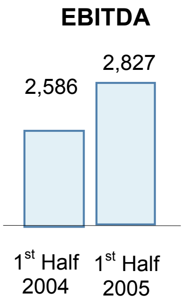
ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2005 compared to those in the first half of 2004 and the year 2004.

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	%
Revenues	6,248	5,651	11,875	597	10.6
EBITDA	2,827	2,586	5,451	241	9.3
% of Revenues	*45.2*	*45.8*	*45.9*		
EBIT	1,910	1,844	3,841	66	3.6
% of Revenues	*30.6*	*32.6*	*32.3*		
Industrial investments	609	609	2,325	0	ooo
Employees at period-end (number) (1)	19,013	17,473	18,034	979	5.4

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues amount to euro 6,248 million, with an increase of 10.6% compared to the first half of 2004 (euro 5,651 million). Revenues from the domestic business total euro 4,930 million (euro 4,788 million in the first half of 2004) with a 3.0% increase. Revenues of the TIM Brasil group grew to euro 1,224 million (euro 795 million in the first half of 2004) with a 54% gain.
Excluding the positive foreign exchange effect (euro 119 million), the underlying growth of revenues is 8.3% (euro 478 million). Contributing to the underlying increase in revenues is the positive growth of operations in Brazil (+euro 312 million, +39.6%) and confirmation of the good trend in the domestic market (+euro 142 million).



EBITDA is equal to euro 2,827 million, an increase of euro 241 million (9.3%) compared to the first half of 2004.
EBITDA as a percentage of revenues is 45.2% (45.8% in the corresponding six months of 2004).

EBITDA of the domestic business is euro 2,636 million (euro 2,552 million in the first half of 2004), with an underlying growth of 3.3%. the TIM Brasil group reported EBITDA of euro 171 million (euro 40 million in the first six months of 2004), with an underlying growth close to 250%.
At comparable exchange rates and net of exceptional items, overall underlying growth is equal to euro 228 million, with an increase of 8.7%. Contributing to this increase are domestic operations (+euro 85 million), the TIM Brasil group (+euro 116 million) and TIM Perù (+euro 20 million).
As far as costs are concerned, the following should be mentioned:

- purchases of materials and external services total euro 2,926 million and show an increase of 8.9% compared to the first half of 2004 (euro 2,688 million). The percentage of such purchases to revenues is 46.8% (47.6% in the first half of 2004);
- personnel costs, equal to euro 339 million, show an increase of euro 36 million compared to the first half of 2004 (+11.9%); they include euro 4 million for non- employee staff (euro 5 million in the first half of 2004). The increase in personnel costs is principally the result of a higher average number of employees. The percentage of personnel costs to revenues is 5.4% in both 6-month periods. Taking into account discontinued operations/assets held for sale, personnel costs total euro 368 million in the first half of 2005 (euro 333 million in the same period of 2004) and comprise euro 4 million for non-employee staff (euro 5 million in the first half of 2004).

The number of *employees* at June 30, 2005 is 19,837 (20,361 at December 31, 2004). The breakdown follows:

	6/30/2005 (a)	12/31/2004 (b)	Change (a – b)
Italy	10,455	10,424	31
Abroad	8,558	7,610	948
Total	19,013	18,034	979
Discontinued operations/Assets held for sale	824	2,327	(1,503)
Total employees	19,837	20,361	(524)

Compared to December 31, 2004, the total shows a total reduction of 524 persons, mainly as a consequence of the sale of TIM Hellas. The reduction was partly compensated by a further increase in the number of employees of the Brazilian subsidiary in order to satisfy the continuous expansion of operations.

- Other operating expenses amount to euro 279 million (euro 198 million in the first half of 2004) and include sundry expenses (euro 175 million) which are mainly constituted by indirect taxes of the Brazilian subsidiaries, writedowns and losses on receivables (euro 56 million) and other items (euro 42 million).

EBIT is euro 1,910 million and shows an increase of euro 66 million (+3.6%) compared to the first half of 2004.
EBIT as a percentage of revenues is 30.6% (32.6% in the first half of 2004).

Excluding the negative foreign exchange effect of euro 10 million and net exceptional items, underlying growth is equal to euro 87 million (+4.7%). Contributing to the underlying growth are domestic operations (+euro 23 million), the TIM Brasil group (+euro 37 million) and TIM Perù (+euro 19 million).

The operating result was more particularly impacted by:

- depreciation and amortization, equal to euro 906 million (euro 741 million in the first half of 2004). This is an increase of euro 165 million due mainly to operations in Italy (+euro 61 million) and Brazil (+euro 104 million). Such change is due to continuous investments for development of network infrastructures and to support operations;
- Depreciation and amortization charges as a percentage of revenues are 14.5% (13.1% in the first half of 2004);
- impairment losses/reversals on non-current assets show an expense balance of euro 12 million in the first half of 2005 (euro 2 million in the first half of 2004).

Industrial investments total euro 609 million (euro 609 million in the first half of 2004).

EVENTS SUBSEQUENT TO JUNE 30, 2005

The following events took place:

- on July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom. The bid was won for USD 6,550 million by Oger Telecom, a newly-formed joint venture controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through TIM International – will make an initial investment of USD 200 million. The partnership between Telecom Italia and Saudi Oger Limited covers mobile telecommunications, while for land line telecommunications Oger Telecom will continue its cooperation with BT Telconsult. After closing the deal, Telecom Italia and Oger Telecom will seal a four-year agreement for technical assistance with Avea, the Turkish mobile operator in which stakes are held by Turk Telekom (40.5647%), Telecom Italia (40.5647%) and the Is Bank group (18.8706%). The agreements with Saudi Oger also provide that the investment in Avea, held by TIM International, may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom. The valuation of Avea shares held by TIM International is in a range of between USD 400 million and USD 600 million. Oger Telecom is expected to be listed on the Dubai stock exchange within the next three years with the possibility of TIM International participating proportionally in the initial placement. Should the listing not take place within the agreed timeframe, TIM International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares that may come from the sale of the current investment in Avea, in addition to the Oger Telecom shares initially subscribed by TIM International for USD 50 million. If the put option is not exercised, Saudi Oger Limited may exercise a call option on the same shares.
- on August 10, 2005, TIM International N.V. sold the wholly-owned investment in TIM Perù to Sercotel S.A. de C.V., a company controlled 100% by America Movil S.A. de C.V. The gain on consolidation for Telecom Italia is approximately euro 110 million and the improvement in net financial debt is more than euro 400 million. The sale of TIM Perù falls under the strategy to rationalize the international investment portfolio in order to focus the Group's presence in countries with a higher rate of growth and where it is possible to develop integration between the fixed and mobile platforms.

The following table shows the main operating highlights at June 30, 2005 compared to June 30, 2004 and December 31, 2004, in addition to the principal initiatives undertaken during the period by each sector:

Operating highlights	6/30/2005	12/31/2004	6/30/2004
Mobile lines in Italy (thousands)	26,117	26,259	26,011
Mobile lines abroad (thousands)	18,207	14,690	11,189
Mobile traffic (millions of minutes) in Italy	20,701	41,225	20,088
ARPU (euro/line/month) in Italy	28.6	29.0	28.5

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

FreeMove/Fiat Agreement	A framework agreement has been signed with FIAT for the supply of pan-European mobile communications services. The agreement covers more than 20,000 lines in 17 European countries and demonstrates the strength of the alliance as a supplier of mobile telephone services and solutions to large multinational companies.
Launch of Video Sharing service	TIM and Nokia have sealed an agreement, in the second quarter of 2005, to launch the Video Sharing service on the Italian market. To begin with, the new service will be available with the Nokia 6680 handset. Customers will be able to see a live video or video clip during a normal voice phone call on their cell phone, thus taking advantage of a service which is innovative and technologically on the leading edge.
Launch of the "7 su 7" package	This package, available to subscribers, designed for professional people and small businesses, allows them to make calls on week-days at a simple convenient charge of 7 eurocents (exclusive of VAT) to all fixed and mobile numbers, and at weekends, when they only have to pay the answering charge. In addition, for only euro 7 more a month, users can purchase a wide range of UMTS telephones in up to 24 monthly installments, to make free calls and videocalls to internal numbers belonging to the same corporate contract.
Launch of the "Uno per tutti" package	Launched on June 6 2005, this package enables users to send texts and speak, at a charge of 1 eurocent a minute, to any other TIM customer. The service may also be used with international roaming and makes it possible not only to make calls, but to receive calls at a charge of 1 eurocent a minute on all the FreeMove and roaming partner networks of 37 countries, in Europe and the Americas.

ITALY

The following table shows the key results of ex-TIM S.p.A. (now the domestic mobile segment of Telecom Italia, after its merger in the Parent Company) for transactions up to the date of the spin-off (March 1, 2005) and TIM Italia S.p.A. for the subsequent period. The periods under comparison refer to TIM S.p.A.

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	4,930	4,788	9,923	142	3.0
EBITDA	2,636	2,552	5,181	84	3.3
% of Revenues	*53.5*	*53.3*	*52.2*		
EBIT	2,025	2,002	4,010	23	1.1
% of Revenues	*41.1*	*41.8*	*40.4*		
Industrial investments	337	387	1,469	(50)	(12.9)
Employees at period-end (number) (1)	10,455	10,393	10,424	31	0.3

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues amount to euro 4,930 million, with an increase of 3.0% compared to the first half of 2004 (euro 4,788 million).
Contributing, in particular, to the increase in revenues are the strong growth in VAS (value added) services, equal to euro 691 million, (+16.2% compared to the first half of 2004), thanks to the continuous innovation of services and the portfolio of plans and packages. The percentage of VAS revenues to total revenues is 14.0% (12.4% in the first half of 2004). Sales of the core business (Voice), equal to euro 3,972 million, remain stable compared to the first six months of 2004 thanks to a growth in usage and actions taken with regard to high-value customers.
A sharp increase is noted for sales of terminals, equal to euro 267 million (+20.1%) due to the success of the summer offers, especially on 3G.

EBITDA is euro 2,636 million, up euro 84 million (3.3%) compared to the first half of 2004. EBITDA as a percentage of revenues is 53.5% (53.3% in the first half of 2004). Net of exceptional items, EBITDA is equal to euro 2,634 million, with an increase of euro 85 million (+3.3%) compared to the corresponding six months of the prior year.

EBIT is euro 2,025 million, up euro 23 million (+1.1%) compared to the same period of 2004. EBIT as a percentage of revenues is 41.1% (41.8% in the first half of 2004). Excluding exceptional items, EBIT is equal to euro 2,022 million, an increase of euro 23 million compared to the first half of 2004 (+1.2%).
The margin includes a significant increase in depreciation and amortization charges due to recent investments for the development of third-generation network infrastructures and to support the evolution of plans and packages for new services.

Industrial investments made during the period amount to euro 337 million (euro 387 million in the first half of 2004) and are concentrated in network infrastructures and software development.

BRAZIL

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

	1st Half 2005 (millions of euro)	1st Half 2004 (millions of euro)	Year 2004 (millions of euro)	1st Half 2005 (millions of BRL)	1st Half 2004 (millions of BRL)	Year 2004 (millions of BRL)	Change in BRL (%)
	(a)	(b)	(c)	(d)	(e)	(f)	(d-e)/e
Revenues	1,224	795	1,798	4,047	2,899	6,545	39.6
EBITDA	171	40	253	564	146	920	°°°
% of Revenues	***13.9***	*5.0*	*14.1*	*13.9*	*5.0*	*14.1*	
EBIT	(113)	(131)	(129)	(372)	(476)	(471)	21.8
% of Revenues	*(9.2)*	*(16.4)*	*(7.2)*	*(9.2)*	*(16.4)*	*(7.2)*	
Industrial investments	260	211	817	858	771	2,973	11.3
Employees at period-end (number) (1)	7,870	6,387	6,939	7,870	6,387	6,939	13.4

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

The TIM Brasil group, the sole operator to have nationwide coverage, has affirmed itself, in the first half of 2005, as the leader of the GSM market with 12.6 million lines at June 30, 2005 (+43% compared to December 31, 2004).

Total lines at June 30, 2005 are 16.8 million – 75% of which use GSM technology. This is an increase of 3.2 million lines since the beginning of the year (+23%) and 6.3 million since the first half of 2004 (+61%). The TIM Brasil group, with a market share of 22.2%, ranks second nationally in terms of the number of customers.

Consolidated *revenues* of the TIM Brasil group, equal to BRL 4,047 million, grew 39.6% compared to the first half of 2004. The increase is due to the growth of the customer base, the contribution made by value-added services, which rose from 2.3% of revenues in the first half of 2004 to 5% in this six-month period, and revenues from voice traffic.

Consolidated *EBITDA*, equal to BRL 564 million, is higher than EBITDA in the first half of 2004 (+BRL 418 million). The margin of 13.9% was reached despite the strong and persistent commercial drive to build up the customer base, establishing a positioning aimed at combining growth with an improvement in profitability.

Consolidated *EBIT*, a negative BRL 372 million, shows an improvement of 21.8% compared to the first half of 2004 (–BRL 476 million). This result was achieved despite higher depreciation and amortization charges mainly as a result of investments made for the development of network infrastructures and information systems.

Industrial investments made during the period amount to BRL 858 million (+11.3% compared to the corresponding period of 2004.).

The number of *employees* grew by 931 compared to the end of December 2004, reflecting the growth of business.

PERU

TIM Perù S.A.C.

Held by: TIM International N.V. 100%

TIM Perù offers mobile telephone services using GSM technology.

The table shows the main economic and operating data:

	1st Half 2005 (millions of euro)	1st Half 2004 (millions of euro)	Year 2004 (millions of euro)	1st Half 2005 (millions of PEN)	1st Half 2004 (millions of PEN)	Year 2004 (millions of PEN)	Change in PEN (%)
	(a)	(b)	(c)	(d)	(e)	(f)	(d-e)/e
Revenues	99	71	165	413	304	701	35.9
EBITDA	27	4	30	112	17	127	°°°
% of Revenues	*27.1*	*5.6*	*18.1*	*27.1*	*5.6*	*18.1*	
EBIT	5	(15)	(10)	21	(65)	(41)	°°°
% of Revenues	*5.1*	*(21.4)*	*(5.8)*	*5.1*	*(21.4)*	*(5.8)*	
Industrial investments	13	9	38	54	38	161	42.1
Employees at period-end (number) (1)	655	605	634	655	605	634	3,3

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

At June 30, 2005, the TIM Perù client base had reached 1.5 million lines, recording growth of +683 thousand lines (+88.5%) compared to the corresponding period of 2004 and +353 thousand lines (+32%) compared to December 31, 2004.

Revenues, equal to PEN 413 million, show an increase of 35.9% compared to the first half of 2004, thanks to a growth in the customer base and the portfolio of services.

EBITDA, equal to PEN 112 million, grew PEN 95 million compared to the first half of 2004, with a 27.1% margin. The increase is due to the positive trend in revenues and a careful cost management policy.

EBIT is equal to PEN 21 million (–PEN 65 million in the corresponding period of 2004) with an improvement of PEN 86 million.

Industrial investments made during the period amount to PEN 54 million (+42.1% compared to the corresponding period of 2004).

The number of *employees* is 655 and increased by 21 persons compared to December 31, 2004.

OTHER AREAS

TURKEY

AVEA ILETESIM HIZMETLERI A.S.

Held by: TIM International N.V. 40.5647%

AVEA offers mobile telephone services using GSM technology on the Turkish territory and is the third most important mobile network covering 73% of the population.

The company came into being on February 19, 2004 as a result of the merger of TIM Telekomünikasyon Hizmetleri A.S., held 49% by TIM International and 51% by Türkiye Bankası ("bank group"), with Aycell Haberle me ve Pazarlama Hizmetleri A.S., 100%-owned by Türk Telekom. On the same date, the name of the company was changed from TTI to TT & TIM leti im Hizmetleri A.S. ("TT & TIM").

After the merger and the next capital increases, ownership of TT & TIM became as follows: 40.5647% TIM International, 40.5647% Türk Telekom and 18.8706% the bank group. On October 5, 2004, the company changed its name to "Avea Iletisim Hizmetleri A.S.". The service is operated under the AVEA brand, launched in June 2004.

At June 30, 2005, the number of customers exceeds 5.8 million, with an increase of more than one million lines compared to December 31, 2004.

MEDIA

- **La7: audience share in June 2005 at 2.8% (2.7% in June 2004)**
- **MTV: confirmed leader in its TV segment and advertising is up 9.3% over the first half of 2004**

THE BUSINESS UNIT

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

- Television: with La7 and MTV, in the production and broadcasting of editorial content through the television transmission networks entrusted under concession and in the marketing of advertising space in the TV programming; in September and October 2004, La7 Televisioni S.p.A. acquired the rights to broadcast the home games of eight Serie A soccer teams using digital terrestrial technology;
- Office Products: in the distribution of products, services and solutions for the office through the Buffetti retail network;
- News: with TM News, a national new agency operating 24/7 under the APCom brand.

Under the strategy to rationalize the operations of the Group, on June 1, 2005, Telecom Italia executed the contractual agreements with Telecom Italia Media for the purchase of the assets of Virgilio (through the companies Webfin and Matrix) and Tin.it., approved by the respective Boards of Directors on April 4, 2005.
Under the deal, Telecom Italia purchased the following investments from Telecom Italia Media:

- a 60% interest in Finanziaria Webfin (which currently holds a 66% stake in Matrix) and a 0.7% interest in Matrix at a total price of euro 70 million. At the conclusion of the deal, Telecom Italia, which, through ISM, already held a 40% stake in Webfin and a 33.3% stake in Matrix, now holds (always through ISM) 100% stakes in Webfin and Matrix and thus has full control over Virgilio;
- 100% of the capital of Nuova Tin.it S.r.l., a newly-formed company to which Telecom Italia Media contributed the Tin.it business segment. The sales price was euro 880 million.

The aforementioned transaction also involved:

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

Since Telecom Italia did not take part in the buy-back, the entire equivalent amount was earmarked for market transactions. In view of the fact that the tender offer was successful, and considering the cancellation of the shares bought back, Telecom Italia raises its share of direct control (60.4%) and indirect control (2.1% through Telecom Italia Finance) from 62.5% to 69.4% of ordinary shares.

The transaction also calls for:

- utilization of the proceeds from the sale for new investments in the media sector by Telecom Italia Media, for an estimated amount of approximately euro 250 million in the three-year period 2005-2007. Part of this amount has already been utilized at June 30, 2005 following the commercial agreements with Elefante TV S.p.A. (euro 115.5 million) and with Delta TV (euro 12 million) as described in greater detail below;

- the distribution of dividends in 2006 by Telecom Italia Media for approximately euro 550 million, compatible with the financial and industrial requirements of the company;
- the merger by incorporation of La7 in Telecom Italia Media, to be completed by the end of 2005.

THE STRUCTURE OF THE BUSINESS UNIT

The following structure of the Media Business Unit takes into account the transfer of the Internet assets to the Wireline Business Unit beginning from January 1, 2005 and the deconsolidation of the companies Televoice and Databank.

MEDIA		
TV	NEWS	OFFICE PRODUCTS
LA 7, MTV e TI Media Broadcasting	TM News	Buffetti Group SK Direct

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The first half of 2005 was marked by the deconsolidation of the companies Televoice in January 2005, Databank in March 2005, and Finanziaria Web, Matrix and the Tin.it division in June 2005, even though, as mentioned earlier, the transfer of the Internet assets is represented in the structure of the Business Unit as having taken place as of January 1, 2005.

On April 29, 2005, La7 reached an agreement with Elefante TV S.p.A. to take over the business segment composed of the national television station of the same name for an amount of euro 115.5 million. Always with the intent of expanding the broadcasting capacity of its television networks, La7 also reached another agreement for the purchase of radio and television equipment and the relative frequencies of the local Delta TV station in the central-south of Italy, for a total amount of euro 12 million. These acquisitions received approval from the Antitrust Authority on July 27, 2005. Authorization for the takeover of the Elefante concession by the National Regulatory Agency and the Ministry of Communications, for their specific spheres of competence, is still pending.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2005 compared to those in the first half of 2004 and the year 2004. The data takes into account the transfer of the Internet business as of January 1, 2005.

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	154	157	295	(3)	(1.9)
EBITDA	(43)	(22)	(56)	(21)	(95.5)
% of Revenues	*(27.9)*	*(14.0)*	*(19.0)*		
EBIT	(62)	(35)	(90)	(27)	(77.1)
% of Revenues	*(40.3)*	*(22.3)*	*(30.5)*		
Industrial investments	23	14	41	9	64.3
Employees at period-end (number) (*)	1,039	1,207	1,228	(189)	(15.4)

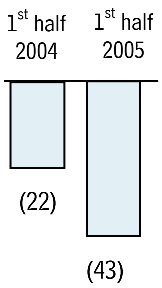
(*)The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues amount to euro 154 million in the first half of 2005, with a decrease of 1.9%, compared to euro 157 million in the first half of 2004. Excluding the negative effects due to the change in the scope of consolidation, underlying growth is 9.6% (euro 13 million).

The following is mentioned, in particular:

- *revenues* from the Television area show a growth of euro 14 million (+21.2%), from euro 66 million in the first half of 2004 to euro 80 million in the first half of 2005, confirming the reputation for editorial content in the programming of the two TV networks. In particular:
  - in the first half of 2005, La7 Televisioni S.p.A. posted revenues of euro 42 million, an increase of 35.5% compared to the first half of 2004 (euro 31 million);
  - in the first half of 2005, MTV reported revenues of euro 42 million, an increase of 13.5% compared to the first half of 2004 (euro 37 million);
- revenues from the Office Products & Services area are euro 71 million; they are substantially in alignment with those of the corresponding period of the prior year.

EBITDA



EBITDA shows a loss of euro 43 million in the first half of 2005, with a deterioration of euro 21 million compared to the loss reported in the first half of 2004 (euro 22 million). Net of the effects due to the change in the scope of consolidation and exceptional items, the deterioration is euro 23 million. If the net costs incurred for digital terrestrial testing are excluded, the increase in the loss at the EBITDA level is reduced to euro 6 million.

The higher loss is due to the Television area which shows a reduction in its margin of euro 22 million, from a negative euro 13 million in the first half of 2004 to a negative euro 35 million in this six-month period, mainly due to higher costs incurred for digital terrestrial testing during the first half of 2005. Moreover, operating profit was affected by higher costs and investments in "content" required to support audience growth.

EBIT shows a loss of euro 62 million in the first half of 2005, with a deterioration of euro 27 million compared to the same period of 2004. This is due to the foregoing reduction in EBITDA and higher depreciation and amortization charges in the Television area. Net of the effects due to the change in the scope of consolidation and exceptional items, the negative change is euro 28 million; excluding the net costs incurred for digital terrestrial testing, the negative change in EBIT decreases to euro 11 million.

Industrial investments total euro 23 million in the first half of 2005 (euro 14 million in the first half of 2004). They mainly refer to investments in the Television area connected with digital terrestrial

TV (acquisition of digital frequencies and infrastructures for experimentation) and the acquisition of TV rights.

The number of *employees* at June 30, 2005 is 1,039, a decrease of 189 compared to December 31, 2004. This can mainly be explained by the sale of Databank (86 persons) and Televoice (169 persons) which is partly offset by the hiring of 68 persons in the Television area.

INFORMATION ON OPERATIONS

On January 22, 2005, La7 launched "La7 Cartapiù", the pay-TV package for digital terrestrial television whereby customers can pay to see live the home soccer games of the Italian "Serie A" championship of the Bologna, Brescia, Cagliari, Chievo, Lecce, Fiorentina, Palermo, Parma and Reggina teams. At June 30, 2005, more than 591,000 cards had been distributed and approximately 130 hours of soccer games were broadcast. The broadcasting of the La7 and MTV channels on digital terrestrial TV was further enhanced by numerous interactive applications (such as a TV Guide, "Ultima ora", "Vota nazionale" and "Video request", etc.).

OLIVETTI

■ INTRODUCTION

The Olivetti Business Unit (which changed its name on April 5, 2005 from Olivetti Tecnost to Olivetti) operates through the Office Products Division in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS). Through the Gaming & Service Automation and Specialized Printers Division (formerly Systems Division), the Business Unit provides 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 fixed and cell phone repairs.
The reference market of the Business Unit is focused mainly in Europe and Asia.

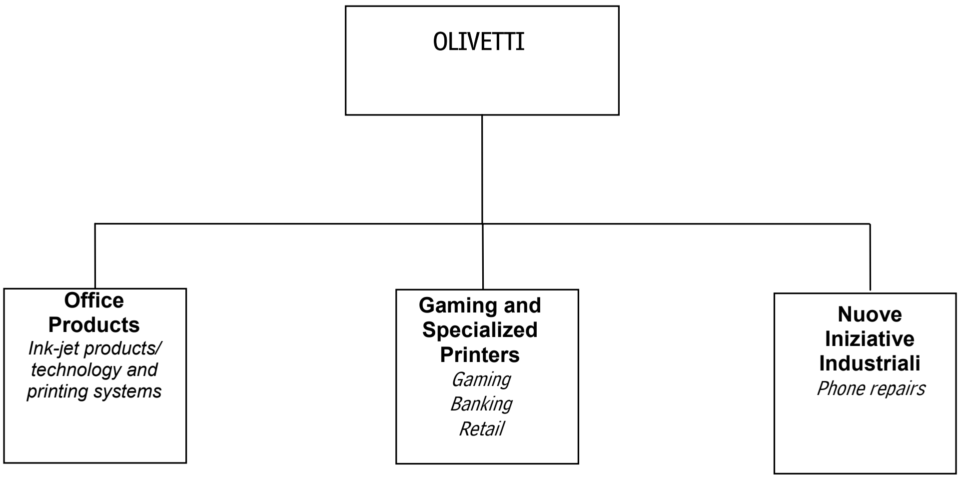
■ THE STRUCTURE OF THE BUSINESS UNIT

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

Olivetti

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

and operates with the following organizational structure:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transaction took place:

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

- on March 7, 2005, the agreement was signed for the sale of 65% of the share capital of Cell-Tel S.p.A. by Olivetti S.p.A to the shareholder Telis S.p.A..; after this transaction, the investment in Cell-Tel S.p.A. is now reduced to 15%;
- on March 24, 2005, the investment in Istituto RTM S.p.A. was sold by Olivetti S.p.A.;
- on April 4, 2005, the Olivetti Tecnost de Mexico de C.V. and Olivetti Mexicana S.A. merger was recorded;
- on April 15, 2005, the Olivetti Sistemas e Servicios Ltda and Olivetti do Brasil S.A. merger was registered;
- on April 19, 2005, the company Olivetti Tecnost International B.V. changed its name to Olivetti International B.V.;
- on April 30, 2005, the wind-up of the company Lexikon Nordic AB was recorded;
- on June 15, 2005, Olivetti sold the investments in the companies Penta Service S.p.A. and Fin Penta S.r.l.

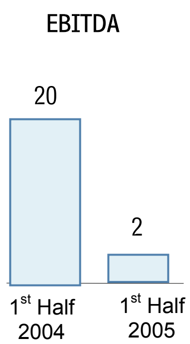
ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2005 compared to those in the first half of 2004 and the year 2004.

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b)	
				amount	%
Revenues	223	298	590	(75)	(25.2)
EBITDA	2	20	28	(18)	(90.0)
% of Revenues	*0.9*	*6.7*	*4.7*		
EBIT	(6)	12	17	(18)	
% of Revenues	*(2.7)*	*4.0*	*2.9*		
Industrial investments	8	8	15	-	
Employees at period-end (number) (*)	1,809	2,289	2,108	(299)	(14.2)

(*) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues amount to euro 223 million in the first half of 2005, of which euro 135 million refers to the Office Products Division, euro 67 million to the Gaming & Specialized Printers Division, euro 19 million to the sale of intellectual property rights to Telecom Italia and euro 2 million to other activities.
Compared to the first half of 2004, revenues show a reduction of euro 75 million (-25.2%). Excluding the negative foreign exchange effect and the impact of the change in the scope of consolidation (with particular reference to the closing of operations in U.S.A. and Mexico and the sale of Innovis S.p.A. and Cell-Tel S.p.A.) of euro 45 million, in addition to revenues from the sale of intellectual properties to TILAB of euro 19 million, underlying growth in revenues is a negative euro 49 million (-18.0%).



EBITDA is a profit of euro 2 million. This is a reduction of euro 18 million compared to the first half of 2004. Excluding the foreign exchange effect, the change in the scope of consolidation, the sale of intellectual properties to TILAB and exceptional items, underlying growth in EBITDA is a negative euro 26 million. This is due to the cost associated with the development of new products (multifunctional desk-top printers and portable photograph printers) in the Office Division (euro 14 million) and lower revenues in the Gaming and Specialized Printers Division (euro 13 million).

EBIT in the first half of 2005 is a loss of euro 6 million and is a deterioration of euro 18 million compared to the first half of 2004. The underlying growth is a negative figure of euro 25 million due to higher costs of the Office Division and a decline in the margins of the Gaming and Specialized Printers Division.

Industrial investments amount to euro 8 million, in line with the first half of 2004.

At June 30, 2005, *employees* number 1,809, of whom 1,638 are employed in Italy and 171 abroad. The reduction of 299 persons compared to December 31, 2004 is basically due to the deconsolidation of the companies Innovis S.p.A. (222 persons) and Cell-Tel S.p.A. (112 persons).

EVENTS SUBSEQUENT TO june 30, 2005

The following events took place:

- on July 4, 2005, the sale of the investment in the company Oligulf Fzco with headquarters in Dubai (Arab Emirates) was sold;
- on July 29, 2005, 5% of the share capital of Innovis S.p.A. was sold to the shareholder Comdata S.p.A.; Olivetti's investment in the company therefore went from 20% to 15% of capital;
- on August 29, 2005, the company Olivetti Chile S.A. was put into a wind-up.

INFORMATION ON OPERATIONS

The main activities carried out during the first half of 2005 are the following:

Office Products Division

In the first half of 2005, the Office Products Division continued to pursue activities related to the development and mass-production of new products in the ink-jet technology sector.
The proposal of new products, multifunctional desk-top printers and portable photo printers will mark Olivetti's entry into a sure-growth market and relaunch the brand in major European countries.
The sale of these products is expected to start in September 2005.

Revenues in the first half of 2005 were lower than in the same period of the prior year (euro 135 million compared to euro 155 million in 2004), particularly as a result of measures designed to rationalize the product portfolio, the reduction in the average price of fax machines and lower demand for fax accessories and photocopiers.
However, during this period, revenues of fax machines increased by approximately 20% compared to the first half of 2004, thanks to important orders from mass-merchandising customers, thus increasing the number of machines installed and creating the premises for a rise in the sales of accessories.

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

As regards the Gaming & Service Automation business, in the first half of 2005, the addendum was signed to the contract with Lottomatica S.p.A. for the delivery and installation of about 34,000 gaming terminals for a total of euro 63 million. The supply of 2,100 terminals was invoiced in the first half of 2005.
The following orders are also in the process of being completed:

- about euro 8 million, for the supply of 35,000 terminals to Lottomatica Servizi for the operation and printing of revenue stamped paper;

- euro 1 million, for the total supply of terminals and relative software for gaming automation in Tanzania.

Sales of this business in the first half of 2005 (euro 22 million) are lower by approximately euro 19 million compared to the first half of the prior year (euro 41 million) since that latter period had included the acquisition and invoicing of the order for the supply of terminals for managing electronic voting in Venezuela, equal to euro 21 million.

In the Specialized Printers business, overall revenues and profitability declined from the prior year; sales (euro 45 million) fell by approximately euro 11 million compared to 2004.
In the *Banking* sector, results were as follows:

- a general reduction in the sales of printers in Western countries;
- substantially steady sales in Eastern markets, despite fierce competition in terms of prices because of the entry of a growing number of operators in this sector.

In the *Retail* market, the trend in the sale of PR4 printers is stable while the sales volume of cash registers shows a reduction.

Nuove Iniziative Industriali
During the first half of 2005, the majority holdings in Cell-Tel S.p.A. and Innovis S.p.A. were sold and both companies were deconsolidated. The Olivetti group continues to hold investments in the two companies of 15% and 20%, respectively.
Wirelab (repair and regeneration of telephone exchanges), with a total of 46 employees, generated sales that were substantially in line with those of the first half of 2004, improving the operating income.

OTHER ACTIVITIES

"Other Activities" of the Telecom Italia Group are principally constituted by the Functions and by the companies which provide centralized services to the Group (R&D, real estate, training, audit and financial services) as well as the Corporate Functions. Beginning January 1, 2005, "Other Activities" comprise the foreign activities not included in other Business Units (the consolidated subsidiary Entel Bolivia, previously under the South America structure, and the associates Telecom Argentina and Brasil Telecom).

■ CENTRALIZED GROUP SERVICES

Centralized Group Services include the operating activities, at virtually a nil profit margin, of the centralized services performed for the Business Units/Central Functions/Companies of the Group.
The following table shows the operating costs (external costs, personnel costs, the balance of other and extraordinary income and expenses) incurred during the first half of 2005 to conduct the above activities, compared to those of the same period of the prior year, restated to take into account the different organizational areas.

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

OPERATING COSTS

(millions of euro)	1st Half 2005 (a)	1st Half 2004 Proforma (d)	Change	
			amount	%
TI LAB	63	65	(2)	(3.1)
Real Estate Activities and Services	357	358	(1)	(0.3)
Informatics (IT S.r.l. and Governance)	127	132	(5)	(3.8)
Central Administrative Services (CSA)	27	26	1	3.8
Security	29	25	4	16.0
Purchasing	18	16	2	12.5
Other (1) and eliminations	14	21	(7)	(33.3)
TOTAL CENTRALIZED SERVICES	635	643	(8)	(1.2)

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

The table excludes the effects of certain nonrecurring extraordinary items in both periods in order to present a better comparative and meaningful representation of the economic trend of operations.
Centralized Group Services show a decrease in costs of euro 8 million compared to the first half of 2004. In particular, the improvement in Informatics is connected with the efficiencies achieved after the reorganization of the IT area, whereas the increase in Security costs can be ascribed to the adoption of higher security standards by the offices and installation sites.

INFORMATION ON OPERATIONS

TELECOM ITALIA LAB

The Telecom Italia Lab function is the research arm of the Telecom Italia Group with responsibility for supervising technological innovation. 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.
The activities can be broken down into the Group's main innovative areas of interest, such as: evolution of the access network, the carrier network, the mobile network, phone services, as well as Internet and multimedia services.

The research and development activities carried out by the Telecom Italia Lab function during the first half of 2005 are fully described under "Research, Development and Innovation" in the Sustainability section of the report.

In the first half of 2005, the costs incurred for research and development activities conducted by the TILAB Central Function, also in collaboration with Pirelli Labs, amount in total to euro 68 million (euro 67 million in the first half of 2004) and include external costs, dedicated personnel expenses and depreciation and amortization charges. Such costs have been recharged to the Wireline and Mobile Business Units. Research has been expensed for an amount of euro 44 million (euro 55 million in the first half of 2004). Development activities, which became available for use, have been capitalized either to the network itself or to software costs for an amount of euro 24 million (euro 12 million in the first half of 2004).

REAL ESTATE ACTIVITIES AND SERVICES

The sale of the Emsa Servizi S.p.A. business on December 21, 2004 became effect as of January 1, 2005. Therefore, from 2005, the activities which in 2004 had been carried out by Emsa Servizi, are now performed by the Telecom Italia structures which operate the centralized services.

Tiglio Project (Real Estate Funds)

Under the second phase of the Tiglio Project – which calls for an end to the process of appreciating the real estate assets held by Tiglio 1 and Tiglio II by contributing the assets to real estate funds or concluding individual sale transactions – in June 2005, the global offer began for shares of the "BERENICE – FONDO UFFICI – Closed-end Real Estate Fund", seeded by 54 properties from five private parties including Tiglio I (8 buildings) and Tiglio II (37 buildings). The overall market value of the real estate assets is approximately euro 860 million, to which a 13% discount was applied by virtue of their transfer en masse. The contribution value is thus equal to approximately euro 750 million whereas the value of the fund, net of financial debt, is equal to approximately euro 450 million.
The global offer, 93% of which is intended for the retail public in Italy, was successfully closed on July 14, 2005; trading on the stock market of the remaining amount, set aside for Italian and foreign institutional placement, began on July 19, 2005.

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Moreover, on July 25, 2005, TIM Italia transferred the Purchases/Properties and Services business segment, composed of 62 resources, to Telecom Italia.

INFORMATICS

The Information Technology Group function is responsible for coordination, 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.
It also supervises all the activities for the integration of the fixed and mobile networks.

After the merger of IT Telecom and EPIClink in Telecom Italia, the reorganization of the Information Technology segment has been completed and is based on a new organizational model which calls for the transfer of the Information Technologies activities to the following:

Wireline – the development and operations of the applications of the systems OSS – Operational Support System and BSS – Business Support System – and the development, design, delivery and management of VAS for the Wireline market have been transferred to Telecom Italia's Wireline Business Unit, the aim being to integrate end-to-end processes so as to maximize the operational synergies between demand management and development activities;

Central Functions – the activities relating to the definition of the reference architectures used in the projects of the BUs have been transferred to Telecom Italia's Corporate Function with the aim of making IT Group strategies more uniform;

IT Telecom S.r.l. – the activities of creating and operating IT Group infrastructures (Data Centers) have been transferred to the newly-formed company with the aim of maximizing synergies and encouraging the convergence processes.

With this in mind, in the first half of 2005, work continued to optimize the management of Wireline and Corporate applications.

In particular, with regard to:

- the infrastructural operation of the Telecom Italia Wireline BSS and OSS applications, work has continued inherent to the migration from mainframe systems and the rationalization of storage environments. Furthermore, in reference to the activities directed to the external market, the content of the standard offerings for the market and the supply conditions supporting ground and field offers have been defined;
- the Corporate services area, work has continued to technologically modernize the platforms using application of various Functions of the Parent Company and/or to make adaptations to put new functionalities into operation. In particular, in the SAP area, work has begun to integrate the TIM and Telecom Italia systems.

Within the framework of project innovation and IT integration, the following activities were begun/completed:

- defining and launching IT innovation projects relating to the rationalization of systems and storage through the introduction of virtualization techniques designed to increase the use of the resources present;
- consolidating of the TIM mainframe environment on the Telecom Italia systems at the Bologna Data Center;
- taking over the infrastructures and the monitoring and the support systems of the services relating to OSS and VAS applications of the Telecom Italia Data Center located in via Oriolo Romano;
- continuation of the process to rationalize the mainframe environments of Telecom Italia.

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Lastly, as part of the project for the reorganization of the operations of Information Technology Group, the guidelines of which were approved by the Board of Directors on July 25, 2005, the IT Telecom S.r.l. and TIM Italia data centers will be spun off to the newly-formed company Telecom Italia Data Center S.r.l., which will later be incorporated in Telecom Italia. IT Telecom S.r.l. will retain the certification authority activities.

CORPORATE

Corporate includes the Staff Functions of Telecom Italia S.p.A. (Human Resources, Finance Administration and Control, Corporate and Legal Affairs, International Legal Affairs, Public and Economic Affairs, Corporate Development and Investor Relations, International Affairs, General Counsel), Group Communication, which includes the "Italia Project" and Communication and Image Functions, Corporate Latin America and TI International.
The following table shows operating costs (external costs, personnel costs, the balance of other and extraordinary income and expenses) incurred during the first half of 2005 to conduct the above activities, compared to those of the same period of the prior year, restated to take into account the various organizational areas.
The data includes costs recharged for the activities performed by Centralized Group Services, except for Information Systems.

OPERATING COSTS

(millions of euro)	1st Half 2005	1st Half 2004 Proforma	Change amount	Change %
Staff Functions	186	164	22	13.4
Group Communication	27	19	8	42.1
Corporate LATAM + TI International	19	17	2	11.8
CORPORATE	232	200	32	16.0

The table excludes the effects of certain nonrecurring income extraordinary items, (the OTE closing and the Opportunity settlement in 2005 and the settlement with Telespazio in 2004) in order to show a more meaningful and comparative representation of the economic trend of Corporate.
Corporate costs rose by euro 32 million due to an increase in personnel costs, partly as a result of the effect of higher employee cutback costs, and the increase in Communications costs, which can be traced to the different timing of the institutional advertising campaign, carried out also at the beginning of the year while, last year, it had only been planned for the last months of the year, and to higher Project Italia costs. These increases are partly compensated by savings on professional and consulting services.

INTERNATIONAL HOLDINGS

Entel Bolivia Group

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

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

In the first half of 2005, activities in the wireline business were geared to consolidating the Wi-Fi service in Bolivia's largest cities and the launch of "Free Dial-up Internet" service. Moreover, Entel has concluded an agreement with a computer supplier and a regional bank to launch a sales package which includes the computer, Internet access and bank credit.

At June 30, 2005, fixed lines number 52 thousand and represent an increase of 4.5% compared to December 31, 2004 (50 thousand).

In the mobile business, the group has maintained its leadership of the market, achieving a market share of 63.5%.

The company has also increased GSM coverage, preparing the network for the launch of the Edge service in the next six-month period.

In January 2005, the fixed-mobile convergent invoicing system came into operation. Finally, in February 2005, the group sold its minority holding in Intelsat.

The group's mobile clientele, numbering 1,384 thousand at June 30, 2005, increased by 20.8% compared to December 31, 2004 (1,146 thousand).

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On July 19, 2005, International Communication Holding N.V. ("ICH"), a wholly-owned subsidiary of Telecom Italia International N.V., signed a preliminary agreement with Cooperativa de Telecomunicaciones de Santa Cruz Cotas Ltda ("Cotas") for the sale of its investment (100%) in Euro Telecom International N.V. ("ETI"), which, in turn, holds a 50% stake in the capital of Entel Bolivia.

The signing of the contract between ICH and Cotas is subject to the execution, among other things, of a significant reimbursement of capital by Entel Bolivia to its shareholders.

The sales price is fixed at USD 140 million plus an amount in USD equal to 50% of the liquidity held by Entel Bolivia five days prior to the closing (and after the reimbursement of capital).

Telecom Argentina Group

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

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

Compared to the first half of 2004, the wireline business reported an 11% increase in long-distance national and international traffic thanks to the new semiflat plans and economic growth of the country.

Fixed lines total 3,534 thousand and increased by 1.4% compared to December 31, 2004 (3,484 thousand).

In the mobile business, the customer base increased by 24%, compared to December 31, 2004, reaching 5,381 thousand. The level of penetration of mobile services is 43% at the end of the first half.

The program to retain TOP customers continued, by replacing TDMA terminals with GSM terminals. Lastly, SMS traffic shows a considerable increase compared to the first half of 2004 in terms of messages sent and received.

The debt restructuring plan begun in June 2004 and fully described in the 2004 Annual Report was completed on August 31, 2005 according to the terms established by the APE - Acuerdo Preventivo

Extrajudicial. The restructuring mainly involved the issue of new negotiable bonds and the payment of an amount in cash to cancel the previous pending debt.

Brasil Telecom Group

Held by: Telecom Italia and Telecom Italia International through Solpart, in which a 38.00% interest is held, plus Telecom Italia International's direct holding of 1.13%.

Brasil Telecom came into being on May 22, 1998 as a result of the sale and privatization of "Telebras" which operated on Brazilian territory as a monopoly.

The Brasil Telecom group is currently structured with a holding company (Brasil Telecom Participaçoes S.A.) and with a wholly-owned subsidiary (Brasil Telecom S.A.) which, in turn, controls BrT Serviços de Internet S.A., 14 Brasil Telecom Celular S.A., Vant Telecomunicaçoes S.A., MTH Ventures do Brasil Ltda, in addition to other indirect holdings.

The company operates fixed telephone services in Region II (Paraná, Santa Caterina, Districo Federal, Tocantins, Mato Grosso, Mato Grosso del Sul, Rondonia, Rio Grande del Sul, Acre and Goias) covering about 2.9 million kilometers (34% of the total area of the country), a population estimated at 42 million (24% of the total population) with three metropolitan areas of more than one million inhabitants including Brasilia, the capital of the nation.

Brasil Telecom has one of the largest telecommunications networks in Brazil with a vast offering of services for telecommunications, fixed telephony, broadband and narrow band, free internet, data transmission and mobile telephony launched at the end of 2004, operating on GSM technology.

The land line customer base at June 2005 had reached 9,540 thousand, with an increase of 37 thousand compared to December 2004. The Broadband service shows a sharp increase with 747 thousand accesses at June 2005, corresponding to growth of more than 39% compared to December 2004.

The Mobile business has 1,345 thousand customers at the end of June 2005; this is an increase of 723 thousand compared to December 2004 (622 thousand).

On April 28, 2005, Telecom Italia, through its subsidiary TIM Brasil, and Brasil Telecom sealed an agreement to better exploit the synergies arising from the integration of the fixed platforms with the mobile platforms.

The agreement, which envisages a series of measures which requires approval by the competent Brazilian authorities, provides for:

- the transfer, by incorporation, of the activities of Brasil Telecom Celular (BRTC), a wholly-owned subsidiary of Brasil Telecom operating in Region II (which includes nine States in South and Central-East of Brazil), in TIM Brasil;
- the development of commercial activities and marketing, combining the technological know-how, the offering of services and the distribution network of the two companies;
- the elimination of existing overlapping and the optimization of the licenses and the infrastructures of the two companies. In particular:
- TIM Brasil will relinquish its long distance licenses and will begin carrier services for Brasil Telecom;
- Brasil Telecom, in abandoning the mobile business, will make its sites and infrastructures available to TIM Brasil's, accelerating the programs to expand coverage of the network.

This agreement also responds to the requests of the Brazilian National Regulatory Agency (ANATEL) to resolve the problems surrounding the overlapping of the mobile and long-distance licenses of the two operators involved.

Simultaneously, an agreement was reached between Telecom Italia, Brasil Telecom and the controlling companies of Brasil Telecom (Techold, Timepart, Solpart and Brasil Telecom Participaçoes) whereby Telecom Italia International reclaimed its role as an industrial partner in Brasil Telecom following the cessation of the disputes concerning the reinstatement of its governance rights (temporarily suspended under the August 2002 contract). Therefore, beginning from the interim financial statements for the first half of 2005, the equity method, which had been suspended in 2002, is once again used to value the investment in Solpart in the consolidated financial statements of the Telecom Italia Group.

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

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

The agreement envisages the payment of USD 379 million (euro 314 million at the exchange rate of June 30, 2005) to Opportunity for the purchase of the investments and euro 50 million as a settlement amount. The latter amount was paid in June 2005.

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At the beginning of May 2005, the settlement of the case brought before the Rio de Janeiro Court in January and March 2004 and the acts allowing Telecom Italia International to exercise its governance rights in Solpart, according to the clauses of the shareholders' agreement as modified on April 28, 2005, was contested by certain indirect shareholders in two separate actions. The first asked to suspend execution of the settlement and the second to file a temporary injunction against the effects of the change to the shareholders' agreements reached April 28, 2005.

On another front, a temporary injunction was filed before the Rio de Janeiro Court against Telecom Italia International, TIM International, TIM Brasil, Opportunity, Techold, Timepart, Solpart, Brasil Telecom Partecipações, Brasil Telecom and its subsidiary Brasil Telecom Celular, aimed at preventing the continuation of the process to merge the latter by incorporation in TIM Brasil, according to the clauses of the agreement signed between the two companies on April 28, 2005.

SUSTAINABILITY SECTION

We report below a summary of the Telecom Group's actions in the 1st half of 2005 directed at implementation of the chosen sustainability model, consistent with the commitments assumed:

√ The Telecom Italia Group included Sustainability to its objectives for the year 2005, together with Reliability, Cash Generation and Profitability, Innovation and Competitiveness, Focus on Customers, Strategic and Operative Flexibility.

√ The project directed at the evaluation of the Group's intangible assets continues, which provides for the wide involvement of the Scientific and Financial Communities. The first phase, which was concluded in 2004, confirmed with empiric evidence the existing link between financial and non-financial performance; the objective of the second phase will be the identification of shared metrics to evaluate specific intangible assets.

√ The Telecom Italia Group presented its Sustainability Model to the Financial Community in London on June 23, meeting the representatives of some Investment Funds with a specific focus on *Socially Responsible Investment* (SRI). The meeting was based on a presentation from the Group CFO, followed by a Q&A session and some *one-to-one* meetings. The analysts expressed general appreciation of the Group's Sustainability Model, making some useful suggestions for future improvements.

√ On March 3 and 4 two events of notable significance were organized in Brussels by *Corporate Social Responsibility Europe* (the European organization, of which Telecom Italia is a member, for the promotion of business responsibility) in collaboration with the European Union:

- the launch of the "European Roadmap of Businesses towards a Sustainable and Competitive Enterprise" at which José Barroso, President of the European Commission, was present. The Group collaborated in the definition of the document, for which Chairman M. Tronchetti Provera was a "Sponsor Ambassador" together with 5 other leaders of large multinationals.
  The Roadmap presents objectives and strategies to consolidate the commitment of the European companies to Sustainability and appeals to the EU to integrate Corporate Responsibility in the Lisbon Strategy on competitiveness and define a European Strategy on Corporate Responsibility.
- the "European Market Place" on Corporate Responsibility in which the European businesses presented 100 particularly significant projects for the purpose of application of the concepts of Corporate Responsibility to business. The Group presented the projects "The intangible assets of Telecom Italia Group" coordinated by the Group Sustainability department and "Missione Sogni" (Dreams Mission) coordinated by Progetto Italia.

√ Telecom Italia Group participated in the meeting "*Business Contribution to the Millennium Development Goals*", the objectives fixed by the United Nations for a fairer and more united world.
The French President, Jacques Chirac, who promoted the event, the British Prime Minister Tony Blair and the Secretary General of the UN Kofi Annan gave speeches in the presence of the leaders of 140 businesses, originating from 33 countries.
The Group's representatives at the round table on *Public Governance* illustrated two proposals during the meeting:
- create a USA/EU Authority responsible for planning, verifying consistency with the targets and controlling the investments;
- evaluate the convergence between EU and USA accounting principles so as to be able to integrate financial and non-financial performance, in a sustainable business context.

√ *Det Norske Veritas* (DNV), a leading consultancy company in the environmental sector, completed its assessment of the Environmental Management Systems of Business Units Wireline and Mobile, with indications of its strengths and areas for improvement, in the perspective of an evolution towards a Group Environmental Management System, with common guide-lines and policies.

√ A review was conducted of the Key Performance Indicators to make them more suitable to the process of fixed/mobile integration in progress within the Group. The drawing-up of a manual on the methodology of recording was commenced for environmental KPIs that have a greater degree of complexity.

√ The Group's environmental targets relating to Energy, Water, Paper, Waste, Greenhouse Gas Emissions and Electro-magnetic Fields sectors are being defined.

√ The Group participated in the meetings of the Confindustria (Italian Association of Industries) Commission for Sustainable Development to define the entrepreneurial position on the Delegated Law for redrafting legislation in the environmental sector.

CUSTOMERS

The Group initiated some integration projects between Telecom Italia and Tim for the purpose of getting the most from the emerging opportunities as an effect of the growing convergence between the platforms governing fixed and mobile network activities and the market evolution, which requires services capable of satisfying ever more complex communication needs.

The evolutionary technology trends favor interaction between the various infrastructures for the transport of voice and data and amongst telecommunications offers and contiguous sectors, such as information systems, media and consumer electronics, offering operators the opportunity to develop new services and make the technical management and development of the network infrastructures more efficient.

The diffusion of the IP protocol for transport of voice, data and video, the availability of new broadband technologies for *wireless* access to the fixed network, the growing diffusion of evolutionary *multi-standard* terminals, are only some of the factors stimulating fixed/mobile convergence.

On the demand front, the customer perceives the ever-growing need to use the services of these new technologies wherever he wants, independently of the context and means utilized.

Thanks to the ongoing integration process, the Group, which is already at excellent levels amongst the European competitors for its innovation capacity, will be capable of offering an ever-more complete range of services in line with customers' requirements.

■ BU WIRELINE

Some of the main innovative services launched by the Group in the first half-year are detailed below:

ADSL and VAS

- √ Tele-assistance has been active from the month of June: the customers who subscribe will have availability to a 24 hour operative call centre that can be contacted in case of necessity. The call centre operator, based on the request or type of emergency, will be able to contact a user chosen from a list agreed in the activation phase or a public emergency service. The service is also usable through the BIG ANGEL cordless telephone, which is equipped with large keys and a luminous display with easily legible characters particularly suitable for some categories of customers, such as those with poor sight and the elderly.
- √ A free upgrade is available to all customers with the Alice Flat (640 MB) and Alice Mega (1.2 MB) options.
- √ The portfolio of services accessible through the Rosso Alice portal was increased, amongst which is the technologically advanced MP3 YH-820 reader, with a colored display and memorization capacity of up to 5 GB of tunes and photos.
- √ A new range of Internet access offers was launched for businesses: the Alice Business offer includes new services characterized by a generalized increase in performance (in terms of speed and guaranteed band) over prior offers, but with prices lower on average.

WiFi

The development of the coverage of the Public WiFi service continues, which has now reached over 350 locations, thanks also to the Alice Business Hot Spot offer, directed at sports centers, recreation clubs, book shops, restaurants and other commercial operations. This service is also usable in a further 800 sites through national roaming agreements with the subsidiary Nuova tin.it and Megabeam.
Thanks to the International Roaming agreements, coverage was also extended to 20,000 foreign locations, where the service is also usable in prepaid modality through the WiFi card.

Full Voip Services

Marketing of the HyperCentrex was launched in the first half of 2005; it is the first service to utilize the *Full Voip* technology that provides transit of all traffic on IP.
The advantage for the customer is the possibility of using the same broadband access for telephony services on IP, both between the business' offices (through a single LAN cabling for voice and data) and to the public network. It is possible to obtain the exchange functionality by use of *IP Phone* terminals, without having installed specific equipment and without further concern about obsolescence and maintenance of the machines and terminals.
The HyperCentrex service will allow the utilization, other than the basic service, of the value added functionality such as the businesses' address book or on-line reporting of traffic handled.

Virgilio and Rosso Alice

The Virgilio home page portal was redesigned from the structural point of view with the objective of better directing the users' traffic to the thematic areas and Tin.it offer.
The capacity to measure the speed of the user's connection was developed to permit two home page versions to be supplied: one lighter and faster for narrowband users, the other characterized by evolved advertising graphics and formats for the broadband users. On the contents front the new Meteo channel was released: the graphics were completely renewed and new sections and functionalities (satellite animations, news, airport situations, etc.) were added.
Search Engines were developed to allow portal users to conduct specific searches within every individual theme area.

The Rosso Alice portal was redesigned to adapt it to an innovative user interface and graphics, suitable to configure it as an entertainment platform dedicated to the broadband users. New channels were introduced (amongst which are Vanity and Logos and Ringing tones) and the contents catalogue was expanded, with the new sections of video news, pay-per-view films and sporting content. Particularly significant is the implementation of multi-medial advertising formats allowing creative advertising on the portal that is more attractive to customers.

BU MOBILE

TIM has confirmed its capacity for innovation by continuing to invest in the third generation technologies (UMTS and EDGE). Amongst the main services launched on the Italian market we note:

- "Turbo Call", which permits two users, during a normal voice call, to share and inter-exchange in real time multi-medial contents such as images, photos and videos with the characteristics, in terms of speed and quality, that only third generation services (3G) provide.
- "TIM Video call from the Web": permits the making and receiving of video calls from other TIM customers utilizing a home PC, equipped with an Internet connection, on which specific software has been installed.
- "Maxi recharge": an innovative recharge methodology that permits TIM customers to choose, if making either a normal or maxi recharge, to also have a traffic bonus available on a monthly basis.
- Mobile TV/football: permits the television to be viewed directly from a mobile telephone. The customers can access national television channels and some thematic channels that transmit, for example, the series A goals and game summaries or information on the motorway system.
- "i.Music Store": makes it possible to access a vast repertory of tunes, sounds and thematic images. The tunes, protected by digital rights, can be downloaded onto a mobile telephone and heard at any time.
- "FleetNET Easy": thanks to the innovative NIMBLE (Non Intrusive Mobile Location Environment) platform, it is possible to localize and monitor vehicle fleets equipped with SIM 128k in a simpler manner and without the installation of ad hoc terminals.
- "ATAC Telepay": permits the 24 hour purchase of ATAC (Rome city public transport company) not printed tickets, through an SMS, with a direct debit to the user's credit card.
- "Treo 650 EDGE" terminal: first example of a telephone with the Palm One operating system. The Treo is a particularly efficient smart phone for management of e-mail when mobile: in fact, it integrates a wireless e-mail service, a compact GSM/GPRS/EDGE mobile telephone with global coverage and a Palm OS organizer.

The principal initiatives of the Brazilian BU Mobile company were the following:

- dispatching their telephone account "Electronic Bill" to Corporate customers on a CD, with the possibility of analyzing it through transfer of the data on Excel or Access worksheets. Before the end of 2005, 100% of the customers with a Brazilian BU Mobile company contract will be able to check and print their detailed account from the website;
- the new GPRS/EDGE offer, founded on the "Data Packages", which can be individually utilized or shared with all other users of the same structure. TIM is the only Brazilian operator to offer this service typology to businesses ("Shared packages");
- the "Credito Especial" service, through which a small credit is given, valid for seven days, to the customers that satisfy specific conditions and cannot recharge. The credit is recuperated from the subsequent recharge, at no additional cost, as long as it is recharged within the next 48 hours.

Certification of Web sites Accessibility

TIM has continued the development and implementation of the web services and products accessible and usable by the whole clientele, with the objective of meeting specific requirements without any distinction of a surfer's "ability", in accordance with the WAI (Web Accessibility Initiative) and W3C (World Wide Web Consortium) accessibility requisites. The principal innovations introduced regarded conversion to an accessible format:

- of the Home Page of the institutional website www.tim.it;
- of the TIMXTE web area, which contains the conciliation procedure for the out-of-court resolution of disputes with customers. TIM is the first telecommunications business in Europe to completely manage these on the web.

Code of Conduct for premium services and protection of minors

TIM, together with the other mobile operators in Italy, participated in the drawing-up and signing of the "Code of Conduct for premium services and protection of minors".
The "Code" was officially signed on January 26, 2005, in the presence of the Minister of Telecommunications and is published on the TIM web site.
All "Content & Service Providers" are being asked to sign the Code as a sign of acceptance of its principle contents.
TIM also supplies some specific services for the purpose of protecting minors. One of these is the "opt-out" option, by means of which parents can block access to inappropriate services.

BU MEDIA

In the Business Unit Media, the Television area has proceeded with experimentation of the Terrestrial Digital transmission technique, in collaboration with other Telecom Italia Group companies.
The users' advantages are:
- access to a larger number of TV channels with a superior video/audio quality;
- availability of improved contents thanks to video/data/audio integration;
- the possibility of offering interactive services with added value that are also made available through TLC access channels.

In January 2005 the pay-per-view transmission service was launched for some matches of Italian football championship. "La7 Cartapiù" offer, through a rechargeable smart card, allows purchase of events in a pay-per-view mode, without the necessity of subscribing to a contract. About 591 thousand smart cards were sold to the distributors in the first half of 2005.

CONSUMERS' RIGHTS

The collaboration activities with the Consumers Associations, started by the Telecom Italia Group in 1997 with the signing of the Framework Agreement with 12 of the principal Associations, continued with comparison meetings aimed at guaranteeing that customers' rights were protected. The Consumers Associations were

involved in various phases of the customer relationships, as an example in the "La7-Cartapiù" service contract. Collaboration with the Associations provides a wealth of information, including that arising from meetings, for everything connected with the launch of new services and technologies and the contractual conditions deriving therefrom, other than the existing multi-year collaboration on the Conciliation Regulations for Wireline and TIM, which adopted an on-line protocol.
The Group participates as a founding member in the Consumers' Forum, which groups the Consumers Associations, research companies and institutions and is concerned with consumer-related themes. In this area projects and initiatives of interest to consumers have been evolved for the purpose of promoting the development of a collaborative context and supply strategic feedback to the Group functions in charge of these matters.

SUPPLIERS

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

Compliance with the procedures is guaranteed by appropriate checks.

QUALIFICATION

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

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

A positive result from the qualification process allows the supplier to be included into the Suppliers List, which is a required condition for commercial activities with the Group.
For lower risk product categories inclusion into the Suppliers Register takes place subject to self-certification of the basic requisites and signing of the commitment to comply with the principles of the Group's Code of Ethics.
Specific checks are carried out to authorize sub-suppliers, with assessments of their technical and economic suitability that must be equivalent to those of the qualification procedure, even if with less stringent thresholds and criteria.

INCOMING QUALITY

This is recorded by product/service category and is based on evaluations of the suppliers' conformity to the specific reference techniques.

In the initial phase of the supply or in the case of new suppliers, checks prevalently regard the products, whereas, they are mainly focused on the production process for the suppliers with whom there exists, or for whom it is wished to develop an enduring commercial relationship. The objective is the growth of a co-making relationship with the suppliers that permit achievement of greater operating efficiency and advantages for both parties. Suppliers are given incentives to operate according to high qualitative standards, which also avoid accurate incoming quality checks by the Group on the products supplied.
The application of penalties on the supplier is provided for in the case of a delay, attributable to the supplier, in achieving the co-making status.

VENDOR RATING

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

The Vendor Rating system was defined through the following phases:

- identification of the suitable significant indicators for measuring the administrative, commercial and technical quality, and appropriate recording instruments (questionnaires, data recorded in the field, evaluations of Incoming Quality, etc.);
- attribution of the relative weighting to each indicator leading to the construction of the so-called "Vendor Rating Register ";
- definition of the entity of the valuation sample;
- definition of the responsibility matrix, timing and methods of collecting of the evaluation data.

The methods leading to the attribution of the Vendor Rating is communicated to the suppliers in a transparent way, as well as the evaluation obtained and their competitive positioning.

CHECKS

During the first half of 2005 about 5,000 checks on the Group's suppliers and sub-suppliers were carried out on a sample basis, which regarded both the Qualification phase and the subsequent control on suppliers already in the Register. The reduction in the number of checks with respect to those made in the same period of the prior year is due to the outsourcing of some facility management activities.

The checks were planned and activated on the basis of a "risk evaluation" model relating to the reference product sector and on the basis of the Vendor Rating obtained. In the case of potentially risky situations more stringent checks were carried out.

The results of the checks made led to:

- inclusion in or exclusion from the Group's Suppliers Register;
- possible authorization to sub-contract activities to third-party companies;
- inclusion in or exclusion from tender lists;
- overall evaluation of the supplier relative to specific purchasing sectors and subsequent attribution of a Vendor Rating indicator;
- acceptance or refusal of the supplier;
- eventual effects arising from contractual clauses, such as, for example, the application of penalties.

COMPETITORS

RELATIONSHIPS

In collaboration with the fixed network operators, Telecom Italia is proceeding with the constitution of a single Data Base containing the combination of the numbers and elements necessary for the identification of the subscribers of the fixed telephony operators operating domestically. The objective is to provide consumers with an information service on a single list that contains the names of subscribers of all the operators active in Italy. The single Data Base will be operative before the end of 2005.

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

ASSOCIATION ACTIVITIES

Collaboration with the domestic competitors

Participation in the activities of DGTVì, the Association for the development of Terrestrial Digital in Italy founded by Rai, Mediaset, Fondazione Bordoni, Federazione Radio Televisioni and D-free, was intensified during the first half-year in relation to the objectives fixed for 2005, including:

- the creation of a common strategy shared by all the parties involved (broadcasters, producers, distributors, content providers, advertising investors, etc.) for the maximum diffusion of Terrestrial Digital;
- exceeding 3 million decoders;
- creation of the conditions for realization of the so-called "all digital" areas (Sardinia and Aosta Valley), in concert with the Institutions.

To facilitate the achievement of these objectives the Associations organized a European Road Show, during which meetings were held with both the representatives of the French, German, United Kingdom and Spanish governments and the exponents of the various European broadcasters for the purpose of establishing a common direction for Terrestrial Digital. A national meeting was also held, as in the previous year, with the journalists committed to this theme.

Telecom Italia is member of the Federazione Radio e Televisioni - FRT (Radio and Television Federation) as a member of the Chairing Committee. As well as the national and satellite broadcasters, FRT unites 150 local and radio broadcasters.

The Group participates, together with other operators in the sector, in the Fondazione Ugo Bordoni (Ugo Bordoni Foundation), which amongst other things carries out research, study and consultancy in the sectors of Communications and Information Technologies, with particular reference to the digital television sector. The Fondazione Ugo Bordoni is recognized by law for the technical supervision of experimentation and transmissions of Terrestrial Digital and interactive services.

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

Collaboration with the competitors at European Community level

- The Brussels Round Table (BRT), which unites various European TLC and manufacturing companies, is established to maintain a constant dialogue with the European institutions on significant themes concerning the ICT sector at Community level. The CEOs of the member companies attend the BRT and the top representatives of the European Institutions are invited;

- ETNO (European Telecommunications Network Operators' Association) is the largest Association of the sector on the continent and has the development of a competitive and efficient European TLC market amongst its objectives, to be achieved through the co-ordination between the operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and presides over the Sustainability work group;

- The EIF (European Internet Foundation) unites the TLC operators and manufacturers, software providers, ISPs and content providers. The Association is directed at creating, in the ambit of the European Parliament and with diverse communications operators represented in Brussels, a favorable environment for the rapid development of the Internet, broadband and convergent and multi-medial technologies and services, for the benefit of the final consumer;

- The ERT (European Round Table of Industrialists) is a forum uniting 45 leaders of European industry for the purpose of promoting competition and European economic growth;
- The ESF (European Service Forum) comprises the European operators in the services sector for the purpose of promoting the interests of the European services industry and liberalization of the services sector world-wide in the context of the GATS 2000 negotiations;

- The ITU (International Telecommunications Union) forms part of the United Nations System and has the objective of encouraging development of the sector internationally through cooperation between the public and private sectors;

- BRUEGEL (Brussels European and Global Economic Laboratory) is the new European Studies Center constituted, on January 18, 2005, on the basis of joint collaboration amongst European Union Governments and the principal businesses of the continent, dedicated to the analysis of the international economy and the main industrial sectors.

REGULATORY FRAMEWORK

The regulatory framework of the telecommunications sector is already consolidated with the coming into force, from September 16, 2003, of the new "Electronic Communications Code", which, amongst other matters, adopted the national regulations for the Community Directives of the "99 Review" on networks and electronic communication services ("Access", "Authorisations", "Framework" and "Universal Service" directives).

A summary of the principal legislative/regulatory acts adopted during the first six months of 2005 is given below.

Charter of Services/Pay TV

With Resolution No. 278/04/CSP dated December 10, 2004 and published in the Official Government Gazette of January 20, 2005, the National Regulatory Authority (AGCOM) fixed the minimum reference principles for adoption of the Charter of Services for the suppliers of pay television services. The general criteria relative to the quality of services was also established.

Universal Service 2002

With Resolution No. 16/04/CIR published in the Official Government Gazette No. 31 of February 8, 2005 AGCOM defined the applicability of the mechanism to distribute and to evaluate the net cost for the year 2002. AGCOM calculated a net cost equal to about euro 37 million, with a financial support of about euro 24 million in Telecom Italia’s favor (of which 12 million from TIM, 8 million from Vodafone and 4 million from WIND).
With Resolution No. 2/05/CIR dated March 9, 2005 AGCOM has started the process finalized at the renewal of the procedure for the eligibility of financial support related to the net cost of the year 1999.

Universal Service 2003 and 2004

Telecom Italia, in compliance with the Communications Code directives, sent AGCOM an evaluation of the net cost of the Universal Service for the years 2003 and 2004; respectively on March 30, 2004 and March 31, 2005. Telecom Italia is now, as provided in the Communications Code, awaiting AGCOM's appointment of an independent auditor to verify the net cost and define the applicability of the mechanism for the distribution of the net cost of the Universal Service for the above mentioned years.
Pursuant to art. 11 of the Electronic Communications Code and by a notice published in the Official Government Gazette of March 8, 2005 the Ministry of Communications launched a public consultation on networks and electronic communication services, to verify and re-examine the regulation related to public pay telephones.

Interconnection and unbundled access to the local network

With Resolution No. 1/05/CIR dated March 9, 2005 AGCOM approved the reference offer for the year 2005 that Telecom Italia published on October 29, 2004. AGCOM provided, for some services in particular, the reformulation of the supply conditions (interconnection capacity, supplementary services to the interface, internal telephone exchange links) and financial conditions (Carrier-Pre-selection, invoicing for access to services on non-geographic numbering by other operators) .

Price cap

In the framework of the revision of prices for retail services subject to "price cap" regulation, applying as from January 1, 2005 the monthly subscription fee for business customers was increased by 7.6% (from euro 17 to 18.30). A variation of price for local calls has been in force since January 23, (increase of the call set up price and decrease of the tariff per second) which, however, doesn't affect the customer's average telephone bill. Finally, from March 1, 2005 a reduction of about 10% on the one-off fee for the activation of new ISDN lines for business customers was supplied.

Contribution referred to in article 20 of Law No. 448/98

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

Market Analyses relative to electronic communications

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

AGCOM launched public consultations on the following markets:

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

The subsequent phases of the above-mentioned procedures provide for the new regulation drafts, modified on the basis of the results of the public consultations, to be dispatched to the Anti-Trust Authority, for a non-binding consultative opinion, and to the European Commission for a binding opinion on the definition of the significant markets and identification of the dominant operators in these markets.
Following these two institutional steps, AGCOM will publish the final versions of the resolutions, presumably between the end of 2005 and beginning of 2006.

Digital TV

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

"12" subscribers information service

Following the coming into force of the Electronic Communications Code, the "12" subscribers information service is no longer a requirement of Universal Service supply, as it can be offered in free competition between Operators. With its Resolution No. 15/04/CIR "Attribution of the usage rights for numbering of subscriber information services", published in the Official Government Gazette of December 9, 2004, AGCOM provided for the attribution by the Ministry of Communications of the usage rights of subscriber numbers for the information services (on 12xy numbering) to the operators that requested it. The operators are authorized to begin the service from July, 1 2005, with the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 number.
With Resolution No. 12/05/CIR of May 19, 2005 AGCOM, taking into account the accumulated delays in the procedure of assigning the numbering and of the request from operators, fixed October 1, 2005 for the release of the new 12XY numbering and the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 numbering.

WiMax

In October 2004 the Ministry of Communications sent operators a questionnaire on broadband wireless systems (WiMax).
The frequency band identified in the greater part of European countries for the development of the WiMax is 3.4 - 3.8 GHz. In Italy these frequencies are assigned to the Ministry of Defense.
At the beginning of June the Ministry of Defense freed up a first lot of frequencies in the 3.5 Ghz band on which a technical experiment will be conducted for six months beginning from July 1, 2005 in the cities of Rome, Milan, Arezzo and Parma and in large areas of Piedmont, Sardinia, Sicily, Aosta Valley and Abruzzo.

INSTITUTIONS

RELATIONS

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

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

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

NATIONAL LEGISLATION

The legislative provisions of interest to the Group for the first half of 2005 are detailed below:

- Law No. 311 of December 30, 2004 ("2005 Financial Act") refinanced interventions to favor diffusion of decoders for Terrestrial Digital TV for the year 2005 and granted euro 70 per decoder, for a total allocation of euro 110 million, also granting euro 50 for broadband internet access, that can be raised to euro 75 whenever determined conditions occur, for a total of euro 30 million. The Decree of February 22, 2005 established the procedures for assignation of the grants for broad band transmission or reception apparatus for data via Internet.
  The preliminary authorization lots for the reimbursement to electronic communications operators for the grants passed on to their customers were determined in the subsequent Decree of April 6, 2005.
  The 2005 Financial Act also defined an endowment of euro 10 million for the promotion and completion of "all digital" areas and "T-Government" services on the Terrestrial Digital TV platform.

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

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

- The Constitutional Bill to change the second part of the Constitution. The Bill establishes a federal Senate to which it entrusts the examination of the fundamental principles of concurrent legislation matter (regulations regarding communications were included, too in the original version of the Bill) leaving the Regions to establish the regulation in detail. Telecom Italia has supported the modification proposal, approved in the text under examination that brings telecommunication regulations back within the sphere of exclusive competence of State, assigned to the Chamber of Deputies.

- The Bill on the fight against paedophilia. The Bill imposes the obligation on suppliers of electronic communication services to communicate to a central institute at the Ministry of the Interior to counteract this phenomenon, all information relative to companies or persons spreading paedophiliac material.

- Legislative Decree draft with a consolidating act of legislation on radio and television, as provided in art. 16 of Law No. 112 of May 3, 2004;

- Bill on ownership of television transmission rights in a codified form that recognizes ownership of rights by organizers of national series A and B national championships and other sporting competitions provided for by federal regulations.

- Bill giving directives for the introduction of group action protecting consumers' and users' rights (class action).

INTERNATIONAL LEGISLATION

Group action was concentrated on the following themes:

- analysis and benchmarking of transposition into the national legislation of the 2002/95/CE Directive, regarding restriction of use of determined dangerous substances in electrical and electronic equipment and 2002/96/CE Directive on electrical and electronic equipment waste (RAEE) and subsequent amendment included in Directive 2003/108/CE;
- participation in the consultation launched by the EC on the European strategy for sustainable development, which generated a proposal for revision of the strategy itself [COM(2005)37 final] and a draft of Declaration on the Guideline Principles for Sustainable Development [COM(2005)218 final], which the Sustainability work group is evaluating;
- examination of the draft proposal for a Code of Conduct on Energy Consumption of Broadband Equipment proposed by the Joint Research Center (JRC) in the ambit of the initiative on the evaluation of energy efficiency of network equipment.

ENVIRONMENT

THE ENVIRONMENT PROJECT

Project activities continued, which are aimed at guaranteeing the consistent and coordinated management of environmental themes and developing an Action Plan covering three years (2004-2006).
The work, which is organized into 10 project groups, concerned the Environmental Management System and Waste System, mapping and clearing of asbestos and areas at risk of pollution, prevention and reduction of acoustic, electromagnetic and soil pollution, analysis of the life cycle of products and services and environmental training.

Specific guide-lines aimed at guaranteeing a more integrated and effective management of the environmental processes at Group level have been developed, also by including and enhancing existing best practices. These guide-lines are being introduced progressively within the Group.

ENVIRONMENTAL MANAGEMENT SYSTEMS

The Environmental Management Systems (EMS), which represent the operating instrument for the management of the productive and support processes, allow identification of preventive actions, possible improvement of environmental impacts and guarantee abiding to the law.
With the objective of progressively extending application of EMS to all departments/companies with significant environmental impact, the "Guide-Lines" for the development of Environmental Management Systems were drawn up during the first half of 2005 in order to provide reference criteria and guarantee uniformity in the on-going implementation process .
The consultancy company, Det Norske Veritas (DNV), had previously conducted a study of the documentation relating to the two EMS of Wireline and TIM to identify the strong points and any improvement opportunities.
After having obtained the ISO 14001 certification for the Network Department, TIM continued the necessary activities to extend certification to the entire BU, which is expected to be accomplished in 2006. A similar path was followed by TI Sparkle, whose certification is foreseen at the end of 2005. TILab, Olivetti I-jet and Elettra TLC have already obtained certification for the Wireline Network.

WASTE MANAGEMENT

Automation of waste management was extended to all the Group's Business Units/companies in the first half of 2005.
In line with the 2002/96/CE WEEE Directive (Waste Electrical and Electronic Equipment Regulations), concerning the collection and treatment of electrical/electronic waste from domestic and professional users, the first steps were taken to guarantee compliance with national regulations that are being approved.
In this perspective, new initiatives are being defined, aimed at further improvement in the management of this kind of waste, which will also involve the manufacturers.
All Telecom Italia industrial activities linked to the production of HW manufacturing are being analized. In this perspective, Olivetti has launched, ahead of time and together with another 16 leading companies, the ecoRit. Pilot Project aimed at the setting up of a Universal System for the collection and treatment of electrical/electronic waste from domestic and professional users.

TRAINING

A series of training, informative and communication initiatives were set up for the purpose of spreading the Group's policies and objectives on environmental matters (and, more generally on Sustainability) and increasing awareness and knowledge on these subjects. These initiatives include, amongst other things, the organization of seminars and conventions and creation of a dedicated section on the corporate Intranet.

ENVIRONMENTAL PERFORMANCE

For the purpose of optimizing the Group's reporting on environmental performance the relative Key Performance Indicators were revised and the description and recording methodologies of each of them were also defined. Specific qualitative and quantitative environmental targets are being defined.

The persons responsible for Prevention, Protection and Environment Service were appointed Environmental Managers. They are responsible for supervising the impact of business projects on the environment and support the related data system.

CLEAN ENERGY

TIM Italia has started experimenting on the use of bio-fuel oil, produced from the processing of rape and sunflower seeds, to feed the generating plants of the Base Transmission Stations. Using the bio-fuel oil would lead to significant reductions in atmospheric particulates, sulphur composites, aromatic polycyclics, etc.

COMMUNITY

PROGETTO ITALIA

Progetto Italia is the Group company that operates in the fields of culture, teaching, training and sport. It became an S.p.A., entirely held by the Telecom Italia Group, in January 2005: the Honorary Chairman is Marco Tronchetti Provera, GianCarlo Rocco di Torrepadula is the Chairman and Andrea Kerbaker is the Chief Executive Officer.
The new company has an Advisory Board of personalities of international standing, in order to guarantee the activities are in line with the objectives of the company Statute: Susanna Agnelli, Franco Debenedetti, Tara Gandhi Bhattacharjee, Paolo Mieli, Sergio Romano, Peter Sutherland and Umberto Veronesi.
Progetto Italia conceives, organises and realises its own unique initiatives, often in collaboration with important scientific partners, such as public and private institutions, local administrations, associations and entities.
A budget of euro 30 million was confirmed for Progetto Italia in 2005.
Listed below are the initiatives supported by Progetto Italia in the first half of 2005, divided into thematic areas.

CULTURE

Progetto Italia's cultural activities are conceived for the spreading of knowledge of our heritage through initiatives capable of interesting the greater public. These are events involving the more significant protagonists of Italian and world culture in original initiatives in the choice of themes, places and methods of presentation.
This diffusion of culture is offered following a model that keeps quality level high and is delivered in an entertaining inspiring way.

-Telecom Italia Journey: this year it is inspired by themes common to all Italian cities (food, city and memories) and is presented as a suggestive cultural kermis dedicated to the discovery of the history and traditions of our country. Art, music, theatre, dance and mime, are the languages utilised for this cultural itinerary. The first "Telecom Italia Journey" stop was at Piacenza (May, 23-29 – Theme: "Taste and Knowledge").
- Telecom Italia Award: following the slogan "beauty is infectious", the award is for projects aiming at enhancing art, culture and the environment, in a word: beauty. The jury, composed of Umberto Eco, Riccardo Chiaberge, Dario Del Corno, Philippe Daverio, Andrea Kerbaker, Marco Magnifico, Renato Mannheimer, Vittorio Sermonti, Andrée Ruth Shammah, Massimo Vitta Zelman and Ugo Volli, awarded the prizes to the most original projects in Milan on May, 23: "Il bosco dei poeti" (The poet's wood) by Lorenzo Menguzzato and the "Progetto Itaca" (Ithacan Project) by Rita Scognamiglio Pasini.

- **Lectura Dantis by Vittorio Sermonti in Florence – the Paradise:** Professor Vittorio Sermonti closed the cycle of Dante Lectures at Cenacolo di Santa Croce in Florence on May 26 with the third poem of the Divine Comedy. The total attendance for the 33 evenings was over 10,000.
- **Lifetime classic:** ten evenings organised by Progetto Italia in Rome in which important guests spoke in public of the book that had particularly marked their lives. Michele Mirabella and Piero Dorfles alternated in presenting the events.
- **Discovering masterpieces:** Progetto Italia organised in Rome, in collaboration with the Association of Historic Italian Dwellings – Lazio Office, three exhibitions showing great works belonging to the collections of the Colonna, Doria Pamphili and Pallavicini families. The exhibitions were held in the historic palaces of the families themselves.
- **St. George's Book and Rose Fair:** Progetto Italia transported the typical Catalonian fair to Milan at the end of April: a two-day event with book stalls and flower kiosks in the streets of central Milan .
- **Conversations about History of Art – Rome:** a cycle of conferences on various topics held by well-known experts in the sector (university professors and Italian and foreign curators) held at the Casino dell'Aurora of the Pallavicini Rospigliosi Palace.
- **Strega award**: Progetto Italia, as the institutional partner, commissioned Ugo Riccarelli (winner of the prize with the novel "Il dolore perfetto") a book that, together with those of Domenico Starnone, Margaret Mazzantini and Melania Mazzucco (winners of the previous editions of the prize), became part of the book series "I libri Stregati", created by Progetto Italia to promote and enhance contemporary literature. Riccarelli's volume is entitled: "Zingare, streghe e stregoni. Diario scompaginato di un anno stregato" (Gypsies, witches and wizards – A disorganized diary of a bewitched year).
- **Travel notes**: from January 31 to February 2 a series of meetings were held at Milan's Dal Verme theatre, which retraced the four stops made by Telecom Italia Journey 2004 (Cosenza, Perugia, Trieste and Ferrara).
- **Dial me:** Progetto Italia placed its know-how and technologies at the disposal of the Milan digital library, which is located in the Sormani library. It is possible to read rare texts on www.digitami.it free of charge; these, due to their delicacy, cannot be loaned but only consulted in loco. The virtual library is differentiated by a common search engine for the certification of the quality of the text placed on-line, which can also be personalized with marginal annotations thanks to the conversion to Word format.
- **Digital Laboratory for the National School of Cinema:** the courses for the year 2004-2005 are continuing at the Experimental Center for Cinematography directed by Francesco Alberoni.
- **Digital Laboratory at the "La Sapienza" University in Rome:** with regard to the laboratory directed by Maurizio Costanzo, set up within the faculty of Communication Sciences, the courses of the academic year, are continuing which will promote students' works at the end of the summer session
- **FAI - Italian Environment Fund :** Progetto Italia contributes to the restoration of Necchi Campiglio's house in Milan; this is an early 20th century historic building and a unique example of a perfectly conserved central urban villa. The initiative was presented by Telecom Italia's Chairman, Marco Tronchetti Provera, together with the President of FAI, Giulia Maria Mozzoni Crespi.

SOLIDARITY

Telecom Italia Group's social responsibility is shown by Progetto Italia's substantial contribution to training, teaching methods, and improvement in the living conditions of the less fortunate, by making the more innovative results of its research in the technological and scientific fields available to its various partners.
The commitment in the solidarity field is developed on the many fronts where concrete help is necessary: infancy, peace, solidarity sporting activities, medical research and paths to recovery.

-**Dreams mission:** Telecom Italia supports this non-profit Association with a "Web cam with a view" project for hospitalized children at the Milan Cancer Institute. The Group has made its technologies (computers, webcams, and ADSL connections) available to alleviate the difficulties caused by long periods of

hospitalization: by connecting to the www.missionesogni.org website and using a simple password, the hospitalized children can communicate at a distance with their families and follow school lessons.
- **Stella's spirit:** TIM and Telecom Progetto Italia support this sailing for solidarity initiative which follows Andrea Stella, the enthusiastic disabled sailor, who organizes excursions in his catamaran for persons afflicted with serious spinal-marrow pathologies .
- **Crazy about sailing:** the initiative of sailing with solidarity dedicated to patients afflicted by psychological disturbances also continues this year; it is, supported by a team of doctors and volunteers, who participate both in important regattas (Millevele Telecom Italia, Settimana dei 3 Golfi, Trofeo Pirelli), and a tour of Italy in sailing yachts for therapeutic purposes that is concluded with participation in the Barcolana.
- **114 Infant Emergency:** support for 114 also continues. This was established in collaboration with the Ministry of the Interior, Equal Opportunities and Communications and managed with "Telefono Azzurro", the Entity chaired by Prof. Ernesto Caffo, who has fought against child abuse for many years.
- **Crazy about blog:** Progetto Italia has made its technological and creative resources available for the creation of a personal diary on the net that collects stories, experiences and thoughts of patients of the Lighea Foundation, the center for people affected by physical disabilities.
- **Music in San Vittore Prison:** an initiative that takes live music into the Milanese prisons for those unable to attend a live concert.
- **Border Poetry:** a new initiative in six weekly appointments taking place in Milan between June and July. Border Poetry aims at investigating the border theme in all aspects (existential, geographic, historical and psychological), through the readings of some great Italian and foreign poets who crossed borders in their works and life.

TRAINING

In training activities Progetto Italia favors new methodologies of divulging technologies, with particular attention to those people with fewer possibilities of being updated.

- **Telecom Italia Future Center (Venice):** center activities are being intensified during 2005 with new multi-disciplinary initiatives.
  The art critic and historian, Philippe Daverio, is coordinating "Contrasts", a series of appointments that encourage discussions on opposing fundamental themes in the evolution of human society.
  The "Internet Saloon" was inaugurated, which is a structure dedicated to training the elderly to be technologically literate.
  The "An eye to the future" initiative allowed an exchange of experiences on the change in our life stile produced from the new information and communication technologies.
  Contemporary art was instead the protagonist of "Art Experience", a one week workshop cycle held in collaboration with Domus Academy; thanks to "Art Experience" the public of the Future Center was able to participate in interactive seminars with world-famous artists.
  Well-known cinema and theatre personalities participated in "The beautiful sound" poetry cycle. The originality of this cycle of readings was that every interpreter built his own most congenial artistic route within the poetry reading chosing prose and verses from authors in which they could mostly identify with. Over 40,000 people participated in the center activities and there were 200,000 video-streaming contacts.
- **IDII – Interaction Design Institute Ivrea:** many high level designers graduate every year from IDI, founded by senator Franco Debenedetti. For years Telecom Italia has supported the Center activities by offering a concrete contribution to the students in the form of scholarships.

SPORT AND VALUES

Progetto Italia considers the commitment to sport as the positive values that sporting activities imply: loyalty, team game, passion for challenges and respect for the adversary.

- **National sports day:** on June 5 Progetto Italia organized, in collaboration with the Italian National Olympic Committee, a great event which saw the piazzas of the larger Italian cities transformed into sports fields for the occasion.
- **Everyone for golf!** Progetto Italia and the Italian Golf Federation organized a free initiative open to everyone and aimed at making this sport more popular in our country. The first two events were in Turin and Ancona between May and June.
- **Telecom Italia Let's train for life:** an initiative in which famous sportsmen and women meet children in schools to bring the school world closer to the world of sport. The 2005 novelty saw the participation of children from nursery schools and first year classes of primary schools. The children could use the kit "Telecom Italia Let's train for life – Ready? … Steady?….Go!", an educational idea based on physical exercises followed in class with the teacher and classmates.
- **Master in Strategies for the Sport Business:** Progetto Italia collaborated with Ca' Foscari University of Venice and Verdesport, a company of the Benetton Group which operates in the social activities area, in a project aimed at the professional training of future sport managers.

MOBILE

"A world for everyone" is a program created within the BU Mobile and is directed at managing Community initiatives in Italy in a uniform and coordinated manner. There are three intervention areas established for 2005: civil society, environment and medical research.
Some of the principal activities carried out in this first half-year are shown below.

"Safe school" project

Under the distinguished patronage of the Presidency of the Republic and in collaboration with the non-profit Cittadinanzattiva Organisation, the "Safe school" project consists of the creation, , of a "learn safely" campaign, the objective of which is to make students aware of the theme of daily safety for themselves and others.
The project involves various schools spread throughout the country, using simple language suitable for youngsters. The following aspects are involved:
- personal safety, through conducting first aid courses;
- responsible and correct use of the new technologies and particularly the impact that mobile radio stations and the use of mobile phones have on the environment and on individuals;
- safety of buildings, through school buildings evacuation trial runs;
- eco-sustainable conduct, with the initiation of projects related to protection of the climate and environment;

Within this project training courses for the teaching staff have started, which are run by the Territorial Management Department of the Ministry of Education (MIUR) and a communication campaign was established through the diffusion of educational material aimed at making parents, and citizens in general, aware.

"Save Italy Campaign" project

The "Save Italy Campaign" in partnership with Legambiente (Environment League) for the recovery of degraded areas of environmental value continues.
The program for this year is being developed on three fronts:
- promotion of animation activities in the areas open to the public (for example bird-watching structures);
- transformation of a property, assigned to the Legambiente and confiscated from a criminal organization in the Castel Volturno municipality. This property on the Domitio Flegreo Littoral is being transformed into an Observatory of natural biotopes and will also accommodate Italian and foreign experts when international events are organized;

- definition of projects for the new areas of intervention of the Save Italy Campaign (Isola Capo Rizzuto in the province of Crotone and Siculiana in the province of Agrigento).

Alzheimer research project

TIM supports the Fatebenefratelli Association in the development of a project on the research on Alzheimer desease and, in particular, on eventual effects from electromagnetic fields created by mobile phones on the cognitive functions and on the cortex reactivity. The research is conducted by the Department of Neuro Science in the hospital of San Giovanni Calibit on the Tiberina island in Rome on behalf of the Fatebenefratelli Association for research on a national level.

"Giving back the sight" project

The G.B. Bietti Foundation is a non-profit organization constituted in 1984, legally recognized by the Presidency of the Republic for its research and study activities in the sector of ophthalmology.
The Foundation has created an innovative treatment, not yet on sale, consisting of an eyewash with the NGF (Nerve Growth Factor) protein discovered by Rita Levi Montalcini in 1986 and , capable of curing patients afflicted with corneal neutrophic ulcers, considered as incurable until a short time ago and a cause of blindness.
The therapy is very expensive and the scarcity of funds does not allow all requests to be met. TIM participated in the project involving all the employees which freely donated a certain figure for 4 consecutive months that TIM doubled. These funds were entirely paid to the Bietti Foundation, thus increasing the number of the possible beneficiaries of the treatment.

Brazil

The following are noted amongst the more significant projects and initiatives of BU Mobile's Brazilian companies:

Coração Amigo Program

TIM Nordeste, through the Best friend Program supported by the local NGO "Recife Volontario" stimulates and financially supports the voluntary activities of their employees in favor of projects that promote entrepreneurial youths, through complementary training and professional qualification of children in social situations at risk.

"Alfa" project

This initiative results from a partnership between TIM Celular, the Secretary of State for Human Development and Social Integration and the Ministry of Education. The purpose of the project is to teach the population of the Acre State, one of the most impoverished in Brazil and with the highest illiteracy rate. About 43,000 people have benefited to date.
The project launched in 2003 with the combined efforts of TIM and Pirelli; over time the addition of other sponsors has made it possible to be extended to Maranhão, another impoverished Brazilian State.

TIM "Music in the schools"

Now in its third edition, the TIM "Music in the school" project arose from the partnership between the Brazilian government, TIM Celular, TIM Maxitel and TIM Participações.
The objective for 2005 is social recovery, through musical education, of 12,500 children and adolescents living in situations at risk. This teaching initiative involved 34 public schools and about 500 teachers using an innovative method of teaching: during the weekly music courses, notions regarding civic education and

peaceful co-existence are given. The teachers use novels, poetry, films and comedies as props for their lessons, which also serve to interest the youngsters in studying.
The project also provides student-organized shows in hospitals and other health centers, which contribute to an increasing self-confidence of the participants and helps them to integrate in society as "Little Ambassadors of Peace".
The project covers six cities (San Paolo, Recife, Salvador, Porto Alegre and Belem, to which Rio de Janeiro was added in 2005).

BU MEDIA

MTV contributed to reinforcing its reputation as a television station that is strongly committed on the social front with numerous television spots and campaigns, including:

- **No Excuse 2015:** a campaign in collaboration with the United Nations which contributes to the reduction of extreme poverty and to the creation of a safer and fairer world. The campaign is broadcasted through Action Idents spots, in which the major Italian and international stars explain to youngsters what concrete actions they can take to free the world from poverty. The campaign is also carried out on-line, through the www.mtv.it/noexcuse website.
- **Don't Drink And Drive:** a television spot against drink driving.
- **Tolerance:** a campaign whose purpose is the diffusion of the idea of diversity as a positive component of social life.

CRISIS AND RISK MANAGEMENT

Incident and Crisis Center

An Incident and Crisis Center for TI Group was formed, which is a 24 h reference point for for the collection, analysis and management of the significant events recorded in terms of Security for the Group companies.
An accident of any nature is followed by:
- analysis of the seriousness of the event;
- application of the prevailing policies and of procedures necessary to minimize the impacts on corporate assets;
- writing up of statistical reports.

The center also collaborates with colleagues going abroad by supplying preliminary information on the types of risk in the various countries and offering specific support in the case of difficulty.
An organizational procedure for crisis implying risks for personnel and physical asset is being officially defined at Group level, to complete the Crisis Management System The document will regulate the emergencies provoked by disastrous events (attacks, sabotage, kidnappings, fires, collapse of buildings, etc.), capable of provoking significant damage to the Group.

Support activities to the Department of Civil Protection

Telecom Italia Group has always participated with the Department of Civil Protection in giving assistance in the construction of communication systems for use in emergency situations and management of critical situations. Recently, two important events have seen the Group directly committed: the tsunami in the Far East (following which Telecom Italia also monitored the management of funds distributed to Sri Lanka for the reconstruction of its territory) and the funeral arrangements for Pope John Paul II.

CRSA (Control & Risk Self Assessment)

To meet the Group's objectives, as communicated by the Managing Director Carlo Buora, and following the already defined methodological approach, each Business Unit and Central Corporate Department has identified and evaluated its own risk portfolio. Each individual portfolio has been consolidated centrally in the Group risk portfolio.

At the moment, analysis of the processes/projects that are implicit in the identified risks and of existing protection is in progress, a fundamental step for the definition of an action plan to manage these risks.

RELATIONS WITH UNIVERSITIES

Telecom Italia Group is constantly committed to the support of Universities and the training centers for young university graduate students, sponsoring scholarships and master degrees.

The Group supports the technical training of over 400 youths per year through the stage mechanism, which is a financial commitment of about euro 1 million.

The time dedicated by many Group managers to internship workers and University lessons, enriches the panorama of the Group's contribution to training of youths.

RESEARCH, DEVELOPMENT AND INNOVATION

The Italian telecommunications market is considered to be one of the most advanced in the world from the technological point of view, as well as from the point of view of customers' attitudes and consumer profiles.

Technological innovation is therefore an essential element, as well as a distinguishing feature, for Telecom Italia Group, in order to develop its competitive advantage and maintain its leadership in a market where competition is continually growing.

The Group's wealth of technological and innovative competence has permitted in these last years the planning, development and adoption of solutions regarding the network, terminals and services which are completely state of the art; a wealth that can be used to better the Group's position in those countries abroad where it is present with subsidiary companies.

The activities of technological innovation are carried out, not only in the Group's **TILAB** research centre – where the activities and skills regarding basic research, the evaluation of emerging technologies and "intra-moenia" development are concentrated – but also in the operational and business units (the Network, Marketing, **Telecom Italia** and **TIM** Informatics Systems) as well as in **Telecom Italia Media** and **Olivetti.**

Telecom Italia Group's technological innovation is moreover the result of strategic partnerships with the main producers of telecommunications apparatus and systems and with excellent research centres in the most highly qualified national and international academic institutions.

The activities of technological innovation range from the reviewing of basic technologies with the view to increasing efficiency in the running of the network and systems, to complex activities to radically review the platform, services and network architectures: it is therefore essential for the operational functions of the business units to be fully committed in the field to ensure that the new services comply with the customers' needs and that the quality of the services continues to improve.

In the first semester of 2005 Telecom Italia Group's investments in tangible and intangible assets regarding development and innovation amount to a total of approximately euro 1,500 million. Internal resources dedicated to these activities, as well as to those of research, in Italy and in Brazil, are approximately 5,300 units, for a total commitment of euro 180 million (euro 60 million of which is already included in the investments).

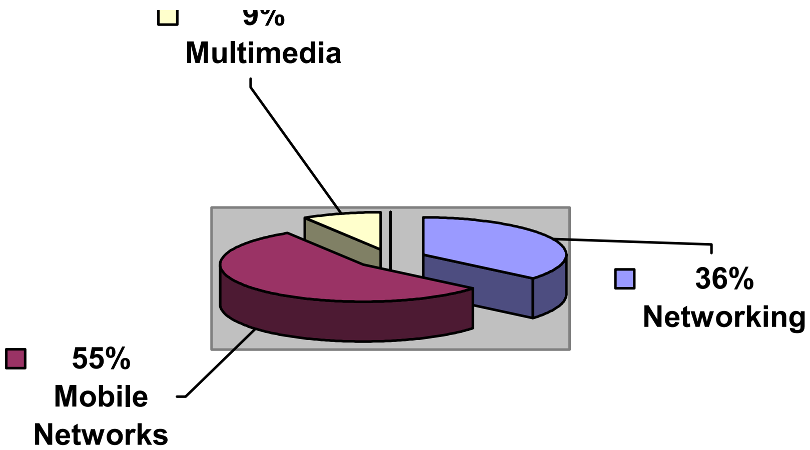
In particular Telecom Italia Group's research and development centres carried out the following activities in the first semester of 2005:

TELECOM ITALIA LAB

Telecom Italia Lab department is a research reality of Telecom Italia Group with the job of guaranteeing technological innovation by evaluating new technologies, elaborating feasibility studies and the development of prototypes and emulators of new products and services.
Activities are directed towards the Group's main innovative areas of interest, like for example the development of the access network, the transport network, the mobile network, voice services as well as the development of Internet and multimedia services.

Particular attention has been paid to the opportunity of generating competitive advantages and of creating value for Telecom Italia Group also through a strategic management of the relationships between research, Intellectual Property Rights (IPR) and business, finalized to the development of patented assets. In this context 22 new requests for patents have been depositated during the first half of 2005 (31 during the first half of 2004).

The requests for patents during the first semester of 2005 are distributed in the various sectors as follows:



The main results achieved by TILAB in the first semester of 2005 can be summarised as follows.

Services Innovations

In backing of the Group's strategy to consolidate its core business, that is, Person-to-Person communication, TILAB achieved three significant goals during the semester:
- the launch of the Phase II Videotelephoning service, completely based on IP protocol (voice, video and terminal-network signalling on IP). This has been a further step towards Convergence using the same architecture used for the mobile network (IP Multimedia Subsystem at a standard 3GPP) on the fixed network;
- the launch of Mobile Instant Messaging (MIM) Blah on the South American market. TILAB's contribution concerns the extension, in a short time, of the TIMCafé platform (set up by TILAB and which already supplies the MIM service, leader in the national market) with a solution of community/chatting SMS that can be used even in remote regions, such as South America, even if physically co-located in the TIM Services Centre in Rome. The new service, launched by TIM Brazil and, later, by other TIM subsidiaries, was immediately successful, registering a peak of traffic of more than 10 million SMS per day and an average traffic of approximately 7 million SMS per day, just four months after being launched;
- the enrichment of the Telecom Italia Alice Mia service, thanks to the extension of the functions today available for telephone to Personal Computers. In particular, TILAB designed and introduced client software which, installed on a PC, enables the PC to be integrated in the network and Telecom Italia services architecture, allowing customers to make voice calls on IP, as well as extra functions such as supplementary telephone services and quality control of the service.

Regarding the Group's objective to expand business also in the direction of Content-to-Person communication, TILAB has contributed during the semester by launching the TIM i-Music Store service.

Networks Innovation

In line with Group strategies, a vision for a fixed-mobile network has been defined for the future. This "vision", as well as pursuing objectives of technological synergies, is open to a significant change in the market which is foreseen for the next decade, and is in fact based on scenarios of future services, usable through fixed, mobile and multimodal access.
For this reason the preliminary specifications of the collection nodes and of the IP service nodes for the projected network were produced and the relationships with the corresponding builders were established in order to elaborate with their help the detailed specifications of the IP service. Still in the sphere of of the activities on the converging networks, a document was drawn up between TILAB, TIM and NTT DoCoMo with the objective of gathering architectural requirements and principles for the development of the new radiomobile all-IP network.

In line with Group strategies of setting up a Quadruple Play offer (fixed phone line, broadband internet access, TV services + mobile communication) and in line with the vision of a converging fixed-mobile Future Network, TILAB has moreover made a significant step by completing – ahead in time of the Vendors' roadmaps and in such a way as to influence them – the technical specifications of the QoS (Quality of Service) Server, the network element which will guarantee the single client the "QoS" necessary for each single service.

In order to guarantee the QoS, to make the auto-installation by the client easier and to promote a price decrease accelerating the adoption of home network has pushed for the constitution of the Home Gateway Initiative (HGI), the new forum with the participation of the leading Vendors in the sector, such as Pirelli Broadband Solutions.
Also in accordance with international standards, TILAB has defined the specifications for the evolution of the Home Network system, in order to enable the home network to be run in an integrated way, which will give Telecom Italia many advantages in the running of the user apparatus under its jurisdiction as well as in the end-to-end quality of service to the final customer.

Finally, concerning the experimentation of the IPTV service recently set up by Telecom Italia in four Italian cities, with launch of the commercial service foreseen for next autumn, TILAB has made a significant contribution to the qualification of the intelligent and modular routers supplied by Pirelli Broadband Solutions as well as of the IP concentrators in access network.

In the first semester of 2005 costs for research and development carried out by TILAB department, including those in collaboration with Pirelli Labs, amounted to a total of euro 68 million (euro 67 million in the first semester of 2004) and include external costs and the cost of personnel dedicated to the project as well as amortization. These costs were redebitted to Wireline and Mobile business units.
Research activities were expensed at a total of euro 44 million (euro 55 million in the first semester of 2004).
Development activities, available for use, were capitalized either on the network itself or within software costs for a total of euro 24 million (euro 12 million in the first semester of 2004).

OLIVETTI S.p.A.

Olivetti S.p.A. dedicates a significant quota of its resources to the Research and Development sector. In the five research poles (Agliè, Arnad, Carsoli and Scarmagno in Italy; Yverdon in Switzerland) more than 300 employees are employed, that is, 19% of the total work force.
In particular, the ink-jet technology, which is owned by Olivetti, the only European company along with five other companies in the world, was born and developed in the Arnad headquarters (Aosta), where 200 resources are involved in the entire production cycle of ink-jet technology of the thermal type: from the processing of the silicon to the assembling of the ink cartridges. The first semester of 2005 saw the Olivetti research centres heavily involved in the development and improvement of the new generation of multi-function printers which should be launched in the month of September.
In the semester research costs for Olivetti S.p.A. totalled euro 19 million (euro 15 million in the first semester of 2004) and were completely expensed.

HUMAN RESOURCES

HEADCOUNT AND CHANGES IN TELECOM ITALIA GROUP

Staff at 12.31.2004	Changes in the period				Staff at 06.30.2005
	Recruited	Terminated	Changes in the area of consolidation	Total	
91,372	3,865	(2,408)	(9,608)	(8,151)	**83,221**

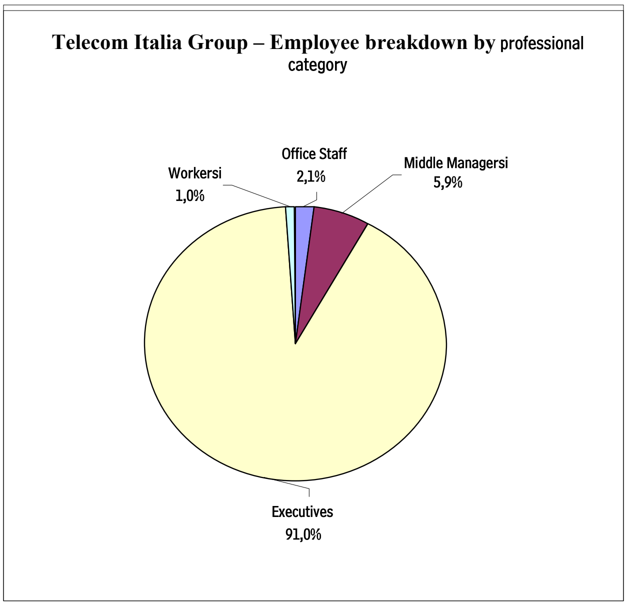
The reduction of 8,151 employees with respect to December 2004 is substantially due to:

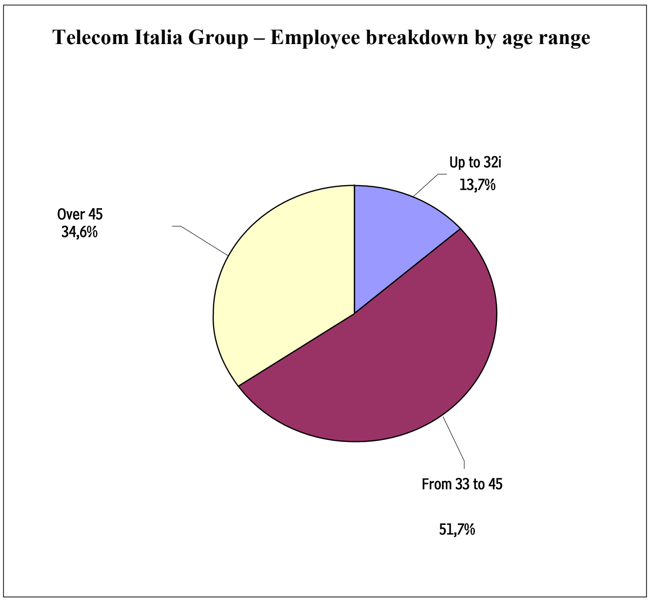
- the sale of Entel Cile (-4,166 employees), TIM Hellas Group (-1,495 employees) and Finsiel Group (-3,972 employees);
- the entry of 3,865 employees (of which 289 related to the activities sold/destined to be sold - "discontinued operations") and the simultaneous termination of 2,408 employees (of which 399 related to the activities sold/destined to be sold "discontinued operations");
- the changes in the area of consolidation, connected to the acquisition of Liberty Surf (+614 employees) and sale of Televoice (-169 employees), Innovis (-222 employees), Cell-Tell (-112 employees) and Databank (-86 employees).

HEADCOUNT AND CHANGES IN TELECOM ITALIA SPA

Staff at 12.31.2004	Changes in the period						Staff at 06.30.2005
	Company incorporated (TIM) 1.1.2005	Recruited	Terminated	Transferred to other Group companies	Break up of business branch (TIM ITALIA SpA) 02.28.2005	Total	
52,848	10,424	196	(540)	160	(10,399)	(159)	**52,689**

On June 30, 2005 Telecom Italia SpA employees totaled 52,689. With respect to December 31, 2004 total employees reduced by 159.
The merger by incorporation of TIM SpA into Telecom Italia SpA went into effect on June 30, 2005 with accounting and fiscal effect as from January 1, 2005. On February 24, 2005 TIM SpA went ahead with the transfer of the business unit, relative to mobile communication in Italy to TIM Italia SpA, a company 100% controlled by TIM itself; the break up was made through the increase in kind of TIM Italia's share capital freed with the award of the whole company with effect from March 1 2005
The recruting, terminations and transfers include the changes carried out by TIM SpA in the two months.





DEVELOPMENT

During the first half of 2005, consistently with the implementation activities of the Group Professional System, which had already started last year, the project of evaluation and valorization of the skills portfolio held by personnel within the Group, continued.

More particularly, following up on the Skills Mapping process – which concerned more than 50,000 employees of the various Business Units in 2004 – some training programs were defined with Telecom Italia Learning Services, aimed at filling the main gaps recorded.

Support processes and systems were furthermore defined for the start-up of the second Mapping phase, which provides for the completion and extension of the recording in the remaining Group realities this year.

Meetings to hear about the experiences gained in the six months they have been employed were organized for the over 120 new graduates taken on last year.

During the first semester, the 2005 Management Review Campaign for the evaluation of about 1,500 executives belonging to all Group companies also began.

RECRUITING

In the first half of 2005, Group Recruiting continued the co-ordination of the selection process of new graduates started in 2004. Engineering and economic graduates from the main Italian universities were employed in the main Business Units.
Furthermore, an employer awareness action began through the Telecom Italia University Tour for the purpose of investigating the direct knowledge of the undergraduates and, at the same time, supplying information on the Group organization and culture.

TRAINING

During the first half of 2005 about 940,000 hours of training took place within Telecom Italia Group (lectures, on-line lessons and training on the job) and the out-of-pocket expenses alone (excluding time and logistic expenses) totalled roughly euro 11 million. These activities, largely conducted by Telecom Italia Learning Services, are related to the two large areas of overall Group projects and specific Business Unit projects.

Overall Group Projects

- Two editions of the Learning Tour were carried out in Europe for high-potential managers: the first investigated the Corporate Identity theme through visits to top companies in London and Paris (16 participants), the other looked at the Human Resources' role as a strategic business partner within companies in Portugal, France, Great Britain and Sweden (22 participants).
- "Public and Media Speaking" training took place for 27 managers belonging to different corporate departments, which was aimed at developing communication effectiveness with the Media.
- Training dedicated to the Professional Advertising and Promotion Area took place; training of Buyers (Purchasing) and the Human Resources Professional Family is continuing and the definition of the Training Plans for the Security, Network, Information Technology and Marketing Professional Families and areas is in progress.
- The e-learning "Sailing Master" project was initiated, financed by Fondirigenti and directed at the Group's executives to consolidate skills related to the managerial model.
- Institutional training of new executives and new graduates continues (two courses to date for each category).

Specific Business Unit projects

Training within Business Units was substantially dedicated to the development of the necessary skills to manage individual businesses.

In particular:

- In Wireline, the projects directed at developing the skills of front end personnel, both for the network structures (SAT technicians and coordinators) and Commercial and Customer Care (employees and supervisors), aimed at improving the employee relations towards customers and within the work team.
  Training of sales personnel was focused on the development of the "consulting" capacity with the customer and on "more complex sales" (for example Enterprise Salespeople).
  Various updating activities were conducted on the evolution of the ICT market, aimed at specific requirements of the reference target (for example Network and Sales).
  Particular attention is being paid to improvement of linguistic knowledge, including the use of on-line applications.

- In TIM the main training activities were focused on the themes of "Valorisation of people" and "Customer care". With reference to the second area, interventions took place which saw the simultaneous participation - in one event – of business customers and TIM personnel from different departments, but who work on the same service. The purpose was for improving the capacity of customer orientation through direct experimentation to get to know the customers better and to work with a strong team spirit.

- In TI Media training activities were focused on prosecution of the overall Business Unit Project on the "Valorization of people", directed at executives and middle managers and intended to stimulate integration and team work. Instead, in each business area, action was taken aimed at the development of specific skills, such as up-dating the themes of Terrestrial Digital for the La7 technicians and journalists, and the improvement of the customer relations capacity for the Sales, Commercial and Customer Care areas in MTV and Tin.it.

With regard to training of the Telecom Italia Group foreign personnel - the monitoring refers to Mobile and South America (Bolivia), which is about 90% of the Group's foreign personnel - about 200,000 hours were given in the first half of 2005

INTERNAL COMMUNICATION

In the first half of 2005 Internal Communication department carried out a series of initiatives directed at the Telecom Italia Group employees, including the following:

Conventions and Meetings

- February 28, 2005: The Chairman Marco Tronchetti Provera's meeting with the 124 new graduates employed by the Group last year.
- March 3-4, 2005: Convention of the Professional Family Purchasing directed at 300 middle managers and executives.
- April 19, 2005: 2005 Group Convention which involved about 6,000 executives and middle managers of the Telecom Italia Group was hosted in Italian and South American locations. About 5 thousand people also followed the discussions by connecting to their Intranet portal.
- May 27, 2005: TIM organized a meeting with about 1,000 executives and middle managers from Italy, Brazil and Peru.

Corporate Press

Publications: 2 numbers of the Group *noi.magazine,* which is directed at all the Group's Italian and foreign employees, 1 number of the *TIM TAM TAM* magazine, which is directed at TIM employees, 2 numbers of the *@tilab* magazine directed at the 1,000 employees of Telecom Italia Lab, 2 numbers of the Technical Bulletin magazine directed at executives, managers and experts of the ICT world and the second number of TIM's "Fabula" Company.

On-Line Editorial

- Activation of the Group's Intranet portal, noi.portal, giving all Group companies profiled and confidential access. The portal had over a million visits in the month of June 2005.
- Two numbers of the Professional Family Human Resources newsletter, directed at about 1,000 professionals, were sent out.
- Launch of the Professional Family Security newsletter, for which members subscribed using an appropriate on-line form.
- Extensive use of e-mail to all Group employees and/or specific targets in the case of special communications.
  Development of the video-screens system ConosciTIM in the TIM offices, with about 25 subjects per month.

Special initiatives for employees

- Prize-giving ceremony in Turin for Telecom Italia Group's First Literary Competition for about 150 employees selected from the winners, finalists and participants in the production of the volume of 40 short stories, with the 40 best stories selected by the jury.

- Specific initiatives for employees in agreement with Progetto Italia: Telecom Italia Golf Open, Telecom Italia Tennis Masters, participation in literary and musical events.

Values Project

Start-up of the *Values Project*, identified by the *Values in Progress* brand, aimed at reinforcing the practice of values within the Group . The project, which has various phases, provides for the active participation of about 3,000 Group employees, identified from the executives, middle managers and office staff.

WELFARE AND EQUAL OPPORTUNITIES DEVELOPMENT

A series of initiatives complementary to the Woman Project, which was launched in 2003, was started with the purpose of promoting professional growth of women and spreading the equal opportunities culture in the Group. The Woman Project was consequently included within a wider program for development of the Welfare activities, aimed at ensuring a policy of attention and social responsiveness common to all employees of the Group's companies.

The following main initiatives were established during the course of the first half of 2005:

- *Nursery schools*: other than the TIM Italia structures already operating in Turin, Rome and Palermo, work started for the opening of a further two Telecom Italia school facilities in Rome and Naples.
- *Loans to mothers*: a loan of euro 2,500 to employee mothers with children from 0 to 3 years of age.
- *Summer Centers*: conventions with two summer day centers for the children of the employees close to the workplace in Naples and Bari, with incentives for participation in sports.
- *Summer holiday camps*: the summer holiday camps offer to the employees' children was widened with the addition of dedicated thematic holidays (3 for studying English language and 2 to learn tennis).
- *Intranet Portal:* information, training and access to services in order to encourage a balance between life and work; an interactive index of health information.
- *Children's Day*: Half-days when employees' children can access the corporate offices in which activities, games, snacks and gadget distribution are arranged.
- *Equal opportunities*: an addition to the training offer of courses concerning the differences of gender, development of management policies (training, coaching, etc.) to ease the return to work of the post natal female employees.

HEALTH CARE

Telecom Italia SpA, within the Group's initiatives for the health and safety care of employees and the environment, developed the following initiatives during the first half of 2005:
<u>Call center well-being research</u>: the analysis phase continued according to programs involving the call center personnel in Mestre and Rivoli (Turin).
<u>Study on exposure to biological agents:</u> in collaboration with the Superior Health Institute a research to evaluate the presence of biological agents in the lower ground levels of corporate buildings has started.
<u>Enquiry on exposure to natural radioactivity:</u> within the convention stipulated with the Superior Health Institute recording of the natural radioactivity in the corporate premises continues at national level with particular reference to the lower ground levels.
<u>Corporate First Aid</u>: a nationwide First Aid service was organized in application of Ministerial Decree 388/2003.

INDUSTRIAL RELATIONS

With regard to Group's focus on its core business, the legal procedure for the sale of Telecom Italia SpA's company activities *Territorial Centers of Surveillance* to Società Tecnosis SpA, was completed effective July 1, 2005

Regarding the reorganisation within the Group, the trade union procedures concerning the transfer of the company activities constituting Telecom Italia Media SpA's *Tin.it* Division to the company Nuova Tin.it srl and the sale of Telecom Italia Media SpA's *mobile* business unit to TIM Italia SpA were also completed.

An agreement was signed on January 29, 2005 between Telecom Italia SpA and the Trade Union Organisations, SLC-Cgil, FISTel-Cisl and UILCom-Uil, regarding the statutory reform of the Association for Integrative Health Care for Telecom Italia Workers (ASSILT) and the Telecom Italia Workers Corporate Recreational Club (CRALT).
The ASSILT reform provided: the confluence of the technical/operative activities of the Association in a specific department for Welfare in Telecom Italia, rationalisation and simplification of the member bodies of the Association, the possibility for all Group companies to join the Association, even if they have a different CCNL to that of the Telecommunications sector.
The CRALT reform provided: the reduction of the number of the territorial Boards from 22 to 12 and the confluence of the Service Centres in the Telecom Italia department for Welfare.
Furthermore, a specific Code of Ethics was shared with the Trade Union Organisations and adopted by both the Associations, which is valid for members, associates and all components, Bodies and Offices of the Associations.

Agreements were signed with the Trade Union Organizations on May 2, 2005 for the purpose of redefining the entire membership and representation system within the Group.
In the first place the Industrial Relations Protocol was updated accordingly with the new corporate policies to conciliate economic, social and environmental objectives. The principle of the participation model was confirmed as the instrument aimed at conciliating the objectives of employee care and corporate competitiveness.
Furthermore, agreements were signed redefining the concept of a Productive Unit for the purpose of Trade Union representation; consequently the number of the Trade Union Unitary Representatives and the total hours of trade union activity were reduced, updating them to the current corporate organizational model.
In the same way, concessions to the workers representatives who are components of the bodies of the Association for Integrative Health Care for Telecom Italia's Workers (ASSILT) and the Telecom Workers Corporate Recreational Club (CRALT) were redefined.
Finally, the duties of the Environmental Parties Committees were redefined by adapting them to the new Corporate requirements.

STOCK OPTIONS

Telecom Italia Stock Options

Following the merger of Telecom Italia Mobile with Telecom Italia, Telecom Italia took over all the Stock Option Plans previously existing in Telecom Italia Mobile:

- 2000/2002 Plan (exercise price of euro 6.42 per option): a three-year plan for executives with strategic roles in the Company, exercisable *in continuum* following the achievement of the expected performance condition (Economic Value Added, net of the financial investments).
- 2001/2003 Plan (exercise price of euro 8.671 per option): a three-year plan for executive and non-executive personnel, exercisable in 4 annual periods following the achievement of the expected performance condition (Dow Jones Eurostoxx TLC).

- 2001/2003 Integrative plan (exercise price of euro 7.526 per option): annual plan (residual) consisting of new options attribution for the original recipients of the Plan 2001/2003 and for new recipients, exercisable in 4 annual periods following the achievement of the same financial parameter of the 2001/2003 plan.
- 2002/2003 Plan (exercise price of euro 5.67 per option): bi-annual plan for executive and non-executive personnel that does not provide a technical parameter to be achieved and offers the possibility of exercise *in continuum*.
- 2003/2005 Plan (exercise price of euro 5.07 per option): a three-year plan for personnel who already qualify for the 2001/2003 and Integrative 2001/2003 Plans (on the basis of voluntary renouncement of the previously assigned rights), as well as new assignees; the plan does not provide a technical parameter to be achieved and offers the possibility of exercise *in continuum*.

From the effective date of the merger, holders of these Stock Option Plans retain the right to subscribe, on exercise of the option and for the price already determined, to a number of ordinary Telecom Italia shares equal to the number of the options multiplied by the exercise ratio corresponding to the exchange ratio provided for the ordinary shares (ratio from 1 to 1.73). The unitary subscription price of the ordinary shares resulting from exercise of the options is consequently redefined for each existing Plan.

For this purpose, the Telecom Italia Shareholders' Meeting held on 7 April 2005, simultaneously with approval of the merger, approved an increase in share capital, divided into instalments, all separable and one for each of these plans, for the issue of new Telecom Italia ordinary shares to service the exercise of the options already assigned by TIM. Art. 5 of Telecom Italia bylaws adopted this share capital increase effective on the same date as the merger.

During the first half of 2005, the exercise of the Telecom Italia and Telecom Italia Mobile options was suspended from March 18, 2005 (tenth day of stock market open prior to that of the first call for a Shareholders' Meeting) until April 18, 2005 (first day of quotation "ex" shares), and subsequently from June 20, 2005 (date of signing of the merger act) to June 29, 2005.
With effectiveness of the merger, that is, as from June 30, 2005 Telecom Italia took over the stock option plan of Telecom Italia Mobile and the options are once again exercisable.

Pursuant to the recommendation in Consob Communication No. 11508 dated February 15, 2000, the following tables summarize the essential elements of the existing Stock Option Plans in the first half of 2005. For the purpose of guaranteeing consistency in the reading of the Stock Option table of the merged company (Telecom Italia Mobile SpA), the indicated values (those of the market prices and subscription prices of the shares from the exercise of options), relative to the amounts, exercises, maturities, decadence or extinctions that took place prior to the effective merger date, were rectified on the basis of the exercise ratio and thus made the returns homogeneous with the prices relating to the ordinary shares of the merged company Telecom Italia SpA).

Stock Option Plans of the incorporating company (Telecom Italia SpA):

(Amount in euro)		Options existing at 1/1/2005	New options granted in the half-year	Options exercised in the half-year	Options expired and not exercised or forfeited in the half-year	Options forfeited in the half-year due to termination of service	Options existing at 06/30/2005	of which exercisable at 06/30/2005
2000 Plan	No. of options	10,699,996.00	-	-	-	-	10,699,996.00	10,699,996.00
	Exercise ratio	3.300871	-	-	-	-	3.300871	3.300871
	Subscription price	4.185259	-	-	-	-	4.185259	4.185259
	Market price	3.062	-	-	-	-	2.595	2.595
2001 Plan	No. of options	31,895,000.00	-	-	-	32,500.00	31,862,500.00	31,862,500.00
	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Subscription price	3.177343	-	-	-	3.177343	3.177343	3.177343
	Market price	3.062	-	-	-	2.867 (*)	2.595	2.595
2002 Plan	No. of options	23,392,501.09	-	1,768,447.18	-	360,000	21,264,053.91	21,264,053.91
	Exercise ratio	3.300871	-	3.300871	-	3.300871	3.300871	3.300871
	Average subscription price	2.906507	-	2.910115	-	2.928015	2.904928	2.904928
	Market price	3.062	-	3.115 (*)	-	2.876 (*)	2.595	2.595
2002 TOP Plan	No. of options	10,500,000.98	-	810,884.76	-	-	9,689,116.22	9,689,116.22
	Exercise ratio	3.300871	-	3.300871	-	-	3.300871	3.300871
	Subscription price	2.788052	-	2.788052	-	-	2.788052	2.788052
	Market price	3.062	-	3.144 (*)	-	-	2.595	2.595

(*) Weighted average price

Plan	Exercise ratio	Subscription price of shares (euro)	Number of options granted at 06.30.2005 and exercisable from					Total	Maximum period of options
			2001	2002	2003	2004	2005		
2000 Plan	3.300871	4.185259	5,349,998.00	5,349,998.00	-	-	-	10,699,996.00	5 years starting from each year
2001 Plan	3.300871	3.177343	-	31,862,500.00	-	-	-	31,862,500.00	April 15, 2007
2002 Plan	3.300871 3.300871 3.300871	2.928015 2.409061 2.339080	-	-	5,720,549.21 201,000.13 60,000.00	6,003,304.28 222,000.04 60,000.00	8,621,200.00 296,000.25 80,000.00	20,345,053.49 719,000.42 200,000.00	5 years starting from each year
2002 TOP Plan	3.300871	2.788052	-	-	2,640,000.66	2,640,000.66	4,409,114.90	9,689,116.22	5 years starting from each year

Stock Option Plans of the merged company (Telecom Italia Mobile SpA):

(Amount in euro)		Options existing at 1/1/2005	New granted in the half-year	Options exercised in the half-year	Options expired and not exercised or forfeited in the half-year	Options forfeited during the year due to termination of service	Options existing at 06/30//2005	of which exercisable at 30/06/2005
2000/2002 Plan	**No. of options**	12,302,319	-	-	-	346,666	11,955,653	11,955,653
	Exercise ratio	1.73	-	-	-	1.73	1.73	1.73
	Subscription price	3.710983	-	-	-	3.710983	3.710983	3.710983
	Market price	3.193	-	-	-	2.736(*)	2.595	2.595
2001/2003 Plan	**No. of options**	1,190,000	-	-	-	-	1,190,000	1,190,000
	Exercise ratio	1.73	-	-	-	-	1.73	1.73
	Subscription price	5.012139	-	-	-	-	5.012139	5.012139
	Market price	3.193	-	-	-	-	2.595	2.595
2001/2003 Integrative Plan	**No. of options**	499,000	-	-	-	-	499,000	499,000
	Exercise ratio	1.73	-	-	-	-	1.73	1.73
	Average subscription price	4.350289	-	-	-	-	4.350289	4.350289
	Market price	3.193	-	-	-	-	2.595	2.595
2002/2003 Plan	**No. of options**	23,280,000	-	-	-	790,000	22,490,000	22,490,000
	Exercise ratio	1.73	-	-	-	1.73	1.73	1.73
	Average subscription price	3.277457	-	-	-	3.277457	3.277457	3.277457
	Market price	3.193	-	-	-	2.887(*)	2.595	2.595
2003/2005 Plan	**No. of options**	7,861,000	-	5,945,100	-	-	1,915,900	1,915,900
	Exercise ratio	1.73	-	1.73	-	-	1.73	1.73
	Subscription price	2.930636	-	2.930636	-	-	2.930636	2.930636
	Market price	3.193	-	3.205(*)	-	-	2.595	2.595

(*) Weighted average price

Plan	**Exercise ratio**	**Subscription price of shares (euro)**	**Number of options granted at 06.30.2005 and exercisable from**					**Total**	**Maximum period of options**
			2001	**2002**	**2003**	**2004**	**2005**		
Plan 2000/2002	1.73	3.710983	5,819,011	6,136,642	-	-	-	11,955,653	December, 31 2008
Plan 2001/2003	1.73	5.012139	392,700	392,700	404,600	-	-	1,190,000	December 31, 2005
Plan 2001/2003 Integration	1.73	4.350289	499,000	-	-	-	-	499,000	December 31, 2005
Plan 2002/2003	1.73	3.277457	-	11,245,000	11,245,000	-	-	22,490,000	December 31, 2008
Plan 2003/2005	1.73	2.930636	-	-	419,100 (*)	1,496,800(**)	-	1,915,900	May 2008 May 2009 May 2010

(*) Exercisable by May 2008

(**) Of which 544,100 exercisable by May 2009, and 952,700 exercisable by May 2010

Telecom Italia Media Stock Options

On February 23, 2005 the Board of Directors approved a Stock Option Plan reserved for Telecom Italia Media S.p.A. and subsidiary company employees, who were selected on the basis of their special responsibilities and/or skills. This was in substitution of two previous plans called "Plan 2000-2002" e "Plan 2002 Key People" given out by Seat Pagine Gialle S.p.A.during the course of previous years.

The company manoeuvres and the organisational changes following the company sell off soon made these plans obsolete and therefore on this basis the company decided to set up a new Stock Option Plan destined for the employees of Telecom Italia Media S.p.A. and subsidiary companies.

On June 30, 2005 the "Piano 2005" concerned 74 resources from among the executives and middle managers who had already been considered in the previous plans and with a total number of 37,975,000 options. Participation in the 2005 plan was linked to the unconditional waiver of options related to the previous offer.
The options of the new plan were given out following the deliberation for the increase in capital of the extraordinary shareholders meeting on November 20, 2000, completed by the shareholders deliberation on May 10, 2001, July 30, 2001 and on December 11, 2001.

The previous ex Seat Pagine Gialle plans ("Plan 2000-2002" e "Plan 2002 Key People") will remain in act with the same conditions and rules for the option-holding employees of other companies of Telecom Italia Group, for acquiescent employees and for the business units employees that decided not to give up their rights.

According to the recommendation contained in Consob Communication no.11508 of February 15 2000, the following table illustrates the main elements of the Telecom Italia Media Stock Option Plans in being in the 2005 semester.

Telecom Italia Media S.p.A.: Stock Options Plans

(Amount in euro)		Options existing at 1/1/2005	New options granted in the half-year	Options exercised in the half-year	Options expired and not exercised or forfeited in the half-year	Options forfeited in the half-year due to termination of service	Diritti estinti nel semestre per cessazioni dal servizio	Options existing at 30/06/2005	of which exercisable at 30/06/2005
2000-2002 Plan	No. of options	940,313	-	-	428,210	234,073	278,030	-	-
	Exercise ratio	1	-	-	1	1	1	-	-
	Subscription price	1.22	-	-	1.22	1.22	1.22	-	-
	Market price	0.3347	-	-	0.3711	0.3782	0.3723 (*)	-	-
2002 Key People Plan	No. of opzions	14,900,000	-	-	11,350,000	-	450,000	3,100,000	3,100,000
	Exercise ratio	1	-	-	1	-	1	1	1
	Subscription price	0.8532	-	-	0.8532	-	0.8532	0.8532	0.8532
	Market price	0.3347	-	-	0.3711	-	0.3903 (*)	0.3981	0.3981
2005 Plan	No. of opzions	-	39,725,000	-		-	1,750,000	37,975,000	-
	Exercise ratio	-	1	-		-	1	1	-
	Subscription price	-	0.3826	-		-	0.3826	0.3826	-
	Market price	-	0.3711	-		-	0.3941 (*)	0.3981	-

(*) Weighted average price

Plan	Exercise ratio	Subscription price of shares (euro)	Number of options granted at 06.30.2005 and exercisable from					Totale	Maximum period of options
			2003	2004	2005	2006	2007		
2000-2002 Plan	1	1.22	-	-	-	-	-	-	-
2002 Key People Plan	1	0.8532	930,000	930,000	1,240,000	-	-	3,100,000	May 2008
2005 Plan	1	0.3826	-	-	15,190,000	11,392,500	11,392,500	37,975,000	December 31, 2008

CORPORATE GOVERNANCE

The system of corporate governance that Telecom Italia has created, and updated and supplemented over the years, conforms with international best practice and is described in detail in the Corporate Governance section of the Company's Annual Report.
This section of the 2005 First-Half Report describes the updates and supplements introduced in the first six months of the year.

1. The process of integrating Telecom Italia Mobile into Telecom Italia following the approval of the merger of the two companies by their respective Boards of Directors on 7 December 2004 prompted an **enlargement of Telecom Italia's Board of Directors** with the addition of persons with proven skills and experience in mobile telephony.
   On 7 April 2005 the Telecom Italia ordinary shareholders' meeting approved an increase in the number of directors from 19 to 21 and appointed two new directors: Marco De Benedetti and Enzo Grilli, both of whom had previously been on the board of Telecom Italia Mobile.
   Recourse was not made to the slate voting system for the appointments because the Company's bylaws provide for it to be used only when the whole board is renewed. Enzo Grilli was nonetheless selected by the independent directors, coordinated by the lead independent director.
   Since, on the basis of the information he provided, Enzo Grilli qualified as an independent director, the board continues to have a **majority of independent directors** (11 out of 21).
   In view of the increase in the number of directors and in accordance with the first paragraph of Article 2389 of the Civil Code, the shareholders' meeting of 7 April 2005 also **augmented the total annual remuneration of the board** for the second and third years of its mandate.

2. On 26 July 2005 the Board of Directors of Telecom Italia approved the **appointment of Marco De Benedetti as a Managing Director.** At the same time it reformulated, in the light of the reform of company law enacted by Legislative Decree 6/2003, the powers delegated to the top management. The earlier quantitative limits were reclassified as **internal limits to the relationship between the board and the holders of delegated powers** (with Marco De Benedetti granted powers corresponding to those already granted to Riccardo Ruggiero) and the Chairman and the Managing Directors were recognized on an equal footing as the **legal representatives of the Company, individually authorized to take any action in relation to all the various aspects of its business.**
   The functions and related responsibilities were divided between the Chairman and the Managing Directors as follows:
   - the Managing Directors Riccardo Ruggiero and Marco De Benedetti were charged with coordinating the *Wireline Business Unit* and the *Mobile Business Unit* respectively;
   - the Managing Director Carlo Buora was charged with coordinating the central functions of *Finance, Administration and Control*, *Corporate Development and Investor Relations*, *Purchasing*, *International Affairs*, *Corporate and Legal Affairs*, *International Legal Affairs,* Group *Security* and *Information Technology*, and the Olivetti *Business Unit*;
   - the Chairman – in addition to coordinating the central functions of *General Counsel*, *Communication and Image*, *Brand Enrichment*, *Human Resources*, *Public and Economic Affairs*, *Chief Technology Officer* and Telecom Italia Lab , the *Media Business Unit,* and Telecom Italia Latam – is charged with coordinating the activity of the Managing

Directors and with defining, in agreement with them, the overall strategy and development policy for the Company and the Group and extraordinary corporate actions.

3. In line with international best practice, the Board of Directors approved the introduction of an **annual board performance evaluation.** This will be coordinated by the lead independent director and carried out by means of questionnaires. On the one hand the evaluation is intended to verify the functioning of the board as a whole and on the other to assess the contributions and conduct of the executive directors, the non-executive directors and the independent directors. On the basis of the results of the evaluation the Committee for Internal Control and Corporate Governance may submit proposals aimed at improving the functioning of the board.

4. In relation to new criminal offences that have recently been introduced, the Company has verified the adequacy of the internal control system for the purposes of Legislative Decree 231/2001. The results of most of the checks were positive; in the cases that were not fully regulated, the 231 Organizational Model (see the 2004 Annual Report) was supplemented with the **addition of internal control mechanisms for operational and instrumental processes that were at risk.**
   As regards compliance with the implementing rules of the Sarbanes-Oxley Act, further progress was made in implementing **"Project 404",** the Group-wide project intended, under the guidance of a steering committee, to equip the Company with the most suitable means and mechanisms for ensuring prompt and full compliance with the requirements of Section 404 of the Act concerning the **attestations to be made "on internal control over financial reporting"** (which will apply to Telecom Italia as of the 2006 Annual Report).

5. As already explained in the Corporate Governance section of the 2004 Annual Report, following the amendments made to the "Vietti" reform of company law (most recently by Legislative Decree 310/2004), Telecom Italia **updated its Guidelines for Transactions with Related Parties** by adding an explicit reference to the concept of "captive_normality", applicable to transactions within the firm or group. In order to permit a better and more regular application of the guidelines, **a procedure is being developed** that is intended **to put the treatment of related-party transactions on an objective basis** through the use of a dedicated database containing all the related parties of the Group companies that have adopted the guidelines. Before a transaction is carried out an expert system must be consulted that will automatically provide indications – on the basis of information collected using special checklists – concerning the relevant decision-making powers, internal information flows for reporting purposes, and the need for an external opinion in evaluating the congruousness of the transaction.

6. Following the recent transposition into Italian law of the Market Abuse Directive, a working group has been set up at the initiative of the Disclosure Committee to examine and where necessary revise the procedures for the production, retention and dissemination (both inside and outside the Company) of price-sensitive information, in order to guarantee its reliability, timeliness and confidentiality. Consequently, the Procedure for Communicating Price-

Sensitive Information and the Code of Conduct on Insider Dealing will shortly be revised, with the additional aim of simplifying and streamlining them.

7. Telecom Italia has obtained **an independent assessment** of its system of corporate governance from **Standard & Poor's**. Upon completion of the checks, the rating agency awarded the Company an overall score of 7+, the highest published to date for an Italian company. In its report the rating agency recognized that Telecom Italia had progressively created a solid governance system and strengthened the **autonomy and efficiency of the Board of Directors**, which stands out from those of the majority of Italian listed companies in having a majority of independent directors and as providing a forum for the exchange of ideas and effective supervision of the management. According to Standard & Poor's, Telecom Italia's system of corporate governance is also marked by the **transparency and quality of corporate disclosure** and **a solid internal control system**, which ensures efficient supervision of auditing and control procedures by the Board of Auditors and the Committee for Internal Control and Corporate Governance.

8. **The Board of Auditors**, in its capacity as the Company's **Audit Committee** pursuant to and for the purposes of US law (see the 2003 and 2004 Annual Reports), has adopted **a procedure**, partly in order to comply with the relevant provisions of US law, for the receipt, retention and treatment of "reports" submitted to it, as specified below:
   - ⇒ "**statements of violations**" submitted by **shareholders** regarding matters deemed to be censurable;
   - ⇒ "**complaints**" made by any person, thus **including non-shareholders**, regarding alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body.
   - ⇒ "**complaints**" made by any person regarding "accounting, internal accounting controls, or auditing matters";
   - ⇒ "**concerns**" submitted **anonymously or otherwise by employees** of the Company or the Group regarding "questionable accounting or auditing matters".

   The Investors section of the Company's website (www.telecomitalia.it) contains a more detailed description of the manner and forms in which such reports may be sent to the Board of Auditors/Audit Committee.

9. Lastly, it should be noted that with the completion of the merger of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A. (on 30 June 2005), the Company's largest shareholder continues to be Olimpia S.p.A. with approximately 18% of the ordinary share capital.
   At present Olimpia's shareholders are: Pirelli & C. S.p.A. (57.66%), Edizione Finance International S.A. (8.4%), Edizione Holding S.p.A. (8.4%), Hopa S.p.A. (16%), Unicredito Italiano S.p.A. (4.77%) and Banca Intesa S.p.A. (4.77%).

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT JUNE 30, 2005

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CONSOLIDATED BALANCE SHEETS

(in millions of euro)	Note	6/30/2005 (a)	12/31/2004 (b)	6/30/2005	Change (a-b)
Non-current assets					
Intangible assets					
- Goodwill and other intangible assets with an indefinite life	3)	44,105	26,814	26,532	17,291
- Intangible assets with a finite life	4)	6,598	6,456	5,879	142
		50,703	33,270	32,411	17,433
Tangible assets	5)				
- Property, plant and equipment owned		16,749	16,428	16,513	321
- Assets held under finance leases		1,603	1,581	1,645	22
		18,352	18,009	18,158	343
Other non-current assets	6)				
- Equity investments		1,305	1,053	1,290	252
- Securities and financial receivables		677	445	438	232
- Miscellaneous receivables and other non-current assets		831	796	826	35
		2,813	2,294	2,554	519
Deferred tax assets	7)	4,433	4,493	5,515	(60)
TOTAL NON-CURRENT ASSETS (A)		76,301	58,066	58,638	18,235
Current assets					
Inventories	8)	398	308	398	90
Trade receivables, miscellaneous receivables and other current assets	9)	10,203	9,905	9,648	298
Securities	10)	444	786	641	(342)
Financial receivables and other current financial assets	11)	1,537	765	859	772
Cash and cash equivalents	12)	4,106	8,401	5,566	(4,295)
TOTAL CURRENT ASSETS (B)		16,688	20,165	17,112	(3,477)
Discontinued operations/Assets held for sale	13)				
of a financial nature		37	368	428	(331)
of a non-financial nature		346	4,008	4,157	(3,662)
TOTAL DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (C)		383	4,376	4,585	(3,993)
TOTAL ASSETS (A+B+C)		93,372	82,607	80,335	10,765
Shareholders' equity	14)				
attributable to Parent Company		24,128	16,251	15,404	7,877
attributable to minority interests		1,656	4,592	3,872	(2,936)
TOTAL SHAREHOLDERS' EQUITY (D)		25,784	20,843	19,276	4,941
Non-current liabilities					
Non-current financial liabilities	15)	42,037	38,229	35,111	3,808
Employee severance indemnities and other employee-related reserves	16)	1,259	1,211	1,208	48
Reserve for deferred taxes	7)	612	524	503	88
Reserves for future risks and charges	17)	839	777	821	62
Miscellaneous payables and other non-current liabilities	18)	2,100	2,200	2,376	(100)
TOTAL NON-CURRENT LIABILITIES (E)		46,847	42,941	40,019	3,906
Current liabilities					
Current financial liabilities	19)	8,725	4,336	7,066	4,389
Trade payables, current tax payables, miscellaneous payables and other current liabilities	20)	11,799	12,321	11,657	(522)
TOTAL CURRENT LIABILITIES (F)		20,524	16,657	18,723	3,867
Liabilities relating to discontinued operations/assets held for sale	13)				
of a financial nature		150	1,062	1,244	(912)
of a non-financial nature		67	1,104	1,073	(1,037)
TOTAL LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (G)		217	2,166	2,317	(1,949)
TOTAL LIABILITIES (H=E+F+G)		67,588	61,764	61,059	5,824
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (D+H)		93,372	82,607	80,335	10,765

CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)	Note	1st half 2005 (a)	1st half 2004 (b)	Year 2004	Change amount	Change %
Revenues	24)	14,692	13,968	28,573	724	5.2
Other income	25)	224	177	1,100	47	26.6
Total revenues and operating income		**14,916**	**14,145**	**29,673**	**771**	**5.5**
Purchases of materials and external services	26)	(6,116)	(5,769)	(12,052)	(347)	6.0
Personnel costs	27)	(1,919)	(1,892)	(3,842)	(27)	1.4
Other operating expenses	28)	(650)	(548)	(1,617)	(102)	18.6
Changes in inventories		77	113	26	(36)	(31.9)
Capitalized internal construction costs	4, 5)	211	304	714	(93)	(30.6)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)		**6,519**	**6,353**	**12,902**	**166**	**2.6**
Depreciation and amortization	4, 5)	(2,520)	(2,305)	(4,852)	(215)	9.3
Gains/losses on disposals of non-current assets (I)	4)	(1)	(6)	(9)	5	(83.3)
Impairment losses/reversals on non-current assets	3, 4)	(9)	(286)	(444)	277	°
OPERATING INCOME (EBIT)		**3,989**	**3,756**	**7,597**	**233**	**6.2**
Share of earnings of equity investments in associates accounted for by the equity method		(15)	(18)	(4)	3	(16.7)
Financial income	29)	1,601	754	1,806	847	112.3
Financial expenses	30)	(2,463)	(1,787)	(3,807)	(676)	37.8
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		**3,112**	**2,705**	**5,592**	**407**	**15.0**
Income taxes for the period		(1,354)	(1,311)	(2,657)	(43)	3.3
NET INCOME FROM CONTINUING OPERATIONS		**1,758**	**1,394**	**2,935**	**364**	**26.1**
Net income (loss) from discontinued operations/assets held for sale	13)	421	24	(101)	397	°
NET INCOME FOR THE PERIOD		**2,179**	**1,418**	**2,834**	**761**	**53.7**
Attributable to:						
*** Parent Company**		**1,775**	**979**	**1,815**	**796**	**81.3**
* Minority interests		404	439	1,019	(35)	(8.0)

(I) Excluding gains/losses on disposals of discontinued operations/assets held for sale and equity investments other than subsidiaries.

(in euro)	Note	(a)	(b)		Change amount	Change %
EARNINGS PER SHARE						
- Basic earnings per share:	31)					
• ordinary shares		0.10	0.06	0.11	0.04	66.67
• savings shares		0.11	0.07	0.12	0.04	57.14
- Basic earnings per share from continuing operations:						
• ordinary shares		0.08	0.06	0.12	0.02	33.33
• savings shares		0.09	0.07	0.13	0.02	28.57
- Basic earnings (loss) per share from discontinued operations:						
• ordinary shares		0.02	-	(0.01)	-	-
• savings shares		0.03	-	(0.01)	-	-
- Diluted earnings per share:	31)					
• ordinary shares		0.10	0.06	0.11	0.04	66.67
• savings shares		0.11	0.07	0.12	0.04	57.14
- Diluted earnings per share from continuing operations:						
• ordinary shares		0.08	0.06	0.12	0.02	33.33
• savings shares		0.09	0.07	0.13	0.02	28.57
- Diluted earnings (loss) per share from discontinued operations:						
• ordinary shares		0.02	-	(0.01)	-	-
• savings shares		0.03	-	(0.01)	-	-

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY DURING THE FIRST HALF OF 2004

(in millions of euro)	Attributable to Telecom Italia								
	Share capital	Additional paid in capital	Reserve for net translation differences	Other income/loss recognized directly in equity	Other reserves	Retained earnings (accumulated deficit) including net income for the period	Total	Attributable to minority interests	Total shareholders' equity
Balance at December 31, 2003 in accordance with Italian GAAP	8,854	88	0	0	4,768	2,382	16,092	4,497	20,589
Adoption of IAS/IFRS	(56)	(56)	0	(13)	(521)	813	167	32	199
Balance at December 31, 2003 in accordance with IAS/IFRS	8,798	32	0	(13)	4,247	3,195	16,259	4,529	20,788
Changes in accounting principles/adjustments for errors							0		0
Balance at December 31, 2003 - IAS/IFRS adjusted	8,798	32	0	(13)	4,247	3,195	16,259	4,529	20,788
Changes in shareholders' equity in the first half of 2004									
Fair value adjustment of available-for-sale financial assets:									
Unrealized gains/losses on fair value adjustments				21			21		21
Gains/losses transferred to profit and loss at the date of disposal /recognition of impairment losses				1			1		1
Fair value adjustment of hedging instruments:									
Unrealized gains/losses on fair value adjustments of financial instruments designated as cash flow hedges				(95)			(95)		(95)
Gains/losses transferred to profit and loss when effects of hedged items flow to statement of income							0		0
Translation differences			(64)				(64)	(57)	(121)
Income taxes				5			5		5
Total income/loss for the period recognized directly in equity			(64)	(68)			(132)	(57)	(189)
Net income for the period						979	979	439	1,418
Total income for the period	0	0	(64)	(68)	0	979	847	382	1,229
Dividends paid						(1,730)	(1,730)	(1,050)	(2,780)
Exercise of other equity instruments (stock options)	3	9					12		12
Other movements					32	(16)	16	11	27
Balance at June 30, 2004 in accordance with IAS/IFRS	8,801	41	(64)	(81)	4,279	2,428	15,404	3,872	19,276

Statement of change in shareholders' equity during the first half of 2005

(in millions of euro)	Attributable to Telecom Italia								
	Share capital	Additional paid in capital	Reserve for net translation differences	Other income/loss recognized directly in equity	Other reserves	Retained earnings (accumulated deficit) including profit or loss for the period	Total	Attributable to minority interests	Total shareholders' equity
Balance at December 31, 2004 in accordance with Italian GAAP	8,865	120	0		4,809	1,378	15,172	4,689	19,861
Adoption of IAS/IFRS	(56)	(55)	(36)	(97)	(524)	1,847	1,079	(97)	982
Balance at December 31, 2004 in accordance with IAS/IFRS	8,809	65	(36)	(97)	4,285	3,225	16,251	4,592	20,843
Changes in accounting principles/adjustments for errors							0		0
Balance at December 31, 2004 - IAS/IFRS adjusted	8,809	65	(36)	(97)	4,285	3,225	16,251	4,592	20,843
Changes in shareholders' equity in the first half of 2005									
Fair value adjustment of available-for-sale financial assets:									
Unrealized gains/losses on fair value adjustments				50			50		50
Gains/losses transferred to profit and loss at the date of disposal /recognition of impairment losses							0		0
Fair value adjustment of hedging instruments:									
Unrealized gains/losses on fair value adjustments of financial instruments designated as cash flow hedges				(24)			(24)		(24)
Gains/losses transferred to profit and loss when effects of hedged items flow to statement of income				(13)			(13)		(13)
Translation differences			953				953	296	1,249
Income taxes				25			25		25
Total income/loss for the period recognized directly in equity			953	38			991	296	1,287
Net income for the period						1,775	1,775	404	2,179
Total income for the period	0	0	953	38	0	1,775	2,766	700	3,466
Dividends paid						(2,284)	(2,284)	(34)	(2,318)
Share capital increases/Additional paid-in capital							0		0
Bond conversion	487	1,639			(315)		1,811		1,811
Exercise of other equity instruments (stock options)	5	22					27		27
Cash tender offer and purchase of savings shares							0	(2,124)	(2,124)
Telecom Italia / TIM merger	1,310	4,768			(64)		6,014	(1,102)	4,912
Transfer of TIN.IT. from TI Media to Telecom Italia						(364)	(364)	364	0
Cash tender offer for TI Media shares							0	(134)	(134)
Changes in the scope of consolidation			(29)				(29)	(717)	(746)
Telecom Italia shares held by TI Finance	(13)						(13)		(13)
Other movements		(32)			(56)	37	(51)	111	60
Balance at June 30, 2005 in accordance with IAS/IFRS	10,598	6,462	888	(59)	3,850	2,389	24,128	1,656	25,784

CONSOLIDATED STATEMENTS OF CASH FLOW

(in millions of euro)	Note	1st Half 2005	1st Half 2004	Year 2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES				
Net income from continuing operations		1,758	1,394	2,935
Adjustments to reconcile net income from continuing operations with cash flows generated (absorbed) by operating activities:				
Depreciation and amortization		2,520	2,305	4,852
Impairment losses/reversals on non-current assets (including equity investments)		(45)	267	446
Net change in deferred tax assets and liabilities		469	(223)	866
Gains/losses on disposal of non-current assets		(65)	(6)	(106)
Share of earnings of equity investments in associates accounted for by the equity method		15	18	4
Net change in current trade and miscellaneous receivables/payables and other changes (I)		(1,657)	572	1,529
CASH FLOWS GENERATED (ABSORBED) BY OPERATING ACTIVITIES (A)		**2,995**	**4,327**	**10,526**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES				
Investments in tangible assets	5)	(1,513)	(1,242)	(3,145)
Investments in intangible assets	4)	(668)	(650)	(1,896)
Investments in other non-current assets		(14,209)	(398)	(871)
Acquisition of equity investments in subsidiaries, net of cash acquired	3)	(247)	-	(1)
Change in financial receivables and other financial assets		(1,054)	1,550	304
Consideration collected on the sale of equity investments in subsidiaries, net of cash sold (II)	3)	1,702	-	43
Consideration collected on the sale of tangible, intangible and other non-current assets (III)		146	158	452
CASH FLOWS GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)		**(15,843)**	**(582)**	**(5,114)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES				
Net change in financial liabilities		10,303	(224)	1,352
Consideration collected for equity instruments		95	12	193
Share capital increases/repurchases net of start-up and expansion costs		-	-	51
Dividends paid to minority shareholders (distribution of reserves included)		(2,318)	(2,780)	(2,780)
CASH FLOWS GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)		**8,080**	**(2,992)**	**(1,184)**
Cash flows generated (absorbed) by discontinued operations/assets held for sale (D)		**30**	**(145)**	**(396)**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(4,738)**	**608**	**3,832**
NET CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR (F)		**8,339**	**4,477**	**4,477**
Net effect of foreign currency translation on cash (G)		100	(7)	30
NET CASH AND CASH EQUIVALENTS, AT END OF PERIOD (H=E+F+G)		**3,701**	**5,078**	**8,339**

(in millions of euro)	Note	1st Half 2005	1st Half 2004	Year 2004
ADDITIONAL CASH FLOW INFORMATION:				
Income tax paid		61	546	1,476
Interest paid		1,777	1,781	2,779
RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS				
NET CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR		**8,339**	**4,477**	**4,477**
Cash and cash equivalents		8,401	4,751	4,751
Bank overdrafts repayable on demand		(244)	(510)	(510)
Discontinued operations/assets held for sale		182	236	236
NET CASH AND CASH EQUIVALENTS, AT END OF PERIOD		**3,701**	**5,078**	**8,339**
Cash and cash equivalents		4,106	5,566	8,401
Bank overdrafts repayable on demand		(442)	(665)	(244)
Discontinued operations/assets held for sale		37	177	182

(I) Net of the effects of the purchase/sale of equity investments in consolidated subsidiaries.
(II) Net of the change in receivables as a result of the relative sales.
(III) Net of the change in receivables as a result of the relative sales. The item includes gains/losses relating to the equity investments and excludes gains relating to the assets sold. It also includes the reimbursement of capital and distribution of reserves.

NOTE 1 – FORM AND CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its consolidated subsidiaries (the "Group") operate mainly in Europe, the Mediterranean Basin and South America.
The Group is engaged principally in the communications sector and, particularly, in wireline telephone and data services and call centers, for final customers (retail) and other providers (wholesale), in the development of fiber optics networks, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications, in the television sector both in analogical and digital technology, in the office products and in the information communication technology.
The head office of the Group is located in Milan, Italy.

The interim consolidated financial statements for the six months ended June 30, 2005 of the Telecom Italia Group are expressed in euro (rounded off to the million), which is also the currency of the primary economic environments in which the Group operates. The foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in note on Consolidation.

The annual consolidated financial statements for the year ended December 31, 2005 will be drawn up in accordance with IFRS issued by the International Accounting Standards Board and approved by the European Union. IFRS is also meant to include all revised International Accounting Standards ("IAS"), as well as all the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), comprising those previously issued by the Standing Interpretations Committee ("SIC").

The interim consolidated financial statements for the six months ended June 30, 2005 have been prepared, in form and content, in accordance with the provisions of International Accounting Standard IAS 34 "Interim Financial Reporting" and, with regard to accounting policies, as laid down in IAS/IFRS issued by the IASB and approved by the European Union, as provided by article 81 of the Regulation for Issuers No. 11971, issued by Consob on May 14, 1999 and subsequent amendments and additions. Comparative financial statements of previous periods presented have also been prepared in accordance with IAS/IFRS.
Changes made to the classification of certain items in the consolidated balance sheet gave rise, for purposes of comparison, to reclassifications made on a consistent basis in the consolidated balance sheet at December 31, 2004.

Seasonal nature of revenues

a) Wireline
In the comparison between the first half of 2005 and the corresponding period of 2004, revenues from basic subscription charges and traffic related to fixed telecommunications were not significantly affected by seasonal factors; however, the promotion campaigns launched during the first half of 2005 had a positive impact on the commercialization of products and services.

b) Mobile
Revenues from voice traffic related to the domestic mobile business were not affected by seasonal factors linked to commercial offers; however, such offers affected revenues from sales and Value Added Services ("VAS"). Nevertheless, certain seasonal factors are connected to calendar discontinuity, such as the recurrence of a greater number of holidays in the months or accounting periods during the year.

Scope of consolidation
The unaudited interim consolidated financial statements include the interim financial statements of all the subsidiaries from the date control over such subsidiaries begins until the date that control ceases.

Control exists when the Group has the majority of voting rights or has the power, directly or indirectly, to govern, also through contractual agreements, the financial and operating policies of an enterprises so as to obtain benefits from its activities.
The investments in associates and in those companies that are under joint control are included in the consolidated financial statements by applying the equity method, as provided, respectively, by IAS 28 (Investments in Associates) and IAS 31 (Interests in Joint Ventures). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control, over the financial and operating policies.

In all periods presented for comparison, the Entel Chile group (sold in March 2005), the Finsiel group and TIM Hellas S.A. (both sold in June 2005) and Corporacion Digitel (a company classified in assets held for sale) have been treated as discontinued operations/assets held for sale.

Excluding the effects of discontinued operations/assets held for sale, the effects arising from changes in the scope of consolidation are not material.

In particular, the following changes have taken place in the scope of consolidation:

Since June 30, 2004:

a) added to the scope of consolidation:
   - for *Wireline:* Latin American Nautilus Brasil Participacoes Ltda (set up in October 2004),Telecom Italia Sparkle Singapore Pte. Ltd. (set up in March 2005), Rits Tele.com. B.V. (acquired in March 2005), Nuova Tin.it S.r.l. (set up in May 2005) and Liberty Surf Group S.A. (acquired in June 2005);
   - for *Mobile*: TIM Italia S.p.A. (set up in December 2004);
   - for *Olivetti:* Olivetti Engineering S.A. (formerly Yminds) (control acquired in December 2004);
   - for *Other activities:* I.T. Telecom S.r.l. (set up in December 2004), Progetto Italia S.p.A. (set up in January 2005) and Ascai Servizi S.r.l. in liquidation (control acquired in May 2005);
b) eliminated from the scope of consolidation:
   - for *Wireline:* Atesia S.p.A. (controlling interest sold in December 2004) and TMI Telemedia International Luxembourg S.A. in liquidation (cancelled from the Companies Register in December 2004);
   - for *Media:* Televoice S.p.A. (sold in January 2005), Databank S.p.A. and Dbk S.A. (both sold in February 2005);
   - for *Olivetti*: Alladium S.p.A. in liquidation (liquidation closed in September 2004), Royal Consumer Information Products Inc. (sold in September 2004), Olivetti Latin America Trading Associates S.A. in liquidation (liquidation closed in December 2004), Innovis S.p.A. (controlling interest sold in January 2005), Dedita S.p.A. in liquidation (cancelled from the Companies Register in January 2005), Cell-Tell S.p.A. (controlling interest sold in March 2005), Olivetti Servicios y Soluciones Integrales S.A. de C.V. in liquidation (cancelled from the Companies Register in March 2005), Olivetti Lexikon Nordic AB in liquidation (liquidation closed in April 2005) and Olivetti Lexikon Benelux S.A. (closed in April 2005);
   - for *Other activities*: Olivetti Telemedia Investment B.V. in liquidation (liquidation closed in July 2004) and Olivetti RAP S.A. (closed in December 2004);
c) companies involved in mergers:
   - for *Wireline:* Vertico S.p.A. in Ism S.r.l.;
   - for *Mobile*: Telecom Italia Mobile S.p.A.: in Telecom Italia S.p.A. and Tele Nordeste Celular Participacoes S.A. in TIM Participacoes S.A.;
   - for *Media*: PBS Professional Business Software S.p.A. in Gruppo Buffetti S.p.A.;
   - for Olivetti: Olivetti Sistema e Servicos Ltda in Olivetti do Brasil S.A. and Olivetti Tecnost de Mexico S.A. de C.V. in Olivetti Mexicana S.A.;
   - for *Other activities:* EpicLink S.p.A. and I.T Telecom S.p.A. in Telecom Italia S.p.A..

Since December 31, 2004:

a) added to the scope of consolidation:
   - for *Wireline:* Rits Tele.com. B.V. (acquired in March 2005), Nuova Tin.it S.r.l. (set up in May 2005) and Liberty Surf Group S.A. (acquired in June 2005);
   - for *Other activities:* Progetto Italia S.p.A. (set up in January 2005) and Ascai Servizi S.r.l. (control acquired in May 2005);
b) eliminated from the scope of consolidation:
   - for *Media*: Televoice S.p.A. (sold in January 2005), Databank S.p.A. and Dbk S.A. (both sold in February 2005);
   - for *Olivetti:* Innovis S.p.A. (controlling interest sold in January 2005), Cell-Tell S.p.A. (controlling interest sold in March 2005) and Olivetti Servicios y Soluciones Integrales S.A. de C.V. in liquidation (cancelled from the Companies Register in March 2005) and Olivetti Lexikon Nordic AB in liquidation (closed in April 2005);
c) companies involved in mergers:
   - for *Mobile*: Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A..

At June 30, 2005, Telecom Italia's subsidiaries and associates listed in the Annexes, are categorized as follows:

	6/30/2005		
Companies:	**Italy**	**Abroad**	**Total**
• Subsidiaries consolidated on a line-by-line basis	58	108	166
• Associates and jointly controlled subsidiaries accounted for using the equity method	35	42	77
Total companies	**93**	**150**	**243**

Major transactions involving equity investments

a) Acquisitions

TELECOM ITALIA/TIM merger
The merger of Telecom Italia and TIM, described in detail in the Report on Operations to the 2004 Annual Report, was finalized on June 30, 2005.

In short, the merger was executed by the following transactions:

- cash tender offer for TIM ordinary and savings shares and additional purchases of TIM shares, detailed as follows:

√ 2,456,501,605 ordinary shares acquired in the cash tender offer for	euro	13,854	million
√ 8,463,127 savings shares acquired in the cash tender offer for	euro	48	million
√ 5,063,893 additional purchases of ordinary and savings shares for	euro	28	million
Total 2,470,028,625 ordinary and savings shares purchased for	**euro**	**13,930**	**million (1)**

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

√ 2,150,947,060 ordinary shares (euro 2.595 per share) for	euro	5,582	million
less:			
24,607,520 shares issued by Telecom Italia to service the exchange for the 14,224,000 TIM shares held by Telecom Italia Finance, (euro 2.595) for	euro	(64)	million
√ 230,199,592 savings shares (euro 2.156 per share) for	euro	496	million
Total 2,356,539,132 ordinary and savings shares issued, net of 24,607,520 shares issued to service the exchange for the 14,224,000 TIM shares held by Telecom Italia Finance, for a total of	**euro**	**6,014**	**million**

(1) Inclusive of the costs capitalized of euro 98 million relative to the tender offer.

Accounting effects of the transaction

In the consolidated financial statements of the Telecom Italia Group drawn up according to IAS/IFRS, the Telecom Italia/TIM integration transaction was recorded at fair value. The difference between the fair value of the shares purchased and the new share issue and the underlying share of TIM's net equity acquired was recorded as goodwill and amounted to euro 16,654 million - of which euro 11,804 million was from the cash tender offer and additional purchases and euro 4,850 million from the exchange of TIM shares. The Telecom Italia shares issued to service the share exchange were valued at the market price at June 30, 2005 (euro 2,595 for each ordinary share and euro 2,156 for each savings share)

AGREEMENT WITH TISCALI FOR THE PURCHASE OF LIBERTY SURF GROUP S.A.
In April 2005, Telecom Italia signed an agreement with Tiscali for the purchase of its investment in Liberty Surf Group S.A., an important internet service provider operating on the French market. The investment corresponds to a 94.89% stake in the share capital of the company which is listed on the Paris Euronext.

The agreement was executed on May 31, 2005 after approval was received from the French antitrust authority. The purchase price was about euro 248 million and takes into account the positive net financial position of Liberty Surf at May 31, 2005 of approximately euro 10 million.

After the agreement was executed, in accordance with the requirements of the law, Telecom Italia launched a takeover bid in the period July 21, 2005 to August 8, 2005 for the remaining 5% of the capital of Liberty Surf

Group S.A. at a price of euro 2.78 per share. 2,920,719 shares were tendered and Telecom Italia thus came to hold 92,242,963 shares representing 97.99% of share capital.

Moreover, Telecom Italia intends to launch a further takeover bid for all the shares of Liberty Surf Group that are not yet owned directly and not held by Liberty Surf Group S.A., again at the price of euro 2.78 per share.

The following tables presents an analysis of the preliminary accounting effect of the purchase of the investment in Liberty Surf. In this regard, the review of the fair value of the assets and liabilities acquired should be finalized by the end of 2005.

(in millions of euro)

Total non-current assets (net of goodwill acquired)		63
Total current assets		68
Total current and non-current liabilities		(120)
Total assets (net of goodwill)		11
Percentage acquired	94.89%	
Share of net equity acquired		10
Price paid plus incidental expenses		253
Goodwill		243

PURCHASE OF VIRGILIO'S AND TIN.IT'S ASSETS BY TELECOM ITALIA S.p.A.

As part of the process to rationalize the Telecom Italia Group's Internet operations, the following transactions were finalized on the basis of the contractual agreements signed with Telecom Italia Media on April 4, 2005:

- on May 30, 2005, Telecom Italia purchased, from Telecom Italia Finance, the entire investment in the company ISM S.r.l. (which already held a 40% stake in Finanziaria Web which, in turn, held a 66% interest in Matrix) for a total amount of euro 98 million;
- on June 1, 2005, ISM S.r.l. (in which Telecom Italia holds a 100% interest), after having received a payment against the purchase of its share capital from Telecom Italia for euro 70 million, acquired 60% of Finanziaria Web and 0.7% of Matrix from Telecom Italia Media for euro 70 million;
- on June 1, 2005, Telecom Italia purchased a 100% interest in Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media conferred the Tin.it business segment, at a price of euro 880 million.

At the conclusion of the foregoing transactions, Telecom Italia holds, directly and indirectly, (through ISM) full control over Virgilio's operations.

<u>Accounting effects of the transaction</u>

<u>In the consolidated financial statements of the Telecom Italia Group</u> drawn up in accordance with IAS/IFRS, the purchase of the "Internet" area from the subsidiary Telecom Italia Media, since it took place within the same group, is considered a transaction among shareholders. Accordingly, the difference between the price paid and the share of underlying net equity acquired of euro 364 million was allocated as a reduction of reserves instead of being allocated to goodwill.

On June 28, 2005, the buyback of ordinary and savings shares was successfully concluded for, respectively, euro 0.40 per ordinary share and 0.33 per savings share, as voted by the Shareholders' Meeting of Telecom Italia Media held May 24, 2005

Telecom Italia Media, after proportionally allocating the shares tendered, bought back 364,251,922 ordinary shares and 6,107,723 savings shares for a total of euro 148 million. Even though the purchase of the shares was settled on July 1, 2005, the transaction was recorded in the financial statements at June 30, 2005, in accordance with IAS/IFRS.

Following the above transaction and in view of the fact that the shares bought back will be cancelled, Telecom Italia increases its direct controlling interest (60.4%) and indirect holding (2.1% through Telecom Italia Finance) from a total of 62.5% to 69.4%; the percentage investment in share capital increases from 61.47% to 68.30%.

LA7 – AGREEMENT FOR THE PURCHASE OF ELEFANTE TV S.p.A. AND DELTA TV S.p.A.
On April 29, 2005, La7 reached an agreement with Elefante TV S.p.A. to take over the business segment composed of the national television station of the same name for an amount of euro 115.5 million. A.
Always with the intent of expanding the broadcasting capacity of its television networks, La7 also reached another agreement for the purchase of radio and television equipment and the relative frequencies of the local Delta TV station in the central-south of Italy, for a total amount of euro 12 million. Those transactions are not only subject to operating conditions and requirements but also to the receipt of the anticipated approvals from the competent authorities.

c) Divestitures

SALE OF TELEVOICE S.p.A.
On January 3, 2005, Telecom Italia Media concluded the sale to Comdata (Altair group) of 100% of Televoice S.p.A., a company that operates in the sector of call centers and telemarketing and teleselling services. The agreements for the sale had been finalized in December 2004.

SALE OF ENTEL CHILE S.A.
On January 24, 2005, Telecom Italia, through its subsidiary Telecom Italia International N.V., signed an agreement with Almendral S.A. (an investment holding company listed on the stock exchange in Santiago, Chile) which represents local businesses including the Hurtado Vicuna group and the Matte group) for the sale of its investment in the Chilean company Entel Chile S.A., representing 54.76% of share capital. The sales price amounts to USD 934 million.
Closing of the transaction took place on March 29, 2005 after obtaining the necessary authorizations from the pertinent authorities.
This transaction falls under the Telecom Italia Group's strategy to rationalize its international portfolio and focus on areas of strategic interest with growth potential.

SALE OF FINSIEL S.p.A.
With regard to the procedure for the divestiture of the controlling interest held by Telecom Italia in Finsiel S.p.A., a preliminary agreement for the sale of Finsiel S.p.A. to the COS group was signed on February 24, 2005. The deal, which regards the entire interest held by Telecom Italia in Finsiel (79.5%), is based on an enterprise value of about euro 164 million. The contract was finalized on April 26, 2005. The sales terms are as follows:

- on June 28, 2005, a 59.6% interest was sold for a price of euro 86 million;
- for the remaining interest of 19.9%, the contract provides for: a sales option by Telecom Italia to be exercised between October 1, 2005 and December 31, 2005 at a price of about euro 29 million; a purchase option by the COS group to be exercised by December 31, 2006, on condition that Telecom Italia has not exercised the sales option.

SALE OF C – MOBILE CZ
In line with the process for the rationalization of the international investment portfolio, on March 24, 2005, TIM finalized with T-Mobile Global Holding the sale of 7.16% of the share capital of Cmobil (a Dutch holding

company which holds a 60.8% stake in T-Mobile CZ). This investment corresponds to an indirect interest of 4.35% in T-Mobile CZ, one of the largest mobile operators in the Czech Republic.
The sales price was euro 70.5 million and gave rise to a gain of approximately euro 61 million.

SALE OF DATABANK S.p.A.

On March 14, 2005, Telecom Italia Media S.p.A. sold the investment (100%) in Databank S.p.A. (a company operating in the sector of market research and sector studies) to Centrale dei Bilanci S.r.l. and Cerved Business Information S.p.A., which each purchased a 50% stake of share capital.
The sales price is equal to euro 5 million and is in line with the carrying value of the investment in the financial statements of Telecom Italia Media.
The transaction falls under the process to rationalize Telecom Italia Media's portfolio of businesses which are not considered synergic with its core business.

SALE OF TIM HELLAS

On April 4, 2005, TIM International N.V. signed a contract for the sale of the investment in TIM Hellas Telecommunications S.A. (equal to 80.87%) to the funds managed by Apax Partners and Texas Pacific Group (TPG). On June 15, 2005, the investment was sold for a price of euro 1,114 million, which corresponds to an enterprise value of about euro 1,600 million for 100% of TIM Hellas and is equivalent to about euro 16.43 per share. The sale gave rise to a gain of euro 410 million on consolidation.

NOTE 2 – ACCOUNTING POLICIES

Consolidation

In the preparation of the consolidated financial statements the assets, liabilities, revenues and expenses of the consolidated companies have been consolidated on a line-by-line basis and the minority interests in shareholders' equity and net income are disclosed separately in the consolidated balance sheet and the consolidated statement of income.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding underlying share of net equity in each subsidiary, including the adjustments to fair value at the acquisition date, if any; the resulting difference should be treated as goodwill and so recognized, in accordance with IFRS 3, as stated below.

All significant intragroup balances and transactions, and any unrealized gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

All assets and liabilities of foreign consolidated subsidiaries are translated using the exchange rates in effect at the balance sheet date (the current method). Income and expenses are translated at the average exchange rate of the period. Translation differences resulting from the application of this method are classified as equity until disposal of the investment. Average exchange rates have been used to translate the cash flows of foreign subsidiaries in the preparation of the consolidated statement of cash flows.

In the context of IFRS first-time adoption, the cumulative translation differences arising from the consolidation of foreign subsidiaries was set at nil, as allowed by IFRS 1; therefore, only accumulated translation differences generated and recorded after January 1, 2004 will be included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the period-end exchange rate.

In the case in which the financial statements of a subsidiary used for consolidation purposes are prepared at a different date with respect to that of the parent company, adjustments should be made to these financial statements in order to reflect the effects of significant transactions or events that occurred between the date of the subsidiary's financial statements and the date of the parent company's financial statements.

If losses attributable to minority shareholders in a consolidated subsidiary exceed the minority interest in the subsidiary's net equity, the excess, and any further losses attributable to the minority shareholders, are allocated to the interest attributable to the Parent Company except to the extent that the minority shareholders have a binding obligation and are able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the Parent Company interest until the minority shareholders' interest in the losses previously absorbed by the parent company has been recovered.

The consolidated financial statements include the Group's share in the earnings of associates accounted for on the equity basis, from the date that significant influence commences until the date that such influence ceases. When the Group's share of losses of an associate, if any, exceeds the carrying amount of the related investment on the Group's balance sheet, the carrying amount of the investment is reduced to zero and further losses are not recognized except to the extent that the Group has incurred obligations in respect of the associate.

Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in those entities.

Intangible Assets

Goodwill
In the case of acquisition of control in enterprises, the acquired identifiable assets, liabilities and contingent liabilities (including minority interest) are recorded at fair value at the date of acquisition. The positive difference between the cost of the business combination and the Group's interest in the fair value of those assets and liabilities is classified as goodwill and recorded in the balance sheet as an intangible asset. If this difference is negative ("negative goodwill"), it is recognized in the statement of income at the time of acquisition.

In the case of acquisitions of minority stakes of controlled companies the positive difference between the acquisition cost and the carrying value of assets and liabilities acquired is recognized as goodwill.

Goodwill is originally recorded at cost and it is subsequently reduced only for accumulated impairment losses.
In accordance with IAS 36 (*Impairment of Assets*), goodwill is tested for impairment annually, or more frequently if specific events or changes in circumstances indicate that it might be impaired.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to being tested for impairment at that date and except for possible effects arising from the application of the new standards.

Research and development costs
Research costs are charged to the statement of income in the period in which they are incurred.
Costs incurred internally for the development of new products and services represent, depending on the case, intangible assets (mainly costs for software) or tangible assets and are recorded as an asset only if all the

following conditions are met and demonstrated: the existence of the technical feasibility and the intention of completing the asset so that it will be available for use or sale, the existence of the ability of the Group to use or sell the asset, the existence of a market for the output of the asset or the usefulness of the asset if it is to be used internally, the availability of adequate technical and financial resources to complete the development and the sale or the internal use of the output of the asset (related products and services), the existence of the ability of the Group to measure reliably the expenditure attributable to the asset during the development phase.
Capitalized development costs comprise only expenditures that can be attributed directly to the development process.
Capitalized development costs are amortized on a systematic basis from the start of production over the estimated product or service life.

Other intangible assets
Other purchased or internally-generated intangible assets are recognized as assets in accordance with IAS 38 (*Intangible assets*), where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.

Such assets are recorded at purchase or manufacturing cost, or, for those assets existing at the IFRS transition date (January 1, 2004), at the deemed cost which for certain assets is represented by the revalued cost, and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives. Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at the IFRS transition date (January 1, 2004), at the deemed cost which for some assets is represented by the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures (including interest expenses directly attributable to the acquisition or construction of the asset) are expensed as incurred.
The initial cost also includes the expected costs of decommissioning the asset and restoring the site. The corresponding liability is recognized, in the period in which it arises, in a balance sheet reserve among the *Reserves for future risks and charges*, at fair value; such capitalized costs are charged to the statement of income over the useful life of the related tangible assets through the depreciation process.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

	Depreciation rates
➢ Buildings	3% - 7%
➢ Telecommunication systems and equipment	3% - 33%
➢ Machinery and installations	20% - 33%
➢ Industrial and commercial equipment	15% - 25%
➢ Other tangible assets	6% - 33%

Land, including the land appurtenant to the buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including the amount to be paid to exercise the favorable purchase option. The corresponding liability to the lessor is included in the balance sheet under financial liabilities.

Furthermore, the gains realized on the sale and leaseback transactions that are recorded under the finance method are deferred over the period of the related contract.

Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are charged to the statement of income over the lease term.

Impairment of assets

The Group reviews, at least annually, recoverability of the carrying amount of intangible assets, property, plant and equipment owned and assets held under finance leases in order to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An intangible asset with an indefinite useful life (goodwill included) is tested for impairment annually and whenever there is an indication that the asset may be impaired.
Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the recoverable amount is lower than the carrying amount. Where an impairment loss on assets other than goodwill subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income immediately.

Financial instruments

In the context of IFRS first-time adoption, the Group chose to anticipate the adoption of IAS 32 (Financial instruments: disclosure and presentation) and IAS 39 (Financial instruments: recognition and measurement) at January 1, 2004 instead of starting from the financial statements for the year beginning January 1, 2005. Furthermore, as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" and a financial liability valued at "fair value through profit or loss" has been carried out at the transition date (January 1, 2004) instead of at the date of initial recognition.
Finally, as permitted by IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. The Telecom Italia Group has taken advantage of such option and has applied the derecognition of non-derivative financial assets/liabilities retrospectively from January 1, 2003. As a consequence, the accounts receivables sold and derecognized during the year 2003 which did not meet the conditions required by IAS 39 for the derecognition have been re-recognized as assets together with the recognition of a financial liability.

Equity investments
Equity investments other than those in subsidiaries and associates (normally below 20% holding levels) are classified upon acquisition as "assets available for sale" or "assets valued at fair value through profit or loss" among current or non-current assets.

Such investments are valued at fair value or at cost in case of unlisted companies or investments whose fair value is not reliable or cannot be determined reliably, adjusted by the impairment losses, as required by IAS 39. Changes in fair value of equity investments classified as available for sale are recognized in a specific equity reserve until the financial asset is disposed. Changes in fair value of equity investments classified as assets valued at fair value through profit or loss are directly recognized in the statement of income.

Securities other than equity investments
Securities other than equity investments classified as non-current assets are those held to maturity; they are recognized on the basis of the trading date and, on initial recognition, are measured at acquisition cost, including transaction costs; subsequently, they are measured at amortized cost.
The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already received, adjusted (up or down) on the basis of the "amortization" (using the effective interest method) of any differences between the initial amount and the maturity amount, less any writedown for impairment losses or uncollectibility.
Securities other than equity investments classified as current assets are included in the following categories:

- held to maturity: they are measured at amortized cost;
- held for trading: they are measured at fair value through profit or loss;
- available for sale: they are measured at fair value with a contra-entry to a specific equity reserve.

When market prices are not available, the fair value of financial instruments is measured using appropriate valuation techniques e.g. discounted cash flow analysis based on market information available at the balance sheet date.
The increase/decrease in value of securities other than equity investments classified as available for sale is directly recognized in a specific equity reserve (*Reserve for fair value adjustments*) until the financial asset is disposed of or impaired; at that moment accumulated gains and losses are reversed to the statement of income of the period.

Receivables and loans
Receivables generated by the Group and loans classified both as non-current and current assets are measured at amortized cost.
Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates, are discounted using market rates.

Cash and cash equivalents
Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value whose original maturity or the residual maturity at the purchase date does not exceed 90 days.

Impairments of financial assets
Assessments are made regularly as to whether if there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the statement of income of the period.

Financial liabilities
Financial liabilities include financial debt (including advances received on sales of accounts receivable) and other financial liabilities, such as derivatives and financial lease obligations.
Financial liabilities other than derivatives are initially recognized at fair value plus transaction costs; subsequently they are measured at amortized cost. The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already made, adjusted (up or down) on the basis of the "amortization" (using the effective interest method) of any differences between the initial amount and the maturity amount.

Compound financial instruments represented by bonds convertible into shares of the issuer (convertible bonds) are recognized by splitting the liability portion and the call option: the liability portion is recognized among the financial liabilities applying the amortized cost method while the call option value, computed as difference between the liability portion and the nominal value of the financial instrument, is classified in a specific equity reserve (*Other equity instruments*).
Compound financial instruments represented by bonds exchangeable with shares of entities other than the issuer (exchangeable bonds) are recognized by splitting the liability portion and the call option: the liability portion is recognized among the liabilities applying the amortized cost method while the call option value is classified as a written option among the financial liabilities and measured at fair value; gains and losses arising from the changes in fair value are recognized in the statement of income at each reporting date.

Financial liabilities hedged by derivative instruments aiming at managing the exposure to changes in fair value of the liabilities are measured at fair value in accordance with hedge accounting principles provided by IAS 39; gains and losses arising from re-measurement at fair value, to the extent of the effective hedged portion, due to changes in relevant hedged risk, are recognized in the statement of income and are offset by the effective portion of the loss or gain arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments aiming at managing the exposure to variability in cash flows are measured at amortized cost in accordance with hedge accounting principles provided by IAS 39.

Derivative financial instruments
Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within prefixed operational limits.
In accordance with IAS 39, derivative financial instruments qualify for *hedge accounting* only when: a) at the inception of the hedge there is formal designation and documentation of the hedging relationship; b) the hedge is expected to be highly effective; c) its effectiveness can be reliably measured; and d) it is highly effective throughout the financial reporting periods for which the hedge is designated.
All derivative financial instruments are measured at fair value in accordance with IAS 39.
When derivative financial instruments qualify for *hedge accounting*, the following accounting treatment applies:

- <u>Fair value hedge</u> – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the statement of income. The gain or loss on the hedged item, to the extent of the portion attributable to the hedged risk, adjusts the carrying amount of the hedged item and is recognized in the statement of income.

- <u>Cash flow hedge</u> – Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of a recognized asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for fair value adjustments of the hedging instruments*). The cumulative gain or loss is removed from equity and recognized in the statement of income at the same time as the hedged transaction affects the statement of income. The gain or loss associated with that part of a hedge that has become ineffective is recognized in the statement of income immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss remains in the equity reserve and will be reversed to the statement of income at the same time the related transaction will occur. If the hedged transaction is no longer probable, the cumulative unrealized gains or losses included in the equity reserve are immediately recognized in the statement of income.

If the hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of derivative financial instruments are directly recognized in the statement of income.

Sales of receivables

The Telecom Italia Group sells a significant part of its receivables through either securitization programs or factoring transactions.
Through a securitization transaction Telecom Italia sells without recourse a portfolio of trade receivables to TISV S.r.l., a Special Purpose Entity (SPE). This SPE finances the purchase of the receivables by issuing asset-backed securities (i.e. securities, placed on the market and subscribed by institutional investors, whose repayment and interest flow depend upon the cash flow generated by the portfolio). The price for this transaction, equal to the nominal value of the receivables, less a discount which takes into account the expenses that the vehicle must bear, is paid to Telecom Italia partly as an advanced purchase price, at the time of sale, and partly as a deferred purchase price. The deferred portion is paid to the seller each time new receivables are sold, subject to the collection of the receivables, and is calculated by the program administrator using very prudent methods consistent with indications by the rating agencies which take into account pre-established estimates of the collection times and the amounts of the credit notes that will eventually be issued, under a scenario in which the securities have the highest rating (AAA or an equivalent rating); such estimates, and therefore also the deferred purchase price, are adjusted monthly on the basis of the effective performance of the receivables. In regards to the risk of uncollectibility, Telecom Italia is responsible for the ultimate recovery from the debtors on the receivables sold, up to the limit of the amount of the deferred purchase price. The vehicle absorbs any uncollected amounts over the deferred purchase price.
Consequently, in accordance with SIC 12 (Consolidation - *Special Purpose Entities* (SPE)) TISV is included in the scope of consolidation, because the exposure by the seller to the risk of uncollectibility of the deferred purchase price entails its control in substance over the SPE.
Furthermore, the Telecom Italia Group carried out some factoring transactions with and without recourse; in particular, certain factoring agreements without recourse include deferred purchase price clauses (i.e. the payment of a minority portion of the purchase price is conditional upon the full collection of the receivables), require a first loss guarantee of the seller up to a limited amount or imply a continuing significant exposure to the cash flows arising from the receivables sold. These kinds of transactions do not meet IAS 39 requirements for asset derecognition, since risks and rewards have not been substantially transferred.
Consequently, all receivables sold through both securitization and factoring transactions which do not meet IAS 39 derecognition requirements remain recorded in the Group financial statements, although they have been legally sold without recourse to the seller; a corresponding financial liability is recorded in the consolidated financial statements. Gains and losses relating to the sale of such assets are not recognized until the assets are removed from the Group consolidated balance sheet.

Receivables for construction contracts

Construction contracts, regardless of the duration of the contracts, are recognized in accordance with the stage of completion and classified as receivables among current assets. Eventual losses on such contracts are fully recorded in the statement of income when they become known.

Inventories

Inventories of raw materials, semifinished goods, work in progress and finished goods are valued at the lower of cost or market, cost being determined on a weighted average cost (by single movement) basis. The valuation of inventories includes the direct costs of materials, labor and indirect production costs (variable and fixed). Provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and realizable value.

Discontinued operations/Assets held for sale

Discontinued operations/Assets held for sale include assets (or groups of assets to be disposed of) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less disposal costs.
In accordance with IFRS, discontinued operations/assets held for sale are presented in the statement of income and the balance sheet as follows:

- in two captions on the balance sheet: Discontinued operations/Assets held for sale and Liabilities relating to discontinued operations/assets held for sale;
- in one caption on the statement of income: Net income (loss) from discontinued operations/assets held for sale.

Employee benefits

Reserve for severance indemnities
The Reserve for severance indemnities, to be applied by the Italian companies in accordance with Law No. 297/1982, is considered a defined benefit plan and it is based, among other things, on the years of service and remuneration earned by the employee during a pre-determined period.
The Reserve for severance indemnities is determined by independent actuaries using the "Projected Unit Credit" method. In the context of IFRS first-time adoption and in the subsequent years the Group has elected to recognize all cumulative actuarial gains and losses.
The costs related to the increase in the present value of the severance indemnity obligation as the time for payment of the benefit comes closer, are included in personnel costs in the statement of income.

Equity compensation plans
The Group provides additional benefits to certain members of senior management and employees through equity compensation plans (stock options) which are accounted for in accordance with IFRS 2 (Share-based Payment).
Specifically, employee stock options are measured at fair value at the grant date using models that take account of factors and elements applicable at the time of assignment (option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).
If the right vests after a certain period of time and/or upon attainment of certain performance conditions ("vesting period"), the total stock option amount must be apportioned pro-rata temporis over the vesting period and recorded in equity under "Other equity instruments", with a contra-entry in the statement of income to personnel costs (given that this is non-monetary consideration intended to enhance employee loyalty and provide an incentive to improve business performance).
At the end of each reporting period, the previously determined fair value of each option is not restated or updated, but maintained in equity; however, the Group updates the estimated number of options that will vest until expiry (and therefore the number of employees who will have exercise rights). The change in estimate is deducted from "Other equity instruments" with a contra-entry in the statement of income to personnel costs.
When the option expires, the amount recorded in other equity instruments is reclassified as follows: the portion relating to exercised options is reclassified to the additional paid-in capital and the portion relating to non-exercised options is reclassified to Retained earnings (accumulated deficit), including the net income or loss for the period.
The Group applied the provisions of IFRS 2 prospectively from January 1, 2005, that is, to all stock option plans introduced after that date). The application of IFRS 2 beginning January 1, 2004 (the transition date), however, would have had no effect.

Reserves for future risks and charges

The Group recognizes reserves for future risks and charges when it has an obligation, legal or implicit, to third parties, that will probably require an outflow of the Group's resources to satisfy the obligation and a reliable estimate of the amount of the obligation can be made.
Changes in estimates are reflected in the statement of income in the period in which the change occur.

Treasury stock

Treasury stock is recorded as a deduction from shareholders' equity. In particular, the nominal value of treasury stock is reported as a deduction from the share capital issued while the excess of the purchase cost over the nominal value is shown as a reduction of the Other reserves.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the statement of income.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured. Revenues are stated net of discounts, allowances, and returns. Traffic revenues are reported gross of the amounts due to other TLC operators.
Revenues from services rendered are recognized by reference to the stage of completion of the transaction and only when the outcome of the transaction can be reliably estimated. Revenues from the activation of telephone services, from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer (principally 8 years for retail customers and 3 years for wholesale customers). Revenues from construction contracts are recognized by reference to the percentage of completion method.

Taxes

Income taxes include all taxes calculated on the taxable income of the companies of the Group.
Income taxes are recognized in the statement of income except to the extent that they relate to items directly charged or credited to an equity reserve, in which case the related income tax effect is recognized in the equity reserve. Provisions for income taxes that could arise on the remittance of retained earnings of a subsidiary are only made where there is a real intention to remit such earnings. Other taxes, unrelated to income taxes, such as property taxes and capital taxes, are included in operating expenses.
Deferred tax liabilities/assets are provided using the full liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying values in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries where their reversal is not expected to take place in the foreseeable future. Deferred tax assets relating to the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that they can be utilized against future profits. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxing authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to taxable income, in the respective jurisdictions in the countries in which the Group operates, in the years in which those temporary differences are expected to be recovered or settled.

In the interim consolidated financial statements for the first half of 2005, the current income taxes of the individual consolidated companies, recorded net of advances and tax credits, along with deferred tax assets and liabilities, are conventionally recorded in the "Reserve for deferred taxes". If such balance is an asset, it is recorded in "Deferred tax assets". 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.

Dividends

Dividends payable are reported as a change in shareholders' equity in the period in which they are approved by the shareholders' meeting.

Earnings per share

Basic earnings per ordinary share is calculated by dividing the net income of the Group attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period, excluding treasury stock. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by assuming the subscription of all potential shares from the conversion of bonds and the exercise of warrants having a dilutive effect. The Group net income is also adjusted to reflect the impact of these transactions net of the related tax effects.

Use of estimates

The preparation of consolidated financial statements and related notes in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates are used in many areas, including accounting for provisions for doubtful accounts receivable, obsolete and slow-moving inventories, depreciation and amortization, asset impairment, employee benefits, taxes, restructuring reserves, other provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the statement of income.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS WITH AN INDEFINITE LIFE

Goodwill and other intangible assets with a indefinite life increased from euro 26,814 million at December 31, 2004 to euro 44,105 million at June 30, 2005.

The increase of euro 17,291 million is mainly due to the following transactions:

- euro 11,804 million for the purchase of TIM ordinary and savings shares through the cash tender offer and on the market;
- euro 4,850 million for the share exchange of TIM ordinary and savings shares following the merger in Telecom Italia;
- euro 407 million (exchange effect included) for the purchase of the shares of the minority shareholders of TIM Sul S.A. and TIM Nordeste Telecomunicacoes S.A. through a reserved share capital increase in the parent company TIM Participacoes S.A. and for the purchase of TIM Participacoes S.A. ordinary shares on the market by the parent company TIM Brasil;
- euro 243 million for the purchase of a 94.89% stake in Liberty Surf S.A;
- euro 17 million for the purchase of Telecom Italia Media shares through the cash tender offer;
- euro 1 million relating to the purchase of a 100% stake in Rits Tele.Com.B.V. by BBNED NV;

The goodwill paid for the purchase of consolidated companies has been allocated, according to IAS 36, to Cash Generating Units. A breakdown by Business Unit is presented below:

(in millions of euro)	12/31/2004	Increase	Decrease	Differences in exchange rates	6/30/2005
Wireline	15,112	244			15,356
Mobile	11,496	17,005	(25)	56	28,532
Media	200	17	(6)		211
Olivetti	6				6
Total	26,814	17,266	(31)	56	44,105

While the activities of the Wireline Business Unit mainly refer to the "domestic" wireline business and for which the activities operated by the international businesses are integrated with the national operator, the activities of the Mobile Business Unit are divided into national and international mobile activities. The international mobile activities are also divided by geographic location (Brazil and Turkey). Bearing this in mind, goodwill of euro 28,532 million includes euro 26,946 million referring to TIM Italia, euro 1,383 million to TIM Brasil and euro 203 million to Avea.

During the first half of 2005, there were no impairments; during the first half of 2004, the impairment loss recorded in the first half of 2004 totaled euro 282 million and referred to goodwill on the settlement with De Agostini which ended with the purchase of a 40% stake in Webfin, while in the year 2004, the impairment loss recorded for euro 300 million not only referred to Webfin but also to Blah for euro 7 million and Med 1 for euro 9 million.

Impairment losses are recorded in the statement of income as components of operating income.

This caption does not include the goodwill related to discontinued operations/assets held for sale for euro 158 million referring to Digitel Venezuela (euro 807 million at December 31, 2004 referring to Entel Chile, TIM Hellas and Digitel Venezuela).

NOTE 4 – INTANGIBLE ASSETS WITH A FINITE LIFE

Intangible assets with a finite life increased from euro 6,456 million at December 31, 2004 to euro 6,598 million at June 30, 2005. A breakdown of the composition and movements during the period are presented in the following table:

(in millions of euro)	12/31/2004	Additions	Amortization	Impairment losses /reversals	Disposals	Differences in exchange rates	Other changes	6/30/2005
Industrial patents and intellectual property rights	2,435		(643)	(10)		80	726	2,588
Concessions, licenses, trademarks and similar rights	3,286		(120)		(3)	181	57	3,401
Other intangible assets	45		(9)			1	13	50
Work in progress and advances to suppliers	690	668				15	(814)	559
Total	6,456	668	(772)	(10)	(3)	277	(18)	6,598

Investments made in intangible assets are managed through specific work orders and recorded in "Work in progress and advances to suppliers" and then reclassified to the appropriate intangible asset category.

Industrial patents and intellectual property rights consist almost entirely of applications software purchased outright and user licenses for an indefinite time period; they refer to the Wireline Business Unit for euro 1,279 million and the Mobile Business Unit for euro 1,135 million.
Concessions, licenses, trademarks and similar rights refer to the Mobile Business Unit for euro 3,077 million, mainly in reference to the remaining unamortized cost of UMTS and PCS licenses, and to the Wireline Business Unit for euro 267 million, principally for Indefeasible Rights of Use (IRU).

In the first half of 2005, impairment losses, net of impairment reversals of euro 1 million, are euro 11 million and refer mainly Maxitel. In the first half of 2004, writedowns were euro 1 million and in the year 2004 the net writedown was euro 73 million, principally on account of the reorganization of the Latin American Nautilus group.
Impairment losses are recorded in the statement of income as components of operating income.

NOTE 5 – TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned increased from euro 16,428 million at December 31, 2004 to euro 16,749 million at June 30, 2005. Property, plant and equipment owned are detailed as follows:

(in millions of euro)	6/30/2005			12/31/2004		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Land	216	-	**216**	210	-	**210**
Civil and industrial buildings	2,833	1,593	**1,240**	2,789	1,538	**1,251**
Plant and equipment	57,933	45,013	**12,920**	57,065	43,998	**13,067**
Manufacturing and distribution equipment	723	663	**60**	712	655	**57**
Aircraft and ships	133	84	**49**	133	78	**55**
Other	3,708	2,659	**1,049**	3,307	2,435	**872**
Construction in progress and advances to suppliers	1,215	-	**1,215**	916	-	**916**
Total	**66,761**	**50,012**	**16,749**	**65,132**	**48,704**	**16,428**

An analysis of movements in property, plant and equipment owned is as follows:

(in millions of euro)	12/31/2004	Additions	Depreciation	Disposals	Differences in exchange rates	Other changes	6/30/2005
Land	**210**				1	5	**216**
Civil and industrial buildings	**1,251**		(53)	(1)	16	27	**1,240**
Plant and equipment	**13,067**		(1,445)	(3)	332	969	**12,920**
Manufacturing and distribution equipment	**57**		(15)			18	**60**
Aircraft and ships	**55**		(6)	-	-	-	**49**
Other	**872**		(163)	(2)	89	253	**1,049**
Construction in progress and advances to suppliers	**916**	1,465	-	-	48	(1,214)	**1,215**
Total	**16,428**	1,465	(1,682)	(6)	486	58	**16,749**

Investments made in tangible assets are managed through specific work orders and recorded in "Construction in progress and advances to suppliers" and then reclassified to the appropriate tangible asset category.

During the first half of 2005, there were no impairments. In the first half of 2004, writedowns were euro 1 million and in the year 2004 the net writedown was euro 85 million, principally on account of the reorganization of the Latin American Nautilus group.

Assets held under finance leases

Assets held under finance leases increased from euro 1,581 million at December 31, 2004 to euro 1,603 million at June 30, 2005. Assets held under finance leases are detailed as follows:

(in millions of euro)	6/30/2005			12/31/2004		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Civil and industrial buildings	1,818	345	**1,473**	1,806	307	**1,499**
Plant and equipment	155	79	**76**	117	58	**59**
Aircraft and ships	30	14	**16**	30	13	**17**
Other	8	6	**2**	20	14	**6**
Assets held under finance leases in progress and advances to suppliers	36	-	**36**	-	-	-
Total	**2,047**	**444**	**1,603**	**1,973**	**392**	**1,581**

An analysis of movements in assets held under finance leases is as follows:

(in millions of euro)	12/31/2004	Additions	Depreciations	Disposals	Other changes	6/30/2005
Civil and industrial buildings	1,499		(47)		21	1,473
Plant and equipment	59		(17)	(4)	38	76
Aircraft and ships	17		(1)			16
Other	6		(1)		(3)	2
Assets held under finance leases in progress and advances to suppliers		48			(12)	36
Total	1,581	48	(66)	(4)	44	1,603

Investments made through finance leases are managed through specific work orders and recorded in "Assets held under finance leases and advances to suppliers" and then reclassified to the appropriate tangible asset category.

Civil and industrial buildings under finance leases include :

- buildings for sale and leaseback for euro 1,246 million, with a fair value of euro 2,009 million;
- buildings purchased under finance leases for euro 94, with a fair value of euro 62 million;
- betterments to these buildings of euro 133 million.

NOTE 6 – OTHER NON-CURRENT ASSETS

Other non-current assets increased from euro 2,294 million at December 31, 2004 to euro 2,813 million at June 30, 2005. Other non-current assets are detailed as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Equity investments in:			
• Associates accounted for by the equity method	882	585	297
• Other companies	423	468	(45)
	1,305	1,053	252
Securities and financial receivables:			
• Securities other than equity investments	6	7	(1)
• Financial receivables and other non-current financial assets	671	438	233
	677	445	232
Miscellaneous receivables and other non-current assets:			
• Miscellaneous receivables	327	296	31
• Medium/long-term prepaid expenses	504	500	4
	831	796	35
Total	2,813	2,294	519

Investments in associates accounted for by the equity method increased by euro 297 million. The increase is mainly due to the reinstatement of Solpart and Brasil Telecom as associates, the capital increases in Avea and for the valuation of the major associates using the equity method for the first half of 2005, resulting in a negative impact on the statement of income of euro 15 million, principally in respect of Avea (euro 95 million), which is partly compensated by Solpart (euro 64 million) and Etec SA (euro 19 million).

Details are as follows:

(in millions of euro)	12/31/2004	Investments	Disposals and reimbursements	Valuation using equity method (*)	Reclassification and other changes	6/30/2005
Avea I.H.A.S.		122		(95)		27
Brasil Telecom Participacoes				(4)	17	13
Etec S.A.	290			62		352
Italtel Holding	32			7		39
Solpart Participacoes			(23)	142	95	214
Tiglio I	153		(9)	(5)		139
Tiglio II	60					60
Other	50		(5)	(7)		38
Total	585	122	(37)	100	112	882

(*) Includes the share of earnings or losses for the period and adjustments on the translation of foreign currency financial statements.

At December 31, 2004, the carrying value of the investment in Avea was maintained at a nil balance because the contribution of IS TIM investment to Avea took place at the pre-existing carrying value of the investment which in prior years had been written off.

Since, during 2004, the carrying value of the investment remained at a nil balance, the share of the losses of the associates were not booked.

For the investments in Solpart Participacoes and in Brasil Telecom Participacoes, valuation using the equity method was reinstated following the agreements signed during the first half of 2005, which gave Telecom Italia back its governance rights in Solpart, which had been temporarily suspended in August 2002.

The value of the investment in Etec SA includes euro 94 million for the unamortized portion of the excess of book value over the corresponding share of the underlying net equity at current values at the time of purchase.

The investment held in Sofora Telecomunicaciones S.A., written off in prior years following the negative effect that the abolition of the parity between the Argentine peso and the U.S. dollar had on shareholders' equity, was kept at a nil balance until the debt restructuring process of the subsidiary Telecom Argentina was closed on August 31, 20005.

A list of the companies accounted for by the equity method is provided in Note 32.

Equity investments in other companies decreased by euro 45 million mainly due to the reclassification of Solpart and Brasil Telecom to equity investments in associates. The decrease was partially offset by valuing Mediobanca shares at market value and booking, in other companies, the remaining 19.9% stake in Finsiel, after the sale of the controlling interest.

Equity investments in other companies comprise:

(in millions of euro)	12/31/2004	Disposals/ reimbursements of capital	Measurement at fair value	Reclassification and other changes	6/30/2005
Brasil Telecom Participacoes	17			(17)	-
CMobil	9	(9)			-
Consortium	20				20
Euskaltel	13				13
Fin.Priv.	15				15
Finsiel				30	30
Forthnet	10				10
Intelsat	2	(2)			-
Mediobanca	168		50		218
Medio Credito Centrale	36				36
Neuf Telecom	51				51
Sia	11				11
Solpart Participacoes	95			(95)	-
Other	21	(2)			19
Total	**468**	**(13)**	**50**	**(82)**	**423**

Financial receivables and other non-current financial assets

Financial receivables and other non-current financial assets increased by euro 233 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Financial receivables for lessors' net investments	163	173	(10)
Loans to employees	71	74	(3)
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	373	74	299
Other financial receivables	64	117	(53)
Total	**671**	**438**	**233**

Financial receivables for lessors' net investments refer to the non-current portion of Teleleasing lease contracts directly negotiated with customers, guaranteed by Telecom Italia. Financial receivables for lessors' net investments also include, to a lesser extent, the non-current portion of contracts which provide for the sale to customers of assets under finance leases, that include the performance of accessory services ("full rent formula"), available to the Group on the basis of leaseback contracts.

Miscellaneous receivables and other non-current assets increased from euro 796 million at December 31, 2004 to euro 831 million at June 30, 2005. They include the fair value of the two call options acquired on the share capital of Sofora of euro 155 million (euro 115 million at December 31, 2004), the medium/long-term receivable from PTT Srbija on the sale of Telekom Srbija of euro 62 million (euro 73 million at December 31, 2004), the tax receivable from the prepayment of tax on the reserve for employee severance indemnities of euro 40 million (euro 41 million at December 31, 2004), prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of euro 498 million (euro 496 million at December 31, 2004) and the equivalent amount of 1,477,308,999 BTP shares, received by Solpart, as a capital reimbursement to be delivered, equal to euro 8 million.

NOTE 7 – DEFERRED TAX ASSETS AND RESERVE FOR DEFERRED TAXES

Net deferred tax assets are composed of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Deferred tax assets	4,433	4,493	(60)
Reserve for deferred taxes	(612)	(524)	(88)
Total	**3,821**	**3,969**	**(148)**

Net deferred tax assets show a decrease mainly due to the compensation of taxes for the period on the part of the Parent Company.

NOTE 8 – INVENTORIES

Inventories increased from euro 308 million at December 31, 2004 to euro 398 million at June 30, 2005. The increase is mainly due to higher inventories in connection with the marketing of Aladino cordless phones and videophones, fixed-line telephones and cell phones following the summer sales campaigns and offerings of new products by Olivetti: multifunctional desk-top printers and portable photograph printers.
Inventories consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Raw materials and supplies	11	13	(2)
Work in progress and semifinished products	36	16	20
Finished goods	351	279	72
Total	**398**	**308**	**90**

NOTE 9 – TRADE RECEIVABLES, MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade receivables, miscellaneous receivables and other current assets increased by euro 298 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Receivables for construction contracts	41	39	2
Trade receivables:			
• Amounts due from customers	6,823	6,371	452
• Amounts due from other telecommunication operators	1,033	1,005	28
	7,856	7,376	480
Miscellaneous receivables and other current assets:			
• Other receivables	1,967	2,216	(249)
• Trade and miscellaneous prepaid expenses	339	274	65
	2,306	2,490	(184)
Total	**10,203**	**9,905**	**298**

Trade receivables amount to euro 7,856 million (euro 7,376 million at December 31, 2004) and are net of the allowance for doubtful accounts of euro 737 million (euro 769 million at December 31, 2004) and include medium/long-term trade receivables of euro 14 million (euro 16 million at December 31, 2004). Trade receivables refer, in particular, to Telecom Italia (euro 4,990 million), TIM (euro 1,188 million) and foreign mobile phone companies (euro 593 million).

Other receivables amount to euro 1,967 million (euro 2,216 million at December 31, 2004). Details are as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Advances to suppliers	57	43	14
Receivables from employees	62	60	2
Tax receivables	272	748	(476)
Miscellaneous receivables	1,576	1,365	211
Total	**1,967**	**2,216**	**(249)**

The decrease in tax receivables of euro 476 million is principally due to the compensation of IRES tax receivables arising on consolidated national tax return and the income taxes for the first half of 2005.

Miscellaneous receivables comprise receivables of euro 621 million, booked in the 2004 financial statements, due from the Financial Administration for the TLC license fee paid by Telecom Italia and TIM for the year 1999, released to income in 2004 after the ruling by the TAR of Lazio Regional Administrative Court on January 4, 2005, and euro 283 million (euro 50 million at December 31, 2004) of receivables from factoring companies for the sale of receivables made during the period.

NOTE 10 – SECURITIES

Securities decreased by euro 342 million. Details are as follows:

(in millions of euro) Held-to-maturity financial assets	6/30/2005	12/31/2004	Change
➢ Securities other than equity investments	18	-	18
Available-for-sale financial assets			
➢ Investment funds	6	7	(1)
➢ Securities other than equity investments available for sale due beyond 90 days	418	778	(360)
Financial assets at fair value through profit or loss			
➢ Securities other than equity investments held for trading	2	1	1
TOTAL	**444**	**786**	**(342)**

Bonds and other securities amount to euro 444 million. Of this amount, euro 420 million has been invested by the Luxembourg subsidiary, Telecom Italia Finance, in bonds issued by counterparts with at least an A rating with different maturities over the years, but all are actively traded and therefore can easily be converted to liquidity.

NOTE 11 – FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

Financial receivables and other current financial assets increased by euro 772 million. Details are as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Deposits for temporary investments of excess liquidity originally due beyond 90 days but within 12 months	584	8	576
Financial receivables for lessors' net investments	117	110	7
Other short-term financial receivables	729	257	472
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	107	390	(283)
Total	**1,537**	**765**	**772**

Deposits amount to euro 584 million and mainly refer to those made by Telecom Italia Finance to take advantage of opportunities for investments/ uses offered by the financial markets.
Financial receivables for lessors' net investments refer to the current portion of Teleleasing lease contracts directly negotiated with customers, guaranteed by Telecom Italia. Financial receivables for lessors' net investments also include, to a lesser extent, the current portion of contracts which provide for the sale to customers of assets under finance leases, that include the performance of accessory services ("full rent formula"), available to the Group on the basis of leaseback contracts.
Other short-term financial receivables increased as a result of the following deposits: euro 148 million on a term bank account with Banca di Roma S.p.A.-Capitalia to guarantee payment of the Telecom Italia Media shares purchased through the cash tender offer and paid on July 1, 2005 and euro 314 million deposited by Telecom Italia with Abn Ambro to guarantee the payment due to Opportunity, in the event certain contractual terms are met, for the purchase of Opportunity Zain (which indirectly holds Solpart Participacoes shares) as well as Brasil Telecom Participacoes shares. The hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature of euro 107 million (euro 390 million at December 31, 2004) refer to the accrued income component relating to the derivatives.

NOTE 12 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased by euro 4,295 million, mainly due to financial requirements as a consequence of the cash tender offer for TIM's shares. Details are as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Liquid assets with banks, financial institutions and post offices	3,732	8,378	(4,646)
Checks	2	1	1
Cash	2	2	-
Other receivables and deposits for cash flexibility	15	20	(5)
Securities other than equity investments (due within 90 days)	355	-	355
Total	**4,106**	**8,401**	**(4,295)**

The different technical forms used for the investment of available resources at June 30, 2005 can be further analyzed as follows:

- Maturities: they have a maximum maturity date of two months;
- Counterpart risk: deposits are made with leading banks and financial institutions with high credit ratings at least equal to A;
- Country risk: the geographic location of deposits is principally on the London market.

Securities other than equity investments mainly refer to Euro Commercial Paper (euro 349 million) with maturity due within one month. The issuers all have AAA and AA ratings and are located in Europe.

NOTE 13 – DISCONTINUED OPERATIONS / ASSETS HELD FOR SALE

In the first half of 2005 and in the periods under comparison, the following have been considered as discontinued operations: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.
In particular, in the first half of 2005:

- the statement of income of Entel Chile group was included for the first three months up to March 31, 2005, as the company was sold at the end of that month;
- the statement of income of TIM Hellas was included for the first five months, as the company was sold at the beginning of June 2005;
- the statement of income of the Finsiel group was considered for the first six months, as it was sold in June 2005.

An analysis of discontinued operations/assets held for sale is provided in the following table:

(in millions of euro)	6/30/2005	12/31/2004	Change
Discontinued operations /Assets held for sale:			
Of a financial nature	37	368	(331)
Of a non-financial nature	346	4,008	(3,662)
Total	**383**	**4,376**	**(3,993)**
Liabilities relating to discontinued operations /assets held for sale:			
Of a financial nature	150	1,062	(912)
Of a non-financial nature	67	1,104	(1,037)
Total	**217**	**2,166**	**(1,949)**

The key economic and financial data of the activities included in discontinued operations/assets held for sale are the following:

		Discontinued Operations/Assets held for sale				
(in millions of euro)		Mobile (1)	Entel Chile Group	IT Market	*Other activities, adjustments and eliminations*	**Total**
Revenues	1st Half of 2005	440	238	289	(41)	926
	1st Half of 2004	494	462	353	(69)	1,240
	Year 2004	985	925	706	(104)	2,512
EBITDA	1st Half of 2005	113	77	7	(32)	165
	1st Half of 2004	139	141	20	-	300
	Year 2004	295	274	45	-	614
EBIT (2)	1st Half of 2005	40	36	(3)	395	468
	1st Half of 2004	54	58	9	-	121
	Year 2004	135	96	21	(202)	50
Net income (loss) from discontinued operations / assets held for sale	1st Half of 2005	11	26	(11)	395	421
	1st Half of 2004	4	26	(6)	-	24
	Year 2004	74	49	(7)	(217)	(101)
Industrial investments	1st Half of 2005	29	27	5	-	61
	1st Half of 2004	60	50	14	-	124
	Year 2004	163	141	28	-	332
Net financial debt	6/30/2005	113	-	-	-	113
	6/30/2004	409	434	(27)	-	816
	12/31/2004	331	377	(14)	-	694
Number of employees at period-end	6/30/2005	824	-	-	-	824
	6/30/2004	2,250	4,157	4,685	-	11,092
	12/31/2004	2,327	4,216	4,030	-	10,573

(1) TIM Hellas and Digitel Venezuela
(2) Adjustments and eliminations relating to EBIT include:

- in the first half of 2005: the gain on the sale of TIM Hellas (euro 410 million, net of incidental expenses) as well as other losses and incidental expenses relating to the sale of Entel Chile and the Finsiel group for a total amount of euro 15 million;

- in the year 2004: the adjustment to the estimated sales value of Entel Chile (- euro 177 million) and the Finsiel Group (-euro 28 million).

Net income from discontinued operations/assets held for sale amount to euro 421 million (euro 24 million in the first half of 2004) and include, in particular:

- the net income by the Entel Chile group for the first three months of 2005 of euro 26 million (euro 26 million in the first half of 2004);
- the net loss by the Finsiel group of euro 11 million (a loss of euro 6 million in the first half of 2004);
- a breakeven by Digitel Venezuela and a net result by TIM Hellas of euro 11 million (respectively, a net loss of euro 25 million and a net income of euro 29 million in the first half of 2004);
- the gain on the sale of TIM Hellas (euro 410 million, net of incidental expenses), and other losses and incidental expenses on the sale of Entel Chile and the Finsiel group for a total of euro 15 million. All these items have no tax effect.

NOTE 14 - SHAREHOLDERS' EQUITY

Shareholders' equity includes:

(in millions of euro)	6/30/2005	12/31/2004	Change
Shareholders' equity attributable to the Parent Company	24,128	16,251	7,877
Minority interests	1,656	4,592	(2,936)
Total	**25,784**	**20,843**	**4,941**

Telecom Italia's interest in shareholders' equity increased by euro 7,877 million compared to December 31, 2004. The increase is mainly due to the Telecom Italia/TIM merger (euro 6,050 million), the conversion of 1,879,381,588 "Telecom Italia 1.5% 2001" convertible bonds (euro 1,811 million) and the difference between dividends paid (euro 1,920 million, net of dividends on shares held by Telecom Italia Finance) and the result for the year (euro 1,775 million)
Minority interests in shareholders' equity decreased by euro 2,936 million due to the Telecom Italia/TIM merger, the sale of the Entel Chile group, the Finsiel group and TIM Hellas.

Share capital of Telecom Italia, at June 30, 2005 amounts to euro 10,598 million, net of the par value of treasury stock (euro 69 million).
Share capital consists of 13,369,041,170 ordinary shares, net of 125,816,387 shares of treasury stock, and 6,026,120,661 savings shares, all with a par value of euro 0.55 each.
The total par value of the ordinary and savings shares issued is euro 7,352,972,643.50 for the ordinary shares and euro 3,314,366,363.55 for the savings shares.
Of a total 125,816,387 shares of treasury stock, 1,272,014 shares are held directly by the Parent Company and 124,544,373 shares are held by Telecom Italia Finance (24,607,520 shares of these shares came from the exchange of TIM shares).
The total value of treasury stock, equal to euro 471 million, has been recorded as a reduction of the par value of share capital issued for the amount related to the total par value (euro 69 million), and as a reduction of Other reserves for the remaining amount (euro 402 million).

Share capital increased by euro 1,789 million compared to December 31, 2004 due to the following movements:

- conversion of 1,879,381,588 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" for the issue of 886,277,840 new shares for a par value of euro 487 million;
- exercise of 2,988,666 stock options set aside for employees of the company for the issue of 9,865,201 new shares for a par value of euro 5 million;
- issue of 2,150,947,060 ordinary shares, for a total equivalent amount of euro 1,183 million, and 230,199,592 savings shares, for a total equivalent amount of euro 127 million, for the share capital increase to service the merger of TIM in Telecom Italia; on consolidation, 24,607,520 shares issued have been deducted from ordinary shares issued for a total equivalent amount of euro 13 million. Such shares were received by Telecom Italia Finance following the exchange of TIM shares.

Additional paid-in capital of Telecom Italia amounts to euro 6,462 million and increased by euro 6,397 million compared to December 31, 2004, due to the following movements:

- +euro 6,429 million due to the premium on shares issued for the conversion of convertible bonds of euro 1,639 million, the exercise of stock options of euro 22 million and the share capital increase to service the Telecom Italia/TIM merger of euro 4,768 million;
- -euro 32 million of external costs, net of tax effects, relating to the Telecom Italia/TIM merger.

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The amount of dividends granted to minority interests that hold ordinary and savings shares is equal to, respectively, euro 1,215 million (dividends per share of euro 0.1093) and euro 697 million (dividends per share euro 0.1203).

As far as future potential changes in share capital are concerned, at June 30, 2005, the following are still outstanding:

- 508,083,552 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" (formerly known as "Olivetti 1.5% 2001-2010 convertible bonds with a repayment premium"), including 1,329,336 bonds for which conversion into shares had already been requested on June, 30, 2005, with the consequent reduction in the quantity of bonds still convertible with a contra-entry for a liability with future shareholders (the corresponding 626,850 ordinary shares for a par value of euro 345 thousand plus additional paid-in capital of euro 985 thousand were issued on July 14, 2005).
  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 of 0.471553 new Telecom Italia S.p.A. ordinary shares (formerly Olivetti S.p.A.) for each old Olivetti ordinary share, 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, besides the above 626,850 shares, a further maximum 238,961,473 Telecom Italia ordinary shares could be issued, for a total par value of euro 131,429 thousand, plus additional paid-in capital of euro 375,325 thousand.

- 10,699,996 options of the "Stock Option Plan 2000".
  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares 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 share capital and on the basis of the exchange ratio of 3.300871 new Telecom Italia ordinary shares (formerly Olivetti S.p.A.) for each 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 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 grantee, a maximum 35,319,216 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 19,426 thousand, plus additional paid-in capital of euro 128,394 thousand.

– 31,862,500 options of the "Stock Option Plan 2001".
  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares 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 grantee, a maximum 105,173,383 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 57,845 thousand, plus additional paid-in capital of euro 276,327 thousand.

– 9,689,116.22 options of the "Stock Option Plan 2002 Top".
  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares 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 euro 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 grantee, a maximum 31,982,504 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 17,590 thousand, plus additional paid-in capital of euro 71,579 thousand.

– 21,264,053.91 options of the "Stock Option Plan 2002", net of 39,999.745522 options exercised against requests that had been received by June 30, 2005 (on July 5, 2005, the corresponding 132,034 shares were issued for a par value of euro 73 thousand plus additional paid-in capital of euro 245 thousand).
  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares at the following prices for each option held: 20,345,053.49 options at a price of euro 9.665, 719,000.42 options at a price of euro 7.952 and 200,000.00 options at a 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 grantee and the different subscription prices, in addition to the above 132,034 shares, a further maximum 70,189,473 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 38,677 thousand, plus additional paid-in capital of euro 165,534 thousand.

– 11,955,653 options of the ex-Telecom Italia Mobile "Stock Option Plan 2000-2002.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 6.42 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio of 1.73 Telecom Italia ordinary shares for each Telecom Italia Mobile ordinary share, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 3.710983 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 grantee, a maximum 20,683,279 new Telecom Italia ordinary

shares could therefore be issued, for a total par value of euro 11,376 thousand, plus additional paid-in capital of euro 65,380 thousand.

- 1,190,000 options of the ex-Telecom Italia Mobile "Stock Option Plan 2001-2003.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 8.671 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 5.012139 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 grantee, a maximum 2,058,700 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 1,132 thousand, plus additional paid-in capital of euro 9,186 thousand.

- 499,000 options of the ex-Telecom Italia Mobile Supplementary Plans "2001-2003.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 7.526 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 4.350289 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 grantee, a maximum 863,270 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 475 thousand, plus additional paid-in capital of euro 3,280 thousand.

- 22,490,000 options of the ex-Telecom Italia Mobile "Stock Option Plan 2002-2003.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 5.67 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 3.277457 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 grantee, a maximum 38,907,700 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 21,399 thousand, plus additional paid-in capital of euro 106,101 thousand.

- 1,915,900 options of the ex-Telecom Italia Mobile "Stock Option Plan 2003-2005.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile's ordinary shares at a price of euro 5.07 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 2.930636 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 grantee, a maximum 3,314,507 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 1,823 thousand, plus additional paid-in capital of euro 7,892 thousand.

The Shareholders' Meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part

(i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the option rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the Board is not subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

NOTE 15 – NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities increased by euro 3,808 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Financial payables (medium/long-term):			
• Bonds	28,574	29,891	(1,317)
• Convertible and exchangeable bonds	463	4,290	(3,827)
	29,037	**34,181**	**(5,144)**
• Amounts due to banks	10,156	655	9,501
• Other financial liabilities	1,002	1,556	(554)
	40,195	**36,392**	**3,803**
Finance lease liabilities (medium/long-term)	1,841	1,834	7
Other financial liabilities (medium/long-term)	1	3	(2)
Total	**42,037**	**38,229**	**3,808**

Bonds of euro 32,802 million (euro 30,948 million at December 31, 2004) increased by euro 1,854 million. Details are as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Non-current portion	28,574	29,891	(1,317)
Current portion	4,228	1,057	3,171
Total	**32,802**	**30,948**	**1,854**

In terms of the nominal repayment amount, this figure amounts to euro 32,196 million and increased by euro 2,019 million compared to December 31, 2004 (euro 30,177 million), mainly due to the new issues by Telecom Italia S.p.A. (euro 1,592 million), the sale of Entel Chile (euro 180 million) and to difference in the USD/euro exchange rate. The regulations and/or Offering Circular relating to the bond issues described below are available on the corporate website http://www.telecomitalia.it .

Bonds, expressed at the nominal repayment amount, refer to the following:

Bonds issued by Telecom Italia S.p.A. (for a total of euro 8,811 million):

- bonds for euro 2,500 million, issued on February 1, 2002, divided into two tranches of euro 1,250 million each, at annual fixed rates, respectively, with a coupon of 5.625% maturing 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";
- bonds 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 228 million;
- bonds for euro 3,000 million, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000 million, with a 3-month coupon indexed to the 3-month Euribor +0.33%, 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. On November 24, 2004, Telecom Italia received authorization from CONSOB to publish the prospectus relating to the admission of the bonds for listing on Borsa Italia S.p.A.'s EUROMOT screen-based trading market;

- bonds for euro 110 million issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor +0.60%, maturing March 30, 2009;
- bonds for GBP 850 million (equivalent to euro 1,261 million) issued on June 24, 2004, with an annual fixed-rate coupon of 6.375%, maturing June 24, 2019;
- bonds for euro 120 million issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor +0.66%, maturing November 23, 2015;
- bonds for euro 850 million issued on March 17, 2005 with an annual fixed-rate coupon of 5.25%, maturing March 17, 2055;
- bonds for GBP 500 million (equivalent to euro 742 million) issued on June 29, 2005, with an annual fixed-rate coupon of 5.625%, maturing December 29, 2015.

The bonds issued in 2005 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.

Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 16,482 million):

- bonds issued April 20, 2001 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 repaid; the second, for euro 2,582 million (net of the bonds repurchased by Telecom Italia Finance starting July 2004 for a total of euro 418 million) with an annual fixed-rate coupon of 6.375%, maturing April 20, 2006; the third for euro 2,000 million with an annual fixed-rate coupon of 7.25%, maturing April 20, 2011;
- bonds 1999 – 2009 (originally Olivetti International N.V.) for euro 1,500 million with an annual fixed-rate coupon of 5.15%, maturing in February 9, 2009;
- bonds 1986-2046 (originally Olivetti International S.A.) for CHF 87 million, equivalent to euro 56 million, (net of the bonds previously repurchased up to the year 2002 for euro 8 million) with an annual fixed-rate coupon of 5.625%, maturing in June 12, 2046.

All of the bonds listed below were originally issued by Olivetti Finance N.V. (merged in Telecom Italia Finance S.A. effective June 1, 2004) and are guaranteed by Telecom Italia S.p.A. under the Euro Medium Term Note Program (EMTN):

- bonds 2002-2005 for euro 500 million with a quarterly coupon indexed to the 3-month Euribor +130 basis points. The bondholders have the option of extending maturity for successive periods of 21 months, up to a maximum total of 10 years (the final maturity date is set for March 14, 2012). In accordance with the terms and conditions of the bonds, bondholders in possession of bonds totaling euro 283,000 chose not to extend the term of the bonds (March 14, 2005). For those, instead, that decided to extend the maturity date, for bonds totaling euro 499,717,000, Telecom Italia Finance S.A. issued new bonds on December 14, 2004 denominated "Telecom Italia Finance S.A. euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006" with a new maturity date of December 14, 2006;
- bonds 2002-2006 for euro 1,045 million (net of the bonds repurchased in the year 2003 for a total of euro 55 million) with a quarterly coupon indexed to the 3-month Euribor plus a spread of 1.25%, maturing on January 3, 2006;
- bonds 2002-2007 for euro 1,750 million with an annual fixed-rate coupon of 6.5%, maturing on April 24, 2007;
- bonds 2003-2008 for euro 1,750 million with an annual fixed-rate coupon of 5.875%, maturing on January 24, 2008;
- bonds 1999-2009 (originally Olivetti International Finance N.V.) for euro 2,250 million (net of the bonds repurchased in the year 2002 for euro 100 million) with an annual fixed-rate coupon of 6.575%, maturing on July 30, 2009;

- bonds 2002-2012 for euro 1,000 million with an annual fixed-rate coupon of 7.25%, maturing on April 24, 2012;
- bonds 2003-2013 for euro 850 million with an annual fixed-rate coupon of 6.875%, maturing on January 24, 2013;
- bonds 2002-2032 for JPY 20 billion (equivalent to euro 149 million) with a 6-month fixed-rate coupon of 3.55%, maturing on May 14, 2032 (callable by the issuer annually beginning from May 14, 2012);
- bonds 2002-2032 for euro 250 million with an annual fixed-rate coupon of 7.77%, maturing on August 9, 2032. These bonds were entirely repurchased by Telecom Italia Finance S.A. on June 29, 2005 for later cancellation. On July 21, 2005, these bonds were delisted from the Luxembourg Stock Exchange at the request of the Listing Agent. Therefore, the amount of these bonds is not included in the total amount of outstanding bonds;
- bonds 2003-2033 for euro 800 million with an annual fixed-rate coupon of 7.75%, maturing on January 24, 2033;
- bonds 2005-2033 for euro 250 million with an annual fixed-rate coupon of 7.75%, maturing on January 24, 2033. This new issue will be fully exchangeable with the 7.75% bonds for euro 800 million maturing on January 2033, 40 days after the placement date. The amount of the new issue will therefore be equal to euro 1,050 million.

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 6.203 million):

- issue of multi-tranche fixed-rate bonds on October 29, 2003, for USD 4,000 million. The issue is divided into three tranches as follows:
    - Serie A, for USD 1,000 million (equivalent to euro 827 million), with an annual fixed-rate coupon of 4%, maturing on November 15, 2008;
    - Serie B, for USD 2,000 million (equivalent to euro 1,654 million), with an annual fixed-rate coupon of 5.25%, maturing on November 15, 2013;
    - Serie C, for USD $1,000 million (equivalent to euro 827 million), with an annual fixed-rate coupon of 6.375%, maturing on November 15, 2033;
- issue of multi-tranche fixed-rate bonds on October 6, 2004, for USD 3,500 million. The issue is divided into three tranches as follows:
    - Serie A, for USD 1,250 million (equivalent to euro 1,034 million) with an annual fixed-rate coupon of 4%, maturing on January 15, 2010;
    - Serie B, for USD 1,250 million (equivalent to euro 1,034 million) with an annual fixed-rate coupon of 4.95%, maturing on September 30, 2014;
    - Serie C, for USD 1,000 million (equivalent to euro 827 million) with an annual fixed-rate coupon of 6%, maturing on September 30, 2034.

Bonds issued by Telecom Italia Securitisation Vehicle S.r.l. (for a total of euro 700 million):

- bonds in three Series, with AAA ratings:
    - "2001-1 Serie" issued June 29, 2001 divided into 3 classes: "Class A1" for euro 100 million with an annual coupon indexed to the 3-month Euribor +0.19% and repaid on January 27, 2003; "Class A2" for euro 150 million with an annual coupon linked to the 3-month Euribor +0.27%, repaid on July 26, 2004; "Class A3" issued at face value for euro 450 million with an annual coupon indexed to the 3-month Euribor +0.34% and maturity on July 25, 2006;
    - "2003-1 Serie" issued on January 24, 2003 at face value for euro 100 million with an annual coupon indexed to the 3-month Euribor +0.27%, repaid on July, 26 2004;
    - "2004-1 Serie" issued June 30, 2004 at face value for euro 250 million with an annual coupon indexed to the 3-month Euribor +0.12%, repaid on July, 25 2006.

The following table shows bonds issued to third parties by companies of the Telecom Italia Group, divided by issuing company:

Currency	Amount (in millions)	Face value repayable in millions of euro	Coupon	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value in millions of euro
Bonds issued by Telecom Italia S.p.A.								
Euro	1,250	1,250	5.625%	2/1/2002	2/1/2007	99.841	104.951	1,312
Euro	1,000	1,000	3-month Euribor + 0.33%	1/29/2004	10/29/2007	99.927	100.1038	1,001
Euro	110	110	3-month Euribor + 0.60%	4/8/2004	3/30/2009	100	100.45113	110
Euro	750	750	4.500%	1/29/2004	1/28/2011	99.56	105.6979	793
Euro	1,250	1,250	6.250%	2/1/2002	2/1/2012	98.952	115.7636	1,447
Euro	120	120	3-month Euribor + 0.66%	11/23/2004	11/23/2015	100	101.13601	121
GBP	500	742	5.625%	6/29/2005	12/29/2015	99.878	102.6648	762
Euro	1,250	1,250	5.375%	1/29/2004	1/29/2019	99.07	109.5505	1,369
GBP	850	1,261	6.375%	6/24/2004	6/24/2019	98.85	109.5595	1,382
Euro	228	228	6-month Euribor	1/1/2002	1/1/2022	100	100	228
Euro	850	850	5.250%	3/17/2005	3/17/2055	99.667	96.287	818
	Subtotal	8,811						9,343
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	500	500	3-month Euribor +1.30% (d)	12/14/2004	12/14/2006	100	105.0625	525
Euro	1,045	1,045	3-month Euribor + 1.25%	5/29/2002	1/3/2006	99.456 (*)	100.5743	1,051
Euro	2,582	2,582	6.375% (a)	4/20/2001	4/20/2006	99.937	103.1831	2,664
Euro	1,750	1,750	6.500%	4/24/2002	4/24/2007	100.911 (*)	107.1081	1,874
Euro	1,750	1,750	5.875%	1/24/2003	1/24/2008	99.937	108.0527	1,891
Euro	1,500	1,500	5.150% (b)	2/9/1999	2/9/2009	99.633	107.5863	1,614
Euro	2,250	2,250	6.575% (c)	7/30/1999	7/30/2009	98.649 (*)	113.1011	2,545
Euro	2,000	2,000	7.250% (a)	4/20/2001	4/20/2011	99.214	119.6831	2,394
Euro	1,000	1,000	7.250%	4/24/2002	4/24/2012	101.651 (*)	121.9535	1,220
Euro	850	850	6.875%	1/24/2003	1/24/2013	99.332	120.606	1,025
JPY	20,000	149	3.550%	4/22/2002	5/14/2032	99.25	129.7748	193
Euro	800	800	7.750%	1/24/2003	1/24/2033	100.191 (*)	139.1389	1,113
Euro	250	250 (**)	7.750%	6/29/2005	1/24/2033	139.902	138.506	346
CHF	87	56	5.625%	6/12/1986	6/12/2046	99	105.25	59
	Subtotal	16,482						18,514
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	827	4.000%	10/29/2003	11/15/2008	99.953	98.7446	817
USD	1,250	1,034	4.000%	10/6/2004	1/15/2010	99.732	97.4758	1,008
USD	2,000	1,654	5.250%	10/29/2003	11/15/2013	99.742	101.4781	1,678
USD	1,250	1,034	4.950%	10/6/2004	9/30/2014	99.651	99.0871	1,025
USD	1,000	827	6.375%	10/29/2003	11/15/2033	99.558	107.9387	893
USD	1,000	827	6.000%	10/6/2004	9/30/2034	99.081	101.919	843
	Subtotal	6,203						6,264
Bonds issued by Telecom Italia Securitisation Vehicle S.r.l.								
Euro	450	450	3-month Euribor + 0.34%	6/29/2001	7/25/2006	100	100	450
Euro	250	250	3-month Euribor + 0.12%	6/30/2004	7/25/2006	100	100	250
	Subtotal	700						700
	Total	32,196						34,821

(*) Weighted average issue price for bonds issued with more than one tranche.
(**) This new issue will be fully exchangeable with the 7.75% bonds for euro 800 million maturing on January 2033, 40 days after the placement date. The amount of the new issue will therefore be equal to euro 1,050 million.
The bonds 2002-2032 for euro 250 million with an annual fixed-rate coupon of 7.77%, maturing on August 9, 2032 are not included in the above table since they were entirely repurchased by Telecom Italia Finance S.A. on June 29, 2005 for later cancellation (the cancellation date was July 21, 2005).

Mechanism describing how coupons change on step-up/step-down bonds in relation to the rating

a) Telecom Italia Finance S.A. Bonds
"Euro Notes": euro 2,582 million, 6.375% interest, maturing April 2006
euro 2,000 million, 7.25% interest, maturing April 2011

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody's and S&P's, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest (or in the spread above the Euribor for floating-rate securities) by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.

Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the original coupons for these securities, respectively 6.125% and 7%, were increased by 0.25% due to a Baa2 rating assigned by Moody's in August 2003.

In the case of the two securities, the increase was applied beginning from the coupon period which started in April 2004; accordingly, the coupon is equal to 6.375% for securities maturing in April 2006 and 7.25% for securities maturing in April 2011.

The ratings assigned to Telecom Italia on December 7, 2004 by the various agencies are the following:

Standard & Poor's:	BBB+, stable outlook
Moody's:	Baa2, stable outlook
Fitch IBCA:	A-, negative outlook

b) Telecom Italia Finance S.A. bonds: euro 1,500 million, 5.15% interest, maturing February 2009
These bonds carry protection for investors which would only be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 by Moody's).
At the beginning of every coupon period, this minimum rating will be checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).
Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.15%.
This current coupon can be further increased in relation to the level of the minimum rating:

- ✓ if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- ✓ if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ✓ ratings higher than the minimum rating do not lead to increases in the current coupon.

Therefore, only future downgrades in the minimum rating could cause an increase in the current coupon; this coupon cannot be reduced because of upgrades in the rating.

c) Telecom Italia Finance S.A. Bonds: euro 2,250 million, 6.575% interest, maturing July 2009

These bonds carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).

At the beginning of every coupon period, this minimum rating will be checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:

- ✓ if, at the time the coupon is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;
- ✓ ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was 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.

d) Telecom Italia Finance S.A. Bonds: euro 500 million, floating rate bonds (3-month Euribor plus 1.3%), maturing March 2005

These bonds can be extended at the discretion of the investor for successive periods of 21 months with the final maturity date not to extend beyond March 14, 2012.

In accordance with the terms and conditions of the bonds, bondholders in possession of bonds totaling euro 283,000 chose not to extend the maturity date (maturity on March 14, 2005).

For those, instead, that decided to extend the maturity date, for bonds totaling euro 499,717,000, Telecom Italia Finance S.A. issued new bonds on December 14, 2004 denominated "Telecom Italia Finance S.A. euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006" with a new maturity date of December 14, 2006.

These new bonds carry the same characteristics as the previous bonds but have a new ISIN Code and Common Code.

Convertible bonds amount to euro 3,115 million (euro 5,106 million at December 31, 2004) and show a decrease of euro 1,991):

(in millions of euro)	6/30/2005	12/31/2004	Change
Non-current portion	463	4,290	(3,827)
Current portion	2,652	816	1,836
Total	**3,115**	**5,106**	**(1,991)**

In terms of the nominal repayment amount, convertible bonds amount to euro 3,325 million. This is a decrease of euro 2,614 million compared to December 31, 2004 (euro 5,939 million) mainly on account of the requests for the conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium" (euro 2,225 million) and repurchases of bonds made during the first six-month period (euro 336 million).

Bonds, expressed at the nominal repayment amount, refer to the following:

- bonds 2001-2010 issued by Telecom Italia S.p.A. (former Olivetti S.p.A.) for euro 2,386 million (already net of 1,292,835 bonds for which the conversion into shares had already been requested at the date of December 31, 2004, with the consequent reduction in the quantity of bonds still convertible, with a contra-entry to a payable to future shareholders – the corresponding 609,625 ordinary shares were issued on January 14, 2005 –) convertible into Telecom Italia S.p.A. shares, with an annual fixed-rate coupon of 1.5% with a repayment premium equal to 118.37825% of the issue price, maturing in January 2010. The remaining number of bonds is equal to euro 508 million, net of 1,878,088,753 bonds for which requests for conversion were received at June 30, 2005 for 885,618,215 Telecom Italia S.p.A. ordinary shares. These bonds thus result in a total debt of euro 600 million. The annual yield upon maturity is 3.5% and the conversion will be at a ratio of 0.471553 new Telecom Italia S.p.A. shares for each euro 1,000 bond held;

- bonds 2000-2005 issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.) 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 repayment premium of 113.40616% of the issue price, maturing in November 2005. In April and May 2005, Telecom Italia Finance S.A. repurchased its own bonds for a total of euro 141 million. The bonds, which therefore currently show a total balance of euro 643 million, are convertible into 169,928,259 shares (exercise price of approximately euro 4.1684). The annual yield upon maturity is 3.5% and the conversion will be at a ratio of 239.8991704 new 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 repayment premium 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. In April and May 2005, Telecom Italia Finance S.A. repurchased its own bonds for euro 195 million of its outstanding bonds. The bonds, which therefore currently show a total balance of euro 2,082 million, was convertible into 181,461,941 TIM shares at an exercise price of about euro 10.886. However, since June 30, 2005, upon the conclusion of the merger between Telecom Italia S.p.A. and TIM, the bonds are convertible into either 313,929,158 Telecom Italia S.p.A. shares at an exercise price of about euro 6.256, or into Seat Pagine Gialle shares or Telecom Italia Media shares. Following the Telecom Italia Media capital increase against payment, the bonds are now convertible into 707,460,852 Seat Pagine Gialle shares and 125,746,257 Telecom Italia Media shares at an exercise price of about euro 2.357197842. The annual yield upon maturity is 4.25% and the conversion will be in a ratio of 159.838963073 Telecom Italia S.p.A. shares or 360.2080473 Seat Pagine Gialle shares and 64.024481 Telecom Italia Media shares for each euro 1,000 bond held.

The following table shows the bonds issued to third parties by companies of the Telecom Italia Group, divided by issuing company:

Currency	Face value repayable (in millions)	Coupon	Convertible into shares of	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value in millions of euro
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	600	1.50%	TI S.p.A.	11/23/2001	1/1/2010	100	127.7186	647
Convertible bonds issued by Telecom Italia Finance S.A. guaranteed by TI S.p.A.								
Euro	643	1.00%	TI S.p.A.	11/3/2000	11/3/2005	100	112.732	639
Euro	2,082	1.00%	TI S.p.A./TI Media/ Seat Pagine Gialle	3/15/2001	3/15/2006	100	116.2763	2,057
Total	**3,325**							**3,343**

Financial covenants / other covenants / other features of convertible bonds
The securities summarized here do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the solvency of Telecom Italia Group.
For example, there are no clauses that would cause the redemption of the bonds if the ratings are downgraded to below the stated thresholds.
The guarantees provided by Telecom Italia S.p.A. on bonds issued by its foreign subsidiaries are all full and unconditional.
None of the transactions summarized here carry any other interest rate structures or structural complexities.
Since these bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with the market practice for similar transactions effected on these same markets.
In particular, the bonds issued by Telecom Italia Capital S.A. in October 2003, guaranteed by Telecom Italia, for an amount of USD 4,000 million, were covered by a covenant that required Telecom Italia Capital S.A. and Telecom Italia to effect a SEC-registered exchange offer in order to allow investors to exchange the originally purchased bonds with listed and freely traded bonds without restrictions. The offer was executed on October 14, 2004, in fulfillment of the covenant.

Moreover, the new bonds issued by Telecom Italia Capital S.A. in October 2004, guaranteed by Telecom Italia, for an amount of USD 3,500 million, carry a similar covenant which requires Telecom Italia Capital S.A. and Telecom Italia to effect a SEC-registered exchange offer. In the event Telecom Italia Capital S.A. does not complete the registered exchange offer by October 31, 2005, this would call for an increase in the coupon by 0.50% until such time as the exchange offer is completed.

Transactions regarding bonds during the first half of 2005 are detailed below:
In the first half of 2005, the transactions regarding the bonds are detailed as follows:

- Two new bond issues by Telecom Italia S.p.A. under its euro 10 billion Euro Medium Term Note Program:
  - Euro 850 million issued on March 17, 2005, coupon interest of 5.25%, issue price at 99.667, maturing March 17, 2055;
  - GBP 500 million (equivalent to euro 742 million) issued on June 29, 2005, coupon interest of 5.625%, issue price at 99.878, maturing December 29, 2015.

- Telecom Italia sold bonds in the 2002-2022 bond issue reserved for subscription by employees of the Group for a face value of euro 12.7 million. In accordance with the bond indenture, the Company is the obligatory counterpart for the purchases made by the holders of this bond category.

- Telecom Italia Finance, on June 29, 2005, placed an additional euro 250 million of its euro 800 million bond issue on the market. The bonds are listed on the Luxembourg stock exchange and carry coupon interest of 7.75%, maturing in 2033. The new bonds, after 40 days have elapsed from issue, will be entirely exchangeable with those already issued, since the bonds have the same characteristics. The bonds were placed with a single investor and the proceeds were used to repurchase, from the same investor, the entire amount of Telecom Italia Finance bonds of euro 250 million, 7.77% interest, maturing 2032, which was cancelled on July 21, 2005.

- During the first half of 2005, Telecom Italia Finance S.A. repurchased bonds, in addition to those mentioned previously, for a total face value of euro 499 million:
  - euro 163 million relating to bonds for an original amount of euro 3,000 million, maturing April 20, 2006, 6.375% coupon interest, issued by Sogerim (a company merged in Telecom Italia Finance in 2002); after these bond repurchases, the residual nominal debt is thus equal to euro 2,582 million;
  - euro 141 million relating to bonds of euro 708 million repayable with new Telecom Italia ordinary shares or by repayment in cash, originally issued by Olivetti Finance N.V., maturing November 3, 2005, 1% coupon interest and with a repayment premium: following the bond repurchases, the residual nominal debt is thus equal to euro 567 million;
  - euro 195 million relating to bonds issued in 2001 by Sogerim, for an original amount of euro 2,500 million, maturing March 15, 2006, convertible into TI S.p.A. or Seat PG and TI Media shares, 1% coupon interest and with a repayment premium: after these bond repurchases, the residual nominal debt is thus equal to euro 1,769 million (euro 2,082 million with a repayment premium).
    The securities repurchased previously for a face value of euro 163 million and relating to three bonds were, in compliance with the new IAS/IFRS, used to reduce the residual nominal debt.

- Bonds were repaid for a total face value of euro 0.283 million. They refer to bonds for an original amount of euro 500 million with maturity in 2002-2005 issued by Telecom Italia Finance S.A. with quarterly interest indexed to the 3-month Euribor + 130 basis points: this amount refers to the residual portion on which the bondholders did not opt to extend the maturity date.

- In view of the requests for conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased by euro 2,225 million (euro 1,689 million under IAS/IFRS).

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

Amounts due to banks total euro 10,156 million at June 30, 2005 (euro 655 million at December 31, 2004) and increased by euro 9,501 million mainly as a result of the cash tender offer for TIM shares. In fact, on January 28, 2005, in connection with the payment of the offer price of the tender offer, euro 2,504 million was paid from cash resources and euro 11,300 million was drawn from the loan made available by a syndicate of banks on December 8, 2004. Subsequently, on February 11, 2005, the first tranche of the loan was repaid in advance for euro 2,300 million from the cash resources of Telecom Italia and, consequently, cancelled. As of today's date, therefore, the outstanding loan amounts to a face value of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months and euro 3,000 million due in 60 months.
Bank borrowings are secured by collateral of euro 103 million, principally in reference to Maxitel.

At June 30, 2005, other financial liabilities amount to euro 1,002 million (euro 1,556 million at December 31, 2004) and decreased by euro 554 million. They include liabilities resulting from the valuation of derivatives for euro 738 million (euro 1,228 million at December 31, 2004).

The **medium-long term finance lease liabilities** totaling euro 1,841 million (euro 1,834 million at December 31, 2004) increased by euro 7 million and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. They include euro 778 million (euro 772 million at December 31, 2004) of debt due to related parties, specifically Tiglio 1 for euro 455 million (euro 465 million at December 31, 2004), Teleleasing for euro 179 million (euro 160 million at December 31, 2004) and Tiglio 2 for euro 144 million (euro 147 million at December 31, 2004).

NOTE 16 – EMPLOYEE SEVERANCE INDEMNITIES AND OTHER EMPLOYEE-RELATED RESERVES

Employee severance indemnities and other employee-related reserves increased by euro 48 million and includes:

(in millions of euro)	6/30/2005	12/31/2004	Change
Reserve for employee severance indemnities	1,221	1,181	40
Reserve for pension plans	33	28	5
Reserve for voluntary employee cutback incentives	5	2	3
Total	**1,259**	**1,211**	**48**

Employee severance indemnities refer only to Italian Group companies. The reserve increased by euro 40 million mainly as a result of the provision to the statement of income (euro 79 million), utilizations for indemnities paid to employees who terminated employment, advances and pension funds (-euro 33 million) and other changes (- euro 6 million).
In accordance with IAS 19 "Employee Benefits", the "Projected Unit Credit" method is used to measure employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee in the case of retirement, death, disability, resignations etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of the future benefits will include any increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date;
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and on the probability that each benefit has to be effectively paid;
- the liability of the company has been determined as the average present value of future benefits which refers to the service matured by the employee at the measurement date;
- based on the amount of the liability determined above and the reserve set aside in the Italian statutory financial statements, the reserve is recognized as being valid for IAS purposes.

The following assumptions were made:

Financial assumptions	**Executives**	**Non-executives**
Cost-of-living increases	2.0% per year	2.0% per year
Discount rate	4.0% per year	4.0% per year
Increase in remuneration (in relation to the company):		
- age equal to or less than 40 years	3.0% - 3.5% per year	3.0% - 3.25% per year
- age over 40 years but equal to or less than 55 years	2.5% - 3.0% per year	2.5% - 2.75% per year
- over 55 years of age	2.0% - 2.5% per year	2.0% - 2.25% per year

Demographic assumptions	Executives	Non-executives
Probability of death	Mortality tables RG 48 published by the Government Accounts Department	Mortality tables RG 48 published by the Government Accounts Department
Probability of disability	Tables (for both men and women) published by C.N.R. reduced by 80%	Tables (for both men and women) published by C.N.R. reduced by 80%
Probability of resignation (in relation to the company):		
- up to 40 years	3.0% - 5.0% per year	3.0% - 5.0% per year
- up to 50 years	1.5% - 3.5% per year	1.5% - 3.5% per year
- over 50 years	none	none
Probability of retirement		
- 35 years of service (at the age of 57)	35%	60%
- over 35 years of service (at the age of 65)	15%	10%
- at 65 years of age	100%	100%

NOTE 17 – RESERVES FOR FUTURE RISKS AND CHARGES

Reserves for future risks and charges increased by euro 62 million and comprises the non-current portion of reserves. Details are as follows:

(in millions of euro)	6/30/2005	12/31/2004	Change
Reserve for restoration costs	385	336	49
Reserve for disputes	129	118	11
Reserve for taxation	237	213	24
Other reserves	88	110	(22)
Total	**839**	**777**	**62**

NOTE 18 – MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased by euro 100 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Amounts due to social security authorities	939	1,035	(96)
Capital grants	187	206	(19)
Medium/long-term deferred income	968	944	24
Other payables and liabilities	6	15	(9)
Total	**2,100**	**2,200**	**(100)**

Amounts due to social security authorities amount to euro 939 million. They refer to the residual amount payable to INPS for the estimated balance of employee benefit obligations owed under Law No. 58/1992 (euro 835 million due from two to five years after the balance sheet date and euro 104 million due beyond five years).

Medium/long-term deferred income includes euro 681 million (euro 684 million at December 31, 2004) for the deferral of revenues from the activation of telephone services by Telecom Italia.

NOTE 19 – CURRENT FINANCIAL LIABILITIES

Current financial liabilities increased by euro 4,389 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Financial payables (short-term portion):			
• Bonds	4,228	1,057	3,171
• Convertible and exchangeable bonds	2,652	816	1,836
	6,880	1,873	5,007
• Amounts due to banks	798	645	153
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	143	237	(94)
• Non-hedging derivatives	175	218	(43)
• Other financial payables	495	1,134	(639)
	8,491	**4,107**	**4,384**
Finance lease liabilities (short-term portion)	229	224	5
Other financial liabilities	5	5	-
Total	**8,725**	**4,336**	**4,389**

Non-hedging derivatives refer to derivatives which do not possess the formal requisites for hedge accounting under IAS/IFRS.

NOTE 20 – TRADE PAYABLES, CURRENT TAX PAYABLES, MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables, current tax payables, miscellaneous payables and other current liabilities decreased by euro 522 million and consist of the following:

(in millions of euro)	6/30/2005	12/31/2004	Change
Trade payables:			
• Amounts due to suppliers	4,983	5,978	(995)
• Amounts due to other telecommunication operators	563	558	5
	5,546	**6,536**	**(990)**
Current tax payables	**802**	**487**	**315**
Miscellaneous payables and other current liabilities:			
• Amounts due for short-term employee benefits	691	751	(60)
• Amounts due to social security authorities	311	364	(53)
• Short-term trade and miscellaneous deferred income	852	812	40
• Advances	76	45	31
• Customer-related items	1,515	1,575	(60)
• Amounts due for the "TLC license fee"	35	29	6
• Dividends approved, but yet to be paid to shareholders	25	19	6
• Other current liabilities	351	313	38
• Employee-related reserves (except for Employee severance indemnities) for the portions expected to be settled within 12 months	51	70	(19)
• Reserves for taxation, for the portions expected to be settled within 12 months	560	20	540
• Reserves for future risks and charges on equity investments connected with corporate-related transactions, for the portions expected to be settled within 12 months	574	879	(305)
• Other reserves for future risks and charges, for the portions expected to be settled within 12 months	410	421	(11)
	5,451	**5,298**	**153**
	6,253	**5,785**	**468**
Total	**11,799**	**12,321**	**(522)**

Trade payables (due within 12 months) decreased by euro 990 million. The reduction is due to payments made during the first half and the reduction in investments made by foreign mobile companies, which are partly offset by negative exchange differences.

Tax payables, which comprise current tax payables of euro 8 million (euro 41 million at December 31, 2004) increased by euro 315 million mainly due to higher VAT payables.

Amounts due to social security authorities include the short-term payable to INPS of euro 212 million for the estimated balance of employee benefit obligations owed under Law No. 58/1992.

Deferred income includes euro 351 million (euro 351 million at December 31, 2004) for the deferral of revenues from the activation of telephone services by Telecom Italia (current portion) and euro 42 million (euro 55 million at December 2004) for the deferral of revenues from the recharge of TIM Italia prepaid cards.

The short-term reserve for taxation increased by euro 540 million as a result of income tax for the period.

The reserves for future risks and charges on equity investments connected with corporate-related transactions decreased by euro 305 million, of which euro 343 million is due to the release to the statement of income of reserves recorded for sureties provided by the Group to banks which had financed Avea, since there was no longer a risk after the guarantees provided were in part cancelled during the period up to June 30, 2005. At June 30, 2005, existing guarantees amount to euro 205 million. Furthermore, in July 2005, additional guarantees issued to banks for Avea's loans were cancelled in the amount of euro 80 million.

The reserves for future risks and charges on equity investments also include euro 96 million set aside for the dispute with Med S.A., Med Ltd and Med 1 minority shareholders, concluded in July 2005.

NOTE 21 – FINANCIAL INSTRUMENTS AND OTHER DERIVATIVE CONTRACTS

Telecom Italia Group financial risk management objectives and policy

The Telecom Italia Group, with regard to financial risk management, has put into place guidelines for the control and management of such risks. In particular, the stages and the principles which govern such activity call for, under the established guidelines, the existence of an internal committee to monitor the level of exposure to market risks (interest rate risks and foreign exchange risks) consistently with the defined objectives, the management of risks using derivative financial instruments, the ongoing valuation of the credit risks of the counterparts of the derivative contracts. As to these counterparts, which are banks and financial institutions with a high rating, they are constantly monitored for purposes of minimizing the credit risk.

The Telecom Italia Group tends to diversify market risks connected with its operational and financial activities in order to minimize exposure to interest rates through the diversification of its portfolio. Bearing this in mind, the Group puts into place derivative financial instruments on a selective basis. Exposure of debt to variations in the exchange rates is also hedged so as to avoid any undesirable impact on the statement of income and cash flows.

Telecom Italia Group is exposed to market risks arising from variations in interest rates, mainly in Europe, the United States, the United Kingdom and Latin America.

The Group decides on an optimal composition between fixed-rate debt and floating-rate debt and utilizes derivative financial instruments in order to arrive at the composition of the pre-established debt:

- ✓ Interest Rate Swaps (IRS) and Interest Rate Options (IRO) are therefore used to reduce the exposure of both fixed and floating rate loans and bonds to interest rate risk.

- ✓ Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards are used to covert foreign currency loans and bonds – principally in U.S. dollars and British pounds – to the currencies of the financial statements of the subsidiaries.

As a result of the above hedging activities, at June 30, 2005, the financial debt of the Telecom Italia Group is not subject to foreign exchange risk.

In order to determine the fair value of derivative instruments, the Telecom Italia Group uses various valuation models. The market value of IRSs and CCIRSs reflects the difference between the fixed rate which should be paid/received and the market interest rate (having the same maturity as the swap) at the valuation date. With reference to IRSs, the notional value does not represent the amount exchanged between the parties and thus does not constitute a measure of the exposure to credit risk, which, instead, is limited to the value of the differential of the interest rates to be paid/received.

The fair value of CCIRSs, on the other hand, also depends on the differential between the exchange rate of reference at the date of inception and the exchange rate at the valuation date, since CCIRSs imply the exchange of the capital of reference, in the respective currencies of denomination, in addition to the exchange of interest flows at the maturity date and at any intermediate payment dates.

Financial hedging instruments and other derivatives contracts

Derivative financial instruments are used by the 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, 2005 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.

The following tables show the derivative transactions put into place by the Telecom Italia Group at June 30, 2005 divided between Fair Value Hedge derivatives (Table 1), Cash Flow Hedge derivatives (Table 2) and Non-Hedge Accounting derivatives (Table 3) under IAS 39:

Table 1 - Fair Value Hedge Derivatives

Description	Equivalent notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
IRS transactions put into place by Telecom Italia Finance S.A. maturing 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)	1,300	19
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2008 on the USD 1,000 million (euro 827 million at the euro /USD exchange rate at June 30, 2005) five-year tranche of the Telecom Italia Capital S.A. bonds for a total of USD 4,000 million issued in October 2003	850	(38)
IRS transactions put into place by Telecom Italia Finance S.A. maturing February 2009 on bonds of euro 1,500 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V. (1999-2009)	500	18
IRS transactions put into place by Telecom Italia Finance S.A. maturing July 2009 on bonds of euro 2,350 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International Finance N.V. (1999-2009)	1,150	48
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (euro 149 million at the euro /USD exchange rate at June 30, 2005)	150	(2)
IRS transactions put into place by Telecom Italia Finance S.A. maturing April 2011 on bonds of euro 2,000 million carried by Telecom Italia Finance S.A., originally issued by Sogerim S.A. (2001-2011)	100	2
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. bonds of GBP 850 million (euro 1,261 million at the euro /GBP exchange rate at June 30, 2005) issued in June 2004	1,289	1
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on bonds of JPY 20 billion (euro 149 million at the euro /JPY exchange rate at June 30, 2005) carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2032)	171	(50)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued in October 2004 for a total amount of USD 3,500 million (euro 2,894 million at the euro /USD exchange rate at June 30, 2005) by Telecom Italia Capital S.A. (five-year tranche for USD 1,250 million, ten-year tranche for USD 1,250 million and thirty-year tranche for USD 1,000 million)	2,831	76
IRS transactions put into place by Telecom Italia Finance S.A. maturing June 2046 on bonds (1986-2046) of CHF 100 million (euro 65 million at the euro /CHF exchange rate at June 30, 2005), carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V.	65	7
Total fair value hedge derivatives	**8,406**	**81**

- On the bonds 2002/2007 of euro 1,750 million with a 6.50% fixed rate coupon issued by Telecom Italia Finance S.A. maturing April 2007, Telecom Italia Finance S.A. put into place for a total amount of euro 1,300 million:
  - IRS contracts for *euro 850 million* converting the fixed rate to the 6-month Euribor;
  - an IRS contract for euro 450 million converting the fixed rate to the 3-month Euribor.
- On the USD 1,000 million (euro 850 million) tranche of the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put into place CCIRS contracts converting the annual fixed rate coupon interest of 4% in USD to the 3-month Euribor.
- On the bonds 1999/2009 of euro 1,500 million at the 5% fixed rate with a step up of 0.15% maturing February 2009, carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., Telecom Italia Finance S.A. put into place an IRS contract for euro 500 million converting the annual fixed rate of 5% to the 6-month Euribor.
- 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., maturing July 2009, (originally issued by Olivetti International

Finance N.V.), Telecom Italia Finance S.A. put into place an IRS contract for a total amount of euro 1,150 million converting the annual fixed rate of 6.125% to the 6-month Euribor.

- On the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. put into place a CCIRS contract for euro 150 million converting a quarterly Libor in USD to the 3-month Euribor.
- On the bonds 2001/2011 of euro 2,000 million at an annual 7% fixed rate issued by Telecom Italia Finance S.A. maturing April 2011, Telecom Italia Finance S.A. put into place an IRS contract for euro 100 million converting the annual fixed coupon rate of 7% to the 6-month Euribor.
- On the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.
- For euro 171 million, on the bonds 2002/2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V., the following transactions were put 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 floating rate in JPY;
  - ✓ by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.
- On the bonds of USD 3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put into place CCIRS contracts for euro 2,831 million converting the fixed rate coupon in USD to 6-month Euribor.
- On the bonds 1986/2046 of CHF 100 million (euro 65 million at the euro/CHF exchange rate at June 30, 2005) at a 5.625% fixed rate maturing June 2046 carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., Telecom Italia Finance S.A. put into place an IRS contract with the same amount and maturity date, converting the annual fixed rate to a semiannual floating rate in CHF.

Table 2 - Cash Flow Hedge Derivatives

Description	Equivalent notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
IRS transactions put into place by Telecom Italia Finance S.A. maturing January 2006 on bonds of euro 1,100 million carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2006)	1,100	(3)
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million carried by Telecom Italia S.p.A. (2004-2009)	110	(1)
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the five-year tranche C relating to the Term Loan of euro 12,000 million finalized on December 2004 in connection with the cash tender offer by Telecom Italia for TIM shares	3,000	(59)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million carried by Telecom Italia S.p.A. (2004-2015)	120	(2)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2013 on the ten-year tranche of USD 2,000 million (euro 1,654 million at the euro/USD exchange rate at June 30, 2005) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(192)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (euro 742 million at the euro/GBP rate at June 30, 2005) issued by Telecom Italia S.p.A. in June 2005	751	(4)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the "Dual-Currency" loan with a notional principal of JPY 20 billion (euro 149 million at the euro/JPY rate at June 30, 2005) originally received from Olivetti International Finance N.V. and now carried by Telecom Italia Finance S.A.	174	(54)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the thirty-year tranche of USD 1,000 million (euro 827 million at the euro/USD exchange rate at June 30, 2005) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(131)
Differential contract put into place by Telenergia S.r.l. for electricity purchases, maturing December 31, 2005	18	2
Total cash flow hedge derivatives	**7,831**	**(444)**

- On the bonds 2002/2006 of euro 1,100 million at the quarterly floating rate issued by Telecom Italia Finance S.A. maturing January 2006, Telecom Italia Finance S.A. put into place:
  - ✓ an IRS contract for euro 900 million in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a 2.68% fixed rate;
  - ✓ an IRS contract for euro 200 million in which Telecom Italia Finance S.A. receives a quarterly floating rate +1.25% and pays a 3.83% fixed rate.
- On the bonds 2004/2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put into place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%.
- In reference to the term loan for a total amount of euro 12,000 million finalized on December 2004 in connection with the cash tender offer by Telecom Italia for TIM shares, Telecom Italia S.p.A. put into place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.
- On the bonds 2004/2015 of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put into place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.
- On the tranche for USD 2,000 million (euro 1,709 million) maturing November 2013 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom

Italia S.p.A. put into place CCIRS contracts converting an annual fixed rate of 5.25% in USD to an annual fixed of 5.035% in euro.

- On the bonds 2005/2015 of GBP 500 million (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put into place CCIRS contracts converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro.
- For euro 174 million, with reference to the "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., now carried by Telecom Italia Finance S.A., equivalent to euro 149 million at the euro/USD exchange rate at June 30, 2005, the following was put into place:
  - ✓ by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in USD to the 6-month Libor in JPY.
  - ✓ by Telecom Italia S.p.A., a CCIRS contract in which Telecom Italia S.p.A., with regard to the infragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor.
  - ✓ by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in euro to a 6.94% fixed rate up to maturity.
- On the tranche of USD 1,000 million (euro 849 million) relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put into place CCIRS contracts converting the fixed rate of 6.375% in USD to the fixed rate of 6% in euro.
- Differential contract for euro 18 million, under which Telenergia S.r.l. set the price of part of the electricity purchased at euro 50/MWh. The contract expires on December 31, 2005.

Table 3 – Non-hedge Accounting Derivatives

Description	Equivalent notional amount in millions of euro	Mark to Market (Clean Price) in millions of euro
Floating to floating IRS transactions put into place by Telecom Italia S.p.A.	94	1
IRS transactions put into place by Telecom Italia Finance S.A. maturing February 2009 on bonds of euro 1,500 million (1999-2009) carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V. (1999-2009)	500	2
IRS transactions put into place by Telecom Italia Finance S.A. maturing July 2009 on bonds of euro 2,350 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International Finance N.V. (1999-2009)	850	(12)
IRS transactions put into place by Telecom Italia Finance S.A. maturing April 2011 on bonds of euro 2,000 million carried by Telecom Italia Finance S.A., originally issued by Sogerim S.A. (2001-2011)	350	(32)
IRS transactions put into place 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)	450	20
IRS and CCIRS contracts put into place by Telecom Italia Finance S.A. on financial assets	186	(9)
Forward foreign exchange contracts put into place by Group companies	1,492	(4)
Total non-hedge accounting derivatives	**3,922**	**(34)**

- The floating to floating IRS transactions put into place by Telecom Italia S.p.A. for a notional amount of euro 94 million refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor.
- On the bonds 1999/2009 of euro 1,500 million at a 5.0% fixed rate and a step-up of 0.15% maturing February 2009, carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., Telecom Italia Finance S.A. put into place an IRS contract for euro 500 million in which Telecom Italia Finance S.A. receives a 6-month Euribor and pays, at maturity on August 9, 2005, a quarterly floating rate in NOK, set in arrears on euro 300 million and a fixed rate of 2.66% in euro on euro 200 million Subsequently, and until maturity, Telecom Italia Finance S.A. pays a quarterly floating rate in NOK, calculated on that notional amount of euro 500 million. Moreover, in the last two years, Telecom Italia

Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro.

- On the bonds 1999/2009 of euro 2,350 million at an annual 6.125% fixed rate with a step-up of +0.45%, carried by Telecom Italia Finance S.A. (originally issued by Olivetti International Finance N.V.), maturing July 2009, Telecom Italia Finance S.A. put into place, with the same maturity dates, the following IRS transactions totaling euro 850 million:
  - ✓ an IRS contract for euro 500 million in which Telecom Italia Finance S.A. receives a semiannual floating rate in euro and pays a semiannual rate in euro set in arrears with the following additional transactions:
    a) purchase of a cap at 4.50% starting July 2005;
    b) sale of a cap at 5.50% starting July 2005.

    Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro.
  - ✓ an IRS contract for euro 350 million in which Telecom Italia Finance S.A. converts the annual fixed rate of 6.125% to annual fixed rate of 5.41% until July 2005 and afterwards to a fixed rate of 5.29% with the following additional transactions:
    a) a further payment of a fixed rate of 6.125% to be calculated over the period in which the 2-year swap rate in GBP is higher than 5.275%;
    b) sale of a knock-in floor on the 6-month Libor in USD starting January 2006, with the strike increasing from 3.10% to 3.25% and the knock-in increasing from 2.60% to 3.10%.

    Moreover, starting July 2005, Telecom Italia Finance S.A. will receive these amounts if the 10-year swap rate in GBP remains higher than 3.80%.
- On the bonds 2001/2011 of euro 2,000 million at an annual 7% fixed rate issued by Telecom Italia Finance S.A. maturing April 2011, Telecom Italia Finance S.A. put into place IRS contracts converting the annual fixed rate of 7% to a 3-month Euribor and with the additional following transactions:
    a) a further payment of a fixed rate of 7% to be calculated over the period in which the 10-year swap rate in euro is less than 2.95% until April 2006 and less than 3.30% from April 2006 to the maturity date;
    b) purchase of a cap on the 3-month Euribor at a strike of 3.75%;
    c) sale of a cap on the 3-month Euribor at a strike of 5.75%;
    d) sale of a knock-in floor on the 3-month Euribor with the strike increasing from 3.25% to 3.75% and the knock-in from 2.85% to 3.35%.
- On the bonds 2002/2012 of euro 1,000 million with a 7.25% fixed coupon rate issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V.) maturing April 2012, Telecom Italia Finance S.A. put into place the following transactions totaling euro 450 million:
  - ✓ an IRS contract for euro 300 million converting the fixed coupon rate to a quarterly floating rate in CAD and with the additional following operations:
    a) purchase of a cap on 3-month Libor in CAD with a strike of 4.5%;
    b) sale of a cap on 3-month Libor in CAD with a strike of 6.5%.

    Moreover, during the last four years, Telecom Italia Finance S.A. will receive these amounts if the 10-year swap rate is higher than the 2-year swap rate.
  - ✓ IRS contract for euro 150 million converting the fixed coupon rate to a fixed rate of 6.35%. During the last five years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in USD is higher than the 5-year swap rate in euro less a spread of -0.20%.
- Derivative financial instruments on financial assets for a total amount of euro 186 million were put into place by Telecom Italia Finance S.A. by IRS contracts for euro 125 million converting a fixed rate of 6.035% to a floating rate in euro and CCIRS contracts for euro 61 million converting the semiannual Libor in USD to the 6-month Euribor.
- Forward foreign exchange contracts for an equivalent amount of euro 1,492 million are composed of:
  - ✓ Foreign exchange contracts finalized by Telecom Italia S.p.A. for euro *312 million*;
  - ✓ Transactions finalized by Telecom Italia Finance S.A. for euro *319 million*;

- ✓ Transactions finalized by Telecom Italia Capital S.A. for euro *1 million*;
- ✓ Transactions finalized by Olivetti S.p.A. for euro *3 million*;
- ✓ Transactions finalized by TIM S.p.A. for euro *183 million*;
- ✓ Transactions finalized by TI Sparkle S.p.A. for euro *45 million*;
- ✓ Transactions finalized by TIM Perù S.A.C. for euro *48 million*;
- ✓ Transactions finalized by Maxitel S.A. for euro *52 million*;
- ✓ Transactions finalized by TIM Celular S.A. for euro *485 million*;
- ✓ Transactions finalized by TIM Partecipacoes S.A. for euro *44 million*.

The following table shows the derivative financial instruments of the Telecom Italia Group by type:

Type	Hedged risk	Notional amount in millions of euro	Mark to Market Spot (Clean Price) at June 30, 2005 in millions of euro	Mark to Market Spot (Clean Price) at December 31, 2004 in millions of euro (*)
Interest rate swaps	Interest rate risk	3,115	94	46
Cross currency and interest rate swaps	Interest rate risk and foreign currency exchange rate risk	5,291	(13)	(599)
Total Fair Value Hedge Derivatives		**8,406**	**81**	**(553)**
Interest rate swaps	Interest rate risk	4,330	(65)	(1)
Cross currency and interest rate swaps	Interest rate risk and foreign currency exchange rate risk	3,483	(381)	(665)
Commodity swaps	Commodity risk	18	2	-
Total Cash Flow Hedge Derivatives		**7,831**	**(444)**	**(666)**
Total Non-Hedge Accounting Derivatives		**3,922**	**(34)**	**27**
Total Telecom Italia Group Derivatives		**20,159**	**(397)**	**(1,192)**

(*) Marking to market figures at December 31, 2004, on a comparable consolidation basis, are net of the transactions closed in advance between December 31, 2004 and June 30, 2005. This resulted in cash outflows of euro 37 million.

As of June 30, 2005 the equity reserve for the adjustment of cash flow hedge derivatives is a negative figure of euro 279 million.

NOTE 22 – ASSETS PLEDGED AS COLLATERAL FOR FINANCIAL LIABILITIES

Financial assets pledged as collateral for financial liabilities are the following:

- ✓ 1,337,542,453 TIM Perù shares, held by TIM International, are pledged to guarantee a loan granted to the company International Finance Corporation (IFC); the fair value of such guarantee can be estimated at approximately euro 329 million.
- ✓ 2,923,168 Digitel shares, held by TIM International, are pledged to guarantee a credit facility granted to the company in 2002; the fair value of such shares can be estimated at approximately euro 163 million.

NOTE 23 – COMMITMENTS AND CONTINGENT LIABILITIES

a) Disputes, litigations and legal proceedings pending

The following is an updated situation of the main disputes, litigations and legal proceedings involving the Telecom Italia Group compared to the situation disclosed in the Annual Report 2004 and in the first quarter 2005 report. Except where specifically indicated, no provisions have been made to the Reserves for future risks and charges because of the absence of defined and objective elements and/or because a negative outcome to the litigation is not considered probable.

Poste Italiane

Appeals are pending against the Rome Court's rulings in favor of the Company regarding payments for the disputed supply of products and services by Olivetti to Poste Italiane (the compensation sought amounts to approximately euro 50 million). The cases involve events dating back to the late 1980s/early 1990s. A specific reserve is set aside in the interim consolidated financial statements.

Personal Computer Business

In connection with the disposal by Olivetti of its personal computer business in 1997, lawsuits brought by the following parties, among others, are pending before the Ivrea Court:

- by Centenary Corporation and Centenary International (purchasers of the business) for damages estimated at approximately euro 129.1 million;
- by ex-employees of OP Computers S.p.A. (the special-purpose entity to which the business was transferred pending the sale) to have the contracts relating to the disposal of the business declared null and void and to obtain their reinstatement as employees of Olivetti with payment of salary differences and damages amounting to approximately euro 212 million. In June 2004 an initial ruling was handed down in favor of the Company. Its financial statements continue to include a specific reserve.

Galactica

In 2001 and 2002 a complex dispute arose with the Internet Service Provider Galactica S.p.A. (now ServInternet S.p.A., in liquidation) over failure to renew an agreement for testing a flat-rate Internet access service. ServInternet S.p.A. has claimed damages of approximately euro 90 million.

Teleque Communications

In November 2002, Teleque Communications S.p.A., a company operating in the field of prepaid cards for international telephone services, brought an action against Telecom Italia before the Rome Court of Appeals for alleged unfair trade practices, claiming damages of euro 65 million.
In particular, Teleque Communications (which went bankrupt in December 2003) claimed that Telecom Italia had gained a competitive advantage by imposing additional costs for the supply of interconnection services that it did not charge to its own final customers for prepaid international services.

Cecchi Gori

In connection with the complex legal dispute initiated by the Cecchi Gori group against Seat (now Telecom Italia Media), the following cases remain pending in the ordinary courts:

- before the Rome Court of Appeals:
  - appeal by the Cecchi Gori group against the decision which rejected its request to find the August 11, 2000 resolution of the extraordinary shareholders' meeting of Cecchi Gori Communications (now

Holding Media Communications, which controls the television broadcaster "La7") null and void. The resolution regards certain amendments to the company's bylaws;

  - appeal by the Cecchi Gori group against the decision which rejected the request for annulment of the resolutions approving the financial statements and related balance sheet of Cecchi Gori Communications for the year ended December 31, 2000 on the grounds that Seat was not entitled to vote the shares owned by Cecchi Gori Media Holding pledged to it and for the alleged excess and abuse of power. In view of the losses shown in the balance sheet at that date, the shareholders' meeting of April 27, 2001 wrote off and then recapitalized the share capital of Cecchi Gori, which was entirely subscribed only by SEAT;

- before the Milan Court:
  - claim for damages caused as result of the alleged illegal conduct by SEAT and the directors which it appointed to the board of Cecchi Gori Communications. Such conduct was allegedly aimed at removing the majority shareholder, Cecchi Gori Media Holding;
- before the Milan Court of Appeals:
  - appeal against the decision rejecting the request for annulment or cancellation of the deed under which the Cecchi Gori Communications shares belonging to Cecchi Gori Media Holding were pledged to SEAT.

Vodafone

In July 2003, Telecom Italia initiated an arbitration proceeding with Vodafone to obtain damages (for a total amount of approximately euro 38.7 million) in relation to the mobile operator's decision to bar its customers from access to the Company's "12" information services between August 2002 and April 2003. Vodafone contends that its conduct was licit and has filed a counterclaim for an identical amount.
In May 2005, the parties reached an agreement under which Vodafone paid an amount of approximately euro 7 million to Telecom Italia.

Fastweb

The operator Fastweb has requested arbitration to ascertain alleged non-fulfillment by Telecom Italia of the contract to provide disaggregated access services to the local network, claiming in particular that Telecom Italia provided incorrect information on the state of the network and challenging our rejection of their requests for unbundling (in around 17,000 cases out of 400,000 requests successfully satisfied). On this basis, Fastweb is seeking damages for a total of euro 150 million.
For its part, Telecom Italia indicated the inaccurate and generic nature of the counterpart's claims, requesting total rejection of the demands advanced by Fastweb.

Tele 2

At the end of June, the operator Tele2 brought a lawsuit against Telecom Italia before the Milan Court of Appeals for alleged abuse of a dominant position in the markets for fixed voice telephony access and services, objecting to the "Hello gratis" offer, which contemplates a 90-minute period of free calls.
In seeking damages of over euro 100 million, Tele2 maintains that the application of that bonus would take traffic away from competitors, since users would be induced to take advantage of the opportunity regardless of the contracts stipulated with alternative operators. Furthermore, the proposal in question allegedly hinders the use of comparative advertising, since it would prevent a direct, homogeneous comparison with telephone rates per minute offered by the various operators.

* * *

A petition is pending before the Milan Court of Appeals for urgent measures against Telecom Italia filed by Tele2 for abuse of a dominant position in the market for broadband data access, with a request for damages to be quantified during the course of the case.
In particular, Tele2 objects to the abusive conduct of Telecom Italia in relation to an agreement of August 2004 to provide ADSL wholesale service, whereby Tele2, using the Telecom Italia network, is able to provide broadband data access services to its final customers. The economic conditions of that service are allegedly abusive in the sense that, in addition to an activation charge, they require payment of a monthly charge, inclusive of five hours of traffic, which allegedly disguises the imposition on the Other Licensed Operators ("OLO") of an undue minimum purchase obligation, with purely exclusive intentions.

* * *

In July 2005, Tele2 also served Telecom Italia with an additional urgent petition to find for an alleged abuse of a dominant position in the market for broadband data access services using ADSL technology, which it claims would consist (i) of undue activation for users who have not requested the service, allegedly done to prevent Tele2 from offering its own ADSL services, and (ii) of a delay in deactivating the aforesaid ADSL services unduly activated.

* * *

For its part, Telecom Italia cited Tele2 and its Swedish parent company Tele2 AB before the ordinary courts for unfair trade practices (related to the comparative advertising campaigns promoted by Tele2), seeking damages of at least euro 200 million.
Tele2 has presented a counterclaim seeking to establish that the conduct of Telecom Italia (in particular, the application of a traffic bonus in the aforesaid "Hello gratis" proposal) constitutes a case of extracontractual liability. In essence, the OLO reiterated the arguments presented before the Milan Court of Appeals, as described above, and then, pending a decision in that case, asked the court to suspend the suit brought subsequently by the company and to sentence Telecom Italia to pay the same damages indicated in the case pending before the Milan Court of Appeals.

Wind

The so-called "interconnection agreement", in effect since 1998 between TIM (now TIM Italia) and Wind, governs the economic conditions of the termination service on the TIM network of calls generated by the Wind mobile network and vice-versa (so-called "mobile-mobile termination"), as well as termination on the TIM network of calls generated by the Wind fixed network (so-called "fixed-mobile termination"). While the fees agreed for the fixed-mobile termination service were subsequently the subject of numerous actions by the National Regulatory Authority, which introduced specific rates, those for mobile-mobile termination remained freely negotiable by the parties.
Wind recently objected to the fee due contractually to TIM Italia for the mobile-mobile termination service, recalculating it and unilaterally making it retroactive to June 1, 2003 and consequently making the relative adjustment in its subsequent payments. TIM Italia challenged Wind's claim and--after an attempt at conciliation--requested the arbitration procedure contemplated in the agreement.
Meanwhile, through a petition to the National Regulatory Authority, Wind invoked a specific procedure for resolving controversies related to interconnection. This procedure obliges the parties, should they fail to reach an understanding within 45 days, to separately present a plan of agreement to the offices of the Authority, which is empowered to issue a motivated decision within 90 days thereafter and, should the parties fail to accept it, to issue a binding decision.
During the first hearing at the Authority, TIM Italia requested the suspension of this procedure, considering that the Arbitration Board has exclusive jurisdiction over all controversies arising from the contract. The conciliation attempt requested by the Authority did not have a positive outcome and the parties deposited their own arguments.
It should also be noted that, in the meantime, the Authority adopted a temporary injunction with regard to the top prices that can be applied to terminations generated by voice calls on mobile networks; it was decided to extend the principle of tariff reductions already applied in "fixed-mobile terminations" to "mobile-mobile

terminations", for the period September 1, 2005 to January 31, 2006. TIM Italia filed an appeal against the Authority's decision.

Il Numero Italia

In August, the company Il Numero Italia filed an urgent appeal before the Court of Milan against Telecom Italia for alleged violations of regulations related to directory information services. The Court of Milan accepted the petition presented by Il Numero Italia, requiring Telecom Italia to desist from any reference, through its "12" and "412" directory information services, to the new numbers for calling subscriber information services, and rejected the claim by Telecom Italia against this court order.
Elsewhere, with a petition presented in July 2005, Telecom Italia asked the Court of Milan to order Il Numero Italia to terminate the advertising campaign it launched to publicize its directory information services provided via the telephone number "892.892". Telecom Italia feels that said campaign violates the laws concerning misleading advertising and could be construed as an act of unfair trade practices. The advertising messages, in fact, give the impression that the "12" service (operated exclusively by Telecom Italia) and the "412" service (operated by Telecom Italia and the principal mobile operators) will no longer be available, while in reality they can shortly be accessed using different numbers. Furthermore, such services are publicized in a manner that disparages Telecom Italia, generating, at the same time, confusion over the provider of the "892.892" service: by making reference to "12" and "412" services, the advertising message takes advantage of Telecom Italia's standing, as if it were Telecom Italia that had advertised this new service as its own.

Universal Service

As a consequence of the complex actions taken by some operators against the National Regulatory Authority's decisions concerning the universal service net cost-sharing mechanism, the following cases remain pending:

- the petition submitted by Vodafone to the Regional Administrative Court (TAR of Lazio) for annulment of the decision with which the Authority, in renewing the order concerning the application of the universal service net cost-sharing mechanism for 1999, calculated the amount of Vodafone's contribution;
- the petitions submitted respectively by Vodafone to the Regional Administrative Court (TAR of Lazio) and by Wind to the Head of State for annulment of the decision governing the same cost-sharing mechanism for 2000. Vodafone has requested that the issue be referred as a preliminary matter to the European Court of Justice for a ruling on the interpretation of the Community directives;
- the petitions by Vodafone to the Regional Administrative Court (TAR of Lazio) for annulment of the communications of the Ministry of Communications which requested Vodafone to pay the contributions for the financing of the universal service, as determined by the National Regulatory Authority for the years 2000 and 2002.

Levy pursuant to Article 20.2 of Law No. 448/1998

Appeals by Telecom Italia and TIM (now TIM Italia) are still pending before the Regional Administrative Court (TAR of Lazio) to obtain a ruling on the right not to pay any additional amount as a license fee for 1998 and to obtain restitution of the euro 529 million already paid. The request is based on the illegitimacy of the provisions of Article 21 of Presidential Decree No. 318/1997 that maintained the license fee in effect even after Directive 97/13/EU came into force and the time limit for its introduction into Italian law had expired.
In particular, the European Court of Justice, with its ruling of September 18, 2003, had already stated that the levy is incompatible with Community law.

* * *

Also pending is an appeal submitted by Telecom Italia to the Regional Administrative Court (TAR of Lazio) for cancellation of the communication issued by the Ministry of Communications dated July 9, 2003 with which the Ministry challenged the exclusion of several items of revenue used for the basis of the assessment for the license fee for 1997 and 1998. The adjustment resulting from the recalculation would amount to euro 31 million for 1997 and euro 41 million for 1998. The petition follows others that Telecom Italia had already lodged

concerning the license fee computation method in connection with the gradual liberalization of the telecommunications sector. A reserve for these disputes has been set aside in the financial statements.
Lastly, an appeal by TIM is pending before the Regional Administrative Court (TAR of Lazio) against the ministerial decisions regarding the calculation of the license fee for the years 1995, 1996, 1997 and 1998. The amounts in dispute are set aside in a reserve in the financial statements.

Directory Information Services

At the end of December 2004, Telecom Italia petitioned the Regional Administrative Court (TAR of Lazio) to nullify, with prior suspension, the decision of November 2004 (No. 15/04/CIR) by which the National Regulatory Authority regulated the procedure for assigning, and the rights for using, the numbers assigned to directory information services, following up on its previous decision of July 2003. This latter decision had amended the numbering plan in the telecommunications sector by establishing that numbers "12XY" would be assigned to the directory information services. This means that said services will have numbers composed of the digits "12" followed by two more digits, distinctive for each operator. The initial measure had deferred to a subsequent measure the definition of an implementation timetable, the subjective requirements for the rights of use and the procedure for assigning the numbers reserved to the directory information services.
Under its decision No. 15/04/CIR, the National Regulatory Authority, in effect, regulated the procedure for assigning the rights of use of the new numbering system "12XY", giving the timetable for the start of the sale of the corresponding services and the end of the "old" numbering systems: "12" from October 1, 2005 and "412" from December 1, 2005. The decision also regulates the procedure for communicating this change to customers and the "need" to deliver a message to users who select the number 12 that indicates, in an unbiased manner, the possibility of accessing the services of the new "12XY" numbering system.
Telecom Italia feels that said procedure is discriminatory, since it is not permitted to freely publicize the new numbers, with substantial financial damage, including that associated with the foreseeable effect of shunting customers toward the numbers of other operators.
The restrictions imposed upon Telecom Italia in this regard were confirmed by decision No. 21/05/CIR dated June 16, 2005 entitled "Order to the company Telecom Italia to comply with the provisions of article 5 of decision No. 15/04/CIR". Under this decision, the National Regulatory Authority also stated that the messages regarding the "12" and "412" services must not contain indications of any specific new numbering system assigned to Telecom Italia.
Non-observance of this order was notified to the Company by an act dated August 23, 2005.

Alleged violations of Antitrust law

On November 16, 2004, the Antitrust Authority issued a decision concluding its proceeding A 351 (opened on June 5, 2003) by finding that Telecom Italia had allegedly abused its dominant position in violation of Article 3 of Law No. 287/1990. Between 2001 and the date of the decision, the Antitrust Authority determined that Telecom Italia had abused its dominant position by:

a) applying contractual conditions to corporate users containing exclusive agency clauses, penalties for failure to fulfill spending targets and clauses having equivalent effects to so-called English clauses; and
b) establishing economic and technical conditions for business customers that competitors could not replicate and that constituted discriminatory practices in the relevant markets for intermediate services insofar as Telecom Italia applied economic and technical conditions to its competitors that were discriminatory compared with those it applied to its own commercial divisions.

Consequently, the Antitrust Authority imposed a euro 152 million fine on Telecom Italia and ordered the Company to cease immediately from the competition-distorting conduct referred to above.
Telecom Italia lodged an appeal against the Antitrust Authority's decision with the Regional Administrative Court (TAR of Lazio). In its appeal, Telecom Italia argues that the Authority's decision was based on an investigation that failed to establish the facts of the Company's responsibility for the alleged abuse of dominant position. In

particular, the Company contests the need to refer to the interconnection price list in preparing offers to large customers, the Antitrust Authority's failure to identify large customer as a separate relevant market, its failure to consider both the change in the applicable legislation and the remedies offered by Telecom Italia during the investigation.
In May, the Regional Administrative Court (TAR of Lazio) issued a sentence largely upholding the appeal and revoking the fine. The Authority has appealed. Telecom Italia has in turn presented an incidental appeal in respect of the part of the sentence that did not accept a series of appeals against the ruling. Until the appeal is decided, the provision already set aside by Telecom Italia remains.

* * *

Acting on a complaint filed by competing operators, in 2003 the National Regulatory Authority cited Telecom Italia for pursuing commercial strategies detrimental to the development of the market and initiated sanction procedures. That provision and the subsequent resolutions have been challenged; the appeals are pending before the Regional Administrative Court (TAR of Lazio).

Mediterranean Nautilus

In October 2003, FTT Investments (at that time the minority shareholder of Med Nautilus S.A.) notified a request for international arbitration to obtain annulment of the contract signed in March 2001 with Telecom Italia International, Telecom Italia and Med Nautilus S.A. for the transfer from Telecom Italia International to FTT of 30% of the capital of Med Nautilus S.A..
FTT invoked invalid consent owing to fraud on the part of the Telecom Italia Group or, in any event, owing to its having been misled as to the subject of the contract. It requested restitution of the price paid (approximately USD 98 million) plus interest, without detriment to its right to put forward additional claims. In particular, FTT asserts it was induced to make the purchase on the basis of a misrepresentation arising from the omission of information about the existence of a put option written by Med Nautilus S.A. for the shares of Med Nautilus Ltd. held by the minority shareholders.
In December 2004, the parties asked the arbitration board to suspend the procedure to allow time for talks aimed at reaching a negotiated settlement, which was concluded on June 16, 2005. On July 29, 2005 the arbitration court thus decided to close the arbitration proceedings.
As a result of this settlement, which resulted in a net disbursement of euro 49 million, the Group strengthened its presence in the sector of IP services and wholesale data in the Middle East. Telecom Italia and Telecom Italia International, in fact, came to hold, through Med Nautilus S.A., 100% of the shares of Med Nautilus Ltd, while the non-strategic assets of the local Israeli operations were sold, in addition to 30% of the capital of the subsidiary Elettra S.p.A. The expenses associated with the settlement had already been accrued in 2004 in a specific Reserve for future risks and charges

Brazil

On April 28, 2005, the parties reached a settlement on a series of disputes between Telecom Italia/Telecom Italia International, respectively, and

- Brasil Telecom for the alleged mismanagement on the part of the Group of extraordinary transactions of the Brazilian operator;
- Techold and Timepart, joint shareholders with Telecom Italia International in Solpart Participações (parent company Brasil Telecom through Brasil Telecom Participações) as well as the same Solpart, Brasil Telecom Participações and Brasil Telecom, with regard to the August 27, 2002 agreement concerning the temporary reduction of the Group's stake in the ordinary share capital of Solpart from 37.29% to 19%, the suspension – also temporary – of its governance rights and the option to repurchase said stake.

The above disputes were definitively closed after confirmation of the settlement.
There is an exception regarding one case before the Rio de Janeiro Court in which some indirect shareholders of Techold have challenged the validity of the settlement and succeeded in preventing confirmation. A legal objection on the matter is currently pending.

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On May 5, 2005, certain indirect shareholders of Solpart filed for a temporary injunction before the Rio de Janeiro State Court to suspend execution of the modification to the shareholders agreement among the shareholders of Solpart (Telecom Italia International, Techold and Timepart), signed on April 28, 2005, and to suspend execution of any other act that would allow parties controlled by the Telecom Italia Group to appoint or remove directors of Brasil Telecom or entities controlled by it.
The judge granted only a temporary injunction against the effects of the change to the shareholders agreement. The plaintiffs thus bought action for a trial.

***

On June 30, 2005, Telecom Italia International filed for a temporary injunction against certain indirect shareholders of Solpart, as well as Techold, Timepart, Brasil Telecom Participações and Brasil Telecom, to suspend the efficacy of the shareholders agreement of Zain, indirect parent company of Techold, in which Brazilian pension funds and investment funds controlled by Citigroup are shareholders, and the put agreement between said pension and investment funds.
Said agreements violate the shareholders rights of the Group with regard to the transfer of the direct and indirect investments in Solpart.
Having obtained a temporary injunction to prohibit the sale of such investments to third parties, Telecom Italia International has brought action for a trial.

***

On August 1, 2005, Telecom Italia International filed a request for arbitration to the International Chamber of Commerce of Paris at the London seat against Techold, claiming that various provisions of the Solpart shareholders agreement had not been fulfilled and consequently requesting compensation for damages. Requests were also made to ascertain the validity of the above-mentioned modification to the shareholders agreement signed by the parties on April 28, 2005 and thus a declaration legitimizing Telecom Italia International to purchase the shares in Solpart held by Techold.

***

On May 5, 2005, certain indirect shareholders of Brasil Telecom obtained a temporary injunction against Telecom Italia International, TIM International, TIM Brasil, various companies of the Opportunity group, Invitel, Techold, Timepart, Solpart, Brasil Telecom Participações, Brasil Telecom and Brasil Telecom Celular, aimed at preventing the continuation of the process to merge the latter by incorporation in TIM Brasil, in accordance with the clauses of the agreement signed between the two companies on April 28, 2005.
Telecom Italia International, TIM International and TIM Brasil have filed their defense on a timely basis presenting objections that the allegations of the counterpart are unfounded both in fact and under the law. A decision in the case is pending.

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In January 2004, TIM Telecomunicações Installações e Montagem Ltda, a Brazilian company that supplies and installs telecommunications equipment, cited TIM Brasil, TIM (now TIM Italia) and Brazil's National Institute for Patent Rights before the Federal Court of Rio de Janeiro to secure the cancellation of the trademark registrations bearing the name "TIM" that had been granted to the Group between 2000 and 2003 and to prohibit their use in Brazilian territory. TIM Telecomunicações Installações e Montagem Ltda (which affirms its ownership of exclusive rights to the name "TIM", deriving from the fact that its corporate name was registered at an earlier date), has petitioned for damages equal to 10% of the revenues produced by the companies controlled by TIM in Brazil from the start of its activities there and for a temporary injunction against the use of the trademark, until the case is decided.
The claims of the Brazilian company have been disputed, since there is no risk of confusion as the parties operate in different sectors (the company applied to register the trademark "TIM" under the business sector "telecommunications" only after the same trademark was already being used and had been filed by the Group, without TIM Telecomunicações Installações e Montagem Ltda even operating in that business sector).

In declaring the hearing stage of the case closed, the judge decided against the issue of a temporary injunction.

ETEC S.A.

Beginning in the second half of 2002, Banco Nacional de Comercio Exterior ("BancoMext") has charged Etec S.A. and Telan (majority shareholder of Etec S.A., controlled by the Cuban Government) with failure to fulfill alleged payment and guarantee obligations – for an amount of USD 300 million - established in a series of agreements signed between Etec S.A., Telan, BanCuba (Central Bank of Cuba), Intesa BCI and BancoMext.
These charges were the subject of ordinary action brought by Bancomext before the Italian courts as well as an international arbitration requested by Telan and Etec S.A.
The Arbitration Board issued its award on August 5, 2004, on the basis of which:

- it accepted the defense of Etec S.A. that it is neither debtor toward Bancomext nor guarantor of Telan;
- despite the foregoing, Etec S.A. was not exonerated from its obligations deriving from the financing contract and Etec S.A. therefore remains obliged to fulfill its obligations toward BancoMext and, more specifically, to re-establish the procedure for the payment of dividends owed to Telan, aimed at the satisfaction of BancoMext. This award is effective retroactively and requires Etec S.A. to pay BancoMext an amount of around USD 147 million.

Etec S.A. filed an appeal before the Paris Court of Appeals to nullify the award which, in the meantime, the Rome Court of Appeals (at the request of Bancomext) declared to be enforceable in Italy.
On May 3, 2005, Bancomext served the award to Etec S.A. and Telan along with a summons to pay an amount equal to the dividends distributed to Telan since April 2002. The relative executive proceedings undertaken by BancoMext against Telecom Italy, TI Sparkle and TIM were suspended, since Etec S.A. objected to recognition of the enforceability of the award in Italy.
In the meantime, Telecom Italia International (in possession of a letter from the Cuban government relieving it of any possible detrimental consequences arising from the award) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate Etec S.A., reserving its right to take every protective measure.

Telecom Italia France

France Telecom brought action before the Commercial Court of Paris against Telecom Italia France for alleged damages deriving from unfair trade practices.
Telecom Italia France requested suspension of the proceedings until completion of the preliminary investigation currently pending before the district attorneys of Marseilles and Lyons for alleged illegalities in concluding contracts with final customers, initiated by complaints filed by consumers.

b) Employee benefit obligations under Law No. 58/1992

Pursuant to Law No. 58/1992, Telecom Italia is required to provide full national insurance coverage for all employees on the payrolls of STET, SIP, Italcable and Telespazio as of February 20, 1992, as well as for all employees transferred from the Public Administration to the former Iritel, through the "Telephone Companies Employees Social Security Fund", which on January 1, 2000 became part of the general Employees Pension Fund.
At the present time, the amount of the liability can be estimated only roughly due to disagreements with the National Social Security Institute (Istituto Nazionale della Previdenza Sociale – INPS) relating to the manner in which the amount due should be calculated and the fact that at December 31, 2004 INPS had not yet notified the Company of all the positions to be unified.
The dispute with INPS concerns the application of the criteria established by the preceding Law No. 29/1979 for those employees (except for employees of the former Iritel) who had already applied for benefits pursuant to this law and which INPS has still not processed. The parties have agreed that the differences in interpretation shall be settled through test appeals before the ordinary magistrate, with recourse to the Court of Appeals being waived for a final determination of the law in question. While proceedings are pending,

Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation. The amounts due were calculated by INPS and are to be paid in 15 equal annual deferred installments (including annual interest of 5%), starting when INPS formally submits its requests.
Amounts due to the social security authorities include the amount booked for this purpose of euro 1,151 million (euro 1,108 million for principal and euro 43 million for interest due, and still payable), of which euro 212 million is short-term.

c) Commitments and other guarantees

Guarantees provided, net of counter-guarantees received of euro 414 million, total euro 657 million and mainly consist of sureties provided by Telecom Italia on behalf of associates (of which euro 205 million is in the interests of Avea) and others for medium/long-term loan transactions.

Purchases and sales commitments at June 30, 2005, amount to euro 267 million and euro 36 million, respectively, and refer to commitments, not yet fulfilled, which do not fall within the normal "operating cycle" of the Group.
In particular, purchases commitments refer mainly to:

- the agreement signed April 29, 2005 between La7 and Elefante TV, to take over the business segment composed of the television station of the same name with the intent of expanding broadcasting capacity, and with Delta TV, to purchase its radio and television equipment and frequencies, for a total amount of euro 120 million;
- orders to suppliers of Telenergia (euro 99 million) relating to the energy supply agreements reached with Endesa Italia for the three-year period 2004-2006;

Sales commitments mainly refer to Telecom Italia's commitment to sell the 19.9% stake in Finsiel to the COS group for euro 29 million by December 31, 2006, as well as the commitment to sell the investment in LI.SIT. to Lombardia Informatica for euro 2 million at the expiry of the contract (September 15, 2009).

The consolidated companies of the Group issued weak letters of patronage totaling euro 142 million chiefly on behalf of associates to guarantee insurance polices, lines of credit and overdraft arrangements
Guarantees provided by others for obligations of the Group companies, which consist primarily of sureties to guarantee the proper performance of contractual obligations, total euro 1,337 million, of which euro 1,314 million refers to the Parent Company. The increase from euro 839 million at December 31, 2004 to euro 1,314 million at June 30, 2005, relates to the sureties issued by BBVA and San Paolo IMI on behalf of EIB for loans made by EIB for the TIM Mobile Network Project.

NOTE 24 - REVENUES

Revenues amount to euro 14,692 million in the first half of 2005, an increase of euro 724 million or 5.2% compared to the first half of 2004.

Such increase reflects the positive trend of revenues in fixed and mobile telephone services equal to euro 826 million.

The breakdown of revenues by Business Unit for the first half of 2004 and 2005 is the following:

(in millions of euro)	WIRELINE	MOBILE	MEDIA	OLIVETTI	OTHER ACTIVITIES	ADJUSTMENTS	TOTAL CONSOLIDATED
Third parties	8,093	6,101	151	196	151	-	14,692
Intragroup	751	147	3	27	657	(1,585)	-
1st Half of 2005	**8,844**	**6,248**	**154**	**223**	**808**	**(1,585)**	**14,692**

(in millions of euro)	WIRELINE	MOBILE	MEDIA	OLIVETTI	OTHER ACTIVITIES	ADJUSTMENTS	TOTAL CONSOLIDATED
Third parties	7,835	5,533	154	285	161	-	13,968
Intragroup	823	118	3	13	683	(1,640)	-
1st Half of 2004	**8,658**	**5,651**	**157**	**298**	**844**	**(1,640)**	**13,968**

Foreign revenues amount to euro 2,757 million (euro 2,213 million in the first half of 2004). A breakdown of revenues by customer geographical location is as follows:

Geographical Area	1st Half 2005		1st Half 2004	
(in millions of euro)				
Italy	11,935	81.20%	11,755	84.20%
Rest of Europe	948	6.50%	825	5.90%
North America	191	1.30%	238	1.70%
Central and South America	1,430	9.70%	962	6.90%
Australia, Africa and Asia	188	1.30%	188	1.30%
Total	**14,692**	**100.00%**	**13,968**	**100.00%**

NOTE 25 – OTHER INCOME

Other income shows an increase of euro 47 million and consists of the following:

(in millions of euro	1st Half 2005	1st Half 2004	Change
Operating grants	3	3	
Release of reserves	8	8	
Penalties from late payment of telephone bills	49	42	7
Prior period income and non-existent liabilities	76	45	31
Capital grants	20	26	(6)
Other revenue and miscellaneous income	68	53	15
Total	**224**	**177**	**47**

NOTE 26 – PURCHASES OF MATERIALS AND EXTERNAL SERVICES

Purchases of materials and external services show an increase of euro 347 million. Details are as follows:

(in millions of euro	1st Half 2005	1st Half 2004	Change
Purchases of materials and merchandise for resale	1,118	1,066	52
Costs for services	4,476	4,291	185
Rents and lease costs	522	412	110
Total	**6,116**	**5,769**	**347**

In the first half of 2005, rents and lease costs include euro 404 million of rents (euro 292 million in the first half of 2004).

NOTE 27 – PERSONNEL COSTS

Personnel costs show an increase of euro 27 million and consist of the following:

(in millions of euro)	1st Half 2005	1st Half 2004	Change
Wages and salaries	1,343	1,313	30
Social security contributions	412	407	5
Severance indemnities	79	91	(12)
Other employee-related costs	19	27	(8)
	1,853	**1,838**	**15**
Miscellaneous expenses for personnel and for other labor-related services rendered	66	54	12
Total	**1,919**	**1,892**	**27**

The increase in "wages and salaries" and "social security contributions" is due to higher compensation and other related expenses (+2.9%) due particularly to increases provided by the collective national labor contract for the telecommunications industry. The increase is offset by the effect of the decrease (-0.9%) in the average number of salaried personnel (from 78,344 persons in the first half of 2004 to 77,670 persons in the first half of 2005).
The decrease in "severance indemnities" can be attributed to the effect of discounting the reserve for employee severance indemnities to present value.
Miscellaneous expenses for personnel and for other labor-related services rendered include euro 12 million of compensation paid to persons who are not employees and hold management positions in certain companies of the Group, euro 6 million for the valuation of stock options and other employee benefits and euro 48 million for employee cutback incentives.

At June 30, 2005, Telecom Italia Group employees number 82,397 compared to 80,799 at December 31, 2004, excluding employees of discontinued operations. This is an increase of 1,598 persons, 1,573 due to turnover and 25 due to the change in the scope of consolidation.

A breakdown of the workforce by sector is as follows:

	6/30/2005	12/31/2004	Change
Wireline	54,637	53,428	1,209
Mobile	19,013	18,034	979
Media	1,039	1,228	(189)
Olivetti	1,809	2,108	(299)
Other activities	5,899	6,001	(102)
Total	**82,397**	**80,799**	**1,598**

In the first half of 2005, the equivalent average number of employees is 77,670 (excluding employees of discontinued operations) compared to 78,344 in the first half of 2004.

The breakdown by category is as follows:

	1st Half 2005	1st Half 2004
Executives	1,558	1,606
Middle management	4,704	4,602
Clerical staff	70,631	71,184
Technicians	777	952
Total	**77,670**	**78,344**

NOTE 28 – OTHER OPERATING EXPENSES

Other operating expenses show an increase of euro 102 million and consist of the following:

(in millions of euro)	1st Half 2005	1st Half 2004	Change
Provision for doubtful (non-financial) accounts	120	113	7
Expenses connected with receivables management	77	53	24
	197	**166**	**31**
Provisions to reserves for future risks and charges	22	43	(21)
Miscellaneous operating expenses:			
• Indirect duties and taxes	64	64	-
• Taxes on revenues of South American companies	73	48	25
• TLC license fee	71	43	28
• Other expenses	223	184	39
Total	**650**	**548**	**102**

The increase is mainly due to the expenses incurred by Telecom Italia in connection with the settlement of the disputes with Opportunity for euro 50 million.

NOTE 29 – FINANCIAL INCOME

Financial income shows an increase of euro 620 million. Details are as follows:

(in millions of euro)	1st Half 2005	1st Half 2004	Change
Income from equity investments	**68**	**107**	**(39)**
Financial income:			
• Interest and commissions from banks	63	74	(11)
• Income from securities other than equity investments, held as current assets	25	24	1
• Other financial income	402	45	357
• Foreign exchange gains	225	129	96
• Income from hedging derivative financial instruments	318	118	200
• Income from non-hedging derivative financial instruments	44	62	(18)
	1,077	**452**	**625**
Positive fair value adjustments to:			
• Non-hedging derivative financial instruments	34	130	(96)
• Derivative financial instruments used to hedge fair value risk, under hedge accounting	97	16	81
• Underlying financial assets and liabilities of fair value hedges	55	26	29
• Other	40	-	40
	226	**172**	**54**
Impairment reversals on financial assets	**3**	**23**	**(20)**
Total	**1,374**	**754**	**620**

Income from equity investments includes gains on the sale of C-Mobil (euro 61 million) and Intelsat (euro 2 million). In the first half of 2004, such income totaled euro 107 million and mainly referred to the gain on the sale of the residual interest in Telekom Austria.

Other financial income includes the release (euro 343 million) of reserves set up for sureties issued to the banks which had financed Avea, since there was no longer a risk after the guarantees provided were in part cancelled.

Income from derivative financial instruments includes income from hedging and non-hedging contracts for euro 362 million (euro 180 million in the first half of 2004) and income from positive fair value adjustments of derivative financial instruments used to hedge fair value risk under hedge accounting, non-hedging derivatives and underlying financial assets and liabilities of fair value hedges for euro 186 million (euro 172 million for the first half of 2004).

NOTE 30 – FINANCIAL EXPENSES

Financial expenses show an increase of euro 449 million. Details are as follows:

(in millions of euro)	1st Half 2005	1st Half 2004	Change
Interest expense and other borrowing costs:			
• Interest expenses and all other costs relating to bonds	831	1,036	(205)
• Interest and commissions paid to banks	144	26	118
• Interest expenses and commissions paid to others and miscellaneous expenses	451	270	181
• Foreign exchange losses	265	138	127
• Charges from hedging derivative financial instruments	233	98	135
• Charges from non-hedging derivative financial instruments	117	22	95
	2,041	**1,590**	**451**
Negative fair value adjustments to:			
• Non-hedging derivative financial instruments	32	144	(112)
• Derivative financial instruments used to hedge fair value risk, under hedge accounting	55	26	29
• Underlying financial assets and liabilities of fair value hedges	97	16	81
	184	**186**	**(2)**
Impairment losses on financial assets (equity investments and securities other than equity investments)	**11**	**11**	**-**
Total	**2,236**	**1,787**	**449**

Expenses from derivative financial instruments include expenses from hedging and non-hedging contracts for euro 350 million (euro 120 million for the first half of 2004) and expenses from negative fair value adjustments of derivative financial instruments used to hedge fair value risk under hedge accounting, non-hedging derivatives and underlying financial assets and liabilities of fair value hedges for euro 184 million (euro 186 million for the first half of 2004).

NOTE 31 – EARNINGS PER SHARE

	1st Half 2004	1st Half 2005	Year 2004
BASIC EARNINGS PER SHARE			
Net income attributable to Parent Company	979	1,775	1,815
Less: euro 0.011 additional dividend per savings share	(64)	(64)	(64)
	915	1,711	1,751
Average number of ordinary and savings shares (millions)	16,001	17,156	16,004
Basic earnings per share — ordinary shares	0.06	0.10	0.11
Plus: euro 0.011 additional dividend per savings share	0.01	0.01	0.01
Basic earnings per share — savings shares	0.07	0.11	0.12
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Net income from continuing operations	955	1,354	1,916
Less: euro 0.011 additional dividend per savings share	(64)	(64)	(64)
	891	1,290	1,852
Average number of ordinary and savings shares (millions)	16,001	17,156	16,004
Basic earnings per share from continuing operations — ordinary shares	0.06	0.08	0.12
Plus: euro 0.011 additional dividend per savings share	0.01	0.01	0.01
Basic earnings per share from continuing operations — savings shares	0.07	0.09	0.13
BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS			
Net income from discontinued operations	24	421	(101)
Less: euro 0.011 additional dividend per savings share	0	(64)	0
	24	357	(101)
Average number of ordinary and savings shares (millions)	16,001	17,156	16,004
Basic earnings per share from discontinued operations — ordinary shares	0.00	0.02	(0.01)
Plus: euro 0.011 additional dividend per savings share	0.00	0.01	0.00
Basic earnings per share from discontinued operations — savings shares	0.00	0.03	(0.01)
DILUTED EARNINGS PER SHARE			
Average number of ordinary and savings shares (millions)	16,001	17,156	10,208
Dilutive effect of stock options plan and convertible bonds (*)	-	-	-
Average number of diluted ordinary and savings shares (million)	16,001	17,156	10,208
Diluted earnings per share — ordinary shares	0.06	0.10	0.11
Plus: euro 0.011 additional dividend per savings share	0.01	0.01	0.01
Diluted earnings per share — savings shares	0.07	0.11	0.12
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Average number of ordinary and savings shares (millions)	16,001	17,156	16,004
Diluted earnings per share from continuing operations— ordinary shares	0.06	0.08	0.12
Plus: euro 0.011 additional dividend per savings share	0.01	0.01	0.01
Diluted earnings per share from continuing operations — savings shares	0.07	0.09	0.13
DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS			
Average number of ordinary and savings shares (millions)	16,001	17,156	10,208
Diluted earnings per share from discontinued operations — ordinary shares	0.00	0.02	(0.01)
Plus: euro 0.011 additional dividend per savings share	0.00	0.01	0.00
Diluted earnings per share from discontinued operations — savings shares	0.00	0.03	(0.01)
Average number of ordinary shares	10,205,420,272	11,326,277,714	10,208,294,477
Average number of savings shares	5,795,921,069	5,834,287,668	5,795,921,069
Total	16,001,341,341	17,160,565,382	16,004,215,546

NOTE 32 – OTHER INFORMATION

a) Segment Information

Telecom Italia Group's organizational structure is as follows:

Central Functions, which are responsible for directing the Telecom Italia Group's operations, as communicated on July, 8, 2005, have been reorganized into **Group Functions and/or Service Units**:

- **Group Functions** are responsible for ensuring coordination, direction and control at the Group level, in their spheres of activities, particularly by the definition of policies and the overall administration of matters common to all Business Units.
- **Service Units** are responsible for guaranteeing – in close cooperation with the Business Units – the performance of common operating activities to support the business.

Business Units, are responsible for business development and coordination of market activities, as well as the specific results of their areas of operations. The Business Units are the following:

✓ **Wireline.** The Wireline Business Unit operates on a national level in fixed-line telephone, data and internet services for final customers (retail) and other providers (wholesale). On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and in South America) and offers innovative broadband services in certain metropolitan areas of Germany, France and Holland.

✓ **Mobile.** The Mobile Business Unit operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America (Brazil).

✓ **Media.** The Media Business Unit operates in the following segments: Television (La7 and MTV), Office Products (Buffetti Group) and News (Tm News).

✓ **Olivetti.** The Olivetti Business Unit operates in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (Office Products Division), specialized applications for the banking sector and commerce, information and computer systems for the management of gaming and lotteries (Gaming & Service Automation and Specialized Printers Division) and telephone repairs (Nuove Iniziative Industriali).

The macro-organizational model of the Telecom Italia Group is nevertheless interconnected in a flexible manner with the corporate structure, giving priority to the identification of expertise in specific business areas/functions rather than closely following the legal organization structure.

CONSOLIDATED STATEMENT OF INCOME – SEGMENT INFORMATION

(in millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Total consolidated	
	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004
Revenues by segment	8,844	8,658	6,248	5,651	154	157	223	298	808	844	(1,585)	(1,640)	14,692	13,968
Other income	112	92	54	38	5	10	8	9	81	66	(36)	(38)	224	177
Total revenues and operating income	**8,956**	**8,750**	**6,302**	**5,689**	**159**	**167**	**231**	**307**	**889**	**910**	**(1,621)**	**(1,678)**	**14,916**	**14,145**
Purchases of materials and external services	(3,613)	(3,450)	(2,926)	(2,688)	(156)	(133)	(189)	(247)	(758)	(720)	1,526	1,469	(6,116)	(5,769)
Personnel costs	(1,253)	(1,244)	(339)	(303)	(42)	(42)	(51)	(57)	(242)	(254)	8	8	(1,919)	(1,892)
- of which provision to the reserve for employee severance indemnities	*(52)*	*(68)*	*(18)*	*(9)*	*(2)*	*(2)*	*(2)*	*(3)*	*(5)*	*(9)*			*(79)*	*(91)*
Other operating expenses	(263)	(266)	(279)	(198)	(6)	(14)	(5)	(6)	(110)	(85)	13	21	(650)	(548)
- of which provision for doubtful receivables and to reserves for future risks and charges	*(89)*	*(77)*	*(29)*	*(45)*	*(2)*	*(2)*	*(2)*	*(1)*	*(18)*	*(20)*			*(140)*	*(145)*
Changes in inventories	17	28	43	69	1	-	16	23	-	(6)	-	(1)	77	113
Capitalized internal construction costs	121	90	26	17	1	-	-	-	1	15	62	182	211	304
EBITDA	**3,965**	**3,908**	**2,827**	**2,586**	**(43)**	**(22)**	**2**	**20**	**(220)**	**(140)**	**(12)**	**1**	**6,519**	**6,353**
Depreciation and amortization	(1,435)	(1,389)	(906)	(741)	(18)	(13)	(8)	(8)	(187)	(180)	34	26	(2,520)	(2,305)
Gain/losses on disposals of non-current assets	(2)	(13)	1	1	(1)	1	1	1	(1)	27	1	(23)	(1)	(6)
Impairment losses/reversals on non-current assets	-	-	(12)	(2)	-	(1)	(1)	(1)	-	-	4	(282)	(9)	(286)
EBIT	**2,528**	**2,506**	**1,910**	**1,844**	**(62)**	**(35)**	**(6)**	**12**	**(408)**	**(293)**	**27**	**(278)**	**3,989**	**3,756**
Share of earnings of equity investments in associates accounted for by the equity method													(15)	(18)
Financial income													1,374	754
Financial expenses													(2,236)	(1,787)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES													**3,112**	**2,705**
Income taxes for the period													(1,354)	(1,311)
NET INCOME FROM CONTINUING OPERATIONS													**1,758**	**1,394**
Net income from discontinued operations/assets held for sale													421	24
NET INCOME FOR THE PERIOD													**2,179**	**1,418**
Attributable to:														
* Parent Company													**1,775**	**979**
* Minority interests													404	439

Capital expenditures:														
- intangible assets	1,059	718	365	398	6	3	8	8	84	127	(9)	(12)	1,513	1,242
- tangible assets	369	386	244	211	17	11	-	-	33	49	5	(7)	668	650

(in millions of euro)	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Total consolidated	
	30/06/2005	31/12/2004	30/06/2005	31/12/2004	30/06/2005	31/12/2004	30/06/2005	31/12/2004	30/06/2005	31/12/2004	30/06/2005	31/12/2004	30/06/2005	31/12/2004
Total operating assets (*)	36,286	35,658	40,950	23,076	651	640	369	361	5,659	4,833	(3,428)	(2,280)	80,487	62,288
Total operating liabilities (*)	10,669	9,754	5,855	6,047	221	202	278	288	2,728	2,696	(3,142)	(1,954)	16,609	17,033

(*) excludes operating assets and liabilities referring to discontinued operations/assets held for sale

b) EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

	Exchange rates at year-end (Balance sheet)				
(currency/euro)	June 30, 2005	December 31, 2004	June 30, 2004	Changes % December 31, 2004	Changes % June 30, 2004
Europe					
Swedish Krona	0.106090665	0.110857371	0.109348176	(4.30)	(2.98)
Hungarian Fiorint	0.004044653	0.004065536	0.003974563	(0.51)	1.76
Swiss Franc	0.645202916	0.648130145	0.656081879	(0.45)	(1.66)
Romanian Leu	0.000027755	0.000025387	0.000024615	9.33	12.76
Pound Sterling	1.483239395	1.418339125	1.490868431	4.58	(0.51)
Turkish Lira	0.618543948	0.547400000	0.553400000	13.00	11.77
Russian Rouble	0.028903204	0.026494425	0.028306728	9.09	2.11
Polish Zloty	0.247598297	0.244828008	0.221062870	1.13	12.00
North America					
US Dollar	0.826993053	0.734160488	0.822706705	12.64	0.52
South America					
Venezuelan Bolivar	0.000384648	0.000382375	0.000428493	0.59	(10.23)
Bolivian Boliviano	0.102452088	0.091518354	0.103785364	11.95	(1.28)
Costarica Colon	0.001731016	0.001602621	0.001881677	8.01	(8.01)
Peruvian Nuevo Sol	0.254224577	0.223693129	0.236988726	13.65	7.27
Argentinean Pesos	0.286454156	0.246445030	0.278129302	16.23	2.99
Chilean Peso	0.001429300	0.001316880	0.001292954	8.54	10.55
Colombian Peso	0.000355849	0.000312409	0.000305453	13.90	16.50
Mexican Peso	0.076840208	0.065879451	0.071384517	16.64	7.64
Brazilian Real	0.351852503	0.276582328	0.264748476	27.21	32.90
Asia					
Hong Kong Dollar	0.106394297	0.094445651	0.105481894	12.65	0.86
Singapore Dollar	0.490749374	0.449195939	0.478446007	9.25	2.57
Israeli Shekel	0.180882199	0.170141524	0.183027159	6.31	(1.17)
Japanese Yen	0.007465472	0.007160759	0.007552870	4.26	(1.16)
Africa					
South African Rand	0.124604381	0.130044085	0.131273219	(4.18)	(5.08)

	Average exchange rates during the period (Statement of income)				
(currency/euro)	1st Half 2005	1st Half 2004	Year 2004	Changes % 1st Half 2004	Changes % Year 2004
Europe					
Swedish Krona	0.109383341	0.109113009	0.109596848	0.25	(0.19)
Hungarian Fiorint	0.004041281	0.003904533	0.003973677	3.50	1.70
Swiss Franc	0.646767778	0.643865252	0.647743908	0.45	(0.15)
Romanian Leu	0.000027306	0.000024615	0.000024686	10.93	10.62
Pound Sterling	1.457959731	1.484714861	1.473470170	(1.80)	(1.05)
Turkish Lira	0.580416739	0.587400000	0.565900000	(1.19)	2.57
Russian Rouble	0.027828278	0.028324913	0.027917482	(1.75)	(0.32)
Polish Zloty	0.245099241	0.211310165	0.220908553	15.99	10.95
North America					
US Dollar	0.778331258	0.814770153	0.803923145	(4.47)	(3.18)
South America					
Venezuelan Bolivar	0.000375517	0.000440257	0.000430721	(14.70)	(12.82)
Bolivian Boliviano	0.096601464	0.103386315	0.101429651	(6.56)	(4.76)
Costarica Colon	0.001662216	0.001904723	0.001835601	(12.73)	(9.45)
Peruvian Nuevo Sol	0.238890973	0.234521026	0.235640093	1.86	1.38
Argentinean Pesos	0.267396123	0.280294197	0.273243455	(4.60)	(2.14)
Chilean Peso	0.001342358	0.001338489	0.001319383	0.29	1.74
Colombian Peso	0.000331936	0.000301635	0.000306344	10.05	8.35
Mexican Peso	0.070316714	0.072846211	0.071241004	(3.47)	(1.30)
Brazilian Real	0.302540737	0.274243841	0.274776607	10.32	10.10
Asia					
Hong Kong Dollar	0.099869570	0.104629325	0.103219307	(4.55)	(3.25)
Singapore Dollar	0.472525032	0.479588705	0.475836997	(1.47)	(0.70)
Israeli Shekel	0.177678909	0.180920815	0.179628349	(1.79)	(1.09)
Japanese Yen	0.007341757	0.007513530	0.007438009	(2.29)	(1.29)
Africa					
South African Rand	0.125279059	0.121747071	0.124856415	2.90	0.34

c) LIST OF SUBSIDIARIES

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
WIRELINE BUSINESS UNIT						
BBEYOND B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	82,430,000	98.7764		TELECOM ITALIA INTERNATIONAL N.V.
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	100.0000		MEDITERRANEAN NAUTILUS S.A.
EMAX TRADE S.r.l. – (in liquidazione) (Internet site management)	MILAN (ITALY)	EUR	100,000	100.0000		MATRIX S.p.A.
FILM NON STOP S.A. (service for leisure-time)	PARIS (FRANCE)	EUR	60,000	100.0000		LIBERTY SURF GROUP S.A.
FINANZIARIA WEB (financing)	ROME (ITALY)	EUR	9,606,074	100.0000		ISM S.r.l.
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)	ROVERETA (REPUBLIC OF SAN MARINO)	EUR	1,550,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.
INTERCALL S.A. (telecommunications services and sale of prepaid telephone cards)	PARIS (FRANCE)	EUR	807,060	88.6300		LIBERTY SURF GROUP S.A.
ISM S.r.l. (holding company)	ROME (ITALY)	EUR	56,010,000	100.0000		TELECOM ITALIA S.p.A.
KMATRIX S.r.l. (in liquidazione) (Internet site creation and management)	MILAN (ITALY)	EUR	100,000	100.0000		MATRIX S.p.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	2,000,000	99.9699 0.0300		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS LTD
LATIN AMERICAN NAUTILUS BOLIVIA SrL (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9985 0.0014		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 BRASIL PARTICIPACOES LTDA LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	86,866,370	99.9999 0.0001		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS LTD
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	7,113,341,592	99.9999		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA' (COLOMBIA)	COP	4,148,521,000	99.9999		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO D.F. (MEXICO)	MXN	100,000	99.9900 0.0100		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	43,374,195	99.9999		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	55,500,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	BOB	43,425,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LIBERTY SURF GmbH (internet services)	AMSTERDAM (HOLLAND)	EUR	1	100.0000		LIBERTY SURF GROUP S.A.
LIBERTY SURF GROUP S.A. (internet services)	PARIS (FRANCE)	EUR	75,303,517	94.8900		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (internet services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.
LIBERTY SURF TELECOM B.V. (internet services)	AMSTERDAM (HOLLAND)	EUR	3,871,142	100.0000		LIBERTY SURF GROUP S.A.
LIBERTY SURF U.K. Ltd (internet services)	LONDON (UK)	GBP	1	100.0000		LIBERTY SURF GROUP 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.
MATRIX S.p.A. (Internet services)	MILAN (ITALY)	EUR	1,100,000	66.0000 34.0000		FINANZIARIA WEBB S.p.A. ISM S.r.l.
MED 1 IC-1 (1999) Ltd (installation and management of submarine cable IC1)	TEL AVIV (ISRAEL)	ILS	1,000	99.9000 0.1000		MED-1 SUBMARINE CABLES Ltd MED-1 ITALY S.r.l.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,151	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l. (installation and management submarine cable systems in Italian seas)	ROME (ITALY)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
MED-1 SUBMARINE CABLES Ltd (installation and management of cable Lev)	TEL AVIV (ISRAEL)	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 SA (installation and management of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	DELAWARE (USA)	USD	3,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ISRAEL Ltd (TLC services. installation and management of submarine cable systems)	TEL AVIV (ISRAEL)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLIN (IRELAND)	USD	100,000	51.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	LUXEMBOURG LUXEMBOURG	USD	326,480,000	62.5092 7.4908		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURKEY)	YTL	350,000	99.9988 0.0003 0.0003 0.0003 0.0003		MEDITERRANEAN NAUTILUS BV MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ITALY S.p.A. MEDITERRANEAN NAUTILUS ISRAEL Ltd MEDITERRANEAN NAUTILUS GREECE Ltd
NUOVA TIN.IT S.r.l. (internet services)	MILAN (ITALY)	EUR	10,000,000	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.
Rits Tele.Com B.V. (telecommunications services)	ROTTERDAM (HOLLAND)	EUR	49,273	100.0000		BBNED N.V.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	HAMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA FRANCE SAS. (telecommunications services)	PARIS (FRANCE)	EUR	20,307,800	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 SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC.
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (in liquidation) (telecommunications services)	MONTREAL (CANADA)	CAD	952,100	100.0000		TMI – TELEMEDIA INTERNATIONAL Ltd
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services)	BORGO MAGGIORE (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
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l. (housing and hosting)	GUALDICCIOLO (REPUBLIC OF SAN MARINO)	EUR	25,800	100.0000		INTELCOM SAN MARINO S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GmbH (telecommunications services)	WIEN (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.
TISCALI ACCESS S.A. (internet services - information and telematic products)	PARIS (FRANCE)	EUR	8,415,000	100.0000		LIBERTY SURF GROUP S.A.
TISCALI CONTACT S.A. (Telemarketing services – help desk etc.)	PARIS (FRANCE)	EUR	1,000,000	100.0000		LIBERTY SURF GROUP S.A.
TISCALI MEDIA S.A. (production, development and sale of telecommunications and multimedia services)	PARIS (FRANCE)	EUR	450,000	100.0000		LIBERTY SURF GROUP S.A.
TISCALI TELECOM S.A.S. (telecommunications and information technology services and products)	PARIS (FRANCE)	EUR	4,500,000	100.0000		LIBERTY SURF GROUP S.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	SAO PAULO (BRAZIL)	BRL	2,589,317	100.0000		TMI TELEMEDIA INTERNATIONAL LTD
MOBILE BUSINESS UNIT						
BLAH! INC (mobile network services)	FLORIDA (USA)	USD	22,664,000	100.0000		TIM INTERNATIONAL N.V.
BLAH! SOCIEDADE ANÔNIMA DE SERVIÇOS E COMÉRCIO (internet services)	RIO DE JANEIRO (BRAZIL)	BRL	92,383,315	100.0000		TIM INTERNATIONAL N.V.
CORPORACION DIGITEL C.A. (telecommunications services)	CARACAS (VENEZUELA)	VEB	41,214,946,687	100.0000		TIM INTERNATIONAL N.V.
CRC - Centro de Relacionamento com Clientes 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	1,200,769,399	100.0000		TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	10,054,736,301	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAULO (BRAZIL)	BRL	9,000,000,000	100.0000		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000		TELECOM ITALIA S.p.A.
TIM ITALIA S.p.A. (mobile telephony operator)	MILAN (ITALY)	EUR	413,552,203	100.0000		TELECOM ITALIA S.p.A.
TIM NORDESTE TELECOMUNICAÇÕES S.A. (mobile telephony operator)	JABOATÃO DOS GUARARAPES (BRAZIL)	BRL	533,979,391	100.0000		TIM PARTICIPAÇÕES S.A.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TIM PARTICIPAÇOES S.A. (holding company for operating companies providing mobile network services)	CURITIBA (BRAZIL)	BRL	1,472,074,525	19.8798	50.3335	TIM BRASIL SERVIÇOS E 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	1,001,243,386	100.0000		TIM PARTICIPAÇÕES S.A.

MEDIA BUSINESS UNIT

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
BEIGUA S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI.IT S.r.l. (in liquidazione) (research, design, development, production of information and telematic products for tourism)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
GRUPPO BUFFETTI S.p.A. (manufacture of products regarding the paper industry. printing and publishing)	ROME (ITALY)	EUR	11,817,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA & COMUNICAZIONE PUBBLICITA' S.r.l. (in liquidazione) (purchase/sale of ad space and management of advertising on radio/TV stations/channels)	ROME (ITALY)	EUR	10,000	100.0000		HOLDING MEDIA E COMUNICAZIONE H.M.C. 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.
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 PUBBLICITA' S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
OFFICE AUTOMATION PRODUCTS S.r.l. (in liquidazione) (wholesale of magnetic supports)	ROME (ITALY)	EUR	90,000	100.0000		GRUPPO BUFFETTI
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidazione) (marketing and communication consulting)	ROME (ITALY)	EUR	600,000	100.0000		TELECOM ITALIA MEDIA 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. (management of all activities connected with the handling of information)	ROME (ITALY)	EUR	(*) 99,997,104	66.0400 2.2600	67.1400 2.3000	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.p.A.
TELECOM MEDIA NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	120,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TI MEDIA BROADCASTING S.r.l. (purchase. sale. management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	7,140,381	100.0000		LA7 TELEVISIONI S.p.A.
TIN WEB S.r.l. (in liquidazione) (Internet site development consulting)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.

(*) Taking into accounts the reduction in share capital due to the cancellation of treasury stock purchased in the Cash Tender Offer.

OLIVETTI BUSINESS UNIT

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	ROME (ITALY)	EUR	52,000	60.0000 40.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAULO (BRAZIL)	BRL	5,135,417	100.0000		OLIVETTI DO BRASIL S.A.
MULTIDATA S/A ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000		OLIVETTI DO BRASIL S.A.
OLIVETTI AUSTRIA GmbH (sale of office equipment and accessories)	WIEN (AUSTRIA)	EUR	36,336	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI FRANCE S.A.S. (sale of office equipment and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI INTERNATIONAL B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	355,027,092	100.0000		OLIVETTI S.p.A.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
OLIVETTI UK Ltd (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (sale and maintenance of office equipment)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	99.9900 0.0100		OLIVETTI INTERNATIONAL B.V. OLIVETTI PERUANA S.A. (in liquidation)
OLIVETTI CHILE S.A. (sale and maintenance of office equipment, accessories and software)	SANTIAGO (CHILE)	CLP	2,574,015,843	99.9994 0.0006		OLIVETTI INTERNATIONAL B.V. OLIVETTI PERUANA S.A. (in liquidation)
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	BOGOTA' (COLOMBIA)	COP	2,500,000,000	90.5300 9.4700		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI DE PUERTO RICO, Inc. (office equipment in the United States and Central America)	SAN JUAN (PUERTO RICO)	USD	1,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DEUTSCHLAND Gmbh (sale of office equipment and holding company)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A. (manufacture and sale of typewriters, accessories, parts and assistance)	SAO PAULO (BRAZIL)	BRL	111,660,625	96.6446 3.3554		OLIVETTI INTERNATIONAL B.V. OLIVETTI MEXICANA S.A.
OLIVETTI ENGINEERING SA (EX Yminds) (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.p.A.
OLIVETTI I-JET S.p.A. (manufacture and sale of products and accessories for office equipment)	ARNAD - AOSTA (ITALY)	EUR	15,000,000	100.0000		OLIVETTI S.p.A.
OLIVETTI MEXICANA S.A. (manufacture and sale, import-export of typewriters, adding machines, accessories and parts, technical assistance services)	MEXICO D.F. (MEXICO)	MXN	195,190,636	100.0000 0.0000		OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI PERUANA S.A. (in liquidation) (sale and assistance for office equipment and machines)	LIMA (PERU')	PEN	1,000,009	99.9991 0.0009		OLIVETTI DO BRASIL S.A. OLIVETTI S.p.A.
OLIVETTI 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 (H.K.) Ltd. (in liquidation) (sale of systems and products on the pacific area and other)	HONG KONG (CINA)	HKD	200,000	99.5000 0.5000		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI TECNOST ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9863		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST NEDERLAND B.V. (sale of office equipment and accessories)	LEIDERDORP (HOLLAND)	EUR	6,468,280	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST PORTUGAL S.A (sale of office equipment and accessories)	LISBON (PORTUGAL)	EUR	275,000	99.9927		OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI-L'AQUILA (ITALY)	EUR	1,040,000	100.0000		OLIVETTI S.p.A.
TIESSE S.c.p.A. (installation and assistance for electromechanical, electronic, computer, telematic and telecommunications equipment)	ROME (ITALY)	EUR	103,292	42.0000 19.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO-BARI (ITALY)	EUR	564,650	91.2100		OLIVETTI S.p.A.
WIRELAB S.p.A. (repairs, management and assistance of fixed telecommunications and other equipment)	SCARMAGNO-TURIN (ITALY)	EUR	300,000	70.0000		OLIVETTI S.p.A.

OTHER ACTIVITIES

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ASCAI SERVIZI S.r.l. (in liquidazione) (development of the process and strategies in the communications)	ROME (ITALY)	EUR	73,337	64.9600		SAIAT SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC p.A.
CONS.FORM.PROF.MEZZOGIORNO D'ITALIA E PAESI AREA MEDITERRANEA – NAUTILUS (professional training)	ROME (ITALY)	EUR	30,000	31.0000 20.0000		TELECOM ITALIA LEARNING SERVICE S.p.A. MEDITERRANEAN NAUTILUS Ltd.
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (coordination of power for fixed and mobile networks of consortia)	ROME (ITALY)	EUR	10,000	50.0000 50.0000		TIM ITALIA S.p.A. TELECOM ITALIA S.p.A.
DATACOM S.A. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	100.0000		ENTEL S.A.
DOMUS ACADEMY S.p.A. (specialized design courses)	MILAN (ITALY)	EUR	140,000	67.3336		TELECOM ITALIA S.p.A.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
EDOTEL S.p.A. (holding company)	TURIN (ITALY)	EUR	4,847,193	100.0000		TELECOM ITALIA FINANCE S.A.
EMSA Servizi S.p.A. (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
ENTEL S.A. – EMPRESA NACIONAL DE TELECOMUNICACIONES (larga distancia nacional e internacional, movil, local, transmision de datos)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000		ETI EURO TELEO INTERNATIONAL N.V.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000		ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
EUSTEMA S.p.A. (design, research. development and marketing of software, information and online systems)	ROME (ITALY)	EUR	312,000	67.3333		TELECOM ITALIA S.p.A.
I.T. TELECOM S.r.l. (other software development and software consulting)	MILAN (ITALY)	EUR	25,000,000	100.0000		TELECOM ITALIA S.p.A.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidazione) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000		TELECOM ITALIA S.p.A.
NETESI S.p.A. (in liquidazione) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (real estate purchases, exchanges and sales)	IVREA-TURIN (ITALY)	EUR	100,000	50.1000		OLIVETTI MULTISERVICES S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA-TURIN (ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.p.A. (real estate services)	IVREA-TURIN (ITALY)	EUR	1,300,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI INTERNATIONAL (SERVICE) S.A. (in liquidation) (administrative services)	TICINO (SWITZERLAND)	CHF	50,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	IVREA-TURIN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (real estate management)	YOKOHAMA (JAPAN)	JPY	100,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OMS HOLDING B.V. (financing)	AMSTERDAM (HOLLAND)	EUR	20,000	100.0000		OLIVETTI MULTISERVICES S.p.A.
PROGETTO ITALIA S.p.A. (development and improvement of the Telecom Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000		TELECOM ITALIA S.p.A.
RUF GESTION S.A.S. (real estate services)	PUTEAUX (FRANCE)	EUR	266,300	100.0000		OMS HOLDING B.V.
SAIAT SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS LLC (holding company)	DELAWARE (USA)	USD	29,806,101	56.9626 17.8482		TELECOM ITALIA LAB S.p.A. TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9917		TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and 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. TIM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	99.9990 0.0010		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	163,870	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA LEARNING SERVICES DO BRASIL LIMITADA (information consulting and services)	SAO PAULO (BRAZIL)	BRL	174,040	99.9989		TELECOM ITALIA LEARNING SERVICES S.p.A.
TELECOM ITALIA LEARNING SERVICES S.p.A. (professional training)	MILAN (ITALY)	EUR	1,560,000	100.0000		TELECOM ITALIA S.p.A.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	80.0000 20.0000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	496,661,807	100.0000		TELECOM ITALIA FINANCE S.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TIAUDIT LATAM S.A. (internal auditing)	SAO PAULO (BRAZIL)	BRL	1,500,000	99.9995		TELECOM ITALIA AUDIT - SCARL
TRAINET S.p.A. (in liquidazione) (development. operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.

c) List of companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
Affiliated Companies						
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.
14 BRASIL TELECOM CELULAR S.A. (mobile telephone system services)	BRAZILIA (BRAZIL)	BRL	1,400,000,000	100.0000		BRASIL TELECOM S.A.
ARCHEO S.p.A. (in liquidazione) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6508 0.9720		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
AVEA ILETISIM HIZMETLERI A.S. (mobile telephony operator)	ISTANBUL (TURKEY)	TRY	7,024,867,230,970,000	40.5647		TIM INTERNATIONAL N.V.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA-TURIN (ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A.
BRASIL TELECOM CABOS SUBMARINOS DO BRASIL LTDA (Internet services)	BRAZILIA (BRAZIL)	BRL	243,996,192	50.0000 50.0000		BRASIL TELECOM CABOS SUB – MARINOS DO BRASIL (H.) LTDA BRASIL TELECOM SERVICOS DE INTERNET S.A.
BRASIL TELECOM CABOS SUBMARINOS DO BRASIL (HOLDING) LTDA (holding company)	BRAZILIA (BRAZIL)	BRL	121,143,657	99.9900 0.0100		BRASIL TELECOM SERVICOS DE INTERNET S.A. BRASIL TELECOM S.A.
BRASIL TELECOM COMUNICACOES MULTIMIDIA LTDA (holding company)	BRAZILIA (BRAZIL)	BRL	320,308,372	99.9900 0.0100		MTH VENTURES DO BRASIL LTDA BRASIL TELECOM SERVICOS DE INTERNET S.A.
BRASIL TELECOM OF AMERICA INC (telecommunications activities, installation and maintenance of submarine cables)	USA	BRL	17,856,960	100.0000		BRASIL TELECOM SUBSEA CABLE SYSTEMS(BERMUDA) LTD
BRASIL TELECOM PARTICIPACOES S.A. (holding company)	BRAZILIA (BRAZIL)	BRL	2,596,271,820	18.7800 1.1200	51.0000 0.9800	SOLPART PARTICIPACOES S.A. TELECOM ITALIA INTERNAT. N.V.
BRASIL TELECOM S.A. (holding company)	BRAZILIA (BRAZIL)	BRL	3,435,787,768	65.5400	99.0700	BRASIL TELECOM PARTICPACOES S.A.
BRASIL TELECOM SERVICOS DE INTERNET S.A. (Internet services)	BRAZILIA (BRAZIL)	BRL	388,071,000	100.0000		BRASIL TELECOM S.A.
BRASIL TELECOM SUBSEA CABLE SYSTEMS (BERMUDA) LTD (telecommunications activities, installation and maintenance of submarine cables)	BRAZILIA (BRAZIL)	BRL	440,504,184	79.4700 20.5300		BRASIL TELECOM S.A. BRASIL TELECOM SERVICOS DE INTERNET S.A.
BRASIL TELECOM DE VENEZUELA S.A. (telecommunications activities, installation and maintenance of submarine cables)	VENEZUELA	BRL	11,631	100.0000		BRASIL TELECOM SUBSEA CABLE SYSTEMS (BERMUDA) LTD
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	SERRAVALLE (REPUBLIC OF SAN MARINO)	EUR	258,000	20.0000		INTELCOM SAN MARINO S.p.A.
CABLE INSIGNA S.A. (in liquidation) (telecommunications services)	ASUNCION (PARAGUAY)	PYG	1,000,000,000	75.0000		TELECOM PERSONAL S.A.
CLIPPER S.p.A. (in liquidazione) (marketing and communication consulting)	ROME (ITALY)	EUR	100,000	50.0000		SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidaz.)
CONSORZIO DREAM FACTORY (in liquidazione) (promotion of new economy development in the weak areas of the country)	ROME (ITALY)	EUR	20,000	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO E O (in liquidazione) (professional training)	ROME (ITALY)	EUR	30,987	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO IRI TELEMATICA CALABRIA – TELCAL (planning and development of the "Piano Telematico Calabria" project)	CATANZARO (ITALY)	EUR	877,975	24.0000		TELECOM ITALIA S.p.A.
CONSORZIO 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 REISS FORM (training and consulting services for training and management)	ROME (ITALY)	EUR	51,646	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO S.I.A.R.C. (in liquidazione) (supply of information products and services)	NAPLES (ITALY)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.

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		TIM ITALIA S.p.A.
CONSORZIO TELEMED (in liquidazione) (online social and health assistance activities)	ROME (ITALY)	EUR	103,291	33.3335		TELECOM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,469	33.3333		TELECOM ITALIA S.p.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	L'AVANA (CUBA)	USD	1,749,313,080	27.0030		TELECOM ITALIA INTERNAT. N.V.
FREELANCE S.A. (Internet services)	BRAZILIA (BRAZIL)	BRL	47,618,851	84.5200		BRASIL HOLDING SERVICOS DE INTERNET S.A.
				15.4800		iBEST HOLDING
iBEST HOLDING CORPORATION (Internet services)	CAYMAN ISLANDS	BRL	12,692,595	61.5400		BRASIL TELECOM SERVICOS DE INTERNET S.A.
				38.4600		BRASIL TELECOM SUBSEA CABLE SYSTEMS (BERMUDA) LTD
IM.SER S.p.A. (real estate management)	TURIN (ITALY)	EUR	889,950	40.0000		TELECOM ITALIA S.p.A.
IN.VA. S.p.A. (information systems)	AOSTA (ITALY)	EUR	520,000	40.0000		TELECOM ITALIA S.p.A.
INNOVIS S.p.A. (computer. Online and telecommunications equipments and services)	IVREA-TURIN (ITALY)	EUR	325,000	20.0000		OLIVETTI S.p.A.
INTERCALL HELLAS (telecommunications services and sale of prepaid telephone cards)	ATHENS (GREECE)	EUR	293,700	29.4100		INTECALL S.A.
INTERNET GROUP (CAYMAN) LTD (holding company)	CAYMAN ISLANDS	BRL	235,736,146	63.2100	63.0000	BRASIL TELECOM SUBSEA CABLE SYSTEMS (BERMUDA) LTD
				9.2500	9.80000	NOVA TAFARRA PARTICIPACOES LTDA
				0.1600	0.2000	NOVA TAFARRA INC.
INTERNET GROUP DO BRASIL LTDA (Internet services)	BRAZILIA (BRAZIL)	BRL	267,137,660	99.9999		INTERNET GROUP CAYMAN
ISCE Investors in Sapient & Cuneo Europe S.A. (investment company)	LUXEMBOURG (LUXEMBOURG)	EUR	4,334,400	25.0000		TELECOM ITALIA MEDIA S.p.A.
ITALTEL HOLDING S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LATINA GIOCHI E SISTEMI S.r.l. (lotteries and telephone and telematic games)	MILAN (ITALY)	EUR	520,000	25.0000		OLIVETTI S.p.A.
LI.SI.T. – LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information and TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROME (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A.
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	210,000	99.9900		TELECOM ARGENTINA S.A.
				0.0100		PUBLICOM S.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA LAB SA
MTH VENTURES DO BRASIL LTDA (holding company)	BRAZILIA (BRAZIL)	BRL	321,084,143	99.9900		BRASIL TELECOM S.A.
				0.0100		BRASIL TELECOM SERVICOS DE INTERNET S.A.
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	MILAN (ITALY)	EUR	582,716	20.0000		TELECOM ITALIA S.p.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	78,633,050	51.0400	67.7883	SOFORA TELECOMUNICACIONES SA
NOVA TARAFFA INC. (holding company)	BUENOS AIRES (ARGENTINA)	BRL	2,356,649	100.0000		BRASIL TELECOM PARTICIPACOES S.A.
NOVA TARAFFA PARTICIPACOES LTDA (holding company)	BRAZILIA (BRAZIL)	BRL	32,624,929	99.9900		BRASIL TELECOM PARTICIPACOES S.A.
				0.0100		BRASIL TELECOM SEVICOS DE INTERNET S.A.
NUCLEO S.A. (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	175,200,000,000	67.5000		TELECOM PERSONAL S.A.
OCN-TRADING S.r.l. (in liquidazione) (trading company)	IVREA-TURIN (ITALY)	EUR	40,800	40.0000		TELECOM ITALIA S.p.A.
OLI GULF FZCO (marketing of office and computer equipment)	JEBEL ALI (DUBAI – UAE)	AED	500,000	40.0000		OLIVETTI INTERNATIONAL B.V.

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
OLITECNO S.A. DE C.V. (in liquidation) (manufacture and sale of products for the telecommunications industry)	MEXICO D.F. (MEXICO)	MXN	1,000,000	50.0000		OLIVETTI MEXICANA S.A.
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.
PERSEO S.r.l. (acquisition, sale, change, lease, administration and maintenance of registered real estate for every use and destination)	CASELLE TORINESE-TURIN (ITALY)	EUR	20,000	50.0000		TELECOM ITALIA S.p.A.
PUBLICOM S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	16,000,000	99.9900 0.0100		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
SANTA BARBARA DO CERRADO S.A. (real estate services)	BRAZILIA (BRAZIL)	BRL	1,000	100.0000		BRASIL TELECOM S.A.
SANTA BARBARA DO PANTANAL S.A. (real estate services)	BRAZILIA (BRAZIL)	BRL	1,000	100.0000		BRASIL TELECOM S.A.
SANTA BARBARA DOS PAMPAS S.A. (real estate services)	BRAZILIA (BRAZIL)	BRL	1,000	100.0000		BRASIL TELECOM S.A.
SANTA BARBARA DOS PINHAIS S.A. (real estate services)	BRAZILIA (BRAZIL)	BRL	1,000	100.0000		BRASIL TELECOM S.A.
SHARED SERVICE CENTER SCARL (planning, design, installation running of computer services)	MILAN (ITALY)	EUR	1,756,612	40.9091 4.5455 4.5455		TELECOM ITALIA S.p.A. OLIVETTI S.p.A. TIM ITALIA S.p.A.
SIEMENS INFORMATICA S.p.A. (supply of innovating solutions in the field of electronic and mobile business)	MILAN (ITALY)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SINOPIA INFORMATICA S.p.A. (in bankruptcy) (production and sale of products and services of information technologies and communication)	BOLOGNA (ITALY)	EUR	157,155	21.3099		TELECOM ITALIA S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNAT. N.V.
SOLPART PARTICIPACOES SA (holding company for investment in Brasil Telecom Participaçoes S.A.)	RIO DE JANEIRO (BRAZIL)	BRL	1,657,200,000	38.0000		TELECOM ITALIA INTERNAT. N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	4,083,330	31.0345		TELECOM ITALIA S.p.A.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54.7364		NORTEL INVERSORA S.A.
TELECOM ARGENTINA USA INC. (telecommunications services)	DELAWARE (USA)	USD	249,873	100.0000		TELECOM ARGENTINA S.A.
TELECOM PERSONAL S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	310,514,481	99.9900 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 SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (real estate management)	MILAN (ITALY)	EUR	14,185,288	49.4707		TELECOM ITALIA S.p.A.
UBA-NET S.A. (in liquidazione) (teleteaching systems)	BUENOS AIRES (ARGENTINA)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidazione)
VANT TELECOMUNICACOES S.A. (telecommunications services)	BRAZILIA (BRAZIL)	BRL	105,958,820	99.9900 0.0100		BRASIL TELECOM S.A. BRASIL TELECOM SERVICOS DE INTERNET S.A.
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH

e) SIGNIFICANT INVESTMENTS

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ATESIA- Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROMA	EUR	3.150.406	19,9000		TELECOM ITALIA S.p.A.
ELETTROCLICK S.p.A. (in fallimento) (holding company)	MILANO	EUR	127.420	14,7000		TELECOM ITALIA MEDIA S.p.A.
CELL-TEL S.p.A. (telecommunications systems)	IVREA (TORINO)	EUR	500.000	15,0000		OLIVETTI S.p.A.
FIN.PRIV. S.r.l. (financing)	MILANO	EUR	20.000	14,2900		TELECOM ITALIA S.p.A.
FINSIEL - Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	ROMA	EUR	59.982.385	19,9000		TELECOM ITALIA S.p.A.
FORTHNET S.A. (information and telecommunications services)	KALLITHEA (GRECIA)	EUR	19.885.000	7,5900 4,3900		TELECOM ITALIA INTERNAT. N.V. MEDITERRANEAN NAUTILUS S.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOVA	EUR	161.765	12,0000		TELECOM ITALIA LAB S.A.
INSULA S.p.A. (telecommunications services)	VENEZIA-MESTRE	EUR	2.064.000	12,0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM INC (Internet services)	CALIFORNIA (USA)	USD	4.720	19,5000		TELECOM ITALIA MEDIA S.p.A
LEISURE LINK HOLDINGS ltd (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7.809.179	11,4700		TELECOM ITALIA FINANCE S.A.
PAS GROUP - Professional Application Software S.r.l. (software production)	MILANO	EUR	91.800	16,6700		EUSTEMA S.p.A.
PIEDMONT INTERNATIONAL S.A. (financing)	LUSSEMBURGO (LUSSEMBURGO)	USD	10.507.500	17,1300	10,3000	TELECOM ITALIA FINANCE S.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (PAESI BASSI)	EUR	15.129.484	13,6500		OLIVETTI S.p.A
TWICE SIM S.p.A. (investment services)	MILANO	EUR	8.450.000	14,2300		TELECOM ITALIA MEDIA S.p.A.
USABLENET Inc (development of software for the analysis of web site usability)	DELAWARE (USA)	USD	4	18,1081		TELECOM ITALIA LAB S.A.
WAVEMARKET Inc. (wireless applications)	DELAWARE (USA)	USD	25.183	11,0100		SATURN VENTURE PARTNERS LLC

f) RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.
The economic, balance sheet and financial effects of related party transactions on the consolidated financial statements of the Telecom Italia Group at June 30, 2005 are presented in the following table. Statement of income data and investments are also compared to the first half of 2004 while the balance sheet data is compared to the year 2004.
The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and associates.

(in millions of euro)	1st Half 2005	1st Half 2004	
Revenues	158	124	These mainly refer to Teleleasing, euro 94 million (euro 67 million in the first half of 2004), LI.SIT., euro 40 million (euro 23 million in the first half of 2004), Shared Service Center, euro 11 million (euro 18 million in the first half of 2004), Telecom Argentina, euro 5 million (euro 4 million in the first half of 2004), Golden Lines, euro 3 million (euro 4 million in the first half of 2004) and Etec SA Cuba, euro 3 million (euro 2 million in the first half of 2004)
Other income	2	2	This mainly refers to cost recoveries for personnel on loan to certain subsidiaries and associates
Purchases of materials and external services	138	168	These refer mainly to costs for rent from Tiglio I, euro 7 million (euro 5 million in the first half of 2004) and Tiglio II, euro 10 million (euro 6 million in the first half of 2004), for TLC services from Etec SA Cuba, euro 56 million (euro 61 million in the first half of 2004), Telecom Argentina, euro 2 million (euro 2 million in the first half of 2004), for maintenance and assistance contracts from Shared Service Center, euro 16 million (euro 54 million in the first half of 2004), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica, euro 28 million (euro 25 million in the first half of 2004) and for TLC equipment from Teleleasing, euro 12 million (euro 5 million in the first half of 2004)
Financial income	2	3	This includes accrued interest income on loans made to certain subsidiaries and associates
Financial expenses	40	43	These refer to interest expenses from Teleleasing, euro 11 million (euro 10 million in the first half of 2004) for finance leases and interest expenses from Tiglio I, euro 24 million (euro 27 million in the first half of 2004) and Tiglio II, euro 5 million (euro 6 million in the first half of 2004) for sale and leaseback transactions
Investments in tangible and intangible assets	69	20	These refer to acquisitions of computer projects from Shared Service Center, euro 38 million (euro 7 million in the first half of 2004), Siemens Informatica, euro 30 million (euro 13 million in the first half of 2004) and Value Team, euro 1 million

(in millions of euro)	6/30/2005	12/31/2004	
Securities and non-current financial receivables	30	28	These refer mainly to medium/long term loans made to Aree Urbane, euro 21 million (euro 20 million at December 31, 2004), Golden Lines, euro 6 million (euro 5 million at December 31, 2004) and Tiglio II, euro 3 million (euro 3 million at December 31, 2004)
Miscellaneous receivables and other non-current assets	8	0	These refer to the value of 1,477,308,999 BTP shares received by Solpart as a reimbursement of share capital not yet delivered at June 30, 2005
Trade receivables, miscellaneous receivables and other current assets	110	190	These refer mainly to receivables for TLC activities from LI.SIT., euro 37 million (euro 79 million at December 31, 2004), Teleleasing, euro 46 million (euro 67 million at December 31, 2004), Shared Service Center, euro 5 million (euro 7 million at December 31, 2004), Telecom Argentina, euro 4 million (euro 8 million at December 31, 2004), Golden Lines, euro 5 million (euro 4 million at December 31, 2004), and Tiglio I, euro 1 million (euro 9 million at December 31, 2004)
Financial receivables and other current financial assets	3	32	These refer to short-term loans made to Telegono, euro 3 million (euro 3 million at December 31, 2004. The reduction from December 31, 2004 is due to the repayment of the loan made to Avea
Cash and cash equivalents	12	1	These refer to current accounts with Teleleasing
Non-current financial liabilities	778	776	These refer to financial payables for finance leases to Teleleasing, euro 179 million (euro 160 million at December 31, 2004), for sale and leaseback transactions to Tiglio I, euro 455 million (euro 465 million at December 31, 2004) and Tiglio II, euro 144 million (euro 147 million at December 31, 2004)
Current financial liabilities	141	135	These refer to financial payables for finance leases to Teleleasing, euro 124 million (euro 116 million at December 31, 2004), for sale and leaseback transactions to Tiglio I, euro 12 million (euro 12 million at December 31, 2004) and Tiglio II, euro 5 million (euro 5 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	106	126	These mainly refer to payables for supply transactions connected with operations and investment activities with Siemens Informatica, euro 54 million (euro 61 million at December 31, 2004), Shared Service Center, euro 27 million (euro 34 million at December 31, 2004), Teleleasing, euro 7 million (euro 10 million at December 31, 2004) and Etec SA Cuba, euro 3 million (euro 4 million at December 31, 2004)

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 365 million (euro 658 million at December 31, 2004), of which euro 205 million is on behalf of Avea (euro 454 million at December 31, 2004), euro 54 million on behalf of Tiglio I (euro 56 million at December 31, 2004) and euro 35 million on behalf of Italtel Holding (euro 35 million at December 31, 2004).

In addition to transactions with associates, the following table presents the transactions with the Italtel group, a related party through the investment in the parent company Italtel Holding.

(in millions of euro)	1st Half 2005	1st Half 2004	
Revenues	2	3	These refer to telephone services
Purchases of materials and external services	10	11	These refer to costs for maintenance and assistance contracts (euro 11 million in the first half of 2004)
Investments in tangible and intangible assets	147	125	These refer to the purchase of telephone exchanges (euro 125 million in the first half of 2004)

(in millions of euro)	*6/30/2005*	*12/31/2004*	
Trade receivables, miscellaneous receivables and other current assets	2	2	These refer to telephone services
Trade payables, miscellaneous payables and other current liabilities	67	150	These refer to supply contracts connected with operations and investment activities

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through directors and key executives of the Company. Related party transactions in 2004 comprise those with the Banca Intesa group and the Unicredito Group and refer to the first quarter of 2004 since the directors, through which the companies were considered related parties, ended their term of office on the date of the Shareholders' Meeting, May 6, 2004.

(in millions of euro)	1st Half 2005	1st Half 2004	
Revenues	15	26	These refer to information system and computer services and energy services supplied to the Pirelli group, euro 2 million (euro 2 million in the first half of 2004), and telephone services supplied to the Pirelli group, euro 2 million (euro 2 million in the first half of 2004), to the Edizione Holding group, euro 2 million (euro 3 million in the first half of 2004), to the Unipol group, euro 7 million (euro 7 million in the first half of 2004), to the ST Microelectronics group, euro 1 million and to related companies through Mr. Moratti, euro 1 million (euro 1 million in the first half of 2004)
Purchases of materials and external services	57	52	These refer to R&D expenditures and matters regarding intellectual property rights from the Pirelli group, euro 36 million (euro 43 million in the first half of 2004), Document management services from Telepost, euro 10 million, insurance services from the Unipol group, euro 5 million (euro 5 million in the first half of 2004), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti, euro 4 million (euro 3 million in the first half of 2004), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million (euro 1 million in the first half of 2004) and the purchase of electronic components from ST Microelectronics, euro 1 million
Investments in tangible and intangible assets	54	6	These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group (euro 6 million in the first half of 2004, principally in respect of TLC cable purchases)

(in millions of euro)	*6/30/2005*	*12/31/2004*	
Trade receivables, miscellaneous receivables and other current assets	5	10	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group, euro 3 million (euro 8 million at December 31, 2004) and to the Edizione Holding group, euro 2 million (euro 2 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	58	65	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 47 million (euro 49 million at December 31, 2004), costs for Document Management services from Telepost, euro 4 million (euro 3 million at December 31, 2004), insurance costs from the Unipol group, euro 5 million (euro 11 million at December 31, 2004), sponsorship costs in reference to F.C. Internazionale Milano S.p.A – a related company through Mr. Moratti, euro 1 million (euro 2 million at December 31, 2004), and the purchase of electronic components from ST Microelectronics, euro 1 million

Description of the main contracts between the Telecom Italia Group and associates, subsidiaries of associates and related parties through directors and key executives

Transactions with:

Golden Lines Int. Ltd
Revenue related
With regard to transactions for international telecommunications services with other operators, the contracts refer to data transmission and voice services.

Avea I.H.A.S.
Revenue related
The transactions refer to international telecommunications services, particularly roaming by Avea customers on the TIM Italia network, technical assistance services and the recovery of costs for TIM Italia staff on loan to Avea.
Expense related
The transactions refer to interconnection fees relating to the roaming traffic of TIM Italia customers on the Avea network.

Etec S.A.
Revenue related
The transactions refer to international telecommunications services, particularly voice and data transmission traffic terminating in Italy and Telecom Italia Sparkle traffic in transit and TIM Italia roaming.
Expense related
On January 23, 2005, Telecom Italia Sparkle signed a six-month agreement, expiring June 30, 2005, for the delivery of incoming international traffic to Cuba, prepaid by Telecom Italia Sparkle. This agreement has important commercial significance when taking into account that Telecom Italia Sparkle has a strong capacity to deliver traffic to the Caribbean island from the major operators.

LI.SIT S.p.A.
Revenue related
The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;

- professional and applications consulting for the implementation and management of the system.

Nordcom S.p.A.

Revenue related

The transactions refer to the supply of data network connections and software applications.

Shared Service Center Scarl

Revenue related

The contracts provide for the supply of telephone and data transmission services as well as the operation of the client's software applications at the Telecom Italia data center.

Expense related

The contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.

Expense related

The contracts provide for the supply of software services to Group companies, as well as specific services, such as: applications management services for the Wireline BU, support services for the operation of Telecom Italia OSS systems, the supply of CDN infrastructure in the Network environment (services and products), as well as support services for the computer technology distributed and applications software development and technical services for TIM Italia.

Telecom Argentina Group

Revenue related

The contracts refer to technical assistance provided by Telecom Italia for broadband development and technical assistance provided by TIM Italia for the study and implementation of Value Added Services, as well as data transmission and voice services.

Expense related

Transactions relate to international telecommunications services.

Teleleasing S.p.A.

Revenue related

The transactions mainly arise from the application of the commercial cooperation agreement signed in 2000 between Telecom Italia and Teleleasing S.p.A., a company in the Mediobanca group. By virtue of this agreement, Telecom Italia offers customers the possibility of leasing telecommunications equipment. Teleleasing purchases the equipment from Telecom Italia and signs the leasing contract with the customer; Telecom Italia looks after the collection of lease payments after having acquired the rights.

Expense related

The contracts refer both to the lease of instrumental goods to Telecom Italia and its subsidiaries and the financial lease of a building.

Tiglio I S.r.l.

Expense related

The contracts refer to the lease of buildings, premises also housing telecommunications equipment, with a term of 19/21 years and the possibility of tacit renewal, unless notice of termination is given, for successive periods of six years, at the same terms and conditions as originally agreed.

Tiglio II S.r.l.

Expense related

The contracts refer to:

- the lease of buildings, premises also housing telecommunications equipment, with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, for successive periods of six years, at the same terms and conditions as originally agreed.
- the lease of buildings solely for office use, not yet involved in transactions concerning contributions to real estate funds, with standard durations.

* * *

<u>Italtel group</u>

Revenue related

The contracts provide for the supply of telephone and data transmission services.

Expense related

The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

<u>Edizione Holding group</u>

Revenue related

The contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.

Expense related

The contract refers to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards.

<u>F.C. Internazionale Milano S.p.A.</u>

Expense related

The contracts refer to the sponsorship of the company F.C Internazionale Milano by Telecom Italia.

<u>Pirelli & C. S.p.A.</u>

Revenue related

The contracts provide for the supply of telecommunications and computer and information services.

Expense related

The following contracts should be noted:

- <u>consulting contract and services regarding patent rights</u>

  In May 2002, a contract was signed with Pirelli under which services and consulting were rendered for:
  - identification of a patent rights policy, by defining strategies which cater to business objectives, consistent for the entire Telecom Italia Group;
  - determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
  - assistance in negotiations over partnerships, licenses, cooperation contracts;
  - litigation and analyses of patents of the competition;
  - obtaining patents during each single stage (drawing up documents; filing in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
  - control over costs by project and/or by business;
  - training of technicians;
  - insertion of patent data and relative report using a database;
  - control over results reached;
  - patent research;
  - filing and classification of important documents regarding patents;
  - services and consulting regarding brands, including their management (research, filing in Italy and outside Italy; renewals; challenges; disputes; licenses inside and outside the group).
- <u>contract regarding research and development</u>

The contract refers to technical cooperation between Telecom Italia and Pirelli in the areas of optical devices and advanced telecommunications networks.

The contract provides:

- with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
  - ✓ simple and complex devices, competence of Pirelli;
  - ✓ networks and services, competence of Telecom Italia;
  - ✓ subsystems, joint competence of Telecom Italia – Pirelli.
- with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
  - ✓ Pirelli grants Telecom Italia an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area,
  - ✓ Telecom Italia grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices area",

Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.

Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, to Telecom Italia and to companies which it controls, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.

- <u>contracts for the supply of apparatus and cables</u>

  These contracts provide for the supply of user apparatus (Alice Gate) for network access and broadband services; the supply of apparatus installed in the exchange which allow the combined transmission of voice and data on the same duplex cable, as well as supplying cables.

<u>Pirelli & C. Real Estate S.p.A.</u>

Revenue related

The contracts provide for the supply of call center services, data transmission services and electrical energy.

Expense related

The contracts refer to project management (realization of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings).

<u>ST Microelectronics group</u>

Revenue related

The contracts provide for the supply of telephone and data transmission services.

Expense related

The contracts provide for the supply of electronic components.

<u>Telepost S.p.A.</u>

Expense related

The contracts refer to the management of services connected with incoming and outgoing correspondence, outgoing correspondence generated on files with printing by a specialized center, management of the distribution of correspondence, management of the paper archives and management of all photocopy machines.

<u>Unipol group</u>

Revenue related

The contracts provide for the supply of telephone services that are operated by outsourcing with dedicated assistance and the sale of telecommunications equipment.

Expense related

The contracts refer to insurance policies for casualties (fire, liability and accidents) and life insurance.

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Benefits to key executives

Key executives, that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Directors:	
Marco Tronchetti Provera	Executive Chairman of Telecom Italia
Carlo Orazio Buora	Managing Director of Telecom Italia
Marco De Benedetti	Managing Director of Telecom Italia
	Head of Mobile Business Unit
	Managing Director of TIM Italia
Riccardo Ruggiero	Managing Director and General Manager of Telecom Italia
	Head of Wireline Business Unit
Executives:	
Gustavo Bracco	Head of Human Resources of Telecom Italia
Francesco Chiappetta	General Counsel of Telecom Italia
Enrico Parazzini	Head of Finance, Administration and Control of Telecom Italia
	Head of Media Business Unit
	Managing Director of Telecom Italia Media
Giuseppe Sala	General Manager of Telecom Italia
Germanio Spreafico	Head of Purchasing of Telecom Italia

In the first half of 2005, the estimated compensation to which key executives were entitled amounted to euro 17 million (euro 12 million in the first half of 2004), detailed as follows:

(in millions of euro)	1st Half 2005	1st Half 2004
Short-term compensation	15	10
Other long-term compensation	2	2
Total	**17**	**12**

NOTE 33 – EVENTS SUBSEQUENT TO JUNE 30, 2005

PRIVATIZATION OF TURK TELEKOM

On July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom.

The bid was won for USD 6,550 million by Oger Telecom, a newly-formed joint venture controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through TIM International – will make an initial investment of USD 200 million. The partnership between Telecom Italia and Saudi Oger Limited will focus on mobile telecommunications, since Oger Telecom will continue its cooperation in land-line telecommunications with BT Telconsult.

After closing the deal, Telecom Italia and Oger Telecom will seal a four-year technical assistance agreement with Avea, the Turkish mobile operator in which stakes are currently held by Turk Telekom (40.5647%), Telecom Italia (40.5647%) and the Is Bank group (18.8706%). The agreements with Saudi Oger also provide that the investment in Avea, held by TIM International, may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom. The valuation of Avea shares held by TIM International is in a range of between USD 400 million and USD 600 million.

Oger Telecom is expected to be listed on the Dubai stock exchange within the next three years with the possibility of TIM International participating proportionally in the initial placement. Should the listing not take place within the agreed timeframe, TIM International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares that may come from the sale of the current investment in Avea, in addition to the Oger Telecom shares initially subscribed by TIM International for USD 50 million. If the put option is not exercised, Saudi Oger Limited may exercise a call option on the same shares.

The investment held by TIM International in Oger Telecom represents the commencement of cooperation with the Saudi Oger group for further future initiatives in the telecommunications field.

MEDITERRANEAN NAUTILUS

Under the settlement reached with FTT INVESTMENTS relating to the Med SA group, the following transactions took place:

- on July 5, 2005, Telecom Italia and Telecom Italia International purchased 30% of the shares of Med Nautilus S.A. from FTT and FTT purchased 30% of the shares of Elettra S.p.A. from Med Nautilus S.A.
- on July 8, 2005, Med Nautilus S.A. purchased a 49% stake in Med Nautilus Ltd., an investment held by minority shareholders.

The net amount paid by the Telecom Italia Group is approximately euro 49 million.

The expenses relating to the settlement were already set aside in the 2004 financial statements.

AGREEMENT FOR THE SALE OF ENTEL BOLIVIA

On July 19, 2005, International Communication Holding N.V. ("ICH"), a wholly-owned subsidiary of Telecom Italia International N.V., signed a preliminary agreement with Cooperativa de Telecomunicaciones de Santa Cruz Cotas Ltda ("Cotas") for the sale of its investment (100%) in Euro Telecom International N.V. ("ETI"), which, in turn, holds a 50% stake in the capital of Empresa National de Telecomunicaciones S.A. ("Entel Bolivia").

The signing of the contract between ICH and Cotas is subject to the execution, among other things, of a significant reimbursement of capital by Entel Bolivia to its shareholders.

The sales price is fixed at USD 140 million plus an amount in USD equal to 50% of the liquidity held by Entel Bolivia five days prior to the closing (and after the reimbursement of capital).

REFINANCING AND AMENDMENT TO THE TERM LOAN RELATING TO THE CASH TENDER OFFER FOR TIM SHARES

On August 1, 2005, the term loan signed last December 2004 relating to the cash tender offer for TIM shares was partly refinanced and the terms of the loan were amended.

In particular, Tranche B of this loan for euro 6 billion, maturing January 2008, was replaced by a new revolving loan for the same amount with maturity extended to 2012, at better conditions. Tranche 3 for euro 3 billion, maturing January 2010, instead, was changed only with respect to the margin which was lowered from 0.70% to 0.275% so that it would reflect the new better conditions offered by the market for syndicated loans.

AGREEMENT FOR THE PURCHASE OF THE TISCALI INTERNATIONAL FIBER OPTIC NETWORK

On August 2, 2005, Telecom Italia Sparkle sealed an agreement with Tiscali to purchase Tiscali's fiber optic network owned by "Tiscali International Network SAS" (TINet SAS), for an equivalent amount of euro 8 million. Tiscali International Network SAS, controlled to date by Tiscali, owns 15,000 km of optic fiber which cross 12 European countries.

The deal, subject to the approval of the competent authorities, does not include the sale of the IP and Voice over IP international and national networks which, instead, are controlled by Tiscali International Network B.V.

SALE OF TIM PERU'

On August 10, 2005, TIM International N.V. sold the wholly-owned investment in TIM Perù to Sercotel S.A. de C.V., a company controlled 100% by America Movil S.A. de C.V. The gain on consolidation for Telecom Italia is approximately euro 110 million and the improvement in net financial debt is more than euro 400 million. The sale of TIM Perù falls under the strategy to rationalize the international investment portfolio in order to focus the Group's presence in countries with a higher rate of growth and where it is possible to develop the integration between the fixed and mobile platforms.

NOTE 34 – STOCK OPTION PLANS

Telecom Italia Stock Option

Subsequent to the merger by incorporation of Telecom Italia Mobile in Telecom Italia, Telecom Italia took over all the Stock Option plans previously in force in Telecom Italia Mobile:

- Stock Option Plan 2000 - 2002 (exercise price of euro 6.42 per option): three-year plan reserved for directors who hold key positions in the Company, vesting in continuum after achieving the established performance goal (EVA net of financial investments);
- Stock Option Plan 2001 – 2003 (exercise price of euro 8.671 per option) three-year plan for executives and non-executive employees vesting in four annual periods after achieving the established performance goal (Dow Jones Eurostoxx TLC);
- Stock Option Supplementary Plan 2001 – 2003 (exercise price of euro 7.526 per option): residual annual plan consisting of a new grant of options to the original employees of the Stock Option Plan 2001-2003 and to new employees, vesting in four annual periods after reaching the same performance goal as the Stock Option Plan 2001-2003;
- Stock Option Plan 2002 – 2003 (exercise price of euro 5.67 per option); two-year plan for executives and non-executive employees which did not call for any technical goal to be reached and offers the possibility of exercising the options in continuum;
- Stock Option Plan 2003 -2005 (exercise price of euro 5.07 per option); three-year plan for employees who are already participants of the Stock Option Plan 2001-2003 and the Stock Option Supplementary Plan 2001 -2003 (after voluntarily relinquishing the option rights previously granted); the plan did not call for any technical goal to be reached and offers the possibility of exercising the options in continuum.

From the date the merger becomes effective, the grantees of such stock option plans retain the right to subscribe, at the time the option is exercised and at the previously determined price, a number of Telecom Italia ordinary shares equal to the number of options multiplied by the "grant ratio" corresponding to the exchange ratio established for ordinary shares (1 to 1.73). The subscription price per share of the ordinary shares resulting from the exercise of the options is consequently revised for each existing Plan.
To this end, on April, 7 2005, the Telecom Italia Shareholders' Meeting, at the same time the merger plan was approved, voted to increase share capital, divided into tranches, all divisible, one for each of those Plans, for the issue of new Telecom Italia ordinary shares to service the exercise of the option rights already granted by TIM. Article 5 of the Telecom Italia bylaws includes this capital increase, which came into effect on the same date as the merger.
During the first half of 2005, the exercise of Telecom Italia and Telecom Italia Mobile option rights was suspended starting March 18, 2005 (10 trading days prior to the date of the first call of the Shareholders' Meetings) until April 18, 2005 (first day the shares were listed "ex dividend). The shares were again suspended from June 20, 2005 (the date the merger took effect) until June 29, 2005. After the merger became effective, that is, from June 30, 2005, Telecom Italia succeeded Telecom Italia Mobile in its Stock Option Plans and the option rights could again be exercised.
In accordance with the recommendation contained in Consob Directive No. 11508 dated February 15, 2000, the following tables summarize the basic terms of the Stock Options Plans in effect during the first half of 2005. For purposes of ensuring consistency in reading the tables of the stock options plans of the merged company (Telecom Italia Mobile S.p.A.), the amounts indicated therein (the market prices and the subscription prices of the shares resulting from the exercise of the options), relative to the quantity, exercises, expiration dates, forfeitures or cancellations which took place before the effective date of the merger, have been adjusted on the basis of the grant ratio and thus rendered homogeneous with the prices relative to the ordinary shares of the merging Company (Telecom Italia S.p.A.).

Stock Option Plan of merging Company (Telecom Italia S.p.A.):

(Amount in euro)		Options existing at 1/1/2005	New options granted during the first half	Options exercised during the first half	Options expired and not exercised or forfeited during the first half	Options forfeit during the first half due to termination of employment	Options existing at 6/30/2005	Of which vested at 6/30/2005
2000 Plan	**No. of options**	10,699,996.00	-	-	-	-	10,699,996.00	10,699,996.00
	Grant ratio	3.300871	-	-	-	-	3.300871	3.300871
	Subscription price	4.185259	-	-	-	-	4.185259	4.185259
	Market price	3.062	-	-	-	-	2.595	2.595
2001 Plan	**No. of options**	31,895,000.00	-	-	-	32,500,00	31,862,500.00	31,862,500.00
	Grant ratio	3.300871	-	-	-	3,300871	3,300871	3,300871
	Subscription price	3.177343	-	-	-	3,177343	3,177343	3,177343
	Market price	3.062	-	-	-	2.867 (*)	2.595	2.595
2002 Plan	**No. of options**	23,392,501.09	-	1,768,447.18	-	360,000	21,264,053.91	21,264,053.91
	Grant ratio	3.300871	-	3.300871	-	3.300871	3.300871	3.300871
	Subscription price	2.906507	-	2.910115	-	2.928015	2.904928	2.904928
	Market price	3.062	-	3.115 (*)	-	2.876 (*)	2.595	2.595
TOP 2002 Plan	**No. of options**	10,500,000.98	-	810,884.76	-	-	9,689,116.22	9,689,116.22
	Grant ratio	3.300871	-	3.300871	-	-	3.300871	3.300871
	Subscription price	2.788052	-	2.788052	-	-	2.788052	2.788052
	Market price	3.062	-	3.144 (*)	-	-	2.595	2.595

(*) Weighted average price

Plan	**Grant ratio**	**Subscription price of the resulting shares (euro)**	**Number of options granted at 6/30/2005 and vesting from**					**Total**	**Maximum vesting period of options**
			2001	**2002**	**2003**	**2004**	**2005**		
2000	3.300871	4.185259	5,349,998.00	5,349,998.00	-	-		10,699,996.00	5 years beginning from each year
2001	3.300871	3.177343	-	31,862,500.00	-	-	-	31,862,500.00	April 15, 2007
2002	3.300871 3.300871 3.300871	2.928015 2.409061 2.339080	-	-	5,720,549.21 201,000.13 60,000.00	6,003,304.28 222,000.04 60,000.00	8,621,200.00 296,000.25 80,000.00	20,345,053.49 719,000.42 200,000.00	5 years beginning from each year
TOP 2002	3.300871	2.788052	-	-	2,640,000.66	2,640,000.66	4,409,114.90	9,689,116.22	5 years beginning from each year

Stock Option Plan of merged Company (Telecom Italia Mobile S.p.A.):

(Amount in euro)		Options existing at 1/1/2005	New options granted during the first half	Options exercised during the first half	Options expired and not exercised or forfeited during the first half	Options forfeit during the first half due to termination of employment	Options existing at 6/30/2005	Of which vested at 6/30/2005
Plan 2000 /2002	**No. of options**	12,302,319	-	-	-	346,666	11,955,653	11,955,653
	Grant ratio	1.73	-	-	-	1.73	1.73	1.73
	Subscription price	3.710983	-	-	-	3.710983	3.710983	3.710983
	Market price	3.193	-	-	-	2.736 (*)	2.595	2.595
Plan 2001/2003	**No. of options**	1,190,000	-	-	-	-	1,190,000	1,190,000
	Grant ratio	1.73	-	-	-	-	1.73	1.73
	Subscription price	5.012139	-	-	-	-	5.012139	5.012139
	Market price	3.193	-	-	-	-	2.595	2.595
Supple-mentary Plan 2001/2003	**No. of options**	499,000	-	-	-	-	499,000	499,000
	Grant ratio	1.73	-	-	-	-	1.73	1.73
	Subscription price	4.350289	-	-	-	-	4.350289	4.350289
	Market price	3.193	-	-	-	-	2.595	2.595
2002/2003 Plan	**No. of options**	23,280,000	**-**	**-**	**-**	790,000	22,490,000	22,490,000
	Grant ratio	1.73	-	-	-	1.73	1.73	1.73
	Subscription price	3.277457	-	-	-	3.277457	3.277457	3.277457
	Market price	3.193	-	-	-	2.887 (*)	2.595	2.595
Plan 2003/2005	**No. of options**	7,861,000	-	5,945,100	**-**	**-**	1,915,900	1,915,900
	Exercise ratio	1.73	-	1.73	-	-	1.73	1.73
	Subscription price	2.930636	-	2.930636	-	-	2.930636	2.930636
	Market price	3.193	-	3.205 (*)	-	-	2.595	2.595

(*) weighted average price

Plan	**Grant ratio**	**Subscription price of the resulting shares (euro)**	**Number of options granted at 6/30/2005 and vesting from**					**Total**	**Maximum vesting period of options**
			2001	**2002**	**2003**	**2004**	**2005**		
2000/2002	1.73	3.710983	5,819,011	6,136,642	-	-	-	11,955,653	December 31, 2008
2001/2003	1.73	5.012139	392,700	392,700	404,600	-	-	1,190,000	December 31, 2005
Supple-mentary 2001/2003	1.73	4.350289	499,000	-	-	-		499,000	December 31, 2005
2002/2003	1.73	3.277457	-	11,245,000	11,245,000	-	-	22,490,000	December 31, 2008
2003/2005	1.73	2.930636	-	-	419,100 (*)	1,496,800 (**)	-	1,915,900	May 2008 May 2009 May 2010

(*) vested by the end of May 2008
(**) of which 544,100 are vested by the end of May 2009 and 952,700 by the end of May 2010

Telecom Italia Media Stock Option Plans

The February 23, 2005 Board of Directors' Meeting approved the introduction of a Stock Option Plan reserved for employees in service of Telecom Italia Media S.p.A. and its subsidiaries. The Plan identifies key staff on the basis of specific responsibilities and/or expertise and replaces the two previous plans "Plan 2000 – 2002" and "Key People Plan 2002" offered by Seat Pagine Gialle S.p.A. in prior years.

Corporate transactions and organizational changes which followed the spin-off quickly rendered the aforementioned plans obsolete. Accordingly, in view of that fact, the company decided to draft a new Stock Option Plan for employees in service at Telecom Italia Media S.p.A. and its subsidiaries.

The "Plan 2005", at June 30, 2005, covers 74 persons between executives and middle management who were already participants in the preceding plans, with the granting of a total number of 37,975,000 options. Participation in the Plan 2005 was subject to a previous, simultaneous, voluntary and irrevocable relinquishment of the options relating to the preceding plans.
The options of the new plan have been awarded under the resolution for the increase in share capital approved by the Extraordinary Shareholders' Meeting held November 20, 2000, as well as the resolutions voted by the Shareholders' Meetings held May 10, 2001, July 30, 2001 and December 11, 2001.

The previous ex-Seat Pagine Gialle plans ("Plan 2000-2002" and "Key People Plan 2002") are still in force with the same conditions, terms and regulations for the participants who are employees of other Companies of the Telecom Italia Group, for retired employees and for employees of the Business Unit who have decided not to give up the plans.

In accordance with the recommendation contained in Consob Directive No. 11508 dated February 15, 2000, the following tables summarize the basic terms of the Stock Options Plans in effect during the first half of 2005.

Stock Option Plan of Telecom Italia Media S.p.A.:

(Amount in euro)		Options existing at 1/1/2005	New options granted during the first half	Options exercised during the first half	Options relinquished during the first half	Options expired and not exercised or forfeited during the first half	Options forfeit during the first half due to termination of employment	Options existing at 6/30/2005	Of which vested at 6/30/2005
Plan 2000-2002	**No. of options**	940,313	-	-	428,210	234,073	278,030	-	-
	Grant ratio	1	-	-	1	1	1	-	-
	Subscription price	1.22	-	-	1.22	1.22	1.22	-	-
	Market price	0.3347	-	-	0.3711	0.3782	0.3723 (*)	-	-
Key People Plan 2002	**No. of options**	14,900,000	-	-	11,350,000	-	450,000	3,100,000	3,100,000
	Grant ratio	1	-	-	1	-	1	1	1
	Subscription price	0.8532	-	-	0.8532	-	0.8532	0.8532	0.8532
	Market price	0.3347	-	-	0.3711	-	0.3903 (*)	0.3981	0.3981
Plan 2005	**No. of options**	-	39,725,000	-		-	1,750,000	37,975,000	-
	Grant ratio	-	1	-		-	1	1	-
	Subscription price	-	0.3826	-		-	0.3826	0.3826	-
	Market price	-	0.3711	-		-	0.3941 (*)	0.3981	-

(*) weighted average price

Plan	**Grant ratio**	**Subscription price of the resulting shares (euro)**	**Number of options granted at 6/30/2005 and exercisable from**					**Total**	**Maximum period of options**
			2003	**2004**	**2005**	**2006**	**2007**		
2000-2002	1	1.22	-	-	-	-	-	-	-
Key People 2002	1	0.8532	930,000	930,000	1,240,000	-	-	3,100,000	May 2008
2005	1	0.3826	-	-	15,190,000	11,392,500	11,392,500	37,975,000	December 31, 2008

NOTE 35 – IMPACT OF THE APPLICATION OF IAS/IFRS

IMPACT OF THE APPLICATION OF IAS/IFRS ON THE PRINCIPAL DATA FOR THE YEAR 2004 AND THE FIRST HALF OF 2004

The following tables present the impact of the application of IAS/IFRS and the effects of discontinued operations/assets held for sale on the principal data for the year 2004 and the first half of 2004 of the Telecom Italia Group.

	Year 2004						
	Italian GAAP	Reclassifications	Italian GAAP post-reclassifications	IAS/IFRS adjustments	IAS/IFRS (including discontinued operations)/ assets held for sale	Discontinued operations /assets held for sale ([1])	IAS/IFRS
Revenues	31,237	(6)	31,231	(146)	31,085	(2,512)	28,573
EBITDA	14,528	(674)	13,854	(338)	13,516	(614)	12,902
EBIT	7,200	(643)	6,557	1,090	7,647	(50)	7,597
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	(101)	(101)
Net income/(loss) attributable to the Parent Company and minority interests	1,902	-	1,902	932	2,834	-	2,834
Net income/(loss) attributable to the Parent Company	781	-	781	1,034	1,815	-	1,815
Industrial investments	5,335	-	5,335	38	5,373	(332)	5,041
Total shareholders' equity	19,861	-	19,861	982	20,843	-	20,843
- attributable to the Parent Company	15,172	-	15,172	1,079	16,251	-	16,251
- attributable to minority interests	4,689	-	4,689	(97)	4,592	-	4,592
Net financial debt	29,525	(151)	29,374	3,488	32,862	-	32,862
Employees (number at year-end)	91,365	-	91,365	7	91,372	(10,573)	80,799

([1]) The following are considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.

	1st Half 2004						
	Italian GAAP	Reclassifications	Italian GAAP post-reclassifications	IAS/IFRS adjustments	IAS/IFRS (including discontinued operations)/ assets held for sale	Discontinued operations / assets held for sale [2]	IAS/IFRS
Revenues	15,222	41	15,263	(55)	15,208	(1,240)	13,968
EBITDA	7,089	(404)	6,685	(32)	6,653	(300)	6,353
EBIT	3,596	(413)	3,183	694	3,877	(121)	3,756
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	24	24
Net income/(loss) attributable to the Parent Company and minority interests	863	-	863	555	1,418	-	1,418
Net income/(loss) attributable to the Parent Company	405	-	405	574	979	-	979
Industrial investments	1,993	-	1,993	23	2,016	(124)	1,892
Total shareholders' equity	18,584	-	18,584	692	19,276	-	19,276
- attributable to the Parent Company	14,730	-	14,730	674	15,404	-	15,404
- attributable to minority interests	3,854	-	3,854	18	3,872	-	3,872
Net financial debt	33,217	(191)	33,026	2,463	35,489	-	35,489
Employees (number at period-end)	93,178	-	93,178	5	93,183	(11,092)	82,091

([2]) The following are considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.

TRANSITION TO IAS/IFRS

Until the end of 2004, Telecom Italia prepared its consolidated financial statements and other interim information (including quarterly and six-month data) in accordance with Italian accounting principles (Italian GAAP).
Beginning from the year 2005, Telecom Italia prepares its interim consolidated financial statements in accordance with IAS/IFRS. Beginning from the year 2006, Telecom Italia will also prepare its Italian statutory financial statements in accordance with these same standards.
Having said this, and taking into account the Recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 and containing guidelines for companies listed within the EU regarding the transition to IAS/IFRS, as well as the Regulation for Issuers, as amended by CONSOB with Resolution No. 14990 dated April 14, 2005, following, among other things, the adoption of International Financial Reporting Standards in interim financial statements, the information required by IFRS 1 is hereinafter described. In particular, such information regards the impact that the conversion to International Financial Reporting Standards (IAS/IFRS) has, with reference to the year 2004, on the consolidated financial position, on the results of consolidated operations and on the consolidated cash flows presented.

To that end, notes have been prepared regarding the basis of transition for the first-time application of IAS/IFRS (IFRS 1) and the other IAS/IFRS standards elected, including the assumptions made by the directors on the IAS/IFRS standards and interpretations which will be in force and on the accounting policies that will be adopted for the preparation of the first complete financial statements in accordance with IAS/IFRS at December 31, 2005.

As described in greater detail in the following paragraphs, the IAS/IFRS consolidated balance sheets and the IAS/IFRS consolidated statement of income have been obtained from the consolidated data, prepared in accordance with the provisions of Italian law, by making the appropriate IAS/IFRS adjustments and reclassifications to reflect the changes in the presentation, recognition and valuation required by IAS/IFRS.

The accounting statements and the reconciliations have been prepared solely for purposes of preparing the first complete consolidated financial statements in accordance with IAS/IFRS approved by the European Commission; the adoption of the approved version of IAS 39 did not entail the application of criteria that were not recognized in the complete version of IAS 39 published by the IASB (International Accounting Standards Board).

Adjustments have been made to conform with the IAS/IFRS standards in effect at this time. The approval process on the part of the Commission and the adaptations and interpretations of the official bodies in charge of these activities is still in progress. At the time of the preparation of the first complete IAS/IFRS consolidated financial statements at December 31, 2005, new IAS/IFRS standards and IFRIC interpretations could be in effect that may be allowed to be applied at an earlier date.
For these reasons, the data presented in the accounting statements and in the reconciliations could change, for purposes of their utilization as the comparative figures for the first complete consolidated financial statements prepared in accordance with IAS/IFRS.
For purposes of the presentation of the effects of the transition to IAS/IFRS and to satisfy the rules for disclosure indicated in paragraphs 39 a) and b) and 40 of IFRS 1 concerning the effects of the first-time application of IAS/IFRS, the Telecom Italia Group has followed the example contained in IFRS 1 and, especially, in paragraph IG 63.
The effects of the transition to IAS/IFRS are the result of changes in accounting principles and, consequently, as required by IFRS 1 are reflected in the opening shareholders' equity at the date of transition (January 1, 2004). In the transition to IAS/IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IAS/IFRS accounting standards has required the formulation of estimates in accordance with different methods.

RULES FOR THE FIRST-TIME ADOPTION, ACCOUNTING OPTIONS ELECTED IN THE IAS/IFRS FIRST-TIME ADOPTION AND IAS/IFRS SELECTED BY THE TELECOM ITALIA GROUP

The restatement of the opening consolidated balance sheet at January 1, 2004 and of the consolidated financial statements for the year ended December 31, 2004 and the interim financial statements at June 30, 2004 have also required the Telecom Italia Group to make the following preliminary choices among the options provided by IAS/IFRS:

- **financial statement presentation**: the "current/non-current" classification has been adopted for the balance sheet, which is generally applied by industrial and commercial enterprise, while the classification of expenses by nature has been elected for the statement of income. This has required the reclassification of the historical financial statements prepared in accordance with the formats provided by Legislative Decree 127/1991;

- **optional exemptions provided by IFRS 1 upon first-time application of IAS/IFRS (January 1, 2004)**:

  - **valuations of property, plant and equipment, investment property and intangible assets at fair value or, alternatively, at revalued cost as the deemed cost**: for certain categories of property, plant and equipment, revalued cost has been adopted instead of cost;

  - **share-based payments**: the provisions of IFRS 2 are applied prospectively from January 1, 2005 (and, that is, to all equity instrument assignments made after that date). The application of IFRS 2 beginning January 1, 2004 would have had no effect;

  - **business combinations**: for purposes of the first-time application of IAS/IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004. This has also necessitated the interruption of the process of amortization of goodwill and the differences on consolidation recorded at January 1, 2004;

  - **reserve for net exchange differences deriving from the translation of the financial statements of foreign operations**: as allowed by IFRS 1, the cumulative net exchange differences deriving from previous translations of the financial statements of foreign operations have not been recognized at the date of transition (January 1, 2004); only those arising subsequent to that date, instead, will be recognized;

  - **classification and measurement of financial instruments**: IAS 32 (Financial Instruments: Disclosures and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), have been adopted earlier, as allowed, on January 1, 2004 (instead of application starting from the financial statements for the periods beginning on or after January 1, 2005);

  - **designation date of financial instruments as instruments at fair value through profit or loss or as available for sale**: as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" has been carried out at the transition date (January 1, 2004) instead of at the date of initial recognition provided by IAS 39;

  - **derecognition of financial assets and liabilities**: in accordance with IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. The Telecom Italia Group has taken advantage of such option and is applying the "derecognition of non-derivative financial assets/liabilities" retrospectively from January 1, 2003;

- **accounting treatments selected from the accounting options provided by IAS/IFRS**:

  - ✓ **inventories**: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The Telecom Italia Group has elected to use the weighted average cost method for each movement;

  - ✓ **valuation of tangible assets and intangible assets**: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The Telecom Italia Group has elected to adopt the cost method;

  - ✓ **valuation of investment property**: in accordance with IAS 40, a property held as an investment property should be initially recorded at cost, including directly chargeable incidental costs. Subsequently, that property may be valued at fair value or at cost. The Telecom Italia Group has elected to adopt the cost method;

  - ✓ **borrowing costs**: for the purposes of recording borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, IAS 23 provides that an entity may apply the benchmark accounting treatment, which provides for the immediate expensing of borrowing costs, or the allowed alternative accounting treatment, which provides, in the presence of certain conditions, for the capitalization of borrowing costs. The Telecom Italia Group has elected to record borrowing costs in the statement of income;

  - ✓ **accounting for interests in joint ventures in the consolidated financial statements**: in accordance with IAS 31, interests in joint ventures may be accounted for using the equity method or, alternatively, using the proportionate consolidation method. The Telecom Italia Group has elected to adopt the equity method.

The impact of the application of IAS/IFRS on the opening balance sheet at January 1, 20004 and on the consolidated financial statements at December 31, 2004, inclusive of the reconciliation and the relative notes thereto, are presented in a specific section of the First Quarter Report for the period ending March 31, 2005, on which the independent auditors have issued their opinion dated June 14, 2005.

PRINCIPAL IMPACT OF THE APPLICATION OF IAS/IFRS ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2004

The differences arising from the application of IAS/IFRS compared to Italian GAAP as well as the choices made by Telecom Italia among the accounting options provided by IAS/IFRS described above, thus require a restatement of the accounting data prepared in accordance with the previous Italian regulations on financial statements resulting in significant effects, in some cases, on the shareholders' equity and the net financial debt of the Group, which can be summarized as follows:

Consolidated interim financial statements at June 30, 2004:

(in millions of euro)	Italian GAAP	Adjustments	IAS/IFRS
Shareholders' equity:			
• attributable to the Parent Company	14,730	674	15,404
• attributable to minority interests	3,854	18	3,872
Total	18,584	692	19,276
Net financial debt	33,217	2,272 (*)	35,489
Net income for the period:			
• attributable to the Parent Company	405	574	979
• attributable to minority interests	458	(19)	439
Total	863	555	1,418

(*) comprises reclassifications for euro 191 million relating to the inclusion, in the net financial position, of non-current receivables from associates (euro 101 million) and loans to employees and third parties (euro 90 million).

In particular, the principal adjustments can be summarized as follows:

(in millions of euro)	Shareholders' equity at June 30, 2004	Net income 1st Half 2004
TOTAL AMOUNT (ATTRIBUTABLE TO THE PARENT COMPANY AND THE MINORITY INTERESTS) ACCORDING TO ITALIAN GAAP	18,584	863
less: minority interests	(3,854)	(458)
ATTRIBUTABLE TO THE PARENT COMPANY ACCORDING TO ITALIAN GAAP	14,730	405
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:		
1. goodwill and differences on consolidation	779	779
2. scope of consolidation	138	(28)
3. factoring transactions		
4. sale and leaseback of properties	(253)	(62)
5. reserves for future risks and charges	273	(52)
6. bonds (including convertible and exchangeable bonds)	476	(86)
7. derivative financial instruments	(196)	(21)
8. treasury stock	(393)	
9. recognition of revenues	(392)	(76)
10. deferred tax assets	240	
11. land	91	3
12. employee severance indemnities	82	
13. derecognition of start-up and expansion costs	(83)	14
14. value adjustments to tangible and intangible assets produced within the Group	(97)	13
15. restoration costs	(91)	(21)
16. equity investments in listed companies and call options on shares measured at fair value	106	(4)
other	(43)	15
Tax effect on items in reconciliation	55	82
Attributable to minority interests for items in reconciliation	(18)	18
Total adjustments	674	574
ATTRIBUTABLE TO PARENT COMPANY ACCORDING TO IAS/IFRS	15,404	979

The individual adjustments are presented in the table before taxes and minority interests while the relative tax effects and those on the minority interests are shown cumulatively as two separate adjustment items. Moreover, it should be pointed out that the amounts relating to the effects on assets, liabilities, expenses and revenues presented in the comments on the aforementioned adjustments include the corresponding amounts relative to discontinued operations or assets held for sale which, under IFRS 5, in the balance sheet at June 30, 2004, have, instead, been classified separately and grouped in the captions "*Discontinued operations/ Assets held for sale*", "*Liabilities relating to discontinued operations/assets held for sale"* and in the statement of income in the caption *Net income (loss) of discontinued operations/assets held for sale"*.

(in millions of euro)	At June 30, 2004
NET FINANCIAL DEBT ACCORDING TO ITALIAN GAAP	33,217
Reclassifications: inclusion, in the net financial debt, of non-current receivables from associates and loans to employees and third parties:	(191)
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:	
1. goodwill and differences on consolidation	
2. scope of consolidation	804
3. factoring transactions	139
4. sale and leaseback of properties	1,627
5. reserves for future risks and charges	
6. bonds (including convertible and exchangeable bonds)	(291)
7. derivative financial instruments	213
8. treasury stock	
9. recognition of revenues	
10. deferred tax assets	
11. land	
12. employee severance indemnities	
13. derecognition of start-up and expansion costs	
14. value adjustments to tangible and intangible assets produced within the Group	
15. restoration costs	
16. equity investments in listed companies and call options on shares measured at fair value	
other	(29)
Total adjustments	2,272
NET FINANCIAL DEBT ACCORDING TO IAS/IFRS	35,489

A commentary is presented here on the principal IAS/IFRS adjustments (the contents of which were previously described) made to the Italian GAAP amounts:

1) **goodwill and differences on consolidation:** such items are no longer amortized systematically in the statement of income but are subject to a test, carried out at least annually, in order to identify any impairment in value (impairment test). To this end, cash-generating units have been identified to which the relative goodwill has been allocated. Impairment tests have been carried out which have substantially confirmed the amounts recorded under Italian GAAP.
The impact of the application of IFRS 3 is an increase in total net income for the first half of 2004 (and therefore total shareholders' equity at *June 30, 2004*) of euro 779 million (of which euro 769 million is attributable to the Parent Company) and is entirely due to the elimination of amortization;

2) **scope of consolidation**: the change in the scope of consolidation has led to the inclusion of vehicle companies (Special Purpose Entities – SPEs) set up for specific transactions. Furthermore, the line-by-line consolidation of controlling equity investments also generated the elimination of the holdings classified in current assets. Consequently, this principally involved: (i) the consolidation at January 1, 2004 of the TIM shares classified in current assets; (ii) the consolidation of the special purpose entity TISV (set up for securitization transactions)

to which receivables are sold and for whose financial needs securities are issued that are subscribed to by third-party investors; (iii) the consolidation of companies in a wind-up.
This impact of this accounting treatment is an increase in net financial debt at *June 30, 2004* of euro 804 million due to the consolidation of TISV and an increase in total shareholders' equity of euro 138 million as a result of the consolidation of TIM shares.

3) **factoring transactions**: the adoption of IAS 39 and in particular the provisions concerning the derecognition of financial assets (receivables) results in a more restrictive interpretation of the requirements for the recognition of the sale of receivables without recourse (for IAS/IFRS purposes, the sale is recognized on condition that all the risks and rewards have substantially been transferred). Accordingly, the receivables sold are added back to the assets and the consideration collected is booked as an advance received.
The impact of this treatment is an increase in net financial debt at *June 30, 2004* of euro 139 million attributable to the recording of a short-term financial payable (advance received) of euro 139 million, with an increase in trade receivables for the same amount;

4) **sale and leaseback of properties**: some transactions for the sale of properties carried out by the Telecom Italia Group in prior years have been recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, entries are made in the assets for the assets sold and leased back and, in the liabilities, for the residual payable; in the statement of income, entries are made for the depreciation charge and interest expense instead of the lease payments whereas the gain realized at the time of sale is deferred over the period of the contract. The impact of the application of this method for the Telecom Italia Group, at *June 30, 2004*, is a decrease in total shareholders' equity, entirely attributable to the Parent Company, of euro 253 million (before a positive tax effect of euro 58 million), of which euro 62 million is attributable to the decrease in the pre-tax result for the period. Such effects have come from an increase in tangible assets (buildings) of euro 1,322 million, an increase in financial payables of euro 1,627 million (with a consequent increase in net financial debt of the same amount), an increase in deferred tax assets (net of the reserve for deferred taxes) of euro 76 million and a decrease of euro 52 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties. The negative effect on the net income for the first half of 2004 equal to euro 62 million, before the tax effect of euro 21 million, came from a decrease in operating expenses of euro 51 million (including euro 91 million for the reversal of the lease payments that were partly compensated by an increase of 40 million for higher depreciation of the assets leased), an increase in net financial expenses of euro 89 million and the reversal of the gains previously deferred and credited to the statement of income in 2004 for euro 44 million;

5) **reserves for future risks and charges**: the recognition of these liabilities, in accordance with IAS/IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that will presumably be paid beyond 12 months. In particular, the IAS/IFRS opening balance sheet of the Telecom Italia Group at January 1, 2004 benefits from a positive adjustment to opening shareholders' equity for the derecognition of certain reserves for risks and charges recorded in the financial statements in accordance with Italian GAAP. This different accounting treatment, in the IAS/IFRS interim financial statements at *June 30, 2004*, causes a reduction of net income as a consequence of the reversal of the releases to the statement of income of the reserves for risks and charges recorded in the first half of 2004 under Italian GAAP. Such impact determines an increase in total shareholders' equity of euro 273 million with a decrease in total net income of euro 52 million (of which 31 million is attributable to the Parent Company) before a positive tax effect of euro 19 million, caused by an increase in operating expenses (mainly for the reversal of the releases of the reserves recorded during the period) and a reduction in income taxes;

6) **bonds (including convertible and exchangeable bonds)**: in accordance with Italian GAAP, bonds (including convertible or exchangeable bonds) are recorded at the residual nominal value (principal); moreover, any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.

Under IAS/IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity, whereas the amount of compound financial instruments (convertible or exchangeable bonds), under IAS/IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular:

- for *bonds convertible into own shares*, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue in reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of shareholders' equity;
- for *bonds exchangeable with other financial instruments issued by companies of the Group and/or third parties*, the amount of the component relative to the derivative financial instrument is extracted and recorded, like sold options, in financial liabilities and valued at fair value (with a contra-entry to the statement of income) at the end of each period.

These recording methods, at *June 30, 2004*, determine a decrease in net financial debt of euro 291 million and an increase in total shareholders' equity of euro 476 million (of which euro 465 million is attributable to the Parent Company), before a net tax effect of euro 149 million with euro 175 million of deferred taxes on the equity component relative to "Telecom Italia 2001 – 2010" convertible bonds. Such increase in shareholders' equity is due to a decrease in pre-tax income of euro 86 million (almost entirely attributable to the Parent Company) principally as a result of the application of "amortized cost" method. In particular, the decrease in net financial debt is mainly due to the reclassification of the part of the liability relative to convertible bonds to the components of shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the reserves for risks and charges to financial liabilities;

7) **derivative financial instruments**: under Italian GAAP, derivative financial instruments are normally presented as "off-balance sheet" items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value. The manner of representing the accounting impact changes according to the purpose the derivative financial instrument is used for:
   - hedging instruments designated as fair value hedges must be recorded in assets (liabilities); the derivative financial instrument and the relative hedged item are stated at fair value and the respective changes in value (which generally tend to offset one another) are recognized in the statement of income;
   - hedging instruments designated as cash flow hedges must be recorded in assets (liabilities); the derivative is stated at fair value and the changes in value are recognized, for the effective hedging component, directly in a reserve in equity which is released to the statement of income in the years in which the cash flows of hedged items will affect profit and loss;
   - derivative financial instruments for managing interest rate and foreign exchange risks, which do not meet the formal conditions for hedge accounting according to IAS/IFRS, are recorded in the balance sheet in financial assets/financial liabilities and the changes in value are recognized in the statement of income.

   The recognition of derivative financial instruments at fair value, *at June 30, 2004*, results in an increase in net financial debt of euro 213 million (substantially attributable to cash flow hedges) and a decrease in total shareholders' equity of euro 196 million (attributable to the Parent Company), before a positive tax effect of euro 35 million, and with a negative impact of euro 21 million on the pre-tax income (before a positive tax effect of euro 6 million);

8) **treasury stock:** in accordance with Italian GAAP, treasury stock is recorded in assets and a specific restricted reserve is set up in shareholders' equity. In accordance with IAS/IFRS, such stock, instead, is recognized as

a reduction of shareholders' equity. The impact of this different accounting treatment is a reduction in total shareholders' equity at *June 30, 2004* of euro 393 million (entirely attributable to the Parent Company) and a reversal of treasury stock in assets for the same amount;

9) **recognition of revenues:** revenues from the activation of telephone services, from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (principally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method, for IAS/IFRS purposes, at *June 30, 2004*, results a decrease in total shareholders' equity of euro 392 million (of which euro 361 million is attributable to the Parent Company), before a positive tax effect of euro 136 million (of which euro 129 million is relative to the Parent Company); pre-tax income decreases by euro 76 million (of which euro 72 million is attributable to the Parent Company), before a positive tax effect of euro 27 million (of which euro 26 million is relative to the Parent Company)

10) **deferred tax assets:** the recognition of deferred tax assets in accordance with IAS/IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, under IAS/IFRS, at *June 30, 2004*, determines an increase in total shareholders' equity of euro 240 million (entirely attributable to the Parent Company), with recognition of an asset for deferred taxes of the same amount;

11) **land**: in accordance with Italian GAAP, land appurtenant to buildings is depreciated together with the same buildings, while in accordance with IAS/IFRS it must be classified separately and no longer depreciated. This different accounting treatment, at *June 30, 2004*, determines an increase in total shareholders' equity of euro 91 million (almost entirely attributable to the Parent Company) of which euro 3 million is relative to pre-tax income (entirely attributable to the Parent Company), due to lower depreciation (before a negative tax effect of euro 1 million). In the balance sheet, non-current tangible assets increase by euro 87 million and a liability for deferred taxes is recognized for euro 34 million;

12) **employee severance indemnities**: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with the statutory regulations in force; under IAS/IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Under IAS/IFRS, all actuarial gains and losses have been recognized at the date of transition to IAS/IFRS. This different accounting treatment, at *June 30, 2004*, determines an increase in total shareholders' equity of euro 82 million (of which euro 75 million is attributable to the Parent Company), before a negative tax effect of euro 27 million (for the provision to the reserve for deferred taxes of the same amount) due to a decrease in the reserve for employee severance indemnities of euro 82 million;

13) **derecognition of start-up and expansion costs:** in accordance with IAS/IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in shareholders' equity at the date of the transaction; the other start-up and expansion costs, since the requirements for their recognition in intangible assets have not been met, are charged to the statement of income. The impact of these different accounting treatments at *June 30, 2004* is a decrease in total shareholders' equity of euro 83 million (euro 73 million is attributable to the Parent Company), before a positive tax effect of euro 10 million (for the recognition of deferred tax assets) due to the decrease in assets no longer capitalizable of euro 50 million; the total pre-tax income for the period reports an increase of euro 14 million (euro 12 million is attributable to the Parent Company) due to lower amortization, before the relative negative tax effect of euro 2 million;

14) **value adjustments to tangible and intangible assets produced within the Group:** the adjustment regards the elimination of intragroup gains on the disposal of tangible and intangible assets produced within the Group prior to 1994. The impact of these adjustments *June 30, 2004* is a decrease in total shareholders' equity of

euro 97 million (attributable to the Parent Company), before a positive tax effect of euro 36 million (for the recognition of an asset for deferred taxes) due to the reduction in assets of euro 97 million; the pre-tax income reports an increase of euro 13 million (attributable to the Parent Company) due to lower depreciation and amortization, before the relative negative tax effect of euro 5 million;

15) **restoration costs**: under IAS/IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is recognized in the period in which it arises in a balance sheet reserve in the liabilities under reserves for future risks and charges, at market value (fair value), with a contra-entry to the tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of income by depreciation of the related tangible assets over their useful lives. The impact of the application of this accounting treatment at *June 30, 2004*, is a decrease in total shareholders' equity of euro 91 million (euro 64 million is attributable to the Parent Company), before a positive tax effect of euro 30 million; the pre-tax income decreases by euro 21 million (of which euro 13 million is attributable to the Parent Company) due to higher depreciation, before the positive relative tax effect of euro 6 million (euro 4 million is relative to the Parent Company)

16) **equity investments in listed companies and call options on shares measured at fair value:** in accordance with IAS/IFRS, investments in listed companies other than subsidiaries and associates are classified in "assets available-for-sale" or in "assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments recorded, respectively, in a specific equity reserve, except for impairment effects, or through profit or loss; furthermore, optional derivatives have been classified "as assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments, through profit or loss. The impact of the application of this method at June 30, 2004 is an increase in shareholders' equity of euro 106 million (entirely attributable to the Parent Company) which reflects a decrease in pre-tax income of euro 4 million.

IAS/IFRS CONSOLIDATED BALANCE SHEET AT JUNE 30, 2004 AND THE IAS/IFRS CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST HALF OF 2004

In addition to the reconciliations of shareholders' equity at June 30, 2004, net income for the first half of 2004 and net financial debt at June 30, 2004 accompanied by comments on the adjustments made to the balances prepared in accordance with Italian GAAP, the balance sheets at June 30, 2004 and the statement of income for the first half of 2004 are attached wherein the following is presented for each item in separate columns:

- amounts according to Italian GAAP reclassified in accordance with IAS/IFRS presentation;

- adjustments to conform to IAS/IFRS;

- adjusted amounts according to IAS/IFRS; however, those amounts relative to the balance sheet at June 30, 2004 and the statement of income for the first half of 2004 include the components relative to "discontinued operations/assets held for sale;

- reclassifications made to show the components relative to discontinued operations/assets held for sale (only for the balance sheet at June 30, 2004 and the statement of income for the first half 2004), the effects of which are presented, for the balance sheet components, separately in an asset caption and in a liability caption and, with the regard to the statement of income, separately in a caption (net of taxes and minority interests) before the net income for the first half of 2004;

- amounts according to IAS/IFRS, net of the components relative to discontinued operations/assets held for sale (only for the balance sheet at June 30, 2004 and the statement of income for the first half of 2004), the effects of which on the balance sheet and the statement of income are presented separately, as described in the preceding point.

CONSOLIDATED BALANCE SHEET AT JUNE 30, 2004 (^)

(in millions of euro)	Italian GAAP reclassified		IAS/IFRS adjustments	IAS/IFRS including discontinued operations / assets held for sale
Non-current assets:				
Intangible assets				
- Goodwill and other intangible assets with an indefinite life	26,397	a)	1,101	27,498
- Intangible assets with a finite life	6,352	b)	(75)	6,277
	32,749		1,026	33,775
Tangible assets				
- Property, plant and equipment owned	17,836	c)	225	18,061
- Assets held under finance leases	272	d)	1,398	1,670
	18,108		1,623	19,731
Other non-current assets				
- Equity investments	1,715	e)	(406)	1,309
- Securities and financial receivables	472	(*)	(127)	345
- Miscellaneous receivables and other non-current assets	407	f)	445	852
	2,594		(88)	2,506
Deferred tax assets	4,864	g)	695	5,559
TOTAL NON-CURRENT ASSETS (A)	**58,315**		**3,256**	**61,571**
Current assets:				
Inventories	435	h)	5	440
Trade receivables, miscellaneous receivables and other current assets	9,513	i)	1,014	10,527
Equity investments	183	l)	(183)	-
Securities other than equity investments	1,054	(*)	(411)	643
Financial receivables and other current financial assets	1,240	(*)	(371)	869
Cash and cash equivalents	5,699	(*)	25	5,724
TOTAL CURRENT ASSETS (B)	**18,124**		**79**	**18,203**
Discontinued operations/Assets held for sale	-		-	-
of a financial nature	-		-	-
of a non-financial nature	-		-	-
TOTAL DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (C)	-		-	-
TOTAL ASSETS (A+B+C)	**76,439**		**3,335**	**79,774**
Shareholders' equity:				
attributable to Parent Company	14,730		674	15,404
attributable to minority interests	3,854		18	3,872
TOTAL SHAREHOLDERS' EQUITY (D)	**18,584**		**692**	**19,276**
Non-current liabilities:				
Non-current financial liabilities	34,517	(*)	1,315	35,832
Employee severance indemnities and other employee-related reserves	1,380	m)	(91)	1,289
Reserve for deferred taxes	181	n)	368	549
Reserves for future risks and charges	866	o)	(16)	850
Miscellaneous payables and other non-current liabilities	1,717	p)	658	2,375
TOTAL NON-CURRENT LIABILITIES (E)	**38,661**		**2,234**	**40,895**
Current liabilities:				
Current financial liabilities	6,974	(*)	264	7,238
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,220	q)	145	12,365
TOTAL CURRENT LIABILITIES (F)	**19,194**		**409**	**19,603**
Liabilities relating to discontinued operations/assets held for sale:				
of financial nature				
of a non-financial nature				
TOTAL LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (G)	-		-	-
TOTAL LIABILITIES (H=E+F+G)	**57,855**		**2,643**	**60,498**
TTOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (D+H)	**76,439**		**3,335**	**79,774**

(^) the balance sheet data has been prepared in accordance with IAS/IFRS in force to date

(*) included in net financial debt

CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST HALF OF 2004 (^)

(in millions of euro)	Italian GAAP reclassified		IAS/IFRS adjustments	IAS/IFRS
Revenues	15,263	a)	(55)	15,208
Other income	180		2	182
Total revenues and operating income	**15,443**		**(53)**	**15,390**
Purchases of materials and external services	(6,487)	b)	25	(6,462)
Personnel costs	(2,139)	c)	7	(2,132)
Other operating expenses	(584)	d)	(9)	(593)
Changes in inventories	126		-	126
Capitalized internal construction costs	326		(2)	324
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)	**6,685**		**(32)**	**6,653**
Depreciation and amortization	(3,212)	e)	730	(2,482)
Gains/losses on disposals of non-current assets (I)	(4)		(2)	(6)
Impairment losses/reversals on non-current assets	(286)		(2)	(288)
OPERATING INCOME (EBIT)	**3,183**		**694**	**3,877**
Share of earnings of equity investments in associates accounted for by the equity method	(25)	f)	7	(18)
Financial income	602	f)	180	782
Financial expenses	(1,462)	f)	(408)	(1,870)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**2,298**		**473**	**2,771**
Income taxes for the period	(1,435)	g)	82	(1,353)
NET INCOME FROM CONTINUING OPERATIONS	**863**		**555**	**1,418**
Net income (loss) from discontinued operations/assets held for sale				
NET INCOME FOR THE PERIOD	**863**		**555**	**1,418**
Attributable to:				
* Parent Company	405		574	979
* Minority interests	458		(19)	439

(^) the statement of income data has been prepared in accordance with IAS/IFRS in force to date

(I) excluding gains/losses on disposals of discontinued operations/assets held for sale and equity investments other than subsidiaries

Commentary on the principal IAS/IFRS adjustments made to the balance sheets at June 30, 2004 and the statement of income for the first half of 2004

Information on the principal adjustments is presented below with brief comments and references to the adjustments presented in the reconciliations of shareholders' equity and net income, as previously illustrated.

The effects of the changes relating to the financial assets and liabilities included in net financial debt are presented in the reconciliation on page 208.

Adjustments to the consolidated balance sheet – Assets

a) *goodwill and other intangible assets with an indefinite life*; these adjustments at June 30, 2004 (+*euro 1,101 million*) principally relate to the write-off of the amortization of goodwill, equal to *euro 779 million* (see adjustment No. 1), and recognition of additional goodwill following the consolidation of the aforementioned TIM shares classified in accordance with Italian GAAP in current assets, equal to euro 328 million (see adjustment No. 2);
b) *intangible assets with a finite life;* these adjustments (–euro 75 million at June 30, 2004) principally regard the derecognition of certain start-up and expansion costs which do not meet the requirements under IAS/IFRS for recognition in intangible assets (see adjustment No. 13);
c) *property, plant and equipment owned*; these adjustments (+*euro 225 million* at June 30, 2004) principally regard:
   - the write-off of the accumulated depreciation of land appurtenant to buildings, equal to *euro 87 million,* which must be separated from the buildings and no longer depreciated, in accordance with IAS/IFRS (see adjustment No. 11);
   - the capitalization of restoration costs, equal to *euro 219 million* (see adjustment No. 15);
   - the elimination of intragroup gains on tangible assets produced within the Group with a consequent decrease in the amount of these same assets, equal to *euro 95 million* (see adjustment No. 14);
d) *assets held under finance leases* (+*euro 1,398 million* at June 30, 2004*)*; these adjustments principally regard:
   - the recognition, equal to *euro 1,322 million at June 30, 2004*, in non-current assets of buildings that were the subject of sale and leaseback transactions in prior years since they have the characteristics of leasebacks of a financial nature (see adjustment No. 4);
   - the recognition, equal to *euro 76 million* at June 30, 2004, in non-current assets of tangible assets under finance lease contracts;
e) *equity investments (non-current) (-euro 406 million* at June 30, 2004); these adjustments principally regard:
   - the reversal of treasury stock, equal to *euro 393 million* at June 30, 2004, which is accounted for as a reduction of shareholders' equity in accordance with IAS/IFRS (see adjustment No. 8);
   - the adjustment to fair value of equity investments in companies other than subsidiaries and associates, equal to *euro 13 million* at June 30, 2004 (see adjustment No. 16);
f) *miscellaneous receivables and other non-current assets* (+*euro 445 million* at June 30, 2004); these adjustments principally regard the balance among:
   - the recognition of prepaid expenses related to the deferral of costs associated with the recognition of revenues (see adjustment No. 9), equal to *euro 550 million* at June 30, 2004;
   - the reversal of similar expenses on bonds as a result of the application of the amortized cost method to financial expenses, equal to *euro 136 million* at June 30, 2004;
g) *deferred tax assets* (+*euro 695 million* at June 30, 2004); these adjustments regard the contra-entry in assets of the tax effect on the items in reconciliation as well as the recognition of deferred tax assets that were not recorded because the requirement of reasonable certainty was not met under Italian GAAP (see adjustment No. 10);

h) *inventories* (*euro 5 million* at June 30, 2004*)*; these adjustments principally regard the adoption of the weighted average cost method;

i) *trade receivables, miscellaneous receivables and other current assets (+ euro 1,014 million* at June 30, 2004*)*; these adjustments principally regard:

- the re-recognition of trade receivables and miscellaneous receivables sold through factoring transactions that are not recognized under IAS/IFRS (see adjustment No. 3), equal to *euro 139 million* at June 30, 2004;
- the re-recognition of trade receivables sold through securitization transactions that are not recognized under IAS/IFRS (see adjustment No. 2), equal to *euro 797 million* at June 30, 2004;

l) *equity investments (-euro 183 million* at June 30, 2004*)*; this adjustment regards the reversal of TIM shares, following their consolidation, recorded in accordance with Italian GAAP in current assets (see adjustment No. 2);

__Adjustments to the consolidated balance sheet - Liabilities__

m) *employee severance indemnities and other employee-related reserves (-euro 91 million* at June 30, 2004*);* these adjustments mainly regard the application of actuarial methods to employee severance indemnities;

n) *reserve for deferred taxes (+ euro 368 million* at June 30, 2004*)*; these adjustments regard the contra-entry recorded in liabilities to account for the tax effect on items in reconciliation;

o) *reserves for future risks and charges (- euro 16 million* at June 30, 2004*)*; these adjustments principally regard the balance among:

- the derecognition of certain reserves due to the absence of the requirements necessary for their recognition (actual, legal or implicit obligation), equal to *euro 60 million* at June 30, 2004;
- the provision to the reserve for restoration costs (see adjustment No. 15), equal to *euro 311 million* at June 30, 2004;
- the reclassification to financial liabilities of the portion of the repayment premium due on the exchangeable bonds "Telecom Italia Finance 2001-2006", equal to *euro 235 million* at June 30, 2004;

p) *miscellaneous payables and other non-current liabilities (+ euro 658 million* at June 30, 2004*)*; these adjustments principally regard deferred income for the deferral of the revenues on the activation of Telecom Italia telephone service;

q) *trade payables, current tax payables, miscellaneous payables and other current liabilities (+ euro 145 million* at June 30, 2004*)*; these adjustments principally regard the balance among:

- deferred income for the deferral of revenues on the activation of Telecom Italia telephone service and revenues on the recharge of TIM prepaid cards, equal to *euro 323 million; ;*
- the derecognition of certain reserves due to the absence of the requirements necessary for their recognition (actual, legal or implicit obligation), equal to *euro 194 million* at June 30, 2004.

__Adjustments to the consolidated statement of income for the first half of 2004__

a) *revenues (-euro 55 million)*: principally regard the deferral of revenues on the activation of telephone service and the recharge of prepaid telephone cards over the estimated duration of the relationship with the customer (see adjustment No. 9);

b) *purchases of materials and external services (+euro 25 million)*: these adjustments principally regard:

- as a decrease, the reversal of financial lease payments relating to the sale and leaseback transactions on buildings, equal to *euro 93 million* (see adjustment No. 4), and to financial lease transactions on tangible assets, equal to *euro 27 million*;
- as an increase, the reversal, equal to *euro 42 million,* of the release of certain reserves for risks and charges (not recognized under IAS/IFRS) recorded in the statement of income in the first half of 2004 under Italian GAAP (see adjustment No. 5) and the effect of deferring the costs related to the revenues for the activation of telephone service and the recharge of prepaid cards, equal to euro 50 million (see adjustment No. 9);

c) *personnel costs (-euro 7 million):* these adjustments principally regard the higher provision to the reserve for employee severance indemnities, equal to *euro 2 million* and the decrease for the reversal of personnel costs related to the deferral of revenues for the activation of telephone service and the recharge of prepaid cards, equal to *euro 12 million* (see adjustment No. 9);

d) *other operating expenses (-euro 9 million):* these adjustments principally regard the higher expenses consequent to the consolidation of the special purpose entity, TISV, set up for securitization transactions (see adjustment No. 2);

e) *depreciation and amortization (-euro 730 million)*: these adjustments principally reflect:

- as a decrease, the reversal, equal to *euro 777 million,* of the amortization charge for goodwill (see adjustment No. 1), lower depreciation, equal to *euro 13 million*, in connection with the elimination of intragroup gains (see adjustment No. 14) and the reversal, equal to *euro 3 million*, of depreciation relating to the land appurtenant to the buildings (see adjustment No. 11);
- as an increase, the recognition, equal to *euro 40 million*, of the depreciation charge on buildings that were the subject of a sale and leaseback under finance lease contracts (see adjustment No. 4); *euro 21 million* for the depreciation charge on other finance leases and *euro 10 million* for the depreciation charge on restoration costs;

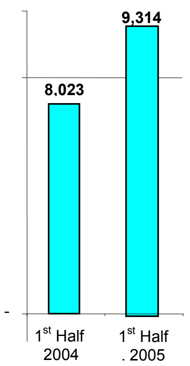
f) *net financial expenses (+euro 228 million):* these adjustments principally regard the recognition of financial expenses, equal to *euro 73 million*, included in finance lease payments regarding the sale and leaseback of properties *(see adjustment No. 4),* the recognition of higher financial expenses, equal to euro 84 million, consequent to the application of the "amortized cost" method to convertible and exchangeable bonds (see adjustment No. 6), the reversal of impairment reversals, equal to *euro 13 million*, and dividends equal to *euro 10 million*, relating to the shares of consolidated companies classified according to Italian GAAP in current assets;

g) *income taxes for the period (-euro 82 million):* this decrease regards the positive net tax effect on the above-described adjustments (see adjustment No. 10).

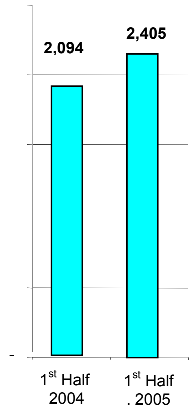
THE PARENT COMPANY
TELECOM ITALIA S.P.A.

SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA S.p.A.

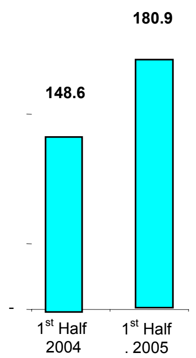
Revenues (euro/millions)



EBIT
(euro/millions)



Revenues/Employees



	1st Half 2005	1st Half 2004 Restated (*)	Year 2004
Economic and Financial Data (millions of euro)			
Revenues	9,314	8,023	16,108
EBITDA	3,999	3,457	6,982
EBIT	2,405	2,094	4,106
Income before taxes	2,020	1,049	3,182
Net income	1,352	514	2,135
Investments:			
- Industrial	1,343	1,099	2,330
- Financial	15,568	38	1,695

Balance Sheet Data (millions of euro)	6/30/2005	12/31/2004	6/30/2004 Restated (*)
Total assets	76,386	63,729	60,588
Shareholders' equity	19,427	16,811	15,149
Net financial debt	45,573	31,106	34,636

	1st Half 2005	1st Half 2004 Restated (*)	Year 2004
Profit and Financial Indexes			
EBITDA / Revenues	42.9%	43.1%	43.3%
EBIT / Revenues (ROS)	25.8%	26.1%	25.5%
Debt Ratio (Net financial debt/Net invested capital) (1)	70.1%	69.6%	64.9%
Employees			
Employees (number at period-end)	52,689	54,920	52,848
Employees (average number)	51,480	53,990	53,659
Revenues/Employees (average number) thousands of euro	180.9	148.6	300.2

(1) Net invested capital = Total shareholders' equity + Net financial debt
(*) The results for the first half of 2004 and the balance sheet figures at June 30, 2004 have been restated to take into account the merger of IT Telecom and EPIClink in Telecom Italia, executed on December 31, 2004, with effect for accounting and tax purposes starting as of January 1, 2004.

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

The results of operations, the financial condition and the cash flows of Telecom Italia S.p.A. for the first half of 2005 reflect the impact of the merger of the subsidiary TIM S.p.A., finalized on June 30, 2005, with effect for accounting and tax purposes as of January 1, 2005.
The TIM values that flowed into Telecom Italia take into account the spin-off, carried out February 24, 2005, of the domestic mobile telecommunication business in Italy to TIM Italia S.p.A., a subsidiary owned 100% by TIM and now directly by Telecom Italia S.p.A. The spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005.

The statement of income shows the results for the first half of 2005, inclusive of the results of the business spun off above for the months of January and February 2005, compared to those for the first half of 2004 restated, giving effect for accounting and tax purposes as of January 1, 2004 to the merger of IT Telecom and EPIClink in Telecom Italia, executed on December 31, 2004.

In order to ensure a greater consistency in disclosure, the economic, balance sheet and financial results of Telecom Italia S.p.A., prepared in accordance with Italian accounting principles, are represented in the following pages using the same presentation as the interim consolidated financial statements of the Telecom Italia Group, prepared in accordance with IAS/IFRS.

STATEMENTS OF INCOME

(in millions of euro)	1st Half 2005 (a)	1st Half 2004 Restated (*) (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	9,314	8,023	16,108	1,291	16.1
Other income	163	113	642	50	44.2
Total revenues and operating income	**9,477**	**8,136**	**16,750**	1,341	16.5
Purchases of materials and external services	(3,756)	(3,235)	(6,633)	(521)	16.1
Personnel costs	(1,541)	(1,460)	(2,860)	(81)	5.5
Other operating expenses	(351)	(265)	(914)	(86)	32.5
Changes in inventories	42	28	38	14	50.0
Capitalized internal construction costs	128	253	601	(125)	(49.4)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)	**3,999**	**3,457**	**6,982**	542	15.7
Depreciation and amortization	(1,595)	(1,376)	(2,892)	(219)	15.9
Gains/losses on disposals of non-current assets	1	13	16	(12)	(92.3)
OPERATING INCOME (EBIT)	**2,405**	**2,094**	**4,106**	311	14.9
Financial income	954	124	1,819	830	°
Financial expenses	(1,339)	(1,169)	(2,743)	(170)	14.5
INCOME BEFORE TAXES	**2,020**	**1,049**	**3,182**	971	92.6
Income taxes for the period	(668)	(535)	(1,047)	(133)	24.9
NET INCOME	**1,352**	**514**	**2,135**	838	°

(*) The amounts for the first half of 2004 have been restated to take into account the merger of IT Telecom and EPIClink in Telecom Italia, with effect for accounting and tax purposes as of January 1, 2004.

The Parent Company, **Telecom Italia S.p.A.,** reports a net income of euro 1,352 million for the first half of 2005, an increase of euro 838 million compared to the first half of 2004 restated.
The increase is due to the following:

- an improvement in *operating income* (+euro 311 million);
- an improvement in the balance of *financial income and expenses* (+euro 660 million);
- an increase in *income taxes* (+euro 133 million).

The improvement in the balance of *financial income and expenses* is particularly due to the collection of dividends for the year 2004 (euro 716 million) on the TIM shares acquired in the tender offer for TIM ordinary and savings shares and the subsequent share purchases made in 2005.

In order to ensure a homogeneous comparison, the following table shows the results for the first half of 2005 net of the effects of the merger with TIM, compared to those of the first half of 2004 restated.

(in millions of euro)	1st Half 2005 (a)	Merger effect TIM (b)	1st Half 2005 pre-merger TIM (c=a-b)	1st Half 2004 Restated (*) (d)	Change (c-d) amount	Change (c-d) %
Revenues	9,314	1,270	8,044	8,023	21	0.3
Other income	163	6	157	113	44	38.9
Total revenues and operating income	**9,477**	**1,276**	**8,201**	**8,136**	**65**	**0.8**
Purchases of materials and external services	(3,756)	(476)	(3,280)	(3,235)	(45)	1.4
Personnel costs	(1,541)	(86)	(1,455)	(1,460)	5	(0.3)
Other operating expenses	(351)	(17)	(334)	(265)	(69)	26.0
Changes in inventories	42	26	16	28	(12)	(42.9)
Capitalized internal construction costs	128	7	121	253	(132)	(52.2)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)	**3,999**	**730**	**3,269**	**3,457**	**(188)**	**(5.4)**
			-			
Depreciation and amortization	(1,595)	(210)	(1,385)	(1,376)	(9)	0.7
Gains/losses on disposals of non-current assets	1	2	(1)	13	(14)	°
OPERATING INCOME (EBIT)	**2,405**	**522**	**1,883**	**2,094**	**(211)**	**(10.1)**

(*) The amounts for the first half of 2004 have been restated to give effect to the merger of IT Telecom and EPIClink in Telecom Italia, finalized on December 31, 2004, with effect for accounting and tax purposes as of January 1, 2004.

Sales and service revenues, gross of the portion due to other TLC operators, amount to euro 9,314 million and increased by euro 1,291 million (+16.1%) compared to the first half of 2004 restated. They include the revenues of the merged company TIM (euro 1,270 million) principally for traffic invoiced to customers during the months of January and February 2005.

Excluding the effects of the merger with TIM, revenues in the first half of 2005 (euro 8,044 million) show an underlying growth of euro 21 million (+0.3%) compared to the first half of 2004 restated.

Such performance is mostly due to the increase in the revenues of the Telecom Italia Wireline Business Unit (+euro 11 million) and higher royalties received following the sale of intellectual property rights to TILAB by Olivetti (+euro 8 million).

In particular, the trend of Wireline revenues can be analyzed as follows:

- increase in Internet revenues (+euro 71 million) due to the growth of ADSL plans;
- decrease in revenues from the telephony area (-euro 154 million) chiefly on account of lower traffic revenues, which were partly absorbed by higher sales of products (mainly the *Aladino* cordless phone);
- increase in revenues from the Data Business area (+euro 76 million) thanks to higher VAS Data revenues (+euro 63 million) mostly due to the growth of Web services and outsourcing;
- increase in revenues of the national Wholesale area (+euro 29 million);
- decrease in other retail revenues (-euro 11 million).

EBITDA amounts to euro 3,999 million and grew by euro 542 million (+15.7%) compared to the first half of 2004 restated. It includes the effects of the merger with TIM, amounting to euro 730 million. As a percentage of revenues, EBITDA is equal to 42.9% (43.1% in the first half of 2004 restated).

Excluding the effects of the merger with TIM, EBITDA for the first half of 2005 is equal to euro 3,269 million and decreased by euro 188 million (-5.4%) compared to the first half of 2004 restated. Such decrease is attributable to exceptional items recorded in the first half of 2005 for euro 71 million. As a percentage of revenues, EBITDA is equal to 40.6% (43.1% in the first half of 2004 restated).

The decrease is primarily due to the increase in other operating expenses (+euro 69 million) and in purchases of materials and external services (+euro 45 million) and to the reduction in capitalized internal construction costs (-euro 132 million). The latter is principally due to the fact that, after the merger of IT Telecom in Telecom Italia which took place on December 31, 2004, the external costs which in the first half of 2004 restated had been booked to capitalized internal construction costs, in the first half of 2005 were directly booked to investments.

Such negative effects were partly absorbed by the increase in other operating income (+euro 44 million) and by the aforementioned increase in revenues.

In particular:

- other operating expenses include expenses of an ordinary nature (euro 254 million) and expenses of an extraordinary nature (euro 80 million). Ordinary expenses principally relate to indirect taxes (euro 40 million), expenses relating to the sale of receivables (euro 45 million), expenses connected with agreements with telephone operators (euro 55 million) and the provision to the allowance for doubtful accounts (euro 66 million). Other operating expenses show an increase of euro 40 million over the first half of 2004 restated mainly as a result of higher expenses associated with the management of relations with other telephone operators and higher provisions to the allowance for doubtful accounts. Expenses of an extraordinary nature mainly refer to extraordinary expenses connected with corporate transactions abroad; these increased by euro 29 million compared to the first half of 2004 restated;
- purchases of materials and external services include expenses of an ordinary nature (euro 3,270 million) and expenses of an extraordinary nature (euro 10 million). They increased by euro 45 million compared to the first half of 2004 restated principally as a result of higher expenses for the purchase of products for resale.

EBIT is euro 2,405 million, with an increase of euro 311 million (+14.9%) compared to the first half of 2004 restated. It includes the effects of the merger with TIM, amounting to euro 522 million. EBIT as a percentage of revenues is equal to 25.8% (26.1% in the first half of 2004 restated).

Excluding the effects of the merger with TIM, EBIT for the first half of 2005 is equal to euro 1,883 million and decreased by euro 211 million (-10.1%) compared to the first half of 2004 restated. Such decrease is attributable to the previously mentioned exceptional items recorded in the first half of 2005 for euro 71 million. As a percentage of revenues, EBIT is equal to 23.4% (26.1% in the first half of 2004 restated).

The decrease is mostly attributable to the above mentioned trend of EBITDA, the increase in depreciation and amortization charges (+euro 9 million) and the reduction in the gains/losses on disposals of non-current assets (-euro 14 million).

Financial income and expenses show a net expense balance of euro 385 million with an improvement of euro 660 million compared to the first half of 2004 restated. They consist of financial income (euro 954 million) and financial expenses (euro 1,339 million).
The improvement can basically be ascribed to the collection of dividends (euro 716 million) on the TIM shares acquired in the tender offer and the subsequent share purchases made in 2005; this positive effect is partially offset by an increase in net financial expenses due to higher average debt exposure as a result of the tender offer.

Income taxes total euro 668 million and increased by euro 133 million compared to the first half of 2004 restated as a result of higher taxable income.

BALANCE SHEETS

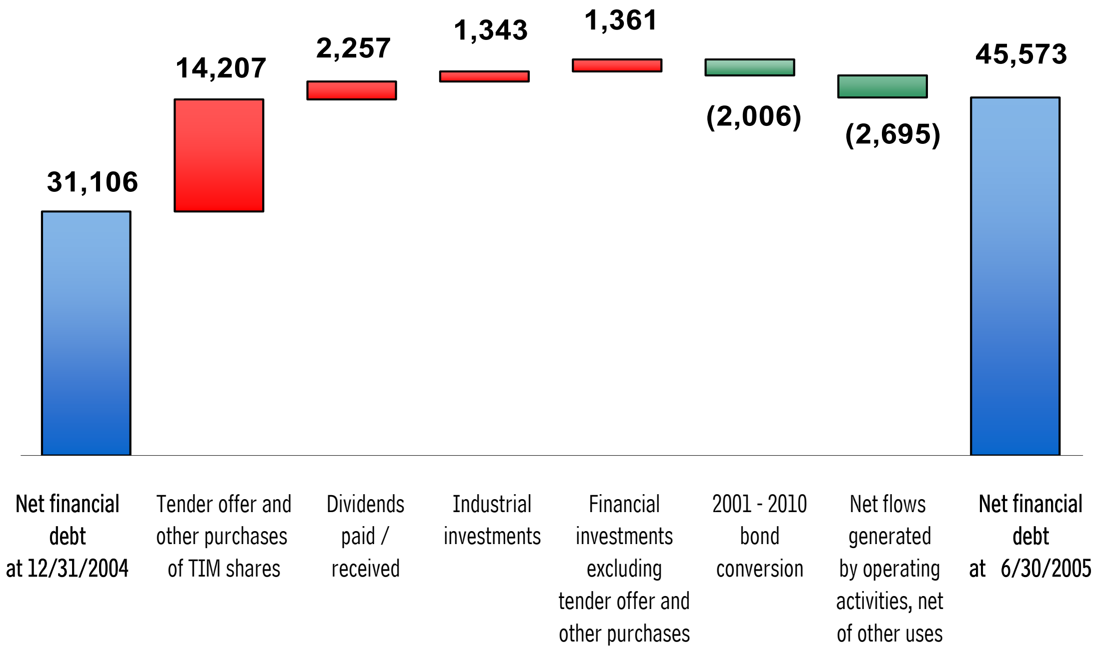
(in millions of euro)	6/30/2005 (a)	12/31/2004 (b)	6/30/2004 Restated (*)	Change (a-b)
Non-current assets				
Intangible assets				
Goodwill	2	3	4	(1)
Intangible assets with a finite life	1,630	1,625	1,485	5
	1,632	1,628	1,489	4
Tangible assets				
Property, plant and equipment owned	11,161	11,238	11,840	(77)
	11,161	11,238	11,840	(77)
Other non-current assets				
Equity investments	51,911	34,235	34,706	17,676
Securities and other non-current financial receivables	152	388	442	(236)
Miscellaneous receivables and other non-current assets	99	486	124	(387)
	52,162	35,109	35,272	17,053
Deferred tax assets	2,732	2,391	3,084	341
TOTAL NON-CURRENT ASSETS (A)	67,687	50,366	51,685	17,321
Current assets				
Inventories	129	113	104	16
Trade receivables, miscellaneous receivables and other current assets	6,054	6,638	7,055	(584)
Financial receivables and other current financial assets	921	602	1,566	319
Cash and cash equivalents	1,595	6,010	178	(4,415)
TOTAL CURRENT ASSETS (B)	8,699	13,363	8,903	(4,664)
TOTAL ASSETS (A+B)	76,386	63,729	60,588	12,657
SHAREHOLDERS' EQUITY				
- Share capital	10,667	8,865	8,857	1,802
- Reserves and retained earnings	7,408	5,811	5,778	1,597
- Net income	1,352	2,135	514	(783)
				-
TOTAL SHAREHOLDERS' EQUITY (C)	19,427	16,811	15,149	2,616
NON-CURRENT LIABILITIES				
Non-current financial liabilities	36,138	33,374	29,235	2,764
Employee severance indemnities and other employee-related reserves	1,094	1,043	1,070	51
Reserve for deferred taxes	-	-	-	-
Reserves for future risks and charges	387	386	390	1
Miscellaneous payables and other non-current liabilities	486	646	570	(160)
TOTAL NON-CURRENT LIABILITIES (D)	38,105	35,449	31,265	2,656
CURRENT LIABILITIES				
Current financial liabilities	12,103	4,732	7,408	7,371
Trade payables, miscellaneous payables and other current liabilities	6,751	6,737	6,766	14
TOTAL CURRENT LIABILITIES (E)	18,854	11,469	14,174	7,385
TOTAL LIABILITIES (F=D+E)	56,959	46,918	45,439	10,041
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)	76,386	63,729	60,588	12,657

(*) The amounts for the first half of 2004 have been restated to take into account the merger of IT Telecom and EPIClink in Telecom Italia, with effect for accounting and tax purposes as of January 1, 2004.

Assets, equal to euro 76,386 million, show an increase of euro 12,657 million compared to December 31, 2004; they consist of non-current assets of euro 67,687 million and current assets of euro 8,699 million. In particular, non-current assets increased by euro 17,321 million mainly following the assets purchased in the merger (specifically TIM Italia and TIM International shares to which the merger deficit originating from the tender offer for TIM shares was allocated) and the purchase of the assets of Virgilio, Tin.it and Liberty Surf Group.

Shareholders' equity amounts to euro 19,427 million. The increase of euro 2,616 million compared to December 31, 2004 is mainly due to the increase in share capital connected both to the merger with TIM and the conversion of convertible bonds, and the increase in additional paid-in capital. Additional details on changes in shareholders' equity during the six months are reported in the Telecom Italia S.p.A. notes under liabilities.

Net financial debt (euro 45,573 million) increased by euro 14,467 million compared to December 31, 2004 (euro 31,106 million).
The following chart summarizes the major items which had an impact on the change in net financial debt during the course of the first half of 2005:



In particular, the following is mentioned:

- the amount relative to the disbursement for the tender offer and for other purchases of TIM shares refers to the price paid under the tender offer, at the end of January 2005, for the purchase of TIM ordinary and savings shares for euro 13,804 million, in addition to disbursements for the purchase of TIM savings shares (euro 28 million) on the market, the exercise of put/call options for a total of euro 351 million and the costs capitalized for the transaction;
- the amount of dividends paid/collected consists of euro 2,301 million of dividends paid to third parties by Telecom Italia (euro 1,923 million) and by the merged company TIM (euro 378 million) and dividends received from Group companies (euro 44 million);
- financial investments mainly include the purchase of the assets of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it from Telecom Italia Media (for total consideration of euro 950 million), the acquisition of ISM from Telecom Italia Finance (euro 97 million) and the purchase of the investment in Liberty Surf Group S.A. from Tiscali (euro 248 million).

Net financial debt benefits from the effects of securitization transactions and sales of receivables to factoring companies for a total, at June 30, 2005, of euro 1,098 million. Of this amount, euro 808 million is relative to securitization and euro 290 million to factoring transactions (euro 1,698 million at December 31, 2004, of which euro 786 million is relative to securitization and euro 912 million to factoring transactions).

Net financial debt is detailed in the following table:

(in millions of euro)	6/30/2005 (a)	12/31/2004 (b)	6/30/2004 Restated (*)	Change (a-b)
GROSS FINANCIAL DEBT				
Non-current financial liabilities				
- Financial payables	36,138	33,374	29,235	2,764
- Other financial liabilities	-	-	-	-
Current financial liabilities				
- Financial payables	12,099	4,728	7,404	7,371
- Other financial liabilities	4	4	4	-
TOTAL GROSS FINANCIAL DEBT (A)	**48,241**	**38,106**	**36,643**	**10,135**
FINANCIAL ASSETS				
Financial receivables and other non-current financial assets	152	388	442	(236)
Financial receivables and other current financial assets	921	602	1,387	319
Cash and cash equivalents	1,595	6,010	178	(4,415)
TOTAL FINANCIAL ASSETS (B)	**2,668**	**7,000**	**2,007**	**(4,332)**
NET FINANCIAL DEBT (A-B)	**45,573**	**31,106**	**34,636**	**14,467**

(*) The amounts for the first half of 2004 have been restated to take into account the merger of IT Telecom and EPIClink in Telecom Italia, with effect for accounting and tax purposes as of January 1, 2004.

At June 30, 2005, current financial liabilities (euro 12,103 million) include the portion of the nominal value of non-current debt due within 12 months, equal to euro 8,757 million (euro 2,238 million at December 31, 2004), of which euro 8,534 million refers to the portion of loans payable to Group companies.
The debt position with Group companies amounts to euro 27,385 million (euro 16,429 million due beyond 12 months); the debt position with third parties totals euro 20,856 million (euro 19,709 million due beyond 12 months).

Moreover:

On January 28, 2005, in connection with the payment of the tender offer, euro 2,504 million was paid from cash resources and euro 11,300 million was drawn from the loan made available by a syndicate of banks on December 8, 2004. Subsequently, on February 11, 2005, the first tranche of the loan was repaid in advance for euro 2,300 million from the cash resources of Telecom Italia. As of today's date, therefore, the outstanding loan amounts to a nominal amount of euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months and euro 3,000 million due in 60 months.

During the first half, Telecom Italia issued new bonds under the Telecom Italia Euro Medium Term Note Program for a total of euro 10 billion approved by the Board of Directors' Meeting of October 10, 2003. In particular, on March 17, 2005, bonds were issued for a total of euro 850 million, coupon interest of 5.25%, issue price of 99.667, maturing March 17, 2055, and on June 29, 2005 bonds were issued for GBP 500 million (equal to euro 742 million), coupon interest of 5.625%, issue price 99.878, maturing December 29, 2015.

Telecom Italia 2002-2022 bonds, set aside for subscription by employees of the Group, increased during the six months by euro 13 million as a result of purchases/subscriptions for euro 36 million and sales by bondholders for euro 23 million. According to the bond indenture, the Company is the obligatory counterpart for the purchases made by holders of this bond category.

In view of the requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased by euro 2,225 million, resulting in a positive effect on net financial debt of euro 2,006 million, as illustrated in the above table.

HIGHLIGHTS OF THE MAJOR SUBSIDIARIES OF TELECOM ITALIA S.P.A.

Telecom Italia Sparkle S.p.A.
Held by: Telecom Italia 100%
The following table shows the key results:

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	943	856	1,801	87	10.2
EBITDA	115	108	214	7	6.5
% of Revenues	*12.2*	*12.6*	*11.9*		
EBIT	72	68	128	4	5.9
% of Revenues	*7.6*	*7.9*	*7.1*		
Industrial investments	21	20	67	1	5.0
Employees at period-end (number) (1)	876	889	880	(4)	(5.0)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues amount to euro 943 million in the first half of 2005, with an increase of euro 87 million compared to the same period of the prior year. The increase is due to the growth of voice traffic (+euro 75 million) principally in connection with an increase in transit traffic and to a significant rise in Data/IP invoicing (+euro 12 million) attributable to a considerable increase in the bandwidth sold.

EBITDA shows an improvement of euro 7 million compared to the first half of 2004 mainly as a result of:

- an increase in net revenues (+euro 14 million);
- an increase in purchase costs of materials and external services (+euro 7 million), owing to the higher volumes mentioned above, personnel costs and other operating expenses (+euro 2 million) (+euro 2 million);
- lower provisions totaling euro 4 million.

EBIT for the period is euro 72 million, with an increase of euro 4 million, compared to the first half of 2004, and includes higher depreciation and amortization charges of approximately euro 2 million.

TIM ITALIA S.p.A.
Held by: Telecom Italia S.p.A. 100%
This company, set up at the end of 2004, was contributed the business segment for mobile telecommunications by TIM S.p.A. on February 24, 2005, effective March 1, 2005. The contribution was part of the transaction for the Telecom Italia/TIM merger. Reference should be made to the comments made earlier on the overall trend of the domestic business regarding operations in Italy.
The following table shows the key results in the first half of 2005 under Italian GAAP and classified according to IAS/IFRS presentation:

(millions of euro)	1st Half 2005
Revenues	3,402
EBITDA	1,784
% of Revenues	*52.4*
EBIT	1,377
% of Revenues	*40.5*
Industrial investments	293
Employees at period-end (number)	10,455

Revenues total euro 3,402 million in the first four months of operations and are presented gross of amounts due to other operators, equal to euro 542 million.

EBITDA is euro 1,784 million. As a percentage of revenues, EBITDA is equal to 52.4%.
The major items which affected EBITDA, apart from the foregoing revenues, are:

- prior period income and other income for a total of euro 92 million;
- purchases of materials and external services, equal to euro 1,526 million. As a percentage of revenues, such purchases are equal to 44.9%:
- personnel costs, equal to euro 176 million, which include euro 2 million relating to non-employed staff. Personnel costs are 5.2% of revenues;
- other operating expenses, equal to euro 50 million, mainly in reference to writedowns and losses on receivables (euro 9 million), provisions to reserves for future risks and charges (euro 13 million), prior period expenses (euro 19 million), miscellaneous expenses (euro 9 million);
- changes in inventories, equal to euro 23 million;
- capitalization of internal construction costs, equal to euro 19 million.

EBIT is euro 1,377 million; as a percentage of revenues, EBIT is equal to 40.5%.
Particular mention is made of depreciation and amortization charges which are equal to euro 408 million, of which euro 183 million relates to intangible assets and euro 225 million to tangible assets, representing 12.0% of revenues.

Industrial investments total euro 293 million and refer to intangible assets of euro 152 million and tangible assets of euro 141 million.

Telecom Italia Media S.p.A.
Holding by: Telecom Italia 59.43%
The following table shows the key results:

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	114	136	265	(22)	(16.2)
EBITDA	11	16	25	(5)	(31.2)
% of Revenues	*9.6*	*11.8*	*9.4*		
EBIT	(3)	(1)	(11)	(2)	
% of Revenues	*(2.6)*	*(0.7)*	*(4.2)*		
Industrial investments	8	5	16	3	60.0
Employees at period-end (number) (1)	57	386	391	(334)	(85.4)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues, equal to euro 114 million, show a decrease of euro 22 million compared to the first half of 2004 following the sale of the Tin.it Division on June 1, 2005.

EBITDA, equal to euro 11 million in the first half of 2005, declined by euro 5 million compared to the first half of 2004 and represents 9.6% of revenues (11.8% in the first half of 2004). The decrease should be viewed in relationship to the sale of the TIN.IT Division (-euro 5 million).

EBIT is a loss of euro 3 million in the first half of 2005, with a deterioration of euro 2 million compared to the first half of 2004 due to the aforementioned sale of the Tin.it Division.

Olivetti S.p.A.

Held by: Telecom Italia 100,00%

The following table shows the key results:

(millions of euro)	1st Half 2005 (a)	1st Half 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	208	245	489	(37)	(15.1)
EBITDA	(3)	18	28	(21)	
% of Revenues	*(1.4)*	*7.3*	*5.7*		
EBIT	(11)	8	5	(19)	
% of Revenues	*(5.3)*	*3.3*	*1.0*		
Industrial investments	3	5	8	(2)	(40.0)
Employees at period-end (number) (1)	1,133	1,262	1,150	(17)	(1.5)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues in the first half of 2005 amount to euro 208 million and show a decrease of euro 37 million compared to the first half of 2004 (-15.1%).

EBITDA is a loss of euro 3 million, with a deterioration of euro 21 million compared to the first half of 2004. This result was negatively affected by the decline in revenues and by the costs asociated with the development of new products in the Office Division.

EBIT for the half of 2005 is a loss of euro 11 million. EBIT has worsened by euro 19 million compared to the first half of 2004 due to the costs of the Office Division and lower margins.

RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the Company. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.
The economic, balance sheet and financial effects of transactions with subsidiaries and associates on the interim financial statements of Telecom Italia S.p.A. at June 30, 2005 are presented in the following table. Statement of income data and investments are also compared to the first half of 2004 while the balance sheet data is compared to December 31, 2004.

(in millions of euro)	*1st Half 2005*	*1st Half 2004 restated*	
Revenues	644	654	These refer mainly to revenues from TIM Italia, euro 214 million (euro 336 million in the first half of 2004 from the merged company TIM S.p.A.) for mobile – fixed interconnecting fees and line rentals; Teleleasing, euro 94 million (euro 67 million in the first half of 2004) for product sales; Telecom Italia Sparkle, euro 60 million (euro 34 million in the first half of 2004) for international telecommunications services; Nuova Tin.it, euro 60 million (euro 80 million in the first half of 2004 from Telecom Italia Media) for internet services; Path.Net, euro 57 million (euro 56 million in the first half of 2004) for telecommunications services and infrastructures dedicated to the Public Administration; LI.SIT., euro 49 million (euro 17 million in the first half of 2004) for health card sales to the Lombardy Region.
Purchases of materials and external services	1,005	1,154	These refer mainly to amounts to be paid for telecommunications services and interconnecting costs to TIM Italia, euro 311 million (euro 508 million in the first half of 2004 to the merged company TIM S.p.A.), Telecom Italia Sparkle, euro 235 million (euro 212 million in the first half of 2004) and Telecom Italia Media, euro 67 million (euro 95 million in the first half of 2004); computer and information system costs and maintenance expenses from IT Telecom S.r.l., euro 92 million; purchases of energy services from Telenergia, euro 69 million (euro 61 million in the first half of 2004); computer and information system costs from Siemens Informatica, euro 15 million (euro 17 million in the first half of 2004); rent costs from Tiglio I, euro 5 million (euro 33 million in the first half of 2004) and Tiglio II, euro 9 million (euro 13 million in the first half of 2004).
Financial income	755	40	This includes euro 716 million for the receipt of dividends relating to 2004 on TIM shares purchased through the tender offer on TIM ordinary and savings shares and subsequent share purchases made in 2005 plus interest earned on loans made to certain subsidiaries and associates.
Financial expenses	706	744	These include interest expenses from Telecom Italia Finance, euro 502 million (euro 471 million in the first half of 2004, including euro 254 million relating to Olivetti Finance merged in 2004 in Telecom Italia Finance) and from Telecom Italia Capital, euro 108 million (euro 35 million in the first half of 2004).

Investments in tangible and intangible assets	96	14	These refer to acquisitions of computer projects and equipment from Shared Service Center, euro 35 million (euro 2 million in the first half of 2004), IT Telecom S.r.l. (euro 24 million), Siemens Informatica, euro 23 million (euro 4 million in the first half of 2004) and Eustema (euro 6 million).

(in millions of euro)	***6/30/2005***	***12/31/2004***	
Securities and non-current financial receivables	24	89	These refer mainly to medium/long term loans made to Aree Urbane, euro 21 million (euro 20 million at December 31, 2004) and Tiglio II, euro 3 million (euro 3 million.
Trade receivables, miscellaneous receivables and other current assets	1,069	2,086	These refer mainly to: receivables for TLC activities from TIM Italia, euro 173 million (euro 204 million at December 31, 2004 from the merged company TIM), Telecom Italia Sparkle, euro 64 million (euro 70 million at December 31, 2004), Path.Net, euro 50 million (euro 23 million at December 31, 2004), Nuova Tin.it, euro 40 million (euro 50 million at December 31, 2004 from Telecom Italia Media) and TI France (euro 21 million); receivables from LI.SIT, euro 79 million (euro 36 million at December 31, 2004) for the supply of telephone cards to the Lombardy Region and receivables from Teleleasing, euro 46 million (euro 67 million at December 31, 2004) for TLC product and service sales. They also include receivables (euro 452 million) from TIM Italia connected with the Group VAT procedure (euro 199 million) and the monetary adjustment arising on the spin-off of the TIM domestic mobile telecommunications business to TIM Italia (euro 253 million). At December 31, 2004, receivables include euro 1,337 million of receivables for dividends recorded under the maturity principle from TIM S.p.A.
Financial receivables and other current financial assets	290	131	These refer mainly to short-term loans made to TIM Celular (euro 272 million), Mediterranean Nautilus, euro 12 million (euro 5 million at December 31, 2004) and Telegono, euro 3 million (euro 3 million at December 31, 2004).
Cash and cash equivalents	569	584	These refer mainly to the aforementioned short-term loan made to Olivetti Tecnost, euro 460 million (the same amount at December 31, 2004) and current accounts with Telecom Italia Learning Services, euro 30 million (euro 27 million at December 31, 2004) and IT Telecom S.r.l. (euro 23 million).
Non-current financial liabilities	10,879	16,573	These refer to financial payables to Telecom Italia Finance, euro 5,755 million (euro 10,966 million at December 31, 2004) and to Telecom Italia Capital, euro 5,124 million (euro 5,603 million at December 31, 2004) for subscriptions of bonds issued by Telecom Italia.
Current financial liabilities	10,483	3,911	These refer to liabilities for loans and current accounts with Telecom Italia Finance, euro 7,684 million (euro 2,691 million at December 31, 2004), TIM Italia, euro 1,048 million (euro 638 million at December 31, 2004), Telecom Italia Capital (euro 850 million), Telecom Italia Media (euro 609 million) and Telecom Italia Sparkle, euro 162 million (euro 198 million at December 31, 2004).
Trade payables, miscellaneous payables and other current liabilities	918	1,421	These mainly refer to payables for supply transactions connected with operations and investment activities and miscellaneous payable to TIM Italia, euro 196 million (euro 642 million at December 31, 2004 to the merged company TIM S.p.A.), Telecom Italia Sparkle, euro 194 million (euro 317 million at December 31,

			2004), IT Telecom S.r.l. (euro 130 million), Telecom Italia Media, euro 137 million (euro 150 million at December 31, 2004), Olivetti, euro 41 million (euro 55 million at December 31, 2004), Siemens Informatica, euro 33 million (the same amount at December 31, 2004), Shared Service Center, euro 21 million (euro 27 million at December 31, 2004), LA7 (euro 20 million), Path.NET, euro 19 million (the same amount at December 31, 2004), Telenergia (euro 14 million), Telecontact, euro 14 million (euro 18 million at December 31, 2004) and Telecom Italia Learning Services, euro 15 million (euro 25 million at December 31, 2004).
Guarantees provided	26,936	26,082	These include sureties provided mainly on behalf of Telecom Italia Finance, euro 20,051 million (euro 19,989 million at December 31, 2004) and Telecom Italia Capital, euro 6,221 million (euro 5,696 million at December 31, 2004) for bond issues; Avea I.H.A.S. (euro 169 million), Latin American Nautilus group (euro 105 million), Maxitel, euro 103 million, Tiglio I, euro 53 million (euro 54 million at December 31, 2004) and Olivetti (euro 44 million).
Purchases and sales commitments	1,738	1,785	These refer to purchases commitments for building lease obligations with Tiglio I, euro 1,214 million (euro 1,251 million at December 31, 2004), Tiglio II, euro 282 million (euro 291 million at December 31, 2004) and Telegono, euro 225 million (euro 240 million at December 31, 2004).

The table below presents the transactions with the Italtel group, a related party through the investment in the parent company Italtel Holding.

(in millions of euro)	*1st Half 2005*	*1st Half 2004*	
Revenues	2	3	These refer to telephone services.
Purchases of materials and external services	9	9	These refer to costs for maintenance and assistance contracts.
Investments in tangible and intangible assets	131	109	These consist of purchases of telephone exchanges.

(in millions of euro)	*6/30/2005*	*12/31/2004*	
Trade receivables, miscellaneous receivables and other current assets	2	2	These refer to telephone services.
Trade payables, miscellaneous payables and other current liabilities	58	140	These refer to supply contracts connected with operations and investment activities.

Lastly, the following table presents the key economic, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through directors and key executives of the Company.

(in millions of euro)	*1st Half 2005*	*1st Half 2004*	
Revenues	12	12	These mainly refer to telephone services to the Pirelli group, euro 2 million (euro 2 million in the first half of 2004) to the Edizione Holding group, euro 2 million (euro 3 million in the first half of 2004) to the Unipol group, euro 7 million (euro 7 million in the first half of 2004) and to related companies through Mr. Moratti, euro 1 million.
Purchases of materials and external services	52	45	These refer to R&D expenditures and intellectual property rights from the Pirelli group, euro 33 million (euro 38 million in the first half of 2004), Document Management services from Telepost, euro 10 million, insurance services from the Unipol group, euro 5 million (euro 5 million in the first half of 2004), sponsorship and content provider costs to F.C.

			Internazionale Milano S.p.A. - a related company through Mr. Moratti, euro 3 million (euro 1 million in the first half of 2004) and commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million (euro 1 million in the first half of 2004).

Investments in tangible and intangible assets	54	6	These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group, and, in the first half of 2004, principally in respect of TLC cable purchases).

(in millions of euro)	*6/30/2005*	*12/31/2004*	
Trade receivables, miscellaneous receivables and other current assets	2	6	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group, euro 1 million (euro 5 million at December 31, 2004), to Edizioni Holding, to related companies through Mr. Moratti and ST Microelectronics.
Trade payables, miscellaneous payables and other current liabilities	54	54	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 44 million (euro 43 million at December 31, 2004), costs for Document Management services from Telepost, euro 4 million, costs for insurance services from the Unipol group, euro 5 million (euro 11 million at December 31, 2004).

As for a description of the main contracts between Telecom Italia S.p.A. and subsidiaries, associates and related parties through directors and key executives, reference should be made to Note 32 – Other information, letter f) in the notes to the interim consolidated financial statements.

TELECOM ITALIA S.p.A.

INTERIM FINANCIAL STATEMENTS
AT JUNE 30, 2005

ASSETS		6/30/2005		12/31/2004		6/30/2004
(in thousands of euro)						
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS		-		3,206		-
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS						
- INTANGIBLE ASSETS						
Start-up and expansion costs		5,771		11,542		17,256
Industrial patents and intellectual property rights		1,312,195		1,278,654		1,027,151
Concessions, licenses, trademarks and similar rights		4,495		1,350		804
Goodwill		2,112		3,064		1,011
Work in progress and advances to suppliers		342,644		382,132		404,231
Other intangibles		184,792		168,493		153,281
TOTAL INTANGIBLE ASSETS		1,852,009		1,845,235		1,603,734
- FIXED ASSETS						
Land and buildings		1,137,346		1,163,533		1,144,018
Plant and machinery		8,877,342		9,323,365		9,501,316
Manufacturing and distribution equipment		17,629		14,415		7,162
Other fixed assets		119,602		77,798		49,166
Construction in progress and advances to suppliers		788,873		440,936		745,422
TOTAL FIXED ASSETS		10,940,792		11,020,047		11,447,084
- LONG-TERM INVESTMENTS						
Equity investments in						
subsidiaries		51,357,159		33,771,061		34,158,746
affiliated companies		231,165		245,740		385,475
other companies		230,994		204,538		213,277
Total equity investments		51,819,318		34,221,339		34,757,498
Advances on future capital contributions		89,635		12,064		56,047
Accounts receivable	(*)		(*)		(*)	
subsidiaries	13,604	13,604	4,613	448,326		71,560
affiliated companies	2,842	26,725	2,841	25,544		42,661
other receivables	17,703	107,286	18,975	107,909	31,049	106,199
Total accounts receivable	34,149	147,615	26,429	581,779	31,049	220,420
Treasury stock (total par value euro 700 thousand at 6/30/2005)		2,298		2,298		2,298
TOTAL LONG-TERM INVESTMENTS		52,058,866		34,817,480		35,036,263
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		**64,851,667**		**47,682,762**		**48,087,081**
CURRENT ASSETS						
- INVENTORIES						
Contract work in process		34,154		31,189		25,063
Finished goods and merchandise		129,573		113,486		94,396
TOTAL INVENTORIES		163,727		144,675		119,459
- ACCOUNTS RECEIVABLE	(* *)		(* *)		(* *)	
Trade accounts receivable		3,927,578		3,121,009		4,194,286
Accounts receivable from subsidiaries		1,764,753		2,663,712		3,124,326
Accounts receivable from affiliated companies		148,788		126,475		106,482
Taxes receivable		67,022		494,318		45,005
Deferred tax assets	1,120,493	2,731,846	1,078,918	2,391,462	2,055,139	3,072,492
Other receivables due from						
Government and other public entities for grants and subsidies		27,861		27,129		28,505
other receivables		1,055,613		1,099,190		880,416
Total other receivables	0	1,083,474	0	1,126,319	0	908,921
TOTAL ACCOUNTS RECEIVABLE		9,723,461		9,923,295		11,451,512
- SHORT-TERM FINANCIAL ASSETS						
Equity investments in subsidiaries		65		52		178,515
Other equity investments						12
Other securities		7		8		7,524
TOTAL SHORT-TERM FINANCIAL ASSETS		72		60		186,051
- LIQUID ASSETS						
Bank and postal accounts		1,337,564		5,423,500		94,347
Checks		125		35		39
Cash and valuables on hand		674		524		575
TOTAL LIQUID ASSETS		1,338,363		5,424,059		94,961
TOTAL CURRENT ASSETS		**11,225,623**		**15,492,089**		**11,851,983**
ACCRUED INCOME AND PREPAID EXPENSES						
Issue discounts and similar charges		78,076		102,832		120,974
Accrued income and other prepaid expenses		231,042		448,152		423,872
TOTAL ACCRUED INCOME AND PREPARED EXPENSES		**309,118**		**550,984**		**544,846**
TOTAL ASSETS		**76,386,408**		**63,729,041**		**60,483,910**

(*) Amounts due within one year
(* *) Amounts due beyond one year

LIABILITIES AND SHAREHOLDERS EQUITY	6/30/2005		12/31/2004		6/30/2004	
(in thousands of euro)						
SHAREHOLDERS' EQUITY						
- SHARE CAPITAL		10,667,339		8,864,857		8,857,324
- ADDITIONAL PAID-IN CAPITAL		1,666,739		120,380		97,537
- RESERVES FOR INFLATION ADJUSTMENTS - Law No. 413, 12/30/1991		1,129		1,129		1,129
- LEGAL RESERVE		1,953,494		1,953,494		1,834,687
- RESERVE FOR TREASURY STOCK IN PORTFOLIO		2,298		2,298		2,298
- MISCELLANEOUS RESERVES						
. Reserve Law No. 488/1992		245,448		142,365		142,365
. Reserve L.D. No. 124/1993, ex art. 13		391		391		185
. Reserve D.P.R. No. 917/1986, ex art. 74		5,750		5,750		5,750
. Reserve for capital grants		531,748		510,993		504,880
. Other reserves		1,329		4,499		119,012
. Merger surplus reserve		2,010,152		2,188,529		2,188,529
TOTAL MISCELLANEOUS RESERVES		2,794,818		2,852,527		2,960,721
- RETAINED EARNINGS		989,556		881,029		881,029
- NET INCOME		1,351,687		2,134,848		514,013
TOTAL SHAREHOLDERS' EQUITY		**19,427,060**		**16,810,562**		**15,148,738**
RESERVES FOR RISKS AND CHARGES						
Reserve for taxes and reserve for deferred taxes		168,602		168,547		131,020
Other reserves		909,157		779,403		648,789
TOTAL RESERVES FOR RISKS AND CHARGES		**1,077,759**		**947,950**		**779,809**
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES		**1,091,138**		**1,042,919**		**1,012,705**
LIABILITIES	(* *)		(* *)		(* *)	
Debentures	14,360,776	14,360,776	12,701,250	12,701,250	12,655,330	12,655,330
Convertible debentures	599,887	599,887	2,824,947	2,824,947	2,828,181	2,828,181
Due to banks	9,965,514	10,553,728	489,634	905,643	342,769	1,272,612
Due to other lenders	332,958	602,730	785,211	1,044,721	335,320	763,614
Advances		58,998		32,584		25,767
Trade accounts payable		1,975,103		2,032,076		1,746,208
Accounts payable to subsidiaries	10,878,981	22,216,692	16,722,346	20,728,306	12,990,363	19,492,133
Accounts payable to affiliated companies		63,106	4,060	224,859		115,268
Taxes payable		562,714		265,868		1,035,505
Contributions to pension and social security institutions	400,827	528,887	400,827	568,365	466,544	576,126
Other liabilities	53	1,879,199	53	1,967,562	441	1,821,289
TOTAL LIABILITIES	**36,538,996**	**53,401,820**	**33,928,328**	**43,296,181**	**29,618,948**	**42,332,033**
ACCRUED EXPENSES AND DEFERRED INCOME		**1,388,631**		**1,631,429**		**1,210,625**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**76,386,408**		**63,729,041**		**60,483,910**

(* *) Amounts due beyond one year

MEMORANDUM ACCOUNTS	6/30/2005	12/312004	6/30/2004
(in thousands of euro)			
GUARANTEES PROVIDED			
Sureties			
on behalf of subsidiaries	26,616,738	25,932,062	28,154,798
on behalf of affiliated companies	318,676	149,790	151,838
on behalf of others	133,587	119,421	129,015
TOTAL GUARANTEES PROVIDED	**27,069,001**	**26,201,273**	**28,435,651**
PURCHASES AND SALES COMMITMENTS	**4,084,618**	**4,264,891**	**107,070**
OTHER MEMORANDUM ACCOUNTS	**14,300**	**64,094**	**13,943**
TOTAL MEMORANDUM ACCOUNTS	**31,167,919**	**30,530,258**	**28,556,664**

STATEMENTS OF INCOME (in thousands of euro)	**1st half 2005**	**1st half 2004**	**Year 2004**
PRODUCTION VALUE			
Sales and service revenues	9,311,439	7,963,688	16,126,291
Changes in inventory of contract work in process	2,965	1,722	-17,703
Increases in capitalized internal construction costs	127,766	33,472	601,232
Other revenues and income			
operating grants	2,087	2,061	7,660
other	122,034	89,773	204,480
Total other revenues and income	124,121	91,834	212,140
TOTAL PRODUCTION VALUE	**9,566,291**	**8,090,716**	**16,921,960**
PRODUCTION COSTS			
Raw materials, supplies and merchandise	394,024	233,773	614,505
Services	2,907,256	2,567,051	5,394,979
Use of property not owned	345,224	302,071	620,893
Personnel costs			
wages and salaries	987,973	860,076	1,837,882
social security contributions	310,885	272,474	587,147
termination indemnities	74,729	65,787	137,118
other costs	23,698	20,693	51,995
Total personnel costs	1,397,285	1,219,030	2,614,142
Amortization, depreciation and writedowns			
amortization of intangible assets	452,105	267,354	671,343
depreciation of fixed assets	1,142,918	1,043,999	2,220,634
writedowns of receivables included in current assets and	-	-	-
liquid assets	72,090	38,426	101,456
Total amortization, depreciation and writedowns	1,667,113	1,349,779	2,993,433
Changes in inventory of raw materials, supplies and merchandise	-41,881	-29,202	-37,801
Provisions for risks	8,545	16,132	49,138
Other provisions	350		
Miscellaneous operating costs		-	
losses on disposals of assets	2,077	13,484	17,431
TLC operating fees	12,914	11,655	23,250
other miscellaneous costs	172,001	146,408	397,915
Total miscellaneous operating costs	186,992	171,547	438,596
TOTAL PRODUCTION COSTS	**-6,864,908**	**-5,830,181**	**-12,687,885**
OPERATING INCOME	**2,701,383**	**2,260,535**	**4,234,075**
FINANCIAL INCOME AND EXPENSE			
Income from equity investments			
dividends from subsidiaries	715,995	9,804	1,392,083
dividends from affiliated companies	-	-	
dividends from other companies	1,489	2,322	8,755
other income from equity investments	3,590	3,146	5,993
Total income from equity investments	721,074	15,272	1,406,831
Other financial income from			
accounts receivable included in long-term investments			
subsidiaries	1,788	1,838	3,725
affiliated companies	420	1,084	1,789
other	3,630	3,494	7,085
Total from accounts receivable included in long-term investments	5,838	6,416	12,599
securities, other than equity investments, included in current assets	-	171	240
other income			
interest and fees from subsidiaries	14,425	14,826	25,141
interest and fees from affiliated companies	25	31	51
interest and fees from others and miscellaneous income	137,427	70,614	189,071
Total other income	151,877	85,471	214,263
Total other financial income	157,715	92,058	227,102
Interest and other financial expense			
interest and fees paid to subsidiaries	615,939	384,639	770,636
interest and fees paid to affiliated companies	74	92	446
interest and fees paid to others and miscellaneous expense	563,402	578,579	1,225,196
Total interest and other financial expense	-1,179,415	-963,310	-1,996,278
Foreign exchange gains and losses	25,649	-159	-2,418
TOTAL FINANCIAL INCOME AND EXPENSE	**-274,977**	**-856,139**	**-364,763**
VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
Upward adjustments of			
equity investments	900	12,336	84,507
Total upward adjustments	900	12,336	84,507
Writedowns of			
equity investments	74,970	70,216	30,334
securities, other than equity investments, included in current assets	-	56	96
Total writedowns	-74,970	-70,272	-30,430
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	**-74,070**	**-57,936**	**54,077**
EXTRAORDINARY INCOME AND EXPENSE			
Income			
gains on disposals	63	5,242	58,203
elimination of tax interference	-	932	
miscellaneous	78,490	21,730	508,616
Total income	78,553	27,904	566,819
Expense			
losses on disposals	7,730	-	3,596
prior years' taxes	4,083	1,292	2,279
provisions and writedowns of equity investments	9,725	112,416	632,313
miscellaneous	386,304	203,886	654,450
Total expense	-407,842	-317,594	-1,292,638
TOTAL EXTRAORDINARY ITEMS	**-329,289**	**-289,690**	**-725,819**
INCOME BEFORE TAXES	**2,023,047**	**1,056,770**	**3,197,570**
Income taxes, current and deferred	-671,360	-542,757	-1,062,722
NET INCOME	**1,351,687**	**514,013**	**2,134,848**

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The statutory financial statements for the six months ended June 30, 2005 of Telecom Italia S.p.A. have been prepared in accordance with art. 81, 81 bis 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 (Italian GAAP)
The statement of cash flows constitutes an integral part of the statutory financial statements and the notes to the financial statements.
In certain cases, reclassifications have been made to the interim financial statements at June 30, 2004 and the annual financial statements at December 31, 2004, for purposes of comparison.
As stated in the comments on the reclassified statement of income, balance sheet and statement of cash flows included in the Report on Operations, the figures for the first half of 2005, presented in the balance sheet, statement of income and notes to the financial statements, take into account the effects – as from January 1, 2005 for accounting and tax purposes – of the merger by absorption of TIM S.p.A. in Telecom Italia S.p.A., executed on June 30, 2005, as well as the following transactions related and connected thereto:

- partial cash tender offer launched by Telecom Italia on TIM ordinary and savings shares;
- spin-off by TIM, on February 24, 2005, of the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005. The spin-off allowed TIM Italia to succeed TIM in the officially stated titles held by TIM for providing mobile communications services in Italy, as well as in all the user rights (even those temporarily assigned to TIM on the date of the contribution of the corporate operations), in the numbering and/or radio frequencies already under concession, license, general authorization, and in the special authorizations ensuing from statements constituting declarations of the start of activities.

The notes present the effects of the merger between Telecom Italia and TIM by disclosing in the balance sheet the contributions by the merged company at January 1, 2005 and the impact of the spin-off of the corporate operations of the domestic mobile communications business in Italy.

All amounts are stated in thousands of euro, unless otherwise indicated.

ACCOUNTING POLICIES

Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized using the straight-line method over their estimated period of benefit.
Intangible assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code. The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.

Intangible assets specifically refer to the following:

"Start-up and expansion costs": these are amortized over a period of five years starting from the time the asset produces an economic benefit.

"Industrial patents and intellectual property rights": these are amortized over their estimated period of benefit on a five-year basis (industrial patents) or on a three-year basis (software), starting from the time the asset produces an economic benefit.
"Concessions, licenses, trademarks and similar rights": these refer mainly to satellite utilization rights and are amortized over the contract period.
"Goodwill": this relates to the acquisition of businesses and companies and is amortized over five years.
"Other intangibles": these refer almost entirely to leasehold improvements. Amortization is calculated on the basis of the lesser of the period of future economic benefit or the residual lease period, starting from the time the expenses are incurred or from the time the asset produces an economic benefit.
"Research, development and advertising costs" are charged to income in the year incurred.

Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated using the straight-line method at rates determined on the basis of their estimated remaining useful life and include inflation adjustments.
Fixed assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code. The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.
Construction in progress is stated at the amount of direct costs incurred (materials used for or intended for installations, third-party services, miscellaneous expenses, internal design costs, as well as company labor). The value of fixed assets does not include maintenance costs incurred for their upkeep to guarantee their expected useful life, their original capacity and productivity, and costs borne to repair malfunctions and failures; such expenses are charged to the statement of income in the year incurred.
Depreciation is calculated on the basis of the estimated useful lives of the installations.
Total accumulated depreciation on fixed assets was upwardly adjusted, in the cases provided, according to the above-cited special laws.
The elimination, disposal or sale of fixed assets is recorded in the financial statement by eliminating the cost and accumulated depreciation from the financial statements and booking the related gain or loss in the statement of income.

Equity investments

Equity investments considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.
For equity investments in long-term investments and short-term financial assets, the cost flows are determined by reference to the "weighted average cost method for each movement".
Acquisition cost is increased by statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981, as well as the cancellation deficit, attributed to TIM Italia and TIM International shares, which arose from the merger of TIM S.p.A. in Telecom Italia S.p.A., being the difference between the carrying value of the cancelled shares and the underlying share of net equity of the merged company.
The carrying value of investments recorded in long-term investments is adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.
In the case of a permanent impairment, the value of such equity investments is written down and the impairment in value in excess of the corresponding carrying value is recorded in "*reserves for risks and charges*".
Equity investments included under current assets are stated at the lower of the cost of acquisition and estimated realizable value, represented by the year-end prices on the electronic trading market of the Italian stock exchange and the NASDAQ.

The cost of investments in foreign companies has been translated at the historical exchange rates prevailing at the time of acquisition or subscription or at the year-end rate, if lower, in the case the reduction is considered a permanent impairment.
Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

<u>Inventories</u>
Inventories – consisting of goods intended for sale, as well as stock on hand of technical materials and replacement parts to be used in the business during the year and for maintenance – are valued at the lower of cost, calculated using the weighted-average method, and realizable value.
The carrying value of goods in stock is reduced, through appropriate writedowns, for obsolete materials.
Inventories include work on behalf of third parties in progress at the end of the period, valued according to "cost" criteria determined on the basis of the completed contract method.

<u>Accounts receivable and liabilities</u>
Accounts receivable are stated at estimated realizable value and classified under long-term investments or current assets. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers, already billed or still to be billed, as well as invoices for the sale of telephone and on-line equipment.
Liabilities are shown at their nominal value.

<u>Transactions in foreign currency</u>
Monetary assets and liabilities are accounted for at the exchange rate as of the transaction date and adjusted to the exchange rates prevailing at year-end, taking into account hedging contracts. Unrealized positive and negative differences arising the adjustment of such items to the year-end exchange rate are recorded in the statement of income and any unrealized net exchange gain is set aside in a specific reserve until realization.

<u>Securitization</u>
The total amount of receivables sold under securitization transactions commenced in 2001 is reversed from the balance sheet as the contra-entry for the consideration received on the sale; the amount paid is represented by the non-repeatable amount received immediately (without recourse) whereas the deferred portion is recorded in *Other receivables (financial)* in current assets. This balance sheet caption is presented net of the relative allowance account calculated on the basis of estimated realizable value; the change in the allowance account is booked in *Financial expense* in the statement of income. The difference between the carrying value of the receivables sold and the agreed consideration on the sale is recognized in the statement of income in *Miscellaneous operating costs,* for the trading portion, and in *Interest and other financial expense*, for the financial portion.

<u>Accruals and deferrals</u>
These items are recorded on the accrual basis. "*Issue discounts and similar charges"* consist of costs in connection with long-term loans, which are charged to the statement of income over the period of the loan in proportion to the accrued interest.

<u>Reserves for risks and charges</u>
"For taxes, for deferred taxes"
This reserve includes prudent provisions for estimated tax charges, including any sanctions and late payment interest, on positions not yet agreed or in dispute, and deferred taxes. Income taxes for the

period have been determined on the basis of the best possible estimate according to the information available and to a reasonable forecast of performance for the year up to the end of the tax period.

"Other reserves"

These reserves relate primarily to provisions to cover risks and charges for losses or liabilities of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the data available.

Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws (in particular Law No. 297 dated May 29, 1982, which provides for fixed and variable cost-of-living adjustments) and collective bargaining agreements. The reserve is adjusted to the liability matured at the end of the year for personnel in force at that date and is net of advances paid.

Due to shareholders for loans

"Shareholders" are considered parties which hold directly at least 2% of share capital at the end of the year. At June 30, 2004, shareholders holding at least 2% of the share capital of Telecom Italia had made no loans to the company.

Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia's obligation under Law No. 58/1992 to provide full national insurance coverage for all employees on the payrolls of STET, SIP, Italcable and Telespazio as of February 20, 1992, as well as for all employees transferred from the Public Administration to the former Iritel, through the "Telephone Companies Employees Social Security Fund" (which became part of the general "Employees Pension Fund" beginning January 1, 2000), Article 66, paragraph 1 of Legislative Decree 331/1993 and converted into Law No. 427/1993, specifies that the sums due to the Fund should be recorded in the financial statements and are tax deductible in the years in which the fifteen equal annual deferred installments are paid to discharge this obligation.

At the present time, the amount of the liability, which will be determined by the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS), can be estimated only roughly, due to disagreements relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess (at June 30, 2005, INPS had notified the Company of around 98% of all the positions to be unified which give 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 Telecom Italia is that the criteria set forth in Law No. 29/1979 – and, therefore, payment of the respective obligations – apply to these employees.

At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals for a final determination of the correct interpretation of the law in question. While awaiting these decisions, Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation.

Having said that, a reasonable estimate of the principal amount of the liability attributable to Telecom Italia (net of the amounts attributed to Group companies for the employees transferred to those companies) could vary between euro 958 million (partial application of Law 29/1979) and euro 1,192 million (full application of Law 58/1992), of which euro 656 million has already been paid, depending on conflicting interpretations and taking into account all personnel involved. In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, paragraph 3 of Law No. 58/1992, the payments requested by INPS are made

in fifteen equal annual deferred installments (including annual interest of 5%), based on notification of the expenses by INPS.
The remaining liability for obligations under Law No. 58/1992, to be paid in fifteen annual installments on the basis of the positions notified by INPS up to June 30, 2005 and the interpretation of said positions, totals (net of the amounts attributed to Group companies for the employees transferred to those companies) euro 834 million, of which euro 624 million is for the principal amount and euro 210 million for accrued interest.
Moreover, these financial statements at June 30, 2005 include euro 468 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 referring to the employees of the former State Company for Telephone Services (ASST) which the special Ministerial Commission established under Law No. 58/1992 had made upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.
The expenses recorded in the first half of 2005 in "extraordinary expenses" amount to euro 124 million and include accrued interest. This amount takes into account the above-mentioned expenses paid by Telecom Italia to INPS also on behalf of other Group companies for those employees transferred to them and covered by the obligation of a uniform insurance position under Law No. 58/1992. The recovery from these same companies of the amounts paid is recorded in the statement of income under "extraordinary income" and amounts to euro 2 million.

<u>Grants</u>
Both operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures.
Capital grants and grants for installation are recorded under "*deferred income*" and credited to the statement of income in relation to the depreciation taken on the assets to which the grants refer.

<u>Revenues and expenses</u>
Revenues and expenses are recorded on an accrual basis. Revenues relating to telecommunications services are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production costs.
As usual, the dividends from subsidiaries originating from the net income of the current year are not included in the results for the first half of 2005 since they are booked at the end of the year in accordance with the maturity principle.
Dividends from affiliated companies and other companies, on the other hand, are recognized in the statement of income according to the accrual principle, that is, in the period in which the respective right to the receivable arises, following the declaration of dividends approved by the shareholders' resolution of those companies.

<u>Leased assets</u>
Assets purchased under a financial lease are recognized in the financial statements by a method consistent with current legislation, which requires that leasing payments be recorded as operating costs.

Memorandum accounts

"*Guarantees provided*" are shown for the amount of the remaining liability or other obligation guaranteed; those provided in foreign currencies are translated at year-end exchange rates.

"*Purchases and sales commitments*" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

Derivative financial instruments

Derivative financial instruments are used by Telecom Italia S.p.A. to hedge exposure to interest rate and exchange rate risks.

For derivative financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "*financial income and expense*" based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the spot rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" based on the accrual principle.

Premiums relating to option-type financial instruments are recorded in "other liabilities" or "other receivables" and, if exercised, are considered as an incidental charge to the purchase or sale value of the underlying instruments; if the option is not exercised the premium is recorded in the statement of income under financial income (financial expense).

In this manner, the derivative financial instruments are valued consistently with the underlying asset and liability, for each transaction, and any net expense is recognized in the statement of income.

Option-type derivative financial instruments existing at the end of the year are valued at the lower of cost and market value at the balance sheet date.

BALANCE SHEETS – ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

INTANGIBLE ASSETS euro 1,852,009 thousand

(euro 1,845,235 thousand at December 31, 2004)

A summary of the changes in intangible assets during the period is presented below:

(in thousands of euro)	1st half 2005
- TIM merger	3,363,659
- spin-off of domestic mobile telecommunications business segment	(3,295,510)
- additions	390,490
- amortization	(452,105)
- eliminations and other movements	240
Total	**6,774**

An analysis of the composition and the changes in intangible assets during the period is presented in the following tables:

	12/31/2004				
(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	153,277			(141,735)	11,542
Industrial patents and intellectual property rights	5,024,534			(3,745,880)	1,278,654
Concessions, licenses, trademarks and similar rights	96,408			(95,058)	1,350
Goodwill	9,516			(6,452)	3,064
Work in progress and advances to suppliers	382,132				382,132
Other intangibles (*)	450,816			(282,323)	168,493
Total	**6,116,683**	**0**	**0**	**(4,271,448)**	**1,845,235**
(*) of which:					
Leasehold improvements	450,415			(281,922)	168,493

(in thousands of euro)	Changes during the period TIM merger	Spin-off of business segment	Additions	Reclassifications	Sales/ Retirements/ Other movements (a)	Amortization	Total
Start-up and expansion costs					0	(5,771)	(5,771)
Industrial patents and intellectual property rights	720,768	(767,489)		481,120	16	(400,874)	33,541
Concessions, licenses, trademarks and similar rights	2,296,163	(2,273,597)		3,300		(22,721)	3,145
Goodwill	17,250	(15,972)				(2,230)	(952)
Work in progress and advances to suppliers	243,780	(141,141)	390,490	(532,599)	(18)		(39,488)
Other intangibles (*)	85,698	(97,311)		48,179	241	(20,508)	16,299
Total	**3,363,659**	**(3,295,510)**	**390,490**	**0**	**239**	**(452,104)**	**6,774**
(*) of which:							
Leasehold improvements	*85,698*	*(97,311)*	-	*48,179*	*241*	*(20,508)*	16,299

(a) Broken down as follows:	*Cost*	*Upward adjustments*	*Writedowns*	*Accumulated amortization*	*Net book value*
Start-up and expansion costs	*(18,951)*			*18,951*	*0*
. of which spin-off of business segment to TIM Italia	*(18,951)*			*18,951*	*0*
Industrial patents and intellectual property rights	*(2,596,471)*			*1,828,982*	*(767,489)*
. of which spin-off of business segment to TIM Italia	*(2,596,469)*			*1,828,980*	*(767,489)*
Concessions, licenses, trademarks and similar rights	*(2,433,798)*			*160,201*	*(2,273,597)*
. of which spin-off of business segment to TIM Italia	*(2,433,798)*			*160,201*	*(2,273,597)*
Goodwill	*(23,000)*			*7,028*	*(15,972)*
. of which spin-off of business segment to TIM Italia	*(23,000)*			*7,028*	*(15,972)*
Work in progress and advances to suppliers	*(141,161)*				*(141,161)*
. of which spin-off of business segment to TIM Italia	*(141,141)*				*(141,141)*
Other intangibles	*(249,744)*			*152,428*	*(97,316)*
. of which spin-off of business segment to TIM Italia	*(244,794)*			*147,483*	*(97,311)*
TOTAL	*(5,463,125)*			*2,167,590*	*(3,295,535)*
. of which spin-off of business segment to TIM Italia	*(5,458,153)*			*2,162,643*	*(3,295,510)*

(in thousands of euro)	6/30/2005 Cost	Upward adjustments	Writedowns	Accumulated amortization	Total
Start-up and expansion costs	172,228			(166,457)	5,771
Industrial patents and intellectual property rights	5,399,103			(4,086,908)	1,312,195
Concessions, licenses, trademarks and similar rights	99,709			(95,214)	4,495
Goodwill	9,516			(7,404)	2,112
Work in progress and advances to suppliers	342,644			0	342,644
Other intangibles (*)	478,062			(293,269)	184,793
Total	**6,501,262**	-	-	**(4,649,252)**	**1,852,010**
(*) of which:					
Leasehold improvements	477,662	-	-	*(292,869)*	*184,793*

In particular:

"Start-up and expansion costs" consist primarily of underwriting commissions paid in connection with share capital increases.

"*Industrial patents and intellectual property rights"* consist almost entirely of applications software purchased outright and user licenses for an indefinite time period.

"Goodwill" relates to the acquisition, by Telecom Italia, of the "administrative services" business segments from Holding Media e Comunicazioni, TIM, Finsiel and Telecom Italia Media. The caption also includes the goodwill on acquisition, by the merged company IT Telecom, in 2002, of the companies Telesoft and Netsiel and, in 2003, of the Enterprise business from Finsiel.

"*Work in progress and advances to suppliers"* mainly refers to software projects for network and operating program applications. All acquisitions of intangibles are managed through specific work orders and recorded in this caption.

"Other intangibles" refer to leasehold improvements made to properties owned by third parties and include the costs incurred to meet the operating requirements of the Company in the rented premises.

Reclassifications refer to assets that came into use during the year.

FIXED ASSETS euro 10,940,792 thousand

(euro 11,020,047 thousand at December 31, 2004)

A summary of the changes in fixed assets during the period is presented as follows:

(in thousands of euro)	1st half 2005
- TIM merger	2,196,390
- spin-off of domestic mobile telecommunications business segment	(2,098,174)
- additions	952,977
- depreciation	(1,142,918)
- disposals and other movements	12,470
Total	(79,255)

An analysis of the composition and the changes in fixed assets during the period is presented in the following tables:

	12/31/2004				
(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	2,070,004	391,207	(4,651)	(1,293,027)	1,163,533
. non-industrial	20,049	741		(999)	19,791
. industrial	2,049,955	390,466	(4,651)	(1,292,028)	1,143,742
Plant and machinery	47,731,935	723,067	(727,730)	(38,403,907)	9,323,365
Manufacturing and distribution equipment	542,185	2,690		(530,460)	14,415
Other fixed assets	1,429,455	4,236		(1,355,893)	77,798
Construction in progress and advances to supplies	440,936				440,936
Total	52,214,515	1,121,200	(732,381)	(41,583,287)	11,020,047

	Changes during the period							
(in thousands of euro)	TIM merger	Spin-off of business segment	Additions	Reclassifications	Sales/ Retirements/ Other movements (a)	Writedowns/ Writebacks	Depreciation	Total
Land and buildings								
. non-industrial	614	(614)		225	16,242		(60)	16,407
. industrial	10,263	(9,927)		5,823	(8,403)		(40,350)	(42,594)
	10,877	(10,541)	0	6,048	7,839	0	(40,410)	(26,187)
Plant and machinery	1,785,205	(1,723,493)		601,226	(58,118)	924	(1,051,767)	(446,023)
Manufacturing and distribution equipment	34,892	(32,361)		7,166	(10)		(6,473)	3,214
Other fixed assets	208,742	(204,605)		26,562	55,373		(44,268)	41,804
Construction in progress and advances to supplies	156,674	(127,174)	952,977	(641,002)	6,462			347,937
Total	2,196,390	(2,098,174)	952,977	0	11,546	924	(1,142,918)	(79,255)

(a) Broken down as follows:

	Cost	*Upward adjustments*	*Writedowns*	*Accumulated depreciation*	*Net book value*
Land and buildings					
. non-industrial	*(727)*	*(13)*		*25*	*(715)*
. industrial	*(27,633)*	*(2,440)*		*18,990*	*(11,083)*
	(28,360)	*(2,453)*	*0*	*19,015*	*(11,798)*
. of which spin-off of business segment to TIM Italia	*(26,353)*	*(1,997)*		*17,809*	*(10,541)*
Plant and machinery	*(7,331,073)*	*(3,126)*	*709,204*	*4,899,908*	*(1,725,087)*
. of which spin-off of business segment to TIM Italia	*(6,104,741)*	*(344)*		*4,381,592*	*(1,723,493)*
Manufacturing and distribution equipment	*(120,130)*	*(34)*		*87,790*	*(32,374)*
. of which spin-off of business segment to TIM Italia	*(118,796)*	*(2)*		*86,437*	*(32,361)*
Other fixed assets	*(705,307)*	*(7)*		*500,707*	*(204,607)*
. of which spin-off of business segment to TIM Italia	*(701,992)*	*(7)*		*497,394*	*(204,605)*
Construction in progress and advances to suppliers	*(120,679)*				*(120,679)*
. of which spin-off of business segment to TIM Italia	*(127,174)*				*(127,174)*
TOTAL	*(8,305,549)*	*(5,620)*	*709,204*	*5,507,420*	*(2,094,545)*
. of which spin-off of business segment to TIM Italia	*(7,079,056)*	*(2,350)*	*0*	*4,983,232*	*(2,098,174)*

	6/30/2005				
(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings					
. non-industrial	37,263	741	(779)	(1,027)	36,198
. industrial	2,036,709	390,010	(3,872)	(1,321,699)	1,101,148
	2,073,972	390,751	(4,651)	(1,322,726)	1,137,346
Plant and machinery	46,979,644	720,285	(17,602)	(38,804,985)	8,877,342
Manufacturing and distribution equipment	547,971	2,658		(533,000)	17,629
Other fixed assets	1,526,626	4,236		(1,411,260)	119,602
Construction in progress and advances to supplies	788,873				788,873
Total fixed assets	51,917,086	1,117,930	(22,253)	(42,071,971)	10,940,792

All fixed asset purchases 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, 2005 is considered sufficient in relation to the remaining period of utilization of the assets and is 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 period. Accumulated depreciation, net of writedowns, covers 79.4% of fixed assets at June 30, 2005 compared to 79.1% at December 31, 2004.

Assets purchased under finance lease contracts

The Company has fixed assets acquired under sale and leaseback transactions and under finance lease contracts. These are accounted for using the operating method by which lease payments are charged to costs under the use of property not owned caption. Any gains on the sale of assets under sale and leaseback transactions are recognized immediately in the statement of income. Had the finance lease contracts been accounted for using the finance method, entries would have been made in the statement of income for the interest on the financed principal and for the depreciation charge of the value of the assets purchased by lease; additionally, entries would have been made in the

balance sheet to record the fixed assets under assets and the residual debt under liabilities. Furthermore, use of this method would also have resulted in the deferral, on a straight-line basis, of any gains on sale and leaseback transactions over the finance lease term.
The effects of this accounting treatment are described in the following table:

	BALANCE SHEET EFFECT	(in millions of euro)
	Assets	
a)	**Outstanding contracts**	
	Net book value of leased assets under finance contracts at December 31, 2004, net of accumulated depreciation of euro 274 million at the end of the prior year	1,336
	Assets acquired under finance lease contracts in the period 1/1 – 6/30/2005 (+)	24
	Assets redeemed under finance lease contracts in the period 1/1 – 6/30/2005 (-)	(6)
	Depreciation charge for the period 1/1 – 6/30/2005 (-)	(42)
	Writedowns/writebacks on assets under finance lease contracts in the period 1/1 – 6/30/2005 (+/-)	(2)
	Net book value of leased assets under finance contracts at June 30, 2005, net of accumulated depreciation of euro 316 million	1,310
b)	**Assets redeemed in the period 1/1 – 6/30/2005**	
	Total higher value of assets redeemed, calculated according to the financial method, compared to their accounting net book value, at June 30, 2005	1
c)	**Prepaid expenses at June 30, 2005**	0
d)	**Liabilities**	
	Implicit liabilities for finance lease transactions at December 31, 2004 (of which euro 58 million due within 12 months, euro 1,189 million due between 12 months and 60 months and euro 399 million due beyond 60 months)	1,646
	Implicit liabilities arising in the period 1/1 – 6/30/2005 (+)	16
	Repayment of principal and assets redeemed in the period 1/1 – 6/30/2005 (-)	(34)
	Implicit liabilities for finance lease transactions at June 30, 2005 (of which euro 58 million due within 12 months, euro 1,158 million due between 12 months and 60 months and euro 413 million due beyond 60 months)	1,629
e)	**Total gross effect at June 30, 2005 (a+b+c-d)**	**(318)**
f)	**Tax effect**	**(78)**
g)	**Balance sheet effect at June 30, 2005 of leasing transactions recognized using the financial method (e-f)**	**(240)**

STATEMENT OF INCOME EFFECT	(in millions of euro)
Reversal of installments on finance lease transactions (+)	101
Recognition of financial expenses on finance lease transactions (-)	(70)
Recognition of:	
- depriciation charge:	
. on outstanding contracts (-)	(42)
. on assets redeemed	
- writedowns/writebacks on assets under finance lease contracts (-)	(1)
Effect on income before taxes	(12)
Recognition of tax effect (+/-)	(4)
Statement of income effect for six months to June 30, 2005 of leasing transactions recognized using the financial method	(8)

Had the sale and leaseback transactions resulting in a finance lease been accounted for using the finance method, shareholders' equity would have been lower by euro 213 million at June 30, 2005 and the net income for the period would have been higher by euro 2 million.

LONG-TERM INVESTMENTS euro 52,058,866 thousand

(euro 34,817,480 thousand at December 31, 2004)

Details are as follows:

(in thousands of euro)	12/31/2004	6/30/2005
Equity investments in:		
• subsidiaries	33,771,061	51,357,159
• affiliated companies	245,740	231,165
• other companies	204,538	230,994
	34,221,339	**51,819,318**
Advances on future capital contributions	**12,064**	**89,635**
Accounts receivable:		
• subsidiaries	448,326	13,604
• affiliated companies	25,544	26,725
• other receivables	107,909	107,286
	581,779	**147,615**
Treasury stock	**2,298**	**2,298**
Total	**34,817,480**	**52,058,866**

Equity investments *euro 51,819,318 thousand*

Changes in equity investments in subsidiaries, affiliated companies and other companies during the first half of 2005 are presented in the following table:

(thousands of euro)	12/31/2004	Effects of merger: TIM contribution 1/1/2005	Effects of merger: Spin-off of business segment	Effects of merger: Tender offer and other purchases of TIM shares (*)	Effects of merger: Cancellation of TIM shares	Effects of merger: Allocation of the cancellation deficit to investments in TIM Italia and TIM International	Other movements during first half	Total at 06/30/2005
Equity investments in:								
. Subsidiaries	33,771,061	4,583,521	3,939,468	14,207,194	(41,672,280)	35,461,632	1,066,563	51,357,159
. Affiliated companies	245,740	99	(99)	-	-	-	(14,575)	231,165
. Other companies	204,538	36	(36)	-	-	-	26,456	230,994
	34,221,339	**4,583,656**	**3,939,333**	**14,207,194**	**(41,672,280)**	**35,461,632**	**1,078,444**	**51,819,318**

(*) The amount includes inclusive of the costs capitalized of euro 24,454 thousand relative to the tender offer.

Annex 1 presents the changes during the period in each equity investment and the corresponding values at the beginning and the end of the period.

The effects of the merger include the contribution of the investments held by TIM at January 1, 2005, the cash tender offer by Telecom Italia for TIM ordinary and savings shares and additional purchases of TIM ordinary and savings shares, the spin-off of the TIM domestic mobile telecommunications business, the cancellation of TIM shares held by Telecom Italia and the allocation of the cancellation deficit on the merger (euro 35,461,632 thousand) to the investments in TIM Italia (euro 35,048,711

thousand) and TIM International (euro 412,921 thousand). This deficit is the result of the difference between the carrying value of the shares of the merged company that were cancelled (euro 41,672,280 thousand) and the share of underlying net equity (euro 6,210,648 thousand) equal to 84.42%.
In summary, equity investments in subsidiaries, affiliated companies and other companies increased by euro 17,597,979 thousand compared to December 31, 2004, as illustrated in the following tables:

(in thousands of euro)

Increases:		
• **Acquisition of the following equity investments at January 1, 2005, subsequent to the merger by absorption of TIM S.p.A. in Telecom Italia S.p.A.:** TIM Italia (120), TIM International (4,582,279), Scuola Superiore Alta Formazione Universitaria Federico II (26), Consorzio Energia Gruppo Telecom Italia (5), Telenergia (10), Telecom Italia Audit (500), Consorzio Nazionale Imballaggi – Conai (1), Consorzio Cefriel (33), Idroenergia (1) ABI Lab (1), Shared Service Center (99) and Saturn Venture Partners (581)		4,583,656
• **Subscription** of TIM Italia shares following the spin-off, to that company, of the domestic mobile telecommunications business segment		3,940,009
• **Tender offer for TIM ordinary and savings shares and other purchases**		14,207,194
• **Allocation of the cancellation deficit to the investments in TIM Italia and TIM International**		35,461,632
• **Acquisitions, subscriptions, recapitalization of capital and loss coverage of:** ISM (97,392), Liberty Surf Group (248,324), Nuova TIN.IT (880,000), Progetto Italia (1,000), Telecom Italia Learning Services (4,393), Latin American Nautilus (30,961), TIM ITALIA (3,640), EUROFLY SERVICES (1,273) and Perseo (5)		1,266,988
• **Definitive capital increase** from advances on future capital contributions relating to TIM International (4,800)		4,800
• **Writebacks of value** of Saturn Venture Partners (16) and Cartesia (50)		66
Total increases	**(A)**	**59,464,345**

Decreases:		
• Sales/reductions of shares/quotas in: Finsiel (83,216), Latin American Nautilus (9,209), Cartesia (50), CERM L'AQUILA (266) and ITALTEL Cerm S. Maria Capua Vetere (192)		(92,933)
Distribution of reserves of Tiglio I		(9,140)
• Cancellation of the investment in TIM following the merger by absorption of the same company		(41,672,280)
• Sale of investments following the spin-off of the mobile telecommunications business segment in Italy by TIM to TIM ITALIA: Scuola Superiore Alta Formazione Universitaria Federico II (26), Consorzio Energia Gruppo Telecom Italia (5), Telenergia (10), Telecom Italia Audit (500), Consorzio Nazionale Imballaggi – Conai (1), Consorzio Cefriel (33), Idroenergia (1) ABI Lab (1) and Shared Service Center (99)		(676)
• Writedowns for impairment losses charged to the statement of income of: Telecom Italia Finance (46,729), Domus Academy (1,000), IT Telecom S.r.l. (9,579), Telecom Italia Learnings Service (1,560), Netesi (260), Finsiel (684), Fratelli Alinari (191), LI.SIT. (3,590), Telbios (662), Consorzio COREP (10) and Siemens Informatica (1,214)		(65,479)
• Writedowns for impairment losses covered by the reserve for losses of subsidiaries and affiliates of: Eurofly Service (1,273), Latin American Nautilus (21,752) and Telecom Italia Learnings Service (2,833)		(25,858)
Total decreases	**(B)**	**(41,866,366)**
Net change for the period	**(A-B)**	**17,597,979**

In particular, the following should be mentioned:

- With regard to the Telecom Italia/TIM merger described in detail in the Report on Operations to the 2004 Annual Report, during the first half, Telecom Italia purchased 2,533,028,625 TIM shares for a value equal to euro 14,207,194 thousand following the tender offer for TIM ordinary and savings shares and additional purchases of TIM shares. Such shares, together with the TIM shares owned before the tender offer, were cancelled following the merger of the two companies, effective as of June 30, 2005, and with effect for accounting and tax purposes as of January 1, 2005.
  Moreover, on February 24, 2005, TIM S.p.A. (subsequently merged in Telecom Italia) proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005. The value of company complex conferred was equal to euro 3,940,009 thousand. Moreover, as previously mentioned, the cancellation deficit resulting from the merger was allocated to the investments in TIM Italia and TIM International, respectively, for euro 35,048,711 thousand and euro 412,921 thousand;
- As part of the process to rationalize the Internet operations of the Group, the following transactions were effected by Telecom Italia in the first half of 2005:
  - on May 30, 2005, Telecom Italia purchased, from Telecom Italia Finance, the entire investment in the company ISM S.r.l. (which already held a 40% stake in Finanziaria Web which, in turn, held a 66% interest in Matrix) for a total amount of euro 97,793 thousand;
  - on June 1, 2005, ISM S.r.l. (in which Telecom Italia holds a 100% interest), after having received a payment against the purchase of its share capital from Telecom Italia for euro 70 million, acquired 60% of Finanziaria Web and 0.7% of Matrix from Telecom Italia Media for euro 70 million;

– on June 1, 2005, Telecom Italia purchased a 100% interest in Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media conferred the Tin.it business segment, at a price of euro 880 million;

- on May 31, 2005, the purchase of a 94.89% holding in Liberty Surf Group S.A. from Tiscali was finalized. Liberty Surf is a leading internet service provider operating of the French market. The purchase price was euro 248,324 thousand and takes into account a positive net financial position at May 31, 2005 of Liberty Surf Group S.A. of about euro 10,344 thousand;
- on June 28, 2005, on the basis of the contract executed on April 26, 2005, Telecom Italia sold the COS group a 59.6% stake in its investment in Finsiel S.p.A. (79.5%). The sales price was equal to euro 85,616 thousand. For the remaining interest (19.9%), the contract provides that: i) Telecom Italia may exercise a sales option between October 1, 2005 and December 31, 2005 at a price of about euro 29 million; ii) the COS group may exercise a purchase option by December 31, 2006, on condition that Telecom Italia has not exercised the sales option;
- some investments in subsidiaries and affiliated companies are recorded at a amount in excess of the corresponding share of the underlying net 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 Italia, the higher carrying value compared to the underlying share of net equity is due to the allocation of the cancellation deficit resulting from the Telecom Italia/TIM merger.

A comparison between the market price of listed shares at June 30, 2005 and their carrying value shows an unrealized gain of euro 271,908 thousand. Further details are given in Annex 2.

Advances on future capital contributions *euro 89,635 thousand*

Advances on future capital contributions increased by euro 77,571 thousand, compared to December 31, 2004, and are shown net of the relative allowance accounts of euro 5,862 thousand.
The increase from December 31, 2004 is principally due to the payment (euro 70,000 thousand) made to ISM to purchase full control over Finanziaria Web and 0.7% of Matrix as part of the reorganization of the Internet area.
Besides the payment mentioned above, these advance are also composed of payments made to Telegono (8,840 thousand), Telecom Italia Learnings Service (euro 3,791 thousand), Loquendo (euro 3,224 thousand) and Finsiel (euro 3,379 thousand).

Accounts receivable *euro 147,615 thousand*

Accounts receivable decreased by euro 434,164 thousand compared to December 31, 2004. Details are as follows:

	12/31/2004	Changes during the period						6/30/2005
		TIM merger	Spin-off of business segment	Disburse-ments	Reimburse-ments	Other changes	Total	
Accounts receivables:								
• subsidiaries	448,326	(376,308)	-	295	(60,023)	1,314	(434,722)	13,604
• affiliated companies	25,544	-	-	1,181	-	-	1,181	26,725
• other receivables	107,909	22,020	(20,815)	7,784	(9,612)	-	(623)	107,286
	581,779	**(354,288)**	**(20,815)**	**9,260**	**(69,635)**	**1,314**	**(434,164)**	**147,615**

Subsidiaries euro 13,604 thousand

Accounts receivables from subsidiaries refer to the loans made to Mediterranean Nautilus (euro 11,990 thousand) to meet financial requirements and receivables (euro 1,614 thousand) – principally from Path Net and Telecontact – resulting from the adoption of the consolidated national tax return procedure. Consequent to the merger with TIM, the receivable due to Telecom Italia at December 31, 2004, and in reference to the adoption of the consolidated national tax return, was cancelled.

Affiliated companies euro 26,725 thousand

Accounts receivable from affiliated companies refer mainly to loans made to the companies Aree Urbane (euro 21,198 thousand), Telegono (euro 2,800 thousand) and Tiglio II (euro 2,685 thousand) for the purchase of buildings.

Other receivables euro 107,286 thousand

Other receivable mainly refer to:

- the remaining loans receivable from employees (euro 57,146 thousand);
- the prepayment of the tax on the reserve for employee termination indemnities (euro 45,241 thousand), required under Law No. 662 dated December 23, 1996, revalued as set forth by law;
- security deposits of euro 3,547 thousand.

As regards accounts receivable included in long-term investments, the portion due within and beyond five years is presented in the attached Annex 3.

Treasury stock euro 2,298 thousand

Treasury stock remains unchanged compared to December 31, 2004 and refers to 1,272,014 ordinary shares originally held by ex-Olivetti.

CURRENT ASSETS

INVENTORIES euro 163,727 thousand

(euro 144,675 thousand at December 31, 2004)

Inventories consist of the following:

(in thousands of euro)	12/31/2004	6/30/2005
Contract work in process	31,189	34,154
Finished goods and merchandise	113,486	129,573
Total	**144,675**	**163,727**

Inventories increased by euro 19,052 thousand compared to December 31, 2004 principally due to higher inventories connected with the marketing of Aladino cordless phones.

ACCOUNTS RECEIVABLE euro 9,723,461 thousand

(euro 9,923,295 thousand at December 31, 2004)

Accounts receivable decreased by euro 199,834 thousand compared to December 31, 2004. A breakdown and the changes that occurred during the period are provided in the table below:

(in thousands of euro)	12/31/2004	Changes during the period: TIM merger	Spin-off of business segment	Utilizations	Provisions	Other changes	6/30/2005
Trade accounts receivable	3,467,780	1,264,381	(1,214,531)			703,740	4,221,370
allowance for doubtful accounts	(346,771)	(131,000)	133,000	123,069	(72,090)		(293,792)
Total trade accounts receivable	**3,121,009**	**1,133,381**	**(1,081,531)**	**123,069**	**(72,090)**	**703,740**	**3,927,578**
Accounts receivable from subsidiaries	2,663,712	(1,346,591)	(27,609)	-	-	475,241	1,764,753
Total accounts receivable from subsidiaries	**2,663,712**	**(1,346,591)**	**(27,609)**	-	-	**475,241**	**1,764,753**
. of which financial	*706,952*	*178,443*	-	-	-	*(53,359)*	*832,036*
Accounts receivable from affiliated companies	126,475	1,639	(1,667)	-	-	22,341	148,788
allowance for doubtful accounts of affiliated companies	-	24)	24	-	-	-	-
Total accounts receivable from affiliated companies	**126,475**	**1,615**	**(1,643)**	-	-	22,341	**148,788**
. of which financial	*113*	-	-	-	-	*12,058*	*12,171*
Taxes receivable	**494,318**	**1,138**	-	-	-	**(428,434)**	**67,022**
Deferred tax assets	**2,391,462**	**649,727**	**(104,809)**	-	-	**(204,535)**	**2,731,846**
Other receivables	**1,126,319**	**616,825**	**(622,949)**	-	-	**(36,721)**	**1,083,474**
Government and other public entities for grants and subsidies	27,129	12,210	(12,210)	-	-	732	27,861
Other receivables	1,135,134	604,615	(610,739)	-	-	(37,453)	1,091,557
allowance for doubtful accounts	(35,944)	-	-	-	-	-	(35,944)
Total	**9,923,295**	**1,056,095**	**(1,838,541)**	**123,069**	**(72,090)**	**531,632**	**9,723,461**

Trade accounts receivable *euro 3,927,578 thousand*

Trade accounts receivable increased by euro 806,569 thousand compared to December 31, 2004 and are shown net of the relative allowance accounts (euro 293,792 thousand, of which euro 72,090 thousand was provided during the period). The caption includes euro 603,510 thousand of receivables due from other wireline and mobile telecommunications operators.

The increase from the end of 2004 is principally due to the fact that at December 31, 2004 the receivables sold to factoring companies totaled euro 877,950 thousand while during the first half of 2005 the amount is euro 71,575 thousand, as described in the following paragraphs.

Accounts receivable securitization and factoring transactions show that:

- <u>Securitization</u>

  The program for the securitization of trade accounts receivable generated by services rendered to Telecom Italia Wireline clientele begun during 2001 has continued during the first half of 2005. The total amount of trade accounts receivable sold under the securitization program during the first half of 2005 is equal to euro 4,512 million and refers to Telecom Italia's receivables from consumer and microbusiness customers. At June 30, 2005, receivables sold amount to euro 831,053 thousand (euro 808,961 thousand at December 31, 2004), of which euro 760,277 thousand is not yet due.

  The securitization transaction led to a reduction in net financial debt of euro 808,038 thousand at June 30, 2005 (euro 785,946 thousand at December 31, 2004).

Furthermore, Telecom Italia posted a short-term financial payable (euro 202,891 thousand) for loans made by TI Securitisation Vehicle S.r.l. out of the excess liquid resources generated by the securitization transaction.

- Factoring
  In the first half of 2005, trade accounts receivable without recourse were sold to leading factoring companies for a total amount of euro 71,575 thousand (euro 877,950 thousand at December 31, 2004). Factoring transactions by Telecom Italia led to a reduction in net financial debt at June 30, 2005 of euro 290,355 thousand (euro 912,258 thousand at December 31, 2004).

Accounts receivable from subsidiaries *euro 1,764,753 thousand*

Accounts receivable from subsidiaries include trade, financial and other receivables and decreased by euro 898,959 thousand, compared to December 31, 2004, after booking dividends according to the maturity principle at December 31, 2004.
Financial receivables, equal to euro 832,036 thousand, reflect current account transactions carried out at market rates for cash management purposes and loans. They principally include accounts receivable from Olivetti (euro 460,000 thousand), TIM Celular (euro 272,474 thousand), Telecom Italia Learning Services (euro 29,947 thousand) and IT Telecom S.r.l. (euro 23,454 thousand). Trade accounts receivable (euro 433,130 thousand) relate to TLC services rendered mainly to TIM Italia (euro 172,977 thousand), Telecom Italia Sparkle (euro 64,475 thousand), Path.Net (euro 50,313 thousand), Nuova Tin.it (euro 40,014 thousand) and TI France (euro 21,368 thousand).
Other receivables (euro 499,587 thousand) mainly include those connected with the Group's VAT settlement system, specifically from TIM Italia (euro 199,083 thousand), and the receivable, again from TIM Italia (euro 253,367 thousand), for the monetary adjustment (originating at the time of the spin-off of the TIM domestic mobile telephone business segment to TIM Italia) arising from the difference between the carrying value of the business segment contributed on March 1, 2005 and the appraisal price determined as set forth in ex art. 2343 of the Italian Civil Code, based upon the accounting situation at December 31, 2004.

Accounts receivable from affiliated companies *euro 148,788 thousand*

Accounts receivable from affiliated companies include trade, financial and other receivables and increased by euro 22,313 thousand compared to December 31, 2004.
Financial receivables total euro 12,171 thousand and reflect current account transactions carried out at market rates for cash management purposes principally with Teleleasing (euro 11,687 thousand).
Trade accounts receivable total euro 126,280 thousand and refer in particular to LI.SIT (euro 68,999 thousand), for the supply of health cards to the Lombardy Region, and Teleleasing (euro 45,669 thousand), for the sale of TLC products and services. Other receivables total euro 10,337 thousand and are mainly due from LI.SIT (euro 10,037 thousand).

Taxes receivable *euro 67,022 thousand*

Taxes receivable decreased by euro 427,296 thousand compared to December 31, 2004 principally following the compensation of receivables for income taxes (euro 425,234 thousand) with the reserve for taxes.
They specifically include:

- ✓ direct income taxes receivable, euro 36,165 thousand;
- ✓ VAT refunds receivable, euro 12,034 thousand;
- ✓ other indirect taxes receivable, euro 18,823 thousand, chiefly in reference to the refund receivable for ILOR taxes paid in 1991 on earnings reinvested in the south of Italy for which an exemption was filed in the 1992 tax return.

Deferred tax assets *euro 2,731,846 thousand*

Deferred tax assets total euro 2,731,846 thousand and show an increase of euro 340,384 thousand compared to December 31, 2004. The increase is mainly due to the difference between the amount contributed by the merged company TIM (euro 586,510 thousand) and compensation with the reserve for deferred taxes (euro 256,492 thousand).

Other receivables *euro 1,083,474 thousand*

Other receivables amount to euro 1,083,474 thousand and particularly refer to the receivable from the Financial Administration (euro 415,324 thousand) for the amount of prior period income recorded in 2004 for the TLC license fee paid by Telecom Italia for the year 1999, increased by the relative interest earned up to June 30, 2005.

Other receivables also include:

credit positions (net of the relative allowance account) due from TI Securitisation Vehicle S.r.l. for the deferred portion of trade accounts receivable under securitization transactions (euro 263,704 thousand); receipts from customers in transit with the banking and postal systems (euro 65,030 thousand); employee-related receivables (euro 51,279 thousand); receivables from the Ministry of Industry, Commerce and Handicrafts, the European Union and the Ministry of Education, University and Research for grants in respect of research and training projects (euro 27,861 thousand) and advances to suppliers (euro 32,526 thousand).

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Disclosure required by art. 2427, paragraph 6 of the Italian Civil Code regarding the breakdown of receivables by geographical area is presented in Annex 5.

SHORT-TERM FINANCIAL ASSETS euro 72 thousand

(euro 60 thousand at December 31, 2004)

The composition and changes during the period are shown in the following table:

	12/31/2004	Changes during the period				6/30/2005
(in thousands of euro)		Acquisitions	Sales/ reimbursements/ other movements	Writedowns/ Writebacks	Total changes	
Equity investments in subsidiaries	52	-	-	13	13	65
Other equity investments	8	-	-	(1)	(1)	7
Total	**60**	**-**	**-**	**12**	**12**	**72**

At June 30, 2005, short-term financial assets total euro 72 thousand and include euro 65 thousand for Telecom Italia Media savings shares and euro 7 thousand for Portal Software shares both purchased for trading purposes.

Further details are provided in Annex 2.

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A breakdown of receivables and accrued income by maturity and type is presented in Annex 3.

BALANCE SHEETS - LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY euro 19,427,060 thousand

(euro 16,810,562 thousand at December 31, 2004)

Shareholders' equity and changes during the period include the following:

(in thousands of euro)	12/31/2004	Changes during the period				6/30/2005
		Appropriation of net income 2004	Other changes	Net income for the period	Total	
Share capital	8,864,857		1,802,482		1,802,482	10,667,339
Additional paid-in capital	120,380		1,546,359		1,546,359	1,666,739
Reserves for inflation adjustments - Law No. 413, 12/30/1991	1,129					1,129
Legal reserve	1,953,494					1,953,494
Reserve for treasury stock in portfolio	2,298					2,298
Miscellaneous reserves						
. Reserve Law No. 488/1992	142,365	103,083			103,083	245,448
. Reserve L.D. 124/1993, ex art. 13	391					391
. Reserve DPR No. 917/1986, ex art. 74	5,750					5,750
. Reserve for capital grants	510,993		20,755		20,755	531,748
. Other reserves	4,499		(3,170)		(3,170)	1,329
. Merger surplus reserve	2,188,529		(178,377)		(178,377)	2,010,152
Retained earnings	881,029	108,527			108,527	989,556
Net income for the year	2,134,848	(211,610)	(1,923,238)	-	(2,134,848)	-
Net income for the period				1,351,687	1,351,687	1,351,687
Total	**16,810,562**	**-**	**1,264,811**	**1,351,687**	**2,616,498**	**19,427,060**

Share capital *euro 10,667,339 thousand*

The share capital of Telecom Italia S.p.A. at June 30, 2005 amounts to euro 10,667,339 thousand and consists of 13,369,041,170 ordinary shares and of 6,026,120,661 savings shares, all with a par value of euro 0.55 each.
Share capital increased by euro 1,802,482 thousand compared to December 31, 2004 due to the following movements:

- conversion of 1,879,381,588 "Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium" with the issue of 886,227,840 new shares for a par value of euro 487,425 thousand;
- exercise of 2,988,666 stock options set aside for employees of the company with the issue of 9,865,201 new shares for a par value of euro 5,426 thousand;
- issue of 2,150,947,060 ordinary shares, for euro 1,183,021 thousand, and 230,199,592 savings shares for euro 126,610 thousand for the capital increase to service the merger by incorporation of TIM in Telecom Italia.

Additional paid-in capital *euro 1,666,739 thousand*

Additional paid-in capital amounts to 1,666,739 thousand at June 30, 2005, with an increase of euro 1,546,359 thousand compared to December 31, 2004. The increase is due to the additional paid-in capital relating to the issue of shares against the conversion of bonds for euro 1,391,956 thousand

and the exercise of stock option rights for euro 21,913 thousand. Additional paid-in capital also includes euro 132,490 thousand reclassified from debentures payable for the reclassification of the repayment premium already earned by bondholders that had requested conversion of their bonds to shares during the first half of 2005.

Reserves for inflation adjustments - Law No. 413, 12/30/1991 *euro 1,129 thousand*

This reserve remains unchanged compared to December 31, 2004. The reserve was replenished at June 30, 2004 pursuant to the Shareholders' Meeting of May 6, 2004, after the reserve was entirely utilized at December 31, 2003 to cover the loss for the year 2002 of the merging company Olivetti.

Legal reserve *euro 1,953,494 thousand*

The legal reserve amounts to euro 1,953,494 thousand at June 30, 2005 and is unchanged from December 31, 2004.

Reserve for treasury stock in portfolio *euro 2,298 thousand*

The reserve is unchanged from December 31, 2004.

Miscellaneous reserves *euro 2,794,818 thousand*

Miscellaneous reserves total euro 2,794,818 thousand at June 30, 2005, with a decrease of euro 57,709 thousand from December 31, 2004. The various components of miscellaneous reserves are analyzed in the following paragraphs.

<u>Reserve Law No. 488/1992</u>: this reserve, equal to euro 245,448 thousand, increased by euro 103,083 thousand compared to December 31, 2004 as a result of the appropriation of a part of 2004 profits, as voted by the Shareholders' Meeting held April 7, 2005, in order to obtain the benefits stated in Law 488/92 for the investment projects in the south of Italy.

<u>Reserve L.D. 124/1993, ex art. 13</u>: this reserve, equal to euro 391 thousand at June 30, 2005, is unchanged from December 31, 2004.

<u>Reserve DPR No. 917/1986, ex art. 74</u>: this reserve, equal to euro 5,750 thousand at June 30, 2005, is unchanged from December 31, 2004.

<u>Reserve for capital grants</u>: this reserve, equal to euro 531,748 thousand at June 30, 2005, increased by euro 20,755 thousand compared to December 31, 2004. The increase is due to the transfer of the portion of grants that became available during the period of euro 6,074 thousand from the "reserves for risks and charges" and the reclassification of euro 14,681 thousand from the "Merger surplus reserve" in order to replenish the tax-deferred Reserve for capital grants already booked in the financial statements at December 31, 2004 of the merged company TIM.

<u>Other reserves</u>: these reserves, equal to euro 1,329 thousand at June 30, 2005, consist solely of the Reserve for payments for future capital increases. The reduction of euro 3,170 thousand, compared to December 31, 2004, represents the difference between the shares issued in 2005 – against stock option rights exercised and the conversion of bonds in December 2004 (for a total of euro 4,499 thousand) – and new payments for future capital increases following requests for the conversion of bonds during the first half (euro 1,329 thousand).

Merger surplus reserve: this reserve, equal to euro 2,010,152 thousand at June 30, 2005 shows a reduction of euro 178,377 thousand compared to December 31, 2004. The decrease is due to the utilization of this reserve for the replenishment of the Reserve for capital grants of the merged company TIM and for the cancellation deficit on the share exchange resulting from the merger transaction (euro 163,696 thousand).

Retained earnings *euro 989,556 thousand*

Retained earnings include the appropriation of net income for the year 2003 (euro 881,029 thousand) and for the year 2004 (euro 108,527 thousand) as voted, respectively by the Shareholders' Meetings held May 6, 2004 and April 7, 2005.

In order to complete disclosure on shareholders' equity, the following statements are presented:

- statement showing the reserves subject to restrictions for statutory purposes and the tax treatment applicable in the event of distribution;
- statement prepared according to ex art. 2427, paragraph 7 - bis, showing the items in shareholders' equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in prior years;
- statement of changes in shareholders' equity during the prior year and in the first half of 2005.

RESERVES IN SHAREHOLDERS' EQUITY - STATUTORY RESTRICTIONS AND TAX REGIME FOR PURPOSES OF INCOME TAXES

	Amounts not subject to statutory restrictions	Amounts subject to statutory restrictions	June 30, 2005	Amounts of reserves which, in the event of distribution, form part of the taxable income of the company	Amounts of other income reserves	Amount of reserves which, in the event of distribution, do not form part of the taxable income of the company
(in thousands of euro)	(a)	(b)	(c)=(a+b)=(d+e+f)	(d)	(e)	(f)
Reserves and retained earnings						
Additional paid-in capital	1,486,765	179,974	1,666,739	-	-	1,666,739
Legal reserve	-	1,953,494	1,953,494	1,834,667	643	118,184
Reserve for treasury stock in portfolio	-	2,298	2,298	-	2,298	-
Merger surplus reserve	2,004,381	5,771	2,010,152	-	-	2,010,152
Reserve Law No. 488/92	-	245,448	245,448	-	225,173	20,275
Reserve, L.D. No. 124/93, ex art. 13	391	-	391	391	-	-
Reserve D.P.R. No. 917/86 ex art. 74	5,750	-	5,750	5,750	-	-
Reserve for capital grants	531,748	-	531,748	531,748	-	-
Revaluation reserve Law No. 413/91	1,129	-	1,129	1,129	-	-
Other reserves	-	1,329	1,329	-	-	1,329
Retained earnings	989,556	-	989,556	-	989,556	-
Total reserves and retained earnings	**5,019,720**	**2,388,314**	**7,408,034**	**2,373,685**	**1,217,670**	**3,816,679**

The amount of **distributable reserves** without tax charges to be borne by the Company is equal to euro 4,480,702 thousand.

Statement according to ex art. 2427, paragraph 7-bis of the Italian Civil Code

Nature/description	Amount (in thousands of euro)	Possibility of utilization	Amount available	Summary of the amounts utilized during the last three years: for absorption of losses	Summary of the amounts utilized during the last three years: for other reasons
				Total	Total
Share capital	**10,667,339**			**0**	**10,961**
Capital reserves:					
Additional paid-in capital	1,666,739	A, B, C	1,666,739	3,700,751	0
Legal reserve	1,953,494	A, B	0	920,810	0
Reserve Law No. 488/92	20,275	A, B	20,275	0	0
Reserve, L.D. No. 124/93, ex art. 13	391	A, B, C	391	0	0
Reserve D.P.R. No. 917/86 ex art. 74	5,750	A, B, C	5,750	0	0
Reserve for capital grants	531,748	A, B, C	531,748	0	0
Payments for future capital increases	1,329	A, B	1,329	0	0
Miscellaneous reserves	0	A, B, C	0	28,816	0
Merger surplus reserve	2,010,152	A, B, C	2,010,152	0	0
Income reserves:					
Revaluation reserve Law No. 413/91	1,129	A, B, C	1,129	1,129	0
Reserve for treasury stock in portfolio	2,298	-	0	0	0
Reserve Law No. 488/92	225,173	A, B	225,173	0	0
Miscellaneous reserves	0	A, B, C	0	0	0
Retained earnings	989,556	A, B, C	989,556	0	0
Total			**5,452,242**	**4,651,505**	**10,961**
Amount not distributable (1)			432,522		
Remaining amount distributable			**5,019,720**		

Key:
A: for share capital increase
B: for absorption of losses
C: for distribution to shareholders

(1) Represents the amount not distributable as a result of reserve Law No. 488/1992 (euro 245,448 thousand), for the part set aside to cover unamortized intangible assets according to ex art. 2426, paragraph 5 (euro 5,771 thousand), of the reserve for payments of future capital increases (euro 1,329 thousand) and the part of additional paid-in capital necessary to integrate the legal reserve in order for it to reach one fifth of share capital (euro 179,974 thousand).

Statement of changes in shareholders' equity

(in thousands of euro)	Share capital	Additional paid-in capital	Revaluation reserve Law No. 413/91	Legal reserve	Reserve for treasury stock in portfolio	Reserve Law No. 488/92	Reserve L.D. No. 124/93, ex art. 13	Reserve D.P.R. No. 917/86 ex art. 74	Reserve for capital grants	Payments for future capital increases	Miscellaneous reserves	Merger surplus reserve	Retained earnings	Net income	Total
Balance at January 1, 2004	**8,853,991**	**88,377**	**0**	**1,834,687**	**2,298**	**118,678**	**186**	**5,750**	**498,701**	**0**	**119,012**	**2,188,529**	**0**	**2,645,903**	**16,356,111**
Appropriation of 2003 profit (as voted by the Shareholders' Meeting held May 6, 2004)															
- Declaration of dividends (€0.1041 per ordinary share; €0.1151 per savings share)														*(1,740,058)*	*(1,740,058)*
- Other appropriations			*1,129*			*23,687*							*881,029*	*(905,845)*	
Other changes:															*0*
- Conversion of 3,881,157 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	*671*	*1,916*								*1,293*					*3,880*
- Exercise of stock options	*10,195*	*30,087*								*3,206*					*43,488*
- Reclassification from miscellaneous reserves to adjust the legal reserve to the amount required by law				*118,807*							*(118,807)*				*0*
- Exercise of warrants for ordinary shares of Telecom Italia ex Olivetti 1999-2004															*0*
- Transfer from the "Reserves for risks and charges" of the portion of grants which became available during the period									*12,292*						*12,292*
- Reclassification following the replenishment of the tax-deferred reserves of the merged company IT Telecom S.p.A.							*205*				*(205)*				*0*
Net income for the year 2004														2,134,848	*2,134,848*
Balance at December 31, 2004	**8,864,857**	**120,380**	**1,129**	**1,953,494**	**2,298**	**142,365**	**391**	**5,750**	**510,993**	**4,499**	**0**	**2,188,529**	**881,029**	**2,134,848**	**16,810,562**
Appropriation of 2004 profit (as voted by the Shareholders' Meeting held April 7, 2005):															
- Declaration of dividends (€0.1093 per ordinary share; €0.1203 per savings share)														*(1,923,238)*	(1,923,238)
- Other appropriations						*103,083*							*108,527*	*(211,610)*	0
Other changes:															
- Conversion of 1,879,381,588 "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	*487,425*	*1,524,446*								*36*					*2,011,907*
- Exercise of stock options	*5,426*	*21,913*								*(3,206)*					*24,133*
- Issue of 2,150,947,060 ordinary shares and 230,199,592 savings shares for the capital increase to service the Telecom Italia/TIM merger	*1,309,631*														*1,309,631*
- Transfer from the "Reserves for risks and charges" of the portion of grants which became available during the period									*6,074*						*6,074*
- Reclassification following the replenishment of the tax-deferred reserves of the merged company TIM									*14,681*			*(14,681)*			
- Reclassification to cancel the exchange deficit relating to the Telecom Italia/TIM merger												*(163,696)*			*(163,696)*
Net income for the period														1,351,687	1,351,687
Balance at June 30, 2005	**10,667,339**	**1,666,739**	**1,129**	**1,953,494**	**2,298**	**245,448**	**391**	**5,750**	**531,748**	**1,329**	**0**	**2,010,152**	**989,556**	**1,351,687**	**19,427,060**

As far as future potential changes in share capital are concerned, at June 30, 2005, the following are still outstanding :

- 508,083,552 "Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium" (formerly known as "Olivetti 1.5% 2001 – 2010 convertible bonds with a repayment premium"), including 1,329,336 bonds for which conversion into shares had already been requested on June 30, 2005, with the consequent reduction in the quantity of bonds still convertible with a contra-entry for a liability with future shareholders (the corresponding 626,850 ordinary shares for a par value of euro 345 thousand plus additional paid-in capital of euro 985 thousand were issued on July 14, 2005).

  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 exchange ratio of 0.471553 new Telecom Italia S.p.A. ordinary shares (formerly Olivetti S.p.A.) for each old Olivetti ordinary share, 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, besides the above 626,850 shares, a further maximum 238,961,473 Telecom Italia ordinary shares could be issued, for a total par value of euro 131,429 thousand, plus additional paid-in capital of euro 375,325 thousand.

- 10,699,996 options of the "Stock Option Plan 2000".

  Such options were originally valid for the subscription of the same number of ordinary 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 share capital and on the basis of the exchange ratio of 3.300871 new Telecom Italia ordinary shares (formerly Olivetti S.p.A.) for each 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 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 grantee, a maximum 35,319,216 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 19,426 thousand, plus additional paid-in capital of euro 128,394 thousand.

- 31,862,500 options of the "Stock Option Plan 2001".

  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares 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 grantee, a maximum 105,173,383 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 57,845 thousand, plus additional paid-in capital of euro 276,327 thousand.

- 9,689,116,22 options of the "Stock Option Plan 2002 Top".

  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares 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 euro 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 grantee, a maximum 31,982,504 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 17,590 thousand, plus additional paid-in capital of euro 71,579 thousand.

– 21,264,053,91 options of the "Stock Option Plan 2002", net of 39,999,745522 options exercised against requests that had been received by June 30, 2005 (on July 5, 2005 the corresponding 132,034 shares were issued for a par value of euro 73 thousand, plus additional paid-in capital of euro 245 thousand).
  Such options were originally valid for the subscription of the same number of old Telecom Italia ordinary shares at the following prices for each option held: 20,345,053.49 options at a price of euro 9.665, 719,000.42 options at a price of euro 7.952 and 200,000.00 options at a 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 grantee and the different subscription prices, in addition to the above 132,034 shares, a further maximum 70,189,473 new Telecom Italia ordinary shares could be issued, for a total par value of euro 38,677 thousand, plus additional paid-in capital of euro 165,534 thousand.

– 11,955,653 options of the ex-Telecom Italia Mobile "Stock Option Plan 2000-2002.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 6.42 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio of 1.73 Telecom Italia ordinary shares for each Telecom Italia Mobile ordinary share, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 3.710983 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 grantee, a maximum 20,683,279 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 11,376 thousand, plus additional paid-in capital of euro 65,380 thousand.

– 1,190,000 options of the ex-Telecom Italia Mobile "Stock Option Plan 2001-2003.
  Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 8.671 for every option exercised.
  Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 5.012139 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 grantee, a maximum 2,058,700 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 1,132 thousand, plus additional paid-in capital of euro 9,186 thousand.

– 499,000 options of the ex-Telecom Italia Mobile Supplementary Plans "2001-2003.
Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 7.526 for every option exercised.
Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 4.350289 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 grantee, a maximum 863,270 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 475 thousand, plus additional paid-in capital of euro 3,280 thousand.

– 22,490,000 options of the ex-Telecom Italia Mobile "Stock Option Plan 2002-2003.
Such options were originally valid for the subscription of the same number of Telecom Italia Mobile ordinary shares at a price of euro 5.67 for every option exercised.
Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 3.277457 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 grantee, a maximum 38,907,700 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 21,399 thousand, plus additional paid-in capital of euro 106,101 thousand.

– 1,915,900 options of the ex-Telecom Italia Mobile "Stock Option Plan 2003-2005.
Such options were originally valid for the subscription of the same number of Telecom Italia Mobile's ordinary shares at a price of euro 5.07 for every option exercised.
Subsequent to the merger of Telecom Italia Mobile S.p.A. in Telecom Italia S.p.A., on the basis of the exchange ratio indicated above, such options are now valid for the subscription of 1.73 Telecom Italia ordinary shares each, at a price of about euro 2.930636 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 grantee, a maximum 3,314,507 new Telecom Italia ordinary shares could therefore be issued, for a total par value of euro 1,823 thousand, plus additional paid-in capital of euro 7,892 thousand.

The Shareholders' Meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part

(i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the option rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the Board is not subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

RESERVES FOR RISKS AND CHARGES euro 1,077,759 thousand

(euro 947,950 thousand at December 31, 2004)

The reserves for risks and charges increased by euro 129,809 thousand, compared to December 31, 2004. The composition and changes in these reserves are described as follows:

(in thousands of euro)	12/31/2004	Changes during the period: TIM merger	Spin-off of business segment	Provisions	Utilizations	Released to income	Reclassi- fications/ Other	6/30/2005
Reserve for taxes, reserve for deferred taxes	**168,547**	95,388	(136,979)	681,783			(640,137)	**168,602**
Other reserves	**779,403**	**344,972**	**(133,117)**	**21,942**	**(68,169)**	**(30,145)**	**(5,729)**	**909,157**
Reserve for litigation	126,061	1,701	(1,701)	8,545	(9,164)			125,442
Reserve for capital grants	76,584	-	-	-	-		(6,074)	70,510
Reserve for losses of subsidiaries and affiliates	95,025	-	-	13,397	(25,858)	(821)	659	82,402
Reserve for corporate restructuring	47,951	19,520	(5,588)	-	(15,341)			46,542
Reserve for contractual risks and other risks	433,782	323,751	(125,828)		(17,806)	(29,324)	(314)	584,261
Total	**947,950**	**440,360**	**(270,096)**	**703,725**	**(68,169)**	**(30,145)**	**(645,866)**	**1,077,759**

Reserve for taxes and reserve for deferred taxes

These reserves amount to euro 168,602 thousand and increased by euro 55 thousand, compared to December 31, 2004. The provisions refer to income taxes for the period; the reclassifications refer to the previously mentioned compensation with taxes receivables and deferred tax assets.

Other reserves

Other reserves amount to euro 909,157 thousand and increased by euro 129,754 thousand compared to December 31, 2004.

In particular, the following is mentioned:

- ✓ the provision to the reserve for losses of subsidiaries and affiliates of euro 13,397 thousand is principally in reference to the addition, for exchange adjustments, to the reserve set aside in 2004 to take into account the previously described settlement relating to Mediterranean Nautilus; the utilization mainly refers to the absorption of losses and the recapitalization of the share capital of Latin American Nautilus;
- ✓ the provision to the reserve for contractual risks and other risks still includes euro 169,277 thousand for guarantees outstanding at June 30, 2005, issued by the banks that had financed Avea; during the first half of 2005, euro 28,991 thousand of this reserve was released to the statement of income as a result of the adjustment to the period-end exchange rate. The reserve for contractual risks includes the provision made in 2004 for the sanction levied against Telecom Italia by the Antitrust Authority for the alleged abuse of a dominant position (euro 152,000 thousand). Notwithstanding the fact that the Regional Administrative Court (TAR) has largely upheld the reasons for the appeal filed by Telecom Italia, the reserve has been maintained in the financial statements since the appeal filed by the Antitrust Authority against the ruling handed down by the TAR is still pending.

RESERVE FOR EMPLOYEE
TERMINATION INDEMNITIES euro 1,091,138 thousand
(euro 1,042,919 thousand at December 31, 2004)

The reserve for employee termination indemnities increased by euro 48,219 thousand compared to December 31, 2004. The amount and changes during the year are presented below:

(in thousands of euro)

Balance at December 31, 2004	1,042,919
TIM merger	104,974
Spin-off of business segment	(106,931)
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	71,152
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	(3,692)
• Advances	(8,371)
• Supplementary benefits (Telemaco)	(9,810)
• Equalization tax on the revaluation of the reserve	(2,791)
- Transfers to/from subsidiaries and other movements	3,688
Balance at June 30, 2005	1,091,138

LIABILITIES euro 53,401,820 thousand
(euro 43,296,181 thousand at December 31, 2004)

Liabilities increased by euro 10,105,639 thousand, compared to December 31, 2004. Details are as follows:

	12/31/2004	Changes during the period			6/30/2005
(in thousands of euro)		TIM merger	Spin-off of business segment	Other changes	
Debentures	12,701,250	-	-	1,659,526	14,360,776
Convertible debentures	2,824,947	-	-	(2,225,060)	599,887
Due to banks	905,643	24	(44)	9,648,105	10,553,728
Due to other lenders	1,044,721	18,373	(2,460)	(457,904)	602,730
Advances	32,584	-	-	26,414	58,998
Trade accounts payable	2,032,076	2,480,250	(2,046,830)	(490,393)	1,975,103
Accounts payable to subsidiaries	20,728,306	(1,250,255)	(109)	2,738,750	22,216,692
Accounts payable to affiliated companies	224,859	3,166	(4,637)	(160,282)	63,106
Taxes payable	265,868	102,085	(91,650)	286,411	562,714
Contributions to pension and social security institutions	568,365	20,886	(19,342)	(41,022)	528,887
Other liabilities	1,967,562	613,273	(525,594)	(176,042)	1,879,199
	43,296,181	1,987,802	(2,690,666)	10,808,503	53,401,820

Debentures *euro 14,360,776 thousand*

Debentures include the following:

- bonds for euro 8,582,373 thousand issued under the "Global Note Program" as follows:
  - bonds for euro 2,500,000 thousand, issued on February 1, 2002, divided into two tranches of euro 1,250,000 thousand each, at annual fixed rates, respectively, with a coupon of 5.625% maturing on February 1, 2007 and a coupon of 6.25% maturing on February 1, 2012;
  - bonds for euro 3,000,000 thousand, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000,000 thousand, with an annual coupon indexed to the 3-month Euribor +0.33 basis points, maturing October 29, 2007; the second, for euro 750,000 thousand, with an annual fixed-rate coupon of 4.50%, maturing on January 28, 2011; the third, for euro 1,250,000 thousand, with an annual fixed-rate coupon of 5.375%, maturing on January 29, 2019;
  - bonds for euro 110,000 thousand issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor rate +0.60%, maturing March 30, 2009;
  - bonds for GBP 850,000 thousand (equivalent to euro 1,260,753 thousand) issued on June 24, 2004, with a coupon of 6.375%, maturing June 24, 2019;
  - bonds for GBP 500,000 thousand (equivalent to euro 741,620 thousand) issued on June 29, 2005, with a coupon of 5.625%, maturing December 29, 2015;
  - bonds for euro 120,000 thousand issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor +0.66%, maturing November 23, 2015;
  - bonds for euro 850,000 thousand issued on March 17, 2005 with a coupon of 5.25%, maturing March 17, 2055;
- 2002 – 2022 bonds for euro 228,403 thousand reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy. The 20-year bonds, with a 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;
- 2002-2012 bonds for euro 2,500,000 thousand originally subscribed by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance effective June 1, 2004), with a fixed-rate coupon of 7.375% (issued June 26, 2002);
- 2002-2012 bonds for euro 1,400,000 thousand originally subscribed by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance effective June 1, 2004), with a fixed-rate coupon of 6.625% (issued December 23, 2002);
- 2001-2011 bonds for euro 1,500,000 thousand subscribed by Telecom Italia Finance, with a fixed-rate coupon of 7.250% (issued May 31, 2001);
- 2001-2011 bonds for euro 150,000 thousand subscribed by Telecom Italia Finance, with a fixed-rate coupon of 6.875% (issued December 28, 2001).

Convertible debentures *euro 599,887 thousand*

Details are as follows:

(in thousands of euro)	12/31/2004	Changes during the period	6/30/2005
Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium			
. Residual face value	**2,386,173**	(1,879,419)	**506,754**
. Repayment premium	**438,774**	(345,641)	**93,133**
TOTAL	**2,824,947**	(2,225,060)	**599,887**

For an analysis of the change in bonds, reference should be made to the comments under Share capital and Additional paid-in capital under Shareholders' equity.

Due to banks *euro 10,553,728 thousand*

Due to banks increased by euro 9,648,085 thousand, compared to December 31, 2004. The amount includes medium/long-term debt totaling euro 10,121,460 thousand and short-term borrowings amounting to euro 432,268 thousand, relating to bank overdrafts. In particular, medium/long-term debt includes the euro 9,000,000 thousand loan granted by a syndicate of banks to service the tender offer for TIM ordinary and savings shares as part of the Telecom Italia/TIM merger.

Due to other lenders *euro 602,730 thousand*

Due to other lenders decreased by euro 441,991 thousand compared to December 31, 2004. They consist of medium/long-term financing totaling euro 399,839 thousand and short-term loans payable amounting to euro 202,891 thousand.
Medium/long-term financing principally refers to liabilities for transactions in derivatives (euro 186,518 thousand) put into place with various banks to hedge loans made by subsidiaries, loans made by Cassa Depositi e Prestiti (euro 139,847 thousand) and by the Fondo per l'innovazione tecnologica (euro 65,920 thousand).
Short-term loans refer almost entirely refer to loans made by TI Securitisation Vehicle S.r.l. deriving from excess cash resources generated by securitization transactions.

Trade accounts payable *euro 1,975,103 thousand*

Trade accounts payable decreased by euro 56,973 thousand compared to December 31, 2004. The balance includes euro 284,530 thousand due to other telecommunications operators.

Accounts payable to subsidiaries *euro 22,216,692 thousand*

Accounts payable to subsidiaries increased by euro 1,488,386 thousand, compared to December 31, 2004. They consist of financial payables, trade accounts payable and other payables. Financial payables (euro 21,361,739 thousand) refer to current account transactions negotiated at market rates for cash management purposes and mainly include loans payable to Telecom Italia Finance (euro 13,438,967 thousand), Telecom Italia Capital (euro 5,973,972 thousand), TIM Italia (euro 1,047,574 thousand), Telecom Italia Media (euro 609,016 thousand) and Telecom Italia Sparkle (euro 162,193 thousand). Trade accounts payable (euro 658,540 thousand) mainly consist of accounts payable to TIM Italia (euro 192,328 thousand), Telecom Italia Sparkle (euro 184,718 thousand) and Nuova Tin.it (euro 37,068 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and IT Telecom S.r.l. (euro 130,415 thousand) for supply transactions. Other payables (euro 196,413 thousand) mainly refer to the adoption of the consolidated national tax return procedure (euro 155,844 thousand) and are due to Telecom Italia Media (euro 99,535 thousand), Olivetti (euro 20,100 thousand) and LA 7 (euro 20,317 thousand). They also include payables for capital contributions particularly to Path.Net (euro 19,119 thousand).

Accounts payable to affiliated companies *euro 63,106 thousand*

Accounts payable to affiliated companies decreased by euro 161,753 thousand, compared to December 31, 2004. They refer almost entirely to trade payables (euro 62,918 thousand), particularly for supply transactions with Siemens Informatica (euro 32,754 thousand), Share Service Center (euro 20,749 thousand) and Teleleasing (euro 6,946 thousand).

Taxes payable *euro 562,714 thousand*

Taxes payable increased by euro 296,846 thousand, compared to December 31, 2004, mainly as a result of higher VAT payables, euro 507,001 thousand at June 30, 2005 (euro 155,826 thousand at December 31, 2004). Taxes payable also include withholding taxes payable to the Italian tax authorities as the substitute taxpayer for euro 44,678 thousand.

Contributions to pension and social security institutions *euro 528,887 thousand*

Contributions to pension and social security institutions decreased by euro 39,478 thousand, compared to December 31, 2004 They include amounts owed to social security and health institutions with regard to personnel. These specifically comprise euro 466,574 thousand payable to INPS for the estimated charges assessed pursuant to Law No. 58/1992, described under the accounting policies.

Other liabilities *euro 1,879,199 thousand*

Other liabilities decreased by euro 88,363 thousand, compared to December 31, 2004. They include, in particular, liabilities for:

- ✓ customer-related items totaling euro 1,116,277 thousand, comprising, among other things, deposits by subscribers against telephone conversations and pre-billed basic charges;
- ✓ employee-related items amounting to euro 468,323 thousand;
- ✓ lease installments amounting to euro 27,523 thousand.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 4.

Disclosure required by art. 2427, art. 6 of the Italian Civil Code regarding the breakdown of liabilities by geographical area is presented in Annex 5.

MEMORANDUM ACCOUNTS

Memorandum accounts total euro 31,167,919 thousand at June 30, 2005 and can be analyzed as follows:

Guarantees provided *euro 27,069,001 thousand*

Guarantees provided consist of sureties (net of counter-guarantees received totaling euro 651,394 thousand), of which euro 26,616,738 thousand is provided on behalf of subsidiaries, euro 318,676 thousand on behalf of affiliated companies and euro 133,587 thousand on behalf of others. The guarantees are given mainly in respect of the bonds issued by Telecom Italia Finance (under the Global Medium Term Note Program) for euro 20,051,218 thousand, by Telecom Italia Capital for euro 6,221,421 thousand, and other medium/long-term financial transactions and supply contracts.

Purchases and sales commitments *euro 4,084,618 thousand*

This item consists of commitments for purchases of euro 4,054,045 thousand and commitments for sales of euro 30,573 thousand.
Commitments for purchases particularly include:

√ 9- to 21-year future lease obligations on buildings equal to euro 3,947,827 thousand;
√ other future lease obligations, increased by the purchase option (euro 59,801 thousand).

Commitments for sales refer to Telecom Italia's commitment to sell the 19.9% stake in Finsiel to the COS group for euro 29,000 thousand by December 31, 2006, as well as the commitment to sell the investment in LI.SIT. to Lombardia Informatica for euro 1,573 thousand, at the expiry of the contract (September 15, 2009).

Other memorandum accounts *euro 14,300 thousand*

Other memorandum accounts specifically refer to assets of third parties on loan, on deposit for safekeeping and securities of third parties held as guarantees.

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Moreover:

- the Company issued weak letters of patronage totaling euro 281,823 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance polices, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amount to euro 244,642 thousand, and mainly consist of equipment leased to customers;
- guarantees provided by others for company obligations amount to euro 1,314,548 thousand to guarantee the proper performance of contractual obligations. The amount includes euro 785,150 thousand relative to sureties issued by BBVA and San Paolo IMI on behalf of EIB for loans made by EIB for the TIM Mobile Network Project;
- the shares of employees and shareholders deposited at June 30, 2005 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., are equal to euro 3,456,788 thousand, those awaiting assignment or in the process of being replaced total euro 105 thousand, while the amount of shares held by the dealers of the merged company TIM is equal to euro 3,787 thousand;
- the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting held June 21, 1999, amounts to euro 2,042 thousand at June 30, 2005.

DERIVATIVE FINANCIAL INSTRUMENTS

Transactions in derivative financial instruments at June 30, 2005 include combined cross currency & interest rate swaps (to convert some loan contracts in British pounds, US dollars and Japanese yen to euro) and interest rate swaps (to covert 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 hedging medium/long-term debt at June 30, 2005.

DESCRIPTION	Notional amount in millions of euro
Floating to floating rate IRS transactions put into place by Telecom Italia S.p.A.	94
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million carried by Telecom Italia S.p.A. (2004-2009)	110
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the five-year tranche C relating to the Term Loan of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A.	3,000
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million carried by Telecom Italia S.p.A. (2004-2015)	120
CCIRS transactions on the floating-rate infragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A. after bonds were issued in October 2003 for a total amount of USD 4,000 million (euro 3,308 million at the euro /USD exchange rate at June 30, 2005)	3,408
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (euro 149 million at the euro /USD exchange rate at June 30, 2005)	150
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. bonds of GBP 850 million (euro 1,261 million at the euro /GBP exchange rate at June 30, 2005) issued in June 2004	1,289
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (euro 742 million at the euro/GBP rate at June 30, 2005) issued by Telecom Italia S.p.A. in June 2005	751
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the "Dual-Currency" loan with a notional principal of JPY 20 billion (euro 149 million at the euro/JPY rate at June 30, 2005) originally received from Olivetti International Finance N.V. and now carried by Telecom Italia Finance S.A.	174
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on bonds of JPY 20 billion (euro 149 million at the euro /JPY exchange rate at June 30, 2005) carried by Telecom Italia Finance S.A., originally issued by Olivetti Finance N.V. (2002-2032))	171
TOTAL	9,267

- The floating to floating rate IRS transactions put into place by Telecom Italia S.p.A. for a notional amount of euro 94 million refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor;
- on the bonds 2004/2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put into place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%;

- in reference to the term loan for a total amount of euro 12,000 million finalized on December 2004 in connection with the cash tender offer by Telecom Italia for TIM S.p.A., Telecom Italia S.p.A. put into place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010;
- on the bonds of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put into place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%;
- CCIRS transactions put into place by Telecom Italia S.p.A. for euro 3,408 million on the floating rate infragroup loan in USD, received from the subsidiary Telecom Italia Capital S.A., after bonds were issued in October 2003 for a total amount of USD 4,000 million, for an equivalent amount of euro 3,308 million, converting it into a:
  - ✓ quarterly floating rate in euro for euro 850 million, maturing November 2008;
  - ✓ semiannual annual fixed rate in euro of 5.035% for euro 1,709 million, maturing November 2013;
  - ✓ fixed rate in euro of 6% for euro 1,709 million, maturing November 2013;
- on the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. put into place a CCIRS contract for euro 150 million converting a quarterly Libor in USD to the 3-month Euribor;
- on the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor;
- on the bonds 2005/2015 of GBP 500 million (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put into place CCIRS contracts converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro;
- for euro 174 million, with reference to the "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., now carried by Telecom Italia Finance S.A., equivalent to euro 149 million, 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.
  - ✓ by Telecom Italia S.p.A., an IRS with the conversion of the semiannual floating rate in euro to a 6.94% fixed rate up to maturity;
- for euro 171 million with reference to the bonds 2002/2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V., Telecom Italia S.p.A. put into place:
  - ✓ a CCIRS contract on a floating rate infragroup loan in JPY in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.

At June 30, 2005, Telecom Italia S.p.A. has exchange rate transactions put into place for treasury management purposes for a notional amount of euro 312 million.

Consistent with the accounting policies, the negative difference, if any, on the valuation of the above described derivative financial instruments at fair value, is recognized in the statement of income under financial expenses.

STATEMENTS OF INCOME

Sales and service revenues *euro 9,311,439 thousand*

Sales and service revenues increased by euro 1,347,751 thousand compared to the first half of 2004. The increase is principally due to revenues of the merged company TIM (euro 1,269,558 thousand) relating almost entirely to traffic revenues for the months of January and February 2005.
Revenues are shown gross of the amount due to other operators (euro 1,613,647 thousand), which are included in costs for "services ".

The breakdown of revenues by business segment, expressly required by art. 2427, point 10, of the Italian Civil Code, is presented in the following table, while the breakdown of revenues by geographical area, also required by the same article of the Italian Civil Code, is presented in Annex 6:

Breakdown by *business segment*

(in thousands of euro)	1st half 2005	1st half 2004	Change
Sales:			
- telephone products	439,764	250,389	189,375
- other goods	258	65	193
	440,022	**250,454**	**189,568**
Services:			
- Traffic	4,346,920	3,325,716	1,021,204
- Basic subscription charges	3,998,047	3,978,886	19,161
- Fees	157,665	178,825	(21,160)
- Miscellaneous income	368,785	229,807	138,978
	8,871,417	**7,713,234**	**1,158,183**
Total	**9,311,439**	**7,963,688**	**1,347,751**

Traffic revenues are detailed as follows:

(in thousands of euro)	1st half 2005	1st half 2004	Change
• Retail traffic:			
- phone	2,367,333	2,568,526	(201,193)
- internet (online, dial up and ADSL)	292,421	261,742	30,679
- VAS and data	118,014	112,316	5,698
	2,777,768	**2,942,584**	**(164,816)**
• National wholesale traffic	**411,905**	**383,132**	**28,773**
• TIM contribution 1/1– 2/28/2005	**1,157,247**		**1,157,247**
Total	**4,346,920**	**3,325,716**	**1,021,204**

Revenues from basic subscription charges are detailed below:

(in thousands of euro)	1st half 2005	1st half 2004	Change
• Retail subscription charges:			
- phone	2,519,456	2,535,152	(15,696)
- ADSL	222,157	171,616	50,541
- VAS and data	710,901	708,784	2,117
	3,452,514	**3,415,552**	**36,962**
• National wholesale subscription charges	**579,252**	**563,334**	**15,918**
• TIM contribution 1/1– 2/28/2005	**(33,719)**	**-**	**(33,719)**
Total	**3,998,047**	**3,978,886**	**19,161**

Revenues from fees to activate service are detailed below:

(in thousands of euro)	1st half 2005	1st half 2004	Change
• Retail fees:			
- phone	78,594	83,960	(5,366)
- ADSL	25,522	34,630	(9,108)
- VAS and data	20,526	22,095	(1,569)
	124,642	**140,685**	**(16,043)**
• National wholesale fees	**30,609**	**38,140**	**(7,531)**
• TIM contribution 1/1– 2/28/2005	**2,414**	**-**	**2,414**
Total	**157,665**	**178,825**	**(21,160)**

Revenues from sales (euro 440,022 thousand) increased by euro 189,568 thousand compared to the first half of 2004, mainly driven by the commercial emphasis on both specific contracts and the launch of new products (particularly Aladino cordless phones and Web services). As for the marketing of products, there was an increase in the sales of phone products (+euro 77,037 thousand) and products for data services (+euro 76,106 thousand).

Raw materials, supplies and merchandise *euro 394,024 thousand*

Raw materials, supplies and merchandise increased by euro 160,251 thousand compared to the first half of 2004 (euro 233,773 thousand). The increase is mainly on account of higher purchases of inventory materials (+euro 173,490 thousand), of which euro 77,210 thousand is from the merged company TIM.
They principally include "costs for purchases of telephone equipment to be resold to customers" for euro 113,586 thousand, "costs for purchases of inventory materials" for euro 250,290 thousand, "costs for purchases of materials for the management of corporate assets" for euro 14,576 thousand and "costs for purchases of supply materials" for euro 12,630 thousand.

Services *euro 2,907,256 thousand*

Costs for services increased by euro 340,205 thousand compared to the first half of 2004 principally as a result of the costs of the merged company TIM (euro 243,431 thousand). They consist of the following:

(in thousands of euro)	1st half 2005	1st half 2004	Change
Advertising and promotion	89,064	69,160	19,904
Selling expenses	203,737	135,373	68,364
Maintenance	78,338	152,727	(74,389)
Professional and consulting fees	129,735	82,810	46,925
Electricity and water	96,434	75,308	21,126
Telephone bill mailing expenses	24,769	21,004	3,765
Outsourcing costs	167,738	147,933	19,805
Interconnection costs	16,169	27,071	(10,902)
Insurance	12,941	14,210	(1,269)
Amounts due to other operators	1,613,647	1,513,408	100,239
Distribution and logistics expenses	36,488	24,121	12,367
Other services	438,196	303,926	134,270
Total	**2,907,256**	**2,567,051**	**340,205**

In particular, the following is mentioned:

- the increase in amounts due to other operators for telecommunications services is principally due to the amount to be paid to other operators by the merged company TIM (euro 84,681 thousand);
- the increase in selling expenses is principally due to commissions paid to agents and salesmen of the merged company TIM (euro 50,450 thousand);
- the increase in professional and consulting fees is associated with the fact that, after the merger with IT Telecom on December 31, 2004, the first half of 2005 includes professional fees related to computer and information systems services which, in the first half of 2004, had been performed by IT Telecom;
- the decrease in maintenance expenses is principally due to the accounting effects of the merger with IT Telecom; in fact, as a result of the merger, such expenses are sustained internally;
- the increase in other services is attributable to the costs of the merged company TIM, other costs for computer and information system services which, in the first half of 2004, had been performed by IT Telecom, costs for the purchase of intellectual property rights from Olivetti regarding research and development projects and costs connected with the purchase of the Emsa Servizi S.p.A. corporate operations on January 1, 2005.

Use of property not owned *euro 345,224 thousand*

Costs for the Use of property not owned increased by euro 43,153 thousand compared to the first half of 2004 principally due to the addition of the costs of the merged company TIM (euro 38,802 thousand), referring almost entirely to building rents.
These costs consist of:

(in thousands of euro)	1st half 2005	1st half 2004	Change
Rentals	273,359	230,496	42,863
Hires	40,001	63,465	(23,464)
Lease installments	14,377	6,274	8,103
Other	17,487	1,836	15,651
Total	**345,224**	**302,071**	**43,153**

In particular, the decrease in hire costs is due to the elimination of hardware and software rent payments to the merged company IT Telecom; the increase in other costs can be ascribed to the purchase of the television rights to broadcast Serie A and B games on the Rosso Alice portal.

FINANCIAL INCOME AND EXPENSE -euro 274,977 thousand

Financial income and expense shows a net expense balance of euro 274,977 thousand. Details are as follows:

(in thousands of euro)		1st half 2005	1st half 2004	Change
Income from equity investments	(A)	721,074	15,272	705,802
Other income	(B)	157,715	92,058	65,657
Interest and other financial expense	(C)	(1,179,415)	(963,310)	(216,105)
Foreign exchange gains and losses	(D)	25,649	(159)	25,808
Total	**(A+B+C+D)**	**(274,977)**	**(856,139)**	**581,162**

Income from equity investments refers to the following:

(in thousands of euro)	1st half 2005	1st half 2004	Change
Dividends from subsidiaries, affiliated companies and other companies	717,484	12,126	705,358
Other income from equity investments:			
▪ other income from equity investments	3,590	3,146	444
	721,074	**15,272**	**705,802**

Dividends from subsidiaries, affiliated companies and other companies increased by euro 705,358 thousand compared to the first half of 2004 restated mainly owing to the dividends received for the year 2004 on the shares of the merged company TIM purchased under the tender offer or as a result of other purchases (euro 715,995 thousand).

Other income from equity investments refers to the *recovery of the excess price from LI.SIT.*

Other financial income includes the following:

	1st half 2005			1st half 2004	Change
(in thousands of euro)	Included in long-term investments	Included in current assets	Total		
Interest and fees on:					
• accounts receivable					
. from subsidiaries	1,788	14,425	16,213	16,664	(451)
. from affiliated companies	420	25	445	1,115	(670
. other	3,630		3,630	3,494	136
• securities	-	-	-	171	(171)
• bank and postal accounts		21,390	21,390	14,200	7,190
	5,838	**35,840**	**41,678**	**35,644**	**6,034**
Income on derivative financial instruments			99,399	45,454	53,945
Other income			16,638	10,960	5,678
			157,715	**92,058**	**65,657**

Interest and other financial expense can be analyzed as follows:

(in thousands of euro)	1st half 2005	1st half 2004	Change
Interest and fees paid to subsidiaries	419,490	384,639	34,851
Interest and fees paid to affiliated companies	74	92	(18)
Interest and fees paid to others and miscellaneous expense			
▪ on due to banks	129,694	13,909	115,785
▪ on debentures	403,992	383,418	20,574
• on due to other lenders	10,882	14,809	(3,927)
• on other items			
- Accrued portion of issue discounts and similar charges on loans	37,693	36,412	1,281
- Provision to the allowance for doubtful accounts for the "Deferred Purchasing Price"	6,006	4,292	1,714
- Expenses on derivative financial instruments	124,798	94,796	30,002
- Other financial expense	46,786	30,943	15,843
Total	**1,179,415**	**963,310**	**216,105**

Interest on debentures (euro 207,543 thousand) includes interest to Telecom Italia Finance (euro 196,449 thousand) for bonds subscribed by this company and described in a specific note.

Foreign exchange gains and losses include the following:

(in thousands of euro)		1st half 2005	1st half 2004	Change
Foreign exchange gains				
. from amounts realized		6,290	1,956	4,334
. from adjustments		38,055	1,973	36,082
Total	(A)	44,345	3,929	40,416
Foreign exchange losses				
. from amounts realized		12,669	2,637	10,032
. from adjustments		6,027	1,451	4,576
Total	(B)	18,696	4,088	14,608
Total	**(A-B)**	**25,649**	**(159)**	**25,808**

EXTRAORDINARY INCOME AND EXPENSE -euro 329,289 thousand

The balance is detailed as follows:

(in thousands of euro)		1st half 2005	1st half 2004	Change
Income				
. gains on disposals		63	5,242	(5,179)
. elimination of tax interference		-	932	(932)
. income tax refunds		-	727	(727)
. recoveries under Law 58/1992 and damage compensation		11,844	6,048	5,796
. release of the reserve for Avea		28,991	-	28,991
. other		37,655	14,955	22,700
	(A)	78,553	27,904	50,649
Expense				
. expenses under Law 58/1992		124,070	123,075	995
. provisions and writedowns of equity investments		9,725	112,416	(102,691)
. expenses and provisions for corporate restructuring (employee reduction plans, territorial and other layoffs, CIGS)		40,414	35,879	4,535
. expenses connected with Telecom Italia/TIM merger		121,527	-	121,527
. expenses connected with other corporate transactions		16,559	-	16,559
. expenses for settlement with Opportunity		50,368	-	50,368
. expenses for damages by third parties		7,014	10,711	(3,697)
. prior period income taxes		1,149	1,292	(143)
. other		37,016	34,221	2,795
	(B)	407,842	317,594	90,248
Total	(A-B)	(329,289)	(289,690)	(39,599)

In particular, the following should be mentioned:

- extraordinary income includes the release (euro 28,991 thousand), for the adjustment to the period-end exchange rate, of the reserve for risks for guarantees still in existence at June 30, 2005, issued by Telecom Italia for a loan granted to Avea.

- Extraordinary expenses include:

    - expenses connected with the Telecom Italia - TIM merger (euro 121,527 thousand) incurred by the two companies during the first half of 2005 mainly for advisors, communication expenses and legal fees;
    - expenses connected with the purchase of Virgilio's and Tin.it's assets under the process to rationalize Internet operations (euro 5,276 thousand), those connected with the purchase of the investment in Liberty Surf Group S.A. from Tiscali (euro 4,995 thousand) and the expenses sustained for the sale of Finsiel (euro 6,288 thousand);
    - expenses for the settlement with Opportunity (euro 50,368 thousand) as part of the reorganization of operations in Brazil.

Income taxes, current and deferred *euro 671,360 thousand*

Income taxes for the period, equal to euro 671,360 thousand, (euro 542,757 thousand in the first half of 2004) increased by euro 128,603 thousand compared to the corresponding period of 2004. This increase is due to the improvement in the earnings result.
Income taxes have been determined on the basis of the best possible estimate according to the information available and to a reasonable forecast of performance for the year up to the end of the tax period.

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The following Annexes numbered 1 to 6 are an integral part of these notes.

OTHER INFORMATION

Workforce

Employees at June 30, 2005 number 52,689 compared to 52,848 at December 31, 2004. The breakdown of the average equivalent number of employees is presented in the following table, by professional category, at the end of the period, compared to the first half of 2004 and the year 2004:

AVERAGE EQUIVALENT NUMBER	1st half 2005	1st half 2004	Year 2004
Executives	965	899	1,005
Middle management	2,489	1,952	2,573
Clerical staff	47,875	47,199	49,848
Technicians	151	245	233
Total	**51,480**	**50,295**	**53,659**

LONG-TERM INVESTMENTS AND ADVANCES ON CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES **ANNEX N. 1**

(in thousand of euro)	12.31.2004				Changes of the period								6.30.2005			
	Cost	Upward adjust-ments	Writedowns	Carrying value	Contribution merger TIM at 1.1.2005	Spin-off of business segment	Purchases / Subscrip-tions	Reclassi-fications/	Disposals (1)	Writedowns(-)/ Writebacks of value(+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Writedowns	Carrying value
Equity investments in subsidiaries																
DOMUS ACADEMY	2,400	-	-	2,400						(1,000)		(1,000)	2,400	-	(1,000)	1,400
EMSA SERVIZI	5,000	-	-	5,000								-	5,000	-	-	5,000
EUSTEMA	465	-	-	465								-	465	-	-	465
FINSIEL	364,680	-	(253,680)	111,000				(27,784)	(83,216)			(111,000)	-	-	-	-
ISM	-	-	-	-			97,392					97,392	97,392	-	-	97,392
IT TELECOM SRL	132,773	-	-	132,773						(9,579)		(9,579)	132,773	-	(9,579)	123,194
INTELCOM SAN MARINO	-	-	-	-								-	-	-	-	-
IRIDIUM ITALIA (in liquidation)	1,720	-	-	1,720								-	1,720	-	-	1,720
LATIN AMERICAN NAUTILUS S.A.	46,042	-	(46,042)	-				(21,752)	(9,209)		30,961	-	-	-	-	-
LIBERTY SURF GROUP	-	-	-	-			248,324					248,324	248,324	-	-	248,324
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 (in liquidation)	435	-	(79)	356						(260)		(260)	435	-	(339)	96
NUOVA TIN.IT	-	-	-	-			880,000					880,000	880,000	-	-	880,000
OFI CONSULTING	78,940	-	(43,831)	35,109								-	78,940	-	(43,831)	35,109
OLIVETTI GESTIONI IVREA	2,667	-	(508)	2,159								-	2,667	-	(508)	2,159
OLIVETTI MULTISERVICES	41,042	-	(639)	40,403								-	41,042	-	(639)	40,403
OLIVETTI	99,525	-		99,525								-	99,525	-		99,525
PATH.NET	25,823	-	-	25,823								-	25,823	-	-	25,823
PROGETTO ITALIA	-	-	-	-			1,000					1,000	1,000	-	-	1,000
SAIAT	34,743	11,616	-	46,359								-	34,743	11,616	-	46,359
SATURN VENTURE PARTNERS	-	-	-	-	581					16		597	597	-	-	597
TECNO SERVIZI MOBILI	53	-	-	53								-	53	-	-	53
TECO SOFT ARGENTINA (in liquidation)	6,685	-	(6,685)	-								-	6,685	-	(6,685)	-
TELECOM ITALIA AMERICA LATINA	13,220	-	(13,220)	-								-	13,220	-	(13,220)	-
TELECOM ITALIA AUDIT	1,750	-	-	1,750	500	(500)						-	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	4,629,735	-	(2,381,110)	2,248,625								-	4,629,735	-	(2,381,110)	2,248,625
TELECOM ITALIA LEARNING SERVICES	1,560	-	(1,560)	-			2,833	(2,833)		(1,560)	1,560	-	1,560	-	(1,560)	-
TELECOM ITALIA MEDIA	2,046,631	-	(1,340,203)	706,428								-	2,046,631	-	(1,340,203)	706,428
TELECOM ITALIA MOBILE	27,380,942	84,144	-	27,465,086			14,207,194	(41,672,280)				(27,465,086)	-	-	-	-
TELECONTACTCENTER	489	-	-	489								-	489	-	-	489
TELENERGIA	40	-	-	40	10	(10)						-	40	-	-	40
TELSY	14,512	-	-	14,512								-	14,512	-	-	14,512
TI FINANCE	1,786,234		-	1,786,234						(46,729)		(46,729)	1,786,234		(46,729)	1,739,505
TI LAB SA	131	-	(131)	-								-	131	-	(131)	-
TIM ITALIA	-	-	-	-	120	3,940,009	3,640	35,048,711				38,992,480	38,992,480	-	-	38,992,480
TIM INTERNATIONAL	-	-	-	-	4,582,279			417,721				5,000,000	9,102,000	-	(4,102,000)	5,000,000
TI SPARKLE	784,765	-	-	784,765								-	784,765	-	-	784,765
TRAINET (in liquidation)	674	-	(674)	-								-	674	-	(674)	-
Consorzio IRIS	15	-	-	15				(15)				(15)	-	-	-	-
Consorzio Energia Gruppo Telecom Italia	5	-	-	5	5	(5)						-	5	-	-	5
Consorzio SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II	-	-	-	-	26	(26)						-	-	-	-	-
Consorzio TURISTEL	26	-	-	26				(26)				(26)	-	-	-	-
	37,771,488	**95,760**	**(4,096,187)**	**33,771,061**	**4,583,521**	**3,939,468**	**15,440,383**	**(6,258,258)**	**(92,425)**	**(59,112)**	**32,521**	**17,586,098**	**59,301,576**	**11,616**	**(7,956,033)**	**51,357,159**

(1)	TELECOM ITALIA LEARNINGS SERVICE	LATIN AMERICAN NAUTILUS S.A.	FINSIEL
Cost	4,393	77,003	273,397
Writedowns	(4,393)	(67,794)	(190,181)
	-	9,209	83,216

(in thousand of euro)	12.31.2004 Cost	Upward adjust-ments	Writedowns	Carrying value	Changes of the period: Contribution merger TIM at 1.1.2005	Spin-off of business segment	Purchases / Subscrip-tions	Reclassi-fications/	Disposals (1)	Writedowns(-)/ Writebacks of value(+)	Capital Replenish-ments	Total	6.30.2005 Cost	Upward adjust-ments	Writedowns	Carrying value
Equity investments in affiliated companies																
AREE URBANE	5,589	-	-	5,589								-	5,589	-	-	5,589
ASSCOM INSURANCE BROKERS	20	-	-	20								-	20	-	-	20
CARTESIA (in liquidation)	50	-	(50)	-					(50)	50		-	-	-	-	-
EUROFLY SERVICE	2,304	-	(2,304)	-			598	(1,273)			675	-	-	-	-	-
IM.SER	356	-	-	356								-	356	-	-	356
IN.VA.	206	-	(45)	161								-	206	-	(45)	161
LI.SIT.	37,400	-	(9,251)	28,149						(3,590)		(3,590)	37,400	-	(12,841)	24,559
NORDCOM	29,045	-	(26,902)	2,143								-	29,045	-	(26,902)	2,143
OCN TRADING (in liquidation)	1	-	-	1								-	1	-	-	1
PERSEO	8	-	(1)	7			5					5	13	-	(1)	12
SHARED SERVICES CENTER	919	-	-	919	99	(99)						-	919	-	-	919
SIEMENS INFORMATICA	2,417	1,424	-	3,841						(1,214)		(1,214)	2,417	1,424	(1,214)	2,627
SINOPIA INFORMATICA (in failure)	-	-	-	-									-	-	-	-
SOFORA TELECOMUNICACIONES S.A.	1	-	-	1								-	1	-	-	1
TELBIOS	1,267	-	(77)	1,190						(662)		(662)	1,267	-	(739)	528
TELEGONO	413	-	-	413								-	413	-	-	413
TIGLIO I	155,067	-	-	155,067					(9,140)			(9,140)	145,927	-	-	145,927
TIGLIO II	47,335	-	-	47,335								-	47,335	-	-	47,335
Consorzio DREAM FACTORY (in liquidation)	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
Consorzio TELCAL	211	-	-	211								-	211	-	-	211
Consorzio TELEMED (in liquidation)	10	-	-	10								-	10	-	-	10
Consorzio TURISTEL	-	-	-	-				26				26	26	-	-	26
	283,039	**1,424**	**(38,723)**	**245,740**	**99**	**(99)**	**603**	**(1,247)**	**(9,190)**	**(5,416)**	**675**	**(14,575)**	**271,576**	**1,424**	**(41,835)**	**231,165**

(1)

	CARTESIA (in liquidation)	EUROFLY SERVICE	TIGLIO I
Cost	50	3,578	9,140
Writedowns	-	(3,578)	-
	50	-	9,140

(in thousand of euro)	12.31.2004 Cost	Upward adjust-ments	Writedowns	Carrying value	Changes of the period: Contribution merger TIM at 1.1.2005	Spin-off of business segment	Purchases / Subscrip-tions	Reclassi-fications/	Disposals (1)	Writedowns(-)/ Writebacks of value(+)	Capital Replenish-ments	Total	6.30.2005 Cost	Upward adjust-ments	Writedowns	Carrying value
Equity investments in other companies																
ANCITEL	93	-	-	93								-	93	-	-	93
ATESIA	663	-	-	663								-	663	-	-	663
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
DIOMEDEA (in liquidation)	6	-	-	6								-	6	-	-	6
EDINDUSTRIA	44	-	(6)	38								-	44	-	(6)	38
EMITTENTI TITOLI	424	-	-	424								-	424	-	-	424
EUROFLY SERVICE	-	-	-	-								-	-	-	-	-
FIN. PRIV.	15,375	-	-	15,375								-	15,375	-	-	15,375
FINSIEL	-	-	-	-				27,784		(684)		27,100	91,283	-	(64,183)	27,100
Fratelli ALINARI	2,974	-	(2,273)	701						(191)		(191)	2,320	-	(1,810)	510
FUNIVIE DEL PICCOLO S. BERNARDO	-	-	-	-								-	-	-	-	-
IDROENERGIA	1	-	-	1	1	(1)						-	1	-	-	1
IMSER 60	59	-	-	59								-	59	-	-	59
INSULA	248	-	-	248								-	248	-	-	248
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	5,256	-	(1,424)	3,832								-	5,256	-	(1,424)	3,832
ISTUD	6	-	-	6								-	6	-	-	6
ITALTEL CERM PALERMO	217	-	(24)	193								-	217	-	(24)	193
ITALTEL CERM S. MARIA CAPUA VETERE	255	-	(63)	192					(192)			(192)	-	-	-	-
MCC	36,018	-	-	36,018								-	36,018	-	-	36,018
MEDIOBANCA	113,119	-	-	113,119								-	113,119	-	-	113,119
MIX	10	-	-	10								-	10	-	-	10
MONTEROSA	20	-	-	20								-	20	-	-	20
PAR. FIN. (in failure)	256	-	(256)	-								-	256	-	(256)	-
PILA	6	-	-	6								-	6	-	-	6
S.A.G.I.T.	1	-	-	1								-	1	-	-	1
SIA	11,278	-	-	11,278								-	11,278	-	-	11,278
SODETEL	4	-	-	4								-	4	-	-	4
UBAE	1,898	-	-	1,898								-	1,898	-	-	1,898
Consorzio ABI LAB	1	-	-	1	1	(1)						-	1	-	-	1
Consorzio CEFRIEL	36	-	-	36	33	(33)						-	36	-	-	36
Consorzio CIES	26	-	-	26								-	26	-	-	26
Consorzio COREP	10	-	-	10						(10)		(10)	10	-	(10)	-
Consorzio DISTRETTO AUDIOVISIVO E dell'ICT	5	-	-	5								-	5	-	-	5
Consorzio DISTRETTO TECNOLOGICO CANAVESE	117	-	-	117								-	117	-	-	117
Consorzio ELIS	3	-	-	3								-	3	-	-	3
Consorzio ENERGIA FIERA DISTRICT	2	-	-	2								-	2	-	-	2
Consorzio IRIS	-	-	-	-				15				15	15	-	-	15
Consorzio Nazionale Imballaggi - CONAI	1	-	-	1	1	(1)						-	1	-	-	1
Consorzio QUALITAL	-	-	-	-								-	-	-	-	-
Consorzio TECHNAPOLI	206	-	-	206								-	206	-	-	206
Consorzio TOPIX	100	-	-	100								-	100	-	-	100
	208,584	**-**	**(4,046)**	**204,538**	**36**	**(36)**	**-**	**27,799**	**(458)**	**(885)**	**-**	**26,456**	**298,707**	**-**	**(67,713)**	**230,994**
Total Equity investments	**38,263,111**	**97,184**	**(4,138,956)**	**34,221,339**	**4,583,656**	**3,939,333**	**15,440,986**	**(6,231,706)**	**(102,073)**	**(65,413)**	**33,196**	**17,597,979**	**59,871,859**	**13,040**	**(8,065,581)**	**51,819,318**

(1)

	Fratelli Alinari	CERM L'AQUILA	CERM S. MARIA CAPUA VETERE
Cost	654	266	255
Writedowns	(654)		(63)
	-	266	192

Advances on capital contributions (in thousand of euro)	12.31.2004 Cost	Upward adjust-ments	Writedowns	Carrying value	Changes of the period: Contribution merger TIM at 1.1.2005	Spin-off of business segment	Purchases / Subscrip-tions	Reclassi-fications/	Disposals (1)	Writedowns(-)/ Writebacks of value(+)	Capital Replenish-ments	Total	6.30.2005 Cost	Upward adjust-ments	Writedowns	Carrying value
FINSIEL	-			-			13,500		(10,121)			3,379	3,379			3,379
ISM	-	-	-	-			70,401					70,401	70,401	-	-	70,401
LOQUENDO	3,270	-	(46)	3,224								-	3,270	-	(46)	3,224
TELECOM ITALIA LEARNING SERVICES	4,094	-	(4,094)	-			9,607			(5,816)		3,791	9,607	-	(5,816)	3,791
TIM INTERNATIONAL	-	-	-	-	4,800	(4,800)						-	-	-	-	-
TELEGONO	8,840	-	-	8,840								-	8,840	-	-	8,840
Total advances on capital contributions	**16,204**	**-**	**(4,140)**	**12,064**	**4,800**	**(4,800)**	**93,508**	**-**	**(10,121)**	**(5,816)**	**-**	**77,571**	**95,497**	**-**	**(5,862)**	**89,635**

(1)

	TELECOM ITALIA LEARNING SERVICES	FINSIEL
Cost	4,094	10,121
Writedowns	(4,094)	-
	-	10,121

COMPARISON OF THE CARRYING VALUE OF LISTED SHARES WITH MARKET PRICES AT JUNE 30, 2005

	Number of shares held	Market value: Unit price (in euro)	Market value: Total (thousands of euro) (A)	Carrying value: Unit price (in euro)	Carrying value: Total (thousands of euro) (B)	Difference: Unit price (in euro)	Difference: Total (thousands of euro) (A-B)
Equity investments							
MEDIOBANCA	14,118,350	15.45	218,072	8.01	113,119	7.43	104,953
LIBERTY SURF GROUP	89,322,244	2.75	245,636	2.78	248,324	(0.03)	(2,688)
TELECOM ITALIA MEDIA - ordinary shares	2,201,183,545	0.40	876,071	0.32	706,428	0.08	169,643
TOTAL			1,339,779		1,067,871		271,908
Short - term financial assets							
TELECOM ITALIA MEDIA - savings shares	195,236	0.33	65	0.33	65	-	-
PORTAL SOFTWARE INC.	4,000	1.65	7	1.65	7	-	-

ANNEX N. 3

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE
(in thousand of euro)

	6.30.2005				12.31.2004			
	Amounts due				Amounts due			
	Within one year	From two to five years	Beyond five years	Total Total	Within one year	From two to five years	Beyond five years	Total
Accounts receivable in long-term investments								
. subsidiaries	13,604			13,604	4,613	443,713		448,326
. affiliated companies	2,842	23,883		26,725	2,841	22,703		25,544
. others								
.. customers	820			820				0
.. employees	6,983	36,320	13,843	57,146	7,092	34,878	12,971	54,941
.. security deposits	4	3,173	370	3,547	7	3,139	371	3,517
.. miscellaneous	9,896	35,827	50	45,773	11,876	36,629	946	49,451
	34,149	99,203	14,263	147,615	26,429	541,062	14,288	581,779
Accounts receivable in current assets								
Other financial receivables from								
. subsidiaries	832,036			832,036	706,952			706,952
. affiliated companies	12,171			12,171	113			113
. others	268,214			268,214	345,876			345,876
	1,112,421			1,112,421	1,052,941			1,052,941
Trade accounts receivable from								
. customers	3,927,578			3,927,578	3,121,009			3,121,009
. subsidiaries	433,130			433,130	493,728			493,728
. affiliated companies	126,280			126,280	114,444			114,444
. others	65,030			65,030	78,030			78,030
	4,552,018			4,552,018	3,807,211			3,807,211
Other receivables from								
. subsidiaries	499,587			499,587	1,463,032			1,463,032
. affiliated companies	10,337			10,337	11,918			11,918
. taxes receivable	67,022			67,022	494,318			494,318
. deferred tax assets	1,611,353	1,120,493		2,731,846	1,312,544	1,078,919		2,391,463
. miscellaneous:								
.. Government and other public entities for grants subsidies	27,861			27,861	27,129			27,129
.. miscellaneous	722,369			722,369	675,284			675,284
	2,938,529	1,120,493		4,059,022	3,984,225	1,078,919		5,063,144
Total accounts receivable in current assets	8,602,968	1,120,493		9,723,461	8,844,377	1,078,919		9,923,296
Accrued income								
. financial	24,699			24,699	60,472			60,472
. trading	25							
. miscellaneous	3,585			3,585	4,669			4,669
	28,309	0	0	28,284	65,141	0	0	65,141

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

PROSPETTO N. 4

(in thousand of euro)

	6.30.2005				12.31.2004			
	Amounts due				Amounts due			
	Within one year	From two to five years	Beyond five years	Total Total	Within one year	From two to five years	Beyond five years	Total
Medium and long-term financial debt								
. Debentures		2,360,000	12,000,776	14,360,776		2,360,000	10,341,250	12,701,250
. Convertible debentures		599,887		599,887			2,824,947	2,824,947
. Due to banks	155,946	9,896,911	68,603	10,121,460	180,433	488,874	759	670,066
. Due to other lenders	66,881	171,719	161,239	399,839	47,850	348,875	436,336	833,061
. Accounts payable to subsidiaries	8,533,958	2,586,635	8,292,346	19,412,939	2,008,332	10,494,415	6,074,574	18,577,321
. Accounts payable to affiliated companies				0	1,353	4,060		5,413
	8,756,785	15,615,152	20,522,964	44,894,901	2,237,968	13,696,224	19,677,866	35,612,058
Short-term borrowings								
. Due to banks	432,268			432,268	235,577			235,577
. Due to other lenders	202,891			202,891	211,660			211,660
. Accounts payable to subsidiaries	1,948,800			1,948,800	967,781			967,781
. Accounts payable to affiliated companies	173			173	485			485
. Other payables	8,407			8,407	46,176			46,176
	2,592,539			2,592,539	1,461,679			1,461,679
Trade accounts payable								
. Accounts payable to suppliers	1,975,103			1,975,103	2,032,076			2,032,076
. Accounts payable to subsidiaries	658,540			658,540	553,755			553,755
. Accounts payable to affiliated companies	62,918			62,918	218,201			218,201
	2,696,561			2,696,561	2,804,032			2,804,032
Other payables (1)								
. Accounts payable to subsidiaries	196,413			196,413	476,092	153,357		629,449
. Accounts payable to affiliated companies	15			15	760			760
. Taxes payable	562,714			562,714	265,868			265,868
. Contributions to pension and social security institutions	128,060	302,165	98,662	528,887	167,538	302,165	98,662	568,365
. Other liabilities	1,870,739	53		1,870,792	1,921,333	53		1,921,386
	2,757,941	302,218	98,662	3,158,821	2,831,591	455,575	98,662	3,385,828
Total liabilities (1)	16,803,826	15,917,370	20,621,626	53,342,822	9,335,270	14,151,799	19,776,528	43,263,597
Accrued expenses								
. financial	749,071			749,071	1,027,506			1,027,506
. trading	5,069			5,069	86			86
	754,140	0	0	754,140	1,027,592	0	0	1,027,592

(1) Not including the caption "Advances".

ANNEX N. 5

ACCOUNTS RECEIVABLES AND LIABILITIES AT JUNE 30, 2005 - GEOGRAPHICAL AREA (CUSTOMER/SUPPLIER LOCATION)
(in thousand of euro)

	Italy	Rest of Europe	North America	Central and South America	Other areas	TOTAL
Accounts receivable in long-term investments						
. subsidiaries	1,614	11,990	-			13,604
. affiliated companies	26,725		-		-	26,725
. others	107,286	-	-	-	-	107,286
Total	135,625	11,990	-	-	-	147,615
Accounts receivable in current assets (*)						
. customers	3,894,460	25,935	3,217	3,606	360	3,927,578
. subsidiaries	1,454,912	32,279		275,597	1,965	1,764,753
. affiliated companies	145,846	272		2,661	9	148,788
. taxes receivable	67,021			1		67,022
. others	1,080,264			3,210		1,083,474
	6,642,503	58,486	3,217	285,075	2,334	6,991,615
LIABILITIES						
. Debentures	8,810,776	5,550,000	-	-	-	14,360,776
. Convertible debentures	599,887	- -	-	-	-	599,887
. Due to banks	795,639	9,758,089	-	-	-	10,553,728
. Due to other lenders	602,730		-	-	-	602,730
. Advances	58,997	1	-	-	-	58,998
. Accounts payable to suppliers	1,902,511	61,190	9,128	1,854	420	1,975,103
. Accounts payable to subsidiaries	2,803,033	19,413,656	3	-	-	22,216,692
. Accounts payable to affiliated companies	63,106	-	-	-	-	63,106
. Taxes payable	562,714	-	-		-	562,714
. Contributions to pension and social security security institutions	528,887	-	-		-	528,887
. Other liabilities	1,879,199	-	-	-	-	1,879,199
Total	18,607,479	34,782,936	9,131	1,854	420	53,401,820

REVENUES 1st HALF 2005 - GEOGRAPHICAL AREA (CUSTOMER LOCATION)

	Italy	Rest of Europe	North America	Central and South America	Other areas	TOTAL
SALES AND SERVICE REVENUES	9,305,013	2,203	1,766	2,456	1	9,311,439

(*) Not including the caption "Deferred tax assets".

CASH FLOW STATEMENTS - TELECOM ITALIA S.P.A.

(millions of euro)	1.1 - 6.30 2005	1.1 - 6.30 2004 Restated (1)
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES		
Net income from continuing operations	1,352	514
Adjustments to reconcile net income from continuing operations with cash flows generated (absorbed) by operating activities		
Depreciation and amortisation	1,595	1,376
Impairment losses/reversals on non-current assets (including equity investments)	84	162
Net change in deferred tax assets and liabilities	246	146
Gains/losses on disposal of non-current assets	7	(18)
Change in reserve for employee termination indemnities and other reserves relating to employee	33	41
Net change in current trade and miscellaneous receivables/payables and other changes	474	1,362
Elimination of TIM dividends for the merger Telecom Italia / TIM	(2,053)	
CASH FLOWS GENERATED (ABSORBED) BY OPERATING ACTIVITIES (A)	**1,738**	**3,583**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES		
Investments in tangible assets (*)	(953)	(679)
Investments in intangible assets (*)	(390)	(420)
Investments in other non-current assets (*)	-	-
Change in financial receivables and other financial assets	102	(451)
Acquisition of equity investments in subsidiaries, net of cash acquired (*)	(15,568)	(38)
Consideration collected on the sale of equity investments in subsidiaries, net of cash sold (**)	69	5
Consideration collected on the sale of tangible, intangible and other non-current assets (**)	16	84
CASH FLOWS GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	**(16,724)**	**(1,499)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES		
Net change in financial liabilities	11,817	(207)
Consideration collected for equity instruments	95	12
Capital grants	-	1
Share capital increases/rembursement	-	-
Dividends paid to minority shareholders (distribution of reserves included)	(2,301)	(1,739)
CASH FLOWS GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	**9,611**	**(1,933)**
AGGREGATE CASH FLOWS (D=A+B+C)	**(5,375)**	**151**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (E)	**5,438**	**(689)**
Net effect of foreign currency translation on cash (F)	-	-
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD (G=D+E+F)	**63**	**(538)**

(*) Net of the change in debentures as a result of the relative acquisition
(**) Net of the change in receivables as a result of the relative sales

(millions of euro)	1.1 - 6.30 2005	1.1 - 6.30 2004 Restated (1)
ADDITIONAL CASH FLOW INFORMATION		
Income tax paid	(8)	(171)
Interest paid	(895)	(667)

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS

NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**5,438**	**(689)**
Cash and cash equivalents	6,008	1,043
Bank overdrafts repayable on demand	(570)	(1,732)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**63**	**(538)**
Cash and cash equivalents	1,594	178
Bank overdrafts repayable on demand	(1,531)	(716)

(1) The post merger values of first half 2004 have been restated by giving effect to the merger of IT Telecom and EPIClink in Telecom Italia executed on December 31, 2004.

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Auditors' review report on the limited review of the six-month financial statements prepared in accordance with Article 81 of the Consob Regulation, adopted by the resolution no. 11971 of May 14, 1999 and subsequent modifications and integrations

(Translation from the original Italian version)

To the Shareholders of
Telecom Italia S.p.A.

1. We have performed a limited review of the Management Report represented by the Balance Sheets, the Statements of Income, the Statements of Changes in Shareholders' Equity and the Statements of Cash flows and related Notes of Telecom Italia S.p.A. (Parent Company Statements) and Telecom Italia Group (Consolidated Statements) as of and for the six months ended June 30, 2005. These financial statements are the responsibility of the Directors of Telecom Italia S.p.A. Our responsibility is to prepare this review report based on our limited review. 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 analysis 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 the 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 financial statements 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 Management Report of Telecom Italia S.p.A. as of and for the six months ended June 30, 2005, as we do in connection with reporting on our full scope audits of the annual Parent Company and Consolidated Financial 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, 2004 presented in the financial statements, reference should be made to our audit reports issued on March 16, 2005 and on June 14, 2005, respectively.

The comparative data as of and for the six months ended June 30, 2004, including those prepared in accordance with IFRS, and the related statements of reconciliation to IFRS, are based on the financial statements prepared in accordance with Italian law and accounting principles which we have previously reviewed and on which we issued our review report dated September 13, 2004.

4. Based on our review, we did not become aware of any significant modifications that should be made to the Statements and related Notes of Telecom Italia S.p.A and Telecom Italia Group identified in paragraph 1 of the this report, in order for them to be in conformity with the criteria for the presentation of the six-month Management Report, as required by art. 81 of Consob regulations as approved in its resolution No. 11971 of May 14, 1999 and subsequent modifications and integrations.

5. As discussed in the Notes to the financial statements, the six-month unconsolidated financial information of Telecom Italia S.p.A. have been prepared in accordance with Articles 81 and 81-bis, and principles outlined in Appendix 3C-bis of the Consob resolution No. 11971 of May 14, 1999 and subsequent modifications and integrations, as well as the Civil Code as far as it regulates financial reporting.

Milan, September 12, 2005

Reconta Ernst & Young S.p.A.
Signed by Nadia Locati
Partner