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CORPORATE BOARDS

Board of Directors (1) Chairman (2) Marco Tronchetti Provera (E)

> **Deputy Chairman** (2) Gilberto Benetton Carlo Orazio Buora (E) **Managing Directors** (2)

Riccardo Ruggiero (E)

Directors Umberto Colombo (I)

Giovanni Consorte Francesco Denozza (I)

Luigi Fausti (I) Guido Ferrarini (I) Natalino Irti (I) Gianni Mion Pietro Modiano Massimo Moratti

Carlo Alessandro Puri Negri Pier Francesco Saviotti

Secretary to the Board (2) Francesco Chiappetta

Remuneration Committee Chairman Luigi Fausti

> **Members** Umberto Colombo

Pier Francesco Saviotti

Guido Ferrarini

Committee for Internal

Control and Corporate

Governance **Members** Luigi Fausti Natalino Irti

Chairman

General Managers (2) Riccardo Ruggiero Giuseppe Sala

Board of Statutory Auditors (1) Chairman Ferdinando Superti Furga

> **Acting auditors** Rosalba Casiraghi

Paolo Golia

Salvatore Spiniello

Gianfranco Zanda

Alternate auditors Enrico Bignami

Enrico Laghi

Independent auditors (3) Reconta Ernst & Young S.p.A.

⁽E) Executive director.

⁽I) Independent director.(1) Appointed by the Olivetti Shareholders' Meeting held on May 26, 2003.

⁽²⁾ Appointed by the Board of Directors' Meeting held on August 4, 2003.

⁽³⁾ Appointment conferred by the Olivetti Shareholders' Meeting held on July 4, 2000.

HIGHLIGHTS

First Quarter 2004 Improvement in economic results

Revenues: euro 7,418 million, +1.7% compared to the first quarter of 2003; excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth is equal to 5.2%

Gross operating profit: euro 3,494 million, +5.6% compared to the first quarter of 2003; on a comparable basis (excluding the effects of the TLC license fee from the first quarter of 2003), the increase is equal to 3.6% and the underlying growth is 5.1%.

Operating income pre-amortization of differences on consolidation: euro 2,173 million, +7.7% compared to the first quarter of 2003; on a comparable basis, the increase is 3.8%.

Operating income: euro 1,788 million, +17.1% compared to the first quarter of 2003; on a comparable basis, the increase is equal to 11.6% and the underlying growth is 11.5%.

Net income – Parent Company interest pre-amortization of differences on consolidation: euro 656 million (a net loss of euro 180 million for the first quarter of 2003, attributing to the Parent Company, the share of the minority interest in the result of the merged company, acquired following the merger).

Net income – Parent Company interest: euro 277 million (a net loss of euro 88 million for the first quarter of 2003, attributing to the Parent Company, the share of the minority interest in the result of the merged company, acquired following the merger).

Reduction of indebtedness

Net financial indebtedness is equal to euro 30,786 million and shows a reduction of euro 2,560 million compared to December 31, 2003.

SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

The accounting policies and the principles of consolidation adopted in drawing up the interim financial statements at March 31, 2004, taking into account the adjustments required in preparing interim statements, are consistent with those applied in the 2003 consolidated financial statements. The quarterly statements are unaudited.

Compared to the year 2003, there were no significant changes in the scope of consolidation in the first quarter of 2004.

1st Quarter

1st Quarter

2003 2004 2003 Economic and Financial Data (millions of euro) 7.418 7.291 30.850 Sales and services revenues Revenues 3.494 3.308 14.280 Gross operating profit (euro/millions) 2,018 8,619 10.000 Operating income pre-amortization of differences on consolidation 2,173 7,291 7.418 1,527 6,789 Operating income 1,788 8,000 Income (loss) before income taxes 1,344 868 3,442 6,000 Net income - Parent Company interest and minority interest pre-4,000 4.258 amortization of differences on consolidation 920 646 Net income - Parent Company interest pre-amortization of 2,983 656 differences on consolidation (11)1st Quarter 1st Quarter 2003 2004 2.428 Income before minority interest 535 155 1,192 Net income (loss) 277 (397)Operating income 2,427 2,370 9,233 Free cash flows from operations (euro/millions) Investments: 1.788 - Industrial 826 697 4,894 1,527 - Differences on consolidation 21 5,096 - Financial 36 142 1,464 Balance Sheet Data (millions of euro) Total assets 79.537 84.835 80.501 Net invested capital 51,965 52,550 53,935 Shareholders' equity 21,179 20,659 20,589 1st Quarter 1st Quarter 16,092 - Parent company interest 16,390 11,233 2003 4,789 9,426 4,497 - Minority interest Net financial indebtedness 30,786 31,891 33,346 Revenues/Employees (euro/millions) **Profit and Financial Indexes** 83.3 Gross operating profit/Revenues 47.1% (*) 45.4% 46.3% 72.9 Operating income pre-amortization of differences on 29.3% (*) 27.7% 27.9% consolidation/Revenues 24.1% (*) 20.9% 22.0% Operating income/Revenues (ROS) 32.7% 29.9% 32.5% Free cash flows/Revenues 59.2% 60.7% 61.8% Debt ratio (Net financial indebtedness/ Net invested capital) **Employees** 93,036 104,379 Employees (number in Group at period-end) 93,187 89,083 95,804 99,982 1st Quarter 1st Quarter Employees (average number in Group)

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

83.3

72.9

322.0

Gross operating profit/Revenues	46.3%
Operating income pre-amortization of differences on	
consolidation/Revenues	28.7%
Operating income/Revenues (ROS)	22.0%

- 5 -

Revenues/Employees (average number in Group), euro/thousands

2.500

1.500

500

280.0

230 0

180.0

■ KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS /OPERATING ACTIVITIES

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

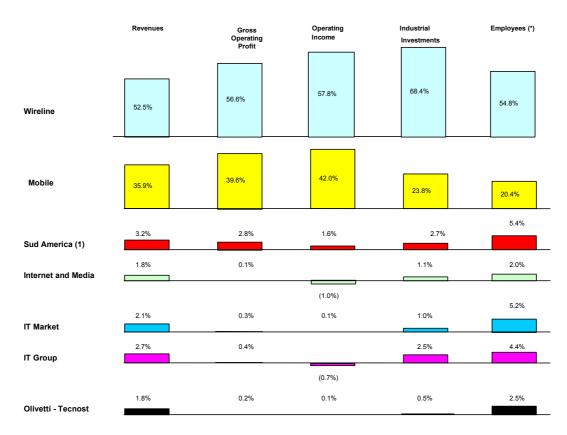
		Wireline	Mobile	South	Internet	IT Market	IT Group	Olivetti	Subtotal	Other	Consolidated
				America	and Media			Tecnost		activities	total
										and	
(millions of euro)										eliminations	
				(1)	(2)					(3)	
Sales and services	1 st Quarter 2004	4,303	2,937	264	149	169	225	144	8,191	(773)	7,418
revenues	1 st Quarter 2003	4,242	2,616	291	345	156	229	158	8,037	(746)	7,291
	Year 2003	17,216	11,782	1,111	1,297	891	1,100	655	34,052	(3,202)	30,850
Gross operating profit	1 st Quarter 2004	2,037	1,425	101	3	11	15	7	3,599	(105)	3,494
(loss)	1 st Quarter 2003	1,970	1,262	106	47	10	11	2	3,408	(100)	3,308
	Year 2003	8,255	5,502	407	322	84	96	40	14,706	(426)	14,280
Operating income (loss)	1 st Quarter 2004	1,317	978	39	(16)	3	(15)	2	2,308	(135)	2,173
pre-amortization of differences on	1 st Quarter 2003	1,228	922	43	(14)	1	(22)	(5)	2,153	(135)	2,018
consolidation	Year 2003	4,972	3,885	153	125	60	(36)	4	9,163	(544)	8,619
Operating income (loss)	1 st Quarter 2004	1,315	955	37	(24)	3	(15)	2	2,273	(485)	1,788
	1 st Quarter 2003	1,228	897	41	(35)	-	(22)	(5)	2,104	(577)	1,527
	Year 2003	4,969	3,786	145	63	58	(36)	2	8,987	(2,198)	6,789
Industrial investments	1 st Quarter 2004	552	192	22	9	8	20	4	807	19	826
	1 st Quarter 2003	435	171	30	20	6	12	4	678	19	697
	Year 2003	2,302	1,957	129	102	30	174	20	4,714	180	4,894
Number of employees at:	3/31/2004	51,025	18,936	4,981	1,882	4,806	4,053	2,346	88,029	5,007	93,036
	3/31/2003	53,261	18,913	5,326	7,559	5,478	5,059	3,223	98,819	5,560	104,379
	12/31/2003	50,766	18,888	4,953	2,029	4,827	4,107	2,395	87,965	5,222	93,187

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

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

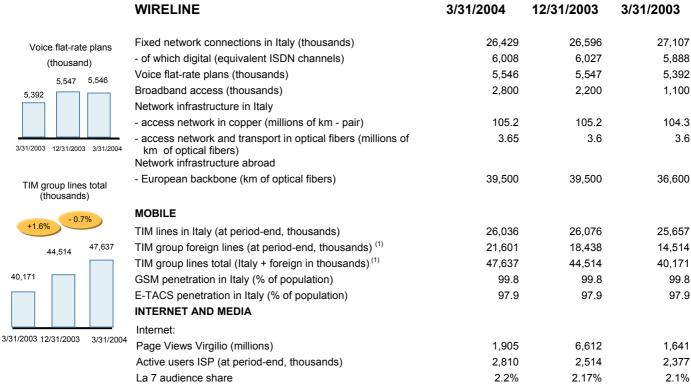
⁽³⁾ The data presented above includes the activities of International Affairs, TILAB, the centralized group services and the staff functions, the financial companies, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia.

Major economic and operating performance indicators for the first quarter of 2004 by Business Unit / Operating Activity



^{(*) 5.4%} of employees work in Other Activities of the Telecom Italia Group.

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP



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

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

SHAREHOLDER INFORMATION

■ TELECOM ITALIA S.p.A. SHARE CAPITAL AT MARCH 31, 2004 (*)

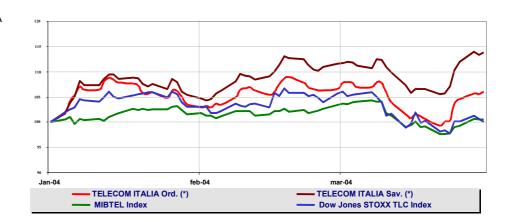
Share capital
Ordinary shares (par value euro 0.55 each)
Savings shares (par value euro 0.55 each)
Market capitalization (based on March 2004 average prices)

euro 8,855,720,135.35 No. 10,305,388,268 No. 5,795,921,069 euro 36,261 million

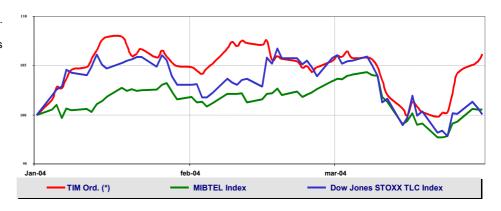
(*) The amounts indicated take into account 14,572 ordinary shares issued but not yet recorded in the Companies Register at March 31, 2004.

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

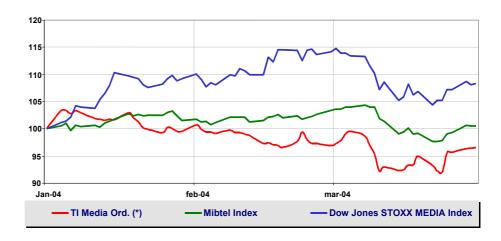
Relative performance TELECOM ITALIA S.p.A. 1/1/2004 – 3/31/2004 vs. MIBTEL and DJ Stoxx TLC Indexes (Source: Reuters)



Relative performance TIM S.p.A. 1/1/2004 – 3/31/2004 vs. MIBTEL and DJ Stoxx TLC Indexes (ordinary shares) (Source: Reuters)



Relative performance TELECOM ITALIA MEDIA S.p.A. 1/1/2004 – 3/31/2004 vs. MIBTEL and DJ Stoxx MEDIA Indexes (ordinary shares) (Source: Reuters)



RATINGS AT MARCH 31, 2004

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

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

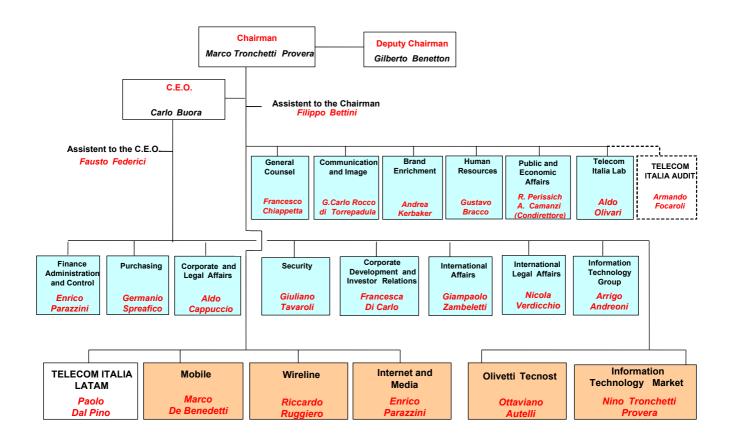
On August 5, 2003, Fitch also gave the new company the A- rating given to Telecom Italia, with a stable outlook, commenting on the robustness of the new financial structure of the Group and the established capacity of management to reduce debt.

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

In its analysis, Moody's took into account both the higher debt as a result of the merger and the debt situation at Olimpia, the majority shareholder of Telecom Italia.

Telecom Italia immediately expressed its opinion on Moody's rating in a press release in which it stated that the rating agency did not sufficiently take into account the results achieved by Telecom Italia's management in reducing the net financial debt, and that a unitary consideration of Olimpia's and Telecom Italia's debt situation is not justified.

MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT MARCH 31, 2004



- (1) Consortium company which carries out the internal auditing activities of the Group.
- (2) Starting February 23, 2004, the International Legal Affairs function (previously under the Corporate and Legal Affairs function) reports directly to the CEO Carlo Buora.
- (3) Starting March 1, 2004, Paolo Dal Pino took over as representative of the Telecom Italia Group in Latin America, reporting directly to the Chairman.
 - Telecom Italia Latam assumes the new role of the "delocalized" Corporate function in Latin America, consistent with the Group's chosen strategy to consolidate and develop its international presence in the Latin America geographical area.
 - The Business Units with their present corporate organization structure are nevertheless responsible for the results of the subsidiaries in Latin America under their control.

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

RESULTS OF OPERATIONS

The **consolidated net income of the Group** for the first quarter of 2004 was euro 277 million (euro 535 million before minority interest). In the corresponding period of 2003, the consolidated net result of the Group was a loss of euro 397 million (a net income of euro 155 million before minority interest).

The consolidated net result of the Group for the first quarter of 2003 would have been a loss of euro 88 million, attributing to the Parent Company the minority interest in the result of the Merged Company, acquired following the merger of Telecom Italia in Olivetti.

The improvement in the consolidated net result of the Group (+euro 674 million) was due to the following factors:

- increase in operating income (+euro 261 million, of which euro 75 million was due to the cancellation of the TLC license fee following the verdict handed down by the European Court of Justice in September 2003);
- improvement in net financial income (expenses) and net investment income (expenses) (+euro 222 million);
- lower minority interest in earnings (euro 294 million) due to the effects of the merger;
- higher income taxes of euro 96 million and extraordinary expenses of euro 7 million.

Sales and service revenues for the first quarter of 2004 amounted to euro 7,418 million, with an increase of 1.7% compared to euro 7,291 million for the same period of 2003. Excluding the negative foreign exchange effect (euro 10 million) and the change in the scope of consolidation (euro 231 million, of which euro 218 million relates to the sale of Nuova Seat Pagine Gialle in August 2003), underlying growth was equal to 5.2% (euro 368 million).

Contributing to underlying growth in particular were:

- a significant increase in the revenues of the Mobile Business Unit (+euro 326 million), which were driven by the domestic market (voice traffic and value-added services) and by the South American market:
- an increase in the revenues of the Wireline Business Unit (+euro 42 million), sustained by the
 development of innovative segments such as Broadband, data transmission and value-added Data
 and Web services (VAS) for the business customer, alongside basic stability in the core telephony
 market;
- an increase in the revenues of the IT Market business unit (+euro 23 million) and Internet and Media business unit (+euro 23 million);
- a reduction in the sales of the wireline and integrated telephony companies in Latin America (-euro 35 million, mainly the Entel Chile group).

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

Geographic area	1 st Quarter 2004		1 st Quarter 2003	
(millions of euro)				
Italy	5,911	79.7%	5,891	80.8%
Rest of Europe	579	7.8%	577	7.9%
North America	140	1.9%	156	2.1%
Central and South America	679	9.1%	554	7.6%
Australia, Africa and Asia	109	1.5%	113	1.6%
Total	7,418	100.0%	7,291	100.0%

Gross operating profit, equal to euro 3,494 million, grew by euro 186 million (+5.6%) compared to the first quarter of 2003.

Moreover, excluding the effect of the TLC license fee from the first quarter of 2003 (euro 66 million), **gross operating profit** rose by euro 120, equal to +3.6%. As a percentage of revenues, the gross operating profit was 47.1% for the first quarter of 2004 (46.3% for the first quarter of 2003 on a comparable basis). Excluding the foreign exchange effect (-euro 4 million) and the effect due to the change in the scope of consolidation (-euro 46 million, mainly as a result of the sale of Nuova Seat Pagine Gialle), underlying growth was 5.1% (+euro 170 million). Such growth mostly took place in the Mobile business unit (+euro 188 million) and Wireline business unit (+euro 28 million).

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

• raw materials and outside services, equal to euro 3,075 million, rose by euro 44 million (+1.5%) compared to the first quarter of 2003.

Net of the TLC license fee, the increase was 3.6%. The percentage of raw materials and outside services to revenues was 41.5% (40.7% for the first guarter of 2003 on a comparable basis).

• labor costs, equal to euro 1,032 million, were euro 82 million lower than the first quarter of 2003 (-7.4%). Besides the change in the scope of consolidation, the decrease was due to a reduction in the workforce of the Parent Company. The percentage of labor costs to revenues was 13.9%, compared to 15.3% in the first quarter of 2003.

Employees at March 31, 2004 numbered 93,036 (93,187 at December 31, 2003). A breakdown is presented below:

	3/31/2004 (a)	12/31/2003 (b)	3/31/2003	Change (a – b)
Italy	77,675	78,069	85,109	(394)
Outside Italy	15,361	15,118	19,270	243
Total employees	93,036	93,187	104,379	(151)

Compared to December 31, 2003, the reduction of 151 employees was due to the difference between an increase of 304 persons due to turnover and a decrease of 455 persons due to the change in the scope of consolidation. A significant portion of the latter decrease regarded the sale of CIPI in the Internet and Media business unit (-188) and outsourcing of the "document management" business (-257) by Telecom Italia to Emsa Services).

Operating income pre-amortization of differences on consolidation, equal to euro 2,173 million, increased, compared to the first guarter of 2003, by euro 155 million (+7.7%).

Excluding the effect of the TLC license fee from the first quarter of 2003 (euro 75 million), operating income pre-amortization of differences on consolidation rose by euro 80 million, equal to +3.8%. The percentage of operating income pre-amortization of differences on consolidation to revenues and represented 29.3% of revenues (28.7% for the first guarter of 2003 on a comparable basis).

Operating income, equal to euro 1,788 million, increased by euro 261 million (+17.1%) compared to the first guarter of 2003.

Excluding the effect of the TLC license fee from the first quarter of 2003 (euro 75 million), **operating income** grew by euro 186 million, equal to 11.6%. Operating income to revenues rose from 22% for the first quarter of 2003 (on a comparable basis) to 24.1% for the first quarter of 2004. Moreover, excluding the foreign exchange effect and the effect due to the change in the scope of consolidation, underlying growth was 11.5% (+euro 184 million).

In greater detail, gross operating profit was impacted by:

- the **amortization of the differences on consolidation**, equal to euro 385 million (euro 491 million for the first quarter of 2003), showed a reduction of euro 106 million, principally in connection with the sale of Nuova Seat Pagine Gialle (euro 119 million);
- the **amortization of other intangibles and the depreciation of fixed assets**, equal to euro 1,205 million (euro 1,162 million for the first quarter of 2003), showed an increase of euro 43 million.

The breakdown is as follows:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	Change (a – b)
Other intangibles	339	282	57
Fixed assets	866	880	(14)
Total amortization and depreciation	1,205	1,162	43

The percentage of the amortization of other intangibles and the depreciation of fixed assets to revenues was 16.2% (15.9% for the first quarter of 2003);

- other valuation adjustments, equal to euro 52 million, decreased by euro 23 million and chiefly regarded writedowns to reduce trade accounts receivable to estimated realizable value;
- provisions to reserves for risks and charges, amounting to euro 14 million, presented a reduction of euro 24 million (of which euro 9 million was for provisions in the first quarter of 2003 relating to the TLC license fee);
- net other income (expenses) showed an expense balance of euro 50 million (- euro 15 million for the first quarter of 2003). The increase of euro 35 million was due to the following:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	Change (a – b)
Indirect duties and taxes	(35)	(28)	(7)
Expenses connected with credit management	(27)	(12)	(15)
Late payment fees charged by TLC companies to customers	21	23	(2)
Portion of capital grants credited to income during the period	13	16	(3)
Sundry other income and expense	(22)	(14)	(8)
Total	(50)	(15)	(35)

Net financial income (expenses) showed an expense balance of euro 515 million, an improvement of euro 19 million compared to the first quarter of 2003. Details are as follows:

	1 st Quarter 2004	1 st Quarter 2003	Change (a – b)
(millions of euro)	(a)	(b)	
Net financial income (expenses)	(514)	(529)	15
Value adjustments to financial assets, other than equity investments	(1)	(5)	4
Total	(515)	(534)	19

The decrease in net financial expenses is particularly due to the reduction in interest rates and lower average debt exposure that was partly offset by higher losses on exchange by Corporacion Digitel, compared to the monetary correction (-euro 19 million).

Net investment income (expenses) showed an income balance of euro 85 million (an expense balance of euro 118 million for the first quarter of 2003) with an improvement of euro 203 million. Details are as follows:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	Change (a – b)
Net investment income	89	1	88
Net revaluations (writedowns) of equity investments	(1)	(116)	115
Amortization of differences on consolidation, regarding			
investments accounted for using the equity method	(3)	(3)	-
Total	85	(118)	203

Net investment income, in particular, included euro 62 million of gains on the sale of the remaining stake in Telekom Austria in January 2004 and euro 24 million relating to the release to income of the remaining portion of the gain on the sale, in 2002, of Mobilkom Austria to the same Telekom Austria.

Net revaluations (writedowns) of equity investments for the first quarter of 2003 included the Group's share of equity in the losses of Sky (former Stream), for euro 64 million, and other companies (euro 17 million), as well as writedowns of the investments in current assets (euro 35 million).

Net extraordinary income (expenses) showed an expense balance of euro 14 million (an expense balance of euro 7 million for the first quarter of 2003), with an increase of euro 7 million. In particular:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	Change (a – b)
Gains from divestitures of long-term investments and business			
segments	9	32	(23)
Other extraordinary income	31	38	(7)
Total extraordinary income	40	70	(30)
Extraordinary expenses	(54)	(77)	(23)
Total net extraordinary income (expenses)	(14)	(7)	(7)

Income taxes for the first quarter of 2003 amounted to euro 809 million with an increase of euro 96 million compared to the first quarter of 2003.

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 53,782 million, decreased by euro 791 million compared to the end of 2003.

The decrease is due to the amortization and depreciation for the period, which was only partly compensated by the investments made.

Investments totaled euro 862 million (euro 860 million in the first quarter of 2003). Details are as follows:

	1 st Quarter 2004	1 st Quarter 2003	Change
(millions of euro)	(a)	(b)	(a-b)
Industrial investments	826	697	129
Differences on consolidation	-	21	(21)
Financial investments	36	142	(106)
Total investments	862	860	2

Industrial investments increased by euro 129 million compared to the first quarter of 2003. The highest investments were made in the Wireline business unit (euro 117 million) and the Mobile business unit (euro 21 million).

Financial investments in the first quarter of 2004 were in reference to investments in equity interests, particularly the planned investments in the share capital of Etec Sa Cuba (euro 5 million), the investment in the Faenza group (euro 7 million) and in TT & TIM Turkey (euro 15 million) and other financial investments (euro 9 million).

In the first quarter of 2003, the investments had mainly referred to the purchase of the equity stake in Lisit Informatica (euro 54 million), the buyback of treasury shares and the purchase of other long-term securities (euro 48 million) and loans granted to Group companies (euro 40 million).

Working capital showed a negative balance of euro 1,817 million (a negative balance of euro 638 million at December 31, 2003). The change of euro 1,179 million was negatively affected by the sale of Telekom Austria (euro 708 million) and the tax charge for the period (euro 809 million), which were offset by the changes in trade accounts receivable/payable and other items (euro 338 million).

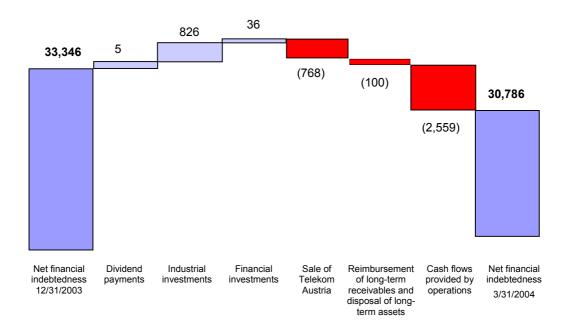
Shareholders' equity amounted to euro 21,179 million (euro 20,589 million at the end of 2003), of which the Parent Company interest was euro 16,390 million (euro 16,092 million at December 31, 2003) and the minority interest was euro 4,789 million (euro 4,497 million at December 31, 2003).

The changes in shareholders' equity, compared to December 31, 2003, are the following:

(millions of euro)	1 st Quarter 2004	2003
At beginning of period	20,589	20,624
Capital stock increase	6	33
Net income of the Parent Company and minority interest	535	2,428
Dividends and reserves to third parties paid by:	(5)	(1,049)
- Merged company	-	(794)
- TIM S.p.A.	-	(185)
- Other Group companies	(5)	(70)
Effects of the share withdrawals, the tender offer, the cancellation of treasury stock bought back by the Merged Company and the Telecom Italia shares held by Olivetti and reclassified from working capital to long-		
term investments	-	(1,117)
Deconsolidation of Nuova Seat Pagine Gialle	-	(126)
Translation adjustments and other changes	54	(204)
At end of period	21,179	20,589

Net financial indebtedness amounted to euro 30,786 million at March 31, 2004, with a decrease of euro 2,560 million compared to December 31, 2003.

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



Transactions for the securitization and factoring of trade accounts receivable led to a reduction in net financial indebtedness of euro 833 million at March 31, 2004 (euro 1,201 million at the end of 2003).

Gross financial debt is detailed in the following table:

	Within 12 months	Beyond 12 months	Total 3/31/2004	Total 12/31/2003
(millions of euro)			0.0 0.	12/01/2000
Debentures	5,051	25,726	30,777	30,053
Convertible debentures		5,596	5,596	7,312
Total bonds	5,051	31,322	36,373	37,365
Due to banks	1,208	1,105	2,313	2,460
Other liabilities	187	55	242	519
Due to other lenders	326	561	887	1.012
Taxes payable	54	-	54	58
Payables to subsidiaries and affiliated companies	32	25	57	42
Trade accounts payable	5	3	8	9
Total other financial payables	1,812	1,749	3,561	4,100
Total gross financial indebtedness	6,863	33,071	39,934	41,465
Limited according	(7.500)		(7.500)	(4.077)
Liquid assets Other securities in current assets	(7,520)	-	(7,520)	(4,877)
Other accounts receivable	(1,456) (429)	-	(1,456) (429)	(2,719) (796)
Receivables for the sale of securities	(12)	-	(12)	(60)
Receivables from subsidiaries and affiliated companies	(17)	_	(17)	(30)
Total financial receivables in current assets and liquid	()		(,	(00)
assets	(9,434)	-	(9,434)	(8,482)
Approach average and deferred income	1 110	400	1 005	4 220
Accrued expenses and deferred income Accrued income and prepaid expenses	1,119 (568)	106 (371)	1,225 (939)	1,330 (967)
Balance of financial accruals and deferrals	(500) 551	(265)	(939) 286	363
Datance of infancial accidate and deterrais	351	(205)	200	363
Net financial indebtedness at March 31, 2004	(2,020)	32,806	30,786	33,346

Gross indebtedness due beyond one year, amounting to euro 33,071 million, went from 74% at December 31, 2003 to 83% at March 31, 2004, as a percentage of total gross indebtedness.

At March 31, 2004, short-term borrowings included the current portion of medium/long-term debt falling due within one year, amounting to euro 5,878 million (euro 9,289 million at December 31, 2003). The current portion due within one year includes euro 500 million of bonds with quarterly coupons indexed to the 3-month Euribor rate + 130 basis points maturing March 2005: maturity may be extended, at the discretion of the bondholders, for successive periods of 21 months up to a maximum total period of 10 years.

On January 13, 2004, the market placement of a new issue of Telecom Italia S.p.A. notes under the Euro Medium Term Note Program was concluded.

The new issue, of euro 3 billion, is divided in three tranches, all issued on January 29, 2004:

- the first, for US\$ 1,000 million, with coupon interest at the 3-month Euribor +0.33% and an issue price of 99.927, matures on October 29, 2007;
- the second, for euro 750 million, with 4.50% coupon interest and an issue price of 99.56, matures on January 28, 2011;
- the third, for euro 1,250 million, with 5.375% coupon interest and an issue price of 99.07, matures on January 29, 2019.

During the first quarter, bonds were redeemed for a total of euro 3,225 million, of which:

- euro 1,331 million on January 1, 2004 relating to convertible bonds issued by Telecom Italia S.p.A.;
- euro 385 million on March 19, 2004 relating to convertible bonds issued by Olivetti Finance N.V., and guaranteed by Telecom Italia S.p.A.;
- euro 1,500 million on March 22, 2004 relating to bonds issued by Telecom Italia S.p.A., original maturity date of June 21, 2005, called in advance by exercising the right stated in the bond indenture;
- euro 9 million relating to bonds 2002-2022 reserved for subscription by employees (remaining amount is equal to euro 206 million).

Euro 850 million of securities, repurchased in prior years, issued by Olivetti Finance N.V., were cancelled on March 26, 2004. Such securities included euro 650 million of bonds maturing July 2004 out of a total of

euro 4,200 million (the amount still outstanding is euro 3,550 million) and euro 200 million of bonds maturing February 2005, which, after this redemption, have been totally cancelled.

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

The following tables show the composition and maturities of gross financial indebtedness:

Composition			At 12/31	/2003				
	Euro	%	Foreign	%	Total	%	Total	%
(millions of euro)			currency					
Medium/long-term debt	28,587	82	4,484	91	33,071	83	30,852	74
Short-term borrowings	6,398	18	465	9	6,863	17	10,613	26
Total	34,985	100	4,949	100	39,934	100	41,465	100

	M		1		
Maturities	Notes	Loans and other debt	Subtotal	Short-term	Total
by March 2005	5.051	827	5.878	985	6,863
by March 2006	3,869	558	4,427		4,427
by March 2007	4,253	370	4,623	-	4,623
by March 2008	4,598	337	4,935	-	4,935
by March 2009	2,321	37	2,358	-	2,358
Beyond March 2009	16,281	447	16,728	-	16,728
Total	36,373	2,576	38,949	985	39,934

Liquid resources at March 31, 2004 amount to euro 9,434 million (euro 8,482 million at December 31, 2003). Details are as follows:

Liquid assets and financial receivables (millions of euro)					
Liquid assets (classified by technical type)					
- Deposits	7,221				
- Current accounts and other types	299				
Total	(A)	7,520			
Other securities in current assets					
- Euro Commercial Paper	637				
- Own notes	293				
- Notes	468	1			
- Other securities	58				
Total	(B)	1,456			
	(C=A+B)	8,976			
Other financial receivables	(D)	458			
Total liquid assets and financial receivables	(C+D)	9,434			

Telecom Italia Group

Consolidated Statements of Income

		1st Quarter	1st Quarter		Char	•
		2004	2003 (*)	2003	(a-l	
	(millions of euro)	(a)	(b)		amount	%
A.	SALES AND SERVICE REVENUES	7,418	7,291	30,850	127	1.7
	Changes in inventories of work in progress,					
	semifinished and finished goods	3	2	13	1	50.0
	Changes in inventory of contract work in process	22	12	(87)	10	83.3
	Increases in capitalized internal construction costs	156	145	805	11	7.6
	Operating grants	2	3	14	(1)	(33.3)
В.	STANDARD PRODUCTION VALUE	7,601	7,453	31,595	148	2.0
	Raw materials and outside services (1)	(3,075)	(3,031)	(13,018)	(44)	1.5
C.	VALUE ADDED	4,526	4,422	18,577	104	2.4
	Labor costs (1)	(1,032)	(1,114)	(4,297)	82	(7.4)
D.	GROSS OPERATING PROFIT	3,494	3,308	14,280	186	5.6
	Amortization of other intangibles and depreciation of fixed assets	(1,205)	(1,162)	(4,949)	(43)	3.7
	Other valuation adjustments	(52)	(75)	(477)	23	(30.7)
	Provisions to reserves for risks and charges	(14)	(38)	(94)	24	(63.2
	Net other income (expense)	(50)	(15)	(141)	(35)	233.3
_	OPERATING INCOME BEFORE AMORTIZATION OF					
E.	DIFFERENCES ON CONSOLIDATION	2,173	2,018	8,619	155	7.7
	Amortization of differences on consolidation	(385)	(491)	(1,830)	106	(21.6)
F.	OPERATING INCOME	1,788	1,527	6,789	261	17.1
	Net financial income (expenses) (2)	(515)	(534)	(2,192)	19	(3.6)
	Net investment income (expenses)	85	(118)	(72)	203	(172.0)
G.	INCOME BEFORE EXTRAORDINARY					
	ITEMS AND TAXES	1,358	875	4,525	483	55.2
	Net extraordinary income (expenses)	(14)	(7)	(1,083)	(7)	100.0
Н.	INCOME BEFORE TAXES	1,344	868	3,442	476	54.8
	Income taxes	(809)	(713)	(1,014)	(96)	13.5
l.	NET INCOME FOR THE PERIOD					
	BEFORE MINORITY INTEREST	535	155	2,428	380	245.2
	Minority interest - Net (income) loss	(258)	(552)	(1,236)	294	(53.3)
L.	NET INCOME (LOSS) FOR THE PERIOD					
	PARENT COMPANY INTEREST	277	(397)	1,192	674	(169.8

⁽¹⁾ Reduced by related cost recoveries (2) Includes value adjustments to financial assets, other than equity investments (*) Historical data of the Olivetti Group

Telecom Italia Group

Consolidated Balance Sheets

		At	At	At	Change
		3/31/2004	12/31/2003	3/31/2003	(a-b)
	millions of euro)	(a)	(b)	(*)	
A.	INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
	Intangible assets:				
	differences on consolidation	26,752	27,137	27,630	(385)
	other intangible assets	6,722	6,716	6,454	6
	Fixed assets	17,977	18,324	18,897	(347)
	Long-term investments:				
	 equity investments and advances on future capital contributions 	1,453	1,470	1,785	(17)
	• other	878	926	1,470	(48)
	(A)	53,782	54,573	56,236	(791)
B.	WORKING CAPITAL				
	Inventories	463	426	609	37
	Trade accounts receivable, net	7,282	7,346	8,295	(64)
	Other assets	2,626	3,694	3,811	(1,068)
	Trade accounts payable	(5,422)	(5,964)	(5,392)	542
	Other liabilities	(6,846)	(6,671)	(7,712)	(175)
	Reserves for employee termination indemnities and pensions and similar obligations	(1,363)	(1,338)	(1,440)	(25)
	Capital and/or investment grants	(250)	(263)	(307)	13
	Deferred tax assets net of reserve for income taxes	4,155	4,609	3,768	(454)
	Other reserves for risks and charges	(2,462)	(2,477)	(5,318)	15
	(B)	(1,817)	(638)	(3,686)	(1,179)
C.	NET INVESTED CAPITAL (A+B)	51,965	53,935	52,550	(1,970)
<u>U.</u>	Financed by:	31,903	33,933	52,550	(1,970)
D.	SHAREHOLDERS' EQUITY				
υ.	Parent Company interest	16,390	16,092	11,233	298
	Minority interest	4,789	4,497	9.426	
	Millionty interest	21,179	20,589	20,659	_
E.	MEDIUM/LONG-TERM DEBT	32,806	30,545	34,860	
F.	NET SHORT-TERM FINANCIAL BORROWINGS (LIQUIDITY)	02,000	00,040	0-1,000	2,201
• •	Short-term borrowings	6,863	10,613	7,058	(3,750)
	Liquid assets and short-term financial receivables	(9,434)	(8,482)	(10,637)	(952)
	Financial accrued expenses (income) and deferred expenses (income), net	(9,454)	(0, 4 02) 670	(10,037)	, ,
	manda acorded expenses (morne) and deterred expenses (morne), net	(2,020)	2,801	(2,969)	(4,821)
G.	TOTAL NET FINANCIAL INDEBTEDNESS (E+F)		,	,	(2,560)
H.	TOTAL NET FINANCING (D+G)		·		

^(*) Historical data of the Olivetti Group

Telecom Italia Group Consolidated Statements of Cash Flows

			1st Quarter	1st Quarter	
	(millions of euro)		2004	2003 (*)	2003
A.	NET FINANCIAL INDEBTEDNESS, AT BEGINNING OF YEAR		(33,346)	(33,399)	(33,399
	Operating income		1,788	1,527	6,78
	Depreciation of fixed assets and amortization of intangible assets		1,590	1,653	6,77
	Investments in fixed assets and intangible assets (1)		(826)	(697)	(4,894
	Proceeds from disposal of intangible assets and fixed assets		2	4	(., 55 .
	Change in operating working capital and other changes		(127)	(117)	53:
<u>В</u> .	FREE CASH FLOWS FROM OPERATIONS		2,427	2,370	9,23
	Investments in long-term investments and differences on consolidation (1)		(36)	(163)	(6,560
	Proceeds from sale/redemption value of other intangible assets, fixed assets			` 1	
	and long-term investments		98	88	74
	Spin-off and sale of Nuova Seat Pagine Gialle		-	-	3,68
	Change in non-operating working capital and other changes (2)		70	(769)	(6,026
C.			132	(844)	(8,164
D.	NET CASH FLOWS BEFORE DISTRIBUTION OF INCOME/RESERVES				
	AND CONTRIBUTIONS BY SHAREHOLDERS	(B+C)	2,559	1,526	1,069
E.	DISTRIBUTION OF INCOME/RESERVES		(5)	(18)	(1,049
F.	CONTRIBUTIONS BY SHAREHOLDERS/WITHDRAWALS		6	-	3:
G.	CHANGE IN NET FINANCIAL INDEBTEDNESS (D)+E+F)	2,560	1,508	5
H.	NET FINANCIAL INDEBTEDNESS, AT END OF PERIOD	(A+G)	(30,786)	(31,891)	(33,346
	(millions of euro) Increase (decrease) in medium/long-term debt		2 261	1 568	(2 747
	Increase (decrease) in medium/long-term debt		2,261	1,568	(2,747
	Increase (decrease) in short-term borrowings		(4,821)	(3,076)	2,694
	Total	_	(2,560)	(1,508)	(53
(1)	Total cash used for investments can be analyzed as follows:				
	(millions of euro)				
	Industrial investments:		826	697	4,89
	Industrial investments: - other intangible assets		826 326	697 239	
					1,783
	- other intangible assets		326	239	1,783 3,11°
	- other intangible assets - fixed assets		326	239 458	4,894 1,783 3,111 5,090 1,464
CAS	- other intangible assets - fixed assets Differences on consolidation		326 500 -	239 458 21	1,783 3,11 ⁵ 5,09
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS		326 500 - 36	239 458 21 142	1,78 3,11 5,09 1,46
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows:		326 500 - 36	239 458 21 142	1,78 3,11 5,09 1,46
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro)		326 500 - 36 862	239 458 21 142 860	1,78 3,11 5,09 1,46 11,45
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro) Net financial income (expenses)		326 500 - 36	239 458 21 142	1,78 3,11 5,09 1,46 11,45
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro) Net financial income (expenses) Utilization of risk reserve for early exercise of JP Morgan put option		326 500 - 36 862 (515)	239 458 21 142 860	1,78 3,11 5,09 1,46 11,45
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro) Net financial income (expenses) Utilization of risk reserve for early exercise of JP Morgan put option Sale of Telekom Austria		326 500 - 36 862 (515) - 768	239 458 21 142 860	1,78 3,11 5,09 1,46 11,45 (2,192 (1,942
	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro) Net financial income (expenses) Utilization of risk reserve for early exercise of JP Morgan put option Sale of Telekom Austria Payment of income taxes		326 500 - 36 862 (515) - 768 (31)	239 458 21 142 860 (534)	1,78. 3,11 5,09 1,46 11,45 (2,192 (1,942
(2)	- other intangible assets - fixed assets Differences on consolidation Investment in long-term investments SH USED FOR INVESTMENTS The caption can be analyzed as follows: (millions of euro) Net financial income (expenses) Utilization of risk reserve for early exercise of JP Morgan put option Sale of Telekom Austria		326 500 - 36 862 (515) - 768	239 458 21 142 860	1,78 3,11 5,09 1,46

^(*) Historical data of the Olivetti Group

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.p.A.

The Parent Company, **Telecom Italia S.p.A.**, reported net income of euro 346 million for the first quarter of 2004. This is euro 136 million higher than the net income for the first quarter of 2003 which, for purposes of comparison, was restated by aggregating the economic data of the merging company Olivetti with that of the merged company Telecom Italia.

Excluding, from the first quarter of 2003, the effects of the TLC license fee (euro 43 million) which is no longer due, following the verdict handed down by the European Court of Justice in September 2003, the net income increased by euro 108 million.

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

The increase, on a comparable basis, of euro 108 million, was the result of improvements in operating management (+euro 73 million), in the *net expense balance of net financial income (expenses)* and *net investment income* (expenses) (+euro 109 million) and in the balance of *net extraordinary income (expenses)* (+euro 14 million), which compensated the increase in income taxes (+euro 88 million).

Sales and service revenues, equal to euro 3,943 million, decreased by euro 16 million (-0.4%), compared to the first quarter of 2003 restated, due to the effect of the absence of revenues from the resale of satellite capacity (euro 26 million) after Telespazio directly took over relations with the satellite consortia. However, this reduction is compensated by a decrease in the costs to purchase the equivalent capacity for the same amount.

There was also a reduction in traffic revenues which fell by euro 106 million (-6.0%) as a result of the decrease in revenues from the retail segment. This reduction was partly compensated by the growth in income from retail and wholesale subscription charges (in total, +euro 42 million), which benefited from the growth in commercial packages, principally Teleconomy and ADSL Alice and Smart, higher activation charges (+euro 36 million), as well as higher sales of telephone equipment (+euro 27 million).

Gross operating profit, equal to euro 1,854 million, increased by euro 63 million compared to the first quarter of 2003 restated (+3.5%).

Excluding the effects of the TLC license fee from the first quarter of 2003 (euro 37 million), the gross operating profit shows a growth of euro 26 million, equal to 1.4%.

As a percentage of revenues, the gross operating profit was 47% (46.2% for the first quarter of 2003 on a comparable basis).

The increase in gross operating profit, on a comparable basis, was principally the result of the reduction in raw materials and outside services (-euro 9 million), the decrease in labor costs (-euro 27 million) and higher capitalized internal construction costs (+euro 11 million), that were partly absorbed by the reduction in the inventories of contract work in progress and lower operating grants (for a total of euro 5 million) and the aforementioned reduction in revenues.

The decrease in labor costs was mainly due to the reduction in the average workforce (-3,913) compared to the first quarter of 2003 restated (-7.2%).

Operating income, equal to euro 1,152 million, increased, compared to the first quarter of 2003 restated, by euro 116 million (+11.2%).

Excluding the effects of the TLC license fee from the first quarter of 2003 (euro 43 million), operating income shows a growth of euro 73 million, equal to 6.8%.

As a percentage of revenues, operating income was 29.2% (27.3% for the first quarter of 2003 on a comparable basis).

The increase in operating income, on a comparable basis, was mainly attributable to lower reductions in depreciation and amortization charges (-euro 46 million), other valuation adjustments (-euro 15 million) and provisions to reserves for risks and charges (-euro 9 million).

Such effects, combined with the cited increase in the gross operating profit, fully compensate the increase in expenses connected principally with the management of relations with other telephone operators.

Net financial income (expenses) showed an expense balance of euro 439 million (-euro 449 million for the first quarter of 2003 restated). The improvement of euro 10 million was due to the absence of the expenses relating to the JP Morgan put option on Seat Pagine Gialle shares and the reduction in interest rates. Such effects were partly offset by the increase in debt exposure.

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

(millions of euro)	1 st Quarter 2004	1 st Quarter 2003 restated	Change
Value adjustments to financial assets	(36)	(135)	99
Income from investments, net	1	1	-
Total	(35)	(134)	99

In particular, the following can be said:

 value adjustments to financial assets mainly referred to writedowns of investments for euro 46 million and revaluations of euro 10 million relating to the reversal of the writedown of TIM shares in current assets.

Writedowns refer mainly to I.T. Telecom (euro 19 million), Sky Italia (euro 15 million), Loquendo (euro 3 million) and EPIClink (euro 3 million). The reduction (-euro 89 million) compared to the first quarter of 2003 restated was principally due to the writedowns made in 2003 on the investments in Sky Italia (+euro 49 million), Edotel (euro 7 million), Telecom Italia Learnings Services (euro 5 million) as well as the writedown on TIM shares in current assets (euro 21 million).

Net extraordinary income (expenses) showed an expense balance of euro 17 million (an expense balance of euro 31 million for the first quarter of 2003 restated), with an improvement of euro 14 million. Extraordinary income totals euro 10 million and extraordinary expenses amount to euro 27 million.

Income taxes totaling euro 315 million increased by euro 103 million (+euro 88 million on a comparable basis) compared to the first guarter of 2003 restated, as a result of higher pre-tax income.

Employees at March 31, 2004 numbered 51,523. The reduction of 838 persons compared to 52,361 employees at December 31, 2003 was due to operating turnover (-672), employees who left the company as a result of the sale of the "Document Management" business segment (-189) and transfers from Group companies (+23).

Investments amounted to euro 515 million (euro 827 million in the first quarter of 2003 restated). The breakdown was as follows:

(millions of euro)	1 st Quarter 2004	1 st Quarter 2003 restated	Change
Industrial investments	508	743	(235)
Financial investments	7	84	(77)
Total investments	515	827	(312)

Net financial indebtedness (euro 34,510 million) decreased by euro 817 million compared to December 31, 2003 (euro 35,327 million). This reduction is due to the difference between free cash flows from operations (euro 1,387 million) and requirements used for net financial income (expenses) and extraordinary items.

Net financial indebtedness benefited from the effects of transactions for the securitization of receivables for euro 809 million (euro 851 million at December 31, 2003).

A reconciliation of net financial indebtedness with the balance sheet captions is presented in the following table:

	Within 12 months	Beyond 12 months	Total 3/31/2004	Total 12/31/2003
(millions of euro)				
Debentures	-	11,256	11,256	9,765
Convertible debentures	-	2,828	2,828	4,160
Total bonds	-	14,084	14,084	13,925
Payables to subsidiaries and affiliated companies	10,778	9,203	19,981	19,304
Due to banks	788	247	1,035	1,191
Due to other lenders	304	338	642	783
Other liabilities	7	-	7	62
Taxes payable	19	-	19	23
Total other financial payables	11,896	9,788	21,684	21,363
Total gross financial indebtedness	11,896	23,872	35,768	35,288
Liquid assets	(1,569)	-	(1,569)	(205)
Receivables from subsidiaries and affiliated companies	(842)	-	(842)	(838)
Other accounts receivable	(281)	-	(281)	(367)
Other securities in current assets	(7)	-	(7)	(16)
Total financial receivables in current assets and				
liquid assets	(2,699)	-	(2,699)	(1,426)
Accrued expenses and deferred income	1,748	70	1,818	1,832
Accrued income and prepaid expenses	(82)	(295)	(377)	(367)
Balance of financial accruals and deferrals	1,666	(225)	1,441	1,465
Net financial indebtedness at March 31, 2004	10,863	23,647	34,510	35,327

Gross indebtedness due beyond one year, amounting to euro 23,872 million, rose from 59% at December 31, 2003 to 67% at March 31, 2004, as a percentage of total gross indebtedness.

Gross financial indebtedness is detailed in the following table:

	At 3/31/2004					At 12/31/	2003	
	Euro	%	Foreign	%	Total	%	Total	%
(millions of euro)			currency					
Medium/long-term debt	23,556	73	316	9	23,872	67	20,915	59
Short-term borrowings	8,544	27	3,352	91	11,896	33	14,373	41
Total	32,100	100	3,668	100	35,768	100	35,288	100

At March 31, 2004, short-term borrowings included the current portion of medium/long-term debt falling due within one year, amounting to euro 2,902 million (euro 5,759 million at 12/31/2003).

Debt positions with Group companies totaled euro 25,524 million (euro 14,754 million falling due beyond one year) and with third parties totaled euro 10,244 million (euro 9,118 million falling due beyond one year).

Telecom Italia

Statements of income

		1st Quarter	1st Quarter		Char	nge
		2004	2003	2003	(a-l	b)
			restated			
	(millions of euro)	(a)	(b) (*)		amount	%
A.	SALES AND SERVICE REVENUES	3,943	3,959	16,033	(16)	(0.4)
	Changes in inventory of contract work in process	(2)	-	6	(2)	
	Increases in capitalized internal construction costs	13	2	60	11	•
	Operating grants	1	4	9	(3)	(75.0
В.	STANDARD PRODUCTION VALUE	3,955	3,965	16,108	(10)	(0.3)
	Raw materials and outside services (1)	(1,488)	(1,534)	(6,209)	46	(3.0)
C.	VALUE ADDED	2,467	2,431	9,899	36	1.5
	Labor costs (1)	(613)	(640)	(2,466)	27	(4.2)
D.	GROSS OPERATING PROFIT	1,854	1,791	7,433	63	3.5
	Depreciation and amortization	(648)	(694)	(2,919)	46	(6.6)
	Other valuation adjustments	(9)	(24)	(199)	15	(62.5)
	Provisions to reserves for risks and charges	(4)	(19)	(15)	15	(78.9)
	Net other income (expense)	(41)	(18)	(161)	(23)	e
E.	OPERATING INCOME	1,152	1,036	4,139	116	11.2
	Net financial income (expenses)	(439)	(449)	(2,404)	10	(2.2)
	Net investment income (expenses)	(35)	(134)	1,645	99	(73.9)
F.	INCOME BEFORE EXTRAORDINARY					
	ITEMS AND TAXES	678	453	3,380	225	49.7
	Net extraordinary income (expenses)	(17)	(31)	(1,652)	14	(45.2)
G.	INCOME BEFORE TAXES	661	422	1,728	239	56.6
	Income taxes	(315)	(212)	918	(103)	48.6
Н.	NET INCOME FOR THE PERIOD	346	210	2,646	136	64.8

⁽¹⁾ Reduced by related cost recoveries

^(*) For purposes of comparison, the first quarter 2003 was restated by aggregating the economic data of the merging company Olivetti with that of the merged company Telecom Italia

Telecom Italia

Balance Sheets

		At	At	Change
		3/31/2004	12/31/2003	(a-b)
		0/01/2001	12/01/2000	(= =)
	(millions of euro)	(a)	(b)	
A.	INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS			
	Intangible assets	1,568	1,485	83
	Fixed assets	11,618	11,843	(225)
	Long-term investments:			
	equity investments and advances			
	on future capital contributions	34,952	34,995	(43)
	• other	223	281	(58)
	(A	48,361	48,604	(243)
B.	WORKING CAPITAL			
	Inventories	100	88	12
	Trade accounts receivable, net	4,613	4,542	71
	Other assets	3,241	3,693	(452)
	Trade accounts payable	(2,867)	(3,138)	271
	Other liabilities	(3,582)	(3,476)	(106)
	Reserves for employee termination indemnities			
	and pensions and similar obligations	(996)	(973)	(23)
	Capital and/or investment grants	(191)	(199)	8
	Deferred tax assets net of reserve for income taxes	3,111	3,111	
	Other reserves for risks and charges	(569)	(569)	
	(B	2,860	3,079	(219)
C.	NET INVESTED CAPITAL (A+B	51,221	51,683	(462)
	Financed by:			
D.	SHAREHOLDERS' EQUITY			
	Share capital	8,856	8,854	2
	Retained earnings and reserves	7,509	4,856	2,653
	Net income for the period	346	2,646	(2,300)
		16,711	16,356	355
E.	MEDIUM/LONG-TERM DEBT	23,647	20,692	2,955
F.	NET SHORT-TERM FINANCIAL BORROWINGS (LIQUIDITY)			
	Short-term borrowings	11,896	14,373	(2,477)
	Liquid assets and short-term financial receivables	(2,699)	(1,426)	(1,273)
	Financial accrued expenses (income) and deferred expenses (income), net	1,666	1,688	(22)
		10,863	14,635	(3,772)
G.	TOTAL NET FINANCIAL INDEBTEDNESS (E+F		35,327	(817)
Н.	TOTAL NET FINANCING (D+E+F=C	51,221	51,683	(462)

Telecom Italia Statements of Cash Flows

			1st Quarter
	(millions of euro)		2004
A.	NET FINANCIAL INDEBTEDNESS, AT BEGINNING OF YEAR		(35,327)
	Operating income		1,152
	Depreciation of fixed assets and amortization of intangible assets		648
	Investments in fixed assets and intangible assets (1)		(508)
	Proceeds from capital and/or investment grants		-
	Proceeds from disposal of intangible assets and fixed assets		-
	Change in operating working capital and other changes		95
В.	FREE CASH FLOW FROM OPERATIONS		1,387
	Investments in long-term investments (1)		(7)
	Proceeds from sale/redemption value of other intangible assets, fixed		66
	assets and long-term investments		
	Change in non-operating working capital and other changes		(636)
C.			(577)
D.	NET CASH FLOWS BEFORE DISTRIBUTION OF		
	INCOME/RESERVES AND CONTRIBUTIONS BY SHAREHOLDERS	(B+C)	810
E.	DISTRIBUTION OF INCOME/RESERVES		-
F.	CONTRIBUTIONS BY SHAREHOLDERS / WITHDRAWALS		7
G.	CHANGE IN NET FINANCIAL INDEBTEDNESS	(D+E+F)	817
Н.	NET FINANCIAL INDEBTEDNESS, AT END OF PERIOD	(A+G)	(34,510)

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

(millions of euro)	
Increase (decrease) in medium/long-term debt	2,955
Increase (decrease) in short-term borrowings	(3,772)
Total	(817)

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

(millions of euro)	
Industrial investments:	508
- intangible assets	207
- fixed assets	301
Investment in long-term investments	7
CASH USED FOR INVESTMENTS	515

(2) The caption can be analyzed as follows:

(millions of euro)	
Net financial income (expenses)	(439)
Extraordinary items and other	(197)
CHANGE IN NON-OPERATING WORKING CAPITAL AND OTHER CHANGES	(636)

SUBSEQUENT EVENTS

The principal subsequent events which occurred after March 31, 2004 are listed below:

PURCHASE OF DIGITEL SHARES BY TIM INTERNATIONAL

With regard to the numerous lawsuits pending between TIM International and the other shareholders in Corporacion Digitel C.A. in connection with the absorption of the losses for the year 2002, which took place at the beginning of 2003, on April 19, 2004, a settlement agreement was signed under which TIM International agreed to purchase the investment of all the other Digitel shareholders (corresponding to 32.88% of Digitel's capital). The execution of the agreement is subject to certain conditions, the main one being the definitive relinquishment of any and all claims and actions against TIM/Digitel, such as the termination of the arbitration proceedings begun in New York between TIM International and Venconsul, another Digitel shareholder, under the rules of the International Chamber of Commerce.

The settlement (which will involve a payment of US\$ 110 million) will ensure TIM International of total control over the Venezuelan company. The difference between the fair market value of the stake that may be purchased and the above payment is substantially covered by a risk reserve.

BOND ISSUE

On April 8, 2004, Telecom Italia issued, through a private placement, 5-year bonds at floating rates for euro 110 million maturing March 30, 2009. The bonds, with quarterly interest equal to the 3-month Euribor + 0.6%, were issued and will be redeemed at face value.

BUSINESS OUTLOOK

The Telecom Italia Group confirms the outlook previously announced to the market, namely, that it expects to keep its operating income substantially stable and to further reduce net financial indebtedness which, at year-end, will be lower than euro 30 billion.

RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, fall under the normal business operations of the companies of the Group. Such transactions (which are neither unusual nor exceptional), when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The economic, balance sheet and financial effects of related party transactions on the consolidated financial data of the Telecom Italia Group at March 31, 2004 are presented in the following table.

In the consolidated financial statements, the economic, balance sheet and financial effects of intercompany transactions, that is, all transactions among consolidated companies, have been eliminated.

Major statement of income, balance				
sheet and financial components	Nature of transaction			
(millions of euro)	unconsolidated subsidiaries and affiliates			
Sales and services revenues	32	These mainly comprise revenues from Shared Service Center (euro 9 million), Teleleasing (euro 8 million) and Telecom Argentina (euro 2 million)		
Raw materials and outside services	96	These mainly comprise rent payable to Tiglio I (euro 21 million) and Tiglio II (euro 7 million) as well as TLC service costs from Etec Sa Cuba (euro 28 million) and maintenance and assistance contracts from Shared Service Center (euro 23 million), Siemens Informatica (euro 6 million) and Italtel (euro 1 million)		
Net other (income) expense	1	These mainly relate to cost recoveries for personnel on loan to certain subsidiaries and affiliates		
Net financial (income) expense	1	These include accrued interest income on loans made to certain subsidiaries and affiliates		
Loans in long-term investments	109	These mainly comprise medium/long-term loans made to TT& Tim Turchia (euro 52 million), Aree Urbane (euro 31 million) and Telegono (euro 6 million)		
Financial receivables	17	These mainly comprise short-term loans made to Tmi Canadà (euro 9 million) and Tin Web (euro 5 million)		
Financial payables	57	These refer mainly to payables to Teleleasing (euro 29 million), Shared Service Center (euro 6 million), Alladium (euro 7 million) and Edotel (euro 4 million)		
Trade and other accounts receivable	149	They mainly regard receivables from Sky Italia (euro 14 million, net of the relative allowance accounts), Teleleasing (euro 44 million), Lombardia Integrata Servizi Informatici (euro 26 million) and Shared Service Center (euro 16 million)		
Trade and other accounts payable	125	They mainly include supply transactions connected with investment and operational activities: Italtel group (euro 40 million), Shared Service Center (euro 27 million) and Siemens Informatica (euro 20 million)		
Guarantees and collateral provided	975	These mainly comprise sureties provided on behalf of TT& Tim Turchia (euro 652 million), Consorzio Csia (euro 81 million) and Tiglio 1 (euro 46 million) as well as collateral provided on behalf of TT& Tim Turchia (euro 117 million)		
Purchases and sales commitments	32	These refer to commitments with Teleleasing (euro 4 million) under operating leases and with EtecSa Cuba (euro 28 million) for capital increases		
Investments in fixed assets and intangibles	44	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 40 million) and computer projects from Shared Service Center (euro 3 million) and Siemens Informatica (euro 1 million)		

As stated above, related party transactions with Telecom Italia, directly or indirectly, (that is to say, through directors and key managers of the Company) fall under the normal business operations of the companies of the Group and, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

Related party transactions, other than with companies of the Group, during the first quarter 2004, also comprise those by the Telecom Italia Group with the Pirelli group, the Edizione Holding group, the Unipol group, the Banca Intesa group, the Unicredito group and the related parties by Mr. Moratti.

_(millions of euro)	1/1-3/31 2004	
Sales and service revenues	15	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 1 million) and telephone services to the Pirelli group (euro 1 million), to the Edizione Holding group (euro 1 million), to the Banca Intesa group (euro 3 million), to the Unipol group (euro 1 million) and the Unicredito group (euro 8 million)
Raw materials and outside services	19	These essentially refer to R&D expenditures and consulting services in the area of computers, tax and intellectual property rights from the Pirelli group (euro 15 million), insurance services from the Unipol group (euro 2 million), commissions paid to Autogrill S.p.A. (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million) and sponsorship and content provider costs to F.C. Intenazionale Milano S.p.A. – related party by Mr. Moratti – (euro 1 million)
Liquid assets and financial receivables	932	Liquid assets of the Group deposited with the Banca Intesa group (euro 589 million) and the Unicredito group (euro 343 million)
Financial indebtedness	317	Financial exposure of the group with the Banca Intesa group (euro 247 million) and the Unicredito group (euro 70 million)
Trade and other accounts receivable	227	These mainly refer to the above-mentioned telephone services rendered to the Pirelli group (euro 6 million) and the Unicredito "Unipol and Banca Intesa groups (euro 5 million), receivables for the sale of trade accounts receivable without recourse to the Banca Intesa group (euro 216 million)
Trade and other accounts payable	31	These mainly include transactions for the supply of services and materials (mainly cables) by the Pirelli group (euro 28 million), commissions paid to Autogrill S.p.A. (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million) and sponsorship and content provider costs to F.C. Intenazionale Milano S.p.A. – related party by Mr. Moratti – (euro 1 million)
Investments in fixed assets and intangibles	4	These mainly refer to purchases of telecommunications cables from the Pirelli group

Furthermore:

- in the first quarter of 2004, TIM and Telecom Italia sold telephone cards to Autogrill S.p.A. (Edizione Holding group) for their successive sale to the general public for an equivalent amount of euro 5 million. The relative commission paid to the Edizione Holding group for the sale of telephone cards amounts to euro 1 million;
- in March 2004, under the Group's Information Technology program, TIM contributed a business segment operating in development and applications maintenance in the SAP environment, to the company Share Service Center a limited liability consortium company, purchasing 4.55% of the company. The value of the business segment, determined by an expert appointed by the Milan Courts, was euro 65 thousand.

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS/OPERATING ACTIVITIES

WIRELINE

- · Continuous growth in revenues and margins
- Marked increase in ADSL access lines
- Growth of investments to support broadband operations

THE BUSINESS UNIT

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

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

■ THE STRUCTURE OF THE BUSINESS UNIT

Telecom Italia Wireline	National Subsidiaries	International Subsidiaries
Wireline TLC services: Retail Telephone Retail Internet Retail Data Business Retail VAS Wholesale	Atesia S.p.A. Path.Net S.p.A. Loquendo S.p.A. Telecontact Center S.p.A.	Latin American Nautilus Group Mediterranean Nautilus Group Med-1 Group Telecom Italia Deutschland Holding GmbH HanseNet Telekommunikation GmbH BBNED Group
	- Pan Europea - Telecom Ital - Intelcom Sar	a Sparkle S.p.A.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

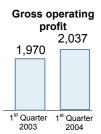
In February 2004, moreover, Atesia partially spin-off the two call centers located in Caltanissetta and Catanzaro to Telecontact Center. The book value of the business complex was equal to euro 3.5 million. The transaction had no effect on the scope of consolidation since both companies are consolidated by Wireline.

ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b) (*)	2003	Chan (a-b	_
,	, ,	. , , ,		amount	%
Sales and service revenues	4,303	4,242	17,216	61	1.4
Gross operating profit % of revenues	2,037 47.3%	1,970 <i>46.4%</i>	8,255 <i>47.</i> 9	67	3.4
Operating income pre-amortization of differences on consolidation	1,317	1,228	4,972	89	7.2
Operating income	1,315	1,228	4,969	87	7.1
% of revenues Investments:	30.6%	28.9%	28,9		
. industrial	552	435	2,302	117	26.9
. differences on consolidation Employees at period-end (number) (1)	51,025	53.261	43 50,766	259	0.5

- (*) Proforma values reflecting the inclusion of BBNed in Wireline's scope of consolidation as from September 2003.
- (1) The change in employees has been calculated in reference to the data at the end of 2003.



Sales and service revenues, totaling euro 4,303 million, increased by 1.4% (+euro 61 million) compared to the first quarter of 2003, thus improving the already positive economic performance of 2003 (+1.0% compared to 2002). On a comparable consolidation basis, underlying growth was euro 42 million.

This increase continues to be sustained by the development of innovative business segments such as Broadband, innovative data transmission and Data and Web value added services (VAS) for the business clientele. Furthermore, administration of the core telephone services market continues to be successful. The contribution to revenues by the Individual Strategic Areas of the Business are as follows:

Retail Telephone

Revenues from telephone services, equal to euro 2,552 million, show a slight decrease of 1.2% (euro 30 million) compared to the first quarter of 2003. The strategy of building customer loyalty continues to be the primary aim of marketing strategy. This takes the form of adding attractive features to the flat rate plans, diffusing new VAS services (Tutto 4* and Chat SMS, which, at the end of 1° quarter 2004, reached 589,000 units) and launching *Aladino*, Telecom Italia's new cordless phone. This strategy has made it possible to maintain the market share at the levels recorded at the end of the prior year.

Retail Internet and Data Business

Revenues from the Internet and the Data Business areas, equal to euro 617 million, showed overall growth of approximately 14% compared to the first quarter of 2003 (+euro 74 million). This was generated in particular by the *ADSL Alice* and *ADSL Smart* packages (+euro 76 million, +155%) and by innovative data transmission services (+euro 25 million, +21%). Conversely, partly as a result of migration towards innovative solutions, there was a decrease in revenues from Internet dial-up traffic and traditional data transmission services, including leased lines (- euro 7 million and -euro 23 million, respectively). In the period under examination, there was an even more significant increase in the broadband portfolio, with 600,000 new access lines (535,000 on the domestic market and 65,000 on other European markets). At the end of the first quarter of 2004, access lines numbered 2.8 million compared to 2.2 million at year-end 2003.

Retail VAS (Value Added Services)

Revenues from VAS services, equal to euro 220 million, showed a decrease of approximately euro 57 million (equal to approximately -20%), mainly attributable to the trend of revenues from Premium services.

Wholesale

Revenues from Wholesale services, equal to euro 831 million, increased by 4.6% (+euro 37 million) compared to the first quarter of 2003. Growth was sustained by National Wholesale services, particularly Wholesale Data (mainly ADSL) and regulated intermediate services (CPS and LLU). Revenues from International Wholesale services remained unchanged.

Gross operating profit, equal to euro 2,037 million, registered an increase of 3.4% (+euro 67 million) compared to the first quarter of 2003. This result was significantly influenced by the cancellation, in September 2003, of the TLC license fee (euro 37 million in the first quarter of 2003).

On a comparable basis, *gross operating profit* showed an increase of 1.5%, equal to +euro 30 million, compared to the same period of the prior year. As a percentage of revenues, gross operating profit was 47.3%, in line with the figure recorded in the prior year.

This improvement points to effective management both in the management and development of the reference markets and the pursuit of even higher levels of efficiency in terms of costs, particularly with regard to personnel.

Operating income was euro 1,315 million and presented an increase of 7.1% (+euro 87 million) compared to the first quarter of 2003. This increase is reduced to 3.2% (+euro 41 million) after excluding the amounts associated with the TLC license fee. This was the result of not only the factors already mentioned with regard to the gross operating profit, but also lower amortization and depreciation and provisions.

Industrial investments amounted to euro 552 million, an increase of euro 117 million (+27.0%) compared to the first quarter of 2003. This increase can be attributed to the growth of broadband on the domestic market (an acceleration of ADSL subscribers and upgrades to raise Internet access speed) and on the European market (France and Germany). However, policies implemented to improve process efficiency made it possible to significantly curb overall expenditures.

The number of *employees* increased by 259 compared to December 31, 2003. This was principally due to recruitment for Telecontact. The change is due to resignations (707) (mostly from WTI S.p.A.), recruitment (939), transfers between the business units of Telecom Italia (+21) and the consolidation of the company Telefonia Mobile Sammarinese (6).

INFORMATION ON OPERATIONS

The following table shows the main operating highlights at March 31, 2004 compared to March 31, 2003 and December 31, 2003, in addition to the principal commercial initiatives carried out during the period.

Operating highlights	3/31/2004	3/31/2003	12/31/2003
Fixed network connections (in thousands)	26,429	27,107	26,596
- of which ISDN	6,008	5,888	6,027
Minutes of traffic on the fixed network (billions)	59.0	58.3	226.6
 national traffic 	56.2	55.2	215.2
 international traffic 	2.8	3.1	11.4
TP Terminals using ISDN technology (thousands)	127.1	110.9	128.0

Retail

A brief description follows of the main packages and commercial initiatives during the first quarter of 2004, within the framework of the strategies aimed at the Retail Telephone market (Access and Traffic, in particular) and the development of the Internet markets (Alice Adsl and Smart Adsl packages), Data business (Broadband and other Data services) and VAS.

Telephone	Pricing (rate plans)	Families: <i>Teleconomy quando vuoi</i> was launched, offering customers the option of choosing the time-band during which to make all national calls free of charge. SME: launch of the <i>Pronto Business</i> package, directed at the professional clientele and small/medium-size businesses, and <i>Opzione mondo</i> directed at customers who already subscribe to the <i>Pronto Business</i> and the new <i>Teleconomy</i>
	Products	Professional rate plans. A promotion campaign focusing on the Aladino cordless phone, and on the main product families (cordless phones and fax machines) combined with sales based on a single installment or on six monthly installments. In addition, marketing of the new Tech cordless phone began.

Internet	Adsl Alice	Increased speed for all the Alice packages from 256/128 Kbps to 640/256 Kbps.
		Launch of Alice Free "solo linea" and promotion of Astra per Alice Sat. Size of the
		e-mailbox combined with the Alice ADSL plans was increased from 50MB to
		100MB and the upgrade of the ISP look&feel services associated with the plan and
		accessed from the Rosso Alice portal.
	Adsl Smart	Increased speed on all Smart packages from 256/640 to 640/1 Mb.

Public Telep	hone Services	Launch of new types of prepaid phone cards under the XXL brand which involve different rate profiles (single rate on national wireline traffic regardless of the length of the call, discounts on traffic to mobile phones and on national wireline traffic)
Data	Private Wi-Fi	
Business	Public Wi-Fi	Work continues to develop coverage of the Public Wi-Fi service, currently based on more than 160 locations. Launch of the prepaid Wi-Fi card which is beginning to generate considerable volumes of traffic developed by customers.
	Hyperway	Start of marketing of new ADSL broadband profiles based on a flat rate and consumption. Furthermore, various existing profiles were repriced.
Telephone VAS	Services	Launch of the <i>Tutto 4 star</i> service, which makes information services and content available to customers, "all included" in the basic subscription charge. The 4888 <i>Pay for Me</i> package was further enhanced with the opening up of the service to WIND.
Data & Web VAS	Full Business Company	A new release of the service has been implemented allowing the activation of outgoing fax functions for all customers of SAM messaging services.
	Security	The range of Security packages has been extended from the point of view of utility, to meet the requirements of small/medium-size businesses with regard to firewalling and controlling access to websites.

National wholesale

The National Wholesale market consolidated its expansion led by the growth of services providing broadband access to the Internet. In fact, the number of wholesale ADSL lines increased by 28% in the first quarter of 2004, compared to the same period in 2003, and now totals 675,000 lines. Telephone services reported an increase in LLU lines, bringing the total to almost 590,000 lines (+16% compared to December 2003), and CPS lines, which increased by more than 50,000 during the same period.

International wholesale

IP & Data transmission show a focus on sales of innovative international connectivity services in the first quarter of 2004 in line with the development trend of the market, both in the wholesale segment and in packages for Italian multinational companies.

The Voice business, on the other hand, showed a steady growth of volumes, equal to approximately +12% (excluding traffic from Telecom Italia customers) compared to the first quarter of 2003. This result was achieved thanks largely to interconnection with new international carriers, more business from Italian OLOs on the domestic market and the competitiveness of the offering on the international market.

National network

As far as the national network is concerned, during the first quarter of 2004, the following activities are worthy of note:

National	Another 21 of Marconi's latest generation high-capacity electronic frames have been acquired
transmission	and are in the process of being installed, bringing the restoration capabilities to a total of 27
backbone	junctions, all located in the largest Italian cities. All of TIM customers are in the process of being switched to this infrastructure. Furthermore, 4 DWDM systems were acquired to strengthen the already existing links, bringing the total capacity to more than 130 systems.
Gigabit Ethernet	Work continued to create a network to support the marketing of services based on Gigabit

Access	Ethernet technology (MPLS Ethernity and Hyperway services with GBE access). In the first quarter of 2004, 82 optical GBE accesses were created.
ADSL Access	275 new exchanges were equipped and 760,000 new lines were added. There are now 3,275 exchanges that can provide ADSL access and there are 2.96 million ADSL lines of which 2.4 million are in use. This has increased coverage to 80% of the national territory.
National Backbone	The migration of long-distance phone traffic from a backbone based on circuit switching technologies to the innovative one based on packet switching technologies was completed.

Foreign Retail Networks

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

FRANCE

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

- introduction of the Unbundling Local Loop service in Paris, Lyon, Marseille (which also serves Aix-en-Provence) and Nice, with connections to ADSL at 640, 1,024 and 2,048 Kbit/s, through 104 exchanges;
- introduction of the wholesale ADSL service and Carrier Preselection in-house in the areas
 of lle de France (Paris) and the cities of Nantes, Strasbourg, Lille and Bordeaux;
- technical preparation of 80 exchanges with a view to activating LLU services in the area
 of Île de France (Paris) and in the cities of Nantes, Strasbourg, Lille and Bordeaux.

GERMANY

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

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

International network

As far as Telephone services are concerned, during the first quarter of 2004, the switching capacity of international gateways was increased and new services were introduced to accommodate the range of innovative services and new modes of interconnection (Mobile Number Portability, ISUP v2, etc.). The ToIP platform was also adapted to support services which are establishing themselves as market standards (T.38 Fax Relay, DTMF Out of Band, H.235 security, etc.) and the billing platform was completely renovated to support the evolution of the business model.

Work continued to develop the IP backbone, particularly in the U.S.A., where, in the NAPs of Newark (New York), Miami and Palo Alto, approximately 1.5 Gbit/s of new peerings were activated.

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

MOBILE

- · Growth of revenues and gross operating profit
- Expansion of customer base in Brazil
- Agreement with Digitel's minority shareholders
- Merger of Aria-IsTIM and Aycell completed

■ THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

National Subsidiaries	International Sเ	Affiliated companies				
TIM – Telecom Italia Mobile S.p.A	Mobile South America	TT& TIM I.V.H.H.A.S. (Turchia)				
	TIM Interna	TIM International N.V.				
	. Gruppo TIM Brasil -Gruppo Tele Nordeste Celular Participaçoes (Brasile) -Gruppo Tele Celular Sul Participaçoes (Brasile) - Maxitel S.A. (Brasile) - TIM Celular S.A. (Brasile) - Starcel Ltda (Brasile) . TIM Perù S.A.C Corporacion Digitel C.A. (Venezuela) . Blah! S.A. (ex TIMNet.com S.A Brasile)	Stet Hellas Telecommunications S.A. (Grecia)				

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- in January 2004, the five operating companies of the Tele Nordeste Celular Participaçoes group were merged into the subsidiary Telpe Celular. The acquiring company took the name of TIM Nordeste Telecomunicações S.A. and is now the only operating company in which Tele Nordeste Celular Participações S.A. has a holding. The transaction has made it possible for the Group to simplify the company structure and achieve greater efficiency in the costs supporting the business.
- on February 3, 2004, Stet Hellas announced the change in its brand from Telestet to TIM, which will enable the company to reinforce its image as a dynamic and innovative operator in Greece;
- on February 19, 2004, Is TIM, the mobile operator owned by TIM International (49%) and the IsBank group (51%), was merged with Aycell, the GSM operator entirely owned by Turk Telecom, Turkey's state-owned wireline operator. The integration process began last May and was completed after approval was received from the competent authorities. The new company (TT&TIM) resulting from the merger is held 40% by TIM International, 40% by Turk Telekom and the remaining 20% by the Is Bank group.
- During the early months of 2004, as part of the program for the reorganization of the
 information technology area of the Telecom Italia Group, TIM voted to bring in-house the
 software design and development activities currently carried out by a specialized nucleus of
 resources employed by IT Telecom in its development business segment, effective April 1,
 2004. This business segment that is being purchased carries out activities that IT Telecom
 currently provides to TIM in the areas of:
 - innovative services, based on IP networks, known also as e-business or web services, directed at the business and mass-market segments;
 - telecommunications software development and maintenance activities.

These activities will be integrated with the resources that today already operate in IT

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

• in March 2004, under the Group's program for information technology, TIM contributed a business segment which develops and maintains software applications in the SAP environment to the company Shared Service Center, a limited liability consortium company, purchasing a 4.55% stake. The value of the business segment was determined by an expert appointed by the Milan Courts at euro 65 thousand.

■ ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2004 (a)	2004 2003		Change (a-b)		
,	, ,	` ,		amount	%	
Sales and service revenues Gross operating profit	2,937 1,425	2,616 1,262	11,782 5,502	321 163	12.3 12.9	
% of revenues Operating income pre-amortization of	48.5%	48.2%	46.7%			
differences on consolidation Operating income	978 955	922 897	3,885 3,786	<i>56</i> 58	6.1 6.5	
% of revenues Investments:	32.5%	34.3%	32.1%			
. industrial . differences on consolidation	192	171	1,957 7	21	12.3	
Employees at period-end (number) (1)	18,936	18,913	18,888	48	0.32-	

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



Sales and service revenues during the first quarter 2004 amounted to euro 2,937 million, with an increase of 12.3% compared to the first quarter of 2003. Excluding the negative foreign exchange effect, revenues increased by euro 326 million (+12.5%).

Gross operating profit was euro 1,425 million in the first quarter of 2004 and showed an increase of 12.9% compared to the same period of 2003 (euro 1,262 million). Excluding the negative foreign exchange effect and the TLC license fee (equal to euro 29 million in the first quarter of 2003), the gross operating profit increased by 10.7%. The improvement in the gross operating profit was achieved as a result of both the continuously improving performance of already-existing operations, and to the lower costs for the start-up of GSM service in Brazil. On a comparable consolidation basis, the gross operating profit represented 48.5% of total revenues (49.4% in the same period of the prior year, calculated excluding the effects of the TLC license fee).

Operating income was euro 955 million and showed an increase of 6.5% compared to the first quarter 2003 (euro 897 million); on a comparable consolidation basis, the operating income increased by 3.1%. Operating income as a percentage of revenues was 32.5% (35.4% in first quarter of 2003, calculated excluding the effects of the TLC license fee). Beginning January 2004, since the service is already operational and being used by a pool of test users, amortization of TIM S.p.A.'s UMTS license began from that date. Previously (beginning January 2002), the license was amortized solely in the financial statements of TIM S.p.A. so as not the jeopardize the benefit of the tax deductibility of the amortization charge. Therefore, the increase of the consolidated operating income in the first quarter of 2004 was influenced by higher amortization charges amounting to euro 34 million.

Industrial investments amounted to euro 192 million, of which euro 84 million referred to intangible assets and euro 108 million to fixed assets. Investments were mainly devoted to technology and expansion of the network.

The number of *employees* increased by 48, compared to December 31, 2003. This increase can be attributed to the expansion reported by Brazilian companies in the start-up phase, and was partly

offset by the reduction of resources in the parent company TIM S.p.A.

EVENTS SUBSEQUENT TO MARCH 31, 2004

The following events should be mentioned:

With regard to the numerous lawsuits pending between TIM International and the other shareholders in Digitel in connection with the absorption of the losses for the year 2002, which took place at the beginning of 2003, a settlement agreement was signed under which TIM International agreed to purchase the investment of all the other Digitel shareholders (corresponding to 32.88% of Digitel's capital). The execution of the agreement is subject to certain conditions, the main one being the definitive relinquishment of any and all claims and actions against TIM/Digitel, such as the termination of the arbitration proceedings begun in New York between TIM International and Venconsul, another Digitel shareholder, under the rules of the International Chamber of Commerce. The settlement (which will involve a payment of US\$ 110 million) will ensure TIM International of total control over the Venezuelan company. The difference between the fair market value of the stake that may be purchased and the above payment is substantially covered by a risk reserve.

TELECOM ITALIA MOBILE S.p.A.

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

The table shows the key economic highlights:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	2003	Change (a-b) (%)
Sales and service revenues	2,303	2,149	9,469	7.2
Gross operating profit	1,289	1,136	5,035	13.5
Operating Income	1,004	880	3,863	14.1

Sales and service revenues amounted to euro 2,303 million in the first guarter of 2004, (euro 2,149 million in the first quarter of 2003), with a an increase of 7.2%. Revenues from traffic, which totaled euro 1,718 million, increased by 3.3%. Revenues from Value Added Services (which represent 13% of total revenues and 13.4% of revenues from services) amounted to euro 299 million, an increase of 28.3%.

Gross operating profit in the first guarter of 2004 amounted to euro 1,289 million, an improvement of 13.5% compared to euro 1,136 million in the first quarter of 2003; on a comparable consolidation basis, excluding the effects of the cancellation of the TLC license fee, which, in the first quarter 2003 amounted to euro 29 million, the gross operating profit increased by 10.6%. Operating income, equal to euro 1,004 million In the first guarter of 2004 (euro 880 million in the same period of 2003), showed an even better performance than gross operating profit, with an increase of 14.1%. On a comparable consolidation basis, the operating income increased by 10.5%.

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

Operating highlights	3/31/2004	3/31/2003	12/31/2003
TIM lines in Italy (thousands)	26,036	25,6537	26,076
Mobile traffic (millions of minutes)	9,794	8,943	38,420
ARPU (euro/ line/month)	28.0	26.98	28.2

During the first quarter of 2004, the following initiatives are worthy of note:

Launch of "S.O.S. Ricarica"	The service allows customers to make calls even with zero credit when it is not possible to recharge					
	the phone immediately, by calling the free number 4916, which grants euro 2 credit for immediate					
	use. The next time the phone is re-charged, euro 3 is deducted from the total (including euro 1 to					
	cover the administrative costs of the service).					
Launch of "MAXXI TIM	The package, directed at prepaid customers, for the sum of euro 10, allows users to send 400 SMS					
Messaggi"	and 100 MMS within 30 days. The offer is automatically renewed for another 30 days if the					
	remaining credit is at least euro 13.					
Agreement with "3"	The agreement signed with "3" extends the sphere of commercial collaboration and re-defines					

	agreements with regard to roaming, sharing sites and interconnection. The agreement also
	establishes the sharing of the broadcasting rights, via cell phones, of sporting events involving the Series A TIM and B TIM football squads, owned by the two operators.
Launch of "MAXXI TIM	This is a plan allowing customers to acquire large packages of minutes at highly advantageous
Parole"	prices continuously throughout the year, and the option of choosing the solution best suited to their
	needs from the many combinations available.
Launch of EDGE	In April, TIM (the first company to do so in Italy) launched EDGE, the broadband mobile network for
	transmitting data at high speed, a service which complements the UMTS service. TIM customers
	will be able to use the new line of dual mode "TIM TURBO" phones which can use both the EDGE
	and UMTS networks, which provide the highest-quality services.
Launch of the FreeMove	On March 29, 2004 the members of the alliance (Orange, Telefonica Moviles, TIM and T-Mobile)
brand	presented the new brand FreeMove, illustrating the first tangible results of the alliance. These
	include the conclusion of preferential supply agreements with Siemens and Motorola and the joint
	acquisition of 6 million terminals for 2004, with an average reduction in cost of 10%.

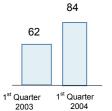
■ ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

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

(millions of euro)	1 st Quarter 2004 2003 (a) (b)		2003	Change (a-b)		
(**************************************	(,	(-,		amount	%	
Sales and service revenues Gross operating profit % of revenues	443 84 19.0%	292 62 21.2%	1,547 196 12.7%	151 22	51.7 35.5	
Operating loss pre-amortization of differences on consolidation Operating loss % of revenues Investments:	(41) (44) (9.9%)	(20) (23) (7.9%)	(237) (248) (16.0%)	(21) (21)	 (91.3)	
industrial Employees at period-end (number) (1)	75 7,688	76 7,382	641 7,502	(1) 186	(1.3) 2.5	

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





During the first quarter of 2004, the operations of the Mobile Business Unit in Latin America generated *revenues* of euro 443 million, an increase of 51.7% compared to the first quarter of 2003, despite the impact of the negative foreign exchange effect. Excluding the foreign exchange effect, *revenues* increased by approximately euro 156 million.

Gross operating profit amounted to euro 84 million. In this case, excluding the foreign exchange effect, the gross operating profit increased by approximately euro 26 million. The margin for the period was still negatively influenced by the expenses deriving from the start-up of the GSM service in Brazil.

The operating loss was euro 44 million.

Industrial investments amounted to euro 75 million, of which euro 10 million referred to intangible assets and euro 65 million to fixed assets.

The number of *employees* increased by 186, compared to December 31, 2003. This increase can be attributed to the expansion reported by Brazilian companies in the start-up phase.

SOUTH AMERICA

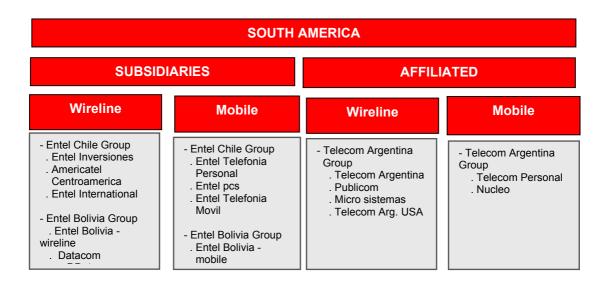
STRUCTURE

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

Paolo Dal Pino, who represents the Telecom Italia Group in Latin America, now reports directly to the Chairman.

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

The structure of the Latin American is organized as follows:



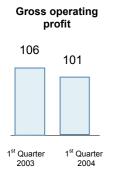
The main information and key consolidated economic and financial highlights of the Entel Chile group and the Entel Bolivia group with regard to fixed and mobile telephone services are commented below.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

Compared to December 31, 2003, the company Telecom Italia America Latina and the South American business segment of Telecom Italia were deconsolidated from South America operations and moved to the Corporate structure.

■ ECONOMIC AND FINANCIAL DATA

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



(millions of euro)	1 st Quarter 2004 2003 (a) (b)		2003	Change (a-b)		
,	, ,	. ,		amount	%	
Sales and service revenues Gross operating profit % of revenues Operating income pre-amortization of differences on consolidation	264 101 38.3	291 106 36.4 43	1,111 407 36.6	(27) (5)	(9.3) (4.7)	
Operating income % of revenues Investments:	37 14.0	41 14.1	145 13.1	(4)	(9.8)	
. industrial Employees at period-end (number) (1)	22 4,981	30 5,326	129 4,953	(8) 28	(26.7) 0.6	

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

Sales and service revenues amounted to euro 264 million, with a reduction of euro 27 million, -9.3%, compared to the same period of 2003. This reduction was mainly attributable to a contraction of the revenues of the Entel Chile group. Exchange rate fluctuations generated an overall positive impact equal to approximately euro 8 million, of which euro 16.2 million referred to the Chilean peso and -euro 8 million to the Bolivian boliviano. Excluding the exchange effect, consolidated revenues showed a reduction of euro 35 million, equal to -12.0%.

The fluctuations described also influenced profit performance. In particular, *gross operating profit* decreased by euro 5 million (-4.7%) compared to the first quarter of 2003, with a positive exchange effect of approximately euro 2 million. Excluding the exchange effect, gross operating profit decreased by 6.6% compared to the first quarter of 2003. The gross operating profit represented 38.3% of total revenues (compared to 36.4% in the same period of 2003).

Operating income, equal to euro 37 million, decreased by euro 4 million (-9.8%) compared to the same period of 2003 and was affected by a positive foreign exchange effect of approximately euro 2 million. Excluding the foreign exchange effect, the operating income decreased by 14.6% compared to the first quarter 2003. The operating income represented 14% of total revenues (compared to 14.1% in the same period of the prior year).

Industrial investments of euro 22 million show a declining trend compared to the first quarter 2003, with a reduction of 26.7%.

At March 31, 2004 *employees* numbered 4,981, an increase of 28 (+0.6%) compared to December 31, 2003. The increase can be attributed to a rise in the number of employees of the Entel Chile group.

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

(millions of euro)		1 st Quarter 2004			1 st Quarter 2003			
	Fixed	Mobile	Eliminations	Total	Fixed	Mobile	Eliminations	Total
Sales and service revenues	169	129	(34)	264	199	123	(31)	291
Gross operating profit	47	54	-	101	51	55	-	106
% of revenues	27.8	41.9		38.3	25.6	44.7		36.4
Operating income pre- amortization of differences on								
consolidation	8	31		39	11	32		43
Operating income	6	31		37	9	32		41
% of revenues Investments:	4.1	24.0		14.0	5.0	26.0		14.1
. industrial	10	12		22	16	14		30
Employees at period-end (number)	3,382	1,599		4,981	3,709	1,617		5,326

INTERNET AND MEDIA

- TIN.IT: number of customers served reaches 2.8 million (+18.2%)
- VIRGILIO: its position as the leading Italian portal confirmed with 14.7 million individual visitors (+19.5%) and 1.9 billion page views (+16.1%)
- La7: audience share remains steady at above 2%
- MTV: number of companies advertising on MTV increases by 27%

THE BUSINESS UNIT

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

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

■ THE STRUCTURE OF THE BUSINESS UNIT

Compared to the 2003 Annural Report, the structure of the Business Unit has changed, since the Professional Publishing Group (GPP), which is in the process of being sold, has been moved to "Other Activities".

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

INTERNET AND MEDIA									
INTERNET	NEWS	OFFICE PRODUCTS	OTHER ACTIVITIES						
TIN.IT Matrix	TM News	Holding Media e Comunicazione Group	Buffetti Group	GPP Databank Televoice					

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- as part of the process of rationalizing the business portfolio, on January 29, 2004, the 60% investment in CIPI S.p.A. was sold to Promoinvestments S.r.I. for euro 6.5 million.
- on February 3, 2004, the City of Pesaro and La7 Televisioni S.p.A. signed a memorandum of understanding for the experimentation of land-based digital television (DDT) directed to the development and broadcasting of publicly-useful interactive services for the city of Pesaro.
 The experiment, which involves 100 families, will bring the city's interactive services into the homes of its citizens and will be able to be accessed simply by using the TV remote control.
- On February 11, 2004, Telecom Italia Media S.p.A., Sun Microsystems Italia, a leader in network systems, and CSP Innovation in ICT (Centro per la ricerca e la sperimentazione di tecnologie informatiche e telematiche avanzate) signed an agreement for the experimentation of innovative services for land-based digital television in the province of Turin.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2004, compared to the first quarter and the year 2003, restated to include only the businesses that were not sold.

TELECOM ITALIA MEDIA GROUP

	1st Quarter	1st Quarter 2003		3	Year	Change		Change	
	2004	Resta	ated	Historical	2003	(a-b)		(a-c)	
(millions of euro)		On a comparable consolidation basis	Total	values	Historical values	(2.3)			
	(a)	(b)	(c)			amount	%	amount	%
Sales and service revenues	149	126	160	345	1,297	23	18.1	(11)	(7.1)
Gross operating profit	3	(2)	-	47	322	5		ì á	` ′
% of revenues	2.2%	(1.6%)	0.3%	13.6%	24.8%				
Operating income pre-amortization of									
differences on consolidation	(16)	(22)	(19)	(14)	125	6	(24.6)	3	(15.8)
Operating income	(24)	(29)	(27)	(35)	63	5	19.7	3	14.0
% of revenues	(15.9%)	(23.4%)	(17.1%)	(10.1%)	4.9%				
Investments:									
. industrial	9	17	17	20	102	(8)	(47.1)	(8)	(47.1)
. differenze da consolidamento		5	5	21	61	(5)		(5)	
Employees at period-end (number)	1,882	1,904	2,235	7,559	2,029	(147)	(7.2)	(147)	(7.2)

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

Sales and service revenues amounted to euro 149 million in the first quarter of 2004 and showed a reduction of euro 11 million (-7.1%) compared to the same period of 2003. On a comparable consolidation basis, revenues increased by euro 23 million (+18.1%) compared to the same period of the prior year (euro 126 million). In particular:

- revenues from *Internet* business totaled euro 75 million in the first quarter of 2004, with an increase of euro 18 million (+32.1%) compared to the first quarter of 2003. The increase in revenues is attributable to the positive trend of both activities of the sector (Internet access and portal) and, more particularly, to the growth of revenues from the sale of ADSL products;
- revenues from *Television* business amounted to euro 26 million in the first quarter of 2004, with an increase of euro 5 million (+23.7%) compared to the first quarter of 2003:
- revenues from the Office Products & Services business amounted to euro 38 million for the first quarter of 2004, on a comparable consolidation basis (that is, net of the effects of the deconsolidation in April 2003 of Incas Production S.r.l. and IS Products S.p.A., companies operating in consumer products). This result represented an increase of euro 0.4 million (+1.1%), compared to the first quarter of 2003, despite the slowdown in the market for consumer goods and office products.

Gross operating profit was euro 3 million in the first quarter of 2004, with an improvement of euro 3 million compared to a gross operating loss in the first quarter of 2003; on a comparable consolidation basis, the improvement of gross operating profit amounts to euro 5 million.

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

Industrial investments in the first three months of 2004 amounted to euro 9 million (euro 17 million in the first quarter of 2003) and refer principally to Digital Land-based Television and the updating of Internet infrastructures.

The number of *employees* was 1,882 at March 31, 2004 (2,029 at December 31, 2003). The overall reduction of 147 persons, on a comparable consolidation basis, compared to December 31, 2003 (-353 less compared to restated numbers) is attributable to all the operational units of the Group as a result of measures implemented to improve the efficiency of the structures.

■ TELECOM ITALIA MEDIA S.p.A.

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

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

The following table shows the key economic highlights compared to the restated data (relating only the results of the business that were not sold) and the historical data.

(millions of euro) RESTATED	1 st Quarter 2004 (a)	2004 2003		Change (a-b) (%)	
Sales and service revenues	68	52	223	29.7	
Gross operating profit	9	6	20	62.3	
Operating loss	(1)	(5)	(25)	76.1	

(millions of euro) HISTORICAL VALUES	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	2003	Change (a-b) (%)
Sales and service revenues	68	175	743	(61.2)
Gross operating profit	9	50	300	(82.0)
Operating income (loss)	(1)	4	158	(125.0)

Sales and service revenues, equal to euro 68 million, increased by euro 16 million (+29.7%) compared to the first quarter of 2003 (euro 52 million). The increase is entirely attributable to the TIN.IT Division, thanks to the positive trend of its services (dial-up products and broadband ADSL, TIN.IT and Alice).

Gross operating profit, equal to euro 9 million, increased by euro 3 million compared to the first quarter of 2003 (+62.3%) and represents 13.8% of total sales and service revenues (11.0% during the same period of 2003).

The *operating loss* of euro 1 million (-euro 5 million in the first quarter of 2003), showed an improvement of euro 4 million.

Activities during the period:

Internet Users	Dial Up (Tin.it Free and Premium)	At March 31, 2004, Internet users numbered 1.5
		million, a slight reduction (-0.3 million) compared to
		March 31, 2003 following the migration of customers
		towards broadband products.
	ADSL Tin.it	At March 31, 2004, users numbered 186 thousand (68
		thousand at March 31, 2003).
	ADSL Alice	At March 31, 2004, users numbered 1,097 thousand
		(517 thousand at March 31, 2003)

INFORMATION TECHNOLOGY MARKET

- Focus on key markets
- Technological partnerships

■ INTRODUCTION

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

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

As in 2003, during the first quarter of 2004, the IT Market BU focused even more on the markets with the highest development potential, took radical action to cut costs, innovate and extend the range of solutions offered to the market and rationalize the scope of its operations.

■ THE STRUCTURE OF THE BUSINESS UNIT

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

Information Technology Market

Finsiel Group:
Finsiel S.p.A.
Banksiel S.p.A.
Insiel S.p.A.
Tele Sistemi Ferroviari S.p.A.

Webegg Group: Webegg S.p.A. Software Factory S.p.A. Teleap S.p.A.

Eustema S.p.A.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

During the first quarter of 2004, the "Facility Management" business segment of Finsiel S.p.A. was sold to Emsa Servizi S.p.A., effective January 1, 2004.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2004, compared to the first quarter and the year 2003. Furthermore, for purposes of a more meaningful comparison, the data relating to the first quarter of 2003 has been restated to give effect to the exclusion of the Netikos Group, Domus Academy and the activities of the Enterprise business segment which was sold to IT Telecom on October 1, 2003.

	1 st Quarter 2004	1 st Quarter 2003 restated	1 st Quarter 2003	2003	Char (a-l	_
(millions of euro)	(a)	(b)				
					amount	%
Sales and service revenues Gross operating profit	169 11	146 11	156 10	891 84	23	15.8 -
% of revenues Operating income pre-amortization of	6.5%	7.5%	6.4%	9.4%		
differences on consolidation	3	2	1	60	1	50.0
Operating income	3	1	-	58	2	
% of revenues Investments:	1.8%	0.7%	-	6.5%		
. industrial	8	6	6	30	2	33.3
Employees at period-end (number) (1)	4,806	4,965	5,478	4,827	(21)	(0.4)

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

Gross operating profit



Sales and service revenues increased by euro 23 million during the first quarter 2004 compared to the same period of the prior year, restated for purposes of comparison. This change is mainly attributable to increased revenues from Tele Sistemi Ferroviari, Agrisian and Finsiel.

Gross operating profit remained unchanged compared to the same period of the prior year.

Operating income of the first quarter of 2004 increased by euro 2 million compared to the first three months of the prior year, restated for purposes of comparison. The increase is mainly attributable to Finsiel and Tele Sistemi Ferroviari, and was partly offset by a deterioration in the results of Webegg.

Industrial investments amounted to euro 8 million, with an increase of euro 2 million compared to the same period of the prior year, and were mainly attributable to Tele Sistemi Ferroviari.

At March 31, 2004 *employees* numbered 4,806, with a decrease of 21 compared to December 31, 2003.

INFORMATION ON OPERATIONS

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

- Finsiel, as part of a temporary association of companies including Hewlett Packard, won the bid announced by the Ministry of Justice, to develop and operate a centralized data bank listing all assets seized or confiscated from criminal organizations, as part of series of measures for the preservation of cultural assets;
- **Finsiel Romania,** headquartered in Bucharest, created the **Global Biodiversity Information Facility** portal, the website for collecting data about biodiversity on a worldwide scale, dedicated to the scientific community.
- **Insiel** created an e-business system for **Danieli C. S.p.A.** so that all the project documentation can be shared between the company's project managers and its customers. Danieli, founded in 1914, is the world's third-largest producer of innovative machinery and plant for the iron and steel industry and exports 99% of its production.

INFORMATION TECHNOLOGY GROUP

THE OPERATING ACTIVITY

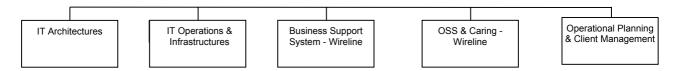
The Information Technology Group Operating Activity is responsible for coordinating technological innovation and service information technology activities within the Telecom Italia Group. The structure places a greater focus on the core business of TLC, pursuing objectives such as the increment, the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

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The companies reporting to the Operating Activity are those dedicated to the Group's information systems and form part of the integration project of the various frameworks.



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



IT Architectures – design and creation of applications and infrastructure architectures, ensuring rationalization and standardization:

IT Operations & Infrastructures – design and management of the IT infrastructures required for the functioning of Group systems and applications and the delivery of investment-based services for the market; the running of IT systems and solutions;

Business Support System (BSS) Wireline – design, development, applications and service assurance of IT systems, solutions and applications to support the business and operations of Telecom Italia Wireline;

OSS & Caring Wireline – design, development and maintenance, for the network segment, of the IT systems, solutions and applications for the Wireline BU; assures the caring services outsourced by the BU.

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

With regard to the first quarter of 2004, the following should be mentioned:

On February 24, 2004, under the program for the rationalization of the Information Technology Group Business Unit of the Telecom Italia Group, the Board of Directors of IT Telecom voted to sell the "Development" business segment to TIM S.p.A., effective April 1, 2004.

This business segment carries out activities that IT Telecom currently provides to TIM in the areas of:

- innovative services, based on IP networks, known also as e-business or web services, directed at the business and mass-market segments;
- telecommunications software development and maintenance activities.

These activities will be integrated with the resources that today already operate in IT development in the Mobile BU, making it possible to improve the synergies for the management of the current platforms and the development of their evolution.

The sale price, based also upon an outside appraisal by Milestone Advisory House S.p.A. in Milan, was agreed between the parties at euro 23 million. 551 resources were transferred.

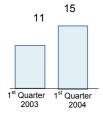
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first quarter of 2004 compared to the first quarter and the year 2003. The figures refer almost entirely to the parent company IT Telecom.:

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	Year Chang 2003 (a-b)		_
(millionic of cure)	(α)	(2)		amount	%
Sales and service revenues Gross operating profit % of revenues Operating loss pre-amortization of	225 15 6.7%	229 11 <i>4</i> .8%	1.100 96 <i>8.7%</i>	(4) 4	(1.7) 36.4
differences on consolidation Operating loss % of revenues Investments:	<i>(15)</i> (15)	(22) (22)	<i>(36)</i> (36)	7 7	<i>31.8</i> 31.8
. industrial Employees at period-end (number) (1)	20 4,053	12 5,059	174 4,107	8 (54)	66.7 (1.3)

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

Gross operating profit



Consolidated *revenues* showed a decrease of euro 4 million compared to the first quarter 2003. Conversely, higher volumes of work on institutional projects for Corporate, such as the SAP Value Program and the development of the Group Portal, Broadband projects for the Wireline business segment of Telecom Italia, Usage Collection, Order Manager and CRM generated an increase in work in progress, compared to the same period of 2003, of euro 20 million. Activities in 2004 include a new Telecom Italia project, begun at the end of 2003, known as "International operators", and outsourcing operations on behalf of the Wireline network.

Gross operating profit showed an increase of euro 4 million as a result of the above-mentioned increase in work in progress, which was partly offset by higher operating costs (+euro 12 million). The increase in operating costs is due, on the one hand, to higher outside costs (+euro 20 million), following the greater volumes of activity, and, on the other, to a reduction in labor costs (-euro 8 million) as a result of the restructuring process currently in progress.

The improvement in *operating income* (+euro 7 million) was influenced not only by the performance of gross operating profit, but also by the improvement in the balance of other operating income and expenses (+euro 3 million).

Industrial investments amounted to euro 20 million and reflected the continuation of infrastructure projects begun at the end of 2003. This related, in particular, to the continuation of work to overhaul and expand local networks and the refurbishment of the direct interconnections of 47 companies, including 5 foreign companies, out of a total of 54 companies involved in the plan. The increase of euro 8 million compared to the first quarter 2003 is attributable to the start-up of new projects involving, in particular, Griffon, the evolution of the Group SAP initiative and the e-Foundation project.

At March 31, 2004 *employees* numbered 4,053: this is 54 less than at December 31, 2003. The reduction is mainly due to the continuation of restructuring activities begun during the prior year.

■ INFORMATION ON OPERATIONS

During the first quarter 2004, activities continued in order to rationalize and standardize the architectures and infrastructures of the Parent Company. In particular, activities continued to develop the "Group Network" and "Virtual Data Center Network" infrastructure projects and the new "eFoundation" project was begun. This project is aimed at the applications integration at the Enterprise level on different chains of business.

Other activities during the period refer to:

- the coming into full operation of center of expertise for the management of development systems in Naples;
- the transfer of the operating systems of the "Reporting and Consolidated" application from the Data Center in Turin to the Data Center in Milan.

As far as the development of BSS and OSS for the Business Units is concerned, the following should be pointed out:

Telecom Italia Wireline:

In the area of BSS:

- conclusion of the process of migration of the Business and MicroBusiness clientele to the new CRM platform which manages the sales, order management, customer care and billing processes;
- scheduling of the start of the new Usage Collection (phone traffic, data and services management) and front-end credit platforms for April 2004;
- updating, in the Business Intelligence area, of all the information systems to comply with Resolution No. 180 (concerning permission to release personal information).

In the area of OSS:

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

TIM:

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

EVENTS SUBSEQUENT TO MARCH 31, 2004

The following subsequent events took place:

- on April 5, 2004, a contract was finalized for the sale of the 75%-investment held in Telesoft Russia ZAO for consideration of US\$ 24,000, as voted by the Board of Directors of IT Telecom on February 24, 2004;
- on April 6, 2004, Tecosoft Argentina SA, a company controlled 99.99% by IT Telecom was put into liquidation. The wind-up is scheduled to close at the end of 2004.

OLIVETTI TECNOST

■ INTRODUCTION

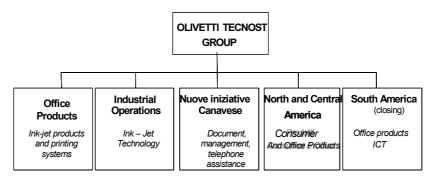
The Olivetti Tecnost group Business Unit operates mainly through the Office Products Division in the sector of ink-jet products for the office and digital printing systems, the development and production of products associated with silicon technology (ink-jet print-heads and MEMS) and specialized applications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

■ THE STRUCTURE OF THE BUSINESS UNIT

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



The company operates with the following organizational structure:



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

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

The wind-up of the following companies was also decided:

Olivetti de Venezuela C.A. (January 30, 2004);

- Olitecno S.A. de C.V., 50%-owned (February 17, 2004).
- Olivetti Peruana S.A. (February 20, 2004);
- Diaspron do Brasil S.A. (March 5, 2004);
- Multidata S.A. Eletronica Industria e Comercio (March 5, 2004);

ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	2003	Char (a-k	_
, ,	. ,	` ,		amount	%
Sales and service revenues Gross operating profit	144 7	158 2	655 40	(14) 5	(8.9)
% of revenues	4.9%	1.3%	6.1%	Ü	
Operating income (loss) pre-amortization of differences on consolidation	2	(5)	4	7	
Operating income (loss)	2	(5)	2	7	
% of revenues Investments:	1.4%	(3.2%)	0.3%		
. industrial	4	4	20	-	-
Employees at period-end (number) (*)	2,346	3,223	2,395	(49)	(2.0)

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

Gross operating profit 7

2

1st Quarter 2003 2004

Sales and service revenues in the first quarter of 2004 amounted to euro 144 million, of which euro 80 million referred to the Office Products Division, euro 39 million to the Systems Division, euro 5 million to Nuove Iniziative Canavese and euro 20 million to other operations. Revenues by product were as follows: euro 78 million for hardware, euro 34 million for accessories and euro 32 million for services and other revenues.

Compared to the first quarter of 2003, revenues showed a reduction of euro 14 million (-8.9%). Excluding the foreign exchange effect and the change in the scope of consolidation (particularly the closing of operations in Latin America), this would be an increase of 5 million (+3.6%).

Gross operating profit and operating income improved significantly compared to the first quarter of 2003, benefiting from the restructuring operations implemented in the prior year which led to a reduction of fixed costs.

Industrial investments amounted to euro 4 million and remain unchanged compared to the first quarter of 2003.

At March 31, 2004 *employees* numbered 2,346 of whom 2,017 were employed in Italy and 329 abroad. Compared to December 31, 2003, this shows a reduction of 49 persons, mainly attributable to employees leaving companies in Italy.

■ INFORMATION ON OPERATIONS

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

Office Products

During the first quarter of 2004 in the Office Business, including Olivetti I-Jet, there was an improvement in the most important operating indicators compared to 2003.

In the range of ink-jet fax machines, growth was confirmed together with the division's position of European leadership. Quantities of products delivered to customers increased by 37% compared to the first quarter of 2003, mainly as a result of the acquisition of an order for 85,000 fax machines from a mass-merchandising customer that will be delivered in the second quarter of 2004. Sales of other lines of products were in line with the 2004 plan.

With reference to the process of rationalizing the administrative side of the division, the back-office activities of the foreign affiliates were outsourced and concentrated in the services center of the Accenture group in Prague. During the first quarter of 2004, this process involved the affiliates in

the U.K., Germany, Austria, Denmark, Spain and Portugal.

Nuove Iniziative Canavese

The activities of this structure increased significantly compared to the first guarter of 2003.

During the first quarter of 2004, Cell-Tell acquired new customers and increased its lines of service by repairing and regenerating fixed telephone equipment.

Innovis, which is operational in the back-office sector, and Wire-lab, which repairs and regenerates telephone exchanges, increased both their activities and their number of employees.

Systems Division

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

In particular, in the *Gaming* sector, an important contract was signed for the supply of 20,000 terminals for operating the electronic voting system in Venezuela. The contract is scheduled for completion by the second half of 2004.

In addition, the division has begun to supply terminals for video-games to the Czech Republic.

In the *Banking* sector, in a generalized market scenario which was substantially unchanged compared to 2003 in Western countries, there was an increase in sales volumes on Eastern markets. This can be attributed to the Chinese market, where the profitability profile was in line with expectations despite the unfavorable foreign exchange effect.

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

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

■ EVENTS SUBSEQUENT TO MARCH 31, 2004

The wind-up of the following companies in South America was decided:

- Olivetti Argentina S.A.C.e.l.
- Olivetti Colombiana S.A.
- Olivetti Servicios y Soluciones Integrales S.A. de C.V. (Messico).

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

OTHER ACTIVITIES

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

TELECOM ITALIA LAB

THE ACTIVITY

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

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

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

THE STRUCTURE

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



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



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

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

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

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On January 13, 2004, Telecom Italia sold the investment in the affiliated company Siosistemi (40%) to I.NET S.p.A. for euro 1.6 million. The sale is part of the program for the disposal of investments which are no longer considered strategic to the core business.

■ ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2004 (a)	1 st Quarter 2003 (b)	2003	Chaı (a-l	_	
,	. ,	. ,		amount	%	
Operating costs Amortization and depreciation Operating grants	32 3 (1)	30 5 (3)	133 16 (9)	2 (2) (2)	6.7 (40.0) (66.7)	
Total net costs TILAB	34	32	140	2	6.2	
Costs recharged to TI BUs Revenues from third parties	28 3	30 4	128 15	<i>(2) (</i> 1 <i>)</i>	(6.7) (25.0)	
Total	31	34	143	(3)	(8.8)	
Operating income (loss)	(3)	2	3	(5)		
Investments: . industrial Employees at period-end (number) (*)	0 1,121	1 1,201	8 1,142	(1) (21)	(1.8)	

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

During the first quarter of 2004, total *net costs*, equal to euro 34 million, net of related grants, increased by euro 2 million compared to the first quarter of 2003, due to the reduction in operating grants released to income during the period under examination.

The increase in operating costs is partly attributable to the transfer, from Telecom Italia's Corporate Function, of the research collaboration contract with Pirelli Labs and the contract for consultancy services regarding industrial properties supplied to the Telecom Italia Group by the Industrial Properties Function of Pirelli & C. (totaling euro 5 million), and partly to the increase in lease costs, following the sale of owned buildings under the Dedalo project. However, the abovementioned increase in costs was offset by the consequent reduction in depreciation.

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

Industrial investments showed a reduction largely because no real estate investments were made following the above-mentioned sale of owned properties under the Dedalo Project.

At March 31, 2004 employees numbered 21 less than at December 31, 2003.

INFORMATION ON OPERATIONS

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

Innovation of Services

- release of the first version of a platform to develop interactive services on Digital Landbased TV (DTTRUN system), based on the European MHP (Multimedia Home Platform) standard;
- development of the first interactive application on Digital Land-based TV broadcast by La 7 (real-time consultation of departures/arrivals information boards located at 13 of Italy's main railway stations);
- collaboration with TIM and with the world's main GSM operators to start the strategic OMTP (Open Mobile Terminal Platform) Alliance, the aim of which is to ensure that operators have greater control over terminals by jointly developing the specification for an innovative software platform;
- launch of the TIMMAP service which allows customers with GPRS smartphones (shortly EDGE) to surf town maps, see points of interest on screen and work out routes, using both the mobile phone (TILAB's NIMBLE technology) and external GPS accessories (interfaced

- with Bluetooth) for locating points along the route;
- release of the DOMUSLIFE VIDEO system, which enables customers to remotely control (via SMS) one or more close-circuit cameras connected to a DomusLife control board, and to receive (via MMS) images, sounds, sensor data and alarms from the areas of the home under control.

Network Innovation

- release of a new version of the STARSIP Platform to Italtel, as agreed in the recently signed Development Contract. This version will be integrated by Italtel in Wireline's Next Generation Network solution and will be used to create new APT (Advanced Personal Telephony) services, scheduled to be launched from mid-2004 onwards;
- technical and economic feasibility studies, in random sample geographical areas, for the steady introduction of fiber optics to the Access Network, with a special focus on GPON (Gigabit Passive Optical Network) technology and comparison with alternative innovative solutions;
- use of the CANTO system in a key role to conduct the ADSL quality survey activated by Wireline on approximately 1.2 million active lines with the specific objective of establishing pre-qualification standards for copper pairs for the transition to the supply of 4-6 Mbit/s ADSL services;
- first verification of frequency co-existence, possibility of the deployment and performance potential of the new HSDPA (High Speed Downlink Packet Access) technology which should make it possible to reach transmission speeds of up to 8-10 Mbit/s in the so-called 3.5G evolution of the UMTS network;
- release and application to the new TIM Mobile TV service of the DCCA (Dynamic Conditional Content Accounting) system which will allow "content-based" rate charges for value-added IP services;
- transfer to IT Telecom of the LISA (Light Information Security Assessment) platform which allows automatic campaigns to be carried out to analyze the level of security reached with regard to the Best Practices indicated in the ISO BS7799 quality standard.

INTERNATIONAL AFFAIRS

The Corporate International Affairs Function comprises the subholding company Telecom Italia International N.V. (Netherlands) and some affiliated companies including the integrated fixed and mobile services operator Etec S.A. (Cuba). The function ensures the coordination, the enhancement and the rationalization of the relative foreign subsidiaries and affiliates under its control.

As far as the major corporate transactions which took place in the first quarter of 2004 are concerned, with regard to the investment portfolio of Telecom Italia International N.V., the following should be mentioned:

Euskaltel - Spain

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

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

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

Telekom Austria

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

Netco Redes S.A. - Spain

On March 4, 2004, Telecom Italia International N.V. signed a contract with Auna for the sale of its entire 30% investment in Netco Redes S.A. for consideration of euro 30 million, which will be paid in three annual installments, with stipulated interest, beginning from December 2006. The closing will take place following completion of the authorization process by the competent Spanish regulatory authorities.

Etec S.A. - Cuba

On March 4, 2004, the Shareholders' Meeting of the Cuban company voted a share capital increase, for US\$ 23.8 million, through the issue of 165 new shares of par value US\$ 144,190 each. This is one of the share capital increases planned by Etec S.A. to cover the financial requirements associated with the payment of the new concession to operate fixed and mobile telephone services issued to the company by the Cuban authorities.

Telecom Italia International proportionally subscribed to its share of the capital increase for US\$ 6.3 million in exchange for 44 new shares.

EVENTS SUBSEQUENT TO MARCH 31, 2004

Subsequent events are as follows:

• The Extraordinary Shareholders' Meeting of Solpart, held April 26, 2004, voted to reduce share capital by Brazilian reais 173,350,000.00, of which Brazilian reais 41,898,263.09 will be reimbursed in cash prorata to the shareholders and the remainder by distribution of a part of its assets represented by investments, attributing prorata to the shareholders 3,474,342,842 ordinary shares and 3,491,253,373 preferred shares of the subsidiary Brasil Telecom Participaçoes S.A.. The valuation of the amount of the reimbursement of capital in shares was made on the basis of the weighted average price of the shares at the close of trading on the San Paolo Stock Exchange on April 23, 2004, equal to Brazilian reais 17.65 per lot (1,000 shares) of ordinary shares and Brazilian reais 19.52 per the same lot of preferred shares. The remaining Brazilian reais 1,980,319.91 constitute coverage for losses of prior years.

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

CENTRALIZED GROUP SERVICES

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

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

The data considers the internal exchanges among the functions of Telecom Italia S.p.A..

OPERATING COSTS

	1 st Quarter 2004	1 st Quarter 2003 Proforma	Change	
(millions of euro)			amount	%
Real Estate Activities and Services (1) Central Administrative Services (CSA)	180 13	172 13	8	4.7
Security	8	7	1	14.3
Other (2)	18	22	(4)	(18.2)
CENTRALIZED SERVICES TOTAL	219	214	5	2.3

- (1) Includes Olivetti Multiservices
- (2) Includes TI Audit, TILS, TI Finance and other companies

Centralized Group Services showed an increase in costs of euro 5 million compared to the first quarter of 2003 proforma, mainly attributable to the increase in lease costs incurred by "Real Estate Activities and Services" as a result of the sale of real estate properties under the Dedalo project. This increase was largely compensated by lower depreciation and amortization, as well as the financial benefits resulting from the sale of the properties. The increase in the costs of the Security function is the result of the adoption of higher safety standards in offices and systems.

While costs increased, as shown in the table, depreciation and amortization of Centralized Group Services decreased by euro 7 million, from euro 38 million in the first quarter of 2003 to euro 31 million in the first quarter of 2004.

Real estate activities and services concern the planning of the sites and installations of the Group, the design and construction of civil works, the maintenance of the properties and technological plant, in addition to providing real estate and general services. Such services are provided both through internal structures to Telecom Italia S.p.A. – essentially for the activities conducted on behalf of the Business Units and Functions of Telecom Italia itself – and through the subsidiary Emsa Servizi S.p.A., which directs its activities towards the other companies in the Group.

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

Fintecna project

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

On April 1, 2004 Telecom Italia exercised its right to purchase the leased buildings.

Tiglio Project

Under the second stage of the Tiglio project – which calls for concluding the process to enhance the real estate properties held by Tiglio I and Tiglio II either by conferring the properties to a real estate fund or by selling them through individual sales transactions – on March 1, 2004, the placement of the closed investment fund "Tecla – Fondo Uffici" on the market was successfully concluded.

This fund, managed by Pirelli & C. Real Estate Sgr S.p.A., had been transferred real estate properties consisting of 65 buildings worth about euro 926 million at market value, plus euro 25 million in cash by a contribution from Tiglio I (45.70%-owned by Telecom Italia).

Sale of "Document Management" business segments

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

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

CORPORATE

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

The following table shows the operating costs (outside costs and labor costs) incurred during the first quarter of 2004 to conduct the above-mentioned activities, compared with the same period of the prior year, restated to take into account the different scope of consolidation.

The figures include costs recharged for the activities conducted by Centralized Group Services.

OPERATING COSTS

	1 st Quarter 2004	1 st Quarter 2003 Proforma	Cha	nge
(millions of euro)			amount	%
Staff Functions Information System Group Communication	82 27 8	89 15 5	(7) 12 3	(7.9) 80.0 60.0
CORPORATE	117	109	8	7.3

Corporate costs show an increase of euro 8 million due mainly to an increase of euro 12 million for the development of information systems and euro 3 million for communication activities relating to the "Italia Project" initiative, which is partly compensated by the decrease in Staff functions.

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

The decrease in the costs of staff functions is attributable to less recourse to consulting services.

OTHER INFORMATION

■ DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

An update of the main disputes, litigations and arbitration proceedings involving the Telecom Italia Group presented in the 2003 annual report is presented below. Except where specifically mentioned, the Telecom Italia Group did not make any provision to risk reserves because of the absence of definite and certain elements and/or because a negative outcome to the litigation is not considered probable.

PERSONAL COMPUTERS SECTOR

In relation to the disposal of the personal computers business in April 1997, lawsuits have been brought before the Ivrea Courts against Olivetti (now Telecom Italia) and its subsidiary OFI Consulting S.r.l. (the acquiring company of Olivetti Personal Computers S.p.A.), by the following parties, and are still pending:

- by Centenary Corporation and Centenary International (buyers of OP computers S.p.A., which took over the personal computers business segment) for compensation of damages quantified in roughly euro 130 million:
- by ICS S.p.A. (successive transferee of this business) for compensation of damages, jointly and severally, with the OP Computers bankruptcy, for about euro 16 million;
- by the former employees of OP Computers S.p.A., to find that the contract of sale of the business segment is null and void, with the consequent declaratory judgment of the continuation of contracts that were held by Olivetti, to obtain payment of salary differences and compensation for damages (for a total of about euro 210 million). To this end, on March 31, 2004, conciliation agreements were signed with the majority of the plaintiffs, to which a gross amount of euro 12,000 was awarded to each person in addition to euro 1,000 as a contribution for expenses, for a total of approx. euro 5,300,000. The case is continuing with the other plaintiffs, but the conciliation agreement implies a considerable reduction in the amounts requested.

Again in relation to the disposal of the personal computers business, preliminary hearings are in progress before the criminal court judge of Ivrea for false appraisals and fraudulent bankruptcy.

A specific reserve has been booked by Telecom Italia to meet any risks from the above actions.

DE AGOSTINI

Arbitration proceedings initiated by companies of the De Agostini Group are currently pending against Seat (now Telecom Italia Media), Finanziaria Web, Matrix and the Buffetti Group for the alleged nonfulfillment of the framework agreement of September 20, 2000 principally regarding the sale of 40% of Finanziaria Web by De Agostini to Seat for consideration of euro 700 million.

De Agostini has asked that Seat be ordered to execute the uncompleted purchase contract (with rejection of the counterclaim to cancel the agreement because of excessive onerousness which arose) and to fulfill the other obligations connected with the transaction, besides compensation for damages and reimbursement of the expenses incurred to cover the losses and recapitalize Finanziaria Web after July 2001. Conditionally, De Agostini later requested that the contract should be reduced to fair value, indicating the sum of euro 630 million as being fair consideration for the purchase of 40% of Finanziaria Web, or – as a further condition – the sum that shall be decided by the Arbitration Board.

For its part, Telecom Italia Media – besides asking for the resolution of the contract, as above – has also introduced new grounds for cancellation, claiming a conflict of interests in concluding the agreement.

The deadline date set for arbitration award is November 7, 2004.

By order of March 24, 2004, the Board of Arbitration has asked the parties to verify whether the conditions exist for arriving at an amicable settlement. To this end, contacts have begun between the legal counsels of the parties.

CECCHI GORI

On October 1, 2003, the Arbitration Board composed of Professors Trimarchi, De Nova and Carbone announced the award in the proceedings initiated in August 2001 by Cecchi Gori Group Fin.Ma.Vi. S.p.A.(Fin.Ma.Vi.) and Cecchi Gori Group Media Holding S.r.I. (Cecchi Gori Media Holding) against Seat – at this date against Telecom Italia Media – to find for the rescission or the invalidity of the August 7, 2000 contract for the acquisition of 75% of the share capital of Cecchi Gori Communications S.p.A. (now Holding Media Comunicazioni, parent company of the TV stations La7 and MTV) and obtain compensation for damages incurred, quantified in euro 387 million. The Arbitration Board denied all claims, finding – in substance – that the acts which led Seat to become the sole shareholder of Cecchi Gori Communications, subscribing to 100% of the share capital at the time of its recapitalization as a result of losses, are legitimate. A summary of pending litigation is as follows:

- before the Rome Court of Appeal: appeal against the sentence which rejected the request to find the August 11, 2000 resolution of the Extraordinary Shareholders' Meeting of Cecchi Gori Communications null and void. The aforesaid resolution regards amendments to the by-laws including one relating to the voting quorum;
- before the same Rome Court of Appeal: appeal against the sentence which rejected the request to find the resolution for the approval of the financial statements and balance sheet of Cecchi Gori Communications at December 31, 2000 null and void. The plaintiffs have contested the legitimacy of Seat's vote in relation to the shares owned by Cecchi Gori Media Holding and pledged to the same Seat, as well as the alleged excess and abuse of power. In view of the losses reported in the balance sheet at that date, the Shareholders' Meeting held on April 27, 2001 wrote off and then recapitalized the share capital of Cecchi Gori that was entirely subscribed to only by Seat;
- before the Milan Courts: action pending for compensation against illegal actions conducted outside the contract that caused bias to Fin.Ma.Vi, Cecchi Gori Media Holding and Vittorio Cecchi Gori as a result of the alleged illegal conduct by Seat and the directors which it appointed in Cecchi Gori Communications. Such conduct was presumably designed to oust Cecchi Gori Media Holding as the majority shareholder;
- before the Milan Courts: appeal against the January 2004 sentence in which the courts denied the plea to declare the deed, under which the above-mentioned Cecch Gori Communications shares belonging to Cecchi Gori Media Holding were pledged to Seat, null and void.

FINSIEL

In April, the temporary association of companies between IBM Italia (acting on behalf of the RTI), Finsiel, Pirelli & C. Real Estate Facility Management S.p.A. and other companies (hereinafter "RTI IBM") filed an appeal with the Court of Cassation against the March sentence in which the Council of State denied the appeal by the same RTI IBM and the State's law office and ruled in favor of canceling the bid awarded by the Ministry of Education, University and Research to RTI IBM for the development and operation contract of the Information System for Education.

The contract worth euro 231 million, of which about euro 85 million was awarded to Finsiel, was won by RTI IBM in the first quarter of 2003.

The plea in the Court of Cassation accused the Council of State of violating the internal limits of its jurisdiction, in relation to the community law to which reference was made.

BRASIL TELECOM

In addition to the dispute described in the 2003 annual report, at the beginning of April 2004, Brasil Telecom brought another action against Telecom Italia International before the Civil Court of Rio de Janeiro.

The dispute concerns certain events dating back to 1999/2001 as a result of alleged acts of abuse of the controlling power on the part of the shareholder Telecom Italia International. Specifically, reference is made to: the failure to purchase, in 1999, the operator VICOM; (ii) the securing of a loan in the same year 1999 from BNDES (Banco Nacional de Desenvolvimento Econômico e Social) and (iii) failure to issue debentures by Brasil Telecom in 2001.

Brasil Telecom did not quantify its request for compensation, nor did it provide objective elements for determining the amount, which should be decided by the judge during the course of the case.

DIGITEL

With regard to the numerous lawsuits pending between TIM International and the other shareholders in Digitel in connection with the absorption of the losses for the year 2002, which took place at the beginning of 2003, a settlement agreement was signed under which TIM International agreed to purchase the investment of all the other Digitel shareholders (corresponding to 32.88% of Digitel's capital). The execution of the agreement is subject to certain conditions, the main one being the definitive relinquishment of any and all claims and actions against TIM/Digitel, such as the termination of the arbitration proceedings begun in New York between TIM International and Venconsul, another Digitel shareholder, under the rules of the International Chamber of Commerce.

The settlement (which will involve a payment of US\$ 110 million) will ensure TIM International of total control over the Venezuelan company. The difference between the fair market value of the stake that may be purchased and the above payment is substantially covered by a risk reserve.

REGULATORY FRAMEWORK

The legal framework for the regulations of the telecommunications sector in Italy has at this point been consolidated with the coming into force, on September 16, 2003, of the new "Code of electronic communications" which, among other things, incorporated into the national regulatory framework the EC Directives referred to in the "'99 Review" relating to electronic communications networks and services (the Directives on "Access", "Authorization", "Framework" and "Universal Service").

There follows a brief description of the regulations adopted by the competent authorities during the first quarter of 2004.

Grants for the acquisition of top box sets and ADSL modems

Law No. 350 (the 2004 Finance Bill) of December 24, 2003, reconfirmed the grants for the purchase of receivers for digital land-based television (euro 150) and broadband access to Internet (euro 75) for the year 2004, the applications measures of which were established in the inter-ministerial decrees of December 24, 2003 and December 30, 2003.

In the decree of February 12, 2004 the Ministry of Communications implemented the above-mentioned decrees.

Code of measures to protect personal data

Under Decree Law No. 196 of June 30, 2003, a code was emanated which contains the measures for protecting personal data, which also implements EC Directive 2002/58/CE on the treatment of personal data and the safeguarding of privacy. The measures in the code became effective on January 1, 2004 and include special rules for electronic communications services.

Law No. 45 of February 26, 2004 modified the above-mentioned decree law with regard to conserving data on traffic.

Subscriber information service "12"

When the Code for Electronic Communications came into force, sanctioning the non-applicability of the obligations to provide the Universal Service for this "12" service, Telecom Italia published the new rates for its range of services with effect from November 1, 2003, January 1, 2004 and July 1, 2004.

Public consultation on the GSM service

In Resolution No. 54/04/CONS of March 11, 2004, the National Regulatory Agency announced a public consultation concerning the procedures for awarding the rights to the use of the frequencies designated for the public GSM service to a new operator and to existing operators.

Public consultation on the WLL service

In Resolution No. 55/04/CONS of March 11, 2004, the National Regulatory Agency announced a public consultation concerning the procedures for awarding the rights to the use of the frequencies designated for broadband point-multipoint radio networks for wireless local loop systems.

Interconnection and Local loop unbundling

In Resolution No. 16/03/CIR of December 23, 2003, the National Regulatory Agency announced a public consultation concerning the approval of the interconnection rates for 2004 announced by Telecom Italia on October 31, 2003.

On April 15, 2004, the Commission responsible for the infrastructures and networks of the National Regulatory Agency approved the rates, substantially confirming the proposal made by Telecom Italia which includes a reduction in the interconnection prices compared to the prior year in line with the network cap system introduced by the National Regulatory Agency.