TELECOM ITALIA

FIRST QUARTER 2005 REPORT

CONTENTS

CORPORATE BOARDS

Board of Directors (1)	Chairman (2)	Marco Tronchetti Provera (Executive Director)
	Deputy Chairman (2)	Gilberto Benetton
	Managing Directors (2)	Carlo Orazio Buora (Executive Director)
		Riccardo Ruggiero (Executive Director)
	Directors	Paolo Baratta (Independent Director)
		John Robert Sotheby Boas (Independent Director)
		Giovanni Consorte
		Marco De Benedetti (6)
		Domenico De Sole (Independent Director)
		Francesco Denozza (Independent Director)
		Luigi Fausti (Independent Director)
		Guido Ferrarini (Independent Director)
		Jean Paul Fitoussi (Independent Director)
		Enzo Grilli (Independent Director) (6)
		Gianni Mion
		Massimo Moratti
		Marco Onado (Independent Director)
		Renato Pagliaro
		Pasquale Pistorio (Independent Director)
		Carlo Alessandro Puri Negri
		Luigi Roth (Independent Director)
	Secretary to the Board (2)	Francesco Chiappetta
Remuneration Committee (2)	Chairman	Luigi Fausti
	Members	Paolo Baratta
		Pasquale Pistorio
Committee for Internal Control and Corporate Governance (2)	Chairman	Guido Ferrarini
	Members	Domenico De Sole
		Francesco Denozza
		Marco Onado
Strategies Committee (7)		Marco Tronchetti Provera
		Carlo Orazio Buora
		Domenico De Sole
		Marco Onado
		Pasquale Pistorio
General Managers (3)		Riccardo Ruggiero
		Giuseppe Sala

Board of Statutory Auditors (4)	**Chairman**	Ferdinando Superti Furga
	Acting Auditors	Rosalba Casiraghi
		Paolo Golia
		Salvatore Spiniello
		Gianfranco Zanda
	Alternate Auditors	Enrico Bignami
		Enrico Laghi
Independent Auditors (5)		Reconta Ernst & Young S.p.A.

(1) Appointed by the Shareholders' Meeting held on May 6, 2004.
(2) Appointed by the Board of Directors' Meeting held on May 6, 2004.
(3) Appointed by the Board of Directors' Meeting held on August 4, 2003.
(7) Appointed by the Board of Directors' Meeting held on September 9, 2004
(4) Appointed by the Shareholders' Meeting held on May 26, 2003.
(5) Appointed by the Shareholders' Meeting held on May 6, 2004.
(6) Appointed by the Shareholders' Meeting held on April 7, 2005

The ordinary Shareholders' Meeting of Telecom Italia S.p.A. held May 6, 2004 appointed the Board of Directors for three years, up until the approval of the financial statements for the year ended December 31, 2006, establishing that the Board should be composed of 19 members. The Shareholders' Meeting held April 7, 2005 has, among other things, revised the number of members of the Board of Directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.

HIGHLIGHTS

FIRST QUARTER 2005

Application of IAS/IFRS standards

The economic and financial results of the Telecom Italia Group for the first quarter of 2005 and the periods presented for comparative purposes have been drawn up in accordance with IAS/IFRS and with Annex 3D of the Regulation of Iussers No. 11971 dated May 14, 1999 and later amendments and additions. In the section "Transition to IAS/IFRS standards" on page 76, the following are described in detail:

- the accounting options adopted by the Telecom Italia Group;
- the accounting treatment elected from among the accounting options provided by IAS/IFRS;
- the reconciliations between consolidated net equity under previous accounting principles (GAAP) and net equity under IAS/IFRS at the following dates:
  - transition date to IAS/IFRS (January 1, 2004);
  - closing date of the last annual reporting period under previous GAAP (December 31, 2004);
- the reconciliation of the net income reported in the last annual financial statements under previous GAAP (2004) and the net income under IAS/IFRS for the same year;
- the comments on the principal changes made to the statement of cash flows following the introduction of the new accounting standards.
- IAS/IFRS consolidated balance sheets at January 1, 2004 and at December 31, 2004 and the IAS/IFRS consolidated statement of income for the year ended December 31, 2004 with relating comments.

In keeping with the requirements of the new IAS/IFRS standards, the statement of income and balance sheet figures relating to consolidated discontinued operations or assets held for sale are represented, for all periods under comparison, in two captions on the balance sheet and in one caption on the statement of income and are no longer presented line-by-line. The following have been considered as discontinued operations or assets held for sale during the periods under consideration: Entel Chile group, Finsiel group, Digitel Venzuela and TIM Hellas.

Economic results

Revenues: euro 7,104 million, +4.4% compared to the first quarter of 2004; excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth is 4.7%.

EBITDA [1]**:** euro 3,302 million, +3.8% compared to the first quarter of 2004; excluding the foreign exchange effect, the change in the scope of consolidation and exceptional items, underlying growth is 4.3%.

EBIT [2]: euro 2,038 million, -0.5% compared to the first quarter of 2004; excluding the foreign exchange effect, the change in the scope of consolidation and exceptional items, underlying growth is +0.9%.

Net income attributable to the Parent company: euro 656 million (euro 595 million in the first quarter of 2004), +10.3%.

Net financial indebtedness

Net financial indebtedness is equal to euro 43,502 million and shows an increase of euro 10,640 million compared to December 31, 2004. The increase is due to outlays for the cash tender offer and for the other purchases of TIM shares for euro 13,832 million, partly reduced by the partial conversion of the 2001/2010 bonds, the sale of Entel Chile and C-Mobil and cash flows during the period.

[1] Operating income before depreciation and amortization, gains/losses on disposals and impairment reversals/losses on non-current assets

[2] Operating income

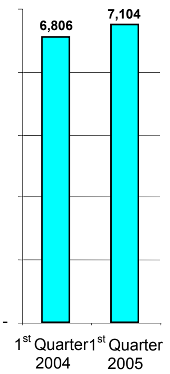
SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

The figures for periods presented for comparative purposes were restated to take into account discontinued operations or assets held for sale referring to: Entel Chile group, Finsiel group, Digitel Venezuela and TIM Hellas. In particular, with regard to the Entel Chile group, only its statement of income is considered to March 2005 since the company was sold at the end of that month.

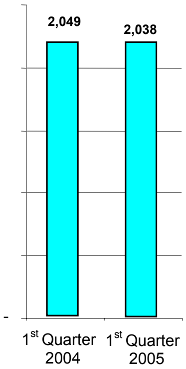
Besides the companies indicated as discontinued operations or assets held for sale, Databank, Televoice, Innovis and Cell-Tel were deconsolidated during the first three months of 2005. There were no significant changes in the scope of consolidation during the first three months of 2004.

As for the accounting principles and principles of consolidation adopted, taking into account the adjustments required by the nature of quarterly interim financial reporting, reference should be made to the section "Impact of the application of IAS/IFRS on the principal data for the year 2004 and the first quarter of 2004" and "Transition to IAS/IFRS standards". The quarterly report is unaudited.

Revenues (euro/millions)



EBIT
(euro/millions)



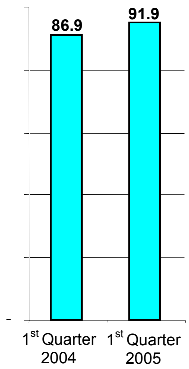
	1st Quarter 2005	1st Quarter 2004	2004
Economic and Financial Data (millions of euro)			
Revenues	7,104	6,806	28,573
EBITDA	3,302	3,182	12,902
EBIT	2,038	2,049	7,597
Income from continuing operations before taxes	1,488	1,595	5,592
Net income from continuing operations	822	853	2,935
Net income (loss) from discontinued operations/assets held for sale (*)	5	(2)	(101)
Net income attributable to the Parent Company and minority interest	827	851	2,834
Net income attributable to the Parent Company	656	595	1,815
Investments:			
- Industrial	918	808	5,041
- Financial	13,871	12	872

Balance Sheet Data (millions of euro)	3/31/2005	12/31/2004	3/31/2004
Total assets	88,799	82,597	83,278
Total shareholders' equity	21,194	20,843	21,845
- attributable to the Parent Company	18,816	16,251	17,030
- attributable to minority interest	2,378	4,592	4,815
Net financial indebtedness	43,502	32,862	32,638

(*) As stated earlier, discontinued operations or assets held for sale are represented, for all periods under comparison, in two captions on the balance sheet and in one caption on the statement of income and are no longer presented line-by-line.

Revenues/Employees

(euro/thousands)



	1st Quarter 2005	1st Quarter 2004	Year 2004
Profit and Financial Indexes			
EBITDA / Revenues	46.5%	46.8%	45.2%
EBIT / Revenues (ROS)	28.7%	30.1%	26.6%
Debt Ratio (Net financial indebtedness/Net invested capital) (1)	67.2%	59.9%	61.2%
Employees			
Employees (number in Group at period-end, excluding employees relating to discontinued operations or assets held for sale)	80,868	82,021	80,799
Employees relating to discontinued operations or assets held for sale (number at period-end)	6,312	11,020	10,573
Employees (average number in Group, excluding employees relating to discontinued operations or assets held for sale)	77,332	78,332	78,450
Employees relating to discontinued operations or assets held for sale (average number)	10,153	10,756	10,447
Revenues/Employees (average number in Group) thousands of euros	91.9	86.9	364.2

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

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS

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

(euro/millions)		Wireline (1)(2)	Mobile	Media (1)	Olivetti (4)	Other activities (2) (3)	*Adjustments and eliminations*	**Total Group**
Revenues	1st Quarter 2005	4,350	2,950	72	108	394	*(770)*	**7,104**
	1st Quarter 2004	4,294	2,696	74	139	417	*(814)*	**6,806**
	Year 2004	17,431	11,875	295	590	1,635	*(3,253)*	**28,573**
EBITDA	1st Quarter 2005	1,993	1,390	(22)	4	(61)	*(2)*	**3,302**
	1st Quarter 2004	1,935	1,288	(12)	8	(38)	*1*	**3,182**
	Year 2004	7,809	5,451	(56)	28	(335)	*5*	**12,902**
EBIT	1st Quarter 2005	1,276	937	(32)	-	(151)	*8*	**2,038**
	1st Quarter 2004	1,247	927	(17)	4	(126)	*14*	**2,049**
	Year 2004	4,757	3,841	(90)	17	(715)	*(213)*	**7,597**
Industrial investments	1st Quarter 2005	657	193	15	4	49	-	**918**
	1st Quarter 2004	561	179	7	4	57	-	**808**
	Year 2004	2,267	2,325	41	15	393	-	**5,041**
Employees at period-end (number)	3/31/2005	53,931	18,190	1,035	1,755	5,957	-	**80,868**
	3/31/2004	54,108	16,724	1,329	2,346	7,514	-	**82,021**
	12/31/2004	53,428	18,034	1,228	2,108	6,001	-	**80,799**

1) Internet activities, in accordance with the transaction for sale whose finalization is scheduled to take place in the 1° half of 2005, are already presented in the Wireline BU while in the Media Business Unit they are presented under assets held for sale.
2) The operating activity, IT Group, is no longer presented since it is now included in the Wireline Business Unit and in Other activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.
3) The economic and financial results of Entel Bolivia are now included in Other activities.
4) The Olivetti Tecnost group changed its name to the Olivetti group beginning from April 5, 2005.

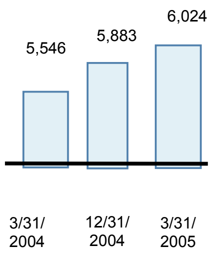
The main economic and balance sheet data referring to discontinued operations or assets held for sale are:

(euro/millions)		Discontinued operations/assets held for sale				
		Mobile (1)	Entel Chile Group	IT Market	*Adjustments and eliminations (2)*	**Total**
Revenues	1st Quarter 2005	228	238	148	(19)	595
	1st Quarter 2004	230	230	166	(26)	600
	Year 2004	985	925	706	(104)	2,512
EBITDA	1st Quarter 2005	62	77	2	-	141
	1st Quarter 2004	62	77	8	-	147
	Year 2004	295	274	45	-	614
EBIT	1st Quarter 2005	20	36	(3)	-	53
	1st Quarter 2004	20	35	3	-	58
	Year 2004	135	96	21	(202)	50
Net income (loss) from discontinued operations / assets held for sale	1st Quarter 2005	(4)	26	(7)	(10)	5
	1st Quarter 2004	(19)	20	(3)	-	(2)
	Year 2004	74	49	(7)	(217)	(101)
Industrial investments	1st Quarter 2005	9	27	1	-	37
	1st Quarter 2004	12	21	8	-	41
	Year 2004	163	141	28	-	332
Net financial indebtedness	1st Quarter 2005	326	-	32	-	358
	1st Quarter 2004	433	467	(74)	-	826
	Year 2004	331	377	(14)	-	694
Employees at period-end (number)	3/31/2005	2,321	-	3,991	-	6,312
	3/31/2004	2,212	4,099	4,709	-	11,020
	12/31/2004	2,327	4,216	4,030	-	10,573

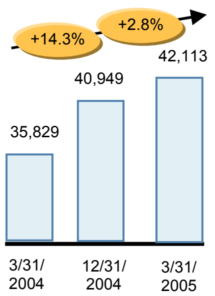
(1) Tim Hellas and Digitel Venezuela.
(2) Inclusive of the charges incidental to the sale and the adjustments to the equity investments to arrive at the estimated sales value.

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat-rate plans
(thousands)



Total TIM group lines
(thousands)



	3/31/2005	12/31/2004	3/31/2004
WIRELINE			
Fixed network connections in Italy (thousands)	25,780	25,957	26,429
- of which digital (equivalent ISDN channels)	5,733	5,805	6,008
Voice flat-rate plans (thousands)	6,024	5,883	5,546
Broadband access (thousands)	5,060	4,602	2,800
Dial-up users (Tin.it Free and Premium) (thousands)	1,200	1,300	1,500
ADSL users (thousands)	4,872	4,430	2,800
Page views Virgilio (millions)	2,254	7,902	1,905
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	105.2	105.2	105.2
- access network and transport in optical fibers (millions of km of optical fibers)	3.7	3.7	3.6
Network infrastructure abroad:			
- European backbone (km of optical fibers)	39,500	39,500	39,500
MOBILE			
TIM lines in Italy (at period-end, thousands)	26,186	26,259	26,036
TIM group foreign lines (at period-end, thousands) (1)	15,927	14,690	9,803
TIM group lines total (Italy + foreign in thousands) (1)	42,113	40,949	35,829
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	97.9	97.9
MEDIA			
La 7 audience share (average)	2.5	2.4	2.2
La 7 audience share (month of March)	2.6	2.6	2.2

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

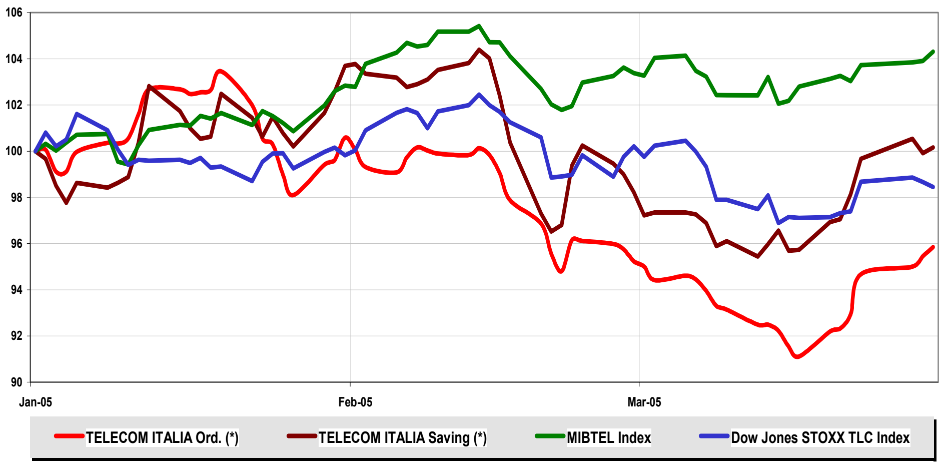
SHAREHOLDER INFORMATION

TELECOM ITALIA S.p.A. SHARE CAPITAL AT MARCH 31, 2005

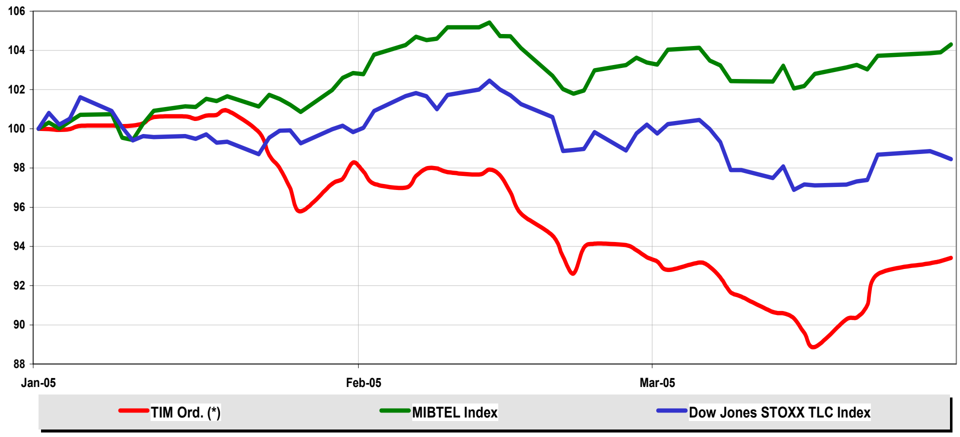
Share capital	euro 9,357,654,445.15
Ordinary shares (par value of euro 0.55 each)	No. 11,217,996,104
Savings shares (par value of euro 0.55 each)	No. 5,795,921,069
Telecom Italia treasury stock	No. 1,272,014
Telecom Italia shares held by Telecom Italia Finance	No. 99,936,853
Market capitalization (based on March 2005 average prices)	euro 45,882 million

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

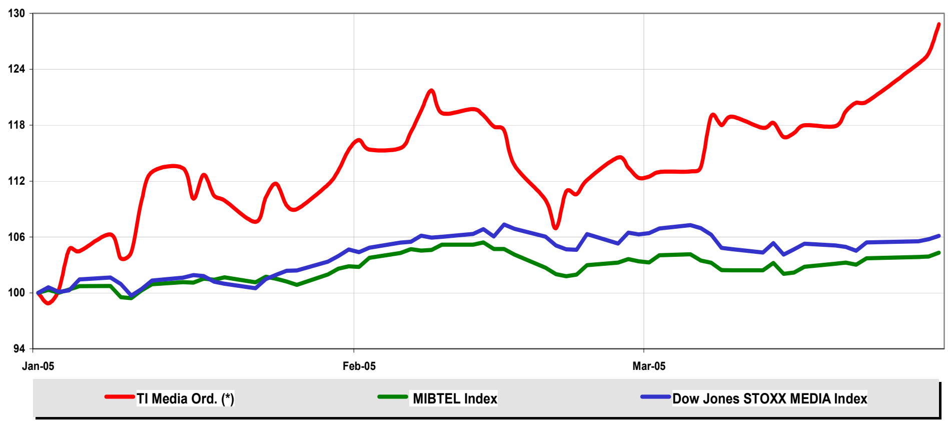
Relative performance TELECOM ITALIA S.p.A.
1/1/2005 – 3/31/2005
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance TIM S.p.A. 1/1/2005 – 3/31/2005 vs. MIBTEL and DJ Stoxx TLC Indexes (ordinary shares) (Source: Reuters)



Relative performance TELECOM ITALIA MEDIA S.p.A. 1/1/2005 – 3/31/2005 vs. MIBTEL and DJ Stoxx MEDIA Indexes (ordinary shares) (Source: Reuters)



RATINGS AT MARCH 31, 2005

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

During the first quarter of 2005, no changes were made to the ratings assigned by the agencies upon the announcement of the Telecom Italia/TIM merger on December 7, 2004. Therefore, Telecom Italia's ratings by S&P, Moody's and Fitch are the same, respectively, at BBB+ stable outlook, Baa2 stable outlook and A- negative outlook.

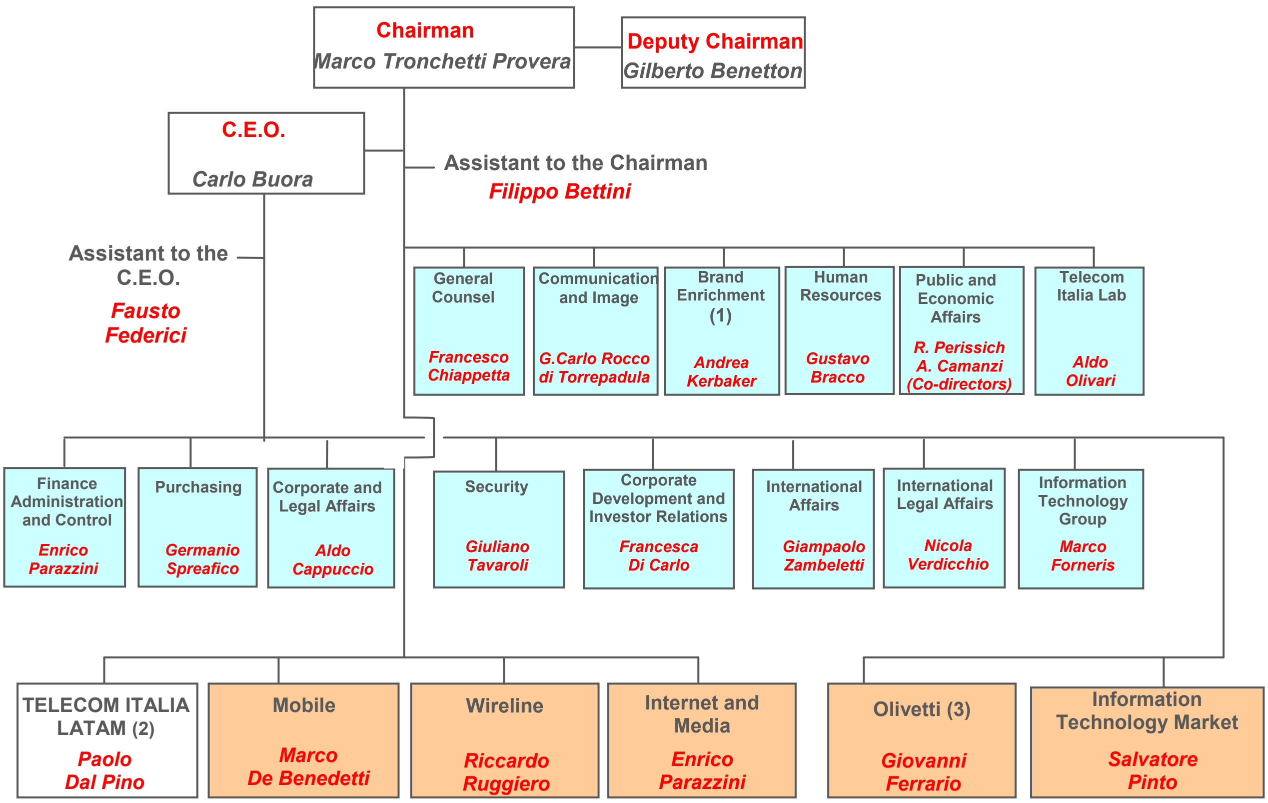
TELECOM ITALIA / TIM MERGER

With regard to the Telecom Italia/TIM merger described in detail in the Report on Operations to the 2004 Annual Report, the developments that took place subsequently are reported below.

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

On April 5 and 7, 2005, the TIM and Telecom Italia Extraordinary Shareholders' Meetings, respectively, approved the merger plan. On April 6, 2005, the TIM special Savings Shareholders' Meeting approved the merger resolution passed by the TIM Extraordinary Shareholders' Meeting. In view of the various rights accorded with regard to the distribution of dividends to the Telecom Italia savings shares and the TIM savings shares, those not concurring with the adoption of the resolution of the special savings shareholders' meeting were granted the right of withdrawal, pursuant to art. 2437, paragraph 1, letter g) of the Italian Civil Code.
It is the intention of the interested companies to take the necessary steps to ensure that the merger becomes effective by the end of June 2005.
For accounting purposes, the transactions entered into by TIM will be recorded by Telecom Italia starting January 1, 2005; the merger will also be effective for tax purposes as of the same date. On completion of the merger, Telecom Italia ordinary and savings shares will continue to be listed on Borsa Italia S.p.A.'s screen-based trading market and on the New York Stock Exchange as American Depositary Shares (ADS).

MACRO-ORGANIATION CHART - TELECOM ITALIA GROUP AT MARCH 31, 2005



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

(1) The corporate function Brand Enrichment corresponds to Progetto Italia S.p.A..
(2) Telecom Italia Latam has the role of the "delocalized" Corporate function in Latin America. The Business Units – with their present corporate organization structure – are nevertheless responsible for the results of the subsidiaries in Latin America under their control.
(3) The Olivetti Tecnost group changed its name to the Olivetti group beginning on April 5, 2005.

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

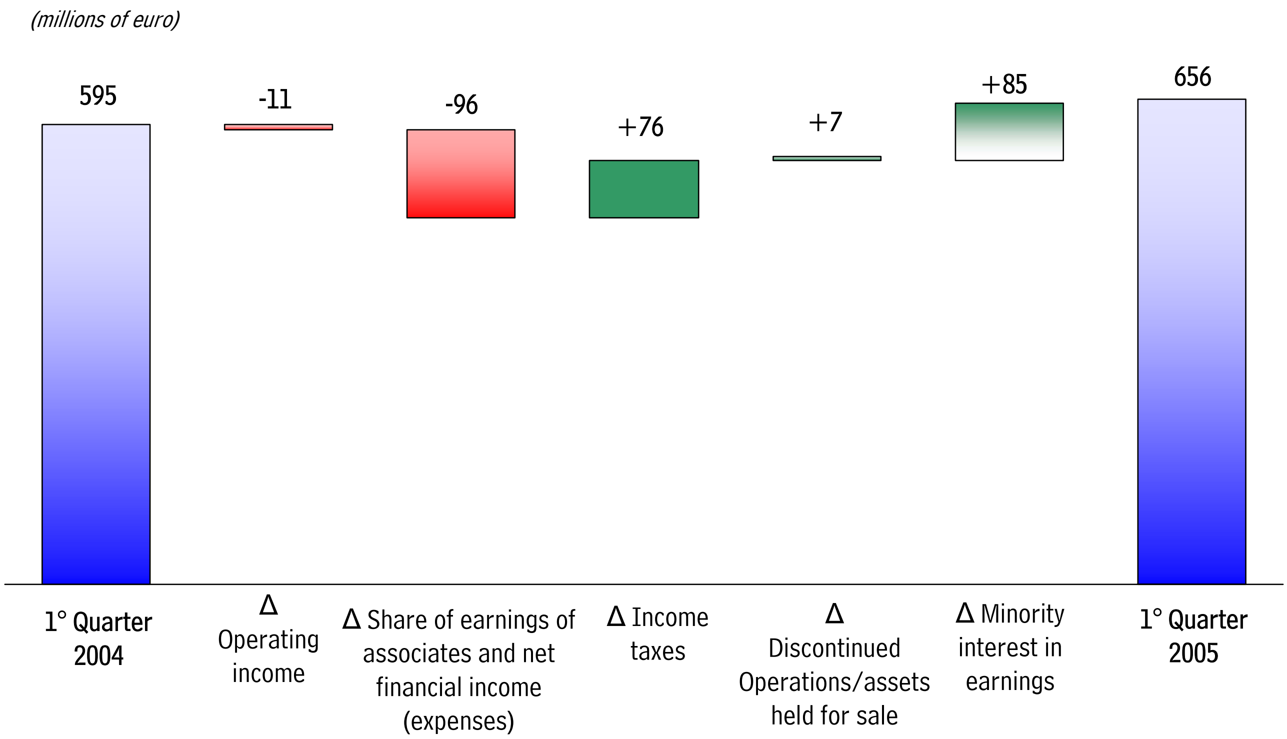
(in millions of euro)	notes	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Year 2004	Change (a-b)	Change % (a/b)
Revenues	2)	7,104	6,806	28,573	298	4.4
Other income	3)	78	86	1,100	(8)	(9.3)
Total revenues and operating income		**7,182**	**6,892**	**29,673**	**290**	**4.2**
Purchases of materials and external services		(2,789)	(2,703)	(12,052)	(86)	3.2
Personnel costs		(948)	(941)	(3,842)	(7)	0.7
Other operating expenses		(253)	(234)	(1,617)	(19)	8.1
Changes in inventories		17	23	26	(6)	(26.1)
Capitalized internal construction costs		93	145	714	(52)	(35.9)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES ON DISPOSALS AND IMPAIRMENT REVERSALS/LOSSES ON NON-CURRENT ASSETS (EBITDA)	4)	**3,302**	**3,182**	**12,902**	**120**	**3.8**
Depreciation and amortization		(1,254)	(1,135)	(4,852)	(119)	10.5
Gains/losses on disposals of non-current assets (I)		-	3	(9)	(3)	°
Impairment reversals/losses on non-current assets		(10)	(1)	(444)	(9)	°
OPERATING INCOME (EBIT)	5)	**2,038**	**2,049**	**7,597**	**(11)**	**(0.5)**
Share of earnings of equity investments in associates accounted for by the equity method	6)	11	6	(4)	5	83.3
Financial income	7)	696	475	1,804	221	46.5
Financial expenses	7)	(1,257)	(935)	(3,805)	(322)	34.4
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		**1,488**	**1,595**	**5,592**	**(107)**	**(6.7)**
Income taxes for the period		(666)	(742)	(2,657)	76	(10.2)
NET INCOME FROM CONTINUING OPERATIONS		**822**	**853**	**2,935**	**(31)**	**(3.6)**
Net income (loss) from discontinued operations/assets held for sale	8)	5	(2)	(101)	7	°
NET INCOME FOR THE PERIOD	1)	**827**	**851**	**2,834**	**(24)**	**(2.8)**
Attributable to						
* Parent Company		656	595	1,815	61	10.3
* Minority interest		171	256	1,019	(85)	(33.2)

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

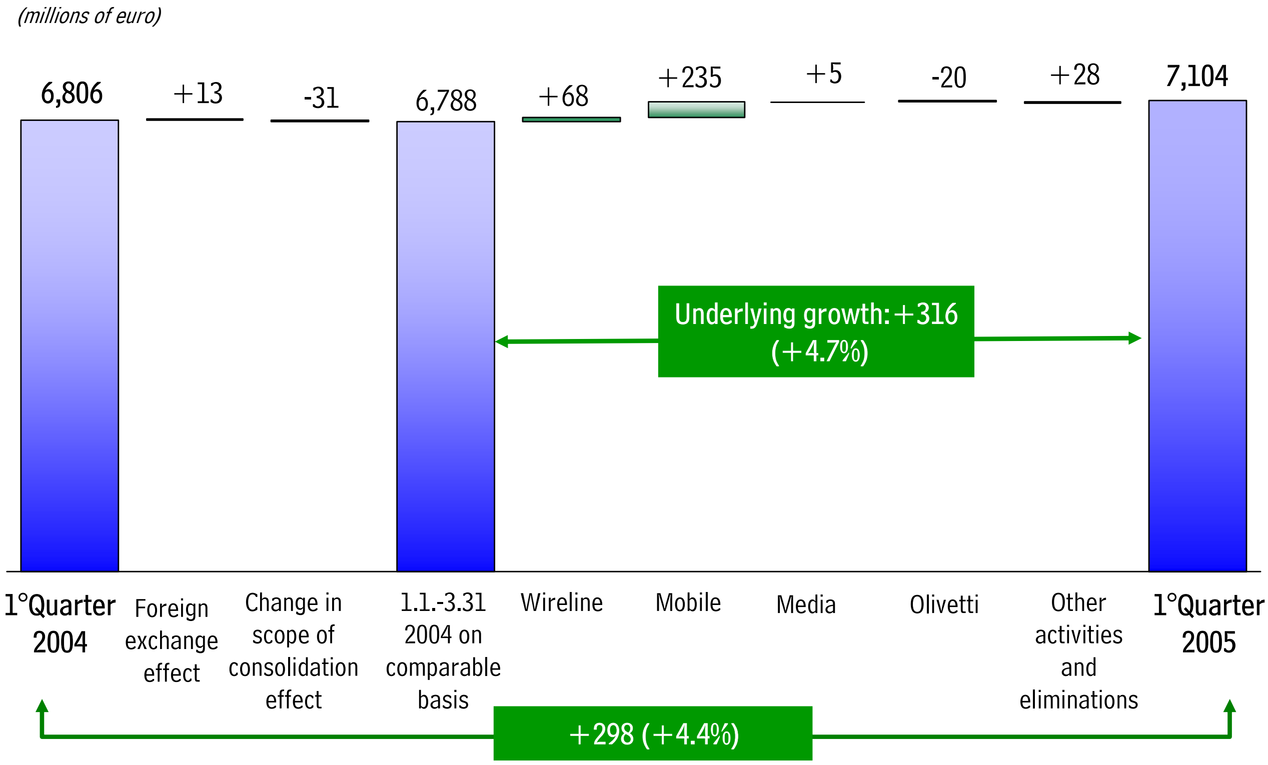
1) Consolidated **net income of the Group** in the first quarter of 2005 is euro 656 million (euro 827 million before minority interest); in the first quarter of 2004, the consolidated net income of the Group was euro 595 million (euro 851 million before minority interest).
The change in the consolidated net income of the Group (euro 61 million) is due to the following factors:

- basic stability of *operating income* (-euro 11 million);
- higher *share of earnings of equity investments in associated companies accounted for by the equity method* (+euro 5 million);
- higher *financial expenses*, net of financial income, (euro 101 million);
- lower *income taxes* of euro 76 million;
- higher *net income (loss) from discontinued operations/assets held for sale of* euro 7 million;
- lower *minority interest in net income* (euro 85 million), connected with the tender offer for TIM shares effected in the first quarter of 2005 by the Parent Company Telecom Italia, which led to an increase in the percentage ownership of the TIM group.

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



2) **Revenues** amount to euro 7,104 million, with an increase 4.4% compared to euro 6,806 million in the first quarter of 2004. Excluding the positive foreign exchange effect (+euro 13 million, of which euro 19 million relates to the South American companies of the Mobile Business Unit) and the negative effect of the change in scope of consolidation (euro 31 million), underlying growth is equal to 4.7% (euro 316 million).
The following chart summarizes the major items which had an impact on revenues in the first quarter of 2005:



Underlying growth particularly reflects:

- a significant contribution by the Mobile Business Unit (+euro 235 million), mainly due to the positive input by operations in Brazil and the good performance of value-added services on the domestic market (+euro 68 million)
- an increase in the revenues of the Wireline Business Unit (+euro 68 million), achieved thanks to the success of development initiatives in the Broadband market and innovative services, particularly Web services, combined with a stable core Telephone market and enhanced offerings for wholesale services;
- a basic stability of the revenues in the Media Business Unit and a reduction of sales in the Olivetti Business Unit (-euro 20 million) due to the reduction of prices and volumes of faxes and accessories and lower sales volumes of specialized printers and photocopiers.

Revenues from telecommunications services are shown gross of the portion due to third-party operators of euro 1,107 million (euro 1,035 million in the first quarter of 2004).

Foreign revenues amount to euro 1,279 million (euro 1,054 million in the first quarter of 2004);

50.4% of the total is localized in the area of South America (44.0% in the first quarter of 2004). The breakdown of revenues by customer geographic location is the following:

Geographical area (millions of euro)	1st Quarter 2005		1st Quarter 2004	
Italy	5,825	82.0%	5,752	84.5%
Rest of Europe	440	6.2%	379	5.6%
North America	98	1.4%	102	1.5%
Central and South America	644	9.0%	464	6.8%
Australia, Africa and Asia	97	1.4%	109	1.6%
Total	7,104	100.0%	6,806	100.0%

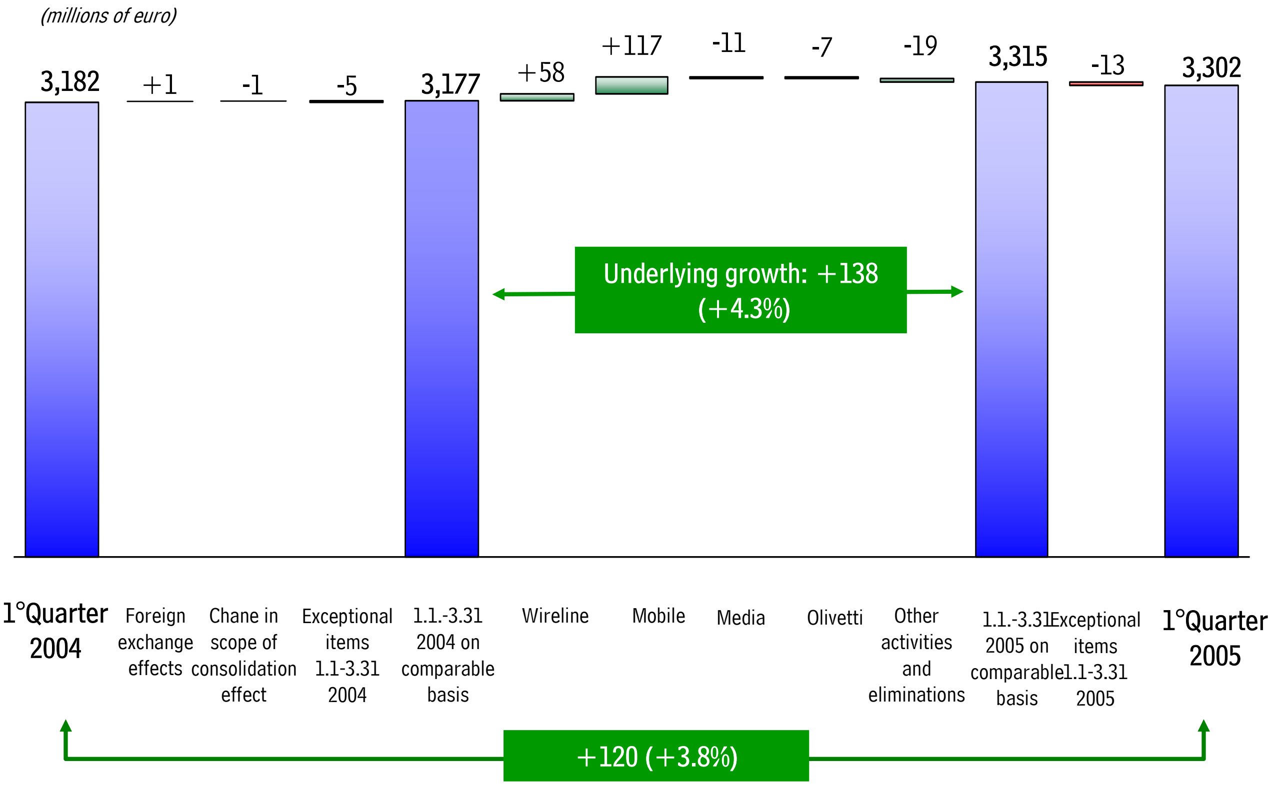
3) **Other income** amounts to euro 78 million (euro 86 million in the first quarter of 2004), and includes:

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Change (a – b)
Late payment fees charged by TLC companies to customers	15	21	(6)
Portion of capital grants credited to income during the period	10	13	(3)
Operating grants	1	2	(1)
Sundry income	52	50	2
Total	78	86	(8)

4) **EBITDA** amounts to euro 3,302 million and grew compared to the first quarter of 2004 by euro 120 million (+3.8%). As a percentage of revenues, EBITDA went from 46.8% in the first quarter of 2004 to 46.5% in the first quarter of 2005.

Excluding the positive foreign exchange effect (euro 1 million), the negative effects of the change in the scope of consolidation (euro 1 million) and exceptional items (exceptional income and expenses principally consisting of expenses (euro 12 million) connected with the tender offer for TIM shares and the merger of TIM in the Parent Company), underlying growth is equal to 4.3% (euro 138 million).

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



In greater detail, operating income before depreciation and amortization is impacted by:

- **purchases of materials and external services,** equal to euro 2,789 million, with an increase of 3.2% compared to the first quarter of 2004 (euro 2,703 million). The percentage of purchases of materials and external services to revenues is 39.3% (39.7% in the first quarter of 2004).
- **personnel costs,** equal to euro 948 million, mainly unchanged compared to the first quarter of 2004 (euro 941 million). The percentage of personnel costs to revenues is 13.3% compared to 13.8% in the first quarter of 2004.

Personnel costs, when taking into account discontinued operations/assets held for sale, amount to euro 1,044 million in the first quarter of 2005 (euro 1,049 million in the same period of 2004);

Headcount at March 31, 2005 is 87,180 and includes 6,312 employees relating to discontinued operations/assets held for sale. Excluding discontinued operations/assets held for sale, the number of employees of the Group is 80,868. Details are as follows:

	3/31/2005 (a)	12/31/2004 (b)	3/31/2004	Change (a – b)
Italy	70,766	71,058	73,034	(292)
Outside Italy	10,102	9,741	8,987	361
Total (excluding discontinued operations/assets held for sale)	**80,868**	**80,799**	**82,021**	**69**
Discontinued operations/assets held for sale:				
Italy	*3,939*	*3,979*	*4,644*	*(40)*
Outside Italy	*2,373*	*6,594*	*6,376*	*(4,221)*
Total discontinued operations/assets held for sale	*6,312*	*10,573*	*11,020*	*(4,261)*
Total employees	**87,180**	**91,372**	**93,041**	**(4,192)**

Compared to December 31, 2004, the reduction of 4,192 employees is basically due to:

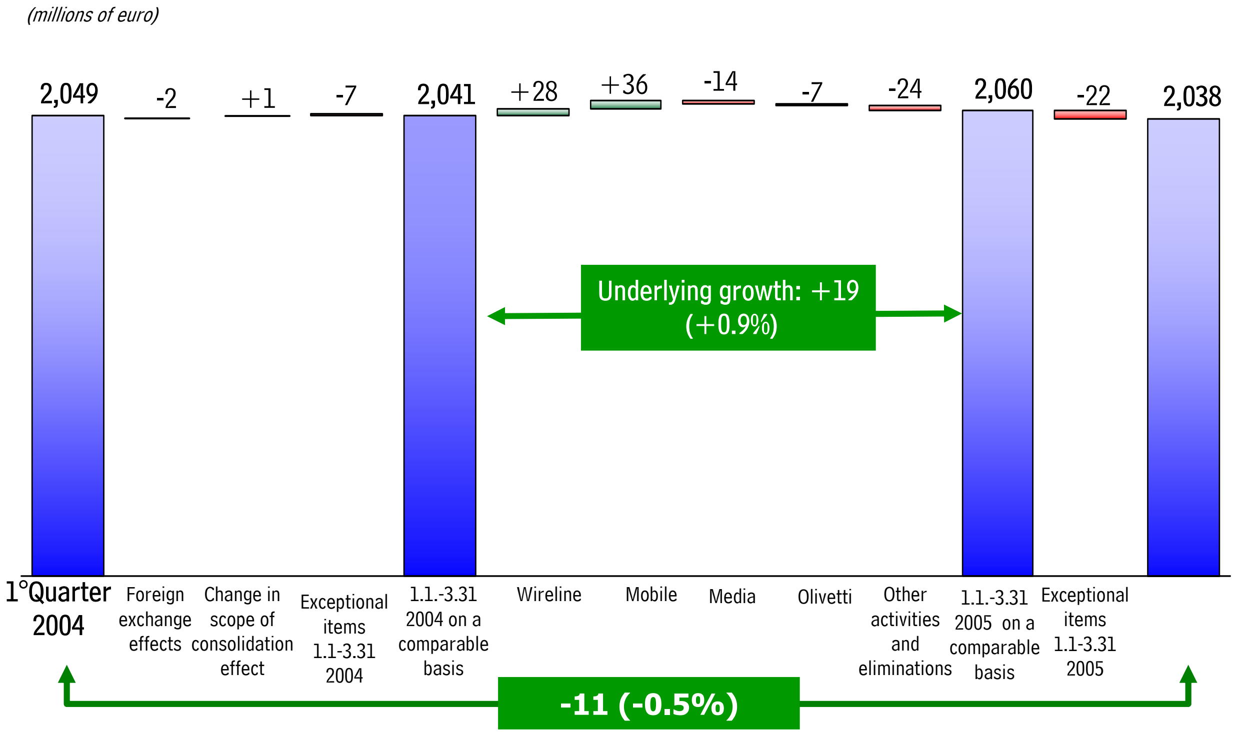
- the sale of Entel Chile at the end of March 2005 (-4,166);
- the hiring of 1,908 employees (of which 183 relate to discontinued operations/assets held for sale) during the first quarter of 2005, against resignations of 1,320 employees (of which 252 relate to discontinued operations/assets held for sale).
- changes in the scope of consolidation: Televoice (-169), Innovis (-222), Cell-Tel (-112), Databank (-86) and Centrosiel (-25).

- **other operating expenses** of euro 253 million (euro 234 million in the first quarter of 2004), include:

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Change (a – b)
Expenses connected with receivables management	92	70	22
Telecommunications fees and charges	36	25	11
Indirect duties and taxes	61	58	3
Provisions for risks	8	11	(3)
Other expenses	56	70	(14)
Total	**253**	**234**	**19**

5) L'**EBIT** amounts to euro 2,038 million, with a decrease of euro 11 million compared to the first quarter of 2004 (-0.5%). Operating income as a percentage of revenues is equal to 28.7% (30.1% in the first quarter of 2004).
Excluding the foreign exchange effect (-euro 2 million), the change in the scope of consolidation (+euro 1 million) and exceptional items, underlying growth is equal to 0.9% (euro 19 million).

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



In greater detail, operating income is impacted by the following:

- **depreciation and amortization,** equal to euro 1,254 million (euro 1,135 million in the first quarter of 2004), with an increase of euro 119 million. Such increase is mainly due to the significant investments made during the course of 2004 by the Mobile and Wireline Business Units to expand the network infrastructures and support business on both the domestic and Brazilian markets.
  The breakdown of amortization and depreciation is as follows:

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Change (a – b)
Amortization of intangible assets	371	312	59
Depreciation of tangible assets	883	823	60
Total amortization and depreciation	1,254	1,135	119

  The percentage of the amortization of other intangibles and the depreciation of tangible assets to revenues is 17.7% (16.7% in the first quarter of 2004).

- **gains/losses on disposals of non-current assets** are not present in the first quarter of 2005 compared to euro 3 million in the first quarter of 2004. This item excludes the gains/losses on disposals of discontinued operations/assets held for sale (shown separately under discontinued operations/assets held for sale) and on equity investments other than subsidiaries, included in financial income and expenses.

- **impairment reversals/losses on non-current assets** show a negative balance of euro 10 million in the first quarter of 2005 (negative balance of euro 1 million in the first quarter of 2004) and mainly relate to the impairment losses recognized on tangible assets by the company Maxitel in the Mobile Business Unit.

6) The **share of earnings of equity investments in associates accounted for by the equity method** is a positive balance of euro 11 million (a positive balance of euro 6 million in the first quarter of 2004) with an increase of euro 5 million. In particular, the item includes the share of earnings of Etec.S.A. Cuba of euro 11 million in the first quarter of 2005 (earnings of euro 10 million in the same period of 2004) and other associates.

7) **Financial income and expenses** show an expense balance of euro 561 million, with an increase in net financial expenses of euro 101 million compared to the first quarter of 2004.

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Change (a – b)
Financial income	696	475	221
Financial expenses	(1,257)	(935)	(322)
Total	**(561)**	**(460)**	**(101)**

Net financial expenses in the first quarter of 2005 include euro 74 million referring to the effects of the tender offer for TIM shares. Compared to the first quarter of 2004, moreover, the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" gave rise to a higher charge in the statement of income for costs that had previously been deferred over several years (euro 21 million).
Transactions regarding equity investments generated total income of euro 103 million in the first quarter of 2005 from:

- gains on the sale of the equity investments in C-Mobil by the Mobile Business Unit for euro 61 million and in Intelsat by Entel Bolivia for euro 2 million;
- adjustment to fair value of the call option on Sofora shares for euro 40 million.

In the first quarter of 2004, transactions regarding equity investments generated income of euro 74 million mainly as a result of the sale of the residual interest in Telekom Austria.

8) **Net income (loss) from discontinued operations/assets held for sale** amounts to a net income of euro 5 million (a loss of euro 2 million in the first quarter of 2004) and includes:

- the Entel Chile group produced a net income of euro 26 million (euro 20 million in the first quarter of 2004).
- the Finsiel group produced a net loss of euro 7 million (-euro 3 million in the first quarter of 2004);
- the companies Digitel Venezuela and Tim Hellas produced a total net loss of euro 4 million (-euro

19 million in the first quarter of 2004);

This caption also includes expenses incidental to the transactions regarding discontinued operations/assets held for sale.

CONSOLIDATED BALANCE SHEETS

(in millions of euro)	notes	3/31/2005 (a)	12/31/2004 (b)	3/31/2004	Change (a-b)
NON-CURRENT ASSETS					
Intangible assets					
- Goodwill		38,749	27,021	26,701	11,728
- Intangible assets with a finite life		6,351	6,456	5,945	(105)
		45,100	33,477	32,646	11,623
Tangible assets					
- Property, plant and equipment owned		16,360	16,428	16,736	(68)
- Assets held under finance leases		1,569	1,581	1,682	(12)
		17,929	18,009	18,418	(80)
Other non-current assets					
- Equity investments		1,086	1,053	1,407	33
- Securities and financial receivables	4)	472	433	333	39
- Miscellaneous receivables and other non-current assets		842	797	835	45
		2,400	2,283	2,575	117
Deferred tax assets		4,513	4,493	5,563	20
TOTAL NON-CURRENT ASSETS (A)	1)	**69,942**	**58,262**	**59,202**	**11,680**
CURRENT ASSETS					
Inventories		341	285	312	56
Trade receivables, miscellaneous receivables and other current assets		9,589	9,928	9,681	(339)
Securities other than equity investments	4)	504	771	1,170	(267)
Financial receivables and other current financial assets	4)	1,113	787	953	326
Cash and cash equivalents	4)	5,091	8,394	7,382	(3,303)
TOTAL CURRENT ASSETS (B)		**16,638**	**20,165**	**19,498**	**(3,527)**
Assets held for sale					
- of a financial nature		83	368	532	(285)
- of a non-financial nature		2,136	3,802	4,046	(1,666)
TOTAL ASSETS HELD FOR SALE (C)	2),4)	**2,219**	**4,170**	**4,578**	**(1,951)**
TOTAL ASSETS (A+B+C)		**88,799**	**82,597**	**83,278**	**6,202**
Shareholders' equity					
attributable to Parent Company		18,816	16,251	17,030	2,565
attributable to minority interest		2,378	4,592	4,815	(2,214)
TOTALE SHAREHOLDERS' EQUITY (A)	3)	**21,194**	**20,843**	**21,845**	**351**
Non-current liabilities					
Non-current financial liabilities	4)	43,391	38,217	33,839	5,174
Employee severance indemnities and other employee-related reserves		1,230	1,212	1,211	18
Reserve for deferred taxes		444	524	617	(80)
Reserves for future risks and charges		847	846	885	1
Miscellaneous payables and other non-current liabilities		2,195	2,200	2,374	(5)
TOTAL NON-CURRENT LIABILITIES (B)		**48,107**	**42,999**	**38,926**	**5,108**
Current liabilities					
Current financial liabilities	4)	6,933	4,336	7,811	2,597
Trade payables, current tax payables, miscellaneous payables and other current liabilities		11,296	12,253	12,209	(957)
TOTAL CURRENT LIABILITIES (C)		**18,229**	**16,589**	**20,020**	**1,640**
Liabilities relating to assets held for sale					
- of a financial nature		441	1,062	1,358	(621)
- of a non-financial nature		828	1,104	1,129	(276)
TOTAL LIABILITIES RELATING TO ASSETS HELD FOR SALE (D)	2),4)	**1,269**	**2,166**	**2,487**	**(897)**
TOTAL LIABILITIES (E=B+C+D)		**67,605**	**61,754**	**61,433**	**5,851**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (A+E)		**88,799**	**82,597**	**83,278**	**6,202**

1) **Non-current assets** of euro 69,942 million show an increase of euro 11,680 million compared to December 31, 2004.

Details are as follows:

intangible assets increased from euro 33,477 million at the end of 2004 to euro 45,100 million at March 31, 2005. This represents the balance between investments (a total of euro 11,976 million, including euro 11,742 million for the difference between the price paid for the purchase of TIM shares under the tender offer and the underlying share of net equity acquired), amortization for the period (euro 371 million) and the change in the scope of consolidation, the foreign exchange effect and other movements (+euro 18 million);

tangible assets decreased from euro 18,009 million at the end of 2004 to euro 17,929 million at March 31, 2005; the reduction is due to the difference between investments (euro 684 million), depreciation for the period (euro 883 million) and disposals, the change in the scope of consolidation, the foreign exchange effect and other movements (+ euro 119 million);

other non-current assets increased by euro 117 million from euro 2,283 million at the end of 2004 to euro 2,400 million at March 31, 2005.

deferred tax assets increased from euro 4,493 million at the end of 2004 to euro 4,513 million at March 31, 2005;

2) **Assets held for sale** total euro 2,219 million (euro 4,170 million at December 31, 2004). They consist of the following:

- assets of the Finsiel group of euro 769 million (euro 763 million at the end of 2004);
- assets of the companies Digitel Venezuela and Tim Hellas of euro 1,163 million (euro 1,203 million at the end of 2004);
- goodwill and other items connected with the assets held for sale of euro 287 million (euro 574 million at the end of 2004);

At the end of March 2005, moreover, Entel Chile was sold and is included in assets held for sale at the end of 2004 (euro 1,630 million at the end of 2004).

Liabilities relating to assets held for sale total euro 1,269 million (euro 2,166 million at December 31, 2004). They consist of the following:

- liabilities of the Finsiel group of euro 551 million (euro 523 million at the end of 2004);
- liabilities of the companies Digitel Venezuela and Tim Hellas of euro 690 million (euro 723 million at the end of 2004);
- other items connected with liabilities relating to assets held for sale of euro 28 million (euro 27 million at the end of 2004);

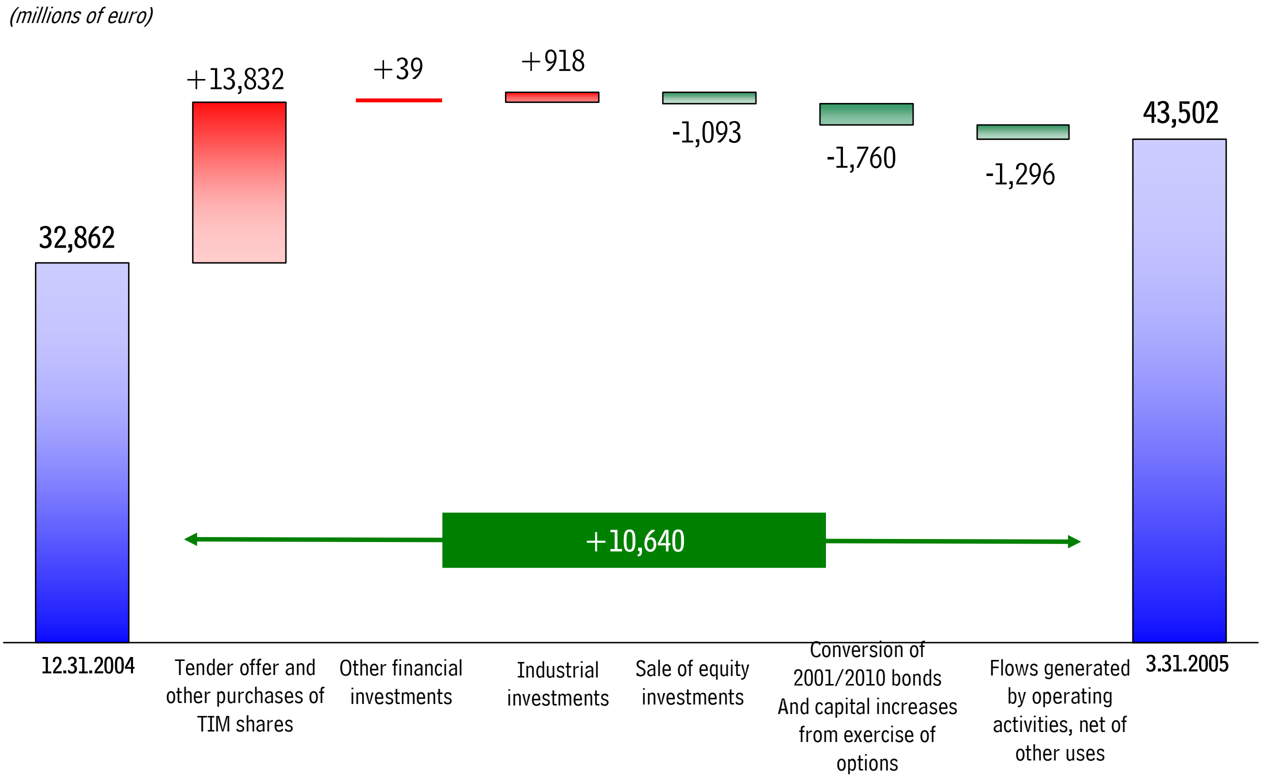
Entel Chile was included in liabilities relating to assets held for sale at the end of 2004 with liabilities of euro 893 million at the end of 2004).

3) **Shareholders' equity** amounts to euro 21,194 million (euro 20,843 million at the end of 2004), of which euro 18,816 million is attributable to the Parent Company (euro 16,251 million at December 31, 2004) and euro 2,378 million is attributable to the minority interest (euro 4,592 million at December 31, 2004). The reduction of the minority interest in shareholders' equity is also connected with the tender offer for TIM shares effected in the first quarter of 2005 by the Parent Company Telecom Italia, which led to an increase in the percentage ownership of the TIM group. The changes in shareholders' equity are the following:

(millions of euro)	1/1 – 3/31 2005	Year 2004
At beginning of period	**20,843**	**20,788**
Contribution by shareholders, conversion of bonds and stock options	1,837	251
Net income attributable to Parent Company and minority interest	827	2,834
Dividends and reserves distributed to minority interests by:	(15)	(2,780)
- *Telecom Italia S.p.A.*	-	*(1,730)*
- *TIM S.p.A.*	-	*(991)*
- *Other Group companies*	*(15)*	*(59)*
TIM tender offer and additional purchases of TIM shares	(2,125)	-
Shares subscribed under capital increases in progress	-	41
Consolidation of TIM S.p.A. shares previously recorded in current assets	-	(20)
Translation adjustments and other changes	(173)	(271)
At end of period	**21,194**	**20,843**

4) **Net financial indebtedness** amounts to euro 43,502 million at March 31, 2005, with an increase of euro 10,640 million compared to euro 32,862 million at the end of 2004. It also includes the net financial position of the assets held for sale (euro 358 million; euro 694 million at December 31, 2004).

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



In particular:

- the **tender offer and other purchases of TIM shares** (euro 13,832 million) are composed of the price paid under the tender offer, at the end of January 2005, for the purchase of 2,456,501,605 TIM ordinary shares tendered (equal to about 29.0% of TIM ordinary share capital) and 8,463,127 TIM savings shares tendered (equal to about 6.4% of TIM savings share capital), and the subsequent purchase of 5,063,816 TIM savings shares (equal to about 3.8% of TIM savings share capital).
- the **other financial investments** (euro 39 million) are mainly composed of incidental expenses for the tender offer.
- the **sale of equity investments** (euro 1,093 million) represents the amount received on the sale of the equity investment in C-Mobil (euro 70 million) and the equity investment in Entel Chile (euro 1,023 million, inclusive of the deconsolidation of the net financial indebtedness of the subsidiary).

Net financial indebtedness is detailed in the following table:

NET FINANCIAL INDEBTEDNESS

(in millions of euro)	3/31/2005 (a)	12/31/2004 (b)	3/31/2004	Change (a-b)
GROSS FINANCIAL DEBT				
Non-current financial liabilities				
- Financial payables	41,542	36,380	32,035	5,162
- Finance lease liabilities	1,846	1,834	1,803	12
- Other financial liabilities	3	3	1	-
Current financial liabilities				
- Financial payables	6,719	4,107	7,591	2,612
- Finance lease liabilities	209	224	215	(15)
- Other financial liabilities	5	5	5	-
Financial liabilities relating to assets held for sale	441	1,062	1,358	(621)
TOTAL GROSS FINANCIAL DEBT (A)	50,765	43,615	43,008	7,150
FINANCIAL ASSETS				
Non-current financial assets				
- Securities other than equity investments	6	7	10	(1)
- Financial receivables and other non-current financial assets	466	426	323	40
Current financial assets				
- Securities other than equity investments	504	771	1,170	(267)
Financial receivables and other current financial assets	1,113	787	953	326
Cash and cash equivalents	5,091	8,394	7,382	(3,303)
Financial assets relating to assets held for sale	83	368	532	(285)
TOTAL FINANCIAL ASSETS (B)	7,263	10,753	10,370	(3,490)
NET FINANCIAL INDEBTEDNESS (A-B)	43,502	32,862	32,638	10,640

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

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

On March 17, 2005, Telecom Italia S.p.A. issued euro 850 million of new bonds at 5.25% interest with an issue price of 99.667, maturing March 17, 2055. The bond issue falls under Telecom Italia's Euro Medium Term Note Program for a total of euro 10 billion approved by the Board of Directors' Meeting on October 10, 2003.

Telecom Italia also sold bonds 2002-2022 set aside for subscription by employees of the Group for a equivalent face value of euro 9.4 million. According to the bond regulations, the Company is the obligatory counterpart for the purchases made by holders of this bond category.

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

Bonds were repaid during the quarter for a total face value of euro 283,000. They refer to bonds originally for euro 500 million with 2002-2005 maturity issued by Telecom Italia Finance S.A. with quarterly interest indexed to the 3-month Euribor + 130 base points: this amount refers to the residual portion on which the bondholders did not opt to extend the maturity date.

Telecom Italia Finance S.A. repurchased bonds for a face value of euro 81.4 million relating to bonds originally for euro 3,000 million at 6.375% maturing April 20, 2006 issued by Sogerim (the company merged in 2002 in Telecom Italia Finance): after these bond repurchases the residual face value thus amounts to euro 2,663.4 million.

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

Moreover, in view of the requests for conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the face value with a repayment premium referring to these bonds decreased by euro 2,223 million, with a consequent reduction in net financial indebtedness of euro 1,692 million.

The following table summarizes the face value of repayment flows by contract:

Maturities of gross financial indebtedness (millions of euro)	Medium/long-term		
	Bonds	Loans and other debt	Total
by March 2006	4,050	633	4,683
by March 2007	5,096	345	5,441
by March 2008	4,500	6,922	11,422
by March 2009	2,382	201	2,583
by March 2010	3,816	3,114	6,930
beyond March 2010	14,847	2,383	17,230
Total	**34,691**	**13,598**	**48,289**

At the end of March, available resources, without taking into account accrued financial income, total euro 5,698 million. Details are as follows:

AVAILABLE RESOURCES (millions of euro)		
Cash (classified by technical form)		
- Deposits		4,835
- Current accounts and other		323
Total	(A)	5,158
Other securities in current assets		
- Euro commercial paper		195
- Bonds		298
- Other securities		47
Total	(B)	540
	(C=A+B)	5,698
	of which relating to assets held for sale	*15*

The different technical forms used for the investment of available resources at March 31, 2005 can be further analyzed as follows:
Deposits (euro 4,835 million):

- Maturities. euro 4,722 million has a maximum maturity date of two months (euro 4,597 million is due by the end of April 2005), while the remaining amount, represented by certificates of deposit which are highly liquid, refer to the investment of available resources by the subsidiary in Bolivia.
- Counterpart risk. Deposits were made with primary banking and financial institutions with a high credit rating. In particular, euro 4,631 million refers to deposits with counterparts with at least an A rating.
- Country risk. The geographic location of deposits is as follows: euro 4,440 million in Europe (mainly London), euro 139 million in the United States and Euro 257 million in South America (referring to investments made by the subsidiaries located in Brazil and Bolivia).

Euro commercial paper (euro 195 million): all commercial paper has a maximum maturity date of one month. The issuers all have AAA and AA ratings and headquarters in Europe.

Bonds and other securities totaling euro 345 million (of which euro 330 million has been invested by the Luxembourg subsidiary Telecom Italia Finance S.A.) refer to bonds issued by counterparts with at least an A rating with different maturities over the years, but all are actively traded and therefore can easily be converted to liquidity.

This financial structure will enable the Group to meet maturities, particularly in reference to:

(millions of euro)

Non-current financial liabilities maturing in the period April 2005 – March 2007

	Bonds	Loans and other debt	TOTAL
by March 2006	4,050	633	4,683
by March 2007	5,096	345	5,441
TOTAL	*9,146*	*978*	*10,124*

Financed by:

Available resources and other securities in current assets at March 31, 2005	5,698

Moreover, it should be mentioned that at March 31, 2005, unused committed credit lines maturing March 2007 amount to euro 6,500 million.

CONSOLIDATED CASH FLOW STATEMENTS

(in millions of euro)	notes	1st Quarter 2005	1st Quarter 2004	Year 2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES				
Net income from continuing operations		822	853	2,935
Adjustments to reconcile net income from continuing operations with cash flows generated (absorbed) by operating activities				
Depreciation and amortisation		1,254	1,135	4,852
Impairment losses/reversals on non-current assets (including equity investments)		(30)	17	446
Net change in deferred tax assets and liabilities		(51)	(60)	866
Gains/losses on disposal of non-current assets		(65)	(7)	(106)
Share of earnings of equity investments in associates accounted for by the equity method		(11)	(6)	4
Net change in current trade and miscellaneous receivables/payables and other changes (I)		(578)	1,041	1,529
CASH FLOWS GENERATED (ABSORBED) BY OPERATING ACTIVITIES (A)		**1,341**	**2,973**	**10,526**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES				
Investments in tangible assets	1)	(684)	(488)	(3,145)
Investments in intangible assets	1)	(234)	(320)	(1,896)
Investments in other non-current assets		(13,869)	(12)	(871)
Acquisition of equity investments in subsidiaries, net of cash acquired		(2)	-	(1)
Change in financial receivables and other financial assets		(47)	474	304
Consideration collected on the sale of equity investments in subsidiaries, net of cash sold (II)	2)	490	29	43
Consideration collected on the sale of tangible, intangible and other non-current assets (III)	2)	92	-	452
CASH FLOWS GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)		**(14,254)**	**(317)**	**(5,114)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES				
Net change in financial liabilities	3)	9,281	56	1,352
Consideration collected for equity instruments	3)	91	-	193
Share capital increases/repurchases net of start-up and expansion costs		-	6	51
Dividends paid to minority shareholders (distribution of reserves included)		(15)	(5)	(2,780)
CASH FLOWS GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)		**9,357**	**57**	**(1,184)**
CASH FLOWS GENERATED (ABSORBED) BY DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	4)	**(42)**	**(62)**	**(396)**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(3,598)**	**2,651**	**3,832**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD (F)		**8,339**	**4,477**	**4,477**
Net effect of foreign currency translation on cash (G)		(27)	(12)	30
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD (H=E+F+G)		**4,714**	**7,116**	**8,339**

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

Consolidated Cash Flow Statements (continued)

(in millions of euro)	notes	1st Quarter 2005	1st Quarter 2004	Year 2004
ADDITIONAL CASH FLOW INFORMATION				
Income tax paid		29	31	1,476
Interest paid		876	543	2,143
RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS				
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**8,339**	**4,477**	**4,477**
Cash and cash equivalents		8,394	4,751	4,751
Bank overdrafts repayable on demand		(237)	(510)	(510)
Relating to assets held for sale		182	236	236
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**4,714**	**7,116**	**8,339**
Cash and cash equivalents		5,091	7,382	8,394
Bank overdrafts repayable on demand		(392)	(462)	(237)
Relating to assets held for sale		15	196	182

1) **Investments** total euro 14,789 million (euro 820 million in the first quarter of 2004). Details are as follows:

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Change (a – b)
Industrial investments	918	808	110
Financial investments	13,871	12	13,859
Total investments	**14,789**	**820**	**13,967**

Industrial investments, equal to euro 918 million, increased compared to the first quarter of 2004 by euro 110 million, mainly in reference to the Wireline and Mobile Business Units.

Financial investments in the first quarter of 2005 include euro 13,832 million for the price paid to purchase TIM shares under the tender offer and other purchases of TIM shares.

2) The **consideration collected on the sale of equity investments in subsidiaries, net of cash sold,** totals euro 490 million and principally relates to the amount already collected on the sale of the entire investment held in Entel Chile.
The **consideration collected on the sale of tangible, intangible and other non-current assets** includes euro 70 million on the sale of C-Mobil by the Mobile Business Unit.

3) The **net change in financial liabilities** is euro 9,281 million and includes euro 9,000 million used to fund the outlay, equal to euro 13,832 million, for the tender offer and other purchases of TIM shares.

3) The **consideration collected for equity instruments** is euro 91 million and does not include the effects deriving from the conversion of the bonds 2001-2010.

4) **Cash flows generated (absorbed) by discontinued operations/assets held for sale** constitute a funding requirement of euro 42 million, with euro 62 million in the first quarter of 2004.

During the first quarter of 2005, new transactions for the factoring of trade receivables were entered into which produced a positive impact on the net financial position of euro 24 million (euro 278 million at the end of 2004).

MAJOR TRANSACTIONS INVOLVING EQUITY INVESTMENTS

DIVESTITURES

SALE OF TELEVOICE S.p.A.

On January 3, 2005, Telecom Italia Media perfected the sale of 100% of Televoice S.p.A., a company operating in the call center and telemarketing and teleselling sector, to Comdata (Altair Group). The agreements for the sale had been finalized in December 2004.

AGREEMENT FOR THE SALE OF ENTEL CHILE S.A.

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

SALE OF FINSIEL S.p.A.

With regard to the procedure for the sale of the controlling stake held by Telecom Italia in Finsiel S.p.A., on February 24, 2005, Telecom Italia signed a preliminary sales agreement with the COS group. The sale, which covers the entire stake held by Telecom Italia in Finsiel (79.5%), is based upon an Enterprise Value fixed at approximately euro 164 million. The contract was executed on April 26, 2005. The closing should take place at the end of June, beginning of July, after authorization is received from the Telecommunications regulatory authority.

SALE OF DATABANK S.p.A.

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

SALE OF C-MOBILE CZ

In keeping with the strategy to rationalize the international portfolio, on March 24, 2005, TIM perfected the sale of its 7.16% stake in C-Mobile share capital (a Dutch holding company which owns 60.8% of T-Mobile CZ) to T- Mobile Global Holding. This investment corresponds to an indirect interest of 4.35% in T- Mobile CZ, one the largest operators of the Czech Republic. The sales price was euro 70.5 million which gave rise to a gain on consolidation by the TIM group of about euro 61 million.

SUBSEQUENT EVENTS

AGREEMENT WITH TISCALI FOR THE PURCHASE OF LIBERTY SURF

In April 2005, Telecom Italia signed an agreement with Tiscali for the purchase of its investment in Liberty Surf S.A., an important internet service provider operating on the French market. The investment corresponds to about a 95% stake in the share capital of the company listed on the Paris Euronext. The price agreed between the parties for the stake held by Tiscali is approximately euro 266 million,.

Following the execution of the transaction, Telecom Italia, in compliance with the law, will launch a takeover bid for the remaining 5% of share capital. This execution is subject to approval by the French antitrust authority.

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

Under the strategy to rationalize the assets of the Group, on April 19, 2005, the contractual agreements between Telecom Italia and Telecom Italia Media were concluded for the purchase of the assets of Virgilio (through the companies Webfin and Matrix) and Tin.it, in keeping with the decisions taken by the respective Boards of Directors on April 4, 2005. The deal calls for Telecom Italia's purchase of the following investments currently held by Telecom Italia Media:

- a 60% interest in Webfin (which presently holds a 66% stake in Matrix) and a 0.7% interest in Matrix at a total price of euro 70 million. At the conclusion of the transaction, Telecom Italia, which already holds a 40% stake in Webfin and a 33.3% stake in Matrix, will own 100% stakes in Webfin and Matrix and thus have full control over Virgilio;
- a 100% stake in a newly formed company to which Telecom Italia Media will confer the Tin.it business segment. The sales price is euro 880 million.

For purposes of establishing the sales prices of the Tin.it and Virgilio assets, the Telecom Italia Board of Directors was advised by the investment banks JP Morgan and Lazard and by Prof. Mauro Bini and Maurizio Dallocchio. The Board of Directors of Telecom Italia Media, in turn, was advised by Morgan Stanley, in addition to the investment bank Merrill Lynch, which was separately designated by the independent directors themselves.

Prof. Angelo Provasoli, commissioned by Telecom Italia, also verified the correctness and the adequacy of the principles used by all the consultants, appointed by either Telecom Italia or Telecom Italia Media.

Furthermore, the transaction will involve:

- utilization of the proceeds from the sale for new investments in the media sector by Telecom Italia Media, for an estimated amount of about euro 250 million over the three years 2005-2007;
- the purchase, via a tender offer, by Telecom Italia Media, of treasury shares up to the limit allowed by law, for an equivalent amount of about euro 148 million;
- the distribution, by Telecom Italia Media, of dividends of about euro 550 million during the year 2006;
- the merger through incorporation of La7 in Telecom Italia Media.

The Shareholders' Meeting of Telecom Italia Media is convened for May 24, 2005 and, if necessary, for May 27, 2005, to vote on:

✓ the authorization to purchase up to 10% of ordinary and savings shares of the Company, at the price of euro 0.40 per ordinary share and euro 0.33 per savings share and thus for a maximum total equivalent amount of about euro 148 million;

✓ the reduction of share capital by canceling the treasure shares bought back.

The buyback, via a tender offer, is scheduled to take place immediately after approval is received from Consob.

The proposed economic terms of the purchase are consistent with the valuations made for the sale of the internet assets and express an increase of approximately 20% over the average official trading prices on the stock market in the six months prior to April 1, 2005 (inclusive), the last day on which Telecom Italia Media ordinary and savings shares were traded before the announcement of the intention to present the tender offer.
Telecom Italian will not take part in the buyback so that its entire equivalent amount is destined for the market. If the tender offer is completely successful, and considering the possibility of canceling the shares bought back, Telecom Italia would increase its direct (60.4%) and indirect (2.1% through Telecom Italia Finance) controlling interest from 62.5% to a total of 69.4%.

LA7 – AGREEMENT FOR PURCHASE OF ELEFANTE TV S.p.A. AND DELTA TV S.p.A.

On April 29, 2005, La7 reached an agreement with Elefante TV S.p.A. to take over the business segment composed of the national television station of the same name for an amount of euro 115.5 million.
Always with the intent of expanding the broadcasting capacity of its television networks, La7 also reached another agreement for the purchase of radio and television equipment and the relative frequencies of the local Delta TV station in the central-south of Italy, for a total amount of euro 12 million. These acquisitions are subject to operating conditions and obligations and also to the requisite authorizations from the pertinent authorities.

SALE OF TIM HELLAS TELECOMMUNICATIONS S.A.

On April 3, 2005, TIM International N.V. signed a contract for the sale of the investment held in TIM Hellas Telecommunications S.A. (equal to 80.87%) to the funds managed by Apax Partners and Texas Pacific Group (TPG). The sales price is euro 1,114 million, which corresponds to an enterprise value of about euro 1,600 million for the 100% stake in TIM Hellas and represents approximately euro 16.43 per share. The finalization of the sales agreement, which is subject to approval by the pertinent authorities, is scheduled to take place by July 2005.

SALE OF FINSIEL S.p.A.

With regard to the procedures for the divestiture of the controlling interest held by Telecom Italia in Finsiel S.p.A., the agreement for the purchase of Finsiel S.p.A. by the COS group was signed on April 26, 2005. Closing of the transaction should take place at the end of June, beginning of July, after authorization is received from the Telecommunications regulatory authority.

AGREEMENT FOR THE INCORPORATION OF BRASIL TELECOM CELULAR IN TIM BRASIL

On April 28, 2005, Telecom Italia, through its subsidiary TIM Brasil, and Brasil Telecom reached an agreement to take better advantage of the synergies deriving from the integration of wireline platforms with mobile platforms.
The agreement, which contemplates a series of measures which require the approval of the competent Brazilian authorities, provides for:

- the transfer, through incorporation, of the activities of Brasil Telecom Celular (BRTC), a wholly-owned subsidiary of Brasil Telecom operating in Region 2 (which comprises nine States of south and central-east Brazil), in TIM Brasil;
- the development of commercial and marketing activities, combining technological know-know, service offerings and the distribution network of the two operations;
- the elimination of the existing overlapping and the optimization of the licenses and infrastructures of the two companies. In particular:
  - TIM Brasil will relinquish its long-distance licenses and will use the carrier services of Brasil Telecom;
  - Brasil Telecom, in abandoning the mobile business, will place its sites and infrastructures at TIM Brasil's disposition, accelerating the programs to develop network coverage.

This agreement also responds to the what was requested by the Brazilian Telecommunications authority (ANATEL) in order to resolve the problems surrounding the overlapping of the mobile and long-distance licenses of the two operators involved.
Simultaneously, an agreement was reached between Telecom Italia, Brasil Telecom and the controlling companies of Brasil Telecom (Techold, Timepart, Solpart and Brasil Telecom Participaçoes) whereby Telecom Italia International reclaimed its role as an industrial partner in Brasil Telecom following the cessation of the disputes concerning the reinstatement of its governance rights (temporarily suspended under the August 2002 contract).

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

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

The agreement envisages the payment of euro 291 million to Opportunity for the purchase of the investments and euro 50 million as a settlement amount.

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During the early days of May 2005, the settlement of the proceedings brought before the Rio de Janiero Court in January and March 2004 and the acts for exercising the governance rights in Solpart by Telecom Italia International, according to the clauses of the relative shareholders' agreement as amended on April 28 2005, were challenged by some indirect co-shareholders, in two different actions, with the request, respectively, to intervene in the proceedings for the validation of the settlement and to suspend the effects of the shareholders' agreement reached on April 28, 2005 as a precautionary measure.
On the other front, a precautionary proceeding was brought before the Rio de Janeiro Court against Telecom Italia International, TIM International, TIM Brasil, Opportunity, Techold, Timepart, Solpart, Brasil Telecom Partecipações, Brasil Telecom and its subsidiary Brasil Telecom Celular, aimed at barring the course of the merger through incorporation of the latter in TIM Brasil, according to the clauses of the agreement signed between the two companies on April 28, 2005.

SALE OF CORPORACION DIGITEL C.A.

On May 5, 2005, the Venezuelan telecommunications authority issued an order denying authorization to Tim International to sell the entire share capital of the Venezuelan company Corporación Digitel C.A. to the local wireline telephone operator CANTV, a transaction announced last November.
The order is susceptible to an administrative appeal and a challenge in a court of law.

LENDING OF TIM SAVINGS SHARES - RESTITUTION OF THE FIRST TRANCHE

With reference to the *Confirmation of a Securities Lending Transaction* signed on January 19, 2005 and finalized on February 3, 2005 for a total of 37 million TIM savings shares, Telecom Italia, on April 29, 2005, repaid the first tranche of 15 million. On the same date, the counterpart re-credited Telecom Italia for the equivalent amount paid as cash collateral relating to this tranche, including interest earned during the period, for a total amount of about euro 85.93 million. The second tranche of the securities lending transaction will become due on May 16, 2005.

TELECOM ITALIA FINANCE S.A. – REPURCHASE OF OWN BONDS

In April 2005, Telecom Italia Finance S.A. repurchased an additional amount of own bonds on the market for a total of euro 333.4 million, as follows:

- euro 28.7 million referring to bonds of face value euro 3,000 million at 6.125% interest, maturing April 20, 2006;
- euro 141 million referring to bonds of face value euro 803 million at 1% interest, maturing November 3, 2005;
- euro 163.7 million referring to the bonds of euro 2,500 million at 1%, maturing March 15, 2006.

BUSINESS OUTLOOK FOR THE CURRENT YEAR

The results of the current year will be influenced by the merger between Telecom Italia and TIM. It is believed that the higher financial charges deriving from the higher debt associated with the cash tender offer, in terms of results, will be more than compensated by the effect of the acquisition (via the cash tender offer and the merger) of the stake of the minority shareholders of the subsidiary. As far as the trend in operating activities for the current year is concerned, Telecom Italia confirms, on the basis of the targets set for 2005-2007, the evolution of operating income at least in line with that of the prior year on a comparable basis in terms of the scope of consolidation, the foreign exchange effect and accounting principles. It is also expected that the increase in debt to fund the cash tender offer will be reduced in keeping with the course outlined in the communication to the market on the 2005-2007 targets; a course that is already confirmed by the trend in debt during the first quarter of 2005.

RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.
The economic, balance sheet and financial effects of related party transactions on the consolidated financial statements of the Telecom Italia Group at March 31, 2005 are presented in the following table.
The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and associates.

	(millions of euro)	
Revenues	53	These mainly comprise revenues from Teleleasing (euro 33 million), LI.SIT. (euro 8 million), Shared Service Center (euro 5 million), Telecom Argentina (euro 2 million), Golden Lines (euro 2 million) and Etec SA Cuba (euro 2 million)
Purchases of materials and external services	65	These mainly comprise rent costs from Tiglio I (euro 2 million) and Tiglio II (euro 5 million) as well as TLC service costs from Etec SA Cuba (euro 27 million), Telecom Argentina (euro 1 million), costs for maintenance and assistance contracts from Shared Service Center (euro 7 million), software costs and computer materials, as well as costs for maintenance and assistance contracts from Siemens Informatica (euro 17 million) and costs for TLC equipment from Teleleasing (euro 3 million)
Financial income	1	These include accrued interest income on loans made to some subsidiaries and associates
Financial expenses	19	These include interest expenses from Teleleasing (euro 5 million) for finance leases and interest expenses from Tiglio I (euro 12 million) and Tiglio II (euro 2 million) for sales and leasebacks of properties
Non-current securities and financial receivables	28	These mainly comprise medium/long-term loans made to Aree Urbane (euro 20 million), Golden Lines (euro 5 million) and Tiglio II (euro 3 million)
Trade receivables, miscellaneous receivables and other current assets	175	These mainly refer to receivables connected with TLC activities due from LI.SIT. (euro 85 million), Teleleasing (euro 28 million), Shared Service Center (euro 6 million), Telecom Argentina (euro 5 million), Golden Lines (euro 4 million), and Tiglio I (euro 2 million). They also comprise a prepaid expense of euro 30 million relating to the purchase (by the subsidiary Telecom Italia Sparkle) from Etec SA Cuba of traffic, destination Cuba, relative to the period January 1-June 30, 2005
Financial receivables and other current financial assets	61	These comprise short-term loans made to Avea I.H.A.S. (euro 58 million) and to Telegono (euro 3 million)
Non-current financial liabilities	791	These refer to financial payables due to Shared Service Center (euro 4 million), to Teleleasing (euro 184 million)

		for finance leases and to Tiglio I (euro 461 million) and Tiglio II (euro 142 million) for property sale and leaseback transactions
Current financial liabilities	131	These refer to financial payables due to Siemens Informatica (euro 7 million), Teleleasing (euro 6 million), Shared Service Center (euro 2 million), to Teleleasing (euro 99 million) for finance leases and to Tiglio I (euro 12 million) and Tiglio II (euro 5 million) for property sale and leaseback transactions
Trade payables, miscellaneous payables and other current liabilities	82	They mainly refer to supply transactions connected with investment and operational activities with Siemens Informatica (euro 42 million), Shared Service Center (euro 19 million), Value Team (euro 5 million), Teleleasing (euro 5 million) and Etec SA Cuba (euro 4 million)
Investments in tangible and intangible assets	23	These consist of acquisitions of computer projects from Shared Service Center (euro 14 million), Siemens Informatica (euro 8 million) and Value Team (euro 1 million)

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 453 million, of which euro 288 million is on behalf of Avea I.H.A.S., euro 56 million on behalf of Tiglio I and euro 35 million on behalf of Italtel Holding.

In addition to transactions with associates, the table below presents the transactions with the Italtel group, a related party through the investment in the parent company Italtel Holding.

	(millions of euro)	
Purchases of materials and external services	3	These refer to costs for maintenance and assistance contracts
Trade payables, miscellaneous payables and other current liabilities	34	They refer to supply transactions connected with investment and operational activities
Investments in tangible and intangible assets	79	These consist to acquisitions of telephone exchanges

Related party transactions other than those with companies of the Group, during 2005, particularly comprise those by the Telecom Italia Group with the Pirelli group, the Edizione Holding group, the Unipol group, the ST Microelectronics group, the companies related through Mr. Moratti and the Camfin group.

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through the Directors and key managers of the Company.

	(millions of euro)	
Revenues	7	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 1 million), and of telephone services to the Pirelli group (euro 1 million), to the Edizione Holding group (euro 1 million), to the Unipol group (euro 3 million) and to the ST Microelectronics group (euro 1 million)
Purchases of materials and external services	25	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 14 million), Document Management services by Telepost (euro 5 million), insurance services by the Unipol group (euro 2 million), sponsoring and content provider costs in reference to F.C. Internazionale Milano S.p.A. - a related party through Mr. Moratti (euro 2 million), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million) and the purchase of electronic components from ST Microelectronics (euro 1 million)
Trade receivables, miscellaneous receivables and other current assets	5	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group (euro 1 million), to the Edizione Holding group (euro 2 million) and to the Unipol group (euro 2 million)
Trade payables, miscellaneous payables and other current liabilities	67	These mainly refer to supply transactions connected to the performance of services, investment activities from the Pirelli group (euro 56 million), costs for Document Management services rendered by Telepost (euro 5 million), insurance costs from the Unipol group (euro 3 million), sponsoring costs in reference to F.C. Internazionale Milano S.p.A – a related company through Mr. Moratti (euro 1 million), commissions due to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million) and the purchase of electronic components from ST Microelectronics (euro 1 million)
Investments in tangible and intangible assets	31	These mainly refer to purchases of telecommunications cables from the Pirelli group

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS

WIRELINE

- **Strengthening of Wireline's competitive position in Italy and Europe**
- **Stabilization on the core telephone market**
- **Further growth of the broadband market**
- **Consolidation of the activities of the European Broadband Project**

THE BUSINESS UNIT

The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services for final (retail) customers and other (wholesale) providers. On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and in South America) and offers innovative broadband services in the most interesting European metropolitan areas.

Actions continued during the first quarter of 2005 to strengthen Wireline's competitive position both on the domestic and European markets.

In particular, on the domestic scene, the core telephone market displayed further stabilization and the drive towards Broadband and innovative Services/Products is moving forward. Internationally, activities under the European Broadband Project (France, Holland and Germany) became more entrenched particularly as a result of the extension of coverage to another five cities in Germany.

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows and already shows the Internet business acquired from the date of January 1, 2005:

Telecom Italia Wireline

Wireline TLC services:
- Retail telephone
- Internet
- Data Business
- VAS Phone and Data
- National Wholesale

National subsidiaries

Loquendo S.p.A.
Path.Net S.p.A.
Telecontact Center S.p.A.
Telecom Italia Media – Tin.it
Matrix S.p.A.

International Subsidiaries

BBNED Group
Latin American Nautilus Group
Mediterranean Nautilus Group
Med-1 Group
HanseNet Telekommunikation GmbH
Telecom Italia Deutschland Holding GmbH

Telecom Italia Sparkle Group:
- Telecom Italia Sparkle S.p.A.
- Intelcom San Marino S.p.A.
- Pan European Backbone (includes Telecom Italia France)
- Telecom Italia Sparkle of North America Inc.
- Telefonia Mobile Sammarinese S.p.A.
- Thinx S.p.A.
- TMI Group
- Telecom Italia Sparkle Singapore

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- under the program to reorganize Information Technology Group, the following activities were transferred to the Wireline BU effective January 1, 2005:
  - applications development/running of the OSS and BSS systems;
  - applications development/running and development of systems infrastructures of standard and customized VAS for the Wireline market.
- on March 24, 2005, BBNED N.V. purchased 100% of Rits Tele.Com B.V., a Dutch company in the VOIP sector (Voice Over IP) for a price of euro 2 million.

Under the strategy to rationalize the assets of the Group, on April 4, 2005, the contractual agreements between Telecom Italia and Telecom Italia Media were concluded for the purchase of the assets of Virgilio (through the companies Webfin and Matrix) and Tin.it. The deal calls for Telecom Italia's purchase of the following investments currently held by Telecom Italia Media:

- a 60% interest in Webfin (which presently holds a 66% stake in Matrix) and a 0.7% interest in Matrix at a total price of euro 70 million. At the conclusion of the transaction, Telecom Italia, which already holds a 40% stake in Webfin and a 33.3% stake in Matrix, will own 100% stakes in Webfin and Matrix and thus have full control over Virgilio;
- a 100% stake in a newly formed company to which Telecom Italia Media will confer the Tin.it business segment. The sales price is euro 880 million.

ECONOMIC AND FINANCIAL DATA

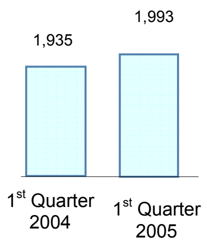
The following table shows the key results in the first quarter of 2005 compared to those in the first quarter of 2004 and the year 2004. The data takes into account the acquisition of the Internet business (the finalization of which is expected to take place during the first half of 2005) as of January 1, 2005 as well as the IT Telecom activities that were transferred to Wireline. The figures for the first quarter of 2004 and the year 2004 are restated for purposes of comparison.

(millions of euro)	1st Quarter 2005 (1) (a)	1st Quarter 2004 (2) (b)	Year 2004 (2)	Change (a-b)	
				amount	%
Revenues	4,350	4,294	17,431	56	1.3
Ebitda	1,993	1,935	7,809	58	3.0
% of Revenues	*45.8*	*45.1*	*44.8*		
Operating income	1,276	1,247	4,757	29	2.3
% of Revenues	*29.3*	*29.0*	*27.3*		
Industrial investments	657	561	2,267	96	17.1
Employees at period-end (number) (3)	53,931	54,108	53,428	503	0.9

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

Revenues, totaling euro 4,350 million, show an increase of 1.3% (+euro 56 million) compared to the first quarter of 2004. On a comparable consolidation basis, underlying growth is 1.6% (+euro 68 million).
This positive performance was achieved thanks to the success of efforts to develop the Broadband market and innovative services together with actions to support the core telephone market and the development of the European Broadband Project.

EBITDA



Retail Telephone
Retail telephone revenues, equal to euro 2,578 million, show a reduction of euro 74 million (-2.8%) compared to the first quarter of 2004. This result denotes the continuation of the stabilization of the core telephone area thanks to features added to the offering for VAS Tutto 4 Star and Chat SMS, which had reached 2,194,000 customers by March 2005, and the continual evolution of Innovative Phones (Aladino and Videotelephone) which, again at the end of March, had arrived at 1,990,000 units.

Retail Internet
Revenues from the Internet area, equal to euro 295 million, grew by 19.9% (+euro 49 million), compared to the first quarter of 2004. The increase is due to the growth of ADSL revenues (+euro 84 million; +66.1% compared to the first quarter of last year).
Wireline's Broadband portfolio at March 31, 2005 had reached a total of 4,872,000 customers. Of these, access lines in Italy stood at 4,350,000 (+340,000 compared to the end of 2004) and 522,000 in the rest of Europe (+102,000 compared to the end of 2004). Besides Broadband customers, the acquisition of Tin.it. brought another 1,200,000 Internet NarrowBand customers.

Data Business
Revenues from the Data Business area, equal to euro 475 million, show a overall gain of 6.7% (+euro 30 million), compared to the first quarter of 2004. This increase is especially driven by the strong growth of VAS Data (Web Services and Outsourcing), with higher revenues of euro 41 million (+62.1%), compared to the first quarter of 2004, and innovative data transmission services, mainly using XDSL technologies, which are up by 21.4% (+euro 31 million).

European Broadband Project
Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 91 million, are up sharply (+74.4% compared to the first quarter of 2004). This increase is particularly due to the growth of Wireline's overall portfolio of European customers, which reached 710,000 by March 31, 2005.

Wholesale
Revenues from Wholesale services, equal to euro 846 million, grew by a total of euro 52 million (+6.5%), compared to the first quarter of 2004, of which euro 24 million relates to national wholesale services and euro 28 million to international wholesale services.
In particular, the increase in national wholesale services, +euro 24 million, is principally due to the growth of data service revenues, +euro 22 million.

Ebitda, amounting to euro 1,993 million, shows an increase of 3.0% (+euro 58 million) compared to the first quarter of 2004, bringing the percentage of Ebitda to revenues to 45.8% (45.1% in the first

quarter of 2004).
On a comparable consolidation basis, underlying growth, net of exceptional items, is 3.0%.
The improvement in Ebitda during the period under review, besides the trend in revenues, is due to a careful management of the efficiency levels which are constantly improving. This is also reflected in personnel costs and in costs not directly associated with business development.

Operating income is euro 1,276 million, and presents an increase of 2.3% (+euro 29 million) compared to the first quarter of 2004. Operating income represents 29.3% of sales (29.0% at the end of March 2004). On a comparable consolidation basis, underlying growth, net of exceptional items, is equal to 2.3%.

Industrial investments amount to euro 657 million and present an increase of euro 96 million (+17.1%), compared to the same period of 2004. This growth is principally due to investments in innovative technologies and in the international project.

The number of *employees* increased by 503 compared to December 31, 2004. The change is due to the hiring of 929 persons, of whom 665 are in Italy and 264 abroad, versus 430 terminations of employment (principally at Telecom Italia Wireline) and infragroup transfers (+4).

EVENTS SUBSEQUENT TO MARCH 31, 2005

The following events took place:

- In April 2005, Telecom Italia signed an agreement with Tiscali for the purchase of its investment in Liberty Surf S.A., an important internet service provider operating on the French market. The investment corresponds to about a 95% stake in the share capital of the company listed on the Paris Euronext. The price agreed between the parties for the stake held by Tiscali is approximately euro 266 million.
  Following the execution of the transaction, Telecom Italia, in compliance with the law, will launch a takeover bid for the remaining 5% of share capital. This execution is subject to approval by the French antitrust authority.

INFORMATION ON OPERATIONS

The following table shows the main operating highlights at March 31, 2005 compared to December 31, 2004 and March 31, 2004, in addition to the principal commercial activities carried out during the first quarter of 2005.

Operating highlights	3/31/2005	12/31/2004	3/31/2004
Fixed network connections (in thousands)	25,780	25,957	26,429
- *of which ISDN*	5,733	5,805	6,008
Minutes of traffic on the fixed network (billions)	53.7	216.8	59.0
• national traffic	50.2	203.9	56.2
• international traffic	3.5	12.9	2.8
TP terminals using ISDN technology (in thousands)	122.9	124.5	127.1
Internet users:			
- Dial-up users (Tin.it Free and Premium) (in thousands)	1,200	1,300	1,500
- ADSL users (in thousands)	4,872	4,430	2,800
Virgilio page views (in millions)	2,254	7,902	1,905

- RETAIL

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

Telephone	Pricing (rate plans)	The launch of *Mobile Business,* which enhances the product range geared to SME-Evolution customers. The new plan enables customers to use a certain number of free calls to the cell phones of one or more Mobile Operators, against a supplementary monthly fee.
	Products	Extension of the Aladino range with the launch of new products: *Aladino micro,* a cordless with a modern design giving users the option of downloading ring-tones, *Aladino young*, the entry level cordless phone in the range of products with a color display, *Aladino MMS,* an MMS cordless with a camera incorporated, and, finally, *Aladino Flip,* the first MMS cordless with a shell-shaped design.

Internet	Alice Adsl	On February 1, 2005, Alice Flat became "Mega" with a downloading speed of 1.2 Mb; at the same time, the "Mega" and "Flash Mega" rate plans were subjected to repricing. On February 7, 2005 new packages were launched with Rosso Alice "Bouquet 3 Film" and "Bouquet 3 Partite" in bundle with the Alice Free profile and connection to ADSL. Finally, March 1, 2005 saw the launch of Alice Security, the new protection and security service which contains a desktop antivirus and a centralized firewall.
	Smart Adsl	The range of Smart services has been expanded. In particular, the Flat profile with a 640-Kb download speed have doubled the peak speed (to 1.2 Mb) whereas rates which already had a peak download speed of 1.2 Mb have increased the guaranteed band fivefold (from 20 Kb to 96 Kb). The upgrade did not affect prices and will gradually also involve already existing customers.

Virgilio Portal		The new Home Page of the Virgilio portal, first published on March 8, 2005, generated an increase in the traffic to the portal, by giving a higher profile to the sections that merited closer scrutiny. In particular, performance improved for the Search (number of users +3%, page views +6%), Community (number of users +5%, page views +2%) and Mail sections (number of users and page views +5%). In the first quarter of 2005, the page views of the Virgilio website totaled 2,254 million, an increase of 18% compared to the first quarter of 2004.

Data Business	Lambda	Launch of the *1.25 Gbps Long Distance* profile and repricing of the package with a price reduction of approximately 30%.

Telephone VAS	Services	Launch of the *Tutto 4 Star* and *Tutto 4 Star Office* promotions, which are supplied free for 3 months to customers who purchase and use one of the *Aladino* cordless phones. The promotion will also apply to anyone who purchased a Videotelephone in March. Extension of the logo and ring-tone downloading service, through Telecom Italia's 41.412 portal, to cordless phones in the *Aladino* range on the fixed network *Aladino* and the start of a new service, *call return – busy line* between Mobile - Fixed networks with the operator Vodafone.

ICT VAS	Desktop Management	Launch of a new Desktop management package for businesses, including a Single Point of Contact for solving all potential computer problems (both for desktops and laptops). Furthermore, through centralized supervision of the Governance Room, remote hardware and software support can be supplied while maintaining control of all the processes associated with the IT infrastructure being managed.
	LAN Management	Launch of the new *LAN Management* package, including a Single Point of Contact for solving all potential problems of the active and passive equipment (hubs and switches) of corporate LANs. The *LAN Management* also includes a Governance Room which guarantees hardware and software support, also remote support where necessary, for the equipment and according to the configuration of the LAN of the customer concerned.

- NATIONAL WHOLESALE

  In the first quarter of 2005, details of the most significant quantitative changes in the national wholesale market are as follows:

Broadband access	XDSL	The number of XDSL Wholesale accesses acquired by other operators (both those with licenses and Internet Service Providers) reached about 1,010,000.
Local Loop Unbundling (LLU)	LLU Lines	The number of lines directly connected to the networks of other operators totaled approximately 818,000. In March 2005, approximately 55,000 Shared Access lines were activated to enable other operators to supply ADSL access to TI's telephone clientele.
Carrier-PreSelection	CPS Lines	By the end of the period, approximately 4,172,000 access lines had been configured.

- INTERNATIONAL WHOLESALE

  In Europe, Telecom Italia Sparkle maintained its leadership position in the Voice market and continued to play an important role in the IP & Data transmission segment. In the first quarter of 2005, the Voice business showed steady increase in volumes, equal to approximately +13% compared to the corresponding period of 2004 (excluding traffic from Telecom Italia Wireline customers). A decisive contribution to this increase was the performance of transit traffic (+19%). This performance was sustained by the policy to acquire new customers, especially in areas such as Africa and the Middle East (17 new interconnections, of which 11 in Voice Over IP – VOIP, were established in the first quarter of 2005) and by continuous effort to achieve cost efficiencies, based on the development of types of VOIP transport (349 million minutes, of which 109 million were delivered through Intelcom San Marino, compared to 115 million minutes of which 17.5 million were delivered through Intelcom San Marino in the first quarter of 2004).

With regard to the IP & Data Transmission market, in the first quarter of 2005 the downward trend of prices was accompanied by a substantial growth of the band sold in the wholesale market, a phenomenon which contributed to an increase in revenues from innovative services of approximately 46% compared to the same period of 2004.

- DOMESTIC NETWORK

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

National transmissive backbone (fiber optic evolution)	Another Marconi latest-generation high-capacity electronic frame has been installed, bringing the total restoration capabilities to 28 junctions, all located in the largest Italian cities. Work continued to strengthen the DWDM links already in operation, which have an overall capacity of more than 150 systems. In addition, approximately 530 km of G655 cable were produced in the NE.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (*Ethernity*, *Hyperway* and *Genius* services based on GBE access). In the first quarter of 2005, 76 new gates with GBE access were installed (a total of approximately 500 by the end of March), bringing the current coverage of GBE technology to 22 locations in Italy.
ADSL Access	In the first quarter of 2005, 36 new exchanges were equipped and approximately 528 thousand lines were added. There are now 3,786 exchanges that can provide ADSL access. At the end of March, total ADSL coverage of the national territory was approximately 83%.

- FOREIGN RETAIL NETWORKS

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

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

GERMANY	HanseNet's main achievements during the first quarter of 2005 involved the extension of the service from the Hamburg area to other areas of Germany (Munich, Berlin, Stuttgart, Frankfurt and Lübeck) and were identified with the acronym of Germany Extension (GE). Achievements include: • With regard to the activation of new sites E2E 241, new MDFs out of 253 were delivered. • IP Backbone: a 2,179-km fiber optic link was created with 5 POP and 26 re-generation/amplification sites. • The Access Network was extended by building new metropolitan links in the areas of Munich, Berlin, Stuttgart, Frankfurt and Lübeck. • With regard to services, the speed upgrade for Microbusiness was accompanied by the introduction of the "activation, de-activation, change order" package.

- INTERNATIONAL NETWORK

In the first quarter of 2005, work continued to develop the IP backbone by increasing the transmissive capacity of the European backbone and the trans-Atlantic band in order to satisfy the continuous growth of IP traffic volumes.
The switching capacity of international telephone exchanges was expanded to support the increase in volumes and make it possible to create interconnections with new operators.
Furthermore, Telecom Italia Sparkle's commitment continued with regard to the consortium to create the new Sea-Me-We 4 submarine cable system which will connect the area of the Mediterranean to the Middle and Far East, scheduled to become operational in the second half of 2005.

MOBILE

- Growth of consolidated revenues, driven by the strong expansion of Brazil
- Increase in consolidated economic results
- An industrial agreement reached in Brazil between TIM Brasil and Brasil Telecom

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS

The structure of the Business Unit (below) has changed from that presented in the 2004 annual report since the companies Digitel Venezuela and TIM Hellas have been considered as assets held for sale.

Mobile

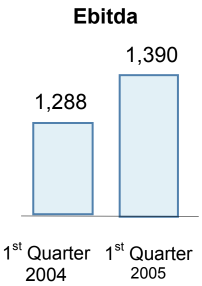
National Subsidiaries	Major international subsidiaries	Major affiliated companies
TIM – Telecom Italia Mobile S.p.A. TIM Italia S.p.A.	TIM International N.V. . TIM Brasil Group -TIM Participaçoes Group (Brazil) - Maxitel S.A. (Brazil) - TIM Celular S.A .(Brazil) - CRC Ltda (ex-Starcel Ltda) (Brazil) . TIM Perù S.A.C. . Blah! S.A.	Avea I.H.A.S. (Turkey)

ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	2,950	2,696	11,875	254	9.4
Ebitda	1,390	1,288	5,451	102	7.9
% of Revenues	*47.1%*	*47.8%*	*45.9%*		
Operating income	937	927	3,841	10	1.1
% of Revenues	*31.8%*	*34.4%*	*32.3%*		
Industrial investments	193	179	2,325	14	7.8
Employees at period-end (number) (1)	18,190	16,724	18,034	156	0.9

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



Revenues amount to euro 2,950 million, with an increase of 9.4% compared to the first quarter of 2004 (euro 2,696 million). Excluding the positive foreign exchange effect (euro 19 million), revenues grew by 8.7% (euro 235 million).
Revenues from domestic business total euro 2,361 million (euro 2,293 million in the first quarter of 2004), with a 3.0% increase. Revenues of the TIM Brasil group amount to euro 546 million (euro 373 million in the first quarter of 2004), with a 46.4% gain (+41.6% at the same exchange rates).
Contributing to underlying growth are the increase in revenues by the TIM Brasil group (+euro 155 million) and confirmation of the good trend on the domestic market (+euro 68 million).

Ebitda is euro 1,390 million, up by euro 102 million (7.9%) compared to the first quarter of 2004. The cost elements which most affected this increase are purchases of materials and services (+euro 107 million, with an 8.9% increase) and personnel costs (+euro 23 million, which grew by 15.9%, principally as a result of a higher average number of employees).
Ebitda as a percentage of revenues is 47.1% (47.8% in the first three months of 2004).
At the same exchange rates, underlying growth, measured net of exceptional items, is 9.1%.

Operating income is euro 937 million and shows an increase of euro 10 million (+1.1%) compared to the first quarter of 2004. In particular, operating income was affected by the increase in depreciation and amortization (+euro 85 million), which rose on account of the sharp increase in investments for the expansion of network and business support infrastructures.
Operating income as a percentage of revenues is 31.8% (34.4% in the first quarter of 2004).
Excluding the negative foreign exchange effect of euro 1 million and excluding exceptional items, underlying growth is equal to euro 36 million (+3.9%). This growth was significantly impacted by the improvement in the results of the TIM Brasil group, particularly owing to the rapid and continual recovery of profitability by TIM Celular.

Industrial investments amount to euro 193 million, of which euro 90 million refers to intangible assets and euro 103 million to tangible assets. Investments focused on technological development and expansion of the network.

The number of *employees,* equal to 18,190, increased by 156 compared to December 31, 2004.

EVENTS SUBSEQUENT TO MARCH 31, 2005

The following events took place:

- on April 3, 2005, TIM International N.V. signed a contract for the sale of the 80.87% investment held in TIM Hellas Telecommunications S.A. to the funds managed by Apax Partners and Texas Pacific Group (TPG). The sales price is euro 1,114 million, which corresponds to an enterprise value of about euro 1,600 million for the 100% stake in TIM Hellas and represents approximately euro 16.43 per share. The sale will give rise to a gain of about euro 432 million in the consolidated financial statements of the TIM group. The finalization of the sales agreement, which is subject to approval by the pertinent authorities, is scheduled to take place by July 2005;
- on April 28, 2005, TIM Brasil signed an industrial agreement with Brasil Telecom which provided for, through the incorporation of Brasil Telecom's operations in TIM Brasil, the completion of a series of important economies of scale to take advantage of the synergies deriving from the integration of wireline platforms and mobile platforms, the development of

commercial and marketing activities, combining technological know-how, service offerings and the distribution network of the two companies.

The following table shows the main operating highlights at March 31, 2005 compared to March 31, 2004 and December 31, 2004, in addition to the principal activities carried out during the period by each sector:

Operating highlights	3/31/2005	12/31/2004	3/31/2004
TIM lines in Italy (thousands)	26,186	26,259	26,036
TIM lines abroad (thousands)	15,927	14,690	9,803
Mobile traffic (millions of minutes) in Italy	10,071	41,225	9,794
ARPU (euro/line/month) in Italy	28.1	29.0	27.9

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

FreeMove/Fiat Agreement	A framework agreement has been signed with FIAT for the supply of pan-European mobile communications services. The agreement covers more than 20,000 lines in 17 European countries and demonstrates the strength of the TIM alliance as a supplier of mobile telephone services and solutions to large multinational companies.
Launch of Video Sharing service	TIM and Nokia have signed an agreement to launch the Video Sharing service on the Italian market in the second quarter of 2005. To begin with, the new service will be available with the Nokia 6680 handset. Customers will be able to see a live video or video clip during a normal voice phone call on their cell phone, thus taking advantage of a service which is innovative and technologically on the leading edge.

MEDIA

- La7: audience share in March 2005 at 2.6% (2.2% in March 2004)
- MTV: the launch of a third TV network is confirmed and, in terms of TV advertising, an increase of 20% was recorded in the first quarter of 2005, compared to a market which posted only 4% growth

THE BUSINESS UNIT

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

- Television: with La7 and MTV, in the production and broadcasting of editorial content through the television transmission networks entrusted under concession and in the marketing of advertising space in TV programming; in September 2004, La7 Televisioni S.p.A. acquired the rights to broadcast the home matches of eight Serie A soccer teams using digital terrestrial technology;
- Office Products & Services: in the distribution of products, services and solutions for the office through the Buffetti retail network.

Under the strategy to rationalize the assets of the Group, on April 4, 2005, the contractual agreements between Telecom Italia and Telecom Italia Media were concluded for the purchase of the assets of Virgilio (through the companies Webfin and Matrix) and Tin.it. The deal calls for Telecom Italia's purchase of the following investments currently held by Telecom Italia Media:

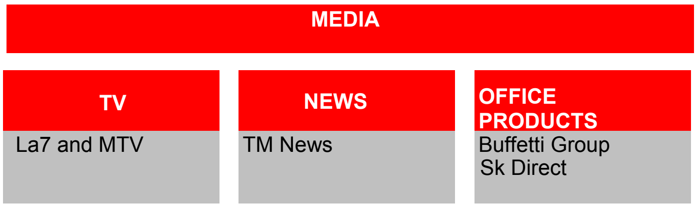
- a 60% interest in Webfin (which presently holds a 66% stake in Matrix) and a 0.7% interest in Matrix at a total price of euro 70 million. At the conclusion of the transaction, Telecom Italia, which already holds a 40% stake in Webfin and a 33.3% stake in Matrix, will own 100% stakes in Webfin and Matrix and thus have full control over Virgilio;
- a 100% stake in a newly formed company to which Telecom Italia Media will confer the Tin.it business segment. The sales price is euro 880 million.

The transaction will also involve:

- utilization, by Telecom Italia Media, of the proceeds from the sale for new investments in the media sector for an estimated amount of about euro 250 million during the three years 2005-2007;
- purchase, by Telecom Italia Media, of treasury shares up to the limit established by law, for an equivalent amount of approximately euro 148 million;
- distribution of dividends in 2006 by Telecom Italia Media of about euro 550 million;
- merger through incorporation of La7 in Telecom Italia Media.

THE STRUCTURE OF THE BUSINESS UNIT

The following structure of the Media Business Unit takes into account the transfer of the Internet assets to the Wireline Business Unit (expected to take place during the first half of 2005) and the deconsolidation of the companies Televoice and Databank.



MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The first quarter of 2005 was marked by the deconsolidation of the companies Televoice and Databank.

ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	72	74	295	(2)	(2.7)
Ebitda	(22)	(12)	(56)	(10)	(83.3)
% of Revenues	*(30.6)*	*(16.2)*	*(19.0)*		
Operating loss	(32)	(17)	(90)	(15)	(88.2)
% of Revenues	*(44.4)*	*(23.0)*	*(30.5)*		
Industrial investments	15	7	41	8	114.3
Employees at period-end (number) (*)	1,035	1,329	1,228	(193)	(15.7)

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

In the first quarter of 2005, *revenues* amount to euro 72 million, with a decrease of 2.7%, compared to euro 74 million in the first quarter of 2004. Excluding the negative effects due to the change in the scope of consolidation, underlying growth is 7.5% (euro 5 million).

Details are as follows:

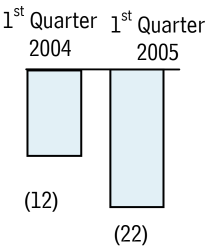
- *revenues* from the Television area show a growth of euro 7 million (+26.9%), from euro 26 million in the first quarter of 2004 to euro 33 million in the first quarter of 2005, confirming the reputation for editorial content in the programming of the two TV networks. In particular:
  - in the first quarter of 2005, La7 Televisioni S.p.A. posted revenues of euro 19 million, an increase of 35.7% compared to the first quarter of 2004 (euro 14 million);
  - in the first quarter of 2005, MTV reported revenues of euro 16 million, an increase of

23.1% compared to the first quarter of 2004 (euro 13 million);

- revenues from the Office Products & Services area are euro 37 million, with a reduction of euro 1 million (equal to 2.6%) compared to the first quarter of the prior year; the decrease can principally be found in the office automation and telephone accessories sectors. The quarter also reflects the reorganization of the sales force of the free market channel in February.

Ebitda in the first quarter of 2005 is a loss of euro 22 million, with a deterioration of euro 10 million compared to the loss reported in the first quarter of 2004 (-euro 12 million). The change can be ascribed to a reduction in the margin of euro 11 million, from -euro 10 million in the first quarter of 2004 to -euro 21 million in the period under review, principally as a result of higher costs incurred during the first quarter of 2005 for digital terrestrial experimentation. Furthermore, the operating margin reflects higher costs and investments in "content" needed to support audience growth.

EBITDA



The *operating result* in the first quarter of 2005 is a loss of euro 32 million, with a deterioration of euro 15 million compared to the same period of 2004 following the foregoing reduction in *Ebitda.*

Industrial investments in the first quarter of 2005 total euro 15 million (euro 7 million in the first quarter of 2004). They mainly refer to investments in the Television area connected with digital terrestrial TV (acquisition of digital frequencies and infrastructures for experimentation) and the acquisition of TV rights.

The number of *employees* of the Business Unit at March 31, 2005 is 1,035, a decrease of 193 compared to December 31, 2004 which can mainly be explained by the sale of Databank (86 persons) and Televoice (169 persons) which is partly offset by the hiring of 58 persons in the Television area.

EVENTS SUBSEQUENT TO MARCH 31, 2005

On April 29, 2005, La7 reached an agreement with Elefante TV S.p.A. to take over the business segment composed of the national television station of the same name for an amount of euro 115.5 million.

Always with the intent of expanding the broadcasting capacity of its television networks, La7 also reached another agreement for the purchase of radio and television equipment and the relative frequencies of the local Delta TV station in the central-south of Italy, for a total amount of euro 12 million. These acquisitions are subject to operating conditions and obligations and also to the requisite authorizations from the pertinent authorities.

INFORMATION ON OPERATIONS

On January 22, 2005, La7 launched "La7 Cartapiù", the pay-TV package for digital terrestrial television whereby customers can pay to see live the home soccer games of the Italian "Serie A" championship of the Bologna, Brescia, Cagliari, Chievo, Lecce, Fiorentina, Palermo, Parma and Reggina teams. At March 31, 2005, more than 560,000 cards had been distributed and approximately 80 hours of soccer games were broadcast. The broadcasting of the La7 and MTV channels on digital terrestrial TV was further enhanced by numerous interactive applications (such as a TV Guide, "Ultima ora", "Vota nazionale", "Video request", etc.).

OLIVETTI

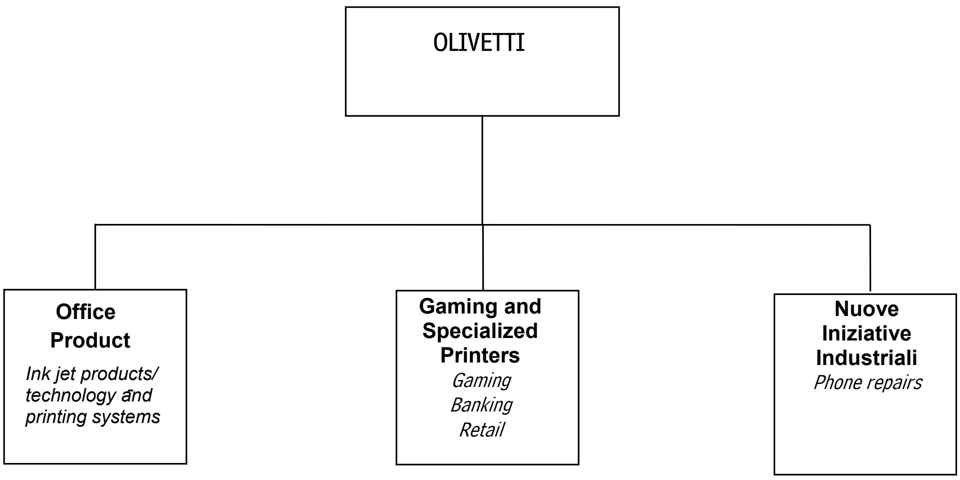
INTRODUCTION

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

THE STRUCTURE OF THE BUSINESS UNIT

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

and operates with the following organizational structure:



MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transaction took place:

- on January 14, 2005, the deed was signed for the sale of 60% of the share capital of Innovis S.p.A. by Olivetti Tecnost S.p.A. to the shareholder Comdata S.p.A.; after this transaction, the investment holdings in Innovis S.p.A. are as follows: 80% Comdata S.p.A. and 20% Olivetti Tecnost S.p.A.;
- on March 3, 2005, the Olivetti Tecnost Shareholders' Meeting voted to change the company's name from Olivetti Tecnost S.p.A. to Olivetti S.p.A.. The resolution was recorded in the Turin Companies Register on April 5, 2005;
- on March 7, 2005, the agreement was signed for the sale of 65% of the share capital of Cell-Tel S.p.A. by Olivetti S.p.A to the shareholder Telis S.p.A..; after this transaction, the investment in Cell-Tel S.p.A. is now reduced to 15%;
- on March 24, 2005, the investment in Istituto RTM S.p.A. was sold by Olivetti S.p.A.

ECONOMIC AND FINANCIAL DATA

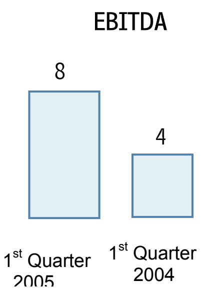
The following table shows the key results in the first quarter of 2005 compared to those in the first quarter of 2004 and the year 2004.

(millions of euro)	1st Quarter 2005 (a)	1st Quarter 2004 (b)	Year 2004	Change (a-b) amount	Change (a-b) %
Revenues	108	139	590	(31)	(22.3)
Ebitda	4	8	28	(4)	(50.0)
% of Revenues	*3,7*	*5,8*	*4,7*		
Operating income	0	4	17	(4)	
% of Revenues		*2,9*	*2,9*		
Industrial investments	4	4	15		
Employees at period-end (number) (*)	1,755	2,346	2,108	(353)	(16.7)

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

In the first quarter of 2005, *revenues* amount to euro 108 million, of which euro 65 million refers to the Office Products Division, euro 30 million to the Gaming & Service Automation and Specialized Printers Division, euro 2 million to Nuove Iniziative Canavese and euro 11 million to other operations.

Compared to the first quarter of 2004, revenues show a reduction of euro 31 million (-22.3%). Excluding the foreign exchange effect and the impact of the change in the scope of consolidation (with particular reference to the closing of operations in U.S.A. and Mexico and the sale of Innovis S.p.A.) of euro 21 million, in addition to revenues from the sale of intellectual properties to TILAB of euro 10 million, underlying growth is a negative euro 20 million (-15.6%).



Ebitda is euro 4 million. This is a reduction of euro 4 million compared to the first quarter of 2004. Excluding the foreign exchange effect, the change in the scope of consolidation, the sale of intellectual properties to TILAB and exceptional items, underlying growth is a negative euro 7 million and is entirely represented by the costs associated with the development of new products in the Office Products Division.

The *operating result* in the first quarter of 2005 is a breakeven and is a deterioration of euro 4 million compared to the first quarter of 2004. Underlying growth, net of exceptional items, is a negative euro 7 million, due to the costs of the Office Products Division.

Industrial investments amount to euro 4 million, unchanged compared to the first quarter of 2004.

At March 31, 2005 *employees* number 1,755, of whom 1,582 are employed in Italy and 173 abroad. The reduction of 353 persons compared to December 31, 2004 is basically due to the deconsolidation of the companies Innovis S.p.A. (222 persons) and Cell-Tel S.p.A. (112 persons).

EVENTS SUBSEQUENT TO MARCH 31, 2005

The following events took place:

- on April 4, 2005, registration of the merger of Olivetti Tecnost de Mexico de C.V. in Olivetti Mexicana S.A.;
- on April 15, 2005, registration of the merger of Olivetti Sistemas e Servicios Ltda in Olivetti do Brasil S.A.;
- on April 19, 2005, change in the name of Olivetti Tecnost International B.V. to Olivetti International B.V.

INFORMATION ON OPERATIONS

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

Office Products

In the first quarter of 2005, in keeping with the corporate plan, the Office Products Division concentrated on the development and manufacture on an industrial scale of new products in the sector of ink-jet technology. The new line of products is scheduled to be marketed in the second half of 2005.

In the first quarter of 2005, revenues were lower than in the same period of the prior year, particularly as a result of measures designed to rationalize the product portfolio, the reduction in the average price of fax machines and less demand for fax accessories and photocopiers.
However, during the period, revenues of fax machines increased by approximately 7% compared to the first quarter of 2004 and an order was acquired from a mass-merchandising customer for 130,000 fax machines, to be delivered in the second and third quarter of 2005.

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

In the first quarter of 2005, the results of Gaming & Service Automation were again substantially in line with those of the prior year and new business initiatives were begun to diversify, both geographically and in terms of products.
In particular, during the year, Olivetti S.p.A. will be involved in supplying Lottomatica S.p.A. with another 34,000 gaming terminals, worth a total of approximately euro 63 million, along with related services.

An order worth approximately euro 1 million was also acquired for the complete supply of terminals and related software for the automation of gaming in Tanzania.

The results in the first quarter of 2005 of the Specialized Printers business show a general reduction compared to the prior year, both in terms of sales and profitability.

In the *Banking* sector*,* results were as follows:

- a general reduction in the sales of printers for banks in Western countries, characterized by a declining market ;
- substantial stability in sales in Eastern markets, despite fierce competition in terms of prices.

In the *Retail* sector, the performance of the Shop Automation business remained steady with regard to volumes of conventional fiscal Cash Registers.

Nuove Iniziative Industriali

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

OTHER ACTIVITIES

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

CENTRALIZED GROUP SERVICES

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

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

OPERATING COSTS

(millions of euro)	1st Quarter 2005	1st Quarter 2004 Proforma	Change	
			amount	%
TI LAB	(31)	(31)	-	-
Real Estate Activities and Services	(177)	(178)	1	(0.6)
Informatics (IT S.r.l. and Governance)	(59)	(66)	7	(10.6)
Central Administrative Services (CSA)	(13)	(14)	1	(7.1)
Security	(13)	(11)	(2)	18.2
Other (1) and eliminations	(9)	(11)	2	(18.2)
TOTAL CENTRALIZED SERVICES	(302)	(311)	9	(2.9)

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

Centralized Group Services show a decrease in costs of euro 9 million compared to the first quarter of 2004, mainly attributable to Informatics, following the efficiencies achieved upon the reorganization of the IT area. The increase in Security costs can be ascribed to the adoption of higher security standards by offices and installation sites.

INFORMATION ON OPERATIONS

TELECOM ITALIA LAB

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.
The activities can be broken down into the Group's main innovative areas of interest, such as: developing the access network, the carrier network, the mobile network, phone services, as well as Internet and multimedia services.
In the first quarter of 2005, the structure of the function changed compared to that of 2004 as a result of the deconsolidation of Telsy S.p.A..

The main achievements of TILAB in the first quarter of 2005 are summarized below:

Service Innovation

In order to support the Group strategy of consolidating the core business, namely Person-to-Person communication, during the first quarter of 2005, TILAB achieved two important objectives:
- the launch of the **Second Phase of the Videotelephone service**, which is completely based on IP protocol (voice, video and terminal-network on IP). Using the same architecture on the fixed network as the mobile network (IP Multimedia Subsystem based on the 3GPP standard) constitutes a first innovative step towards Fixed-Mobile Convergence);
- the launch of the **Blah Mobile Instant Messaging (MIM)** service on the South American market. TILAB's contribution, completed in record time, was to extend the TIMCafè platform (developed by TILAB and which already provides the MIM service, a leader on the national market) with an SMS community/chatting service that can also be used in remote areas such as South America, even though physically co-located on the TIM Services Center in Rome. The new service, launched by TIM Brasil and subsequently by other subsidiaries, met with immediate success, to such an extent that, just two months after the launch, a traffic of 9 million SMSs a day was recorded.

Network Innovation

In keeping with the Group's strategy of activating a *Quadruple Play* package (fixed telephone services, broadband Internet access, TV services + mobile communication) through the evolution of its networks, TILAB made an important step forward by completing – ahead of the vendors' schedules and in a way that would influence them - the technical specifications of the **QoS** (Quality of Service) **Server**, the network component that will ensure that each customer has the "QoS" necessary for each individual service.
In the *Quadruple Play* package, the interface (gateway) between the public and domestic networks will play a crucial technological role. The gateway will be responsible for:
- ensuring end-to-end QoS, particularly for the emergent TV-based services;
- allowing customers to install ever-more varied and new terminals themselves in a safe, simple way;
- favor lower prices for home network solutions, by means of accelerating standardization and consequently boosting sales volumes.

In keeping with these aims, TILAB has set up the **Home Gateway Initiative** (HGI), the new forum which will see the participation of leading vendors in the sector, including Pirelli Broadband Solutions.

REAL ESTATE ACTIVITIES AND SERVICES

Details are as follows:

- the sale of the Emsa Servizi S.p.A. business on December 21, 2004 came into effect on January 1, 2005. Therefore, from that date, the activities which in 2004 were carried out by Emsa Servizi will be performed by the Telecom Italia structures which manage centralized services;
- during March 2005, Tiglio I distributed part of the share premium reserve to shareholders for a total of approximately euro 20 million, of which euro 9 million was paid to Telecom Italia S.p.A..

INFORMATICS

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

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

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

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

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

With this in mind, in the first quarter of 2005, work continued to optimize the management of Wireline and Corporate applications; furthermore, within the framework of project innovation and IT integration, the following activities were launched:

- defining and launching the rationalization of BSS systems and storage transferred in the Wireline environment;
- start of the process to consolidate TIM's mainframe environment on the Telecom Italia systems and continuation of the process of rationalizing Telecom Italia's mainframe environment;
- start of the process of taking over the OSS and VAS infrastructures and monitoring the relative services and applications present in the Data Center at Oriolo Romano.

As far as development activities on ERP and Institutional systems are concerned, work continued to develop, make uniform and disseminate Group standards (regulations, processes and solutions). In addition, development work began with the aim of expanding the level of collaboration with our partners (suppliers portal, paperless, dealers, agents, etc.).
Finally, with regard to the Group portal, activities were begun with the aim of defining and implementing new additional services and developing the content and applications of the Central Functions/Business Units. Meanwhile, the integration of the intranets of the individual Business Units is nearing completion.

CORPORATE

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

OPERATING COSTS

(millions of euro)	1st Quarter 2005	1st Quarter 2004 Proforma	Change amount	Change %
Staff Functions	(87)	(79)	(8)	10.1
Group Communication	(13)	(10)	(3)	30.0
Corporate LATAM + TI International	(8)	(6)	(2)	33.3
CORPORATE	(108)	(95)	(13)	13.7

The table excludes the effects of certain extraordinary items, mainly nonrecurring income (closing settlement with the Greek operator OTE in 2005 and the settlement with Telespazio in 2004) in order to show a more meaningful and comparative representation of the economic trend of Corporate.
Corporate costs record an increase of euro 13 million due mainly to Staff Functions, owing to the rise in personnel costs which are partly compensated by savings on professional and consulting services.
The increase in Communications costs can be traced to the different timing of the institutional advertising campaign, also carried out at the beginning of the year while, last year, it had only been planned for the last months of the year.

INTERNATIONAL HOLDINGS

Entel Bolivia Group

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

Previously, the Entel Bolivia group was represented in the South America structure which ceased to exist with the sale of Entel Chile, now presented according to the new IAS/IFRS standards under assets held for sale.

The Entel Bolivia group (consolidated line-by-line) operates in the sectors of wireline (particularly in the segment of long-distance national and international telephone services), mobile telephone services, Internet, data transmission, telex and telegraphy services in Bolivia.
In the first quarter of 2005, activities in the wireline business were geared to consolidating the Wi-Fi service in Bolivia's three largest cities (La Paz, Santa Cruz and Cochabamba). At March 31, 2005, fixed lines number 56,000 and represent an increase of 12% compared to March 31, 2004 (50,000).

In the mobile business, the group consolidated its leadership of the market, achieving a market share of 67.9% (+0.6% compared to 2004). In January 2005, the convergent invoicing system was introduced and constitutes a fundamental step towards corporate reorganization, which aims to achieve greater integration between fixed and mobile activities. Finally, the group sold its minority holding in Intelsat. The group's mobile clientele, numbering 1,210 thousand at March 31, 2005, increased by 5.6% compared to March 31, 2004 (1,146 thousand).

Telecom Argentina Group

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

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

In the first quarter of 2005, the wireline business registered an increase in the average amount of traffic, as a result of the launch of "semiflat" rate plans and economic growth in Argentina. In addition, new services were introduced in broadband Internet (surfing according to the time spent online, double the speed). Fixed lines, which number 3,506 thousand, increased by 0.6% compared to March 31, 2004 (3,484 thousand).

In the mobile business, the customer base increased by 10%, compared to March 31, 2004, reaching 4,758 thousand. The level of penetration of mobile services, equal to 39% in the first quarter of 2005, increased by 67% compared to the same period of 2004. Finally, the program to retain TOP customers continued, by replacing TDMA terminals with GSM terminals.

DISPUTES, LITIGATION AND LEGAL PROCEEDINGS PENDING

An updated situation of the main disputes, litigation and legal proceedings in which companies of the Telecom Italian Group were involved as described in the report on operations accompanying the 2004 financial statements is presented below. Except where explicitly mentioned, provisions have not been made to the reserves for risks, either for want of definite and objective grounds for doing so or because a negative outcome of the dispute is considered unlikely.

VODAFONE

In July 2003, Telecom Italia initiated an arbitration proceeding with Vodafone to obtain damages in relation to the radiomobile operator's decision to bar its customers from access to the Company's "12" information services between August 2002 and April 2003. In particular, Telecom Italia is seeking compensation of approximately Euros 38.7 million. Vodafone contends that its conduct was licit and has filed a counterclaim for an identical amount. The parties are currently holding talks to arrive at a negotiated settlement of the dispute.

UNIVERSAL SERVICE

The following actions remain pending in the complex challenge by some operators to the National Regulatory Authority's Resolutions concerning the universal service net cost sharing mechanism:

- ✓ the petition submitted by Vodafone to the Regional Administrative Tribunal of Lazio (TAR of Lazio) for annulment of the decision with which the Authority, in renewing the proceeding concerning the application of the universal service net cost sharing mechanism for 1999, recalculated the amount of Vodafone's contribution;
- ✓ the petitions submitted respectively by Vodafone to the TAR of Lazio and by Wind to the Head of State for annulment of the decision governing the same cost sharing mechanism for 2000. Vodafone has requested that the issue be referred as a preliminary matter to the European Court of Justice for a ruling on the interpretation of the Community directives;
- ✓ the petition by Vodafone to the Lazio Administrative Court for annulment of the note dated April 29, 2003 with which the Ministry of Communications enjoined Vodafone to pay the contribution for the year 2000 for the financing of the universal service, as determined by the National Regulatory Authority.
- ✓ the petitions submitted by Vodafone and by Wind to the TAR of Lazio in March for annulment of the decision by the National Regulatory Authority to apply the universal service net cost sharing mechanism for 2002.

CHALLENGES TO MEASURES ADOPTED BY THE NATIONAL REGULATORY AUTHORITY

At the end of December 2004, Telecom Italia appealed to the TAR of Lazio for the annulment and interim suspension of National Regulatory Authority Resolution No. 15/04/CIR of November 3, 2004 ("Assignment of the rights to use the numbers reserved to subscriber information services").

The National Regulatory Authority Resolution follows up its Resolution No. 9/03/CIR of July 3, 2003. The latter updated the Numbering Plan in the telecommunications sector, establishing that the number "12XY" would be assigned to subscriber information services. Accordingly, these services will have a number composed of the digits "12" followed by another two digits, different for each operator. The Resolution provided that the implementing timetable, subjective requirements for the rights of use and the procedure for assigning the numbers reserved to subscriber information services would be established in a subsequent Resolution.

The Authority has set a very tight timetable for the cessation of all subscriber information services provided with numbers other than "12XY" (including services accessed with the addition of "4" (e.g. "412", recently added to the traditional "12") and has also established the procedures for informing customers about the "migration" of

these services to other numbers. Telecom Italia considers these procedures discriminatory, since the Company is not free to use its discretion in advertising the new number the service will migrate to.
According to Telecom Italia, the Authority's decisions also entail substantial economic losses for the Company, including those stemming from the fact that the cessation of services on the number "412", the shutting down of the number "12" and the mechanism for assigning the new numbers (which for Telecom Italia involves the use of totally different numbers from those to which its customers are accustomed) are likely to cause customers to shift to numbers of other operators.
The Council of State has denied the precautionary appeal presented by Telecom Italia to challenge the ordinance by the TAR of Lazio which rejected the appeal to suspend the challenged Resolution.

* * *

In mid-March 2005, Telecom Italia and La7 Television filed an appeal with the TAR of Lazio to annul the National Regulatory Authority Resolution No. 278/04 CSP dated December 10, 2004 ("Approval of the directive on pay TV charters of services and quality of services according to art. 1, paragraph 6, letter b) No. 2 of Law No. 249 dated July 31, 1997").
The challenged Resolution obliges the operators offering pay TV services to adopt charters of services (and guarantee the quality of those same services). This law follows the one imposing the adoption of charters of services in the wireline telephony sector (Resolution No. 254/04/CSP) and constitutes application of the Resolution approving the general directives on quality and telecommunications charters of services (Resolution No. 179/03 CSP).

CHALLENGES TO MEASURES ADOPTED BY OTHER REGULATORY AGENCIES

Last February, Telenergia S.r.l., 80%-owned by Telecom Italia and 20%-owned by TIM, challenged certain measures before the TAR of Lombardy taken by the Operator of the National Transmission Network, the Electrical Energy and Gas Authority and the Ministry of Productive Activities on the assignment of electricity quotas. Telenergia also requested the TAR of Lombardy to suspend the effectiveness of the temporary assignment of electricity by the Operator of the National Transmission Network so that the quotas could be assigned differently using criteria that respect sector legislation and the law on competition.
During the precautionary hearing, the Operator – which should have definitively assigned the energy quotas by February 28 of this year – stated that the procedure for the final assignment would be made at a later unspecified date. This caused the TAR of Lombardy judges to deny the precautionary request by Telenergia; the appeal on the merits of the assignment is still pending.

MEDITERRANEAN NAUTILUS

In October 2003, FTT Investments (of Israel, minority shareholder of Med Nautilus S.A.) notified a request for international arbitration to obtain annulment of the contract signed in March 2001 with Telecom Italia International, Telecom Italia and Med Nautilus S.A. for the transfer from Telecom Italia International to FTT of 30% of the capital of Med Nautilus S.A.. FTT invoked invalid consent owing to fraud on the part of the Telecom Italia Group or, in any event, owing to its having been misled as to the subject of the contract. It requested restitution of the price paid (approximately USD 98 million) plus interest, without detriment to its right to put forward additional claims. In particular, FTT asserts it was induced to make the purchase on the basis of a misrepresentation arising from the omission of information about the existence of a put option written by Med Nautilus S.A. for the shares of Med Nautilus Ltd. held by the minority shareholders.
Telecom Italia asked to be excluded from the arbitration proceeding inasmuch as FTT did not initially make any specific demand in its regards.

In May 2004, FTT filed further arguments, formalizing a request to also extend to Telecom Italia and Med Nautilus S.A. the demand for restitution of the purchase price that it had initially made solely vis-à-vis the seller, Telecom Italia International. The arbitration board reserved its right to decide on the procedural admissibility of the request when it decides on the merits of the dispute.

In December 2004 and March 2005, the parties asked the arbitration board to suspend the procedure to allow time for talks aimed at reaching a negotiated settlement.
An amount has been set aside in the 2004 financial statements in the reserve for risks to take account of the probable effects of the settlement.

BRAZIL
Under the April 28, 2005 understandings described in the section "Subsequent events", an agreement was reached to surmount the dispute connected with the agreements concluded on August 27, 2002 between Telecom Italia International and the co-shareholders Techold and Timepart for the temporary reduction from 37.29% to 19% of the Group's stake in the ordinary share capital of Solpart Partecipações (parent company of Brasil Telecom through Brasil Telecom Partecipações) and the temporary suspension of its governance rights, with the aim of overcoming a regulatory impediment to the start of the TIM's commercial operations in Brazil. Specifically, the settlements concluded regard the following:

- ✓ the international arbitration before the Paris International Chamber of Commerce brought by Techold and Timepart in December 2003. The aim was to have the clauses of the 2002 agreement regarding the reacquisition of the transferred shares and the exercise of the governance powers provided for in the existing Solpart shareholders' agreement declared "non-operational";
- ✓ the actions brought by Telecom Italia International before the State Court of Rio de Janeiro, in January and March 2004, and in the federal court, against Techold, Timepart, Solpart Partecipações, Brasil Telecom Partecipações and Brasil Telecom regarding Techold's and Timepart's refusal to fulfill Telecom Italia International's request to repurchase the Solpart shares and reinstate its governance rights.

Settlements have also been concluded regarding the following:

- ✓ proceedings brought in April 2001 by Brasil Telecom before the Civil Court of Rio de Janeiro against Telecom Italia, Telecom Italia International and two directors appointed by Telecom Italia International for alleged injury to the Brazilian operator as a result of the acquisition of Companhia Riograndense de Telecomunicaçoes ("CRT") and the company's failure to participate in the auction for the SMP (Serviço Movil Pessoal) radiomobile licenses. Brasil Telecom contends it was injured by abusive conduct on the part of Telecom Italia and Telecom Italia International and by alleged impediments created by the directors appointed by Telecom Italia International, who allegedly (i) interfered with the negotiations for the purchase of CRT and with the setting of the purchase price, and (ii) favored TIM's investee companies in the award of the SMP licenses;
- ✓ action brought by Brasil Telecom in April 2004 claiming abuses of the control power exercised by Telecom Italia International. According to the plaintiff, the abuses in question led in 1999 to the failure to purchase the operator VICOM and to delay in the granting of a loan by BNDES (Banco Nacional de Desenvolvimento Economico e Social), and prevented the issue of debentures in 2001.
- ✓ further possible claims against companies of the Group by Opportunity, by reciprocally relinquishing any action to be brought before a court of law or an arbitration board.

The parties are taking the necessary steps to close the various proceedings.
During the early days of May 2005, the settlement of the proceedings brought before the Rio de Janiero Court in January and March 2004 and the acts for exercising the governance rights in Solpart by Telecom Italia International, according to the clauses of the relative shareholders' agreement as amended on April 28 2005,

were challenged by some indirect co-shareholders, in two different actions, with the request, respectively, to intervene in the proceedings for the validation of the settlement and to suspend the effects of the shareholders' agreement reached on April 28, 2005 as a precautionary measure.
On the other front, a precautionary proceeding was brought before the Rio de Janeiro Court against Telecom Italia International, TIM International, TIM Brasil, Opportunity, Techold, Timepart, Solpart, Brasil Telecom Partecipações, Brasil Telecom and its subsidiary Brasil Telecom Celular, aimed at barring the course of the merger through incorporation of the latter in TIM Brasil, according to the clauses of the agreement signed between the two companies on April 28, 2005.

IRIDIUM

In June 2000, Chase Manhattan Bank (now JP Morgan Chase Bank) filed an action in the US District Court for the District of Delaware against the shareholders of Iridium LLC, seeking fulfillment of the obligation to proceed with a capital increase that had been undertaken to ensure the repayment of a USD 800 million loan granted in 1998 to Iridium Operating LLC, a subsidiary of Iridium LLC.
As part of the petition, the plaintiff asked that Telecom Italia be ordered to pay its presumed share of the capital increase of Iridium LLC (approximately USD 7.5 million), even though Telecom Italia had disposed of its corresponding interest to Iridium Italia before the loan was disbursed.
The court issued an ordinance (challenged by Telecom Italia) that rejected the defenses pled by the parties, including Telecom Italia's request to be excluded from the proceeding, considering the case ready for judgment even without a hearing. Pending the conclusion of the main proceeding against Telecom Italia, the district court suspended the action brought in January 2003 by Chase Manhattan Bank against Iridium Italia (now in liquidation, 30%-owned by Telecom Italia, the remainder equally divided between TIM and Telespazio).
In February 2005, Telecom Italia, Iridium and Chase Manhattan Bank reached an agreement to settle the existing dispute and consequently decided not to continue with the pending proceedings, which have therefore been declared closed.

ETEC S.A.

In August 2002, Bancomext, an entity controlled by Banco de México, Mexico's central bank, brought an action against the Cuban telecommunications operator Etec SA (in which Telecom Italia International holds a 27% equity interest) and its majority shareholder Telefonica Antillana SA ("Telan"), petitioning the Court of Turin for the precautionary sequestration of assets held by third parties belonging to Telan and Etec SA. The writ of sequestration was executed on assets amounting to approximately euro 43 million.
Bancomext acted on the basis of agreements (a loan contract and a credit-facility contract) signed with the two Cuban companies under which a part of the dividends belonging to Telan would be held in escrow as security for repayment of a USD 350 million loan from Bancomext to Banco Centrale de Cuba ("Bancuba"), Cuba's central bank. The action was lodged after the Cuban government, with a legislative decree issued in April 2002, prohibited Etec SA and Telan from taking any steps to satisfy the above-mentioned loan and assumed, via Bancuba, all the commitments and guarantees vis-à-vis Bancomext.
In response to Bancomext's action, Etec SA and Telan proposed arbitration before the Paris International Chamber of Commerce with a view to establishing: (i) the illegitimacy of Bancomext's claim to hold Etec SA jointly responsible with, or guarantor of, Telan for the restitution of the loan, and (ii) the exempting nature of the abovementioned legislative decree with respect to the restitution of the loan. The request for arbitration caused the action brought by Bancomext in the ordinary courts to be suspended.
The arbitration award of August 2004 determined that Etec SA was neither a debtor of Bancomext nor a guarantor of Telan, but it also established:

- ✓ that the Cuban legislative decree did not constitute valid grounds of *force majeure* relieving Etec SA from the obligations deriving from the loan contract and credit-facility contract with Bancomext and Telan; and consequently
- ✓ that Etec SA must restore the mechanism envisaged in the credit-facility contract by transferring the dividends belonging to Telan to the escrow account, with retroactive effect as of April 2002 (for an amount of approximately USD 148 million).

In October 2004, the Board of Directors of Etec SA, with the abstention of the directors appointed by Telecom Italia International, decided to appeal the arbitration award before the French courts. In the meantime, the arbitration award was declared effective in the Republic of Italy (under the decree issued by the Court of Appeals of Rome, by request of Bancomext).
On May 3, 2005, Bancomext notified the arbitration award and an order of writ to Etec SA and Telan for the amount of dividends due to Telan starting from April 2002, thus notifying a writ of sequestration to the Companies of the Telecom Italia Group against third parties for the same sum.
Telecom Italia International (in possession of a letter from the Cuban government relieving it of any possible injury arising from the award) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate Etec SA, reserving its right to take protective action.

TELEKOM SRBIJA

At the end of May 2003, OTE, a Greek telecommunications company, notified two requests for arbitration to Telecom Italia for alleged breaches of, respectively, the bilateral agreement of June 4, 1997 and the shareholders' agreement of June 9, 1997 in connection with the sale to PTT Serbia of 29% of the capital of Telekom Srbija (the sale was concluded on July 7, 2003).
In particular, OTE claims that Telecom Italia: (i) violated its right of pre-emption under the agreement of June 4, 1997 (the right, which was subject to the consent of the Serbian government, was denied in the case in question); (ii) did not fully pay the management fee percentage owed to it under the technical assistance contract referred to in the agreement of June 4, 1997; and (iii) infringed the shareholders' agreement, as Telecom Italia was not allowed to transfer its holding without the consent of the other shareholders.
OTE also notified two arbitration requests to PTT Serbia, for different reasons.
Under the sales agreements, PTT Serbia relieved Telecom Italia of every responsibility towards OTE deriving from the shareholders' agreement of June 9, 1997, the technical assistance contract and any other related contract.
As a result of contacts between the parties to work out a settlement, the arbitration board has issued a closing order for the arbitration proceedings on May 9, 2005.

REGULATORY FRAMEWORK

The regulatory framework of the sector has become firmly established with the coming into force of the new "Electronic Communications Code" on September 16, 2003. The Code introduced into national law the Community directives of the "99 Review" on electronic communications networks and services ("Access", "Authorization", "Framework" and "Universal Service") .

The main regulations adopted during the first quarter of 2005 are briefly described below.

Grant for the purchase of set-top boxes and ADSL modems

Law No. 350 dated December 24, 2003 ("2004 Finance Bill"), provided for grants for the purchase of set-top boxes) also in 2004 for digital terrestrial television (euro 150) and for broadband access to Internet (euro 75 euro). Law No. 311 dated December 30, 2004 (2005 Finance Bill) again provided for funding for those grants although for a lower amount: euro 70 for the set-top box and euro 50 for broadband, except for users residing in cities of less than 10,000 inhabitants and for these users the grant will remain at euro 75. The February 22, 2005 decree established the procedures for the assignment of equipment grants for broadband transmission or reception of data via Internet. The following April 4, 2005 decree set the lots for the authorization of refunds to the electronic communications operators for the grants made by them to customers.

Charter of services/Pay -TV

Under Resolution No. 278/04/CSP dated December 10, 2005, published in the Gazzetta Ufficiale on January 20, 2005, the National Regulatory Authority set the minimum benchmark provisions for the adoption of the charters of services by parties which provide pay-television services and also established the general criteria for their quality.

Universal Service

Under Resolution No. 16/04/CIR dated December 23, 2004, published in the Gazzetta Ufficiale on February 8, 2005, the National Regulatory Authority established the universal service net cost sharing mechanism for the year 2002. The National Regulatory Authority calculated a net cost of approximately euro 37 million with a financial contribution of euro 24 million to Telecom Italia from TIM for euro 12 million, from Vodafone for euro 8 million and from WIND for euro 4 million.

Under Resolution No. 2/05/CIR dated March 9, 2005, the National Regulatory Authority commenced the review of the procedure for the applicability of the universal service net cost sharing mechanism for the year 1999, in compliance with ruling No. 7257/2003 by the Council of State.

In the notice published in the Gazzetta Ufficiale dated March 8, 2005, the Ministry of Communications began a public consultation on the question of electronic networks and services according to art. 11 of the Electronic Communications Code, to verify and review the obligations in respect of public pay-phones.

Interconnection and unbundled access to the local network

Under Resolution No. 1/05/CIR dated March 9, 2005, the National Regulatory Authority approved in 2005 the rates made public by Telecom Italia on October 29, 2004. The National Regulatory Authority decided, in particular for certain services, on the reformulation of the supply terms (interconnection flows, supplementary services for interfacing, internal exchange connection) and the economic terms (Carrier-Preselection charging, invoicing for access to services using the non-geographical numbers of other operators).

Price cap

As part of the revision of retail access service prices subject to price-cap regulations, the monthly subscription charge for business customers was increased by 7.6% (from euro 17 to 18.30) starting January 1, 2005. A change in the price of local calls (an increase in the fixed charge and a reduction in the price according to the time of the conversation) is in effect since January 23, 2005. Both revisions have caused an overall unchanging effect on the average telephone bills of customers. Finally, beginning March 1, 2005, the one-time charge for activating new ISDN lines for business customers has been reduced by about 10%.

Market analyses relative to electronic communications

In compliance with Recommendation CE No. 2003/497 and the Electronic Communications Code (Legislative Decree No. 259 dated August 1, 2003, under Resolution No. 118/04/CONS dated Mary 19, 2004, the National Regulatory Authority began preliminary consultations for the analyses of the 18 markets cited in the above Recommendation and in articles 18 and 19 of the Code. The consultations will target "market analysis, evaluation of competitiveness, identification of possible dominant operators and the formulation of a proposal for the cancellation, maintenance and modification of existing obligations or the introduction of new requirements". The National Regulatory Authority launched public consultations on the following markets:

- Resolution No. 415/04/CONS dated December 1, 2004 (published in the Gazzetta Ufficiale of January 19, 2005) relating to the wholesale market for unbundled access (including shared access) to copper networks and sub-networks for purposes of supplying broadband services (market No. 11);
- Resolution No. 465/04/CONS dated December 22, 2004 (published in the Gazzetta Ufficiale of February 11, 2005) relating to the market for the termination of vocal calls on individual mobile networks (market No. 16).
- Resolution No. 30/05/CONS dated January 10, 2005 relating to the wholesale market for the gathering, termination and transit of calls on the public fixed telephone network (markets Nos. 8, 9 and 10);
- Resolution No. 69/05/CONS dated February 2, 2005 relating to the markets for retail access to the public telephone network in fixed locations for residential and non-residential customers (markets Nos. 1 and 2);
- Resolution No. 117/05/CONS dated February 16, 2005 relating to the wholesale broadband access market (market No. 12);
- Resolution No. 153/05/CONS dated March 9, 2005 relating to the market of the terminal segments of leased lines and the segments of leased lines on long-distance circuits (markets Nos. 13 and 14).

IMPACT OF THE APPLICATION OF IAS/IFRS ON THE PRINCIPAL DATA FOR THE YEAR 2004 AND THE FIRST QUARTER OF 2004

The following tables present the impact of the application of IAS/IFRS and the effects of discontinued operations/assets held for sale on the principal data for the year 2004 and the first quarter of 2004 of the Telecom Italia Group.

	Year 2004						
	Italian GAAP	Reclassifications	Italian GAAP post-reclassification	IAS/IFRS application	IAS/IFRS standards (including discontinued operations/ assets held for sale)	Discontinued operations/ assets held for sale [1]	IAS/IFRS standards
Revenues	31,237	(6)	31,231	(146)	31,085	(2,512)	28,573
EBITDA	14,528	(674)	13,854	(338)	13,516	(614)	12,902
EBIT	7,200	(643)	6,557	1,090	7,647	(50)	7,597
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	(101)	(101)
Net income/(loss) attributable to the Parent Company and minority interest	1,902	-	1,902	932	2,834	-	2,834
Net income/(loss) attributable to the Parent Company	781	-	781	1,034	1,815	-	1,815
Industrial investments	5,335	-	5,335	38	5,373	(332)	5,041
Total shareholders' equity	19,861	-	19,861	982	20,843	-	20,843
- attributable to the Parent Company	15,172	-	15,172	1,079	16,251	-	16,251
- attributable to minority interest	4,689	-	4,689	(97)	4,592	-	4,592
Net financial indebtedness	29,525	(151)	29,374	3,488	32,862	-	32,862
Employees (number at period-end)	91,365	-	91,365	7	91,372	(10,573)	80,799

[1] The following are considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.

	1st Quarter 2004						
	Italian GAAP	Reclassifications	Italian GAAP post-reclassification	IAS/IFRS application	IAS/IFRS standards (including discontinued operations/ assets held for sale)	Discontinued operations/ assets held for sale (1)	IAS/IFRS standards
Revenues	7,418	23	7,441	(35)	7,406	(600)	6,806
EBITDA	3,494	(157)	3,337	(8)	3,329	(147)	3,182
EBIT	1,788	(40)	1,748	359	2,107	(58)	2,049
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	(2)	(2)
Net income/(loss) attributable to the Parent Company and minority interest	535	-	535	316	851	-	851
Net income/(loss) attributable to the Parent Company	277	-	277	318	595	-	595
Industrial investments	826	-	826	23	849	(41)	808
Total shareholders' equity	21,179	-	21,179	666	21,845	-	21,845
- attributable to the Parent Company	16,390	-	16,390	640	17,030	-	17,030
- attributable to minority interest	4,789	-	4,789	26	4,815	-	4,815
Net financial indebtedness	30,786	(237)	30,549	2,089	32,638	-	32,638
Employees (number at period-end)	93,036	-	93,036	5	93,041	(11,020)	82,021

([1]) The following are considered discontinued operations/assets held for sale: the Entel Chile group, the Finsiel group, Digitel Venezuela and TIM Hellas.

TRANSITION TO IAS/IFRS STANDARDS

TRANSITION TO IAS/IFRS STANDARDS

Up to 2004, Telecom Italia prepared the consolidated financial statements and other interim information (quarterly and six-month data) in accordance with Italian accounting principles (Italian GAAP).
Beginning from 2005, Telecom Italia prepares the interim reports using consolidated data, in accordance with IAS/IFRS, whereas, with regard to the statutory financial statements, these same standards will be adopted beginning from the year 2006.
Having said this, and taking into account the Recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 and containing guidelines for companies listed within the EU regarding the transition to IAS/IFRS, as well as the Regulation for Issuers, as amended by CONSOB with Resolution No. 14990 dated April 14, 2005, following, among other things, the adoption of International Financial Reporting Standards in the interim reports, the information required by IFRS 1 is hereinafter described. In particular, such information regards the impact that the conversion to International Financial Reporting Standards (IAS/IFRS) has, with reference to the year 2004, on the consolidated financial condition, on the results of consolidated operations and on the consolidated cash flows presented.

To that end, the following have been prepared:

- notes regarding the basis of transition for the first-time application of IAS/IFRS (IFRS 1) and the other IAS/IFRS standards chosen, including the assumptions made by the directors on the IAS/IFRS standards and interpretations which will be in force and on the accounting policies that will be adopted for the preparation of the first complete financial statements in accordance with IAS/IFRS at December 31, 2005;
- reconciliations between the consolidated net equity under previous GAAP and consolidated net equity under IAS/IFRS at the following dates:
  - date of transition to IAS/IFRS (January 1, 2004);
  - closing date of the last annual reporting period under previous GAAP (December 31, 2004);
- the reconciliation of the net income reported in the last annual financial statements under previous GAAP (2004) and the net income under IAS/IFRS for the same year;
- comments on the reconciliations;
- comments on the principal changes made to the cash flow statement following the introduction of the new accounting standards;
- IAS/IFRS consolidated balance sheets at January 1, 2004 and at December 31, 2004 and the IAS/IFRS consolidated statement of income for the year ended December 31, 2004.

As described in greater detail in the following paragraphs, the IAS/IFRS consolidated balance sheets and the IAS/IFRS consolidated statement of income have been obtained from the consolidated data, prepared in accordance with the provisions of Italian law, by making the appropriate IAS/IFRS adjustments and reclassifications to reflect the changes in the presentation, recognition and valuation required by IAS/IFRS.

The accounting statements and the reconciliations have been prepared solely for purposes of preparing the first complete consolidated financial statements in accordance with IAS/IFRS approved by the European Commission; the adoption of the approved version of IAS 39 did not entail the application of criteria that were not recognized in the complete version of IAS 39 published by the IASB (International Accounting Standards Board). The above statements, therefore, do not present comparative figures and the necessary notes which would be required to represent a true and fair view of the consolidated financial condition and the results of operations of the Telecom Italia Group in conformity with IAS/IFRS standards.

Adjustments have been made to conform with IAS/IFRS standards in effect to date. The approval process on the part of the Commission and the adaptations and interpretations of the official bodies in charge of these activities is still in progress. At the time of the preparation of the first complete IAS/IFRS consolidated financial statements at December 31, 2005, new IAS/IFRS standards and IFRIC interpretations could be in effect that may be allowed to be applied at an earlier date.
For these reasons, the data presented in the accounting statements and in the reconciliations could change, for purposes of their utilization as the comparative figures for the first complete consolidated financial statements prepared in accordance with IAS/IFRS.
For purposes of the presentation of the effects of the transition to IAS/IFRS and to satisfy the rules for disclosure indicated in paragraphs 39 a) and b) and 40 of IFRS 1 concerning the effects of the first-time application of IAS/IFRS, the Telecom Italia Group has followed the example contained in IFRS 1 and, especially, in paragraph IG 63.
The effects of the transition to IAS/IFRS are the result of changes in accounting principles and, consequently, as required by IFRS 1 are reflected in the opening shareholders' equity at the date of transition (January 1, 2004). In the transition to IAS/IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IAS/IFRS accounting standards has required the formulation of estimates in accordance with different methods.

RULES FOR THE FIRST-TIME APPLICATION, ACCOUNTING OPTIONS ELECTED IN THE FIRST-TIME ADOPTION OF IAS/IFRS AND IAS/IFRS ACCOUNTING STANDARDS CHOSEN BY THE TELECOM ITALIA GROUP

The restatement of the opening consolidated balance sheet at January 1, 2004 and of the consolidated financial statements for the year ended December 31, 2004 have also required the following preliminary decisions by Telecom Italia Group among the options provided by IAS/IFRS:

- **financial statement presentation**: the "current/non-current" classification has been adopted for the balance sheet, which is generally applied by industrial and commercial enterprise, while the classification of expenses by nature has been chosen for the statement of income. This has required the reclassification of the historical financial statements prepared in accordance with the formats provided by Legislative Decree 127/1991;

- **optional exemptions provided by IFRS 1 upon first-time application of IAS/IFRS (January 1, 2004):**

  - **valuations of property, plant and equipment, investment property and intangible assets at fair value or, alternatively, at revalued cost as the deemed cost**: for certain categories of property, plant and equipment, revalued cost has been adopted instead of cost;

  - **share-based payments**: the provisions of IFRS 2 are applied prospectively from January 1, 2005 (and, that is, to all equity instrument assignments made after that date). The application of IFRS 2 beginning January 1, 2004 would have had no effect;

  - **business combinations**: for purposes of the first-time application of IAS/IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004. This has also necessitated the interruption of the process of amortization of goodwill and the differences on consolidation recorded at January 1, 2004;

- **reserve for net exchange differences deriving from the translation of the financial statements of foreign operations**: as allowed by IFRS 1, the cumulative net exchange differences deriving from previous translations of the financial statements of foreign operations have not been recognized at the date of transition (January 1, 2004); only those arising subsequent to that date, instead, will be recognized;

- **classification and measurement of financial instruments**: IAS 32 (Financial Instruments: Disclosures and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), have been adopted earlier, as allowed, on January 1, 2004 (instead of application starting from the financial statements for the periods beginning on or after January 1, 2005);

- **designation date of financial instruments as instruments at fair value through profit or loss or as available for sale**: as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" has been carried out at the transition date (January 1, 2004) instead of at the date of initial recognition provided by IAS 39;

- **derecognition of financial assets and liabilities**: in accordance with IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. The Telecom Italia Group has taken advantage of such option and is applying the "derecognition of non-derivative financial assets/liabilities" retrospectively from January 1, 2003;

- **accounting treatments chosen from the accounting options provided by IAS/IFRS**:

  - ✓ **inventories**: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The Telecom Italia Group has chosen to use the weighted average cost method for each movement;

  - ✓ **valuation of tangible assets and intangible assets**: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The Telecom Italia Group has chosen to adopt the cost method;

  - ✓ **valuation of investment property**: in accordance with IAS 40, a property held as an investment property should be initially recorded at cost, including directly chargeable incidental costs. Subsequently, that property may be valued at fair value or at cost. The Telecom Italia Group has chosen to adopt the cost method;

  - ✓ **borrowing costs**: for the purposes of recording borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, IAS 23 provides that an entity may apply the benchmark accounting treatment, which provides for the immediate expensing of borrowing costs, or the allowed alternative accounting treatment, which provides, in the presence of certain conditions, for the capitalization of borrowing costs. The Telecom Italia Group has chosen to record borrowing costs in the statement of income;

- ✓ **valuation of interests in joint ventures in the consolidated financial statements:** in accordance with IAS 31, interests in joint ventures may be accounted for using the equity method or, alternatively, using the proportionate consolidation method. The Telecom Italia Group has chosen to adopt the equity method.

PRINCIPAL IMPACT OF THE APPLICATION OF IAS/IFRS ON THE OPENING BALANCE SHEET AT JANUARY 1, 2004 AND ON THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2004

The differences arising from the application of IAS/IFRS compared to Italian GAAP as well as the choices made by Telecom Italia among the accounting options provided by IAS/IFRS described above, thus require a restatement of the accounting data prepared in accordance with the previous Italian law on financial statements resulting in significant effects, in some cases, on the shareholders' equity and the net financial indebtedness of the Group, which can be summarized as follows:

- Opening balance sheet at January 1, 2004:

	Italian GAAP	Adjustments	IAS/IFRS
Shareholders' equity:			
• attributable to the Parent Company	16,092	167	16,259
• attributable to minority interest	4,497	32	4,529
Total	20,589	199	20,788
Net financial indebtedness	33,346	2,234 (*)	35,580

(*) comprises reclassifications for euro 204 million relating to the inclusion, in the net financial position, of non-current receivables from associates (euro 117 million) and loans to employees and to third parties (euro 87 million).

Consolidated financial statements at December 31, 2004:

	Italian GAAP	Adjustments	IAS/IFRS
Shareholders' equity:			
• attributable to the Parent Company	15,172	1,079	16,251
• attributable to minority interest	4,689	(97)	4,592
Total	19,861	982	20,843
Net financial indebtedness	29,525	3,337(*)	32,862
Net income for the year:			
• attributable to the Parent Company	781	1,034	1,815
• attributable to minority interest	1,121	(102)	1,019
Total	1,902	932	2,834

(*) comprises reclassifications for euro 151 million relating to the inclusion, in the net financial position, of non-current receivables from associates (euro 60 million) and loans to employees and third parties (euro 91 million).

In particular, the principal adjustments can be summarized as follows:

(in millions of euro)	Shareholders' equity at January 1, 2004	Shareholders' equity at December 31, 2004	Net income year 2004
TOTAL AMOUNT (ATTRIBUTABLE TO THE PARENT COMPANY AND THE MINORITY INTEREST) ACCORDING TO ITALIAN GAAP	20,589	19,861	1,902
less: minority interest	(4,497)	(4,689)	(1,121)
ATTRIBUTABLE TO THE PARENT COMPANY ACCORDING TO ITALIAN GAAP	16,092	15,172	781
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:			
1. goodwill and differences on consolidation	-	1,549	1,549
2. scope of consolidation	141	78	(46)
3. factoring transactions	-	-	-
4. sale and lease-back of properties	(199)	(290)	(91)
5. reserves for future risks and charges	340	(1)	(318)
6. bonds (including convertible and exchangeable bonds)	489	406	(83)
7. derivative financial instruments	(65)	(283)	(17)
8. treasury stock	(393)	(393)	-
9. recognition of revenues	(320)	(530)	(210)
10. deferred tax assets	240	190	(50)
11. land	86	91	5
12. employee severance indemnities	80	70	(10)
13. derecognition of start-up and expansion costs	(86)	(61)	32
14. value adjustments to tangible and intangible assets produced within the Group	(110)	(83)	27
15. restoration costs	(68)	(111)	(43)
16. equity investments in listed companies and call options on shares at fair value	79	122	2
other	(15)	(88)	(57)
Tax effect on items in reconciliation		316	242
Attributable to minority interest for items in reconciliation	(32)	97	102
ATTRIBUTABLE TO PARENT COMPANY ACCORDING TO IAS/IFRS	16,259	16,251	1,815

The individual adjustments are presented in the table before taxes and minority interest while the relative tax effects and those on the minority interest are shown cumulatively as two separate adjustment items. Moreover, it should be pointed out that the amounts relating to the effects on assets, liabilities, expenses and revenues presented in the comments on the aforementioned adjustments include the corresponding amounts relative to discontinued operations or assets held for sale which, under IFRS 5, in the opening balance sheet at January 1, 2004 and in the balance sheet at December 31, 2004, have, instead, been classified separately and grouped in the captions "*Assets held for sale*", "*Liabilities relating to assets held for sale*" and in the caption of the statement of income in *"Net income (loss) of discontinued operations/assets held for sale"*.

(in millions euro)	At January 1, 2004	At December 31, 2004
NET FINANCIAL INDEBTEDNESS ACCORDING TO ITALIAN GAAP	33,346	29,525
Reclassifications: inclusion, in the net financial position, of non-current receivables from associates and loans to employees and third parties:	(204)	(151)
	33,142	29,374
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:		
1. goodwill and differences on consolidation	-	-
2. scope of consolidation	799	1,079
3. factoring transactions	351	760
4. sale and leaseback of properties	1,651	1,603
5. reserves for future risks and charges	-	-
6. bonds (including convertibles and exchangeable bonds)	(425)	(280)
7. derivative financial instruments	28	303
8. treasury stock	-	-
9. recognition of revenues	-	-
10. deferred tax assets	-	-
11. land	-	-
12. employee severance indemnities	-	-
13. derecognition of start-up and expansion costs	-	-
14. value adjustments to tangible and intangible assets produced within the Group	-	-
15. restoration costs	-	-
16. equity investments in listed companies and call options on shares at fair value	-	-
other	34	23
NET FINANCIAL INDEBTEDNESS ACCORDING TO IAS/IFRS	35,580	32,862

A commentary is presented here on the principal IAS/IFRS adjustments (the contents of which were previously described) made to the Italian GAAP amounts:

1) **goodwill and differences on consolidation:** such items are no longer amortized systematically in the statement of income but are subject to a test, carried out at least annually, in order to identify any impairment in value (impairment test). To this end, cash-generating units have been identified to which the relative goodwill has been allocated. Impairment tests have been carried out which have substantially confirmed the amounts recorded under Italian GAAP.
   The impact of the application of IFRS 3 is an increase in total net income for the year 2004 (and therefore total shareholders' equity at December 31, 2004) of euro 1,549 million (of which euro 1,525 million is attributable to the Parent Company) and is entirely due to the elimination of amortization;

2) **scope of consolidation**: the change in the scope of consolidation has led to the inclusion of vehicle companies (Special Purpose Entities – SPEs) set up for specific transactions. Furthermore, the line-by-line consolidation of controlling equity investments also generated the elimination of the holdings classified in current assets. Consequently, this principally involved: (i) the consolidation at January 1, 2004 of the TIM shares classified in current assets; (ii) the consolidation of the special purpose entity TISV (set up for securitization transactions) to which receivables are sold and for whose financial needs securities are issued that are subscribed to by third-party investors; (iii) the consolidation of companies in a wind-up. Moreover, as part of the corporate integration of Telecom Italia and TIM, on December 21, 2004, Telecom Italia concluded an agreement, called "Confirmation of Share Basket Option Transaction" for the purchase of call options and the sale of put options, both up to a maximum number of 25 million, each having an underlying basket of shares composed of 2 TIM ordinary shares and 1 TIM savings share. The exercise price is equal to euro 5.57 for each ordinary and savings share.
   On February 3, 2005, Telecom Italia exercised the call options on 21 million TIM savings shares for a total outlay of euro 117 million.
   On February 8, 2005, the counterpart exercised the put option rights and thus on February 11, 2005, Telecom Italia purchased 42 million TIM ordinary shares for a total outlay of euro 234 million.
   The irrevocable commitment which arose at the end of 2004 to purchase the above-mentioned TIM shares in the early months of 2005 determines, for IAS/IFRS purposes, the consolidation of a further equity interest in TIM at December 31, 2004 with the consequent recording of a financial liability equal to the total outlay of euro 351 million and the booking of additional goodwill of euro 294 million.
   This accounting treatment thus has the following impact:
   - *at January 1, 2004*: an increase in total shareholders' equity of euro 141 million (of which euro 178 is attributable to the Parent Company) owing to the consolidation of TIM shares (and the consequent booking of differences on consolidation in intangible assets) and an increase in net financial indebtedness of euro 799 million owing to the consolidation of TISV;
   - *at December 31, 2004*: an increase in total shareholders' equity of euro 78 million attributable mainly to the consolidation of the TIM shares referring to the above put/call options and an increase in net financial indebtedness of euro 728 million attributable to the consolidation of TISV and euro 351 million relative to the put/call options on TIM shares.

   As for securitization transactions and the consequent line-by-line consolidation of the TISV payable, it should be pointed out that the maximum risk to Telecom Italia is limited solely to the Deferred Purchase Price (DPP) which is equal to about 10% of the receivables sold and which represents the deferred component of the sale price; this risk is therefore considerably lower than the amount of the payable which the application of the accounting policies requires to be consolidated;

3) **factoring transactions:** the adoption of IAS 39 and in particular the provisions concerning the derecognition of financial assets (receivables) results in a more restrictive interpretation of the requirements for the recognition of the sale of receivables without recourse (for IAS/IFRS purposes, the sale is recognized on condition that all the risks and rewards have substantially been transferred). Accordingly, the receivables sold are added back to the assets and the consideration collected is booked as an advance received. This treatment has the following impact:
   - *at January 1, 2004*: an increase in net financial indebtedness of euro 351 million attributable to the recording of a short-term financial payable (advance received) of euro 351 million, with an increase in trade receivables for the same amount;
   - *at December 31, 2004:* an increase in net financial indebtedness of euro 760 million attributable to a short-term financial payable (advance received) of euro 760 million, with an increase in trade receivables for the same amount;

4) **sale and leaseback of properties**: some transactions for the sale of properties carried out by the Telecom Italia Group in prior years have been recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, entries are made in the assets for the assets sold and leased back and, in the liabilities, for the residual payable; in the statement of income, entries are made for the depreciation charge and interest expense instead of the lease payments whereas the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact for the Telecom Italia Group:
   - *at January 1, 2004:* a decrease in total shareholders' equity of euro 199 million (entirely attributable to the Parent Company), before a positive tax effect of euro 39 million. Such effects have come from an increase in tangible assets (buildings) of euro 1,363 million, an increase in financial payables of euro 1,651 million, an increase in deferred tax assets (net of the reserve for deferred taxes) of euro 39 million and a decrease of euro 89 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties;
   - *at December 31, 2004:* a decrease in total shareholders' equity, entirely attributable to the Parent Company, of euro 290 million (before a positive tax effect of euro 70 million), of which euro 91 million is attributable to a reduction in the net income for the year before tax. Such effects came from an increase in tangible assets (buildings) of euro 1,282 million, an increase in financial payables of euro 1,603 million (with a consequent increase in net financial indebtedness of the same amount), an increase in deferred tax assets (net of the reserve for deferred taxes) of euro 70 million, and a decrease of euro 31 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties. The negative effect on 2004 net income of euro 91 million, before a tax effect of euro 31 million, came from a decrease in operating expenses of euro 106 million (including euro 187 million for the reversal of the lease payments that were partly compensated by an increase of 81 million for higher depreciation of the assets leased), an increase in net financial expenses of euro 139 million and the reversal of the gains previously deferred and credited to the statement of income in 2004 for euro 58 million;

5) **reserves for future risks and charges:** the recognition of these liabilities, in accordance with IAS/IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that will presumably be paid beyond 12 months. In particular, the IAS/IFRS opening balance sheet of the Telecom Italia Group at January 1, 2004 benefits from a positive adjustment to opening shareholders' equity for the derecognition of certain reserves for risks and charges recorded in the financial statements in accordance with Italian GAAP. This different accounting treatment, in the IAS/IFRS financial statements at December 31, 2004, causes a reduction of net income as a consequence of the

reversal of the releases to the statement of income of the reserves for risks and charges recorded in 2004 under Italian GAAP.
Such impact can be summarized as follows:

- *at January 1, 2004:* an increase in total shareholders' equity of euro 340 million (of which euro 225 million is attributable to the Parent Company), before a negative tax effect of euro 101 million (euro 60 million is attributable to the Parent Company), to derecognize certain reserves for risks and charges not recognized under IAS/IFRS and for the discounting of the other reserves with maturities due beyond 12 months;
- *at December 31, 2004:* a decrease in total shareholders' equity of euro 1 million, including a decrease in total net income of euro 318 million (of which euro 200 million is attributable to the Parent Company) before a positive tax effect of euro 102 million, caused by an increase in operating expenses of euro 318 million (mainly for the reversal of the releases of the reserves recorded during the year) and a reduction in income taxes of euro 102 million;

6) **bonds (including convertible and exchangeable bonds):** in accordance with Italian GAAP, bonds (including convertible or exchangeable bonds) are recorded at the residual nominal value (principal); moreover, any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
Under IAS/IFRS, *bonds* (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity, whereas the amount of compound financial instruments (convertible or exchangeable bonds), under IAS/IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular:
✓ for *bonds convertible into own shares,* the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue in reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded in a specific item of shareholders' equity;
✓ for *bonds exchangeable with other financial instruments issued by companies of the Group and/or third parties*, the amount of the component relative to the derivative financial instrument is extracted and recorded, like sold options, in financial liabilities and valued at fair value (with a contra-entry to the statement of income).
These recording methods have the following impact:

- *at January 1, 2004*: a decrease in net financial indebtedness of euro 425 million and an increase in total shareholders' equity of euro 489 million (of which euro 488 million is attributable to the Parent Company), before a negative tax effect of euro 157 million, including euro 175 million of deferred taxes on the equity component relative to "Telecom Italia 2001 – 2010" convertible bonds. In particular, the decrease in indebtedness is principally due to the reclassification of the part of the liability relative to convertible bonds to the components of shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the reserves for risks and charges to financial liabilities;
- *at December 31, 2004:* a decrease in net financial indebtedness of euro 280 million and an increase in total shareholders' equity of euro 406 million (euro 405 million is attributable to the Parent Company), before a negative tax effect of euro 133 million, including euro 175 million of deferred taxes on the equity component relative to the "Telecom Italia 2001 – 2010" convertible

bonds; this decrease in shareholders' equity is due to a reduction in the pre-tax income of euro 83 million (entirely attributable to the Parent Company) mainly as a result of the application of the "amortized cost" method. In particular, the decrease in net financial indebtedness is principally due to the reclassification of the part of the liability relative to convertible bonds to the components of shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the reserves for risks and charges to financial liabilities;

7) **derivative financial instruments**: under Italian GAAP, derivative financial instruments are normally presented as "off-balance sheet" items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value. The manner of representing the accounting impact changes according to the purpose the derivative financial instrument is used for:
   - ✓ hedging instruments designated as fair value hedges must be recorded in assets (liabilities); the derivative financial instrument and the relative hedged item are stated at fair value and the respective changes in value (which generally tend to offset one another) are recognized in the statement of income;
   - ✓ hedging instruments designated as cash flow hedges must be recorded in assets (liabilities); the derivative is stated at fair value and the changes in value are recognized, for the effective hedging component, directly in a reserve in equity which is released to the statement of income in the years in which the cash flows of hedged items will affect profit and loss;
   - ✓ derivative financial instruments for managing interest rate and foreign exchange risks, which do not meet the formal conditions for hedge accounting according to IAS/IFRS, are recorded in the balance sheet in financial assets/financial liabilities and the changes in value are recognized in the statement of income.

   The recognition of derivative financial instruments at fair value in the financial statements has the following impact:
   - *at January 1, 2004:* an increase in the net financial position of euro 28 million (substantially attributable to cash flow hedges) and a decrease in total shareholders' equity of euro 65 million, before a positive tax effect of euro 20 million (euro 64 million is attributable to the Parent Company before a positive tax effect of euro 20 million);
   - *at December 31, 2004:* an increase in net financial indebtedness of euro 303 million (substantially attributable to cash flow hedges) and a decrease in total shareholders' equity of euro 283 million (attributable to the Parent Company), before a positive tax effect of euro 106 million, and with a negative impact of euro 17 million on the pre-tax income (before a positive tax effect of euro 7 million);

8) **treasury stock:** in accordance with Italian GAAP, treasury stock is recorded in assets and a specific restricted reserve is set up in shareholders' equity. In accordance with IAS/IFRS, such stock, instead, is recognized as a reduction of shareholders' equity. The impact of this different accounting treatment is a reduction in total shareholders' equity at January 1, 2004 and at December 31, 2004 of euro 393 million (entirely attributable to the Parent Company) and a reversal of treasury stock in assets for the same amount;

9) **recognition of revenues:** revenues from the activation of telephone services, from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (principally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method has the following impact, for IAS/IFRS purposes :

- *at January 1, 2004*: a decrease in total shareholders' equity of euro 320 million (of which euro 292 million is attributable to the Parent Company), before a positive tax effect of euro 108 million (of which euro 103 million is attributable to the Parent Company);
- *at December 31, 2004*: a decrease in total shareholders' equity of euro 530 million (euro 486 million is attributable to the Parent Company), before a positive tax effect of euro 180 million (euro 172 million is relative to the Parent Company); pre-tax income decreases by euro 210 million (euro 194 million is attributable to the Parent Company), before a positive tax effect of euro 71 million (euro 69 million is attributable to the Parent Company);

10) **deferred tax assets:** the recognition of deferred tax assets in accordance with IAS/IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, has the following impact, under IAS/IFRS:
    - *at January 1, 2004*: an increase in total shareholders' equity of euro 240 million (entirely attributable to the Parent Company), with the recognition of an asset for deferred taxes of the same amount;
    - *at December 31, 2004*: an increase in total shareholders' equity of euro 190 million (euro 196 million is attributable to the Parent Company), with the recognition of an asset for deferred taxes of euro 205 million and also a negative impact of euro 50 million on total net income (of which euro 44 million is attributable to the Parent Company);

11) **land**: in accordance with Italian GAAP, land appurtenant to buildings is depreciated together with the same buildings, while in accordance with IAS/IFRS it must be classified separately and no longer depreciated. The impact of the different accounting treatment is the following:
    - *at January 1, 2004*: an increase in total shareholders' equity of euro 86 million (euro 85 million is attributable to the Parent Company), before a negative tax effect of euro 32 million (for the provision to the reserve for deferred taxes of the same amount), due to an increase in net non-current tangible assets of euro 86 million as a result of the write-off of accumulated depreciation;
    - *at December 31, 2004*: an increase in total shareholders' equity of euro 91 million (entirely attributable to the Parent Company) of which euro 6 million is relative to pre-tax income (entirely attributable to the Parent Company), due to lower depreciation (before a negative tax effect of euro 1 million). In the balance sheet, non-current tangible assets increase by euro 91 million and a liability for deferred taxes is recognized for euro 34 million;

12) **employee severance indemnities:** Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with the statutory regulations in force; under IAS/IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date; under IAS/IFRS, all actuarial gains and losses have been recognized at the date of transition to IAS/IFRS. The impact of this different accounting treatment is as follows:
    - *at January 1, 2004*: an increase in total shareholders' equity of euro 80 million (euro 78 million is attributable to the Parent Company), before a negative tax effect of euro 25 million (for the provision to the reserve for deferred taxes of the same amount), due to a decrease in the reserve for employee severance indemnities of euro 80 million;
    - *at December 31, 2004*: an increase in total shareholders' equity of euro 70 million (euro 67 million is attributable to the Parent Company), before a negative tax effect of euro 24 million (for the provision to the reserve for deferred taxes of the same amount) due to a decrease in the reserve

for employee severance indemnities of euro 70 million; total net income decreases by euro 10 million (entirely attributable to the Parent Company) as a result of higher provisions to the reserve for employee severance indemnities (before a positive tax effect of euro 3 million);

13) **derecognition of start-up and expansion costs:** in accordance with IAS/IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in shareholders' equity at the date of the transaction; the other start-up and expansion costs, since the requirements for their recognition in intangible assets have not been met, are charged to the statement of income. The impact of these different accounting treatments is the following:
   - *at January 1, 2004*: a decrease in total shareholders' equity of euro 86 million (euro 79 million is attributable to the Parent Company), before a positive tax effect of euro 13 million (for the recognition of deferred tax assets), due to a decrease in assets no longer capitalizable of euro 86 million;
   - *at December 31, 2004*: a decrease in total shareholders' equity of euro 61 million (euro 55 million is attributable to the Parent Company), before a positive tax effect of euro 8 million (for the recognition of deferred tax assets) due to the decrease in assets no longer capitalizable of euro 61 million; the total pre-tax income for the year reports an increase of euro 32 million (euro 29 million is attributable to the Parent Company) due to lower amortization, before a relative negative tax effect of euro 11 million;

14) **value adjustments to tangible and intangible assets produced within the Group:** the adjustment regards the elimination of intragroup gains on the disposal of tangible and intangible assets produced within the Group prior to 1994. The impact of these adjustments is the following:
   - *at January 1, 2004*: a decrease of total shareholders' equity of euro 110 million (attributable to the Parent Company), before the positive tax effect of euro 41 million (for the recognition of an asset for deferred taxes) due to the reduction in assets of euro 110 million;
   - *at December 31, 2004*: a decrease in total shareholders' equity of euro 83 million (attributable to the Parent Company), before a positive tax effect of euro 31 million (for the recognition of an asset for deferred taxes) due to the reduction in assets of euro 83 million; the pre-tax income reports an increase of euro 27 million (attributable to the Parent Company) due to lower depreciation and amortization, before a relative negative tax effect of euro 10 million;

15) **restoration costs**: under IAS/IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is recognized in the period in which it arises in a balance sheet reserve in the liabilities under reserves for future risks and charges, at market value (fair value), with a contra-entry to the tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of income by depreciation of the related tangible assets over their useful lives. The impact of the application of this accounting treatment is the following:
   - *at January 1, 2004*: a decrease in total shareholders' equity of euro 68 million (euro 51 million is attributable to the Parent Company), before the positive tax effect of euro 23 million;
   - *at December 31, 2004*: a decrease in total shareholders' equity of euro 111 million (euro 78 million is attributable to the Parent Company), before a positive tax effect of euro 35 million; the pre-tax income decreases by euro 43 million (of which euro 24 million is attributable to the Parent Company) due to higher depreciation, before a positive relative tax effect of euro 13 million (euro 8 million is relative to Parent Company);

16) **equity investments in listed companies and call options on shares at fair value:** in accordance with IAS/IFRS, investments in listed companies other than subsidiaries and associates are classified in "assets available-for-sale" or in "assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments recorded, respectively, in a specific equity reserve, except for impairment effects, or through profit or loss; furthermore, optional derivatives have been classified "as assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments, through profit or loss. The impact of the application of this method is the following:

- *at January 1, 2004*: an increase in shareholders' equity of euro 79 million (euro 80 million is attributable to the Parent Company), before a positive tax effect of euro 1 million (euro 2 million is relative to the Parent Company);
- *at December 31, 2004*: an increase in shareholders' equity of euro 122 million (attributable to the Parent Company) which reflects an increase in pre-tax income of euro 2 million.

PRINCIPAL CHANGES MADE TO THE CASH FLOW STATEMENT

The cash flow statement prepared by the Telecom Italia Group up to the financial statements for the year ended December 31, 2004 had the purpose of identifying the net financial requirements or surplus of the Group arising from the change in net financial indebtedness during the year, whereas the cash flow statement as defined under IAS 7 tends to reflect the Telecom Italia Group's ability to generate "cash and cash equivalents".
According to such principle, other cash equivalents represent highly-liquid short-term financial investments which can readily be converted into cash and which are subject to an irrelevant risk of a change in their value. Therefore, a financial investment is usually classified as a cash equivalent only when it is short-term, that is, three months or less to maturity. Financial investments in shares do not fall in the category of cash equivalents.

Bank overdrafts generally fall under financing activities unless they are repayable on demand and form an integral part of the management of cash or cash equivalents of an enterprise, in which case they are classified as a reduction of cash and cash equivalents.

IAS 7 requires the Cash flow statement to separately disclose cash flows attributable to operating activities, to investing activities and to financing activities.

- *cash flows attributable to operating activities*: Cash flows attributable to operating activities relate to the Group's main revenue-producing activities and are represented by the Telecom Italia Group using the *indirect method*; according to this method, the net income for the year is adjusted for the effects of transactions which did not involve disbursements or did not give rise to cash (non-monetary transactions) such as, for example, depreciation and amortization, changes in receivables and payables, etc.;

- *cash flows attributable to investing activities*: Investing activities are disclosed separately because, among other things, they reflect investments/disinvestments effected for the purpose of obtaining future revenues and cash inflows.

- *cash flows attributable to financing activities*. Financing activities are flows that affect the amount and composition of shareholders' equity and borrowings obtained.

Attached is the 2004 cash flow statement prepared in accordance with IAS/IFRS.

CASH FLOW STATEMENT

(in millions of euro)	Year 2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES	
Net income from continuing operations	2,935
Adjustments to reconcile net income from continuing operations with cash flows generated (absorbed) by operating activities:	
Depreciation and amortization	4,852
Impairment losses/reversals on non-current assets (including equity investments)	446
Net change in deferred tax assets and liabilities	866
Gains/losses on disposal of non-current assets	(106)
Share of earnings of equity investments in associates accounted for by the equity method	4
Net change in current trade and miscellaneous receivables/payables and other changes (I)	1,529
CASH FLOWS GENERATED (ABSORBED) BY OPERATING ACTIVITIES (A)	**10,526**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES	
Investments in tangible assets	(3,145)
Investments in intangible assets	(1,896)
Investments in other non-current assets	(871)
Acquisition of equity investments in subsidiaries, net of cash acquired	(1)
Change in financial receivables and other financial assets	304
Consideration collected on the sale of equity investments in subsidiaries, net of cash sold (II)	43
Consideration collected on the sale of tangible, intangible and other non-current assets (III)	452
CASH FLOWS GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	**(5,114)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES	
Net change in financial liabilities	1,352
Consideration collected for equity instruments	193
Share capital increases/repurchases net of start-up and expansion costs	51
Dividends paid to minority shareholders (distribution of reserves included)	(2,780)
CASH FLOWS GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	**(1,184)**
Cash flows generated (absorbed) by discontinued operations/assets held for sale (D)	**(396)**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**3,832**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)	**4,477**
Net effect of foreign currency translation on cash (G)	30
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	**8,339**

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

(in millions of euro)	Year 2004
ADDITIONAL CASH FLOW INFORMATION	
Income tax paid	1,476
Interest paid	2,143
RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS	
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**4,477**
Cash and cash equivalents	4,751
Bank overdrafts repayable on demand	(510)
Relating to assets held for sale	236
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	**8,339**
Cash and cash equivalents	8,394
Bank overdrafts repayable on demand	(237)
Relating to assets held for sale	182

IAS/IFRS CONSOLIDATED BALANCE SHEETS AT JANUARY 1, 2004 AND AT DECEMBER 31, 2004 AND THE IAS/IFRS CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2004

In addition to the reconciliations of shareholders' equity at January 1, 2004 and December 31, 2004, net income for the year 2004 and net financial indebtedness at January 1, 2004 and December 31, 2004 accompanied by comments on the adjustments made to the balances prepared in accordance with Italian GAAP, the balance sheets at January 1, 2004 and December 31, 2004 and the statement of income for the year 2004 are attached wherein the following is presented for each item in individual columns:

- amounts according to Italian GAAP reclassified in accordance with IAS/IFRS formats;

- adjustments to conform to IAS/IFRS standards;

- adjusted amounts according to IAS/IFRS; however, those amounts relative to the balance sheet at December 31, 2004 and the statement of income for the year 2004 exclude the components relative to "discontinued operations/assets held for sale, as set forth by IFRS 5, and the relative effects have been presented in a separate column. As stated earlier, to this end, for 2004, discontinued operations/assets held for sale are considered the Finsiel group and Digitel;

- reclassifications made to show the components relative to discontinued operations/assets held for sale (only for the balance sheet at December 31, 2004 and the statement of income for the year 2004), the effects of which are presented, for the balance sheet components, separately in a heading in the assets and in a heading in the liabilities and, with the regard to the statement of income, separately in a heading (net of taxes and minority interest) before the net income for the year 2004;

- amounts according to IAS/IFRS, net of the components relative to discontinued operations/assets held for sale (only for the balance sheet at December 31, 2004 and the statement of income for the year 2004), the effects of which on the balance sheet and the statement of income are presented separately, as described in the preceding point.

CONSOLIDATED BALANCE SHEET AT JANUARY 1, 2004 (^)

(in millions of euro)	Italian GAAP reclassified	Effect of the conversion to IAS/IFRS		IAS/IFRS standards
Non-current assets				
Intangible assets				
- Goodwill	27,145	a)	327	27,472
- Intangible assets with a finite life	6,411	b)	(86)	6,325
	33,556		241	33,797
Tangible assets				
- Property, plant and equipment owned	18,389	c)	226	18,615
- Assets held under finance leases	233	d)	1,433	1,666
	18,622		1,659	20,281
Other non-current assets				
- Equity investments	1,863	e)	(427)	1,436
- Securities and financial receivables	517	(*)	(240)	277
- Miscellaneous receivables and other non-current assets	449	f)	460	909
	2,829		(207)	2,622
Deferred tax assets	5,013	g)	614	5,627
TOTAL NON-CURRENT ASSETS (A)	**60,020**		**2,307**	**62,327**
Current assets				
Inventories	321	h)	3	324
Trade receivables, miscellaneous receivables and other current assets	10,147	i)	1,205	11,352
Equity investments	878	l)	(166)	712
Securities other than equity investments	2,720	(*)	(1,334)	1,386
Financial receivables and other current financial assets	1,427	(*)	(291)	1,136
Cash and cash equivalents	4,988	(*)	-	4,988
TOTAL CURRENT ASSETS (B)	**20,481**		**(583)**	**19,898**
Assets held for sale				
of a financial nature		(*)		
of a non-financial nature				
TOTAL ASSETS HELD FOR SALE (C)	-		-	-
TOTAL ASSETS (A+B+C)	**80,501**		**1,724**	**82,225**
Shareholders' equity				
attributable to Parent Company	16,092		167	16,259
attributable to minority interest	4,497		32	4,529
TOTALE SHAREHOLDERS' EQUITY (A)	**20,589**		**199**	**20,788**
Non-current liabilities				
Non-current financial liabilities	30,915	(*)	825	31,740
Employee severance indemnities and other employee-related reserves	1,373	m)	(102)	1,271
Reserve for deferred taxes	252	n)	374	626
Reserves for future risks and charges	1,292	o)	(270)	1,022
Miscellaneous payables and other non-current liabilities	1,780	p)	706	2,486
TOTAL NON-CURRENT LIABILITIES (B)	**35,612**		**1,533**	**37,145**
Current liabilities				
Current financial liabilities	11,879	(*)	(252)	11,627
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,421	q)	244	12,665
TOTAL CURRENT LIABILITIES (C)	**24,300**		**(8)**	**24,292**
Liabilities relating to assets held for sale				
of a financial nature		(*)		
of a non-financial nature				
TOTAL LIABILITIES RELATING TO ASSETS HELD FOR SALE (D)	-		-	-
TOTAL LIABILITIES (E=B+C+D)	**59,912**		**1,525**	**61,437**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (A+E)	**80,501**		**1,724**	**82,225**

(^) the balance sheet data has been prepared in accordance with IAS/IFRS standards in effect to date

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2004 (^)

(in millions of euro)	Italian GAAP reclassified		Effect of the conversion to IAS/IFRS	IAS/IFRS standards including assets held for sale	Assets held for sale IT Market/ Digitel	IAS/IFRS standards
Non-current assets						
Intangible assets						
- Goodwill and other intangible assets with an indefinite life	25,641	a)	1,978	27,619	(153)	27,466
- Intangible assets with a finite life	6,897	b)	(61)	6,836	(62)	6,774
	32,538		1,917	34,455	(215)	34,240
Tangible assets						
- Property, plant and equipment owned	17,846	c)	184	18,030	(155)	17,875
- Assets held under finance leases	207	d)	1,398	1,605	(1)	1,604
	18,053		1,582	19,635	(156)	19,479
Other non-current assets						
- Equity investments	1,457	e)	(374)	1,083	(19)	1,064
- Securities and financial receivables	557	(*)	(184)	373	9	382
- Miscellaneous receivables and other non-current assets	251	f)	568	819	(16)	803
	2,265		10	2,275	(26)	2,249
Deferred tax assets	3,706	g)	848	4,554	(47)	4,507
TOTAL NON-CURRENT ASSETS (A)	**56,562**		**4,357**	**60,919**	**(444)**	**60,475**
Current assets						
Inventories	339	h)	(22)	317	(6)	311
Trade receivables, miscellaneous receivables and other current assets	9,309	i)	1,480	10,789	(492)	10,297
Securities other than equity investments	932	(*)	(161)	771	-	771
Financial receivables and other current financial assets	904	(*)	(132)	772	(3)	769
Cash and cash equivalents	8,563	(*)	13	8,576	(57)	8,519
TOTAL CURRENT ASSETS (B)	**20,047**		**1,178**	**21,225**	**(558)**	**20,667**
Assets held for sale						
of a financial nature		(*)			84	84
of a non-financial nature					1,094	1,094
TOTAL ASSETS HELD FOR SALE (C)	-		-	-	**1,178**	**1,178**
TOTAL ASSETS (A+B+C)	**76,609**		**5,535**	**82,144**	**176**	**82,320**
Shareholders' equity						
attributable to Parent Company	15,172		1,079	16,251	-	16,251
attributable to minority interest	4,689		(97)	4,592	-	4,592
TOTAL SHAREHOLDERS' EQUITY (A)	**19,861**		**982**	**20,843**	-	**20,843**
Non-current liabilities						
Non-current financial liabilities	36,937	(*)	1,878	38,815	(101)	38,714
Employee severance indemnities and other employee-related reserves	1,369	m)	(77)	1,292	(70)	1,222
Reserve for deferred taxes	225	n)	342	567	(4)	563
Reserves for future risks and charges	831	o)	9	840	(16)	824
Miscellaneous payables and other non-current liabilities	1,458	p)	746	2,204	(5)	2,199
TOTAL NON-CURRENT LIABILITIES (B)	**40,820**		**2,898**	**43,718**	**(196)**	**43,522**
Current liabilities						
Current financial liabilities	3,393	(*)	1,146	4,539	(54)	4,485
Trade payables, current tax payables, miscellaneous payables and other current liabilities	12,535	q)	509	13,044	(346)	12,698
TOTAL CURRENT LIABILITIES (C)	**15,928**		**1,655**	**17,583**	**(400)**	**17,183**
Liabilities relating to assets held for sale						
of a financial nature		(*)			188	188
of a non-financial nature					584	584
TOTAL LIABILITIES RELATING TO ASSETS HELD FOR SALE (D)	-		-	-	**772**	**772**
TOTAL LIABILITIES (E=B+C+D)	**56,748**		**4,553**	**61,301**	**176**	**61,477**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (A+E)	**76,609**		**5,535**	**82,144**	**176**	**82,320**

(^) the balance sheet data has been prepared in accordance with IAS/IFRS standards in effect to date

(*) included in net financial indebtedness

CONSOLIDATED STATEMENT OF INCOME YEAR 2004 (^)

(in millions of euro)	Italian GAAP reclassified		Effect of the conversion to IAS/IFRS	IAS/IFRS standards including discont. oper./assets held for sale	Discont. oper./assets held for sale IT Market/ Digitel	IAS/IFRS standards
Revenues	31,231	a)	(146)	31,085	(795)	30,290
Other income	1,158	b)	(30)	1,128	(23)	1,105
Total revenues and operating income	**32,389**		**(176)**	**32,213**	**(818)**	**31,395**
Purchases of materials and external services	(13,378)	c)	(109)	(13,487)	437	(13,050)
Personnel costs	(4,246)	d)	(5)	(4,251)	278	(3,973)
Other operating expenses	(1,684)	e)	(43)	(1,727)	33	(1,694)
Changes in inventories	31		(1)	30	(1)	29
Capitalized internal construction costs	742		(4)	738	(21)	717
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES ON DISPOSALS AND IMPAIRMENT REVERSALS/LOSSES ON NON-CURRENT ASSETS (EBITDA)	**13,854**		**(338)**	**13,516**	**(92)**	**13,424**
Depreciation and amortization	(6,646)	f)	1,451	(5,195)	61	(5,134)
Gains/losses on disposals of non-current assets (I)	(10)		(2)	(12)	1	(11)
Impairment reversals/losses on non-current assets	(641)	g)	(21)	(662)	27	(635)
OPERATING INCOME (EBIT)	**6,557**		**1,090**	**7,647**	**(3)**	**7,644**
Share of earnings of equity investments in associates accounted for by the equity method	(11)		8	(3)	(1)	(4)
Financial income	1,705	h)	140	1,845	(35)	1,810
Financial expenses	(3,408)		(498)	(3,906)	51	(3,855)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**4,843**		**740**	**5,583**	**12**	**5,595**
Income taxes for the period	(2,941)	i)	192	(2,749)	30	(2,719)
NET INCOME FROM CONTINUING OPERATIONS	**1,902**		**932**	**2,834**	42	**2,876**
Net income (loss) from discontinued operations/assets held for sale					(42)	(42)
NET INCOME FOR THE PERIOD	**1,902**		**932**	**2,834**	**-**	**2,834**
Attributable to:						
* Parent Company	781		1,034	1,815	-	1,815
* Minority interest	1,121		(102)	1,019	-	1,019

(^) the statement of income data has been prepared in accordance with IAS/IFRS standards in effect to date

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

Commentary on the principal IAS/IFRS adjustments made to the balance sheets at January 1, 2004 and December 31, 2004 and the statement of income for the year 2004

Information on the principal adjustments is presented below with brief comments and references to the adjustments presented in the reconciliations of shareholders' equity and net income illustrated previously.

The effects of the changes relating to the financial assets and liabilities included in net financial indebtedness are presented in the reconciliation on page 82.

Consolidated Balance sheet - Assets

a) *goodwill*; these adjustments refer to:
   - at January 1, 2004 *(+euro 327 million)* recognition of additional goodwill following the consolidation of TIM shares classified in accordance with Italian GAAP in current assets (see adjustment No. 2);
   - at December 31, 2004 *(+euro 1,978 million)* principally the write-off of the amortization of goodwill of euro 1,554 million (see adjustment No. 1), recognition of additional goodwill following the consolidation of the aforementioned TIM shares classified in accordance with Italian GAAP in current assets, equal to euro 149 million, and other TIM shares in relation to the irrevocable purchase commitment connected with the put/call option, equal to euro 295 million (see adjustment No. 2);

b) *intangible assets with a finite life;* these adjustments *(-euro 86 million* at January 1, 2004 and -*euro 61 million* at December 31, 2004*)* principally regard the derecognition of certain start-up and expansion costs which do not meet the requirements under IAS/IFRS for recognition in intangible assets (see adjustment No. 13);

c) *property, plant and equipment owned;* these adjustments *(+euro 226 million* at January 1, 2004 and *+euro 184 million* at December 31, 2004*)* principally regard:
   - the write-off of the accumulated depreciation of land appurtenant to buildings, equal to *euro 84 million* at January 1, 2004 and *euro 91 million* at December 31, 2004, which must be separated from the buildings and no longer depreciated, in accordance with IAS/IFRS (see adjustment No. 11);
   - the capitalization of restoration costs of *euro 186 million* at January 1, 2004 and *euro 236 million* at December 31, 2004 (see adjustment No. 15);
   - the elimination of intragroup gains on tangible assets produced within the Group with the consequent decrease in the amount of these same assets of *euro 60 million* at January 1, 2004 and *euro 83 million* at December 31, 2004 (see adjustment No. 14);
   - the elimination of monetary revaluations made to tangible assets of the Entel Chile group of *euro 25 million* at December 31, 2004;

d) *assets held under finance leases (+euro 1,433 million* at January 1, 2004 and *+euro 1,398 million* at December 31, 2004*)*; these adjustments principally regard:
   - the recognition, equal to *euro 1,363 million* at January 1, 2004 and *euro 1,282 million* at December 31, 2004, in non-current assets of buildings that were the subject of sale and leaseback transactions in prior years since they have the characteristics of leasebacks of a financial nature (see adjustment No. 4);
   - the recognition, equal to *euro 70 million* at January 1, 2004 and *euro 58 million* at December 31, 2004, in non-current assets of tangible assets under finance lease contracts;

e) equity investments (non-current) (-euro 427 million at January 1, 2004 and -*euro 374 million* at December 31, 2004)*;* these adjustments principally regard:
- the reversal of treasury stock, equal to *euro 393 million* at January 1, 2004 and at December 31, 2004, which is accounted for as a reduction of shareholders' equity in accordance with IAS/IFRS (see adjustment No. 8);
- the adjustment to fair value of equity investments in companies other than subsidiaries and associates, equal to *euro 15 million* at January 1, 2004 and *euro 55 million* at December 31, 2004 (see adjustment No. 16);

f) miscellaneous receivables and other non-current assets (+euro 460 million at January 1, 2004 and +*euro 568 million* at December 31, 2004*)*; these adjustments principally regard the balance among:
- the recognition of prepaid expenses related to the deferral of costs associated with the recognition of revenues (see adjustment No. 9), equal to euro 560 million at January 1, 2004 and euro 496 million at December 31, 2004;
- the reversal of similar expenses on bonds as a result of the application of the amortized cost method to financial expenses equal to *euro 136 million* at January 1, 2004 and *euro 107 million* at December 31, 2004;
- the recognition at fair value of derivative financial instruments (see adjustments Nos. 7 and 16) equal to *euro 67 million* at January 1, 2004 and *euro 60 million* at December 31, 2004;

g) deferred tax assets (+euro 614 million at January 1, 2004 and +*euro 848 million* at December 31, 2004*)*; these adjustments regard the contra-entry in assets of the tax effect on the items in reconciliation as well as the recognition of deferred tax assets that were not recorded under Italian GAAP because the requirement of reasonable certainty was not met (see adjustment No. 10);

h) inventories (+euro 3 million at January 1, 2004 and -*euro 22 million* at December 31, 2004*)*; these adjustments principally regard the adoption of the weighted average cost method;

i) trade receivables, miscellaneous receivables and other current assets (+euro 1,205 million at January 1, 2004 and +*euro 1,480 million* at December 31, 2004*)*; these adjustments principally regard:
- the re-recognition of trade receivables and miscellaneous receivables sold through factoring transactions that are not recognized under IAS/IFRS (see adjustment No. 3) equal to *euro 351 million* at January 1, 2004 and *euro 760 million* at December 31, 2004;
- the re-recognition of trade receivables sold through securitization transactions that are not recognized under IAS/IFRS (see adjustment No. 2) equal to *euro 799 million* at January 1, 2004 and *euro 728 million* at December 31, 2004;

l) equity investments (-euro 166 million at January 1, 2004*)*; this adjustment regards the reversal of TIM shares, following their consolidation, recorded in accordance with Italian GAAP in current assets (see adjustment No. 2); there are no adjustments at December 31, 2004;

<u>Consolidated balance sheet - Liabilities</u>

m) employee severance indemnities and other employee-related reserves (-euro 102 million at January 1, 2004 and –*euro 77 million* at December 31, 2004*);* these adjustments mainly regard the application of actuarial methods to employee severance indemnities;

n) reserve for deferred taxes (+euro 374 million at January 1, 2004 and +*euro 342 million* at December 31, 2004*)*; these adjustments regard the contra-entry in liabilities for the tax effect on items in reconciliation;

o) reserves for future risks and charges (-euro 270 million at January 1, 2004 and +*euro 9 million* at December 31, 2004*)*; these adjustments principally regard the balance among:

- the derecognition of certain reserves due to the absence of the requirements necessary for their recognition (actual, legal or implicit obligation) equal to *euro 276 million at January 1, 2004* and *euro 68 million at December 31, 2004*;
- the provision to the reserve for restoration costs (see adjustment No. 15) equal to euro 254 million at January 1, 2004 and euro 351 million at December 31, 2004;
- the reclassification to financial liabilities of the portion of the repayment premium due on the exchangeable bonds "Telecom Italia Finance 2001-2006" equal to *euro 218 million at January 1, 2004* and *euro 264 million at December 31, 2004*;

p) *miscellaneous payables and other non-current liabilities (+euro 706 million* at January 1, 2004 and *+euro 746 million* at December 31, 2004*)*; these adjustments principally regard deferred income for the deferral of the revenues on the activation of Telecom Italia telephone service;

q) *trade payables, current tax payables, miscellaneous payables and other current liabilities (+euro 244 million* at January 1, 2004 and *+euro 509 million* at December 31, 2004*)*; these adjustments principally regard deferred income for the deferral of revenues on the activation of Telecom Italia telephone service and revenues on the recharge of TIM prepaid cards.

__Consolidated statement of income 2004__

a) *revenues (-euro 146 million)*: these adjustments principally regard the deferral of revenues on the activation of telephone service and the recharge of prepaid telephone cards over the estimated duration of the relationship with the customer (see adjustment No. 9);

b) *other income (-euro 30 million)*: this adjustment principally regards the derecognition of the reserves for risks and charges which do not meet the requirements under IAS/IFRS for recognition (see adjustment No. 5);

c) *purchases of materials and external services (+euro 109 million)*: these adjustments principally regard:
   - as a decrease, the reversal of financial lease payments relating to the sale and leaseback of buildings, equal to euro 187 million (see adjustment No. 4), and to tangible assets held under financial leases equal to euro 32 million;
   - as an increase, the reversal, equal to euro 224 million, of the release of certain reserves for risks and charges (not recognized under IAS/IFRS) recorded in the statement of income in 2004 under Italian GAAP (see adjustment No. 5) and the effect of deferring the costs related to the revenues for the activation of telephone service and the recharge of prepaid cards, equal to euro 113 million (see adjustment No. 9);

d) *personnel costs (+euro 5 million)*: these adjustments principally regard the higher provision to the reserve for employee severance indemnities, equal to euro 18 million, and the increase in the principal portion of the payable relating to Law 58/92, equal to euro 9 million, and the decrease for the reversal of personnel costs related to the deferral of revenues for the activation of telephone service and the recharge of prepaid cards, equal to euro 22 million (see adjustment No. 9);

e) *other operating expenses (+euro 43 million)*: these adjustments principally regard the higher expenses consequent to the consolidation of the special purpose entity, TISV, set up for securitization transactions (see adjustment No. 2);

f) *depreciation and amortization (-euro 1,451 million)*: these adjustments principally regard:
   - as a decrease, the reversal, equal to euro 1,559 million, of the amortization charge for goodwill (see adjustment No. 1), lower depreciation, equal to euro 26 million, in connection with the elimination of intragroup gains (see adjustment No. 14) and the reversal, equal to euro 6 million, of depreciation relating to the land appurtenant to the buildings (see adjustment No. 11);

- as an increase, the recognition, equal to euro 81 million, of the depreciation charge on buildings that were the subject of a sale and leaseback under finance lease contracts (see adjustment No. 4); euro 40 million for the depreciation charge on other finance leases and euro 5 million for the depreciation charge on restoration costs;

g) *impairment losses on non-current assets (+euro 21 million)*: these adjustments principally regard the impairment of the difference on consolidation relating to Entel Chile to bring the carrying amount in line with the sales amount;

h) *net financial expenses (+euro 358 million)*: these adjustments principally regard the recognition of financial expenses, equal to euro 197 million, included in finance lease payments regarding the sale and leaseback of properties (see adjustment No. 4), the recognition of higher financial expenses, equal to euro 83 million, consequent to the application of the "amortized cost" method to convertible and exchangeable bonds (see adjustment No. 6), the reversal of impairment reversals, equal to euro 32 million, and dividends equal to euro 10 million, relating to the shares of consolidated companies classified according to Italian GAAP in current assets;

i) *income taxes for the period (-euro 192 million)*: this decrease regards the positive net tax effect on the above-described adjustments for euro 242 million offset by deferred tax assets of euro 50 million recorded in the Italian GAAP 2004 financial statements but already included in the IAS/IFRS financial statements at January 1, 2004 (see adjustment No. 10).