THIRD QUARTER REPORT 2005

CONTENTS

On November 8, 2005, the Board of Directors approved the third quarter 2005 report.

CORPORATE BOARDS AT SEPTEMBER 30, 2005

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

The ordinary Shareholders' Meeting of Telecom Italia S.p.A. held on 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 on April 7, 2005 has, among other things, revised the number of members of the Board of Directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.
The appointments of top management were made by the Board of Directors at the meetings held on May 6, 2004 (Chairman, Deputy Chairman, Managing Directors Carlo Buora and Riccardo Ruggiero) and July 26, 2005 (Managing Director Marco De Benedetti).
In the meeting held on September 9, 2004, the Board of Directors chose the director Guido Ferrarini, Chairman of the Committee for Internal Control and Corporate Governance, as the lead independent director of the Company. He was attributed, among other things, the right to call specific and separate meetings of the independent directors to discuss matters considered of interest to the functioning of the Board of Directors and or to the management of the company.
On October 5, 2005, the Managing Director Marco De Benedetti tendered his resignation.

Remuneration Committee	Luigi Fausti (Chairman)
	Paolo Baratta
	Pasquale Pistorio

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

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

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

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

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

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

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

<u>Common representatives</u>

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

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

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

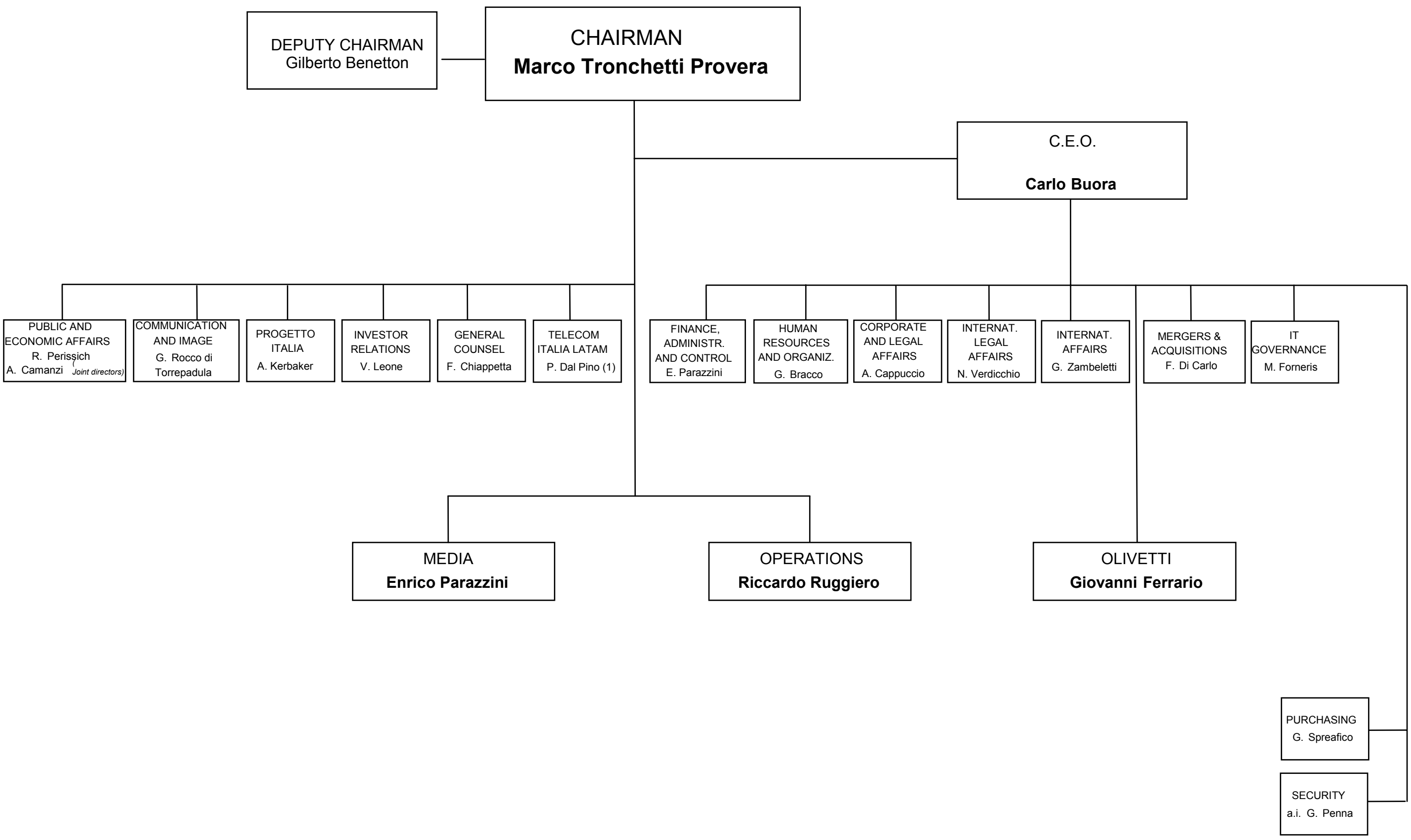
Appointment of the audit firm was conferred by the Shareholders' Meeting held on May 6, 2004 for the three years 2004-2006. For Reconta Ernst & Young S.p.A., this is a renewal (the first) of its appointment, after expiry of the mandate voted by the shareholders of the then Olivetti in their meeting held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

MACRO-ORGANIZATION CHART - TELECOM ITALIA GROUP

The changes presently underway in the demand for telecommunications services, increased competitive pressure and technological breakthroughs are gradually erasing the traditional distinction between the separate wireline and mobile business areas. The Telecom Italia Group has long seen a strategy of convergence as the means of developing the potential offered by new technologies and confirming its objectives for growth and profitability in the face of fierce competition and price pressure.

In light of analyses and considerations arrived at by the working groups established to manage the integration, on October 5, 2005, the Board of Directors of Telecom Italia decided to step up the process for wireline and mobile convergence, begun in December 2004 and pursued with the resolutions passed in May 2005 to reorganize the internet area, by approving a totally integrated business model in the conviction that this will ensure the best possible service to the customer, in accordance with existing regulations.

The resulting "One Company" organizational model supersedes the separate Wireline and Mobile business units by converging the responsibilities for the development of the business of fixed telecommunications, mobile telecommunications and internet services into a single organizational unit. The business will be under unified management and the corporate structure will be under unified management.



(1) Effective January 1, 2006, Paolo Dal Pino will leave the Telecom Italia Group and at that time responsibility of Telecom Italia Latam will be handed over to Giorgio Della Seta.

It should be pointed out that the Internal Auditing activities of the Group are entrusted to the consortium company, Telecom Italia Audit, with Armando Focaroli as Chairman.

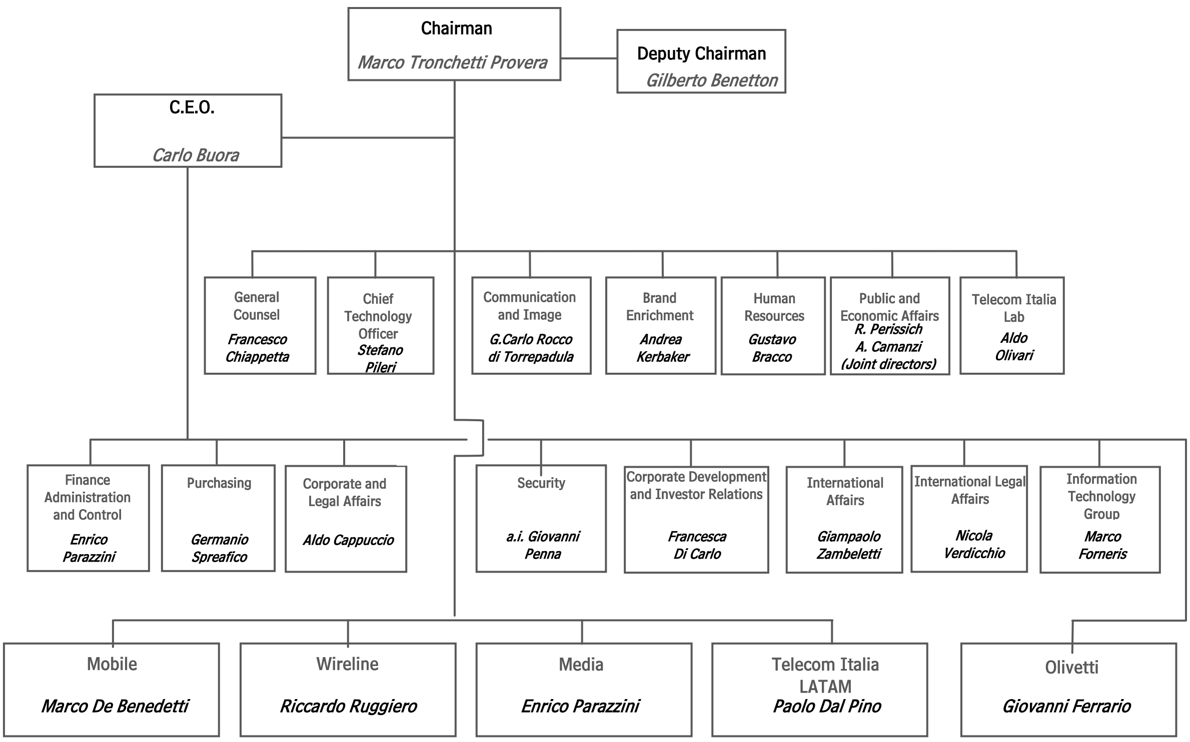
Under the new organization structure (divided into Central Functions, responsible for the management of the functioning of the Group; Operations and Business Units, responsible for business development and market coordination activities):

- the Chief Executive Officer, Riccardo Ruggiero, will be responsible for Operations with the aim of guaranteeing business management and development (fixed telecommunications, mobile telecommunications and internet services);
- the Chief Executive Officer, Carlo Buora, will be responsible for the activities connected with the direction and control of the business as well as the overall management of cross-over issues regarding the business itself.
- the Chairman, Marco Tronchetti Provera, will coordinate the activities of the CEOs as well as define, with them, the strategies for the Group's general direction and development policies. He will have direct responsibility over institutional affairs, communication and image and investor relations.

The Chief Executive Officer, Carlo Buora, will also coordinate the Olivetti Business Unit (manager: Giovanni Ferrario), while the Chairman is entrusted with the coordination of the Media Business Unit (manager: Enrico Parazzini).

* * *

The accounting representation presented in these interim financial statements reflects the macro-organization structure as at September 30, 2005, which is presented below.



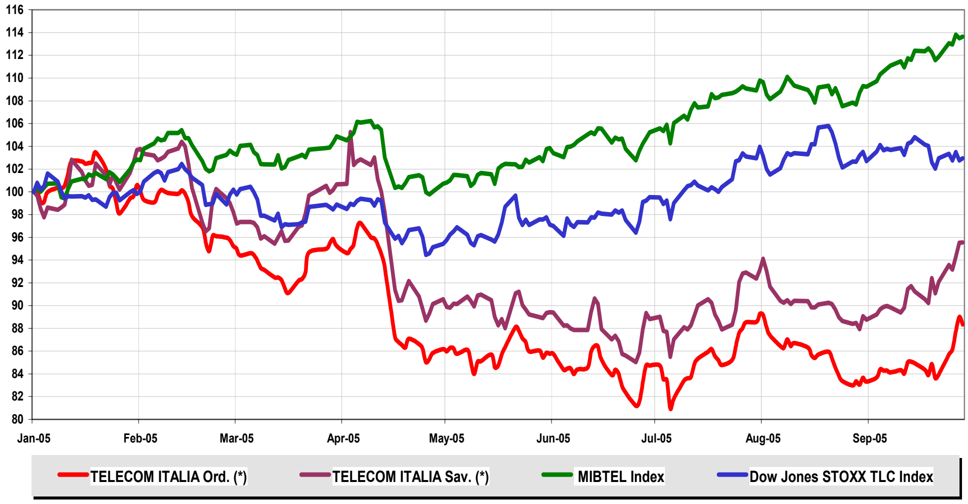
SHAREHOLDER INFORMATION

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

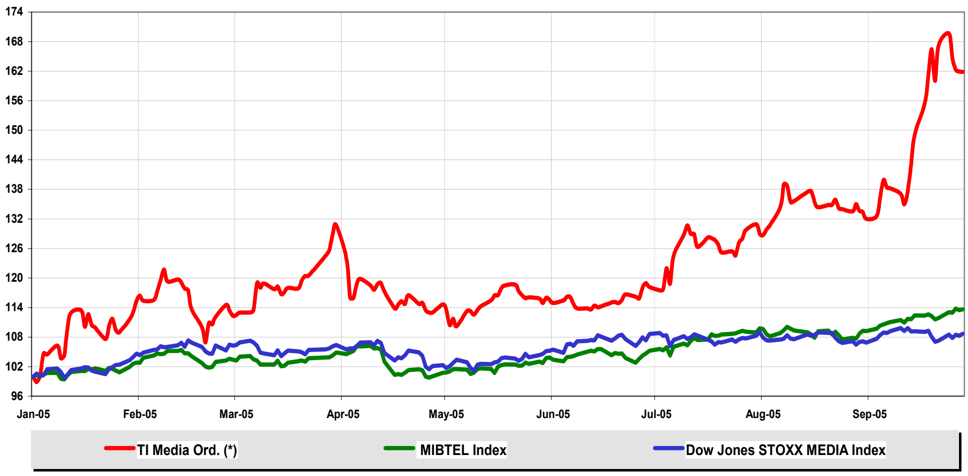
Share capital	euro 10,667,761,163.95
Number of ordinary shares (par value of euro 0.55 each)	13,369,808,728
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Market capitalization (based on September 2005 average prices)	euro 48,050 million

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

Relative performance TELECOM ITALIA S.p.A.
1/1/2005 – 9/30/2005
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance TELECOM ITALIA MEDIA S.p.A.
1/1/2005 – 9/30/2005
vs. MIBTEL and DJ Stoxx MEDIA Indexes (ordinary shares)
(Source: Reuters)



RATINGS AT SEPTEMBER 30, 2005

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

At September 30, 2005, there were no changes made to the ratings assigned by the agencies upon the announcement of the merger of Telecom Italia and Tim on December 7, 2004.

HIGHLIGHTS

FIRST NINE MONTHS OF 2005

Discontinued operations	During the first nine months of 2005, the following companies were sold: the Entel Chile group, Tim Hellas, the Finsiel group and Tim Perù. The following companies, in addition, are considered assets held for sale: the Buffetti group and Corporacion Digitel Venezuela. As a result, in keeping with IAS/IFRS standards, the statement of income and balance sheet figures relating to consolidated discontinued operations or assets held for sale are represented in two captions on the balance sheet and in one caption on the statement of income and are no longer presented line-by-line. Moreover, all periods presented for comparison have been adjusted accordingly.
Economic results	**Revenues**: euro 21,958 million, +5.5% compared to the first nine months of 2004; excluding the foreign exchange effect, the change in the scope of consolidation and start-up activities, underlying growth is equal to 4.3%. **EBITDA** [1]: euro 9,704 million, +1.4% compared to the first nine months of 2004; excluding the foreign exchange effect, the change in the scope of consolidation, start-up activities and exceptional items, underlying growth is equal to +1.9%. **EBIT** [2]: euro 5,888 million, +2.2% compared to the first nine months of 2004; excluding the foreign exchange effect, the change in the scope of consolidation, start-up activities and exceptional items, underlying growth is equal to -0.8%. **Net income attributable to the Parent Company**: euro 2,625 million (euro 1,677 million in the first nine months of 2004), +56.5%. This increase is also connected with the transaction for the integration of Tim (tender offer and merger) which led to the full ownership of the Mobile operations.
Net financial debt	**Net financial debt** at September 30, 2005 is equal to euro 42,020 million, with an increase of euro 9,158 million compared to December 31, 2004. The funding required for the takeover bid and other purchases of Tim shares for euro 13,832 million and the payment of dividends for euro 2,328 million were partly reduced by the divestitures of equity investments, the partial conversion of 2001/2010 convertible bonds and cash flows during the period.

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

[2] Operating income.

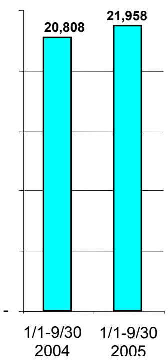
SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

The economic and financial results of the Telecom Italia Group for the third quarter of 2005, as well as the first nine months of 2005 and the periods under comparison have been prepared in accordance with IAS/IFRS issued by the IASB and approved by the European Union (EU GAAP), as provided by article 82 of the Regulation for Issuers No. 11971 issued by Consob on May 14, 1999 and subsequent amendments and additions. Such standards have been described in detail in the First-Half 2005 Report at June 30, 2005 of the Telecom Italia Group, to which reference should be made.
Consistent with the requirements of the new IAS/IFRS, the statement of income and balance sheet figures relating to discontinued operations or assets held for sale have been presented, for all periods under comparison, in two captions of the balance sheet (Assets held for sale and Liabilities relating to assets held for sale) and in one caption of the statement of income (Net income (loss) from discontinued operations / assets held for sale). In all the periods under comparison, the following have been considered discontinued operations / assets held for sale: the Entel Chile group, the Finsiel group, the Buffetti group, Tim Hellas, Tim Perù and Corporacion Digitel Venezuela. In particular, the interim financial statements for the first nine months of 2005 include the statement of income for the first three months of the Entel Chile group (since it was disposed of at the end of March 2005), the first five months of Tim Hellas (since it was disposed of at the beginning of June 2005), and the entire first six months of the Finsiel group (since it was disposed of in June 2005) and the first seven months of Tim Perù (since it was disposed of in August 2005).
Besides the aforementioned discontinued operations, other changes in the scope of consolidation during the first nine months of 2005 refer to the following:

- the entry of the Liberty Surf group;
- the exit of Databank group, Televoice, Innovis, Cell-Tel, Olivetti Lexikon Nordic AB, Olivetti Servicios Y Soluciones, Olivetti Tecnost Africa and Med1IC-1.

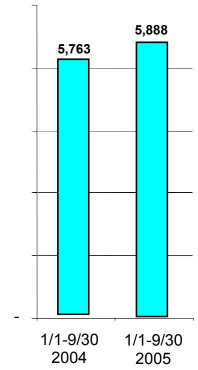
The Third-quarter Report at September 30, 2005 of the Telecom Italia Group has been prepared in accordance with the format provided by Appendix 3D of the above-cited Regulation of Issuers, as allowed by article 82 of the same Regulations and is unaudited.

Revenues (euro/millions)

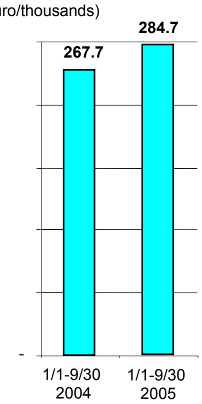


Economic and Financial Data (millions of euro)	3rd Quarter 2005	3rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
Revenues	7,430	6,978	21,958	20,808	28,292
EBITDA	3,219	3,228	9,704	9,570	12,864
EBIT	1,909	1,996	5,888	5,763	7,603
Income from continuing operations before taxes	1,363	1,570	4,469	4,289	5,606
Net income from continuing operations	760	968	2,514	2,379	2,952
Net income (loss) from discontinued operations/assets held for sale	117	29	542	36	(118)
Net income attributable to the Parent Company and minority interests	877	997	3,056	2,415	2,834
Net income attributable to the Parent Company	850	698	2,625	1,677	1,815
Investments:					
- Industrial	1,034	1,119	3,202	3,002	5,002
- Financial	175	118	14,631	516	872

EBIT
(euro/millions)



Revenues/Employees
(euro/thousands)



	9/30/2005	12/31/2004	9/30/2004
Balance Sheet Data (millions of euro)			
Total assets	96,720	82,642	76,910
Total shareholders' equity	26,828	20,843	20,471
- attributable to the Parent Company	25,072	16,251	16,223
- attributable to minority interests	1,756	4,592	4,248
Net financial debt	42,020	32,862	33,575

	3rd Quarter 2005	3rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
Profit and Financial Indexes					
EBITDA / Revenues	43.3	46.3	44.2	46.0	45.5
EBIT / Revenues (ROS)	25.7	28.6	26.8	27.7	26.9
Debt Ratio (Net financial debt/Net invested capital) (1)			61.0	62.1	61.2
Employees					
Employees (number in Group at period-end, excluding employees relating to discontinued operations/assets held for sale)			81,778	81,504	79,970
Employees relating to discontinued operations or assets held for sale (number at period-end)			1,045	11,316	11,402
Employees (average number in Group, excluding employees relating to discontinued operations/assets held for sale)			77,108	77,715	77,649
Employees relating to discontinued operations/assets held for sale (average number)			5,638	11,302	11,248
Revenues/Employees (average number in Group) thousands of euros			284.7	267.7	364.4

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

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	3rd Quarter 2005	3rd Quarter 2004	9 months to 9/30/2005 (a)	9 months to 9/30/2004 (b)	Year 2004	Change (a-b)	Change %
Revenues	7,430	6,978	21,958	20,808	28,292	1,150	5.5
Other income	107	84	330	260	1,099	70	26.9
Total revenues and operating income	**7,537**	**7,062**	**22,288**	**21,068**	**29,391**	**1,220**	**5.8**
Purchases of materials and external services	(3,230)	(2,775)	(9,233)	(8,436)	(11,850)	(797)	9.4
Personnel costs	(875)	(887)	(2,779)	(2,764)	(3,814)	(15)	0.5
Other operating expenses	(294)	(293)	(936)	(834)	(1,603)	(102)	12.2
Changes in inventories	(33)	(41)	39	70	27	(31)	(44.3)
Capitalized internal constructions costs	114	162	325	466	713	(141)	(30.3)
OTHER OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION, GAINS/LOSSES AND IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS (EBITDA)	**3,219**	**3,228**	**9,704**	**9,570**	**12,864**	**134**	**1.4**
Depreciation and amortization	(1,310)	(1,214)	(3,806)	(3,497)	(4,808)	(309)	8.8
Gain/losses on disposals of non-current assets	1	(2)	-	(8)	(9)	8	°
Impairment losses/reversals on non-current assets	(1)	(16)	(10)	(302)	(444)	292	(96.7)
OPERATING INCOME (EBIT)	**1,909**	**1,996**	**5,888**	**5,763**	**7,603**	**125**	**2.2**
Share of earnings of equity investments in associates accounted for by the equity method	(24)	40	(39)	22	(5)	(61)	°
Financial income (expenses)	(522)	(466)	(1,380)	(1,496)	(1,992)	116	(7.8)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**1,363**	**1,570**	**4,469**	**4,289**	**5,606**	**180**	**4.2**
Income taxes for the period	(603)	(602)	(1,955)	(1,910)	(2,654)	(45)	2.4
NET INCOME FROM CONTINUING OPERATIONS	**760**	**968**	**2,514**	**2,379**	**2,952**	**135**	**5.7**
Net income (loss) from discontinued operations/assets held for sale	117	29	542	36	(118)	506	°
NET INCOME FOR THE PERIOD	**877**	**997**	**3,056**	**2,415**	**2,834**	**641**	**26.5**
Attributable to:							
*** Parent company**	**850**	**698**	**2,625**	**1,677**	**1,815**	**948**	56.5
* Minority interests	27	299	431	738	1,019	(307)	(41.6)

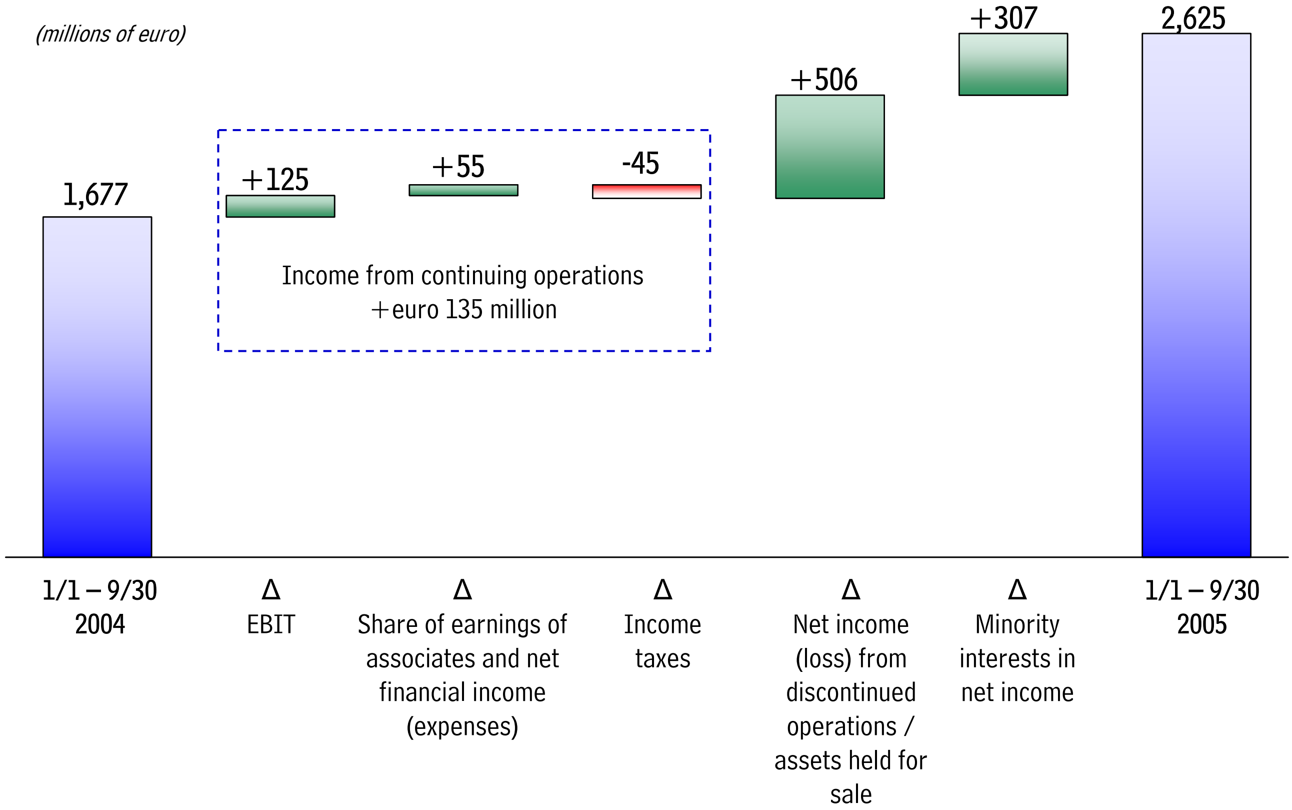
(I) Excluding gain/losses on disposals of discontinued operations/assets held for sale and equity investments other than subsidiaries.

Consolidated net income of the Group in the first nine months of 2005 is euro 2,625 million (euro 3,056 million before minority interests); in the first nine months of 2004, the consolidated net income of the Group was euro 1,677 million (euro 2,415 million before minority interests).

The change in the consolidated net income of the Group (euro 948 million) is due to the following factors:

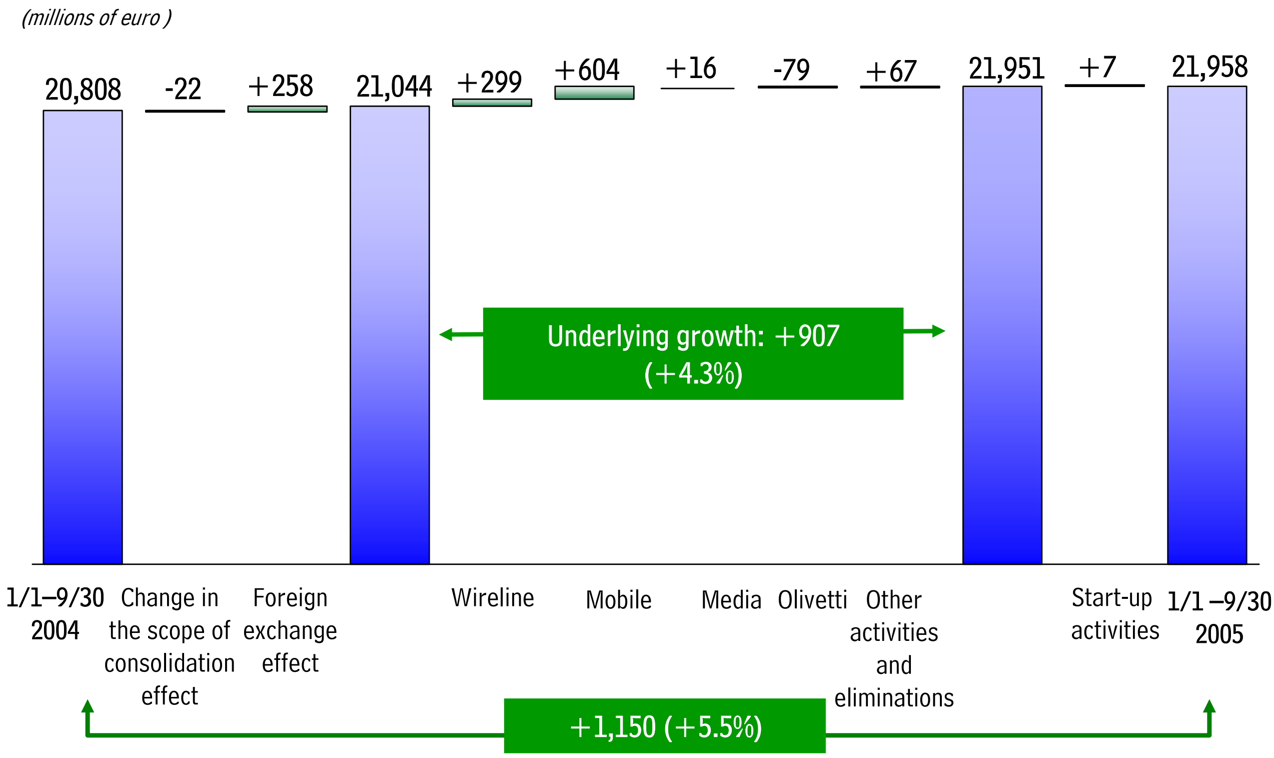
- improvement in *operating income* (+euro 125 million);
- lower *share of earnings (losses) of equity investments in associates accounted for by the equity method* (-euro 61 million);
- lower *financial expenses*, net of financial income (euro 116 million). In particular, the first nine months of 2005 include the release of reserves, booked in respect of sureties issued to banks which had financed the associate AVEA, since there is no longer a risk following the cancellation of the guarantees (euro 423 million), and higher financial expenses due to the increase in debt connected with the cash tender offer for Tim shares;
- higher *income taxes* of euro 45 million;
- higher *net income (loss) from discontinued operations/assets held for sale* of euro 506 million, including euro 410 million relating to the net gain realized on the sale of Tim Hellas and euro 120 million relating to the net gain realized on the sale of Tim Perù;
- lower *minority interests in net income* (euro 307 million), also in connection with the transaction for the integration of Tim (tender offer and merger), which led to full control over the Mobile business.

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



*In the **third quarter of 2005,** the consolidated net income of the Group is euro 850 million (euro 877 million before minority interests), higher by euro 152 million compared to euro 698 million in the third quarter of 2004 (euro 997 million before minority interests).*

Revenues amount to euro 21,958 million, with an increase 5.5% compared to euro 20,808 million in the first nine months of 2004. Excluding the positive foreign exchange effect (+euro 258 million, of which euro 271 million relates to the South American companies of the Mobile Business Unit), the negative effect of the change in the scope of consolidation (-euro 22 million) and start-up activities (revenues connected with activities in the start-up phase total euro 7 million and refer, in the first nine months of 2005, to terrestrial digital television and new products of the Olivetti office division), underlying growth is equal to 4.3% (+euro 907 million).
The following chart summarizes the change in revenues during the periods under comparison:



Underlying growth particularly reflects:

- a significant contribution to revenues by the Mobile Business Unit (+euro 604 million) mainly due to the positive input of the Tim Brasil group (+euro 464 million) and the good performance of value-added services and the sale of 3G terminals on the domestic market (+euro 143 million);
- an increase in the revenues of the Wireline Business Unit (+euro 299 million), achieved thanks to the expansion of the broadband market, enhanced offerings for wholesale services and the growth of innovative services, particularly Web services, offset by a decline in the traditional telephony market;
- an increase in revenues of the Media Business Unit (+euro 16 million) and a reduction in sales of the Olivetti Business Unit (-euro 79 million) due to the decline in the average prices of fax machines and lower sales volumes of ink-jet heads and photocopy machines, in addition to a fall in the volumes of the Gaming and Specialized Printers Division.

Revenues from telecommunications services are shown gross of the portion due to third-party operators of euro 3,511 million (euro 3,115 million in the first nine months of 2004).
Foreign revenues amount to euro 4,346 million (euro 3,364 million in the first nine months of 2004); 49.7% of the total is localized in the area of South America (42.0% in the first nine months of 2004).
The breakdown of revenues by customer geographic location is the following:

(millions of euro)	9 months to 9/30/2005		9 months to 9/30/2004	
Italy	17,612	*80.2%*	17,444	*83.8%*
Rest of Europe	1,620	*7.4%*	1,328	*6.4%*
North America	280	*1.3%*	339	*1.6%*
Central and South America	2,162	*9.8%*	1,414	*6.8%*
Australia. Africa and Asia	284	*1.3%*	283	*1.4%*
Total	21,958	*100.0%*	20,808	*100.0%*

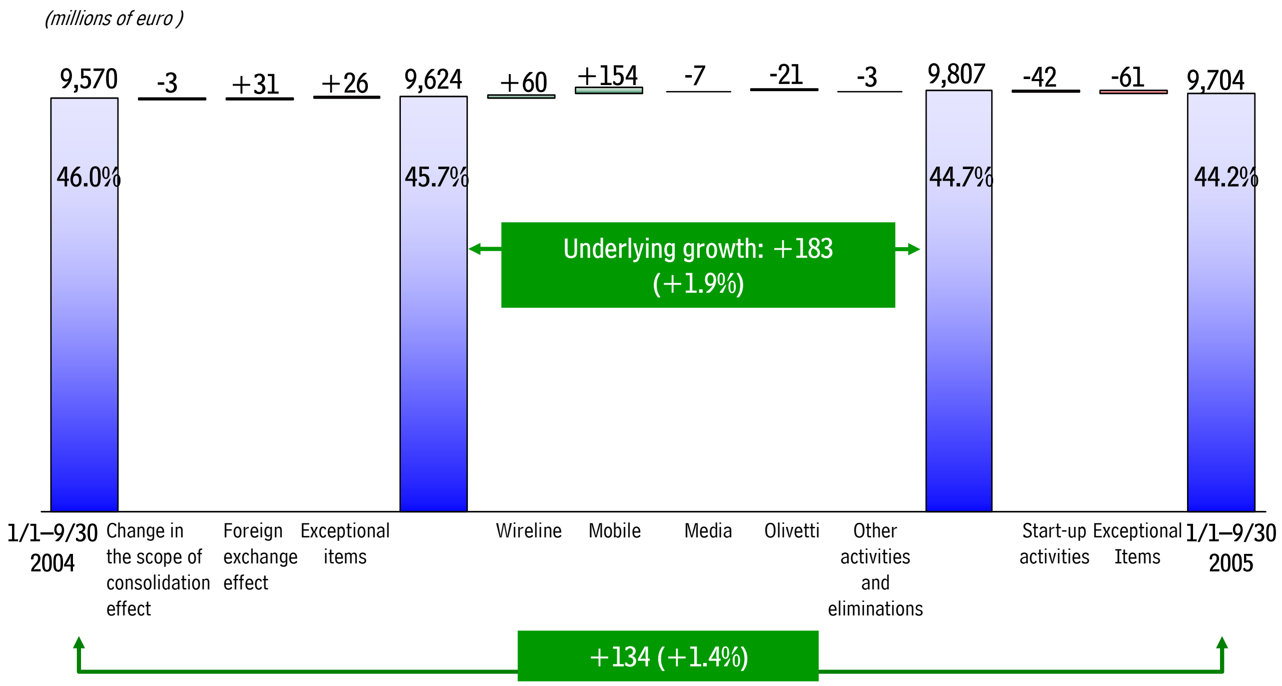
*In the **third quarter of 2005**, revenues amount to euro 7,430 million (euro 6,978 million in the third quarter of 2004), with an increase of 6.5%. Excluding the foreign exchange effect, due to the Brazilian companies, the change in the scope of consolidation and start-up activities, underlying growth is 3.8%.*

Other income amounts to euro 330 million (euro 260 million in the first nine months of 2004) and refers to:

(millions of euro)	9 months to 9/30/2005 (a)	9 months to 9/30/2004 (b)	Change (a – b)
Late payment fees charged for regulated TLC services	75	57	18
Release of reserves and liability items	62	18	44
Recovery of costs of personnel and services rendered	32	23	9
Capital grants	29	39	(10)
Damage compensation	24	17	7
Operating grants	3	4	(1)
Sundry income and prior period income	105	102	3
Total	**330**	**260**	**70**

EBITDA amounts to euro 9,704 million and grew by euro 134 million (+1.4%) compared to the first nine months of 2004. As a percentage of revenues, EBITDA went from 46.0% in the first nine months of 2004 to 44.2% in the first nine months of 2005. Excluding the positive foreign exchange effect (+euro 31 million), the negative effects of the change in the scope of consolidation (-euro 3 million), the start-up activities (expenses connected with activities in the start-up phase total -euro 42 million and refer, in the first nine months of 2005, to terrestrial digital television and new products of the Olivetti office division) and exceptional items (with a negative change of euro 35 million, principally due, in the first nine months of 2005, to settlements with Opportunity, for Brasil Telecom, and with customers), organic growth is equal to 1.9% (euro 183 million).

The following chart summarizes the major changes in EBITDA (operating income before depreciation and amortization, gains/losses and impairment losses/reversals on non-current assets):



*In the **third quarter of 2005,** EBITDA amounts to euro 3,219 million (euro 3,228 million in the third quarter of 2004), with a change of -0.3%.*
Excluding the foreign exchange effect, the change in the scope of consolidation, exceptional items and start-up activities, the change in EBITDA is equal to -0.9% (-euro 30 million). In particular, the positive contribution by the Wireline (euro 6 million) and Media (euro 2 million) Business Units is countered by a decrease in the Mobile Business Unit (-euro 53 million), mainly on the domestic mobile market, and the Olivetti Business Unit (-euro 9 million). EBITDA as a percentage of revenues is 43.3% (46.3% in the third quarter of 2004).

EBITDA in the first nine months of 2005 is particularly impacted by:

- **purchases of materials and external services,** euro 9,233 million, with an increase of 9.4% compared to the first nine months of 2004 (euro 8,436 million). The percentage of purchases to revenues is 42.0% (40.5% in the first nine months of 2004).
- **personnel costs,** equal to euro 2,779 million, are basically unchanged compared to the first nine months of 2004 (euro 2,764 million). Personnel costs, as a percentage of revenues, represent 12.7% against 13.3% in the first nine months of 2004. Personnel costs, when taking into account discontinued operations/assets held for sale, amount to euro 2,960 million in the first nine months of 2005 (euro 3,097 million in the same period of 2004); **Employees** at September 30, 2005 are 82,823 and include 1,045 persons relating to discontinued operations/assets held for sale. Excluding discontinued operations/assets held for sale, the number of employees of the Group is 81,778. Additional details are as follows:

	9/30/2005 (a)	12/31/2004 (b)	9/30/2004	Change (a – b)
Italy	70,225	70,863	72,486	(638)
Abroad	11,553	9,107	9,018	2,446
Total (excluding discontinued operations/assets held for sale)	**81,778**	**79,970**	**81,504**	**1,808**
Discontinued operations/assets held for sale:				
Italy	*186*	*4,174*	*4,183*	*(3,988)*
Abroad	*859*	*7,228*	*7,133*	*(6,369)*
Total discontinued operations/assets held for sale	***1,045***	***11,402***	***11,316***	***10,357***
Total headcount	**82,823**	**91,372**	**92,820**	**(8,549)**

The reduction of 8,549 employees compared to December 31, 2004 is due to:

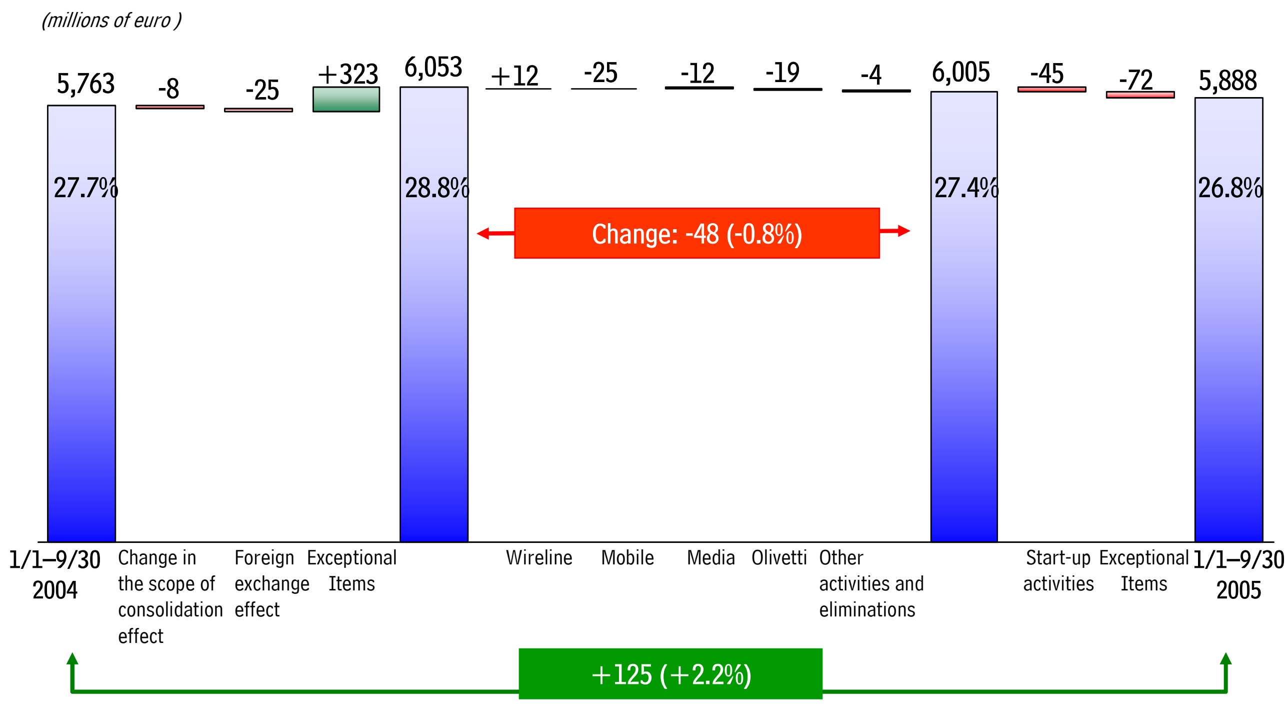
- the sale of the Entel Chile group (-4,166), the Finsiel group (-3,972), Tim Hellas (-1,495) and Tim Perù (-653);
- the hiring of 5,667 employees (of whom 460 relate to discontinued operations/assets held for sale) during the first nine months of 2005, against resignations of 3,837 employees (of whom 524 relate to discontinued operations).
- the change in the scope of consolidation as a result of the acquisition of Liberty Surf (+614), the deconsolidation of Televoice (-169), Innovis (-222), Cell-Tel (-112), Databank (-86), Med 1IC-1 (-14) and the sale of the "Territorial security centers" business segment to Tecnosis S.p.A. by the Parent Company (-104).

- **other operating expenses**, of which euro 936 million (euro 834 million in the first nine months of 2004). include:

(millions of euro)	9 months to 9/30/2005 (a)	9 months to 9/30/2004 (b)	Change (a – b)
Impairment of non-financial receivables	175	160	15
Expenses connected with receivables management	159	150	9
	334	310	24
Provisions to reserves for future risks and charges	36	66	(30)
Sundry operating expenses:			
Telecommunications fees and charges	132	81	51
Taxes on revenues of South American companies	119	75	44
Indirect duties and taxes	103	103	-
Association dues and fees	14	16	(2)
Other expenses and prior period expenses	198	183	15
Total	936	834	102

EBIT is euro 5,888 million, with an increase of euro 125 million compared to the first nine months of 2004 (+2.2%). EBIT as a percentage of revenues is equal to 26.8% (27.7% in the first nine months of 2004).
Excluding the foreign exchange effects (-euro 25 million), the change in the scope of consolidation (-euro 8 million), start-up activities (-euro 45 million) and exceptional items (euro 251 million, including, in the first nine months of 2004, euro 282 million relating to the settlement with De Agostini), the change in EBIT is -0.8% (-euro 48 million).

The following chart summarizes the changes in EBIT in the first nine months of 2005:



In greater detail, EBIT was impacted by depreciation and amortization charges of euro 3,806 million (euro 3,497 million in the first nine months of 2004). The increase of euro 309 million is generally due to higher investments made both this year and in the previous year.

In the ***third quarter of 2005,*** *EBIT is euro 1,909 million (euro 1,996 million in the third quarter of 2004, with a change of -4.4%.*
Excluding the foreign exchange effect, the change in the scope of consolidation, exceptional items and start-up activities, the change in EBIT is equal to -4.2% (-euro 83 million) and is mainly due to a decline in the domestic market of the Mobile Business Unit. EBIT as a percentage of revenues is 25.7% (28.6% in the third quarter of 2004).

The **share of earnings (losses) of equity investments in associates accounted for by the equity method** is a loss of euro 39 million (earnings of euro 22 million in the first nine months of 2004). This caption refers to:

(millions of euro)	9 months to 9/30/2005 (a)	9 months to 9/30/2004 (b)	Change (a – b)
Avea I.H.A.S.	(122)	-	(122)
Etec S.A.	30	28	2
Solpart	65	-	65
Other	(12)	(6)	(6)
Total	**(39)**	**22**	**(61)**

In particular:
- the amount of euro 65 million, relating to Solpart, is the result of reintroducing the equity method to account for the investment in this company. In fact, following the agreements signed on April 28, 2005, Telecom Italia was, among other things, reinstated its governance rights in Solpart which had been temporarily suspended in August 2002, reasserting its role in the management of the company;
- the negative amount of euro 122 million refers to the Group's share of the loss for the period of the associate Avea. In the first nine months of 2004, the share of the loss had not been booked since the investment was carried at a zero balance.

Financial income and expenses show a net expense balance of euro 1,380 million (-euro 1,496 million in the first nine months of 2004), with an improvement of euro 116 million compared to the corresponding period of 2004.
In greater detail:

(millions of euro)	9 months to 9/30/2005 (a)	9 months to 9/30/2004 (b)	Change (a – b)
Release of Avea reserves	423	-	423
Investment management	73	134	(61)
Financial management balance	(1,876)	(1,630)	(246)
Total	**(1,380)**	**(1,496)**	**116**

The change of +euro 116 million mainly refers to:
- the release of reserves for euro 423 million booked in respect of sureties issued to banks which had financed the subsidiary Avea, since there is no longer a risk following the cancellation of the guarantees;
- the reduction in income from the management of equity investments, which in 2004 had benefited from the gain on the sale of the remaining stake held in Telekom Austria. During the first nine months of 2005, gains were realized on the sale of the investment in C-Mobil by the Mobile Business Unit (euro 61 million), the

sale of the investment in Intelsat by Entel Bolivia (euro 2 million) and the sale of the investment in Golden Lines by Telecom Italia International (euro 5 million);

- the reduction in the financial management balance is mainly due to disbursements made for the purchase of Tim shares in the early months of the year through the cash tender offer and other purchases on the market which had an impact in terms of both higher debt exposure and lower liquidity.

Net income (loss) from discontinued operations/assets held for sale amounts to a net income of euro 542 million (euro 36 million in the first nine months of 2004) and refers to the following, in particular:

- gains on the sale of Tim Hellas (euro 410 million, net of related incidental charges) and Tim Perù (euro 120 million, net of related incidental charges), and other losses and incidental expenses for the sale of the Entel Chile group and the Finsiel group for a total of euro 23 million;
- net income by the Entel Chile group of euro 26 million, referring only to the first three months of 2005 (net income of euro 23 million in the first nine months of 2004);
- net loss by the Finsiel group of euro 11 million, referring only to the first six months of 2005 (net loss of euro 8 million in the first nine months of 2004);
- net income by Tim Hellas of euro 11 million, referring only to the first five months of 2005 (net income of euro 58 million in the first nine months of 2004);
- net loss by Tim Perù of euro 3 million, referring only to the first seven months of 2005 (net loss of euro 21 million in the first nine months of 2004);
- net income by the Buffetti group of euro 1 million (unchanged compared to the first nine months of 2004);
- net income by Digitel Venezuela of euro 11 million (net loss of euro 17 million in the first nine months of 2004).

*In the **third quarter of 2005**, the net income (loss) from discontinued operations/assets held for sale is euro 117 million, (euro 29 million in the third quarter of 2004) and particularly reflects the gain on the sale of Tim Perù (euro 120 million).*

CONSOLIDATED BALANCE SHEETS

(millions of euro)	9/30/2005 (a)	6/30/2005	12/31/2004 (b)	Change (a-b)
Non-current assets:				
Intangible assets				
- Goodwill and other intangible assets with an indefinite life	44,124	44,086	26,794	17,330
- Intangible assets with a finite life	6,452	6,425	6,295	157
	50,576	50,511	33,089	17,487
Tangible assets				
- Property, plant and equipment owned	16,569	16,599	16,292	277
- Assets held under finance leases	1,575	1,598	1,577	(2)
	18,144	18,197	17,869	275
Other non-current assets				
- Equity investments	1,231	1,305	1,053	178
- Securities and financial receivables	554	677	445	109
- Miscellaneous receivables and other non-current assets	789	829	795	(6)
	2,574	2,811	2,293	281
Deferred tax assets	4,385	4,411	4,468	(83)
TOTAL NON-CURRENT ASSETS (A)	75,679	75,930	57,719	17,960
Current assets:				
Inventories	345	374	289	56
Trade receivables, miscellaneous receivables and other current assets	9,438	10,078	9,794	(356)
Securities	423	444	786	(363)
Financial receivables and other current financial assets	782	1,537	765	17
Cash and cash equivalents	9,532	4,122	8,418	1,114
TOTAL CURRENT ASSETS (B)	20,520	16,555	20,052	468
Assets held for sale:				
of a financial nature	46	41	373	(327)
of a non-financial nature	475	873	4,498	(4,023)
ASSETS HELD FOR SALE (C)	521	914	4,871	(4,350)
TOTAL ASSETS (A+B+C)	96,720	93,399	82,642	14,078
Shareholders' equity:				
attributable to Parent Company	25,072	24,128	16,251	8,821
attributable to minority interests	1,756	1,656	4,592	(2,836)
TOTAL SHAREHOLDERS' EQUITY (D)	26,828	25,784	20,843	5,985
Non-current liabilities:				
Non-current financial liabilities	44,099	41,996	38,186	5,913
Employee severance indemnities and other employee-related reserves	1,282	1,255	1,208	74
Reserve for deferred taxes	518	596	507	11
Reserves for future risks and charges	777	832	771	6
Miscellaneous payables and other non-current liabilities	2,083	2,098	2,199	(116)
TOTAL NON-CURRENT LIABILITIES (E)	48,759	46,777	42,871	5,888
Current liabilities:				
Current financial liabilities	9,090	8,681	4,292	4,798
Trade payables, current tax payables, miscellaneous payables and other current liabilities	11,755	11,711	12,245	(490)
TOTAL CURRENT LIABILITIES (F)	20,845	20,392	16,537	4,308
Liabilities relating to assets held for sale:				
of a financial nature	168	255	1,171	(1,003)
of a non-financial nature	120	191	1,220	(1,100)
TOTAL LIABILITIES RELATING TO ASSETS HELD FOR SALE (G)	288	446	2,391	(2,103)
TOTAL LIABILITIES (H=E+F+G)	69,892	67,615	61,799	8,093
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (D+H)	96,720	93,399	82,642	14,078

Non-current assets of euro 75,679 million increased by euro 17,960 million compared to December 31, 2004.

Details are as follows:

- **intangible assets** increased by euro 17,487 million from euro 33,089 million at the end of 2004 to euro 50,576 million at September 30, 2005. This change is basically due to:
  - goodwill (difference between the purchase price paid and the underlying share of net equity acquired) on the purchase of Tim ordinary and savings shares under the tender offer and on the market (euro 11,804 million), and on the exchange of Tim ordinary and savings shares as a result of the merger with Telecom Italia (euro 4,850 million);
  - goodwill on the purchase of the shares held by the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicacoes S.A., effected by a reserved share capital increase in the parent Tim Participacoes S.A., and on the purchase of Tim Participacoes S.A. ordinary shares on the market by the parent Tim Brasil (euro 429 million including the foreign exchange effect);
  - goodwill on the purchase of a 94.89% stake in Liberty Surf S.A. and on the subsequent takeover bid for the remaining capital (euro 257 million);
  - goodwill on the purchase of Telecom Italia Media treasury stock through a tender offer (euro 17 million) and on the purchase of a 100% stake in Rits Tele.Com. B.V. on the part of BBNED N.V. (euro 1 million);
  - investments in other intangible assets with a finite life (euro 976 million);
  - amortization for the period (euro 1,199 million);
  - change in the scope of consolidation, foreign exchange differences and other movements (+euro 352 million);

- **tangible assets** increased by euro 275 million from euro 17,869 million at the end of 2004 to euro 18,144 million at September 30, 2005. The increase is due to investments (euro 2,226 million), depreciation for the period (euro 2,608 million) and disposals, the change in the scope of consolidation, the foreign exchange effect and other movements (+euro 657 million);

- **other non-current assets** increased by euro 281 million from euro 2,293 million at the end of 2004 to euro 2,574 million at September 30, 2005;

- **deferred tax assets** decreased by euro 83 million from euro 4,468 million at the end of 2004 to euro 4,385 million at September 30, 2005.

Assets held for sale total euro 521 million (euro 4,871 million at December 31, 2004). They consist of the following:

- assets of the Buffetti group of euro 102 million (euro 114 million at the end of 2004);
- goodwill and other positions connected with assets held for sale of euro 178 million (euro 178 million at the end of 2004);
- assets of the company Digitel Venezuela of euro 241 million (euro 222 million at the end of 2004).

It should also be mentioned that in the first nine months of 2005, the Entel Chile and Finsiel groups were sold, as well as Tim Hellas and Tim Perù. Their assets were included in the caption assets held for sale at the end of 2004 (euro 4,357 million).

Liabilities relating to assets held for sale total euro 288 million (euro 2,391 million at December 31, 2004). They consist of the following:

- liabilities of the Buffetti group of euro 58 million (euro 70 million at the end of 2004);

- other liability positions connected with assets held for sale of euro 8 million;
- liabilities of the company Digitel Venezuela of euro 222 million (euro 221 million at the end of 2004).

The liabilities of the Entel Chile group, the Finsiel group, Tim Hellas and Tim Perù were included in liabilities relating to assets held for sale at the end of 2004 for a total amount of euro 2,100 million.

Shareholders' equity amounts to euro 26,828 million (euro 20,843 million at the end of 2004), of which euro 25,072 million is attributable to the Parent Company (euro 16,251 million at December 31, 2004) and euro 1,756 million to the minority interests (euro 4,592 million at December 31, 2004).
The increase is basically due to the Telecom Italia – Tim merger transaction which had the following impact:

- an increase of euro 4,912 million following the capital increase to service the merger of Tim by incorporation in Telecom Italia (euro 6,014 million), net of the reduction in shareholders' equity attributable to minority interests (euro 1,102 million);
- a reduction of euro 2,124 million in the shareholders' equity attributable to minority interests following the purchase of a 28.7% stake in Tim through the tender offer and other purchases on the market.

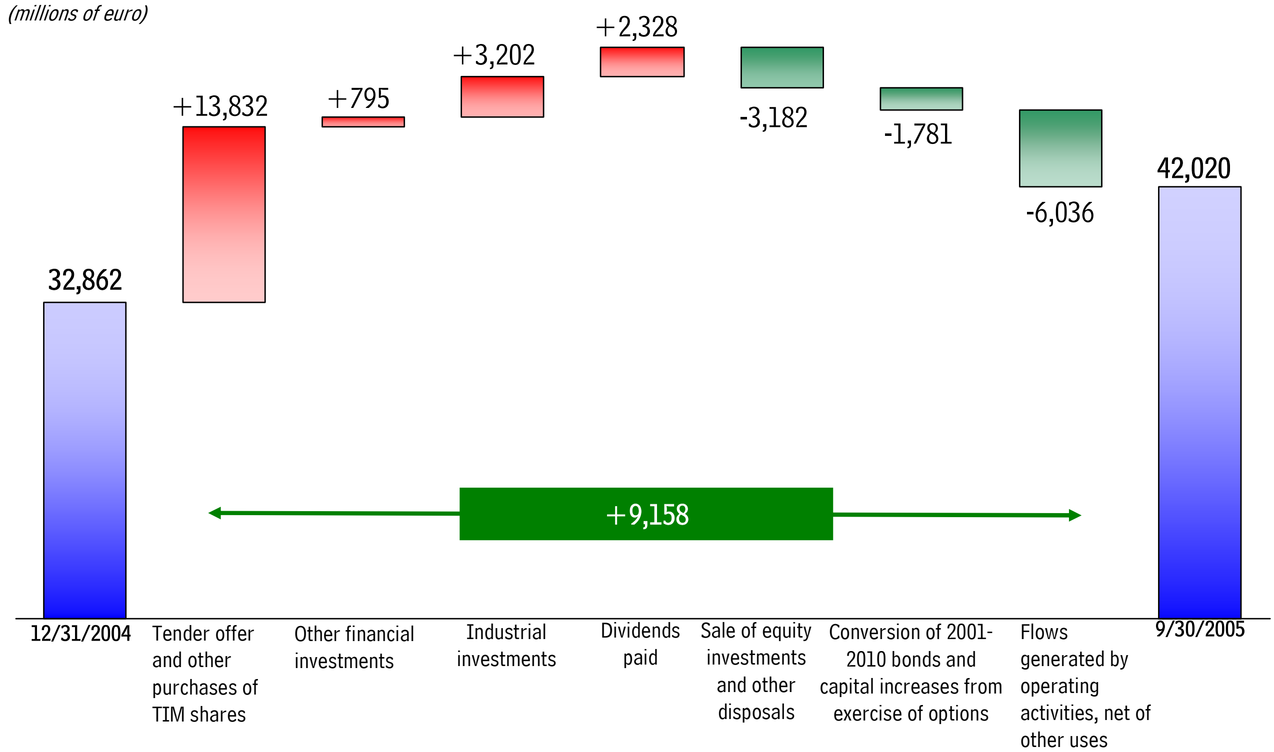
The changes in shareholders' equity are as follows:

(millions of euro)	9 months to 9/30/2005	Year 2004	9 months to 9/30/2004
At beginning of period	**20,843**	**20,788**	**20,788**
Contribution by shareholders, conversion of bonds and stock options	1,908	251	14
Net income attributable to Parent Company and minority interest	3,056	2,834	2,415
Income and reserves resolved by:	(2,342)	(2,780)	(2,780)
- Telecom Italia S.p.A.	*(1,912)*	*(1,730)*	*(1,730)*
- Tim S.p.A.	*(376)*	*(991)*	*(991)*
- Other Group companies	*(54)*	*(59)*	*(59)*
Tim tender offer and additional purchases of Tim shares	(2,124)	-	-
Telecom Italia/Tim merger	4,912	-	-
Tender offer for TI Media shares	(134)	-	-
Shares subscribed under capital increases in progress	-	41	-
Consolidation of Tim S.p.A. shares previously recorded in current assets	-	(20)	-
Exchange differences, change in the scope of consolidation and other changes	709	(271)	34
At end of period	**26,828**	**20,843**	**20,471**

In particular, "Exchange differences, change in the scope of consolidation and other changes" include, in the first nine months of 2005, positive exchange differences of euro 1,469 million, offset by the negative effect of deconsolidations of -euro 745 million and other changes of -euro 15 million.

Net financial debt amounts to euro 42,020 million at September 30, 2005, with an increase of euro 9,158 million compared to euro 32,862 million at the end of 2004. It also includes the net financial debt of the assets held for sale of euro 122 million (euro 798 million at December 31, 2004).

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



In particular:

- the disbursement of euro 13,832 million is composed of the price paid under the tender offer, at the end of January 2005, for the purchase of 2,456,501,605 Tim ordinary shares (equal to about 29.0% of Tim ordinary share capital) and 8,463,127 Tim savings shares (equal to about 6.4% of Tim savings share capital), and the subsequent purchase of 5,063,893 Tim ordinary shares and savings shares (about 3.8% of Tim savings share capital). As a result of these transactions, the stake in Tim increased by 28.7%;
- **other financial investments** (euro 795 million) are principally composed of the purchase of the investment in Liberty Surf (euro 258 million, net of cash acquired and inclusive of the incidental charges connected with the transaction), financial investments in Turkey (Avea and Oger Telekom, for a total of euro 131 million) and the buyback carried out by TI Media under the reorganization of the internet area (euro 148 million), the reorganization of the investment in the Mediterranean Nautilus group (euro 134 million) as well as incidental charges connected with the cash tender offer for Tim shares (euro 98 million);
- **industrial investments (**euro 3,202 million) increased by euro 200 million compared to the first nine months of 2004 and were mainly made in the Wireline Business Unit;
- **sale of equity investments and other disposals** (euro 3,182 million) refers mainly to the proceeds collected on the sale of Entel Chile, Tim Hellas, Finsiel and Tim Perù (for a total of euro 2,860 million, inclusive of the deconsolidation of the net financial debt of the subsidiaries sold), the reorganization of the investment in the Mediterranean Nautilus group (euro 77 million) and the sale of the investment in C-Mobil (euro 70 million) and other non-current assets.

Net financial debt is analyzed in the following table:

(millions of euro)	9/30/2005 (a)	6/30/2005	12/31/2004 (b)	Change (a-b)
GROSS FINANCIAL DEBT				
Non-current financial liabilities				
- Financial payables	42,276	40,155	36,351	5,925
- Finance lease liabilities	1,822	1,840	1,832	(10)
- Other financial liabilities	1	1	3	(2)
Current financial liabilities				-
- Financial payables	8,847	8,448	4,064	4,783
- Finance lease liabilities	239	228	223	16
- Other financial liabilities	4	5	5	(1)
Financial liabilities relating to assets held for sale	168	255	1,171	(1,003)
TOTAL GROSS FINANCIAL DEBT (A)	53,357	50,932	43,649	9,708
FINANCIAL ASSETS				
Non-current financial assets				
- Securities other than equity investments	7	6	7	-
- Financial receivables and other non-current financial assets	547	671	438	109
Current financial assets				-
- Securities other than equity investments	423	444	786	(363)
Financial receivables and other current financial assets	782	1,537	765	17
Cash and cash equivalents	9,532	4,122	8,418	1,114
Financial assets relating to assets held for sale	46	41	373	(327)
TOTAL FINANCIAL ASSETS (B)	11,337	6,821	10,787	550
NET FINANCIAL DEBT (A-B)	42,020	44,111	32,862	9,158

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

On January 28, 2005, in connection with the payment of the offer price of the tender offer, besides the use of cash resources for euro 2,504 million, euro 11,300 million was drawn from the term loan made available by a syndicate of banks on December 8, 2004. On February 11, 2005, the first tranche of the loan was repaid in advance from the cash resources of Telecom Italia for euro 2,300 million and, consequently, cancelled. After the aforementioned repayment, the outstanding loan amounts to euro 9,000 million divided into two tranches: euro 6,000 million due in 36 months (Tranche B) and euro 3,000 million due in 60 months (Tranche C).
On August 1, 2005, Tranche B of this loan, maturing in January 2008, was replaced by a new revolving loan for the same amount with maturity extended to 2012, at better conditions. Tranche C for euro 3 billion, maturing in January 2010, instead, was changed only with respect to the margin which was lowered so that it would reflect the new better conditions offered by the market for syndicated loans. Subsequently, on October 20, 2005, euro 1.5 billion of the new revolving loan for euro 6 billion, maturing in 2012, was repaid so that it is now reduced to euro 4.5 billion. Following that repayment, using cash resources, committed credit lines for euro 1.5 billion were cancelled out of a total of euro 6.5 billion maturing in 2007. The committed credit lines are now down to euro 5 billion.

Transactions regarding **bonds** in the first nine months of 2005 are described below:

1) NEW ISSUES

- Telecom Italia issued two new note issues under the Euro Medium Term Note Program for euro 10 billion:
  - euro 850 million, on March 17, 2005, coupon interest of 5.25%, issue price at 99.667, maturing March 17, 2055;
  - GBP 500 million (equal to euro 733 million), on June 29, 2005, coupon interest of 5.625%, issue price of 99.878, maturing December 29, 2015.

- On September 28, 2005, Telecom Italia Capital S.A. issued new bonds for a total of USD 2,500 million (equal to euro 2,076 million), guaranteed by Telecom Italia S.p.A., and divided into three tranches:
  - USD 400 million (equal to euro 332.2 million), quarterly coupon interest indexed to the USD 3-month Libor plus 0.48%, issue price of 100, maturing February 1, 2011;
  - USD 700 million (equal to euro 581.3 million), annual coupon fixed interest at 4.875%, issue price of 99.898, maturing October 1, 2010;
  - USD 1,400 million (equal to euro 1,162.6 million), annual coupon fixed interest at 5.25%, issue price of 99.370, maturing October 1, 2015.

- Telecom Italia 2002-2022 bonds, set aside for subscription by employees of the Group, increased during the first nine months of 2005 by euro 30.3 million as a result of purchases/subscriptions for euro 64.6 million and sales by the bondholders for euro 34.3 million. According to the bond indenture, the Company is the obligatory counterpart for the purchases made by holders of this bond category.

- Telecom Italia Finance S.A., on June 29, 2005, reopened its bond issue of euro 800 million, with coupon interest at 7.75%, maturing in 2033, listed on the Luxembourg stock exchange, raising the amount by euro 250 million. Currently the issue is for a total of euro 1,050 million.

2) REPURCHASE OF BONDS

- Telecom Italia Finance S.A., during the first nine months of 2005, repurchased bonds for a total nominal value of euro 514 million:
  - euro 173 million relating to bonds for an original amount of euro 3,000 million, maturing April 20, 2006, with coupon interest at 6.375%. The residual nominal debt is thus equal to euro 2,572 million and also takes into account the purchases made during 2004 of about euro 255 million.

- euro 141 million relating to bonds of euro 708 million, repayable with Telecom Italia S.p.A. ordinary shares or by settlement in cash, originally issued by Olivetti Finance N.V., maturing November 3, 2005, coupon interest at 1% and with a repayment premium. Following the bond repurchases, the residual nominal debt is thus equal to euro 567 million (euro 643 million with a repayment premium);
- euro 200 million relating to bonds issued in 2001, for an original amount of euro 2,500 million, maturing March 15, 2006, exchangeable with TI S.p.A. or Seat Pagine Gialle and TI Media S.p.A. shares, coupon interest at 1% and with a repayment premium. Following the bond repurchases, the residual nominal debt is thus equal to euro 1,764 million (euro 2,076 million with a repayment premium).

3) REPAYMENTS AND CONVERSIONS

- Telecom Italia Finance repaid euro 0.3 million of the nominal value of the euro 500 million bonds maturing March 14, 2005, issued by Telecom Italia Finance S.A.; the amount reimbursed refers to the residual amount of the bonds on which the bondholders did not opt to extend the maturity date. Bonds currently outstanding and on which the bondholders extended the maturity dates total euro 499.7 million, maturing December 14, 2006, with quarterly interest indexed to the 3-month Euribor + 130 basis points.

- In view of the requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt with a repayment premium referring to these bonds decreased in the first nine months of 2005 by euro 2,225 million (euro 1,681 million under IAS/IFRS).

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

Bonds amount to euro 34,894 million at September 30, 2005 (euro 30,948 million at December 31, 2004). The nominal value of these bonds, instead, is equal to euro 34,280 million, with an increase of euro 4,103 million compared to December 31, 2004 (euro 30,177 million). A breakdown of these bonds by issuer is as follows: Telecom Italia S.p.A. for euro 8,806 million, Telecom Italia Finance S.A. for euro 16,470 million, Telecom Italia Capital S.A. for euro 8,304 million and TI Securitisation Vehicle S.r.l. for euro 700 million.

Convertible and exchangeable bonds amount to euro 3,162 million (euro 5,106 million at December 31, 2004), of which euro 475 million is convertible, issued by Telecom Italia S.p.A. The nominal value of these bonds, instead, is euro 3,319 million, with a reduction of euro 2,620 million compared to December 31, 2004 (euro 5,939 million). A breakdown of these bonds by issuer is as follows: Telecom Italia S.p.A. for euro 600 million and Telecom Italia Finance S.A. for euro 2,719 million.

The following table shows the maturities of non-current financial liabilities in terms of the expected nominal repayable amount as contractually defined. Therefore, no account is taken, subsequent to the introduction of IAS/IFRS, either of their financial valuation or the effect of their treatment under hedge accounting with a derivative or the valuation of the derivatives in the strict sense. The only exception is in the case of the repurchase of own bonds which, in conformity with the standards, have been deducted from the nominal debt and thus the maturities take into account this reclassification.
The average maturity of this debt is 7.4 years.

Maturities of gross financial debt (millions of euro)	Medium/long-term		
	Bonds	Loans and other debt	Total
by September 2006	7,036	594	7,630
by September 2007	3,500	565	4,065
by September 2008	2,750	953	3,703
by September 2009	4,690	322	5,012
by September 2010	1,638	3,159	4,797
beyond September 2010	17,985	8,309	26,294
Total	**37,599**	**13,902**	**51,501**

Moreover, it should be pointed out that, at September 30, 2005, credit lines not be drawn down and expiring in March 2007 amount to euro 6,500 million, which are reduced to euro 5 billion at October 20, 2005.

Available resources and securities in current assets at September 30, 2005, without considering derivatives, accrued income and other financial receivables amount to euro 9,961 million (euro 9,494 million at December 31, 2004).

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

- Maturities: maximum maturity of two months;
- Counterpart risk: Deposits made with primary banking and financial institutions with a high credit rating of at least A.
- Country risk. Deposits mainly made on the London market.

Securities other than equity investments mainly refer to Euro Commercial Paper (euro 329 million), of which euro 229 million has a maturity of one month and euro 100 million a maturity date by the end of November 30, 2005. The issuers all have AAA, AA and A ratings and headquarters in Europe.

The financial structure will allow the Group to meet its maturities, particularly in reference to:

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

(millions of euro)	Bonds	Loans and other debt	Total
by September 2006	7,036	594	7,630
by March 2007	1,750	141	1,891
TOTAL	8,786	735	9,521
Financed by: Available resources and securities in current assets at September 30, 2005			9,961

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES			
Net income from continuing operations	2,514	2,379	2,952
Adjustments to reconcile net income from continuing operations with cash flows generated (absorbed) by operating activities:			
Depreciation and amortization	3,806	3,497	4,808
Impairment losses/reversals on non-current assets (including equity investments)	(14)	291	446
Net change in deferred tax assets and liabilities	481	(329)	865
Gains/losses on disposal of non-current assets	(85)	(26)	(106)
Share of earnings (losses) of equity investments in associates accounted for by the equity method	40	(22)	5
Net change in current trade and miscellaneous receivables/payables and other changes (I)	(804)	1,348	1,508
CASH FLOWS GENERATED (ABSORBED) BY OPERATING ACTIVITIES (A)	**5,938**	**7,138**	**10,478**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES			
Investments in tangible assets	(2,226)	(1,900)	(3,120)
Investments in intangible assets	(976)	(1,102)	(1,882)
Investments in other non-current assets	(14,370)	(516)	(871)
Acquisition of equity investments in subsidiaries, net of cash acquired	(261)	-	(1)
Change in financial receivables and other financial assets	(211)	921	304
Consideration collected on the sale of equity investments in subsidiaries, net of cash sold (II)	2,028	43	43
Consideration collected on the sale of tangible, intangible and other non-current assets (II)	322	287	452
CASH FLOWS GENERATED (ABSORBED) BY INVESTING ACTIVITIES (B)	**(15,694)**	**(2,267)**	**(5,075)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES			
Net change in financial liabilities	12,740	(3,832)	1,353
Consideration collected for equity instruments	100	14	193
Share capital increases/repurchases net of start-up and expansion costs	-	-	51
Dividends paid to minority shareholders (distribution of reserves included)	(2,328)	(2,780)	(2,780)
CASH FLOWS GENERATED (ABSORBED) BY FINANCING ACTIVITIES (C)	**10,512**	**(6,598)**	**(1,183)**
CASH FLOWS GENERATED (ABSORBED) BY ASSETS HELD FOR SALE (D)	**37**	**(95)**	**(388)**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**793**	**(1,822)**	**3,832**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (F)	**8,339**	**4,477**	**4,477**
Net effect of foreign currency translation on cash (G)	142	-	30
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD (H=E+F+G)	**9,274**	**2,655**	**8,339**

(in millions of euro)			
ADDITIONAL CASH FLOW INFORMATION:			
Income tax paid	281	587	1,476
Interest paid	2,380	2,366	2,779
RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS			
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**8,339**	**4,477**	**4,477**
Cash and cash equivalents	8,418	4,781	4,781
Bank overdrafts repayable on demand	(237)	(510)	(510)
Relating to assets held for sale	158	206	206
NET CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**9,274**	**2,655**	**8,339**
Cash and cash equivalents	9,532	2,877	8,418
Bank overdrafts repayable on demand	(287)	(398)	(237)
Relating to assets held for sale	29	176	158

(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

BUSINESS OUTLOOK

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

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS / CENTRAL FUNCTIONS

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

(millions of euro)		Wireline (1)(2)	Mobile	Media (1)	Olivetti (4)	Other activities (2) (3)	*Adjustments and eliminations*	**Total Group**
Revenues	9 months to 9/30/2005	13,176	9,485	121	310	1,220	(2,354)	**21,958**
	9 months to 9/30/2004	12,839	8,610	118	426	1,247	(2,432)	**20,808**
	Year 2004	17,431	11,712	168	590	1,635	(3,244)	**28,292**
EBITDA	9 months to 9/30/2005	5,881	4,212	(71)	(9)	(302)	(7)	**9,704**
	9 months to 9/30/2004	5,800	4,009	(46)	17	(203)	(7)	**9,570**
	Year 2004	7,809	5,421	(64)	28	(335)	5	**12,864**
EBIT	9 months to 9/30/2005	3,689	2,853	(96)	(21)	(583)	46	**5,888**
	9 months to 9/30/2004	3,655	2,890	(64)	7	(456)	(269)	**5,763**
	Year 2004	4,756	3,850	(93)	17	(715)	(212)	**7,603**
Industrial investments	9 months to 9/30/2005	1,945	1,046	32	13	170	(4)	**3,202**
	9 months to 9/30/2004	1,572	1,165	24	10	255	(24)	**3,002**
	Year 2004	2,267	2,288	39	15	393	-	**5,002**
Employees (5) (number at period-end)	9/30/2005	54,294	18,904	874	1,797	5,909	-	**81,778**
	9/30/2004	54,396	17,240	1,055	2,121	6,692	-	**81,504**
	12/31/2004	53,428	17,400	1,033	2,108	6,001	-	**79,970**

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

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

(millions of euro)		Discontinued Operations/assets held for sale				*Other, adjustments and eliminations (3)*	**Total**
		Mobile (1)	Media (2)	Entel Chile Group	IT Market		
Revenues	9 months to 9/30/2005	632	94	238	289	(49)	1,204
	9 months to 9/30/2004	883	95	688	507	(105)	2,068
	Year 2004	1,177	127	925	706	(142)	2,793
EBITDA	9 months to 9/30/2005	161	7	77	7	(34)	218
	9 months to 9/30/2004	245	7	196	28	-	476
	Year 2004	325	8	274	45	-	652
EBIT (2)	9 months to 9/30/2005	51	4	36	(3)	513	601
	9 months to 9/30/2004	94	4	61	11	-	170
	Year 2004	125	4	96	21	(202)	44
Net income (loss) from discontinued operations / assets held for sale	9 months to 9/30/2005	19	1	26	(11)	507	542
	9 months to 9/30/2004	20	1	23	(8)	-	36
	Year 2004	58	1	49	(7)	(219)	(118)
Industrial investments	9 months to 9/30/2005	60	2	27	5	-	94
	9 months to 9/30/2004	113	1	86	20	-	220
	Year 2004	200	2	141	28	-	371
Net financial debt	9/30/2005	104	18	-	-	-	122
	9/30/2004	437	24	406	30	-	897
	12/31/2004	411	24	377	(14)	-	798
Employees at period-end	9/30/2005	859	186	-	-	-	1,045
	9/30/2004	2,862	214	4,217	4,023	-	11,316
	12/31/2004	2,961	195	4,216	4,030	-	11,402

(1) Tim Hellas, Tim Perù and Digitel Venezuela.

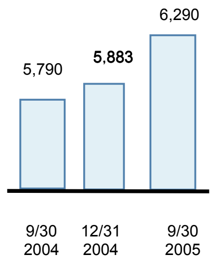
(2) Buffetti group.

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

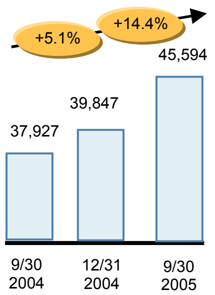
- Nine months to 9/30/2005: the gain on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges) and Tim Perù (euro 120 million, net of the relative incidental charges), as well as losses and incidental expenses relating to the sale of the Entel Chile group and the Finsiel group for a total of euro 17 million;
- Year 2004: adjustment to the estimated sales price of the Entel Chile group (-euro 177 million) and the Finsiel group (-euro 28 million).

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat-rate plans
(thousands)



Total Tim group lines
(thousands)



	9/30/2005	12/31/2004	9/30/2004
WIRELINE			
Fixed network connections in Italy (thousands)	25,407	25,957	26,156
- of which ISDN	5,589	5,805	5,883
Voice flat-rate plans (thousands)	6,290	5,883	5,790
Broadband access (thousands)	5,943	4,430	3,655
- domestic (thousands)	4,873	4,010	3,300
- European (thousands)	1,070	420	355
Virgilio page views (millions)	6,948	7,902	5,719
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)	27,254	26,259	26,203
Tim group foreign lines (at period-end, thousands) (1)	18,340	13,588	11,724
Tim group lines total (Italy + foreign in thousands) (1)	45,594	39,847	37,927
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	97.9	97.9
MEDIA			
La 7 audience share (average)	2.6	2.4	2.3
La 7 audience share (month of September)	2.7	2.6	2.5

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

ACQUISITIONS AND DIVESTITURES OF EQUITY INVESTMENTS

The main acquisitions and divestitures involving equity investments during the third quarter of 2005 are presented in the following paragraphs.

ACQUISITIONS

PRIVATIZATION OF TURK TELEKOM

On July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom.

The bid was won for USD 6,550 million by Oger Telecom, a newly-formed joint venture controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through Tim International – will make an initial investment of USD 200 million. The partnership between Telecom Italia and Saudi Oger Limited will focus on mobile telecommunications in that Oger Telecom will continue its collaboration in land-line telecommunications with BT Telconsult.

After closing the privatization, Telecom Italia and Oger Telecom will seal a four-year agreement for technical assistance with Avea, the Turkish mobile operator in which stakes are held by Tim International (40.5647%), Turk Telekom (40.5647%), and the Is Bank group (18.8706%). The agreements with Saudi Oger Limited also provide that the investment in Avea, held by Tim International, may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom.

The total valuation of Avea shares held by Tim International initially agreed in a range of between USD 400 million and USD 600 million has now been fixed at USD 500 million.

Oger Telecom is expected to be listed on the Dubai DIFX stock exchange within the next three years with the possibility of Tim International participating proportionally in the initial placement. Should the listing not take place within the agreed timeframe, Tim International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares that come from the sale of the current investment in Avea, in addition to the Oger Telecom shares initially subscribed by Tim International for USD 50 million. If the put option is not exercised, the counterpart may exercise a call option on the same shares.

Tim International's investment in Oger Telecom signifies the start of collaboration with the Saudi Oger group on further future initiatives in the telecommunications field.

MED GROUP REORGANIZATION

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

ACQUISITION OF A FURTHER STAKE IN LIBERTY SURF GROUP S.A.

After finalizing the transaction for the purchase of the 94.89% investment held by Tiscali in Liberty Surf Group S.A., a leading internet service provider operating on the French market, Telecom Italia, in accordance with the requirements of the law, launched a takeover bid between July 21, 2005 and August 8, 2005 for the remaining capital of Liberty Surf Group S.A. at a price of euro 2.78 per share. At the end that period, 2,920,719 shares were

acquired for an outlay of euro 8,120 thousand. After this transaction, Telecom Italia came to hold 92,242,963 shares representing 97.99% of share capital. In September 2005, Telecom Italia launched a further takeover bid for all the shares of Liberty Surf Group S.A. that were not yet owned directly and not held by Liberty Surf Group S.A., again for a price of euro 2.78 per share. It acquired 243,225 shares, representing 0.26% of share capital for euro 676 thousand.
This transaction was followed by a squeeze-out, as provided by French law, for the remaining 1,588,126 Liberty Surf Group S.A. shares at euro 2.78 per share, representing 1.68% of share capital, for which a deposit of euro 4,415 thousand was made at BNP Paribas.
After these transactions, Telecom Italia is in possession of 94,074,314 Liberty Surf Group S.A. shares equal to 99.93% of share capital. Liberty Surf Group S.A. holds treasury stock for the remaining 0.07% of capital.

ACQUISITION OF LUNA ROSSA CHALLENGE 2007 AND LUNA ROSSA TRADEMARK

On July 27, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Challenge 2007, a Spanish-registered company, by subscribing to a share capital increase reserved for Telecom Italia for an amount of euro 1,960 thousand.
On July 28, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Trademark S.a.r.l., a Luxembourg-registered company, from Prada S.A. for euro 10,000 thousand.

AGREEMENT WITH TISCALI FOR THE PURCHASE OF TINet SAS

On August 2, 2005, Telecom Italia Sparkle sealed an agreement with Tiscali to purchase Tiscali's fiber optic network owned by "Tiscali International Network SAS" (TINet SAS), for an equivalent amount of euro 8 million. Tiscali International Network SAS owns 15,000 km of optic fiber which cross 12 European countries. The deal, which was approved by the antitrust authority, does not include the sale of the IP and Voice over IP international and national networks which, instead, are controlled by Tiscali International Network B.V.

DIVESTITURES

AGREEMENT FOR THE SALE OF ENTEL BOLIVIA

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

The signing of the contract between ICH and Cotas is subject to the execution of certain suspensive conditions including a significant reimbursement of capital by Entel Bolivia which has already been approved by the Extraordinary Shareholders' Meeting of the operator on September 20, 2005 for BOB 3,202,247,000 (ETI's share is BOB 1,601,123,500). The procedure for the reimbursement of capital was recently finalized and, on October 28, 2005, ETI received its share of the capital reimbursement equal to USD 198.2 million or euro 162.9 million.

SALE OF TIM PERU'

On August 10, 2005, Tim International N.V. sold the entire investment in Tim Perù S.A.C. to Sercotel S.A. de C.V., a company controlled 100% by America Movil S.A. de C.V. The gain on consolidation for Telecom Italia is euro 120 million and the improvement in net financial debt is more than euro 400 million. The sale of Tim Perù falls under the strategy to rationalize the international investment portfolio in order to focus the Group's presence in countries with a higher rate of growth and where it is possible to develop integration between the fixed and mobile platforms.

AGREEMENT FOR THE SALE OF THE BUFFETTI GROUP

On September 26, 2005, Telecom Italia Media signed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of its 100% stake held in Gruppo Buffetti S.p.A. The sale is based upon an enterprise value of the company equal to euro 77.5 million. The execution of the sale, scheduled to take place by the end of 2005, is subject to completion of all the procedures with the relevant agencies of the sector.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2005

LA7 TELEVISIONI S.p.A. – TELECOM ITALIA MEDIA S.p.A. MERGER

On October 3, 2005, the Board of Directors of Telecom Italia Media S.p.A. voted to merge La7 Televisioni S.p.A. by incorporation in Telecom Italia Media S.p.A.; the transaction represents, after the sale of the Buffetti group, the conclusion of the plan for the reorganization of the operations of Telecom Italia Media. Following the merger, Telecom Italia Media will directly control the companies MTV Italia and Telecom Italia Media Broadcasting, now subsidiaries of La7.

The impact of the merger will become effective from the date of the last registration of the merger act, or from the successive date that will be indicated in the same act, which is expected to be signed in December 2005. For accounting purposes, La7's transactions will be recorded in the financial statements of Telecom Italia Media as from January 1, 2006 and the merger will also be effective for tax purposes as from the same date.

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

On October 10, 2005, Telecom Italia Finance S.A. repurchased its own bonds for euro 9 million, under the original bond issue for euro 2,500 million, maturing March 15, 2006, exchangeable into Telecom Italia S.p.A. or Seat Pagine Gialle and Telecom Italia Media shares, interest at 1% and with a repayment premium. Following these last repurchases, the residual nominal debt is equal to euro 1,755 million (euro 2,065.5 million with a repayment premium).

On October 11, 2005, Telecom Italia Finance S.A. repurchased its own bonds for about euro 4 million, under the bond issue for euro 3,000 million, maturing April 20, 2006, interest at 6.375%. Following these last repurchases, the residual nominal debt is equal to euro 2,568 million.

On October 26, 2005, Telecom Italia Finance S.A. repurchased its own bonds for about euro 6 million, under the bond issue for euro 1,750 million, maturing January 24, 2008, interest at 5.875%. Following these last repurchases, the residual nominal debt is equal to about euro 1,744 million.

TELECOM ITALIA CAPITAL S.A. EXCHANGE NOTES 2004 (USD 3,500 MILLION)

On October 13, 2005, Telecom Italia Capital S.A. announced that it had executed the offer for the exchange, concluded on September 30, 2005, of the Guaranteed Senior Notes ("GSN") already outstanding and not registered under the US Securities Act of 1933 (so-called Initial Notes) with registered securities having entirely the same features (so-called Exchange Notes).

In detail, the exchange offer referred to the placement of USD notes on October 6, 2004 for a total amount of USD 3,500 million and the amount effectively exchanged at the closing of the offer was equal to a nominal amount of USD 3,498,520,000 (equal to about 99.96% of the equivalent amount), referring to:

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

TERM LOAN FOR TIM TENDER OFFER

On October 20, 2005, euro 1.5 billion of the revolving loan for euro 6 billion maturing in 2012 was repaid and the amount that remains utilized is euro 4.5 million. As a result of this repayment – made with a part of the liquidity accumulated during the course of the year – commitments were cancelled for euro 1.5 million on the unutilized portion of the loan of euro 6.5 billion maturing in 2007, as a result of which the total amount available is now reduced to euro 5 billion.

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 September 30, 2005 are presented in the following table. Statement of income data and investments are also compared to the first nine months of 2004 while the balance sheet data is compared to December 31, 2004.
The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and associates.

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004	
Revenues	235	205	These mainly refer to Teleleasing, euro 146 million (euro 96 million in the first nine months of 2004), LI.SIT, euro 50 million (euro 56 million in the first nine months of 2004), Shared Service Center, euro 16 million (euro 22 million in the first nine months of 2004), Telecom Argentina, euro 9 million (euro 7 million in the first nine months of 2004), Golden Lines, euro 3 million (euro 7 million in the first nine months of 2004), Etec SA Cuba, euro 6 million (euro 7 million in the first nine months of 2004), Avea, euro 2 million (euro 1 million in the first nine months of 2004) and Nordcom, euro 1 million.
Other income	3	4	This mainly refers to cost recoveries for personnel on loan to certain subsidiaries and associates
Purchases of materials and external services	214	336	These refer mainly to costs for rent from Tiglio I, euro 9 million (euro 72 million in the first nine months of 2004), Tiglio II, euro 12 million (euro 26 million in the first nine months of 2004) and Telegono, euro 1 million (euro 1 million in the first nine months of 2004) for TLC services from Etec SA Cuba, euro 84 million (euro 92 million in the first nine months of 2004), Telecom Argentina, euro 4 million (euro 4 million in the first nine months of 2004), Avea, euro 3 million (euro 1 million in the first nine months of 2004), for maintenance and assistance contracts from Shared Service Center, euro 24 million (euro 77 million in the first nine months of 2004), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica, euro 37 million (euro 40 million in the first nine months of 2004), for TLC equipment from Teleleasing, euro 16 million (euro 9 million in the first nine months of 2004), sponsorship costs from Luna Rossa Challenge, euro 15 million and costs for accessories and consumables stores from Baltea, euro 2 million (euro 3 million in the first nine months of 2004) and costs for technological services supporting health sector from Telbios, euro 2 million).
Financial income	2	4	This includes accrued interest income on loans made to associates.
Financial expenses	24	49	These refer to interest expenses from Teleleasing, euro 17 million (euro 15 million in the first nine months of 2004) for finance leases and interest expenses from Tiglio I, euro 4 million (euro 25 million in the first nine months of 2004) and Tiglio II, euro 3 million (euro 8 million in the first nine months of 2004) for sale and leaseback transactions.
Investments in tangible and intangible assets	101	36	These refer to acquisitions of computer projects from Shared Service Center euro 59 million (euro 11 million in the first nine months of 2004), Siemens Informatica, euro 41 million (euro 24 million in the first nine months of 2004) and Value Team, euro 1 million.

(millions of euro)	9/30/2005	12/31/2004	
Securities and non-current financial receivables	24	28	These refer mainly to medium/long term loans made to Aree Urbane, euro 21 million (euro 20 million at December 31, 2004) and Tiglio II euro 3 million (euro 3 million at December 31, 2004).
Trade receivables, miscellaneous receivables and other current assets	147	190	These refer mainly to receivables from LI.SIT, euro 73 million (euro 79 million at December 31, 2004), Teleleasing, euro 49 million (euro 67 million at December 31, 2004), Shared Service Center, euro 4 million (euro 7 million at December 31, 2004), Telecom Argentina, euro 6 million (euro 8 million at December 31, 2004), Avea, euro 5 million (euro 3 million at December 31, 2004), Etec SA Cuba, euro 1 million (euro 2 million at December 31, 2004), Nordcom, euro 1 million and Tiglio I, euro 1 million (euro 9 million at December 31, 2004).
Financial receivables and other current financial assets	0	32	The reduction from December 31, 2004 is due to the repayment of the loans made to Avea and Telegono.
Cash and cash equivalents	1	1	These refer to current accounts with associates.
Non-current financial liabilities	285	604	These refer to financial payables for finance leases to Teleleasing euro 184 million (euro 160 million at December 31, 2004) for sale and leaseback transactions to Tiglio I euro 56 million (euro 329 million at December 31, 2004) and Tiglio II euro 45 million (euro 112 million at December 31, 2004)
Current financial liabilities	138	133	These refer to financial payables for finance leases to Teleleasing euro 134 million (euro 116 million at December 31, 2004) for sale and leaseback transactions to Tiglio I, euro 2 million (euro 11 million at December 31, 2004) and Tiglio II, euro 2 million (euro 4 million at December 31, 2004)
Trade payables, miscellaneous payables and other current liabilities	118	126	These mainly refer to payables for supply transactions connected with operations and investment activities to Siemens Informatica, euro 50 million (euro 61 million at December 31, 2004), Shared Service Center, euro 42 million (euro 34 million at December 31, 2004), Teleleasing, euro 6 million (euro 10 million at December 31, 2004), Etec SA Cuba, euro 3 million (euro 4 million at December 31, 2004), Tiglio I, euro 2 million (euro 2 million at December 31, 2004), Telbios, euro 2 million (euro 1 million at Dcember 31, 2004), Telecom Argentina, euro 1 million (euro 1 million at December 31, 2004) Baltea, euro 1 million (euro 1 million at December 31, 2004) and Avea, euro 1 million.

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 280 million (euro 658 million at December 31, 2004) of which euro 125 million is on behalf of Avea (euro 454 million at December 31, 2004), euro 54 million on behalf of Tiglio I (euro 56 million at December 31, 2004), euro 44 million on behalf of Aree Urbane (euro 45 million at December 31, 2004) and euro 30 million on behalf of Italtel Holding (euro 35 million at December 31, 2004).

In addition to transactions with associates, the following table presents the transactions with subsidiaries by associates. During the nine months, such transactions refer entirely to companies of the Italtel group, a related party through the investment in the parent company Italtel Holding.

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004	
Revenues	2	2	These refer to telephone services.
Purchases of materials and external services	13	13	These refer to costs for maintenance and assistance contracts.
Investments in tangible and intangible assets	220	198	These refer to the purchase of telephone exchanges.

(millions of euro)	9/30/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	1	2	These refer to telephone services.
Trade payables, miscellaneous payables and other current liabilities	45	150	These refer to supply contracts connected with operations and investment activities.

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through directors and key executives of the Company. Related party transactions in 2004 comprise those with the Banca Intesa group and the Unicredito group and refer to the first quarter of 2004 since the directors, through which the companies were considered related parties, ended their term of office on the date of the Shareholders' Meeting held on May 6, 2004.

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004	
Revenues	25	31	These refer to information system and computer services and energy services supplied to the Pirelli group, euro 3 million (euro 3 million in the first nine months of 2004), and telephone services supplied to the Pirelli group, euro 4 million (euro 3 million in the first nine months of 2004), to the Edizione Holding group, euro 3 million (euro 4 million in the first nine months of 2004), to the Unipol group, euro 13 million (euro 8 million in the first nine months of 2004), to the ST Microelectronics group, euro 1 million and to related companies through Mr. Moratti, euro 1 million (euro 2 million in the first nine months of 2004).
Purchases of materials and external services	85	82	These refer to R&D expenditures and matters regarding intellectual property rights from the Pirelli group, euro 56 million (euro 59 million in the first nine months of 2004), Document management services from Telepost, euro 15 million (euro 10 million in the first nine months of 2004), insurance services from the Unipol group, euro 8 million (euro 8 million in the first nine months of 2004), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti, euro 4 million (euro 3 million in the first nine months of 2004), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million (euro 2 million in the first nine months of 2004) and the purchase of electronic components from ST Microelectronics, euro 1 million.
Investments in tangible and intangible assets	46	12	These mainly refer to purchases of modems, cables and ADSL equipment from the Pirelli group (euro 12 million in the first nine months of 2004, principally in respect of TLC cable purchases).

(millions of euro)	9/30/2005	12/31/2004	
Trade receivables, miscellaneous receivables and other current assets	10	10	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group, euro 5 million (euro 8 million at December 31, 2004), to the Unipol group, euro 4 million, and to the Edizione Holding group, euro 1 million (euro 2 million at December 31, 2004).
Trade payables, miscellaneous payables and other current liabilities	34	65	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 28 million (euro 49 million at December 31, 2004), costs for Document Management services from Telepost, euro 4 million (euro 3 million at December 31, 2004), insurance costs from the Unipol group (euro 11 million at December 31, 2004), the purchase of electronic components from ST Microelectronics, euro 1 million, commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million, and sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti (euro 2 million at December 31, 2004).

Description of the main contracts between the Telecom Italia Group and associates, subsidiaries of associates and related parties through directors and key executives

Transactions with:

012 Golden Lines Int. Ltd
Revenue related
With regard to transactions for international telecommunications services with other operators, the contracts refer to data transmission and voice services.

Avea I.H.A.S.
Revenue related
The transactions refer to international telecommunications services, particularly roaming by Avea customers on the TIM Italia network, technical assistance services and the recovery of costs for TIM Italia staff on loan to Avea.
Expense related
The transactions refer to interconnection fees relating to the roaming traffic of TIM Italia customers on the Avea network.

Baltea S.p.A
Expense related
The transactions refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

Etec S.A.
Revenue related
The transactions refer to international telecommunications services, particularly voice and data transmission traffic terminating in Italy and Telecom Italia Sparkle in transit traffic and TIM Italia roaming.
Expense related
The contracts refer to the delivery of incoming international traffic to Cuba, prepaid by Telecom Italia Sparkle and Intelcom San Marino.

LI.SIT S.p.A.
Revenue related
The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007
Expense related
The contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race.

Nordcom S.p.A.
Revenue related
The transactions refer to the supply of data network connections and software applications.

Shared Service Center Scarl
Revenue related
The contracts provide for the supply of telephone and data transmission services as well as the operation of the client's software applications at the Telecom Italia data center.
Expense related
The contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.
Expense related
The contracts provide for the supply of software services to Group companies, as well as specific services, such as: applications management services for the Wireline BU, support services for the operation of Telecom Italia OSS systems, the supply of CDN infrastructure in the Network environment (services and products), as well as support services for the computer technology distributed and applications software development and technical services for TIM Italia.

Telecom Argentina group
Revenue related
The contracts refer to technical assistance provided by Telecom Italia for broadband development and technical assistance provided by TIM Italia for the study and implementation of Value Added Services, as well as data transmission and voice services.
Expense related
Transactions relate to international telecommunications services.

Teleleasing S.p.A.
Revenue related
The transactions mainly arise from the application of the commercial cooperation agreement signed in 2000 between Telecom Italia and Teleleasing S.p.A., a company in the Mediobanca group. By virtue of this agreement, Telecom Italia offers customers the possibility of leasing telecommunications equipment. Teleleasing purchases the equipment from Telecom Italia and signs the leasing contract with the customer; Telecom Italia sees to the collection of the lease payments after having acquired the rights.
Expense related
The contracts refer both to the lease of instrumental goods to Telecom Italia and its subsidiaries and the financial lease of a building.

Tiglio I S.r.l.
Expense related
The contracts refer to:
- the lease of buildings, premises also housing telecommunications equipment, with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia, for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Expense related
The contracts refer to:
- the lease of buildings, premises also housing telecommunications equipment, with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Telegono
Expense related
This refers to one contract for the lease of a building solely for office use, for standard lease periods.

* * *

Telbios
Expense related
The contracts provide for the supply of technological services, products and hardware and software systems for health sector.

Italtel group
Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Edizione Holding group
Revenue related
The contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.
Expense related
The contract refers to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards.

F.C. Internazionale Milano S.p.A.
Expense related
The contracts refer to the sponsorship and to the rights of diffusing the sports events of the company F.C. Internazionale Milano by Telecom Italia and Tim.

Pirelli & C. S.p.A.
Revenue related
The contracts provide for the supply of telecommunications and computer and information services.
Expense related
The following contracts should be noted:

- consulting contract and services regarding patent rights
  In May 2002, a contract was signed with Pirelli under which services and consulting are rendered for:
  - identification of a patent rights policy, by defining strategies which cater to business objectives, consistent for the entire Telecom Italia Group;
  - determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar businesses of the competition;
  - assistance in negotiations over partnerships, licenses and cooperation contracts;
  - litigation and analyses of patents of the competition;
  - obtaining patents during each single stage of the process (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
  - control over costs by project and/or by business;
  - training of technicians;
  - insertion of patent data and relative reports using a database;
  - control over results reached;
  - patent research;
  - filing and classification of important documents regarding patents;
  - services and consulting regarding brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the group).
- contract regarding research and development
  The contract refers to technical cooperation between Telecom Italia and Pirelli in the areas of optical devices and advanced telecommunications networks.
  The contract provides:

- with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
  - ✓ simple and complex devices, competence of Pirelli;
  - ✓ networks and services, competence of Telecom Italia;
  - ✓ subsystems, joint competence of Telecom Italia – Pirelli.
- with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
  - ✓ Pirelli grants Telecom Italia an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area;
  - ✓ Telecom Italia grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices area".

  Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.

  Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, to Telecom Italia and to companies which it controls, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.
- <u>contracts for the supply of apparatus and cables</u>

  These contracts provide for the supply of user apparatus (Alice Gate) for network access and broadband services; the supply of apparatus installed in the exchange which allow the combined transmission of voice and data on the same duplex cable, as well as supplying cables.

<u>Pirelli & C. Real Estate S.p.A.</u>
Revenue related
The contracts provide for the supply of call center services, data transmission services and electrical energy.
Expense related
The contracts refer to project management (realization of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings).

<u>ST Microelectronics group</u>
Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The contracts provide for the supply of electronic components.

<u>Telepost S.p.A.</u>
Expense related
The contracts refer to the management of services connected with incoming and outgoing correspondence, outgoing correspondence generated on files with printing by a specialized center, management of the distribution of correspondence, management of the paper archives and management of all photocopy machines.

<u>Unipol group</u>
Revenue related
The contracts provide for the supply of telephone services that are operated by outsourcing with dedicated assistance and the sale of telecommunications equipment.
Expense related
The contracts refer to insurance policies for casualties (fire, liability and accidents) and life insurance.

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

WIRELINE

- Strong boost given for development of VAS and innovative terminals to lend stability to the core telephony market;
- growth of the broadband market in Italy and Europe (over 6.3 million of accesses at the end of October 2005).

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

Telecom Italia Wireline	National Subsidiaries	International Subsidiaries
Wireline TLC services: . Retail telephone . Internet . Data Business . VAS Phone and Data . National Wholesale	Loquendo S.p.A. Path.Net S.p.A. Telecontact Center S.p.A. Matrix S.p.A. Nuova Tin IT S.r.l. Web Fin S.p.A. ISM S.r.L.	BBNED Group Liberty Surf 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. - Telecom Italia San Marino S.p.A. (ex-Intelcom San Marino) - 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 - Latin American Nautilus Group - Telecom Italia Sparkle France S.A.S.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

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

- on July 21, 2005, Telecom Italia, in accordance with the requirements of the law, launched a takeover bid for the remaining outstanding capital of Liberty Surf Group S.A. The bid ended on August 8, 2005 (the results were published by the Autoritè des Marches Financiers - AMF on August 12, 2005) and led to the possession of 97.99% of share capital (98.06% when taking into account the treasury stock held by Liberty Surf Group S.A.) and 98.05% of the voting rights of Liberty Surf Group.
  Between September 12, and September 23, 2005, Telecom Italia launched a further takeover bid for all the shares of Liberty Surf Group S.A. that were not yet owned directly and not held by Liberty Surf Group S.A. which led to the possession of 98.24% of capital and 98.31% of the voting rights of that company.
  On September 26, 2005, under French law, the remaining shares were transferred to Telecom Italia by a squeeze out. A deposit for the price, equal to euro 4,415 thousand, was made at BNP Paribas. Accordingly, on the same date, Telecom Italia came to hold 99.93% of Liberty Surf Group S.A. capital. Liberty Surf Group S.A. holds treasury stock for the remaining 0.07%;
- on August 2, 2005, Telecom Italia Sparkle sealed an agreement with Tiscali to purchase Tiscali's fiber optic network owned by "Tiscali International Network SAS" (TINet SAS), for an equivalent amount of euro 8 million. Tiscali International Network SAS owns 15,000 km of optic fiber which cross 12 European countries. The deal, approved by the antitrust authorities, does not include the sale of the IP and Voice over IP international and national networks which, instead, are controlled by Tiscali International Network B.V.

ECONOMIC AND FINANCIAL DATA

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

(millions of euro)	3rd Quarter 2005 (a)	3rd Quarter 2004 (b) (1)	9 months to 9/30/2005 (c)	9 months to 9/30/2004 (d) (1)	Change % (a/b)	Change % (c/d)
Revenues	4,332	4,181	13,176	12,839	3.6	2.6
EBITDA	1,916	1,892	5,881	5,800	1.3	1.4
% of Revenues	*44.2%*	*45.3%*	*44.6%*	*45.2%*		
EBIT	1,161	1,149	3,689	3,655	1.0	0.9
% of Revenues	*26.8%*	*27.5%*	*28.0%*	*28.5%*		
Industrial investments	517	468	*1,945*	1,572	10.5	23.7
Employees at period-end (number) (2)			54,294	54,396		1.6

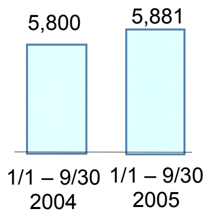
(1) The amounts include IT Telecom and Tin.it / Matrix.
(2) The change in the number of employees has been calculated in reference to the data at the end of 2004.

Revenues, totaling euro 13,176 million, show an increase of 2.6% (+euro 337 million) compared to the first nine months of 2004. On a comparable consolidation basis and excluding the foreign exchange effect, underlying growth is 2.3% (+euro 299 million).
Such improvement was achieved thanks to the success of efforts to expand the broadband market and increase innovative products and services together with action to protect the core telephone market in addition to a further rise in revenues under the European Broadband Project. Revenues by strategic business area are analyzed below:

Retail telephone

Revenues from the Telephone area, equal to euro 7,617 million, show a reduction of euro 277 million (-3.5%) compared to the first nine months of 2004. This area was marked by a falloff in traffic revenues due to the migration of volumes to the mobile network, partly due to competitive on-net rates, countered by the continuous growth of Value-added Services (VAS) and the rapid spread of innovative terminals (Aladino, Videotelefono and Cordless WI-FI) which, in the month of September 2005, reached a total of 3,165,000 units.

EBITDA



Retail Internet

Revenues from the Internet area, equal to euro 883 million, grew by 18.9% (+euro 140 million), compared to the first nine months of 2004. The increase is due to the growth of ADSL revenues (+euro 199 million; +46.3% compared to the first nine months of last year).
Wireline's portfolio of broadband customers in Italy at September 30, 2005 now totals 4,873,000 (+863,000 compared to the end of 2004). In October 2005, that number increased by another 300,000 customers.

Data Business

Revenues from the Data Business area, equal to euro 1,483 million, show a overall growth of 6.0% (+euro 84 million) compared to the first nine months of 2004. This increase is especially driven by the strong growth of VAS Data (Web Services and Outsourcing), which rose by euro 73 million (+27.0%) and innovative data transmission services, mainly using XDSL technologies, which are up by 14.3% (+euro 66 million).

European Broadband Project

Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 378 million, show a strong increase (+101.5% compared to the first nine months of 2004). The European Broadband Project was given a further boost in growth by the purchase of Liberty Surf Group in France on May 31, 2005. Wireline's overall portfolio of European broadband customers at September 30, 2005 is now 1,070,000 (+650,000 compared to the end of 2004), while total customers, including narrowband, number 1,566,000.

Wholesale

Revenues from wholesale services, equal to euro 2,603 million, grew by a total of euro 254 million (+10.8%), compared to the nine months ending September 2004. National wholesale services account for euro 82 million of the increase and international wholesale services for euro 172 million.
As regards national wholesale services, in particular, there was an increase in revenues from data services (+euro 63 million); for international wholesale services, a significant increase in transit revenues was recorded (+euro 120 million).

EBITDA, equal to euro 5,881 million, shows an increase of 1.4% (+euro 81 million) compared to the first nine months of 2004, bringing the percentage of EBITDA to revenues to 44.6% (45.2% for the nine months ending September 2004). Underlying growth, on a comparable consolidation basis and net of foreign exchange effects and exceptional items, is equal to 1.0% (+euro 60 million).

EBIT is euro 3,689 million and presents an increase of 0.9% (+euro 34 million) compared to the first nine months of 2004; this result is adversely affected by the increase in depreciation and amortization as a result of higher industrial investments made during this year and also last year. EBIT represents 28.0% of revenues (28.5% for the nine months ending September 30, 2004). Underlying growth, on a comparable consolidation basis, net of foreign exchange effects and exceptional items, is equal to 0.3% (+euro 12 million).

Industrial investments amount to euro 1,945 million and are euro 373 million (+23.7%), higher than in the same period of 2004. This increase is principally due to investments in innovative technologies and terminals and in the European Broadband Project.

The number of *employees*, 54,294, increased by 866 compared to December 31, 2004. The change is due to the hiring of 1,412 persons, of whom 904 are in Italy and 508 outside Italy, versus 1,144 terminations of employment (principally at Telecom Italia Wireline), infragroup transfers (-16) and the purchase of the company Liberty Surf Group (+614).

INFORMATION ON OPERATIONS

The following table shows the main operating highlights at September 30, 2005 compared to December 31, 2004 and September 30, 2004.

Operating highlights	9/30/2005	12/31/2004	9/30/2004
Fixed network connections (thousands)	25,407	25,957	26,156
- *of which ISDN*	*5,589*	*5,805*	*5,883*
Minutes of traffic on the fixed network (billions)	136.9	192.0	147.6
• national traffic	126.4	179.1	138.3
• international traffic	10.5	12.9	9.3
TP terminals using ISDN technology (thousands)	114.4	124.5	125.9
Internet users:			
- Dial-up users (Tin.it Free and Premium) (thousands)	1,048	1,291	1,343
- Broadband accesses (incl. European BB) (thousands)	5,943	4,430	3,655
Virgilio page views (millions)	6,948	7,902	5,719

A brief summary is provided below of the Business Unit's main activities, commercial initiatives and quantities and amounts in the third quarter of 2005, with reference to the different strategic areas of business and the domestic and international networks.

- RETAIL

The commercial initiatives undertaken during the third 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 markets (Alice Adsl and Smart Adsl packages), Data Business (Broadband and other Data services) and VAS markets are as follows:

Telephone	Pricing (rate plans)	Launch of new flat rate offers for the Consumer clientele, *Teleconomy Internet* for surfing using dial-up without limits and *Teleconomy No Problem* to make national fixed-fixed calls without limits. Offers for the Enterprise clientele have also been enriched with optional packages for international traffic.
	Products	Marketing began during the quarter for the rental of the *Videotelefono* and the two new MP3 models were launched as was the BIG corded telephone with large keys and an ample display and compatible with hearing aids.

Internet	Alice	The *Alice Flat* was launched during the period with a 640/256 Kb surfing profile and the sale of *PC di Alice* began to make it easier for Telecom Italia customers to become familiar with the internet and broadband.
	Alice Business	Two new options were added to *Alice Business: Alice business Voce*, the VOIP offer for SOHO (Small Office Home Office) which, using a flat rate, allows unlimited calls to be made to the fixed network, and *Alice Business Mobile*, which makes it possible to access broadband services also using a Tim mobile Windows palmheld device. The *video azienda* offer was also launched. This is a new Telecom Italia portal which allows SOHOs to obtain high visibility on internet using video sites and video catalogs.

IPTV		In July, experimentation of the IPTV (Internet Protocol TV) service began in which over a thousand families are participating and allows, using an ADSL connection, access to numerous video programs and content with high-quality images. The commercial launch of the services will cover 21 cities and more than 4 million families.

Virgilio Portal		During the quarter, the News channel was revamped and the Sport channel was upgraded with new sections such as replays of the goals in the Serie A Championship games. As regards the advertising offering, the *Video Spot* advertising format was launched. Finally, more emphasis was placed on the promotion of the *Rosso Alice* and *ADSL Alice* offerings. In the nine months of the year, there were 6,948 million Virgilio page-views, an increase of 21.5% compared to the same period of 2004.

Data Business	Lambda	Coverage of the *Lambda Wave Metropolitano* and *Long Distance* services was extended.
	Hyperway	New access profiles were introduced: *Hyperway Corporate Dial* and *Hyperway Remote Virtual Private Network* (VPN). Coverage on *Ethernity* was extended and the technologies of the apparatus at customers was updated.
	Datawan	Upgrades were carried out for the speed and the prices for *Advantage Database Server* (ADS) accesses with the *Ready Mega*, *Ready Fast Plus* and *Fastwy Mega* profiles.

Telephone VAS	Services	The "*Tutto 4 Star gratis con Aladino e Videotelefono*" promotion was extended. The promotion offers customers that use a cordless *Aladino* phone or a *Videotelefono* the possibility of having, free of charge for three months, the services included in the *Tutto 4 Star*.

ICT VAS	Desktop Management	Additions were made to the Desktop Management offering by introducing palm devices to adequately meet the needs of the Mobile Working phenomenon.
	LAN Management	Updates were made to the *LAN Management* offering with new LAN apparatus that provide a Governance Room for remote hardware and software assistance to the client.
	ICT Security Services	*The ICT Security* offering was expanded to include *Real Time Security Monitoring* services.
	Data Center Services	The new *Data Center Services* offering was launched which proposes housing, colocation, storage and backup services combined with full internet access and Virtual Private Network (VPN).

- NATIONAL WHOLESALE

  In the third quarter of 2005, the most significant quantitative variations of the national wholesale market are the following:

Local Loop Unbundling (LLU)	LLU Lines	The number of lines directly connected to the networks of other operators totals 70,000 in the third quarter, reaching 975,000 lines at September 30, 2005. The Shared Access lines with which the other operators provide ADSL access to Telecom Italia's telephone clientele that were activated during the quarter are 20,000, now numbering a total of about 100,000 at the end of September 2005.
Broadband access	XDSL	About 98,000 XDSL wholesale lines were acquired by other operators (both those with a license and Internet Service Providers) during the quarter, now numbering a total of about 825,000 at September 30, 2005.
Carrier-PreSelection	CPS Lines	The number of access lines configured in the quarter fell by 56,000 lines which, however, are more than compensated by the aforementioned number of LLU lines connected. At September 30, 2005, the number of access lines configured totals about 4,135,000 lines.

- INTERNATIONAL WHOLESALE

  In the third quarter of 2005, actions continued to support the growth and profitability of Voice traffic, particularly for the transit component by acquiring new customers, especially in areas such as Africa and the Middle East, and by continuous effects to achieve cost efficiencies based on the development of types of Voice Over IP transport.

  Specifically, 30 new interconnections were acquired, of which 11 in Voice Over IP – VOIP) and the volume of Voice over IP traffic volume was increased, with 346 million minutes delivered in the third quarter of 2005 (of which 100 million minutes were delivered through Telecom Italia San Marino S.p.A.) compared to 173 million minutes in the third quarter of 2004 (of which 84 million through Telecom Italia San Marino S.p.A.).

  The IP & Data Transmission market, in the first quarter of 2005, affirmed a substantial growth of the band sold against a trend of lower prices. This phenomenon contributed to an increase in revenues from innovative services of approximately 31% compared to the same period of 2004.

- DOMESTIC NETWORK

  In the third quarter of 2005, the main activities refer to the following:

National transmissive backbone (fiber optic evolution)	Two Marconi latest-generation high-capacity electronic frames have been installed, bringing the total restoration capabilities to 31 junctions, all located in the largest Italian cities. Work continued to strengthen the DWDM links already in operation, which have an overall capacity of more than 150 systems.
Metro Regional network for IP TV services	The Metro Regional network is currently being installed and consists of DSLAM IP apparatus, Feeder junctions and Metro junctions to cover the 21 cities in which the start-up of IP TV commercial services is expected to occur by the end of the year. These apparatus are linked to each other optically on regional rings and at the end of September 360 exchanges have been covered in the 21 cities.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity, Hyperway and Genius services using GBE access). In the third quarter of 2005, 112 new gates with GBE access were installed bringing the total number at September 30, 2005 to 1,514 accesses. The current GBE coverage has now been extended to 24 locations over the national territory with 2 new MAN GBE (Latina and Pisa) activated during the quarter.

ADSL Access	In the third quarter of 2005, 389 new exchanges were equipped with approximately 480 thousand additional lines. Overall, at September 30, 2005, the exchanges capable of supplying ADSL accesses numbered 4,417 and ADSL coverage of nationwide is equal to about 85.5% of the population in Italy.

- FOREIGN RETAIL NETWORKS

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

During the third quarter of 2005, in particular, efforts were started to integrate the customer portfolios of Telecom Italia France and Liberty Surf Group, acquired at the end of May 2005, and to work toward the integration and development of a common network. Moreover, in September, an integrated commercial package was launched for internet and voice broadband and work began to extend coverage of the LLU service, mainly in the Ile de France area, which calls for the opening of 100 new sites.

FRANCE	The main achievements by Telecom Italia France during the third quarter of 2005 – after the integration with Liberty Surf Group – refer to the launch of the new integrated Internet and Voice (VOIP) offer on ADSL accesses. Worthy of note are the following: • Wholesale ADSL customer activation with integrated voice offerings and speed of up to 10Mbit/s; • Full LLU and Shared Access ADSL customer activation with integrated voice offerings and speed of speed up to 20Mbit/s.

GERMANY	HanseNet's main achievements during the third quarter of 2005 refer to the completion of the extension of service from the Hamburg area to other areas of Germany, identified with the acronym of Germany Extension (GE). Worthy of note are the following: • Completion of the extension of the service in GE phase 2 to another 10 cities for a total of further 140 areas with LLU coverage. The total areas with LLU coverage at the end of September 2005 are 492; • Management of wholesale ADSL customers.

HOLLAND	BBNED's main achievements refer to the IMSS/MSEM platform that became operational for the direct management of voice services (Voice over IP). Worthy of note is the following: • Interconnecting tests carried out with KPN and other OLOs.

- INTERNATIONAL NETWORK

During the third quarter of 2005, work continued to develop and consolidate the IP backbone. In particular, to meet the growth of IP traffic volumes, the transmissive capacity of the transatlantic London-New York band was increased and a new platform for the detection and the mitigation of the IP traffic was introduced to support the development of new services aimed at any DDOS (Distributed Denial of Service) attacks.

As far as telephony is concerned, work was completed on the extension, scheduled for 2005, of the switching capacity of international telephone exchanges to support the increase in volumes and make it possible to create interconnections with new operators. In addition, new functional characteristics were released which extend the offering of voice and signaling services to mobile operators and the offering of services for multinational companies (VOIP Off-net and PC-to-Phone).

Finally, Telecom Italia Sparkle's commitment continued with regard to the consortium to create the new Sea-Me-We 4 submarine cable system which will connect the area of the Mediterranean to the Middle and Far East, scheduled to become operational in the last quarter of 2005.

MOBILE

- Growth of consolidated revenues driven by Brazil;
- One million UMTS handsets sold between the service's launch and September 2005.

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The structure of the Business Unit (below) has changed from that presented in the First-half report at June 30, 2005 due to the sale of Tim Perù, as described below.

MOBILE	
ITALY	BRAZIL
Tim Italia S.p.A. Telecom Italia domestic mobile segment	. Tim Brasil Group - Tim Participaçoes Group - Tim Celular S.A . - Maxitel S.A. - CRC – Centro de relacionamento com clientes Ltda . Blah! S.A.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the third quarter of 2005, the scope of consolidation changed as a result of the sale, on August 10, 2005, of the entire investment held by Tim International N.V. in Tim Perù S.A.C. to Sercotel S.A. de C.V. (a company controlled 100% by America Movil S.A. de C.V.).

Moreover, on July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Turk Telekom. The bid was won for USD 6,550 million by Oger Telecom, a newly-formed joint venture controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia – through Tim International – will make an initial investment of USD 200 million. The partnership between Telecom Italia and Saudi Oger Limited covers mobile telecommunications, while for land-line telecommunications Oger Telecom will continue its collaboration with BT Telconsult. After closing the deal, Telecom Italia and Oger Telecom will seal a four-year agreement for technical assistance with Avea, the Turkish mobile operator in which stakes are held by Tim International (40.5647%), Turk Telekom (40.5647%) and the Is Bank group (18.8706%). The agreements with Saudi Oger also provide that the investment in Avea, held by Tim International, may be transferred to Turk Telekom, with the proceeds from the sale partially reinvested in Oger Telecom shares, or the investment may be directly conferred to Oger Telecom. The total valuation of Avea shares held by Tim International initially agreed in a range of between USD 400 million and USD 600 million has now been fixed at USD 500 million.
Oger Telecom is expected to be listed on the Dubai stock exchange within the next three years with the possibility of Tim International participating proportionally in the initial placement. Should the listing not take place within the agreed timeframe, Tim International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares that come from the sale of the current investment in Avea, in addition to the Oger Telecom shares initially subscribed by Tim International for USD 50 million. If the put option is not exercised, the counterpart may exercise a call option on the same shares.

ECONOMIC AND FINANCIAL DATA

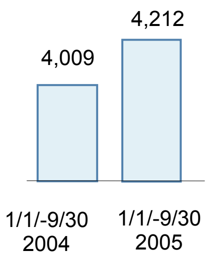
The following table shows the key results in the third quarter of 2005 and the first nine months of 2005, compared to the corresponding periods of 2004. The figures do not take into account the results of Digitel Venezuela, which is classified in discontinued operations/assets held for sale.

(millions of euro)	3rd Quarter 2005 (a)	3rd Quarter 2004 (b)	9 months to 9/30/2005 (c)	9 months to 9/30/2004 (d)	Change %	
					(a/b)	(c/d)
Revenues	3,335	3,030	9,485	8,610	10.1	10.2
EBITDA	1,412	1,427	4,212	4,009	(1.1)	5.1
% of Revenues	*42.3*	*47.1*	*44.4*	*46.6*		
EBIT	948	1,030	2,853	2,890	(8.0)	(1.3)
% of Revenues	*28.4*	*34.0*	*30.1*	*33.6*		
Industrial investments	450	565	1,046	1,165	(20.4)	(10.2)
Employees at period-end (number) (1)			18,904	17,240		8.6

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

Revenues in the first nine months of 2005 amount to euro 9,485 million, an increase of 10.2% compared to the same period of the prior year (euro 8,610 million). Revenues from the domestic business total euro 7,507 million (euro 7,364 million in the first nine months of 2004), with a 1.9% increase. Revenues of the Tim Brasil group stand at euro 1,985 million (euro 1,251 million in the corresponding period of 2004), with a growth of 58.7%.
Excluding the positive foreign exchange effect (euro 271 million), the underlying growth of revenues is equal to 6.8% (euro 604 million). Contributing to the underlying increase is the positive growth of operations of the Tim Brasil group (+euro 464 million, +37.1%) and confirmation of the good trend in the domestic market (+euro 143 million).
Revenues in the third quarter of 2005 amount to euro 3,335 million, up 10.1% compared to the corresponding period of 2004; underlying growth (+euro 151 million, +4.7%) particularly benefited from the revenues of the Brazilian operations.

EBITDA



EBITDA is equal to euro 4,212 million, an increase of euro 203 million compared to the first nine months of 2004 (+5.1%).
EBITDA as a percentage of revenues is 44.4% (46.6% in the corresponding nine months of 2004).
EBITDA of the domestic business is euro 3,942 million (euro 3,927 million in the first nine months of 2004), with an underlying growth of 0.4%. The Tim Brasil group reported EBITDA of euro 277 million (euro 92 million in the same period of the prior year), with an underlying growth of more than 200%.
At comparable exchange rates and net of exceptional items, overall underlying growth is equal to euro 154 million, with an increase of 3.8%. The Tim Brasil group particularly contributed to this growth (+euro 147 million).
EBITDA in the third quarter of 2005 is euro 1,412 million; the change from the third quarter of 2004, at comparable exchange rates and net of exceptional items, is a decrease of euro 53 million (-3.7%) of which -euro 84 million relates to the domestic business and +euro 31 million to the Brazilian operations.

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

- purchases of materials and external services total euro 4,503 million and show an increase of 13.3% compared to the first nine months of 2004 (euro 3,974 million). The percentage of such purchases to revenues is 47.5% (46.2% in the same period of the prior year);
- personnel costs, equal to euro 486 million, show an increase of euro 52 million compared to the

first nine months of 2004 (+12%); they include euro 4 million for non-employee staff (euro 7 million in the first nine months of 2004). The increase in personnel costs is principally the result of a higher average number of employees. The percentage of personnel costs to revenues is 5.1% (5% in the first nine months of 2004). Taking into account discontinued operations/assets held for sale, personnel costs amount to euro 530 million in the first nine months of 2005 (euro 495 million in the first nine months of 2004) and comprise euro 4 million for non-employee staff (euro 7 million in the corresponding period of the prior year).

The number of *employees* at September 30, 2005 is 19,763 (20,361 at December 31, 2004). The breakdown follows:

	9/30/2005 (a)	12/312004 (b)	Change (a – b)
Italy	10,350	10,424	(74)
Abroad	8,554	6,976	1,578
Total	18,904	17,400	1,504
Discontinued operations/Assets held for sale	859	2,961	(2,102)
Total employees	19,763	20,361	(598)

Compared to December 31, 2004, the total headcount shows an overall decrease of 598 persons, mainly as a consequence of the sale of Tim Hellas and Tim Perù. The decrease is partly compensated by a further increase in the number of employees of the Brazilian companies in order to satisfy the continuous expansion of operations;

- other operating expenses amount to euro 423 million (euro 283 million in the first nine months of 2004) and include sundry expenses (euro 323 million), which are mainly constituted by indirect taxes of the Brazilian subsidiaries, impairments and losses on receivables (euro 91 million) and other items (euro 9 million).

EBIT is euro 2,853 million compared to euro 2,890 million in the first nine months of 2004 (-1,3%).
EBIT as a percentage of revenues is 30.1% (33.6% in the corresponding period of 2004).

Excluding the foreign exchange effect (negative for euro 23 million) and exceptional items, the change in EBIT is a decrease of euro 25 million (-0.9%). Contributing to this performance are the domestic operations (-euro 60 million) and the Tim Brasil group (+euro 20 million).
EBIT in the third quarter of 2005 is euro 948 million; the change from the third quarter of 2004, at comparable exchange rates and net of exceptional items, is a decrease of -euro 94 million (-9.2%).

The operating result was more particularly impacted by:

- depreciation and amortization, equal to euro 1,351 million (euro 1,106 million in the first nine months of 2004). This is an increase of euro 245 million, due mainly to the Brazilian operations (+euro 187 million). Such change is due to continuous investments for the expansion of network infrastructures and to support operations.
  Depreciation and amortization charges as a percentage of revenues are 14.2% (12.8% in the first nine months of 2004);
- impairment losses/reversals on non-current assets show an expense balance of euro 9 million in the first nine months of 2005 (-euro 14 million in the first nine months of 2004).

Industrial investments total euro 1,046 million (euro 1,165 million in the first nine months of 2004). The variation in capex is a consequence of the synergies arising from the process of integration under way, which permits the continuing technological development of the networks at decreased costs.

The following table shows the main operating highlights in the first nine months of 2005 compared to those in the first nine months of 2004 and the year 2004, as well as the principal initiatives undertaken in the third quarter of 2005 by each sector:

Operating highlights	9/30/2005	12/31/2004	9/30/2004
Mobile lines in Italy (thousands)	27,254	26,259	26,203
Mobile lines abroad (thousands)	18,340	13,588	11,724
Mobile traffic (millions of minutes) in Italy	31,655	41,225	30,729
ARPU (euro/line/month) in Italy	28.7	29.0	29.0

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

Launch of "Tim MMS SuperStar"	The company launched a contest in July 2005 for all Tim customers to participate in an actual casting by sending photos and video taken with the cell phone via MMS. The winners of the three segments (fashion, movies and music) will have the opportunity of taking part in the cast of advertising campaigns, films or record their own musical CD.
World Youth Day	Tim was the technological partner for the XX World Youth Day by offering various types of services such as subscription to Infonews Chiesa Giovane, which made it possible to obtain every kind of information about the event.
Tim and the soccer league	Tim is the sponsor for the 2005-2206 Soccer Championships of the two top Serie for the eight consecutive year.
Launch of "Tim Tribù"	At the end of September, Tim launched an offer to prepaid customers that combines particularly appealing rates (1 eurocent per minute for calls and SMS in the tribe) with the opportunity of using a virtual space on the web and on the 10-mega Tim mobile portal where blogs can be created to communicate using cell phones.
Launch of TV on cell phones using terrestrial digital technology	In October 2005, Mediaset and Tim reached an agreement which lays the groundwork for the commercial launch of TV on cell phones using terrestrial digital DVBH (Digital Video Broadcast Handheld) technology in Italy, the first country in the world. Starting in 2006 and for five years, on Tim cell phones, it will be possible to view programs of the Mediaset TV networks, Serie A Tim games and Champions League games. The Mediaset-Tim agreement is not an exclusive agreement and the new digital platform will be open to all operators of the system. The services will be transmitted on dual-mode UMTS cell phones capable of using the new technology and will be available on the market beginning in 2006.

ITALY

The following table shows the key results of the third quarter of 2005 and those of the first nine months of 2005 of ex-Tim S.p.A. for transactions up to the date of the spin-off (March 1, 2005) and Tim Italia S.p.A. for the subsequent period. The periods under comparison refer to Tim S.p.A.

(millions of euro)	3rd Quarter 2005 (a)	3rd Quarter 2004 (b)	9 months to 9/30/2005 (c)	9 months to 9/30/2004 (d)	Change % (a/b)	Change % (c/d)
Revenues	2,577	2,576	7,507	7,364	ooo	1.9
EBITDA	1,306	1,375	3,942	3,927	(5.0)	0.4
% of Revenues	*50.7*	*53.4*	52.5	*53.3*		
EBIT	1,012	1,081	3,037	3,083	(6.4)	(1.5)
% of Revenues	*39,3*	*42,0*	40,5	*41,9*		
Industrial investments	244	318	581	705	(23.3)	(17.6)
Employees at period-end (number) (1)			10,350	10,372		(0.7)

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

Revenues in the first nine months of 2005 amount to euro 7,507 million, with an increase of 1.9% compared to the same period of 2004 (euro 7,364 million).
Contributing, in particular, to the increase in revenues are the strong growth in VAS (value-added services), equal to euro 1,079 million (+16.4% compared to the first nine months of 2004), thanks to the continuous innovation of services and the portfolio of plans and packages. The percentage of VAS revenues to total revenues is 14.4% (12.6% in the first nine months of 2004). Sales of the core business (voice services), equal to euro 5,983 million, were hurt by the negative impact of the new termination price list which came into effect; without considering this impact, revenues would basically be the same as in the corresponding period of 2004. A sharp increase, instead, is noted for sales of terminals, equal to euro 445 million (+26.8%), due to the success of the summer offers, especially on the 3G.
Revenues in the third quarter of 2005 amount to euro 2,577 million, in line with that of the same quarter of 2004.

EBITDA in the first nine months of 2005 is euro 3,942 million, a growth of euro 15 million (+0.4 %) compared to the corresponding period of the prior year. EBITDA as a percentage of revenues is 52.5% (53.3% in the first nine months of 2004). Net of exceptional items, EBITDA is equal to euro 3,925 million, aligned with the period under comparison. EBITDA in the third quarter of 2005 decreases by euro 69 million compared to the corresponding period of 2004 (-5%).

EBIT in the first nine months of 2005 is euro 3,037 million, a decrease of euro 46 million (-1.5%) compared to the same period of 2004. EBIT as a percentage of revenues is 40.5% (41.9% in the first nine months of 2004). Excluding exceptional items, EBIT is equal to euro 3,020 million, a decrease of euro 60 million compared to the same period of 2004 (-1.9%).
EBIT in the third quarter of 2005 is equal to euro 1,012 million, a decrease of 6.4% compared to the same quarter of 2004.
The margin reflects a significant increase in depreciation and amortization charges due to recent investments for the development of third-generation network infrastructures and to support the evolution of plans and packages for new services.

Industrial investments made during the period amount to euro 581 million (euro 705 million in the first nine months of 2004) and are concentrated on network infrastructures and software development.

BRAZIL

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

	3rd Quarter 2005 (millions of euro) (a)	3rd Quarter 2004 (millions of euro) (b)	9 months to 9/30/2005 (millions of euro) (c)	9 months to 9/30/2004 (millions of euro) (d)	3rd Quarter 2005 (millions of BRL) (e)	3rd Quarter 2004 (millions of BRL) (f)	9 months to 9/30/2005 (millions of BRL) (g)	9 months to 9/30/2004 (millions of BRL) (h)	Change %	
									(e/f)	(g/h)
Revenues	761	456	1,985	1,251	2,202	1,658	6,249	4,557	32.8	37.1
EBITDA	106	52	277	92	309	189	873	335	63.5	°°°
% of Revenues	*14.0*	*11.4*	*14.0*	*7.4*	*14.0*	*11.4*	*14.0*	*7.4*		
EBIT	(68)	(48)	(181)	(179)	(198)	(176)	(570)	(652)	(12.5)	12.6
% of Revenues	*(9.0)*	*(10.6)*	*(9.1)*	*(14.3)*	*(9.0)*	*(10.6)*	*(9.1)*	*(14.3)*		
Industrial investments	205	247	465	458	607	898	1,465	1,669	(32.4)	(12.2)
Employees at period-end (number) (1)							8,529	6,806		22.9

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

The Tim Brasil group, the sole operator to have nationwide coverage, is confirmed as the leader of the GSM market with 14.5 million lines at September 30, 2005 (+65.1% compared to December 31, 2004).

Total lines at September 30, 2005 are 18.3 million – of which more than 79% use GSM technology. This is an increase of 4.7 million lines since the beginning of the year (+35%) and 6.6 million compared to the first nine months of the prior year (+56.4%). The Tim Brasil group, with a market share of 22.9%, ranks second nationally in terms of the number of customers.

Consolidated *revenues* of the Tim Brasil group, equal to BRL 6,249 million, grew 37.1% compared to the same period of 2004. The increase is due to the growth of the customer base, the contribution made by value-added services, which rose from 2.9% of sales in the first nine months of 2004 to 4.9% in the first nine months of 2005) and revenues from voice traffic.

Consolidated revenues in the third quarter of 2005 total BRL 2,202 million, an increase of 32.8% compared to the third quarter of 2004.

Consolidated *EBITDA* in the first nine months of 2005, equal to BRL 873 million, grew by BRL 538 million compared to the first nine months of 2004. The 14% margin on sales was achieved despite the strong and persistent commercial drive to build up the customer base, confirming a positioning aimed at combining growth with an improvement in profitability. Consolidated EBITDA in the third quarter of 2005 is equal to BRL 309 million (+63.5%).

Consolidated *EBIT* in the first nine months of 2005, a negative BRL 570 million, shows an improvement of 12.6% compared to the first nine months of 2004 (-BRL 652 million). This result was achieved despite higher depreciation and amortization charges mainly as a result of investments made for the development of network infrastructures and information systems. Consolidated EBIT in the third quarter of 2005 is equal to -BRL 198 million (-BRL 176 million in the third quarter of 2004).

Industrial investments made during the period amount to BRL 1,465 million (BRL 1,669 million in the first nine months of 2004).

The number of *employees* grew by 1,590 compared to the end of December 2004, reflecting the growth of business.

OTHER AREAS

TURKEY

AVEA ILETISIM HIZMETLERI A.S.

Held by: Tim International N.V. 40.5647%

AVEA offers mobile telephone services using GSM technology on the Turkish territory and is the third most important mobile network covering 75% of the population.

At September 30, 2005, the number of customers exceeds 6.2 million, with an increase of more than 1.4 million lines compared to December 31, 2004; the market share is about 15%.

During the first nine months of the year, the company reinforced its image as a young and innovative company by beating its competitors to the launch of new services (infoservices and SMSs to land-line telephones) and in presenting competitive plans and advertising campaigns targeting the young market (Mobil Ogrenci).

MEDIA

- La7: 14% higher audience share, from 2.3% in the first nine months of 2004 to 2.6% in the first nine months of 2005
- MTV: consolidated and stronger positions in the Italian advertising market and confirmed leader in the young segment and, in terms of gross advertising on the domestic market, records a 12.7% increase compared to the first nine months of 2004

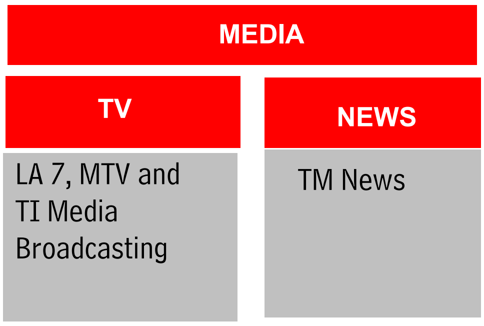
THE BUSINESS UNIT

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

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

THE STRUCTURE OF THE BUSINESS UNIT

The structure of the Business Unit has changed since the one presented in the First-half 2005 Report owing to the fact that the Buffetti group is considered a discontinued operation/asset held for sale following the agreement for its sale which is described below.



MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place:

- on September 26, 2005, Telecom Italia Media signed a contract with Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. for the sale of its 100% stake held in Gruppo Buffetti S.p.A. The sale is based upon an enterprise value of the company equal to euro 77.5 million. The execution of the sale, scheduled to take place by the end of 2005, is subject to completion of all the procedures with the relevant agencies of the sector.

- ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the third quarter of 2005 and in the first nine months of 2005, compared to the corresponding periods of 2004. The data shown assumes the transfer of the Internet business as of January 1, 2005. Moreover, as described above, following the cited contract signed on September 26, 2005, the income statement for the nine months to September 30, 2005 and the balance sheet as of the same date of the Office Business Unit (Buffetti group), are presented in discontinued operations / assets held for sale.

(millions of euro)	3rd Quarter 2005 (a)	3rd Quarter 2004 (b)	9 months to 9/30/2005 (c)	9 months to 9/30/2004 (d)	Change %	
					(a/b)	(c/d)
Revenues	38	33	121	118	15.2	2,5
EBITDA	(20)	(17)	(71)	(46)	(17.6)	(54.3)
% of Revenues	*(52.6)*	*(51.5)*	*(58.7)*	*(39.0)*		
EBIT	(29)	(24)	(96)	(64)	(20.8)	(50.0)
% of Revenues	*(76.3)*	*(72.7)*	*(79.3)*	*(54.2)*		
Industrial investments	10	11	32	24	(9.1)	33.3
Employees at period-end (number) (1)			874	1,055		(15.4)

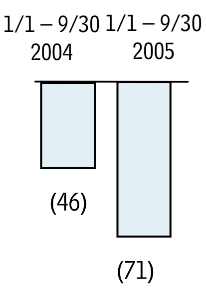
(1) The change in the number of employees has been calculated in reference to the data at the end of 2004

Revenues in the first nine months of 2005 amount to euro 121 million, with an increase of 2.5%, compared to euro 118 million in the first nine months of 2004. Excluding the negative effects due to the change in the scope of consolidation, underlying growth is 16.5% (euro 16 million).

The following is mentioned, in particular:

- *revenues* from the Television area show a growth of euro 22 million (+23.4%), from euro 94 million in the first nine months of 2004 to euro 116 million in the first nine months of 2005, confirming the reputation for editorial content in the programming of the two TV networks. In particular:
  - La7 Televisioni S.p.A. posted revenues of euro 59 million, an increase of 40.5% compared to the first nine months of 2004 (euro 42 million);
  - MTV, in the first nine months of 2005, reported revenues of euro 62 million, an increase of 12.7% compared to the same period of 2004 (euro 55 million);
- revenues of the News area for the first nine months of 2005 amount to euro 5 million, compared to euro 3 million in the first nine months of 2004, an increase of euro 2 million, equal to 66.7%.

EBITDA



Revenues in the third quarter of 2005 amount to euro 38 million, a growth of 15.2% compared to the corresponding period of the prior year (euro 33 million), an increase in the positive trend of growth already seen in the previous quarters. La7, in particular, posted a jump of more than 50% in the third quarter, including revenues from pay-per-view using digital terrestrial technology, while MTV reported about a 17% increase in revenues.

EBITDA in the first nine months of 2005 is a negative euro 71 million (-euro 46 million in the first nine months of 2004). Net of the effects due to the change in the scope of consolidation and exceptional items and excluding the net costs incurred for digital terrestrial experimentation, EBITDA in the first nine months of 2005 is equal to -euro 48 million (-euro 41 million in the first nine months of 2004).

This result reflects the EBITDA of the Television area which went from -euro 23 million in the first nine months of 2004 to -euro 49 million in the nine months ending September 30, 2005, mainly as a result of higher costs incurred during the first nine months in 2005 owing to the launch of digital terrestrial TV. Furthermore, operating income was affected by the higher costs for the "content" necessary to support the growth of the analog TV audience ("Invasioni Barbariche","Forza 7", etc.) and to augment the programs on the new digital channels (e.g. La7 Sport).

In the third quarter of 2005, *EBITDA* is equal to -euro 20 million, with a variation of -euro 3 million (-17.6%) compared to the third quarter of 2004. This is a significant improvement over the performance in the first and second quarters in which the change compared to the corresponding periods of 2004 was, respectively, -euro 10 million and -euro 12 million.

EBIT in the first nine months of 2005 is -euro 96 million, with a variation of -euro 32 million compared to the same period of 2004. This is due to the foregoing reduction of EBITDA and higher depreciation and amortization charges in the Television area. Net of the effects due to the change in the scope of consolidation and exceptional items, and excluding the costs incurred for digital terrestrial experimentation, the change decreases to -euro 12 million.

EBIT in the third quarter of 2005 is equal to -euro 29 million compared to -euro 24 million in the same period of 2004, with a variation of -euro 5 million (-20.8%). This is an improvement over the performance in the preceding quarters.

Industrial investments in the first nine months of 2005 total euro 32 million (euro 24 million in the first nine months of 2004). They mainly refer to investments in the Television area connected with digital terrestrial television, euro 10 million, and the acquisition of TV rights, euro 16 million.

The number of *employees* at September 30, 2005 is 1,060 (1,228 at December 31, 2004). A breakdown is as follows:

	9/30/2005 (a)	12/31/2004 (b)	Change (a – b)
Italy	874	1,020	(146)
Abroad		13	(13)
Total	874	1,033	(159)
Discontinued operations/Assets held for sale	186	195	(9)
Total employees	1,060	1,228	(168)

Compared to December 31, 2004, the total headcount shows a reduction of 168 persons. Of that number, 159 are due to the sale of Databank, 86 to Televoice, 169 are in part compensated by the hirings in the Television sector of 89 persons required for television production and the management of the new satellite channels and pay-per-view services.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2005

The following is mentioned:

- on October 3, 2005, the Board of Directors of Telecom Italia Media voted to merge La7 Televisioni S.p.A. by incorporation in Telecom Italia Media S.p.A. The impact of the merger will become effective from the date of the last registration of the merger act, or from the successive date that will be indicated in the same act, which is expected to be signed in December 2005. For accounting purposes, La7's transactions will be recorded in the financial statements of Telecom Italia Media as from January 1, 2006 and the merger will also be effective for tax purposes as from the same date.

- on October 18, 2005, Telecom Italia Media, in execution of the resolution passed by the shareholders' meeting on May 24, 2005, proceeded to cancel the treasury stock purchased on July 1, 2005. The composition of the share capital, subscribed to and fully paid-in, resulting from the bylaws filed and registered on the same date in the Companies Register is the following:

	Current share capital *			**Previous share capital**		
	Euro	No. of share	Par value per share	Euro	No. of share	Par value per share
Total of which	100,310,159.46	3,343,671,982	€ 0.03	111,371,683.71	3,712,389,457	€ 0.03
Ordinary shares (normal dividend rights: 1/1/2005) coupon number for presentation: 3	98,661,974.07	3,288,702,469	€ 0.03	109,539,366.63	3,651,312,221	€ 0.03
Non - convertible savings shares (normal dividend rights: 1/1/2005) coupon number for presentation: 5	1,649,085.39	54,969,513	€ 0.03	1,832,317.08	61,077,236	€ 0.03

(*) This change also includes the issue of 1,642,170 shares in connection with the exercise of stock options by the interested parties.

- after the agreements reached last April by La7 with Elefante TV S.p.A and Delta TV, and after having obtained the necessary authorizations, on October 28, 2005 and November 4, 2005, the corporate acts relating to the acquisition of the business segments of the two television broadcasters were finalized, respectively, for an outlay of euro 115.5 million and euro 12.0 million.
  Thanks to this deal, Telecom Italia Media took over, through its subsidiary, Telecom Italia Media Broadcasting S.r.l., the national concession of Elefante TV for private television broadcasting on terrestrial frequencies nationwide, also authorized to broadcast using digital technology, and extended its territorial coverage thanks to the subsequent purchase of the business segment, including the equipment and relative frequencies, of the Delta TV broadcaster operating in Central-South Italy.

  On the whole, the television broadcasting frequencies dealt with in these agreements signify the acquisition of coverage of about 70% of the population and will allow Telecom Italia Media to extend both its analog and digital TV broadcasting capabilities.

INFORMATION ON OPERATIONS

With the start of the 2005-2006 soccer championships, the " La7 Cartapiu" offer was renewed for digital terrestrial television broadcasting of the soccer games of the Tim Serie A teams (Bologna, Brescia, Cagliari, Chievo, Lecce, Fiorentina, Palermo, Parma, Reggina, Empoli and Ascoli). The service, launched on January 22, 2005, calls for the purchase of a rechargeable smart card and the sale of pay-per-view events, without the need of any subscriptions. To date, more than 777,000 cards have been distributed and about 160 hours of games have been broadcast. In the third quarter of 2005, the pay-per-view offering has been enhanced by about 15 art films at a cost of euro 4 each, important international boxing events and live music concerts, in addition to numerous interactive applications (such as "Guida TV", "Ultima Ora", "Vota Nazionale" and "Video Request", etc.).

In August, broadcasting of La7 Sport began. This is a free channel for the first time in digital terrestrial technology dedicated entirely to sports. The new sports information network is hosted by Aldo Biscardi, who is the director for sports at La7.

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

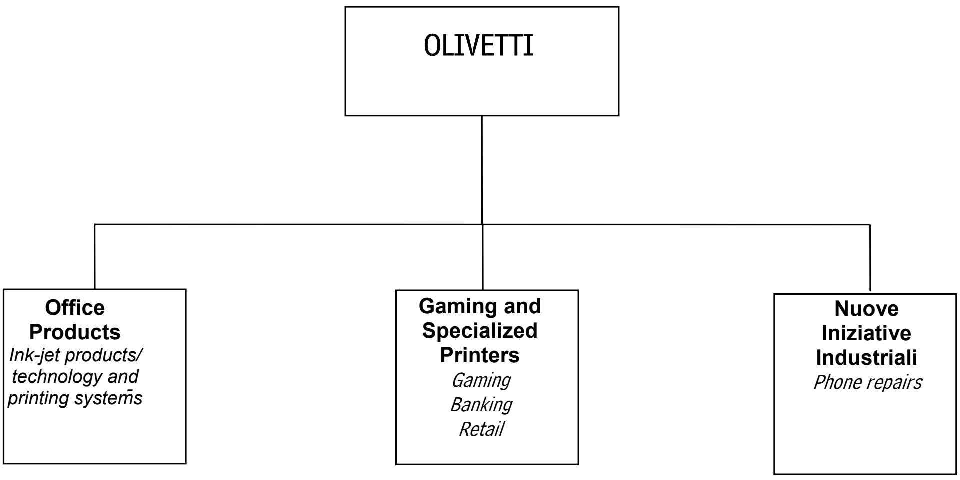
INTRODUCTION

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

THE STRUCTURE OF THE BUSINESS UNIT

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

and operates with the following organizational structure:



MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transaction took place:

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

- on August 29, 2005, the company Olivetti Chile S.A. was put into a wind-up.

ECONOMIC AND FINANCIAL DATA

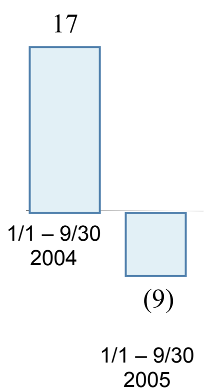
The following table shows the key results in the third quarter of 2005 and in the first nine months of 2005, compared to the corresponding periods of 2004.

(millions of euro)	3rd Quarter 2005 (a)	3rd Quarter 2004 (b)	9 months to 9/30/2005 (c)	9 months to 9/30/2004 (d)	Change %	
					(a/b)	(c/d)
Revenues	87	128	310	426	(32.0)	(27.2)
EBITDA	(11)	(3)	(9)	17	°	
% of Revenues						
EBITDA	(15)	(5)	(21)	7	°	
% of Revenues	*(17.2)*	*(3.9)*	*(6.8)*	*1.6*		
Industrial investments	5	2	13	10	°	30.0
Employees at period-end (number) (1)			1797	2121		(14.8)

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

Revenues in the nine months ending September 30, 2005 amount to euro 310 million, of which euro 189 million refers to the Office Products Division, euro 92 million to the Gaming & Specialized Printers Division, euro 26 million to the sale of intellectual property rights to Telecom Italia and euro 3 million to other activities.
Compared to September 30, 2004, revenues show a reduction of euro 116 million (-27.2%). Excluding the negative foreign exchange effect and the impact of the change in the scope of consolidation (with particular reference to the closing of operations in the U.S.A. and Mexico and the sale of Innovis S.p.A. and Cell-Tel S.p.A.) for a total of euro 64 million, the revenues from the sale of intellectual properties to Telecom Italia for euro 26 million and the revenues from the start-up activities relating to the new products of the Office Division for euro 1 million, the change is a reduction of euro 79 million (-20.4%).
In the third quarter of 2005, revenues amount to euro 87 million, with a decrease of euro 41 million compared to the third quarter of 2004.

EBITDA



EBITDA for the nine months ending September 30, 2005 is a negative euro 9 million. This is a higher loss of euro 26 million compared to the first nine months of 2004. Excluding the foreign exchange effect, the change in the scope of consolidation, the sale of intellectual properties to Telecom Italia, exceptional items and start-up costs referring to the development of new products (multifunctional desk-top printers and portable photo printers), the variation is a negative euro 21 million, basically because of lower revenues and margins of Gaming and Specialized Printers Division.

EBIT for the nine months ending September 30, 2005 is a negative euro 21 million and is a deterioration of euro 28 million compared to the first nine months of 2004. The underlying change is a negative euro 19 million, due to the above-mentioned decline in the margins of the Gaming and Specialized Printers Division.

Industrial investments amount to euro 13 million at September 30, 2005 and rose by euro 3 million compared to September 30, 2004.

At September 30, 2005, *employees* number 1,797, of whom 1,630 are employed in Italy and 167 outside Italy. The reduction of 311 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 SEPTEMBER 30, 2005

The following events took place:

- on October 7, 2005, a capital increase of Olivetti S.p.A. was voted and paid-in for euro 50 million;
- on October 7, 2005, the company Latina Giochi e Sistemi S.r.l. (25%-owned) was deconsolidated following Olivetti S.p.A.'s decision not take advantage of any option right to replenish the company's capital.

INFORMATION ON OPERATIONS

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

Office Products Division

In the third quarter of 2005, the *Office Products* Division developed activities for the mass-production of the new products using ink-jet technology.

The strong points of the new products (multifunctional desk-top printers and portable photo printers) are their design and user-friendly interfacing. The proposal of these new products marks Olivetti's entry into a sure-growth market and relaunches the brand in the major European countries.

Marketing began in August in the main mass-merchandising distribution channels. The launch was backed by an institutional communication plan in the national press.

Revenues in the third quarter of 2005 are lower than the same period of the prior year (euro 54 million compared to euro 67 million). The reasons for this are the measures designed to rationalize the product portfolio, the reduction in the average price and in the quantities of fax machines (compared to the prior year, in particular, sales to OEM customers were absent; they will begin again in the last quarter of 2005) and lower demand for fax accessories.

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

As regards the *Gaming & Service Automation* business, the following took place during the third quarter of 2005:

- invoicing of the Lottomatica Servizi order was completed; the order referred to 35,000 terminals for the operation and printing of revenue stamped paper;
- 5,600 gaming terminals were invoiced on the Lottomatica S.p.A. contract (34,000 gaming terminals, for a total amount of euro 63 million). The plans for the completion of the order by the end of the first half of 2006 are currently being updated with the customer.

Sales by this business in the third quarter of 2005 (euro 8 million) are about euro 6 million lower than the third quarter of 2004 (euro 14 million).

In the *Specialized Printers* business, sales in the third quarter of 2005 (euro 18 million) are about 9 million lower than the corresponding period of 2004. In the banking sector, there is a confirmation of the general reduction in performance seen in the previous quarters, in terms of both revenues and profitability.

In the third quarter of 2005, the division acquired an order for 2,500 PR6 retail printers.

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

Nuove Iniziative Industriali

During the third quarter of 2005, the company Wirelab (regeneration of telephone exchanges), with a work force of 45 employees, reported sales in line with that of the third quarter of 2004, with an improvement in the operating result.

OTHER ACTIVITIES

"Other Activities" of the Telecom Italia Group are principally constituted by the Group Functions, which have responsibility for guaranteeing the coordination, the direction and the control of activities at the Group level, and by the Service Units, which have the task of ensuring that the operational service activities common to the business are carried out, as per the organizational procedure dated October 5, 2005.
Beginning January 1, 2005, "Other Activities" also comprise the foreign operations not included in other Business Units (the consolidated subsidiary Entel Bolivia, previously under the South America structure, and the associates Telecom Argentina and Brasil Telecom).

OPERATING COSTS

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004 Proforma	Change amount	Change %
Group functions	(332)	(297)	(35)	10.5
SUBTOTAL Service Units (A) (*)	(716)	(713)	(3)	0.4
Eliminations	*47*	*41*	6	
SUBTOTAL	(1,001)	(969)	(32)	3.2
TI Lab	(94)	(94)		
Informatics	(187)	(192)	5	(2.7)
Eliminations	*27*	*21*	6	
TOTAL OTHER ACTIVITIES	(1,255)	(1,234)	(21)	1.7

(*) Please refer to the following table.

GROUP FUNCTIONS

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

OPERATING COSTS

(millions of euro)	9 months to 9/30/2005	9 months to 9/30/2004 Proforma	Change amount	Change %
Staff functions	(263)	(233)	(30)	11.4
Group communication	(39)	(38)	(1)	2.6
Corporate LATAM + TI International	(30)	(26)	(4)	13.3
SUBTOTAL	(332)	(297)	(35)	10.5

The table shows the operating costs (external costs, personnel costs, the balance of other and extraordinary income and expenses) incurred during the first nine months of 2005 to conduct the above activities, compared to those of the same period of the prior year, restated to take into account the different organizational areas.

The data also includes costs recharged for the activities performed by Service Units, except for Information Systems.

The table excludes the effects of certain nonrecurring extraordinary items (the OTE closing and the Opportunity settlement in 2005 and the settlement with Telespazio in 2004) in order to show a more meaningful and comparative representation of the economic trend of the Group Functions.
Costs rose by euro 35 million principally on account of an increase in personnel costs, partly as a result of the effect of higher employee cutback costs, and the increase in Corporate LATAM costs attributable to the negative foreign exchange effect with Brazil.

SERVICE UNITS

Service Units include the operational service activities performed at practically a nil margin 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 nine months of 2005 to conduct the above activities, compared to those of the same period of the prior year, restated to take into account the different organizational areas.

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

OPERATING COSTS

	9 months to 9/30/2005	9 months to 9/30/2004 Proforma	Change	
			amount	%
Real Estate Activities and Services	(526)	(528)	2	(0.4)
CSA	(39)	(38)	(1)	2.6
Security	(47)	(43)	(4)	8,5
Purchasing	(24)	(23)	(1)	4.2
Welfare	(22)	(23)	1	(4,5)
Other (1)	(73)	(80)	7	(9.6)
Internal eliminations A	*15*	*22*	*(7)*	
SUBTOTAL Service Units (A)	**(716)**	**(713)**	**(3)**	**0.4**
TI Lab	(94)	(94)	0	0.0
Informatics	(187)	(192)	5	(2,7)
Eliminations between TILAB and Informatics	*0*	*1*	*(1)*	
SUBTOTAL Service Units (B)	**(281)**	**(285)**	**4**	**(1.4)**
Eliminations with Subtotal A	*23*	*18*	*5*	
TOTAL Service Units	**(974)**	**(980)**	**6**	**(0.6)**

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

The table excludes the effects of certain nonrecurring extraordinary items in both periods in order to present a better comparative and meaningful representation of the economic trend of operations.
The Service Units show a decrease in costs of euro 5 million compared to the first nine months of 2004 attributable to the improvement in Informatics, connected with the efficiencies achieved after the

reorganization of the IT area, and to TILS, whereas the increase in Security costs can be ascribed to the adoption of higher security standards by the offices and installation sites.

It should be pointed out that, following the organizational procedure issued on October 5, 2005, beginning January 1, 2006, the activities of TI LAB and Informatics (excluding IT Governance) will be transferred to Operations. IT Governance will be included in the Group functions (Staff Functions).

REAL ESTATE ACTIVITIES AND SERVICES

Tiglio Project (Real Estate Funds)

Under the second phase of the Tiglio Project – which calls for an end to the process of appreciating the real estate assets held by Tiglio I and Tiglio II by contributing the assets to real estate funds or concluding individual sale transactions – in July, the placement of the shares on the market of the "BERENICE – FONDO UFFICI – Closed-end Real Estate Fund" to public and institutional investors was closed. The fund is seeded by 54 properties from five private parties including Tiglio I (8 buildings) and Tiglio II (37 buildings). The overall market value of the real estate assets of the Fund is approximately euro 860 million, to which about a 13% discount was applied by virtue of their transfer en masse. The contribution value is thus equal to approximately euro 750 million whereas the value of the Fund, net of financial debt, is equal to approximately euro 300 million.
The global offer, 93% of which was intended for the retail public in Italy, was successfully closed on July 14, 2005; trading on the stock market of the remaining amount, set aside for Italian and foreign institutional placement, began on July 19, 2005.
In September 2005, the companies Tiglio I and Tiglio II distributed capital in the form of the share premium reserve, respectively, for euro 29.7 million and euro 33.1 million to Telecom Italia S.p.A. Furthermore, the company, Tiglio II, voted to pay dividends and Telecom Italia S.p.A. is entitled to a total of euro 11.4 million, of which euro 8.9 million has already been received and euro 2.5 million is still to be collected.

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

INFORMATICS

The Information Technology Group function is responsible for the management, 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, a new organizational model was defined which calls for the transfer of the Information Technologies activities according to the following scheme:

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

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

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

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

In particular, with regard to:

- the infrastructural operation of the Telecom Italia Wireline BSS and OSS applications, work inherent to the migration from mainframe systems and the rationalization of storage environments has continued. Furthermore, in reference to the activities directed to the external market, optimization activities have continued for the purpose of being reflected in customized and standardized offerings for the market;
- as for the services for Corporate, work has continued to technologically modernize the platforms using application of various Functions of the Parent Company and/or to make adaptations to put new functionalities into operation. In particular, in the SAP area, work has begun to integrate the Tim and Telecom Italia systems.

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

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

BS7799 certification was obtained for the processes of systems delivery & operations, Data Management infrastructures and Data Center technological equipment, applied to the Bologna, Milan, Cesano Maderno, Rozzano, Pomezia and Bari Data Centers.

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Lastly, as part of the project for the reorganization of the activities of Information Technology Group, approved by the Board of Directors on September 7, 2005, IT Telecom S.r.l. and Tim Italia data centers will be partially spun off to the newly-formed company Telecom Italia Data Center S.r.l., which will later be incorporated in Telecom Italia. IT Telecom S.r.l. will retain the certification authority activities.

RESEARCH, DEVELOPMENT AND INNOVATION

The Italian telecommunications market is considered one of the most advanced from the standpoint of technology and evolution of the attitudes and profiles of consumption by customers.

Technological innovation for the Telecom Italia Group therefore constitutes a fundamental and differentiating element as a means of expanding its competitive advantage and maintaining leadership in a market with rising levels of competition.

The wealth of the Group's technological and innovative know-how has during these years made it possible to design, develop and adopt solutions for the networks, terminals and services that are on the absolute cutting edge in the field of network solutions. This is a wealth on which the Group can also draw from in foreign countries where it has subsidiaries.

The work conducted for technological innovation is not only carried out in the Group's TILAB research center – where the activities and the expertise are focused on basic research, the evaluation of emerging technologies and "*intra-moenia*" development – but also at the operating units and businesses (the Network, Marketing, Telecom Italia Information Systems and Tim) and at Telecom Italia Media and Olivetti.

Technological innovation of the Telecom Italia Group is also the outcome of strategic partnerships with the principal manufacturers of telecommunications apparatus and systems and with leading research centers at the most qualified academic institutions both nationally and internationally.

Technological innovations range from the revision of basic technologies, following a rationale aimed at increasing the operating efficiency of the network and systems, up to complex activities for the radical revision of platforms, services and architectures. Therefore, an essential factor is the commitment that the operating functions of the business units spend in the field to ensure that the new services meet the needs of the customer and the continuous dedication directed to improve the qualitative level of service.

During the first nine months of 2005, the investments made by the Telecom Italia Group in tangible and intangible assets for development and innovation amount to about euro 2,200 million. The internal resources dedicated to such activities, in addition to research, in Italy and Brazil, number about 5,300 persons, for a total monetary commitment of euro 272 million (of which euro 88 million is already included in investments).

Specifically, the Telecom Italia Group research and development centers carried out the following activities in the third quarter of 2005:

TELECOM ITALIA LAB

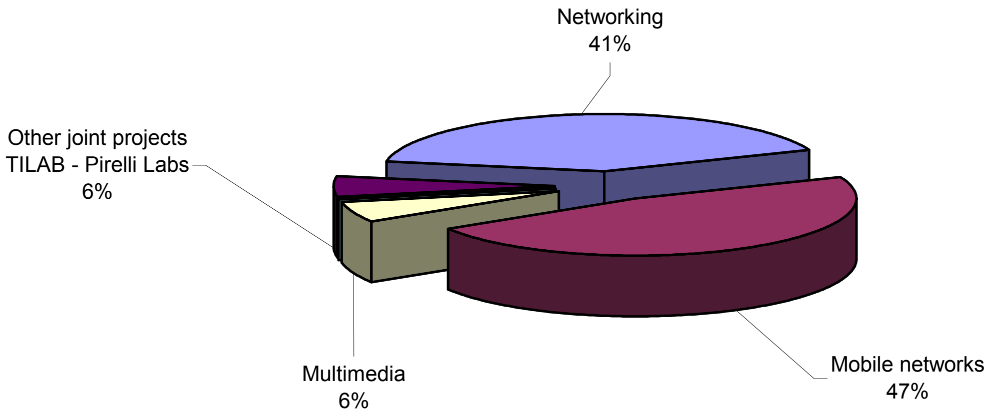
Telecom Italia Lab is the research arm of the Telecom Italia Group with responsibility for developing technological innovation and rendering it rapidly and economically exploitable by the Group's customers.

Its activities can be broken down into the Group's main innovative areas of interest, such as: design and implementation of the fixed and mobile access network, evolution of the carrier network, the development of services and platforms, experimentation and design, at the same time, of new-generation terminals; this is all being conducted while paying careful attention to the needs of the final customers and the companies which view the telecommunications network of the future as the qualifying element for competing on the market at a worldwide level.

Bearing this in mind, projects now in the research stage which will be perceived by the public at large as particularly important within a few years are: the vision of network and service evolution with a 2015 horizon identifying the transition strategies, the evolution of mobile communications, from the third-generation mobile phone and beyond to different systems that ensure high-speed access, the spread of broadband through the study of innovative means to bring optical fibers to the homes of customers and the affirmation of new identification and localization solutions.

In close cooperation with the Pirelli Labs, universities, research centers and industry, Telecom Italia Lab brings the future closer with revolutionary services in many sectors from mobile communications to the multimedia, for the home and business, ensuring quality and safety.

The unvarying attention paid to opportunities to generate competitive advantages to create value for the Telecom Italia Group has also been pursued through a strategic management of the relationships between research, Intellectual Property Rights (IPR) and businesses for the purposes of developing a portfolio of patents. To this end, in the third quarter of 2005, 17 new patents were filed (19 in the third quarter of 2004) in addition to 22 patents filed in the first half of 2005 (31 in the first half of 2004) bringing the total number of new patents filed since the beginning of the year to 39 (50 at September 30, 2004). The patent requests filed in the third quarter of 2005 can be broken down by business segment as follows:



The main results achieved by Telecom Italia Lab during the third quarter of 2005, as summarized below, were in line with the strategy to pursue innovations which lead to an increase in the effectiveness of operations, on the one hand, and open the way to new services and new revenues, on the other hand.

With regard to the **Innovation of Services**, worthy of note are the significant contributions in the following areas:

- diffusion of TV content on mobile terminals using both UMTS technology and DVB-H broadcasting: this area, which received widespread press reports at the beginning of October thanks to the Tim/Mediaset agreement, saw TILAB's contribution in terms of the design and development of an Interactive Mobile TV platform, its integration in the DVB-H distribution chain as well as the demonstration of the technical feasibility of the solution at SMAU, with certain innovative characteristics such as the simultaneous transmission in DTT and DVB-H with transcoding of live content in MPEG-4 advanced format:
- use of (VAS) Value-Added Services on mobile phones and on PCs in a converging manner. To this end, the POC (Push to talk over Cellular) service has been developed experimentally by TILAB and will be shortly introduced by Tim, thanks to which it is possible to use GPRS/UMTS mobile phones for point-multipoint voice communications over IP, drawing in communities of several mobile terminals which provide PCs inside the phones;
- diffusion of Pay-for-musical content on mobile terminals. To this end, during the course of the year, TILAB has contributed to putting together and installing, with Tim partners and Tim Service Centers, the i-Music Store service platform, an updated version of which, inclusive of an innovative multimedia interface on the mobile terminals, was made ready during the third quarter.

With regard to the **Innovation of Terminals**, two new important initiatives should be mentioned, both of which are intended to increase the services that can be used by the clientele, ensuring adequate safety levels at the same time:

- the first refers to the integration of low-cost radio frequency sensors (using the shortly-to-be-made-available ZigBee technology) in the SIM of a mobile terminal, demonstrated recently at SMAU: thanks to this technology the terminal and the customer can interact with similar devices so that new services can be used such as tele-ticketing or auto-pay;
- the second refers to the development of prototype solutions based upon the use of biometric face recognition technologies which are capable of adding safety and "responsive" services in their use by mobile terminals equipped with a camera. To this end, in fact, the impression of the face of the customer, memorized in the network server and in part on the SIM, is compared with the image seen in real time by the telephone, ensuring in this manner a high degree of protection from unwanted intrusions.

With regard to the **Innovation of the Networks,** Telecom Italia Lab has contributed to the Group's Technological Plan in reference to aspects of the architectural vision of the network over the next few years, with particular regard to technological drivers which will guide the development of the network, the standardization scenarios and regulators that are being prefigured and the benchmarking of other telecommunications operators.

Lastly, in the third quarter of 2005, mention should be made of the completion and release, to Progetto Italia, for demonstration at the Science and Experiment Festival, of a simulation system, thanks to an ADSL connection, of ski training on a Turin 2006 Winter Olympics ski slope in 3D virtual reality, thus demonstrating the advantages to the public of using broadband for the mass market.

During the first nine months of 2005, the costs incurred for research and development conducted by Telecom Italia Lab, also in collaboration with the Pirelli Labs, amount in total to euro 101 million (euro 98 million in the corresponding period of the prior year) and include external service costs, dedicated personnel costs and amortization and depreciation charges.
Such costs have been recharged to the Wireline and Mobile Business Units. Research has been expensed during the period for an amount of euro 65 million (euro 70 million in the first nine months of 2004). Development activities, which became available for use during the period have been capitalized either to the network itself or to software costs for an amount of euro 36 million (euro 28 million in the first nine months of 2004).

OLIVETTI S.p.A.

The Olivetti Business Unit dedicates a significant amount of its resources to R&D. The five research centers (Agliè, Arnad, Carsoli and Scarmagno in Italy and Yverdon in Switzerland) employ over 300 persons, or 19% of its total work force.
In particular, ink-jet technology, of which Olivetti is the sole European company with proprietary technology out of five in the world, is born and developed in the Arnad (Aosta) headquarters where more than 200 resources are involved in the entire manufacturing cycle of ink-jet technology of the thermal type: from processing using silicon to assembly of the printing cartridges. In the first nine months of 2005, the Olivetti research centers have been deeply involved in the development and completion of a new generation of multifunctional printers that were launched in September.
During the first nine months of 2005, research costs incurred by Olivetti amount to euro 28 million (euro 22 million in the same period of the prior year) and have been entirely expensed to income.

INTERNATIONAL HOLDINGS

Entel Bolivia Group

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

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

In the third quarter of 2005, the wireline business focused on the incentive and promotion campaign for national long-distance "marca el 10" campaign, and for calls from Entel points with rate promotions and prizes in kind. Furthermore, the "yellow pages" guide was improved by introducing new value-added services.

At September 30, 2005, fixed lines number 56 thousand and represent an increase of 11.8% compared to December 31, 2004 (50 thousand).

In the mobile business, the group has maintained its leadership of the market, achieving a market share of 61.9%. The chip for the new SIM Card was changed to facilitate the use of the various valued-added services.

With regard to GSM services, it should be pointed out that, in the third quarter of 2005, the technical platform for the Edge service was been made available for testing in the major cities and the commercial launch is planned for the first quarter of 2006.

The group's mobile clientele, numbering 1,470 thousand at September 30, 2005, increased by 28.3% compared to December 31, 2004 (1,146 thousand).

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

The signing of the contract between ICH and Cotas is subject to the execution of certain suspensive conditions including a significant reimbursement of capital by Entel Bolivia which has already been approved by the Extraordinary Shareholders' Meeting of the operator on September 20, 2005 for an amount of BOB 3,202,247,000 (ETI's share is BOB 1,601,123,500). The procedure for the reimbursement of capital was recently finalized and, on October 28, 2005, ETI received its share of the capital reimbursement equal to USD 198.2 million or euro 162.9 million.

Telecom Argentina Group

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

The group operates in the sector of wireline and mobile telephone services, internet and data transmission in Argentina.

Fixed lines total 3,582 thousand and increased by 2.8% compared to December 31, 2004 (3,484 thousand).

In the mobile business, the customer base increased by 36%, compared to December 31, 2004, reaching 5,899 thousand. The level of penetration of mobile services is 43%.

In the third quarter of 2005, the retention program continued for TOP customers by substituting the TDMA terminals with GSM terminals, thus determining an increase of 1.5% in the post-paid total customer base in the third quarter of 2005 (31.2% at the end of third quarter compared to 29.7% in the second quarter).

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

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

Brasil Telecom Group

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

The company operates fixed telephone services in Region II (Paraná, Santa Caterina, Districo Federal, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondonia, Rio Grande do Sul, Acre and Goias) covering about 2.9 million square kilometers (34% of the total area of the country), a population estimated at 42 million (24% of the total population) with three metropolitan areas of more than one million inhabitants including Brasilia, the capital of the nation.
Brasil Telecom has one of the largest telecommunications networks in Brazil with a vast offering of services for telecommunications, fixed telephony, broadband and narrowband, free internet, data transmission and mobile telephony launched at the end of 2004, operating on GSM technology.
The land-line customer base at the end of the third quarter of 2005 reached 9,549 thousand, with an increase of 46 thousand compared to December 31, 2004. The broadband service shows a sharp increase with 892 thousand accesses at September 2005, corresponding to growth of more than 66% compared to December 2004.
The Mobile business has 1,676 thousand customers at the end of the third quarter of 2005. This is an increase of 1,054 thousand compared to December 2004 (622 thousand).
In mobile telephony, Brasil Telecom's market share at September 30, 2005 is 7% of the entire region.

On April 28, 2005, Telecom Italia, through its subsidiary, Tim Brasil, and Brasil Telecom sealed an agreement to better exploit the synergies arising from the integration of the fixed platforms with the mobile platforms.
The agreement, which envisages a series of measures which requires approval by the competent Brazilian authorities, provides for:

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

This agreement also responds to the requests of the Brazilian National Regulatory Agency (ANATEL) to resolve the problems surrounding the overlapping of the mobile and long-distance licenses of the two operators involved.
The execution of the agreement between BTC and Tim Brasil, and the merger that is planned, is currently suspended as a result of the legal objections posed by some fellow indirect shareholders in BT in various seats.
Again on April 28, 2005, an agreement was sealed between Telecom Italia International, fellow shareholders in Solpart, Techold and Timepart, as well as Solpart, Brasil Telecom Participaçoes and Brasil Telecom whereby Telecom Italia International reclaimed its role as an industrial partner in Brasil Telecom following the cessation of the disputes concerning the reinstatement of its governance rights (temporarily suspended under the August 2002 contract). Therefore, by virtue of Telecom Italia International exercising its governance rights, beginning from the interim financial statements for the first half of 2005, the equity

method, which had been suspended in 2002, is once again used to value the investment in Solpart in the consolidated financial statements of the Telecom Italia Group
On September 30, 2005, the shareholders' meeting of Brasil Telecom renewed the entire board of directors, also appointing two directors, and respective alternatives, designated by Telecom Italia International.

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

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

The agreements call for a payment by Telecom Italia for USD 378 million (euro 318 million at the exchange rate at September 30, 2005) at the time of the purchase of the investments, in addition to the payment (which took place in June 2005) of euro 50 million as a settlement.

OTHER INFORMATION

DISPUTES, LITIGATION AND LEGAL PROCEEDINGS PENDING

The information given in the half-yearly report on the main disputes pending is updated below. Except where explicitly mentioned, provisions have not been made, either for want of a definite and objective basis or because a negative outcome of the dispute is considered unlikely.

TELE 2

At the end of June 2005 the operator Tele 2 brought an action against Telecom Italia before the Milan Court of Appeal for alleged abuse of dominant position in the fixed-line voice telephony access and service markets, challenging the "Hello gratis" offer of 90 minutes of calls free of charge.
Tele2 contends that indiscriminate application of the bonus would take traffic away from competitors, as customers would tend to use the opportunity for free traffic with Telecom Italia whether or not they had signed a contract with the alternative operator. The introduction of "Hello gratis" by Telecom Italia is alleged to be abusive on the grounds that it is aimed both at unduly ensuring the loyalty of Telecom Italia's own customers and (indirectly) at luring customers away from competing operators not in a position to match the offer. In addition, the offer allegedly prevents the use of comparative advertising, by not permitting direct and homogeneous comparison of the telephone tariffs per minute proposed by the different operators. On the basis of the income and market shares that it asserts it has lost due to Telecom Italia's introduction of "Hello gratis" and the harm to its business image and reputation, Tele2 is claiming damages of more than €100 million.

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In June 2005 Tele2 filed an urgent petition against Telecom Italia with the Milan Court of Appeal for abuse of dominant position on the broadband data access market, with a request for damages to be quantified in the course of the proceeding. In particular, Tele2 is challenging an agreement of August 2004 for the supply of the ADSL wholesale service on the basis of which Tele2, using Telecom Italia's network, is able to provide its own final customers with broadband data access services. The economic terms and conditions of above-mentioned service are allegedly abusive because they provide for the payment not only of an activation fee but also of a monthly fee, inclusive of 5 hours of traffic, which according to Tele2 disguises an unwarranted minimum purchase obligation levied on Other Licensed Operators, with a merely exclusionary intention.
On 20 September 2005 the Court of Appeal, not taking into consideration the fact that the Telecom Italia offers had been submitted in advance to the Communications Regulatory Authority for approval, granted Tele2's petition, enjoining Telecom Italia from continuing to use this type of offer for the supply of the ADSL wholesale service. Telecom Italia has appealed this decision.
Meanwhile, Tele2 has brought an action claiming more than €15 million of damages for the additional costs incurred, for the loss of income and customers and for the harm to its business image and reputation.

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For its part Telecom Italia cited Tele2 and its Swedish parent company Tele2 AB before the Milan Court for unfair competition in connection with the comparative advertising campaigns promoted by Tele2, claiming damages of at least €200 million.
Tele2 filed a counter-claim, alleging that the conduct of Telecom Italia (in particular, the application of the traffic bonus in the above-mentioned "Hello gratis" offer) constituted a tort. Essentially, Tele2 used the same arguments that it had already made before the Milan Court of Appeal and accordingly requested that the action subsequently brought by Telecom Italia be suspended pending the conclusion

of that proceeding and that Telecom Italia be ordered to pay the same damages as awarded in the trial pending before the Milan Court of Appeal.

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In July 2005 Tele2 notified Telecom Italia that it had filed another urgent petition against an alleged abuse of dominant position in the market for ADSL broadband data access services, consisting in improper activation of the service for users who had not requested it, allegedly to prevent Tele2 from offering its ADSL services, and delay in deactivating such improperly activated ADSL services.

On 3 November 2005 the Court of Appeal, granting the petition, ordered Telecom Italia to activate links to ADSL services within the maximum contractual time limit of 42 days from the Tele2's requests, "*except where the service is already effectively being supplied or in cases of effective renunciation by the customers.*"

EUTELIA

On 30 September 2005 Eutelia notified Telecom Italia that it had filed an urgent petition with the Milan Court of Appeal for alleged abusive conduct in the market for broadband data access services. The abusive conduct allegedly consisted in improper activation of the ADSL service for users who had not requested it, with a view to preventing Eutelia from offering its ADSL services, and delay in deactivating improperly activated ADSL services.

Eutelia also contests the procedure whereby the Telecom Italia— illegitimately, Eutelia claims — makes activation of its ADSL services subject to the condition that the customer have a contract subscribing to the telephone service with Telecom Italia and correspondingly deactivates ADSL connections for users who decide to terminate the above-mentioned basic telephone service contract.

On 3 November 2005 the Milan Court of Appeal, in rejecting the petition as regards the other allegations, granted the request regarding the activation of ADSL wholesale services without an underlying subscription contract with Telecom Italia, prohibiting the "deactivation of the ADSL retail service for Eutelia customers terminating the ISDN telephony contracts" that they had previously signed with Telecom Italia.

VODAFONE

On 2 November Vodafone sent Telecom Italia a request for payment of more than €16 million in restitution of the larger sums allegedly paid for interconnection services provided between 1 January and 24 July 1998.

The affair originated from the petition filed by Omnitel (now Vodafone) challenging the part of Resolution No. 1/CIR/98 of the Communications Regulatory Authority (approving Telecom Italia's offer of interconnection) that established, pursuant to a Ministerial Decree of 23 April 1998, that the new economic terms and conditions for interconnection would become effective for the GSM concession-holders of the time (Tim and Omnitel) from 25 July 1998 (the date Telecom Italia's Reference Offer was submitted) rather than from 1 January, as envisaged for the fixed-line operators. The State Council annulled the Communications Regulatory Authority's measure, rectifying the judgement already issued on the matter by the Administrative Court, and ordered the Communications Regulatory Authority to execute the decision.

The Company intends to appeal to the Court of Cassation, inasmuch as the source of what the State Council calls "an unjustified discriminatory treatment" was the above-mentioned Ministerial Decree of 23 April 1998, on which the resolution of the Communications Regulatory Authority was based and which Vodafone did not challenge within the prescribed time limits.

IL NUMERO ITALIA

In August 2005 the company Il Numero Italia filed an urgent petition with the Milan Court against Telecom Italia, alleging wrongdoing in connection with non-compliance with the regulations concerning subscriber directory information services. The Court granted the petition, ordering Telecom Italia to cease making any reference through the "12" information service (which was discontinued on 1 October 2005) and the "412" information service (to be deactivated on 1 December 2005) to the new numbering of subscriber information services. The Court rejected Telecom Italia's petition against the order.

In September 2005, following the preliminary proceeding, Il Numero Italia brought an action for damages of €14.4 million in compensation for actual economic and reputational losses and more than €60 million per year ("to be multiplied by a suitable number of years, determined using the criteria commonly applied by business economics to value economic activities in the sector of subscriber information services, and then discounted to present value") for loss of anticipated profits.

* * *

In September 2005 Il Numero Italia and its subsidiary DA - Directory Assistance Company s.r.l. filed an urgent petition with the Milan Court alleging wrongdoing by Telecom Italia, in the form of unfair competition, following the preliminary decision mentioned above, in connection with both the advertising campaign launched by Telecom Italia to promote the "1254" service and the alleged early opening of this number to the public. In particular, the petitioners claimed that prior to the scheduled date for opening the new "12xy" services to the public (1 October) Telecom Italia had automatically routed customers who called those numbers ahead of time (especially "1254") to the number 12 service supplied by Telecom Italia, with misleading and disparaging messages to customers about the competitors' subscriber information services. The petitioners asserted that both the advertisement for the "1254" service and the early opening of that service (with the recorded message stating that "1254" was the sole heir to the "12" service) constituted an attempt to pre-empt the market.

Il Numero Italia and DA petitioned the Court to find that Telecom Italia's conduct constituted abuse of dominant position and therefore to inhibit is continuation and/or repetition. The judge rejected the petition.

After the court had denied the petition, Il Numero Italia and DA filed a compliant against the precautionary order.

* * *

In July 2005 Telecom Italia petitioned the Court of Milan to order the cessation of the campaign launched by Il Numero Italia to advertise the information services provided through the number 892.892. Telecom Italia argued that the campaign violated the rules on misleading advertising and constituted an instance of unfair competition by giving the impression that the "12" and "412" services would simply be discontinued, not that they would become reachable through other numbers. Furthermore, these services were portrayed in ways that disparaged Telecom Italia's reputation while also creating confusion as to the actual source of the "892.892" service: the messages' references to the "12" and "412" services exploited their notoriety in a way that suggested it was Telecom Italia that was advertising a new service of its own.

On 22 September 2005 the court ruled that the "old" advertisements of Il Numero were misleading, in view of the confusion and uncertainty that they had created on the market. Nevertheless, the court denied the request to inhibit the continuation of the advertising campaign, on the grounds that the new advertisements broadcast in concomitance with the judicial proceeding, together with the launch of Telecom Italia's advertising campaign for "1254" service, would eliminate any risk of confusion between the services offered by the two companies.

NHAI

In September 2005 Nhai s.r.l.. (formerly Help S.p.A.) notified Telecom Italia that it had petitioned the Rome Civil Court to find that in the first half of the 1990s Telesoft (subsequently merged into Telecom Italia), in its capacity as a member of the Consortium for the Automated Collection and Processing of Telephonic Traffic (of which the petitioner was also a member) had competed with the consortium, in

violation of the obligations established by the consortium's agreements and constituent instrument. Consequently, it requested that Telecom Italia be ordered to pay damages of between €16 million and €25 million to the consortium, as compensation for the losses arising from the failure to win contracts, and to Help, for its share as a member of the consortium.
According to Nhai, Telesoft promoted independent commercial initiatives with Telecom Italia and other international operators, deliberately concealing negotiations and the contracts acquired. This conduct, contrary to the principle of contractual good faith and to specific contractual stipulations, is alleged to have caused Help to suffer a significant fall in sales revenues and to have induced Help to accept an early dissolution of the consortium in 1996, ahead of its scheduled expiration in 2001, for lack of business opportunities.
Nhai also petitioned the court to find that Telesoft, during the period in which the consortium had been in effect, had infringed the consortium agreements by appropriating software developed by Help, for which Help claimed damages of €1 million.

INTERMINISTERIAL DECREE OF 22 FEBRUARY 2005

In July 2005 H3G notified Telecom Italia as an adverse party of an extraordinary appeal to the President of the Republic against the Ministry for Communications and the Ministry for the Economy and Finance for the annulment and preliminary suspension of the Ministerial Decree of 22 February 2005 on the procedures and criteria for the application of the subsidies for the purchase of devices for broadband data transmission/reception via the Internet. H3G challenged the part of the measure that restricted the granting of government subsidies to persons with a rental contract and excluded holders of prepaid cards.
In August 2005 Telecom Italia applied for the transfer of the extraordinary appeal to the Lazio Administrative Court in order to have greater guarantees regarding the opportunity for all the parties to state their case and above all to have two levels of judgement; H3G became a party to this proceeding. It also appealed to the Lazio Administrative Court in August 2005 against some provisions adopted by the Ministry for Communications implementing the above-mentioned decree and asked, on grounds of related matter, for the two appeals two be heard together.

LEVY PURSUANT TO ARTICLE 20.2 of LAW 448/1998

On 4 January 2005 the Lazio Administrative Court published the judgements in which it annulled the decree of the Minister for Communications of 21 March 2000.
In their appeal Telecom Italia and Tim had challenged the compatibility of Article 20 of Law 448/1998 with Community law and in particular with the principle according to which telecommunications operators may not be required to pay capital charges in addition to and different from those provided for by Community law (examination expenses, use of so-called "scarce resources" and financing of the universal service). The two companies had also applied for the return of the payments made for 1999, when, in the initial period of application of the subsequently annulled decree, the first annual payments of the new levy were made for a total of more than €500 million (subsequently, in light of the appeal proceedings under way, Telecom Italia and Tim ceased to pay the levy and allocated corresponding amounts to reserves).
The annulment of the decree resulted in an obligation on the part of the state to return the amounts paid.
However, in the absence of a spontaneous response to the judgement of the Lazio Administrative Court, it was decided to make a formal application to the state, so as to create the conditions for a petition to the Lazio Administrative Court for an enforcement ruling ordering the state to return the amounts due and providing, if the Ministry for the Economy and Finance and the Ministry for Communications continued to fail to act, for the appointment of a "commissaire ad acta".

BRAZIL

As part of the set of agreements executed on 28 April 2005, described earlier in the section on "Other Activities", a settlement was reached to a series of disputes in different fora in which Telecom Italia and/or Telecom Italia International were opposed to:

- Brasil Telecom for alleged abuses in transactions of an extraordinary nature undertaken by the Brazilian operator;
- (i) Techold and Timepart, partners of the Group in Solpart Participações (the controller of Brasil Telecom through Brasil Telecom Participações), in arbitration proceedings in London before the International Chamber of Commerce of Paris and (ii) Techold and Timepart (together with Solpart, Brasil Telecom Participações and Brasil Telecom) before the Rio de Janeiro Court, in both instances in relation to the agreement of 27 August 2002, which provided for the temporary reduction of the Group's holding in Solpart from 37.29% to 19%, the suspension – again temporary – of its governance rights, and the option to buy back the holding sold.

These disputes have been definitively settled (the settlement is being finalized in ICC arbitration), with the exception of the case before the Rio de Janeiro Court, where some indirect shareholders of Techold have challenged the validity of the settlement and, for the time being, have succeeded in preventing its ratification.

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The agreements of 28 April 2005 referred to above are nonetheless the subject of a more far-reaching dispute in which the Group is opposed in various fora and on various grounds to the partners of Telecom Italia International in Solpart, some shareholders of these partners, Solpart itself, and Brasil Telecom Participações.

REGULATORY FRAMEWORK

The regulatory framework of the telecommunications sector in Italy has been completed with the entry into force on 16 September 2003 of the Electronic Communications Code, which transposed the EC directives referred to in the "99 Review" of electronic communication services and networks (the Access, Authorization, Framework and Universal Service directives) and on 8 September 2005 of the Consolidated Law on Radio and Television, which includes principles for the convergence between radio and television and other sectors of interpersonal communications.
The main regulatory measures adopted in the third quarter of 2005 are summarized below.

Public payphone locations

With a decree issued on 4 July 2005 the Ministry for Communications identified locations of public payphones for which the obligations of the universal service can be disapplied in view of the ample supply in terms of operators and analogous services. The areas identified are the main railway stations of 11 regional capitals.

Mobile quality and service charters

With Resolution No. 104/05/CSP of 14 July 2005 the Communications Regulatory Authority issued a directive on quality and service charters for mobile and personal communications services offered to the public using terrestrial cellular radio networks. The directive provides, among other things, for the use of special quality indicators and their publication on operators' websites and for the objectives for service quality and the results achieved to be sent to subscribers and published in daily newspapers with national circulation.

Price caps

As part of the revision of the prices of final access services subject to a price cap, following the adoption of Resolution No. 286/05/CONS by the Communications Regulatory Authority on 19 July 2005, as of 1 September 2005 the prices for the termination of voice calls on mobile operators' networks have been reduced.

Communications Regulatory Authority fee

With a decree issued on 22 July 2005 the Ministry for the Economy and Finance fixed the size of the annual fee due by operators for the functioning of the Communications Regulatory Authority and specified how it was to be paid. The decree raised the rate from 0.50 per mille to 0.65 per mille of 2004 fiscal year revenues. The Group paid €10.4 million (€6.5 million Telecom Italia and €3.9 million Tim).

Antiterrorism measures

Decree Law No. 144 of 27 July 2005, ratified with amendments by Law No. 155 of 31 July 2005, strengthened the measures for preventing and countering terrorism. In particular, Article 6 prohibited the cancellation of data on telephonic and telematic traffic, even if not invoiced, until 31 December 2007 and laid down procedures for identifying all the buyers of prepaid mobile phone traffic. Article 7 laid down procedures for the issue of licenses for providers of public telephone and Internet services and requires the prior recording of the IDs of persons using unmanned public installations for telematic communications and wireless Internet access points.
With a decree issued on 22 July 2005 the Ministry of the Interior specified the operational procedures for the monitoring and identification provided for by Article 7 of the law referred to above.

Consolidated law on radio and television

With Legislative Decree No. 177 of 31 July 2005 the Government enacted the Consolidated Law on Radio and Television under the powers granted to it by Article 16 of Law No. 112 of 3 May 2004 (the "Gasparri Law"). The text collates the provisions in force with the amendments, additions and abrogations necessary for their coordination or to ensure their better implementation, in conformity with the Constitution, the provisions of international law effective in the Italian legal system, and the obligations deriving from Italy's membership of the European Union and the European Communities.

Wi-Fi

With a decree issued on 4 October 2005 the Ministry for Communications extended the regulation of Wi-Fi to the entire national territory. In fact, in addition to public parks, stations and shopping malls, it is now possible to cover the rest of the country and provide high-speed Internet access to residential and office buildings.

Market analyses relative to electronic communications

In compliance with Recommendation No. 2003/497/EC and the Electronic Communications Code (Legislative Decree No. 259 of 1 August 2003), with Resolution No. 118/04/CONS of 19 May 2004, the Communications Regulatory Authority started the preliminary proceedings for the analyses of the 18 markets referred to in the Recommendation and Articles 18 and 19 of the Code. The proceedings serve to carry out "market analysis, evaluate competitiveness, identify possible predominant operators, and propose whether to withdraw, maintain or amend existing obligations or introduce new obligations". The Regulatory Authority launched public consultations on the following market:

- Resolution No. 306/05/CONS of 27 July 2005 (relative to market 15, access and call origination on public mobile telephone networks) on assessment of the existence of significant market power among the operators present in the market and the regulatory obligations to which firms having such power should be subject.

TRANSITION TO IAS/IFRS

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

With regard to the rules and the accounting options adopted for the first-time application of IAS/IFRS, reference can be made to the First-half report of the Telecom Italia Group at June 30, 2005.
The following tables present the impact of the application of IAS/IFRS on the principal data for the year 2004 and the first nine months of 2004 of the Telecom Italia Group.

	Year 2004						
(millions of euro)	Italian GAAP	Reclassifications	Italian GAAP post-reclassifications	IAS/IFRS adjustments	IAS/IFRS (including discontinued operations)/ assets held for sale	Discontinued operations / assets held for sale (1)	IAS/IFRS
Revenues	31,237	(6)	31,231	(146)	31,085	(2,793)	28,292
EBITDA	14,528	(674)	13,854	(338)	13,516	(652)	12,864
EBIT	7,200	(643)	6,557	1,090	7,647	(44)	7,603
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	(118)	(118)
Net income/(loss) attributable to the Parent Company and minority interests	1,902	-	1,902	932	2,834	-	2,834
Net income/(loss) attributable to the Parent Company	781	-	781	1,034	1,815	-	1,815
Industrial investments	5,335	-	5,335	38	5,373	(371)	5,002
Total shareholders' equity	19,861	-	19,861	982	20,843	-	20,843
- attributable to the Parent Company	15,172	-	15,172	1,079	16,251	-	16,251
- attributable to minority interests	4,689	-	4,689	(97)	4,592	-	4,592
Net financial debt	29,525	(151)	29,374	3,488	32,862	-	32,862
Employees (number at year-end)	91,365	-	91,365	7	91,372	(11,402)	79,970

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

	9 months to September 30, 2004						
(millions of euro)	**Italian GAAP**	Reclassifications	**Italian GAAP post-reclassifications**	IAS/IFRS adjustments	**IAS/IFRS (including discontinued operations)/ assets held for sale**	Discontinued operations / assets held for sale (2)	**IAS/IFRS**
Revenues	22,912	35	22,947	(71)	22,876	(2,068)	20,808
EBITDA	10,329	(211)	10,118	(72)	10,046	(476)	9,570
EBIT	5,442	(509)	4,933	1,000	5,933	(170)	5,763
Net income (loss) from discontinued operations/assets held for sale	-	-	-	-	-	36	36
Net income/(loss) attributable to the Parent Company and minority interests	1,518	-	1,518	897	2,415	-	2,415
Net income/(loss) attributable to the Parent Company	745	-	745	932	1,677	-	1,677
Industrial investments	3,194	-	3,194	28	3,222	(220)	3,002
Total shareholders' equity	19,390	-	19,390	1,081	20,471	-	20,471
- attributable to the Parent Company	15,141	-	15,141	1,082	16,223	-	16,223
- attributable to minority interests	4,249	-	4,249	(1)	4,248	-	4,248
Net financial debt	31,421	(217)	31,204	2,371	33,575	-	33,575
Employees (number at year-end)	92,812		92,812	8	92,820	(11,316)	81,504

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

APPLICATION OF IAS/IFRS TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2004

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

Consolidated interim financial statements at September 30, 2004:

(millions of euro)	Italian GAAP	Adjustments	IAS/IFRS
Shareholders' equity:			
• attributable to the Parent Company	15,141	1,082	16,223
• attributable to minority interests	4,249	(1)	4,248
Total	19,390	1,081	20,471
Net financial debt	31,421	2,154 (*)	33,575
Net income for the period:			
• attributable to the Parent Company	745	932	1,677
• attributable to minority interests	773	(35)	738
Total	1,518	897	2,415

(*) Comprises reclassifications for euro 217 million relating to the inclusion, in the net financial position, of non-current receivables from associates (euro 124 million) and loans to employees and third parties (euro 93 million).

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

(millions of euro)	Shareholders' equity at September 30, 2004	Net income 9 months to September 30, 2004
TOTAL AMOUNT (ATTRIBUTABLE TO THE PARENT COMPANY AND THE MINORITY INTERESTS) ACCORDING TO ITALIAN GAAP	19,390	1,518
less: minority interests	(4,249)	(773)
ATTRIBUTABLE TO THE PARENT COMPANY ACCORDING TO ITALIAN GAAP	15,141	745
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:		
1. goodwill and differences on consolidation	1,175	1,175
2. scope of consolidation	142	(19)
3. factoring transactions	-	-
4. sale and leaseback of properties	(290)	(65)
5. reserves for future risks and charges	212	(115)
6. bonds (including convertible and exchangeable bonds)	462	(92)
7. derivative financial instruments	(158)	4
8. treasury stock	(393)	-
9. recognition of revenues	(428)	(110)
10. deferred tax assets	239	-
11. land	92	5
12. employee severance indemnities (TFR)	80	(3)
13. derecognition of start-up and expansion costs	(72)	23
14. value adjustments to tangible and intangible assets produced within the Group	(90)	13
15. restoration costs	(102)	(32)
16. equity investments in listed companies and call options on shares measured at fair value	110	(4)
other	(88)	1
Tax effect on items in reconciliation	190	116
Attributable to minority interests for items in reconciliation	1	35
Total adjustments	1,082	932
ATTRIBUTABLE TO PARENT COMPANY ACCORDING TO IAS/IFRS	16,223	1,677

The individual adjustments are presented in the table before taxes and minority interests while the relative tax effects and those on the minority interests are shown cumulatively as two separate adjustment items. Moreover, it should be pointed out that the amounts relating to the effects on assets, liabilities, expenses and revenues presented in the comments on the aforementioned adjustments include the corresponding amounts relative to discontinued operations or assets held for sale.

	At September 30, 2004
(millions of euro)	
NET FINANCIAL DEBT ACCORDING TO ITALIAN GAAP	31,421
Reclassifications: inclusion, in the net financial debt, of non-current receivables from associates and loans to employees and third parties:	(217)
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:	
1. goodwill and differences on consolidation	-
2. scope of consolidation	725
3. factoring transactions	113
4. sale and leaseback of properties	1,615
5. reserves for future risks and charges	-
6. bonds (including convertible and exchangeable bonds)	(260)
7. derivative financial instruments	186
8. treasury stock	-
9. recognition of revenues	-
10. deferred tax assets	-
11. land	-
12. employee severance indemnities (TFR)	-
13. derecognition of start-up and expansion costs	-
14. value adjustments to tangible and intangible assets produced within the Group	-
15. restoration costs	-
16. equity investments in listed companies and call options on shares measured at fair value	-
other	(8)
Total adjustments and reclassifications	**2,154**
NET FINANCIAL DEBT ACCORDING TO IAS/IFRS	33,575

A commentary is presented here on the principal IAS/IFRS adjustments made to the Italian GAAP amounts:

1) **goodwill and differences on consolidation**: such items are no longer amortized systematically in the statement of income but are subject to a test, carried out at least annually, in order to identify any impairment in value (impairment test). To this end, Cash-Generating Units have been identified to which the relative goodwill has been allocated. Impairment tests have been carried out which have substantially confirmed the amounts recorded under Italian GAAP.
The impact of the application of IFRS 3 is an increase in total net income for the first nine month of 2004 (and therefore total shareholders' equity at September 30, 2004) of euro 1,175 million (of which euro 1,157 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.

The impact of this accounting treatment is an increase in net financial debt at September 30, 2004 of euro 725 million due to the consolidation of TISV and an increase in total shareholders' equity of euro 142 million as a result of the consolidation of Tim shares.

3) **factoring transactions**: the adoption of IAS 39 and in particular the provisions concerning the derecognition of financial assets (receivables) results in a more restrictive interpretation of the requirements for the recognition of the sale of receivables without recourse (for IAS/IFRS purposes, the sale is recognized on condition that all the risks and rewards have substantially been transferred). Accordingly, the receivables sold are added back to the assets and the consideration collected is booked as an advance received.
The impact of this treatment is an increase in net financial debt at September 30, 2004 of euro 113 million attributable to the recording of a short-term financial payable (advance received) of euro 113 million, with an increase in trade receivables for the same amount.

4) **sale and leaseback of properties**: some transactions for the sale of properties carried out by the Telecom Italia Group in prior years have been recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, entries are made in the assets for the assets sold and leased back and, in the liabilities, for the residual payable; in the statement of income, entries are made for the depreciation charge and interest expense instead of the lease payments whereas the gain realized at the time of sale is deferred over the period of the contract. The impact of the application of this method for the Telecom Italia Group at September 30, 2004, is a decrease in total shareholders' equity, entirely attributable to the Parent Company, of euro 290 million (before a positive tax effect of euro 92 million), of which euro 65 million is attributable to the decrease in the pre-tax result for the period, and an increase in financial payables of euro 1,615 million.

5) **reserves for future risks and charges**: the recognition of these liabilities, in accordance with IAS/IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that will presumably be paid beyond 12 months. In particular, the IAS/IFRS opening balance sheet of the Telecom Italia Group at January 1, 2004 benefits from a positive adjustment to opening shareholders' equity for the derecognition of certain reserves for risks and charges recorded in the financial statements in accordance with Italian GAAP. This different accounting treatment, in the IAS/IFRS interim financial statements at September 30, 2004, causes a reduction of net income as a consequence of the reversal of the releases to the statement of income of the reserves for risks and charges recorded in the first nine months of 2004 under Italian GAAP. Such impact determines an increase in total shareholders' equity of euro 212 million with a decrease in total net income of euro 115 million (of which 67 million is attributable to the Parent Company) before a positive tax effect of euro 42 million, caused by an increase in operating expenses (mainly for the reversal of the releases of the reserves recorded during the period) and a reduction in income taxes.

6) **bonds (including convertible and exchangeable bonds)**: in accordance with Italian GAAP, bonds (including convertible or exchangeable bonds) are recorded at the residual nominal value (principal); moreover, any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
Under IAS/IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity, whereas the amount of compound financial instruments (convertible or exchangeable bonds), in accordance with IAS/IFRS, should be allocated between the liability component and the implicit derivative financial instrument component.
In particular:
    - for bonds convertible into own shares, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue in reference to instruments having the same characteristics but without the option, whereas the amount of the option is

determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of shareholders' equity;

- for bonds exchangeable with other financial instruments issued by companies of the Group and/or third parties, the amount of the component relative to the derivative financial instrument is extracted and recorded, like sold options, in financial liabilities and valued at fair value (with a contra-entry to the statement of income) at the end of each period.

These recording methods, at September 30, 2004, determine a decrease in net financial debt of euro 260 million and an increase in total shareholders' equity of euro 462 million (of which euro 459 million is attributable to the Parent Company), before a negative tax effect of euro 148 million with euro 175 million of deferred taxes on the equity component relative to "Telecom Italia 2001 – 2010" convertible bonds. Such increase in shareholders' equity is due to a decrease in pre-tax income of euro 92 million (almost entirely attributable to the Parent Company) principally as a result of the application of "amortized cost" method. In particular, the decrease in net financial debt is mainly due to the reclassification of the part of the liability relative to convertible bonds to the components of shareholders' equity, which is partly compensated by the reclassification of the portion of the repayment premium already accrued on the exchangeable "Telecom Italia Finance 2001-2006" bonds from the Reserves for risks and charges to financial liabilities.

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

    The recognition of derivative financial instruments at fair value, at September 30, 2004, results in an increase in net financial debt of euro 186 million (substantially attributable to cash flow hedges) and a decrease in total shareholders' equity of euro 158 million (attributable almost entirely to the Parent Company), before a positive tax effect of euro 64 million, and with a positive impact of euro 4 million on the pre-tax income (before a negative tax effect of euro 1 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 September 30, 2004 of euro 393 million (entirely attributable to the Parent Company) and a reversal of treasury stock in assets for the same amount.

9) **recognition of revenues:** revenues from the activation of telephone services, from the recharge of prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer (principally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method, for IAS/IFRS purposes, at September 30, 2004, results in a decrease in total shareholders' equity of euro 428 million (euro 393 million attributable to the Parent Company), before a positive tax effect of euro 148 million (euro 141 million relative to the Parent Company); pre-tax income decreases by euro 110 million (euro

104 million attributable to the Parent Company), before a positive tax effect of euro 38 million (euro 37 million relative to the Parent Company).

10) **deferred tax assets:** the recognition of deferred tax assets in accordance with IAS/IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, under IAS/IFRS, at September 30, 2004, determines an increase in total shareholders' equity of euro 239 million (entirely attributable to the Parent Company), with recognition of an asset for deferred taxes of the same amount;

11) **land**: in accordance with Italian GAAP, land appurtenant to buildings was depreciated together with the same buildings, while in accordance with IAS/IFRS it must be classified separately and no longer depreciated. This different accounting treatment, at September 30, 2004, determines an increase in total shareholders' equity of euro 92 million (almost entirely attributable to the Parent Company), of which euro 5 million is relative to pre-tax income (entirely attributable to the Parent Company), due to lower depreciation (before a negative tax effect of euro 2 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, employee severance indemnities fall under the category of defined benefit plans and subject to actuarial valuation (mortality, foreseeable compensation changes, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Under IAS/IFRS, all actuarial gains and losses have been recognized at the date of transition to IAS/IFRS. This different accounting treatment, at September 30, 2004, determines an increase in total shareholders' equity of euro 80 million (euro 77 million attributable to the Parent Company), before a negative tax effect of euro 26 million (for the provision to the reserve for deferred taxes of the same amount).

13) **derecognition of start-up and expansion costs:** in accordance with IAS/IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in shareholders' equity at the date of the transaction; the other start-up and expansion costs, since the requirements for their recognition in intangible assets have not been met, are charged to the statement of income. The impact of these different accounting treatments at September 30, 2004 is a decrease in total shareholders' equity of euro 72 million (euro 64 million attributable to the Parent Company), before a positive tax effect of euro 9 million (for the recognition of deferred tax assets) due to the decrease in assets no longer capitalizable; the total pre-tax income for the period reports an increase of euro 23 million (euro 19 million attributable to the Parent Company) due to lower amortization, before the relative negative tax effect of euro 3 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 September 30, 2004 is a decrease in total shareholders' equity of euro 90 million (attributable to the Parent Company), before a positive tax effect of euro 34 million (for the recognition of an asset for deferred taxes) due to the reduction in assets; the pre-tax income reports an increase of euro 13 million (attributable to the Parent Company) due to lower depreciation and amortization, before the relative negative tax effect of euro 7 million.

15) **restoration costs**: under IAS/IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is recognized in the period in which it arises in a balance sheet reserve in the liabilities under reserves for future risks and charges, at market value (fair value), with a contra-entry to the tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of income by depreciation of the related tangible assets over their useful lives. The impact of the application of this accounting treatment at September 30, 2004, is a

decrease in total shareholders' equity of euro 102 million (euro 71 million attributable to the Parent Company), before a positive tax effect of euro 33 million; the pre-tax income decreases by euro 32 million (euro 19 million attributable to the Parent Company) due to higher depreciation, before the relative positive tax effect of euro 10 million (euro 6 million relative to the Parent Company).

16) **equity investments in listed companies and call options on shares measured at fair value:** in accordance with IAS/IFRS, investments in listed companies other than subsidiaries and associates are classified in "assets available-for-sale" or in "assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments recorded, respectively, in a specific equity reserve, except for impairment effects, or through profit or loss; furthermore, optional derivatives have been classified "as assets held for trading" and recognized at fair value in the financial statements, with the relative value adjustments recorded through profit or loss. The impact of the application of this method at September 30, 2004 is an increase in shareholders' equity of euro 110 million (entirely attributable to the Parent Company) which reflects a decrease in pre-tax income of euro 4 million.