



Statements of income of Telecom Italia S.p.A.

(millions of euro)	Year	Year	Effects of	Year	Change	
	2004	2003	the merger	2003	(a-b)	
	(a)	After the merger (1) (b=c+d)	(c)	Historical data (d)	Amount	%
A. SALES AND SERVICE REVENUES	16,126	16,230	197	16,033	(104)	(0.6)
Changes in inventory of contract work in process	(18)	18	12	6	(36)	-
Increases in capitalized internal construction costs	601	549	489	60	52	9.5
Operating grants	8	9	-	9	(1)	(11.1)
B. STANDARD PRODUCTION VALUE	16,717	16,806	698	16,108	(89)	(0.5)
Raw materials and outside services (2)	(6,587)	(6,568)	(359)	(6,209)	(19)	0.3
C. VALUE ADDED	10,130	10,238	339	9,899	(108)	(1.1)
Labor costs (2)	(2,590)	(2,717)	(251)	(2,466)	127	(4.7)
D. GROSS OPERATING PROFIT	7,540	7,521	88	7,433	19	0.3
Depreciation and amortization	(2,892)	(3,051)	(132)	(2,919)	159	(5.2)
Other valuation adjustments	(101)	(201)	(2)	(199)	100	(49.8)
Provisions to reserves for risks and charges	(49)	(17)	(2)	(15)	(32)	-
Net other income (expenses)	(264)	(154)	7	(161)	(110)	71.4
E. OPERATING INCOME	4,234	4,098	(41)	4,139	136	3.3
Net financial income (expenses) (3)	(1,772)	(2,413)	(9)	(2,404)	641	(26.6)
Net investment income (expenses)	1,461	1,727	82	1,645	(266)	(15.4)
F. INCOME BEFORE EXTRAORDINARY ITEMS AND INCOME TAXES	3,923	3,412	32	3,380	511	15.0
Net extraordinary income (expenses)	(726)	(1,674)	(22)	(1,652)	948	(56.6)
G. INCOME BEFORE INCOME TAXES	3,197	1,738	10	1,728	1,459	83.9
Income taxes	(1,062)	908	(10)	918	(1,970)	-
H. NET INCOME	2,135	2,646	-	2,646	(511)	(19.3)

(1) The data "after the merger" were prepared on the basis that the merger of IT Telecom and EPICLink with and into Telecom Italia SpA, that was completed on December 31, 2004 and for accounting and fiscal purposes was effective from January 1, 2004, occurred on January 1, 2003.

(2) Reduced by related cost recoveries

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