TELECOM ITALIA S P A
Form 6-K
September 23, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

Telecom Italia S.p.A.

Piazza degli Affari 2,

20123 Milan, Italy

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

This Report on Form 6-K shall be deemed to be incorporated by reference in the Registration Statement on Form F-4 (Registration No. 333 116411) of Telecom Italia Capital S.A. and Telecom Italia S.p.A. and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

INTRODUCTION

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Report on Form 6-K, unless the context otherwise requires, the term Company means Telecom Italia S.p.A., the operating company for fixed telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we , us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

The financial information contained in this Report on Form 6-K has been prepared in conformity with the Italian law governing consolidated financial statements interpreted and integrated by the accounting principles established or adopted by the Italian Accounting Profession (Italian GAAP), which differ in certain material respects from generally accepted accounting principles in the United States (U.S. GAAP). For information regarding the differences between Italian and U.S. GAAP see Note 27 of Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 20-F/A filed with the United States Securities and Exchange Commission on September 2, 2004 (the 2003 Form 20-F/A).

Cautionary Statement for Purposes of the Safe Harbour Provisions of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 provides a safe harbour for forward-looking statements. This Report on Form 6-K contains certain forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties, which are outside our control, that could significantly affect expected results and are based on certain key assumptions.

The following important factors could cause our actual results to differ materially from those projected or implied in any forward-looking statements:

- the continuing impact of increased competition in a liberalized market, including competition from global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- the level of demand for telecommunications services, particularly wireless telecommunications services in the maturing Italian market and for new higher value added products and services such as broadband;
- our ability to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing our non-core assets;
- the success of our customer loyalty and retention programs, particularly in the fixed line business, and the impact of such programs on our revenues;
- the impact of regulatory decisions and changes in the regulatory environment, including implementation of recently-adopted EU directives in Italy;

- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on our international business focused on Latin America and on our foreign investments and capital expenditures;
- the continuing impact of rapid or disruptive changes in technologies;
- the impact of political and economic developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;

- our ability to successfully implement our 2004-2006 Industrial Plan;
- our ability to successfully achieve our debt reduction targets;
- our ability to successfully roll out our UMTS networks and services and to realize the benefits of our investment in UMTS licenses and related capital expenditures;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- our ability to achieve the expected return on the significant investments and capital expenditures we have made and continue to make in Latin America;
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the impact of litigation or decreased mobile communications usage arising from actual or perceived health risks or other problems relating to mobile handsets or transmission masts.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events. For additional information, see Item 3. Key Information Risk Factors included in our 2003 Form 20-F/A.

KEY DEFINITIONS

The following terms appearing in this Report on Form 6-K have the meanings set forth below.

Telecom Italia	means the entity which resulted from the Merger.
Telecom Italia Group	means the Company and its consolidated subsidiaries.
Old Telecom Italia and Old Telecom Italia Group	means Telecom Italia and its consolidated subsidiaries as they existed immediately prior to the effective date of the Merger.
Olivetti	means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
Olivetti Group	means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
Merger	means the merger of Old Telecom Italia into Olivetti, approved by the shareholders of Old Telecom Italia and Olivetti on May 24, 2003 and on May 26, 2003, respectively, which became effective on August 4, 2003.
Shares	means the ordinary shares, 0.55 par value each, of Telecom Italia.
Savings Shares	means the savings shares, 0.55 par value each, of Telecom Italia.
TIM	means Telecom Italia Mobile S.p.A., the Telecom Italia Group s subsidiary operating in the mobile telecommunications business.
Telecom Italia Media	means the corporate name of the remaining part of Seat Pagine Gialle S.p.A., which resulted after the proportional spin-off of the directories and almost all of the directory assistance and business information business segments of SEAT into New SEAT. The spin-off became effective on August 1, 2003 and New SEAT was disposed of on August 8, 2003. Telecom Italia Media is the Telecom Italia Group s subsidiary operating the Internet & Media business.
1934 Act	means the Securities Exchange Act of 1934, as amended.

Recent Developments

Purchase of Digitel Shares by TIM International

On July 1, 2004, the settlement agreement signed in April 2004 between TIM International and the minority shareholders of the Venezuelan subsidiary Digitel was finalized when TIM International purchased 1,480,562 shares held by the minority shareholders for U.S.$109.6 million. The execution of the agreement brings an end to the dispute with these shareholders that began at the beginning of 2003. The closing was finalized after satisfaction of the contractual conditions agreed between TIM International and Digitel. As from July 1, 2004, TIM, through TIM International, holds 100% of the shares of the Venezuelan mobile operator.

Disposal of Atesia

Effective July 1, 2004, the business segment which was engaged in customer care services for wireline telephony was sold by Atesia to Telecontact Center S.p.A., a wholly-owned subsidiary of Telecom Italia.

On July 2, 2004, Telecom Italia signed an agreement with Communication Services S.p.A. (included in the COS Group leader, in Italy, in the outsourcing of Contact Center and of CRM services) for the sale of 80.1% of the stock of Atesia S.p.A.. The sale only regards the activities conducted for TIM and the external market. The finalization of this transaction with the COS Group will take place once authorization is obtained from the Antitrust Authority.

Acquisition by Telecom Italia Media of a further 40% stake in Webfin

At the end of June 2004, Telecom Italia Media reached an agreement with the De Agostini group over the dispute, subject to arbitration proceedings, regarding a contract signed on September 20, 2000 between Seat Pagine Gialle (after the spin-off renamed Telecom Italia Media) and the De Agostini group, concerning the acquisition of a 40% equity interest in Webfin (which owns 66% of Matrix, the owner of the internet portal Virgilio).

In particular, under the terms of the agreement which superseded the contract signed on September 20, 2000 De Agostini Invest transferred its entire Webfin holding to Telecom Italia Media (which already had a 60% controlling stake in the company). Telecom Italia Media paid 287 million rather than the originally agreed price of 700 million, and an additional 38 million for the amounts paid out by De Agostini Invest since July 2001 to cover Webfin s losses and recapitalize the company.

As a result of this agreement Telecom Italia Media incurred a temporary 325 million increase in its debt. On June 28, 2004, Telecom Italia consistent with the commitments undertaken when it disposed of its controlling stake in New SEAT (the beneficiary company of the 2003 Seat Pagine Gialle spin-off that resulted in the organization of Telecom Italia Media) granted to Telecom Italia Media a loan, at market rates, of 280 million, in order to provide Telecom Italia Media with the funds required to cover debts and commitments existing at the time the Seat Pagine Gialle spin-off became effective.

As a result, Telecom Italia Media entered into the following transactions in order to improve its financial position:

- the disposal of its 40% stake in Webfin to Vertico S.p.A. (a company wholly-owned by Telecom Italia S.p.A. and already holder of a 33.3% stake in Matrix), occurred on July 9, 2004, for a consideration of 42.6 million. This sale enabled Telecom Italia Media to retain its control over Matrix while reducing its financial exposure to the parent company Telecom Italia; at the same time it will allow the consolidation of the existing Internet commercial agreements between Telecom Italia and Matrix/Virgilio; and

- a share capital increase against payment with option rights for a total equivalent amount (including additional paid-in capital) of approximately 120 million, which was approved at an extraordinary Shareholders Meeting on September 10, 2004. Telecom Italia will ensure its support for this initiative by subscribing to its share of the capital increase and any residual amount that remains unsubscribed.

For the Telecom Italia Group these transactions resulted in a net loss of 116 million.

Completion of sale of a 69.8% equity stake in Webegg

On June 3, 2004, IT Telecom S.p.A., a 100% subsidiary of Telecom Italia, signed an agreement with Value Partners S.p.A. regarding the sale of its 69.8% equity stake in Webegg S.p.A., at a price of 43 million. The remaining 30.2% interest will be retained by Finsiel. The transaction provides for reciprocal put and call options for Finsiel and Value Partners on the remaining equity interest held by Finsiel.

On July 15, 2004, after authorization was received from the Antitrust Authority, the agreement was finalized with Value Partners and the sale took place.

Note buy-backs

In July 2004, Telecom Italia Finance S.A. bought-back:

- 135.1 million of notes related to the notes issued by Sogerim (a company merged in 2002 into Telecom Italia Finance S.A.) in the principal amount of 3,000 million with a fixed-rate coupon of 6.375%, maturing on April 20, 2006; and

- 8 million of notes related to the outstanding notes issued by Olivetti Finance N.V.S.A. (a company merged on June 1, 2004 into Telecom Italia Finance S.A.) in the principal amount of 4,200 million (of which 650 million were cancelled on March 26, 2004) with a fixed-rate coupon of 5.825%, maturing on July 30, 2004; these notes were redeemed at par on the maturity date.

Capital increases in Etec S.A. - Cuba

During the first half of 2004, the shareholders meetings of Etec S.A., the Cuban affiliate of Telecom Italia, voted three capital increases, with the aim of covering the extraordinary funding requirements arising from the new license granted to it by the Cuban Ministry of Telecommunications:

- on March 4, 2004, a share capital increase of U.S.$23.8 million, through the issue of 165 new shares with a par value U.S.$144,190 each;

- on May 20, 2004, a share capital increase of U.S.$31.6 million, through the issue of 219 new shares with a par value of U.S.$144,190 each; and
- on June 14, 2004, a share capital increase of U.S.$61.9 million, through the issue of 429 new shares with a par value of U.S.$144,190 each.

Telecom Italia International proportionally subscribed to its share (27%) of the capital increases for U.S.$6.3 million, U.S.$8.5 million and U.S.$16.7 million, respectively, in exchange for 44, 59 and 116 new shares, respectively.

As a result of these transactions, Telecom Italia International s share of the investment remained unchanged.

Disputes, Litigations and Legal Proceedings Pending

An updated situation of the main disputes, litigations and legal proceedings involving the Telecom Italia Group compared to the situation disclosed in our 2003 Form 20-F/A is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions to risk reserves because of the absence of definite and objective elements and/or because a negative outcome to the litigation is not considered probable.

TI Media / De Agostini arbitration

As discussed above, at the end of June 2004, a settlement agreement was reached to close the dispute concerning the framework contract signed on September 20, 2000 between Seat Pagine Gialle S.p.A. (now Telecom Italia Media) and its subsidiaries and the companies in the De Agostini group, regarding, among other things, the purchase of 40% of Webfin (which holds a 66% stake in Matrix, owner of the Virgilio portal).

In particular, based on the agreement which supersedes that of September 20, 2000 De Agostini Invest transferred the entire investment held in Webfin to Telecom Italia Media (which already had control of the company with a 60% holding) for consideration of 287 million, in lieu of the originally agreed price of 700 million. In addition to this amount, 38 million was added to reimburse the expenses sustained by De Agostini Invest to cover the loss and recapitalize Webfin starting from July 2001.

The parties have agreed to terminate the arbitration proceedings begun in 2001 and drop all claims which were the subject of the dispute.

Fee concerning art. 20, paragraph 2, Law No. 448 dated December 23, 1998

Telecom Italia, TIM, Wind and Omnitel, through an appeal to the Regional Administrative Court (TAR) of Lazio, as well as Infostrada and Albacom (through an extraordinary appeal to the President of the Republic of Italy), contested the Ministerial Decree of March 21, 2000 which had established the procedure for a license fee to be paid by telecommunication operators, introduced by art. 20 of Law No. 448 dated December 23, 1998, based upon a declining percentage from 1999 to 2003 (from 3% to 1.5%) on revenues generated in the year prior to the expected payment.

Under the extraordinary appeals to the President of the Republic of Italy, the Council of State raised the preliminary question, before the European Court of Justice of the European Community, of the compatibility of the fee with Community regulations relating to telecommunications and, on September 18, 2003, the European

Court of Justice expressed its opinion affirming that the fee was incompatible with such regulations. In light of this opinion, on July 6, 2004, the Council of State made known its opinion on the extraordinary appeals proposed by Albacom and Infostrada, declaring the Ministerial Decree dated March 21, 2000 illegal.

The decision will also have a bearing on the cases pending before the TAR of Lazio.

In addition, by order dated June 8, 2004, the European Court of Justice decided on the preliminary questions raised by the TAR of Lazio in favor of the operators, confirming, also in this case, the applicability of its opinion of September 18, 2003.

The TAR of Lazio will re-examine the question at a hearing set for November 17, 2004.

Olivetti sale of the personal computers business

In relation to the disposal by Olivetti (now Telecom Italia) of the personal computers business in 1997, lawsuits brought against Olivetti (now Telecom Italia) are still pending and include, among others, action brought by some former employees of OP Computers S.p.A. (the vehicle company that was used to confer the activities for purposes of its sale) who, in March 2004, did not accept the settlement that the Company had reached with the majority of the plaintiffs.

The action is aimed at declaring the disposal of the business null and void and obtaining reinstatement as employees of Olivetti, with payment of salary differences and damages. In June 2004, a decision was handed down in favor of the Company.

Based upon a prudent evaluation of the various causes connected with the sale of the personal computers business, Telecom Italia has set up a specific reserve in its financial statements.

Telecom Italia / Vodafone Omnitel arbitration

In July 2003, Telecom Italia initiated arbitration proceedings in order to obtain compensation from Vodafone Omnitel for damages connected with Vodafone Omnitel s decision to bar its clients from access to information services provided by the 12 directory service. In particular, Omnitel prevented access to this service as of August 2002 up until about mid-April 2003.

Telecom Italia is claiming damages of approximately 38.7 million. Vodafone Omnitel reiterated its correct conduct and proceeded to file a counterclaim for a corresponding amount.

The arbitration board in its decision of July 2, 2004 stated that the proceedings could not continue because certain formal steps had not been executed. Telecom Italia, therefore, in August 2004, fulfilled the obligations requested and reproposed the application for arbitration with the same contents.

Digitel

July 1, 2004 marked the date of the finalization of the settlement agreement signed in April between TIM International and the minority shareholders of the Venezuelan subsidiary, Digitel, ending the dispute with these shareholders that began at the beginning of 2003. TIM International thus purchased the investments held by the minority shareholders for U.S.$109.6 million and now owns 100% of the shares of the Venezuelan mobile operator.

Following the transfer of the shares, the Digitel Shareholders Meeting approved the 2003 financial statements (approval was previously withheld because of the above dispute).

Iridium

Following the decision by the U.S. District Court for the District of Delaware rejecting the defendants case and also turning down the request to exclude Telecom Italia from the case, stating that it was ready to hand down a verdict in the case brought by Chase Manhattan Bank (now JP Morgan Chase Bank) against the shareholders of Iridium LLC, regarding the loan of U.S.$800 million made in 1998 to Iridium Operating LLC (a subsidiary of Iridium LLC), Telecom Italia asked to immediately file an appeal, in light of the fact that the defense s arguments were not taken into consideration. In particular, the judge rejected Telecom Italia s plea to be excluded from the case, against recommendation of the investigating magistrate at the time of the facts as the Company was not a direct shareholder of Iridium LLC owing to the sale of the investment to Iridium Italia.

In view of this, a specific provision was made to the reserve for risks.

Chase Manhattan Bank also decided to separately sue Iridium Italia, in liquidation, a 30% owned affiliate of Telecom Italia with the remaining stake equally divided between TIM and Telespazio.

Mediterranean Nautilus

In October 2003, FTT Investments (the minority shareholder of Mediterranean Nautilus S.A.) notified Telecom Italia, Telecom Italia International and Mediterranean Nautilus S.A. of a request for international arbitration for the cancellation of the agreement signed in March 2001 regarding the transfer from Telecom Italia International to FTT Investments of 30% of the share capital of Mediterranean Nautilus S.A..

FTT Investments claims it was misled in purchasing the investment on the basis of false representations (specifically, information omitted concerning the existence of a put option on Mediterranean Nautilus S.A. regarding the Mediterranean Nautilus Ltd. shares owned by the minority shareholders). Accordingly, FTT invokes invalid consent as a result of fraudulent intent on the part of the Telecom Italia Group, or, in any case, invokes that it would have been led into error over the subject of the contract, asking for the restitution of the price paid (approximately U.S.$98 million) in addition to interest and save the right to make additional claims.

Telecom Italia has requested dismissal of the arbitration proceedings as FTT Investments did not address to Telecom Italia any specific request. Moreover, in May 2004, FTT filed additional claims, reiterating the request that had been made in the first hearing before the arbitration board to extend the demand for the restitution of the price paid also to Telecom Italia and Mediterranean Nautilus S.A., which had initially been made solely to the seller Telecom Italia International. The arbitration board has reserved the right to decide on the procedural admissibility of this new request when the decision is taken on the merits of the dispute.

Telekom Srbija

In May 2003, OTE, the Greek telecommunications company, served upon Telecom Italia two notices of arbitration pursuant to the shareholder agreement dated June 9, 1997 and the bilateral agreement between Telecom Italia and OTE dated June 4, 1997, respectively, alleging breaches of these agreements, as a result of the re-sale by Telecom Italia of its 29% interest in Telekom Srbija to Serbian PTT. OTE alleges that, as a result of this sale, Telecom Italia (i) violated the preemptive right to which it was entitled according to the agreement (a right, however, that was subject to the consent of the Serbian government which, in this case, was denied), (ii) would not have proceeded to pay fully the percentage of management fees to which OTE was entitled and which was referred to in the technical assistance contract mentioned in the agreement and (iii) would have violated the shareholder agreement by selling its investment without the consent of the other shareholders.

OTE also presented two requests for arbitration to PTT Serbia for different reasons.

Under the sale agreements, PTT Serbia agreed to relieve Telecom Italia of any and all responsibilities with regard to OTE resulting from the shareholder agreement of June 9, 1997, the technical assistance agreement and any other contract related thereto. Nonetheless, a specific reserve for risks was set aside in the financial statements of Telecom Italia International.

The arbitration board has not yet met following a request to suspend the arbitration proceedings by OTE, which has also requested a time limit up to November 30, 2004 in which to add to its claims. However, talks between the parties are underway to reach a settlement and renounce the arbitration proceedings.

Stet Hellas

On August 1, 2004, the final award was issued in the arbitration ongoing since 1996 between the Greek dealer Mobitel and Stet Hellas before the Paris International Chamber of Commerce concerning reciprocal requests for damages as a result of the breach of the exclusive distribution contract signed between the parties in 1993.

The arbitration board only upheld a part of the requests for compensation presented by the parties (which amounted in total to about 140 million for Mobitel and about 890 million for Stet Hellas) ruling that Stet Hellas should pay about 31 million, inclusive of the reimbursement for legal costs and expenses, almost half of which refers to interest from the date of the claims up to the date of the arbitration award.

The Greek subsidiary, during the first half of 2004, had set aside a specific provision in its financial statements for this risk.

Etec S.A.

Prior to the investment by Telecom Italia International in Etec S.A. (the Cuban telecommunications operator in which Telecom Italia International has a 27% stake), the Cuban Central Bank (Bancuba) signed a U.S.$350 million loan contract with Bancomext, an entity controlled by the Mexican central bank, due in December 2006. On the basis of the agreements signed also by Telefonica Antillana S.A. (Telan the majority shareholder of Etec S.A.) and Etec S.A. (loan contract and letter of credit contract), a part of the dividends due to Telan were restricted, in an escrow account, to guarantee repayment of the above loan.

In April 2002, the Cuban government issued a decree law in which Etec S.A. and Telan were prohibited from performing any act to satisfy Bancomext s loan, with the government directly assuming every commitment and guarantee with Bancomext. In August of the same year, following the interruption of payments, Bancomext brought action against Etec S.A. and Telan, succeeding, among other things, in obtaining a precautionary measure from the Courts of Turin to seize Etec S.A. s and Telan s assets held by third parties for a total amount of about 43 million.

Etec S.A. and Telan then separately proposed international arbitration before the Paris International Chamber of Commerce in order to find (i) with regard to Etec S.A., that Bancomext s claim of holding it jointly and severally liable with Telan is illegitimate, or that the responsibility for restitution of the loan rests with the latter guarantor and (ii) that the nature of the above-mentioned decree law exempts it from the obligation of restitution. The proposition of bringing arbitration action caused a stay in Bancomext s action in the ordinary courts.

In August 2004, the arbitration panel concluded that Etec S.A. is not a debtor of Bancomext nor guarantor or surety of Telan, but that the above-mentioned decree law does not constitute a circumstance beyond one s control such that Etec S.A. is exempted from its obligations deriving from the loan contract and the opening of credit contract existing with Bancomext and Telan. Therefore, the award calls for Etec S.A. to re-establish the mechanism stated in the original credit agreements by transferring the dividends due to Telan to the aforementioned escrow account, effective retroactively from April 2002.

Etec S.A. is considering whether to contest the award.

In the meantime, Telecom Italia International (in possession of a letter issued by the Cuban government relieving it of responsibility for any detrimental consequences deriving from the award) has asked the Cuban government, Bancuba and Telan to take all actions necessary to avoid consequences harmful to its investment in Etec S.A., reserving every action for its protection.

SELECTED FINANCIAL AND STATISTICAL INFORMATION

The Merger of Old Telecom Italia with and into Olivetti became effective on August 4, 2003. Olivetti was the surviving company in the Merger (and changed its name to Telecom Italia S.p.A.), and succeeded to the business of Old Telecom Italia.

As a result of the Merger, the summary selected financial data set forth below are consolidated financial data of Olivetti, not Old Telecom Italia, and are presented on the following basis:

- the Telecom Italia Group s selected financial data as of and for the year ended December 31, 2003 have been extracted or derived from the consolidated financial statements of the Telecom Italia Group prepared in accordance with Italian GAAP and which have been audited by Reconta Ernst & Young S.p.A. independent auditor; and

- the summary selected financial data for the Telecom Italia Group as of June 30, 2004, and for the six months ended June 30, 2004 and 2003, have been extracted or derived from the unaudited interim consolidated financial statements prepared in accordance with Italian GAAP which, in our opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our results of operations for the unaudited interim periods. Results for the six months ended June 30, 2004 are not necessarily indicative of results that may be expected for the entire year.

Unless otherwise indicated, amounts presented are based on Italian GAAP. The selected financial data below should be read in conjunction with the Unaudited Interim Consolidated Financial Statements and Notes thereto included elsewhere in this Report on Form 6-K and in the Consolidated Financial Statements and Notes thereto included in our 2003 Form 20-F/A.

	Six Months ended June 30,	
	2003	**2004**
	(millions of Euro) (Unaudited)	
Statement of Operation Data in accordance with Italian GAAP:		
Operating revenues	15,149	15,222
Other income	170	129
Total revenues	15,319	15,351
Cost of materials	956	1,166
Salaries and social security contributions	2,229	2,055
Depreciation and amortization	3,357	3,212
Other external charges	5,882	5,815
Changes in inventories	(56)	(167)
Capitalized internal construction costs	(330)	(326)
Total operating expenses	12,038	11,755

Operating income	3,281	3,596
Financial income	453	504
Financial expense	(1,726)	(1,435)
Of which write-downs and equity in losses in affiliated and other companies, net	*(82)*	*(35)*
Other income and (expense), net	(704)	(320)
Income before income taxes and minority interests	1,304	2,345
Income taxes	288	(1,482)
Net income before minority interests	1,592	863
Minority interests	(536)	(458)
Net income	1,056	405
Net income per Share(1)	0.06	0.02
Net income per Savings Shares(1)	0.07	0.03

	As of December 31, 2003	As of June 30, 2004
	(millions of Euro)	(Unaudited)
Balance Sheet Data in accordance with Italian GAAP:		
Total current assets	22,429	20,015
Fixed assets, net	18,324	17,808
Intangible assets, net	33,853	33,049
Total assets	80,501	76,439
Short-term debt, including current portion of long-term debt	10,613	5,910
Total current liabilities	23,373	17,642
Long-term debt	30,852	34,485
Total liabilities	59,912	57,855
Total stockholders equity before minority interests	16,092	14,730
Total stockholders equity	20,589	18,584

	As of December 31,	As of June 30,	
	2003	2003	2004
		(Unaudited)	
Financial Ratios in accordance with Italian GAAP:			
Gross operating margin (Gross operating profit/operating revenues)(%)(2)	46.3	45.7	46.6
Operating income/operating revenues (ROS) (%)	22.0	21.7	23.6
Net debt/Net invested capital (debt ratio)(%)(3)	61.8	65.1	64.1
Ratio of Earnings to fixed charges(4)	2.55	2.24	3.27
Statistical Data:			
Subscriber fixed lines in Italy (thousands)(5)	26,596	27,079	26,264
ISDN equivalent lines in Italy (thousands)(6)	6,027	6,000	5,941
Broadband Access in Italy and abroad (ADSL+XDSL) (thousands)(7)	2,200	1,375	3,273
Voice Offers in Italy (thousands)(8)	5,547	5,547	5,704
Network infrastructure in Italy:			
• access network in copper (millions of km pair)	105.2	104.7	105.2
• access network and transport in fiber optics (millions of km of fiber optics)	3.6	3.6	3.6
Network infrastructure abroad:			
• European backbone (km of fiber optics)	39,500	39,500	39,500
TIM lines in Italy (thousands)(9)	26,076	25,610	26,011
TIM group foreign lines (thousands)(10)	18,438	15,717	23,627
TIM group lines total (Italy + foreign in thousands)(10)	44,514	41,327	49,638
GSM coverage penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS coverage penetration in Italy (% of population)	97.9	97.9	97.9
Page views Virgilio (millions)	6,612	3,280	3,833
Group s employees (at period-end)	93,187	102,541	93,178
Group s employees (average number)	95,804	99,091	89,053
Operating revenues/Group s employees (average number) (thousands)	322.0	152.9	170.9

(1) Net income per Share as of June 30, 2003 is calculated on the basis of 15,981,774,041 shares outstanding, of which 10,185,852,972 Shares and 5,795,921,069 Savings Shares; the 10,185,852,972 Shares are net of 101,208,867 Shares of treasury stock already held by the Company and its subsidiary Telecom Italia Finance S.A. (formerly Olivetti International S.A.) which resulted from the redistribution of the share capital in connection with the Merger of Old Telecom Italia with and into Olivetti.

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Net income per Share as of June 30, 2004 is calculated on the basis of 16,003,016,009 shares outstanding, of which 10,207,094,940 Shares and 5,795,921,069 Savings Shares; the 10,207,094,940 Shares outstanding are net of 101,208,867 Shares of treasury stock already held by the Company and its subsidiary Telecom Italia Finance.

The calculations take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the Shares.

(2) Gross Operating Profit was 14,280 million, 6,921 million and 7,089 million in 2003 and in the six months ended June 30, 2003 and 2004, respectively. Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. Telecom Italia believes that Gross Operating Profit provides a useful measure of the Telecom Italia Group s operating performance. Gross Operating Profit provides shareholders with an additional level of detail, after operating revenues and before operating income, showing what we believe is an accurate indicator of the Telecom Italia Group s and individual segments operating results before certain cash and non-cash charges and income arising primarily from ancillary activities. In addition the Telecom Italia Group also believes (although other telecommunications operators will calculate such information differently) that Gross Operating Profit permits an adequate comparison of the Telecom Italia Group s performance against its peer group. Telecom Italia uses Gross Operating Profit, among other measures, as a target for operating performance both internally in our business plan and externally to investors and analysts. As such, Gross Operating Profit is monitored periodically by Telecom Italia management in order to measure Telecom Italia s performance relative to our target. As calculated, Gross Operating Profit is intended to provide shareholders with an operating measure which reflects our consolidated operating revenues less our consolidated operating expenses most directly related to the operations of our business, such as personnel costs. As noted above, Gross Operating Profit eliminates certain cash and non-cash charges which are part of operating our businesses but reflect estimates based on our judgment in applying accounting principles, such as bad debt reserves to cover customers who do not pay their bills, rather than expenses directly related to the operations of our businesses. In addition, Telecom Italia management monitors Gross Operating Profit or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to measure our performance relative to such companies. In certain instances, Gross Operating Profit is also used as a benchmark for purposes of assessing the variable component (i.e., annual bonuses) of our employees compensation, including in negotiations with our employees labor unions. Gross Operating Profit is reported in our Italian annual report to shareholders and is used in presentations to investors and analysts. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Year ended December 31,	**Six months ended June 30,**	
	2003	**2003**	**2004**
	(millions of Euro)		
		(Unaudited)	
Operating income	**6,789**	**3,281**	**3,596**
Depreciation and Amortization	6,779	3,357	3,212
Other external charges: (*)			
• Provision for bad debts	471	200	132
• Write-downs of fixed assets and intangibles	6	2	1
• Provision for risks	70	61	34