Vale S.A.
Form 6-K
April 01, 2010

Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of
March 2010
Vale S.A.

Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)

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

(Check One) Form 20-F þ Form 40-F o

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes o No þ

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes o No þ

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

(Check One) Yes o No þ

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

TABLE OF CONTENTS

Table of Contents

Vale to sell minority stakes in Bayóvar

Rio de Janeiro, March 31, 2010 Vale S.A. (Vale) announces that it has reached an agreement with The Mosaic Company (Mosaic), a company listed on the New York Stock Exchange, and Mitsui & Co. Ltd. (Mitsui), a company listed on the Tokyo Stock Exchange, to sell minority stakes in the Bayóvar project in Peru, through a newly-formed company that will control and operate the project.

Subject to the terms and conditions set forth in the definitive share purchase agreement, Vale has agreed to sell 35% of total capital to Mosaic for US$ 385 million and 25% of total capital to Mitsui for US$ 275 million. Following the consummation of these transactions, Vale will retain control of the Bayóvar project, holding 51% of the voting shares and 40% of total capital of the newly-formed company.

Bayóvar is a phosphate rock project located in Sechura, department of Piura, Peru, which consists of an open-pit mine that is expected to have production capacity of 3.9 million metric tons per year and a maritime terminal. Completion is expected for the second half of 2010. The sale of these minority stakes will facilitate the offtake of product from the Bayóvar project.

Actual closing of the transaction remains subject to the parties finalization of the definitive shareholders agreement and commercial offtake agreements, certain governmental regulatory approvals and other customary closing conditions.

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This press release may include declarations about Vale s expectations regarding future events or results. All declarations based upon future expectations, rather than historical facts, are subject to various risks and uncertainties. Vale cannot guarantee that such declarations will prove to be correct. These risks and uncertainties include factors related to the following: (a) the countries where Vale operates, mainly Brazil and Canada; (b) the global economy; (c) capital markets; (d) the mining and metals businesses and their dependence upon global industrial production, which is cyclical by nature; and (e) the high degree of global competition in the markets in which Vale operates. To obtain further information on factors that may give rise to results different from those forecast by Vale, please consult the reports filed with the Brazilian Comissão de Valores Mobiliários (CVM), the French Autorité des Marchés Financiers (AMF), and with the U.S. Securities and Exchange Commission (SEC), including Vale s most recent Annual Report on Form 20F and its reports on Form 6K.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2010	Vale S.A. (Registrant)
	By: /s/ Roberto Castello Branco Roberto Castello Branco Director of Investor Relations

ZE="1"> (81) 71

Construction in progress and advances to supplier

35 35

Total

2,206 (27) (581) 1,598

As of December 31, 2005, minimum lease payments due in future years and their present value are as follows:

	Minimum lease payments	Present value of minimum lease payments
	(millions of Euro)	
Within 1 year	234	218
From 2 to 5 years	868	685

Beyond	1,965	891
	3,067	**1,794**

	As of December 31,	
	2004	2005
Future lease payments	3,139	3,067
Less: Interest portion	(1,369)	(1,273)
Present value of lease payments	**1,770**	**1,794**
Finance lease obligations	2,087	2,128
Finance lease obligations relating to Discontinued operations/assets held for sale	(34)	
Financial receivables for lessors net investments	(283)	(334)
Total net finance lease liabilities	**1,770**	**1,794**

F-40

NOTE 9 OTHER NON-CURRENT ASSETS

Other non-current assets increased from 2,338 million as of December 31, 2004 to 3,163 million as of December 31, 2005. Other non-current assets are detailed as follows:

		As of December 31,	
		2004	2005
		(millions of Euro)	
Equity investments in:			
Associated companies accounted for using the equity method		585	765
Jointly controlled companies			16
Other companies		479	561
	(A)	**1,064**	**1,342**
Securities and financial receivables:			
Securities other than equity investments		7	8
Financial receivables and other non-current financial assets		386	988
	(B)	**393**	**996**
Miscellaneous receivables and other non-current assets:			
Miscellaneous receivables		381	358
Medium/long-term prepaid expenses		500	467
	(C)	**881**	**825**
Total	**(D=A+B+C)**	**2,338**	**3,163**

Major transactions involving equity investments

a) Acquisitions in 2004

Capital increases by ETECSA

During the first half of 2004, the Shareholders Meeting of the Cuban company voted three increases in share capital in order to fund the extraordinary financial requirements for the payment of the new license granted by the MIC (the Ministry of Cuban Telecommunications), with the following characteristics:

- on March 4, 2004, U.S.$23.8 million through the issue of 165 new shares for a unit price of U.S.$144,190;
- on May 20, 2004, U.S.$31.6 million through the issue of 219 new shares for a unit price of U.S.$144,190;
- on June 14, 2004, U.S.$61.9 million through the issue of 429 new shares for a unit price of U.S.$144,190.

Telecom Italia International N.V. subscribed to such increases based on its investment (27%) paying, respectively, U.S.$6.3 million, U.S.$8.5 million and U.S.$16.7 million, and receiving in exchange, respectively, 44, 59, and 116 new shares.

Telecom Italia International N.V. s interest has remained unchanged.

b) Divestitures in 2004

Sale of Euskaltel

On January 16, 2004, Telecom Italia International N.V. signed a contract with Araba Gertu S.A. for the sale of a 3.1% stake in Euskaltel to Araba Gertu S.A. for a total price of 13.6 million. This sale was conditional upon the pre-emptive right procedure provided by Euskaltel s bylaws.

The closing took place on February 19, 2004. After the pre-emption right was exercised by Iberdrola S.A., an Euskaltel shareholder, the sale of the above stake occurred through the signing of two separate contracts under which Telecom Italia International N.V. sold 149,231 shares to Araba Gertu S.A. for consideration of 12.1 million and 18,719 shares to Iberdrola S.A. for consideration of 1.5 million.

The remaining stake of 3% was sold in October 2005.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Sale of Netco Redes S.A.

On June 24, 2004, Telecom Italia International N.V. transferred 301,404 Netco Redes shares to Auna, receiving the entire agreed amount of consideration of 30 million, including interest accrued up to the closing date, on June 30, 2004. A net gain of 6 million was realized on consolidation.

Sale of Pirelli & C. Real Estate S.p.A. shares

During 2004, all the Pirelli & C. Real Estate S.p.A. shares held (812,086) were sold for total cash proceeds of 24 million.

Sale of SKY Italia S.r.l.

On September 28, 2004, Telecom Italia sold its 19.9% interest in Sky Italia S.r.l. to the NewsCorp group. The consideration on the transaction was 88 million. The transaction gave rise to a gain against the carrying value at June 30, 2004 of 31.4 million. Such gain offset the effects of the impairment losses recognized during the first half of the year so that the transaction had almost no economic impact on the consolidated financial statements.

Sale of Mirror International Holding S.a.r.l.

On December 21, 2004, Mirror International Holding S.a.r.l. purchased, through a buyback, 30% of its capital held by Telecom Italia. Consideration for the transaction was 75 million, 73 million for the sale and 2 million for the loan repayment. The deal gave rise to a gain on consolidation of 24 million for the sale of the above interest and 61 million for the release of the remaining part of the gain on the sale, in 2001, of 70% of Mirror International Holding, the company to which the investments in the satellite consortiums had previously been transferred.

c) Acquisitions in 2005

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 U.S.$6,550 million by Oger Telecom, a newly-formed company controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia through TIM International made an initial investment of

U.S.$200 million (13.33%). 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 sign a four-year agreement for technical assistance with AVEA I.H.A.S., the Turkish mobile operator in which stakes are held by TIM International (40.5647%), Turk Telekom (40.5647%) and Is Bank (18.8706%). The agreements with Saudi Oger also provide that the investment in AVEA I.H.A.S., held by TIM International, may be transferred to Turk Telekom, and that the proceeds from the sale shall be partially reinvested in Oger Telecom shares, or alternatively the sale of the AVEA I.H.A.S. shares may be carried out by directly selling to Oger Telecom (in exchange of Oger Telecom shares). The valuation of AVEA I.H.A.S.shares held by TIM International were initially agreed in a range of between U.S.$400 million and U.S.$600 million and then finally established at U.S.$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 investing 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 resulting from the sale of the current investment in AVEA I.H.A.S., which represented one-fourth of the Oger Telecom shares initially subscribed by TIM International. If the put option is not exercised, the counterpart may exercise a call option on the same shares.

Acquisition of Luna Rossa Challenge 2007 S.L. and Luna Rossa Trademark

On July 27, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Challenge 2007 S.L., a Spanish-registered company, by subscribing to a share capital increase reserved for Telecom Italia of approximately 2 million.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

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 10 million.

d) Divestitures of equity investments

Sale of CMobil CZ

Under the process of rationalization of its international investment portfolio, on March 24, 2005, TIM finalized the sale of 7.16% of the share capital of CMobil CZ (a Dutch holding company which holds a 60.8% stake in T-Mobile CZ) with T-Mobile Global Holding. This investment corresponds to an indirect interest of 4.35% in T-Mobile CZ, one of the largest mobile operators in the Czech Republic. The sales price was 70.5 million and resulted in a gain of approximately 61 million.

Equity investments in associates accounted for using the equity method are detailed as follows:

	As of January 1, 2004	Discontinued operations/ assets held for sale	Investments	Disposals and capital reimbursements	Equity method adjustments	Reclassifications and other changes	As of December 31, 2004
				(millions of Euro)			
ETECSA.	392		26		(128)		290
Italtel Holding	35				(3)		32
Mirror International Holdings	48			(48)			
Netco Redes	24			(24)			
Siemens Informatica	16				(2)		14
Sky	44		55	(99)			
Tiglio I	234			(76)	(5)		153
Tiglio II	78			(25)	7		60
Other	42	(8)	2	(3)	3		36
Total	**913**	**(8)**	**83**	**(275)**	**(128)**		**585**

	As of December 31, 2004	Discontinued operations/ assets held for sale	Investments	Disposals and capital reimbursements	Equity method adjustments	Reclassifications and other changes	As of December 31, 2005

				(millions of Euro)			
AVEA I.H.A.S.			122		(122)		
Brasil Telecom Participaçoes					(2)	23	21
ETECSA.	290				39		329
Italtel Holding	32				6		38
Siemens Informatica	14				(10)		4
Solpart Participaçoes				(17)	142	89	214
Tiglio I	153			(41)	(17)		95
Tiglio II	60			(33)	(10)		17
Other	36		14	(7)	4		47
Total	**585**		**136**	**(98)**	**30**	**112**	**765**

The Equity method adjustments includes the share of earnings for the year and the translation adjustments of the foreign companies financial statements. In particular, the impact on the 2005 consolidated statement of operations relates to AVEA I.H.A.S. (a decrease of 122 million), ETECSA (an increase of 45 million), Solpart Participaçoes (an increase of 94 million) and other companies (a decrease of 10 million).

At December 31, 2004, the carrying value of the equity investment in AVEA I.H.A.S. was zero because the contribution of the IS TIM investment to AVEA I.H.A.S. took place at the pre-existing carrying value of the investment which in prior years had been written off. During 2004, the losses incurred by AVEA I.H.A.S. were not recognized because the carrying value of the investment in AVEA I.H.A.S. had been written off.

During 2005, the share of the losses of the AVEA I.H.A.S. amounted to 152 million and 122 million of that amount was recorded in the statement of operations up to the carrying amount of the associate which had increased as a result of a share capital increase.

The equity investments in Solpart Participaçoes and in Brasil Telecom Participaçoes have been valued using the equity method following the signing of agreements during the first half of 2005 which reinstated Telecom Italia s governance rights in Solpart. Such rights had been temporarily suspended in August 2002.

The value of the equity investment in ETECSA includes 64 million for the unamortized portion of goodwill, namely the excess of the book value over the corresponding share of the underlying net assets acquired.

The investment in Italtel Holding S.p.A. is included in equity investments in associates accounted for using the equity method because, although owning a 19.37% stake (below 20% of voting rights exercisable), Telecom Italia is able to exercise a significant influence through the rights attributed to it by the shareholders agreements.

The Italtel Holding S.p.A. shareholders meeting held on February 27, 2006 approved the filing of a request to list its ordinary shares on the Italian stock exchange.

Aggregate 2005 financial information of the major associates prepared in accordance with IFRS, based on Telecom Italia Group s share, is as follows:

	As of December 31, 2005
	(millions of Euro)
Total assets	4,961
Total liabilities	2,606
Revenues	2,278
Loss for the year	(114)

Equity investments in jointly-controlled companies include the investments in Perseo S.r.l. and Sofora Telecomunicaciones S.A., in which 50% stakes are held.

The equity investment in Sofora Telecomunicaciones S.A. was accounted for using the equity method. Since 2001, following the monetary crisis in Argentina, the net equity of the company, which controls the Telecom Argentina group, was negative. Therefore, the carrying value, including the goodwill acquired, had been written off. In 2005, the net equity of the Sofora group became positive as a result of restructuring a part of the Telecom Argentina group s debt. As a result, the carrying value was adjusted for the share of ownership (16 million). However, all the reasons which led to the impairment of the investment in previous years have not been eliminated, therefore, the impairment has not been reversed.

Aggregate 2005 financial information based on Telecom Italia Group s share is as follows:

	As of December 31, 2005
	(millions of Euro)
Non-current assets	938
Current assets	269
Total assets	**1,207**
Non-current liabilities	767
Current liabilities	299
Total liabilities	**1,066**
Revenues	787
Operating income	65
Income from continuing operations before taxes	207
Net income (loss)	**54**

Financial Statements **Notes To Consolidated Financial Statements**

The list of companies accounted for using the equity method is presented in Note 41 List of companies of the Telecom Italia Group .

Equity investments in other companies are presented below:

	As of January 1, 2004	Discontinued operations/ assets held for sale	Investments	Disposals and capital reimbursements	Fair value adjustments	Reclassifications and other changes	As of December 31, 2004
				(millions of Euro)			
Brasil Telecom Participaçoes						17	17
CMobil	9						9
Cirsa	41			(41)			
Consortium	20						20
Euskaltel	27			(14)			13
Fin. Priv.	15						15
Forthnet	11				(1)		10
Mediobanca	123				45		168
Medio Credito Centrale	36						36
Neuf Telecom	51						51
Pirelli Real Estate	20			(20)			
Sia	11						11
Solpart Participaçoes	112					(17)	95
Other	47	(1)	1	(13)			34
Total	**523**	**(1)**	**1**	**(88)**	**44**		**479**

	As of December 31, 2004	Discontinued operations/ assets held for sale	Investments	Disposals and capital reimbursements	Fair value adjustments	Reclassifications and other changes	As of December 31, 2005
				(millions of Euro)			
Brasil Telecom Participaçoes	17					(17)	
CMobil	9			(9)			
Consortium	20						20
Euskaltel	13			(13)			
Fin. Priv.	15						15
Forthnet	10			(10)			
Mediobanca	168				59		227
	36						36

Medio Credito Centrale							
Neuf Telecom	51						51
Oger Telecom			178				178
Sia	11						11
Solpart Participaçoes	95					(95)	
Other	34	(11)	4	(4)			23
Total	**479**	**(11)**	**182**	**(36)**	**59**	**(112)**	**561**

Equity investments in other companies increased by 82 million in 2005 mainly as a result of the investment in Oger Telecom and the fair value adjustment of the investment in Mediobanca which was partly offset by the reclassification of Solpart and Brasil Telecom to equity investments in associates.

Financial receivables and other non-current financial assets increased by 602 million and include the following:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Financial receivables for lessors net investments	173	212
Loans to employees	74	79
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	71	276
Other financial receivables	68	421
	386	**988**

Financial receivables for lessors net investments refer to the non-current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia. Financial receivables for lessors net investments also include, the non-current portion of finance lease contracts with customers (which also include the performance of accessory services under the full rent formula) relating to assets held under lease contracts.

	As of December 31,	
	2004	2005
	(millions of Euro)	
Non-current portion	173	212
Current portion	110	122
Total	**283**	**334**

Other financial receivables at the end of 2005 include 327 million of deposits at ABN Amro to guarantee the payment that Telecom Italia is required to make to Opportunity, subject to the occurrence of the conditions included in the contract for the purchase of Opportunity Zain (which indirectly holds Solpart Participaçoes shares), and Brasil Telecom Participaçoes shares, and 43 million (73 million at December 31, 2004) of the medium/long-term portion of the receivable due from PTT Srbija on the sale of Telekom Srbija.

Miscellaneous receivables and other non-current assets decreased from 881 million to 825 million and include the fair value of the two call options on 50% of Sofora share capital for 160 million (115 million at December 31, 2004), the tax credit from the advance payment of tax on the employee severance indemnities of 35 million (41 million at December 31, 2004) and prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of 467 million (500 million at December 31, 2004).

NOTE 10 DEFERRED TAX ASSETS AND RESERVE FOR DEFERRED TAXES

Net deferred tax assets decreased from 3,944 million to 2,656 million and are presented in the balance sheet as follows:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Deferred tax assets	4,114	2,793
Reserve for deferred taxes	(170)	(137)
Total	**3,944**	**2,656**

Since deferred tax assets and liabilities are reported, net of the offsets where applicable, made by each legal entity, their composition gross of offsets is presented below:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Deferred tax assets	4,176	3,044
Reserve for deferred taxes	(232)	(388)
Total	**3,944**	**2,656**

Table of Contents

Changes in deferred tax assets and liabilities gave rise to a tax charge for the year ended December 31, 2005 of 1,386 million (see the Note 37 Income taxes for the year for additional details on the tax charge). The tax effect on the income and charges recognized directly in equity in 2005 is a charge of 1 million which is included in the Statement of changes in shareholders equity for the year 2005.

The other changes during the year in deferred taxes which did not have an effect on net income mainly refer to the reduction in deferred tax liabilities (99 million) on the call option component of the Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium which is lower in 2005 owing to the conversion to shares (see the Note 17 Shareholders equity) and to the deferred tax liabilities recorded on the business combinations recognized according to IFRS 3 (46 million, of which 41 million relates to the purchase of Elefante TV-Delta TV and 5 million to the purchase of Liberty Surf Group S.A.).

Temporary differences which make up this caption at December 31, 2005 and 2004 are the following:

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Deferred tax assets:		
• Write-downs for the impairment of equity investments and other	2,310	1,259
• Unrealized intra-group gains	92	31
• Reserve for pension fund integration (Law No. 58/92)	292	227
• Tax loss carryforwards	538	517
• Reserves for risks and future charges	253	276
• Bad debts reserve	159	220
• Recognition of revenues	181	177
• Sale and lease back transactions on properties	92	109
• Derivative instruments	99	130
• Other deferred tax assets	160	98
Total	**4,176**	**3,044**
Reserve for deferred taxes:		
• Accelerated depreciation	(219)	(280)
• Deferred gains	(13)	(108)
Total	**(232)**	**(388)**
Total deferred tax assets net of reserve for deferred taxes	**3,944**	**2,656**

Deferred tax assets on the write-downs for the impairment of equity investments refer to the write-downs recorded in prior years and deducted for tax purposes over a period of five years.

At December 31, 2005, the Group had tax loss carryforwards mainly relating to the Parent, Telecom Italia, and some foreign companies (Telecom Italia Finance and TIM Celular) for a total amount of 7,304 million, with the following expiration dates:

Year of expiration	**(millions of Euro)**
2006	73
2007	140
2008	1,818
2009	59
2010	22
Expiration beyond 2010	5
Without expiration	5,187
Total tax loss carryforwards	**7,304**

At December 31, 2005, deferred tax assets have been recorded on tax loss carryforwards of 1,567 million. No deferred taxes have been calculated on the remaining tax losses (5,737 million) since their recoverability is not considered probable.

Table of Contents

At December 31, 2005, deferred taxes have not been recognized on tax-suspension reserves, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.

Deferred taxes have not been recognized on the undistributed earnings of subsidiaries and associates in that the tax system of their parents provide for the participation exemption.

NOTE 11 INVENTORIES

Inventories decreased from 334 million at December 31, 2004 to 294 million. The composition of inventories is as follows:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Raw materials and supplies	12	8
Work in progress and semi-finished products	16	24
Finished products	306	262
Total	**334**	**294**

Inventories include 105 million relating to the Mobile Business Unit (mobile equipment and accessories), 77 million to the Wireline Business Unit (telephone handsets) and 88 million to the Olivetti Business Unit (office products, specialized printers and gaming terminals).

Write-downs of inventories made in 2005 total 26 million and mainly refer to the adjustment of Wireline telephone handsets to estimated realizable value.

No inventories are pledged as collateral.

NOTE 12 TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased from 10,155 million at December 31, 2004 to 9,191 million at December 31, 2005 and consist of the following:

		As of December 31,	
		2004	2005
		(millions of Euro)	
Receivables for construction contracts	**(A)**	**39**	**37**
Trade receivables:			
Amounts due from customers		6,556	5,960
Amounts due from other telecommunication operators		1,145	978
	(B)	**7,701**	**6,938**
Miscellaneous receivables and other current assets:			
Other receivables		2,133	1,868
Trade and miscellaneous prepaid expenses		282	348
	(C)	**2,415**	**2,216**
Total	**(A+B+C)**	**10,155**	**9,191**

Receivables on construction contracts of 37 million mainly refer to Telecom Italia (20 million) for network equipment, Lombardy Region health cards and telephone plants customized for customers and Telecom Italia Learning Services S.p.A. (12 million) for training activities, conditional on the presentation of financial reports, prepared for projects carried out on behalf of local public entities.

Trade receivables amount to 6,938 million (7,701 million at December 31, 2004) and are net of the reserve for bad debts of 773 million (897 million at December 31, 2004).

The decrease is mainly due to the sale of the Entel Chile group, the Finsiel group, TIM Hellas and TIM Perù (for a total of 362 million).

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The decrease is also the result of the change in the contracts for the securitization of trade receivables from residential customers made at the end of 2005 which caused a reduction of 648 million. The change specifically refers to the full transfer of the risk on the deferred purchase price (DPP) which, together with the purchase of the securitization vehicle (TI Securitisation Vehicle) by a bank, led to the deconsolidation of this company with a consequent reduction in trade receivables.

The caption also includes 4 million (5 million at December 31, 2004) of medium/long-term trade receivables from customers.

Trade receivables specifically refer to Telecom Italia (4,001 million), Tim Italia (1,266 million) and the foreign mobile telephone companies (701 million).

Changes in the reserve for bad debts are as follows:

	2004	2005
	(millions of Euro)	
At January 1,	905	897
Discontinued operations	(23)	(132)
Charged to the statement of operations	295	264
Utilization	(266)	(264)
Reversal of the reserve in excess of requirements	(8)	(15)
Exchange differences and other changes	(6)	23
At December 31,	**897**	**773**

Other receivables amount to 1,868 million (2,133 million at December 31, 2004). Details are as follows:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Advances to supplier	45	60
Receivables from employees	60	55
Tax receivables	699	565
Miscellaneous receivables	1,329	1,188
Total	**2,133**	**1,868**

Tax receivables include 335 million of current income taxes and 230 million of indirect duties and taxes. The decrease of 134 million is mainly the result of offsetting Ires receivables against Ires payables which became possible under the consolidated national tax return system.

Miscellaneous receivables comprise receivables of 634 million from the Financial Administration for the TLC operating fee paid by Telecom Italia and TIM for the year 1999, recognized in income in 2004 following the ruling by the TAR of Lazio Regional Administrative Court on January 4, 2005, and including interest due through December 31, 2005.

Prepayments of a trading and sundry nature regard the deferral of costs referring to the recognition of revenues.

Table of Contents

NOTE 13 SECURITIES OTHER THAN EQUITY INVESTMENTS

Securities other than equity investments decreased from 457 million at December 31, 2004 to 378 million. They consist of the following:

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Held-to-maturity financial assets:		
• Securities other than equity investments		3
Available-for-sale financial assets:		
• Securities other than equity investments available for sale due beyond 3 months	456	374
Financial assets at fair value through profit or loss:		
• Securities other than equity investments held for trading	1	1
Total	**457**	**378**

Bonds and other securities amount to 378 million. They include 374 million invested by the Luxembourg subsidiary, Telecom Italia Finance S.A., in bonds issued by companies with at least an A rating and with different maturities, but all are actively traded and are, therefore, readily convertible to cash.

NOTE 14 FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

Financial receivables and other current financial assets decreased from 662 million at December 31, 2004 to 509 million. They consist of the following:

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Deposits for temporary investments of excess liquidity originally due beyond 3 months but within 12 months	8	90
Financial receivables for lessors net investments	110	122
Other short-term financial receivables	489	102
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	55	195

Total	**662**	**509**

Deposits refer to   80 million to investments of excess liquidity of Telecom Italia Finance S.A..

Financial receivables for lessors   net investments refer to the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia. Such receivables also include the current portion of contracts to involving the sale of assets under finance leases to customers, including the performance of accessory services (the   full rent   formula).

Other short-term financial receivables include the current portion of loans to personnel for   10 million, the receivable from PTT Srbija on the sale of Telecom Srbija for   13 million and non-hedging derivatives for   61 million (102 million at December 31, 2004).

Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature refer to accrued income on derivatives. Additional details are provided in the   Note 23   Financial instruments .

NOTE 15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased from 8,855 million at December 31, 2004 to 10,323 million. They consist of the following:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Liquid assets with banks, financial institutions and post offices	8,502	9,956
Cheques	1	
Cash	3	2
Other receivables and current accounts	20	34
Securities other than equity investments (due within 3 months)	329	331
	8,855	**10,323**

The different technical forms used for the investment of available resources as of December 31, 2005 can be further analyzed as follows:

- Maturities. More than 97% of deposits have a maximum maturity date of two months.
- Counterpart risk. Deposits are made with leading banks and financial institutions with credit rating at least equal to A.
- Country risk. The geographic location of deposits is principally on the London financial market.

Securities other than equity investments (due within 3 months) include 327 million (329 million at December 31, 2004) of Euro Commercial Paper of Telecom Italia Finance S.A., of which 297 million maturing within two months and 30 million maturing up to February 16, 2006. The issuers all have AAA, AA and A ratings and are located in Europe.

NOTE 16 DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

Discontinued operations/assets held for sale, at December 31, 2005, include the Entel Chile group (sold in March 2005), the Finsiel group and TIM Hellas (sold in June 2005), TIM Perù (sold in August 2005), the Gruppo Buffetti (sold in January 2006) and Corporacion Digitel (company held for sale).

As regards the data of the year ended December 31, 2004, presented for comparison purposes:

- as required by IFRS 5, discontinued operations/assets held for sale and related liabilities in the balance sheet as of December 31, 2004 include the companies so classified at that date (Finsiel group and Corporacion Digitel);

- the adjusted balance sheet at December 31, 2004 used for comparative purposes includes the assets and liabilities of the Finsiel group, Corporacion Digitel, Entel Chile group, TIM Hellas, TIM Perù and Gruppo Buffetti in discontinued operations/assets held for sale;

- the statement of operations and the statement of cash flows for the year 2004 have been prepared consistently with those of the 2005 statements taking into account all the discontinued operations/assets held for sale (and the related liabilities) at the end of 2005.

The balance sheet amounts relating to discontinued operations/assets held for sale are presented in two separate captions Discontinued operations/assets held for sale and Liabilities relating to discontinued operations/assets held for sale .

The result of operations and cash flows of discontinued operation/assets held for sale (and related liabilities) are presented in the captions Net income (loss) from discontinued operations/assets held for sale in the statement of operations and Cash flow generated by (used in) discontinued operations/assets held for sale in the statement of cash flows.

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Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Sale of Entel Chile

On March 29, 2005, Telecom Italia, through its subsidiary Telecom Italia International N.V., sold its 54.76% investment in the Chilean company Entel Chile S.A. to Almendral S.A. (an investment holding company listed on the stock exchange in Santiago, Chile which represents local businesses including the Hurtado Vicuña group and the Matte group).

The sales price was U.S.$934 million (723 million) with a loss of 1 million and 6 million of transaction charges.

Sale of Finsiel

On April 26, 2005, the contract was finalized for the sale of the entire interest held by Telecom Italia in Finsiel (79.5%) to the COS group. The sale is based on an enterprise value of 164 million. The sales terms are as follows:

- on June 28, 2005, a 59.6% interest was sold for a price of 87 million;
- on November 7, 2005, the remaining 19.9% was sold for a price of 28 million.

The sale had no effect on the statement of operations since the carrying value had been adjusted to the sales price.

The residual receivable from the COS group for the sale of the investment is equal to 26 million and is scheduled to be collected by December 31, 2006.

Sale of TIM Hellas

On June 15, 2005, TIM International N.V. sold its 80.87% investment in TIM Hellas Telecommunications S.A. to the funds managed by Apax Partners and Texas Pacific group (TPG) for a price of 1,114 million corresponding to an enterprise value of approximately 1,600 million for 100% of TIM Hellas or approximately 16.43 per share. The sale gave rise to a net gain of 410 million.

Sale of TIM Perù

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. for 330 million. The sale gave rise to a net gain of 120 million (net of the relative incidental charges) and a reduction in the net financial position of more than 400 million.

Agreement for the sale of the Gruppo Buffetti

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 transaction was finalized in January 2006 for a total amount of 76 million (enterprise value). In the 2005 financial statements, the investment value was already adjusted to the sales price and resulting in a charge of 6 million, included in net income attributable to the Group.

Agreement for the sale of Corporacion Digitel

The agreement signed with the local wireline telephone Cantv (Compañia Anonima Nacional Telefonos de Venezuela) in November 2004 for the sale of Corporacion Digitel was terminated after failure to receive authorization for the sale from the Venezuelan telecommunication authority on May 5, 2005.

On January 19, 2006, Telecom Italia, signed an agreement for the sale of 100% of the capital of Corporacion Digitel to the company Telvenco S.A. for a global value transaction of U.S.$425 million (enterprise value). The closing of the transaction is subject mainly to the obtainment of the necessary authorizations from the relevant Venezuelan authorities.

Key figures relating to discontinued operations/assets held for sale in the balance sheet and statement of operations are presented below.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The composition of **discontinued operations/assets held for sale** (and the related liabilities) is provided in the following table:

	As of December 31,		
	2004	2004 Adjusted	2005
	(millions of Euro)		
Discontinued operations/Assets held for sale:			
• of a financial nature	84	225	37
• of a non-financial nature	1,096	4,494	491
Total	**1,180**	**4,719**	**528**
Liabilities relating to discontinued operations/assets held for sale:			
• of a financial nature	188	1,023	143
• of a non-financial nature	584	1,220	142
Total	**772**	**2,243**	**285**

Discontinued operations/assets held for sale of a financial nature refer to:

Non-current financial assets

	As of December 31,		
	2004	2004 Adjusted	2005
	(millions of Euro)		
Entel Chile group		10	
Finsiel group	4	4	
	4	**14**	

Current financial assets

	As of December 31,		
	2004	2004 Adjusted	2005
	(millions of Euro)		
Entel Chile group		112	
Finsiel group	36	36	
TIM Hellas		14	
TIM Perù		3	
Gruppo Buffetti		2	4
Corporacion Digitel	44	44	33
	80	**211**	**37**

Assets of a non-financial nature refer to:

	As of December 31,		
	2004	2004 Adjusted	2005
	(millions of Euro)		
Entel Chile group		1,668	
Finsiel group	759	759	
TIM Hellas		1,240	
TIM Perù		358	
Gruppo Buffetti		132	113
Corporacion Digitel	337	337	378
	1,096	**4,494**	**491**

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

At December 31, 2005, the item includes goodwill of 171 million, of which 12 million refers to the Gruppo Buffetti (net of the write-down of 7 million to adjust the amount to the sale price) and 158 million to Corporacion Digitel, with an increase of 36 million compared to January 1, 2004 for the purchase of the residual minority interest by TIM International.

At December 31, 2004 adjusted goodwill totaled 802 million, of which 371 million referred to the Entel Chile group, 273 million to TIM Hellas and 158 million to Corporacion Digitel.

Liabilities of a financial nature refer to:

Non-current financial liabilities relating

	As of December 31,		
	2004	2004 Adjusted	2005
	(millions of Euro)		
Entel Chile group		499	
Finsiel group	7	7	
TIM Hellas		228	
TIM Perù		82	
Gruppo Buffetti		4	
Corporacion Digitel	108	108	62
	115	**928**	**62**

At December 31, 2004, adjusted non-current liabilities of a financial nature include 171 million for bonds issued by Entel Chile maturing between 2005 and 2023.

Current liabilities of a financial nature

	Year ended December 31,		
	2004	2004 Adjusted	2005

		(millions of Euro)	
Finsiel group	19	19	
Gruppo Buffetti		22	19
Corporacion Digitel	54	54	62
	73	**95**	**81**

Liabilities of a non-financial nature refer to a:

	Year ended December 31,		
	2004	2004 Adjusted	2005
		(millions of Euro)	
Entel Chile group		246	
Finsiel group	525	524	
TIM Hellas		274	
TIM Perù		73	
Gruppo Buffetti		44	40
Corporacion Digitel	59	59	102
	584	**1,220**	**142**

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The net income (loss) from discontinued operations/assets held for sale included in the statement of operations can be represented as follows:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Economic effects from discontinued operations/assets held for sale:			
Revenues		2,935	1,387
Other income		39	18
Other operating expenses		(2,324)	(1,127)
Depreciation and amortization, gains/losses realized, impairment reversals/losses		(404)	(181)
Operating income		**246**	**97**
Net financial income (expenses)		(64)	(22)
Income before taxes from discontinued operations/assets held for sale		**182**	**75**
Income taxes		(81)	(31)
Income after taxes from discontinued operations/assets held for sale	**(A)**	**101**	**44**
Result of disposal:			
Write-downs/provisions relating to assets held for sale		(205)	(9)
Net gain from discontinued operations			515
Income taxes		(14)	
	(B)	**(219)**	**506**
Net income (loss) from discontinued operations/assets held for sale	**(A+B)**	**(118)**	**550**

A breakdown of the **income after taxes from discontinued operations/assets held for sale** is as follows:

	Year ended December 31,	
	2004	2005
	(millions of Euro)	
Entel Chile group	49	26
Finsiel group	(7)	(11)
TIM Hellas	82	11
TIM Perù	(17)	(3)
Gruppo Buffetti	1	1

Corporacion Digitel	(7)	20
	101	**44**

A breakdown of the **results of disposal** is as follows:

	Year ended December 31,	
	2004	**2005**
	(millions of Euro)	
Entel Chile group	(191)	(7)
Finsiel group	(28)	(8)
TIM Hellas		410
TIM Perù		120
Gruppo Buffetti		(9)
Corporacion Digitel		
	(219)	**506**

F-55

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Net cash flows from operating activities, investing activities and financing activities relating to discontinued operations/assets held for sale is as follows:

Cash flows from operating activities

	Year ended December 31,	
	2004	**2005**
	(millions of Euro)	
Entel Chile group	289	61
Finsiel group	(45)	(12)
TIM Hellas	143	27
TIM Perù	40	21
Gruppo Buffetti	7	11
Corporacion Digitel	58	69
Other, adjustments and eliminations	13	13
	505	**190**

Cash flows from investing activities

	Year ended December 31,	
	2004	**2005**
	(millions of Euro)	
Entel Chile group	(98)	(12)
Finsiel group	(20)	(3)
TIM Hellas	(141)	(20)
TIM Perù	(24)	(19)
Gruppo Buffetti	(1)	(3)
Corporacion Digitel	(21)	(47)
Other, adjustments and eliminations	(31)	(20)
	(336)	**(124)**

Cash flows from financing activities

	Year ended December 31,	
	2004	2005
	(millions of Euro)	
Entel Chile group	(190)	(2)
Finsiel group	(21)	15
TIM Hellas	(55)	(17)
TIM Perù		(8)
Gruppo Buffetti		(3)
Corporacion Digitel	(12)	(32)
Other, adjustments and eliminations		7
	(278)	**(40)**

Total cash flows generated by (used in) discontinued operations/assets held for sale

	Year ended December 31,	
	2004	2005
	(millions of Euro)	
Cash flows from operating activities	505	190
Cash flows from investing activities	(336)	(124)
Cash flows from financing activities	(278)	(40)
Total cash flows generated by (used in) discontinued operations/assets held for sale	**(109)**	**26**

F-56

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

NOTE 17 SHAREHOLDERS EQUITY

Shareholders equity includes:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Shareholders equity attributable to the Group	16,248	25,662
Shareholders equity attributable to Minority interests	4,550	1,323
	20,798	**26,985**

Shareholders equity attributable to the Group increased by 9,414 million compared to December 31, 2004. The increase is mainly due to the Telecom Italia/TIM merger (6,013 million), the conversion of 1,880,757,463 Telecom Italia 1.5% 2001-2010 convertible bonds (1,813 million) and the difference between dividends paid (1,912 million, net of dividends on shares held by Telecom Italia Finance), and the net income for the year (3,216 million).

Shareholders equity attributable to Minority interests decreased by 3,227 million, due to the Telecom Italia/TIM merger, the sale of the Entel Chile group, the Finsiel group, TIM Hellas and TIM Perù.

Changes of **Share capital** in the year 2005 are reported below:

Reconciliation of outstanding shares as of December 31, 2004 to outstanding shares as of December 31, 2005

		Issue of shares as a result of:			
	As of December 31, 2004	Conversion of bonds	Exercise of stock options	Telecom Italia-TIM merger	As of December 31, 2005
	(number of shares)				
Ordinary Shares	10,322,001,069	886,876,619	10,657,408	2,150,947,060	13,370,482,156
Less: treasury stock	(101,208,867)			(24,607,520)	(125,816,387)

Outstanding Ordinary Shares	10,220,792,202	886,876,619	10,657,408	2,126,339,540	13,244,665,769
Savings Shares	5,795,921,069			230,199,592	6,026,120,661
Less: Treasury Stock					
Outstanding Savings Shares	5,795,921,069			230,199,592	6,026,120,661
Total shares issued by Telecom Italia S.p.A.	**16,117,922,138**	**886,876,619**	**10,657,408**	**2,381,146,652**	**19,396,602,817**
Less: Treasury Stock	(101,208,867)			(24,607,520)	(125,816,387)
Telecom Italia S.p.A. total outstanding shares	**16,016,713,271**	**886,876,619**	**10,657,408**	**2,356,539,132**	**19,270,786,430**

F-57

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Reconciliation of the value of the outstanding shares as of December 31, 2004 to the value of the outstanding shares as of December 31, 2005

	Share capital as of December 31, 2004	Changes in Share capital as a result of: Conversion of bonds	Exercise of Stock Options	Telecom Italia-TIM merger	Share capital as of December 31, 2005
			(millions of Euro)		
Ordinary Shares	5,677	488	6	1,183	7,354
Less: treasury stock	(56)			(13)	(69)
Outstanding Ordinary Shares	5,621	488	6	1,170	7,285
Outstanding Savings Shares	3,188			126	3,314
Share capital issued by Telecom Italia S.p.A.	8,865	488	6	1,309	10,668
Less: Treasury Stock	(56)			(13)	(69)
Telecom Italia S.p.A. Share capital	**8,809**	**488**	**6**	**1,296**	**10,599**

Additional paid-in capital is equal to 6,465 million as of December 31, 2005 and increased by 6,400 million compared to December 31, 2004. The increase refers to the following:

- an increase of 6,431 million due to the additional paid-in capital on the shares issued for the conversion of convertible bonds (for 1,640 million), the exercise of stock options (for 23 million) and the share capital increase to effect the merger of TIM into Telecom Italia (for 4,768 million);

- a decrease of 31 million due to external costs, net of the relative tax effect, referring to the merger of TIM into Telecom Italia.

Reserve for net translation differences shows a positive 793 million at December 31, 2005 (a negative 50 million at December 31, 2004) and mainly refers to the differences on the translation of the financial statements of the Brazilian mobile telephone companies to euro.

Other income (charges) recognized directly in shareholders equity is a negative 109 million at December 31, 2005 (a negative 107 million at December 31, 2004) and include:

a) Reserve for fair value adjustments of hedging instruments is a negative 216 million at December 31, 2005 (a negative 174 million at December 31, 2004), attributable to the Group negative for 234 million and other Group companies for 18 million. This reserve is expressed net of deferred tax assets of 95 million (90 million at December 31, 2004).

This reserve includes the current portion of gains or losses related to the fair value adjustment of derivative instruments designated to hedge the exposure of cash flow fluctuations relating to the assets or liabilities recorded in the financial statements (cash flow hedges).

b) Reserve for fair value adjustments of available-for-sale financial assets is a positive 107 million (a positive 67 million at December 31, 2004) almost entirely attributable to the Group and refers to the measurement of Mediobanca shares at market price and is expressed net of deferred tax liabilities of 6 million.

Other reserves are a positive 3,835 million at December 31, 2005 (a positive 4,276 million at December 31, 2004) and include the other reserves of the Group net of the value of the treasury stock held by the Group and Telecom Italia Finance S.A. for the amount in excess of the relative par value which was deducted from Share capital .

Other reserves decreased principally due to the reduction of 315 million in Reserves for other equity instruments following the conversion of 1,880,757,463 bonds.

Retained earnings (accumulated losses), including net income for the year are a positive 4,079 million at December 31, 2005 (a positive 3,255 million at December 31, 2004) and include the net income for the year attributable to the Group, equal to 3,216 million (1,815 million in 2004), net of dividends declared of 1,912 million (1,730 million in 2004).

Table of Contents

Dividends payable to Ordinary and Savings shareholders are, respectively, 1,215 million (0.1093 per share) and 697 million (0.1203 per share).

Shareholders equity attributable to Minority interests, equal to 1,323 million (4,550 million at December 31, 2004), includes the Net income attributable to the Minority interests , equal to 474 million (1,019 million in 2004) and shows a decrease compared to December 31, 2004 mainly as a result of the merger of Telecom Italia/TIM (3,226 million). This item principally consists of the net equity attributable to the minority shareholders of the Mobile and Media Business Units.

The following table shows the future potential change in share capital by reason of the convertible notes and options and stock option plans still outstanding at December 31, 2005:

	Bonds/ options outstanding at 12/31/2005	Conversion/ Assignment ratio	Maximum number of shares that can be issued	Nominal value (thousand of Euro)	Additional paid in capital (thousand of Euro)	Subscription price per share (Euro)
Additional increases voted (Ordinary Shares)						
Telecom Italia 1.5% 2001 2010 notes	506,707,677.00	0.471553	238,939,525	131,417	375,291	
Stock Option Plan 2000	10,699,996.00	3.300871	35,319,216	19,426	128,394	4.185259
Stock Option Plan 2001	31,862,500.00	3.300871	105,173,383	57,845	276,327	3.177343
Stock Option Plan 2002 Top	9,480,001.33	3.300871	31,292,243	17,211	70,034	2.788052
Stock Option Plan 2002	20,624,053.93	3.300871	68,076,920	37,442	160,656	
Of which:						
Assignment in March 2002	*19,905,053.50*	*3.300871*	*65,703,601*	*36,137*	*156,244*	*2.928015*
Assignment in August 2002	*719,000.43*	*3.300871*	*2,373,319*	*1,305*	*4,412*	*2.409061*
Stock Option Plan 2000-2002 ex TIM	11,735,653.00	1.73	20,302,679	11,166	64,176	3.710983
Stock Option Plan 2002-2003 ex TIM	22,025,000.00	1.73	38,103,250	20,957	103,925	3.277457
Stock Option Plan 2003-2005 ex TIM	1,915,900.00	1.73	3,314,507	1,823	7,891	2.930636
Total additional increases voted (Ordinary Shares)			**540,521,723**	**297,287**	**1,186,694**	
Additional increases not yet voted (Ordinary Shares)			**1,600,000,000**	**880,000**		

With regard to the Telecom Italia 1.5% 2001 2010 convertible notes with a repayment premium , it should be noted that the number of outstanding notes at December 31, 2005 includes No. 8,591 notes for which the conversion to shares had already been requested. On January 13, 2006, the corresponding No. 4,049 Ordinary Shares were issued for a total par value of 2.2 thousand and additional paid-in capital of 6.4 thousand.

Additional details on the stock option plans are disclosed in the Note 39 Other information letter e .

The Shareholders Meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of 880,000,000, through the issue of a maximum of No. 1,600,000,000 Ordinary Shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible noteholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree No. 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the

F-59

subscription of the share. They may also provide that, in the event the increase voted by the Board is not subscribed to by the deadline, the Share capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

On the basis of the motion by the Board of Directors Meeting held on March 7, 2006, the net income for the year 2005 resulting from the separate financial statements of the Parent Company, Telecom Italia S.p.A., equal to 3,885 million, will be appropriated as dividends for 2,857 million for distribution to the shareholders:

- 0.1400 for each Ordinary Share;
- 0.1510 for each Savings Share;

before withholdings as established by law; undistributed net income will be appropriated from retained earnings.

NOTE 18 FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT)

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Financial payables (medium/long-term):		
• Notes/bonds	30,060	29,281
• Convertible and exchangeable notes/bonds	4,290	476
	34,350	**29,757**
• Amounts due to banks	891	9,462
• Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,256	730
• Other financial payables	365	303
	36,862	**40,252**
• Finance lease liabilities (medium/long-term)	1,860	1,894
• Other financial liabilities (medium/long-term)	3	
	1,863	**1,894**
Total non current financial liabilities (A)	**38,725**	**42,146**
Financial payables (short-term):		

• Notes and Bonds	1,058	6,181
• Convertible and exchangeable notes and bonds	816	2,043
	1,874	**8,224**
• Amounts due to banks	746	646
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	83	185
• Non-hedging derivatives	113	64
• Other financial payables	1,352	453
	4,168	**9,572**
• Finance lease liabilities	227	234
• Other financial liabilities	5	6
Total current financial liabilities (B)	**4,400**	**9,812**
Total financial liabilities (C)=(A)+(B)	**43,125**	**51,958**
Liabilities related to discontinued operations/assets held for sale (D)	**188**	**143**
Total gross financial debt (E)=(C)+(D)	**43,313**	**52,101**

Non-current financial liabilities increased from 38,725 million to 42,146 million and current financial liabilities increased from 4,400 million to 9,812 million.

Notes and bonds total 35,462 million (31,118 million at December 31, 2004) and increased by 4,344 million. Details are as follows:

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Non-current portion	30,060	29,281
Current portion	1,058	6,181
Total book value	**31,118**	**35,462**
Fair value adjustment and measurement at amortized cost	(941)	(885)
Total nominal repayment amount	**30,177**	**34,577**

The nominal amount of principal, notes and bonds amount to 34,577 million and increased by 4,400 million compared to December 31, 2004 (30,177 million), mainly due to new notes/bond issues by Telecom Italia S.p.A. (2,580 million at December 31, 2005) and Telecom Italia Capital S.A. (2,119 million at December 31, 2005), reduced by the sale of Entel Chile (180 million of bonds at December 31, 2004) and the difference in the U.S. dollars/Euro exchange rate.

The regulations and/or Offering Circular relating to the notes and bonds described below are available on the corporate website http://www.telecomitalia.it.

Notes and bonds, expressed at the nominal amount of principal, refer to the following:

Notes and bonds issued by Telecom Italia S.p.A. (for a total of 9,798 million):

- notes for 2,500 million, issued on February 1, 2002, divided into two tranches of 1,250 million each, at annual fixed rates, respectively, with a coupon of 5.625%, maturing February 1, 2007 and with a coupon of 6.25%, maturing February 1, 2012;
- bonds 2002-2022 reserved for subscription by employees, in service or retired, of companies, directly and indirectly, controlled by Telecom Italia, with headquarters in Italy, for 248 million. The quarterly interest is payable in arrears on January 1 and July 1 of each year and is indexed to the 6-month Euribor;
- bonds for 3,000 million, issued on January 29, 2004, divided into three tranches: the first, for 1,000 million, with a quarterly coupon indexed to the 3-month Euribor + 0.33%, maturing October 29, 2007 (on December 21, 2005, the

Board of Directors of Telecom Italia S.p.A. approved the early repayment of these bonds on the date of January 30, 2006); the second, for 750 million, with an annual fixed-rate coupon of 4.50%, maturing January 28, 2011; the third, for 1,250 million, with an annual fixed-rate coupon of 5.375%, maturing January 29, 2019;

- notes for 110 million issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.60%, maturing March 30, 2009;
- bonds for GBP 850 million (equivalent to 1,240 million at December 31, 2005) issued on June 24, 2004, with an annual fixed-rate coupon of 6.375%, maturing June 24, 2019;
- bonds for 120 million issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.66%, maturing November 23, 2015;
- bonds for 850 million issued on March 17, 2005 with an annual fixed-rate coupon of 5.25%, maturing March 17, 2055;
- notes for GBP 500 million (730 million at December 31, 2005) issued on June 29, 2005, with an annual fixed-rate coupon of 5.625%, maturing December 29, 2015;
- notes for 1,000 million issued on December 6, 2005 with a quarterly coupon equal to the 3-month Euribor + 0.53%, maturing December 6, 2012.

The notes issued in 2005 fall under Telecom Italia s Euro Medium Term Note Programme for 10 billion approved by the Board of Directors on October 10, 2003.

Notes and bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. (for a total of 16,302 million):

- notes issued April 20, 2001 on international markets for a total of 6,000 million (the remaining amount is equal to 4,513 million). The issue is divided into three tranches: the first, for 1,000 million at quarterly floating interest rates, maturing April 20, 2004, and therefore already repaid; the second, for 3,000 million and currently equal to 2,513 million (on December 22, 2005, the bonds repurchased by Telecom Italia Finance S.A. were cancelled for a total of 487 million) with an annual fixed-rate coupon of 6.375%, maturing April 20, 2006; the third for 2,000 million with an annual fixed-rate coupon of 7.25%, maturing April 20, 2011;

- notes 1999 2009 for 1,500 million with an annual fixed-rate coupon of 5.15%, maturing in February 9, 2009;

- bonds 1986-2046 in Swiss francs originally issued for CHF 100 million and currently equal to CHF 88 million (56 million at December 31, 2005, net of the cancellation of the treasury bonds for CHF 12 million, equal to 8 million, on December 30, 2005) with an annual fixed-rate coupon of 5.625%, maturing June 12, 2046.

All of the bonds listed below were originally issued by Olivetti Finance N.V.S.A. (merged into Telecom Italia Finance S.A. effective June 1, 2004) and are guaranteed by Telecom Italia S.p.A.:

- notes denominated Telecom Italia Finance S.A. Euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006 , maturing December 14, 2006, with a quarterly coupon indexed to the 3-month Euribor +130 basis points. In accordance with the terms and conditions of the extendable 2002-2005 notes, bondholders in possession of notes totaling 283,000 chose not to extend the maturity term of the notes on March 14, 2005 (original maturity date of the notes) and the company proceeded to repay the notes for that amount;

- notes 2002-2006 for 1,100 million and currently equal to 1,045 million (net of the notes repurchased in the year 2003 for a total of 55 million) with a quarterly coupon indexed to the 3-month Euribor + 1.25%, maturing January 3, 2006;

- notes 2002-2007 originally for 1,750 million and currently equal to 1,720 million (notes repurchased by Telecom Italia Finance S.A. were cancelled on December 22, 2005 for 30 million) with an annual fixed-rate coupon of 6.5%, maturing April 24, 2007;

- notes 2003-2008 originally for 1,750 million and currently equal to 1,674 million (notes repurchased by Telecom Italia Finance S.A. were cancelled on December 22, 2005 for 76 million) with an annual fixed-rate coupon of 5.875%, maturing January 24, 2008;

- notes 1999-2009 originally for 2,350 million and currently equal to 2,250 million (net of notes repurchased in 2002 for 100 million) with an annual fixed-rate coupon of 6.575%, maturing July 30, 2009;

- notes 2002-2012 for 1,000 million with an annual fixed-rate coupon of 7.25%, maturing April 24, 2012;

- notes 2003-2013 for 850 million with an annual fixed-rate coupon of 6.875%, maturing January 24, 2013;

- bonds 2002-2032 for JPY 20 billion (144 million as of December 31, 2005) with a 6-month fixed-rate coupon of 3.55%, maturing May 14, 2032 (callable by the issuer annually beginning from May 14, 2012);

- bonds 2003-2033 of 1,050 million with an annual fixed-rate coupon of 7.75%, maturing January 24, 2033.

Notes and bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of 8,477 million):

- issue of multi-tranche fixed-rate bonds on October 29, 2003, for U.S.$4,000 million. The issue is divided into three tranches as follows:

    U.S.$1,000 million (848 million at December 31, 2005), with an annual fixed-rate coupon of 4%, maturing November 15, 2008;

F-62

U.S.$2,000 million (1,694 million at December 31, 2005), with an annual fixed-rate coupon of 5.25%, maturing November 15, 2013;

U.S.$1,000 million (848 million at December 31, 2005), with an annual fixed-rate coupon of 6.375%, maturing November 15, 2033;

- issue of multi-tranche fixed-rate bonds on October 6, 2004, for U.S.$3,500 million. The issue is divided into three tranches as follows:

U.S.$1,250 million (1,060 million at December 31, 2005) with an annual fixed-rate coupon of 4%, maturing January 15, 2010;

U.S.$1,250 million (1,060 million at December 31, 2005) with an annual fixed-rate coupon of 4.95%, maturing September 30, 2014;

U.S.$1,000 million (848 million at December 31, 2005) with an annual fixed-rate coupon of 6%, maturing September 30, 2034;

- issue of multi-tranche fixed-rate notes on September 28, 2005 for U.S.$2,500 million. The issue is divided into three tranches as follows:

U.S.$700 million (593 million at December 31, 2005) with 4.875% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2010;

U.S.$400 million (339 million at December 31, 2005) with a quarterly coupon indexed to the 3-month U.S.$ Libor + 0.48%, maturing February 1, 2011;

U.S.$1,400 million (1,187 million at December 31, 2005) with 5.25% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2015.

The following table shows the notes and bonds issued to third parties, expressed at the nominal repayment amount and the market value, issued by companies in the Telecom Italia Group and divided by issuing company:

Original Currency	Amount in original currency (million)	Nominal repayment amount in Euro (million)	Coupon (%)	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value (millions of Euro)
Notes and bonds issued by Telecom Italia S.p.A.								
Euro	1,000	1,000	3M Euribor + 0.33	01/29/2004	01/30/2006(°)	99.927	100.03	1,000
Euro	1,250	1,250	5.625	02/01/2002	02/01/2007	99.841	102.685	1,284

Euro	110	110	3M Euribor + 0.60	04/08/2004	03/30/2009	100	101.869	112
Euro	750	750	4.500	01/29/2004	01/28/2011	99.56	103.445	776
Euro	1,250	1,250	6.250	02/01/2002	02/01/2012	98.952	113.109	1,414
Euro	1,000	1,000	3M Euribor + 0.53	12/06/2005	12/06/2012	100	100.045	1,000
Euro	120	120	3M Euribor + 0.66	11/23/2004	11/23/2015	100	105.621	127
GBP	500	730	5.625	06/29/2005	12/29/2015	99.878	102.188	746
Euro	1,250	1,250	5.375	01/29/2004	01/29/2019	99.07	106.539	1,332
GBP	850	1,240	6.375	06/24/2004	06/24/2019	98.85	109.041	1,352
Euro	248	248	6M Euribor (base 365)	01/01/2002	01/01/2022	100	100	248
Euro	850	850	5.25	03/17/2005	03/17/2055	99.667	95.584	812
Sub-Total		**9,798**						**10,203**
Notes and bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,045	1,045	3M Euribor + 1.25	05/29/2002	01/03/2006	99.456(*)	100.046	1,045
Euro	2,513	2,513	6.375(a)	04/20/2001	04/20/2006	99.937	101.044	2,539
Euro	500	500	3M Euribor + 1.3(d)	12/14/2004	12/14/2006	100	100.045	500
Euro	1,720	1,720	6.500	04/24/2002	04/24/2007	100.911(*)	104.212	1,792
Euro	1,674	1,674	5.875	01/24/2003	01/24/2008	99.937	105.106	1,759
Euro	1,500	1,500	5.15(b)	02/09/1999	02/09/2009	99.633	104.675	1,570
Euro	2,250	2,250	6.575(c)	07/30/1999	07/30/2009	98.649(*)	109.650	2,467
Euro	2,000	2,000	7.25(a)	04/20/2001	04/20/2011	99.214	116.137	2,323
Euro	1,000	1,000	7.25	04/24/2002	04/24/2012	101.651(*)	118.431	1,184
Euro	850	850	6.875	01/24/2003	01/24/2013	99.332	117.792	1,001
JPY	20,000	144	3.550	04/22/2002	05/14/2032	99.25	123.46	178
Euro	1,050	1,050	7.750	01/24/2003	01/24/2033	109.646(*)	135.863	1,427
CHF	88	56	5.625	06/12/1986	06/12/2046	99.000	109.748	61
Sub-Total		**16,302**						**17,846**

F-63

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Original Currency	Amount in original currency (million)	Nominal repayment amount in Euro (million)	Coupon (%)	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value (millions of Euro)
Notes and bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	848	4.000	10/29/2003	11/15/2008	99.953	96.982	822
USD	1,250	1,060	4.000	10/06/2004	01/15/2010	99.732	95.461	1,012
USD	700	593	4.875	09/28/2005	10/01/2010	99.898	98.32	583
USD	400	339	3 M US Libor + 0.48	09/28/2005	02/01/2011	100	100.607	341
USD	2,000	1,694	5.250	10/29/2003	11/15/2013	99.742	98.167	1,663
USD	1,250	1,060	4.950	10/06/2004	09/30/2014	99.651	95.615	1,014
USD	1,400	1,187	5.25	09/28/2005	10/01/2015	99.370	97.101	1,153
USD	1,000	848	6.375	10/29/2003	11/15/2033	99.558	100.674	854
USD	1,000	848	6.000	10/06/2004	09/30/2034	99.081	96.387	817
Sub-Total		**8,477**						**8,259**
Total		**34,577**						**36,308**

Notes (a), (b), (c), (d): see the following paragraph Mechanism describing how coupons change on step-up/step-down notes and bonds .

(°) On December 21, 2005, the Board of Directors of Telecom Italia S.p.A. approved the early repayment of such notes and bonds on January 30, 2006 (originally maturing on October 29, 2007).

(*) Weighted average issue price for notes and bonds issued with more than one tranche.

Mechanism describing how coupons change on step-up/step-down notes and bonds in relation to a change in the rating:

At December 31, 2005, the rating agencies had made no changes to the ratings assigned at the time of the announcement of the merger of Telecom Italia and Tim on December 7, 2004.

Standard & Poor s:	BBB+	stable outlook
Moody s:	Baa2	stable outlook
Fitch Ratings:	A	negative outlook

a) Telecom Italia Finance S.A.

Euro Notes : 2,513 million, 6.375% interest, maturing April 2006

2,000 million, 7.25% interest, maturing April 2011

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody s and S&P s, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.

Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the original coupons for these securities, respectively 6.125% and 7%, were increased by 0.25% due to a Baa2 rating assigned by Moody s in August 2003. In the case of the two securities, the increase was applied beginning from the coupon period which started in April 2004; accordingly, the coupon is equal to 6.375% for securities maturing in April 2006 and 7.25% for securities maturing in April 2011.

b) Telecom Italia Finance S.A. notes: 1,500 million, 5.15% interest, maturing February 2009

These notes carry protection for investors which would only be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 rating by Moody s).

At the beginning of every coupon period, this minimum rating will be checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.15%.

This current coupon can be further increased in relation to the level of the minimum rating:

- if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ratings higher than the minimum rating do not lead to increases in the current coupon.

Therefore, only future downgrades in the minimum rating could cause an increase in the current coupon; this coupon cannot be reduced because of upgrades in the rating.

c) Telecom Italia Finance S.A. notes: 2,250 million, 6.575% interest, maturing July 2009

These notes carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody s).

At the beginning of every coupon period, this minimum rating will be checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:

-

if, at the time the coupon is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;

- if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;

- if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;

- if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;

- ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was introduced), the original coupon has been increased by 0.45% (reaching the current 6.575%).

Future upgrades/downgrades in the minimum rating could cause a reduction/increase in the coupon according to the mechanism described above.

d) Telecom Italia Finance S.A. notes: 499,717,000 Floating Rate Extendable Notes (3-month Euribor +1.3%), maturing December 2006

These bonds can be extended at the discretion of the investor. Each extension of the maturity date is for another 21-month period with the final maturity date fixed at March 14, 2012.

In accordance with the terms and conditions of the 500 million extendable notes, maturing March 14, 2005, note-holders in possession of notes totaling 283,000 chose not to extend the maturity date. For those, instead, that decided to extend the maturity date, for notes totaling 499,717,000, Telecom Italia Finance S.A. issued new bonds on December 14, 2004 denominated Telecom Italia Finance S.A. 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006 with a new maturity date of December 14, 2006. These new notes carry the same characteristics as the previous notes but have a new ISIN Code and Common Code.

Convertible and exchangeable notes amount to 2,519 million (5,106 million at December 31, 2004) and decreased by 2,587 million. They are composed as follows:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Non-current portion	4,290	476
Current portion	816	2,043
Total book value	**5,106**	**2,519**
Fair value adjustment and measurement at amortized cost	833	123
Total nominal amount	**5,939**	**2,642**

In terms of the nominal repayment amount, convertible and exchangeable notes amount to 2,642 million. This is a decrease of 3,297 million compared to December 31, 2004 (5,939 million) mainly on account of the requests for the conversion of Telecom Italia S.p.A. 1.5% 2001-2010 convertible notes with a repayment premium (2,225 million) and repurchases made by Telecom Italia Finance S.A. (229 million) and the repayment, on November 3, 2005 of exchangeable notes for 643.4 million (net of repurchases and inclusive of the repayment premium).

Notes, expressed at the nominal repayment amount, refer to the following:

- notes 2001-2010 issued by Telecom Italia S.p.A. convertible into Telecom Italia S.p.A. shares, with an annual fixed-rate coupon of 1.5% with a repayment premium equal to 118.37825% of the nominal amount of the bonds, maturing in January 2010. The remaining number of bonds outstanding at December 31, 2005 is equal to 506.7 million (at the nominal amount) corresponding to No. 238,935,476 Telecom Italia S.p.A. Ordinary Shares. These bonds thus result in a total debt of 599.8 million (inclusive of the repayment premium). The annual yield upon maturity is 3.5% and the conversion will be at a ratio of 0.471553 new Telecom Italia S.p.A. shares for each bond held;

- notes issued in March 2001 by Telecom Italia Finance S.A. for 2,500 million, convertible into TIM or Seat Pagine Gialle shares, with the right of the issuer to settle the amount due in cash in the event of a request for conversion. The notes have an annual fixed-rate coupon of 1% and a repayment premium of 117.69% of the issue price, maturing in March 2006. The notes decreased by 536 million in September 2002 due to the purchase of own notes by Telecom Italia Finance S.A. which were subsequently cancelled.

The right to an early repayment at the end of third year (March 2004) was exercised by investors for an amount of 466,000.

During 2005, Telecom Italia Finance S.A. repurchased its own notes for 229 million (in April and May 2005 for 195 million, in July 2005 for 5 million, in October and December 2005 for 9 million and 20 million, respectively), therefore, after cancellation of the entire amount of notes repurchased in December 22, 2005, the residual nominal debt at the end of 2005 is equal to 1,735 million (2,042 million with the repayment premium).

The spin-off transaction and the consequent disposal of the equity investment in the beneficiary company Nuova Seat Pagine Gialle in 2003, did not result in any changes in the terms of the notes since their conditions allowed ample flexibility in the method of settlement.

The notes were convertible into No. 181,461,941 TIM shares at an exercise price of about 10.823 and, at June 30, 2005, after the conclusion of the merger between Telecom Italia and TIM, the notes were convertible into either No. 313,929,158 Telecom Italia S.p.A. Ordinary Shares at an exercise price of about 6.256, or into Seat Pagine Gialle shares and TI Media shares. Following the TI Media capital increase

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

against payment, the notes are now convertible into No. 707,460,852 Seat Pagine Gialle shares and No. 125,746,257 Telecom Italia Media shares at an exercise price of 2.357197842. The annual yield to maturity is 4.25% and the conversion will be in a ratio of No. 159.838963073 Telecom Italia S.p.A. shares or 360.2080473 Seat Pagine Gialle shares and No. 64.024481 Telecom Italia Media shares for each 1,000 bond held.

A summary of convertible and exchangeable notes held by third parties, expressed at the nominal repayment amount, issued by companies of the Telecom Italia Group and divided by issuing company is presented below:

Original Currency	Nominal repayment amount (millions of Euro)	Coupon	New shares issuers	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value (millions of Euro)
Convertible notes issued by Telecom Italia S.p.A.								
Euro	600	1.50%	Telecom Italia S.p.A.	11/23/2001	01/01/2010	100	124.948	633
Exchangeable notes issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	2,042	1.00%	Telecom Italia S.p.A./ Telecom Italia Media S.p.A./ Seat Pagine Gialle S.p.A./	03/15/2001	03/15/2006	100	117.205	2,033
Total	**2,642**							**2,666**

Financial covenants / other covenants / other features of convertible notes and bonds

The securities summarized here do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group.

For example, there are no clauses that would cause the redemption of the notes and bonds if the ratings are downgraded to below stated thresholds.

The guarantees provided by Telecom Italia S.p.A. on notes and bonds issued by its foreign subsidiaries are all full and unconditional.

None of the securities summarized here carry any other interest rate structures or structural complexities.

Since these notes and bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the notes and bonds are in line with market practice for similar transactions effected on these same markets.

The notes and bonds issued by Telecom Italia Capital S.A. in October 2003, guaranteed by Telecom Italia, for an amount of U.S.$4,000 million, were covered by a covenant that required Telecom Italia Capital S.A. and Telecom Italia to effect a SEC-registered exchange offer in order to allow investors to exchange the originally purchased notes with listed and freely traded notes without restrictions. The exchange offer was executed on October 14, 2004, in fulfillment of the covenant.

Moreover, the new notes issued by Telecom Italia Capital S.A. in October 2004, guaranteed by Telecom Italia S.p.A., for an amount of U.S.$3,500 million, carried a similar covenant which requires Telecom Italia Capital S.A. and Telecom Italia S.p.A. to effect a SEC-registered exchange offer. The offer was executed on October 13, 2005, in fulfillment of the covenant.

Medium/long-term **amounts due to banks** of 9,462 million (891 million at December 31, 2004) increased by 8,571 million mainly as a result of the cash tender offer for TIM shares. In fact, on January 28, 2005, in connection with the payment of the consideration of the tender offer, in addition to 2,504 million paid from cash resources, 11,300 million was drawn from the 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 for 2,300 million from the cash

F-67

resources of Telecom Italia and, consequently, cancelled. After that repayment, the outstanding loan amounts to a nominal value of 9,000 million divided into two tranches: 6,000 million due in 36 months (Tranche B) and 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, 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, 1.5 billion of the revolving loan for 6 billion, maturing in 2012, was repaid so that it was reduced to 4.5 billion.

Short-term amounts due to banks of 646 million decreased by 100 million (746 million at December 31, 2004).

Hedging derivatives relating to hedged items classified as non-current current assets/liabilities of a financial nature amount to 730 million (1,256 million at December 31, 2004), whereas those on current assets/liabilities of a financial nature amount to 185 million with an increase of 102 million compared to December 31, 2004 (83 million). Additional details are provided in the Note 23 Financial instruments .

Medium/long-term **other financial liabilities** amount to 303 million (365 million at December 31, 2004) and decreased by 62 million; they include 162 million of the Telecom Italia Finance S.A. loan for JPY 20,000 million maturing 2029, 42 million of payables to the *Cassa Depositi e Prestiti* and 64 million of payables to the Ministry of Industry. Short-term other financial liabilities amount to 453 million with a reduction of 899 million compared to December 31, 2004 (1,352 million); they include 60 million of payables to the *Cassa Depositi e Prestiti*, 110 million of payables for factoring transactions and 211 million of payables to the TI Securitization Vehicle.

Medium-long term **finance lease liabilities** totaling 1,894 million (1,860 million at December 31, 2004) increased by 34 million and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 234 million with an increase of 7 million compared to December 31, 2004 (227 million).

Short-term **non-hedging derivatives** totaling 64 million (113 million at December 31, 2004) decreased by 49 million and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

At December 31, 2005, the unused credit lines of the Telecom Italia Group amount to 8,227 million (20,880 million at December 31, 2004), of which unused committed credit lines amount to 5 billion, and 1.5 billion expiring, respectively in March 2007 and in August 2012. Approximately 97% of the credit lines is denominated in Euro and linked to a floating interest rate.

In the following tables, the debt positions of the discontinued operations/assets held for sale are shown separately.

Gross accounting financial debt according to the original currency of the transaction, showing the major foreign currencies and the corresponding equivalent amount in euro, is the following:

	As of December 31, 2005	
	(millions of foreign currency)	**(millions of Euro)**
USD	10,351	8,774
GBP	1,365	1,991
BRL	1,898	687
JPY	19,888	143
CHF	90	58
EURO		40,305
		51,958
Discontinued operations/assets held for sale		143
		52,101

F-68

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

	As of December 31, 2005
	(millions of Euro)
Up to a 2.5%	9,328
From 2.5% to 5%	9,055
From 5% to 7.5%	25,218
From 7.5% to 10%	5,752
Over 10%	496
Accruals, prepaid expenses, deferred income, MTM and derivatives	2,109
	51,958
Discontinued operations/assets held for sale	143
	52,101

However, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

	As of December 31, 2005
	(millions of Euro)
Up to a 2.5%	8,270
From 2.5% to 5%	18,883
From 5% to 7.5%	19,432
From 7.5% to 10%	2,766
Over 10%	498
Accruals, prepaid expenses, deferred income, MTM and derivatives	2,109
	51,958
Discontinued operations/assets held for sale	143
	52,101

Gross financial debt by maturity date (divided between short-term and medium/long-term) as of December 31, 2005 is as follows:

	Medium/long term debt	Short-term debt	Total
		(millions of Euro)	
2006(*)	8,979	833	9,812
2007	3,734		3,734
2008	3,227		3,227
2009	4,309		4,309
2010	5,286		5,286
Beyond 2010	25,590		25,590
	51,125	**833**	**51,958**
Discontinued operations/assets held for sale	124	19	143
	51,249	**852**	**52,101**

(*) Current portion of medium/long-term debt.

F-69

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

NOTE 19 EMPLOYEE SEVERANCE INDEMNITIES AND OTHER EMPLOYEE-RELATED RESERVES

Employee severance indemnities and other employee-related reserves increased from 1,292 million at December 31, 2004 to 1,494 million at December 31, 2005. Details are as follows:

		As of December 31, 2004	Discontinued operations/ assets held for sale	Increases	Decreases	Exchange differences	As of December 31, 2005
				(millions of Euro)			
Reserve for employee severance indemnities	**(A)**	**1,181**	**(4)**	**168**	**(111)**		**1,234**
Reserves for pension plans		40	(10)	6	(3)	1	34
Reserve for termination incentives		71		234	(79)		226
Other employee-related reserves (*)	**(B)**	**111**	**(10)**	**240**	**(82)**	**1**	**260**
Total	**(A+B)**	**1,292**	**(14)**	**408**	**(193)**	**1**	**1,494**
Of which :							
Non-current portion		*1,222*					*1,351*
Current portion (*)		*70*					*143*

Employee severance indemnities refer only to Italian Group companies. The reserve increased by 53 million mainly as a result of the charge to the statement of operations (168 million), utilizations for indemnities paid to employees who terminated employment, advances and transfers to pension funds (106 million) and other negative changes (9 million).

In accordance with IAS 19 Employee Benefits , the Projected Unit Credit Method was used to measure employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of the future benefits include increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date;
-

the *average present value of future benefits* has been calculated, at the measurement date, on the basis of the annual interest rate and on the expected payment date;

- the liability of the company has been determined as the average present value of future benefits for service matured by the employee at the measurement date.

The following assumptions were made:

Financial assumptions	**Executives**	**Other than Executives**
Cost-of-living increase	2.0% per annum	2.0% per annum
Discount rate	4.0% per annum	4.0% per annum
Remuneration increase (in relation to each company):		
age equal to or less than 40 years	From 3.0% to 3.5% per annum	From 3.0% to 3.25% per annum
age over 40 years, but equal to or less than 55 years	From 2.5% to 3.0% per annum	From 2.5% to 2.75% per annum
over 55 years of age	From 2.0% to 2.5% per annum	From 2.0% to 2.25% per annum

Table of Contents

Demographic assumptions	Executives	Other than Executives
Death probability	Mortality tables RG 48 published by Ragioneria Generale dello Stato	Mortality tables RG 48 published by Ragioneria Generale dello Stato
Disability probability	Tables unisex published by C.N.R. reduced by 80%	Tables unisex published by C.N.R. reduced by 80%
Resignation probability (in relation to each company):		
up to 40 years	From 3.0% to 5.0% per annum	From 3.0% to 5.0% per annum
up to 50 years	From 1.5% to 3.5% per annum	From 1.5% to 3.5% per annum
over 50 years	None	None
Retirement probability:		
35 years of service (at the age of 57)	35%	60%
over 35 years of service (at the age of 65)	15%	10%
at 65 years of age	100%	100%

The adoption of the above assumptions resulted in a liability for Employee severance indemnities at December 31, 2004 and 2005 of 1,181 million and 1,234 million, respectively.

The effect on the statement of operations is as follows:

	Year ended December 31,	
	2004	2005
	(millions of Euro)	
Current service cost	127	134
Interest expenses	57	45
Net actuarial (gains) losses recognized during the year		(11)
Total expense	**184**	**168**
Effective return on plan assets	**n/a**	**n/a**

Reserves for pension plans principally refer to pension plans operating in foreign companies of the Group.

Reserve for termination incentives includes provisions made both for agreements regarding mobility pursuant to Law No. 223/91, agreed in December 2005 with the labor unions, and the plan for the voluntary termination of managers for the cases currently pending.

Increases are net of the decrease deriving from the effect of discounting to present value of approximately 6 million.

NOTE 20 RESERVES FOR RISKS AND FUTURE CHARGES

Reserves for risks and future charges decreased from 2,171 million at December 31, 2004 to 1,569 million at December 31, 2005. The composition and changes are as follows:

	As of December 31, 2004	Discontinued operations/ assets held for sale	Increases	Decreases	Exchange differences	As of December 31, 2005
			(millions of Euro)			
Reserve for taxation and tax risks	253	(19)	27	(43)	8	226
Reserve for restoration costs	375	(16)	70	(15)	29	443
Reserve for legal disputes	152	(14)	50	(48)	8	148
Reserve for commercial risks	103		33	(14)		122
Reserves for risks and future charges on equity investments and corporate-related transactions	916		52	(544)	5	429
Other reserves for risks and future charges	372		18	(190)	1	201
Total	**2,171**	**(49)**	**250**	**(854)**	**51**	**1,569**
Of which :						
Current portion	*815*					*797*
Non-current portion	*1,356*					*772*

Reserve for restoration costs refers to the provision for the estimated cost to decommission tangible assets and restore the sites. Compared to December 31, 2004, the reserve increased mainly as a result of a higher number of sites leased and the change in the discount rates and for the charge in the statement of operations of the cumulative effect of discounting to present value in the amount of 14 million.

The reserve relates to Telecom Italia (129 million), Tim Italia (180 million) and other foreign mobile telephone companies (134 million).

Reserves for risks and future charges on equity investments and corporate-related transactions decreased by 487 million. The change is mainly due to the release of 423 million of reserves recorded for sureties provided to a group of banks which had financed AVEA I.H.A.S., due to the cancellation of the guarantees in part, and to 96 million for the release of the reserve previously recorded for the dispute with the minority shareholders of Med S.A., Med Ltd and Med1, settled in July 2005. At December 31, 2005, the residual reserve set aside for AVEA I.H.A.S. is equal to 121 million.

Other reserves for risks and future charges include 115 million for the fine levied against Telecom Italia by the Antitrust Authorities for the alleged abuse of a dominant position in the market. This reserve, recorded in 2004 for 152 million, was reduced by 37 million following the issuance of an order by the Council of State on February 10, 2006.

NOTE 21 MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased from 2,199 million at December 31, 2004 to 2,113 million at December 31, 2005 and consist of the following:

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
Amounts due to social security authorities	1,035	881
Capital grants	206	170
Medium/long-term deferred income	944	1,056
Other payables and liabilities	14	6
Total	**2,199**	**2,113**

Amounts due to social security authorities refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law No. 58/1992. Details are as follows:

	As of December 31,	
	2004	2005
	(millions of Euro)	
Non-current payables		
Due from 2 to 5 years after the balance sheet date	935	753
Due beyond 5 years after the balance sheet date	100	128
	1,035	**881**
Current payables	**217**	**213**
Total	**1,252**	**1,094**

Medium/long-term deferred income includes 759 million for the deferral of revenues from the activation of Telecom Italia telephone service and 265 million for revenues from the sale of transmission capacity referring in future years.

NOTE 22 TRADE PAYABLES, TAX PAYABLES, MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables, tax payables, miscellaneous payables and other current liabilities decreased from 12,733 million as of December 31, 2004 to 12,384 million as of December 31, 2005.

	As of December 31,	
	2004	2005
	(millions of Euro)	
Trade payables:		
• Amounts due to suppliers	6,227	6,230
• Amounts due to other telecommunication operators	643	606
	6,870	**6,836**
Tax payables	**512**	**829**
Miscellaneous payables and other current liabilities:		
• Amounts due for short-term employee benefits	760	712

• Amounts due to social security authorities	372	375
• Short-term trade and miscellaneous deferred income	810	821
• Advances received	45	64
• Customer-related items	1,579	1,465
• Amounts due for the TLC operating fee	29	39
• Dividends approved, but yet to be paid to shareholders	25	22
• Other current liabilities	305	306
• Employee-related reserves (except for Employee severance indemnities) expected to be settled within 12 months	70	143
• Other reserves for risks and future charges, expected to be settled within 12 months	1,356	772
	5,351	**4,719**
Total	**12,733**	**12,384**

Trade payables (all due within 12 months) relate to Telecom Italia (2,185 million), Tim Italia (2,354 million) and foreign mobile telephone companies (1,242 million).

Tax payables, which include current tax payables of 227 million (48 million at December 31, 2004) and other tax payables of 602 million (464 million at December 31, 2004), increased by 317 million mainly for higher VAT payables, for IRAP payables and for the substitute tax due to the adjustment of the tax and accounting bases as allowed under Law No. 266/2005, mainly attributable to Tim Italia.

Amounts due to social security authorities include the short-term portion of the amount payable to INPS under Law No. 58 for 213 million (217 million at December 31, 2004) as described in Note 21 Miscellaneous payables and other non-current liabilities .

Deferred income includes 282 million (351 million at December 31, 2004) for the deferral of revenues from the activation of Telecom Italia telephone service (current portion) and 38 million (55 million) for the deferral of revenues from recharging Tim Italia prepaid telephone cards.

NOTE 23 FINANCIAL INSTRUMENTS

FAIR VALUE

The majority of non-current financial liabilities of the Telecom Italia Group consist of notes and bonds and their measurement at fair value can be easily determined using financial instruments which, because of their size and distribution among investors, are frequently traded on the markets (see Note 18 Financial liabilities (current and non-current)). Where public trading data is not available, for other types of loans, the following assumptions were made:

- the floating-rate loans were considered at the notional repayment amount;
- the fixed-rate loans were measured at fair value (present value of future flows using December 31, 2005 market rates).

Finally, the carrying value of most of the financial assets reasonably approximates their fair value as they are short term liquid financial investments.

Fair values (including interest accruals) of financial liabilities and assets at December 31, 2005 are set below:

Financial liabilities	As of December 31, 2005	
	Carrying values (IFRS)	Market values (including interest accruals)
	(millions of Euro)	
Notes and bonds	35,462	37,427
Convertible/exchangeable notes and bonds	2,519	2,680

Term loans	7,535	7,574
Loans, other debt, finance lease liabilities	6,442	6,509
	51,958	**54,190**
Discontinued operations/assets held for sale	**143**	**143**
Total Gross Financial Debt	**52,101**	**54,333**

Financial assets	**As of December 31, 2005**	
	Carrying values (IFRS)	**Market values (including interest accruals)**
	(millions of Euro)	
Deposits, cash	9,958	9,958
Euro Commercial Papers	327	327
Deposits for temporary investments originally due beyond 3 months	90	90
Securities	390	390
Other receivables	1,441	1,441
	12,206	**12,206**
Discontinued operations/assets held for sale	**37**	**37**
Total Financial Assets	**12,243**	**12,243**

Table of Contents

DERIVATIVES

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to foreign exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2005 are principally used by the Group to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, and cross currency and interest rate swaps (CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRSs and IROs involve or can involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates, with the counterparts.

The same also applies to CCIRSs which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and at another date.

The following tables show the derivative transactions put into place by the Telecom Italia Group at December 31, 2005 divided between Fair Value Hedge instruments (Table 1), Cash Flow Hedge instruments (Table 2) and Non-Hedge Accounting instruments (Table 3) under IAS 39:

Table 1 Fair Value Hedge Derivatives

Description	Equivalent notional amount	Mark to market (Clean Price)
	(millions of Euro)	
CCIRS transactions finalized by Telecom Italia S.p.A. maturing April 2007 linked to EIB loan in U.S.$180 million (153 million at the /U.S.$ exchange rate at December 31, 2005)	150	2
CCIRS transactions finalized by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. notes amounting to GBP 850 million (1,240 million at the /pounds sterling exchange rate at December 31, 2005) issued on June 2004	1,289	(31)
CCIRS transactions finalized by Telecom Italia S.p.A. maturing November 2008 on the five years tranche of U.S.$1,000 million (848 million at the /U.S.$ exchange rate at December 31, 2005) on the	850	(32)

notes issued in October 2003 by Telecom Italia Capital S.A. for a total amount of U.S.$4,000 million		
CCIRS transactions effected by Telecom Italia S.p.A. maturing May 2032 on Telecom Italia Finance S.A. bonds amounting to Japanese yen 20 billion (144 million at the /Japanese yen exchange rate at December 31, 2005) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(65)
CCIRS transactions finalized by Telecom Italia Capital S.A. on the bonds issued by Telecom Italia Capital S.A. in October 2004 for a total amount of U.S.$3,500 million (2,968 million at the /U.S.$ exchange rate at December 31, 2005), including five-years tranche for U.S.$1,250 million, ten-years tranche for U.S.$1,250 million and thirty-years tranche for U.S.$1,000 million	2,831	45
CCIRS transactions finalized by Telecom Italia Capital S.A. on the bonds issued by Telecom Italia Capital S.A. in September 2005 for a total amount of U.S.$2,500 million (2,119 million at the /U.S.$ exchange rate at December 31, 2005), including five-years tranche for U.S.$700 million, and 5.33 years tranche for U.S.$400 million and ten-years tranche for U.S.$1,400 million	2,068	19
Total Fair Value Hedge Derivatives	**7,359**	**(62)**

- On the EIB loan in U.S.$180 million, maturing April 2007, Telecom Italia S.p.A. entered into a CCIRS contract for **150 million** converting a 3-month Libor in U.S. dollars to the 3-month Euribor.

- On the notes of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put in place CCIRS contracts for **1,289 million** maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.

- On the tranche maturing in November 2008 for U.S.$1,000 million (**850 million**) relating to the notes issued in October 2003 by Telecom Italia Capital S.A. for a total amount of U.S.$4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the fixed rate coupon of 4% in U.S.$ to the 3-month Euribor.

- For **171** million, on the bonds 2002/2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V.S.A., the following transactions were put in place:

  by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY;

  by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.

- On the bonds of U.S.$3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put in place CCIRS contracts for **2,831 million** converting the fixed rate coupon in U.S. dollars to 6-month Euribor.

- On the notes of U.S.$2,500 million issued by Telecom Italia Capital S.A. in September 2005, Telecom Italia Capital S.A. put in place CCIRS contracts for **2,068 million** converting the fixed rate coupon in U.S. dollars to 6-month Euribor.

Tab. 2 Cash Flow Hedge Derivatives

Description	**Equivalent notional amount**	**Mark to Market (Clean Price)**
	(millions of Euro)	
IRS transactions effected by Telecom Italia Finance S.A. maturing January 2006 on Telecom Italia Finance S.A. notes with an original notional amount of 1,100 million, originally issued by Olivetti Finance N.V.S.A. (2002-2006)	1,045	
IRS transactions effected by Telecom Italia S.p.A. maturing March 2009 on notes of 110 million issued by Telecom Italia S.p.A. (2004-2009)	110	1
IRS transactions effected by Telecom Italia S.p.A. maturing January 2010 on five-years tranche C relating to Term Loan for a total amount of 12,000 million finalized on December 2004 in connection to Cash Tender Offer by Telecom Italia for TIM shares	3,000	12
CCIRS transactions finalized by Telecom Italia S.p.A. maturing November 2013 on ten-years tranche for a total amount of U.S.$2,000 million (1,694 million at the /U.S.$ exchange rate at December 31,	1,709	(168)

2005) on the notes issued by Telecom Italia Capital S.A. in October 2003 for a total amount of U.S.$4,000 million		
IRS transactions effected by Telecom Italia S.p.A. maturing November 2015 on bonds of 120 million issued by Telecom Italia S.p.A. (2004-2015)	120	
CCIRS transactions finalized by Telecom Italia S.p.A. maturing December 2015 on bonds in the principal amount of GBP 500 million (730 million at the /pounds sterling rate at December 31, 2005) issued by Telecom Italia S.p.A. in June 2005	751	(7)
CCIRS transactions finalized by Telecom Italia S.p.A. maturing October 2029 related to the Dual-Currency loan with a notional principal of Japanese yen 20 billion (144 million at the /Japanese yen rate at December 31, 2005) originally received by Olivetti International Finance N.V. and now held by Telecom Italia Finance S.A.	174	(70)
CCIRS transactions finalized by Telecom Italia S.p.A. maturing November 2033 on thirty-years tranche for a total amount of U.S.$1,000 million (848 million at the /U.S.$ exchange rate at December 31, 2005) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of U.S.$4,000 million	849	(160)
Total Cash Flow Hedge Derivatives	**7,758**	**(392)**

F-76

- On the notes 2002/2006 of 1,100 million at the quarterly floating rate issued by Telecom Italia Finance S.A. maturing January 2006, Telecom Italia Finance S.A. put in place:

  IRS contracts for **855** million in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a 2.68% fixed rate;

  an IRS contract for **190** million in which Telecom Italia Finance S.A. receives a quarterly floating rate +1.25% and pays a 3.83% fixed rate.

- On the notes 2004/2009 of **110 million** at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put in place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%.

- In reference to the term loan for a total amount of 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put in place IRS contracts for a total amount of **3,000 million** converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.

- On the tranche maturing in November 2013 for U.S.$2,000 million (**1,709 million**) relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of U.S.$4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the coupon rate of 5.25% in U.S.$ to a fixed rate of 5.035% in euro.

- On the bonds 2004/2015 of **120 million** at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put in place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.

- On the bonds 2005/2015 of GBP 500 million (**751 million**) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro.

- For **174 million**, with reference to the Dual Currency loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in U.S. dollars maturing October 2029, originally received by Olivetti International Finance N.V., now carried by Telecom Italia Finance S.A., equivalent to 144 million at December 31, 2005, the following was put in place:

  by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in U.S. dollars to the 6-month Libor in JPY;

  by Telecom Italia S.p.A., a CCIRS contract in which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor;

  by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in Euro to a 6.94% fixed rate up to maturity.

- On the tranche of U.S.$1,000 million (**849 million**) maturing in November 2033 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of U.S.$4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts converting the fixed rate of 6.375% in U.S. dollars to the fixed rate of 6% in Euro.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge instruments and Cash Flow Hedge instruments is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the hedging instrument and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be less than the risk of the item hedged:

VRR = 1 (portfolio risk / risk of the hedged item).

The better the hedging ratio, the more VRR tends to the value 1. To establish if a hedge is effective, this ratio must be higher than the threshold over which the test identifies the hedging as highly effective as required by IFRS.

Tab. 3 Non Hedge Accounting Derivatives

Description	Equivalent notional amount	Mark to Market (Clean Price)
	(millions of Euro)	
Floating to floating IRS transactions finalized by Telecom Italia S.p.A.	41	
IRS transactions effected by Telecom Italia Finance S.A. maturing January 2006 on Telecom Italia Finance S.A. notes with an original notional amount of 1,100 million, originally issued by Olivetti Finance N.V.S.A. (2002-2006)	55	
IRS transactions maturing February 2009 by Telecom Italia Finance S.A. on notes of 1,500 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V. (1999-2009)	500	(6)
IRS transactions effected by Telecom Italia Finance S.A. maturing July 2009 on Telecom Italia Finance S.A. notes with an original notional amount of 2,350 million, originally issued by Olivetti International Finance N.V. (1999-2009)	850	(7)
IRS transactions effected by Telecom Italia Finance S.A. maturing April 2011 on Telecom Italia Finance S.A. notes of 2,000 million, originally issued by Sogerim S.A. (2001-2011)	350	6
IRS and CCIRS contracts finalized by Telecom Italia Finance S.A. on financial assets	186	(7)
Interest rate and forward foreign exchange contracts finalized by Group companies	517	(5)
Total Non Hedge Accounting Derivatives	**2,499**	**(19)**

- The floating to floating IRS transactions put in place by Telecom Italia S.p.A. for a notional amount of **41 million** refer to indexed loans at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor.

- On notes 2002-2006 with an original notional amount of 1,100 million at a quarterly floating rate, issued by Telecom Italia Finance S.A., maturing January 2006, Telecom Italia Finance S.A. put in place:

  IRS contracts for **45** million in which Telecom Italia Finance S.A. receives a quarterly floating rate and pays a fixed rate of 2.68%;

  an IRS contract for **10** million in which Telecom Italia Finance S.A. receives a quarterly floating rate +1.25% and pays a fixed rate of 3.83%.

- On the notes 1999/2009 of 1,500 million at a 5.15% fixed rate maturing February 2009, carried by Telecom Italia Finance S.A., originally issued by Olivetti International N.V., Telecom Italia Finance S.A. put in place an IRS contract for **500**

million in which Telecom Italia Finance S.A. receives a 6-month Euribor and pays a fixed rate of 4.06%. Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in Euro remains higher than the 1-year swap rate in Euro.

- On the notes 1999/2009 with an original notional amount of 2,350 million at an annual 6.125% fixed rate with a step-up of +0.45%, carried by Telecom Italia Finance S.A. (originally issued by Olivetti International Finance N.V.), maturing July 2009, Telecom Italia Finance S.A. put in place, with the same maturity dates, the following IRS transactions totaling **850 million**:

an IRS contract for 500 million in which Telecom Italia Finance S.A. receives a semiannual floating rate in euro and pays a semiannual floating rate in euro set in arrears with the following additional transactions:

a) purchase of a cap at 4.50%;

b) sale of a cap at 5.50%.

Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro;

sale of a floor for a notional amount of 350 million at the 6-month Libor in U.S. dollars with interest in arrears decreasing from 3.80% to 3.15%.

F-78

- On the notes 2001/2011 of 2,000 million at an annual 7% fixed rate issued by Telecom Italia Finance S.A. maturing April 2011, Telecom Italia Finance S.A. put in place IRS contracts for 350 million converting the annual fixed rate of 7% to a quarterly rate in SEK and with the additional following transactions:

  a) purchase of a cap at a 3.65% annual rate;

  b) sale of a floor with the exercise rate from 1.75% to 3.20%.

- Derivative financial instruments on financial assets for a total amount of **186 million** were put in place by Telecom Italia Finance S.A. by IRS contracts for 125 million converting a fixed rate of 6.035% to a floating rate in Euro and CCIRS contracts for 61 million converting the 6-month Libor in U.S. dollars to the 6-month Euribor.

- Interest rate and foreign exchange transactions for a total amount of **517 million** are composed of:

  foreign exchange transactions carried by Telecom Italia S.p.A. for 40 million;

  foreign exchange transactions carried by Telecom Italia Finance S.A. for 350 million;

  foreign exchange transactions carried by Telecom Italia Capital S.A. for 1 million;

  foreign exchange transactions carried by Olivetti S.p.A. for 12 million;

  foreign exchange transactions carried by Tim Italia S.p.A. for 10 million;

  foreign exchange transactions carried by TI Sparkle S.p.A. for 15 million;

  interest rate and foreign exchange transactions carried by Maxitel S.A. for 50 million;

  foreign exchange transactions carried by TIM Celular S.A. for 1 million;

  interest rate and foreign exchange transactions carried by TIM Partecipaçoes S.A. for 38 million.

The following table shows the derivative financial instruments of the Telecom Italia Group by type:

Type	Hedged risk	Notional amount	Mark to Market Spot (Clean Price) as of	Mark to Market Spot (Clean Price) as of

			December 31, 2005	December 31, 2004
			(millions of Euro)	
Interest Rate Swaps	Interest Rate Risk			52
Cross Currency and Interest Rate Swaps	Interest Rate Risk and Foreign Currency Exchange Rate Risk	7,359	(62)	(605)
Total Fair Value Hedge Derivatives		**7,359**	**(62)**	**(553)**
Interest Rate Swaps	Interest Rate Risk	4,275	13	(6)
Cross Currency and Interest Rate Swaps	Interest Rate Risk and Foreign Currency Exchange Rate Risk	3,483	(405)	(660)
Total Cash Flow Hedge Derivatives		**7,758**	**(392)**	**(666)**
Non-Hedge Accounting Derivatives		**2,499**	**(19)**	**5(*)**
Total Telecom Italia Group Derivatives		**17,616**	**(473)**	**(1,214)**

(*) Based on the same scope of consolidation the amount would have been 32 million.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The following table shows, for Cash Flow Hedge Derivatives, the amount recognized in the Reserve for fair value adjustments of hedging instruments during 2005 and the portion reversed from the reserve to the statement of operations as an exchange rate adjustment, before the relative tax effect:

Description	Reserve for fair value adjustments of Cash Flow Hedge Derivatives at December 31, 2005	Reserve for fair value adjustments of Cash Flow Hedge Derivatives at December 31, 2004	Mark to Market change recognized in the Reserve for fair value adjustments of hedging derivatives	Amount reversed from the Reserve for fair value adjustments of hedging derivatives to the statement of operations as an exchange rate adjustment	Impact of Cash Flow Hedge Derivatives in 2005 on the Reserve for fair value adjustments of hedging derivatives
			(millions of Euro)		
Cash Flow Hedge Derivatives	**(311)**	**(265)**	**274**	**(320)**	**(46)**

NOTE 24 FINANCIAL ASSETS PLEDGED AS COLLATERAL FOR FINANCIAL LIABILITIES

- 2,923,168 Corporacion Digitel shares, owned by TIM International, as well as tangible and intangible assets of the subsidiary Corporacion Digitel are pledged as collateral for the loan granted in 2002 by a syndicate of banks in the form of Project Financing, for an amount of 122 million at December 31, 2005.

- The contracts for easy-term loans granted by the Brazilian development bank BNDES (Banco Nacional de Desevolvimento Economico e Social) to certain operating companies of the TIM Brasil group (Maxitel, TIM Celular and TIM Sul) for a total amount of 326 million are guaranteed by a part of the receipts of those companies which pass through bank accounts that are pledged in favor of BNDES. The bank will have access to such amounts only in the case of default by the company, otherwise the funds will be automatically transferred to accounts on which the company has full access.

NOTE 25 COMMITMENTS AND POTENTIAL LIABILITIES

a) Disputes, Litigations and Legal Proceedings Pending

The main legal and arbitration proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2005 are described below. Except where explicitly mentioned, provisions have not been made, as there is not an adequate objective basis for doing so or because a negative outcome of the dispute is considered unlikely.

TELE2

Tele2 brought an action before the Milan Court of Appeal in June 2005 against Telecom Italia for alleged abuse of dominant position in the markets for fixed voice telephony access and services, related to Telecom Italia s Hello gratis offer to all users, including customers of other operators, featuring 90 minutes of calling time completely free of charge (up to 60 minutes of local calls and 30 minutes of long-distance calls every two months). Tele2 claimed damages of more than 100 million, asserting that the indiscriminate application of the traffic bonus had the effect of taking traffic away from competitors, as customers were induced to make use of the bonus regardless of their possible contracts with other operators. In addition, the offer supposedly prevents comparative advertising by not allowing a direct, homogeneous comparison of telephone charges per minute.

* * *

On October 10, 2005 Telecom Italia filed an appeal from the order issued on September 28, 2005 by the Milan Court of Appeal granting Tele2 s request for a preliminary injunction restraining Telecom Italia from continuing to impose offers, in the supply of the metred wholesale ADSL service, with obligatory payment of at least 5 hours of traffic per month included in the monthly subscription fee of 6.30 plus VAT . Disregarding the fact that Telecom Italia s offers had been submitted to the Communications Authority in advance, the court found that the contractual conditions did not allow Tele2 to participate in the market for ADSL broadband services on an equal competitive footing.

On December 22, 2005 the court upheld Telecom Italia s appeal and revoked its September 2005 order enjoining Telecom Italia from continuing the E@asy.IP metred ADSL offer inclusive of a guaranteed minimum of 5 hours of traffic.

Meanwhile, on October 28, 2005 Tele2 had initiated proceedings on the merits of the case, claiming damages of more than 15 million for additional costs incurred, loss of revenue and customers and injury to its business image and reputation.

* * *

In July 2005 Tele2 notified Telecom Italia that it had filed another urgent petition to ascertain an alleged abuse of dominant position in the market for ADSL broadband data access, with reference to the ADSL wholesale flat-rate single access contract between the parties. The illegitimate conduct of Telecom Italia allegedly consisted of activating the service for Tele2 customers who had not requested it, in order to prevent Tele2 from providing its own ADSL services, and in delaying the deactivation of these not-requested provided services.

In November 2005 the Milan Court of Appeal, partially granting the petition, ordered Telecom Italia to activate the ADSL services of Tele2 customers within the contractual time limit of 42 days from the date of Tele2 s requests, apart form the cases where customers were in fact already being provided such services or had terminated them.

Telecom Italia has decided not to oppose the preliminary order, which basically calls for fulfilling the contract between the parties and therefore is unlikely to imply particular adverse effects.

On December 12, 2005 Tele2 notified Telecom Italia to appear before the Milan Court of Appeal for the proceeding on the merits of the case.

* * *

On November 22, 2005 the Milan Court of Appeal issued an order dismissing Tele2 s urgent petition for a preliminary injunction restraining Telecom Italia from continuing the Alice Free offer of retail metred ADSL, which Telecom Italia had recently promoted on its website and which gave new customers subscribing to the offer by November 30, 2005 the possibility to navigate free of charge until December 31, 2005 without having to pay either the one-time-only fee or the activation fee.

Tele2 had asserted that the economic terms of the offer constituted an abuse of dominant position by Telecom Italia in the domestic market for broadband data access services and, in particular, a violation of the principle of equal treatment inasmuch as the retail offer had not been preceded by an adjustment of the corresponding wholesale offers that would have permitted the other

OLOs to replicate these terms with their own customers. In this regard, the Court of Appeal determined, inter alia, that price competition was normal at the level of retail offers and thus constituted permissible conduct, on a general basis, for the dominant operator to engage in with a view to protecting its own business interests.

In December 2005 Tele2 appealed the decision of the Milan Court of Appeal.

* * *

Telecom Italia has brought an action before the Milan Court against Tele2 and its Swedish parent company Tele2 AB for acts of unfair competition in connection with the comparative advertising campaigns run by Tele2, requesting that the two companies be held jointly and severally liable for the payment of at least 200 million in damages.

Tele2 has filed a counterclaim asserting that Telecom Italia s conduct, and specifically the application of the traffic bonus in the Hello gratis offer, constitutes a tort. Basically, Tele2 has put forward the same arguments as in the action brought before the Milan Court of Appeal challenging the legitimacy of the Hello gratis offer, reported above, and has claimed the same damages as in the pending case (more than 100 million).

EUTELIA

In September 2005 Eutelia, a telecommunications operator, notified Telecom Italia that it had filed an urgent petition with the Milan Court of Appeal regarding allegedly abusive conduct in the market for broadband data access services.

The alleged abuse consists in the activation of ADSL service for customers who had not requested it, with a view to preventing Eutelia from providing its own ADSL services, and in delayed deactivation of these not-requested provided services.

In addition, Eutelia objects that Telecom Italia, in violation of the regulations in force, makes activation of ADSL services contingent on the customer being a subscriber to the Company s telephony service and terminates the ADSL links of customers who decide to withdraw from the basic telephony contract.

With an order issued on November 3, 2005, the Milan Court of Appeal partially granted Eutelia s petition, temporarily enjoining Telecom Italia from deactivating the retail ADSL service for Eutelia customers who withdraw from the telephony contract signed with Telecom Italia.

Telecom Italia decided not to oppose the preliminary injunction.

In December 2005 Eutelia initiated the proceeding on the merits of the case before the Milan Court of Appeal, claiming damages of around 40 million.

VODAFONE

On November 2, 2005, Vodafone made an extra-judicial request for the restitution of more than 16 million in alleged overpayments to Telecom Italia for interconnection services supplied between January 1, and July 24, 1998. The question originated from the petition with which Omnitel (now Vodafone) challenged the part of Communications Authority Resolution 1/CIR/98 (Approval of Telecom Italia s Reference Interconnection Offer) establishing that, pursuant to a ministerial decree issued on April 23, 1998, the new economic conditions for interconnections would become effective for the existing GSM license-holders (TIM and Omnitel) from July 25, 1998 (the date Telecom Italia s Reference Offer was submitted) rather than retroactively from January 1, as envisaged for the fixed-network operators.

The State Council annulled the Communication Authority s measure, reinstating the administrative court s ruling on the matter.

Telecom Italia has appealed the State Council s decision to the Court of Cassation on the grounds that the State Council (i) substituted its own evaluation for that of the Ministry by laying down a retroactive rule that neither the Ministry nor the Authority would have been able to adopt; and (ii) rendered ineffective Article 15 of the above-mentioned ministerial decree of April 23, 1998, which Vodafone had not challenged in its original petition.

IL NUMERO ITALIA

In August 2005, Il Numero Italia S.r.l. and its subsidiary Directory Assistance Company S.r.l. filed an urgent petition with the Milan Court against Telecom Italia, alleging illicit conduct for non-compliance with the regulations on subscriber directory information services. The Court granted the petition, ordering Telecom Italia to cease making all references via the Company s 12 and 412 information services (terminated on October 1, and December 1, 2005, respectively) to the new numbering of subscriber information services, and rejected Telecom Italia s subsequent appeal against this order.

In September 2005 Il Numero Italia and Directory Assistance brought an action (subsequent to the preliminary order), claiming damages of 14.4 million for actual economic and reputational losses and of 60 million per year (to be multiplied by a suitable number of years, determined using the methods commonly applied in business economics to calculate the discounted value of economic activities in the sector of subscriber information services) for losses of anticipated profits.

* * *

F-82

A preliminary injunction *inaudita altera parte* on December 2, 2005 by the Milan Court on an urgent petition filed by Il Numero Srl and its subsidiary Directory Assistance Company Srl, ordered Telecom Italia immediately to cease making any direct or indirect reference, in whatever form or manner, through its 412 subscriber information service to its own numbers, including 1254 .

The above-mentioned petition followed a series of similar actions brought by Numero Italia against Telecom Italia, in which the plaintiff alleges that Telecom Italia has engaged in unfair practices and abuse of its dominant position such as to prevent access on equal terms to the market for subscriber information services, in violation of the regulations in force.

Although Telecom Italia had meanwhile taken every necessary operational step to comply with the regulatory prescriptions, on December 12, 2005, Il Numero Italia and its subsidiary petitioned the Milan Court to adopt appropriates measure to ensure effective compliance by Telecom Italian with the above-mentioned order of December 2, 2005.

With an order issued on December 22, 2005 the Milan Court confirmed *inaudita altera parte* decree of December 2, 2005, again ordering Telecom Italia immediately to cease making any direct or indirect reference to any of its subscriber directory information numbers by means of the 412 access service or rerouting from that service to another of its operating numbers. The court also ordered Telecom Italia to publish the order in two national daily newspapers. On January 2, 2006 Il Numero Italia S.r.l. and its subsidiary Directory Assistance Company S.r.l. brought an action to ascertain the violation by Telecom Italia of the regulations in force concerning subscriber information services and for damages, to be quantified during the proceeding, for alleged losses.

CECCHI GORI

In relation to the complex legal dispute initiated by the Cecchi Gori group against Seat (now Telecom Italia Media) and, in particular, the action related to the resolutions adopted on April 27, 2001 by the shareholders meetings of Cecchi Gori Communications (now HMC) approving the annual report and financial statements for the year ended December 31, 2000 and canceling and then reconstituting the company s share capital, on November 24, 2005 the Rome Court of Appeal dismissed the Cecchi Gori group s appeal against the ruling of the Rome Court of first instance to reject the petition for annulment of the resolutions.

The following cases remain pending in the ordinary courts:

- an appeal brought before the Rome Court of Appeal by the Cecchi Gori group against the ruling that rejected the petition for annulment of the resolutions approved on August 11, 2000 by the extraordinary shareholders meeting of Cecchi Gori Communications (now Holding Media Communications) to amend certain company s bylaws;
- an action brought before the Milan Court by the Cecchi Gori group for damages for a tort resulting in injury from the conduct of Seat and of the directors it designated to the board of Cecchi Gori Communications with the alleged aim of ousting the majority shareholder, Cecchi Gori Media Holding;

- an appeal brought before the Milan Court of Appeal by the Cecchi Gori group against the ruling issued by the court of first instance rejecting the petition for annulment or cancellation of the deed under which the Cecchi Gori Communications shares belonging to Cecchi Gori Media Holding were pledged as security.

NHAI

In September 2005, Nhai Srl (formerly Help S.p.A.) brought an action before the Rome Civil Court to establish that in the first half of the 1990s Telesoft (subsequently merged into Telecom Italia), in its capacity as member of the Consortium for Automatic Telephone Traffic Data Collection and Processing (whose participants included the petitioner and Telesoft) had competed with the consortium, in violation of the obligations provided for in the consortium s agreements and by-laws. Nhai consequently asked that Telecom be ordered to pay damages of between 16 million and 25 million for the losses incurred by the consortium and by Help, for its share, in connection with the orders not received.

Nhai also alleged that Telesoft, during the life of the consortium, had appropriated software developed by Help, in violation of the agreements between the members of the consortium, and for this claimed damages of 1 million.

INTERMINISTERIAL DECREE OF FEBRUARY 22, 2005

In July 2005, H3G notified Telecom Italia, as an adversarial party, that it had filed an extraordinary petition to the President of the Republic against the Ministry of Communications and the Ministry for the Economy and Finance for the annulment, following suspension, of the interministerial decree of February 22, 2005 concerning the procedures and criteria for establishing grants for the purchase of broadband Internet data transmission/reception equipment. H3G challenged the part of the decree that limited the government grants to holders of a subscription contract while failing to extend them to holders of prepaid cards. In August, Telecom Italia requested that the extraordinary petition be transferred to the Lazio Administrative Court, in order to obtain greater guarantees regarding the opportunity for all the parties to state their case and above all to have two levels of judgment. H3G filed as party in the resulting proceeding. In August H3G filed a second petition with the Lazio Administrative Court, this time for annulment of certain measures issued by the Ministry of Communications to implement the interministerial decree of February 22, 2005, requesting joint discussion of the two petitions on the grounds of related matter.

LEVY PURSUANT TO ARTICLE 20.2 OF LAW NO. 448/1998

The decisions with which the Lazio Administrative Court, granting the petitions submitted by Telecom Italia and TIM, annulled a decree issued by the Ministry of Communications on March 21, 2000 were published on January 4, 2005.

In their petitions Telecom Italia and TIM had challenged the compatibility of Article 20 of Law No. 448/1998 with EU Community law, in particular with the principle that no capital charges may be imposed on telecommunications companies over and above those provided for in EU Community law (examination expenses, use of so-called scarce resources and financing of the universal service). Telecom Italia and TIM had also demanded restitution of the amounts paid but not due in respect of the 1999 financial year, when, in connection with the initial application of the subsequently annulled decree, the first annual installment of the new levy was paid in a total amount of more than 500 million. (Subsequently, considering the petitions pending, Telecom Italia and TIM did not make payments, setting aside the contested amounts in a reserve). With the annulment of the decree, the State is obliged to make restitution of the amounts in question.

In November 2005 a notice was sent to the Minister for the Economy and Finance and the Minister of Communications demanding restitution of 362 million paid by Telecom Italia and 185 million paid by TIM, plus interest and adjustment for inflation. Meanwhile, the time limit for appeal expired on February 19, 2006 and so the decisions by the Lazio Administrative Court granting the petitions of TIM and Telecom Italia have become final. However, in the absence of compliance by the ministries cited in the decisions of the Lazio Administrative Court (and in the Presidential Decree deciding on the extraordinary petition by Albacom and Infostrada), with due repayment of the obligation plus legal interest thereon, Telecom Italia (both on its own behalf and as universal successor to Tim Italia S.p.A. as a consequence of the merger effective from March 1, 2006) has petitioned the administrative courts to issue a compliance order for restitution by the State of the sums paid but not due.

Following the European Court of Justice s decision of September 18, 2003 on similar appeals by Albacom and Infostrada, which declared the levy to be incompatible with EU Community law, the Telecom Italia Group had already reversed 1,465 million of liabilities (payables and reserves for risks and charges) relating to the financial years 2000, 2001 and 2002.

In the light of the above-mentioned ruling by the Lazio Administrative Court annulling the regulation on grounds of illegitimacy, 546 million, plus 74 million of interest paid by the Group in respect of the levy for the 1999 financial year, have been included in income.

* * *

Petitions by Telecom Italia and TIM are still pending before the Lazio Administrative Court ascertain the right not to pay any amount as a license fee for 1998 and to obtain restitution of the 529 million already paid. The request is based on the illegitimacy of Article 21 of Presidential Decree No. 318/1998, which extended the effectiveness of the license fee even after Directive 97/13/EU came into force and the expiry of the time limit for its transposition into Italian law.

In the light of the Court of Justice s above-mentioned decision of September 18, 2003, additional reasons based on the levy s incompatibility with Community law were submitted on February 9, 2004, to corroborate the arguments set forth in the main proceeding.

* * *

Also pending is the petition by Telecom Italia to the Lazio Administrative Court for annulment of the note dated July 9, 2003 with which the Ministry of Communications challenged the non-inclusion of some items of income in the basis of assessment for the license fee for 1997 and 1998.

The difference deriving from the recalculation would amount to 31 million for 1997 and 41 million for 1998. The petition follows others the Company had already filed concerning the license fee computation method in connection with the gradual liberalization of the telecommunications sector. A provision of 64 million has been made for the amounts involved in these disputes.

Lastly, an appeal by TIM against the ministerial decisions on the verification of the license fee for the years 1995, 1996, 1997 and 1998 is pending before the Lazio Administrative Court. The contested amount of (14 million) has been accrued in a reserve.

GALACTICA

The action brought by the Internet Service Provider Galactica in May 2001 over the non-renewal of an agreement for testing a flat-rate Internet access service is still pending. Galactica asserted that the non-renewal was illegitimate and claimed damages, serving notice on Telecom Italia not to interrupt provision of the service. In February 2002 Galactica brought a second action against Telecom Italia, claiming damages for unfair trade practices.

The two proceedings were combined in May 2002. In October 2002 Servinternet S.p.A. (formerly Galactica S.p.A.) brought a third action against Telecom Italia before the Milan Court, seeking a judgment against Telecom Italia for tort. This proceeding has also been combined with the other two already pending before the same judge. The claims lodged by the plaintiff amount to around 90 million.

For its part Telecom Italia has filed a counterclaim for Galactica to be ordered to pay more than 5 million as consideration for the increase in traffic in the period January-July 2001.

TELEQUE COMMUNICATIONS

Also pending is the proceeding opened before the Rome Court of Appeal in November 2002 by Teleque Communications S.p.A., a company operating in the field of prepaid cards for international telephony services, which brought an action against Telecom Italia for unfair trade practices, claiming damages of 65 million. Teleque Communications S.p.A. asserted that Telecom Italia had gained a competitive advantage by imposing additional costs on Teleque Communications S.p.A for the supply of interconnection services that it did not charge to its own final customers in the field of prepaid international services. In the hearing of February 16, 2004 the trial was interrupted following the notification by Telecom Italia of the declaration of its cessation as a legal entity as a consequence of the merger of Telecom Italia into Olivetti S.p.A..

On October 19, 2004 the trustee in bankruptcy (Teleque Communications was declared bankrupt on December 17, 2003) revived the action.

ASSOPROVIDER/TELECOM ITALIA AND AIIP-MULTILINK/TELECOM ITALIA

On December 5, 2005 Assoprovider an independent association of 190 Internet Service Providers (ISPs) notified Telecom Italian of the filing of an urgent petition with the Court of Milan pursuant to Article 700 of the Code of Civil Procedure in which it requested that the Teleconomy Internet retail offer of dial-up Internet access be suspended in the absence of an equivalent wholesale offer permitting competitors to replicate it. The plaintiff alleged that this situation obstructed the creation of networks and services by other ISPs, to the detriment of competition and consumers, and provoked an illicit diversion of customers that fell with the scope of the rules against unfair competition.

In addition, on December 5, 2005 the Italian Association of Internet Providers and an Internet Service Provider named Multilink filed two separate urgent petitions with the Milan Court, identical in substance to that of Assoprovider, essentially seeking an order to prevent the marketing of the Teleconomy Internet offer.

The two proceedings were combined and the court issued an order against Telecom Italia, granting the petitions. Telecom Italia appealed and the court revoked the preliminary injunction, declaring that the subject of the petitions had ceased to exist.

TISCALI ITALIA/TELECOM ITALIA

On March 3, 2006, the Court rejected Telecom Italia s appeal against the ruling issued on November 22, 2005 by the Court of Rome which, in granting a petition filed by Tiscali S.r.l., ordered Telecom Italia to fulfill its obligations to Tiscali arising from the shared access contract concluded between the parties on July 27, 2004, supplemented by law and resolutions of the Communication Authority, permitting the immediate and automatic transfer of Telecom Italia customers who opted to change to Tiscali for the purchase of ADSL services .

The case originates in the shared access service supply contract concluded by Telecom and Tiscali on July 27, 2004. The contract calls for Tiscali to be supplied unbundled shared access to the connections of Telecom Italia s copper distribution network (with which Telecom Italia continues to supply final customers with the voice telephony service, while the Internet access service is provided by Tiscali). According to Tiscali, requests to activate the shared access service for numerous customers met with a refusal by Telecom Italia to free up the lines with which it provides Internet access services (marketed under the trademarks Alice and Tin.it) to final customers, so that Telecom Italia customers who opted to use Tiscali s Internet access service in place of those supplied by Telecom Italia were in fact unable to extricate themselves from Telecom Italia, which was therefore violating both its contractual obligations in respect of Tiscali and the rules laid down by the Communications Authority.

In December 2005 Tiscali brought an action against Telecom Italia before the Court of Rome subsequent to the ruling of November 22, 2005, on its preliminary petition. Following dismissal of the appeal from that ruling, the trial is continuing.

TELECOM ITALIA ARBITRATION PROCEEDINGS WITH FASTWEB AND WIND (Inverse interconnection)

On December 13, 2005, Telecom Italia began an arbitration proceeding with Fastweb S.p.A. to obtain a decision recognizing: (i) that Fastweb had breached the interconnection contract concluded on January 28, 2000 by unilaterally altering the economic conditions for termination on Fastweb s fixed network of traffic made to geographical numbers; (ii) that the value of termination on the Fastweb network be determined in accordance with the principle of reciprocity; and (iii) that Telecom Italia did not owe the larger sums requested by Fastweb applying its self-determined termination charges.

Fastweb s conduct stems from some resolutions issued by the Communications Authority in 2003 Resolution 11/03 CIR (approval of the Telecom Italia s reference offer for the year 2003) and Resolution 289/03 CONS (regulation and control of the maximum prices of the voice telephony services supplied by Telecom Italia) that permitted OLOs to apply differentiated charges for interconnection service and, in particular, for termination service. These resolutions were challenged at the time by Telecom Italia before the Lazio Administrative Court, which, rejected the petition, on January 27, 2006. Telecom Italia is preparing to appeal against the ruling by the Lazio Administrative Court to the State Council.

* * *

On December 15, 2005 Telecom Italia initiated a similar proceeding with Wind under the arbitration clause of the inverse interconnection contract concluded with Wind on December 31, 1999, claiming the illegitimacy of Wind s conduct in unilaterally altering the economic conditions for termination on Wind s fixed network of traffic made to geographical calling codes.

Wind billed Telecom Italia for such services in accordance with the economic conditions established for the whole of 2003 by the above-mentioned interconnection contract for the termination of traffic on Wind s fixed network for traffic originated by Telecom Italia s fixed network. However, beginning in October 2003 Wind, like Fastweb, imposed a new, unilateral version of the agreed economic conditions on Telecom Italia.

FASTWEB/TELECOM ITALIA

On December 29, 2005, Fastweb filed an urgent petition with the Rome Court of Appeal to obtain preliminary measures against what the plaintiff alleged to be the exclusionary strategy adopted by Telecom Italia in the broadband market, in violation of antitrust rules and consisting in: the asymmetrical exploitation of information on final customers by Telecom Italia s marketing divisions; the creation of a system of incentives for the Telecom Italia sales network with a view to excluding Fastweb from the above-mentioned market; a massive campaign of soliciting Fastweb customers with a view to convincing them to withdraw from the contracts already signed with Fastweb, *inter alia* with the use of denigrating statements and personalized, discriminatory offers reserved to such customers. Telecom Italia contested the petition, arguing that Fastweb s accusations were unfounded and prejudicially objecting that the case did not fall within the jurisdiction of the Rome Court of Appeal. On February 24, 2006 the court sustained Telecom Italia s objection, declaring that the case did not fall within its jurisdiction but within that of the Milan Court of Appeal.

UNIVERSAL SERVICE

The regulations regarding universal service envisage a mechanism for sharing the net cost of the universal service in Italy among operators of public telecommunications networks, suppliers of voice telephony services accessible to the public and the providers of mobile and personal communication services, in the event that the obligations of providing the universal service constitute an unfair burden on the entity or entities appointed to provide it (Telecom Italia).

The following actions remain pending in the complex challenge by some operators against the Communications Authority s decision concerning the universal service net cost-sharing mechanism:

Universal service net cost for 1999:

- the petition by Vodafone to the Lazio Administrative Court for the annulment of: (i) the decision with which the Communications Authority, in renewing the proceeding for the application of the universal service net cost-sharing mechanism for 1999, recalculated the amount of Vodafone s contribution; and (ii) the note dated November 30, 2005 with which the Ministry of Communications enjoined Vodafone to pay the contribution for the financing of the universal service in the amount of 8.6 million, as determined by the Communications Authority in the above-mentioned decision;

Universal service net cost for 2000:

- the petitions submitted respectively by Vodafone to the Lazio Administrative Court and by Wind to the Head of State for the annulment of the Communications Authority s decision governing the same cost-sharing mechanism for 2000. Vodafone has requested that the issue be referred as a preliminary matter to the European Court of Justice for a ruling on the correct interpretation of the Community directives;

- the petition by Vodafone to the Lazio Administrative Court for the annulment of the note dated April 29, 2003 with which the Ministry of Communications enjoined Vodafone to pay the contribution for the year 2000 for the financing of the universal service in the amount of approximately 11 million, as determined by the Communications Authority in the above-mentioned decision;

Universal service net cost for 2001:

- the petition by Vodafone to the Lazio Administrative Court for the annulment of the Communications Authority s decision governing the cost-sharing mechanism for 2001. Despite the petition, Vodafone has paid its contribution to the fund for 2001, in the amount of 8.54 million;

Universal service net cost for 2002:

- the petitions by Vodafone and Wind to the Lazio Administrative Court for the annulment of the Communications Authority s decision governing the cost-sharing mechanism for 2002;

- the petition by Vodafone to the Lazio Administrative Court for the annulment and interim suspension of the note dated March 17, 2005 with which the Ministry for Communications requested Vodafone to pay approximately 8 million, determined by the Authority in the above-mentioned decision, as its contribution for the year 2002 to finance the universal service. In November 2002 the Lazio Administrative Court rejected Vodafone s request for preliminary suspension. Vodafone appealed this ruling to the State Council, which in January 2006 rejected Vodafone s appeal for a preliminary measure. In January 2006, the Ministry of Communications therefore enjoined Vodafone to pay its contribution to the financing of the universal service for the years 1999, 2000 and 2002.

ALLEGED VIOLATIONS OF ANTITRUST LAW

In December 2004 Telecom Italia lodged an appeal with the Lazio Administrative Court from the measure with which the Antitrust Authority, at the conclusion of Proceeding A351, had imposed a fine of 152 million on the Company for abuses of dominant position, requesting annulment of the measure and interim suspension of its effects. The court, in a decision published in May 2005 and appealed from by the Authority, largely upheld the pleadings of Telecom Italia, annulling the fine. Telecom Italia thereupon lodged a cross appeal from the part of the decision that did not accept some of the grounds of its objections to the measure. The proceeding is pending.

In February 2006 the State Council partly upheld the initial and cross appeals of the other applicants, rejecting Telecom Italia s cross appeal, and consequently recalculated the fine against Telecom Italia, reducing it to 115 million.

The Company, accordingly, has reduced the provision made in the 2004 financial year to the reserve for risks from 152 million to 115 million.

* * *

In February 2005 the Antitrust Authority decided to open an investigation (Proceeding A357) under Law No. 287/1990 in respect of TIM, Vodafone and Wind to ascertain possible violations of Articles 81 and 82 of the EC Treaty.

The investigation was instigated by the complaints filed by some operators, who claimed that TIM, Vodafone and Wind had abused their collective dominant position in the market for mobile network infrastructure access services and their individual dominant position in the wholesale market for termination services on each mobile network, and had entered into agreements regarding access to the market for final mobile communications services and commercial offers to their own business customers.

In particular, TIM, Vodafone and Wind (alleged jointly to hold a dominant position in the market for network infrastructure access services) supposedly refused to negotiate agreements concerning the provision of access to the mobile networks, with the intent of obstructing the entry of other operators into the market for final mobile communications services, creating an understanding in restraint of trade.

According to the Authority, moreover, TIM, Vodafone and Wind (alleged to hold an individual dominant position in the market for mobile services) favored their own sales divisions by charging their competitors higher prices just for fixed-to-mobile termination service than those they offered to their own final business customers for integrated final fixed-mobile services.

Finally, the Authority suspects that the uniformity of such conduct in the retail market for mobile services, in terms of its exclusionary effects, could be the result of an understanding in restraint of trade.

According to the Authority, all the above-mentioned instances of conduct are likely to be detrimental to trade between the member states of the European Community inasmuch as they affect a substantial part of the common market, and consequently to violate Articles 81 and 82 of the EC Treaty.

The first hearing of TIM was held at the Authority in June 2005.

In February 2006 the Authority decided to extend the scope of the proceeding by including some instances of allegedly simultaneous conduct by TIM, Vodafone and Wind consisting in a refusal to renegotiate easier economic conditions for access to roaming on the GSM networks, thereby abusing their collective dominant position in that market. In the same measure, the Authority extended the time limit for concluding the proceeding to December 14, 2006.

CHALLENGES TO MEASURES ADOPTED BY THE COMMUNICATIONS AUTHORITY

The proceeding is pending in the appeal Telecom Italia filed with the Lazio Administrative Court in December 2004 for the annulment and interim suspension of Communications Authority Resolution No. 15/04/CIR of November 3, 2004 (Assignment of the rights to use the numbers reserved to subscriber information services).

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

The Authority has set a very tight timetable for the cessation of all subscriber information services provided with numbers other than 12XY (including services accessed with the addition of 4 (e.g. 412 , recently added to the traditional 12) and has also established the procedures for informing customers about the migration of these services to other numbers. Telecom Italia considers these procedures discriminatory, since the Company is not free to use its discretion in advertising the new number the service will migrate to.

ETECSA

Since 2002, Banco Nacional de Comercio Exterior (Bancomext) has accused ETECSA and Telan (majority shareholder of ETECSA, controlled by the Cuban government) of non-performance of alleged payment and guarantee obligations amounting to U.S.$300 million established in a series of contracts between ETECSA, Telan, BanCuba (Central Bank of Cuba), Intesa BCI and Bancomext.

These accusations were the subject of an action brought by Bancomext before the Italian courts and of an international arbitration proceeding subsequently initiated by Telan and ETECSA, in which they pleaded that performance was impossible owing to a Cuban legislative measure prohibiting actions aimed at satisfying Bancomext s claim.

In the award issued on August 5, 2004, the arbitration board:

- upheld ETECSA s argument that it was neither a debtor of Bancomext nor a guarantor of Telan;

- nonetheless determined that ETECSA remained obligated to satisfy the obligations to Bancomext deriving from the loan contract and, to restore the procedure envisaged for the payment of dividends belonging to Telan with a view to satisfying Bancomext. This decision, whose effects are retroactive, would oblige ETECSA to transfer around U.S.$147 million to Telan, paying the sum into an escrow account in Bancomext s name.

ETECSA applied to the Paris Court of Appeal to declare the award null and void. In the meantime the Rome Court of Appeal, acting on a request from Bancomext, declared the award to be enforceable in Italy. The proceeding in the French courts is still pending.

ETECSA challenged the recognition of the award in Italy. On May 3, 2005, Bancomext sent notice of the award to ETECSA and Telan, together with a request for payment of an amount equal to the dividends distributed to Telan from April 2002. The related enforcement proceedings, undertaken by Bancomext at Telecom Italia, Telecom Italia Sparkle and TIM (all in their position as debtors of ETECSA), were suspended, however, in the light of a challenge filed by ETECSA to recognition of the award s enforceability in Italy.

In November 2005, at the conclusion of the first-level trial initiated by Bancomext before the Italian courts, the Court of Turin ordered ETECSA to pay Bancomext damages of approximately U.S.$168 million and to restore the mechanism for the payment of dividends belonging to Telan, as contractually provided. ETECSA has appealed the first-level judgment.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

After the decision of the Court of Turin was published, in December 2005, Bancomext applied to the Court of Milan for the revival of the enforcement proceeding and the assignment of the seized goods. With this act Bancomext requested the court to convert the sequestration at Telecom Italia of the ETECSA s claims on the Company, which the Court of Turin had ordered in 2002 as a precautionary measure, into seizure and to assign Bancomext the sum of 2.8 million due by Telecom Italia.

ETECSA has challenged the enforcement proceeding initiated by Bancomext against ETECSA at Telecom Italia and the related trial is now pending.

In the meantime Telecom Italia International (in possession of a letter from the Cuban government relieving it of any injury arising from the reward) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate ETECSA, reserving its right to take protective action.

BRAZIL

On April 28, 2005, a final settlement was reached between the parties to a series of disputes in different venues involving Telecom Italia/Telecom Italia International versus respectively:

Brasil Telecom, for alleged abuses by the Group in extraordinary corporate actions undertaken by the Brazilian operator;

(i) Techold and Timepart, partners of Telecom Italia International in Solpart Participaçoes (controller of Brasil Telecom through Brasil Telecom Participaçoes), in arbitration in London before the International Chamber of Commerce of Paris, and (ii) Techold and Timepart and, with them, Solpart, Brasil Telecom Participaçoes and Brasil Telecom, before the Court of Rio de Janeiro, in both cases in connection with the agreement concluded on August 27, 2002 for the temporary reduction from 37.29% to 19% of the Group s interest in the ordinary capital of Solpart and the temporary suspension of its governance rights, with an option for the repurchase of the aforesaid equity interest.

The above-mentioned disputes were definitively closed with the homologation of the settlement.

An exception is the action brought before the Court of Rio de Janeiro where some indirect shareholders of Techold, who have challenged the validity of the transaction and have so far succeeded in preventing its homologation. As things now stand, an objection on the matter is pending.

* * *

On May 5, 2005, some indirect shareholders of Solpart petitioned the State Court of Rio de Janeiro to stay the implementation of an amendment to the shareholders agreement signed on April 28, 2005, between the partners in Solpart (Telecom Italia International, Techold and Timepart) as well as any deed that would permit persons of the Telecom Italia Group to designate or remove directors of Brasil Telecom or its subsidiaries.

The judge only stayed the effects of the above mentioned amendment to the shareholders agreement. Telecom Italia International appealed the order. Timepart then filed a petition for the recusal of the judge, upon which the same judge acknowledged valid grounds for such request. Consequently, the proceeding will continue with a new judge. The plaintiffs have initiated the trial proceeding.

* * *

On June 30, 2005 Telecom Italia International filed a petition against some indirect shareholders of Solpart as well as against Techold, Timepart, Brasil Telecom Participaçoes and Brasil Telecom, requesting a stay of the effectiveness of the Zain shareholders agreement Zain, an investment vehicle in which Brazilian pension funds and Citigroup-operated investment funds have interests, which indirectly controls Techold and of the put agreement executed between the above-mentioned pension funds and investment funds.

The agreements in question violate the Group s rights under the Solpart shareholders agreement with respect to the transfer of direct or indirect shareholdings in Solpart.

Telecom Italia International obtained the temporary measure prohibiting the sale of such shareholdings to third parties and initiated the proceeding on the merits of the case. Timepart then filed a petition for the recusal of the judge, upon which the same judge acknowledged valid grounds for such request. Consequently, the proceeding will continue with a new judge.

* * *

On August 1, 2005, Telecom Italia International submitted a request to the International Chamber of Commerce of Paris (ICC) for an arbitration proceeding in London versus Techold, claiming non-performance of several provisions of the Solpart shareholders agreement and consequent damages. Telecom Italia International also petitioned for the validation of the above-mentioned amendment to the shareholders agreement (entered into on April 28, 2005) and, accordingly, for a declaration of Telecom Italia International s legitimate right to purchase the Solpart shares held by Techold at their fair market value less 10%. In October 2005, Techold filed its reply and counterclaim, requesting: (i) that Telecom Italia be made a party to the proceeding; (ii) a declaration of the invalidity of (a) the Settlement Agreement signed for the closure of the London arbitration proceeding of 2003 and (b) the April 2005 amendment of the shareholders agreement; (iii) a declaration that Telecom Italia International has no right to the restoration of its governances rights in Solpart and to convert and repurchase its own shares in Solpart; and (iv) ascertainment and imposition of damages for the alleged injury to Techold. In December 2005, Telecom Italia International filed its reply to Techold s counterclaim, requesting that Techold s demands be rejected; the ICC Court was also petitioned to dismiss Techold s demand that Telecom Italia be included in the proceeding. In February 2006 the ICC Court ruled for the exclusion of Telecom Italia S.p.A. The arbitration board is now being formed.

* * *

On October 3, 2005, Telecom Italia International submitted a request to the ICC for an arbitration proceeding in Paris versus Techold and Timepart, claiming non-performance by Techold and Timepart of several provisions of the Solpart Master Agreement (SMA) signed on April 28, 2005 and consequent damages. In December 2005, Techold filed its reply and counterclaim, requesting: (i) that Telecom Italia be made a party to the proceeding; (ii) that the Solpart Master Agreement be declared invalid, and (iii) that damages be ascertained and imposed for the alleged injury to Techold. In January 2006, Telecom Italia International filed its reply to Techold s counterclaim, pleading its defenses and requesting that Techold s demands be rejected; the ICC Court was also petitioned to dismiss Techold s demand that Telecom Italia be included in the proceeding. In February 2006, in a prima facie ruling before the formation of the arbitration board, the ICC Court decided for the inclusion of Telecom Italia S.p.A. in the proceeding. The arbitration board is now being formed.

* * *

On May 5, 2005, some indirect shareholders of Brasil Telecom obtained two preliminary injunctions against Telecom Italia International, TIM International, TIM Brasil, several companies of the Opportunity group and other Brasil Telecom companies to prevent the progress of the merger of Brasil Telecom Celular into TIM Brasil pursuant to the agreement concluded on April 28, 2005 between Brasil Telecom, Brasil Telecom Celular, TIM Brasil and TIM International. The plaintiffs subsequently initiated the trial proceeding.

Telecom Italia International, TIM International and TIM Brasil promptly filed their defenses, objecting that the plaintiffs allegations were unfounded in fact and law and appealing from both preliminary measures. After dismissal of their appeals, Telecom Italia International, TIM International and TIM Brasil filed a special appeal before a higher body, the Federal Court, which has agreed to examine the case only after the ruling on the merits of the dispute.

TELECOM ITALIA S.A.

France Telecom brought an action before the Commercial Court of Paris against Telecom Italia S.A. (formerly Telecom Italia France) for alleged damages deriving from unfair trade practices.

Telecom Italia S.A. requested suspension of the proceedings until completion of the preliminary investigation currently pending before the district attorneys of Marseilles and Lyons for alleged illegalities in concluding contracts with final customers, initiated by complaints filed by consumers.

b) Employee benefit obligations under Law No. 58/1992

Pursuant to Law No. 58/1992, Telecom Italia is required to provide full national insurance coverage for all employees on the payrolls of STET, SIP, Italcable and Telespazio as of February 20, 1992, as well as for all employees transferred from the Public Administration to the former Iritel, through the Telephone Companies Employees Social Security Fund (Fondo Previdenza Telefonici, FPT) which on January 1, 2000 became part of the general Employees Pension Fund.

At the present time, the amount of the liability can be estimated only roughly due to disagreements with the National Social Security Institute (Istituto Nazionale della Previdenza Sociale INPS) relating to the calculation of the amount due and the fact that at December 31, 2005 INPS had not yet notified the Company of all the positions to be covered.

The dispute with INPS concerns the application of the criteria established by Law No. 29/1979 for those employees (except for employees of the former Iritel) who had already applied for benefits pursuant to this law and which had not been processed by INPS. The parties have agreed that the differences in interpretation shall be settled through test appeals before the ordinary magistrate, with recourse to the Court of Appeals being waived for a final determination of the law in question. While proceedings are pending, Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company s interpretation.

The amounts due were calculated by the INPS and are to be paid in 15 equal annual deferred installments (including annual interest of 5%), starting when INPS formally submits its requests.

The principal amount of the liability attributable to Telecom Italia as of December 31, 2005 was 1,094 million recorded under amounts due to social security authorities item (1,043 million as principal amount and 51 million as accrued interest, not yet paid) including 213 million due within 1 year.

c) Commitments and other guarantees

Guarantees provided amounted to 529 million, net of 474 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of associates (of which 121 million in favour of AVEA I.H.A.S. and 142 million in favour of other associates) and others for medium and long-term loans.

In addition, the 47.80% interest in Tiglio I and the 49.47% interest in Tiglio II have been pledged to the banks that financed the two affiliates.

Purchase and sale commitments at December 31, 2005 amounted to 316 million and 489 million, respectively, and referred to the part of commitments not falling within the normal operating cycle of the Group still to be fulfilled.

Purchase commitments consisted mainly of:

- 210 million of property leasing rentals under contracts lasting more than 6 years;
- 59 million of orders to suppliers of Telenergia relating to the electricity supply agreements reached with Endesa for the three-year period 2004-2006.

Sale commitments consisted mainly of:

- 431 million in respect of agreement to sell buildings to the closed-end real estate investment funds Fondo Raissa and Fondo Spazio Industriale;
- 57 million in respect of the agreement to sell the Gruppo Buffetti S.p.A..

Companies included in the scope of the consolidation issued letters of patronage for a total of 295 million, chiefly on behalf of affiliates to guarantee insurance polices, lines of credit and overdraft arrangements.

Guarantees provided by third parties for obligations of Group companies referred to loans (1,610 million) and the performance of contracts (319 million). The total included sureties issued by BBVA for 817 million, by San Paolo IMI for 315 million and by Sumitomo for 73 million in respect of EIB loans for the TIM Mobile Network Project.

NOTE 26 REVENUES

Revenues amounted to 29,919 million, an increase of 1,627 million or 5.8% compared to year ended December 31, 2004. Details are as follows:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Sales:			
• of telephone products		1,595	1,952
• other sales		584	362
	(A)	**2,179**	**2,314**
Services:			
• traffic		14,687	15,577
• subscription charges		7,699	8,020
• fees		327	361
• other services		3,224	3,572
	(B)	**25,937**	**27,530**
Revenue on construction contracts	**(C)**	**176**	**75**
Total	**(A+B+C)**	**28,292**	**29,919**

For a breakdown of revenue by segment/geographic area, reference should be made to the Note 39 Other information a) Segment information .

NOTE 27 OTHER INCOME

Other income amounted to 678 million, a decrease of 421 million compared to 2004. Details are as follows:

Year ended December 31,	
2004	2005

	(millions of Euro)	
Compensation for late payment of regulated telephone services	85	107
Release of reserves and other liabilities	162	228
Recovery of costs of personnel and services rendered	35	35
Capital grants	52	39
Damage compensation and recovery	18	20
Grants related to income	12	8
Income from release of prior year TLC operating fee	546	
Other income	189	241
Total	**1,099**	**678**

NOTE 28 PURCHASES OF MATERIALS AND EXTERNAL SERVICES

Purchases of materials and external services amount to 12,937 million, an increase of 9.5% compared to 2004 (11,812 million) and consist of the following:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Purchases of materials and merchandise for resale	**(A)**	**2,203**	**2,506**
Costs of services:			
Revenues due to other TLC operators		4,177	4,713
Commissions, sales commissions and other selling expenses		1,006	1,263
Advertising and promotion expenses		504	593
Professional consulting and services		609	546
Utilities		244	308
Other service expenses		2,121	1,904
	(B)	**8,661**	**9,327**
Lease and rental costs:			
Property lease rents		624	641
TLC circuit lease rent and rent for use of satellite systems		154	274
Other lease and rental costs		170	189
	(C)	**948**	**1,104**
Total	**(A+B+C)**	**11,812**	**12,937**

NOTE 29 PERSONNEL COSTS

Personnel costs amount to 4,142 million, an increase of 7.5% compared to 2004 (3,852 million). Such increase is almost entirely due to charges related to agreements of mobility pursuant to Law No. 223/91 and to the extraordinary executives termination benefit plan, for approximately 273 million. Excluding those items, the increase in personnel costs would be equal to 0.4%.

Personnel costs consist of the following:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Personnel costs at payroll:			
Wages and salaries		2,566	2,577
Social security contributions		803	807
Employee severance indemnities		183	168
Pensions and similar obligations (Defined benefit plans)		4	2
Other employee-related costs		59	85
	(A)	**3,615**	**3,639**
Temporary labour costs	**(B)**	**38**	**52**
Miscellaneous expenses for personnel and for other labour-related services rendered:			
Remuneration of personnel other than employees		17	18
Costs and provision charges for termination benefit incentives		182	151
Charges related to mobility agreements pursuant to Law No. 223/91 and to the extraordinary executives termination benefit plan			273
Other			9
	(C)	**199**	**451**
Total	**(A+B+C)**	**3,852**	**4,142**

F-94

Personnel costs include, among others, costs relating to defined contribution plans.

The decrease in charge for Employee severance indemnities is due to the effect of the actuarial calculation of the Reserve for employee severance indemnities and the turnover of personnel working at the Italian companies of the Group.

Other employee-related costs include 4 million for the valuation of stock options and 81 million for other benefits to employees.

The average equivalent number of salaried personnel, excluding those of discontinued operations/assets held for sale and inclusive of personnel with temporary work contracts, in 2005 is 79,869 units (79,602 units in 2004). A breakdown by category is as follows:

	Year ended December 31,	
	2004	2005
	(units)	
Executives	1,592	1,541
Middle management	4,597	4,744
White collars	70,540	70,375
Blue collars	920	722
Total employees at payroll	**77,649**	**77,382**
Temporary employees	**1,953**	**2,487**
Total employees	**79,602**	**79,869**

Employees at December 31, 2005, excluding those relating to discontinued operations/assets held for sale, is 85,484 units (82,620 units at December 31, 2004), with an increase of 2,864 units.

Employees by segment are analyzed in the Note 39 Other information a) Segment Information .

NOTE 30 OTHER OPERATING EXPENSES

Other operating expenses amount to 1,468 million, with a decrease of 135 million compared to 2004 and consist of the following:

	Year ended December 31,	
	2004	**2005**
	(millions of Euro)	
Impairment and provision for bad debts	498	521
Provisions to reserves for risks and future charges	289	71
TLC operating fees	114	181
Taxes on revenues of South American companies	112	178
Duties and indirect taxes	153	141
Association fees and dues	18	19
Other expenses	419	357
Total	**1,603**	**1,468**

F-95

Table of Contents

NOTE 31 CAPITALIZED INTERNAL CONSTRUCTION COSTS

Capitalized internal construction costs amount to 471 million, a reduction of 242 million compared to 2004, and consist of the following:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Infra-group revenues for the sale of:			
• Intangible assets with a finite life		49	105
• Tangible assets		18	29
	(A)	**67**	**134**
Capitalized internal construction costs on:			
• Intangible assets with a finite life		473	182
• Property, plant and equipment owned		173	155
	(B)	**646**	**337**
Total	**(A+B)**	**713**	**471**

The reduction from 2004 is due to the use of a different accounting method. In 2004, the external costs relating to contracts that were to be capitalized passed through the statement of operations, whereas, in 2005, such costs are booked directly to the capital asset account.

NOTE 32 DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges amount to 5,232 million, an increase of 424 million compared to 2004. Details are as follows:

	Year ended December 31,	
	2004	2005
	(millions of Euro)	

Amortization of Intangible assets with a finite life:			
Industrial patents and intellectual property rights		1,106	1,414
Concessions, licenses, trademarks and similar rights		224	253
Other intangible assets		16	17
	(A)	**1,346**	**1,684**
Depreciation of Tangible assets owned:			
Civil and industrial buildings		103	103
Plant and equipment		2,869	2,910
Manufacturing and distribution equipments		27	31
Aircrafts and ships		12	9
Other assets		313	363
	(B)	**3,324**	**3,416**
Depreciation of Tangible assets held under finance lease:			
Civil and industrial buildings		93	93
Plant and equipment			1
Aircrafts and ships		4	4
Other assets		41	34
	(C)	**138**	**132**
Total	**(A+B+C)**	**4,808**	**5,232**

An analysis of depreciation and amortization by sector is presented in the Note 39 Other information a) Segment Information .

Table of Contents

NOTE 33 GAINS/LOSSES ON DISPOSALS OF NON-CURRENT ASSETS

Capital gains/losses realized on the disposal of non-current assets amount to 242 million, an increase of 251 million compared to 2004. Details are as follows:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Capital gains realized on the disposal of non-current assets:			
Gains on the retirement/disposal of intangible and tangible assets		17	283
Gains on the disposal of business segments		6	
Gains on the disposal of equity investments in consolidated subsidiaries		4	
	(A)	**27**	**283**
Capital losses incurred on the disposal of non-current assets:			
Losses on the retirement/disposal of intangible and tangible assets		27	40
Losses on the disposal of equity investments in consolidated subsidiaries		9	1
	(B)	**36**	**41**
Total	**(A-B)**	**(9)**	**242**

Capital gains on the retirement/disposal of intangible and tangible assets in 2005 include 264 million for the gain, net of incidental charges, realized on the contribution of 561 properties to the Fondo Raissa and 246 properties to the Fondo Spazio Industriale under the plan which calls for the sale of more than 1,300 properties for a total amount of about 1 billion. Additional details are disclosed in the Note 8 Tangible assets (owned and under finance lease) .

NOTE 34 IMPAIRMENT LOSSES/REVERSALS ON NON-CURRENT ASSETS

Impairment losses on non-current assets are 28 million. In 2004, the total was a negative 444 million and included the charges connected with the De Agostini settlement for the purchase of a 40% stake in Finanziaria Web (282 million) in addition to the net impairments of intangible and tangible assets (162 million).

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

NOTE 35 FINANCIAL INCOME

Financial income amounts to 3,144 million, an increase of 939 million compared to 2004.

Details are as follows:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Income from equity investments	**(A)**	**212**	**95**
Other financial income:			
Income from financial receivables classified as Non-current assets		19	15
Income from securities other than equity investments, classified as Non-current assets		1	
Income from securities other than equity investments, classified as Current assets		52	31
Other financial income:			
Interest income		164	219
Foreign exchange gains		312	535
Income from fair value hedge derivatives		290	465
Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of operations		56	180
Income from non-hedging derivatives		166	80
Miscellaneous financial income		137	476
	(B)	**1,197**	**2,001**
Positive fair value adjustments to:			
Fair value hedge derivatives		88	693
Underlying financial assets and liabilities of fair value hedges		548	167
Non-hedging derivative financial instruments		132	185
	(C)	**768**	**1,045**
Impairment reversals on financial assets	**(D)**	**28**	**3**
Total	**(A+B+C+D)**	**2,205**	**3,144**

Income from equity investments (95 million) included gains on the sale of the equity investments in C-Mobil (61 million), Intelsat (2 million) and Golden Lines (5 million). In 2004, such income included the gain on the sale of the residual interest in Telekom Austria

(86 million) and the gain on sale of the remaining interest in Mirror International (85 million).

Foreign exchange gains (535 million) increased by 223 million compared to 2004. This amount was reduced by 21 million for the foreign exchange losses originating from the reversal of the Reserve for fair value adjustments of cash flow hedge derivatives to the statement of operations (178 million in 2004).

Miscellaneous financial income increased by 339 million and included the release (423 million) of reserves provided in prior years in relation to sureties issued to the banks which had financed the associate AVEA I.H.A.S., since there was no longer a risk after the guarantees were cancelled in part.

Income from fair value hedge derivatives (465 million) increased by 175 million compared to 2004 (290 million) and include 159 million on CCIRS contracts and 306 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of operations (180 million) increased by 124 million compared to 2004 (56 million) and includes 125 million on CCIRS contracts and 55 million on IRS contracts.

Income from non-hedging derivatives (80 million) decreased by 86 million compared to 2004 (166 million) and includes 6 million on CCIRS contracts, 56 million on IRS contracts and 18 million on other derivative contracts.

Table of Contents

Positive fair value adjustments to fair value hedges (693 million) increased by   605 million compared to 2004 (88 million) and include   612 million on CCIRS contracts and   81 million on IRS contracts, with a counterbalance to negative fair value adjustments of underlying financial assets and liabilities of fair value hedges, which amount to   689 million (88 million in 2004). Additional details are provided in the   Note 36 Financial expenses .

Positive fair value adjustments of underlying financial assets and liabilities of fair value hedges (167 million) decreased by   381 million compared to 2004 (548 million). The counterbalance of such amount is represented by the negative fair value adjustments of the corresponding fair value hedge derivatives which amount to   157 million (547 million in 2004). Additional details are provided in the   Note 36 Financial expenses .

Positive fair value adjustments of non-hedging derivative financial instruments (185 million) include   45 million for the fair value adjustment of the call option on Sofora shares.

NOTE 36 FINANCIAL EXPENSES

Financial expenses amount to   5,131 million, an increase of   934 million compared to 2004.

Details are as follows:

		Year ended December 31,	
		2004	**2005**
		(millions of Euro)	
Interest expense and other borrowing costs:			
Interest expense and other costs relating to bonds		2,064	2,056
Interest expense to banks		45	296
Interest expense others		224	214
Commissions		82	61
Foreign exchange losses		330	433
Charges from fair value hedge derivatives		152	264
Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of operations		155	255
Charges from non-hedging derivative financial instruments		114	170
Miscellaneous financial expense		156	223
	(A)	**3,322**	**3,972**
Negative fair value adjustments to:			
Fair value hedge derivatives		547	157

Underlying financial assets and liabilities of fair value hedges		88	689
Non-hedging derivative financial instruments		136	289
	(B)	**771**	**1,135**
Impairment losses on financial assets (equity investments and securities other than equity investments)	**(C)**	**104**	**24**
Total	**(A+B+C)**	**4,197**	**5,131**

Interest expense to banks (296 million) increased by 251 million compared to 2004 (45 million), mainly for financing of the Cash Tender Offer on TIM shares.

Foreign exchange losses (433 million) increased by 103 million compared to 2004. Such amount is net of 341 million of foreign exchange gains arising from the reversal of the Reserve for fair value adjustments of cash flow hedge derivatives to the statement of operations.

Charges from fair value hedge derivatives (264 million) increased by 112 million compared to 2004 (152 million) and include 89 million on CCIRS contracts and 175 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of operations (255 million) increased by 100 million compared to 2004 (155 million) and includes 138 million on CCIRS contracts and 117 million on IRS contracts.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Charges from non-hedging derivative financial instruments (170 million) increased by 56 million compared to 2004 (114 million) and refer to 121 million on CCIRS contracts, 22 million on IRS contracts and 28 million on other derivative contracts.

Negative fair value adjustments to fair value hedges (157 million) decreased by 390 million compared to 2004. The total amount includes 148 million on IRS contracts and 9 million on CCIRS contracts with a counterbalance by positive fair value adjustments of underlying financial assets and liabilities of fair value hedge derivatives which amount to 167 million (548 million in 2004). Additional details are provided in the Note 35 Financial income .

Negative fair value adjustments of underlying financial assets and liabilities of fair value hedges (689 million) increased by 601 million compared to 2004 (88 million). Such amount is counterbalanced by the positive fair value adjustments of the corresponding fair value hedge derivatives which amount to 693 million (88 million in 2004). Additional details are provided in the Note 35 Financial Income .

NOTE 37 INCOME TAXES FOR THE YEAR

Income taxes on continuing operations for the year ended December 31, 2005 and 2004 are detailed as follows:

		Year ended December 31,	
		2004	**2005**
		(millions of Euro)	
Current taxes for the year		1,387	1,017
Current taxes for prior years		10	29
Reversal of income taxes of prior years		(16)	(37)
Total current taxes		1,381	1,009
Deferred taxes		1,273	1,386
Total income taxes on continuing operations	**(A)**	**2,654**	**2,395**
Current taxes for the year		79	23
Deferred taxes		16	8
Total income taxes on discontinued operations/assets held for sale	**(B)**	**95**	**31**
Total income taxes for the year	**(A+B)**	**2,749**	**2,426**

Income taxes on Discontinued operations/assets held for sale are classified in the statement of operations in Net income/(loss) from Discontinued operations/assets held for sale .

Income before taxes and the tax charge on income for the years ended December 31, 2005 and 2004 are summarized as follows:

		Year ended December 31,	
		2004	2005
		(millions of Euro)	
Income before taxes:			
• from continuing operations		5,606	5,535
• from discontinued operations/assets held for sale		(23)	581
Total income before taxes		**5,583**	**6,116**
Of which:			
• *Italy*		*6,153*	*5,789*
• *Foreign*		*(570)*	*327*
Current taxes:			
• Italy		1,359	957
• Foreign		101	75
Total current taxes	**(A)**	**1,460**	**1,032**
Deferred taxes:			
• Italy		1,227	1,457
• Foreign		62	(63)
Total deferred taxes	**(B)**	**1,289**	**1,394**
Total income taxes	**(A+B)**	**2,749**	**2,426**

The reconciliation between the nominal tax rate according to Italian law and the effective tax rate resulting from the consolidated financial statements and the corresponding theoretical and effective tax charges is the following:

	Year ended December 31,			
	2004		2005	
	(millions of Euro)	%	(millions of Euro)	%
Income before taxes	**5,488**		**6,085**	
Taxes calculated at the 33% tax rate in force	1,811	33%	2,008	33%
Tax losses for the year not considered recoverable	168	3%	81	1%
	(15)		(3)	

Tax losses not considered recoverable in previous years and recovered during the year				
Deferred tax benefits not recorded in prior years and considered recoverable during the year	(161)	(3%)	(21)	
Reversal of the reserve for deferred taxes			(136)	(2%)
Permanent differences:				
Non-deductible costs	290	5%	156	3%
Other net differences	(84)	(1%)	(170)	(3%)
	2,009	37%	1,915	32%
IRAP and other taxes calculated on a different basis other than income before taxes	740	13%	511	8%
Total effective taxes booked to the statement of operations	**2,749**	**50%**	**2,426**	**40%**

F-101

Table of Contents

Financial Statements | Notes To Consolidated Financial Statements

NOTE 38 EARNINGS PER SHARE

The potential shares originating from the conversions of stock options and convertible notes and bonds have an anti-dilutive effect and therefore the corresponding shares have not been considered in the calculation of earnings per share.

The additional dividend (at an invariable amount of 0.011) due to the Savings Shares was allocated entirely to continuing operations.

		Year ended December 31,	
		2004	2005
Basic And Diluted Earnings Per Share			
Net income attributable to the Group		1,815	3,216
Less: additional dividend per Savings Shares (0.011 per share)		(64)	(65)
	(millions of Euro)	**1,751**	**3,151**
Weighted average number of Ordinary and Savings Shares	(million)	16,004	18,213
Basic and diluted earnings per share Ordinary Shares		0.11	0.17
Plus: 0.011 additional dividend per Savings Shares		0.01	0.01
Basic and diluted earnings per share Savings Shares	(Euro)	**0.12**	**0.18**
Basic And Diluted Earnings Per Share From Continuing Operations			
Net income from continuing operations		1,933	2,666
Less: additional dividend per Savings Shares		(64)	(65)
	(millions of Euro)	**1,869**	**2,601**
Weighted average number of Ordinary and Savings Shares	(million)	16,004	18,213
Basic and diluted earnings per share from continuing operations Ordinary Shares		0.12	0.14
Plus: 0.011 additional dividend per Savings Shares		0.01	0.01
Basic and diluted earnings per share from continuing operations Savings Shares	(Euro)	0.13	0.15
Basic And Diluted Earnings Per Share From Discontinued Operations/Assets Held For Sale			
	(millions of Euro)	(118)	550

Net income (loss) from discontinued operations/assets held for sale			
Weighted average number of Ordinary and Savings Shares	(million)	16,004	18,213
Basic and diluted earnings (loss) per share from discontinued operations/assets held for sale Ordinary Shares	(Euro)	(0.01)	0.03
Basic and diluted earnings (loss) per share from discontinued operations/assets held for sale Savings Shares	(Euro)	(0.01)	0.03
Weighted average number of Ordinary Shares		10,208,327,613	12,283,195,845
Weighted average number of Savings Shares		5,795,921,069	5,930,204,164
Total		**16,004,248,682**	**18,213,400,009**

NOTE 39 OTHER INFORMATION

a) Segment Information

The integration of fixed-mobile operations under a single organizational structure has resulted in a overall reorganization of the Group which, from October 5, 2005, is structured as follows:

Central Functions, which are responsible for directing the Telecom Italia Group s operations, have been reorganized into **Group Functions** and/or **Service Units**:

- **Group Functions** are responsible for ensuring coordination, direction and control at the Group level, in the spheres of activities, ensuring, in particular, the definition of policies and the overall administration of matters common to all Business Units;

- **Service Units** are responsible in close cooperation with Operations and the Business Units for the performance of common operating activities to support the business.

Operations, which is responsible for the management and development of fixed and mobile telecommunications and internet services. Operations, for reporting purposes in these financial statements, is divided into:

- **Wireline,** which operates on a national level by providing wireline telephone, data and internet 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 offers innovative broadband services in certain metropolitan areas in Germany, France and The Netherlands;

- **Mobile,** which operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America (Brazil).

Business Units which are responsible for the development of the following businesses:

- **Media,** which operates in the area of journalistic information, TV production, TV and web content offerings;

- **Olivetti,** which operates in the market of specialized applications for the banking field and retail, information and computer systems for gaming, lotteries and e-vote systems as well as in the research/development/production of products using silicon.

The macro-organizational model of the Telecom Italia Group is nevertheless interconnected in a flexible manner with the corporate structure, giving priority to identifying competency in specific business areas/functions rather than closely following the legal organizational structures.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Consolidated statements of operations Segment information

	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated Total	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
							(millions of Euro)							
Third-party revenues	15,844	16,348	11,457	12,672	165	176	536	400	290	323			28,292	29,919
Intragroup revenues	1,587	1,454	255	291	3	4	54	52	1,345	1,357	(3,244)	(3,158)		
Revenues by segment	**17,431**	**17,802**	**11,712**	**12,963**	**168**	**180**	**590**	**452**	**1,635**	**1,680**	**(3,244)**	**(3,158)**	**28,292**	**29,919**
Other income	578	294	386	192	20	11	18	22	179	226	(82)	(67)	1,099	678
Total operating revenues and other income	**18,009**	**18,096**	**12,098**	**13,155**	**188**	**191**	**608**	**474**	**1,814**	**1,906**	**(3,326)**	**(3,225)**	**29,391**	**30,597**
Purchases of materials and external services	(6,986)	(7,485)	(5,650)	(6,337)	(161)	(200)	(443)	(388)	(1,550)	(1,565)	2,978	3,038	(11,812)	(12,937)
Personnel costs	(2,525)	(2,708)	(631)	(707)	(69)	(75)	(111)	(100)	(536)	(571)	20	19	(3,852)	(4,142)
Other operating expenses	(995)	(557)	(430)	(640)	(27)	(12)	(25)	(11)	(123)	(278)	(3)	30	(1,603)	(1,468)
Changes in inventories	39	(30)	(7)	14	1	3	(1)	9	(5)				27	(4)
Capitalized internal construction costs	267	281	41	55	4	2		1	65	3	336	129	713	471
Depreciation and amortization	(2,902)	(2,995)	(1,549)	(1,870)	(28)	(38)	(16)	(16)	(392)	(377)	79	64	(4,808)	(5,232)
Gains/losses on disposals of non-current assets	(25)	(25)	(3)		1	(1)	8		31	268	(21)		(9)	242
Impairment losses on non-current assets	(126)	(11)	(19)	(9)	(2)		(3)	(7)	(19)	(1)	(275)		(444)	(28)
Operating income	**4,756**	**4,566**	**3,850**	**3,661**	**(93)**	**(130)**	**17**	**(38)**	**(715)**	**(615)**	**(212)**	**55**	**7,603**	**7,499**
Share of earnings of equity investments accounted for using the equity method	2	2		(122)					(7)	143			(5)	23
Financial income													2,205	3,144
Financial expenses													(4,197)	(5,131)
Income from continuing operations before taxes													**5,606**	**5,535**
Income taxes													(2,654)	(2,395)
Net income from continuing operations													**2,952**	**3,140**
Net income (loss) from discontinued operations /assets held for sale													(118)	550
Net income													**2,834**	**3,690**

of which:		
Net income attributable to the Group	*1,815*	*3,216*
Net income attributable to Minority interests	*1,019*	*474*

Segment capital expenditure information

	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated Total	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
	(millions of Euro)													
Intangible assets	947	804	765	849	23	38	1	1	146	100		(7)	1,882	1,785
Tangible assets	1,320	1,866	1,523	1,269	16	27	14	18	247	208			3,120	3,388
Total	**2,267**	**2,670**	**2,288**	**2,118**	**39**	**65**	**15**	**19**	**393**	**308**		**(7)**	**5,002**	**5,173**

F-104

Segment employees at the end of the year (*)

	Wireline		Mobile		Media		Olivetti		Other activities		Consolidated Total		
	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As o Decem 31, 20
	(number of employees)												
ployees	54,090	55,990	18,743	20,767	1,077	886	2,109	1,750	6,601	6,091	82,620	85,484	89,

Segment other information (*)

	Wireline		Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidate	
	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of December 31, 2005	As of December 31, 2004 adjusted	As of Decemb 31, 200
	(millions of Euro)													
	35,616	35,375	22,219	41,622	389	591	339	305	4,044	4,022	(1,256)	(3,114)	61,351	78,8
	7	7					1	1	577	773			585	7
perations/ sale													4,719	5
sets													15,342	15,9
													81,997	**96,0**
	9,653	9,632	5,508	6,106	155	201	287	252	1,752	2,711	(968)	(2,954)	16,387	15,9
ng to ets held													2,243	2
bilities													42,569	52,7
equity													20,798	26,9

lders	**81,997**	**96,0**

(*) Data as of December 31, 2005 by business segment are compared with data as of December 31, 2004 adjusted considering discontinued operations/assets held for sale the same companies as those considered as of December 31, 2005, i.e. the Finsiel group, Corporacion Digitel, the Entel Chile group, TIM Hellas, TIM Perù and Gruppo Buffetti.

F-105

Table of Contents

Financial Statements | Notes To Consolidated Financial Statements

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

	Period	Discontinued Operations/Assets held for sale						
		Mobile(1)	**Media(2)**	**Entel Chile group**	**IT Market**	**Sub-total**	**Other adjustments and eliminations(3)**	**Total**
					(millions of Euro)			
Revenues	2005	734	126	238	289	1,387	(53)	1,334
	2004	1,177	127	925	706	2,935	(142)	2,793
Operating income(3)	2005	60	4	36	(3)	97	506	603
	2004	125	4	96	21	246	(202)	44
Net income (loss) from discontinued operations/assets held for sale	2005	28	1	26	(11)	44	506	550
	2004	58	1	49	(7)	101	(219)	(118)
Capital expenditures	2005	87	3	27	5	122		122
	2004	200	2	141	28	371		371
Number of employees at year-end	2005	863	184			1,047		1,047
	2004	841			4,030	4,871		4,871
	2004 adjusted(*)	2,961	195	4,216	4,030	11,402		11,402

(*) The number of employees at December 31, 2005 is compared both with the adjusted number of employees at December 31, 2004 (which consider as discontinued operations/assets held for sale the same companies considered as such at December 31, 2005, namely: the Finsiel group, Corporaçion Digitel, the Entel Chile group, TIM Hellas, TIM Perù and Gruppo Buffetti) and with the historical number of employees at December 31, 2004 (which consider as discontinued operations/assets held for sale the Finsiel group and Corporaçion Digitel).

(1) Includes TIM Hellas, TIM Perù and Corporaçion Digitel.

(2) Includes the Gruppo Buffetti.

(3) Adjustments and eliminations relating to the operating income include, among other things:

2005: the gains on the sale of TIM Hellas (410 million, net of the relative incidental charges) and TIM Perù (120 million, net of the relative incidental charges), as well as other losses and incidental charges relating to the sale of the Entel Chile group, the Finsiel group and Gruppo Buffetti, for a total of 24 million;

2004: the adjustment of the estimated selling price of the Entel Chile group (a loss of 177 million) and the Finsiel group (a loss of 28 million).

b) Disclosure by geographical area

Breakdown of revenues by customer geographic location:

	2004	2005
	(millions of Euro)	
Italy	23,736	23,754
Rest of Europe	1,746	2,265
North America	398	374
Central and South America	2,036	3,147
Australia, Africa and Asia	376	379
Total	**28,292**	**29,919**

F-106

Operating assets by geographic area:

	2004	2005
	(millions of Euro)	
Italy	57,099	71,072
Rest of Europe	2,554	1,722
North America	30	14
Central and South America	4,885	5,962
Australia, Africa and Asia	55	31
Total	**64,623**	**78,801**

Capital expenditures in tangible and intangible assets by geographic area:

	2004	2005
	(millions of Euro)	
Italy	3,955	3,992
Rest of Europe	204	313
North America	8	6
Central and South America	835	861
Australia, Africa and Asia		1
Total	**5,002**	**5,173**

Employees by geographic area:

	Executives	Middle management	White collars	Blue collars	Temporary employees	Total at December 31, 2005	Total at December 31, 2004
	(number of employees at year end)						
Italy	1,395	4,227	63,786	660	1,919	71,987	72,828
Rest of Europe	46	210	1,781	1	782	2,820	2,893
North America	4	26	18	2		50	145
Central and South America	28	414	9,475	6	681	10,604	13,236
Australia, Africa and Asia	3	12	8			23	49
Total	**1,476**	**4,889**	**75,068**	**669**	**3,382**	**85,484**	**89,151**

F-107

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

c) Exchange rate used to translate foreign currency financial statements(1)

	Year-end exchange rates (Balance sheet)		Average exchange rates for the year (Statement of operations)	
(Local Currency units for 1 Euro)	As of December 31, 2004	As of December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2005
Europe				
CHF Swiss Franc	1.54290	1.55510	1.54382	1.54822
GBP Pound Sterling	0.70505	0.68530	0.67867	0.68379
TRY Turkish Lira (*)	1.82680	1.58750	1.76698	1.67000
North America				
CAD Canadian Dollar	1.64160	1.37250	1.61675	1.50924
USD U.S. Dollar	1.36210	1.17970	1.24390	1.24436
Central and South America				
VEB Venezuelan Bolivar (*)	2,615.23200	2,536.35500	2,321.68959	2,628.83494
BOB Bolivian	10.92677	9.37862	9.85905	9.99316
PEN Peruvian Nuevo Sol	4.47041	4.05522	4.24376	4.09907
ARS Argentine Peso	4.05770	3.57685	3.65974	3.63771
CLP Chilean Peso	759.37075	604.59625	757.93009	695.98714
COP Colombian Peso	3,200.93500	2,695.67349	3,264.30912	2,886.68182
MXN Mexican Peso	15.17924	12.58303	14.03686	13.54809
BRL Brazilian Real	3.61556	2.76132	3.63932	3.02888
Other countries				
HKD Hong Kong Dollar	10.58810	9.14740	9.68811	9.67904
SGD Singapore Dollar	2.22620	1.96280	2.10156	2.07066
ILS Israeli Shekel	5.87746	5.42426	5.56705	5.57951
JPY Japanese Yen	139.65000	138.90000	134.44459	136.84625

(*) For the high-inflation countries (Turkey and Venezuela), the year-end exchange rates have been used to translate the statements of operations items.

(1) Source: Data processed by Central European Bank, Reuters and major Central Banks.

d) Related Party Transactions

Related party transactions, including intercompany 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.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The economic, balance sheet and financial effects of related party transactions on the consolidated financial statements of the Telecom Italia Group at December 31, 2005 compared with those at December 31, 2004 are presented below.

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and associates.

Items	Year ended December 31, 2004	2005	Nature of the transaction
Revenues	320 million	348 million	These mainly refer to revenues in respect of Teleleasing S.p.A. 230 million (200 million in 2004), LI.SIT. S.p.A. 68 million (50 million in 2004), Shared Service Center S.c.r.l. 22 million (32 million in 2004), Telecom Argentina S.A. 12 million (10 million in 2004), Golden Lines Ltd 3 million (10 million in 2004), ETECSA 6 million (9 million in 2004), AVEA I.H.A.S. 2 million (1 million in 2004) and NordCom S.p.A. 2 million.
Other income	5 million	6 million	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.
Purchases of materials and external services	409 million	272 million	These refer mainly to costs for rent from Tiglio I S.r.l. 10 million (50 million in 2004), Tiglio II S.r.l. 12 million (26 million in 2004) and Telegono S.r.l. 1 million (1 million in 2004), for TLC services from ETECSA 90 million (123 million in 2004), Telecom Argentina S.A. 6 million (6 million in 2004), AVEA I.H.A.S. 3 million (1 million in 2004), for maintenance and assistance contracts from Shared Service Center S.c.r.l. 34 million (106 million in 2004), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica S.p.A. 52 million (63 million in 2004), for TLC equipment from Teleleasing S.p.A. 23 million (15 million in 2004), sponsorship costs from Luna Rossa Challenge 2007 S.L. 17 million, costs for accessories and consumables from Baltea S.r.l. 3 million (4 million in 2004) and costs for remote medicine services from Telbios S.p.A. 3 million (1 million in 2004) and transport costs from Eurofly Service S.p.A. 3 million.
Financial income	5million	2 million	This includes accrued interest income matured on loans made to certain associates.

F-109

Items	Year ended December 31, 2004	2005	Nature of the transaction
Financial expenses	60 million	32 million	These mainly refer to interest expenses to Teleleasing S.p.A. 23 million (20 million in 2004) for finance leases and interest expenses to Tiglio I S.r.l. 4 million (29 million in 2004) and Tiglio II S.r.l. 4 million (10 million in 2004) for sale and leaseback transactions.
Capital expenditures in tangible and intangible assets	71 million	147 million	These refer mainly to acquisitions of computer projects from Shared Service Center S.c.r.l. 84 million (21 million in 2004), Siemens Informatica S.p.A. 42 million (50 million in 2004) and Value Team S.p.A. 8 million.

Items	As of December 31, 2004	2005	Nature of the transaction
Securities and non-current financial receivables	28 million	24 million	These refer mainly to medium/long term loans made to Aree Urbane S.r.l. 21 million (20 million at December 31, 2004) and Tiglio II S.r.l. 3 million (3 million at December 31, 2004). The decrease compared to December 31, 2004 is due to Golden Lines Ltd..
Miscellaneous receivables and other non-current assets	36 million	15 million	These refer to receivables from LI.SIT. S.p.A. 15 million for the residual additional paid-in capital paid (36 million at December 31, 2004).
Trade receivables, miscellaneous receivables and other current assets	190 million	214 million	These refer mainly to receivables from LI.SIT. S.p.A. 102 million (79 million at December 31, 2004), Teleleasing S.p.A. 75 million (67 million at December 31, 2004), Shared Service Center S.c.r.l. 4 million (7 million at December 31, 2004), Telecom Argentina S.A. 4 million (8 million at December 31, 2004), AVEA I.H.A.S. 5 million (3 million at December 31, 2004), ETECSA 3 million (2 million at December 31, 2004), NordCom S.p.A. 1 million and Tiglio I S.r.l. 1 million (9 million at December 31, 2004).

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Items	As of December 31, 2004	As of December 31, 2005	Nature of the transaction
Financial receivables and other current financial assets	32 million		The reduction from December 31, 2004 is due to the repayment of the loans made to AVEA I.H.A.S. and Telegono S.r.l..
Cash and cash equivalents	1 million	14 million	These refer to treasury accounts with associates.
Non-current financial liabilities	604 million	279 million	These refer to non-current financial payables for finance leases to Teleleasing S.p.A. 203 million (160 million at December 31, 2004), for sale and leaseback transactions to Tiglio I S.r.l. 43 million (329 million at December 31, 2004) and Tiglio II S.r.l. 33 million (112 million at December 31, 2004).
Miscellaneous payables and other non-current financial liabilities	5 million	10 million	These refer to the medium/long-term portion of deferred income on the sale of IRU transmission capacity to Telecom Argentina S.A..
Current financial liabilities	133 million	124 million	These refer to current financial payables for finance leases to Teleleasing S.p.A. 113 million (116 million at December 31, 2004), for sale and leaseback transactions to Tiglio I S.r.l. 8 million (11 million at December 31, 2004) and Tiglio II S.r.l. 3 million (4 million at December 31, 2004).
Trade payables, current tax payables, miscellaneous payables and other current liabilities	126 million	118 million	These mainly refer to payables for supply transactions connected with operations and investment activities with Siemens Informatica S.p.A. 56 million (61 million at December 31, 2004), Shared Service Center S.c.r.l. 18 million (34 million at December 31, 2004), LI.SIT. S.p.A. principally for the portion of deferred income from equity investments 11 million (2 million at December 31, 2004), Teleleasing S.p.A. 6 million (10 million at December 31, 2004), ETECSA 11 million (4 million at December 31, 2004), Tiglio I S.r.l. 2 million (2 million at December 31, 2004), Tiglio II S.r.l. 4 million (4 million at December 31, 2004), Telbios S.p.A. 2 million (1 million at December 31, 2004), Telecom Argentina S.A. 1 million, Baltea S.r.l. 1 million (1 million at December 31, 2004) and AVEA I.H.A.S. 1 million.

F-111

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of 276 million (658 million at December 31, 2004) of which 121 million is on behalf of AVEA I.H.A.S. (454 million at December 31, 2004), 54 million on behalf of Tiglio I S.r.l. (56 million at December 31, 2004), 13 million on behalf of Tiglio II S.r.l. (13 million at December 31, 2004), 44 million on behalf of Aree Urbane S.r.l. (45 million at December 31, 2004) and 31 million on behalf of Italtel Holding S.p.A. (35 million at December 31, 2004).

In addition to transactions with associates, the following table presents transactions with companies controlled by associates. In 2005, these transactions refer to the companies of the Italtel Group, a related party through the investment in the parent, Italtel Holding S.p.A., and starting from July 1, 2005, the companies of the Brasil Telecom Participaçoes S.A. group through Solpart Participaçoes S.A..

	Year ended December 31,		
Items	**2004**	**2005**	**Nature of the transaction**
Revenues	3 million	92 million	These mainly refer to revenues for telecommunications services rendered to the Brasil Telecom Participaçoes group 89 million.
Purchases of materials and external services	23 million	30 million	These refer to costs for maintenance and assistance contracts from the Italtel group 20 million (23 million in 2004) and TLC service costs from the Brasil Telecom Participaçoes group 10 million.
Capital expenditures in tangible and intangible assets	324 million	319 million	These refer to the purchase of telephone exchanges exclusively for the Italtel group.

	As of December 31,		
Items	**2004**	**2005**	**Nature of the transaction**
Trade receivables, miscellaneous receivables and other current assets	2 million	8 million	These refer to telephone services rendered to the Italtel group 2 million (2 million at December 31, 2004) and receivables from the Brasil Telecom Participaçoes group connected with TLC operations 4 million and dividends to be collected 2 million.
Trade payables, current tax payables, miscellaneous payables and other current liabilities	150 million	101 million	These refer to supply transactions connected with investment and operating activities with the Italtel group 100 million (150 million at

			December 31, 2004) and connected with TLC activities 1 million with the Brasil Telecom Participaçoes group.

F-112

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

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

Items	Year ended December 31, 2004	2005	Nature of the transaction
Revenues	40 million	33 million	These refer to information system and computer services and energy services supplied to the Pirelli group 3 million (5 million in 2004), and telephone services supplied to the Pirelli group 7 million (3 million in 2004), to the Edizione Holding group 4 million (5 million in 2004), to the Unipol group 16 million (13 million in 2004), to the ST Microelectronics group 1 million (2 million in 2004) and to related companies through Mr. Moratti 2 million (1 million in 2004). 2004 included 11 million of revenues with the Banca Intesa group and the Unicredito group which are no longer related parties.
Purchases of materials and external services	120 million	112 million	These refer to R&D expenditures and matters regarding intellectual property rights to the Pirelli group 72 million (86 million in 2004), Document management services from Telepost 21 million (15 million in 2004), insurance services from the Unipol group 10 million (11 million in 2004), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A., a related company through Mr. Moratti, 5 million (5 million in 2004), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards 2 million (2 million in 2004) and the purchase of electronic components from ST Microelectronics 2 million (1 million in 2004).
Other income	1 million		These refer to miscellaneous revenues with the Pirelli group.
Other operating expenses	1 million		These refer to miscellaneous expenses with the Pirelli group.
Capital expenditures in tangible and intangible assets	24 million	69 million	

			These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group (24 million in 2004, principally in respect of TLC cable purchases).

F-113

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Items	As of December 31, 2004	2005	Nature of the transaction
Trade receivables, miscellaneous receivables and other current assets	10 million	6 million	These mainly refer to the above-mentioned services under revenues rendered to the Pirelli group 2 million (8 million at December 31, 2004), to the Edizione Holding group 2 million (2 million at December 31, 2004) and to other companies 2 million.
Trade payables, current tax payables, miscellaneous payables and other current liabilities	65 million	43 million	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group 34 million (49 million at December 31, 2004), costs for Document Management services received from Telepost, 7 million (3 million at December 31, 2004), insurance costs to the Unipol group (11 million at December 31, 2004), and the purchase of electronic components from ST Microelectronics 1 million.

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

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 I.H.A.S. customers on the Tim Italia network, technical assistance services rendered and the recovery of costs for Tim Italia staff on loan to AVEA I.H.A.S..

Expense related

The transactions refer to interconnection fees for roaming traffic by 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.

ETECSA

Revenue related

The transactions refer to international telecommunications services, particularly voice and data transmission traffic terminating in Italy and Telecom Italia Sparkle traffic in transit and Tim Italia roaming.

Expense related

The contracts refer to the delivery of incoming international traffic to Cuba, prepaid by Telecom Italia Sparkle and by Telecom Italia San Marino, and roaming traffic originated by TIM customers on Cuba.

Eurofly Service S.p.A.

Expense related

The contract refers to the performance of non-scheduled air transport services to national and foreign destinations.

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 S.L.

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. It also acquired the sublicense rights on the Luna Rossa trademark for certain categories of goods.

NordCom S.p.A.

Revenue related

The transactions refer to the supply of data network connections and software applications.

Expense related

The contract refers to the development of systems and computer solutions.

Shared Service Center S.c.a.r.l.

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, support services for the operation of Telecom Italia OSS systems, and 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 as well as the supply of IRU transmission capacity by Telecom Italia Sparkle.

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 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.

Telbios S.p.A.

Expense related

The contracts refer to the supply of services, products and hardware systems and software under remote medicine plans.

Telegono S.r.l.

Expense related

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

* * *

Brasil Telecom Participaçoes group

Revenue related

The transactions between the TIM Brasil group and the Brasil Telecom group refer exclusively to trading transactions which fall under the ordinary administration of the operations of the two telecommunication operators, which are regulated by market conditions normally defined and approved by the market regulatory agency. The revenue related contracts refer to telecommunications services, interconnection services in particular, and site sharing.

Expense related

These refer to telecommunications services, interconnection services in particular, site sharing and line leases.

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 transactions refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.

Expense related

The contracts refer to costs for the sponsorship and the rights to diffuse content regarding 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 and services contract regarding patent rights*

In May 2002, a contract was signed with Pirelli under which services and consulting were rendered for:

- identification of a patent rights policy, by defining strategies which cater to business objectives, consistent for the entire Telecom Italia Group;

F-117

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

- determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business 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 (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 plan:

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.

- *Contracts for the supply of apparatus and cables*

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

- *Cooperation agreement concerning joint initiatives in the field of recycling and the disposal of end-of-life products*

Under this contract, Pirelli has developed two research projects for Telecom Italia: one relating to the Distributed Sensor Network and the second to Third-generation poles for the wireline network . The agreements state that Telecom Italia is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, such as cards of the SIM-card type or network poles, and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

Pirelli & C. Real Estate S.p.A.

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 (commercial management of owned and leased buildings).

Furthermore, Pirelli & C. Real Estate makes 35% investments in the capital of the companies which hold closed-end real estate investment funds to which the properties were contributed as part of the real estate transaction described in Item 4. Information on the Telecom Italia Group 4.5 Description of Property, Plants and Equipment the effects of which are disclosed in Note 8 Tangible Assets (owned and under finance leases) , and controls the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

ST Microelectronics group

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.

Telepost S.p.A.

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.

Unipol group

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 to third-parties and accidents) and life insurance.

Benefits to key executives

Key executives, that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Name	Position
Directors	
Marco Tronchetti Provera	Chairman
Carlo Orazio Buora	Managing Director
Riccardo Ruggiero	Managing Director of Operations General Manager
Executive Officers	
Gustavo Bracco	Head of the Human Resources and Organization Group Function
Enrico Parazzini	Head of the Finance, Administration and Control Group Function Head of the Media Business Unit Managing Director of Telecom Italia Media S.p.A.
Massimo Castelli	Chief Marketing Officer Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of the Corporate and Legal Affairs Group Function
Luca Luciani	Head of Sales in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Giuseppe Sala	General Manager Head of Top Client and Customer Services in Operations
Germanio Spreafico	Head of Purchasing Service Unit

The total compensation paid by Telecom Italia or by companies controlled by the Group to key managers was 25 million, divided as follows:

	Year ended December 31, 2005
	(millions of Euro)
Short-term compensation	23
Other long-term compensation	2

e) Stock Option Plans of the Telecom Italia Group

Some listed companies of the Group have awarded forms of stock incentives to their employees (executives and middle management) using stock option plans.

At the end of 2005, the existing stock option plans relate to options which give the right to the subscription of Telecom Italia Ordinary Shares (including the options granted at the time by TIM S.p.A.) and Telecom Italia Media Ordinary Shares.

During 2005, the only new option grants refer to the Stock Option Plan of Telecom Italia Media S.p.A..

The stock option plans granted starting from January 1, 2005 are recognized in accordance with IFRS 2, *Share-Based Payment*. For the valuation of stock option plans, the Telecom Italia Group uses the binomial model Cox-Ross-Rubenstein (CRR) . This model calculates the possible values which the underlying stock can assume over the life of the option.

The stock option plans of the Group are described below.

Telecom Italia S.p.A. Stock Option Plans

With respect to the Telecom Italia stock option plans, account should be taken of the mergers that previously took place and which are described below:

- merger of Telecom Italia S.p.A. into Olivetti S.p.A.: starting from the date the merger came into effect (August 4, 2003), the holders of the options of the merged company and the merging company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the respective plans (one share for each option) was changed on the basis of the assignment ratio established for the shareholders of the two companies. In particular, each option of the pre-merger Telecom Italia S.p.A. stock option plans allowed the subscription of 3.300871 new post-merger Telecom Italia Ordinary Shares, whereas each option of the Olivetti S.p.A. stock option plans (which at December 31, 2005 are all terminated) allowed the subscription of 0.471553 post-merger new Telecom Italia new Ordinary Shares. Accordingly, the subscription price of each Telecom Italia Ordinary Share resulting from the exercise of the option was adjusted for each plan, dividing the exercise price of the options already determined by the respective assignment ratio;

- merger of TIM S.p.A. into Telecom Italia S.p.A.: starting from the date the merger came into effect (June 30, 2005), the holders of the options of the merged company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the TIM S.p.A. plans (one share for each option) was changed on the basis of the exchange ratio established for the shareholders of TIM S.p.A. Therefore, each option of the pre-merger TIM S.p.A. stock option plans allows the subscription of 1.73 post-merger Telecom Italia Ordinary Shares. Accordingly, the subscription price of each Telecom Italia Ordinary Share resulting from the exercise of the options was adjusted for each plan, dividing the exercise price of the options already determined by the exchange ratio.

In describing the stock option plans, for the purpose of rendering the representation of the options homogeneous with that of the underlying subscribable shares to which they correspond, and to facilitate their measurement on the basis of the relative subscription prices, the Group has used the concept of equivalent options . Equivalent options mean a quantity of options equal to those that would be necessary for the subscription of post-merger Telecom Italia Ordinary Shares to the extent of one share for each option exercised, or, more simply, a quantity of options equal to the number of Telecom Italia Ordinary Shares subscribable post-merger.

In this manner, the weighted average prices and the exercise prices indicated below, since they refer, depending on the cases, to the list prices of the assignable shares (eventually adjusted following the above mergers) or equivalent options, are consistent and directly comparable among each other.

The Telecom Italia stock option plans for the two-year period 2004 and 2005 are presented below.

- In the Olivetti S.p.A. meeting held on February 24, 2000, the Board of Directors resolved to introduce the Stock Option Plan 2002-2004 , with 29,500,000 options granted at an exercise price which was originally equal to 3.705 for each option and, after the adjustment for the capital increases against payment made by Olivetti in 2001, to 3.308 for each option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 13,910,814 equivalent options at an exercise price of 7.015118 per equivalent option.

On February 9, 2001, 28,170,000 options of the Stock Option Plan 2002-2004 were cancelled after options were granted under the Stock Option Plan February 2002-December 2004 described below. The remaining 1,330,000 options, granted to managers who had terminated employment with Olivetti, remained outstanding.

At December 31, 2003, 800,000 options of the Stock Option Plan 2002-2004 were outstanding and corresponded to 377,241 equivalent options, at an exercise price equal to 7.015118 per equivalent option.

On December 15, 2004, the deadline for exercising the options expired and all the relative residual rights were forfeited. The plan was consequently terminated.

- In the meeting held on February 9, 2001, the Olivetti S.p.A. Board of Directors resolved to introduce the Stock Option Plan February 2002-December 2004 , with 29,000,000 options granted at an exercise price which was originally equal to 2.81 for each option and, after the adjustment for the capital increases against payment made by Olivetti in 2001, to 2.515 for each option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 13,675,037 equivalent options at an exercise price of 5.333441 per equivalent option.

The options of the Stock Option Plan February 2002-December 2004 were granted to replace the options in the Stock Option Plan 2002-2004 which, as described above, were cancelled on that date.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

At December 31, 2003, 5,940,000 options of the Stock Option Plan February 2002-December 2004 were outstanding, corresponding to 2,800,995 equivalent options, at an exercise price equal to 5.333441 per equivalent option.

On December 31, 2004, the deadline for exercising the options expired and all the relative residual rights were forfeited. The plan was consequently terminated.

- In the meetings held on October 28, 1999 and December 17, 1999, the Telecom Italia S.p.A. Board of Directors resolved to introduce the Stock Option Plan 1999 , with 16,595,400 options granted to top management at an exercise price of Italian lire 13,150 per option (equal to 6.79). Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., corresponded to 54,779,275 equivalent options, at an exercise price of 2.057033 per equivalent option.

The options were divided as follows:

a lot of 4,905,500 options, exercised by the end of 1999;

a lot of 5,754,900 options, which would have vested during the period January 2001 to December 2003, on condition that the average market price of Telecom Italia Ordinary Shares reached a pre-fixed performance parameter in December 2000;

a lot of 5,935,000 options, which would have vested during the period January 2002 to December 2004, on condition that the average market price of Telecom Italia Ordinary Shares reached a pre-fixed performance parameter in December 2001.

The performance parameters were both met and the options all were vested.

At December 31, 2003, 4,511,901 options of the Stock Option Plan 1999 were outstanding, corresponding to 14,893,133 equivalent options, at an exercise price equal to 2.057033 per equivalent option.

At December 31, 2004, the deadline for exercising the options of the last lot expired and the options of the Stock Option Plan 1999 were completely exercised. The plan was consequently terminated.

- In the meeting held on September 11, 2000, the Telecom Italia S.p.A. Board of Directors resolved to introduce the Stock Option Plan 2000 , with 51,430,000 options granted at an exercise price of 13.815 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., correspond to 169,763,796 equivalent options, at an exercise price of 4.185259 per equivalent option.

The options were divided into three lots of 15,460,000 options each, vesting, respectively, in July 2001, 2002 and 2003 and an extraordinary fourth lot of 5,050,000 options vesting in July 2003. The Stock Option Plan 2000 provides for different expiration dates depending on the date the options vest: the first lot expires in July 2006, the second in June 2007, the third lot and the extraordinary lot in June 2008. For each of the first three lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia Ordinary Shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The options of the extraordinary lot, instead, would have vested when the third lot vested only if, in addition to the conditions being met for the third lot, another performance parameter had been met which provided that the average price of Telecom Italia Ordinary Shares had not been lower than a specified minimum amount. If, in reference to one of the option lots, the performance criteria had not been met in a specific financial year, but were met during the course of the following year, then the options of that lot would be considered vested in that last year. The first and second lots met the performance criteria and, consequently, the options vested. The third lot and the extraordinary lot did not meet the performance criteria and, therefore, such options did not vest and were forfeit in 2003.

At December 31, 2005, the same as at December 31, 2004, 10,699,996 options of the Stock Option Plan 2000 were outstanding, corresponding to 35,319,216 equivalent options, at an exercise price equal to 4.185259 per equivalent option.

At the end of 2004 and 2005, the market price of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- In the meeting held on July 27, 2001, the Telecom Italia S.p.A. Board of Directors resolved to introduce the Stock Option Plan 2001 , with 67,025,000 options granted to managers and middle management of the Group at an exercise price of 10.488 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 221,240,879 equivalent options, at an exercise price of 3.177343 per equivalent option.

The options were divided into two lots of 33,512,500 options each, vesting, respectively, in April 2002 and 2003, expiring, respectively, in April 2007 and 2008. For each of the two lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia Ordinary Shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The first lot met the performance criteria and, consequently, the options vested. The second lot, instead, did not meet the performance criteria and, therefore, such options did not vest and were forfeit in 2003.

At the beginning of 2005, 31,895,000 options of the Stock Option Plan 2001 were outstanding. During 2005, the rights to 32,500 options lapsed due to the termination of employment. At the end of 2005, 31,862,500 options are outstanding, corresponding to 105,173,383 equivalent options, at an exercise price equal to 3.177343 per equivalent option.

At the end of 2004 and 2005, the market value of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- In the meeting held on February 13, 2002, the Telecom Italia S.p.A. Board of Directors resolved to introduce the Stock Option Plan 2002 Top , with 11,800,000 options granted to sixteen top managers of the Group at an exercise price of 9.203 per option. Such options, following the merger of Telecom Italia S.p.A., into Olivetti S.p.A. correspond to 38,950,278 equivalent options, at an exercise price of 2.788052 per equivalent option.

The options were divided into three lots, respectively, of 3,540,000, 3,540,000 and 4,720,000 options, vesting, respectively, in February 2003, 2004 and 2005 and expiring, respectively, in February 2008, 2009 and 2010. The Stock Option Plan 2002 Top could be exercised at the end of the vesting period and was not subject to performance parameters.

At the beginning of 2005, 10,500,000 options of Stock Option Plan 2002 Top are outstanding. During 2005, 810,885 options were exercised and the rights to 209,115 options lapsed due to the termination of employment. At December 31, 2005, 9,480,001.33 options are outstanding, corresponding to 31,292,243 equivalent options, at an exercise price equal to 2.788052 per equivalent option.

At the end of 2004, the market value of Telecom Italia Ordinary Shares was higher than the exercise price per equivalent option whereas at the end of 2005 it was lower.

- In the meeting held on March 26, 2002, the Telecom Italia S.p.A. Board of Directors considered the objective ineffectiveness of the Stock Option Plan 2000 as an incentive and as a means of retaining management loyalty, in relation to the exercise price of the options compared to the general market trend of the stock market. As a result, the Board resolved to introduce the Stock Option Plan 2002 , set aside for management of the Group who were already grantees of the Stock Option Plan 2000 and other managers hired after July 27, 2001 (starting date of the Stock Option

Plan 2001). The grantees of the original Stock Option Plan 2000, on condition of voluntarily relinquishing the relative options, could take part in the new plan. The Stock Option Plan 2002 can be exercised at the end of the vesting period and is not subject to performance parameters.

The options were granted in March, in August and in October 2002. In particular, mention of the following should be made:

1. in March 2002, 29,958,000 options were granted at an exercise price of 9.665 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 98,887,493 equivalent options, at an exercise price of 2.928015 for each equivalent option.

The options were divided into three lots, respectively, of 8,987,400, 8,987,400 and 11,983,200 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.

At the beginning of 2005, 22,412,501 options granted in March 2002 were outstanding. During 2005, 1,707,447 options were exercised and the rights to 800,000 options lapsed due to the termination of employment. At December 31, 2005, 19,905,053.50 options are outstanding, corresponding to 65,703,601 equivalent options, at an exercise price equal to 2.928015 per equivalent option.

At the end of 2004, the market value of Telecom Italia Ordinary Shares was higher than the exercise price per equivalent option whereas at the end of 2005 it was lower;

2. in August 2002, 840,000 options were granted at an exercise price of 7.952 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 2,772,723 equivalent options, at an exercise price equal to 2.409061 per equivalent option.

The options were divided into three lots, respectively, of 252,000, 252,000 and 336,000 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.

At the beginning of 2005, 780,000 options granted in August 2002 were outstanding. During 2005, 61,000 options were exercised. At December 31, 2005, 719,000.43 options are outstanding, corresponding to 2,373,319 equivalent options, at an exercise price equal to 2.409061 per equivalent option.

At the end of 2004 and 2005, the market value of Telecom Italia Ordinary Shares was higher than the exercise price per equivalent option;

3. in October 2002, 200,000 options were granted at an exercise price of 7.721 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 660,173 equivalent options, at an exercise price equal to 2.339080 per equivalent option.

The options were divided into three lots, respectively, of 60,000, 60,000 and 80,000 options, vesting, respectively, in March 2003, 2004 and 2005 and expiring, respectively, in March 2008, 2009 and 2010.

At the beginning of 2005, 200,000 options granted in October 2002 were outstanding. During 2005, they were completely exercised. At December 31, 2005, therefore, there are no options of the Stock Option Plan 2002 granted in October 2002 outstanding at that date.

The stock option plans awarded at the time by TIM (pre-merger with Telecom Italia S.p.A.) and by TIM Hellas (sold in 2005) for the two-year period 2004-2005 are described below.

- In the meeting held on December 22, 1999, the TIM S.p.A. Board of Directors resolved to introduce the Stock Option Plans 2000-2002 , with 21,210,000 options granted at an exercise price of 6.42 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 36,693,300 equivalent options, at an exercise price of 3.710983 per equivalent option.

The options were divided into three lots, respectively, of 6,999,300, 6,999,300 and 7,211,400 options, vesting, respectively in May 2000, June 2001 and 2002 and all expiring in December 2008. This date represents an extension of the original expiration date of December 31, 2005. The options can be exercised subject to reaching an objective minimum parameter to be measured with reference to the results achieved by the company in terms of E.V.A. (Economic Value Added), net of financial investments, compared to the minimum measurement indicated in the annual budget, respectively, in the years 1999, 2000 and 2001. The parameter was reached and, consequently, the options became exercisable in a continuing manner.

At the beginning of 2005, 12,302,319 options of the Stock Option Plans 2000-2002 were outstanding. During 2005, the rights to 566,666 options lapsed due to the termination of employment. At December 31, 2005, 11,735,653 options are outstanding, corresponding to 20,302,679 equivalent options, at an exercise price equal to 3.710983 per equivalent option.

At the end of 2004, the market value of TIM ordinary shares was lower than the exercise price per option and at the end of 2005, the market value of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- In the meeting held on December 19, 2000, the TIM S.p.A. Board of Directors resolved to introduce the Stock Option Plans 2001-2003 , with 44,790,000 options granted at an exercise price of 8.671 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 77,486,700 equivalent options, at an exercise price of 5.012139 per equivalent option.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The options were divided into three lots of 14,780,700, 14,780,700 and 15,228,600 options, vesting, respectively, in December 2001, 2002 and 2003 and all expiring in December 2005. For each of the three lots, the options can be exercised on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of TIM ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. All the lots met the performance criteria and, consequently, the options became exercisable. At the beginning of 2005, 1,190,000 options of the Stock Option Plans 2001-2003 were outstanding, corresponding to 2,058,700 equivalent options, at an exercise price equal to 5.012139 per equivalent option. On December 31, 2005, the deadline for exercising the options expired and all the relative residual rights are forfeited. The plans are consequently terminated.

- In the meeting held on May 10, 2001, the TIM S.p.A. Board of Directors resolved to supplement the Stock Option Plans 2001-2003 and to introduce the Supplementary Plans 2001-2003 , with another 12,047,000 options granted at an exercise price of 7.526 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 20,841,310 equivalent options, at an exercise price of 4.350289 per equivalent option.

The options of the Supplementary Plans 2001-2003 had the same features and were subject to the same performance conditions as the Stock Option Plans 2001-2003 except for the different grant date.

The options were divided into three lots of 3,975,510, 3,975,510 and 4,095,980 options, vesting, respectively, in December 2001, 2002 and 2003 (only options which vested could be exercised also in the months of March, June, September and December in the years from 2002 to 2005 inclusive), all expiring in December 2005. All the lots met the performance criteria and, consequently, the options became exercisable.

At the beginning of 2005, 499,000 options of the Supplementary Plans 2001-2003 were outstanding, corresponding to 863,270 equivalent options, at an exercise price equal to 4.350289 per equivalent option. On December 31, 2005, the deadline for exercising the options expired and all the relative residual rights were forfeited. The plans are consequently terminated.

- In the meeting held on February 12, 2002, the TIM S.p.A. Board of Directors resolved to introduce the Stock Option Plans 2002-2003 , with 25,510,000 options granted to managers and employees at an exercise price of 5.67 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 44,132,300 equivalent options, at an exercise price of 3.277457 per equivalent option.

The options were divided into two lots of 12,755,000 options each, vesting, respectively, in December 2002 and 2003 and all expiring in December 2008. The Stock Option Plans 2002-2003 could be exercised at the end of the vesting period and were not subject to performance parameters.

At the beginning of 2005, 23,280,000 options of the Stock Option Plans 2002-2003 were outstanding. During 2005, the rights to 1,255,000 options lapsed due to the termination of employment. At the end of 2005, 22,025,000 options are outstanding, corresponding to 38,103,250 equivalent options, at an exercise price equal to 3.277457 per equivalent option.

At the end of 2004, the market value of TIM ordinary shares was lower than the exercise price per option and at the end of 2005 the market value of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- In the meeting held on May 6, 2002, the TIM S.p.A. Board of Directors resolved to introduce the Stock Option Plans 2003-2005 set aside for management of the Group who already held options in the Stock Option Plans 2001-2003 and Supplementary Plans 2001-2003 and new grantees. The grantees who already held options in the previous plans could take advantage of the new plans, on condition of voluntarily relinquishing the relative options beforehand. The Stock Option Plans 2003-2005 provide for 50,057,000 options to be granted at an exercise price equal to 5.07 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 86,598,610 equivalent options, at an exercise price of 2.930636 per equivalent option. Of the total options, 48,142,000 were granted to grantees of the previous plans and 1,915,000 were granted to new grantees.

The options were divided into three lots, respectively, of 16,518,810, 16,518,810 and 17,019,380 options, vesting, respectively, in May 2003, May 2004 and December 2004 and expiring, respectively, in

December 2008, 2009 and 2010. The Stock Option Plans 2003-2005 could be exercised at the end of the vesting period and were not subject to performance parameters.

At the beginning of 2005, 7,861,000 options of the Stock Option Plans 2003-2005 were outstanding, corresponding to 13,599,530 equivalent options. During 2005, 5,945,100 options, corresponding to 10,285,023 equivalent options, were exercised. At the end of 2005, 1,915,900 options are outstanding, corresponding to 3,314,507 equivalent options, at an exercise price equal to 2.930636 per equivalent option.

At the end of 2004, the market value of TIM ordinary shares was higher than the exercise price per option and at the end of 2005, the market value of Telecom Italia Ordinary Shares was lower than the exercise price per equivalent option.

- With reference to TIM Hellas, during 2004, 100,000 new options were granted and exercised together with 583,500 options previously issued. Furthermore, during 2004, 114,500 options previously issued had expired. Therefore, at the end of 2004, all the TIM Hellas plans had ceased to exist.

Movements in the TIM and TIM Hellas stock option plans for the period January 1, 2004 to June 30, 2005, effective date of the merger of TIM into Telecom Italia are presented in the following table.

	Number of options	**Weighted Average price per option**
		(Euro)
Options outstanding at December 31, 2003	**85,516,318**	**5.54**
Exercised	(37,536,700)	5.16
Granted	100,000	10.24
Expired and Forfeited(1)	(2,947,299)	5.56
Options outstanding at December 31, 2004	**45,132,319**	**5.87**
Exercised	(5,945,100)	5.07
Lapsed(2)	(1,136,666)	5.90
Options outstanding at June 30, 2005	**38,050,553**	**5.99**
Equivalent options outstanding at June 30, 2005(3)	**65,827,457**	**3.46**

(1) These options expired since they were not exercised during the stated period or were forfeited as they did not become vested due to failure to reach the performance parameters.

(2)

These options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

(3) Equivalent number of options and relative weighted average price deriving from the application of the TIM-Telecom Italia conversion ratio equal to 1.73.

The following table presents, with reference to the TIM stock option plans outstanding at December 31, 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants:

Range of Grant Prices	Options Outstanding at December 31, 2004			Equivalent Options Exercisable at December 31, 2004	
	Options	Residual Weighted Average Life	Weighted Average Grant Price	Options	Weighted Average Grant Price
(Euro)		(years)	(Euro)		(Euro)
5.07-5.67	31,141,000	4.09	5.52	31,141,000	5.52
6.42-8.67	13,991,319	3.64	6.65	13,991,319	6.65
	45,132,319			**45,132,319**	

F-126

Movements in all the Telecom Italia stock option plans for the year 2004 and 2005 (including plans granted by TIM S.p.A.) are presented below:

	Number of equivalent options	Weighted Average price per equivalent option
		(Euro)
Options outstanding at December 31, 2003	**284,339,845**	**3.14**
Lapsed on January 1, 2004	(1,788,412)	2.93
Exercised	(18,057,012)	2.18
Expired and forfeited(1)	(11,264,330)	3.69
Options outstanding at December 31, 2004	**253,230,091**	**3.18**
Lapsed on January 1, 2005	(755,890)	3.02
Exercised	(9,174,215)	2.83
Lapsed(2)	(4,623,274)	3.04
Expired and Forfeited	(2,921,970)	4.82
Equivalent options coming from the merged company TIM S.p.A.(3)	65,827,456	3.46
Options outstanding at December 31, 2005	**301,582,198**	**3.24**

(1) These equivalent options expired since they were not exercised during the stated period or were forfeited as they did not become vested due to failure to reach the performance parameters.

(2) These equivalent options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

(3) Equivalent number of options resulting from the merged company TIM S.p.A. outstanding at June 30, 2005 (effective date of the merger with Telecom Italia S.p.A.). Additional details are provided in the pre-merger TIM stock options plans.

The following tables present, with reference to the Telecom Italia stock option plans outstanding at December 31, 2005 and 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants:

Range of Grant Prices	Equivalent Options Outstanding at December 31, 2005			Equivalent Options Exercisable at December 31, 2005	
	Equivalent Options	Residual Weighted Average Life	Weighted Average Grant Price	Equivalent Options	Weighted Average Grant Price

(Euro)		(years)	(Euro)		(Euro)
2.41	2,373,319	3.30	2.41	2,373,319	2.41
2.78-2.94	100,310,351	3.34	2.88	100,310,351	2.88
3.17-3.72	163,579,312	1.90	3.27	163,579,312	3.27
4.18-5.01	35,319,216	1.00	4.19	35,319,216	4.19
	301,582,198			**301,582,198**	

Range of Grant Prices	**Equivalent Options Outstanding at December 31, 2004**			**Equivalent Options Exercisable at December 31, 2004**	
	Equivalent Options	**Residual Weighted Average Life**	**Weighted Average Grant Price**	**Equivalent Options**	**Weighted Average Grant Price**
(Euro)		**(years)**	**(Euro)**		**(Euro)**
2.34-2.41	3,234,844	4.31	2.39	1,861,686	2.39
2.79-2.93	109,114,801	4.26	2.88	65,280,732	2.89
3.18-4.19	140,880,446	2.22	3.43	140,880,446	3.43
	253,230,091			**208,022,864**	

Telecom Italia Media S.p.A. Stock Option Plans

All the options in the stock option plans of Telecom Italia Media give the right to subscribe to a number of Telecom Italia Media ordinary shares equal to the number of options exercised, at a specific exercise price.

The Telecom Italia Media stock option plans for the two-year period 2004 and 2005 are presented below.

- In the meeting held on January 25, 2001, the Telecom Italia Media S.p.A. (formerly Seat S.p.A.) Board of Directors resolved to introduce the Stock Option Plan 2000-2002 , with 26,687,334 options granted at an exercise price of 1.220.

The options were divided into three lots, respectively, of 14,678,034, 6,004,650 and 6,004,650 options, vesting, respectively, in May 2001, 2002 and 2003 and expiring, respectively, in April 2004, 2005 and 2006.

At December 31, 2004, 940,313 options of the Stock Option Plan 2000-2002 were outstanding. During 2005, the following changes took place: 428,210 options were relinquished by the grantees in order to participate in the Plan 2005, the rights relating to 278,030 options lapsed due to the termination of employment and the date expired for the exercise of the remaining 234,073 options. At December 31, 2005, therefore, there are no longer any options outstanding.

- In the meeting held on May 17, 2002, the Telecom Italia Media S.p.A. (formerly Seat S.p.A.) Board of Directors resolved to introduce the Key People Plan , with 46,400,000 options granted at an exercise price of 0.8532.

The options were divided into three lots, respectively, of 13,920,000, of 13,920,000 and 18,560,000 options, vesting, respectively, in May 2003, 2004 and 2005 and all expiring in May 2008.

At December 31, 2004, 14,900,000 options of the Key People Plan were outstanding. During 2005, the following changes took place: 11,350,000 options were relinquished by the grantees in order to participate in the Plan 2005, the rights relating to 1,300,000 options lapsed due to the termination of employment. At December 31, 2005, 2,250,000 options are outstanding.

At the end of 2004 and 2005, the market value of Telecom Italia Media ordinary shares was lower than the exercise price.

- In the meeting held on February 23, 2005, the Telecom Italia Media S.p.A. Board of Directors resolved to introduce the Plan 2005 , set aside for employees in service at Telecom Italia Media and its subsidiaries, identified on the basis of their specific responsibilities and/or expertise who were already grantees of the Stock Option Plan 2000-2002 and the Key People Plan. The grantees of the previous plans, on condition of voluntarily relinquishing the relative options beforehand, could take part in the new plan. The previous plans, however, remain in place at the same conditions, procedures and regulations for the employee grantees of the other Companies of the Telecom Italia Group, for retired employees and for employees of the Media Business Unit who did not relinquish the options.

Under the Plan 2005, 39,725,000 options were granted at an exercise price of 0.3826.

The options are divided into three lots, respectively of 15,890,000, 11,917,500 and 11,917,500 options, vesting, respectively, in July 2005, January 2006 and January 2007 and all expiring in December 2008.

During 2005, 11,005,170 options were exercised and 3,465,000 lapsed due to the termination of employment. At December 31, 2005, the total number of options outstanding is 25,254,830. At the end of 2005, the market value of Telecom Italia Media ordinary shares was higher than the exercise price.

On February 23, 2005, at the same time the options relating to the Plan 2005 were granted, the fair value of these options was determined, using the binomial CRR model on the basis of the following variables:

- average price of the share resulting from the exercise of the options: 0.3826 (average of the official market prices of Telecom Italia Media ordinary shares from January 23, 2005 to February 23, 2005 opening and closing dates included);
- exercise price: equal to the price of the share resulting from the exercise of the options (0.3826);
- volatility: at the date of valuation, the historical volatility of the stock of 37.30% was used;

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

- option period: 3.85 years (from February 23, 2005 to December 31, 2008), corresponding to the end of the life of the option;

- expected dividend yield: zero, on the basis of the consideration that Telecom Italia Media up to February 23, 2005 has never paid out dividends;

- risk-free interest rate: the rate on Italian Government securities (BTP) was considered, interpolated at the expiration date of the option: December 31, 2008. Therefore, a rate of 2.82% was applied.

The fair value was determined as 0.1246 per option.

Movements in the Telecom Italia Media stock option plans for the years 2004 and 2005 are presented in the following table.

	Number of options	Weighted Average price per option
		(Euro)
Options outstanding at December 31, 2003	**20,119,299**	**0.91**
Expired(1) and Lapsed(2)	(4,278,986)	1.06
Options outstanding at December 31, 2004	**15,840,313**	**0.87**
Granted	39,725,000	0.38
Exercised	(11,005,170)	0.38
Expired and Forfeited(1)	(234,073)	1.22
Lapsed(2)	(16,821,240)	0.77
Options outstanding at December 31, 2005	**27,504,830**	**0.42**

(1) These equivalent options expired since they were not exercised during the stated period or were forfeited as they did not become vested due to failure to reach the performance parameters.

(2) These equivalent options lapsed since they could no longer be exercised as a result of the termination of employment and/or for other reasons (e.g. relinquished by the interested party).

The following tables present, with reference to the stock option plans outstanding at December 31, 2005 and 2004, grouped by the range of the exercise price, the residual weighted average life and the weighted average price of the option grants:

Range of Grant Prices	Options Outstanding at December 31, 2005	Options Exercisable at December 31, 2005

	Options	Residual Weighted Average Life	Weighted Average Grant Price	Options	Weighted Average Grant Price
(Euro)		(years)	(Euro)		(Euro)
0.38	25,254,830	3.00	0.38	4,044,830	0.38
0.85	2,250,000	2.42	0.85	2,250,000	0.85
	27,504,830			**6,294,830**	

Of the 27,504,830 options outstanding at December 31, 2005, the number of options exercisable is 6,294,830. 50% of the remaining 21,210,000 options will become exercisable (10,605,000) on January 1, 2006 and the rest will become exercisable on January 1, 2007.

Range of Grant Prices	Options Outstanding at December 31, 2004			Options Exercisable at December 31, 2004	
	Options	Residual Weighted Average Life	Weighted Average Grant Price	Options	Weighted Average Grant Price
(Euro)		(years)	(Euro)		(Euro)
0.85	14,900,000	3.43	0.85	8,940,000	0.85
1.22	940,313	0.85	1.22	940,313	1.22
	15,840,313			**9,880,313**	

f) Research and development

During the year 2005, research and development activities at Telecom Italia Group were mainly carried out by the Innovation & Engineering Services function (formerly Telecom Italia Lab) under Operations in collaboration with Pirelli Labs, and by Olivetti S.p.A..

Total costs incurred in 2005 amounted to approximately 180 million (181 million in the prior year) include external costs, labor costs of dedicated staff and depreciation and amortization.

Such costs were incurred mainly by the Wireline and Mobile Business Units. The research activities expensed during the year amount to 128 million (144 million in 2004). The development activities, which were made available for use during the year, were capitalized to the network or to software costs for an amount equal to 52 million (37 million in 2004).

Research and development activities conducted by the Telecom Italia Group are detailed in the Item 5. Operating and Financial Review and Prospects 5.7 Research, Development and Innovation .

g) Operating leases

1) Revenue-related

The Group has signed lease contracts for direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators. At December 31, 2005, the amount of lease installments receivable on non-cancelable lease contracts is the following:

	Operating lease payments receivable
	(millions of Euro)
Within 1 year	152
From 2 to 5 years	88
Beyond 5 years	
Total	**240**

2) Expense-related

The Group has signed lease contracts for buildings (for periods from 6 to 9 years). At December 31, 2005, the amount of lease installments payable on non-cancelable lease contracts is the following:

	Operating lease payments payable
	(millions of Euro)
Within 1 year	233
From 2 to 5 years	716
Beyond 5 years	311
Total	**1,260**

NOTE 40 SUBSEQUENT EVENTS

Sale of Corporacion Digitel C.A.

On January 19, 2006, Telecom Italia, through its subsidiary TIM International N.V., signed the agreement for the sale of the 100% interest in the Venezuelan mobile operator Corporacion Digitel C.A. to Telvenco S.A., on the basis of an enterprise value of the company equal to U.S.$425 million.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

The execution of the agreement is subject to the receipt of the necessary authorizations from the relevant Venezuelan authorities.

The sale will reduce the net financial debt of the Group by approximately U.S.$425 million.

The sale of the investment in Corporacion Digitel C.A. falls under the strategy to rationalize the portfolio of international investments and focus the presence of the Telecom Italia Group in countries where it is possible to take better advantage of the potential to integrate the fixed and mobile platforms and where there is a national license.

Agreement with Sky for Movie Channels on Alice Home TV

On January 23, 2006, Telecom Italia and Sky signed an agreement for the marketing of the Sky movie channels on Alice Home TV , the TV via Internet owned by Telecom Italia, starting from February 2006.

The agreement allows Telecom Italia to broadcast Sky movie channels (Sky Cinema 1, Sky Cinema 2, Sky Cinema 3, Sky Cinema Autore, Sky Cinema Max, Sky Cinema 16:9, Sky Cinema Classics, Studio Universal and Rai Sat Cinema World) dedicated to the best national and international movies.

This agreement brings a broader range of films to Alice Home TV which already offers more than 400 movies on demand thanks to agreements reached with major Italian and foreign motion picture companies.

The movie package will be offered at a cost of 16 per month (inclusive of VAT) and can be purchased, not only when the request is made to activate Alice Home TV , but also through the TV by those who already have Telecom Italia s IPTV service.

Starting from February 2006, the Alice Home TV service, launched in 2005 in Bologna, Milan, Palermo and Rome was extended to a further 17 Italian cities (Alessandria, Bari, Biella, Brescia, Cagliari, Catania, Florence, Genoa, Modena, Naples, Padua, Reggio Emilia, Sondrio, Turin, Trieste, Venice and Verona), reaching about 4 million families.

Repayment of Notes Telecom Italia Finance S.A.

On January 3, 2006, Telecom Italia Finance S.A. repaid on maturity the Euro 1,100,000,000 Floating Rate Notes due 2006 issued by Telecom Italia Finance S.A. on May 29, 2002, indexed to the 3-month Euribor plus a spread of 1.25%, for a residual amount of 1,045.4 million.

Early Repayment of Notes Telecom Italia S.p.A.

On January 30, 2006, the first permissible date allowed by the bond indenture, the floating rate notes maturing October 29, 2007 denominated Telecom Italia S.p.A. euro 1,000,000,000 Floating Rate Notes due 2007 were repaid in advance, after the resolution passed by the Telecom Italia S.p.A. Board of Directors meeting held on December 21, 2005.

Repurchase of Own Treasury Notes Telecom Italia Finance S.A.

In January 2006, own bonds were repurchased by Telecom Italia Finance S.A. for 48 million out of the notes for 2,513 million, maturing April 20, 2006. The residual nominal debt is thus equal to 2,465 million.

In addition, notes convertible into Telecom Italia S.p.A. or Seat Pagine Gialle S.p.A. and Telecom Italia Media S.p.A. shares with a repayment premium, maturing March 15, 2006 were purchased for a nominal amount of 25 million (29 million is the repayment amount of the notes repurchased) and notes for 2,250 million, with coupon interest of 6.575%, maturing July 30, 2009 were repurchased for a nominal amount of 20 million. The residual nominal debt of those notes issues is thus equal to 1,710 million and 2,230 million, respectively.

Table of Contents

Financial Statements	Notes To Consolidated Financial Statements

NOTE 41 LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

List of consolidated companies of the Telecom Italia Group included in the scope of consolidation

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
WIRELINE						
BBEYOND B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	82,430,000	99.9939		TELECOM ITALIA INTERNATIONAL N.V.
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		MEDITERRANEAN NAUTILUS S.A.
EMAX TRADE S.r.l. (in liquidation) (Internet site management)	MILAN (ITALY)	EUR	100,000	100.0000		MATRIX SPA
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	HAMBURG (GERMANY)	EUR	91,521,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
INTERCALL S.A. (sell of prepaid cards and audiotex services)	PARIS (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	2,000,000	99.9700		LATIN AMERICAN NAUTILUS S.A.
				0.0300		LATIN AMERICAN NAUTILUS LTD
LATIN AMERICAN NAUTILUS BOLIVIA SRL (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9999		LATIN AMERICAN NAUTILUS S.A.
				0.0001		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	105,353,711	99.9999		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES LTDA
				0.0001		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda	RIO DE JANEIRO (BRAZIL)	BRL	105,354,710	99.9999		LATIN AMERICAN NAUTILUS S.A.
				0.0001		LATIN AMERICAN NAUTILUS LTD

(installation and maintenance of submarine cable systems)					
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	8,779,132,671	100.0000	LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA (COLOMBIA)	COP	4,148,521,000	100.0000	LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLIN (IRELAND)	USD	1,000,000	100.0000	LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO D.F. (MEXICO)	MXN	100,000	99.9900	LATIN AMERICAN NAUTILUS S.A.
				0.0100	LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000	LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS PERU S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	43,374,195	100.0000	LATIN AMERICAN NAUTILUS S.A.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
LATIN AMERICAN NAUTILUS S.A. (holding company)	LUXEMBOURG	USD	55,500,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLES (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEB	43,425,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LIBERTY SURF GROUP S.A. (internet provider)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (telephony services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.
LIBERTY SURF COMMUNICATIONS LTD (in liquidation) (telephony services)	LONDON (UK)	GBP	1,000	100.0000		LIBERTY TELECOM B.V.
LIBERTY TELECOM B.V. (wireline)	AMSTERDAM (HOLLAND)	EUR	3,871,142	100.0000		LIBERTY SURF NETWORK B.V.
LOQUENDO SOCIETA PER AZIONI (research, development and marketing of technologies and equipment regarding voice synthesis recognition and/or interaction)	TURIN (ITALY)	EUR	3,573,741	99.9846		TELECOM ITALIA S.p.A.
MATRIX S.p.A. (internet services)	MILAN (ITALY)	EUR	1,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,151	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l.	ROME	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.

(installation and management submarine cable systems in Italian seas)	(ITALY)				
MED-1 SUBMARINE CABLES Ltd (installation and management of cable Lev)	TEL AVIV (ISRAEL)	NIS	55,886,866	99.9123	TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000	MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (installation and management of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000	MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	DELAWARE (USA)	USD	500	100.0000	MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS ISRAEL Ltd (TLC services. installation and management of submarine cable systems)	TEL AVIV (ISRAEL)	NIS	1,000	100.0000	MEDITERRANEAN NAUTILUS BV

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
MEDITERRANEAN NAUTILUS ITALY S.p.A.. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS BV
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLIN (IRELAND)	USD	153,259	100.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	LUXEMBOURG	USD	118,000,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA FINANCE S.A.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURKEY)	YTL	350,000	99.9988 0.0003 0.0003 0.0003 0.0003		MEDITERRANEAN NAUTILUS BV MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ITALY S.p.A. MEDITERRANEAN NAUTILUS ISRAEL Ltd MEDITERRANEAN NAUTILUS GREECE Ltd
NUOVA TIN.IT S.r.l. (internet services)	MILAN (ITALY)	EUR	10,000,000	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	REPUBLIC OF SAN MARINO	EUR	1,550,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	HAMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA S.A. (supply and internet access)	PARIS (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.

TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000	TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002	TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA INC.
TELECOM MEDIA INTERNATIONAL ITALY-CANADA INC. (in liquidation) (telecommunications services)	MONTREAL (CANADA)	CAD	952,100	100.0000	TMI TELEMEDIA INTERNATIONAL LTD
TELECONTACT CENTER S.p.A.. (telemarketing services)	NAPLES (ITALY)	EUR	770,000	100.0000	TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A.. (mobile telephony services)	REPUBLIC OF SAN MARINO	EUR	78,000	51.0000	TELECOM ITALIA SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	NEW JERSEY (USA)	USD	154,022,889	100.0000	TMI TELEMEDIA INTERNATIONAL Ltd

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	**Head Office**	**Currency**	**Share Capital**	**% ownership**	**% of voting rights**	**Held by**
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l. (housing and hosting)	REPUBLIC OF SAN MARINO	EUR	25,800	99.9999 0.0001		TELECOM ITALIA SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A..
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A..
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A..
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GMBH (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI UNITED KINGDOM Ltd (telecommunications services)	LONDON (UK)	GBP	4,150,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE FRANCE S.A.S. (installation and maintenance of tlc services for wireline and afferent activities)	PUTEAUX (FRANCE)	EUR	3,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA (telecommunications services)	SAO PAULO (BRAZIL)	BRL	2,589,317	100.0000		TMI TELEMEDIA INTERNATIONAL LTD
MOBILE						
BLAH! INC (mobile network services)	FLORIDA (USA)	USD	23,464,000	100.0000		TIM INTERNATIONAL N.V.
BLAH! SOCIEDADE ANÔNIMA DE SERVIÇOS E COMÉRCIO (internet services)	RIO DE JANEIRO (BRAZIL)	BRL	92,383,315	100.0000		TIM CELULAR S.A.

CRC Centro de Relacionamento com Clientes LTDA (call center services)	SAO PAULO (BRAZIL)	BRL	98,433,599	100.0000		TIM CELULAR S.A.
MAXITEL S.A. (mobile telephony operator)	BELO HORIZONTE (BRAZIL)	BRL	1,200,769,399	100.0000		TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	10,948,214,541	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAULO (BRAZIL)	BRL	10,135,186,929	100.0000		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000		TELECOM ITALIA S.p.A.
TIM ITALIA S.p.A. (mobile telephony operator)	MILAN (ITALY)	EUR	413,552,203	100.0000		TELECOM ITALIA S.p.A.
TIM NORDESTE TELECOMUNICAÇÕES S.A. (mobile telephony operator)	JABOATÃO DOS GUARARAPES (BRAZIL)	BRL	535,995,597	100.0000		TIM PARTICIPAÇÕES S.A.
TIM PARTICIPACOES (holding company for operating companies providing mobile network services)	RIO DE JANEIRO (BRAZIL)	BRL	1,472,074,525	19.8798	50.3335	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM SUL S.A. (mobile telephony operator)	CURITIBA (BRAZIL)	BRL	1,001,243,386	100.0000		TIM PARTICIPAÇÕES S.A.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
MEDIA						
BEIGUA S.r.l. (purchase, sale, management and maintenance of systems for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI.IT S.r.l. (in liquidation) (research, design, development, production of information and telematic products for tourism)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA E COMUNICAZIONE PUBBLICITA S.r.l. (in liquidation) (purchase/sale of ad space and management of advertising on radio/TV stations/channels)	ROME (ITALY)	EUR	10,000	100.000		HOLDING MEDIA E COMUNICAZIONE HMC S.p.A.
HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	ROME (ITALY)	EUR	5,064,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
LA7 TELEVISIONI S.p.A. (purchase. management and maintenance of technical transmission systems for audio and video broadcasting)	ROME (ITALY)	EUR	6,200,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting. production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		LA7 TELEVISIONI S.p.A.
MTV PUBBLICITA S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	ROME (ITALY)	EUR	600,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A.	ROME (ITALY)	EUR	100,327,259.46	65.8300 2.2500	66.9200 2.2900	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.

(management of all activities connected with the handling of information)					
TELECOM MEDIA NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	120,000	100.0000	TELECOM ITALIA MEDIA S.p.A.
TI MEDIA BROADCASTING S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	10,034,532	100.0000	LA7 TELEVISIONI S.p.A.
TIN WEB S.r.l. (in liquidation) (internet site development consulting)	MILAN (ITALY)	EUR	10,000	100.0000	TELECOM ITALIA MEDIA S.p.A.
OLIVETTI					
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	ROME (ITALY)	EUR	52,000	60.0000 40.0000	OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAULO (BRAZIL)	BRL	5,135,417	100.0000	OLIVETTI DO BRASIL S.A.
MULTIDATA S/A ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000	OLIVETTI DO BRASIL S.A.

F-136

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
OLIVETTI AUSTRIA Ges.m.b.H (sale of office equipment and accessories)	VIENNA (AUSTRIA)	EUR	36,336	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI FRANCE S.A. (sale of office equipment and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI INTERNATIONAL B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	355,027,092	100.0000		OLIVETTI S.p.A.
OLIVETTI UK Ltd. (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (sale and maintenance of office equipment)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI CHILE S.A. (in liquidation) (sale and maintenance of office equipment, accessories and software)	SANTIAGO (CHILE)	CLP	2,574,015,843	99.9999 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	BOGOTA (COLOMBIA)	COP	2,500,000,000	90.5200 9.4700 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A. OLIVETTI CHILE (in liquidation)
OLIVETTI DE PUERTO RICO, Inc. (office equipment in the United States and Central America)	SAN JUAN (PUERTO RICO)	USD	1,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and holding company)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A.	SAO PAULO	BRL	111,660,625	96.6446 3.3554		OLIVETTI INTERNATIONAL B.V.

(manufacture and sale of typewriters, accessories, parts and assistance)	(BRAZIL)				OLIVETTI MEXICANA S.A. (in liquidation)
OLIVETTI ENGINEERING S.A. (ex YMINDS) (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000	OLIVETTI I-JET S.p.A.
OLIVETTI I-JET S.p.A. (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA ITALY)	EUR	15,000,000	100.0000	OLIVETTI S.p.A.
OLIVETTI MEXICANA S.A. (in liquidation) (manufacture and sale, import-export of typewriters, adding machines, accessories and parts, technical assistance services)	MEXICO CITY (MEXICO)	MXN	34,637,065	99.9999 0.0001	OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI S.p.A. (manufacture and sale of products and accessories for office equipment)	IVREA (TURIN ITALY)	EUR	128,000,000	100.0000	TELECOM ITALIA S.p.A.
OLIVETTI TECNOST (H.K.) LTD (in liquidation) (sale of equipment and systems in the Pacific area and other areas)	HONG KONG	HKD	200,000	99.5000 0.5000	OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
OLIVETTI TECNOST ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9863	OLIVETTI INTERNATIONAL B.V.

F-137

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
OLIVETTI TECNOST NEDERLAND B.V. (sale of office equipment and accessories)	LEIDERDORP (HOLLAND)	EUR	6,468,280	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST PORTUGAL, S.A (sale of office equipment and accessories)	LISBON (PORTUGAL)	EUR	275,000	99.9927		OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI (L AQUILA ITALY)	EUR	1,040,000	100.0000		OLIVETTI S.p.A.
TIESSE S.c.p.A. (installation and assistance for electromechanical, electronic, computer, telematic and telecommunications equipment)	ROME (ITALY)	EUR	103,292	42.0000 19.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO (BARI ITALY)	EUR	564,650	91.2100		OLIVETTI S.p.A.
WIRELAB S.p.A. (repairs, management and assistance of fixed telecommunications and other equipment)	SCARMAGNO (TURIN ITALY)	EUR	300,000	70.0000		OLIVETTI S.p.A.
OTHER ACTIVITIES						
ASCAI SERVIZI S.r.l. (insurance mediation)	ROME (ITALY)	EUR	73,337	64.9599		SAIAT SOCIETA ATTIVITA INTERMEDIE AUSILIARIE TLC P.A.
CONS. FORM. PROF.MEZZOGIORNO D ITALIA E PAESI AREA MEDITERRANEA-NAUTILUS (professional training)	ROME (ITALY)	EUR	30,000	31.0000 20.0000		TELECOM ITALIA LEARNING SERVICES S.p.A. MEDITERRANEAN NAUTILUS Ltd
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (coordination of power for fixed and mobile networks of consortia)	ROME (ITALY)	EUR	10,000	50.0000 50.0000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
DATACOM S.A.	LA PAZ (BOLIVIA)	BOB	66,938,200	100.0000		ENTEL S.A. EMPRESA NACIONAL DE TELECOMUNICACIONES

(data transmission services)

DOMUS ACADEMY S.p.A. (specialized design courses)	MILAN (ITALY)	EUR	140,000	67.3336	TELECOM ITALIA S.p.A.
EDOTEL S.p.A. (holding company)	TURIN (ITALY)	EUR	4,847,193	100.0000	TELECOM ITALIA FINANCE S.A.
EMSA Servizi S.p.A. (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000	TELECOM ITALIA S.p.A.
ENTEL S.A.-EMPRESA NACIONAL DE TELECOMUNICACIONES S.A. ENTEL BOLIVIA (telecommunications services)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000	ETI EURO TELECOM INTERNATIONAL N.V.
ETI EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000	ICH INTERNATIONAL COMMUNICATION HOLDING N.V.
EUSTEMA S.p.A. (design, research. development and marketing of software, information and online systems)	ROME (ITALY)	EUR	312,000	67.3333	TELECOM ITALIA S.p.A.
I.T. TELECOM S.r.l. (other software development and software consulting)	MILAN (ITALY)	EUR	7,000,000	100.0000	TELECOM ITALIA S.p.A.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ICH INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000		TELECOM ITALIA S.p.A.
NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (real estate purchases, exchanges and sales)	IVREA (TURIN ITALY)	EUR	100,000	50.1000		OLIVETTI MULTISERVICES S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.p.A. (real estate services)	IVREA (TURIN ITALY)	EUR	1,300,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI INTERNATIONAL (SERVICE) S.A. (in liquidation) (administrative services)	LUGANO (SWITZERLAND)	CHF	50,000	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20.337.161	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (real estate management)	YOKOHAMA (JAPAN)	JPY	100,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OMS HOLDING B.V. (financing)	AMSTERDAM (HOLLAND)	EUR	20,000	100.0000		OLIVETTI MULTISERVICES S.p.A.

PROGETTO ITALIA S.p.A. (development and improvement of the Telecom Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000	TELECOM ITALIA S.p.A.
RUF GESTION S.A.S. (real estate services)	PUTEAUX (FRANCE)	EUR	266,300	100.0000	OMS HOLDING B.V.
SAIAT SOCIETA ATTIVITA INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000	TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS LLC (financing)	DELAWARE (USA)	USD	27,166,100	56.9626 17.8476	TELECOM ITALIA LAB SA TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000	TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design. development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9917	TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and promotional services)	SAO PAULO (BRAZIL)	BRL	43,614,072	99.9996	TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT SCARL (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	81.8182 18.1818	TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG	EUR	2,336,000	99.9990 0.0010	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG	USD	163,870	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA LEARNING SERVICES DO BRASIL LIMITADA (information consulting and services)	SAO PAULO (BRAZIL)	BRL	174,040	99.9989		TELECOM ITALIA LEARNING SERVICES S.p.A.
TELECOM ITALIA LEARNING SERVICES S.p.A. (professional training)	MILAN (ITALY)	EUR	1,560,000	100.0000		TELECOM ITALIA S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	80.0000 20.0000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	496,661,807	100.0000		TELECOM ITALIA FINANCE S.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TIAUDIT LATAM S.A. (internal auditing)	SAO PAULO (BRAZIL)	BRL	1,500,000	99.9995		TELECOM ITALIA AUDIT SCARL
TRAINET S.p.A. (in liquidation) (development. operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.

Telecom Italia Group

List of consolidated companies held for sale

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
CORPORACION DIGITEL C.A. (telecommunications services)	CARACAS (VENEZUELA)	VEB	41,214,946,687	100.0000		TIM INTERNATIONAL N.V.
GRUPPO BUFFETTI S.p.A. (manufacture of products regarding the paper industry, printing and publishing)	ROME (ITALY)	EUR	11,817,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
OFFICE AUTOMATION PRODUCTS S.r.l. (in liquidation) (wholesale of magnetic supports)	ROME (ITALY)	EUR	90,000	100.0000		GRUPPO BUFFETTI S.p.A.
SK DIRECT S.r.l. (graphic arts)	ROME (ITALY)	EUR	1,570,507	100.0000		GRUPPO BUFFETTI S.p.A.

Telecom Italia Group

List of associated and jointly controlled companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ARCHEO S.p.A. (in liquidation) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6499 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.

F-140

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
AVEA ILETISIM HIZMETLERI A.S. (mobile telephony operator)	ISTANBUL (TURKEY)	TRY	7,024,867,230,970,000	40.5647		TIM INTERNATIONAL N.V.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A.
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	REPUBLIC OF SAN MARINO	EUR	258,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CABLE INSIGNIA S.A. (in liquidation) (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	2,600,000,000	75.0000		TELECOM PERSONAL S.A.
CONSORZIO DREAM FACTORY (in liquidation) (promotion of new economy development in the weak areas of the country)	ROME (ITALY)	EUR	20,000	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	30,987	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO IRI TELEMATICA CALABRIA TELCAL (planning and development of the Piano Telematico Calabria project)	CATANZARO (ITALY)	EUR	877,975	24.0000		TELECOM ITALIA S.p.A.
CONSORZIO REISS FORM (training and consulting services for training and management)	ROME (ITALY)	EUR	51,646	50.0000		TELECOM ITALIA LEARNING SERVICES S.p.A.
	NAPLES	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.

CONSORZIO S.I.A.R.C. (in liquidation) (supply of information products and services)	(ITALY)				
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (professional training)	NAPLES (ITALY)	EUR	129,114	20.0000	TIM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,460	33.3333	TELECOM ITALIA S.p.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	HAVANA (CUBA)	USD	1,749,313,080	27.0030	TELECOM ITALIA INTERNATIONAL N.V.
IM.SER S.p.A. (real estate management)	TURIN (ITALY)	EUR	889,950	40.0000	TELECOM ITALIA S.p.A.
IN.VA. S.p.A. (information systems)	AOSTA (ITALY)	EUR	520,000	40.0000	TELECOM ITALIA S.p.A.
INTERCALL HELLAS (telecommunications services and sale of prepaid telephone cards)	ATHENS (GREECE)	EUR	496,696	29.4100	INTERCALL S.A.
ISCE Investors in Sapient & Cuneo Europe S.A. (investment company)	LUXEMBOURG	EUR	4,334,400	25.0000	TELECOM ITALIA MEDIA S.p.A.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ITALTEL HOLDING S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LI.SIT. LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information and TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.
LUNA ROSSA CHALLENGE 2007 S.L. (development, organization of sail race, America s Cup included)	VALENCIA (SPAIN)	EUR	4,000,000	49.0000		TELECOM ITALIA S.p.A.
LUNA ROSSA TRADEMARK s.a.r.l. (acquisition, maintenance, development of intellectual property)	LUXEMBOURG	EUR	20,000,000	49.0000		TELECOM ITALIA S.p.A.
MATERIAL CONNEXION MILANO S.r.l. (maintenance of software)	MILAN (ITALY)	EUR	100,000	20.0000		DOMUS ACADEMY S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROME (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A.
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	210,000	99.9900 0.0100		TELECOM ARGENTINA S.A. PUBLICOM S.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA LAB SA
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	MILAN (ITALY)	EUR	582,716	20.0000		TELECOM ITALIA S.p.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	78,633,050	51.0400	67.7883	SOFORA TELECOMUNICACIONES SA

NUCLEO S.A. (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	175,200,000,000	67.5000	TELECOM PERSONAL S.A.
OCN-TRADING S.r.l. (in liquidation) (trading company)	IVREA (TURIN ITALY)	EUR	40,800	40.0000	TELECOM ITALIA S.p.A.
OLITECNO S.A. DE C.V. (in liquidation) (manufacture and sale of products for the telecommunications industry)	MEXICO D.F. (MEXICO)	MXN	1,000,000	50.0000	OLIVETTI MEXICANA S.A. (in liquidation)
PERSEO S.r.l. (acquisition, sale, change, lease, administration and maintenance of registered real estate for every use and destination)	CASELLE TORINESE (TURIN ITALY)	EUR	20,000	50.0000	TELECOM ITALIA S.p.A.
PUBLICOM S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	16,000,000	99.9900 0.0100	TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
SHARED SERVICE CENTER SCARL (planning, design, installation running of computer services	MILAN (ITALY)	EUR	1,756,612	40.9090 4.5455 4.5455	TELECOM ITALIA S.p.A. OLIVETTI S.p.A. TIM ITALIA S.p.A.

F-142

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
SIEMENS INFORMATICA S.p.A. (supply of innovating solutions in the field of electronic and mobile business)	MILAN (ITALY)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
SOLPART PARTICIPACOES S.A. (holding company for investment in Brasil Telecom Participaçoes S.A.)	RIO DE JANEIRO (BRAZIL)	BRL	1,657,200,000	38.0000		TELECOM ITALIA INTERNATIONAL N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	4,083,330	31.0345		TELECOM ITALIA S.p.A.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54.7364		NORTEL INVERSORA S.A.
TELECOM ARGENTINA USA INC. (telecommunications services)	DELAWARE (USA)	USD	219,973	100.0000		TELECOM ARGENTINA S.A.
TELECOM PERSONAL S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	310,514,481	99.9923 0.0077		TELECOM ARGENTINA S.A. PUBLICOM S.A.
TELEGONO S.r.l. (real estate management)	ROME (ITALY)	EUR	1,000,000	40.0000		TELECOM ITALIA S.p.A.
TELELEASING LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (financial leasing of real estate and other assets)	MILAN (ITALY)	EUR	9,500,000	20.0000		SAIAT SOCIETA ATTIVITA INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (real estate management)	MILAN (ITALY)	EUR	14,185,288	49.4707		TELECOM ITALIA S.p.A.
UBA- NET S.A. (in liquidation) (teleteaching systems)	BUENOS AIRES (ARGENTINA)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidation)

WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000	HANSENET TELEKOMMUNIKATION GmbH

Telecom Italia Group

Other significant investments in accordance with Consob resolution No. 11971 dated May 14, 1999

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
ATESIA- Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROME (ITALY)	EUR	3,150,406	19.9000		TELECOM ITALIA S.p.A.
CEFRIEL S.r.l. (updating and research in the sector of electronics engineering)	MILAN (ITALY)	EUR	100,000	5.8000 5.8000		TELECOM ITALIA S.p.A. TIM ITALIA S.p.A.
CELL-TEL S.p.A. (telecommunications equipment, installations and systems)	IVREA (TURIN ITALY)	EUR	500,000	15.0000		OLIVETTI S.p.A.

F-143

Table of Contents

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
FIN.PRIV. S.r.l. (financing)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INNOVIS S.p.A. (computer, online and telecommunications equipments and services)	IVREA (TURIN ITALY)	EUR	325,000	15.0000		OLIVETTI S.p.A.
INSULA S.p.A. (telecommunications services)	VENICE-MESTRE (ITALY)	EUR	2,064,000	12.0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (Internet services)	LOS ANGELES (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
LEISURE LINK HOLDINGS ltd (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
LOCATIONET SYSTEM Ltd (development of middle-ware platform for the supply of location services)	NETANYA (ISRAEL)	NIS	0	12.9700		TELECOM ITALIA LAB S.A.
OGER TELECOM LIMITED (holding company)	DUBAY (UNITED ARAB EMIRATES)	USD	1,500,000,000	13.3300		TIM INTERNATIONAL N.V.
PAS GROUP Professional Application Software S.r.l. (software production)	MILAN (ITALY)	EUR	91,800	16.6700		EUSTEMA S.p.A.
PIEDMONT INTERNATIONAL S.A. (financing)	LUXEMBOURG	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,129,484	13.6500		OLIVETTI S.p.A
TWICE SIM S.p.A. (investment services)	MILAN (ITALY)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.

USABLENET INC (development of software for the analysis of web site usability)	DELAWARE (USA)	USD	4	18.1081	TELECOM ITALIA LAB SA
WAVEMARKET INC. (holding company)	DELAWARE (USA)	USD	25,183	11.0100	SATURN VENTURE PARTNERS LLC

NOTE 42 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Until the end of 2004, Telecom Italia prepared its consolidated financial statements and other interim information (including quarterly and six-month data) in accordance with Italian generally accepted accounting principles (Italian GAAP).

Beginning from the year 2005, Telecom Italia prepares its interim consolidated financial statements and annual consolidated financial statements in accordance with IFRS. Beginning from the year 2006, Telecom Italia will also prepare its Italian statutory financial statements in accordance with these same standards.

Given the Recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 containing guidelines for companies listed within the EU regarding the transition to IFRS, the information required by IFRS 1 is provided. Such information regards the impact that the conversion to International Financial Reporting Standards (IFRS) has as of and for the year ended December 31, 2004, on the consolidated financial position, the consolidated statements of operations and cash flows presented.

The footnotes describe the basis of transition for the first-time application of IFRS (IFRS 1) and the other IFRS elected, including the assumptions made by the directors on the IFRS standards and interpretations in force and on the accounting policies adopted for the preparation of the first complete financial statements in accordance with IFRS at December 31, 2005.

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

In particular, adjustments have been made to conform with IFRS in effect as of December 31, 2005 and which have been used for preparation of the opening balance sheet at January 1, 2004 and the consolidated financial statements prepared in accordance with IFRS at December 31, 2004.

The accounting statements and the reconciliations have been prepared solely for purpose of preparing the first complete consolidated financial statements in accordance with IFRS.

For purposes of the presentation of the effects of the transition to IFRS and to satisfy the rules for disclosure indicated in paragraphs 39 a) and b) and 40 of IFRS 1 of the effects of the first-time application of IFRS, the Telecom Italia Group has followed the example contained in paragraph IG 63 of IFRS 1.

The effects of the transition to IFRS are the result of changes in accounting principles and, consequently, as required by IFRS 1 are reflected in the opening shareholders equity at the date of transition (January 1, 2004). In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IFRS has required the calculation of estimates in accordance with different methods.

RULES FOR THE FIRST-TIME ADOPTION, ACCOUNTING OPTIONS ELECTED IN THE IFRS FIRST-TIME ADOPTION AND IFRS SELECTED BY THE TELECOM ITALIA GROUP

The restatement of the opening consolidated balance sheet at January 1, 2004 and of the consolidated financial statements for the year ended December 31, 2004 has also required the Telecom Italia Group to elect the following options among those provided by IFRS:

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

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

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

  share-based payments: the Group has chosen to apply the exemptions allowed in IFRS 1, paragraph 25 B, and has therefore not applied IFRS 2 to stock options plans granted before November 7, 2002, partly in view of the fact that there were no changes in the terms and conditions of those plans;

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

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

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

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

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

The election of the above options was mainly dictated by the simplicity of their application exception for the Classification and measurement of financial instruments and the Designation date of financial instruments as instruments at fair value through profit or loss or as available for sale for which early adoption at January 1, 2004 was elected (instead of January 1, 2005) to correspond with the transition date to IFRS;

- **accounting treatments selected from the accounting options provided by IFRS**:

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

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

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

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

accounting for interests in joint ventures in the consolidated financial statements: in accordance with IAS 31, interests in joint ventures may be accounted for by using the equity method or, alternatively, using the proportionate consolidation method. The Telecom Italia Group has elected to adopt the equity method.

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

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

Opening balance sheet as of January 1, 2004:

	Italian GAAP	IFRS Adjustments	IFRS
		(millions of Euro)	
Shareholders equity:			
• Shareholders equity attributable to the Group	16,092	163	16,255
• Shareholders equity attributable to Minority interests	4,497	32	4,529
Total	**20,589**	**195(*)**	**20,784**

(*) Following the publishing of the Operating guide for the transition to the IFRS international accounting standards by the O.I.C in October 2005, the amounts due from shareholders for subscribed capital unpaid of 4 million at January 1, 2004 were reversed from assets and recorded directly as a deduction of Shareholders equity attributable to the Group.

Consolidated financial statements as of December 31, 2004:

	Italian GAAP	IFRS Adjustments	IFRS
		(millions of Euro)	
Shareholders equity:			
• Shareholders equity attributable to the Group	15,172	1,076	16,248
• Shareholders equity attributable to Minority interests	4,689	(139)	4,550
Total	**19,861**	**937(*)**	**20,798**
Net income:			
• attributable to the Group	781	1,034	1,815
• attributable to Minority interests	1,121	(102)	1,019
Total	**1,902**	**932**	**2,834**

(*) Following the publishing of the Operating guide for the transition to the IFRS international accounting standards by the O.I.C in October 2005, the amounts due from shareholders for subscribed capital unpaid of 45 million at December 31, 2004 were reversed from assets and recorded for 3 million directly as a deduction of Shareholders equity attributable to the Group and for 42 million directly as a deduction of Shareholders equity attributable to Minority interests.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

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

	Shareholders equity at January 1, 2004	Shareholders equity at December 31, 2004	Net income for the year 2004
		(millions of Euro)	
TOTAL AMOUNT (ATTRIBUTABLE TO THE GROUP AND THE MINORITY INTERESTS) ACCORDING TO ITALIAN GAAP	**20,589**	**19,861**	**1,902**
less: minority interests	**(4,497)**	**(4,689)**	**(1,121)**
ATTRIBUTABLE TO THE GROUP ACCORDING TO ITALIAN GAAP	**16,092**	**15,172**	**781**
ADJUSTMENTS TO ITEMS OF THE STATEMENT OF OPERATIONS ACCORDING TO ITALIAN GAAP:			
1) goodwill and differences on consolidation		1,549	1,549
2) scope of consolidation	141	78	(46)
3) factoring transactions			
4) sale and lease back of properties	(199)	(290)	(91)
5) reserves for risks and future charges	340	(1)	(318)
6) notes and bonds (including convertible and exchangeable notes and bonds)	489	406	(83)
7) derivative financial instruments	(65)	(283)	(17)
8) treasury stock	(393)	(393)	
9) revenue recognition	(320)	(530)	(210)
10) deferred tax assets	240	190	(50)
11) land	86	91	5
12) employee severance indemnities	80	70	(10)
13) derecognition of start-up and expansion costs	(86)	(61)	32
14) value adjustments to tangible and intangible assets produced within the Group	(110)	(83)	27
15) restoration costs	(68)	(111)	(43)
16) equity investments in listed companies and call options on shares measured at fair value	79	122	2
17) Reversal of amounts due from shareholders for subscribed capital unpaid	(4)	(45)	
Other	(15)	(88)	(57)
Tax effect on items in reconciliation		316	242
Items in reconciliation attributable to minority interests	(32)	139	102
AMOUNT ATTRIBUTABLE TO THE GROUP ACCORDING TO IFRS	**16,255**	**16,248**	**1,815**

The individual adjustments are presented in the table before taxes and minority interests; the tax effects on the reconciliation items and the reconciliation items attributable to minority interests are shown as two separate adjustment items. Moreover, the amounts relating to the effects on assets, liabilities, expenses and revenues presented in the comments on the aforementioned adjustments include the corresponding amounts related to discontinued operations/assets held for sale which, under IFRS 5, in the balance sheets at January 1, 2004 and December 31, 2004, have been classified separately and grouped in the captions Discontinued operations/assets held for sale and Liabilities relating to discontinued operations/assets held for sale and in the statement of operations in the caption Net income (loss) from discontinued operations/assets held for sale .

Table of Contents

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

Following is a description of the principal IFRS adjustments (described above) made to the Italian GAAP amounts:

1) **goodwill and differences on consolidation**: such items are no longer amortized systematically in the statement of operations but are subject to a test, carried out at least annually, to an impairment test. To this end, cash-generating units have been identified to which the relative goodwill has been allocated. Impairment tests were carried out which confirmed the amounts recorded under Italian GAAP.

The impact of the application of IFRS 3 is an increase in total net income for the year 2004 (and therefore total shareholders equity at December 31, 2004) of 1,549 million (of which 1,525 million attributable to the Group) 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 Special Purpose Entities (SPEs) set up for specific transactions. Furthermore, the line-by-line consolidation of controlling equity investments also determined the elimination of the holdings classified in current assets. Consequently, this principally resulted in: (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 the securitization transactions) to which receivables are sold and for whose financial needs securities are issued that are subscribed to by third-party investors; and (iii) the consolidation of companies in a wind-up.

Moreover, as part of the corporate integration of Telecom Italia and TIM, on December 21, 2004, Telecom Italia concluded an agreement, called Confirmation of Share Basket Option Transaction for the purchase of call options and the sale of put options, both up to a maximum number of 25 million, each having an underlying basket of shares composed of 2 TIM ordinary shares and 1 TIM savings share. The exercise price is equal to 5.57 for each ordinary and savings share. On February 3, 2005, Telecom Italia exercised the call options on 21 million TIM savings shares for a total outlay of 117 million.

On February 8, 2005, the counterparty exercised the put option rights and thus on February 11, 2005, Telecom Italia purchased 42 million TIM ordinary shares for a total outlay of 234 million. The irrevocable commitment which arose at the end of 2004 to purchase the above-mentioned TIM shares in the early months of 2005 determines, for IFRS purposes, the consolidation of a further equity interest in TIM at December 31, 2004 with the consequent recording of a financial liability equal to the total outlay of 351 million and the booking of additional goodwill of 294 million. This accounting treatment thus has the following impact:

- *at January 1, 2004*: an increase in total shareholders equity of 141 million (of which 178 million is attributable to the Group) owing to the consolidation of TIM shares (and the consequent booking of differences on consolidation in intangible assets) and an increase in net financial debt of 799 million owing to the consolidation of TISV;

- *at December 31, 2004*: an increase in total shareholders equity of 78 million due mainly to the consolidation of the TIM shares referring to the above put/call options and an increase in the net financial debt of 1,079 million of which 728 million is due to the consolidation of TISV and 351 million relative to the put/call options on TIM shares.

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

3) **factoring transactions**: the adoption of IAS 39 and in particular the provisions concerning the derecognition of financial assets (receivables) results in a more restrictive interpretation of the requirements for the recognition of the sale of receivables without recourse (for IFRS purposes, the sale is recognized on condition that all the risks and rewards have substantially been transferred). Accordingly, the receivables sold are added back to the assets and the consideration collected is booked as an advance received.

   This treatment has the following impact:

   - *at January 1, 2004*: an increase in the net financial debt of 351 million attributable to the recording of a short-term financial payable (advance received) of 351 million, with an increase in trade receivables for the same amount;

   - *at December 31, 2004*: an increase in the net financial position of 760 million attributable to a short-term financial payable (advance received) of 760 million, with an increase in trade receivables for the same amount;

4) **sale and leaseback of properties**: some transactions for the sale of properties carried out by the Telecom Italia Group in prior years have been recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in

the balance sheet, entries are made in the assets for the assets sold and leased back and, in the liabilities, for the residual payable. In the statement of operations, entries are made for the depreciation charge and interest expense instead of the lease payments whereas the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact for the Telecom Italia Group:

- *at January 1, 2004*: a decrease in total shareholders equity of 199 million (entirely attributable to the Group), before a positive tax effect of 39 million. Such effects have come from an increase in tangible assets (buildings) of 1,363 million, an increase in financial payables of 1,651 million (including deferred gains), an increase in deferred tax assets (net of the reserve for deferred taxes) of 39 million and a decrease of 89 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties;

F-150

- *at December 31, 2004*: a decrease in total shareholders equity, entirely attributable to the Group, of 290 million (before a positive tax effect of 70 million), of which 91 million is attributable to a reduction in the net income for the year before tax. Such effects came from an increase in tangible assets (buildings) of 1,282 million, an increase in financial payables of 1,603 million (with a consequent increase in the net financial debt by the same amount), an increase in deferred tax assets (net of the reserve for deferred taxes) of 70 million, and a decrease of 31 million in the deferred income recorded under Italian GAAP for the deferral of the gains not yet realized with third parties. The negative effect on 2004 net income of 91 million, before a tax effect of 31 million, came from a decrease in operating expenses of 106 million (including 187 million for the reversal of the lease payments that were partly compensated by an increase of 81 million for higher depreciation of the assets leased), an increase in net financial expenses of 139 million and the reversal of the gains previously deferred and credited to the statement of operations in 2004 for 58 million;

5) **reserves for risks and future charges**: the recognition of these liabilities, in accordance with IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that are expected to be paid beyond 12 months. In particular, the 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 IFRS financial statements at December 31, 2004, causes a reduction of net income as a consequence of the reversal of the releases to the statement of operations of the reserves for risks and charges recorded in 2004 under Italian GAAP.

Such impact can be summarized as follows:

- *at January 1, 2004*: an increase in total shareholders equity of 340 million (of which 225 million attributable to the Group), before a negative tax effect of 101 million (60 million attributable to the Group), to derecognize certain reserves for risks and charges not recognized under IFRS and for the discounting of the other reserves with maturities due beyond 12 months;

- *at December 31, 2004*: a decrease in total shareholders equity of 1 million, including a decrease in total net income of 318 million (of which 200 million attributable to the Group) before a positive tax effect of 102 million, caused by an increase in operating expenses of 318 million (mainly for the reversal of the releases of the reserves recorded during the year) and a reduction in income taxes of 102 million;

6) **notes and bonds (including convertible and exchangeable notes and bonds)**: in accordance with Italian GAAP, bonds (including convertible or exchangeable bonds) are recorded at the residual nominal amount (principal); an any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the note/bond period.

Under IFRS, notes and 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. The amount of compound financial instruments (convertible or exchangeable notes/bonds), under IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular:

- for *notes and 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 *notes and 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 operations) at the end of each period.

These recording methods have the following impact:

- *at January 1, 2004*: a decrease in the net financial debt of 425 million and an increase in total shareholders equity of 489 million (of which 488 million attributable to the Group), before a negative tax effect of 157 million, including 175 million of deferred taxes on the equity component relative to Telecom Italia 2001 2010 convertible notes. The decrease in debt is principally due to the reclassification of the part of the liability related to convertible notes to 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 notes from the reserves for risks and future charges to financial liabilities;

- *at December 31, 2004*: a decrease in the net financial debt of 280 million and an increase in total shareholders equity of 406 million (405 million attributable to the Group), before a negative tax effect of 133 million, including 175 million of deferred taxes on the equity component relative to the Telecom Italia 2001 2010 convertible notes. The decrease in shareholders equity is due to a reduction in pre-tax income of 83 million (entirely attributable to the Group) mainly as a result of the application of the amortized cost method. The decrease in the net financial position is principally due to the reclassification of the part of the liability related to convertible notes/bonds to 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 notes from the reserves for risks and future 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 operations;

- 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 operations in the years in which the cash flows of hedged items will affect the statement of operations;

- derivative financial instruments for managing interest rate and foreign exchange risks, which do not meet the formal conditions for hedge accounting according to IFRS, are recorded in the balance sheet in financial assets/financial liabilities and the changes in value are recognized in the statements of operations.

The recognition in the financial statement of derivative financial instruments at fair value has the following impact:

- *at January 1, 2004*: an increase in the net financial debt of 28 million (substantially attributable to cash flow hedges) and a reduction in total shareholders equity of 65 million, before a positive tax effect of 20 million (64 million attributable to the Group before a positive tax effect of 20 million);

- *at December 31, 2004*: an increase in the net financial debt of 303 million (substantially attributable to cash flow hedges) and a decrease in total shareholders equity of 283 million (attributable to the Group), before a positive tax effect of 106 million, and with a negative impact of 17 million on the pre-tax income (before a positive tax effect of 7 million);

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

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

- *at January 1, 2004*: a decrease in total shareholders equity of 320 million (of which 292 million attributable to the Group), before a positive tax effect of 108 million (of which 103 million attributable to the Group);

- *at December 31, 2004*: a decrease in total shareholders equity of 530 million (of which 486 million attributable to the Group), before a positive tax effect of 180 million (of which 172 million is relative to the Group); pre-tax income decrease of 210 million (of which 194 million attributable to the Group) before a positive tax effect of 71 million (of which 69 million attributable to the Group);

10) **deferred tax assets:** the recognition of deferred tax assets in accordance with IFRS, which were not recorded under Italian GAAP because the conditions of reasonable certainty were not met, has the following impact, under IFRS:

- *at January 1, 2004*: an increase in total shareholders equity of 240 million (entirely attributable to the Group) with the recognition of an asset for deferred taxes on the same amount;

- *at December 31, 2004*: an increase in total shareholders equity of 190 million (196 million attributable to the Group) with the recognition of an asset for deferred taxes of 205 million and also a negative impact of 50 million on total net income (of which 44 million attributable to the Group);

11) **land**: in accordance with Italian GAAP, land pertaining to buildings is depreciated together with the same buildings, while in accordance with IFRS it must be classified separately and no longer depreciated. This impact of this different accounting is as follows:

- *at January 1, 2004*: an increase in total shareholders equity of 86 million (85 million attributable to the Group), before a negative tax effect of 32 million (for the provision to the reserve for deferred taxes of the same amount), due to the increase of non-current tangible assets of 86 million for the reversal of the accumulated depreciation;

- *at December 31, 2004*: an increase in total shareholders equity of 91 million (entirely attributable to the Group) of which 6 million is relative to pre-tax income (entirely attributable to the Group) due to lower depreciation (before a negative tax effect of 1 million). In the balance sheet, non-current tangible assets increase by 91 million and a liability for deferred taxes is recognized for 34 million;

12) **employee severance indemnities**: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with statutory regulations. Under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Under IFRS, all actuarial gains and losses have been recognized at the date of transition to IFRS. The impact of this different accounting is as follows:

- *at January 1, 2004*: an increase in total shareholders equity of 80 million (of which 78 million attributable to the Group), before a negative tax effect of 25 million (for the provision to the reserve for deferred taxes of the same amount), due to a decrease in the reserve for employee severance indemnities of 80 million;

- *at December 31, 2004*: an increase in total shareholders equity of 70 million (67 million attributable to the Group) before a negative tax effect of 24 million (for the provision to the reserve for deferred taxes of the same amount), due to a decrease in the reserve for employee severance indemnities of 70 million. The total pre-tax income decreases by 10 million (entirely attributable to the Group) as a result of higher charges to the reserve for employee severance indemnities (before a positive tax effect of 3 million);

13) **derecognition of start-up and expansion costs:** in accordance with 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; and other start-up and expansion costs are charged to the statement of operations, since the requirements to recognize an intangible asset have not been met. This impact of the different accounting treatment is the following:

- *at January 1, 2004*: a decrease in total shareholders equity of 86 million (79 million attributable to the Group), before a positive tax effect of 13 million (for the recognition of deferred tax assets), due to a decrease in assets no longer capitalizable of 86 million;

- *at December 31, 2004*: a decrease in total shareholders equity of 61 million (55 million attributable to the Group) before a positive tax effect of 8 million (for the recognition of deferred tax assets), due to a decrease in assets no longer capitalizable of 61 million. The total pre-tax income increases by 32 million (29 million attributable to the Group) due to lower amortization, before a relative negative tax effect of 11 million;

14) **value adjustments to tangible and intangible assets produced within the Group:** the adjustment regards the elimination of intragroup gains on the disposal of tangible and intangible assets produced within the Group prior to 1994. The impact of these adjustments is the following:

- *at January 1, 2004*: a decrease in total shareholders equity of 110 million (attributable to the Group), before a positive tax effect of 41 million (for the recognition of an asset for deferred taxes) due to the reduction in assets of 110 million;

- *at December 31, 2004*: a decrease in total shareholders equity of 83 million (attributable to the Group), before a positive tax effect of 31 million (for the recognition of an assets for deferred taxes), due to the reduction in assets of 83 million. The pre-tax income increases by 27 million (attributable to the Group) due to lower depreciation and amortization, before a relative negative tax effect of 10 million;

15) **restoration costs**: under 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 at fair value in the period in which it arises in a balance sheet reserve under reserves for risks and future charges, with a contra-entry to the tangible assets with which it is associated; and the capitalized cost is recognized as an expense in the statement of operations by depreciation of the related tangible assets over their useful lives. The impact of the application of this accounting treatment is the following:

- *at January 1, 2004*: a decrease in total shareholders equity of 68 million (of which 51 million attributable to the Group), before a positive tax effect of 23 million;

- *at December 31, 2004*: a decrease in total shareholders equity of 111 million (of which 78 million attributable to the Group) before a positive tax effect of 35 million; the pre-tax income decreases by 43 million (of which 24 million attributable to the Group) due to higher depreciation, before a positive relative tax effect of 13 million (of which 8 million attributable to the Group);

16) **equity investments in listed companies and call options on shares measured at fair value:** in accordance with IFRS, investments in listed companies other than subsidiaries and associates are classified in available-for-sale

assets   or in   held for trading assets   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; and, optional derivatives have been classified   as assets held for trading   and recognized at fair value in the financial statements, with the relative value adjustments, through profit or loss. The impact of application of this method is the following:

- *at January 1, 2004*:   an increase in total shareholders   equity of   79 million (80 million attributable to the Group), before a positive tax effect of   1 million (2 million attributable to the Group);

- *at December 31, 2004*:   an increase in total shareholders   equity of   122 million (entirely attributable to the Group) which reflects an increase in pre-tax income of   2 million;

17) **derecognition of amounts due from shareholders for subscribed capital unpaid**: amounts due from shareholders for subscribed capital unpaid are derecognized. If related to shareholders of the Group, they are deducted from Shareholders equity attributable to the Group; and if related to minority shareholders of subsidiaries, they are deducted from minority interests. The application of this method has determined the following impact:

- *at January 1, 2004*: a decrease in the Shareholders equity attributable to the Group of 4 million;
- *at December 31, 2004*: a decrease in the Shareholders equity attributable to the Group of 3 million and shareholders equity attributable to Minority interests of 42 million.

Principal changes made to the statement of cash flows

The statement of cash flows prepared by the Telecom Italia Group up to the financial statements prepared for the year ended December 31, 2004 had the purpose of identifying the net financial requirements or surplus of the Group arising from the change in the net financial debt during the year, whereas the statement of cash flows as defined under IAS 7 tends to reflect the Telecom Italia Group s ability to generate cash and cash equivalents .

According to such principle, other cash equivalents represent highly-liquid short-term financial investments which can readily be converted into cash and which are subject to an irrelevant risk of a change in their value. Therefore, a financial investment is usually classified as a cash equivalent only when it is short term, that is, three months or less to maturity. Financial investments in shares do not fall in the category of cash equivalents.

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

IAS 7 requires the statement of cash flows to separately disclose cash flows attributable to operating, investing and financing activities, as follows:

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

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

cash flows attributable to financing activities: financing activities are flows that affect the amount and composition of shareholders equity and borrowings obtained.

Attached is the 2004 statement of cash flows prepared in accordance with IFRS.

	Year ended December 31, 2004
	(millions of Euro)
CASH FLOWS ATTRIBUTABLE TO OPERATING ACTIVITIES:	
Net income from continuing operations	2,876
Adjustments to reconcile net income from continuing operations with cash flows generated (used) by operating activities:	
Depreciation and amortization	5,134
Impairment (reversals)/losses on non-current assets (including equity investments)	637
Net change in deferred tax assets and liabilities	1,143
Capital (gains)/losses realized on disposal of non-current assets (including equity investments)	(106)
Share of earnings of equity investments in associates accounted for using the equity method	4
Change in employee severance indemnities and other employee-related reserves	(41)
Change in other operating assets/liabilities:	
Change in inventories	(26)
Change in trade receivables	109
Change in trade payables	1,091
Net change in miscellaneous receivables/payables and other assets/liabilities	(103)
CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)	**10,718**
CASH FLOWS ATTRIBUTABLE TO INVESTING ACTIVITIES:	
Acquisition of intangible assets	(1,935)
Acquisition of tangible assets	(3,389)
Acquisition of equity investments in subsidiaries and businesses, net of cash acquired(I)	(1)
Acquisition of other equity investments	(867)
Change in financial receivables and other financial assets	480
Consideration received on the sale of equity investments in subsidiaries, net of cash disposed of (II)	43
Consideration received on the sale of tangible, intangible and other non-current assets and capital reimbursements	457
CASH FLOWS USED BY INVESTING ACTIVITIES (B)	**(5,212)**
CASH FLOWS ATTRIBUTABLE TO FINANCING ACTIVITIES:	
Net change in current financial liabilities	1,155
New non-current financial liabilities (including current portion)	7,845
Repayment of non-current financial liabilities (including current portion)	(8,413)
Consideration received for equity instruments	193
Share capital increases/repurchases, net of related costs	51
Dividends paid to minority shareholders (distribution of reserves included)	(2,780)
CASH FLOWS USED BY FINANCING ACTIVITIES (C)	**(1,949)**
Cash flow used by discontinued operations/assets held for sale (D)	(65)
AGGREGATE CASH FLOWS (E=A+B+C+D)	**3,492**

NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)	**5,211**
Net effect of foreign currency translation on net cash and cash equivalents(G)	**(36)**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)	**8,667**

	Year ended December 31, 2004
	(millions of Euro)
ADDITIONAL CASH FLOW INFORMATION	
Income taxes paid	1,476
Interest expense paid	2,779
Interest income received	1,025
Dividends received	35

(I) Net of the change in payables as a result of the relative acquisitions.

(II) Net of the change in receivables as a result of the relative sales.

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS:

		Year ended December 31, 2004
		(millions of Euro)
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:		
Cash and cash equivalents from continuing operations		5,721
Adjustments to cash and cash equivalents to take into account discontinued operations/assets held for sale		(142)
		5,579
Cash and cash equivalents included in discontinued operations/assets held for sale		142
	(A)	**5,721**
Bank borrowings repayable on demand from continuing operations		(510)
Bank borrowings repayable on demand included in discontinued operations/assets held for sale		
	(B)	**(510)**
	(A+B)	**5,211**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:		
Cash and cash equivalents from continuing operations		8,855
Cash and cash equivalents included in discontinued operations/assets held for sale		80
	(C)	**8,935**
Bank borrowings repayable on demand from continuing operations		(249)
Bank borrowings repayable on demand included in discontinued operations/assets held for sale		(19)
	(D)	**(268)**
	(C+D)	**8,667**

CONSOLIDATED BALANCE SHEETS AS OF JANUARY 1, 2004 AND DECEMBER 31, 2004 ACCORDING TO IFRS CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED AT DECEMBER 31 2004 ACCORDING TO IFRS

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

- amounts according to Italian GAAP reclassified in accordance with IFRS presentation;
- adjustments to conform to IFRS; and
- adjusted amounts according to IFRS.

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

Reclassifications made to show the components making up discontinued operations/assets held for sale (only for the balance sheet at December 31, 2004 and the statement of operations for the year 2004) are shown separately, for the balance sheet components, in an asset caption (discontinued operations/assets held for sale) and in a liability caption (liabilities relating to discontinued operations/assets held for sale) and, for the statement of operations components, in a caption (net of taxes and minority interests) before the net income for the year 2004 (Net income (loss) from discontinued operations/assets held for sale).

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

CONSOLIDATED BALANCE SHEET AS OF JANUARY 1, 2004 (^)

	Italian GAAP reclassified		IFRS adjustments	IFRS
			(millions of Euro)	
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Goodwill and other intangible assets with an indefinite life	27,145	a)	327	27,472
Intangible assets with a finite life	6,571	b)	(86)	6,485
	33,716		**241**	**33,957**
Tangible assets				
Property, plant and equipment owned	18,149	c)	253	18,402
Assets held under finance leases	313	d)	1,433	1,746
	18,462		**1,686**	**20,148**
Other non-current assets				
Equity investments	1,863	e)	(427)	1,436
Securities and financial receivables	517	(*)	(240)	277
Miscellaneous receivables and other non-current assets	474	f)	460	934
	2,854		**(207)**	**2,647**
Deferred tax assets	**5,013**	**g)**	**243**	**5,256**
TOTAL NON-CURRENT ASSETS (A)	**60,045**		**1,963**	**62,008**
Current Assets:				
Inventories	321	h)	3	324
Trade and miscellaneous receivables and other current assets	10,122	i)	1,201	11,323
Equity investments	878	l)	(166)	712
Securities other than equity investments	1,987	(*)	(1,334)	653
Financial receivables and other current financial assets	1,427	(*)	(291)	1,136
Cash and cash equivalents	5,721	(*)		5,721
Current Assets sub-total	**20,456**		**(587)**	**19,869**
Discontinued operations/assets held for sale:				
of a financial nature		(*)		
of a non-financial nature				
TOTAL CURRENT ASSETS (B)	**20,456**		**(587)**	**19,869**

TOTAL ASSETS (A+B)	**80,501**		**1,376**	**81,877**
SHAREHOLDERS EQUITY				
Attributable to the Group	16,092		163	16,255
Attributable to Minority interests	4,497		32	4,529
TOTAL SHAREHOLDERS EQUITY (C)	**20,589**		**195**	**20,784**
Non-current liabilities:				
Non-current financial liabilities	30,915	(*)	825	31,740
Employee severance indemnities and other employee-related reserves	1,373	m)	(102)	1,271
Reserve for deferred taxes	252	n)	3	255
Reserves for risks and future charges	1,197	o)	(243)	954
Miscellaneous payables and other non-current liabilities	1,780	p)	706	2,486
TOTAL NON-CURRENT LIABILITIES (D)	**35,517**		**1,189**	**36,706**
Current Liabilities:				
Current financial liabilities	11,879	(*)	(252)	11,627
Trade payables, tax payables, miscellaneous payables and other current liabilities	12,516	q)	244	12,760
Current liabilities sub-total	**24,395**		**(8)**	**24,387**
Liabilities relating to discontinued operations/assets held for sale				
of a financial nature		(*)		
of a non-financial nature				
TOTAL CURRENT LIABILITIES (E)	**24,395**		**(8)**	**24,387**
TOTAL LIABILITIES (F=D+E)	**59,912**		**1,181**	**61,093**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES (C+F)	**80,501**		**1,376**	**81,877**

(^) The balance sheet data has been prepared in accordance with IFRS in force at December 31, 2005.

(*) Item included in net financial debt.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2004 (^)

	Italian GAAP reclassified		IFRS adjustments	IFRS including discontinued operations / assets held for sale	Discontinued operations/ assets held for sale Finsiel group - Corporacion Digitel	IFRS
			(millions of Euro)			
ASSETS						
NON-CURRENT ASSETS						
Intangible assets						
Goodwill and other intangible assets with an indefinite life	25,641	a)	1,978	27,619	(160)	27,459
Intangible assets with a finite life	6,897	b)	(61)	6,836	(62)	6,774
	32,538		**1,917**	**34,455**	**(222)**	**34,233**
Tangible assets						
Property, plant and equipment owned	17,846	c)	162	18,008	(155)	17,853
Assets held under finance leases	207	d)	1,446	1,653		1,653
	18,053		**1,608**	**19,661**	**(155)**	**19,506**
Other non-current assets						
Equity investments	1,457	e)	(374)	1,083	(19)	1,064
Securities and financial receivables	557	(*)	(173)	384	9	393
Miscellaneous receivables and other non-current assets	329	f)	568	897	(16)	881
	2,343		**21**	**2,364**	**(26)**	**2,338**
Deferred tax assets	**3,706**	g)	**455**	**4,161**	**(47)**	**4,114**
TOTAL NON-CURRENT ASSETS (A)	**56,640**		**4,001**	**60,641**	**(450)**	**60,191**
Current Assets:						
Inventories	339	h)	1	340	(6)	334
Trade and miscellaneous receivables and other current assets	9,231	i)	1,412	10,643	(488)	10,155
Securities other than equity investments	604	(*)	(147)	457		457
Financial receivables and other current financial assets	904	(*)	(239)	665	(3)	662
Cash and cash equivalents	8,891	(*)	21	8,912	(57)	8,855
Current Assets sub-total	**19,969**		**1,048**	**21,017**	**(554)**	**20,463**
Discontinued operations/assets held for sale:						
of a financial nature		(*)			84	84
of a non-financial nature					1,096	1,096
					1,180	**1,180**

TOTAL CURRENT ASSETS (B)	**19,969**		**1,048**	**21,017**	**626**	**21,643**
TOTAL ASSETS (A+B)	**76,609**		**5,049**	**81,658**	**176**	**81,834**
SHAREHOLDERS EQUITY						
Attributable to the Group	15,172		1,076	16,248		16,248
Attributable to Minority interests	4,689		(139)	4,550		4,550
TOTAL SHAREHOLDERS EQUITY (C)	**19,861**		**937**	**20,798**		**20,798**
Non-current liabilities:						
Non-current financial liabilities	36,937	(*)	1,889	38,826	(101)	38,725
Employee severance indemnities and other employee-related reserves	1,369	m)	(77)	1,292	(70)	1,222
Reserve for deferred taxes	225	n)	(51)	174	(4)	170
Reserves for risks and future charges	831	o)		831	(16)	815
Miscellaneous payables and other non-current liabilities	1,458	p)	746	2,204	(5)	2,199
TOTAL NON-CURRENT LIABILITIES (D)	**40,820**		**2,507**	**43,327**	**(196)**	**43,131**
Current Liabilities:						
Current financial liabilities	3,393	(*)	1,061	4,454	(54)	4,400
Trade payables, tax payables, miscellaneous payables and other current liabilities	12,535	q)	544	13,079	(346)	12,733
Current Liabilities sub-total	**15,928**		**1,605**	**17,533**	**(400)**	**17,133**
Liabilities relating to discontinued operations/assets held for sale:						
of a financial nature		(*)			188	188
of a non-financial nature					584	584
					772	**772**
TOTAL CURRENT LIABILITIES (E)	**15,928**		**1,605**	**17,533**	**372**	**17,905**
TOTAL LIABILITIES (F=D+E)	**56,748**		**4,112**	**60,860**	**176**	**61,036**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES (C+F)	**76,609**		**5,049**	**81,658**	**176**	**81,834**

(^) The balance sheet data has been prepared in accordance with IFRS in force at December 31, 2005.

(*) Item included in net financial debt.

F-159

Table of Contents

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2004 (^)

	Italian GAAP reclassified		IFRS adjustments	IFRS including discontinued operations /assets held for sale	Discontinued operations / assets held for sale Finsiel group Corporacion Digitel	IFRS
			(millions of Euro)			
Revenues	31,231	a)	(146)	31,085	(795)	30,290
Other income	1,158	b)	(30)	1,128	(23)	1,105
Total operating revenues and other income	**32,389**		**(176)**	**32,213**	**(818)**	**31,395**
Purchases of materials and external services	(13,339)	c)	(109)	(13,448)	437	(13,011)
Personnel costs	(4,285)	d)	(5)	(4,290)	278	(4,012)
Other operating expenses	(1,684)	e)	(43)	(1,727)	33	(1,694)
Changes in inventories	31		(1)	30	(1)	29
Capitalized internal construction costs	742		(4)	738	(21)	717
Depreciation and amortization	(6,646)	f)	1,451	(5,195)	61	(5,134)
Gains/losses realized on non-current assets (I)	(10)		(2)	(12)	1	(11)
Impairment losses /reversals on disposal of non-current assets	(641)	g)	(21)	(662)	27	(635)
OPERATING INCOME	**6,557**		**1,090**	**7,647**	**(3)**	**7,644**
Share of earnings of equity investments accounted for using the equity method	(11)		8	(3)	(1)	(4)
Financial income	1,705	h)	553	2,258	(35)	2,223
Financial expenses	(3,408)	h)	(911)	(4,319)	51	(4,268)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**4,843**		**740**	**5,583**	**12**	**5,595**
Income taxes	(2,941)	i)	192	(2,749)	30	(2,719)
NET INCOME FROM CONTINUING OPERATIONS	**1,902**		**932**	**2,834**	**42**	**2,876**
Net income (loss) from discontinued operations/assets held for sale					(42)	(42)
NET INCOME	**1,902**		**932**	**2,834**		**2,834**
Of which:	*781*		*1,034*	*1,815*		*1,815*
	1,121		*(102)*	*1,019*		*1,019*

* *Net income attributable to the Group*	
* *Net income attributable to Minority interests*	

(^) The statement of operations data has been prepared in accordance with IFRS in force at December 31, 2005.

(I) Excludes capital gains/losses realized on the sale of equity investments classified as discontinued operations/assets held for sale and equity investments other than in subsidiaries.

COMMENTS TO THE PRINCIPAL IFRS ADJUSTMENTS MADE TO THE BALANCE SHEETS AS OF JANUARY 1, 2004 AND DECEMBER 31, 2004 AND THE STATEMENT OF OPERATIONS FOR THE YEAR 2004

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

The effects of the changes relating to the financial assets and liabilities included in the net financial position are presented in the relative reconciliation.

Adjustments to the consolidated balance sheet Assets

a) *goodwill and other intangible assets with an indefinite life* ; these adjustments refer to:

- at January 1, 2004 (an increase of 327 million) recognition of additional goodwill following the consolidation of TIM shares classified in accordance with Italian GAAP in current assets (see adjustment No. 2);

- at December 31, 2004 (an increase of 1,978 million) principally the reversal of amortization of goodwill of 1,554 million (see adjustment No. 1), recognition of additional goodwill of 149 million on consolidation of the aforementioned TIM shares classified in accordance with Italian GAAP in current assets, and goodwill of 295 million for the acquisition of TIM shares under the irrevocable purchase commitment connected with the put/call option (see adjustment No. 2);

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

c) *property, plant and equipment owned*; these adjustments (253 million at January 1, 2004 and an increase of 162 million at December 31, 2004) principally regard:

- the elimination of the accumulated depreciation of land pertaining to buildings, equal to 84 million at January 1, 2004 and 91 million at December 31, 2004, which must be separated from the buildings and no longer depreciated, in accordance with IFRS (see adjustment No. 11);

- the capitalization of restoration costs of 213 million at January 1, 2004 and 263 million at December 31, 2004 (see adjustment No. 15);

-

the elimination of intragroup gains on tangible assets produced within the Group with the consequent decrease in the amount of these same assets of 60 million at January 1, 2004 and 83 million at December 31, 2004 (see adjustment No. 14);

- the elimination of monetary revaluations made to tangible assets of the Entel Chile group of 25 million at December 31, 2004;

d) *assets held under finance leases* (an increase of 1,433 million at January 1, 2004 and an increase of 1,446 million at December 31, 2004); these adjustments principally regard:

- the recognition of 1,363 million at January 1, 2004 and 1,282 million at December 31, 2004, in non-current assets of buildings subject to sale and leaseback transactions in prior years since they have the characteristics of finance leases (see adjustment No. 4);

- the recognition of 70 million at January 1, 2004 and 58 million at December 31, 2004, in non-current assets of tangible assets under finance lease contracts;

e) *equity investments* (non-current) (a decrease of 427 million at January 1, 2004 and a decrease of 374 million at December 31, 2004); these adjustments principally regard:

- the reversal of treasury stock of 393 million at January 1, 2004 and at December 31, 2004, which is accounted for as a reduction of shareholders equity in accordance with IFRS (see adjustment No. 8);

- the adjustment to fair value of equity investments in companies other than subsidiaries and associates of 15 million at January 1, 2004 and 55 million at December 31, 2004 (see adjustment No. 16);

f) *miscellaneous receivables and other non-current assets* (an increase of 460 million at January 1, 2004 and an increase of 568 million at December 31, 2004); these adjustments principally regard:

- the recognition of prepaid expenses related to the deferral of costs associated with the recognition of revenues (see adjustment No. 9) of 560 million at January 1, 2004 and 496 million at December 31, 2004;

- the reversal of expenses on notes and bonds as a result of the application of the amortized cost method to financial liabilities of 136 million at January 1, 2004 and 107 million at December 31, 2004;

- the recognition at fair value of derivative financial instruments (see adjustments Nos. 7 and 16) of 67 million at January 1, 2004 and 60 million at December 31, 2004;

g) *deferred tax assets* (an increase of 243 million at January 1, 2004 and an increase of 455 million at December 31, 2004); these adjustments regard the contra-entry in assets of the tax effect on the items in reconciliation as well as the recognition of deferred tax assets that were not recorded under Italian GAAP because the requirement of reasonable certainty was not met (see adjustment No. 10);

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

i) *trade and miscellaneous receivables and other current assets* (an increase of 1,201 million at January 1, 2004 and an increase of 1,412 million at December 31, 2004); these adjustments principally regard:

- the re-recognition of trade receivables and miscellaneous receivables sold through factoring transactions that are not recognized under IFRS (see adjustment No. 3) of 351 million at January 1, 2004 and 760 million at December 31, 2004;

- the re-recognition of trade receivables sold through securitization transactions that are not recognized under IFRS (see adjustment No. 2) of 799 million at January 1, 2004 and 728 million at December 31, 2004;

l) *equity investments* (a decrease of 166 million at January 1, 2004); this adjustment regards the reversal of TIM shares, following their consolidation, recorded in accordance with Italian GAAP in current assets (see adjustment No. 2).

Adjustments to the consolidated balance sheet Liabilities

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

n) *reserve for deferred taxes* (an increase of 3 million at January 1, 2004 and a decrease of 51 million at December 31, 2004); these adjustments regard the contra-entry in liabilities for the tax effect on items in reconciliation;

o) *reserves for risks and future charges* (a decrease of 243 million at January 1, 2004 and no impact at December 31, 2004); these adjustments principally regard:

- the derecognition of certain reserves due to the absence of the requirements necessary for their recognition (actual, legal or constructive obligation) of 276 million at January 1, 2004 and 68 million at December 31, 2004;

- the provision to the reserve for restoration costs (see adjustment No. 15) of 281 million at January 1, 2004 and 378 million at December 31, 2004;

- the reclassification to financial liabilities of the portion of the repayment premium due on the exchangeable notes Telecom Italia Finance 2001-2006 of 218 million at January 1, 2004 and 264 million at December 31, 2004;

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

q) *trade payables, tax payables, miscellaneous payables and other current liabilities* (an increase of 244 million at January 1, 2004 and an increase of 544 million at December 31, 2004); these adjustments principally regard deferred income for the deferral of revenues on the activation of Telecom Italia telephone service and revenues on the recharge of TIM prepaid cards.

Adjustments to the consolidated statement of operations for the year 2004

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

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

c) *purchases of materials and external services* (an increase of 109 million): these adjustments principally regard:

- as a decrease, the reversal of financial lease payments relating to the sale and leaseback transactions on buildings, equal to 187 million (see adjustment No. 4), and to financial lease transactions on tangible assets, equal to 32 million;

- as an increase, the reversal of 224 million, of the release of certain reserves for risks and future charges (not recognized under IFRS) recorded in the statement of operations in the year 2004 under Italian GAAP (see adjustment No. 5) and the effect of deferring the costs related to the revenues for the activation of telephone service and the recharge of prepaid cards for an increase of 113 million (see adjustment No. 9);

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

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

f) *depreciation and amortization* (a decrease of 1,451 million): these adjustments principally reflect:

- as a decrease, the reversal of 1,559 million for goodwill amortization (see adjustment No. 1), lower depreciation of 26 million, in connection with the elimination of intragroup gains (see adjustment No. 14) and the reversal of depreciation of 6 million relating to the land pertaining to the buildings (see adjustment No. 11);

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

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

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

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

Table of Contents

NOTE 43 RECONCILIATION OF IFRS AS ADOPTED BY THE EU TO U.S. GAAP

The Consolidated Financial Statements of the Group have been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in the United States (U.S. GAAP).

Application of U.S. GAAP would have affected net profit for each of the years ended December 31, 2004 and 2005 and shareholders equity as of December 31, 2004 and 2005 to the extent described below.

		Year ended December 31,	
		2004	**2005**
		(millions of Euro)	
RECONCILIATION OF NET INCOME FROM IFRS TO U.S. GAAP			
Net income as reported in the consolidated statements of operations		2,834	3,690
Minority interests		(1,019)	(474)
Net income attributable to the Group under IFRS	**A)**	**1,815**	**3,216**
U.S. GAAP reconciling adjustments:			
1. Business combinations prior to the adoption of IFRS:			
(a) Goodwill and other intangible assets with an indefinite life			
(b) Other intangible assets		(1,026)	(824)
(c) Tangible assets		48	(402)
(d) Other		136	253
		(842)	(973)
2. Purchase method of accounting related to TIM Acquisition in 2005:			
(a) Goodwill and other intangible assets with an indefinite life			
(b) Other intangible assets			(529)
(c) Other			(163)
			(692)
3. Purchase method of accounting for other transactions after the adoption of IFRS			(22)
4. Reversal of revaluation on tangible assets		7	85
5. Reversal of goodwill amortization and goodwill impairment		438	(8)
6. Capitalization of interest		(60)	(26)
7. Sale of real estate properties		44	(44)
8. Common control transactions			
9. Convertible notes/bonds		28	12
10. Deferred taxes on tax-suspension equity reserves			(57)
11. Other		(37)	(9)
		420	(69)

Total U.S. GAAP reconciling adjustments	**B)**	**(422)**	**(1,734)**
Tax effect on reconciling items	**C)**	**334**	**558**
Minority interests on reconciling items	**D)**	**(186)**	**27**
Total effect of discontinued operations/assets held for sale	**E)**		**(175)**
Cumulative effect of accounting changes, net of taxes and after Minority interests	**F)**		**47**
Net income in accordance with U.S. GAAP	**A+B+C+D+E+F)**	**1,541**	**1,939**

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

		As of December 31, 2004	2005
		(millions of Euro)	
RECONCILIATION OF SHAREHOLDERS EQUITY FROM IFRS TO U.S. GAAP			
Shareholders Equity as reported in the consolidated balance sheets		20,798	26,985
Minority interests		(4,550)	(1,323)
Shareholders Equity attributable to the Group under IFRS	**A)**	**16,248**	**25,662**
U.S. GAAP reconciling adjustments:			
1. Business combinations prior to the adoption of IFRS:			
(a) Goodwill and other intangible assets with an indefinite life		12,755	12,755
(b) Other intangible assets		10,300	9,476
(c) Tangible assets		925	523
(d) Other		(415)	(162)
		23,565	22,592
2. Purchase method of accounting related to TIM Acquisition in 2005:			
(a) Goodwill and other intangible assets with an indefinite life			(4,115)
(b) Other intangible assets			7,030
(c) Other			160
			3,075
3. Purchase method of accounting for other transactions occurred after the adoption of IFRS			346
4. Reversal of revaluation on tangible assets		(377)	(284)
5. Reversal of goodwill amortization and goodwill impairment		748	708
6. Capitalization of interest		786	752
7. Sale of real estate properties		(171)	(215)
8. Common control transactions		(169)	(169)
9. Convertible notes/bonds		(378)	(67)
10. Deferred taxes on tax-suspension equity reserves		(200)	(257)
11. Other		197	125
12. Discontinued operations/assets held for sale		(61)	(55)
		375	884
Total U.S. GAAP reconciling adjustments	**B)**	**23,940**	**26,551**
Tax effect on reconciling items	**C)**	**(4,979)**	**(7,559)**
Minority interests on reconciling items	**D)**	**(335)**	**(23)**
Cumulative effect of accounting changes, net of taxes and after Minority interests	**E)**	**(47)**	
Shareholders Equity in accordance with U.S. GAAP	**A+B+C+D+E)**	**34,827**	**44,631**

1. BUSINESS COMBINATIONS PRIOR TO THE ADOPTION OF IFRS

Telecom Italia elected not to apply IFRS 3 *Business Combinations*, to prior year business combinations (which mainly include Old Telecom Italia acquisitions that occurred in the period 1999-2003) as allowed by IFRS 1 *First-time Adoption of International Financial Reporting Standards*. As a result, certain differences relating to business combinations prior to 2004 were accounted for as a pooling of interest or on the basis of book values (for both assets acquired and shares issued). In accordance with Statement of Financial Accounting Standards (**SFAS**) 141, *Business Combinations*, U.S. GAAP requires that an acquirer be determined, the fair value of the consideration exchanged be accounted for (including outstanding vested stock options of the acquired company) and the assets and liabilities purchased be recorded at fair value for all business combinations.

Goodwill recognized in business combinations in periods prior to the first-time adoption of IFRS has been recorded in the opening IFRS balance sheet at the carryover values determined on the basis of Italian GAAP. The carrying value of such was subject to an impairment test at January 1, 2004, which did not result in the recognition of impairment charges.

During 2005, the Group has recorded additional expense for U.S. GAAP purposes related to the real estate assets disposed of in 2005 (see Note 43.7 below, Magnum Project) in the amount of 366 million.

2. PURCHASE METHOD OF ACCOUNTING RELATED TO TIM ACQUISITION IN 2005

In accordance with the parent-entity extension method, the purchase consideration in excess of the carrying amount of a minority interest acquired is recorded as goodwill under IFRS. Under U.S. GAAP, in accordance with SFAS 141, the acquisition of minority interests is accounted for using the purchase method, and the difference between the fair value of the purchase consideration and the fair value of the Group s share of assets and liabilities acquired is recorded as goodwill.

During 2005, the Group acquired the outstanding minority interest in TIM as described in Note 4 Business Combinations, Acquisitions on Minority Interests and Transactions between Companies under Common Control, resulting in goodwill in the amount of 16,654 million under IFRS. For U.S. GAAP purposes the purchase price allocation resulted in the recognition of goodwill of 12,020 million, intangible assets of 8,276 million, consisting mainly of customer list and brand name. The customer base of approximately 6,200 million will be amortized over approximately 12 years, while the brand name has been assigned an indefinite life and will be subject to annual impairment testing.

3. PURCHASE METHOD OF ACCOUNTING FOR OTHER TRANSACTIONS OCCURRED AFTER THE ADOPTION OF IFRS

As described in Note 4 Business Combinations, Acquisitions on Minority Interests and Transactions between Companies under Common Control, under IFRS, the acquisition of the Internet business from Telecom Italia Media was treated as a transaction among shareholders, and the difference between the price paid and the share of the underlying net assets acquired (364 million) was included as a movement of equity. Under U.S. GAAP, the acquisition has been accounted for under the purchase method and the excess of the purchase price over the share of net assets acquired was allocated to brand name, customer list and other intangibles for a total amount of approximately 285 million and to goodwill for approximately 83 million. Such goodwill was attributed to the reporting unit Wireline.

4. REVERSAL OF REVALUATION ON TANGIBLE ASSETS

In prior years, under the previous accounting principles (Italian GAAP), the Group revalued certain tangible assets as required or permitted by specific regulations. As allowed by the IFRS first time adoption, as of January 1, 2004, the Group elected to use, for certain assets then existing, the revalued cost at the revaluation date as deemed cost.

U.S. GAAP does not permit revaluation of tangible assets and requires depreciation based on historical acquisition cost. Consequently, such different accounting treatment resulted in an increase in net income, due to the reversal to the statement of operations of the depreciation charge of the year, and a reduction in net shareholders equity due to the reversal of the portion of revaluation not yet depreciated.

5. REVERSAL OF GOODWILL AMORTIZATION AND GOODWILL IMPAIRMENT

Under IFRS goodwill is no longer amortized starting from January 1, 2004 (the transition date to IFRS), whereas it was amortized over the asset s estimated economic life under previous accounting principles (Italian GAAP). As permitted by IFRS 1, the carrying value of goodwill under Italian GAAP as of December 31, 2003 was reviewed for impairment and carried forward in the opening balance sheet as of January 1, 2004.

Under U.S. GAAP, upon the adoption of SFAS 142, *Goodwill and Other Intangible Assets* , on January 1, 2002, the Group ceased amortizing goodwill.

Both under IFRS and U.S. GAAP goodwill is tested for impairment annually or more frequently if specific events or changes in circumstances indicate that the goodwill may be impaired; impairment losses of goodwill are not reversed. Under IFRS, to test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which are expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes, which is never at a higher level than that of the business segments determined in accordance with IAS 14 *Segment Reporting* .

Under U.S. GAAP goodwill is assessed for impairment at least annually. If indicators of impairment exist during the year, then an impairment review is conducted before the annual review. In accordance with SFAS 142, the first step in the test for impairment of goodwill is to identify potential impairment by comparing the fair value of a reporting unit (which encompasses a wider meaning than cash generating unit adopted by IFRS) with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second part of the test is not considered necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the loss, if any. The second part compares the implied value of the reporting unit s goodwill to the carrying amount of that goodwill. The excess of the carrying value over the implied value is then written-off in the period. Implied value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

6. CAPITALIZATION OF INTEREST

Under IFRS, Telecom Italia has elected not to capitalize interest on assets under construction. U.S. GAAP requires interest to be capitalized on both tangible and intangible assets regardless of whether specific borrowings relate to the project. The capitalized interest is amortized over the remaining useful life of the assets. A large part of the interest capitalized in previous years relates to the UMTS license of TIM which was put into use in 2004 and on which amortization expense has been calculated commencing in 2004. The Group capitalized interest expenses of 57 million and 114 million in 2004 and 2005, respectively.

7. SALE OF REAL ESTATE PROPERTIES

Through 2005, the Group entered into a series of real estate transactions that involved IM.SER, Tiglio I, Tiglio II, Pirelli and other Group related parties.

Under IFRS such transactions have been recorded in accordance with the finance method in that the present value of the contractually provided payments approximates the fair value of the properties under lease, except for land which, in absence of a contractual favorable purchase option, was treated as an operating lease.

Such accounting treatment was also followed under U.S. GAAP except for lease contracts relating to land which were generally treated as finance leases.

Furthermore, during 2005, Telecom Italia carried out a series of transactions in the context of the reorganization of the physical space occupied by network equipment to gradually free part of the buildings used for such equipment. Such project (**Magnum Project**) involves the sale of more than 1,300 properties for a total amount of approximately 1 billion. Accordingly, in December

2005, the Group transferred 807 properties for a value of 663 million to certain closed-end real estate investment funds. Pirelli & C. Real Estate S.p.A., a related party, has a 35% investment in these funds. Under IFRS, these transactions generated a capital gain, net of incidental charges, for the Group of 264 million. For further details see Note 8 Tangible Assets (Owned and under Finance Leases) and Note 45 Additional U.S. GAAP Disclosures Subsequent Events.

Under U.S. GAAP such transactions resulted in a loss on some properties due to the higher book value that resulted from the purchase price allocation in prior years. The reduction in the purchase price adjustment for the real estate assets of 366 million results in a reduction in the adjustment described in note 43. 1 above. In addition, SFAS 13 *Accounting for leases* (SFAS 13) requires that in a sale-leaseback transaction with a lease classified as an operating lease, any profit or loss on the sale shall be deferred and amortized in proportion to the rental payments over the period of time that the asset is expected to be used. Under IAS 17 *Leases* , the profit corresponding to the disposal of the asset is not deferred if the transaction was made with a selling price and rental payments correspond to the market conditions at the time of the transaction. As a result, the gain on sale on certain properties has been deferred over the life of the lease contract in accordance with the requirements of SFAS 13 *Accounting for Leases* , resulting in a reduction of pre-tax income of 27 million.

8. COMMON CONTROL TRANSACTIONS

During 2000, Telecom Italia acquired an additional ownership percentage in TIM by contributing its ownership of SMH (renamed TIM International) to TIM in exchange for new shares issued by TIM. Under the previous accounting principles (Italian GAAP), this transaction resulted in an increase in equity and goodwill. Such accounting treatment was retained under IFRS in accordance with IFRS first time adoption.

Under U.S. GAAP, transactions between entities under common control require predecessor basis accounting. Therefore, the increase in equity and goodwill has been reversed, along with the related goodwill amortization.

9. CONVERTIBLE NOTES/BONDS

Under IFRS, compound financial instruments represented by notes and bonds convertible into shares of the issuer (convertible bonds) are recognized by bifurcating the debt and the call option: the debt is included in financial liabilities under the amortized cost method while the call option value, computed as the difference between the fair value of the debt and the nominal value of the financial instrument, is classified in a specific equity reserve.

Under U.S. GAAP, convertible notes and bonds are recognized as debt; consequently, such different accounting treatment resulted in a decrease of shareholders equity and an increase in liabilities.

10. DEFERRED TAXES ON TAX-SUSPENSION EQUITY RESERVES

For U.S. GAAP reporting purposes, the Group follows the provisions of SFAS 109, *Accounting for Income Taxes* . In accordance with SFAS 109, the Group has recognized deferred tax assets and liabilities based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on the deferred taxes of changes in tax rates is recognized in income in the period that includes the enactment date. Where it is more likely than not that all or a portion of a deferred tax asset will not be realized, a valuation allowance has been recorded against it in order to reduce the deferred tax asset to the amount that is more likely than not to be realized.

No provision has been made for Italian taxes or foreign taxes that may result from future remittances of undistributed earnings of foreign subsidiaries, as it is expected that all such earnings will be permanently reinvested in these foreign operations. It is not practical to estimate the amount of taxes that might be payable on the eventual remittance of these earnings due to the complexities associated with its hypothetical calculation.

In connection with acquisitions in prior years, a portion of net operating losses carry-forwards of the Group were covered by a valuation allowance at the date of acquisition. If these assets are subsequently recognized, the tax benefit will reduce goodwill and other non current intangible assets.

Under IFRS, IAS 12 Income taxes , allows, under certain conditions, for deferred income taxes on tax suspension equity reserves not to be recorded, whereas, under U.S. GAAP, SFAS 109 *Accounting for Income Taxes* provides that deferred taxes, in any case, shall be provided.

The valuation allowance amounts to 1,850 million in 2005 with an increase of 391 million compared with the previous year. The valuation allowance is recorded because it is more likely than not that certain net operating losses will not be utilized.

11. OTHER

Other mainly comprises the following:

- **Reversal Of Currency Translation Adjustment on Goodwill**

In accordance with IFRS, goodwill allocated to the Brazilian Mobile cash generating unit (expressed in a currency different from the Euro) as of December 31, 2005, was adjusted to the Real/Euro spot exchange rate at that date.

Under U.S. GAAP this adjustment has been reversed since goodwill arising from TIM minorities acquisition (see Note 43.2 Purchase Method of Accounting related to TIM Acquisition in 2005) was allocated to the Mobile reporting unit as a whole.

Table of Contents

Financial Statements **Notes To Consolidated Financial Statements**

- **Impairment of Tangible and Intangible Assets**

Under U.S. GAAP, the Group follows the guidance provided in SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* to evaluate and account for impairments of depreciable assets or assets to be disposed of. Such statement provides that carrying values shall be firstly compared with undiscounted cash flows; as a result of this analysis certain impairment losses recorded under IFRS were deemed not necessary under U.S. GAAP and therefore have been reversed.

- **Reserve for Termination Incentives**

Under U.S. GAAP, in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* and SFAS 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* , certain conditions must be met before a restructuring accrual can be established. Therefore, part of the accruals recorded for IFRS purposes were reversed under U.S. GAAP.

- **Derivatives Financial Instruments**

Under IFRS, the Group treats the call option in Sofora as a derivative instrument which is valued at fair value at the end of each reporting period as described in Note 9-Other Non-Current Assets. Under U.S. GAAP, the call option does not meet the definition of a derivative instrument under SFAS 133 *Accounting for Derivative Instruments and Hedging Activities* and has been accounted for based at cost subject to review for impairment.

- **Asset Retirement Obligations**

The Group capitalizes asset retirement costs and records a liability for the present value of the obligation at the inception of the retirement obligation under both IFRS and U.S. GAAP. IFRS requires that adjustments are made to the asset retirement obligation and the related cost to reflect changes in discount rates. This results in differences in accretion expense of the retirement obligations and depreciation expense of the asset retirement costs between IFRS and U.S. GAAP.

- **Present Value Adjustments**

Under IFRS, liabilities are recorded at their present value. Under U.S. GAAP, liabilities with maturities exceeding one year are recorded at their present value only when required by a specific accounting standard.

12. DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

Under U.S. GAAP, Telecom Italia identifies discontinued operations under the framework established by SFAS 144 which is similar to the framework of IFRS 5 except as it relates to balance sheet presentation for comparative purposes. Under IFRS, only the comparative information for the statement of operations is restated. While for U.S. GAAP, the comparative balance sheet shows the assets and liabilities of operations which were discontinued or sold on the current period separately. In 2005, an additional charge of 180 million was recorded under U.S. GAAP as a result of the reclassification to the statement of operations of the amount of cumulative translation adjustments recorded prior to the date of adoption of IFRS. Under IFRS, the Group transferred the cumulative translation reserve to other equity reserves as permitted by IFRS 1 on the first adoption date.

NOTE 44 CONDENSED CONSOLIDATED U.S. GAAP FINANCIAL STATEMENTS

The condensed consolidated financial statements as of December 31, 2004 and 2005 and for the years ended December 31, 2004 and 2005 presented below have been prepared to reflect the principal differences between the Telecom Italia Group s accounting policies and U.S. GAAP discussed above.

CONDENSED CONSOLIDATED BALANCE SHEETS

IN ACCORDANCE WITH U.S. GAAP AS OF DECEMBER 31, 2004 AND 2005

	As of December 31,	
	2004	**2005**
	(millions of Euro)	
ASSETS		
NON-CURRENT ASSETS:		
Goodwill and other intangible assets with an indefinite life	39,736	53,168
Intangible assets with a finite life	17,257	23,980
Tangible assets	19,191	19,196
Other non-current assets and deferred tax assets:		
• Deferred tax assets	1,522	489
• Other	2,424	3,299
TOTAL NON-CURRENT ASSETS	**80,130**	**100,132**
TOTAL CURRENT ASSETS, EXCLUDING DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE	**21,983**	**22,698**
TOTAL DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE	**4,806**	**474**
TOTAL ASSETS	**106,919**	**123,304**
SHAREHOLDERS EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY	34,827	44,631
of which share capital	*8,809*	*10,599*
MINORITY INTERESTS	**4,886**	**1,346**
NON-CURRENT LIABILITIES:		
Non-current financial liabilities	38,725	43,065
Employee severance indemnities and other employee-related reserves	1,280	1,273
Reserve for deferred taxes	5,232	7,796
Reserves for risks and future charges, miscellaneous payables and other non-current liabilities	3,514	2,804
TOTAL NON-CURRENT LIABILITIES	**48,751**	**54,938**

CURRENT LIABILITIES:		
Current financial liabilities	4,449	9,778
Trade payables, tax payables, miscellaneous payables and other current liabilities	11,668	12,326
TOTAL CURRENT LIABILITIES, EXCLUDING LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE	**16,117**	**22,104**
TOTAL LIABILITIES RELATING TO DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE	**2,338**	**285**
TOTAL LIABILITIES(*)	**72,092**	**78,673**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	**106,919**	**123,304**

(*) Includes Minority interests.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH

U.S. GAAP FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

	Year ended December 31,	
	2004	2005
	(millions of Euro)	
Revenues	28,292	29,921
Other income	1,080	670
Total operating revenues and other income	**29,372**	**30,591**
Total operating expenses	(22,550)	(24,717)
Operating income	**6,822**	**5,874**
Share of earnings of equity investments accounted for using the equity method	(5)	(146)
Financial expenses, net	(1,456)	(1,870)
Income from continuing operations before taxes	**5,361**	**3,858**
Income taxes	(2,462)	(1,896)
Net income before minority interests, discontinued operations/assets held for sale and cumulative effect of accounting changes	**2,899**	**1,962**
Minority interests	(1,167)	(479)
Net income (loss) from discontinued operations/assets held for sale	(191)	409
Cumulative effect of accounting changes, net of taxes		47
Net income	**1,541**	**1,939**
Basic and Diluted Earnings Per Share (EPS) (*) (**)	**(Euro)**	**(Euro)**
OrdinaryShare	0.09	0.10
SavingsShare	0.10	0.11
Of which:		
Fromcontinuing operations		
OrdinaryShare	*0.10*	*0.08*
SavingsShare	*0.11*	*0.09*
Fromdiscontinued operations/assets held for sale		
OrdinaryShare	*(0.01)*	*0.02*
SavingsShare	*(0.01)*	*0.02*

(*) Basic EPS is equal to Diluted EPS.
(**) Change in accounting principle for Employee severance indemnities has no effect on Earnings Per Share.

NOTE 45 ADDITIONAL U.S. GAAP DISCLOSURES

(A) RECENTLY ISSUED U.S. GAAP ACCOUNTING STANDARDS

In December, 2004, the FASB issued Statement 123 (revised 2004) (SFAS 123(R)), *Share-Based Payment* . SFAS 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* , which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees* . SFAS 123(R) requires all share-based awards to employees, including grants of employee stock options, be recognized in the financial statements based on their grant-date fair values. The related compensation costs are to be recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are to be recognized as an addition to paid-in capital and reflected as financing cash inflows in the statement of cash flows. We will adopt the prospective provisions of SFAS 123(R) to new and existing plans as of January 1, 2006. The grant-date fair values of unvested awards that are outstanding on the date of adoption will be charged to expense over their remaining vesting periods. We do not expect that the adoption of SFAS 123(R) will have a material impact on our consolidated financial position or results of operations.

In March, 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 107, *Share Based Payment* . SAB 107 summarizes the views of the SEC staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations, and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. We will adopt SAB 107 concurrently with the adoption of SFAS 123(R) with effect from January 1, 2006. Telecom Italia does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

In December 2004, the FASB issued Statement 153 (SFAS 153), *Exchanges of Non-monetary Assets an amendment of APB Opinion No. 29*. The guidance in Accounting Principles Board Opinion 29 (APB 29), *Accounting for Non-monetary Transactions* is based on the general principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB 29 included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the narrow exception for non-monetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have commercial substance (that is, transactions where future cash flows are not expected to significantly change as a result of the exchange). Telecom Italia will adopt the provisions of SFAS 153 for non-monetary asset exchange transactions entered into after December 31, 2005. Telecom Italia does not expect the adoption of SFAS 153 to have a material impact on its consolidated financial position or results of operations.

In March 2005, the FASB issued FSP FIN 46R-5 (FSP FIN 46R-5), *Implicit Variable Interests under FASB Interpretation No. 46 (FIN 46R-revised December 2003), Consolidation of Variable Interest Entities* .

FSP FIN 46R-5 requires a reporting enterprise to consider whether it holds an implicit variable interest in a variable interest entity (VIE) or potential VIE. We will adopt the provisions of FSP FIN 46R-5 in the reporting period beginning on January 1, 2006. Telecom Italia does not expect the adoption of FSP FIN 46R-5 to have a material impact on its consolidated financial position or results of operations.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (SFAS 154), *Accounting Changes and Error Corrections* . Statement 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* . SFAS 154 applies to all voluntary changes in accounting principles and changes the accounting for and reporting of a change in accounting principles, and requires the retrospective application to prior periods financial statements of a voluntary change in accounting principles unless it is impracticable. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 will only have an effect when Telecom Italia implements changes in accounting principles that are addressed by the standard or corrects accounting errors in future periods.

In July 2005, the FASB issued FSP APB 18-1 (FSP APB 18-1), *Accounting by an Investor for its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence* . The FSP requires that if an investor loses significant influence over an investee, the investor s proportionate share of the investee s equity adjustments for Other Comprehensive Income should be offset against the carrying value of the investment at the time significant influence is lost by the investor. Telecom Italia will adopt the provisions of FSP APB 18-1 in the reporting period beginning on January 1, 2006. Telecom Italia does not expect the adoption of FSP APB 18-1 to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* , which effectively nullifies the requirements of EITF Issue No. 03-1. This FSP provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Telecom Italia will adopt the provisions of this FSP in the reporting period beginning January 1, 2006. Telecom Italia does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In February 2006, the FASB issued FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140* (SFAS 155). SFAS 155 amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* . SFAS 155, among other things, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Telecom Italia does not expect that the standard will have a material effect on its consolidated financial position, or results of operations as reconciled to U.S. GAAP.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC did not or are not believed by management to have a material impact on Telecom Italia s present or future consolidated financial statements.

(B) CHANGES IN ACCOUNTING PRINCIPLES

Under IFRS, the Reserve for severance indemnities, to be accrued by Italian companies in accordance with the Italian Civil Code, is considered a defined benefit plan, and is based, among other things, on employees years of service and remuneration earned by the employee during a pre-determined service period. The liability is determined by independent actuaries using the Projected Unit Credit Method .

Under U.S. GAAP, such benefits are considered a defined benefit plan or a defined contribution plan, and until December 31, 2004, the Group elected to account for it consistently with the Italian accounting policies as permitted by EITF 88-1 *Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan* .

However, starting from 2005 under U.S. GAAP, the Reserve for severance indemnities is treated as a defined benefit plan, which is a permitted option under the EITF 88-1, and as a consequence no adjustment has been recorded in the shareholders equity as of December 31, 2005.

The effect of the cumulative catch up adjustment of 47 million is separately disclosed in the condensed U.S. GAAP financial statements in accordance with APB 20 *Accounting Changes* . Had the change been applied in previous periods the net income for U.S. GAAP in 2004 would not have been significantly different.

(C) SECURITIZATION OF ACCOUNTS RECEIVABLE

As discussed in Note 3, the Group entered into certain transactions for the on-going sale of trade accounts receivable to a Qualified Special Purpose Entity in a securitization program.

In particular, Telecom Italia regularly sells a portfolio of trade receivables without recourse to the TI Securitization Vehicle S.r.l., a Special Purpose Entity (SPE) which finances the purchase of the receivables by issuing asset-backed securities. The sales price of the receivables is paid to Telecom Italia partly as an Advanced Purchase Price (APP), at the time of sale, and partly as a Deferred Purchase Price (DPP).

For invoices issued and sold through September 2005, with regard to the risk of uncollectability, Telecom Italia was responsible for the ultimate recovery from the debtors on the receivables sold, up to the limit of the amount of the DPP and the SPE retained the risk of uncollected amounts over the DPP. In accordance with SIC 12 (*Consolidation Special Purpose Entities* (SPE)) through September 30, 2005, TI Securitization Vehicle S.r.l. (TISV) was included in the scope of consolidation, because the exposure of the assignor to the risk of uncollectability of the deferred purchase price implied, in substance, control over the SPE.

On December 15, 2005, the securitization program was restructured based on a Master DPP Transfer Agreement signed by Telecom Italia and certain financial institutions under which the DPP on Telecom Italia receivables relating to invoices issued between October 1, 2005 and May 31, 2006, are sold without recourse to such financial institutions.

Following the sale of the DPP without recourse, the risks and rewards of ownership of these receivables have been transferred in full to the financial institutions which take the control of SPE in accordance with SIC 12 provisions and, therefore, consolidate TISV.

For U.S. GAAP, the accounting for the securitization of accounts receivable is primarily governed by SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* . Under the provisions of SFAS 140, the sale agreement must meet certain defined criteria to qualify as a sale of financial assets, the qualifying special purpose entity (QSPE) must meet certain defined criteria to preclude consolidation, and the amount of gain or loss on the sale is determined based on the consideration received, the carrying value of the underlying financial components sold and the fair value of the financial components retained. Even though the underlying accounting principles differ, there was no material difference on net equity and net income as of and for the years ended December 31, 2004 and 2005 between IFRS and U.S. GAAP.

Under the terms of the agreement, the Vehicle charges the Group an initial discount which varies based on the credit profile and other characteristics of each tranche of accounts receivable sold. Additionally, for the purposes of credit enhancement, the Vehicle withholds a portion of the purchase price as a deferred payment, representing the Group s retained interest in the sold receivables. The amount of deferred payment withheld is adjusted on a monthly basis based on an evaluation of actual collections, delinquencies and other factors. The Group retains the servicing responsibility related to the sold receivables and receives a servicing fee from the Vehicle which is estimated to approximate the fair value of providing such services. Due to the non-recourse sale of the DPP as described above, the remaining retained interest relates to receivables sold prior to October 2005.

During 2005 and 2004 the following cash flows were received from and paid to the Vehicle:

	Year ended December 31,	
	2004	**2005**
	(millions of Euro)	
Gross trade receivables sold to the Vehicle	8,821	8,926
Collections remitted to the Vehicle	(8,012)	(8,097)
Discount	(93)	(92)
Remaining retained interest	(285)	(181)
Net cash received in advance from the Vehicle	**431**	**556**

The amounts recorded in the consolidated condensed balance sheets and statements of operations under U.S. GAAP for 2005 and 2004 are as follows:

	2004	2005
	(millions of Euro)	
Amounts due from the Vehicle	869	829
Retained interest	285	181
Allowance for bad debts	23	106
Loss recognized in the statement of operations	116	116

The losses on the sales of receivables to the Vehicle are due to the discount charged by the Vehicle and the bad debt provisions to adjust the retained risks to fair value as required by SFAS 140. The retained interests represent the deferred purchase price that has yet to be received from the Vehicle and are included under other current assets.

F-174

(D) SALE OF REAL ESTATE PROPERTIES

During 2005, the Group sold over 800 real estate properties comprising both land and buildings to certain real estate funds. Counterparties to the transaction include Pirelli Real Estate S.p.A. which is a related party as disclosed in Note 39 Other Information . Neither Telecom Italia, its subsidiaries nor any related parties have provided any form of guarantee to any of the investors or debt holders with respect to their investment in the real estate assets acquired.

SFAS 13 *Accounting for leases* (SFAS 13) requires that in a sale-leaseback transaction with a lease classified as an operating lease, any profit or loss on the sale shall be deferred and amortized in proportion to the rental payments over the period of time that the asset is expected to be used. Under IAS 17 *Leases* , the profit corresponding to the disposal of the asset is not deferred if the transaction was made with a selling price and rental payments correspond to the market conditions at the time of the transaction.

IAS 17 *Leases* and SFAS 13 prescribe similar lease accounting approaches based on whether a lease transfers substantially all of the risks and rewards related to ownership of the leased asset. However, SFAS 13 provide quantitative criteria to determine if a lease is an operating lease or a capital lease where IAS 17 requires subjective determinations to be made. It could lead in certain rare circumstances to consider a lease as operating lease under U.S. GAAP and as finance lease under IAS 17 and vice versa.

(E) GOODWILL AND OTHER INTANGIBLE ASSETS

The roll-forward schedule of goodwill by Business Unit, under U.S. GAAP from January 1, 2004 to December 31, 2005, is as follows:

	Wireline	Mobile	Media	Olivetti	Other activities	CONSOLIDATED
			(millions of Euro)			
Goodwill as of January 1, 2004	**24,484**	**12,948**	**212**	**7**	**176**	**37,827**
Acquisitionsand disposals, net	3	219	232		(22)	432
Transferto discontinued operations	(55)	(529)	(20)		(164)	(768)
Other	(3)	(24)			10	(17)
Goodwill as of December 31, 2004	**24,429**	**12,614**	**424**	**7**		**37,474**
Acquisitionsand disposals, net	251	12,057	134	(7)		12,435
Reclassificationfrom Internet to Wireline	413		(413)			
Other	248					248
Goodwill as of December 31, 2005	**25,341**	**24,671**	**145**			**50,157**

During 2005, the Group underwent a reorganization and transferred the Internet Business from Telecom Italia Media to Telecom Italia. As a result, the Group has reallocated the goodwill attributable to the Internet business into Wireline based on the relative fair value of the Internet activities to the total fair value of the Internet and Media businesses.

As a result of purchase accounting in 2005 and previous years, the Group has recorded the following intangible assets with indefinite useful lives:

	2004	2005
	(millions of Euro)	
Wireline brandname	1,283	1,283
Mobile brandname	954	1,671
Other	25	57
Total	**2,262**	**3,011**

Amortization expense for the years ended December 31, 2004 and 2005 was 2,618 million and 3,076 million, respectively. The following table presents expected amortization of intangible assets for each of the next five fiscal years based on the carrying values as of December 31, 2005:

	(millions of Euro)
2006	3,302
2007	3,295
2008	2,225
2009	1,736
2010	1,730

(F) STOCK-BASED COMPENSATION

The Group accounts for all stock-based compensation under the provisions and related interpretations of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* . Certain companies within the Group that have publicly traded stock also issue options to their employees.

SFAS 123, *Accounting for Stock-Based Compensation* requires the disclosure of pro forma net income per share as if the Group had adopted fair-value accounting for stock-based awards.

The Group uses the Cox-Ross-Rubenstein (CRR) binomial model for estimating the fair value of employee stock options. The CRR model uses a binomial tree to assess the probabilities that the price of the underlying stock might follow over the life of the option. The CRR model takes into account possible future stock prices at specified times between the grant date and the option maturity. The CRR model also has the flexibility to incorporate assumptions related to the payment level of future dividends. The CRR model was designed for these types of options, therefore it provides more useful fair value information.

The following weighted average assumptions were used in the estimated grant date fair value calculations for all stock option awards.

The Group s pro forma earnings had compensation costs been recorded in accordance with SFAS 123 are presented below for all plans:

	2004	2005
Net income in accordance with U.S. GAAP	**1,541**	**1,939**
Add: Stock-based compensation expense under APB 25	3	2

Less: Total stock-based compensation expense under SFAS 123	(25)	(5)
Pro forma net income	**1,519**	**1,936**

The Group s pro forma earnings per share, had compensation costs been recorded in accordance with SFAS 123, would not be materially affected.

The details of all outstanding plans are provided in Note 39 Other Information .

(G) SUBSEQUENT EVENTS

Second tranche of properties sold to the Raissa fund

As a part of the programme of real estate disposals for a total value of over 1 billion, approved by the Board of Directors on December 21, 2005, on March 29, 2006, the Group concluded the sale and leaseback of a second tranche of 210 properties to the closed-end fund denominated Raissa.

The value of the transaction is approximately 158 million, with a gross capital gain of approximately 57 million.

The transaction will have a positive impact on the consolidated financial debt of the Telecom Italia Group of approximately 125 million, before taxes.

Reorganization in Brazil

During March 2006, the merger of Blah! and CRC Centro de Relacionamento com Clientes, into TIM Celular was executed and the project to contribute all the TIM Celular shares held by TIM Brasil to TIM Participaçoes was approved by the TIM Participaçoes extraordinary shareholders meeting. Both of these transactions are part of the process to streamline the corporate structure of the companies of the Telecom Italia Group which make up the mobile sector. This process will encompass all the companies that are currently 100 percent-controlled, directly or indirectly, by TIM Participaçoes (namely, TIM Sul S.A., TIM Nordeste Telecomunicaçoes S.A., TIM Celular S.A. and Maxitel S.A.), with the aim of (i) further uniting and rationalizing the operations of the activities relating to the mobile business, (ii) significantly reducing the costs associated with maintaining distinct and separate companies, (iii) developing synergies among the various companies and (iv) improving tax and financial efficiency.

Brazil

On March 15, 2006, Brasil Telecom Celular and Brasil Telecom filed a request for arbitration against TIM International and TIM Brasil before the International Chamber of Commerce, with seat in Brasilia, pursuant to the Merger Agreement entered into by such parties on April 28, 2005, requesting the Arbitration Tribunal to declare the Merger Agreement null and void ab initio or, alternatively, be declared void at Brasil Telecom s insistence. Furthermore, Brasil Telecom is seeking damages, to be determined by the Arbitration Tribunal, for all losses it has allegedly suffered. The parties have already nominated their respective arbitrators.

Change of Rating Triggers

On March 30, 2006, Standard and Poor s revised its expectations on Telecom Italia. The rating agency changed its outlook from Stable to Negative and affirmed the BBB+ long term rating on the company.

On April 11, 2006, Fitch Ratings downgraded Telecom Italia S.p.A. s Issuer Default Rating (IDR) to BBB+ from A- . Following the downgrade, the Outlook was changed to Stable. The downgrade reflected Fitch s opinion that Telecom Italia s financial flexibility has been reduced as a result of the announcement of the increases in dividends.

New ratings on Telecom Italia are reported below:

S&P s	Moody s	Fitch Ratings
Latest update March 30, 2006	**Latest update December 7, 2004**	**Latest update April 11, 2006**

Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB+	Negative	Baa2	Stable	BBB+	Stable

Approval of a 1 Billion Share Buy Back by the Shareholders Meeting

On April 13, 2006, the Shareholders Meeting authorized the repurchase of Ordinary and Savings Shares of Telecom Italia, in accordance with the Italian legal limits and with a total maximum purchase price of 1 billion for a period of 18 months. The meeting also gave the Board of Directors the power to sell the repurchased shares over the same period. The repurchased shares will be treated as treasury stock which are not currently expected to be cancelled.

Repayment of Notes Telecom Italia Finance S.A.

On April 20, 2006, the bond issued by Telecom Italia Finance S.A., with an annual coupon of 6.375% (originally 6.125%, 6.375% consequently to the step-up of the coupon) became due and was repaid in the amount of 2.5 billion.

Sale of Neuf Télécom

On May 9, 2006 Telecom Italia, through its subsidiary Telecom Italia International N.V., sold its 4.99% stake in Neuf Télécom to the Louis Dreyfus (**LD**) and Societè Francaise du Radiotèlèphone (**SFR**) groups for approximately 161 million, as well as an additional payment in the case of an Initial Public Offering, or sale of control of Neuf Télécom, at values higher than those agreed. Should neither of these events take place before December 31, 2007, Telecom Italia International N.V. will still have rights to an additional payment if the fair market value of the stake at that date is higher than the price of the present transaction. The closing took place on May 11, 2006.

The sale gave the Telecom Italia Group a capital gain of 110 million and a positive impact on net financial debt of 161 million.

The sale of the Neuf Télécom stake is part of the Telecom Italia Group s strategy of rationalizing its international portfolio with a focus on areas of strategic interest and potential for growth.

New Bond Issue (in Pound Sterling and Euro) for a total of 1.3 billion

On May 11, 2005, Telecom Italia S.p.A. priced a benchmark fixed-rate bond issue, in Euro and Pound Sterling, aimed at institutional investors, with respective maturities of 8 and 17 years, for a total amount of approximately 1.3 billion.

The terms are as follows:

- **Pound Sterling Tranche:** issue date May 19, 2006, nominal amount of GBP 400 million with an annual fixed rate coupon of 5.875%, issue price 99.622%, maturity May 19, 2023;
- **Euro Tranche:** issue date May 19, 2006, nominal amount of 750 million with an annual fixed rate coupon of 4.75%, issue price 99.156%, maturity May 19, 2014.

The bonds were issued pursuant to Telecom Italia s 15 billion Euro Medium Term Note (EMTN) Program. The joint bookrunners for the transaction were BNP Paribas, Calyon, Deutsche Bank and HSBC.

Application for the listing of the notes shall be made with the Luxembourg stock exchange.