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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

Securities Exchange Act of 1934

Telecom Italia S.p.A.

Piazza degli Affari 2,

20123 Milan, Italy

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

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and Telecom Italia S.p.A. and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

INTRODUCTION

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

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

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

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

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

- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on our international business focused on Latin America and on our foreign investments and capital expenditures;

- the continuing impact of rapid or disruptive changes in technologies;

- the impact of political and economic developments in Italy and other countries in which we operate;

- the impact of fluctuations in currency exchange and interest rates;

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

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

KEY DEFINITIONS

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

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

Recent Developments

Purchase of Digitel Shares by TIM International

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

Disposal of Atesia

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

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

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

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

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

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

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

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

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

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

Completion of sale of a 69.8% equity stake in Webegg

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

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

Note buy-backs

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

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

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

Capital increases in Etec S.A. - Cuba

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

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

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

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

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

Disputes, Litigations and Legal Proceedings Pending

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

TI Media / De Agostini arbitration

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

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

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

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

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

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

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

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

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

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

Olivetti sale of the personal computers business

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

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

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

Telecom Italia / Vodafone Omnitel arbitration

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

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

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

Digitel

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

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

Iridium

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

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

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

Mediterranean Nautilus

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

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

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

Telekom Srbija

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

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

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

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

Stet Hellas

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

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

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

Etec S.A.

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

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

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

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

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

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

SELECTED FINANCIAL AND STATISTICAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

	Year ended December 31,	**Six months ended June 30,**	
	2003	**2003**	**2004**
	(millions of Euro)	**(Unaudited)**	
Operating income	**6,789**	**3,281**	**3,596**
Depreciation and Amortization	6,779	3,357	3,212
Other external charges: (*)			
• Provision for bad debts	471	200	132
• Write-downs of fixed assets and intangibles	6	2	1
• Provision for risks	70	61	34
• Other provisions and operating charges	485	171	230
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(320)	(151)	(116)
Gross Operating Profit	**14,280**	**6,921**	**7,089**

(*) The following items included as part of Other external charges are added back to operating income in the calculation of Gross Operating Profit.

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(3) Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. Although Net Financial Debt is a non-GAAP measure, it is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. Telecom Italia believes Net Financial Debt provides an accurate indicator of Telecom Italia s ability to meet its financial obligations, represented by gross debt, from its available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to total shareholders equity (including minority interests), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or net debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Telecom Italia management believes that Telecom Italia s financial structure is sufficient to achieve our business plan and financial targets. Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and abroad, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian annual report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31, 2003	**As of June 30, 2004**
	(millions of Euro)	
		(Unaudited)
Short-term debt, including current portion of long-term debt	10,613	5,910
Long-term debt	30,852	34,485
Gross debt	**41,465**	**40,395**
Cash and cash equivalents:		
• Bank and postal accounts	(4,870)	(5,689)
• Cash and valuables on hand	(7)	(10)
• Receivables for securities held under reverse repurchase agreements	(60)	(13)
Marketable securities	(2,719)	(1,054)
Financial accounts receivable (included under Receivables and Other current assets)	(826)	(561)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(307)	(320)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	670	469
Net Financial Debt	**33,346**	**33,217**

(4) For purposes of calculating the ratio of earnings to fixed charges :

- earnings is calculated by adding:
  - pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries;
  - fixed charges (as defined below);
  - amortization of capitalized interest and issue debt discounts or premiums;
  - dividends from equity investees; and
  - equity in losses of equity investees;

and then subtracting:

  - capitalized interest for the applicable period; and
  - equity in earnings of equity investees.
- fixed charges is calculated by adding:
  - interest costs (both expensed and capitalized);
  - issue costs and any original issue debt discounts or premiums; and
  - an estimate of the interest within rental expense for operating leases.

The term equity investees means investments that Telecom Italia accounts for using the equity method of accounting.

(5) Data include multiple lines for ISDN and exclude internal lines.
(6) Data exclude internal lines.
(7) Number of contracts. Broadband access contracts in Italy as of December 31, 2003 were 2,040,000, while as of June 30, 2003 and 2004 were 1,375,000 and 2,975,000, respectively.
(8) Number of contracts: data include Teleconomy, Hellò and other Business voice offers.
(9) Data refer to TACS and GSM services lines, including holders of Prepaid Cards.
(10) The foreign lines include those of mobile telecom affiliates in Turkey and the Czech Republic.

Telecom Italia Group Results for the Six Months ended June 30, 2004 compared to June 30, 2003

The information in this section should be read in conjunction with the Telecom Italia Group s Unaudited Interim Consolidated Financial Statements, and the Notes thereto, included elsewhere in this Report on Form 6-K.

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

Business Unit Financial Data

The following table sets forth operating revenues, gross operating profit, operating income and capital expenditures by Business Unit.

	Gross Operating Revenues		Gross Operating Profit(7)		Operating Income		Capital expenditures	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2003(1)	2004	2003(1)	2004	2003(1)	2004	2003(1)	2004
	(millions of Euro)							
Wireline(2)(3)	8,569	8,684	3,979	4,124	2,433	2,639	1,075	1,089

Mobile	5,534	6,152	2,624	2,918	1,826	1,967	406	670
South America(4)	559	533	197	195	69	67	61	54
Internet and Media(5)	863	306	246	17	80	(39)	39	20
IT Market	358	355	30	30	9	12	15	14
IT Group	465	454	24	31	(39)	(39)	60	50
Olivetti Tecnost	332	306	17	22	(3)	10	10	8
Other activities and eliminations(3)(4)(6)	(1,531)	(1,568)	(196)	(248)	(1,094)	(1,021)	57	88
Total	**15,149**	**15,222**	**6,921**	**7,089**	**3,281**	**3,596**	**1,723**	**1,993**

(1) The data relating to the six months ended June 30, 2003 have been reclassified and presented consistent with the first half ended June 30, 2004 presentation.

(2) Starting from January 1, 2004, the company Telefonia Mobile Sanmarinese S.p.A., 51% owned by Intelcom San Marino, is consolidated on a line by line basis in the Wireline Business Unit.

(3) The data include BBNed, that, starting from September 2003, is no longer included in Other Activities and became part of Wireline Business Unit.

(4) The data refer to Entel Chile Group and Entel Bolivia Group. On March 1, 2004, the Latin America Operations function was disbanded. This function was set up in 2002 and reported to the head of the Mobile Business Unit for mobile telecommunications and to the CEO Carlo Buora for wireline telecommunications and was responsible for the global coordination of all the activities of the Group in Latin America. Telecom Italia Latam S.A. has now taken over the new role of the delocalized Corporate function in Latin America, consistent with our chosen strategy to consolidate and develop our international presence in the Latin America geographical area. Paolo Dal Pino, from March 1, 2004, was appointed by Telecom Italia s Chairman Marco Tronchetti Provera as Representative of Telecom Italia Group in Latin America. The Wireline and Mobile business units with their present corporate organizational structure are nevertheless responsible for the results of the subsidiaries in Latin America under their control. As a result of this reorganization and with effect on January 1, 2004, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia are included in other activities. The data relating to the first half ended June 30, 2003 has been reclassified and presented consistent with the first half ended June 30, 2004 presentation.

(5) New SEAT, the beneficiary company of the spin-off from Seat Pagine Gialle which took place on August 1, 2003, was sold on August 8, 2003. As a result of this, the figures related to the six months ended June 30, 2003 include the results of operations of New SEAT Group that was subsequently disposed of, as well as the results of operations of the remaining part of Seat Pagine Gialle that after the spin-off was renamed Telecom Italia Media.

(6) The data include the operations of the TILab Corporate Function, as well as the financial companies, the centralized Group services, the staff Functions, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia.

(7) The following tables reconcile operating income to the calculation of Gross Operating Profit on a segmental basis by showing the Statement of Operation Items included in calculating Gross Operating Profit.

	Six months ended June 30, 2003								
	Wireline	**Mobile**	**South America**	**Internet and Media**	**IT Market**	**IT Group**	**Olivetti Tecnost**	**Other activities and eliminations**	**Consolidated Total**
	(millions of Euro)								
Operating income	**2,433**	**1,826**	**69**	**80**	**9**	**(39)**	**(3)**	**(1,094)**	**3,281**
Depreciation and Amortization	1,390	739	106	130	17	64	12	899	3,357
Other external charges: (*)									
• Provision for bad debts	100	51	22	21	1		1	4	200
• Write-downs of fixed assets and intangibles			2						2
• Provision for risks	34	1		17	2		2	5	61
• Other provisions and operating charges	109	28		4	6	5	13	6	171
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(87)	(21)	(2)	(6)	(5)	(6)	(8)	(16)	(151)
Gross Operating Profit	**3,979**	**2,624**	**197**	**246**	**30**	**24**	**17**	**(196)**	**6,921**

(*) The following items included as part of Other external charges are added back to operating income in the calculation of Gross Operating Profit.

	Six months ended June 30, 2004								
	Wireline	**Mobile**	**South America**	**Internet and Media**	**IT Market**	**IT Group**	**Olivetti Tecnost**	**Other activities and eliminations**	**Consolidated Total**
	(millions of Euro)								
Operating income	**2,639**	**1,967**	**67**	**(39)**	**12**	**(39)**	**10**	**(1,021)**	**3,596**
Depreciation and Amortization	1,341	873	102	49	14	66	10	757	3,212
Other external charges: (*)									
• Provision for bad debts	51	46	24	7	1		1	2	132
• Write-downs of fixed assets and intangibles			1						1
• Provision for risks	15	4		1	1	5		8	34
• Other provisions and operating charges	154	53	1	2	4	4	2	10	230

Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(76)	(25)		(3)	(2)	(5)	(1)	(4)	(116)
Gross Operating Profit	**4,124**	**2,918**	**195**	**17**	**30**	**31**	**22**	**(248)**	**7,089**

(*) The following items included as part of Other external charges are added back to operating income in the calculation of Gross Operating Profit.

Organic growth

Throughout the discussion which follows we use the term organic growth . Organic growth means that the percentage changes provided assume that, on a six month period to six month period comparison basis, the effects of changes in the scope of consolidation are excluded and exchange rates are calculated on a constant currency basis. Constant currency means that the difference in exchange rates between periods are eliminated by using the same exchange rate. The historical results for the first half of 2004 are presented, while the results for the first half of 2003 have been adjusted to reflect changes in the scope of consolidation and to eliminate exchange rate effects. The following table reconciles first half 2003 historical figures to first half 2003 adjusted figures to show organic growth from the six months ended June 30, 2003 to the six months ended June 30, 2004 for operating revenues, gross operating profit and operating income. Management believes that providing this additional information enables the reader to better understand the actual operating changes which are impacting the results of operations.

	Six months ended June 30,		Growth	
	2004 (A)	2003 (B)	Amount (A-B)	%
	(millions of Euro, except percentages)			
Operating revenues on a historical basis	**15,222**	**15,149**	**73**	**0.5**
Changes in the scope of consolidation		(642)		
Of which from the sale of New SEAT		*(563)*		
Changes in exchange rates		(47)		
Operating revenues on a comparable basis	**15,222**	**14,460**	**762**	**5.3**
Gross Operating Profit on a historical basis	**7,089**	**6,921**	**168**	**2.4**
Changes in the scope of consolidation		(236)		
Of which from the sale of New SEAT		*(242)*		
Changes in exchange rates		(10)		
Cancellation of the TLC license fee impact		119		
Gross Operating Profit on a comparable basis	**7,089**	**6,794**	**295**	**4.3**
Operating income on a historical basis	**3,596**	**3,281**	**315**	**9.6**
Changes in the scope of consolidation		(138)		
Of which from the sale of New SEAT		*(128)*		
Changes in exchange rates		0		
Cancellation of the TLC license fee impact		143		
Operating income on a comparable basis	**3,596**	**3,286**	**310**	**9.4**

Telecom Italia Group Consolidated Results

For the six months ended June 30, 2004, our **consolidated net income** was 405 million (net income of 863 million before minority interests) compared to consolidated net income of 1,056 million (net income of 1,592 million before minority interests) for the first six months ended June 30, 2003.

The decrease in our consolidated net income (a decrease of 651 million) was due to the following factors:

- an increase in operating income (an increase of 315 million, of which 143 million was attributable to the cancellation of the TLC license fee following the verdict handed down by the European Court of Justice in September 2003);
- the improvement in financial income (expense), net of 342 million;

- the improvement in other income and (expense), net of 384 million;
- the lower minority interests in earnings of 78 million; and
- the higher income taxes of 1,770 million; in the first six months of 2003, the income taxes reflected a tax benefit of 288 million mainly as a result of the recognition of deferred tax assets (1,286 million) which became recoverable due to the Merger between Olivetti and Old Telecom Italia. Without this benefit income taxes payable in the first six months of 2004 was a charge of 1,482 million.

Our **consolidated operating revenues** for the six months ended June 30, 2004 were 15,222 million, an increase of 73 million or 0.5% compared to the same period in 2003. Excluding the negative effects of exchange rate fluctuations (47 million, of which 27 million related to the South America telecommunication companies) and changes to the consolidation area (642 million, of which 563 million related to the sale of New SEAT from the Internet and Media Business Unit which occurred on August 1, 2003), organic growth reached 5.3% (an increase of 762 million).

Organic growth of consolidated operating revenues reflected:

- a significant increase in the revenues of the Mobile Business Unit (an increase of 664 million), which was driven by the domestic market voice traffic and value-added services (an increase of 304 million) and by the Brazilian market;
- an increase of 74 million in the revenues of the Wireline Business Unit, largely attributable to the success in developing the Broadband market and innovative services in particular Web services the maintenance of our position in the core market of Retail Telephone and further enhancements to the offering of wholesale services;
- an increase of 48 million in the revenues of the Internet and Media Business Unit, 17 million in the IT Market Business Unit and 14 million in the Olivetti Tecnost Business Unit; and
- a decrease of 45 million in the revenues of wireline/integrated companies in South America (mainly due to the Entel Chile Group).

Operating revenues from telecommunications services are shown gross of the portion due to third-party operators of 2,271 million (2,268 million in the first half of 2003).

The table below sets forth, for the periods indicated, gross operating revenues and consolidated operating revenues by Business Unit and the percentage contribution of such Business Unit to our consolidated operating revenues.

	Six months ended June 30,					
	2003(1)			**2004**		
	Gross Operating Revenues(2)	**Consolidated Operating Revenues(3)**	**% of Consolidated Operating Revenues**	**Gross Operating Revenues(2)**	**Consolidated Operating Revenues(3)**	**% of Consolidated Operating Revenues**

			(millions of Euro, except percentages)			
Wireline(4)(5)	8,569	7,657	50.6%	8,684	7,762	51.0%
Mobile	5,534	5,401	35.7%	6,152	6,032	39.6%
South America(6)	559	551	3.6%	533	531	3.5%
Internet and Media(7)	863	767	5.1%	306	205	1.4%
IT Market	358	308	2.0%	355	322	2.1%
IT Group	465	22	0.1%	454	15	0.1%
Olivetti Tecnost	332	324	2.1%	306	291	1.9%
Other activities(5)(6)(8)	546	119	0.8%	570	64	0.4%
Total operating revenues	**17,226**	**15,149**	**100.0%**	**17,360**	**15,222**	**100.0%**

(1) The data relating to the six months ended June 30, 2003 have been reclassified and presented consistent with the first half of 2004 presentation.
(2) Gross operating revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).
(3) Consolidated operating revenues are revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.
(4) Starting from January 1, 2004, the company Telefonia Mobile Sanmarinese S.p.A., 51% owned by Intelcom San Marino, is consolidated on a line by line basis in the Wireline Business Unit.
(5) Starting from September 2003, BBNed is no longer included in Other Activities and became part of Wireline Business Unit.
(6) The data refer to Entel Chile Group and Entel Bolivia Group. On March 1, 2004, the Latin America Operations function was disbanded. This function was set up in 2002 and reported to the head of the Mobile Business Unit for mobile telecommunications and to the CEO Carlo Buora for wireline telecommunications and was responsible for the global coordination of all the activities of the Group in Latin America. Telecom Italia Latam S.A. has now taken over the new role of the delocalized Corporate function in Latin America, consistent with our chosen strategy to consolidate and develop our international presence in the Latin America geographical area. Paolo Dal Pino, from March 1, 2004, was appointed by Telecom Italia s Chairman Marco Tronchetti Provera as Representative of Telecom Italia Group in Latin America. The Wireline and Mobile business units with their present corporate organizational structure are nevertheless responsible for the results of the subsidiaries in Latin America under their control. As a result of this reorganization and with effect on January 1, 2004, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia are included in Other Activities. The data relating to the first half ended June 30, 2003 has been reclassified and presented consistent with the first half ended June 30, 2004 presentation.
(7) New SEAT, the beneficiary company of the spin-off from Seat Pagine Gialle which took place on August 1, 2003, was sold on August 8, 2003. As a result of this, the figures related to the six months ended June 30, 2003 include the results of operations of New SEAT Group that was subsequently disposed of, as well as the results of operations of the remaining part of Seat Pagine Gialle that after the spin-off was renamed Telecom Italia Media.
(8) The data include the operations of the TILab Corporate Function, as well as the financial companies, the centralized Group services, the staff Functions, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia.

The table below sets forth, for the periods indicated, consolidated operating revenues by geographic area and the percentage of total consolidated operating revenues.

	Six months ended June 30,			
Geographic Area	**2003**		**2004**	
	(millions of Euro, except percentages)	**%**		**%**
Italy	12,216	80.6	12,071	79.3
Rest of Europe	1,228	8.1	1,225	8.0
North America	308	2.0	243	1.6
Central and South America	1,175	7.8	1,442	9.5
Australia, Africa and Asia	222	1.5	241	1.6
Total consolidated operating revenues	**15,149**	**100.0**	**15,222**	**100.0**

Our **consolidated gross operating profit**, as calculated below, was 7,089 million for the six months ended June 30, 2004 compared to 6,921 million for the six months ended June 30, 2003 (please see table below), an increase of 168 million or 2.4%.

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

	Six months ended June 30,	
	2003	**2004**
	(millions of Euro)	
Operating income	**3,281**	**3,596**
Depreciation and Amortization	3,357	3,212
Other external charges: (*)		
• Provision for bad debts	200	132
• Write-downs of fixed assets and intangibles	2	1
• Provision for risks	61	34
• Other provisions and operating charges	171	230
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(151)	(116)
Gross Operating Profit	**6,921**	**7,089**

(*) The following items included as part of Other external charges are added back to operating income in the calculation of Gross Operating Profit.

Excluding the charges for the TLC license fee (119 million) recorded in the six months ended June 30, 2003, our consolidated Gross Operating Profit increased by 49 million or 0.7%. Moreover, excluding the negative effects of exchange rate fluctuations (10 million) and the changes in the scope of consolidation

(236 million, mainly due to the disposal of New SEAT), organic growth of Gross Operating Profit was 4.3% (an increase of 295 million) and arose principally from the Mobile Business Unit (an increase of 245 million, of which 185 million related to the domestic market) and Wireline Business Unit (an increase of 78 million).

Gross Operating Profit was impacted by:

- the lower costs of personnel a decrease of 174 million, from 2,229 million in the six months ended June 30, 2003 to 2,055 million in the six months ended June 30, 2004 as a result of the changes in the scope of consolidation (mainly related to the Internet and Media Business Unit) and the reduction at the parent company Telecom Italia in the average number of employees. As a percentage of operating revenues, personnel costs decreased from 14.7% in the six months ended June 30, 2003 to 13.5% in the six months ended June 30, 2004; and

- the increase in costs of external services rendered (included under Other external charges) and cost of materials mainly as a result of continuing development of the telecommunications activities.

Gross operating margin was 46.6% in the six months ended June 30, 2004 compared to 46.5% in the six months ended June 30, 2003 on a comparable basis which excludes only the TLC license fee from the first half of 2003.

Our **consolidated operating income** amounted to 3,596 million for the six months ended June 30, 2004 compared to 3,281 million for the six months ended June 30, 2003, an increase of 315 million or 9.6%. Excluding the charges for the TLC license fee (143 million) recorded in the six months ended June 30, 2003, operating income increased by 172 million or 5.0%. Moreover, excluding the effects of the changes to the scope of consolidation, organic growth was 310 million or 9.4%.

The increase in operating income was largely due to the decrease of 145 million in depreciation and amortization (from 3,357 million in the six months ended June 30, 2003 to 3,212 million in the six months ended June 30, 2004) and the decrease in the provision for bad debts (from 200 million in the six months ended June 30, 2003 to 132 million in the six months ended June 30, 2004, mainly as a result of the decrease at parent company Telecom Italia). The decrease in depreciation and amortization was principally due to the following:

- the decrease of 206 million in amortization of goodwill from 985 million in the six months ended June 30, 2003 to 779 million in the six months ended June 30, 2004, mainly due to the disposal of New SEAT and the write-down of goodwill made in 2003; and

- the increase in amortization and depreciation of fixed intangible (other than goodwill) and tangible assets of 61 million from 2,372 million in the six months ended June 30, 2003 to 2,433 million in the six months ended June 30, 2004, principally due to the amortization of the UMTS license by TIM S.p.A..

As a percentage of operating revenues, operating income was 23.6% in the six months ended June 30, 2004 compared to 22.6% in the six months ended June 30, 2003 on a comparable basis which excludes only the TLC license fee from the first half of 2003.

Total **financial income and expense, net** showed an expense balance of 931 million in the six months ended June 30, 2004 (an expense balance of 1,273 million in the six months ended June 30, 2003), representing an improvement of 342 million compared to the first half of 2003.

Financial income (which includes interest and other income on securities, interest income from banks, affiliated and other companies and gain on foreign exchange as well as certain other miscellaneous income, including income on derivative contracts) increased by 51 million from 453 million in the first half of 2003 to 504 million in the first half of 2004. In particular, financial income included 62 million of gains on the sale in January 2004 of the residual stake (14.78%) held by the Group in Telekom Austria.

Financial expense (which includes interest expense on financial indebtedness, foreign exchange losses and income or loss from equity investees) decreased by 291 million from 1,726 million in the first half of 2003 to 1,435 million in the first half of 2004. Such improvement was principally attributable to the fact that in the first half of 2003 this item included the provision of 143 million relating to certain put/call options with J.P. Morgan exercised early, and finalized in August 2003, relating to Seat Pagine Gialle shares, as well as the expenses and commissions connected with the Merger of Old Telecom Italia and Olivetti (47 million).

Other income and (expense), net improved from a net expense of 704 million in the first half of 2003 to a net expense of 320 million in the first half of 2004, a decrease of 384 million.

Other income of 146 million decreased by 34 million compared to the first half of 2003 and comprised:

- gains of 69 million on the sale of equity investments, fixed assets and business segments (gains for the first half of 2003 totaled 46 million); and
- other income of 77 million (134 million in the first half of 2003, of which 131 million was for prior period income arising from the recovery of pre-amortization interest on the expenses for employee benefit obligations under Law No. 58/1992 that were paid, with reserve, to INPS up to 1999 following the termination of litigation after the courts ruled in Old Telecom Italia s favor).

Other expenses amounted to 466 million and decreased by 418 million mainly as a result of the following costs and expenses incurred in the first half of 2003: the expenses in connection with the sale of New SEAT (252 million); the expenses connected with the Merger between Old Telecom Italia and Olivetti (110 million); the provision relating to the transaction with Pagine Italia (55 million) and the write-down of the goodwill of EPIClink and other provisions related to equity investments (70 million). In the first half of 2004, other expenses included:

- 282 million relating to the costs incurred in connection with the transaction with De Agostini ended through the acquisition of a 40% equity interest in Webfin (which owns 66% of Matrix) at a selling price of 325 million against a value, as assessed by evaluations carried out by third parties, of 43 million;
- 45 million (86 million in the first six months of 2003) of expenses and provisions for employee cutbacks and layoffs (of which 36 million was borne by the parent company Telecom Italia; 58 million for the first half of 2003);
- 39 million of expenses under the Law No. 58/1992 to cover employees under the former Telephone Employees Pension Fund (FPT) (43 million for the first half of 2003);
- 3 million for prior period taxes (30 million in the first half of 2003 for the portion of the cost of the tax amnesty not covered by the reserve for income taxes); and
- 2 million for losses on the sale of intangible, fixed assets and long-term investments (6 million for the first half of 2003), 11 million for provisions to reserve for risks and charges and 84 million for prior period expenses and other miscellaneous expenses (83 million for the first half of 2003).

* * *

As of June 30, 2004, the Telecom Italia Group had 93,178 units compared with 93,187 units at December 31, 2003. Such change was due to the changes to the scope of consolidation (a decrease of 614 units, of which 188 units and 123 units relating to the sale of CIPI and GPP group, respectively, by the Internet and Media Business Unit and 257 units as a result of the outsourcing of the Document management activities by Telecom Italia and Emsa Servizi) substantially offset by turnover (an increase of 605 units).

The table below sets forth, for the periods indicated, the number of employees related to the Telecom Italia Group.

	As of June 30, 2004	**As of December 31, 2003**	**As of June 30, 2003**
Italy	77,478	78,069	83,362
Abroad	15,700	15,118	19,179
Total employees	**93,178**	**93,187**	**102,541**

Business Units

The following discussion relates to our principal Business Units as they were organized in the first half of 2004.

In particular, on March 1, 2004, the Latin America Operations function was disbanded. This function was set up in 2002 and reported to the head of the Mobile Business Unit for mobile telecommunications and to the CEO Carlo Buora for wireline telecommunications and was responsible for the global coordination of all the activities of the Group in Latin America. Telecom Italia Latam S.A. has now taken over the new role of the delocalized Corporate function in Latin America, consistent with our chosen strategy to consolidate and develop our international presence in the Latin America geographical area. Paolo Dal Pino, from March 1, 2004, was appointed by Telecom Italia s Chairman Marco Tronchetti Provera as Representative of Telecom Italia Group in Latin America. The Wireline and Mobile Business Units with their present corporate organizational structure are nevertheless responsible for the results of the subsidiaries in Latin America under their control.

As a result of this reorganization and with effect on January 1, 2004, the company Telecom Italia Latam S.A. and the business segment South America of Telecom Italia are included in Other Activities.

Wireline

The following table sets forth, for the periods indicated, certain financial data for the Wireline Business Unit.

	Six Months ended June 30,	
Wireline	**2003(1)**	**2004**
	(millions of Euro, except percentages)	
Gross operating revenues	8,569	8,684
Gross operating profit	3,979	4,124

% of gross operating revenues	46.4	47.5
Operating income	2,433	2,639
% of gross operating revenues	28.4	30.4

(1) The data relating to the first half ended June 30, 2003 has been reclassified and presented consistent with the first half ended June 30, 2004 presentation.

During the first six months of 2004, Gross operating revenues increased by 115 million or 1.3% compared to the same period of the prior year, confirming the positive trend registered in the year 2003 (an increase of 1.0% compared to 2002); organic growth was 0.9% (an increase of 74 million). The increase was due to the significant growth in innovative services such as broadband, in domestic and international markets (France and Germany), innovative data transmission and web services. Revenues from Wholesale services also increased while revenues from Retail Telephone and Retail Value Added Services decreased. In particular, in the first six months of 2004, the European broadband activities (France and Germany) contributed total revenues of 84 million.

Wireline records gross operating revenues in the following business areas: retail telephone, retail internet, data business, retail value added services (VAS) and wholesale services.

Retail Telephone. Retail telephone revenues consist mainly of traffic revenues and fee revenues: traffic revenues are directly related to traffic volumes, tariffs and fees for tariff packages; fees are attributable to access fee, fees for additional services and for equipment rental and assurance.

Revenues from Retail Telephone were 5,144 million in the first half of 2004, a slight decrease of 44 million, or 0.8% compared to the first half of 2003 principally due to a decline in traffic revenues that were partly offset by the sale of products, especially the Aladino cordless phone.

Wireline Business Unit has implemented various strategies to strengthen customer loyalty and to limit the impact of increasing competition. In particular Retail Telephone has been adding new attractive features to the flat rate tariff structure, including new value-added service packages (such as Tutto 4*) and new devices such as Aladino, launched during the previous year, which allow easy usage of new services. These strategies and the continued enlargement of the range of tariff packages have been critical in Wireline s defense of market share on traffic volumes. Telecom Italia s market share in retail traffic volumes voice and on line traffic (on line traffic is included in Retail Internet) as of June 30, 2004 was 71.9% compared with 71.6% as of June 30, 2003.

This result reflects retention and win back policies supported by Teleconomy and Hellò offers, combined with selective marketing strategies for high value customers. Flat Voice Offers (Teleconomy offers and other business customized offers) had more than 5.7 million users as of June 30, 2004 compared to 5.5 million at the same period of the previous year.

Retail Internet and Data Business. Retail Internet services consist mainly of ADSL services (connections, traffic, services, equipment and portals) and traditional internet traffic (such as dial-up), which is declining as ADSL is growing. Retail Internet revenues consist primarily of internet dial-up traffic revenues and revenues from access fees for ADSL connections. Data Business consist primarily of:

- data transmission and network services for business customers; and
- leased lines that are trunk lines offering a customer-subscriber a permanent connection for telecommunication services between two geographically separate points. This kind of connection can be used to handle high volume voice, data or video transmission.

Revenues from Retail Internet and Data Business were 1,232 million, an increase of 145 million, or 13.3%, compared to the same period of the previous year. The growth was driven mainly by the Alice Adsl and Smart Adsl offers which increased by 147 million, or 134% and innovative data transmission services increasing by 50 million, or 20% compared to the first half of 2003, partly offset by internet dial-up traffic (a decrease of 19 million compared to the first half of 2003) and traditional data transmission services, including leased lines (a decrease of 44 million compared to the first half of 2003).

As of June 30, 2004, broadband accesses equaled 3,273,000 (an increase of 1,073,000 compared to December 31, 2003), which included 2,975,000 domestic broadband accesses (an increase of 935,000 compared to December 31, 2003) and 298,000 international broadband accesses (an increase of 138,000 compared to December 31, 2003).

Retail Value Added Services (VAS). VAS consist of new services for all Wireline customers such as Web Services, Outsourcing and Security for Business customers and SMS (short messages from fixed telephone), Memotel (centralized mailbox) and Chi è (identification of calling number) for residential customers.

Revenues from VAS, were 486 million in the first half of 2004, a decrease of 115 million, or 19%. The reduction is attributable to the premium services (a decrease of 176 million), partly offset by other innovative services (Web services, Security, Multimedia) which increased by 21%, an increase of 61 million.

Wholesale Services. Wholesale services consist of national and international services to other domestic and international operators. Services offered to other domestic operators (wireline and wireless operators as well as Internet service providers) consist mainly of interconnection to Telecom Italia s network, in terms of access and traffic (carried traffic and transits); broadband access (ADSL and XDSL access); and leased lines. Services offered to international operators consist mainly of traffic (carried traffic and transits) and data access.

Revenues from Wholesale Services were 1,647 million in the first half of 2004, an increase of 45 million, or 3% compared to the same period of 2003. Domestic Wholesale Services increased by approximately 27 million due to Broadband services. International Wholesale Services increased by approximately 18 million, due to growth in traffic volumes carried for other operators.

In the first half of 2004, total Wireline traffic revenues were 3,916 million a decrease of 193 million or 4.7% compared to the same period of 2003. Retail traffic decreased by approximately 236 million, mainly due to tariff packages (offering discounted tariffs with a monthly fee), price competition and internet dial up traffic reduction, partially offset by strong ADSL traffic growth. Wholesale traffic, increased by 43 million, mainly in traffic carried to other operators.

As of June 30, 2004, the number of subscriber fixed lines in Italy decreased to 26,264 thousand from 26,596 thousand as of December 31, 2003. Such decrease takes into account ISDN lines, equal to 5,941 thousands as of June 30, 2004 (6,027 thousand lines as of December 31, 2003).

The contribution of Wireline Business Unit to our consolidated operating revenues amounted to 7,657 million in the first half of 2003 and 7,762 million in the first half of 2004.

Gross operating profit increased by 145 million, or 3.6% from 3,979 million in the six months ended June 30, 2003 to 4,124 million in the six months ended as of June 30, 2004 (excluding the charges for the TLC license fee recorded in the six months ended June 30, 2003, gross operating profit increased by 85 million, or 2.1%), due to the result of an efficiency plan that brought savings in personnel cost and in discretionary operating expenses.

Gross operating margin improved by 1.1% from 46.4% in the first half of 2003 to 47.5% in the first half of 2004.

Operating income increased by 206 million, or 8.5% from 2,433 million in the first six months ended June 30, 2003 to 2,639 million in the first six months ended June 30, 2004, as a result of the improvement in gross operating profit and a significant reduction in depreciation and amortization. Excluding the charges for the TLC license fee recorded in the six months ended June 30, 2003, operating income increased by 4.8%.

Operating margin improved by 2.0% from 28.4% in the first half of 2003 to 30.4% in the first half of 2004.

As of June 30, 2004, the Wireline Business Unit had 51,329 employees, an increase of 563 units compared to December 31, 2003 (50,766 employees). This was due to the hiring of 1,226 persons, including 860 in Telecontact Center, who had been self-employed and operating in Atesia, and the increase in resources for Telecom Italia France, offset by 904 resignations (mainly in Telecom Italia Wireline). There were also organizational changes concerning the activities conducted by the company s telephone exchange services which brought 216 persons to Wireline. In addition, there were intercompany transfers involving 19 persons and the acquisition of the company Telefonia Mobile Sammarinese which increased employees by six.

Mobile (TIM group)

The following table sets forth, for the periods indicated, certain financial data for the Mobile Business Unit.

	Six Months ended June 30,	
Mobile	**2003**	**2004**
	(millions of Euro, except percentages)	
Gross operating revenues	5,534	6,152
Gross operating profit	2,624	2,918
% of gross operating revenues	47.4	47.4
Operating income	1,826	1,967
% of gross operating revenues	33.0	32.0

The following table sets forth for the periods indicated, certain domestic Italian statistical data for TIM.

	Six Months ended June 30,	
	2003	**2004**
TIM lines at period-end (thousands)(1)	25,610	26,011
TIM lines growth per annum (%)	5.8	1.6
Average revenue per mobile line per month ( )(2)	28.3	29.4
Cellular penetration at period-end (TIM customers per 100 inhabitants)(%)	44.4	45.1
Cellular market penetration at period-end (customers for the entire market per 100 inhabitants)(%)	94.4	102.0
Total mobile outgoing traffic per month (millions of minutes)	1,995	2,145

(1) Includes lines of TACS and GSM services, including Prepaid Customers and excludes the silent lines.
(2) Including Prepaid Card revenues and non TIM customer traffic revenues and excluding equipment sales.

TIM group gross operating revenues from mobile services were 6,152 million for the six months ended June 30, 2004, an increase of 618 million, or 11.2% in the first half of 2004 compared to 5,534 million for the first half of 2003. Excluding the effect of changes in exchange rates, organic growth in revenues would have been 664 million, or 12.1% compared to the six months ended June 30, 2003.

This increase was primarily due to TIM s performance in the Italian market where revenues increased by 6.8%, despite increasing competition, and to the development of the international activities, in particular in Brazil. The contribution of international activities was 1,365 million, up 29.8% due in particular to development in Brazil, where revenues of 800 million were posted (an increase of 47.1% compared to the first half of 2003 and an increase of 49.7% excluding the exchange rate effects).

The contribution of the Mobile Business Unit to our consolidated operating revenues was 5,401 million in the first half of 2003 and 6,032 million in the first half of 2004.

Gross operating profit was 2,918 million in the first half of 2004, an increase of 294 million, or 11.2% compared to the first half of 2003 (2,624 million). The gross operating margin remained stable at 47.4%. Excluding the effect of changes in exchange rates and the telecommunication license fee, the growth in gross operating profit would have been 9.2%. The improvement in gross operating profit can be attributed to the