PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

Strong competition in Italy may further reduce our core market share of domestic and international traffic and may cause further reductions in prices and margins.

Strong domestic competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, our fixed-line and mobile voice telecommunications businesses. This competition may increase further due to the consolidation and globalization of the telecommunications industry in Europe and elsewhere. Consolidation is increasing rapidly and competition is expected to rise at all levels in the future. In addition, the use of the single European currency and the liberalization of the Italian telecommunication market has further intensified competition by facilitating international operators' entry into the Italian market and direct competition with our fixed line and mobile telephony businesses, particularly in the local and long-distance markets. As of December 31, 2004, there were a number of significant competitors offering fixed-line services and three other operators (besides TIM) offering mobile services in the Italian domestic market; the third mobile competitor (H3G) entered the market in 2003, offering third generation commercial services. Although we stopped the decline in our market share of voice traffic in our fixed line business during 2003 and maintained our market share in 2004, continuing pressures on prices due to competition and further erosion in market shares could adversely affect our results of operations. Continuing changes to the regulatory regime, including carrier preselection, number portability and local loop unbundling as well as the implementation of new EU telecommunications directives and the continuing entry of strong international operators in our markets are increasing competition for the services we provide, particularly in our fixed line business, which could also adversely affect our business.

Our business may be adversely affected and we may be unable to increase our revenues if we are unable to continue the introduction of new services to stimulate increased usage of our fixed and wireless networks.

In order to sustain growth in revenues despite increased competition and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line and wireless businesses to increase traffic on our networks and find alternative revenue sources, in addition to carrying voice traffic on our networks. These services include non-voice services such as ADSL, which provides services such as fast Internet, multimedia and video conferencing, data traffic and value-added services such as interactive mobile services that allow users to receive news or engage in simple banking transactions. Other revenue sources also include increased interconnection traffic from other operators using our fixed-line network. In addition to the introduction of new services in recent years, we continue to develop new products and services, such as new data services for business customers, broadband services, enhanced communication services and new equipment and voice packages, in order to attract and retain customers, particularly business customers, and to stimulate usage of our fixed and wireless telecommunications network. We are also investing in new infrastructure and technologies to enable us to introduce new products and services. These strategic initiatives have required and will continue to require substantial expenditures and commitment of human resources. Although these initiatives are core to our strategy, we may be unable to introduce commercially these new products and services, and even if we introduce them, there can be no assurance they will be successful.

Our business will be adversely affected if we are unable to successfully implement our business plans, particularly in light of the Merger and the TIM Acquisition. Factors beyond our control may prevent us from successfully implementing our strategy.

Following the change in control of Old Telecom Italia in late 2001, we adopted our 2002-2004 Industrial Plan (the “Industrial Plan”) and established priorities for this three year period. The main objectives were to:

- Strengthen competitive capabilities;
- Improve cost efficiency; and
- Strengthen the financial structure.

The most significant objectives of the Industrial Plan were achieved, particularly the sale of non-core assets and debt reduction. We also took steps to strengthen our competitive position in our core Italian domestic market through the introduction of new products and tariff packages and our focus on lowering costs through the reduction of operating expenses and capital expenditures.

In order to satisfy a series of business needs, prompted by the progressive convergence between fixed and mobile platforms, Telecom Italia decided to make the TIM Acquisition. The strategic and industrial objectives of the TIM Acquisition are to:

- simplify the chain of ownership of the group;
- unify management of the fixed and mobile businesses to improve business opportunities;
- realize significant synergies from the integrated management of fixed and mobile telecommunications in Italy and abroad; and
- optimize financial and cash flows within the Telecom Italia Group by managing our debt more efficiently, making better use of financial leverage and reducing our weighted average cost of capital.

In connection with the Merger and the TIM Acquisition, we confirmed the objectives and guidelines of the Industrial Plan and established certain targets for the 2005-2007 period, which include strict capital expenditures and cost controls and instituting other actions to ensure the reduction of the debt level we have as a result of the Merger and the TIM Acquisition. See “Item 3. Key Information—3.1 Risk Factors—As a result of the Merger and the TIM Acquisition we remain highly leveraged”.

Factors beyond our control that could affect the implementation and achievement of the strategic objectives of the TIM Acquisition and reaching our targets for the period 2005-2007 include:

- our ability to manage costs;
- our ability to attract and retain highly-skilled and qualified personnel;
- our ability to effectively integrate the Telecom Italia and TIM organizations;
- our ability to achieve the synergies anticipated from the TIM Acquisition;
- our ability to leverage on our core skills with particular focus on Latin America mobile and international broadband operations;
- difficulties in developing and introducing new technologies, managing innovation, providing value-added services and increasing usage of our networks;
- our ability to manage the fixed to mobile substitution trends;
- our ability to divest additional non-core businesses and the adequacy of the returns of such divestitures;
- the need to establish and maintain strategic relationships;
- declining prices for some of our services and increasing competition;
- the effect of adverse economic trends on our principal markets;
- the effect of foreign exchange fluctuations on our results of operations; and
- the success of new “disruptive” technologies that could cannibalize fixed and mobile revenues.

Regulatory decisions and changes in the regulatory environment could adversely affect our business.

Our fixed and mobile telecommunications operations, as well as our broadband services businesses, are subject to significant extensive regulatory requirements in Italy and our international operations and investments are subject to regulation in their host countries. In Italy, we are the only operator subject to universal service obligations, which requires us to provide:

- fixed line public voice telecommunications services in non-profitable areas;
- subscriber information services at affordable prices; and
- public payphones.

In addition, the Italian regulator responsible in Italy for the regulation of the telecommunications, radio and television broadcasting sector (the "National Regulatory Authority") has identified the Company as an operator having significant market power in all relevant markets. As a result, we are, and, if we continue to be identified as having significant market power in all relevant markets, will be, subject to a number of regulatory constraints, including:

- a requirement to conduct our business in a transparent and non-discriminatory fashion;
- a requirement to have our prices for fixed voice telephony services and Reference Interconnection Offer, the tariff charged to other operators to utilize our network, subject respectively to a price cap and a network cap mechanism. This cap mechanism places certain limits on our ability to change our prices for certain services; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-oriented prices. These services include allowing other operators to connect to our network and transport traffic through the network as well as offering certain services related to our local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from us.

As a member of the EU, Italy is required to adapt its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002 which has been effective in Italy since September 2003. Included within this new framework is the obligation on the part of the National Regulatory Authority to identify operators with "significant market power" based on a market analysis in eighteen separate retail and wholesale markets, in which it is considered necessary to intervene to protect free competition. The National Regulatory Authority is currently conducting its analysis. The new framework establishes criteria and procedures for identifying remedies applicable to operators with "significant market power." The conclusion of this analysis and the implementation of these revised telecommunications regulations and possible future decisions relating thereto, which is expected to be completed before the second half of 2005, may change the regulatory environment in a manner adverse to us, particularly as they relate to new services which may not currently be part of the eighteen identified markets. Please see "Item 4. Information on the Telecom Italia Group—4.3 Regulation" in this report for more information on the regulatory requirements to which we are subject.

We are unable to predict the impact of any proposed or potential changes in the regulatory environment in which we operate both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which we are subject or extend them to new services and markets. In addition, changes in tax laws in countries in which we operate could adversely affect our results of operations. Finally, decisions by regulators regarding the granting, amendment or renewal of licenses, to us or to third parties, could adversely affect our future operations in Italy and in other countries where we operate.

We may not achieve the expected return on our significant investments and capital expenditures made in Latin America and in our other selected international investments due to the competitive environment in these markets.

In recent years we have repositioned our international strategy, sold significant non-core international assets, and elected to focus our international strategy on:

- consolidating our international presence in Latin America, Europe and the Mediterranean Basin;
- developing our international investments in high-growth market segments, such as wireless, data and Internet (broadband);
- strengthening our role of strategic partner in existing investments by increasing the transfer of our technological expertise and marketing know-how; and
- rationalizing our existing international portfolio by divesting minority participations in non-strategic geographical markets.

As a result of this change in strategy, in the 2002-2003 period we divested certain of our most significant European assets such as BDT (Bouygues Decaux Telecom), Autel (Mobilkom Austria), Telekom Austria, 9Telecom group and Auna. Consistent with our strategy to focus our Latin American operations principally in Brazil, we recently disposed of Entel Chile (Chile) and intend to sell our interest in Corporacion Digitel (Venezuela) and we will continue to seek to divest certain international non-strategic assets. In April 2005, we entered into an agreement to sell our stake in TIM Hellas, our Greek mobile telecommunications operator. In addition, certain investments which were made during the 1999-2001 period declined significantly in value resulting in write-downs and asset impairments which materially adversely affected our results of operations in 2002, and to a lesser degree in 2003 and 2004. We will continue to target our international investments in Latin America, particularly mobile telecommunications in Brazil, European broadband and mobile telecommunications in selected markets. These investments will continue to require significant capital expenditures and there can be no assurance that we will be able to achieve a satisfactory return on our investments or that we will not suffer further losses and write-downs in markets where we have decided to focus our investments.

Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments.

The telecommunications industry is in a period of rapid technological change. Many of the services we offer are technology-intensive and the development of new technologies may render such services non-competitive or reduce prices for such services. We make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may not prove to be commercially successful. In addition, we may not receive the necessary licenses to provide services based on new technologies in Italy or abroad. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have the obligations to maintain an installed base of older equipment. As a result, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base.

The value of our operations and investments may be adversely affected by political and economic developments in Italy or other countries.

Our business is dependent on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect our business and results of operations. We may also be adversely affected by political and economic developments in other countries where we have made significant investments in telecommunications operators. Some of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments. We have had investments in Turkey, Argentina and Brazil in recent years in which we have had to take significant write-downs in value due to political and economic developments in those countries. A significant additional risk of operating in emerging market countries is that foreign exchange restrictions could be established. This could effectively prevent us from receiving profits from, or from selling our investments in, these countries.

Fluctuations in currency exchange and interest rates may adversely affect our results.

Because we have made substantial international investments, primarily in U.S. dollars, and have significantly expanded our operations outside the euro zone, particularly in Latin America, movements in the exchange rates of the euro against other currencies can adversely affect our revenues and operating results. A rise in the value of the euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position. In addition, we have raised, and may raise in an increasing proportion in the future, financing in currencies other than the euro, principally the U.S. dollar. Accordingly, the value of those liabilities will be affected by fluctuations of the currencies of the countries in which we operate against the currency in which the financing is denominated. We generally enter into a number of forward currency transactions, swaps and options to manage foreign currency risk exposure with respect to our non-euro denominated liabilities. However, we can give no assurances that we will be successful in managing foreign currency risk exposure, taking into consideration that appropriate foreign currency swaps and options may not be available as needed on the relevant financial markets. In recent years reported results of our Latin American operations have been adversely affected by changes in local currencies against the euro. In particular, in 2004 the strengthening of the euro against the local currencies in Latin America adversely affected the revenues of the Mobile Business Unit by €150 million.

Our total gross financial debt at year end 2004 was €38,844 million (€41,465 million at year end 2003). On January 28, 2005, in connection with the Cash Tender Offer for TIM ordinary and savings shares as part of the

TIM Acquisition, we borrowed an additional €11.3 billion under a €12 billion Term Loan Facility, granted by a pool of Italian and international banks (€0.7 billion of the Tranche A was partially cancelled at the time of drawdown). On February 11, 2005, the remaining €2.3 billion of Tranche A was repaid in advance and cancelled, leaving €9 billion outstanding under the Term Loan Facility. Interest on this debt is calculated by applying an average spread over Euribor of 0.55 basis points. As a result, our total interest payable will increase in 2005 compared to 2004 and our exposure of total debt subject to floating interest rates has increased as well.

We enter into derivative transactions to hedge our interest exposure and to diversify debt parameters in order to reduce debt cost and volatility within predefined target boundaries. However, we can give no assurance that fluctuations in interest rates will not adversely affect our results of operations.

We may not realize the benefits of our investment in our UMTS license and related capital expenditures.

Through TIM, we have acquired a third generation mobile telephone, or UMTS, license to commence operations of UMTS services in Italy. TIM committed to pay €2,417 million for its license, with €2,066 million paid in December 2000 and three installments of €117 million paid in November 2001, November 2002 and December 2003. The size of the market for UMTS products and services is unknown and may fall short of the industry’s expectations. We cannot be certain that the demand for such services will justify the related costs. We have made investments, although required under our license, which may not be commercially desirable. In addition, there are a number of significant competitors in Italy offering these services including one competitor only offering third generation services, which competitor entered the market prior to our third generation services being available.

We have made significant investments, in accordance with the terms and conditions of our license, to create the infrastructure to offer UMTS services. TIM commenced offering UMTS services in Italy in the second half of 2004 and it is not yet possible to assess the response of the market. Given the substantial costs of upgrading our existing networks to support UMTS and the uncertainty regarding the commercial adoption of UMTS, we may not be able to recoup our investment according to our estimates, if at all.

The mobile telecommunications market in Italy has matured and become saturated in recent years and growth has slowed significantly which means our revenues may not grow as rapidly as in the past.

In recent years, our consolidated revenues have grown or remained stable in large part because of the rapid growth in the mobile communications business which has offset flat or declining revenues in our Italian fixed line business. This growth has been driven largely by the rapid expansion of the mobile telecommunications market in Italy. However, as a result of this growth, the Italian market is approaching saturation levels, with penetration rates now around 109% (due to many subscribers having more than one line). TIM’s domestic market share declined in 2004 from approximately 46% in the past two years to 42% at the end of 2004. As a result, revenue growth is no longer driven by the rapid subscriber growth which TIM experienced in the 1998-2001 period. Offsetting this decline has been growth in international markets, particularly Brazil, but these markets on the whole are not yet profitable.

Continued growth in the mobile telecommunications markets in which we operate will depend on a number of factors, many of which are outside our control. These factors include:

- the activities of our competitors, including consolidation, tariff reductions and handset subsidies;
- competitive pressures and regulations applicable to retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and the attractiveness of these to customers;
- the success of new disruptive technologies;
- customer usage habits;
- general economic conditions; and
- health risks or safety concerns associated with mobile telephones and transmission equipment.

If the mobile telecommunications markets in which we operate do not continue to expand, or we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed.

Devaluations of telecom assets and write-downs could adversely affect our financial condition and results of operations.

In recent years the market for telecom stocks and credit ratings of market participants, as well as our ongoing review and refinement of our business plan, resulted in substantial impairment write-downs of our assets (in particular goodwill) which materially adversely affected our results of operations in 2001 and 2002. Although the negative impact of write-downs in 2003 and 2004 was much lower than 2001 and 2002, there can be no assurance that similar events in the future may not result in further substantial impairment write-downs from assets.

We may be adversely affected if we fail to successfully implement our Internet and broadband strategy in Italy and internationally.

The introduction of Internet and broadband services are an important element of our growth strategy and means to increase the use of our networks in Italy and expand our operations outside of Italy, particularly in Europe. Our strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users' preferences;
- broadband penetration in Italy and other European countries does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

Outside of Italy our ability to implement this strategy will depend on whether we are able to acquire assets or networks or utilize networks of incumbent operators that will allow us to offer such services.

Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

As a result of the Merger and the TIM Acquisition we remain highly leveraged.

Under Italian GAAP, our gross financial debt was €38,844 million at December 31, 2004 compared with €41,465 million at December 31, 2003, and our total net financial debt was €29,525 million as of December 31, 2004 compared with €33,346 million at December 31, 2003. See "Item 3. Key Information—3.3 Selected Financial and Statistical Information—Note 9" which reconciles our net financial debt to our gross financial debt.

At December 31, 2004, our gross and net financial debt did not include debt incurred for the TIM Acquisition. As a result of the total outlay borne by Telecom Italia for the purchase of TIM shares tendered and accepted in the Public Tender Offer, we have incurred additional debt of €9 billion and, after taking into account certain cash payments (€2.5 billion for the Public Tender offers and €2.3 billion used to repay a portion of the Term Loan Facility), net financial debt would have increased by €13.8 billion. As a result of the tender offer and related transactions, our pro forma gross financial debt and pro forma net financial debt at December 31, 2004 would have been €47.8 billion and €43.3 billion, respectively. Under IFRS net financial debt would increase a further €3.3 billion. We are targeting reducing our net financial debt through:

- significant cash flow generation by our core businesses, and
- net proceeds from disposals used to reduce outstanding debt.

There can be no assurance that factors beyond our control, including but not limited to deterioration in general economic conditions, will not significantly affect our ability to generate cash to reduce debt or to refinance existing debt through further borrowing.

System failures could result in reduced user traffic and reduced revenue and could harm our reputation.

Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunication services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our reputation.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

Various reports have alleged that certain radio frequency emissions from wireless handsets and transmission equipment may be linked to various health concerns and may interfere with various electronic devices. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future. Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability.

In addition, although Italian law already requires strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services.

In 2005 we are obliged to adopt IFRS which will impact our financial results and results of operations as they differ in significant respects from Italian GAAP.

Until 2004, we prepared our consolidated financial statements in accordance with Italian GAAP. In June 2002, the Council of Ministers and the Parliament of the EU adopted new regulations requiring all listed EU companies, including us, to apply IFRS (previously known as “International Accounting Standards” or “lAS”) in preparing their consolidated financial statements from January 1, 2005. Because our consolidated financial statements prepared in accordance with IFRS will differ from our consolidated financial statements prepared in accordance with Italian GAAP, the methods used by the financial community to assess our financial performance and value our publicly-traded securities could be affected.

Please see “Item 5. Operating and Financial Review and Prospects—5.5 Adoption of International Accounting Standards” for a more complete description of the impact of IFRS reporting on our consolidated financial statements.

Risks associated with Telecom Italia’s ownership chain.

Although, as a result of the Merger, no shareholder controlled Telecom Italia, because of the *voto di lista* system for the election of directors, currently 15 out of 21 of our directors (of whom, however, 11 are considered independent) were elected from a slate of candidates proposed by Olimpia, which is currently the largest shareholder in Telecom Italia. As a result of a series of transactions entered into by Olimpia, as of the date hereof, Olimpia holds 21.4% of the Telecom Italia shares. Upon completion of the merger in connection with the TIM Acquisition, and based on the exchange ratio established for the merger of TIM into Telecom Italia, it is estimated that Olimpia’s stake in Telecom Italia will be diluted back to approximately 18% on completion of the merger of TIM into Telecom Italia. See “Item 7. Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.1 The Olimpia Shareholders’ Agreements”.

In addition, Marco Tronchetti Provera and Carlo Orazio Buora, respectively Executive Chairman and Managing Director of Telecom Italia, are also, respectively, Chairman and Managing Director of Pirelli & C. S.p.A., which currently owns a 57.66% stake in Olimpia. Mr. Tronchetti Provera is Chairman of Olimpia and Mr. Buora is a member of Olimpia’s board of directors. See “Item 6. Directors, Senior Management and Employees—6.1 Directors—6.1.1 Biographical Data”.

Although Olimpia does not and will not own a controlling interest in Telecom Italia voting shares, Olimpia retains significant power as a result of its proposal of a majority of the present Telecom Italia Board members who were elected in May 2004. As a result, Olimpia may be able to influence certain corporate actions and may exert a significant influence on all matters to be decided by a vote of shareholders. In principle, the interests of Olimpia in deciding these matters could be different from the interests of Telecom Italia’s other ordinary shareholders and it is possible that certain decisions could be taken that may be influenced by the needs of Olimpia.

Olimpia is in effect a holding company and the sole full operating company in which it holds shares is Telecom Italia. Therefore, if Olimpia were unable to obtain additional funding from new or existing shareholders or from other sources, Olimpia would be entirely dependent on dividends paid on its Telecom Italia shares for its funding needs, including to reimburse its existing debt. Under such circumstances, among the Telecom Italia corporate decisions that could be influenced by the needs of Olimpia would be the level of dividends payable by Telecom Italia to its shareholders.

Telecom Italia’s financial position is not directly related to Olimpia and—as such—Telecom Italia does not have any obligations with respect to such debt since they are separate legal entities. Notwithstanding the foregoing, since certain rating agencies view Olimpia’s and Telecom Italia’s financial position together, such a view could affect our debt ratings, which may adversely affect Telecom Italia’s financial flexibility and its cost of capital.

Although no shareholder controls Telecom Italia and thus is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia’s Bylaws pursuant to compulsory legal provisions: specifically, the so-called “Golden Share” still provides for the Italian State’s authority to approve or disapprove of the acquisition of material interests in our share capital (which is defined as 3% of the voting share capital). Currently, the exercise of special powers by the Italian State with respect to privatized companies (including Telecom Italia) is governed by ad hoc rules and the special powers themselves are undergoing further changes, but it is possible that the Italian State’s Golden Share could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer. See “Item 7. Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.3 Continuing Relationship with the Italian Treasury”.

Table of Contents

3.2 EXCHANGE RATES

We publish our consolidated financial statements in euros. References to “€”, “euro” and “Euro” are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to “lire”, “lira” and “Lit.” are to Italian lire, the former Italian non-decimal denomination of the euro, and references to “U.S. dollars”, “dollars”, “U.S.$” or “$” are to U.S. dollars, the currency of the United States of America. The exchange rate at which the lira was irrevocably fixed against the euro is Lit.1,936.27 = €1.00.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the “Euro/Dollar Exchange Rate”) of €1.00= U.S.$ 1.3538, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the “Noon Buying Rate”) on December 31, 2004.

These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

The Federal Reserve Bank of New York no longer quotes a Noon Buying Rate for the legacy currencies of any of the Member States.

For the purpose of this Annual Report, “billion” means a thousand million.

The following table sets forth for the years 2000 to 2004 and for the beginning of 2005 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per €1.00.

Calendar Period	High	Low	Average(1)	At Period End
2000	1.0335	0.8270	0.9207	0.9388
2001	0.9535	0.8425	0.8909	0.8901
2002	1.0485	0.8594	0.9495	1.0485
2003	1.2597	1.0361	1.1411	1.2597
2004	1.3625	1.1801	1.2438	1.3538
2005 (through May 23, 2005)	1.3476	1.2630	1.3039	1.2630
Monthly Amounts				
December 2004	1.3625	1.1801	1.2438	1.3538
January 2005	1.3476	1.2954	1.3123	1.3049
February 2005	1.3274	1.2773	1.3013	1.3274
March 2005	1.3465	1.2877	1.3185	1.2969
April 2005	1.3093	1.2819	1.2943	1.2919
May 2005 (through May 23, 2005)	1.2936	1.2553	1.2751	1.2575

(1) Average of the rates for the last business day of each month in the relevant period except for May 2005 for which the date used is May 23, 2005.

The shares and savings shares of Old Telecom Italia and the shares of Olivetti have traded on *Mercato Telematico Azionario* (“Telematico”), managed by Borsa Italiana S.p.A. (“Borsa Italiana”) in euro since January 4, 1999. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Shares and the Savings Shares and the price of the American Depositary Shares (“ADSs”) and the Savings Share American Depositary Shares (“Savings Share ADSs”), on the New York Stock Exchange (“NYSE”). Cash dividends were paid by Old Telecom Italia and Olivetti in lire until 2001 (Olivetti paid no dividend in 2001) and in euro starting from 2002 (Olivetti paid no dividend in 2002). Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Shares and Savings Shares. See “Item 10. Additional Information—10.5 Description of American Depositary Receipts”.

On completion of the Merger, Telecom Italia (formerly Olivetti) became a successor registrant to Old Telecom Italia under the Securities Exchange Act of 1934, as amended (the “1934 Act”) and, therefore, became subject to and continues to file periodic reports under the 1934 Act required for a foreign private issuer. Telecom Italia (formerly Olivetti) obtained a listing of the Shares and Savings Shares issued at completion of the Merger, on the NYSE where such Shares and Savings Shares trade in the form of ADSs.

3.3 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 each of the years ended December 31, 2003 and 2004 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 Telecom Italia Group’s selected financial data as of and for each of the years ended December 31, 2002, 2001 and 2000 have been extracted or derived (other than the 2000 pro forma data) from the Olivetti Group’s consolidated financial statements prepared in accordance with Italian GAAP and which have been audited by the following independent auditors: Reconta Ernst & Young S.p.A. (for the years ended December 31, 2002 and 2001) and PricewaterhouseCoopers S.p.A. (for the year ended December 31, 2000).

Unless otherwise indicated, amounts presented are based on Italian GAAP. The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report.

	Year ended December 31,						
	2000(1)	2000 pro forma (Unaudited) (1)(2)	2001(1)	2002(1)	2003(1)	2004(1)	2004
	(millions of Euro, except per share amounts)						(millions of U.S. dollars, except per share amounts)(3)
Statement of Operations Data in accordance with Italian GAAP:							
Operating revenues	30,116	28,374	32,016	31,408	30,850	31,237	42,289
Other income	483	459	476	504	345	315	426
Total revenues	30,599	28,833	32,492	31,912	31,195	31,552	42,715
Cost of materials	3,058	2,931	2,640	2,315	2,081	2,414	3,268
Salaries and social security contributions	5,245	4,965	4,919	4,737	4,303	4,045	5,476
Depreciation and amortization(4)	6,946	6,509	7,612	7,227	6,779	6,646	8,997
Other external charges	11,136	10,476	12,687	12,188	11,934	12,014	16,265
Changes in inventories	(318)	(296)	92	62	114	(25)	(34)
Capitalized internal construction costs	(912)	(831)	(583)	(675)	(805)	(742)	(1,005)
Total operating expenses(4)	25,155	23,754	27,367	25,854	24,406	24,352	32,967
Operating income(4)	5,444	5,079	5,125	6,058	6,789	7,200	9,748
Financial income	1,202	1,162	1,446	1,569	992	1,381	1,870
Financial expense(4)	(3,857)	(3,648)	(6,559)	(4,647)	(3,256)	(3,215)	(4,353)
Of which write-downs and equity in affiliated and other companies, net	*(1,037)*	*(1,025)*	*(1,771)*	*(487)*	*(91)*	*(30)*	*(42)*
Other income and (expense), net	135	165	(3,109)	(5,496)	(1,083)	(410)	(555)
Income (loss) before income taxes and minority interests	2,924	2,758	(3,097)	(2,516)	3,442	4,956	6,710
Income taxes	(1,923)	(1,813)	(579)	2,210	(1,014)	(3,054)	(4,135)
Net income (loss) before minority interests	1,001	945	(3,676)	(306)	2,428	1,902	2,575
Minority interests	(1,941)	(1,885)	586	(467)	(1,236)	(1,121)	(1,518)
Net income (loss)	(940)	(940)	(3,090)	(773)	1,192	781	1,057
Net income (loss) per Share(5)	(0.20)	(0.20)	(0.36)	(0.09)	0.07	0.04	0.054
Dividends per Share	0.0350	0.0350	—	—	0.1041	0.1093(6)	0.1480
Dividends per Savings Share	—	—	—	—	0.1151	0.1203(6)	0.1629
Amounts in accordance with U.S. GAAP:							
Total revenues	—	—	29,201	29,191	29,467	30,593	41,417
Operating income	—	—	3,538	7,181	8,034	7,006	9,485
Net income (loss) before minority interests, discontinued operations and cumulative effect of accounting changes	—	—	(2,994)	6,341	3,190	2,801	3,792
Minority interests	—	—	18	(3,016)	(1,523)	(1,205)	(1,631)
Net income (loss) from discontinued operations	—	—	(1,050)	(1,369)	195	(55)	(74)
Cumulative effect of accounting changes, net of tax	—	—	20	—	(21)	—	—
Net income (loss)	—	—	(4,006)	1,956	1,841	1,541	2,086
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Basic	—	—	(0.87)	0.82	0.18	0.10	0.14
Net income (loss) per Share before discontinued operations and cumulative effect of accounting changes—Diluted	—	—	(0.87)	0.82	0.18	0.10	0.14
Net income (loss) per Share from discontinued operations—Basic	—	—	(0.31)	(0.34)	0.02	(0.01)	(0.01)
Net income (loss) per Share from discontinued operations—Diluted	—	—	(0.31)	(0.34)	0.02	(0.01)	(0.01)
Net income (loss) per Share from cumulative effect of accounting changes—Basic	—	—	0.01	0.00	(0.01)	(0.00)	(0.00)
Net income (loss) per Share from cumulative effect of accounting changes—Diluted	—	—	0.01	0.00	(0.01)	(0.00)	(0.00)
Net income (loss) per Share—Basic(7)	—	—	(1.17)	0.48	0.20	0.09	0.12
Net income (loss) per Share—Diluted(7)	—	—	(1.17)	0.48	0.20	0.09	0.12

Table of Contents

	As of December 31,						
	2000(1)	2000 pro forma (Unaudited) (1)(2)	2001(1)	2002(1)	2003(1)	2004(1)	2004
	(millions of Euro)						(millions of U.S. dollars)(3)
Balance Sheet Data in accordance with Italian GAAP:							
Total current assets(4)	21,097	20,957	23,417	22,597	22,429	21,980	29,757
Tangible assets, net	23,776	21,072	22,097	19,449	18,324	17,717	23,985
Intangible assets, net(4)	39,528	39,062	39,045	34,412	33,853	32,874	44,505
Total assets	95,360	91,832	94,227	83,384	80,501	76,609	103,713
Short-term debt	16,927	16,536	9,072	6,827	10,613	2,027	2,744
Total current liabilities	30,179	29,207	22,984	20,385	23,373	14,650	19,833
Long-term debt	27,485	25,950	37,747	33,804	30,852	36,817	49,843
Total liabilities	63,994	61,304	67,874	62,760	59,912	56,748	76,825
Total stockholders’ equity before minority interests	13,856	13,856	12,729	11,640	16,092	15,172	20,540
Total stockholders’ equity	31,366	30,528	26,353	20,624	20,589	19,861	26,888
Amounts in accordance with U.S. GAAP:							
Total current assets	—	—	32,449	27,262	21,837	24,885	33,689
Tangible assets, net	—	—	23,924	21,241	21,461	20,780	28,132
Intangible assets, net	—	—	37,752	36,808	58,413	58,385	79,042
Total assets	—	—	104,456	93,893	108,233	107,544	145,593
Total current liabilities	—	—	26,075	21,310	23,617	17,610	23,840
Long-term debt	—	—	41,865	37,684	32,418	39,257	53,146
Total liabilities	—	—	77,304	69,296	68,086	67,789	91,773
Stockholders’ equity(8)	—	—	13,612	15,224	35,067	34,827	47,149

	As of December 31,					
	2000(1)	2000 pro forma (Unaudited) (1)(2)	2001(1)	2002(1)	2003(1)	2004(1)
Financial Ratios in accordance with Italian GAAP:						
Operating income/operating revenues (ROS) (%)	18.1	17.9	16.0	19.3	22.0	23.0
Net debt/Net invested capital (debt ratio)(%)(9)	54.5	53.9	59.3	61.8	61.8	59.8
Ratio of Earnings to fixed charges(10)	2.76	2.87	0.58	0.21	2.55	3.39
Financial Ratios in accordance with U.S. GAAP:						
Ratio of Earnings to fixed charges(10)	—	—	0.68	2.16	3.03	3.63
Employees:						
Group’s employees (at period-end)	120,973	113,475	116,020	106,620	93,187	91,365
Group’s employees (average number)	131,266	123,994	113,974	107,079	95,804	88,892
Operating revenues/Group’s employees (average number) (thousands)	229.40	228.8	280.9	293.3	322.0	351.4
Statistical Data:						
Wireline:						
Subscriber fixed lines in Italy (thousands)(11)	27,153	27,153	27,353	27,142	26,596	25,957
ISDN equivalent lines in Italy (thousands)(12)	4,584	4,584	5,403	5,756	6,027	5,805
Broadband Access in Italy and abroad (ADSL + XDSL)—(thousands)(13)	—	—	390	850	2,200	4,430
Voice Offers in Italy—(thousands)(14)	—	—	4,094	5,224	5,547	5,883

	As of December 31,					
	2000(1)	2000 pro forma (Unaudited) (1)(2)	2001(1)	2002(1)	2003(1)	2004(1)
Network infrastructure in Italy:						
– access network in copper (millions of km—pair)	104.0	104.0	104.3	104.3	105.2	105.2
– access network and transport in fiber optics (millions of km of fiber optics)	3.1	3.1	3.2	3.6	3.6	3.7
Network infrastructure abroad:						
– european backbone (km of fiber optics)	36,600	36,600	36,600	36,600	39,500	39,500
Mobile:						
TIM lines in Italy (thousands)(15)	21,601	21,601	23,946	25,302	26,076	26,259
TIM group foreign lines (thousands)(16)	7,637	7,637	10,923	13,809	18,438	27,563
TIM group lines total (Italy + foreign in thousands)(16)	29,238	29,238	34,869	39,111	44,514	53,822
GSM penetration in Italy (% of population)	99.6	99.6	99.7	99.8	99.8	99.8
Internet and Media:						
Page views Virgilio (millions)	2,218	2,218	3,945	5,267	6,612	7,902
Active User ISP (thousands)	1,656	1,656	1,804	2,227	2,514	3,346
La7 average audience share (%)	2.0	2.0	2.0	1.8	2.2	2.4
La7 audience share (month of December) (%)	1.9	1.9	1.8	2.1	2.2	2.6

(1) Beginning with the consolidated financial statements for the year ended December 31, 2001, under Italian GAAP, Nortel Inversora and the controlled Telecom Argentina group (Nortel Inversora group), which in 2000 were consolidated proportionally, have been accounted for using the equity method. Prior to 2000 the Nortel Inversora group was accounted for using the equity method. Under U.S. GAAP, the Nortel Inversora group is accounted for using the equity method. These differences in accounting treatment for 2000 did not affect net income and stockholders’ equity but had an impact on other line items, such as operating revenues and operating expenses, as well as a number of balance sheet line items.

(2) The 2000 unaudited pro forma amounts give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

(3) For the convenience of the reader, Euro amounts for 2004 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2004 of €1.00 = U.S.$1.3538.

(4) Beginning in 2003, Telecom Italia changed the manner in which it accounts for bond issuance expenses by including them under current assets (prepaid expenses). Previously, such costs were included in Intangible assets, net. Consequently, this change also impacted certain statement of operations items. As a result of this change, the previous periods have been reclassified and presented consistent with the 2003 presentation.

(5) Net loss per Share in 2000 is calculated on the basis of 4,700,065,553 Shares outstanding, net of 214,628,828 Shares of treasury stock of which 2,697,500 Shares were held by the Company and 211,931,328 Shares were held by its subsidiary Olivetti International S.A..

Net loss per Share in 2001 is calculated on the basis of 8,569,072,736 Shares outstanding, net of 214,628,828 Shares of treasury stock held by the Company and by its subsidiary Olivetti International S.A..

Net loss per Share in 2002 is calculated on the basis of 8,630,610,804 Shares outstanding, net of 214,628,828 Shares of treasury stock.

Net income per Share in 2003 is calculated on the basis of 15,996,955,942 shares outstanding, of which 10,201,034,873 Shares and 5,795,921,069 Savings Shares; the 10,201,034,873 Shares outstanding are net of 101,208,867 Shares of treasury stock already held by the Company and its subsidiary Olivetti International S.A. (now Telecom Italia Finance S.A.) resulting from the redistribution of the share capital in connection with the Merger.

The significant changes in share capital compared with the end of 2002 were mainly due to the Merger of Old Telecom Italia into Olivetti, effective from August 4, 2003, which provided for an exchange ratio of 7 Olivetti ordinary shares, par value €1 each, for every ordinary share of Old Telecom Italia, par value €0.55 each, and 7 Olivetti savings shares, par value €1 each for every savings share of Old Telecom Italia, par value €0.55 each. The change in the number of issued shares in the year 2003 can be analyzed as follows:

· *until August 4, 2003*: (a) issuance of 11,361,740 ordinary shares of which 11,137,324 ordinary shares were issued on conversion of “Olivetti 1.5% 2001-2010 convertible bond with redemption premium”, 141,134 ordinary shares were issued on the exercise of “Olivetti 2001-2002 ordinary share warrants” and 83,282 ordinary shares were issued on the conversion of “Olivetti 1.5% 2001-2004 convertible bond with redemption premium”; (b) cancellation of 10,958,057 ordinary shares following the exercise of withdrawal rights of dissenting shareholders as permitted in accordance with the terms of the Merger; (c) cancellation of the remaining 8,845,643,315 ordinary shares (including 214,628,828 treasury shares), par value €1 each, to be replaced by new Shares;

- *on and after August 4, 2003*: (a) issuance of 10,287,061,839 new Shares, par value €0.55 each (including 101,208,867 treasury shares), and 5,795,921,069 new Savings Shares, par value €0.55 each, in substitution for the cancelled shares; (b) issuance of 15,181,901 new Shares, of which 11,009,743 shares were issued on the exercise of "ex Telecom Italia 1999 Stock Option Plan", 4,028,290 shares were issued on the conversion of "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium" and 143,868 shares were issued on the conversion of "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium".

Net income per Share in 2004 is calculated on the basis of 16,016,713,271 shares outstanding, of which 10,220,792,202 Shares and 5,795,921,069 Savings Shares; the 10,220,792,202 Shares outstanding are net of 101,208,867 Shares of treasury stock already held by the Company and its subsidiary Telecom Italia Finance S.A. resulting from the redistribution of the share capital in connection with the Merger. In connection with the TIM Acquisition, Telecom Italia will issue 2,116,054,616 new Shares and 242,150,245 new Savings Shares. See "Item 8. Financial Information—8.2 Unaudited Condensed Consolidated Pro Forma Financial Data".

For more details on changes in stockholders' equity for the years ended December 31, 2002, 2003 and 2004, respectively, please see page F-6, "Telecom Italia S.p.A. Statements of Consolidated Stockholders' Equity for the Years Ended December 31, 2002, 2003 and 2004" of our Consolidated Financial Statements included elsewhere herein.

The per share 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 in addition to dividends paid on the Shares; until July 2000 the par value of ordinary, savings and preferred shares was Lire 1,000 per share. The Extraordinary Shareholders' Meeting of Telecom Italia (formerly Olivetti S.p.A.) held on July 4, 2000 approved the conversion of 15,221,888 preferred shares and 78,629,488 savings shares, at par value, into an equal number of ordinary shares. Approval was also given during the same Extraordinary Shareholders' Meeting to the free of charge share capital increase by utilizing unrestricted reserves, increasing the par value from Lire 1,000 to Lire 1,936.27 (corresponding to €1) of all the ordinary shares (both issued ordinary shares and shares that would have been issued in the future by implementing the resolutions previously passed with regard to conversion of bonds and the exercise of warrants), with the concurrent redenomination of share capital in Euro. Finally, following the Merger, effective from August 4, 2003, the Telecom Italia share capital consists of Shares and Savings Shares. Net income per Savings Share was €0.08 in 2003 and €0.05 in 2004.

(6) Telecom Italia's dividend coupons for the year ended December 31, 2004, were clipped on April 18, 2005, and such dividends for the year ended December 31, 2004 were payable from April 21, 2005.

(7) In accordance with U.S. GAAP, the Net income (loss) per Share has been calculated using the two class method, since the Company has both Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standards No. 128, "Earnings per Share", Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential common shares and is adjusted for any changes to income that would result from the assumed conversion of those potential common shares. For the purpose of these calculations, the weighted average number of Shares was 3,424,694,178 for the year ended December 31, 2001 and 4,054,375,543 for the year ended December 31, 2002. The weighted average number of Shares and Savings Shares was 6,620,513,494 and 2,414,967,112 for the year ended December 31, 2003 and 10,208,294,477 and 5,795,921,069 for the year ended December 31, 2004. 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 Savings Shares in addition to dividends paid on the Shares. The calculations also take into account that in 2001 and 2002 (after the redenomination of the share capital into Euro following the resolution taken by the Extraordinary Shareholders' Meeting held on July 4, 2000) the par value of Shares was €1 per share, and that in 2003, after the Merger, the par value of Shares and Savings Shares was reduced to €0.55 per share. In addition, in accordance with U.S. GAAP, net income (loss) per Savings Share—Basic was €0.21 in 2003 and €0.10 in 2004. See "Item 8. Financial Information—8.2 Unaudited Condensed Consolidated Pro Forma Financial Data".

(8) Stockholders' equity under U.S. GAAP is calculated after elimination of minority interests. See Note 27 of Notes to Consolidated Financial Statements included elsewhere herein.

(9) 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 and 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 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. Telecom Italia management also monitors 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:

Table of Contents

	As of December 31,						
	2000	2000 pro forma (Unaudited)	2001	2002	2003	2004	2004
	(millions of Euro)						(millions of U.S. dollars)(3)
Short-term debt, including current portion of long-term debt	16,927	16,536	9,072	6,827	10,613	2,027	2,744
Long-term debt	27,485	25,950	37,747	33,804	30,852	36,817	49,843
Gross debt	44,412	42,486	46,819	40,631	41,465	38,844	52,587
Cash and cash equivalents:							
· Bank and postal accounts	(2,763)	(2,745)	(3,626)	(4,363)	(4,870)	(8,558)	(11,586)
· Cash and valuables on hand	(8)	(7)	(76)	(7)	(7)	(4)	(5)
· Receivables for securities held under reverse repurchase agreements	(1)	(1)	(4)	(56)	(60)	(2)	(3)
Marketable securities(*)	(2,909)	(2,759)	(3,616)	(1,927)	(2,719)	(932)	(1,262)
Financial accounts receivable (included under “Receivables” and “Other current assets”)	(1,210)	(1,210)	(894)	(995)	(826)	(382)	(517)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(328)	(328)	(705)	(511)	(307)	(282)	(382)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	331	292	464	627	670	841	1,139
Net Financial Debt	**37,524**	**35,728**	**38,362**	**33,399**	**33,346**	**29,525**	**39,971**

(*) In 2000, 2001 and 2002 data include Old Telecom Italia shares held by Olivetti.

Our gross debt and net financial debt has increased significantly as a result of the TIM Acquisition. See “Item 8. Financial Information—8.2 Unaudited Condensed Consolidated Pro Forma Financial Data”.

(10) 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.

A ratio of less than one indicates that earnings are inadequate to cover fixed charges. The amount by which fixed charges exceeded earnings for the years ended December 31, 2001 and 2002 under Italian GAAP was €1,172 million and €2,037 million, respectively. The amount by which fixed charges exceeded earnings for the year ended December 31, 2001 under U.S. GAAP was €1,034 million.

(11) Data include multiple lines for ISDN and exclude internal lines.

(12) Data exclude internal lines.

(13) Number of contracts. Broadband access contracts in Italy as of December 31, 2001, 2002, 2003 and 2004 were 390,000, 850,000, 2,040,000 and 4,010,000, respectively.

(14) Number of contracts; data include Teleconomy, Hellò and other Business voice offers.

(15) Includes TACS, GSM and UMTS services, including Prepaid Customers and excludes the “silent” lines.

(16) The foreign lines include those of mobile affiliate AVEA I.H.A.S. (Aria-Is TIM for 2003) and those of T-Mobile CZ. The number of foreign lines of AVEA I.H.A.S. includes approximately 2 million from Aycell. TIM International agreed to sell its stake in TIM Hellas and Corporacion Digitel which companies represented 3.7 million subscriber lines. In addition, on March 24, 2005 TIM, through TIM International, finalized with T-Mobile Global Holding the sale of 7.16% of the share capital of CMobil (Dutch holding owning 60.8% of T-Mobile CZ). On May 5, 2005, regulatory authorities in Venezuela decided not to grant the authorization for the sale of TIM International's stake in Corporacion Digitel S.A. to CANTV. Because the decision is subject to administrative and judicial review and TIM International intends to pursue appropriate remedies, at March 31, 2005, TIM treated TIM Hellas and Digitel as discontinued operations. Consequently, as of March 31, 2005, TIM International managed 15.9 million lines, all in Latin America, excluding the lines of affiliated company AVEA. The lines of AVEA rose to 5.2 million as of March 31, 2005, from 4.8 million as of December 31, 2004.

3.4 DIVIDENDS

The determination of Telecom Italia's future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to the Company's earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time. Subject to the foregoing, Telecom Italia plans to maintain its dividend over the period 2005-2007 at a level comparable to that paid out for 2004.

Dividends declared by Old Telecom Italia. The following table sets forth the dividends per share and per savings share declared by Old Telecom Italia with respect to the three fiscal years ended December 31, 2000, 2001 and 2002, respectively, and the aggregate dividend paid in such years. Actual dividends paid are rounded to the nearest whole cent.

	Dividends on Shares			Dividends on Savings Shares		
Year ended December 31,	**Euro per Share**	**U.S. dollars per Share(2)**	**(millions of euro)**	**Euro per Share**	**U.S. dollars per Share(2)**	**(millions of euro)**
2000(1)	0.3125	0.27	1,643.93	0.3238	0.28	664.84
2001	0.3125(3)	0.28	1,644.19	0.3237(3)	0.29	662.33
2002	0.1357(4)	0.13	713.47	0.1357(4)	0.13	273.11

(1) Dividends for 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit. 1,936.27 = €1.

(2) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates.

(3) Approved at the Annual Meeting of Shareholders of Old Telecom Italia held on May 7, 2002. Old Telecom Italia's dividend coupons for the year ended December 31, 2001 were clipped on May 20, 2002 and were payable from May 23, 2002. Dividends for the year ended December 31, 2001 were paid also utilizing reserves.

(4) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed and paid corresponding to a dividend of €0.1357 per Old Telecom Italia ordinary share and a dividend of €0.1357 per Old Telecom Italia savings share. Furthermore, the shareholders' Meeting of Old Telecom Italia held on May 24, 2003 approved an additional dividend of €0.1768 per Old Telecom Italia ordinary share and €0.1878 per Old Telecom Italia savings share, payable from income and capital reserves.

Dividends declared by Telecom Italia (formerly Olivetti). The following table sets forth the dividends per share, per savings share and per preferred share declared by Telecom Italia (Olivetti prior to the Merger) with respect to each of the last five fiscal years and the aggregate dividend paid in such years. Actual dividends paid are rounded to the nearest whole cent.

	Dividends on Shares			Dividends on Savings Shares		
Year ended December 31,	**Euro per Share**	**U.S. dollars per Share(2)**	**(millions of euro)**	**Euro per Share**	**U.S. dollars per Share(2)**	**(millions of euro)**
2000(1)(3)	0.0350	0.0299	254.87	—	—	—
2001	—	—	—	—	—	—
2002	—	—	—	—	—	—
2003	0.1041	0.1278	1,072.95	0.1151	0.1413	667.11
2004(4)	0.1093	0.1431	1,226.99	0.1203	0.1575	697.25

(1) Dividends for 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit.1,936.27 = €1.

(2) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates.

(3) On July 24, 2000, the compulsory conversion of the Olivetti savings and preferred shares into Olivetti ordinary shares (approved by the Extraordinary Shareholders' Meeting held on July 6, 2000) became effective.

(4) Approved at the Annual Shareholders' Meeting held on April 7, 2005. Pursuant to Italian Stock Exchange rules, dividends on the Shares and the Savings Shares are payable from the fourth business day after the third Friday of each month, and in any case, at least four business days after the Annual Meeting of Shareholders approving the dividends. Telecom Italia's dividend coupons for the year ended December 31, 2004 were clipped on April 18, 2005, and were payable from April 21, 2005.

Payment of annual dividends is subject to approval by the holders of ordinary shares at the annual general shareholders' meeting, which must be convened within 120 days after the end of the financial year to which it relates or, in case specific reasons arise, within 180 days, the reasons for the delay to be described in the annual report. In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of “interim dividends”. Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year’s financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the net income of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company’s issued share capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the Telecom Italia Group. The Company may also pay dividends out of available retained earnings from prior years or other reserves.

Dividends in respect of Shares and Savings Shares held with Monte Titoli S.p.A (“Monte Titoli”) are automatically credited to the accounts of the beneficial owners with the relevant participant of Monte Titoli, without the need for presentation by such beneficial owners of any documentation. See “Item 10. Additional Information—10.4 Description of Capital Stock”.

Arrangements between Euroclear or Clearstream and Monte Titoli permit the shareholders to collect the dividends through Euroclear or Clearstream. Holders of American Depositary Receipts (“ADRs”) are entitled to receive payments in respect of dividends on the underlying Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement.

Dividends payable on the Company’s Shares and Savings Shares may be subject to deduction of Italian withholding tax. See “Item 10. Additional Information—10.6 Taxation”. Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See “Item 10. Additional Information—10.2 Exchange Controls and Other Limitations Affecting Security Holders”.

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Shares or Savings Shares. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives.

In the case of Ordinary Share ADSs and Savings Share ADSs owned by non-residents of Italy, Telecom Italia understands that the provision of information concerning the Depositary, in its capacity as holder of record of the Shares and Savings Shares, as the case may be, will satisfy these requirements. However, Telecom Italia will be required to provide information concerning non-resident beneficial owners of Ordinary Share ADSs and Savings Share ADSs, to the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax convention, and claims for such benefits therefore must be accompanied by the required information. See “Item 10. Additional Information—10.6 Taxation”.