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, the fixed-line and mobile voice telecommunications businesses. The use of the single European currency and the liberalization of the Italian telecommunication market (since January 1998) have 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, 2005, there were a number of significant competitors offering fixed-line services and four other operators (in addition to Mobile Italy) offering mobile services in the Italian domestic market. This competition may increase further due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere. We anticipate that in the short to medium term there may be a stronger entry of peer-level international competitors into markets with existing operators, including Italy, increasing the direct competition we face in our Italian domestic fixed line and mobile telephony businesses and in the local and long-distance markets.

Although we have taken a number of steps to realize additional efficiencies and introduce innovative and value added services over our networks, and although our plans take into account that we will face significant competition from a number of operators in all the markets in which we operate, continuing pressures on prices due to competition and further erosion in market shares could adversely affect our results of operations.

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 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 organizational restructuring and strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.

On March 1, 2006, we completed a significant reorganization. As part of the reorganization, our Italian mobile business was transferred to Telecom Italia by way of merger of Tim Italia into Telecom Italia. In addition, during 2005, all of our activities in the area of Internet, previously conducted by Telecom Italia Media, were also transferred to Telecom Italia.

On March 8, 2006, we presented to the investor community our strategic targets for the period 2006-2008, which were updated in light of our new organizational structure known as the "One Company" model. The "One Company" model is based on the following five pillars:

- convergence synergies: reaping synergies from lower costs and improved offerings by consolidating the offering of our main services (fixed line, mobile and internet) in one company;
- productivity and skills: increasing the productivity and skill-base of employees;
- advanced network deployment: deploying an innovative network infrastructure making possible the rapid deployment of next-generation products and services while safeguarding the continued improvement of the quality of services;
- loyalty and retention: strengthening customer loyalty through an upgraded customer care model and improved offering; and
- marketing leadership and growth: continued leadership in marketing, sustaining continued growth.

Our ability to achieve the strategic goals of the reorganization and our targets may be influenced by several factors, including without limitation:

- 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 organization within the "One Company" model;
- our ability to achieve the synergies anticipated from the convergence of fixed communications, mobile communications and Internet;
- the effect of foreign exchange fluctuations on our results of operations;
- the entry of new competitors in the liberalized Italian telecommunications market and the other principal markets in which we operate, which may result in our losing market share in Italy and internationally;
- our ability to strengthen our competitive position through our focus on Brazil and Broadband in Europe based on our specialized skills and technical resources;
- our ability to successfully develop and introduce new technologies to meet market requirements, to manage innovation, to provide value-added services and to increase the usage of our fixed and mobile networks;
- 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; and
- the success of new "disruptive" technologies that could cannibalize fixed and mobile revenues.

There can be no assurance that our objectives will be effectively implemented in the planned timeframes.

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 extensive regulatory requirements in Italy and our international operations and investments are subject to regulation in their host countries.

As a member of the EU, Italy has adapted 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. See "Item 4. Information on the Telecom Italia Group—4.3. Regulation".

Included within this new framework is the obligation on the part of the Italian regulator responsible in Italy for the regulation of the telecommunications, radio and television broadcasting sector (the "National Regulatory Authority" or "NRA") 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 new framework establishes criteria and procedures for identifying remedies applicable to operators with "significant market power". The NRA is expected to complete and publish the analyses by mid 2006 and the implementation of these revised telecommunications regulations and possible future decisions relating thereto, may change the regulatory environment in a manner adverse to us, particularly if such analysis relates to new services which are not currently part of the eighteen identified markets.

In Italy, we are subject to universal service obligations, which require us to provide fixed line public voice telecommunications services in non-profitable areas.

In addition, the NRA has identified us as an operator having significant market power in most relevant markets. As a result, we are, and, if we continue to be identified as having significant market power in most 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-orientated 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.

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. 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.

Changes in the rules relating to radio and televisions broadcasting could adversely affect the development of our activities in this field.

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 have impermissible overlapping licenses in Brazil.

Currently, we hold licenses in Brazil through our indirectly owned subsidiary, TIM Celular, to provide Personal Communications Services ("PCS") services in Regions I, II and III of the PCS general licensing plan and to provide national and international long distance services. The Brasil Telecom Group ("Brasil Telecom") also holds licenses in Brazil to provide PCS services in Region II of the PCS general licensing plan and to provide national and international long distance services. The Brazilian regulatory authority, Anatel, prohibits the provision of the same services, by the same legal entity, whether directly or indirectly, in the same Region. Since we also indirectly hold certain equity participations and governance rights in connection with Brasil Telecom, under the broad definition of the expression "directly or indirectly" Brasil Telecom may be viewed as our affiliate for regulatory purposes in Brazil. As a consequence, according to Anatel's rulings there currently exists an impermissible overlap between certain of the licenses held by TIM Celular and certain of the licenses held by Brasil Telecom (the "Overlap").

Anatel has determined that the relevant entities of the Telecom Italia Group and Brasil Telecom should find a solution for such Overlap and has established that such solution should be reached within October 2006.

On April 28, 2005, TIM Brasil, Brasil Telecom, and certain other parties entered into an agreement intended to respond to the requests of Anatel to resolve the Overlap. The implementation of the agreement was prevented as a result of legal challenges initiated by some of the indirect co-shareholders of Brasil Telecom and by Brasil Telecom itself on various proceedings. It was terminated on April 29, 2006 in accordance with its terms. The relevant parties are continuing to seek a resolution to the Overlap to comply with Anatel's determinations. For more information, see "Item 4. Information on the Telecom Italia Group—4.2.5 Other Telecom Italia Group Activities—Brasil Telecom Group".

Absent a negotiated solution, upon expiration of the cure period set forth by Anatel (October 2006), Anatel itself will decide how to resolve the Overlap and the parties could be subject to penalties in accordance with the law. Such penalties could have a material adverse effect on the value of our investments in Brazil and our results of operations.

We may not achieve the expected return on our significant investments and capital expenditures made in our international activities due to the competitive environments 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 as a 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 shareholding in non-strategic geographical markets.

Pursuant to our 2006-2008 plan 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 such international investments.

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

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 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. 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.

In the past, we have made substantial international investments, primarily in U.S. dollars, and have significantly expanded our operations outside of the Euro zone, particularly in Latin America.

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular, the Brazilian Real) may adversely affect consolidated 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 rised, and may raise in an increasing proportion in the future, financing in currencies other than the Euro, principally the U.S. dollar and British Pound. We systematically hedge the foreign currency risk exposure relating to non-Euro denominated liabilities, through cross-currency and interest rate swaps.

Mainly as a result of the need to finance Telecom Italia’s Cash Tender Offer for ordinary and savings shares of TIM, completed in January 2005, the total gross debt of the Telecom Italia Group and corresponding interest payments increased. Our total gross financial debt as of December 31, 2005 was €52,101 million (€43,313 million at year end 2004). At the end of 2005, approximately 34% of our gross financial debt carried a floating interest rate compared to approximately 30% at the end of 2004.

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, no assurance that fluctuations in interest rates will not adversely affect our results of operations can be given.

The mobile communications markets have matured in recent years and competition has increased.

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 substantially flat revenues in our Italian fixed line business. However, as a result of this growth, the mobile communications markets are approaching maturity levels in the voice services segment while the data and value-added services segments are growing.

We have acquired a third generation mobile telephone, or UMTS, license to provide UMTS services in Italy for €2,417 million and have made significant investments, in accordance with the terms and conditions of our licenses, to create the infrastructure to offer UMTS services. We commenced offering UMTS services in Italy in the second half of 2004 and have made in 2005, and will have to continue to make in the future, significant investments in promotional activities relating to our UMTS services. Given the substantial costs of upgrading our existing networks to support UMTS, the ongoing costs to market and support these new services, and the significant competition among operators who offer these new services, including one operator only offering 3G services, we may not be able to recoup our investments, as planned if at all.

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;
- 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 their attractiveness to customers;
- the success of new disruptive or substitutive technologies; and
- the development of the mobile communications markets.

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.

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 is 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 those 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, the cash tender offer for TIM shares and the merger of TIM into Telecom Italia, we remain highly leveraged.

Our gross financial debt was €52,101 million at December 31, 2005 compared with €43,313 million at December 31, 2004, and our total net financial debt was €39,858 million as of December 31, 2005 compared with €32,862 million at December 31, 2004. See "Item 5. Operating and Financial Review and Prospects—5.5 Results of Operations for the Two Years Ended December 31, 2005—5.5.2. Non-GAAP Financial Measures", which reconciles our net financial debt to the gross financial debt. The increases in gross and net financial debt were mainly due to the Cash Tender Offer for the TIM shares.

Our goal is to further reduce our net financial debt during 2006 through significant cash flow generation. Factors beyond our control, including but not limited to, deterioration in general economic conditions, could significantly affect our ability to generate cash to reduce debt or to refinance existing debt through further borrowing.

The management and further development of our business require the implementation of significant investments plans. We may therefore incur additional debt or refinance existing debt taking advantage of conditions on financial markets. Our future results of operations may be influenced by our ability to enter into such transactions, which is in turn determined by market conditions and external factors.

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 and may require additional investments.

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 14 out of 21 of Telecom Italia directors (of whom 13 are considered independent) were elected from a slate of candidates proposed by Olimpia, which is currently the largest shareholder in Telecom Italia with an interest of approximately 18%. Please see "Item 4. Information on the Telecom Italia Group—4.1. Business—4.1.1 Background."

In addition, Marco Tronchetti Provera and Carlo Orazio Buora, respectively Chairman and co-Chief Executive Officer 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. Such stake may increase as a result of certain Olimpia shareholders exercising their rights under the Olimpia Shareholders' Agreements. Please see "Item 7. Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.1 The Olimpia Shareholders' Agreements". Mr. Tronchetti Provera is Chairman of Olimpia, and Mr. Buora is a member of Olimpia's board of directors. Please see "Item 6. Directors, Senior Management and Employees—6.1 Directors—6.1.1 Biographical Data" for more information.

Although Olimpia does not and will not own a controlling interest in Telecom Italia voting shares, Olimpia may exert a significant influence on all matters to be decided by a vote of shareholders. In addition, as a result of its proposal of a majority of the present Telecom Italia Board members, Olimpia may be able to influence certain corporate actions. In principle, the interests of Olimpia in deciding shareholder 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 oppose 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, 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. Please see "Item 7. Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.3 Continuing Relationship with the Italian Treasury" for more information.

System failures could result in reduced user traffic and reduced revenue and could harm Telecom Italia's 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.

Identification of significant deficiencies or material weaknesses as a result of our implementation of procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 relating to evaluation of our internal control over financial reporting may have an adverse impact on our financial condition and results of operations and the trading price of our securities.

Commencing with our annual report on Form 20-F for the year ending December 31, 2006, we will include a report from our management relating to its evaluation of our internal control over financial reporting as required under Section 404 of the U.S. Sarbanes-Oxley Act of 2002. As a consequence of systems and procedures currently being reviewed and implemented to comply with these requirements, we may uncover circumstances that may be determined to be significant deficiencies or material weaknesses, or that may otherwise result in disclosable conditions. Although we intend to take prompt measures to remediate any such identified significant deficiencies or material weaknesses in our internal control structure, measures of this kind may involve significant effort and expense, and any disclosure of such significant deficiencies, material weaknesses or other disclosable conditions may result in a negative market reaction.

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.$1.1842, 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 30, 2005.

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 2001 to 2005 and for the beginning of 2006 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
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	1.3476	1.1667	1.2448	1.1842
2006 (through May 10, 2006)	1.2799	1.1860	1.2145	1.2799
Monthly Amounts				
December 2005	1.2041	1.1699	1.1861	1.1842
January 2006	1.2287	1.1980	1.2126	1.2158
February 2006	1.2100	1.1860	1.1940	1.1925
March 2006	1.2197	1.1886	1.2028	1.2139
April 2006	1.2624	1.2091	1.2273	1.2624
May 2006 (through May 10, 2006)	1.2799	1.2607	1.2697	1.2799

(1) Average of the rates for each month in the relevant period except for May, 2006 for which the dates used are through May 10, 2006.

The Ordinary Shares and Savings Shares of Old Telecom Italia and the Ordinary 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 Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares (“**Ordinary Share 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 Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary 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 Ordinary Shares and Savings Shares issued at completion of the Merger, on the NYSE where such Ordinary Shares and Savings Shares trade in the form of ADSs.

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2004 and 2005, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS and which have been audited by the independent auditor Reconta Ernst & Young S.p.A..

Unless otherwise indicated, amounts presented in this section are prepared in accordance with IFRS.

Until December 31, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual data) in accordance with Italian GAAP. Pursuant to SEC Release 33-8567, "*First-Time Application of International Financial Reporting Standards*", Telecom Italia is only required to include consolidated financial statements for 2004 and 2005 (earlier periods are not required to be included).

The accompanying IFRS financial data has been prepared in accordance with IFRS effective at December 31, 2005. For the purposes of the Consolidated Financial Statements included elsewhere in this Annual Report there are no differences between IFRS issued by IASB and IFRS adopted by the EU.

For a more complete description of the adoption of IFRS please see "Item 5. Operating and Financial Review and Prospects—5.4 Adoption of International Financial Reporting Standards" as well as "Note 42—Transition to International Financial Reporting Standards (IFRS)" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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,		
	2004	2005	2005
	(millions of Euro, except percentages and per share amounts)		(millions of U.S. dollars, except percentages and per share amounts)(1)
Statement of Operations Data in accordance with IFRS:			
Revenues	**28,292**	**29,919**	**35,430**
Operating income	**7,603**	**7,499**	**8,880**
Net income from continuing operations	**2,952**	**3,140**	**3,718**
Net income (loss) from discontinued operations/assets held for sale	(118)	550	651
Net income	**2,834**	**3,690**	**4,369**
Of which:			
· *Net income attributable to the Group*	*1,815*	*3,216*	*3,808*
· *Net income attributable to Minority interests*	*1,019*	*474*	*561*
Financial Ratios in accordance with IFRS:			
— Revenues/Employees (average number in Group, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees) (thousands)(2)	355.4	374.6	443.6
— Operating income/Revenues (ROS)(%)	26.9	25.1	25.1
Basic and Diluted earnings per Share(3):			
— **Ordinary Share**	**0.11**	**0.17**	**0.20**
— **Savings Share**	**0.12**	**0.18**	**0.21**
Of which:			
— *From continuing operations:*			
· *Ordinary Share*	*0.12*	*0.14*	*0.17*
· *Savings Share*	*0.13*	*0.15*	*0.18*
— *From discontinued operations/assets held for sale:*			
· *Ordinary Share*	*(0.01)*	*0.03*	*0.03*
· *Savings Share*	*(0.01)*	*0.03*	*0.03*
Dividends:			
· per Ordinary Share	0.1093	0.1400(4)	0.1658
· per Savings Share	0.1203	0.1510(4)	0.1788

	As of December 31,		
	2004	2005	2005
	(millions of Euro, except percentages and employees)		(millions of U.S. dollars, except percentages and employees)(1)
Balance Sheet Data in accordance with IFRS:			
Total assets	**81,834**	**96,010**	**113,695**
Shareholders' equity:			
Shareholders' equity attributable to the Group	16,248	25,662	30,389
Shareholders' equity attributable to Minority interests	4,550	1,323	1,567
Total shareholders' equity	**20,798**	**26,985**	**31,956**
Total liabilities	**61,036**	**69,025**	**81,739**
Total shareholders' equity and liabilities	**81,834**	**96,010**	**113,695**
Share capital(5)	**8,809**	**10,599**	**12,551**
Financial Ratios in accordance with IFRS:			
· Net financial debt/Net invested capital (debt ratio)(%)(6)	61.2	59.6	59.6
· Employees (number in Group at year-end, excluding employees relating to the consolidated companies considered as discontinued operations/assets held for sale and including temporary employees)	82,620	85,484	—

	Year ended December 31,					
	2001	2002	2003	2004	2005	2005
	(millions of Euro, except per share amounts)					(millions of U.S. dollars, except per share amounts)(1)
Statement of Operations Data in accordance with U.S. GAAP:						
· **Revenues**	**27,025**	**26,769**	**27,290**	**28,292**	**29,921**	**35,432**
· **Operating income**	**3,159**	**6,724**	**7,626**	**6,822**	**5,874**	**6,956**
· Net income (loss) before minority interests, discontinued operations / assets held for sale and cumulative effect of accounting changes	(3,001)	6,272	3,064	2,899	1,962	2,323
· Minority interests	18	(3,016)	(1,523)	(1,167)	(479)	(567)
· Net income (loss) from discontinued operations / assets held for sale	(1,043)	(1,300)	319	(191)	409	484
· Cumulative effect of accounting changes, net of taxes	20	0	(19)	0	47	56
· **Net income (loss)(7)**	**(4,006)**	**1,956**	**1,841**	**1,541**	**1,939**	**2,296**
Basic and Diluted earnings per Ordinary Share(8):						
· Net income (loss) after minority interests per Ordinary Share from continuing operations	(0.87)	0.80	0.17	0.10	0.08	0.10
· Net income (loss) after minority interests per Ordinary Share from discontinued operations/assets held for sale	(0.31)	(0.32)	0.04	(0.01)	0.02	0.02
· Net income (loss) after minority interests per Ordinary Share from cumulative effect of accounting changes	0.01	0.00	(0.01)	0.00	0.00	0.00
· **Net income (loss) per Ordinary Share**	**(1.17)**	**0.48**	**0.20**	**0.09**	**0.10**	**0.12**
Basic and Diluted earnings per Savings Share(8):						
· Net income (loss) after minority interests per Savings Share from continuing operations	—	—	0.18	0.11	0.09	0.11
· Net income (loss) after minority interests per Savings Share from discontinued operations/assets held for sale	—	—	0.04	(0.01)	0.02	0.02
· Net income (loss) after minority interests per Savings Share from cumulative effect of accounting changes	—	—	(0.01)	0.00	0.00	0.00
· **Net income (loss) per Savings Share**	**—**	**—**	**0.21**	**0.10**	**0.11**	**0.13**

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	As of December 31,					
	2001	2002	2003	2004	2005	2005
	(millions of Euro)					(millions of U.S. dollars)(1)
Balance Sheet Data in accordance with U.S. GAAP:						
Total assets	**104,212**	**93,367**	**108,335**	**106,919**	**123,304**	**146,017**
Shareholders' equity(9)	**13,611**	**15,221**	**35,067**	**34,827**	**44,631**	**52,852**
Total liabilities(10)	**90,601**	**78,146**	**73,268**	**72,092**	**78,673**	**93,165**
Total shareholders' equity and liabilities	**104,212**	**93,367**	**108,335**	**106,919**	**123,304**	**146,017**
Share capital(5)	**8,570**	**8,630**	**8,798**	**8,809**	**10,599**	**12,551**

	As of December 31,				
	2001	2002	2003	2004	2005
Statistical Data:					
Wireline:					
Subscriber fixed-lines in Italy (thousands)(11)	27,353	27,142	26,596	25,957	25,049
– of which: ISDN equivalent lines in Italy (thousands)(11)	*5,403*	*5,756*	*6,027*	*5,805*	*5,459*
Broadband Access(12):					
· in Italy (thousands)	390	850	2,040	4,010	5,707
· in Europe (thousands)	—	—	160	420	1,313
Voice Offers in Italy (thousands)(13)	4,094	5,224	5,547	5,883	6,392
Page views Virgilio (millions)	3,945	5,267	6,612	7,902	9,842
Unique users Virgilio (monthly average number) (millions)	6.5	9.5	12.0	13.9	15.7
Network infrastructure in Italy:					
· access network in copper (millions of km—pair)	104.3	104.3	105.2	105.2	105.2
· access network and transport in fiber optics (millions of km of fiber optics)	3.2	3.6	3.6	3.7	3.7
Network infrastructure abroad:					
· European backbone (km of fiber optics)	36,600	36,600	39,500	39,500	51,000
Mobile:					
Mobile lines in Italy at period-end (thousands)(14)	23,946	25,302	26,076	26,259	28,576
Foreign mobile lines at period-end (thousands)(15)	4,558	5,335	8,304	13,588	20,171
Total mobile lines at period-end (Italy + foreign in thousands)(15)	28,504	30,637	34,380	39,847	48,747
GSM coverage in Italy (% of population)	99.7	99.8	99.8	99.8	99.8
Media:					
La7 average audience share for the year (%)	2.0	1.8	2.2	2.4	2.7
La7 average audience share for the month of December (%)	1.8	2.1	2.2	2.6	3.1

(1) For the convenience of the reader, Euro amounts for 2005 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 30, 2005 of €1.00 = U.S.$1.1842.

(2) The average number of employees in the Group (excluding employees relating to the consolidated companies considered as discontinued operations / assets held for sale and including temporary employees) was 79,602 and 79,869 in 2004 and 2005, respectively.

(3) In accordance with IAS 33 "Earnings per share", basic earnings per Ordinary Share is calculated by dividing the Group's net income available to shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares.

Since Telecom Italia, has both Ordinary and Savings Shares outstanding, the calculations also 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 Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

- Ordinary Shares was 10,208,327,613 for the year ended December 31, 2004 and 12,283,195,845 for the year ended December 31, 2005; and
- Savings Shares was 5,795,921,069 for the year ended December 31, 2004 and 5,930,204,164 for the year ended December 31, 2005.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group's net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(4) Telecom Italia's dividend coupons for the year ended December 31, 2005, were clipped on April 24, 2006 and were payable from April 27, 2006.

(5) Share capital represents share capital issued net of the par value of treasury shares.

(6) Net Financial Debt is a "Non-GAAP Financial Measure" as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see "Item 5. Operating and Financial Review and Prospects—5.5 Results of Operations for the Two Years Ended December 31, 2005—5.5.2 Non-GAAP Financial Measures".

(7) Excludes Minority interests.

(8) In accordance with U.S. GAAP, the Net income (loss) per Ordinary Share has been calculated using the two class method, since the Company has both Ordinary 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. For the purpose of these calculations, the weighted average number of Ordinary 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 Ordinary Shares and Savings Shares was 6,620,513,494 and 2,414,967,112 for the year ended December 31, 2003, 10,208,327,613 and 5,795,921,069 for the year ended December 31, 2004 and 12,283,195,845 and 5,930,204,164 for the year ended December 31, 2005. 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 ordinary 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 Ordinary Shares was €1 per share, and that in 2003, after the Merger, the par value of Ordinary Shares and Savings Shares was reduced to €0.55 per share.

For diluted earnings per share the weighted average number of shares outstanding 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.

(9) Shareholders' equity under U.S. GAAP is calculated after elimination of minority interests.

(10) Includes minority interests.

(11) Data exclude internal lines.

(12) Number of contracts.

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

(14) Includes TACS, GSM and UMTS services, including Prepaid Customers and excludes "silent" lines.

(15) Comprises foreign lines of the subsidiaries included in the Mobile Business Unit and excludes those of the mobile subsidiaries considered as discontinued operations/assets held for sale.

3.4 DIVIDENDS

The determination of our future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to our earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time. Subject to the foregoing, we plan to maintain our dividend over the period 2006-2008 at a level comparable to that paid out for 2005.

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

	Dividends on Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	**Euro per Share**	**U.S. dollars per Share(1)**	**Millions of Euro**	**Euro per Share**	**U.S. dollars per Share(1)**	**Millions of Euro**
2001	0.3125(2)	0.28	1,644.19	0.3237(2)	0.29	662.33
2002	0.1357(3)	0.13	713.47	0.1357(3)	0.13	273.11

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

(2) 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 payable from May 23, 2002. Dividends for the year ended December 31, 2001 were paid also utilizing reserves.

(3) 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 Ordinary 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 Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	**Euro per Share**	**U.S. dollars per Share(1)**	**Millions of Euro**	**Euro per Share**	**U.S. dollars per Share(1)**	**Millions of Euro**
2001	—	—	—	—	—	—
2002	—	—	—	—	—	—
2003	0.1041	0.1278	1,072.95	0.1151	0.1413	667.11
2004	0.1093	0.1431	1,225.99	0.1203	0.1575	697.25
2005(2)	0.1400	0.1753	1,873.12	0.1510	0.1891	909.94

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

(2) Approved at the Annual Shareholders' Meeting held on April 13, 2006. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading 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, 2005 were clipped on April 24, 2006, and were payable from April 27, 2006.

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.

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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 Ordinary 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 Ordinary Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement.

Dividends payable on the Company’s Ordinary 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 Ordinary 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 Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements. The Depositary, in accordance with Telecom Italia, will be required to provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law, 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”.