



THIRD QUARTER 2004 REPORT

■ CONTENTS

Summary data and general information	<i>Corporate boards</i>	Page 3
	<i>Highlights</i>	Page 4
	<i>Selected economic and financial data- Telecom Italia Group</i>	Page 5
	<i>Key data – Telecom Italia Group Business Units/Central Functions</i>	Page 7
	<i>Operating highlights – Telecom Italia Group</i>	Page 8
	<i>Shareholder information</i>	Page 9
	<i>Macro-organization chart – Telecom Italia Group at September 30, 2004</i>	Page 12
Report on operations	<i>Economic and financial performance- Telecom Italia Group</i>	Page 13
	<i>Consolidated statements of income</i>	Page 30
	<i>Consolidated balance sheets</i>	Page 31
	<i>Consolidated statements of cash flows</i>	Page 32
	<i>Acquisitions and divestitures of investments</i>	Page 33
	<i>Economic and financial performance- Telecom Italia S.p.A.</i>	Page 35
	<i>Statements of income - Telecom Italia S.p.A.</i>	Page 43
	<i>Balance sheets - Telecom Italia S.p.A.</i>	Page 44
	<i>Statements of cash flows - Telecom Italia S.p.A.</i>	Page 45
	<i>Subsequent events</i>	Page 46
	<i>Business outlook</i>	Page 48
	<i>Adoption of IAS/IFRS principles</i>	Page 48
	<i>Related party transactions</i>	Page 49
	<i>Economic and financial performance- Telecom Italia Group Business Units / Central Functions</i>	Page 52
	Wireline	Page 52
	Mobile	Page 60
	South America	Page 66
	Internet and Media	Page 69
	Information Technology Market	Page 75
	Information Technology Group	Page 78
Olivetti Tecnost	Page 82	
Other activities	Page 86	
<i>Disputes, litigations and legal proceedings pending</i>	Page 93	

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ CORPORATE BOARDS

Board of Directors (1)	Chairman (2)	Marco Tronchetti Provera (Executive Director)
	Deputy Chairman (2)	Gilberto Benetton
	Managing Directors (2)	Carlo Orazio Buora (Executive Director) Riccardo Ruggiero (Executive Director)
	Directors	Paolo Baratta (Independent Director) John Robert Sotheby Boas (Independent Director) Giovanni Consorte Domenico De Sole (Independent Director) Francesco Denozza (Independent Director) Luigi Fausti (Independent Director) Guido Ferrarini (Independent Director) Jean Paul Fitoussi (Independent Director) Gianni Mion Massimo Moratti Marco Onado (Independent Director) Renato Pagliaro Pasquale Pistorio (Independent Director) Carlo Alessandro Puri Negri Luigi Roth (Independent Director)
	Secretary to the Board (2)	Francesco Chiappetta
Remuneration Committee (2)	Chairman	Luigi Fausti
	Members	Paolo Baratta Pasquale Pistorio
Committee for Internal Control and Corporate Governance (2)	Chairman	Guido Ferrarini
	Members	Domenico De Sole Francesco Denozza Marco Onado
General Managers (3)		Riccardo Ruggiero Giuseppe Sala
Board of Statutory Auditors (4)	Chairman	Ferdinando Superti Furga
	Acting Auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda
	Alternate Auditors	Enrico Bignami Enrico Laghi
Independent Auditors (5)		Reconta Ernst & Young S.p.A.

(1) Appointed by the Shareholders' Meeting held on May 6, 2004.

(2) Appointed by the Board of Directors' Meeting held on May 6, 2004.

(3) Appointed by the Board of Directors' Meeting held on August 4, 2003.

(4) Appointed by the Shareholders' Meeting held on May 26, 2003.

(5) Appointment conferred by the Shareholders' Meeting held on May 6, 2004.

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ HIGHLIGHTS

■ FIRST NINE MONTHS OF 2004

Improvement in economic results

Revenues: euro 22,912 million, +1.0% compared to the first nine months of 2003; excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth is equal to 5.3%.

Gross operating profit: euro 10,788 million, +1.3% compared to the first nine months of 2003; underlying growth is equal to 4.5%.

Operating income: euro 5,442 million, +4.4% compared to the first nine months of 2003; underlying growth is equal to 8.2%.

Net income – Parent Company interest, pre-amortization of differences on consolidation: euro 1,894 million (euro 3,273 million in the first nine months of 2003).

Net income – Parent Company interest: euro 745 million (euro 1,881 million in the first nine months of 2003).

Reduction of indebtedness

Net financial indebtedness is equal to euro 31,421 million and shows a reduction of euro 1,925 million compared to December 31, 2003, after the distribution of dividends of euro 2,780 million.

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

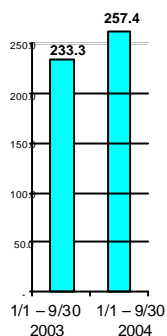
During the first nine months of 2004, there were no significant changes in the scope of consolidation. Mention should be made of the fact that Nuova Seat Pagine Gialle was deconsolidated from August 2003; therefore the economic data for the first nine months and the year 2003 include this company's results for only seven months and for the third quarter of 2003 comprises only one month.

The accounting policies and principles of consolidation adopted in the preparation of the quarterly financial statements, taking into account the adjustments required for interim financial reporting, are substantially in agreement with those applied in the annual financial statements, to which reference should be made. The quarterly report is unaudited.

	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Year 2003
Revenues (euro/mln)					
Economic and Financial Data (millions of euro)					
Sales and service revenues	7,690	7,533	22,912	22,682	30,850
Gross operating profit	3,699	3,727	10,788	10,648	14,280
<i>Operating income pre-amortization of differences on consolidation</i>	2,234	2,376	6,607	6,639	8,619
Operating income	1,846	1,933	5,442	5,214	6,789
Income before taxes	1,345	2,554	3,690	3,858	3,442
<i>Net income – Parent Company interest and minority interest pre-amortization of differences on consolidation</i>	1,043	1,740	2,683	4,314	4,258
<i>Net income – Parent Company interest pre-amortization of differences on consolidation</i>	723	1,262	1,894	3,273	2,983
Net income before minority interest	655	1,297	1,518	2,889	2,428
Net income	340	825	745	1,881	1,192
Free cash flows from operations	2,362	2,510	6,585	7,360	9,233
Investments:					
- Industrial	1,201	1,148	3,194	2,871	4,894
- Differences on consolidation	97	503	426	5,086	5,096
- Financial	34	206	140	1,365	1,464
Balance sheet data (millions of euro)					
Total assets			9/30/2004	12/31/2003	9/30/2003
			72,478	80,501	81,683
Net invested capital			50,811	53,935	55,430
Shareholders' equity			19,390	20,589	21,177
- Parent company interest			15,141	16,092	16,814
- Minority interest			4,249	4,497	4,363
Net financial indebtedness			31,421	33,346	34,253

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
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	SHAREHOLDERS INFORMATION
	MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

Revenues/ Employees
(euro/mln)



Profit and Financial Indexes

	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Year 2003
Gross operating profit/Revenues	48.1%	(*) 49.5%	47.1%	46.9%	46.3%
Operating income pre-amortization of differences on consolidation/Revenues	29.1%	(*) 31.5%	28.8%	29.3%	27.9%
Operating income/Revenues (ROS)	24.0%	(*) 25.7%	23.8%	23.0%	22.0%
Free cash flows from operations/Revenues	30.7%	33.3%	28.7%	32.4%	29.9%
Debt ratio (Net financial indebtedness/ Net invested capital)			61.8%	61.8%	61.8%

Employees

	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Year 2003
Employees (number in Group at period-end)			92,812	95,447	93,187
Employees (average number in Group)			89,012	97,222	95,804
Revenues/Employees (average number in Group), euro/thousands			257.4	233.3	322.0

(*) It should be born in mind that the third quarter of 2003 benefited from the elimination of the TLC license fee following the verdict returned by the European Court of Justice in September 2003.

Indexes for the third quarter of 2003, on a basis comparable to 2004, are presented below.

Gross operating profit/Revenues	47.9%
Operating income pre-amortization of differences on consolidation/Revenues	29.6%
Operating income/Revenues (ROS)	23.8%

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS– TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS / CENTRAL FUNCTIONS

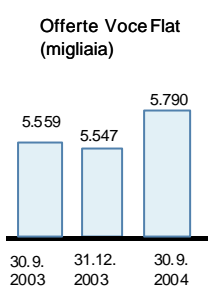
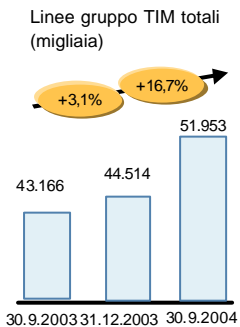
Key economic and financial data of the Telecom Italia Group Business Units / Central Functions

		Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Olivetti Tecnost	Subtotal	Other activities and eliminations	Consolidated total
				(1)	(2)					(3)	
Sales and service revenues	1/1-9/30 2004	12,892	9,499	798	431	511	692	436	25,259	(2,347)	22,912
	1/1-9/30 2003	12,687	8,635	834	1,121	521	703	460	24,961	(2,279)	22,682
	Year 2003	17,216	11,782	1,111	1,297	891	1,100	655	34,052	(3,202)	30,850
Gross operating profit	1/1-9/30 2004	6,178	4,574	288	22	41	52	25	11,180	(392)	10,788
	1/1-9/30 2003	6,047	4,157	301	311	45	40	19	10,920	(272)	10,648
	Year 2003	8,255	5,502	407	322	84	95	40	14,706	(426)	14,280
Operating income (loss) pre-amortization of differences on consolidation	1/1-9/30 2004	3,875	3,199	87	(41)	16	(49)	9	7,096	(489)	6,607
	1/1-9/30 2003	3,725	3,021	114	144	16	(55)	(4)	6,960	(321)	6,639
	Year 2003	4,972	3,885	153	125	60	(36)	4	9,163	(544)	8,619
Operating income (loss)	1/1-9/30 2004	3,869	3,129	83	(62)	15	(49)	8	6,993	(1,551)	5,442
	1/1-9/30 2003	3,724	2,944	109	90	15	(56)	(5)	6,821	(1,607)	5,214
	Year 2003	4,969	3,786	145	63	58	(36)	2	8,987	(2,198)	6,789
Industrial investments	1/1-9/30 2004	1,548	1,279	95	36	18	89	10	3,075	119	3,194
	1/1-9/30 2003	1,636	829	85	65	20	126	12	2,773	98	2,871
	Year 2003	2,302	1,957	129	102	30	174	20	4,714	180	4,894
Number of employees at	9/30/2004	51,301	20,102	5,096	1,845	4,123	3,425	2,121	88,013	4,799	92,812
	9/30/2003	52,318	18,866	5,132	2,095	5,217	3,991	2,618	90,237	5,210	95,447
	12/31/2003	50,766	18,888	4,953	2,029	4,827	4,107	2,395	87,965	5,222	93,187

- (1) The data relates to the Entel Chile group and to the Entel Bolivia group. Beginning March 1, 2004, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia are consolidated in Other Activities. The 2003 data has been restated for purposes of comparison.
- (2) Nuova Seat Pagine Gialle, the beneficiary company of the partial spin-off of Seat Pagine Gialle S.p.A. (now Telecom Italia Media S.p.A.) was sold August 8, 2003. The figures for 2003 included the economic data for the first seven months of the Nuova Seat Pagine Gialle group.
- (3) The data presented above includes the activities of International Affairs, TILAB, the centralized group services and the staff functions, the financial companies, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia.

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

	9/30/2004	12/31/2003	9/30/2003	
WIRELINE				
 <p>Offerte Voce Flat (migliaia)</p> <p>30.9.2003 31.12.2003 30.9.2004</p>	Fixed network connections in Italy (thousands)	26,156	26,596	27,022
	- of which digital (equivalent ISDN channels)	5,883	6,027	6,067
	Voice flat-rate plans (thousands)	5,790	5,547	5,559
	Broadband access (thousands)	3,655	2,200	1,595
Network infrastructure in Italy				
	- access network in copper (millions of km - pair)	105.2	105.2	105.2
	- access network and transport in optical fibers (km of optical fibers in millions)	3.64	3.64	3.64
Network infrastructure abroad				
	- European backbone (km of optical fibers)	39,500	39,500	39,500
MOBILE				
 <p>Linee gruppo TIM totali (migliaia)</p> <p>30.9.2003 31.12.2003 30.9.2004</p> <p>+3,1% +16,7%</p>	TIM lines in Italy (at period-end, thousands)	26,203	26,076	26,051
	TIM group foreign lines (at period-end, thousands) (1)	25,750	18,438	17,115
	TIM group lines total (Italy + foreign in thousands) (1)	51,953	44,514	43,166
	GSM penetration in Italy (% of population)	99.8	99.8	99.8
	E-TACS penetration in Italy (% of population)	97.9	97.9	97.9
INTERNET AND MEDIA				
Internet:				
	Page Views Virgilio (million)	5,719	6,612	4,833
	Active Users ISP (at period-end, thousands)	2,955	2,514	2,392
	La 7 audience share (average)	2.3%	2.2%	2.2%
	La 7 audience share (month of September)	2.5%		2.2%

(1) The foreign lines include those of the affiliate AVEA I.H.A.S. (Aria-Is TIM in 2003) and the subsidiary T-Mobile CZ (ex-Radiomobil). AVEA I.H.A.S.'s lines comprise about 2 million lines that came from Aycell.

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REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ SHAREHOLDER INFORMATION

■ TELECOM ITALIA S.p.A. SHARE CAPITAL AT SEPTEMBER 30, 2004

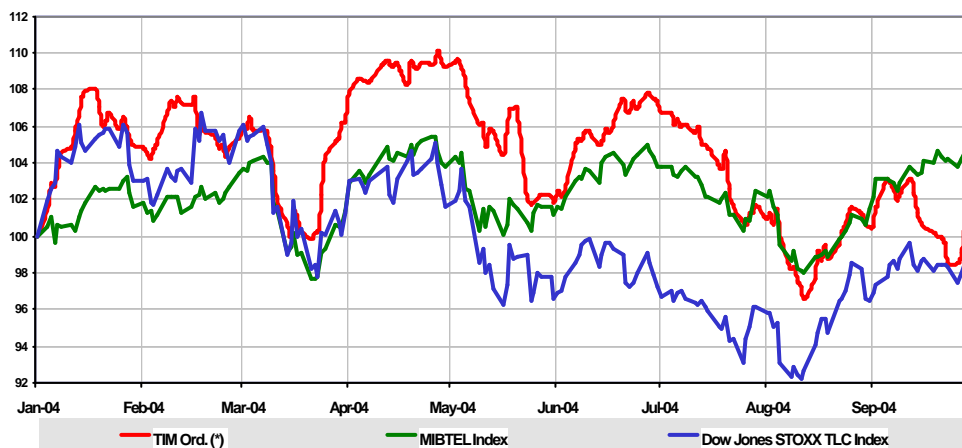
Share capital	euro 8,857,834,072.45
Ordinary shares (par value per share euro 0.55 each)	10,309,231,790
Savings shares (par value per share euro 0.55 each)	5,795,921,069
Market capitalization (based on September 2004 average prices)	euro 36,351 million

■ PERFORMANCE OF THE STOCKS OF THE MAJOR COMPANIES OF THE TELECOM ITALIA GROUP

Relative performance TELECOM ITALIA S.p.A.
1/1/2004 – 9/30/2004
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)

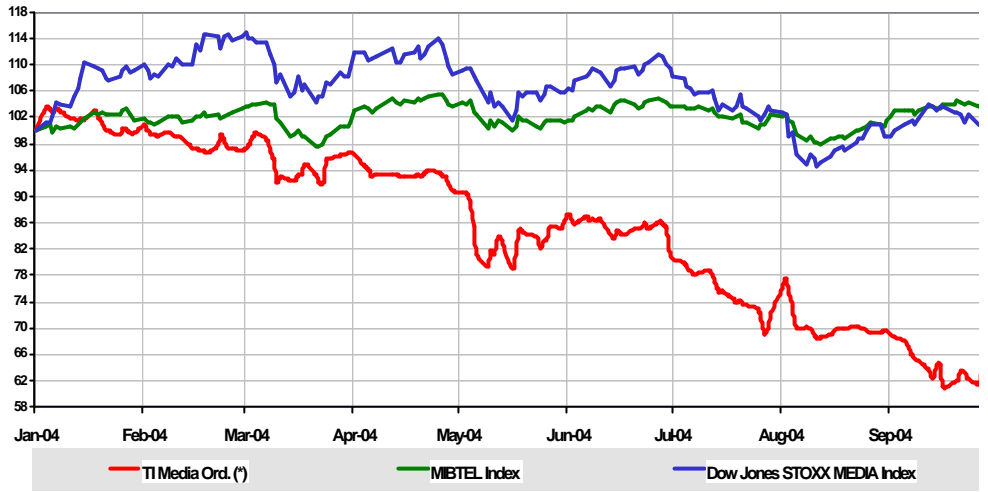


Relative performance TIM S.p.A.
1/1/2004 – 9/30/2004
vs. MIBTEL and DJ Stoxx TLC Indexes
(ordinary shares)
(Source: Reuters)



SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

Relative performance TELECOM ITALIA MEDIA S.p.A.
1/1/2004 – 9/30/2004
vs. MIBTEL and DJ Stoxx TLC Indexes
(ordinary shares)
(Source: Reuters)



SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
	MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004

■ RATINGS AT SEPTEMBER 30, 2004

		Outlook
STANDARD&POOR'S	BBB+	Positive
MOODY'S	Baa2	Stable
FITCH IBCA	A-	Stable

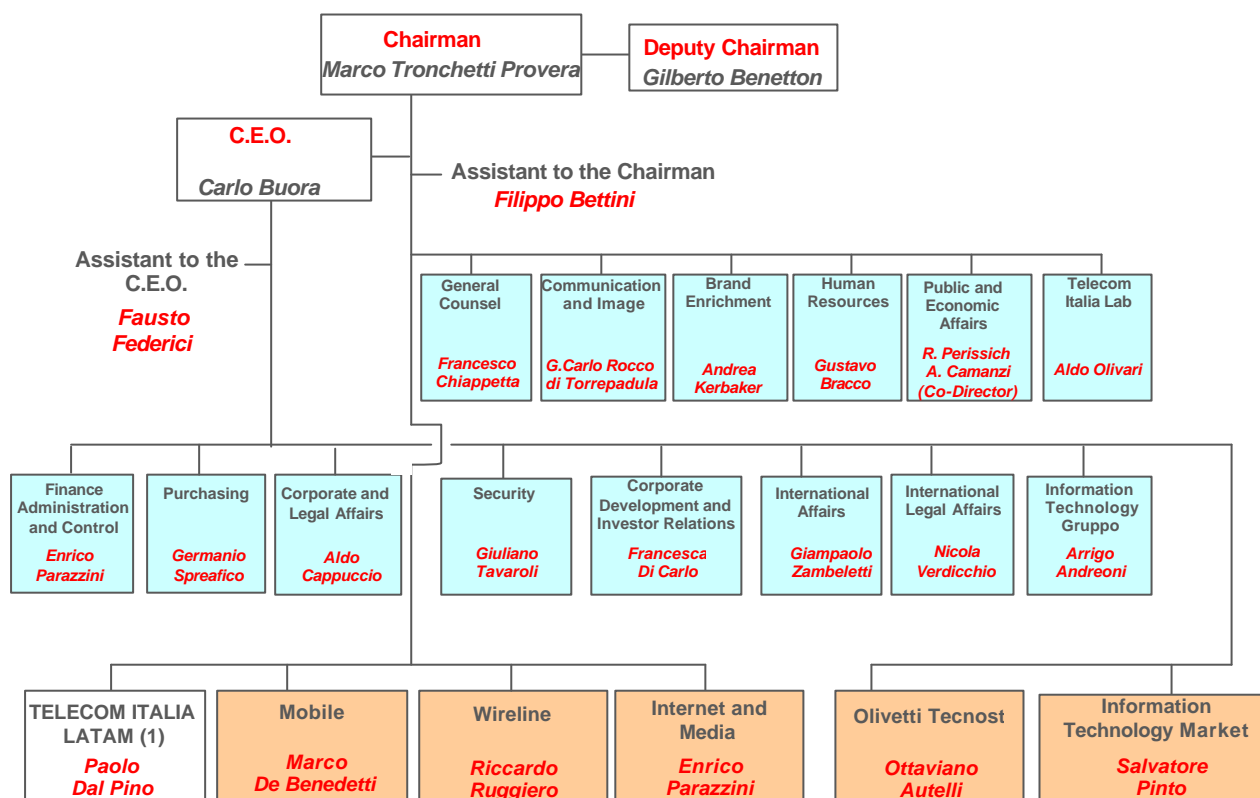
On July 31, 2003, S&P gave a BBB+ rating, with a stable outlook, to the company resulting from the merger. This was the rating previously attributed to Telecom Italia. On that occasion, S&P stressed how, in spite of the temporary increment in the total debt due to the tender offer, the merger between Olivetti and Telecom Italia brought a considerable improvement to the debt structure of the Group. On November 26, 2003, S&P raised the outlook to positive, thus reflecting expectations of a generation of strong cash flows, a solid operating performance and a continuous focus on the part of Telecom Italia to reduce its debt.

On August 5, 2003, Fitch also gave the new company the A- rating given to Telecom Italia, with a stable outlook, commenting on the robustness of the new financial structure of the Group and the established capacity of management to reduce debt.

On August 12, 2003, Moody's assigned the new company the Baa2 rating previously attributed to Olivetti, with a stable outlook. In an update published on September 29, 2004, Moody's underscored that its analysis no longer summed Olimpia's debt with Telecom Italia's debt.

SUMMARY DATA AND GENERAL INFORMATION	CORPORATE BOARDS
REPORT ON OPERATIONS	HIGHLIGHTS
	SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP
	KEY DATA – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	OPERATING HIGHLIGHTS – TELECOM ITALIA GROUP
	SHAREHOLDERS INFORMATION
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■ MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP AT SEPTEMBER 30, 2004



(1) Telecom Italia Latam assumed the new role of the “delocalized” Corporate function in Latin America, consistent with the Group’s chosen strategy to consolidate and develop its international presence in the Latin America geographical area. The Business Units – with their present corporate organization structure - are nevertheless responsible for the results of the subsidiaries in Latin America under their control.

Internal Auditing of the Group is entrusted to the consortium company Telecom Italia Audit; the Chairman is Armando Focaroli.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

RESULTS OF OPERATIONS

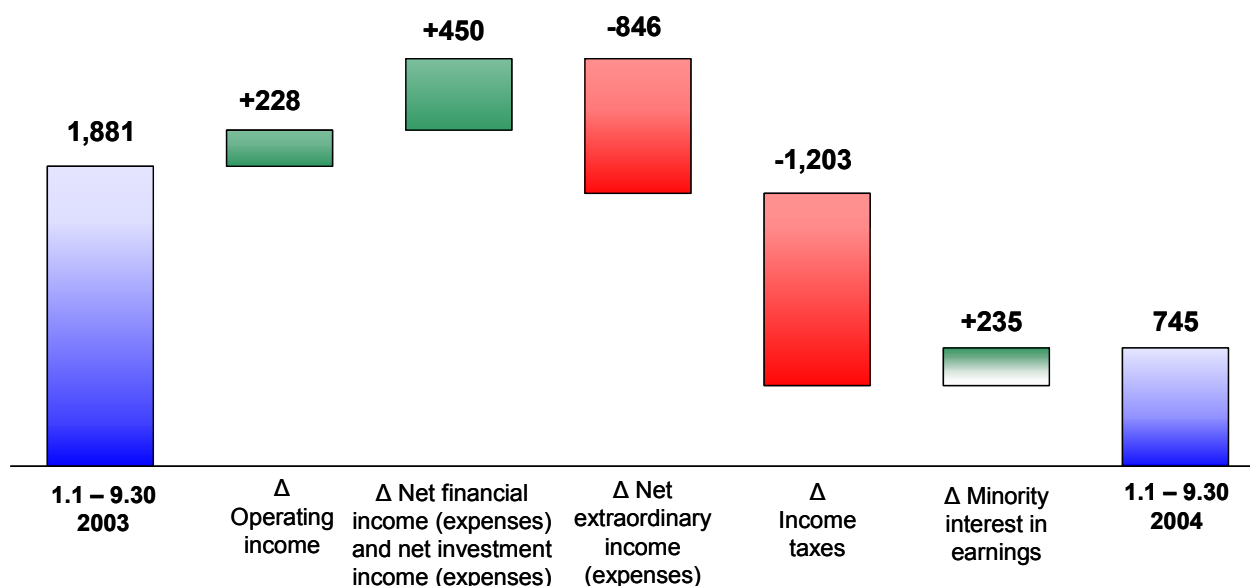
The consolidated net income of the Group for the first nine months of 2004 is euro 745 million (euro 1,518 million before minority interest). The consolidated net income of the Group for the first nine months of 2003 was euro 1,881 million (euro 2,889 million before minority interest).

The reduction in the consolidated net income of the Group (-euro 1,136 million) is due to the following factors:

- increase in *operating income* (+euro 228 million);
- improvement in *net financial income (expenses)* and *net investment income (expenses)* (+euro 450 million);
- deterioration in *net extraordinary income (expenses)* (-euro 846 million): in the first nine months of 2003, this balance included income from non-existent liabilities and reserves relating to the cancellation of the TLC license fee (euro 1,465 million) following the verdict returned by the European Court of Justice on September 18, 2003;
- higher *income taxes* of euro 1,203 million, due principally to the deferred tax assets booked in the prior year but not in the current year (euro 1,286 million in 2003) and a better economic result. In the first nine months of 2003, income taxes showed a credit balance of euro 969 million due to the aforementioned posting of deferred tax assets which became recoverable thanks to the merger of Olivetti and Telecom Italia.
- lower *minority interest in earnings* (euro 235 million);

The following chart summarizes the major items which had an impact on the consolidated net income of the Group for the first nine months of 2004:

(millions of euro)



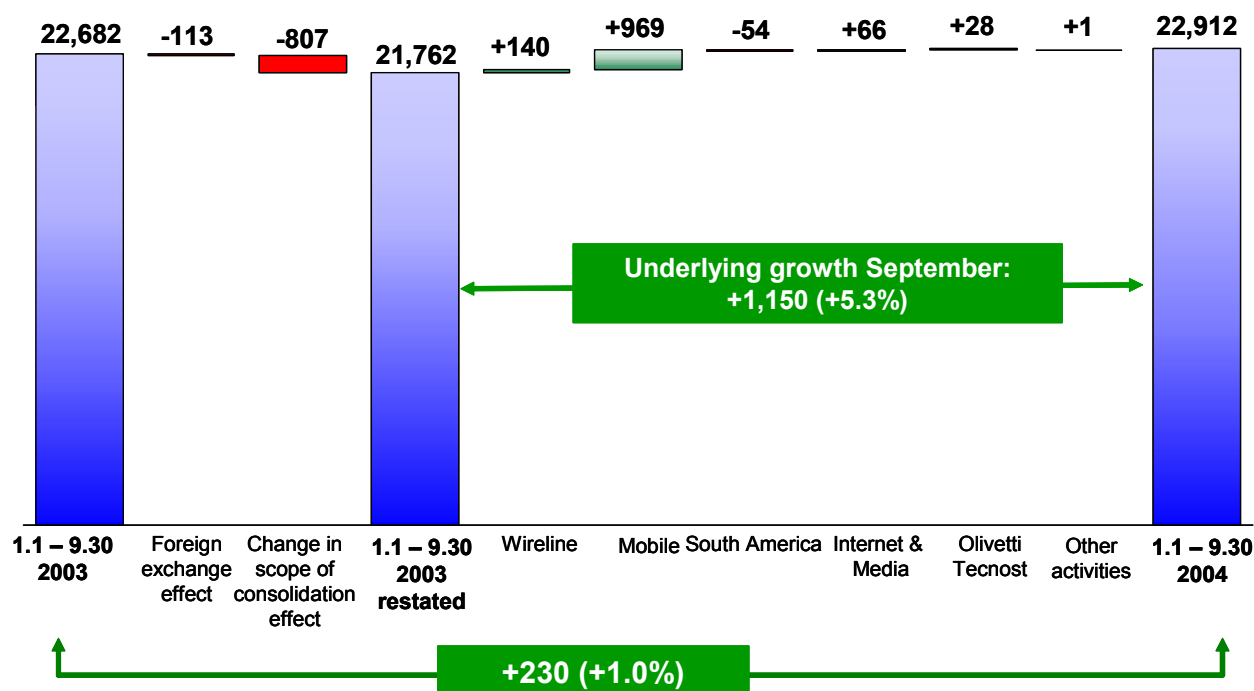
In the third quarter of 2004, the consolidated net income of the Group is euro 340 million (euro 655 million before minority interest). The result is euro 485 million lower than the net income reported for the third quarter of 2003 of euro 825 million (euro 1,297 million before minority interest).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Sales and service revenues for the first nine months of 2004 amount to euro 22,912 million, with an increase of 1.0% compared to euro 22,682 million for the same period of 2003. Excluding the negative foreign exchange effect (-euro 113 million, of which euro 87 million relates to the South American companies) and the change in the scope of consolidation (euro 807 million, of which euro 703 million relates to the sale of Nuova Seat Pagine Gialle in August 2003), underlying growth is 5.3% (euro 1,150 million).

The following chart summarizes the major items which had an impact on the sales and service revenues for the first nine months of 2004:

(millions of euro)



Underlying growth particularly reflects:

- a significant contribution by the Mobile Business Unit (+euro 969 million), mainly in relation to the domestic market of voice traffic and valued-added services (+euro 401 million) and the Brazilian market (+euro 444 million);
- an increase in the revenues of the Wireline Business Unit (+euro 140 million), achieved thanks to the success of development initiatives in the Broadband market and innovative services, particularly Web services, combined with a stable core Telephone market and enhanced offerings for wholesale services;
- an increase in the revenues of the Internet and Media (+euro 66 million), IT Market (+euro 31 million) and Olivetti Tecnost Business Units (+euro 28 million);
- a reduction in the sales of the wireline and integrated telecommunications companies in Latin America (-euro 54 million, mainly the Entel Chile group).

Revenues from telecommunications services are shown gross of the portion due to third-party operators of euro 3,453 million (euro 3,400 million in the first nine months of 2003).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The breakdown of sales and service revenues by customer geographic location is the following:

Geographic area (millions of euro)	9 months to 9/30/2004		9 months to 9/30/2003	
Italy	18,006	78.6%	18,209	80.3%
Rest of Europe	1,947	8.5%	1,892	8.3%
North America	344	1.5%	450	2.0%
Central and South America	2,252	9.8%	1,814	8.0%
Australia, Africa and Asia	363	1.6%	317	1.4%
Total	22,912	100.0%	22,682	100.0%

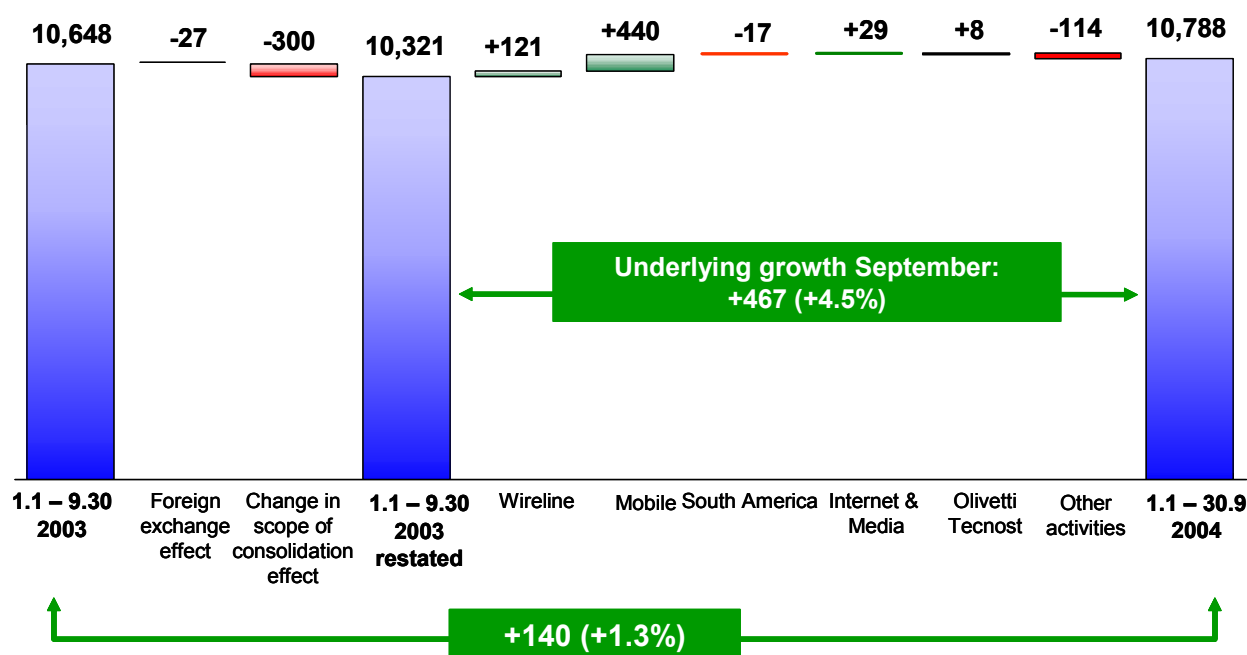
In the **third quarter of 2004**, revenues amount to euro 7,690 million (euro 7,533 million in the third quarter of 2003), with an increase of 2.1% compared to the corresponding period of 2003. Excluding the foreign exchange effect (-euro 66 million) and the change in the scope of consolidation (-euro 165 million), underlying growth is 5.3% (euro 388 million).

Gross operating profit amounts to euro 10,788 million and grew compared to the first nine months of 2003 by euro 140 million (+1.3%). As a percentage of revenues, the gross operating profit represents 47.1% for the first nine months of 2004 (46.9% for the first nine months of 2003).

Excluding the foreign exchange effect (-euro 27 million) and the impact due to the change in the scope of consolidation (-euro 300 million, mainly as a result of the sale of Nuova Seat Pagine Gialle), underlying growth is 4.5% (+euro 467 million). Such growth mostly took place in the Mobile Business Unit (+euro 440 million, of which euro 271 million refers to the domestic market) and in the Wireline Business Unit (+euro 121 million).

The following chart summarizes the major items which had an impact on the gross operating profit for the first nine months of 2004:

(millions of euro)



SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

In greater detail, gross operating profit is impacted by:

- **raw materials and outside services**, equal to euro 9,643 million, up 2.8% compared to the first nine months of 2003 (euro 266 million). The percentage of raw materials and outside services to revenues is 42.1% (41.3% in the first nine months of 2003).
- **labor costs**, equal to euro 3,012 million, are euro 205 million lower than the first nine months of 2003 (-6.4%). Besides the change in the scope of consolidation (principally relating to the Internet and Media Business Unit), the decrease is due to a reduction in the average workforce of the Parent Company. The percentage of labor costs to revenues is 13.1%, compared to 14.2% in the first nine months of 2003.

Employees at September 30, 2004 number 92,812 (93,187 at December 31, 2003). A breakdown is presented below:

	9/30/2004 (a)	12/31/2003 (b)	9/30/2003	Change (a – b)
Italy	76,666	78,069	80,046	(1,403)
Outside Italy	16,146	15,118	15,401	1,028
Total employees	92,812	93,187	95,447	(375)

Compared to December 31, 2003, the reduction of 375 employees is due to:

- an increase of 1,036 persons reflecting turnover (balance between 5,234 persons hired and 4,198 resigned). In Italy this mainly regarded persons hired at Telecontact and, outside Italy, the higher number of employees at the Brazilian mobile telephone companies;
- a decrease of 1,411 persons due to the change in the scope of consolidation, mainly referring to the outsourcing of the "Document Management" business (-257 at Telecom Italia S.p.A. and at Emsa Servizi) and the sale of the Webegg group (-622), CIPI and the GPP group (-311).

In the third quarter of 2004, the gross operating profit amounts to euro 3,699 million (euro 3,727 million in the third quarter of 2003). Excluding, from the third quarter of 2003, the foreign exchange effect (-euro 17 million), the change in the scope of consolidation (-euro 64 million) and the cancellation of the TLC license fee (euro 119 million), underlying growth is 4.9% (euro 172 million).

The percentage of gross operating profit to revenues in the third quarter of 2004 is 48.1% (47.9% in the third quarter of 2003 excluding the effect of the cancellation of the TLC license fee).

Operating income pre-amortization of differences on consolidation, equal to euro 6,607 million, decreases, compared to the first nine months of 2003, by euro 32 million (-0.5%). The percentage of operating income pre-amortization of differences on consolidation to revenues represents 28.8% (29.3% in the first nine months of 2003).

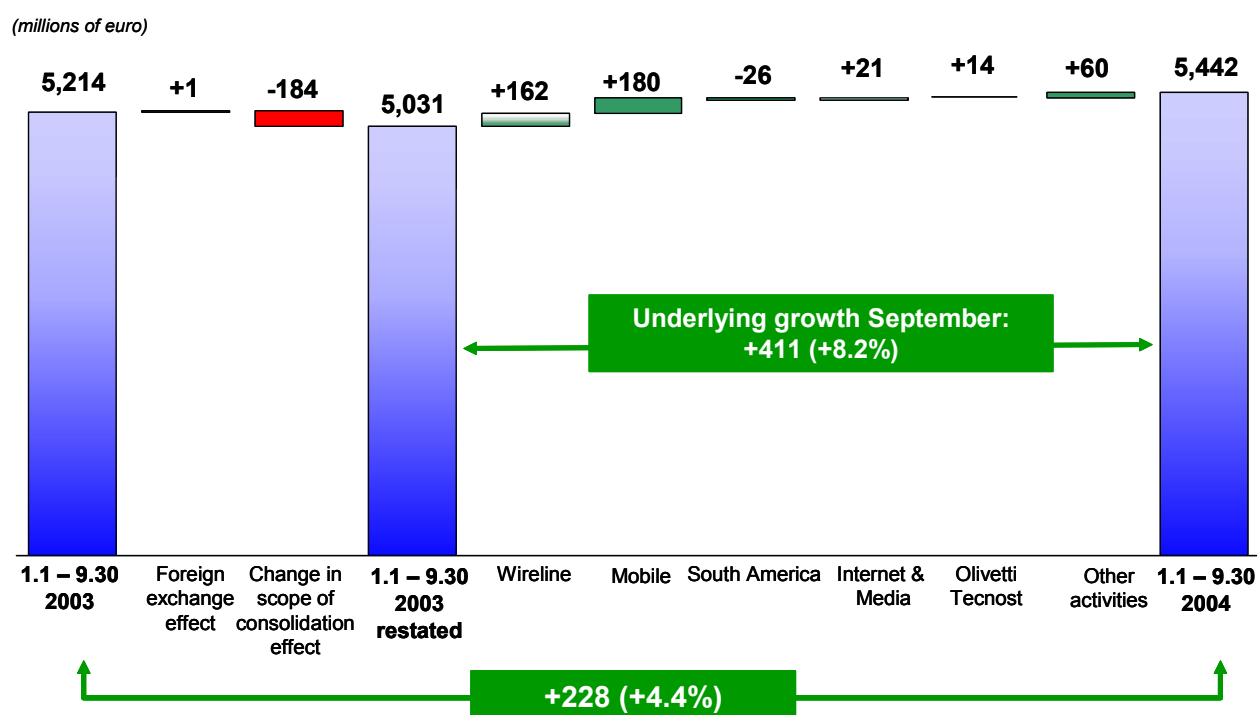
In the third quarter of 2004, operating income pre-amortization of differences on consolidation amounts to euro 2,234 million (euro 2,376 million in the third quarter of 2003).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Operating income, equal to euro 5,442 million, increases, compared to the first nine months of 2003, by euro 228 million (+4.4%). As a percentage of revenues, operating income rose from 23.0% for the first nine months of 2003 to 23.8% for the first nine months of 2004.

Excluding the foreign exchange effect and the impact of the change in the scope of consolidation, the underlying growth is 8.2% (+euro 411 million). Such growth mostly took place in the Mobile Business Unit (+euro 180 million, of which +euro 232 million refers to the domestic market) and in the Wireline Business Unit (+euro 162 million).

The following chart summarizes the major items which had an impact on the operating income for the first nine months of 2004:



In greater detail, operating income is impacted by the following factors:

- the **amortization of the differences on consolidation**, equal to euro 1,165 million (euro 1,425 million for the first nine months of 2003), with a reduction of euro 260 million, principally in connection with the sale of Nuova Seat Pagine Gialle and the writedowns made in 2003;
- the **amortization of other intangibles and the depreciation of fixed assets**, equal to euro 3,716 million (euro 3,587 million in the first nine months of 2003), with an increase of euro 129 million, mainly attributable to the amortization of TIM's UMTS license (euro 101 million).

The breakdown is as follows:

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a – b)
Other intangibles	1,111	895	216
Fixed assets	2,605	2,692	(87)
Total amortization and depreciation	3,716	3,587	129

The percentage of the amortization of other intangibles and the depreciation of fixed assets to revenues is 16.2% (15.8% in the first nine months of 2003);

- **other valuation adjustments**, equal to euro 201 million, chiefly regard writedowns to reduce trade accounts receivable to estimated realizable value. They mainly refer to Telecom Italia (euro 58 million), TIM (euro 30 million), foreign mobile telephone companies (euro 35 million), the Entel Chile group (euro 42 million) and Telecom Italia Sparkle (euro 14 million). Other valuation adjustments show a reduction of euro 87 million compared to the first nine months of 2003 due mainly to lower provisions made by the Parent Company (euro 56 million) in addition to the change in the scope of consolidation following the sale of Nuova Seat Pagine Gialle (euro 28 million);
- **provisions to reserves for risks and charges**, amounting to euro 59 million, present a reduction of euro 6 million compared to the first nine months of 2003;
- **net other income (expenses)** show an expense balance of euro 205 million (an expense balance of euro 69 million in the first nine months of 2003). Details are as follows:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a – b)
Indirect duties and taxes	(108)	(91)	(17)
Losses on sale of fixed assets and intangibles	(19)	(11)	(8)
Expenses connected with credit management	(72)	(42)	(30)
Late payment fees charged by TLC companies to customers	57	68	(11)
Portion of capital grants credited to income during the period	40	47	(7)
Sundry other income and expenses	(103)	(40)	(63)
Total	(205)	(69)	(136)

The increase in sundry other income and expenses is primarily connected with dealings between Telecom Italia and other telephone operators.

In the third quarter of 2004, operating income is euro 1,846 million (euro 1,933 million in the third quarter of 2003). Excluding, from the third quarter of 2003, the foreign exchange effect (euro 1 million), the change in the scope of consolidation (-euro 46 million) and the cancellation of the TLC license fee (euro 143 million), underlying growth is 5.8% (euro 101 million).

The percentage of net other income (expenses) to revenues in the third quarter of 2004 is 24.0% (23.8% in the third quarter of 2003 excluding the effect of the cancellation of the TLC license fee).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Net financial income (expenses) show an expense balance of euro 1,465 million, an improvement of euro 225 million compared to the first nine months of 2003. Details are as follows:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2004 (b)	Change (a – b)
Net financial income (expenses)	(1,463)	(1,686)	223
Value adjustments to financial assets, other than equity investments	(2)	(4)	2
Total	(1,465)	(1,690)	225

The contraction in net financial expenses, compared to the first nine months of 2003, is due to the absence of expenses relating to the JP Morgan put/call options on Seat Pagine Gialle shares (euro 236 million) and the commissions incurred for credit lines to fund the Olivetti - Telecom merger (euro 92 million). The improvement is partly offset by the increase in average debt exposure during the period deriving from the payment, in August 2003, of Olivetti's tender offer for Telecom Italia shares.

*In the **third quarter of 2004**, net other financial income (expenses) show an expense balance of euro 453 million (an expense balance of 494 million in the third quarter of 2003).*

Net investment income (expenses) show an income balance of euro 104 million (an expense balance of euro 121 million in the first nine months of 2003) with an improvement of euro 225 million compared to the first nine months of 2003. Details are as follows:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a – b)
Income from investments, net	105	9	96
Net revaluations (writedowns) of equity investments	9	(120)	129
Amortization of differences on consolidation, regarding investments accounted for using the equity method	(10)	(10)	-
Total	104	(121)	225

In particular, income from investments, net, includes euro 62 million of gains on the sale, in January 2004, of the remaining stake in Telekom Austria and euro 24 million from the release to income of the remaining portion of the gain on the sale, in 2002, of Mobilkom Austria to the same Telekom Austria. This caption also includes dividends on TIM shares recorded in current assets (euro 10 million).

Net revaluations (writedowns) of equity investments in the first nine months of 2004 include the equity in the earnings (losses) of Etec S.A. Cuba (earnings of euro 28 million, euro 26 million in the first nine months of 2003) and other companies (losses of euro 19 million, euro 34 million in the first nine months of 2003). The reduction compared to the first nine months of 2003 is chiefly in reference to Sky Italia (euro 64 million) and to the writedowns, made in 2003, to investments in current assets relating to Telekom Austria (euro 35 million) and Tim (euro 13 million).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

In the third quarter of 2004, net investment income (expenses) show an expense balance of euro 8 million (an expense balance of euro 44 million in the third quarter of 2003).

Net extraordinary income (expenses) show an expense balance of euro 391 million (an income balance of euro 455 million in the first nine months of 2003), with higher net extraordinary expenses of euro 846 million.

In particular:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a – b)
Gains from divestitures of long-term investments and business segments	76	59	17
Non-existent liabilities and reserves for the TLC license fee	-	1,465	(1,465)
Other extraordinary income	115	177	(62)
Total extraordinary income	191	1,701	(1,510)
Extraordinary expenses	(582)	(1,246)	664
Total net extraordinary income (expenses)	(391)	455	(846)

Other extraordinary income, equal to euro 115 million, decreased by euro 62 million mainly on account of lower prior period income by TIM.

Extraordinary expenses, equal to euro 582 million, include euro 282 million relating to the settlement with De Agostini that ended with the purchase of 40% of Webfin for euro 325 million (of which euro 287 million refers to the purchase price and euro 38 million to the reimbursement of expenses incurred by De Agostini Invest for the absorption of the losses and the recapitalization of Webfin beginning from July 2001) compared to a value established by independent valuers of euro 43 million.

Extraordinary expenses also include:

- euro 72 million (euro 117 million in the first nine months of 2003) of expenses and provisions for employee cutbacks and layoffs (of which euro 60 million is borne by the Parent Company, euro 76 million in the first nine months of 2003);
- euro 39 million for expenses under ex Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT) (euro 43 million in the first nine months of 2003);
- euro 7 million of indirect taxes and prior period taxes (euro 31 million in the first nine months of 2003 for the portion of the cost of the tax amnesty not covered by the reserve for income taxes);
- euro 2 million of losses on the sale of fixed assets (euro 20 million in the first nine months of 2003), euro 14 million for damages caused to the Parent Company's assets as a result of natural events or by third parties and euro 166 million of provisions and writedowns to fixed assets and intangible assets, prior period expenses and other extraordinary expenses (euro 221 million in the first nine months of 2003).

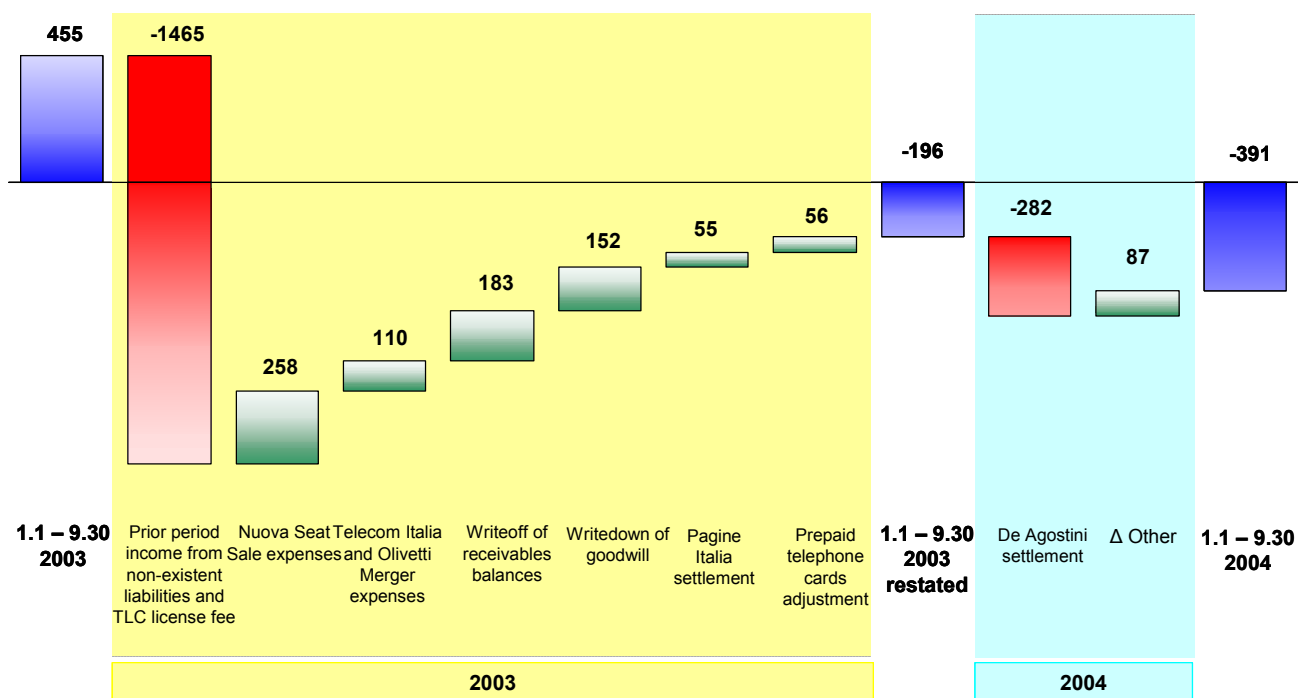
Extraordinary expenses for the first nine months of 2003 included, in addition to what was already mentioned, losses and expenses relating to the sale of Nuova Seat Pagine Gialle (euro 258 million), expenses referring to the Telecom Italia and Olivetti merger (euro 110 million) and the settlement with Pagine Italia (euro 55 million), the writeoff of prior years' receivables balances (euro 183 million), the writedown of the difference on

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

consolidation and the goodwill of certain Group companies (euro 152 million) and the adjustment of estimates for unused prepaid telephone cards (euro 56 million).

The following chart summarizes the major items which had an impact on the net extraordinary income (expenses) for the first nine months of 2004:

(millions of euro)



In the third quarter of 2004, net extraordinary income (expenses) show an expense balance of euro 40 million (an income balance of euro 1,159 million in the third quarter of 2003).

Income taxes for the first nine months of 2004 amount to euro 2,172 million (euro 969 million in the first nine months of 2003, including euro 1,286 million of deferred tax assets which became recoverable thanks to the merger of Olivetti/Telecom Italia).

In the third quarter of 2004, income taxes amount to euro 690 million (euro 1,257 million in the third quarter of 2003).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 52,635 million, decreased by euro 1,938 million compared to the end of 2003.

Details are as follows:

- **intangibles** decreased from euro 33,853 million at the end of 2003 to euro 32,858 million at September 30, 2004; the reduction is due to the difference between investments (euro 1,574 million) and amortization and writedowns during the period (euro 2,558 million) and the change in the scope of consolidation, the foreign exchange effect and other movements (-euro 11 million);
- **fixed assets** decreased from euro 18,324 million at the end of 2003 to euro 17,648 million at September 30, 2004; the reduction is due to the difference between investments (euro 2,046 million), depreciation for the period (euro 2,605 million) and disposals, the change in the scope of consolidation, the foreign exchange effect and other movements (-euro 117 million);
- **long-term investments** decreased from euro 2,396 million at the end of 2003 to euro 2,129 million at September 30, 2004; the reduction is due to the difference between investments (euro 140 million), disposals and reimbursements of long-term receivables (euro 366 million) and the equity method of valuation and other movements (-euro 41 million). The carrying value of the investment in the affiliated company Avea I.H.A.S (ex-TT&TIM I.H.A.S., the company resulting from the merger of Is TIM with the operator Aycell) is maintained at a zero balance and the receivables due TIM International from Is TIM, also completely written down, were converted to the share capital of the affiliated company Is TIM as part of the merger with Aycell.

Investments total euro 3,760 million (euro 9,322 million in the first nine months of 2003). Details are as follows:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a – b)
Industrial investments	3,194	2,871	323
Differences on consolidation	426	5,086	(4,660)
Financial investments	140	1,365	(1,225)
Total investments	3,760	9,322	(5,562)

Industrial investments, equal to euro 3,194 million, increased compared to the first nine months of 2003 by euro 323 million. The increase mainly refers to the Mobile Business Unit (+euro 450 million) against a reduction in investments by other Group companies (euro 127 million).

Investments in differences on consolidation for the first nine months of 2004 refer to the settlement with De Agostini which ended with the purchase of 40% of Webfin for euro 325 million (including euro 38 million for the reimbursement of the absorption of losses and the recapitalization of Webfin beginning from July 2001) compared to a value established by independent valuers of euro 43 million and a share of net equity of euro 1 million, as well as the purchase of the remaining stake of the Venezuelan subsidiary Digitel (euro 95 million).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Investments during the first nine months of 2003 chiefly referred to the difference (euro 4,551 million) between the payment for the tender offer by Olivetti for Telecom Italia shares (euro 5,285 million) and the share of net equity acquired (euro 723 million) as well as the exercise of the JP Morgan put option on Seat Pagine Gialle shares (euro 428 million).

Financial investments during the first nine months of 2004 refer to investments in equity interests, particularly the investments in the share capital of Etec S.A. Cuba (euro 26 million), Sky Italia (euro 55 million) and other financial investments (euro 59 million).

Financial investments during the first nine months of 2003 mainly related to the share of the net equity of the merged company acquired under the tender offer (euro 723 million), the purchase of treasury stock by the acquired company, cancelled at the time of the merger (euro 47 million), the purchase of the equity interest in LI.SIT. (euro 54 million), increases in the share capital of Sky Italia (euro 324 million) and other financial investments (euro 217 million).

Working capital shows a negative balance of euro 1,824 million (a negative balance of euro 638 million at December 31, 2003). The change of euro 1,186 million is due to the sale of Telekom Austria (euro 708 million), the tax charge for the period less payments made (euro 1,555 million), offset by changes in trade accounts receivable/payable and other items (euro 1,077 million).

Shareholders' equity amounts to euro 19,390 million (euro 20,589 million at the end of 2003), of which the Parent Company interest is euro 15,141 million (euro 16,092 million at December 31, 2003) and the minority interest is euro 4,249 million (euro 4,497 million at December 31, 2003).

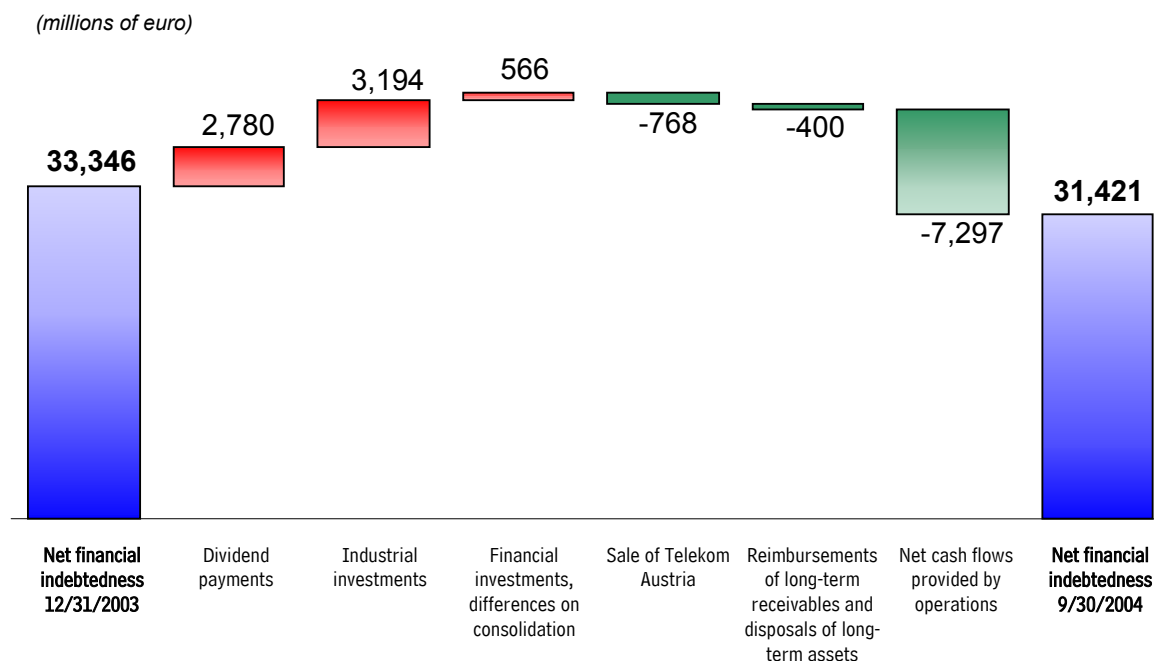
The changes in shareholders' equity are the following:

(millions of euro)	9 months to 9/30/2004	Year 2003
At beginning of period	20,589	20,624
Share capital increases	14	33
Net income of the Parent Company and minority interest	1,518	2,428
Dividends and reserves to third parties paid by:	(2,780)	(1,049)
- <i>Telecom Italia</i>	(1,730)	(794)
- <i>TIM S.p.A.</i>	(991)	(185)
- <i>Other Group companies</i>	(59)	(70)
Effects of the share withdrawals, the tender offer, the cancellation of treasury stock bought back by the Merged Company and the Telecom Italia shares held by Olivetti and reclassified from working capital to long-term investments	-	(1,117)
Deconsolidation of Nuova Seat Pagine Gialle	-	(126)
Translation adjustments and other changes	49	(204)
At end of period	19,390	20,589

Net financial indebtedness amounts to euro 31,421 million at September 30, 2004, with a decrease of euro 1,925 million compared to euro 33,346 million at the end of 2003.

The following chart summarizes the major items which had an impact on the change in net indebtedness during the course of the first nine months of 2004:

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING



In particular:

- “financial investments and differences on consolidation”, equal to euro 566 million, refer to financial investments for transactions involving subsidiaries and affiliated companies and long-term receivables (euro 140 million) and investments for differences on consolidation (euro 426 million), as described in detail earlier;
- “reimbursements of long-term receivables and disposals of long-term assets”, equal to euro 400 million, refer to:
 - sales of quotas/shares of Sky (euro 88 million), Euskaltel (euro 14 million), Cipi (euro 10 million), Cirsa (euro 31 million), Netco Redes (euro 30 million) and Pirelli & C. Real Estate (euro 24 million);
 - receipts, from Tiglio I as a reimbursement for the loan from shareholders and as a distribution of reserves (euro 54 million);
 - other sales and reimbursements of long-term receivables and sales of fixed assets and intangibles (euro 149 million).

Transactions for the securitization and factoring of trade accounts receivable during the first nine months of 2004 led to a reduction in net financial indebtedness at September 30, 2004 of euro 947 million (euro 1,201 million at the end of 2003), of which euro 790 million relates to securitization and euro 78 million to factoring transactions finalized in December 2003.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Net financial indebtedness is detailed in the following table:

	Within 12 months	Beyond 12 months	Total 9/30/2004	Total 12/31/2003
(millions of euro)				
Debentures	501	27,072	27,573	30,053
Convertible debentures	0	5,595	5,595	7,312
Total debentures	501	32,667	33,168	37,365
Due to banks	1,005	938	1,943	2,460
Due to other lenders	320	643	963	1,012
Other liabilities	34	55	89	519
Payables to subsidiaries and affiliated companies	20	17	37	42
Trade accounts payable	4	2	6	9
Taxes payable	0	0	0	58
Total other financial payables	1,383	1,655	3,038	4,100
Total gross financial indebtedness	1,884	34,322	36,206	41,465
Liquid assets	(3,756)		(3,756)	(4,877)
Other securities in current assets	(1,086)		(1,086)	(2,719)
Other accounts receivable	(260)		(260)	(796)
Receivables from subsidiaries and affiliated companies	(26)		(26)	(30)
Receivables for the sale of securities	0		0	(60)
Total financial receivables in current assets and liquid assets	(5,128)		(5,128)	(8,482)
Accrued expenses and deferred income	1,061	29	1,090	1,330
Accrued income and prepaid expenses	(416)	(331)	(747)	(967)
Balance of financial accruals and deferrals	645	(302)	343	363
Net financial indebtedness at September 30, 2004	(2,599)	34,020	31,421	33,346

Gross indebtedness due beyond one year amounting to euro 34,322 million (not taking into account a net asset balance of euro 302 million relating to medium/long-term accruals, deferrals and prepayments), corresponds to 95% of total gross indebtedness (euro 30,852 million or 74% at the end of 2003). At September 30, 2004, short-term borrowings include the current portion of medium/long-term debt totaling euro 1,133 million (euro 9,289 million at December 31, 2003), of which euro 500 million refers to bonds with quarterly coupons indexed to the 3-month Euribor + 130 basis points, due March 2005. Starting from that date, the maturity of these bonds can be extended, as elected by the bondholders, for successive periods of 21 months up to a maximum period of 10 years.

Between January and September, Telecom Italia S.p.A. issued three new bonds falling under the Euro Medium Term Note Program for a total of euro 10 billion, approved by the Board of Directors' meeting held October 10, 2003:

- On January 29, 2004, euro 3,000 million was issued divided into three tranches:

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

- euro 1,000 million, coupon interest at the 3-month Euribor +0.33%, issue price of 99.927, maturing October 29, 2007;
- euro 750 million, coupon interest at 4.50%, issue price of 99.56, maturing January 28, 2011;
- euro 1,250 million, coupon interest at 5.375%, issue price of 99.07, maturing January 29, 2019;
- On April 8, 2004, floating rate bonds were issued for euro 110 million under a private placement, coupon interest at the 3-month Euribor +0.60%, issue price of 100, maturing on March 30, 2009;
- On June 24, 2004, fixed rate bonds were issued for GBP 850 million, equal to euro 1,289 million, (issue price of 98.85) coupon interest at 6.375%, maturing June 24, 2019.

During the first nine months of 2004, bonds were repaid for a total of euro 7,797 million, of which:

- euro 1,331 million on January 1, 2004 relating to convertible bonds issued by Telecom Italia S.p.A.;
- euro 385 million on March 19, 2004 relating to convertible bonds issued by Olivetti Finance N.V. S.A. and guaranteed by Telecom Italia S.p.A.;
- euro 1,500 million on March 22, 2004 relating to bonds issued by Telecom Italia S.p.A., original maturity date of June 21, 2005, called in advance by exercising the right stated in the bond indenture;
- euro 1,000 million on April 20, 2004 relating to bonds issued by Telecom Italia Finance S.A. (originally Sogerim) and guaranteed by Telecom Italia S.p.A.;
- euro 3,550 million on July 30, 2004 relating to bonds issued by Telecom Italia Finance S.A. (originally Olivetti Finance N.V) and guaranteed by Telecom Italia S.p.A.;
- euro 31 million relating to bonds issued by Entel Chile.

During the same period, Telecom Italia also repurchased the bonds 2002-2022 set aside for subscription by the employees of the Group for a face value of euro 3 million. Such bonds were purchased because the bond indenture states that the Company must be the counterpart for the sales made by the holders of this category of securities; the bonds thus purchased will remain on hand for any future trading.

On March 26, 2004, Euro 850 million of securities, repurchased in prior years, issued by Olivetti Finance N.V.S.A. were cancelled. Such securities referred to euro 650 million out of bonds issued for a total of euro 4,200 million (the residual amount of euro 3,550 million was repaid in July 2004) and euro 200 million of bonds maturing February 2005 which have thus been completely cancelled.

On March 30, 2004, the new 3-year credit line was signed for euro 6.5 billion. This new line replaces the syndicated credit line of the same amount, obtained by the merging company Olivetti as part of the merger transaction in 2003. The first tranche of euro 4.5 billion was due in April 2004. The borrower is not required to abide by specific financial statement ratios and the type of commitment undertaken by the banks guarantees unconditional availability of credit for the line in question.

In July 2004, Telecom Italia Finance redeemed bonds for a face value of euro 135.1 million relating to bonds for euro 3,000 million issued by Sogerim (company merged by Telecom Italia Finance in 2002) maturing April 20, 2006 with coupon interest at 6.375%.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The following table shows the composition of gross financial indebtedness:

Composition (millions of euro)	At 9/30/2004						At 12/31/2003	
	euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	28,572	95	5,750	94	34,322	95	30,852	74
Short-term borrowings	1,501	5	383	6	1,884	5	10,613	26
Total	30,073	100	6,133	100	36,206	100	41,465	100

The following table shows the maturities of gross financial indebtedness:

Maturities (millions of euro)	Medium/long-term			Short-term	Total
	Bonds	Loans and other debt	Subtotal		
by September 2005	501	632	1,133	751	1,884
by September 2006	6,870	487	7,357	-	7,357
by September 2007	3,100	449	3,549	-	3,549
by September 2008	2,753	195	2,948	-	2,948
by September 2009	4,769	83	4,852	-	4,852
beyond September 2009	15,175	441	15,616	-	15,616
Total	33,168	2,287	35,455	751	36,206

At September 30, 2004, liquid assets and financial receivables amount to euro 5,128 million (euro 8,482 at the end of 2003). Details are as follows:

LIQUID ASSETS AND FINANCIAL RECEIVABLES (millions of euro)		
Liquid assets (classified by technical type)		
- Deposits	3,514	
- Current accounts and other types	242	
Total	(A)	3,756
Other securities in current assets		
- Euro Commercial Paper	233	
- Own bonds	435	
- Bonds	360	
- Other securities	58	
Total	(B)	1,086
	(C=A+B)	4,842
Other financial receivables	(D)	286
Total liquid assets and financial receivables in current assets	(C+D)	5,128

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

This financial structure will enable the Group to meet maturities over the next 18 months:

(millions of euro)			
<i>Medium/long-term debt maturing between "October 2004 and March 2006</i>			
	Bonds	Loans and other debt	TOTAL
October 2004 - September 2005	501	632	1,133
October 2005 - December 2005	804	59	863
January 2006 - March 2006	3,065	122	3,187
TOTAL	4,370	813	5,183
<i>Financed by:</i>			
Liquid assets and securities in current assets at 9/30/2004			4,842
New USD bond issue (USD 3.5 billion) October 2004			2,831
			7,673

Furthermore, at September 30, 2004, unused committed credit lines due March 2007 amount to euro 6,500 million.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Selected quarterly economic and financial data - Telecom Italia Group

(millions of euro)	2004				2003 (*)			
	1 st Quarter	2 nd Quarter	3 rd Quarter	9 months	1 st Quarter	2 nd Quarter	3 rd Quarter	9 months
Sales and service revenues	7,418	7,804	7,690	22,912	7,291	7,858	7,533	22,682
Change 3Q/2Q – 2Q/1Q		5.2%	-1.5%			7.8%	-4.1%	
Gross operating profit	3,494	3,595	3,699	10,788	3,308	3,613	3,727	10,648
Change 3Q/2Q – 2Q/1Q		2.9%	2.9%			9.2%	3.2%	
% Gross operating profit to Revenues	47.1%	46.1%	48.1%	47.1%	45.4%	46.0%	49.5%	46.9%
Operating income pre-amortization of differences on consolidation	2,173	2,200	2,234	6,607	2,018	2,245	2,376	6,639
Change 3Q/2Q – 2Q/1Q		1.2%	1.5%			11.2%	5.8%	
% Operating income pre-amortization of differences on consolidation to Revenues	29.3%	28.2%	29.1%	28.8%	27.7%	28.6%	31.5%	29.3%
Operating income	1,788	1,808	1,846	5,442	1,527	1,754	1,933	5,214
Change 3Q/2Q – 2Q/1Q		1.1%	2.1%			14.9%	10.2%	
% Operating income to Revenues	24.1%	23.2%	24.0%	23.8%	20.9%	22.3%	25.7%	23.0%

(*) The third quarter of 2003 benefited from the cancellation of the TLC license fee, which impacted the first two quarters of 2003. The following table presents the indexes for the first three quarters of 2003 on a comparable basis with 2004.

(millions of euro)	2003		
	1 st Quarter	2 nd Quarter	3 rd Quarter
% Gross operating profit / Revenues	46.3%	46.7%	47.9%
% Operating income pre-amortization of differences on consolidation / Revenues	28.7%	29.4%	29.6%
% Operating income / Revenues	22.0%	23.2%	23.8%

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia Group

Consolidated Statements of Income

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 30/09/2004 (a)	9 months to 9/30/2003 (b)	Year 2003	Change (a-b)	
						amount	%
A. SALES AND SERVICE REVENUES	7,690	7,533	22,912	22,682	30,850	230	1.0
Changes in inventories of work in progress, semifinished and finished goods		7	1	14	13	(13)	
Changes in inventory of contract work in process	(7)	28	35	53	(87)	(18)	(34.0)
Increases in capitalized internal construction costs	165	152	491	482	805	9	1.9
Operating grants	1	3	4	11	14	(7)	(63.6)
B. STANDARD PRODUCTION VALUE	7,849	7,723	23,443	23,242	31,595	201	0.9
Raw materials and outside services (1)	(3,190)	(3,006)	(9,643)	(9,377)	(13,018)	(266)	2.8
C. VALUE ADDED	4,659	4,717	13,800	13,865	18,577	(65)	(0.5)
Labor costs (1)	(960)	(990)	(3,012)	(3,217)	(4,297)	205	(6.4)
D. GROSS OPERATING PROFIT	3,699	3,727	10,788	10,648	14,280	140	1.3
Amortization of other intangibles and depreciation of fixed assets	(1,281)	(1,212)	(3,716)	(3,587)	(4,949)	(129)	3.6
Other valuation adjustments	(68)	(86)	(201)	(288)	(477)	87	(30.2)
Provisions to reserves for risks and charges	(21)	6	(59)	(65)	(94)	6	(9.2)
Net other income (expense)	(95)	(59)	(205)	(69)	(141)	(136)	197.1
E. OPERATING INCOME PRE-AMORTIZATION OF DIFFERENCES ON CONSOLIDATION	2,234	2,376	6,607	6,639	8,619	(32)	(0.5)
Amortization of differences on consolidation	(388)	(443)	(1,165)	(1,425)	(1,830)	260	(18.2)
F. OPERATING INCOME	1,846	1,933	5,442	5,214	6,789	228	4.4
Net financial income (expenses) (2)	(453)	(494)	(1,465)	(1,690)	(2,192)	225	(13.3)
Net investment income (expenses)	(8)	(44)	104	(121)	(72)	225	(186.0)
G. INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	1,385	1,395	4,081	3,403	4,525	678	19.9
Net extraordinary income (expenses)	(40)	1,159	(391)	455	(1,083)	(846)	(185.9)
H. INCOME BEFORE TAXES	1,345	2,554	3,690	3,858	3,442	(168)	(4.4)
Income taxes	(690)	(1,257)	(2,172)	(969)	(1,014)	(1,203)	124.1
I. NET INCOME FOR THE PERIOD BEFORE MINORITY INTEREST	655	1,297	1,518	2,889	2,428	(1,371)	(47.5)
Minority interest - Net income	(315)	(472)	(773)	(1,008)	(1,236)	235	(23.3)
L. NET INCOME FOR THE PERIOD PARENT COMPANY INTEREST	340	825	745	1,881	1,192	(1,136)	(60.4)

(1) Reduced by related cost recoveries

(2) Includes value adjustments to financial assets, other than equity investments

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia Group

Consolidated Balance Sheets

(millions of euro)	At 9/30/2004 (a)	At 6/30/2004 (b)	At 12/31/2003 (b)	Change (a-b)
A. INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets:				
· differences on consolidation	26,021	26,391	27,137	(1,116)
· other intangible assets	6,837	6,669	6,716	121
Fixed assets	17,648	17,797	18,324	(676)
Long-term investments:				
· equity investments and advances on future capital contributions	1,260	1,322	1,470	(210)
· other	869	876	926	(57)
	52,635	53,055	54,573	(1,938)
B. WORKING CAPITAL				
Inventories	526	580	426	100
Trade accounts receivable, net	7,019	7,788	7,080	(61)
Other assets	1,719	1,877	3,960	(2,241)
Trade accounts payable	(5,344)	(5,490)	(5,964)	620
Other liabilities	(5,478)	(6,235)	(6,671)	1,193
Reserves for employee termination indemnities and pensions and similar obligations	(1,396)	(1,376)	(1,338)	(58)
Capital and/or investment grants	(225)	(236)	(263)	38
Deferred tax assets net of reserve for income taxes	3,601	4,226	4,609	(1,008)
Other reserves for risks and charges	(2,246)	(2,388)	(2,477)	231
	(1,824)	(1,254)	(638)	(1,186)
C. NET INVESTED CAPITAL (A + B)	50,811	51,801	53,935	(3,124)
Financed by:				
D. SHAREHOLDERS' EQUITY				
Parent Company interest	15,141	14,730	16,092	(951)
Minority interest	4,249	3,854	4,497	(248)
	19,390	18,584	20,589	(1,199)
E. MEDIUM/LONG-TERM DEBT	34,020	34,165	30,545	3,475
F. NET SHORT-TERM FINANCIAL BORROWINGS (LIQUIDITY)				
Short-term borrowings	1,884	5,910	10,613	(8,729)
Liquid assets and short-term financial receivables	(5,128)	(7,327)	(8,482)	3,354
Financial accrued expenses (income) and deferred expenses (income), net	645	469	670	(25)
	(2,599)	(948)	2,801	(5,400)
G. TOTAL NET FINANCIAL INDEBTEDNESS (E + F)	31,421	33,217	33,346	(1,925)
H. TOTAL NET FINANCING (D + G)	50,811	51,801	53,935	(3,124)

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia Group

Consolidated Statements of Cash Flows

(millions of euro)	9 months to 9/30/2004	9 months to 9/30/2003	Year 2003
A. NET FINANCIAL INDEBTEDNESS, AT BEGINNING OF PERIOD	(33,346)	(33,399)	(33,399)
Operating income	5,442	5,214	6,789
Depreciation of fixed assets and amortization of intangible assets	4,881	5,012	6,779
Investments in fixed assets and intangible assets (1)	(3,194)	(2,871)	(4,894)
Proceeds from disposal of fixed assets and intangible assets	16	29	27
Change in operating working capital and other changes	(560)	(24)	532
B. FREE CASH FLOWS FROM OPERATIONS	6,585	7,360	9,233
Investments in long-term investments and differences on consolidation (1)	(566)	(6,451)	(6,560)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	384	569	741
Spin-off and sale of Nuova Seat Pagine Gialle	-	3,681	3,681
Change in non-operating working capital and other changes (2)	(1,712)	(4,965)	(6,026)
C.	(1,894)	(7,166)	(8,164)
D. NET CASH FLOWS BEFORE DISTRIBUTION OF INCOME/RESERVES AND CONTRIBUTIONS BY SHAREHOLDERS (C+ B)	4,691	194	1,069
E. DISTRIBUTION OF INCOME/RESERVES	(2,780)	(1,049)	(1,049)
F. CONTRIBUTIONS BY SHAREHOLDERS/WITHDRAWALS	14	1	33
G. CHANGE IN NET FINANCIAL INDEBTEDNESS (D+E+F)	1,925	(854)	53
H. NET FINANCIAL INDEBTEDNESS, AT END OF PERIOD (A+G)	(31,421)	(34,253)	(33,346)

The change in net financial indebtedness is the result of the following:

(millions of euro)			
Increase (decrease) in medium/long-term debt	3,475	(4,486)	(2,747)
Increase (decrease) in short-term borrowings	(5,400)	5,340	2,694
Total	(1,925)	854	(53)

(1) Total cash used for investments can be analyzed as follows:

(millions of euro)			
Industrial investments:	3,194	2,871	4,894
- other intangible assets	1,148	961	1,783
- fixed assets	2,046	1,910	3,111
Differences on consolidation	426	5,086	5,096
Investment in long-term investments	140	1,365	1,464
CASH USED FOR INVESTMENTS	3,760	9,322	11,454

(2) The caption can be analyzed as follows:

(millions of euro)			
Net financial income (expenses)	(1,465)	(1,690)	(2,192)
Utilization of risk reserve for early exercise of JP Morgan put option	-	(1,942)	(1,942)
Payment of income taxes	(446)	(428)	(771)
Payment of other taxes (amnesty and withholding tax)	(171)	(116)	(186)
Extraordinary items and other	370	(789)	(935)
CHANGE IN NON-OPERATING WORKING CAPITAL AND OTHER CHANGES	(1,712)	(4,965)	(6,026)

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ ACQUISITIONS AND DIVESTITURES OF INVESTMENTS

PURCHASE OF DIGITEL SHARES BY TIM INTERNATIONAL

The settlement agreement signed in April 2004 between TIM International and the minority shareholders of the Venezuelan subsidiary Digitel was executed on July 1, 2004, with the consequent purchase by TIM International of 1,480,562 shares held by these minority shareholders for USD 109.6 million. The execution of the agreement puts an end to the dispute begun at the beginning of last year. The closing took place after verification of the contractual conditions put into place to protect TIM International and Digitel. As from the date of July 1, 2004, TIM, through TIM International, therefore holds 100% of the shares of the Venezuelan mobile operator.

SALE OF ATEZIA

Effective as from July 1, 2004, Atesia sold the wireline customer care business segment to Telecontact S.p.A.. On July 2, 2004, Telecom Italia signed an agreement with the company COS Communication Services S.p.A. (part of the COS Group, the Italian leader in outsourcing for Contact Centers and CRM – Customer Relationship Management services) for the sale of the 80.1% stake in Atesia. Therefore, the sale only covers the activities conducted for TIM and the foreign market. Having obtained approval from the Antitrust Authority on October 28, 2004, the deal is expected to be finalized by mid-November 2004.

SALE OF WEBFIN TO VERTICO

On July 9, 2004, Telecom Italia Media S.p.A. sold 40% of the investment in Finanziaria Web, previously purchased from De Agostini Invest, to Vertico S.p.A. (a 100%-indirectly owned company of Telecom Italia) at the price of euro 42.6 million. This sale falls under a series of transactions related to the settlement of the dispute with the De Agostini group.

PURCHASE OF IAK – INFORMATICA AVANZATA PER IL CREDITO

On July 14, 2004, Banksiel signed a contract for the purchase of 100% of the share capital of IAK – INFORMATICA AVANZATA PER IL CREDITO S.r.l. for euro 3 million. The contract was executed on October 11, 2004 after the relative approvals were obtained from the Antitrust Authority.

SALE OF WEBEGG

On July 15, 2004, after approval by the Antitrust Authority, the agreement was executed for the sale of 69.8% of the share capital of Webegg to Value Partners S.p.A. by IT Telecom, with payment of the agreed price (euro 43 million).

SALES OF PIRELLI & C. REAL ESTATE S.p.A. SHARES

383,400 Pirelli & C. Real Estate S.p.A. shares were sold in August 2004 for cash proceeds of euro 11 million. After this transaction and taking into account the sales made in June 2004, all Pirelli & C. Real Estate S.p.A. shares in portfolio (812,086) have been sold for total cash proceeds of euro 24 million.

SALE OF SKY ITALIA

On September 28, 2004, Telecom Italia sold its 19.9% interest in Sky Italia to the NewsCorp group. The consideration on the transaction was euro 88 million. The transaction gave rise to a gain, compared to the

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

carrying value at June 30, 2004, of euro 31.4 million. This makes it possible to cancel the effects of the writedowns made during the first half of the year so that the transaction had an almost nil economic impact on Telecom Italia' financial statements this year.

PURCHASE OF A STAKE IN YMINDS SA

On September 30, 2004, following receipt of approval from the Antitrust Authority, Olivetti I-Jet S.p.A. in the Office Products Division, finalized the merger of 100% of the Swiss company YMINDS S.A. (in which Olivetti I-Jet already held a 27.2% interest) after purchasing a 61.4% stake from third parties and a 11.4% holding from Olivetti Tecnost International BV. The company is engaged in research and development of products using Ink-jet technology.

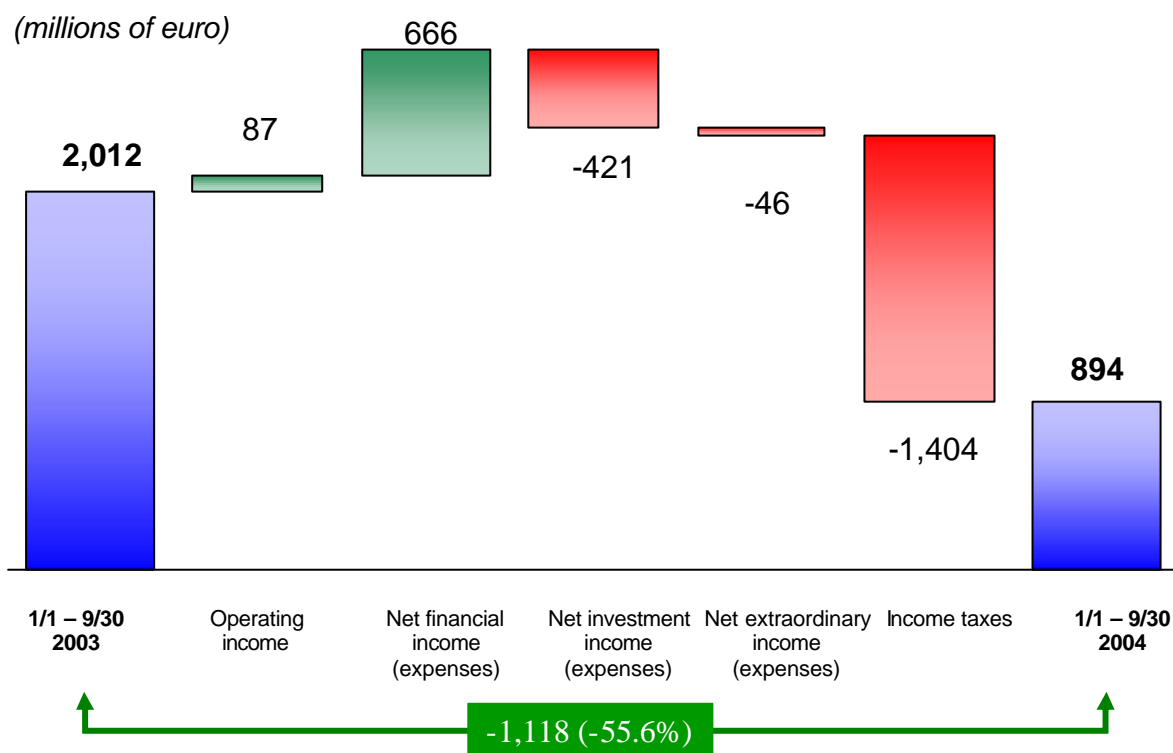
SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.p.A.

Results of operations

The Parent Company, Telecom Italia S.p.A., shows net income of euro 894 million for the first nine months of 2004, euro 1,118 million less than the first nine months of 2003.

The following chart shows the components which had an impact on net income during the period.



In particular, the increase in *income taxes* (+euro 1,404 million) is due principally to the deferred tax assets booked in the prior year but not in the current year (euro 1,286 million in 2003) and a better economic result. In the first nine months of 2003, income taxes showed a credit balance of euro 634 million due to the aforementioned posting of deferred tax assets which became recoverable thanks to the merger of Olivetti and Telecom Italia.

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first nine months of 2004 but are recorded at the end of the year in accordance with the accrual principle.

In the third quarter of 2004, the net income is euro 380 million; in the third quarter of 2003, the net income amounted to euro 432 million.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Sales and service revenues, gross of the portion due to other TLC operators, amount to euro 11,793 million and decreased by euro 79 million (-0.7%) compared to the first nine months of 2003. The decrease is mainly on account of the absence of revenues from the resale of satellite capacity (-euro 77 million). Moreover, retail sales show an increase (+euro 49 million) that is almost entirely offset by the decrease in national wholesale revenues (-euro 44 million).

The trend in retail revenues can specifically be ascribed to the following factors:

- increase in Internet revenues (+euro 192 million) particularly as a result of the growth of Adsl Alice and Adsl Smart plans;
- increase in Data Business revenues (+euro 13 million), specifically due to the growth of innovative data transmission services, which was partly offset by the decrease in traditional data transmission revenues;
- decrease in telephony revenues (-euro 62 million) chiefly as a result of the decline in traffic revenues, which was partly absorbed by the increase in product sales (principally the Aladino cordless phone)
- decrease in VAS – Value Added Services revenues (-euro 94 million), on account of the contraction in premium services, which was partly compensated by the growth of revenues from innovative services.

During the first nine months of 2004, sales and service revenues, net of the portion due to other telecommunications operators, are equal to euro 9,543 million. Such revenues increased by euro 8 million compared to the first nine months of 2003.

In the third quarter of 2004, revenues amount to euro 3,829 million (euro 3,837 million in the third quarter of 2003) with a reduction of 8 million (-0.2%) compared to the third quarter of 2003.

Gross operating profit, equal to euro 5,526 million, increased by euro 16 million compared to the first nine months of 2003 (+0.3%). As a percentage of revenues, gross operating profit is 46.9% (46.4% for the first nine months of 2003).

The increase in gross operating profit is principally the result of the reduction in raw materials and outside services (-euro 21 million), the decrease in labor costs (-euro 60 million) and higher capitalized internal construction costs (+euro 15 million) that were absorbed in part by lower operating grants (-euro 5 million) and the above reduction in revenues.

The decrease in labor costs is mainly due to the reduction in the average headcount (-3,161 persons compared to the first nine months of 2003; -5.9%).

In the third quarter of 2004, gross operating profit is euro 1,803 million (euro 1,873 million in the third quarter of 2003), with a decrease of euro 70 million (-3.7%). As a percentage of revenues, gross operating profit is 47.1% (48.8% in the third quarter of 2003). It should be recalled that the third quarter of 2003 benefited from the cancellation of the TLC license fee (euro 59 million). Excluding this effect, gross operating profit in the third quarter of 2004, compared to the third quarter of 2003, decreased by euro 11 million (-0.6%) and the percentage of gross operating profit to sales and service revenues is 47.1% in the third quarter of 2004 against 47.3% in the third quarter of 2003.

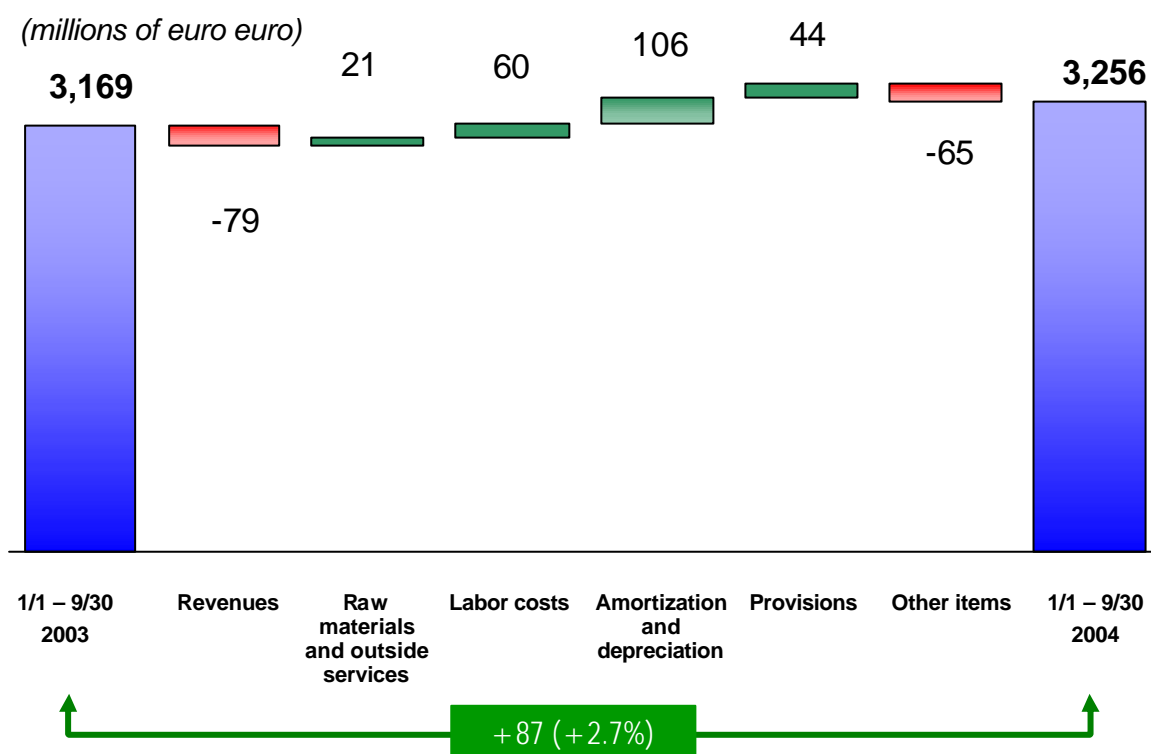
SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Operating income, equal to euro 3,256 million, increased by euro 87 million compared to the first nine months of 2003 (+2.7%). As a percentage of revenues, operating income is 27.6%, compared to 26.7% for the first nine months of 2003.

The increase is mainly due to lower amortization and depreciation of intangibles and fixed assets (-euro 106 million, of which euro 85 million refers to fixed assets) and lower valuation adjustments (-euro 56 million).

Such effects, combined with the cited increase in the gross operating profit, fully compensate the higher provisions to the reserves for risks and charges and higher expenses connected with the management of relations with other telephone operators and transactions involving the sale of receivables.

The following chart shows the components which had an impact on operating income:



In the **third quarter of 2004**, operating income is euro 996 million (euro 1,085 million in the third quarter of 2003) with a decrease of euro 89 million, -8.2%. As a percentage of revenues, operating income is 26% (28.3% in the third quarter of 2003). It should be recalled that the third quarter of 2003 benefited from the cancellation of the TLC license fee (euro 79 million). Excluding this effect, operating income in the third quarter of 2004, compared to the third quarter of 2003, decreased by euro 10 million (-1%) and the percentage of operating income to sales and service revenues is 26% in the third quarter of 2004 against 26.2% in the third quarter of 2003.

Net financial income (expenses) show an expense balance of euro 1,293 million (-euro 1,959 million in the first nine months of 2003), with an improvement of euro 666 million. This reduction is due to the fact that the first

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

nine months of 2003 had included the expenses relating to the JP Morgan put option on Seat Pagine Gialle shares (euro 236 million) and expenses (euro 394 million) referring to the repurchase of the bonds subscribed by Telecom Italia Finance, as well as the expenses incurred in conjunction with obtaining credit lines to fund the Olivetti S.p.A./Telecom Italia S.p.A. merger (euro 92 million). Such positive effects are partly offset by the expenses relating to the increase in average debt exposure during the period deriving from the payment, in August 2003, of the Olivetti tender offer for Telecom Italia shares.

In the third quarter of 2004, net financial income (expenses) show an expense balance of euro 422 million (-euro 757 million in the third quarter of 2003) with an improvement of euro 335 million, +44.3%, compared to the third quarter of 2003.

Net investment income (expenses) is composed of the following:

(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a-b)
Income from investments, net	16	680	(664)
Net revaluations (writedowns) of equity investments	6	(237)	243
Total	22	443	(421)

In particular, the following can be said:

- net revaluations (writedowns) of equity investments mainly refer to writedowns of investments (euro 55 million) and to the writeback of the value of the investment in Olivetti Tecnost (euro 60 million). Such writeback was booked as the reasons which gave rise to the writedown in prior years are no longer applicable.
Writedowns refer mainly to investments in IT Telecom (euro 26 million), Telecom Italia Learning Services (euro 13 million), Latin American Nautilus (euro 7 million), LI.SIT (euro 4 million) and EPIClink (euro 4 million). The reduction (-euro 248 million) compared to the first nine months of 2003 is generally due to higher writedowns made in 2003 to the investments in IT Telecom (+euro 75 million), Sky Italia (+euro 64 million), Olivetti International (+euro 33 million), Telecom Italia Learning Services (+euro 20 million), Olivetti Tecnost (+euro 16 million and TIM shares in current assets (+euro 12 million);
- the decrease in income from investments, net (-euro 664 million) is almost entirely due to the receipt, in the first nine months of 2003, of both pre-merger dividends from the merged company Telecom Italia (euro 511 million) and reserves from the subsidiary TIM (euro 81 million) and tax credits no longer recognized on dividends (euro 79 million in the first nine months of 2003) following the tax reform introduced by Legislative Decree No. 344/2003.

In the third quarter of 2004, net investment income (expenses) show an income balance of euro 33 million. In the third quarter of 2003, net investment income (expenses) presented an expense balance of euro 41 million.

Net extraordinary income (expenses) show an expense balance of euro 321 million (-euro 275 million in the first nine months of 2003), with higher net extraordinary expenses of euro 46 million.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Extraordinary income, totaling euro 43 million, decreased, compared to the first nine months of 2003, by euro 946 million. This reduction can be ascribed, for euro 922 million, to prior period income recorded in 2003 following the cancellation of the TLC license fee and lower gains on the sale of fixed assets and long-term investments.

Extraordinary income includes:

- gains realized on the sale of Pirelli & C. Real Estate shares (euro 9 million) and the sale of the “Document Management” business segment (euro 1 million);
- the elimination of prior period tax interference (euro 1 million), pursuant to Legislative Decree No. 6 dated January 17, 2003, introducing the Corporate Law Reform, following accelerated depreciation taken in prior years by the acquiring company Olivetti as allowed by tax laws;
- the recovery of expenses from companies of the Group relating to Law 58/1992 (euro 2 million) and from third parties for damage compensation (euro 6 million);
- other prior period income of euro 24 million.

Extraordinary expenses, totaling euro 364 million, decreased by euro 900 million compared to the first nine months of 2003 in which the following items were booked:

- loss on the sale of Nuova Seat Pagine Gialle (euro 347 million);
- expenses relating to the Olivetti - Telecom Italia merger and the sale of the company Nuova Seat Pagine Gialle (euro 173 million);
- prior period expenses for the writeoff of prior years’ receivables balances (euro 183 million) and the adjustment to the estimated value of unused prepaid telephone cards (euro 56 million);
- writedowns to the investments in EPIClink (euro 106 million) and Loquendo (euro 10 million) and provisions for guarantees provided upon the sale of satellite consortia (euro 30 million);
- expenses relating to the settlement with Pagine Italia (euro 55 million).

The first nine months of 2004 were principally impacted by the writedown of the investment in Telecom Italia Media (euro 112 million) as a result of the loss of value following the settlement with the De Agostini group.

Extraordinary expenses also include:

- expenses under ex Law 58/1992 (euro 123 million) to cover employees under the former “Telephone Employees Pension Fund” (FPT), which became part of the “Employees Pension Fund”, in accordance with the 2000 Finance Bill;
- expenses (euro 60 million) for corporate restructuring measures relating to employee cutbacks and layoffs;
- expenses for damages sustained to the assets of the company as a result of natural disasters or by third parties (euro 14 million);
- expenses (euro 4 million) following the guarantees connected with corporate transactions and the provisions associated with the sale of the “Document Management” business segment (euro 2 million);
- other expenses and prior period expenses for euro 49 million.

In the third quarter of 2004, net extraordinary income (expenses) show a nil balance. In the third quarter of 2003, net extraordinary income (expenses) presented an income balance of euro 740 million as a result of

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

booking income the previously mentioned non-existent liabilities and reserves for risks and charges following the cancellation of the TLC license fee.

Income taxes totaling euro 770 million (a credit balance of euro 634 million in the first nine months of 2003) increased by euro 1,404 million compared to the same period of 2003 which, as mentioned, had benefited from deferred tax assets (euro 1,286 million) which became recoverable thanks to the Olivetti/Telecom Italia merger.

Employees at September 30, 2004 number 51,453, with a reduction of 908 compared to December 31, 2003. This change is due to turnover involving 787 persons (319 hired and 1,106 resigned) and the reduction of 189 employees following the sale of the “Document Management” business segment. The reduction was offset in part by transfers from Group companies (68).

Investments amount to euro 3,110 million (euro 8,383 million in the first nine months of 2003). The breakdown is as follows:

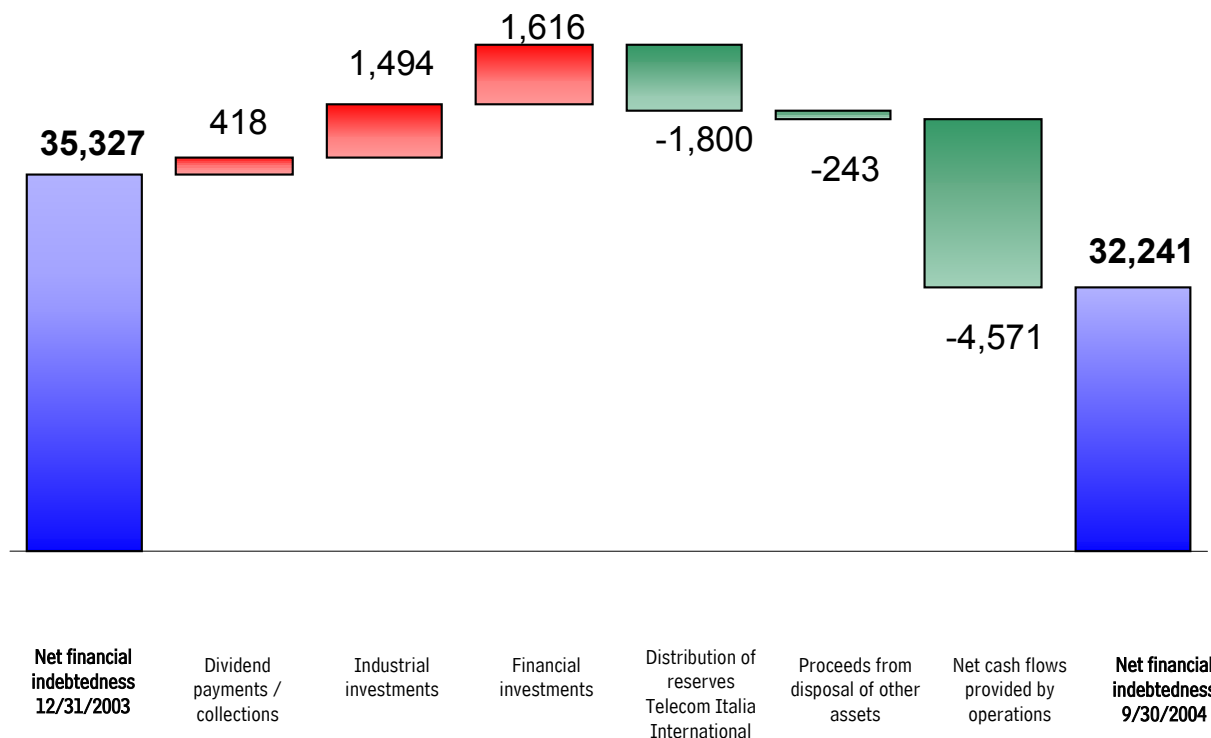
(millions of euro)	9 months to 9/30/2004 (a)	9 months to 9/30/2003 (b)	Change (a-b)
Industrial investments	1,494	1,891	(397)
Financial investments	1,616	6,492	(4,876)
. of which tender offer	-	5,274	(5,274)
Total investments	3,110	8,383	(5,273)

Net financial indebtedness (euro 32,241 million) decreased by euro 3,086 million compared to December 31, 2003 (euro 35,327 million).

The following chart summarizes the major components which had an impact on the change in net financial indebtedness at September 30, 2004:

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

(millions of euro)



Financial investments include the payment of advances on future capital contributions of euro 1,500 million to Edotel S.p.A., a wholly-owned subsidiary of Telecom Italia (subsequently contributed to Telecom Italia Finance S.A.). This payment follows the distribution of part of the additional paid-in capital by Telecom Italia International B.V. for an amount of euro 1,800 million.

The above transactions were entered into for purposes of bringing equilibrium to Telecom Italia Finance's financial position, by transferring the liquid resources currently available at Telecom Italia International.

Net financial indebtedness benefited from the effects of the securitization and sale of receivables to factoring companies for a total amount of euro 926 million at September 30, 2004, of which euro 790 million relates to securitization and euro 136 million to factoring transactions (euro 1,186 million at December 31, 2003, of which euro 851 million relates to securitization and euro 335 million to factoring transactions).

Net financial indebtedness is detailed in the following table:

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

(millions of euro)	Within 12 months	Beyond 12 months	Total 9/30/2004	Total 12/31/2003
Debentures	-	12,660	12,660	9,765
Convertible debentures	-	2,828	2,828	4,160
Total debentures	-	15,488	15,488	13,925
Payables to subsidiaries and affiliated companies	3,895	12,980	16,875	19,304
Due to banks	589	299	888	1,191
Due to other lenders	292	373	665	783
Other liabilities	6	-	6	62
Taxes payable	-	-	-	23
Total other financial payables	4,782	13,652	18,434	21,363
Total gross financial indebtedness	4,782	29,140	33,922	35,288
Liquid assets	(776)	-	(776)	(205)
Receivables from subsidiaries and affiliated companies	(1,129)	-	(1,129)	(838)
Other accounts receivable	(246)	-	(246)	(367)
Other securities in current assets	(8)	-	(8)	(16)
Total financial receivables in current assets and liquid assets	(2,159)	-	(2,159)	(1,426)
Accrued expenses and deferred income	768	81	849	1,832
Accrued income and prepaid expenses	(104)	(267)	(371)	(367)
Balance of financial accruals and deferrals	664	(186)	478	1,465
Net financial indebtedness at September 30, 2004	3,287	28,954	32,241	35,327

The percentage of gross indebtedness due beyond one year of euro 29,140 million to total gross indebtedness went from 59% at December 31, 2003 to 86% at September 30, 2004.

Gross financial indebtedness is detailed in the following table:

(millions of euro)	At 9/30/2004						At 12/31/2003	
	<i>euro</i>	%	<i>Foreign currency</i>	%	Total	%	Total	%
Medium/long-term debt	27,408	95	1,732	35	29,140	86	20,915	59
Short-term borrowings	1,558	5	3,224	65	4,782	14	14,373	41
Total	28,966	100	4,956	100	33,922	100	35,288	100

At September 30, 2004, short-term borrowings, euro 4,782 million, include the current portion of medium/long-term debt amounting to euro 302 million (euro 5,759 million at December 31, 2003).

Debt positions with Group companies total euro 22,423 million (euro 18,530 million falling due beyond one year); debt positions with third parties amount to euro 11,499 million (euro 10,610 million falling due beyond one year).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia S.p.A.

Statements of income

(millions of euro)	3 rd Quarter	3 rd Quarter	9 months to	9 months to	Year	Change	
	2004	2003	30/09/2004	9/30/2003	2003	(a-b)	
			(a)	(b)		amount	%
A. SALES AND SERVICE REVENUES	3,829	3,837	11,793	11,872	16,033	(79)	(0.7)
Changes in inventory of contract work in process	8	4	10	6	6	4	66.7
Increases in capitalized internal construction costs	22	14	55	40	60	15	37.5
Operating grants	1	2	3	8	9	(5)	(62.5)
B. STANDARD PRODUCTION VALUE	3,860	3,857	11,861	11,926	16,108	(65)	(0.5)
Raw materials and outside services (1)	(1,492)	(1,414)	(4,563)	(4,584)	(6,209)	21	(0.5)
C. VALUE ADDED	2,368	2,443	7,298	7,342	9,899	(44)	(0.6)
Labor costs (1)	(565)	(570)	(1,772)	(1,832)	(2,466)	60	(3.3)
D. GROSS OPERATING PROFIT	1,803	1,873	5,526	5,510	7,433	16	0.3
Depreciation and amortization	(692)	(713)	(2,003)	(2,109)	(2,919)	106	(5.0)
Other valuation adjustments	(20)	(26)	(59)	(115)	(199)	56	(48.7)
Provisions to reserves for risks and charges	(9)	19	(25)	(13)	(15)	(12)	92.3
Net other income (expense)	(86)	(68)	(183)	(104)	(161)	(79)	76.0
E. OPERATING INCOME	996	1,085	3,256	3,169	4,139	87	2.7
Net financial income (expenses) (2)	(422)	(757)	(1,293)	(1,959)	(2,404)	666	(34.0)
Net investment income (expenses)	33	(41)	22	443	1,645	(421)	(95.0)
F. INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	607	287	1,985	1,653	3,380	332	20.1
Net extraordinary income (expenses)		740	(321)	(275)	(1,652)	(46)	16.7
G. INCOME BEFORE TAXES	607	1,027	1,664	1,378	1,728	286	20.8
Income taxes	(227)	(595)	(770)	634	918	(1,404)	-
H. NET INCOME FOR THE PERIOD	380	432	894	2,012	2,646	(1,118)	(55.6)

(1) Reduced by related cost recoveries

(2) Includes value adjustments to financial assets, other than equity investments.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia S.p.A.

Balance Sheets

(millions of euro)	9/30/2004 (a)	6/30/2004	12/31/2003 (b)	Change (a-b)
A. INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets	1,736	1,604	1,485	251
Fixed assets	11,058	11,447	11,843	(785)
Long-term investments:				
· equity investments and advances on future capital contributions	34,530	34,813	34,995	(465)
· other	220	223	281	(61)
	47,544	48,087	48,604	(1,060)
B. WORKING CAPITAL				
Inventories	140	119	88	52
Trade accounts receivable, net	4,188	5,077	4,542	(354)
Other assets	896	2,101	3,693	(2,797)
Trade accounts payable	(2,571)	(2,851)	(3,138)	567
Other liabilities	(3,377)	(4,012)	(3,476)	99
Reserves for employee termination indemnities and pensions and similar obligations	(1,035)	(1,013)	(973)	(62)
Capital and/or investment grants	(177)	(183)	(199)	22
Deferred tax assets net of reserve for income taxes	2,714	2,941	3,111	(397)
Other reserves for risks and charges	(548)	(565)	(569)	21
	230	1,614	3,079	(2,849)
C. NET INVESTED CAPITAL (A+B)	47,774	49,701	51,683	(3,909)
Financed by:				
D. SHAREHOLDERS' EQUITY				
Share capital	8,858	8,857	8,854	4
Retained earnings and reserves	5,781	5,778	4,856	925
Net income for the period	894	514	2,646	(1,752)
	15,533	15,149	16,356	(823)
E. MEDIUM/LONG-TERM DEBT	28,955	28,947	20,692	8,263
F. NET SHORT-TERM FINANCIAL BORROWINGS (LIQUIDITY)				
Short-term borrowings	4,782	6,850	14,373	(9,591)
Liquid assets and short-term financial receivables	(2,159)	(1,664)	(1,426)	(733)
Financial accrued expenses (income) and deferred expenses (income), net	663	419	1,688	(1,025)
	3,286	5,605	14,635	(11,349)
G. TOTAL NET FINANCIAL INDEBTEDNESS (E+F)	32,241	34,552	35,327	(3,086)
H. TOTAL NET FINANCING (D+G)	47,774	49,701	51,683	(3,909)

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Telecom Italia S.p.A. Statements of Cash Flows

(millions of euro)	9 months to 9/30/2004	9 months to 9/30/2003	Year 2003
A. NET FINANCIAL INDEBTEDNESS, AT BEGINNING OF PERIOD	(35,327)	(30,622)	(30,622)
Net financial indebtedness, at beginning of year of merged company			
TILAB	-	(169)	(169)
B. ADJUSTED NET FINANCIAL INDEBTEDNESS, AT BEGINNING OF PERIOD	(35,327)	(30,791)	(30,791)
Operating income	3,256	3,169	4,139
Depreciation of fixed assets and amortization of intangible assets	2,003	2,109	2,919
Investments in fixed assets and intangible assets (1)	(1,494)	(1,891)	(2,534)
Proceeds from disposal of intangible assets and fixed assets	5	315	314
Change in operating working capital and other changes	12	(33)	(136)
C. FREE CASH FLOW FROM OPERATIONS	3,782	3,669	4,702
Investments in long-term investments (1)	(1,616)	(6,492)	(6,918)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	2,043	3,016	3,102
Change in non-operating working capital and other changes (2)	603	(3,842)	(4,661)
D.	1,030	(7,318)	(8,477)
E. NET CASH FLOWS BEFORE DISTRIBUTION OF INCOME/RESERVES AND CONTRIBUTIONS BY SHAREHOLDERS			
	(C + D)	4,812	(3,649)
F. DISTRIBUTION OF INCOME/RESERVES	(1,740)	(794)	(794)
G. CONTRIBUTIONS BY SHAREHOLDERS/WITHDRAWALS	14	1	33
H. CHANGE IN NET FINANCIAL INDEBTEDNESS	(E + F + G)	3,086	(4,442)
I. NET FINANCIAL INDEBTEDNESS, AT END OF PERIOD	(A + H)	(32,241)	(35,327)

The change in net financial indebtedness is the result of the following:

(millions of euro)			
Increase (decrease) in medium/long-term debt	8,263	(1,672)	(3,014)
Increase (decrease) in short-term borrowings	(11,349)	6,283	7,719
Total	(3,086)	4,611	4,705

(1) Total cash used for investments can be analyzed as follows

(millions of euro)			
Industrial investments:	1,494	1,891	2,534
- intangible assets	688	436	767
- fixed assets	806	1,455	1,767
Investment in long-term investments	1,616	6,492	6,918
CASH USED FOR INVESTMENTS	3,110	8,383	9,452

(2) The caption can be analyzed as follows:

(millions of euro)			
Net financial income (expenses)	(1,293)	(1,959)	(2,404)
Receipt of dividends	1,323	438	428
Utilization of risk reserve for early exercise of JP Morgan put option		(1,942)	(1,942)
Payment of income taxes (3)	940	(90)	(246)
Extraordinary items and other	(367)	(289)	(497)
CHANGE IN NON-OPERATING WORKING CAPITAL AND OTHER CHANGES	603	(3,842)	(4,661)

(3) This is a positive figure at September 30, 2004 as a result of the collection of a tax credit sold to TIM (euro 1,103 million).

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ SUBSEQUENT EVENTS

The principal events which occurred subsequent to September 30, 2004 are listed below:

BONDS

On October 6, 2004, Telecom Italia Capital S.A. issued bonds for a total of USD 3,500 million guaranteed by Telecom Italia S.p.A., divided into three issues (all listed on the Luxembourg stock exchange):

- USD 1,250 million, coupon interest at 4% per year, issue price of 99,732, maturing January 15, 2010;
- USD 1,250 million, coupon interest at 4.95% per year, issue price of 99,651, maturing September 30, 2014;
- USD 1,000 million, coupon interest at 6% per year, issue price of 99,081, maturing September 30, 2034.

On November 9, 2004, the Telecom Italia Board of Directors approved the granting of a full guarantee to Telecom Italia Capital S.A. for any further bond issues to be placed principally in the United States up to a maximum of USD 5,000 million. At the same time, the Board of Directors revoked, for the unused portion equal to USD 1,500 million, a similar guarantee granted on December 18, 2003.

* * *

Under the “Euro Medium Term Note Program”, approved October 10, 2003, which calls for the issue of Telecom Italia and Telecom Italia Finance notes, listed on the Luxembourg stock exchange, for a total maximum of euro 10 billion (divided in more operations and tranches between 2 and 50 years maturing, also in currency), the Telecom Italia Board of Directors’ Meeting held on November 9, 2004 authorized the issue of non-convertible notes for a maximum amount of euro 4.9 billion to be issued by December 31, 2006. A total of euro 4,399 million of notes have so far been issued by Telecom Italia under this Program, in addition to a private placement for euro 120 million, with proceeds received on November 23, 2004, and maturing November 23, 2015.

The resolutions passed aim to provide the Group with a greater degree of flexibility in the future choice of refinancing. To date, Telecom Italia already has sufficient resources available to manage all its maturities for the year 2005 and part of those maturing in 2006.

TELECOM ITALIA MEDIA SHARE CAPITAL INCREASE

On October 6, 2004, the Telecom Italia Media Board of Directors established the terms of the share capital increase, for approx. euro 120 million, voted by the Extraordinary Shareholders’ Meeting held September 10, 2004. Taking into account the recent performance of the stock, the Board of Directors fixed the subscription price of the new shares at, respectively:

- 0.21 euro for each new ordinary share (of which euro 0.18 is additional paid-in capital);
- 0.17 euro for each new savings share (of which euro 0.14 is additional paid-in capital).

The Board of Directors then established the issue of 564,333,957 ordinary shares and 9,462,662 savings shares, as a rights offering, respectively, to ordinary and savings shareholders, on the basis of a subscription ratio, identical for the two classes of stock, equal to 11 new ordinary shares and/or savings shares for every 60 shares of the same class of stock held.

The Parent Company, Telecom Italia, has promised that it will fully subscribe to its share of the capital increase, in addition to the shares that could remain unsubscribed at the conclusion of the rights offering on the stock exchange.

The capital increase, as previously stated, falls under the transactions connected with the resolution of the dispute with the De Agostini Group.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

On November 3, 2004, the company announced that during the rights offering period (October 11, 2004 – October 29, 2004 inclusive) 549,262,186 ordinary shares were subscribed to for a total amount of euro 115.3 million, equal to 97.3% of the total ordinary shares offered, and 8,372,925 savings shares were subscribed to for a total of euro 1.4 million, equal to 88.5% of the total savings shares offered. The companies of the Telecom Italia Group have fully subscribed to their share of the rights offering (Telecom Italia S.p.A. 59.42%, Telecom Italia Finance 2.03% and IT Telecom 0.02%).

The number of rights that were not exercised at the end of the rights offering period totaled 82,209,660, valid for the subscription of a total of 15,071,771 ordinary shares for euro 3.2 million, and 5,944,020, valid for the subscription of a total of 1,089,737 savings shares, for euro 0.2 million .

In compliance with the provisions of the third paragraph of art. 2441 of the Italian Civil Code, such rights will be offered on the Mercato Telematico Azionario coordinated and managed by Borsa Italiana S.p.A. on behalf of Telecom Italia Media S.p.A., arranged by Banca Akros, in the November 8, 9 10, 11 and 12, 2004 sessions.

EXCHANGE OFFER FOR NOTES ISSUED BY TELECOM ITALIA CAPITAL S.A.

On October 14, 2004, Telecom Italia Capital S.A. perfected the exchange offer between:

- the notes issued on October 29, 2003 (not registered with the Securities and Exchange Commission – SEC) for a total of USD 4 billion, divided into three groups (Series A, Series B and Series C); and
- the notes in a new issue registered with the SEC.

The notes in the new issue have been registered under the United States Securities Act of 1933 and carry the same terms and conditions as those of the notes which were not registered.

Both notes are unconditionally guaranteed by Telecom Italia S.p.A..

The amount actually exchanged at the conclusion of the offer, after confirmation of the offers tendered under the guaranteed delivery procedure was USD 3,957,588,000: Series A notes for USD 985,926,000, Series B notes for USD 1,972,460,000 and Series C notes for USD 999,202,000.

Such amount represents about 98.94% of the total equivalent amount of the notes issued in October 2003.

SALE OF CORPORACION DIGITEL

On November 5, 2004, TIM signed a Letter of Intent with CANTV (Compania Anonima Nacional Teléfonos de Venezuela) for the sale of 100% of the share capital of the Venezuelan subsidiary Corporacion Digitel C.A., wholly-owned through TIM International, for a total of USD 450 million.

The execution of the transaction, which is presumably expected to take place by the end of the first half of 2005, is subject to the signing of the final agreements and to obtaining the necessary authorization from the competent Venezuelan authorities.

TIM deemed it opportune to accept the offer received from CANTV, in view of Corporacion Digitel's status as a regional operator, so that it could focus on initiatives where it has a national coverage.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ BUSINESS OUTLOOK: FOR THE CURRENT YEAR

The Telecom Italia Group confirms the outlook previously announced to the market, namely, achieving a positive growth in operating income with the objective of keeping net financial indebtedness at less than euro 30 billion at the end of the year.

■ ADOPTION OF IAS/IFRS PRINCIPLES

As regards the process for the adoption of IAS/IFRS principles, in the first nine months of 2004 the Telecom Italia Group continued its work to implement the operational processes which were described at length in the 2003 annual report.

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, concluded during the period January 1 to September 30, 2004, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The economic, balance sheet and financial effects of related party transactions on the consolidated financial data of the Telecom Italia Group at September 30, 2004 are presented in the following table.

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

	<i>(millions of euro)</i>	
Sales and service revenues	198	These mainly comprise revenues from Teleleasing (euro 96 million), LI.SIT. Lombardia Integrata Servizi Infotelematici per il territorio (euro 39 million), Shared Service Center (euro 22 million), Consorzio Mael (euro 8 million), Sky Italia (euro 8 million), Telecom Argentina (euro 7 million), Etecsa Cuba (euro 7 million) and Golden Lines (euro 7 million)
Raw materials and outside services	323	These mainly comprise rent payable to Tiglio I (euro 48 million) and Tiglio II (euro 19 million) as well as TLC service costs from EtecSA Cuba (euro 92 million), Telecom Argentina (euro 4 million) and maintenance and assistance contracts from Shared Service Center (euro 77 million), Siemens Informatica (euro 40 million) and Italtel group (euro 13 million), and costs for TLC equipment, as well as operating lease costs from Teleleasing (euro 13 million)
Net other income (expenses)	4	These mainly relate to cost recoveries for personnel on loan to certain subsidiaries and affiliates
Net financial income (expenses)	2	These include accrued interest income on loans made to certain subsidiaries and affiliates
Loans in long-term investments	103	These mainly comprise medium/long-term loans made to Avea I.H.A.S. (euro 49 million), Aree Urbane (euro 32 million), Telegono (euro 6 million) and Golden Lines (euro 5 million, net of adjusting reserves)
Financial receivables	27	These mainly comprise short-term loans made to Telecom Media International Italy-Canada (euro 9 million), Olivetti Servicios Y Soluciones in liquidation (euro 7 million) and Tin Web (euro 5 million)
Financial payables	37	These refer mainly to payables to Teleleasing (euro 20 million), Shared Service Center (euro 6 million) and Dedita in liquidation (euro 4 million)
Trade and other accounts receivable	203	They mainly regard receivables from LI.SIT. Lombardia Integrata Servizi Infotelematici per il territorio (euro 79 million), Teleleasing (euro 31 million), Shared Service Center (euro 17 million), Tiglio I (euro 8 million), Golden Lines (euro 5 million), Consorzio Mael (euro 4 million) and Italtel group (euro 2 million). They also include prepaid assets of euro 31 million relating to the purchase (by the subsidiary Telecom Italia Sparkle) from EtecSA Cuba of traffic, with Cuba as the destination, for the period October 1 to December 31, 2004
Trade and other accounts payable	210	They mainly include supply transactions connected with investment and operational activities: Italtel group (euro 70 million), Siemens Informatica (euro 46 million) and Shared Service Center (euro 34 million)

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Guarantees and collateral provided	866	These mainly comprise sureties provided on behalf of Avea I.H.A.S. (euro 626 million), Consorzio Csia (euro 81 million), Tiglio I (euro 56 million), Aree Urbane (euro 37 million), Italtel group (euro 35 million) and Tiglio II (euro 13 million)
Purchases and sales commitments	5	These refer to commitments with Etec SA Cuba for capital increases
Investments in fixed assets and intangibles	233	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 198 million) and computer projects from Shared Service Center (euro 11 million) and Siemens Informatica (euro 24 million)

Related party transactions, other than with companies of the Group, during the first nine months of 2004, particularly comprise those by the Telecom Italia Group with the Pirelli group, the Edizione Holding group, the Unipol group, the ST Microelectronics group and the companies affiliated with Mr. Moratti and the company Telepost S.p.A..

As for transactions with the Banca Intesa group and the Unicredito group, the economic data refers to the first quarter of 2004 in that the Directors, through which the companies were considered related parties, ended their term of office on the date of the Shareholders' Meeting of May 6, 2004.

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

	<i>(millions of euro)</i>	
Sales and service revenues	24	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 3 million) and telephone services to the Pirelli group (euro 3 million), to the Edizione Holding group (euro 4 million), to the Unipol group (euro 1 million), to the companies affiliated with Mr. Moratti (euro 2 million), to the Banca Intesa group (euro 3 million) and to the Unicredito group (euro 8 million)
Raw materials and outside services	82	These essentially refer to R&D expenditures and consulting services in the area of computers, tax and intellectual property rights from the Pirelli group (euro 59 million), insurance services from the Unipol group (euro 8 million), Document Management services by Telepost (euro 10 million), sponsoring and content provider costs in reference to F.C. Internazionale Milano S.p.A. - a related party through Mr. Moratti (euro 3 million) and commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards (euro 2 million)
Trade and other accounts receivable	8	These mainly refer to the above-mentioned services under sales and service revenues rendered to the Pirelli group (euro 7 million) and to the Edizione Holding group (euro 1 million)
Trade and other accounts payable	39	These mainly refer to supply transactions connected to the performance of services, investment activities from the Pirelli group (euro 31 million), sponsoring costs in reference to F.C. Internazionale Milano S.p.A – a related company through Mr. Moratti (euro 4 million), costs for Document Management services rendered by Telepost (euro 3 million) and commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards (euro 1 million)
Investments in fixed assets and intangibles	12	These mainly refer to purchases of telecommunications cables from the Pirelli group

SUMMARY DATA AND GENERAL INFORMATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The transactions producing an economic impact subsequent to September 30, 2004 are listed below:

- on July 23, 2004, Telecom Italia S.p.A. and Emsa Servizi S.p.A. signed an agreement with the company “MP Facility S.p.A. (a 50% joint venture by Pirelli & C. Real Estate Facility Management S.p.A. and Manutencoop Facility Management S.p.A.) for the sale of their respective “Maintenance” and “Environmental Services” business segments as well as the contract for the outsourcing of these same services.

The above agreement is expected to be executed during the last quarter of 2004;

- on September 8, 2004, the Board of Directors of IT Telecom S.p.A. voted to confer the following business segments to Shared Service Center s.c.r.l.: ERP Solutions, engaged in the development and maintenance of ERP systems, and Application Operations – Administration & Finance, which guarantees applications management for the systems in the administration and finance areas. The percentage holding will remain unchanged since the other SSC shareholders will subscribe to the capital increase.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS/CENTRAL FUNCTIONS

WIRELINE

- Growth of Broadband markets (domestic and European) and innovative services, especially Web services

■ THE BUSINESS UNIT

The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) providers. On an international level, Wireline is engaged in the development of fiber optic networks for wholesale customers (in Europe and South America) as well as in innovative broadband services in key metropolitan areas of Europe.

In the third quarter 2004, the market was again fraught with fierce competition. This was more accentuated in the case of domestic traffic and was countered with new plans launched as part of actions to retain customers.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

Telecom Italia Wireline	National subsidiaries	International subsidiaries
Wireline TLC services: <ul style="list-style-type: none"> . Retail Telephone . Retail Internet . Data Business . VAS Phone and Data . National Wholesale 	Atesia S.p.A. Loquendo S.p.A. Path.Net S.p.A. Telecontact Center S.p.A.	BBNED Group Latin American Nautilus Group Mediterranean Nautilus Group Med-1 Group HanseNet Telekommunikation GmbH Telecom Italia Deutschland Holding GmbH
	Telecom Italia Sparkle Group: <ul style="list-style-type: none"> - Telecom Italia Sparkle S.p.A. - Intelcom San Marino S.p.A. - Pan European Backbone (includes Telecom Italia France) - Telecom Italia of North America Inc. - Telefonía Mobile Sammarinese S.p.A. 	

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the third quarter of 2004, the scope of consolidation changed as a result of the following corporate events:

- on July 1, 2004 Loquendo S.p.A. sold the "Applications" business segment, which designs projects based on advanced voice technologies, to Citec S.p.A. (a company specialized in planning and developing integrated voice and data systems). At the same time, a contract was also signed to confer the role of Master Distributor for Loquendo technologies in Italy to Citec;
- on July 1, 2004 Atesia sold the wireline customer care services business segment to Telecontact Center S.p.A..

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

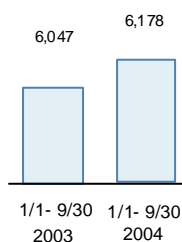
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to the same periods of 2003.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	4,208	4,119	12,892	12,687	2.2	1.6
Gross operating profit	2,054	2,068	6,178	6,047	(0.7)	2.2
<i>% of revenues</i>	48.8%	50.2%	47.9%	47.7%		
Operating income pre-amortization of differences on consolidation	1,232	1,291	3,875	3,725	(4.6)	4.0
Operating income	1,230	1,291	3,869	3,724	(4.7)	3.9
<i>% of revenues</i>	29.2%	31.3%	30.0%	29.4%		
Investments:						
• industrial	459	562	1,548	1,636	(18.3)	(5.4)
• differences on consolidation	-	39	-	39	-	-
Employees at period-end (number) (1)			51,301	52,318		1.1

(1) The change in employees has been calculated in reference to the data at the end of 2003.

Gross operating profit



Sales and service revenues, totaling euro 12,892 million, increased by 1.6% (+euro 205 million) compared to the first nine months of 2003, thus confirming the positive trend of 2003, which closed with a growth of 1.0%. In the third quarter of 2004, revenues amounted to euro 4,208 million (+euro 89 million, +2.2% compared to the third quarter of 2003). On a comparable consolidation basis, underlying growth was euro 140 million (+1.1%).

This positive performance was achieved thanks to the success of efforts to develop the Broadband market and innovative services, particularly Web services, together with efforts to defend the core market of telephone services and enhance the range of wholesale services.

The contribution to revenues by the Individual Strategic Areas of Business is as follows:

Retail Telephone

Retail telephone revenues, amounting to euro 7,597 million, showed a slight decrease (-euro 61 million, -0.8%) compared to the first nine months of 2003. The strategy of building customer loyalty continues to be the primary aim of marketing strategy. This takes the form of enhancing the portfolio of flat rate plans by adding attractive new features and launching the new Tutto 4* and Chat SMS packages, which, at September 30, 2004, had reached 7,335,300 customers (of which flat rate plans accounted for 5,790,100). This was possible thanks partly to the evolution of innovative handsets, namely the Aladino cordless range of telephones, which provide users with an ever-increasing variety of functions that can support innovative services, and videophones. At September 30, 2004, the innovative phone portfolio reached 775,000 units.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Retail Internet and Data Business

Revenues from the Internet and the Data Business areas, equal to euro 1,818 million, showed overall growth of approx. 12.7% compared to the first nine months of 2003 (+euro 205 million, of which +192 euro million referred to Internet Consumers and +euro 13 million to Data Business services). This growth can be attributed in particular to the ADSL Alice and ADSL Smart plans (+euro 219 million, +116%) and to innovative data transmission services (+euro 84 million, +22.8%). On the other hand, revenues from traditional data transmission (including leased lines and data products) declined, along with revenues from Internet dial-up traffic (-euro 71 million and -euro 27 million, respectively).

At September 30, 2004, the overall Telecom Italia Wireline Broadband portfolio had reached a total of 3,655,000 access lines, an increase of +1,455,000 lines compared to December 31, 2003.

On the domestic market, the number of access lines stood at 3,300,000, an increase of 1,260,000 compared to December 31, 2003.

On the European market, the number of Broadband access lines totaled 355,000, an increase of 195,000 compared to December 31, 2003. The increase was sustained by the growth of European projects (in France with Telecom Italia France, and in Germany with HanseNet) and by the increase in the clientele of BBNed in Holland.

During the coming months, with regard to the European projects in France and Germany, the range of Broadband services will be further enhanced by the launch of new VAS services and innovative handsets.

Retail VAS (Value Added Services)

Revenues from VAS services, equal to euro 760 million, showed a decrease of euro 97 million (-11.3%) compared to the first nine months of 2003, following the contraction of premium services (-euro 196 million). This was partly compensated by the growth of innovative services (+euro 99 million, +22.4%) achieved thanks especially to the trend of Web services.

Wholesale

Revenues from Wholesale services, equal to euro 2,440 million, increased by a total of a euro 31 million (+1.3%), compared to the third quarter of 2003. Revenues from national wholesale services decreased by euro 4 million, despite growth in data services (+euro 61 million, +66.3%) and revenues from international wholesale services increased by euro 35 million.

Gross operating profit, equal to euro 6,178 million, registered an increase of euro 131 million (+2.2%), compared to the first nine months of 2003. This represents 47.9% of revenues (compared to 47.7% for the nine months ending September 30, 2003). On a comparable consolidation basis, underlying growth was 2.0%.

In the third quarter of 2004, gross operating profit, equal to euro 2,054 million, contracted by euro 14 million (-0.7%), compared to the third quarter of 2003. This represents 48.8% of revenues (compared to 50.2% in the third quarter of 2003). In 2003, however, the third quarter benefited from the cancellation of the TLC license fee (euro 60 million). Net of this effect, gross operating profit in the third quarter of 2004 increases by euro 46 million (+2.3%), compared to the third quarter of 2003, and the percentage of gross operating profit to sales and service revenues in the third quarter of 2003 decreases from 50.2% to 48.7%.

The improvement in the gross operating profit in the first nine months of 2004 can be attributed not

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

only to the trend of revenues but also to careful management geared to achieving ever-higher levels of efficiency, with a significant improvement in personnel costs and in terms of costs not directly related to business development.

Operating income was euro 3,869 million and presented an increase of 3.9% (+euro 145 million) compared to the first nine months of 2003. This was the result of not only the factors already mentioned with regard to the gross operating profit, but also lower amortization and depreciation and valuation adjustments.

Operating income represented 30.0% of revenues (29.4% in the first nine months of 2003).

On a comparable consolidation basis, underlying growth was 4.4%.

In the third quarter of 2004, operating income, equal to euro 1,230 million, contracted by euro 61 million (-4.7%), compared to the third quarter of 2003. Operating income represented 29.2% of sales and service revenues (compared to 31.3% in the third quarter of 2003). In 2003, however, the third quarter benefited from the cancellation of the TLC license fee (euro 84 million). Net of this effect, operating income in the third quarter of 2004 increases by euro 23 million (+1.9%), compared to the third quarter of 2003, and the percentage of operating income to sales and service revenues in the third quarter of 2003 decreases from 31.3% to 29.3%.

Industrial investments amounted to euro 1,548 million and presented a decrease of euro 88 million (-5.4%), albeit fully respecting the development policies for innovative infrastructures (with particular reference to Broadband activities in the domestic and international spheres), thanks to processes designed to optimize expenditures.

The number of *employees* increased by 535 compared to December 31, 2003. This was due to the hiring of 1,532 persons, including 867 in Telecontact Center (referring to persons taken on under continuous coordinated collaboration contracts, previously employed by Atesia), and employees hired in Telecom Italia France, offset by 1,179 resignations (mainly in Telecom Italia Wireline). There were also organizational changes – mainly regarding the activities performed by the company's telephone exchanges – which brought 217 persons from Telecom Italia's Central Corporate Functions to Wireline. In addition, there were intragroup transfers (+17 persons), the consolidation of Telefonía Mobile Sammarinese (+6 persons) and the sale of the Loquendo business segment to Citec S.p.A. (-58 persons).

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2004

On October 5, 2004, Telecom Italia Sparkle (TI Sparkle) set up a partnership with Tunisie Telecom, the national telecommunications operator in Tunisia, for the supply of services to companies in the geographical areas of reciprocal interest.

As a result of this collaboration, TI Sparkle and Tunisie Telecom will integrate the know-how and expertise in the voice and data services market, assuming a leading role in the Mediterranean basin.

Tunisie Telecom's and Telecom Italia Sparkle's multinational clientele will thus be able to take advantage of a series of services with high qualitative standards such as e-mail, videocommunication and the transfer of sensitive data in order to link the offices spread throughout the area in question.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ INFORMATION ON OPERATIONS

The following table shows the main operating highlights at September 30, 2004 compared to September 30, 2003 and December 31, 2003, in addition to the principal commercial initiatives carried out during the third quarter of 2004.

Operating highlights	9/30/2004	12/31/2003	9/30/2003
- Fixed network connections (in thousands)	26,156	26,596	27,022
- of which ISDN	5,883	6,027	6,067
Minutes of traffic on the fixed network (billions)	161.6	226.6	167.7
• national traffic	152.3	215.2	159.5
• international traffic	9.3	11.4	8.3
TP terminals using ISDN technology (in thousands)	125.9	128.0	121.7

RETAIL

A brief description follows of the main plans and packages and commercial initiatives during the third quarter of 2004, within the framework of the market strategies aimed at the Retail Telephone market (Access and Traffic, in particular) and the development of the Internet (Alice Adsl and Smart Adsl packages), Data business (Broadband and other Data services) and VAS markets.

Telephone services	Pricing (rate plans)	<p>Residential: Concurrent with the launch of the Videophone, the Family and Microbusiness segments have the option of making local and long-distance Videocalls at a single rate (euro 6 cents per minute).</p> <p>Business: the <i>Programma Business</i> package, launched in March 2004, was enhanced in July 2004 by the addition of three new plans (6,000, 8,000 and 10,000), geared to Corporate and SME (Small Medium Enterprise) customers with very high traffic consumption.</p>
	Products	<p>Launch of the Videophone, the first corded telephone with a color display offering the Family and Microbusiness segments the possibility of videocommunication on the wireline network.</p> <p>Two new products were launched in the <i>Aladino</i> range: <i>Aladino micro</i>, the first cordless phone with a modern design giving users the option of downloading ring-tones, and <i>Aladino young</i>, the entry level cordless phone in the range of products with a color display.</p>
Internet	Adsl Alice	<p>Extension of the promotion whereby, from September 1 until November 30, all new Alice Free customers can surf the Internet free of charge until December 31. New look&feel and repricing for the MPU (the Alice box with modem and activation card) at partner stores and on the e-commerce channel, only for the <i>Alice Free</i> package. The promotion runs until November 30 at euro 39.90 and a modem is supplied free of charge.</p> <p>The content package of the <i>Rosso Alice</i> portal was enhanced with broadcasting, also live coverage, of the matches played by 15 Serie A and Serie B teams competing in the (soccer) championship.</p>

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

	Adsl Smart	Launch of the <i>Smart Free PRO</i> package which completes the range of PRO profiles being marketed. They include the sale in bundles of connectivity and VAS and WEB services provided by the platform (messaging, FAX, SMS, security, videocommunication and websites). Summer promotion on the Smart 5 and 10 profiles offered new subscribers a “one shot” reimbursement of euro 100 in the months of October/November, to partially cover the fee paid to activate the service.
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Data Business	Interbusiness	Plans that include the new Cisco and TIR (Intelligent Network Termination) Wireless technologies for equipment located at customers' premises. Repricing of the plan for the supply of “non standard” solutions. Repricing and upgrading on ADSL profiles. Plans that include temporary access. Introduction of new <i>HighBusiness</i> profiles based on SHDSL copper connectivity.
	Public Wi-Fi	Continued extension of Public Wi-Fi service coverage, currently based at more than 250 prestigious locations. A prepaid Wi-Fi card was also launched. Now, thanks to the “Hot spot in a box” offering, to date approx. 100 “minor” hot spots have been activated.
	Hyperway	Plans that include the new Cisco and TIR Wireless technologies for equipment at customers' premises. Repricing of the plan for the supply of “non standard” solutions. Completion of repricing and upgrading on ADSL profiles for the <i>Classic</i> range. Plans that include temporary access. Introduction of the new <i>Ethernity Wire</i> and <i>HighOffice</i> profiles based on SHDSL copper connectivity for metropolitan VLAN solutions and MPLS access.
	Dat@wan	Plans that include temporary access. Upgrading of technologies and equipment located at customers' premises.

VAS Telephone	Services	Families: inclusion of an announcement on phone bills during the period about the launch of the wireline network MMS service combined with the <i>Pico</i> cordless telephone and the possibility for customers to send SMS from a fixed phone to another fixed phone free in the period between June 13, and August 31, 2004. Small Medium Enterprise: extension of the number of SMS telephone numbers for charities; testing of the Recall service on mobile - fixed calls when the caller finds the line engaged; introduction of the SMS dictation service (Speech2Text).
VAS Data & Web	Full Business Company (FBC)	Launch of the new version of FBC which offers completely revised services to the clientele. All the FBC services can be handled by a single, simple, complete integrated administration portal. Launch of brand new application services for hosting and DB hosting as part of the <i>Broadway</i> package. Renovation of the SAM messaging service which as a base offers professional mail services with mobile access from many different devices.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

NATIONAL WHOLESALE

Details of the most significant quantitative changes during the third quarter of 2004 were due to:

Broadband access	XDSL	XDSL accesses were acquired by other operators totaled approx. 770,000, with an increase of 46% compared to December 2003.
Local Loop Unbundling (LLU)	LLU Lines	The number of lines directly connected to the networks of other operators reached 685,000, with an increase of 34% compared to the end of the prior year.
Carrier PreSelection	CPS Lines	Approx. 1,600,000 carrier preselection requests were handled up to the end of September. Approx. 3,940,000 access lines had been configured by September 30, corresponding to a positive net increase of about 225,000 lines compared to December 31, 2003.

INTERNATIONAL WHOLESALE

In Europe, Telecom Italia Sparkle maintained its leadership position in the Voice market and continued to play an important role in the IP & Data Transmission segment. The Voice business showed a steady growth in volumes, equal to approx. 13%, compared to the third quarter of 2003 (excluding traffic from Telecom Italia Wireline customers). A decisive contribution to this increase was generated by transit traffic which increased by approx. 25%, thanks to the competitiveness of the offering on the international market.

Volume growth was also achieved through interconnections with new international carriers and a higher level of interconnections to and from other Italian operators. With regard to the IP & Data Transmission market, during the third quarter of 2004, the downward trend of prices was accompanied by a substantial growth in the bandwidth sold on the wholesale market, a phenomenon which contributed to an increase in revenues from innovative services of approx. 26% compared to the third quarter of 2003.

NATIONAL NETWORK

As far as the national network is concerned, the following took place in the third quarter of 2004:

National transmissive backbone (fiber optic evolution)	Another 21 Marconi latest-generation high-capacity electronic frames have been installed, bringing the total restoration capabilities to 27 junctions, all located in the largest Italian cities. Work continued to strengthen the DWDM links already in operation, which have an overall capacity of more than 150 systems.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity and Hyperway MPLS services based on GBE access). In 2004, 362 new gates with GBE access were installed (up to the end of August). In addition, a new GBE network was activated in Aosta.
ADSL Access	750 new exchanges have been equipped and 1.42 million new lines added since the beginning of 2004. There are now 3,750 exchanges that can provide ADSL access and there are 3.68 million ADSL lines of which 3.14 million are in use. Coverage of the national territory is 83%.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

FOREIGN RETAIL NETWORKS

By launching the "*International Broadband*" project, Telecom Italia created access and innovative Broadband service packages in the key European cities by exploiting its know-how and the presence of its technological assets. The project, conceived in 2003, currently involves France and Germany through the subsidiaries Telecom Italia France and HanseNet.

FRANCE	The main achievements by Telecom Italia France (TIF) during the third quarter of 2004 involved the start of the Local Loop Unbundling (LLU) service in the Ile de France (Paris) area and in the cities of Nantes, Strasbourg, Lille and Bordeaux, with ADSL connections at 640, 1,024 and 2,048 Kbit/s, through 72 new exchanges. The total number of exchanges reached by TIF through LLU at September 30, 2004 in the eight cities where the service is active is 201.
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GERMANY	<p>The main achievements by HanseNet during the third quarter of 2004 were as follows:</p> <ul style="list-style-type: none"> • conclusion of the negotiations to acquire, from COLT, the IRU – Indefeasible Right of Use – of the fiber optic connection between the cities of Hamburg, Berlin, Munich, Stuttgart and Frankfurt; • conclusion of the negotiations with LambdaNet to occupy space in the POPs in Berlin, Munich, Stuttgart and Frankfurt; • conclusion of the negotiations with Siemens, Lucent and Italtel to supply equipment and installation services in the POPs of the new cities; • request that Deutsche Telecom should provide space for 256 new exchanges to be distributed between the cities of Berlin, Munich, Stuttgart, Frankfurt and Lübeck, with the aim of providing Voice and Data transmission services based on the solution of Local Loop Unbundling.
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INTERNATIONAL NETWORK

During the third quarter of 2004, work continued to develop and expand the international network with the aim of sustaining volume growth of both phone and IP/Data Transmission services. In particular, work proceeded to develop the IP backbone in the U.S.A. where, in the NAPs – Network Access Points - of Newark (New York), Miami, Palo Alto and Ashburn, approx. 1.2 Gbit/s of new peerings (IP traffic exchange) were activated.

As far as the development of the transmission network is concerned, the work of the consortium continued in order to put together the new Sea-Me-We 4 submarine cable system which will connect the area of the Mediterranean to the Middle and Far East. The system is expected to become operational in the second half of 2005.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

MOBILE

- Growth of consolidated revenues and margins, driven by performance in Brazil and by confirmation of growth on the domestic business market
- Continuation of the corporate streamlining process

■ THE BUSINESS UNIT

The Mobile Business Unit (TIM group) operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in Latin America and in the Mediterranean Basin.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

Mobile			
National Subsidiaries	Major international subsidiaries		Affiliated companies
TIM – Telecom Italia Mobile S.p.A	South America Mobile		
	Other Subsidiaries		
	TIM International N.V.		
	<ul style="list-style-type: none"> . TIM Brasil Group <ul style="list-style-type: none"> - TIM Participações (Brazil) Group - Maxitel S.A. (Brazil) - TIM Celular S.A. (Brazil) - CRC Ltda (ex Starcel Ltda) (Brazil) . TIM Perú S.A.C. . Corporacion Digitel C.A. (Venezuela) . Blah! S.A. 	<ul style="list-style-type: none"> Stet Hellas Telecommunications S.A. (Greece) 	

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

- The following transactions took place during the third quarter of 2004:
- on July 1, 2004, the settlement agreement signed in April between TIM International and the minority shareholders of the Venezuelan subsidiary, Digitel, was finalized upon TIM International's purchase of 1,480,562 shares of the subsidiary from the minority shareholders for USD 109.6 million. The execution of the agreement places an end to the dispute with these shareholders that began at the beginning of last year. The closing took place after verification of the contractual conditions put into place to protect TIM International and Digitel. Therefore, TIM, through TIM International, as from the date of July 1, 2004, holds 100% of the shares of the Venezuelan mobile operator. Moreover, on July 2, 2004, the Digitel Shareholders' Meeting passed a resolution to absorb the losses for the years 2002 and 2003 and TIM International covered the losses by conferring the loan receivable to this same company for an amount including interest of USD 58.8 million.
- on July 19, 2004, the Boards of Directors of Tele Celular Sul Participações and Tele Nordeste Celular Participações approved the plan for the merger of Tele Nordeste Celular Participações in Tele Celular Sul Participações. On August 19, and August 30, 2004, the

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

General Extraordinary Shareholders' Meetings, respectively, of Tele Nordeste Celular Participações and Tele Celular Participações were held which approved the aforementioned merger. At the same time, Tele Celular Sul Participações changed its company name to TIM Participações S.A.. On October 4, moreover, the deadline expired for the right to withdraw on the part of the minority shareholders. In total, 15 shareholders exercised the withdrawal right for a total of 158,567 ordinary shares, equal to 0.0001%. At the end of that period, TIM, through TIM Brasil, holds a 23.73% stake in TIM Participações;

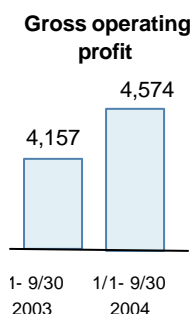
- as part of the process to simplify the corporate structure of the Group, TIM International contributed its investment in Maxitel to TIM Brasil. The transaction was approved by the TIM Brasil Board of Directors on September 29, 2004 after approval was obtained from the competent authorities.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to the same periods of 2003.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	3,347	3,101	9,499	8,635	7.9	10.0
Gross operating profit	1,656	1,533	4,574	4,157	8.0	10.0
<i>% of revenues</i>	49.5%	49.4%	48.2%	48.1%		
Operating income pre-amortization of differences on consolidation	1,187	1,144	3,199	3,021	3.8	5.9
Operating income	1,162	1,118	3,129	2,944	3.9	6.3
<i>% of revenues</i>	34.7	36.1%	32.9%	34.1%		
Investments:						
• industrial	609	423	1,279	829	44.0	54.3
• differences on consolidation	95	-	95	-		
Employees at period-end (number) (1)			20,102	18,866		6.4

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.



Sales and service revenues for the first nine months of 2004 amounted to euro 9,499 million, with an increase of 10% compared to the first nine months of 2003. Excluding the negative foreign exchange effect, revenues grew by euro 969 million (+11.4%). In the third quarter of 2004, revenues increased by euro 246 million (+7.9%) compared to the third quarter of 2003.

Gross operating profit for the first nine months of 2004 was euro 4,574 million and showed an increase of 10% compared to the same period of 2003 (euro 4,157 million). Excluding the foreign exchange effect, gross operating profit rose by 10.6%. Gross operating profit as a percentage of total revenues was 48.2% (48.1% for the first nine months of 2003). The gross operating profit in the third quarter of 2004 was euro 1,656 million, an increase of euro 123 million (+8%) compared to the third quarter of 2003. In 2003, however, the third quarter benefited from the cancellation of the TLC license fee (equal to euro 59 million in the first six months of 2003). Net of this effect, gross

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

operating profit for the third quarter of 2004 increased by euro 182 million (+12.3%) compared to the third quarter of 2003.

Operating income was euro 3,129 million and showed an increase of 6.3% compared to the first nine months of 2003 (euro 2,944 million). Underlying growth was 6.1%. Operating income represented 32.9% of total revenues (34.1% in the first nine months of 2003). Beginning January 2004, considering that TIM's UMTS service was already in operation and being used by a pool of test users, the amortization process was started for the relative license. This license had already previously been amortized (with effect from January 2002) exclusively in the TIM S.p.A. statutory financial statements so as not to compromise the benefit of the tax deductibility of the amortization charge. The increase in consolidated operating income for the first nine months of 2004 is thus influenced by the consequent higher amortization charge of euro 101 million.

Operating income in the third quarter of 2004 was euro 1,162 million, an increase of euro 44 million (+3.9%) compared to the third quarter of 2003. Net of the positive effect of the cancellation of the TLC license fee, operating income in the third quarter of 2004 increased by euro 103 million (+9.7%) compared to the third quarter of 2003.

Industrial investments amounted to euro 1,279 million, of which euro 356 million referred to intangible assets and euro 923 million to fixed assets. Investments were mainly designated for technological development and expansion of the network.

The number of *employees*, equal to 20,102, increased by 1,214, compared to December 31, 2003. This increase was due principally to the acquisition of the IT Telecom business segment by TIM S.p.A. and by the further increase of employees in Brazil.

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2004

The following events took place:

- on October 5, 2004, the Shareholders' Meeting of TT&TIM I.H.A.S. voted to change the name of the company to AVEA I.H.A.S.;
- on October 12, 2004, the Shareholders' Meeting of Stet Hellas Telecommunications S.A. voted to change the name of the company to TIM Hellas Telecommunications S.A.;
- as part of the process to simplify the corporate structure of the Group, on October 28, 2004, TIM Brasil conferred the entire investment held in Maxitel to TIM Celular in the form of a share capital increase.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ **TELECOM ITALIA MOBILE S.p.A.**

Held by: Telecom Italia 54.82%, Telecom Italia Finance 0.17%

The table shows the key economic data:

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2004	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	2,578	2,481	7,381	6,980	3.9	5.7
Gross operating profit	1,444	1,417	4,076	3,805	1.9	7.1
Operating income	1,144	1,145	3,201	2,969	(0.1)	7.8

Sales and service revenues increased in the first nine months of 2004 by 5.7%, reaching euro 7,381 million (euro 6,980 million in the first nine months of 2003). Traffic revenues, for a total of euro 5,422 million, grew by 1.6%. Revenues from Value-Added Services (which represent 12.6% of total revenues and 13.2% of revenues from services) amounted to euro 927 million, an increase of 24.8% compared to the first nine months of 2003.

Sales and service revenues in the third quarter of 2004 amounted to euro 2,578 million and increased by euro 97 million (+3.9%), compared to the third quarter of 2003.

Gross operating profit for the first nine months of 2004 amounted to euro 4,076 million, a growth of 7.1% compared to euro 3,805 million for the first nine months of 2003. Gross operating profit for the third quarter of 2004 was equal to euro 1,444 million, an increase of euro 27 million (+1.9%), compared to the third quarter of 2003. Net of the positive effect of the cancellation of the TLC license fee, gross operating profit grew by euro 86 million (+6.3%) in the third quarter of 2004, compared to the third quarter of 2003.

Operating income in the first nine months of 2004, equal to euro 3,201 million (euro 2,969 million in the same period of 2003), recorded a better performance than that of gross operating profit, with an increase of 7.8%. Operating income in the third quarter of 2004 was euro 1,144 million, euro 1 million less than in the same period of 2003. Net of the positive effect of the cancellation of the TLC license fee, operating income increased by euro 58 million (+5.3%) in the third quarter of 2004, compared to the third quarter of 2003.

The following table shows the main operating highlights at September 30, 2004 compared to September 30, 2003 and December 31, 2003, in addition to the principal activities carried out during the period by each sector:

Operating highlights	9/30/2004	12/31/2003	9/30/2003
TIM lines in Italy (thousands)	26,203	26,076	26,051
Mobile traffic (millions of minutes)	30,729	38,420	28,429
ARPU (euro/ line/month)	29.0	28.2	28.1

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Details of activities during the third quarter of 2004:

Protocol agreement for the online conciliation procedure	<p>On July 23, 2004, TIM and the leading Italian Consumer Associations signed the Protocol Agreement for the online conciliation procedure regarding the settlement of disputes between the company and its customers. The Protocol is representative of the continuity of the commitments made in previous agreements between the company and the consumer associations. This initiative is the first time, on a European level, that a telecommunications company has attempted a conciliation procedure which will take place entirely online. By consulting any one of the associations participating in the agreement, the procedure is able to provide remote management of the various problems, while keeping security standards high. With this agreement, the first of its kind in Europe, TIM is again demonstrating the concern it has always shown for the needs of its consumers.</p>
Healthcare Information Services via SMS	<p>Health Telematic Network (HTN), a leading company in the field of remote healthcare services, and TIM, have launched the first services for healthcare information on the Italian market to be dispensed via mobile phones. By sending a simple SMS it is now possible for all TIM customers to request information about blood tests, drugs (instructions as to their use, composition, whether or not they are subject to a "ticket" and the price), the meaning of medical terms (with the option of a translation into English), and the location of the main public or private healthcare facilities, and obtain an immediate reply via SMS.</p> <p>The service is designed for people who need to acquire information about healthcare and related matters rapidly and effectively.</p>
Launch of "Talks"	<p>This revolutionary software enables the blind, the partially sighted and the elderly to use all the functions of a mobile phone and be completely independent, thanks to an electronic voice which reads the display to the user. Blind persons will now be able to read and write SMS and e-mails, compose and download multimedia messages (MMS), call and edit a number in the memory, change the way the phone is used and modify other settings, organize the engagements diary, and write and read text documents. In the past, TIM had already turned its attention to this category of customers with special needs by promoting the transcription into Braille of some of the classics of Italian literature and culture and by being the first company to introduce vocal SMS to the Italian market.</p>

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

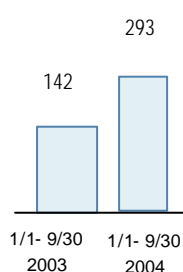
■ ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

The key economic and financial highlights of the Mobile Business Unit operations in Latin America are presented in the following table.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2004	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	550	406	1,501	1,080	35.5	39.0
Gross operating profit	126	37	293	142	◦	◦
% of revenues	22.9%	9.1%	19.5%	13.1%		
Operating loss pre-amortization of differences on consolidation	(6)	(77)	(94)	(151)	92.2	37.7
Operating loss	(9)	(80)	(103)	(160)	88.7	35.6
% of revenues						
Investments:						
• industrial	264	164	492	307	61.0	60.3
Employees at period-end (number) (1)			8,330	7,453		11.0

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

Gross operating profit



In the first nine months of 2004, the operations of the Mobile Business Unit in Latin America generated *revenues* of euro 1,501 million, an increase of 39% compared to the first nine months of 2003, despite the impact of the negative foreign exchange effect. Excluding the foreign exchange effect, *revenues* increased by approx. euro 526 million. *Gross operating profit* amounted to 293 million with an increase of euro 151 million compared to the first nine months of 2003. Excluding the exchange effect, gross operating profit rose to approx. euro 174 million, thanks to a better performance by the start-up activities in Brazil (GSM). The *operating result* was a loss of euro 103 million and was impacted by higher amortization and depreciation associated with investments to develop technical and services infrastructures, particularly for the GSM networks in Brazil. *Industrial investments* amounted to euro 492 million, of which euro 49 million referred to intangible assets and euro 443 million to fixed assets.

The number of *employees* grew by 828 compared to December 31, 2003, mainly as a result of increases due to activities in the start-up phase in Brazil.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

SOUTH AMERICA

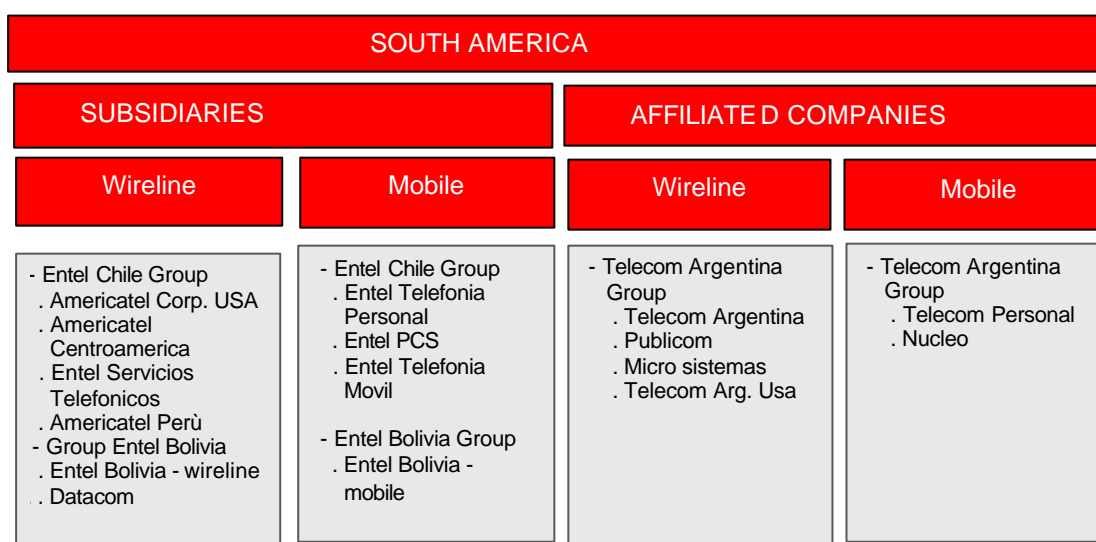
■ STRUCTURE

With effect from March 1, 2004, the former Latin America Operations structure has been disbanded and the Telecom Italia Latam structure took over the role of the “delocalized” Corporate function with the aim of consolidating and developing the Group’s presence in Latin America .

Effective March 1, 2004, Paolo Dal Pino was appointed the representative of the Telecom Italia Group in Latin America, reporting directly to the Chairman.

At the same time, the Wireline and Mobile Business Units, with no change in the corporate control structure, are responsible for the results of the subsidiaries in Latin America.

The structure of the Latin American is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On August 6, 2004, Telecom Argentina concluded the appeal to obtain proxies from among its creditors necessary for the approval and the signing of an Acuerdo Preventivo Extrajudicial (“APE”) which will allow the company to restructure its debt (appeal launched last June 22).

94.4% of the creditors expressed their agreement with the proposed restructuring presented by the company, thus exceeding the limit fixed by law (67%) for continuing the restructuring process; further formal steps will be taken by the company by the end of 2004 and in 2005 in order to bring the process to a conclusion.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results of the Entel Chile group, the Entel Bolivia group for the third quarter of 2004 and for the first nine months of 2004, compared to the same periods of 2003, restated for the purposes of comparison.

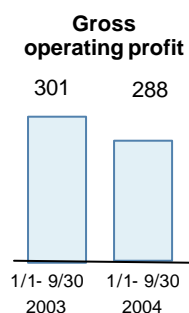
SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	265	275	798	834	(3.6)	(4.3)
Gross operating profit	93	104	288	301	(10.6)	(4.3)
% of revenues	35.1%	37.8%	36.1%	36.1%		
Operating income pre-amortization of differences on consolidation	17	41	87	114	(58.5)	(23.7)
Operating income	16	40	83	109	(60.0)	(23.9)
% of revenues	6.0%	14.5%	10.4%	13.1%		
Investments:						
• industrial	41	24	95	85	70.8	11.8
Employees at period-end (number) (1)			5,096	5,132		2.9

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

Sales and service revenues amounted to euro 798 million, with a reduction of euro 36 million (-4.3%), compared to the same period of 2003. The reduction can mainly be attributed to a contraction of the revenues of the Entel Chile group from long-distance wireline business in North America. Excluding the foreign exchange effect (euro 18 million, of which +euro 33 million refers to the Chilean peso and -euro 15 million to the Bolivian boliviano), consolidated revenues showed a reduction of euro 54 million (Entel Chile group -euro 69 million, Entel Bolivia group +euro 15 million), equal to -6.3%, compared to the same period of 2003.

In the third quarter of 2004, sales and service revenues, equal to euro 265 million, contracted by euro 10 million (-3.6%), compared to the same period of 2003.



The fluctuations described also influenced profit performance. In particular, *gross operating profit* decreased by euro 13 million (-4.3%), compared to the same period of 2003, with a positive exchange effect of approx. euro 4 million. Excluding the exchange effect, gross operating profit decreased by euro 17 million (-5.6%) compared to the first nine months of 2003 (Entel Chile group -euro 21 million, Entel Bolivia group +euro 4 million). Gross operating profit represented 36.1% of total revenues, in line with the corresponding period of 2003.

In the third quarter of 2004, gross operating profit, equal to euro 93 million, decreased by euro 11 million (-10.6%) compared to the third quarter of 2003.

Operating income, equal to euro 83 million, decreased by euro 26 million (-23.9%), compared to the same period of 2003 (Entel Chile group -euro 36 million, Entel Bolivia group +euro 10 million). Operating income represented 10.4% of total revenues (13.1% in the same period of the prior year).

In the third quarter of 2004, operating income, equal to euro 16 million, decreased by euro 24 million (-60%), compared to the third quarter of 2003.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

Industrial investments of euro 95 million showed an increase of euro 10 million compared to the same period of 2003.

At September 30, 2004 *employees* numbered 5,096, an increase of 143 (+2.9%) compared to December 31, 2003. The increase can be attributed to a rise in the number of employees of the Entel Chile group.

The following table shows the key results of the wireline and mobile telephone businesses in the first nine months of 2004, compared to the corresponding period of 2003.

(millions of euro)	9 months to 9/30/2004				9 months to 9/30/2003			
	Wireline	Mobile	Eliminations	Total	Wireline	Mobile	Eliminations	Total
Sales and service revenues	496	399	(97)	798	560	365	(91)	834
Gross operating profit	124	164		288	140	161		301
% of revenues	25.0%	41.1%		36.1%	25.0%	44.1%		36.1%
Operating income (loss) pre-amortization of differences on consolidation	(8)	95		87	20	94		114
Operating income (loss)	(8)	95	(4)	83	19	93	(3)	109
% of revenues	(1.6%)	23.8%		10.4%	3.4%	25.5%		13.1%
Investments:								
• industrial	40	55		95	48	37		85
Employees at period-end (number)	3,237	1,859		5,096	3,438	1,694		5,132

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

INTERNET AND MEDIA

- **TIN.IT:** one of Italy's top WI-FI networks with 608 hot spots, 482 of which are active
- **La7:** audience share in September 2004 at 2.5% (2.2% in September 2003)
- **MTV:** number of companies advertising on MTV up 9%;
- **Office Products:** positive inversion of the trend with improved profitability (gross operating profit at +11%)

■ THE BUSINESS UNIT

The Internet and Media Business Unit operates in the following segments:

- Internet: in the management of access services (ISP) with Tin.it, in the management and development of the Virgilio portals with Matrix, and in web services, where it occupies a leadership position in the Italian market;
- Television: with La7 and MTV, in the production and broadcasting of editorial content through the television transmission networks entrusted under concession and in the marketing of advertising space in TV programming;
- Office Products and Services: in the distribution of products, services and solutions for the office through the Buffetti retail network.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows (the main consolidated companies/business areas are shown below):

INTERNET AND MEDIA			
INTERNET	TV	OFFICE PRODUCTS	OTHER ACTIVITIES
TIN.IT Matrix	Holding Media e Comunicazione Group	Buffetti Group Sk Direct	Databank Televoice TM News

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the third quarter of 2004:

- on July 9, 2004, Telecom Italia Media S.p.A. sold 40% of the investment in Finanziaria Web, previously purchased from De Agostini Invest, to Vertico S.p.A. (a wholly-owned company of Telecom Italia and holder of a 33% stake in Matrix) at the price of euro 42.6 million. This sale falls under a series of transactions related to the settlement of the dispute with the De Agostini group which took place in June 2004. Within the same context, on September 10,

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

2004, the Extraordinary Shareholders' Meeting of Telecom Italia Media approved the share capital increase of roughly euro 120 million based upon the proposal of the Board of Directors' Meeting held July 27, 2004;

- on September 1, 2004, La7 Televisioni S.p.A. conferred the business segment relating to the technical services of TV signal broadcasting to its subsidiary Telecom Italia Media Broadcasting S.r.l.. This transaction is in line with the provisions of Law 66/01 and the National Regulatory Agency Resolution 435/01/CONS, which provides that the party which intends to ask for a license as a "Network Operator" must be a separate company from the content operator;
- under the projects for the development of land-based digital television, La7 Televisioni S.p.A. purchased the rights to "pay TV" for Serie A soccer games for certain teams for the 2004-2005, 2005-2006 and 2006-2007 championships. The service will be launched in 2005.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter and the first nine months of 2004, compared to the same periods of 2003, restated and only including the businesses that were not sold. All the percentages were calculated on the basis of data expressed in thousands of euro.

TELECOM ITALIA MEDIA GROUP

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003 restated Comparable consolidation basis	9 months to 30/09/2004	9 months to 9/30/2004			Change %	
				Restated		Historical values	(a/b)	(c/d)
				Comparable consolidation basis (d)	Total			
Sales and service revenues	126	108	431	366	418	1,121	16.0	18.0
Gross operating profit	5	(6)	22	(7)	1	311		
% of revenues	3.7%	(5.1%)	5.0%	(2.0%)	0.2%	27.8%		
Operating income pre-amortization of differences on consolidation	(17)	(24)	(41)	(61)	(54)	144	(30.7)	(33.3)
Operating income	(24)	(31)	(62)	(83)	(77)	90	(23.6)	(25.2)
% of revenues	(18.8%)	(28.6%)	(14.5%)	(22.8%)	(18.4%)	8.0%		
Investments:								
. industrial	15	20	36	48	48	65	(23.9)	(25.5)
. goodwill	1	3	6	7	7	57	(80.8)	(20.5)
Employees at period-end (number) (1)			1,845	1,747	2,095	2,095		(9.1)

(1) The change in employees has been calculated in reference to the data at the end of 2003

In the first nine months of 2004, *sales and service revenues* amounted to euro 431 million, with an increase of 18.0%, on a comparable consolidation basis, compared to euro 366 million in the first nine months of 2003.

In particular:

- revenues from the *Internet* area totaled euro 224 million in the first nine months of 2004 compared to euro 177 million in the first nine months of 2003, with an increase of 26.5%. The increase in revenues is attributable to the positive trend of ISP activities, thanks to the increase in sales of ADSL products, to traffic and to the activity of operating the portal. In greater detail (gross of inter-company eliminations):

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

- in the first nine months of 2004, the TIN.IT Division reported revenues of euro 200 million, an increase of 26.2% compared to the first nine months of 2003 (euro 158 million);
- in the first nine months of 2004, Matrix S.p.A. reported revenues of euro 28 million, an increase of 19.1% compared to the first nine months of 2003 (euro 24 million).
- revenues from the *Television* area showed an increase of euro 22 million (+ 31.2%), from euro 71 million in the first nine months of 2003 to euro 94 million in the first nine months of 2004, confirming the reputation for editorial content in the programming of the two TV networks. In particular:
 - in the first nine months of 2004, La7 Televisioni S.p.A. reported revenues of euro 42 million, an increase of 15.8% compared to the first nine months of 2003 (euro 36 million);
 - in the first nine months of 2004, MTV reported revenues of euro 55 million, an increase of 36.9% compared to the first nine months of 2003 (euro 40 million).
- revenues from the *Office Products & Services* area, equal to euro 95 million on a comparable consolidation basis (that is, net of the effects of the deconsolidation from April 2003 of Incas Production S.r.l. and IS Products S.p.A., both companies operating in the field of consumable products), were substantially in line with revenues for the first nine months of 2003. The declining trend in revenues (an annual average of -8.0% over the two-year period 2002-2003) has come to a halt, thanks to the sales of new products, despite a slight fall in sales volumes of traditional products.

In the third quarter of 2004, sales and service revenues were equal to euro 125 million, an increase of euro 17 million (+ 16%) compared to the revenues reported in the third quarter of 2003, restated on a comparable consolidation basis (euro 108 million).

In the first nine months of 2004, *gross operating profit* was euro 22 million, an improvement of euro 29 million compared to the loss of euro 7 million reported in the first nine months of 2003.

The improvement was attributable not only to the increase in sales volumes mentioned earlier, but also to measures taken during the year to improve the efficiency of operating structures. In particular:

- the gross operating profit of the *Internet* area increased from euro 32 million to euro 50 million, an improvement of euro 18 million;
- the *Television* area improved its gross operating profit by euro 11 million, with an increase of 37.5% compared to the same period of the prior year (gross operating loss of euro 29 million);
- the *Office Products* area showed an increase in the gross operating profit of euro 1 million (+ 10.6% on a comparable consolidation basis).

In the third quarter of 2004, gross operating profit was equal to euro 5 million, an improvement of euro 10 million compared to the result in the third quarter of 2003, on a comparable consolidation basis (gross operating loss of euro 5 million).

The *operating result* in the first nine months of 2004 was a loss of euro 62 million, an improvement of euro 21 million (+25.2%) compared to the first nine months of 2003, on a comparable

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

consolidation basis (operating loss of -euro 83 million) .

In the third quarter of 2004, the operating result was a loss of euro 23 million. Compared to the result in the third quarter of 2003 (operating loss of euro 30 million), this corresponds to an improvement of euro 7 million (+23.6%).

Industrial investments in the first nine months of 2004 amounted to euro 36 million (euro 48 million in the first nine months of 2003, restated) and referred principally to Digital Land-based Television (acquisition of digital frequencies and infrastructures for testing), the expansion of systems for broadcasting TV signals and the updating of Internet infrastructures.

The number of *employees* of the Business Unit at September 30, 2004 was 1,845 (2,029 at December 31, 2003). The overall reduction of 184, compared to December 31, 2003 was mainly attributable to the following factors:

- the disposals of CIPI (188 persons) and the GPP Group (122 persons);
- the increase stemming from the Television (81 persons) and Internet (46 persons) areas.

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2004

The following events took place:

- On October 6, 2004, the Telecom Italia Media Board of Directors established the terms of the share capital increase, for approx. euro 120 million, voted by the Extraordinary Shareholders' Meeting held September 10, 2004. Taking into account the recent performance of the stock, the Board of Directors fixed the subscription price of the new shares at, respectively:
 - euro 0.21 for each new ordinary share (of which euro 0.18 is additional paid-in capital);
 - euro 0.17 for each new savings share (of which euro 0.14 is additional paid-in capital).

The Board of Directors then established the issue of 564,333,957 ordinary shares and 9,462,662 savings shares, as a rights offering, respectively, to ordinary and savings shareholders, on the basis of a subscription ratio, identical for the two classes of stock, equal to 11 new ordinary shares and/or savings shares for every 60 shares of the same class of stock held.

The Parent Company, Telecom Italia, has pledged that it will fully subscribe to its share of the capital increase, in addition to the shares that could remain unsubscribed at the conclusion of the rights offering on the stock exchange.

The capital increase, as previously stated, falls under the transactions connected with the resolution of the dispute with the De Agostini Group.

On November 3, 2004, the company announced that during the rights offering period (October 11, 2004 – October 29, 2004 inclusive) 549,262,186 ordinary shares were subscribed to for a total amount of euro 115.3 million, equal to 97.3% of the total ordinary shares offered, and 8,372,925 savings shares were subscribed to for a total of euro 1.4 million, equal to 88.5% of the total savings shares offered. Furthermore, the majority shareholder Telecom Italia S.p.A. fully subscribed to its share of the rights offering.

The number of rights that were not exercised at the end of the rights offering period totaled 82,209,660, valid for the subscription of a total of 15,071,771 ordinary shares for euro 3.2

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

million, and 5,944,020, valid for the subscription of a total of 1,089,737 savings shares, for euro 0.2 million.

In compliance with the provisions of the third paragraph of art. 2441 of the Italian Civil Code, such rights will be offered on the Mercato Telematico Azionario coordinated and managed by Borsa Italiana S.p.A. on behalf of Telecom Italia Media S.p.A., arranged by Banca Akros, in the November 8, 9 10, 11 and 12, 2004 sessions;

- on October 11, 2004, the Boards of Directors of the companies Gruppo Buffetti S.p.A. and PBS S.r.l. voted to merge the second company in the first;
- under the projects for the development of land-based digital television, in September 2004, La7 Televisioni S.p.A. purchased the rights to "pay TV" for the Bologna, Palermo, Cagliari, Reggio, Fiorentina and Lecce soccer games. Subsequently in October, the rights were acquired for the Chievo, Brescia and Parma games. The total amount of the deal is equal to approx. euro 32 million for the three years 2004-2005, 2005-2006 and 2006-2007. The service will be launched in 2005

■ TELECOM ITALIA MEDIA S.p.A.

Held by: Telecom Italia 59.42%, Telecom Italia Finance 2.03%, IT Telecom 0.02%

The following table shows the key economic highlights compared to *restated* data (relating only to the results of the businesses that were not sold) and *historical* data. All percentages were calculated on the basis of data expressed in thousands of euro.

(millions of euro) <i>RESTATED</i>	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	64	52	200	159	22.5	25.5
Gross operating profit	11	6	32	17	°	92.3
Operating income (loss)	1	(5)	1	(14)		

(millions of euro) <i>HISTORICAL</i>	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	64	159	200	679	(60.3)	(70.6)
Gross operating profit	11	65	32	295	(83.2)	(89.1)
Operating income	1	33	1	168	(97.5)	°

Sales and service revenues, equal to euro 200 million in the first nine months of 2004, increased by euro 41 million, +25.5% compared to the first nine months of 2003 (euro 159 million). The increase is entirely attributable to the TIN.IT Division, thanks to the positive trend of both revenues from traffic and subscription charges. In the third quarter of 2004, sales and service revenues (euro 64 million) increased by euro 12 million, +22.5% compared to the third quarter of 2003 (euro 52 million).

Gross operating profit, equal to euro 32 million in the first nine months of 2004, increased by euro 15 million, +92.3% compared to the first nine months of 2003 (euro 17 million) and represented 16.2%

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

of total sales and service revenues (10.7% in the same period of 2003).

In the third quarter of 2004, gross operating profit, equal to euro 11 million, almost doubled compared to the third quarter of 2003 (euro 6 million).

The *operating result*, basically a breakeven, showed an improvement of euro 15 million compared to the first nine months of 2003. In the third quarter of 2004, the gross operating profit improved by euro 6 million compared to the third quarter of 2003.

Activities during the third quarter of 2004 were as follows:

Internet Users	Dial Up (Tin.it Free and Premium)	At September 30, 2004, Internet users numbered 1.3 million, a reduction (-0.3 million) compared to September 30, 2003 following the migration of customers towards Broadband products
	ADSL Tin.it	At September 30, 2004, users numbered 258 thousand (101 thousand at September 30, 2003)
	ADSL Alice (Telecom Italia customers with services distributed by Tin.it)	At September 30, 2004, users numbered 1.4 million (668 thousand at September 30, 2003)

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

INFORMATION TECHNOLOGY MARKET

- Consolidation of the position on the three key markets (Government, Finance, Transportation and Industry)

■ INTRODUCTION

The Telecom Italia IT Market Business Unit brings together all the information technology companies and activities of the Group directed to the external market. The BU, as a whole, is among the ICT - Information Communication Technology - leaders at national level, the largest Italian-owned ICT group, the foremost in providing solutions for the public administrations and transportation companies, and one of the top five supplying solutions for banks.

The customers of the ITM BU include some of the largest central public administrations, the leading Italian banking groups, companies belonging to the national railway group Ferrovie dello Stato, more than 1,000 local organizations, health and transportation authorities, social security agencies and insurance groups.

In the third quarter of 2004, the operations of the IT Market BU consolidated its position on the three key markets (Government, Finance, Transportation and Industry), through far-reaching measures to reduce costs, innovate and expand its range of services on and further rationalize the scope of reference.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is currently organized as follows (the main consolidated companies are shown):

Information Technology Market
Finsiel Group: Finsiel S.p.A. Banksiel S.p.A. Insiel S.p.A. Tele Sistemi Ferroviari S.p.A. Eustema S.p.A.

Effective July 1, 2004, the structure of the Business Unit changed as a result of the deconsolidation of the Webegg group following the sale of the stake held by IT Telecom in Webegg to Value Partners. Webegg group had been controlled by Telecom Italia through IT Telecom, which held a of 69.8% stake, and through Finsiel, which held a 30.2% stake. Webegg had been consolidated in the IT Market Business Unit because, operationally, it reported to Finsiel.

Under the transaction for the sale of Webegg to Value Partners, Finsiel will keep its investment in Webegg and reciprocal sale and purchase options will be recognized between Finsiel and Value Partners.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

Besides the deconsolidation of the Webegg group, on July 14, 2004, Banksiel signed an agreement for the purchase of 100% of the share capital of IAK S.r.l.. The contract was executed on October 11, 2004 after the relative approvals were obtained from the Antitrust Authority. The company will be consolidated starting October 1, 2004.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to those of the third quarter and the first nine months of 2003, restated, for purposes of comparison, excluding the activities of the Enterprise business segment sold to IT Telecom on October 1, 2003, while the Webegg Group is only consolidated for the first six months of 2003.

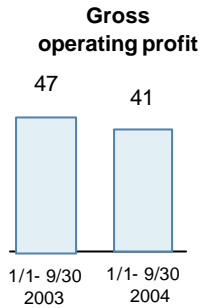
(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003 restated	9 months to 9/30/2004	9 months to 9/30/2003 restated	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)		(a/b)	(c/d)
Sales and service revenues	156	142	511	480	521	9.9	6.5
Gross operating profit	11	16	41	47	45	(31.3)	(12.8)
% of revenues	7.1	11.3	8.0	9.8	8.6		
Operating income pre-amortization of differences on consolidation	3	9	16	21	16	(66.7)	(23.8)
Operating income	3	9	15	20	15	(66.7)	(25.0)
% of revenues	1.9	6.3	2.9	4.2	2.9		
Investments:							
• industrial	4	5	18	19	20	(20.0)	(5.3)
Employees at period-end (number) (1)			4,123	4,290	5,217	(14.6)	

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.

In the first nine months of 2004, *sales and service revenues* increased by euro 31 million compared to the same period of the prior year, restated. The change is mainly attributable to Tele Sistemi Ferroviari (+ euro 24 million) as a result of increased revenues associated, particularly, with activities with a low level of profitability; to Agrisian (+ euro 19 million); to Finsiel (+ euro 10 million) as a result of increased activity in the areas of Culture and Education, Territory and the Environment and Economy, offset by lower revenues in the area of Defense and Security. These positive effects were partly compensated by the reduction of revenues of Banksiel (-euro 16 million) and Webegg (-euro 2 million). In the third quarter of 2004, sales and service revenues, equal to euro 156 million, increased by euro 14 million (+9.9%), compared to the third quarter of 2003, restated.

Gross operating profit decreased by euro 6 million compared to the same period of the prior year, restated. This reduction is mainly attributable to the reductions in the gross operating profit of Tele Sistemi Ferroviari (-euro 6 million), Banksiel (-4 euro million) and the Webegg group (-2 euro

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING



million), which were partially offset by an improvement in the performance of Finsiel (euro +9 million).

In the third quarter of 2004, gross operating profit, equal to euro 11 million, decreased by euro 5 million (-31.3%) compared to the third quarter of 2003, restated.

Operating income decreased by euro 5 million compared to the same period of the prior year, restated. This reduction is mainly attributable to a reduction in the operating activities of Banksiel (-euro 4 million), Tele Sistemi Ferroviari (-euro 4 million) and the Webegg group (-euro 2 million) and was partly offset by an improvement in the activities of Finsiel (+euro 6 million). The lower level of profitability also reflected in the gross operating profit was due to strong pressure on selling prices, and was only offset in part by measures to reduce costs.

In the third quarter of 2004, *operating income*, equal to euro 3 million, decreased by euro 6 million (-66.7%) compared to the third quarter of 2003, restated.

Industrial investments amounted to euro 18 million and decreased by euro 1 million compared to September 30, 2003, restated.

At September 30, 2004 *employees* numbered 4,123, with a decrease of 704 compared to December 31, 2003.

■ INFORMATION ON OPERATIONS

The following important contracts were acquired in the third quarter of 2004:

- **Finsiel**, stipulated new contracts through private negotiations in the field of **Welfare**, thus confirming its leadership in this market.
- **Banksiel** was awarded new contracts with five more banking groups for projects in the field of adapting and developing systems to the new IAS standards, thus confirming its leadership in the field of IAS standards and in the development of new positioning as a solutions provider;
- **Tele Sistemi Ferroviari** continued its expansion on the internal **Ferrovie** (state railways) market, focusing on its expertise in the field of SAP. It also won a bid for an important new customer (ENEL), in a temporary association of companies with Engineering, Eds and Sidi;
- **Krenesiel** won the bid announced by **Regione Sardegna** (Department for Environmental Protection), in a temporary association of companies with Consorzio Mediterranea, to create a portal on Environmental Education and Sustainable Development.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

INFORMATION TECHNOLOGY GROUP

- As part of the reorganization of the IT Group function, on September 9, 2004, a plan was approved for the merger of IT Telecom S.p.A. and EPIClink S.p.A. in Telecom Italia S.p.A.

■ THE FUNCTION

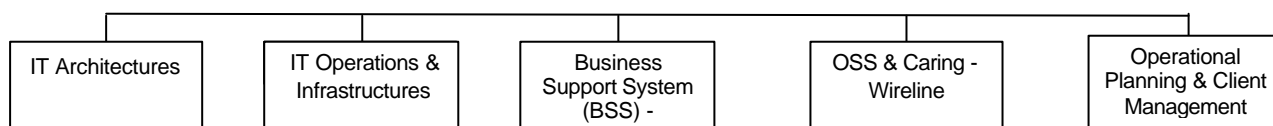
The Information Technology Group Function is responsible for coordinating technological innovation and service information technology activities within the Telecom Italia Group. The function focuses on the core business of TLC, pursuing objectives such as the increment, the efficiency and the improvement of quality and innovation, with the aim of implementing economies of scale and achieving advancements in terms of performance.

■ THE STRUCTURE OF THE FUNCTION

The companies reporting to the Function are those dedicated to the Group's information systems, within the framework of the project to integrate the various companies.



The Function is organized as follows:



IT Architectures – design and creation of applications and infrastructure architectures, ensuring rationalization and standardization;

IT Operations & Infrastructures – development and management of the IT infrastructures required for the functioning of Group systems and applications and guarantee of the running of IT systems and solutions for the Wireline BU;

Business Support System (BSS) - Wireline – design and development, for the business segment, of IT systems, solutions and applications for the Wireline BU;

OSS & Caring - Wireline – guarantee of design, development and maintenance, for the network segment, of IT systems, solutions and applications for the Wireline BU; ensure the development and systems integration of hi-tech IT solutions and the operation of caring services outsourced by the BU.

Operational Planning & Client Management – coordination and support for the operational functions responsible for planning, staffing, operational control and the monitoring of the main projects and preparation of the systems plan.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place:

- on July 15, 2004, the agreement was executed for the sale of the 69.8% stake in the capital of Webegg S.p.A. held by IT Telecom S.p.A.;
- on September 8, 2004, the Board of Directors of IT Telecom S.p.A. voted to confer to Shared Service Center s.c.r.l. – in which a 40.91% stake is held – the following business segments: ERP Solutions, engaged in the development and maintenance of ERP systems, and Application Operations – Administration & Finance, which guarantees applications management for the systems in the administration and finance areas. The percentage holding will remain unchanged since the other SSC shareholders will subscribe to the capital increase;
- on September 8, and September 9, 2004, the respective Boards of Directors examined and approved the plan for the merger of the wholly-owned subsidiaries IT Telecom S.p.A. and Epiclink S.p.A. in Telecom Italia. This plan falls under a broader reorganization of the Information Technology Group area.

Bringing the activities of these two subsidiaries inside Telecom Italia will make it possible to rationalize the use of resources and technological expertise and will lead to an important simplification of the operational, administrative and corporate management processes.

As envisaged by the respective bylaws, the merger (which will not entail a capital increase by the merging company) was approved on October 11, 2004 by the Boards of Directors of the three companies, according to the conditions and terms indicated in article 2505, last paragraph of the Italian Civil Code.

The transaction is expected to be completed by the end of the year.

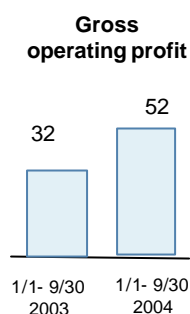
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to those of the third quarter and the first nine months of 2003, restated, for purposes of comparison, excluding the figures relating to the “Development” business segment sold to TIM and those of Telesoft Russia Zao and Teco Soft Argentina but including the figures of the “Enterprise” business segment acquired in October 2003 from Finsiel.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003 restated	9 months to 9/30/2004	9 months to 9/30/2003 restated	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)		(a/b)	(c/d)
Sales and service revenues	238	216	692	661	703	10.2	4.7
Gross operating profit	21	14	52	32	40	50.0	62.5
% of revenues	8.8%	6.5%	7.5%	4.8%	5.7%		
Operating loss pre-amortization of differences on consolidation	(10)	(19)	(49)	(64)	(56)	47.4	23.4
Operating loss	(10)	(19)	(49)	(64)	(56)	47.4	23.4
% of revenues	(4.2%)	(8.8%)	(7.1%)	(9.7%)	(8.0%)		
Investments:							
• industrial	39	67	89	127	126	(41.8)	(30)
Employees at period-end (number) (1)			3,425	3,582	3,991		(16.6)

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003.



Consolidated *revenues* showed an increase of euro 31 million compared to the first nine months of 2003, restated. This was both the result of invoicing work in progress at December 31, 2003 and the increase in activities related to institutional projects for the Corporate business segment of Telecom Italia, such as the SAP Value Program and the development of the Group Portal, and activities conducted on behalf of the Wireline business segment of Telecom Italia on projects such as Usage Collection, Trouble & Job Management and Network Creation. Activities carried out in 2004 include Telecom Italia's new project, begun at the end of 2003, called "International Operators", and outsourcing on behalf of the Wireline network.

Revenues for the third quarter of 2004, equal to euro 238 million, increased by euro 22 million (+ 10.2%), compared to the third quarter of 2003, restated.

Gross operating profit, equal to euro 52 million, showed a growth of euro 20 million compared to the first nine months of 2003, restated, as a result of the above-mentioned increase in revenues (+ euro 31 million) and the reduction in work in progress (-euro 11 million). Operating costs (euro 654 million) remained unchanged compared to the same period of the prior year despite the increase in external costs (+euro 24 million), following higher business volumes, offset by lower labor costs for a similar figure, as a result of the restructuring process currently in progress.

In the third quarter of 2004, the *gross operating profit* (euro 21 million) increased by euro 7 million (+ 50%) compared to the third quarter of 2003, restated.

The *operating result*, a loss of euro 49 million (-euro 64 million in the first nine months of 2003, restated, improved by euro 15 million. The improvement can mainly be attributed to the above-mentioned increase in the Gross operating profit and the balance of other operating income and expenses (+euro 5 million). This was partly compensated by the increase in amortization and depreciation (+euro 5 million) and provisions to the reserves for pending litigation (euro 5 million). In the third quarter of 2004, the operating result, a loss of euro 10 million, showed an improvement of euro 9 million (+ 47.4%), compared to the third quarter of 2003, restated.

Industrial investments amounted to euro 89 million and reflected the continuation of infrastructure projects begun at the end of 2003. In particular, work continued on the overhaul and expansion of the Group Network and the refurbishment of the direct interconnections of 48 companies, including 5 foreign companies, while projects relating to the UNICA platform were completed. In addition, new projects were started, relating, in particular, to Griffon, to the development of the Group SAP initiative and to the e-Foundation project. The reduction of euro 38 million compared to the first nine months of 2003, restated, can be attributed to the completion, last year, of investment projects begun following the reorganization of the IT area.

At September 30, 2004, *employees* numbered 3,425, with a reduction of 682 compared to December 31, 2003. The reduction is mainly due to the continuation of restructuring activities begun during the prior year and as a result of the transfer, on April 1, 2004, of 551 persons to TIM, following the contribution of software design and development activities from IT Telecom to TIM.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ INFORMATION ON OPERATIONS

In the third quarter of 2004, activities continued for the management of the systems in operation and in order to rationalize and standardize the architectures and infrastructures of the Parent Company. In particular, activities went ahead for the development of the “Group Network” and the “Virtual Data Center Network” infrastructure projects, and the new “e-Foundation” project was begun, aimed at the applications integration at the Enterprise level on the different chains of business.

The release of the International Backbone with the TIM Group was completed. The backbone now connects Brazil, Chile, Venezuela, Peru, Turkey, Greece and Holland.

Finally, during the period under examination, WI-FI intranet installations were completed with full coverage at 10 Telecom Italia offices and 100 offices were fitted for the Griffon videoconferencing service.

As far as the development of BSS and OSS for Telecom Italia’s Wireline Business Unit is concerned, the following events are worthy of note:

in the area of BSS

- conclusion of the process of migration of the Business and MicroBusiness clientele to the new CRM platform which manages the sales, order management, customer care and billing processes. Further functions have been released relating to marketing, temporary user management and follow-up management;
- conclusion of the process of migration from the previous Hansenet platform to the new international CRM platform in Germany. In France, marketing of the Aladino and ADSL plans has been activated and the Alice portal has been launched;
- completion, in the Business Intelligence area, of datawarehouse systems for analyzing traffic, customers and revenues.

in the area of OSS

- continuation of the integration of the chain of systems supporting the management of complaints and technical failures and elimination of pre-existing legacy environments;
- continuation of the program to expand Broadband in Europe with the completion of the second phase of complaint management for the German operator and the delivery of Rosso Alice to the French operator;
- completion of the necessary steps, with reference to National Wholesale, to comply with Resolution No. 340/440 of the TLC Authority;
- with regard to the regulatory framework for Local Loop Unbundling, the software developed for the management of the return of the clientele and the operation of Shared Access was made operational;
- in completion of the Provisioning and Delivery platform in the data and carrier network domains, the first release of the monitoring system has become operational for the process aimed at providing pro-active problem management;
- continuation of the work to improve the efficiency of the Service Delivery platform and the rationalization of the Network Assurance process with the inclusion of further technological domains and the introduction of new functions;
- supply, in particular, of ADSL, Wholesale and Shared Access services for the European operator.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

OLIVETTI TECNOST

■ INTRODUCTION

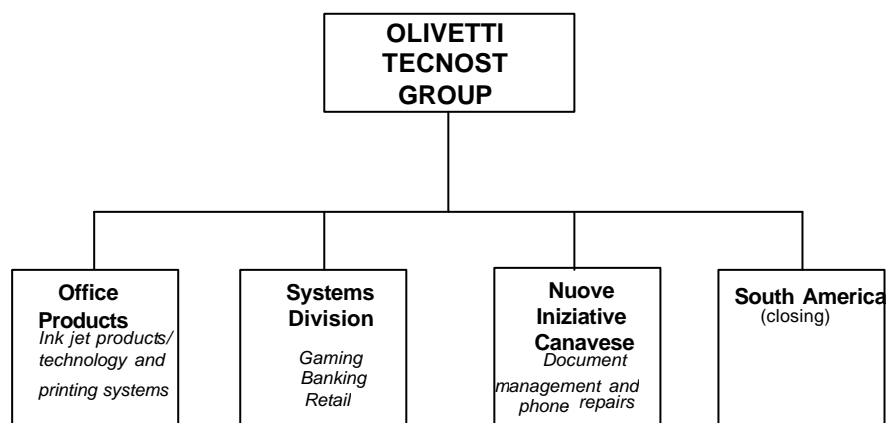
The Olivetti Tecnost group Business Unit operates through the Office Products Division in the sector of ink-jet products for the office and digital printing systems, the development and production of products associated with silicon technology (ink-jet print-heads and MEMS). Through the Systems Division it provides specialized applications for the banking field and commerce and information systems for gaming and lottery management. In addition, the group collaborates with Nuove Iniziative Canavese in document management services and fixed and cell phone repairs. The reference market of the BU is focused mainly in Europe and Asia.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit comprises the following (the main companies are indicated):



The company operates with the following organizational structure:



SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The operating structure has changed since June 30, 2004 on account of the elimination of the North and Central America Division following the sale of the investment in Royal Consumer Information Products Inc. and the corporate complex of Olivetti Mexicana S.A., described below.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place:

- on July 26, 2004, the Extraordinary Shareholders' Meeting voted to put the company Dedita S.p.A. into a wind-up;
- on September 23, 2004, the sale was executed for 100% of the United States subsidiary Royal Consumer Information Products Inc. and its Mexican subsidiary Royal Consumer Information Products de Mexico S.deR.L. de C.V. (which had been especially set up for the acquisition of the Olivetti Mexicana S.A. business) as well as the Olivetti Mexicana S.A. business complex composed of all the employees and part of the assets. The holdings in question were part of the North and Central America division;
- on September 30, 2004, following receipt of approval from the Antitrust Authority, Olivetti I-Jet S.p.A. finalized the merger of 100% of the Swiss company YMINDS S.A. (in which Olivetti I-Jet already held a 27.2% interest) after purchasing a 61.4% stake from third parties and a 11.4% holding from Olivetti Tecnost International BV. The company is engaged in research and development of products using Ink-jet technology. The transaction took place in the Office Products division.

■ ECONOMIC AND FINANCIAL DATA

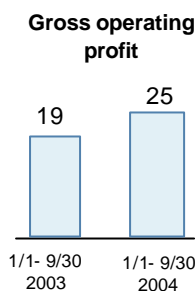
The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to the corresponding periods of 2003.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003	9 months to 9/30/2004	9 months to 9/30/2003	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and service revenues	130	128	436	460	1.6	(5.2)
Gross operating profit	3	2	25	19	50.0	31.6
% of revenues	2.3%	1.6%	5.7%	4.1%		
Operating income (loss) pre-amortization of differences on consolidation	(1)	(2)	9	(4)	50.0	
Operating income (loss)	(2)	(2)	8	(5)		
% of revenues	(1.5%)	(1.6%)	1.8%	(1.1%)		
Investments:						
• industrial	2	2	10	12		(16.7)
• differences on consolidation	1		1			
Employees at period-end (number) (1)			2,121	2,618		(11.4)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003

In the first nine months of 2004, *sales and service revenues* amounted to euro 436 million, of which euro 231 million referred to the Office Products Division, euro 135 million to the Systems Division, euro 19 million to Nuove Iniziative Canavese and euro 51 million to other operations. Revenues by product were as follows: euro 256 million for hardware, euro 94 million for accessories, euro 86 million for services and other revenues.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING



Compared to the first nine month of 2003, revenues for the first nine months of 2004 showed a reduction of euro 24 million (-5.2%). Excluding the foreign exchange effect and the impact of the change in the scope of consolidation (with particular reference to the closing of operations in Latin America) of euro 52 million, underlying growth was equal to euro 28 million (+6.9%).

In the third quarter of 2004, sales and service revenues amounted to euro 130 million, an increase of euro 2 million (+1.6%) compared to the third quarter of 2003.

Gross operating profit (euro 25 million) and *operating income* (euro 8 million) improved significantly compared to the first nine months of 2003 (+euro 6 million and +euro 13 million, respectively), benefiting both from restructuring operations implemented in the prior year, which led to a reduction in fixed costs, and a more favorable mix of products sold.

In the third quarter of 2004, the gross operating profit, equal to euro 3 million, improved by euro 1 million compared to the third quarter of 2003 (euro 2 million), whereas the operating result, a loss of euro 2 million because of seasonal influences, remained unchanged compared to the third quarter of 2003.

Industrial investments amounted to euro 10 million, a reduction of euro 2 million compared to September 30, 2003.

At September 30, 2004, *employees* numbered 2,121, of whom 1,917 were employed in Italy and 204 abroad. The reduction of 274 persons compared to December 31, 2003 involved 147 employees in Italy and 127 abroad, the latter being the result of the deconsolidation of Royal Consumer Information Products Inc. (U.S.A.) and the operational business segment in Mexico.

■ INFORMATION ON OPERATIONS

The main activities carried out during the third quarter of 2004 were the following:

Office Products

During the third quarter of 2004, the Office Products Division, including Olivetti I-Jet, consolidated the positive trend reflected in the results of 2003. In the range of ink-jet fax machines, growth was confirmed, together with the division's position of European leadership. Quantities sold during the third quarter of 2004 exceeded the number sold in the third quarter of 2003 by 100,000.

Sales volumes of digital photocopiers, another important segment of the office business, increased by 25% compared to the third quarter of 2003 and by more than 30% compared to the first nine months of 2003.

Investment plans are being implemented to support activities for the development and manufacture of new fax machine models and other new products on an industrial scale.

Systems Division

As far as this division is concerned, the results of the third quarter of 2004 are higher than those of the corresponding period of 2003, both from the point of view of revenues and margins, and from the standpoint of business initiatives to promote geographical and product diversification.

In particular, in the *Gaming* sector, another important contract was signed for the supply of 3,000 terminals for operating the electronic voting system in Venezuela (in addition to the 20,000 already

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

supplied in the first half of 2004). With reference to the Italian market, sales of terminals for the video-lottery have begun.

In the *Banking* sector, compared to 2003, in a generalized downward market scenario, Olivetti Tecnost succeeded in maintaining its market share in Western countries. Sales volumes on Eastern markets increased, especially in China, where approx. 85,000 specialized printers have been sold since the beginning of the year.

The performance of the Shop Automation business was again stable with regard to volumes of conventional fiscal Cash Registers.

Nuove Iniziative Canavese

The activities of this Division increased significantly compared to the third quarter of 2003. In particular, the subsidiary Cell-Tell acquired new customers and extended its line of service to repairing and regenerating fixed telephone equipment. The subsidiaries Innovis (back-office activities) and Wirelab (repair and regeneration of telephone exchanges) increased both their business and, consequently, their number of employees.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

OTHER ACTIVITIES

The “Other Activities” of the Telecom Italia Group are principally constituted by the Central TILAB Functions, by the companies which provide centralized services to the Group and by the Corporate Functions.

TELECOM ITALIA LAB

■ THE FUNCTION

Telecom Italia Lab is responsible for supervising technological innovation within the Telecom Italia Group. This is achieved by scouting out new technologies, preparing and examining research and feasibility studies and developing prototypes and emulators of new services and products, with a special focus on the main topics of strategic interest to the individual Business Units. It operates to promote the Group’s technological leadership and also exploits collaboration with Pirelli Labs.

The activities can be broken down into the Group’s main innovative areas of interest, such as: developing the access network to cope with the growing demand for bandwidth availability, developing the carrier network, with a gradual transition towards optical technologies, developing telephone services, in view of the convergence of the network architecture towards an “all-IP” model, developing third generation hi-tech services and terminals of the new generation for the mobile area and contributing to the evolution of the Internet and multimedia.

Telecom Italia Lab relies on the expertise of Telsy, the Telecom Italia Group company which, since 1971, has worked to develop and produce equipment for security in telecommunications with cryptographic functions.

■ THE STRUCTURE

Since April 1, 2004, the structure is organized as follows:



TILAB medium- and long-term research activities are organized as follows:



Network Innovation and Access Network & Terminals: are devoted to short and medium/long-term R&D projects on fixed and mobile network infrastructures, with a focus on the segment of core networking, radio access, Broadband access and innovative terminals;

Services & Platforms Innovation and Business Applications & Services: concentrate on the creation of services and the testing of prototypes through innovative platforms, for the consumer and business markets, respectively.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

TILAB also has access to Testing Laboratories, which are used to test both equipment acquired from suppliers and prototypes developed through research.

■ **MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION**

There were no major corporate events/changes in the scope of consolidation during the third quarter of 2004.

■ **ECONOMIC AND FINANCIAL DATA**

The following table shows the key results for the third quarter of 2004 and for the first nine months of 2004, compared to the corresponding periods of 2003.

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003 restated	9 months to 9/30/2004	9 months to 9/30/2003 restated	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Operating costs	32	32	101	105		(3.8)
Amortization and depreciation	1	3	6	11	(66.7)	(45.5)
Operating grants	(1)	(2)	(3)	(8)	(50.0)	(62.5)
Total Net Costs TILAB	32	33	104	108	(3.0)	(3.7)
Costs recharged to TI BUs	33	30	92	91	10.0	1.1
Revenues from third parties	1	3	9	9	(66.7)	
Total	34	33	101	100	3.0	1.0
Operating income (loss)	2	0	(3)	(8)		62.5
Investments:						
. industrial	2	3	4	5	(33.3)	(20.0)
Employees at period-end (number) (1)			1,101	1,161		(3.6)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2003

In the first nine months of 2004, total *net costs*, equal to euro 104 million, decreased by euro 4 million compared to the same period of 2003, restated, despite the decrease in operating grants.

In this connection, for the purposes of achieving a more meaningful comparison, in 2003 the costs of the research collaboration contract with Pirelli and the contract for consultancy services regarding industrial property secured by the Telecom Italia Group from the Industrial Properties Function of Pirelli & C. have been taken into account although they were still under Telecom Italia's Corporate Function (euro 13 million for the first nine months of 2003, restated, and euro 17 million for the whole of 2003).

With regard to the general downward trend of costs, it should be emphasized that there were savings on operating costs (-3.8%), lower amortization and depreciation following the sale of owned buildings under the Dedalo project (which was accompanied by an increase in lease costs) and a reduction in industrial investments (-20%).

The costs recharged to the Business Units in the first nine months of 2004 showed a slight increase compared to the same period of 2003 (+1.1%). This can mainly be attributed to the increase in

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

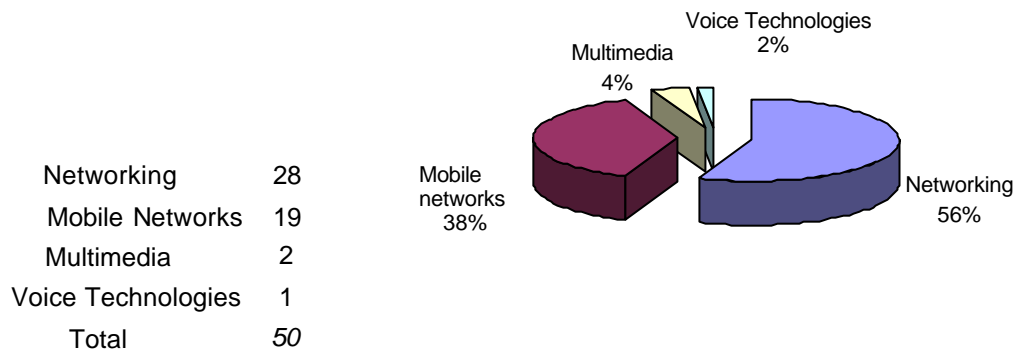
activities supplied to TIM in the third quarter of 2004, compared to the third quarter of 2003.

At September 30, 2004, *employees* numbered 41 less than at December 31, 2003.

■ INFORMATION ON OPERATIONS

The growing emphasis on finding opportunities to generate a competitive advantage and create value for the Telecom Italia Group was partly pursued through the strategic management of the relationships between research, Intellectual Property Right (IPR) and business with the aim of developing the Group's patent portfolio. In this context, in the third quarter of 2004, 19 new patent applications were filed, in addition to another 31 patents filed in the first half of 2004 for a total of 50 new patents registered since the beginning of the year; in the first nine months of 2003, a total of 37 new patents were filed, of which 16 in the third quarter of 2003.

The patent filings were distributed among the various sectors of activity as follows:



The main results achieved by TILAB during the third quarter of 2004 can be summarized as follows:

Innovation of Services and Terminals

- creation of the MUST system for the remote management of videocommunication terminals shortly to be launched on the market;
- development, with Pirelli Labs, of a remote cardiac monitoring system, making it possible for a doctor in another location to activate an analysis, see the results on the Web and, if necessary, determine the geographical location of the patient;
- patent and prototype of a new technology which simplifies the task of configuring security functions for WiFi terminals on ADSL access points;
- transfer to the TIM software factory of the SIM-SECURE platform which permits validation based on SIM technology for access to network services;
- prototype of the AURORA system which, once integrated with commercial mobile terminals, will make it possible to recognize the voice of the customer for innovative services such as SMS dictation;
- transfer to Wireline of the MULTICONTACT platform, which makes it possible to send the same message to any number of recipients in different forms (SMS, email, synthesized voice, fax) automatically adapted to the terminal of the receiver;

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

- activation of the CLICK-TO-CALL service in which the users of the Mobile Virtual Community TIMC@fe`, the largest virtual community in Italy, can call another member of the community using his/her nickname, without knowing the person's number;
- contribution to the success of i-TIM TOUR 2004 event through the MMS-SHOW service which creates a "contest" among photographic MMS sent by the public, which can be adapted to different sized screens and "voted" by SMS.

Network innovation

- completion of the specifications for the overall architecture and individual apparatus of a broadband access network based on GPON (Gigabit Passive Optical Network) technology which involves the introduction of mixed fiber-copper solutions that can supply individual customers with 10-100 Mbit/s ;
- definition of the new ELIOS (Ethernet Link Over SDH) service, designed to carry Ethernet signals on Next Generation SDH networks for the Wholesale clientele;
- successful demonstration of the model for the net cost of the Universal Service to AGCOM (the National Regulatory Authority);
- patent and proposal for the standardization of a mechanism to control QoS (Quality of Service) in point-to-multipoint transmission using MBMS (Multimedia Broadcast Multicast Service) technology over 3G networks;
- again in the area of point-to-multipoint transmission on mobile 2.5 and 3G networks, a technical and economic study has been released which compares the different possible technologies (DVB-H, DAB, DMB and MBMS);
- release to Wireline of the INGLOBA system which ascertains and visualizes the levels of productivity in individual Network Work Centers.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

CENTRALIZED GROUP SERVICES

Centralized Group Services include the operating activities, at virtually a nil profit margin, of the centralized services provided for the Business Units/Central Functions/Companies of the Group. The following table shows operating costs (outside costs and labor costs) incurred in the third quarter of 2004 and the first nine months of 2004, compared to those of the corresponding periods of 2003, restated, for purposes of comparison, to take into account the different scope of consolidation.

The figures reported below take into account the internal exchanges within Telecom Italia S.p.A..

OPERATING COSTS

(millions of euro)	3 rd Quarter 2004	3 rd Quarter 2003 restated	9 months to 9/30/2004	9 months to 9/30/2003 restated	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Real Estate Activities and Services	177	158	538	526	12.0	2.3
Central Administrative Services (CSA)	11	11	37	36	-	2.8
Security	13	9	40	35	44.4	14.3
Other (1)	26	29	63	68	(10.3)	(7.4)
TOTAL CENTRALIZED SERVICES	227	207	678	665	9.7	2.0

(1) Includes Telecom Italia Audit, Telecom Italia Learning Services, TI Finance and other companies.

Total costs of Centralized Group Services increased by euro 13 million compared to the corresponding period of 2003. The increase was mainly attributable to Real Estate Activities and Services and Securities and was partly compensated by the lower costs of the Other companies. The growth of Real Estate Activities and Services costs was basically connected to the increase in leasing costs as a result of the building units sold under the Dedalo project. Such increased costs were largely offset by lower depreciation and amortization charges as well as the financial benefits resulting from the sale of the properties.

Security costs rose as a result of the adoption of higher safety standards in offices and for plants. While costs increased, as shown in the table, depreciation and amortization charges of Centralized Group Services decreased by euro 10 million, from euro 110 million in 2003 to euro 100 million in 2004.

Real estate activities and services concern the planning of the sites and installations of the Group, the design and construction of civil works, the maintenance of properties and technological plant, in addition to providing real estate and general services. Such services are provided both through internal structures to Telecom Italia S.p.A. – essentially for the activities conducted on behalf of the Business Units and Functions of Telecom Italia itself – and through the subsidiary Emsa Servizi S.p.A., which directs its activities towards the other companies in the Group, as well as the companies in the ex-Olivetti group which operate in the real estate sector: Olivetti Multi Services S.p.A. (OMS, 100%-controlled by Telecom Italia), O & B Costruzioni Sp.A. (50.1%-controlled by

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

OMS), RUF Gestion Sas (100%-controlled by OMS Holding BV) and Olivetti Systems Technology (100%-controlled by Telecom Italia Finance).

Tiglio Project (Real Estate Funds)

As for "CLOE FONDO UFFICI" which was placed on the market on June 29, 2004, since the Ministry of Artistic Properties did not exercise its pre-emptive right on two properties contributed to the Fund, in September 2004, "Tiglio I" proceeded with a distribution of reserves to its shareholders, which amounted to a total of euro 9.7 million for the Telecom Italia Group.

Sale of the "Maintenance" and "Environmental Services" business segments

On July 23, 2004, consistent with the objective of optimizing the Group "Facility Management" activities, Telecom Italia S.p.A. and Emsa Servizi S.p.A. signed an agreement with the company MP Facility S.p.A. (a 50% joint venture by Pirelli & C. Real Estate Facility Management S.p.A. and Manutencoop Facility Management S.p.A.) for the sale of their respective "Maintenance" and "Environmental Services" business segments as well as the contract for the outsourcing of these same services.

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2004

The following events took place:

- under the Tiglio Project, on October 7, 2004, the company "Tiglio II" signed a deed for the contribution of three properties to "FONDO SHOPS OLINDA – a closed investment fund". The placement of the shares of this Fund – directed to professional investors and the public at large – is expected to take place by the end of 2004;
- as for the agreements signed July 23, 2004 with the company MP Facility S.p.A, the contracts for the sale of the "Maintenance" and "Environmental Services" business segments by Emsa Servizi S.p.A. and Telecom Italia S.p.A. together with the contract for the outsourcing of these same services were signed on October 28, 2004.

The above agreements will come into force on November 1, 2004.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ CORPORATE

Corporate includes the Staff Functions of Telecom Italia S.p.A: Human Resources, Finance Administration and Control, Purchasing, Corporate and Legal Affairs, International Legal Affairs, Public and Economics Affairs, Corporate Development and Investor Relations, International Affairs, General Counsel, Communication and Image and Brand Enrichment.

The following table shows the operating costs (outside costs and labor costs) incurred by the above Staff Functions during the first nine months of 2004 as well as the costs of the Corporate information systems and those of Corporate Latam. Such costs are compared to those incurred during the corresponding period of the prior year, restated to take into account the different scope of consolidation, and exclude, beginning in 2004, the Research and Development costs transferred to TILAB.

Moreover, the figures below include the costs recharged for the activities conducted by Centralized Group Services.

OPERATING COSTS

(millions of euro)	9 months to 9/30/2004	9 months to 9/30/2003 restated	Change	
			amount	%
Staff Functions	245	232	13	5.6
Information Systems	102	55	47	85.5
Group Communication (1)	32	28	4	14.3
Corporate LATAM (2)	19	16	3	18.8
CORPORATE	398	331	67	20.2

(1) Includes the Communication and Image and Brand Enrichment Functions.

(2) Includes the costs of Telecom Italia Latam and the Argentina branch.

Corporate costs are higher by euro 67 million due mainly to an increase of euro 47 million for the development of Information Systems and euro 13 million for the costs of the Staff Functions.

The increase in costs for the development of Information Systems is mainly connected to projects started during 2003 (relating to the rationalization and standardization of architecture and infrastructure solutions, that will also lead to an improvement in information security, and the running of the dedicated functional systems, etc.), the full economic effects of which will be felt in 2004.

The increase in the costs of Staff Functions was principally attributable to personnel costs.

The growth in Communication costs was connected to a different timing for the institutional advertising campaign compared to the prior year.

Corporate showed a reduction in amortization and depreciation charges of euro 13 million, from euro 39 million in 2003 to euro 26 million in 2004, due to the end of the amortization of start-up and expansion costs relating to the former company Olivetti S.p.A..

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

■ DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

An updated situation of the main disputes, litigations and legal proceedings involving the Telecom Italia Group in comparison with the situation disclosed in the 2003 annual financial statements and also in the first-quarter and first-half 2004 reports is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions to risk reserves because of the absence of definite and objective elements and/or because a negative outcome to the litigation is not considered probable.

Alleged violation of regulations governing competition

In June 2003, the Antitrust Authority initiated proceedings against Telecom Italia for the alleged abuse of a dominant position, aimed at ascertaining the illegality of certain trade practices relating to the business segment. The abusive conduct specifically refers to Telecom Italia having established the prices for telecommunications services on the wireline network, used by business customers, with the intent to exclude: the competitors would not be able replicate such prices owing to the interconnection costs with the Telecom Italia network applied by the same Telecom Italia.

On September 29, 2004, the final hearing was held before the Antitrust Authority. The other operators in the case also took part. On this occasion, Telecom Italia specifically illustrated the deposition filed for the hearing, which centered on the following matters:

- ✓ challenge concerning the identification of the relevant markets, which proved – among other things - to have taken place based upon an approach that was different from that decided in the act for the commencement of the inquiry, in the absence of a sufficient motivation;
- ✓ confutation of the existence of a dominant position by Telecom Italia in the markets identified by the Antitrust Authority;
- ✓ demonstration of the replicability of the technical and economic terms of the contracts signed with the so-called large business clientele;
- ✓ demonstration of the profitability and the replicability of the terms under which Telecom Italia won the bid held in 2002 by Consip;
- ✓ demonstration of the absence of the intent to exclude in the clauses applied by Telecom Italia in the contracts with business clientele.

Telecom Italia, with reference to the Proceedings A/351, did not limit its actions to a defensive stand. Although convinced of the legitimacy of its conduct in the competitive scenario, Telecom Italia, in fact, commissioned an independent expert to draw up a proposal – also illustrated at the final hearing before the Antitrust Authority – containing specific commitments to improve the market situation.

The proposed measures are not directed towards correcting distortions in the competitive scenario: the Company is convinced of the legitimacy of its actions and does not intend to renounce protecting its rights and will defend them at every occasion; nevertheless, since it is aware of its leading role in the national telecommunications sector, it believes that these initiatives can lead to real benefits, ensuring more favorable, balanced and fair conditions for growth in the interests, foremost, of consumers.

The aforementioned proposal (signed to date by Albacom, Colt and Tiscali) specifically envisages a series of solutions deemed to be ideal for easing the difficulties encountered by competitors in providing integrated telecommunications services to business customers, in accelerating, by means of extraordinary measures valid for the two-year period 2005-2007, the development of competition in the access market and in setting up a mechanism for controlling and checking the commitments undertaken.

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The deadline for the closing of the proceedings by the Antitrust Authority is set for November 16, 2004. Before its conclusion, the Company will seek the obligatory but not binding opinion of the National Regulatory Agency based on the draft of the final decision.

Telecom Italia / Vodafone Omnitel arbitration

In August 2004, Telecom Italia initiated arbitration proceedings in order to obtain compensation, from Vodafone Omnitel, for damages connected with the mobile operator's decision to bar its customers from access to information services provided by the 12 numbering service. In particular, Omnitel shut off access to this service as of August 2002 up until about mid-April 2003.

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

Telekom Srbija

At the end of May 2003, OTE, a Greek telecommunications company, served Telecom Italia with two notices of arbitration, alleging breaches of the bilateral agreement dated June 4, 1997 and the shareholders agreement dated June 9, 1997, with regard to the sale of the 29% stake in Telekom Srbija to PTT Serbia (sale executed on July 7, 2003).

OTE specifically protests that, as a result of this sale, Telecom Italia (i) would have violated the preemptive right to which it was entitled according to the aforementioned agreement of June 4, 1997 (a right, however, that was subject to the consent of the Serbian government which, in this case, was denied), (ii) would not have proceeded to fully pay the percentage of management fees to which it was entitled and which was referred to in the technical assistance contract mentioned in the above June 4, 1997 agreement and (iii) would have violated the shareholders agreement in that Telecom Italia could not sell its investment without the consent of the other shareholders.

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

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

At the present time, the arbitration board has upheld OTE's request to suspend the proceedings until March 31, 2005. However, talks between the parties are underway to reach a settlement and renounce the arbitration proceedings.

Iridium

On June 9, 2000, Chase Manhattan Bank (now JP Morgan Chase Bank) brought suit before the District Court of Delaware against the shareholders of the United States-registered company Iridium LLC, including Telecom Italia (ex-Stet - Società Finanziaria Telefonica p.A.).

Chase Manhattan Bank asked for fulfillment of a capitalization obligation (the so-called Reserve Capital Call) of Iridium LLC which its shareholders would have undertaken in order to repay the USD 800 million loan made in 1988 by the same Chase Manhattan Bank to Iridium Operating LLC (a subsidiary of Iridium LLC). Accordingly, Chase Manhattan Bank asked that Telecom Italia be sentenced to pay about USD 7.5

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

million (plus additional expenses), the sum corresponding to the prorata share of the above capital increase allegedly referring to Telecom Italia.

By order of the Court, the defense's case of the defendants was substantially rejected (and in so doing, among other things, the request to exclude Telecom Italia from the case was also turned down), deeming that the case was ready for the verdict even in the absence of a discussion of the case. Telecom Italia, in July 2004, thus asked the judge for authorization to immediately file an appeal since its case for the defense was not taken into consideration. The judge has not yet ruled on the admissibility of this initiative, which has however been contested by the plaintiff.

The District Court, in the meantime, suspended the separate case brought in January 2003 by Chase Manhattan Bank, for the same facts, against Iridium Italia (a company in a wind-up held 30% by Telecom Italia with the remaining stake held equally between TIM and Telespazio; Telecom Italia had sold its investment in Iridium LLC to this company previous to the disbursement of the loan by Chase Manhattan Bank), ordering the eventual continuation of the case after the outcome of the main lawsuit against Telecom Italia.

In view of this scenario, faced with a *petitum* by the plaintiff, a specific provision was made to the reserve for risks.

Solpart

On January 19, 2004, the Brazilian Regulatory Agency for the telecommunications sector, Anatel, authorized Telecom Italia International (stating certain conditions) to exercise its option for the purchase of Solpart ordinary shares, previously sold to Techold and Timepart, as well as to resume to exercise its governance rights in the Brazilian company, according to the specific agreement signed August 27, 2002. Under this agreement, Telecom Italia International had arranged to temporarily reduce its stake in Solpart ordinary share capital from 37.29% to 19% and suspend – again temporarily – its governance rights, in order to overcome a regulatory obstacle to the start of TIM's commercial operations in Brazil.

Notwithstanding Anatel's decision, Techold and Timepart refused to comply with Telecom Italia International's request to exercise the option and reinstate the exercise of its governance rights.

Therefore, on January 23, 2004, an appeal was filed with the Court of Rio de Janeiro to obtain an urgent order to safeguard the right to Techold's and Timepart's fulfillment of the contractual obligations, which according to Brazilian law also bind Solpart, Brasil Telecom Participacoes and Brasil Telecom. At this time, no decision has as yet been returned.

In the same way, Telecom Italia International asked for a judgment, with analogous *petitum*, requesting also a provisional verdict which anticipates the effects of the final sentence.

Under the proceedings, in September 2004 the Court obtained a non-binding opinion from the Brazilian regulatory agency for the stock exchange, which declared that it was not competent to judge, deferring the decision to Anatel and CADE (the Antitrust Authority) which, in the meantime, had ruled in favor of Telecom Italia International's requests (for the CADE decision, see, *infra*).

Again in September, the Court of Appeals of the Court of Rio de Janeiro upheld the appeal by Telecom Italia International not to admit to the proceedings, as an interested party, the association of minority shareholders of the Brazilian telecommunications companies listed on the stock exchange (Animec).

The same Animec had initiated, in July, administrative proceedings, asking for the suspension, as a precautionary measure, of CADE's order of June 30, 2004 whereby the Antitrust Authority had approved Telecom Italia International's repurchase of the shares sold to Techold and Timepart as well as its

SUMMARY DATA AND GENERAL INFORMATION	
REPORT ON OPERATION	ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA
	SUBSEQUENT EVENTS AT SEPTEMBER 30, 2004
	BUSINESS OUTLOOK
	RELATED PARTY TRANSACTIONS
	ECONOMIC AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP BUSINESS UNIT/CENTRAL FUNCTIONS
	DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

reinstatement in the relative rights of governance. The administrative judges denied the request both in the first instance and on appeal.

Etec S.A.

Prior to the investment by Telecom Italia International in EtecSA (the Cuban telecommunications operator in which Telecom Italia International has a 27% stake), the Cuban Central Bank (“Bancuba”) had signed a USD 350 million loan contract with Bancomext, an entity controlled by the Mexican central bank, due in December 2006. On the basis of the agreements signed also by Telefonica Antillana SA (“Telan” – the Cuban majority shareholder of EtecSA) and EtecSA (loan contract and letter of credit contract), a part of the dividends due Telan were set aside, in escrow accounts, to guarantee repayment of the above loan.

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

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

In August 2004, the arbitration board issued its award and stated that EtecSA is not a debtor of Bancomext nor guarantor or surety of Telan, but also established:

- ✓ that the above-mentioned decree law does not constitute a circumstance beyond one’s control such that EtecSA is exempted from its obligations deriving from the loan contract and the opening of credit contract existing with Bancomext and Telan.
- ✓ EtecSA must re-establish the mechanism stated in the opening of credit contract by transferring the dividends due to Telan to the aforementioned escrow account, effective retroactively from April 2002.

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

On October 12, 2004, with abstention of Telecom Italia International’s directors, EtecSA’s Board of Directors voted to challenge the validity of the award issued by the arbitration board.