TELECOM ITALIA S P A
Form 6-K
September 19, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

Securities Exchange Act of 1934

Telecom Italia S.p.A.

Piazza degli Affari 2,

20123 Milan, Italy

(Address of principal executive offices)

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

Form 20-F x   Form 40-F ¨

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

Yes ¨ No x

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

This Report on Form 6-K shall be deemed to be incorporated by reference in the Registration Statement on Form F-4 of Telecom Italia Capital S.A. (Registration No. 333 125900) and Telecom Italia S.p.A. (Registration No. 333 125900-01) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

INTRODUCTION

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

Telecom Italia will adopt IFRS as adopted by the European Commission for use in the European Union (EU GAAP) for the first time in its annual consolidated financial statements for the year ending December 31, 2005, which will include comparative financial statements for the year ended December 31, 2004. IFRS 1, First-time Adoption of International Financial Reporting Standards, requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS financial statements (e.g., for Telecom Italia, December 31, 2005). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (e.g., for Telecom Italia, January 1, 2004) and throughout all periods presented in the first IFRS financial statements. The accompanying interim financial data as of and for the six month periods ended June 30, 2005 and 2004, have been prepared in accordance with those EU GAAP effective, or issued and early adopted, at June 30, 2005. The EU GAAP that will be applicable at December 31, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information. As a result, the accounting policies used to prepare this financial data are subject to change up to the reporting date of Telecom Italia s first IFRS year-end financial statements.

Cautionary Statement for Purposes of the Safe Harbour Provisions of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 provides a safe harbour for forward-looking statements. This Report on Form 6-K contains certain forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumption of future events and trends which may not prove to be accurate.

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

the continuing impact of increased competition in a liberalized market, including competition from global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;

our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;

the level of demand for telecommunications services, particularly wireless telecommunications services in the maturing Italian market and for new higher value added products and services such as broadband;

our ability to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing our non-core assets;

the success of our customer loyalty and retention programs, particularly in the fixed line business, and the impact of such programs on our revenues;

the impact of regulatory decisions and changes in the regulatory environment, including implementation of recently-adopted EU directives in Italy;

the impact and consequences of the Merger and the TIM Acquisition (each as defined below);

the impact of economic recovery in Latin American and economic development generally on our international business and on our foreign investments and capital expenditures;

the continuing impact of rapid or disruptive changes in technologies;

- the impact of political and economic developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to successfully implement our strategy over the 2005-2007 period;
- our ability to successfully achieve our debt reduction targets;
- our ability to successfully roll out our UMTS network and services and to realize the benefits of investment in our UMTS license and related capital expenditures;
- our ability to successfully implement our Internet and broadband strategy both in Italy and abroad;
- our ability to achieve the expected return on the significant investments and capital expenditures we have made and continue to make in Latin America;
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the impact of litigation or decreased mobile communications usage arising from actual or perceived health risks or other problems relating to mobile handsets or transmission masts.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events. For additional information, see Item 3. Key Information Risk Factors and the related cautionary statement under Item 5. Operating and Financial Review and Prospects included in our 2004 Form 20-F.

KEY DEFINITIONS

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

Telecom Italia	means the entity which resulted from the Merger.
Telecom Italia Group	means the Company and its consolidated subsidiaries.
Old Telecom Italia and Old Telecom Italia Group	means Telecom Italia and its consolidated subsidiaries as they existed immediately prior to the effective date of the Merger.
Olivetti	means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
Olivetti Group	means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
Merger	means the merger of Old Telecom Italia into Olivetti, approved by the shareholders of Old Telecom Italia and Olivetti on May 24, 2003 and on May 26, 2003, respectively, which became effective on August 4, 2003.
Ordinary Shares	means the ordinary shares, 0.55 par value each, of Telecom Italia.
Savings Shares	means the savings shares, 0.55 par value each, of Telecom Italia.
TIM	means Telecom Italia Mobile S.p.A., the Telecom Italia Group s subsidiary previously operating in the mobile telecommunications business, which business is now being conducted by Tim Italia S.p.A..
TIM Acquisition	means the acquisition by Telecom Italia of the ordinary shares and saving shares of TIM it does not already own through a cash tender offer completed on January 21, 2005 to be followed by a merger of TIM S.p.A. with and into Telecom Italia, which took place on June 30, 2005.
Telecom Italia Media	means the corporate name of the remaining part of Seat Pagine Gialle S.p.A., which resulted after the proportional spin-off of the directories and almost all of the directory assistance and business information business segments of Seat into New Seat. The spin-off became effective on August 1, 2003 and New Seat was disposed of on August 8, 2003. Telecom Italia Media is the Telecom Italia Group s subsidiary now operating the media business.
1934 Act	means the Securities Exchange Act of 1934, as amended.
EU	means the European Union.
IFRS	means International Financial Reporting Standards as adopted by the European Commission for use in the European Union effective, or issued and early adopted, at June 30, 2005.

RECENT DEVELOPMENTS

Privatization of Turk Telekom

On July 1, 2005, Oger Telecom, a newly created joint venture between the Telecom Italia Group and the Saudi-Lebanese group Saudi Oger Limited, won the auction conducted by Turkey, with an offer of U.S.$6,550 million for the privatization of a majority stake (55%) in the Turkish telecommunications group, Turk Telecom. The Telecom Italia Group through TIM International will initially invest U.S.$200 million in the joint venture. The partnership between the Telecom Italia Group and Saudi Oger Limited will be focused on the mobile business, because Oger Telecom will continue its cooperation in fixed-line telephony with BT Telconsult. Once the closing of the privatization takes place, Telecom Italia and Oger Telecom intend to sign a four-year Technical Assistance Agreement with Avea, the Turkish mobile operator in which TIM International has a 40.6% stake, Turk Telekom has a 40.6% stake and IsBank, a Turkish bank, has an 18.8% stake.

The agreements with Saudi Oger Limited provide TIM International with various contingent rights to sell its stake in Avea, principally for shares in Oger Telecom.

A listing of Oger Telecom on the Dubai DIFX stock exchange is expected to take place in the next three years, with the possibility for TIM International to participate pro rata in the initial placement. Saudi Oger Limited has agreed to grant TIM International a put option to sell to Saudi Oger Limited the Oger Telecom shares which TIM International may receive for the sale of its Avea shares plus U.S.$50 million worth of additional Oger Telecom shares subscribed for in the initial transaction if Oger Telecom is not listed on the terms provided. In turn, if this put option is not exercised by TIM International, Saudi Oger Limited can exercise a call option on the same shares.

Mediterranean Nautilus

In the context of the settlement agreement reached with FTT Investments B.V. (FTT) related to the group Mediterranean Nautilus S.A. the following transactions were consummated:

- on July 5, 2005, Telecom Italia and Telecom Italia International purchased from FTT 30% of the shares of Mediterranean Nautilus S.A. and FTT purchased from Mediterranean Nautilus S.A. 30% of Elettra S.p.A.;

- on July 8, 2005, Mediterranean Nautilus S.A. purchased 49% of MED Nautilus Ltd. from the minority shareholders.

The net amount paid and invested by the Telecom Italia Group was approximately 49 million.

The amount related to such transaction was already recorded in the 2004 financial statements.

As a result of the reorganization, Telecom Italia has disposed of certain non-strategic assets but now owns 100% of Mediterranean Nautilus Ltd., thereby strengthening its presence in the IP services and wholesale data sector in the Middle East.

Agreement for the sale of Entel Bolivia

On July 19, 2005, International Communication Holding N.V. (ICH), 100%-owned by Telecom Italia International N.V., signed a preliminary agreement of sale with Cooperativa de Telecomunicaciones de Santa Cruz Cotas Ltda (Cotas), for the sale of its 100% interest in Euro Telecom International N.V. (ETI), which holds 50% of the share capital of Empresa National de Telecomunicaciones S.A. (Entel Bolivia).

The signature of the final sale and purchase agreement between ICH and Cotas is conditioned on, among other things, a significant reimbursement of capital by Entel Bolivia to its shareholders.

The sale price was set at U.S.$140 million plus an amount in U.S.$ equal to the 50% of Entel Bolivia s liquid assets as of five days before the closing of the sale (and after the above mentioned reimbursement of capital).

Re-financing and Amendment of the Term Loan related to the Cash Tender Offer for TIM shares

On August 1, 2005, a partial anticipated re-financing as well as the amendment of the Term Loan signed last December for the purpose of the cash tender offer for TIM shares were concluded. In particular, Tranche B of this loan, equal to 6 billion maturing January 2008, has been converted into a new revolving loan in the same amount and with a lengthening of its maturity to 2012, with more favorable conditions.

Tranche C in the amount of 3 billion, maturing January 2010, has been changed only by reducing its margin from 0.70% to 0.275%, in order to reflect the new and more favorable conditions in the syndicated loan market.

Sale of TIM Peru

On August 10, 2005, Telecom Italia, through its subsidiary TIM International N.V., disposed of 100% of the share capital of TIM Perù S.A.C. to Sercotel S.A. de C.V., a subsidiary of America Movil S.A. de C.V., for a consideration of approximately 329 million. At the consolidated level, such disposal gave rise to a capital gain of 110 million and a reduction of net financial debt of over 400 million.

The disposal of the activities of TIM Perù is consistent with the Telecom Italia Group s strategy of rationalizing its international portfolio, concentrating on countries with a high rate of growth and where there is potential to exploit the benefits of fixed-mobile platform convergence.

DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

An update of the status of the principal disputes, litigations and legal proceedings involving the Telecom Italia Group compared to the situation disclosed in our 2004 Form 20-F is presented below. Except where specifically indicated, the Telecom Italia Group did not make any provisions in its reserves for future risks and charges because of the absence of defined and objective elements and/or because a negative outcome to the litigation is not considered probable.

Poste Italiane

Appeals are pending against the Rome Court s rulings in favor of the Company regarding payments for the disputed supply of products and services by Olivetti to Poste Italiane (the compensation sought amounts to approximately 50 million). The cases involve events dating back to the late 1980s/early 1990s. A specific reserve is recorded in the unaudited interim consolidated financial statements.

Personal Computer Business

In connection with the disposal by Olivetti of its personal computer business in 1997, lawsuits brought by the following parties, among others, are pending before the Ivrea Court:

by Centenary Corporation and Centenary International (purchasers of the business) for damages estimated at approximately 130 million;

by ex-employees of OP Computers S.p.A. (the special-purpose entity to which the business was transferred pending the sale) to have the contracts relating to the disposal of the business declared null and void and to obtain their reinstatement as employees of Olivetti with payment of salary differences and damages amounting to approximately 212 million. In June 2004 an initial ruling was handed down in favor of Telecom Italia. Telecom Italia s financial statements continue to include a specific reserve.

Galactica

In 2001 and 2002 a complex dispute arose with the Internet Service Provider Galactica S.p.A. (now ServInternet S.p.A., in liquidation) over the failure to renew an agreement for testing a flat-rate Internet access service. ServInternet S.p.A. has claimed damages of approximately 90 million.

Teleque Communications

In November 2002, Teleque Communications S.p.A., a company operating in the field of prepaid cards for international telephone services, brought an action against Telecom Italia before the Rome Court of Appeals for alleged unfair trade practices, claiming damages of 65 million.

In particular, Teleque Communications (which went bankrupt in December 2003) claimed that Telecom Italia had gained a competitive advantage by imposing additional costs on the supply of interconnection services that it did not charge to its own final customers for prepaid international services.

Cecchi Gori

In connection with the complex legal dispute initiated by the Cecchi Gori group against Seat (now Telecom Italia Media), the following cases remain pending in the ordinary courts:

- before the Rome Court of Appeals:
  - appeal by the Cecchi Gori group against the decision which rejected its request to find the August 11, 2000 resolution of the extraordinary shareholders meeting of Cecchi Gori Communications (now Holding Media Communications, which controls the television broadcaster La7) null and void. The resolution regards certain amendments to the company s bylaws;
  - appeal by the Cecchi Gori group against the decision which rejected the request for annulment of the resolutions approving the financial statements and related balance sheet of Cecchi Gori Communications for the year ended December 31, 2000 on the grounds that Seat was not entitled to vote the shares owned by Cecchi Gori Media Holding pledged to it and for the alleged excess and abuse of power by Seat. In view of the losses shown in the balance sheet at that date, the shareholders meeting of April 27, 2001 wrote off and then recapitalized the share capital of Cecchi Gori, which was entirely subscribed only by Seat;
- before the Milan Court:
  - claim for damages caused as result of the alleged illegal conduct by Seat and the directors which it appointed to the board of Cecchi Gori Communications. Such conduct was allegedly aimed at removing the majority shareholder, Cecchi Gori Media Holding;

before the Milan Court of Appeals:

appeal against the decision rejecting the request for annulment or cancellation of the deed under which the Cecchi Gori Communications shares belonging to Cecchi Gori Media Holding were pledged to Seat.

Vodafone

In July 2003, Telecom Italia initiated an arbitration proceeding with Vodafone to obtain damages (for a total amount of approximately 38.7 million) in relation to the mobile operator s decision to bar its customers from access to the Company s 12 information services between August 2002 and April 2003. Vodafone contended that its conduct was lawful and filed a counterclaim for an identical amount.

In May 2005, the parties reached an agreement under which Vodafone paid approximately 7 million to Telecom Italia.

Fastweb

In an arbitration procedure requested by the telecommunications operator Fastweb, it alleges non-fulfillment by Telecom Italia of a contract to provide disaggregated access services to the local network, claiming in particular that Telecom Italia provided incorrect information as to the state of the network and challenging its rejection of Fastweb s requests for unbundling (in approximately 17,000 cases compared to approximately 400,000 requests successfully satisfied). Fastweb is seeking damages of 150 million. Telecom Italia has requested the total rejection of Fastweb s demands based on the inaccurate and generic nature of its claims.

Tele2

At the end of June 2005, the telecommunications operator Tele2 brought a lawsuit against Telecom Italia before the Milan Court of Appeals for alleged abuse of a dominant position in the markets for fixed voice telephony access and services, objecting specifically to the Hello gratis offer which contemplates a 90-minute period of free calls.

In seeking damages of over 100 million, Tele2 maintains that the offer will take traffic away from competitors, since users would be induced to take advantage of the free calls opportunity regardless of their existing contracts with other operators. Tele2 also claimed the offer allegedly hinders the use of comparative advertising, since it would prevent a direct, consistent comparison with telephone rates per minute offered by other operators.

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A petition is also pending before the Milan Court of Appeals for urgent measures against Telecom Italia filed by Tele2 for abuse of a dominant position in the market for broadband data access, with a request for damages to be quantified during the course of the case.

In particular, Tele2 objects to the allegedly abusive conduct of Telecom Italia in relation to an agreement of August 2004 to provide ADSL wholesale service, whereby Tele2, using the Telecom Italia network, is able to provide broadband data access services to its final customers. The economic conditions of that service are alleged to be abusive due to the fact that, in addition to an activation charge, they require payment of a monthly charge which covers five hours of traffic. This allegedly is a disguised imposition on the other licensed operators of an improper minimum purchase obligation, designed purely to exclude such other operators from the market.

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In July 2005, Tele2 also served Telecom Italia with an additional urgent petition alleging an abuse of a dominant position in the market for broadband data access services using ADSL technology. The claimed abuse is alleged to consist of (i) improper activation of such services for users who have not requested them, allegedly done to prevent Tele2 from offering its own ADSL services, and (ii) a delay in deactivating such improperly activated ADSL services.

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An action by Telecom Italia against Tele2 and its Swedish parent company, Tele2 AB, is pending before the ordinary courts of Milan for unfair trade practices (related to the comparative advertising campaigns promoted by Tele2), seeking damages of at least 200 million.

Tele2 has presented a counterclaim in such action seeking to establish that the conduct of Telecom Italia (in particular, the free calls period in the above-described Hello gratis offer) constitutes a case of extracontractual liability. In essence, it has reiterated the arguments presented before the Milan Court of Appeals, as described above, and, pending a decision in that case, has asked the court to suspend the suit brought by Telecom Italia and to impose on Telecom Italia the same damages payable in the case pending before the Milan Court of Appeals.

Wind

The so-called interconnection agreement , in effect since 1998 between TIM (now Tim Italia) and Wind, governs the economic conditions of the termination service on the TIM network of calls generated by the Wind mobile network and vice-versa (so-called mobile-mobile termination), as well as termination on the TIM network of calls generated by the Wind fixed network (so-called fixed-mobile termination). While the fees agreed for the fixed-mobile termination service were subsequently the subject of numerous actions by the National Regulatory Authority, which introduced specific rates, those for mobile-mobile termination remained freely negotiable by the parties.

Wind recently objected to the fee due contractually to Tim Italia for the mobile-mobile termination service, recalculating it and unilaterally making its recalculation retroactive to June 1, 2003, as well as consequently making the claimed adjustment in its subsequent payments. Tim Italia challenged Wind s claim and after an attempt at conciliation requested the arbitration procedure contemplated in the interconnection agreement.

Meanwhile, through a petition to the National Regulatory Authority, Wind invoked a specific procedure for resolving controversies related to interconnection. This procedure obliges the parties, should they fail to reach an understanding within 45 days, to separately present a plan of agreement to the offices of the Authority, which is empowered to issue a non binding decision within 90 days thereafter and, should the parties fail to accept it, to issue a binding decision.

During the first hearing at the Authority, Tim Italia requested the suspension of this procedure since the arbitral panel has exclusive jurisdiction over all controversies arising under the interconnection agreement. After the conciliation attempt requested by the Authority failed to produce a settlement, the parties deposited their respective arguments with the Authority.

Meanwhile, the Authority adopted a temporary injunction with regard to the highest prices that can be applied to mobile-mobile terminations ; it extended the principle of tariff reductions already applied in fixed-mobile terminations to mobile-mobile terminations for the period September 1, 2005 to January 31, 2006. Tim Italia filed an appeal against the Authority s decision.

Il Numero Italia

In August 2005, Il Numero Italia S.p.A. filed an urgent petition before the Milan Court against Telecom Italia for alleged violations of regulations related to directory information services. The Court accepted the petition, and required Telecom Italia to desist from any reference, through its 12 and 412 directory information services, to the new numbers for calling subscriber information services.

In July 2005, Telecom Italia petitioned the Milan Court to order Il Numero Italia to terminate the advertising campaign it launched to publicize its directory information services provided via the telephone number 892.892 . Telecom Italia claims that the campaign violates the laws concerning misleading advertising and is an unfair trade practice. Telecom Italia believes that the advertising messages give the impression that the 12 service (operated exclusively by Telecom Italia) and the 412 service (operated by Telecom Italia and the principal mobile operators) will no longer be available, while in reality they can shortly be accessed using different numbers. Furthermore, such services are publicized in the campaign in a manner that disparages Telecom Italia and generates confusion as to the provider of the 892.892 service: by making reference to the 12 and 412 services, the advertising message creates the impression that Telecom Italia is advertising this new service as its own.

Universal Service

As a consequence of the complex actions taken by some operators against the National Regulatory Authority s decisions concerning the universal service net cost-sharing mechanism, the following cases remain pending:

- the petition submitted by Vodafone to the Regional Administrative Court (TAR of Lazio) for annulment of the decision of the Authority which in renewing the order concerning the application of the universal service net cost-sharing mechanism for 1999, calculated the amount of Vodafone s contribution;

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

- the petitions by Vodafone to the Regional Administrative Court (TAR of Lazio) for annulment of the communications of the Ministry of Communications which requested Vodafone to pay the contributions for the financing of the universal service, as determined by the National Regulatory Authority for the years 2000 and 2002.

Levy pursuant to Article 20.2 of Law No. 448/1998

Petitions by Telecom Italia and TIM (now Tim Italia) are still pending before the Regional Administrative Court (TAR of Lazio) to obtain a ruling on the right not to pay any additional amount as a license fee for 1998 and to obtain restitution of the 529 million already paid. The request is based on the illegitimacy of the provisions of Article 21 of Presidential Decree No. 318/1997 that maintained the license fee in effect even after Directive 97/13/EU came into force and the time limit for its introduction into Italian law had expired. The European Court of Justice, by its ruling of September 18, 2003, has already found that the levy is incompatible with Community law.

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Also pending is an appeal submitted by Telecom Italia to the Regional Administrative Court (TAR of Lazio) for cancellation of the communication issued by the Ministry of Communications dated July 9, 2003 in which the Ministry challenged the exclusion of several items of revenue used for the basis of the assessment for the license fee for 1997 and 1998. The adjustment resulting from the recalculation would amount to 31 million for 1997 and 41 million for 1998. The petition follows others that Telecom Italia had already lodged concerning the license fee computation method in connection with the gradual liberalization of the telecommunications sector. A reserve for these disputes has been set aside in the financial statements.

Lastly, an appeal by TIM is pending before the Regional Administrative Court (TAR of Lazio) against the ministerial decisions regarding the calculation of the license fee for the years 1995, 1996, 1997 and 1998. The amounts in dispute are set aside in a reserve in the financial statements.

Directory Information Services

At the end of December 2004, Telecom Italia petitioned the Regional Administrative Court (TAR of Lazio) to nullify, with prior suspension, the decision of November 2004 (No. 15/04/CIR) by which the National Regulatory Authority regulated the procedure for assigning, and the rights for using, the numbers assigned to directory information services, supplementing its previous decision of July 2003. This latter decision had amended the numbering plan in the telecommunications sector by establishing that numbers 12XY would be assigned to the directory information services. This means that these services will have numbers composed of the digits 12 followed by two more digits, distinctive for each operator. The initial measure had deferred to a subsequent measure the definition of an implementation timetable, the subjective requirements for the rights of use and the procedure for assigning the numbers reserved to the directory information services.

Under its decision No. 15/04/CIR, the National Regulatory Authority, in effect, regulated the procedure for assigning the rights of use of the new numbering system 12XY , giving the timetable for the start of the sale of the corresponding services and the end of the old numbering systems: 12 from October 1, 2005 and 412 from December 1, 2005. The decision also regulates the procedure for communicating this change to customers and the obligation to deliver a message to users who select the number 12 that indicates, in an unbiased manner, the possibility of accessing the services of the new 12XY numbering system.

In Telecom Italia s view, the required procedure is discriminatory, since it is not permitted to freely publicize the new numbers, resulting in substantial financial damage, including that associated with the foreseeable effect of shifting customers toward the numbers of other operators.

The restrictions imposed upon Telecom Italia in this regard were confirmed by decision No. 21/05/CIR dated June 16, 2005 entitled Order to the company Telecom Italia to comply with the provisions of article 5 of decision No. 15/04/CIR . Under this decision, the National Regulatory Authority also stated that the messages regarding the 12 and 412 services must not contain indications of any specific new numbering system assigned to Telecom Italia.

Non-observance of this order was notified to the Company by an act dated August 23, 2005.

Alleged violations of Antitrust law

On November 16, 2004, the Antitrust Authority issued a decision concluding its proceeding A 351 (opened on June 5, 2003) by finding that Telecom Italia had abused its dominant position in violation of Article 3 of Law No. 287/1990. Between 2001 and the date of the decision, the Antitrust Authority determined that Telecom Italia had abused its dominant position by:

a) applying contractual conditions to corporate users containing exclusive agency clauses, penalties for failure to fulfill spending targets and clauses permitting it to match a competing offer made to its customer; and

b) establishing economic and technical conditions for business customers that competitors could not replicate and that constituted discriminatory practices in the relevant markets for intermediate services insofar as Telecom Italia applied economic and technical conditions to its competitors that were discriminatory compared with those it applied to its own commercial divisions.

Consequently, the Antitrust Authority imposed a 152 million fine on Telecom Italia and ordered the Company to cease immediately from the competition-distorting conduct referred to above.

Telecom Italia lodged an appeal against the Antitrust Authority s decision with the Regional Administrative Court (TAR of Lazio). In its appeal, Telecom Italia argued that the Authority s decision was based on an investigation that failed to establish the facts of the Company s responsibility for the alleged abuse of dominant position. In particular, the Company contested the obligation to refer to the interconnection price list in preparing offers to large customers, the Antitrust Authority s failure to identify large customers as a separate relevant market, its failure to consider both the change in the applicable legislation and the remedies offered by Telecom Italia during the investigation.

In May, the court issued its decision largely upholding the appeal and revoking the fine. The Authority has appealed. Telecom Italia has in turn presented an incidental appeal in respect of the part of the decision that did not accept a series of its appeals against the ruling. Until the appeals are decided, the provision already set aside by Telecom Italia remains.

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Acting on a complaint filed by competing operators, in 2003 the National Regulatory Authority cited Telecom Italia for pursuing commercial strategies detrimental to the development of the market and initiated sanction procedures. Such actions and the subsequent resolutions have been challenged; the appeals are pending before the Regional Administrative Court (TAR of Lazio).

Mediterranean Nautilus

The arbitration commenced in October 2003 by FTT Investments B.V. (FTT) (the minority shareholder of Mediterranean Nautilus S.A.) for cancellation of the agreement signed in March 2001 with Telecom Italia International, Telecom Italia and Mediterranean Nautilus S.A. for the sale by Telecom Italia International to FTT of 30% of the shares of Mediterranean Nautilus S.A. was settled on June 16, 2005. Telecom Italia provided a reserve in its consolidated financial statements for the year ended December 31, 2004 in relation to the probable effects of the settlement. See Recent Developments above for the terms of the reorganization effected by the settlement.

Brazil

On April 28, 2005, the parties reached a settlement in a series of disputes between Telecom Italia/Telecom Italia International, respectively, and

Brasil Telecom for the alleged mismanagement on the part of the Group of extraordinary transactions of Brazil Telecom;

Techold and Timepart, shareholders with Telecom Italia International in Solpart Participações (parent company Brasil Telecom through Brasil Telecom Participações) as well as Solpart itself, Brasil Telecom Participações and Brasil Telecom, with regard to the August 27, 2002 agreement concerning the temporary reduction of Telecom Italia s stake in the ordinary share capital of Solpart from 37.29% to 19%, the temporary suspension of its governance rights and the option to repurchase said stake.

In a case before the Rio de Janeiro Court, certain indirect shareholders of Techold have challenged the validity of the settlement and succeeded in preventing confirmation. The matter is currently pending.

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On May 5, 2005, certain indirect shareholders of Solpart filed for a temporary injunction before the Rio de Janeiro State Court to suspend execution of the modification to the shareholders agreement among the shareholders of Solpart (Telecom Italia International, Techold and Timepart), signed on April 28, 2005, and to suspend execution of any other act that would allow parties controlled by the Telecom Italia Group to appoint or remove directors of Brasil Telecom or entities controlled by it.

The judge granted a temporary injunction against the effects of the change to the shareholders agreement and the case is pending trial.

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On June 30, 2005, Telecom Italia International filed for a temporary injunction against certain indirect shareholders of Solpart, as well as Techold, Timepart, Brasil Telecom Participações and Brasil Telecom, to suspend the efficacy of the shareholders agreement of Zain, the indirect parent company of Techold, in which Brazilian pension funds and investment funds controlled by Citigroup are shareholders, and the put agreement between said pension and investment funds. Telecom Italia International claims such agreements violate the existing shareholders agreement with regard to the rules governing transfer of direct and indirect investments in Solpart.

Telecom Italia International obtained a temporary injunction to prohibit the sale of the relevant shares to third parties and the case is pending trial.

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On August 1, 2005, Telecom Italia International filed a demand for arbitration with the International Chamber of Commerce of Paris in London against Techold, claiming that various provisions of the Solpart shareholders agreement had not been fulfilled and consequently requesting compensation for damages. Telecom Italia International also requested the arbitration ascertain the validity of the above-mentioned modification to the shareholders agreement signed by the parties on April 28, 2005 and thus issue a declaratory judgment affirming Telecom Italia International s right to purchase the shares in Solpart held by Techold.

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On May 5, 2005, certain indirect shareholders of Brasil Telecom obtained a temporary injunction against Telecom Italia International, TIM International, TIM Brasil, various companies of the Opportunity Group, Invitel, Techold, Timepart, Solpart, Brasil Telecom Participações, Brasil Telecom and Brasil Telecom Celular, aimed at preventing the continuation of the process to merge Brazil Telecom Celular into TIM Brasil, in accordance with the agreement signed between the two companies on April 28, 2005.

Telecom Italia International, TIM International and TIM Brasil have filed their defense on a timely basis claiming that the allegations are unfounded both in fact and at law. A decision in the case is pending.

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In January 2004, Tim Telecomunicações Installações e Montagem Ltda, a Brazilian company that supplies and installs telecommunications equipment, cited TIM Brasil, TIM (now Tim Italia) and Brazil s National Institute for Patent Rights before the Federal Court of Rio de Janeiro to secure the cancellation of the trademark registrations bearing the name TIM that had been granted to the Group between 2000 and 2003 and to prohibit their use in Brazilian territory. Tim Telecomunicações Installações e Montagem Ltda (which affirms its ownership of exclusive rights to the name TIM based on the fact that its corporate name was registered at an earlier date), has petitioned for damages equal to 10% of the revenues produced by the companies controlled by TIM in Brazil from the start of their activities there and for a temporary injunction against the use of the trademark, until the case is decided.

TIM has disputed the claims of the Brazilian company on the basis that there is no risk of confusion as the parties operate in different sectors. The claimant applied to register the trademark TIM under the business sector telecommunications without having ever operated in that business sector and only after the same trademark was already being used and had been filed by the Telecom Italia Group.

In declaring the hearing stage of the case closed, the judge decided against the issue of a temporary injunction.

ETEC S.A.

In the second half of 2002, Banco Nacional de Comercio Exterior (Bancomext) charged Etec S.A. (in which Telecom Italia International holds a 27% interest) and Telan (majority shareholder of Etec S.A., controlled by the Cuban Government) with failure to fulfill alleged payment and guarantee obligations in an amount of U.S.$300 million - established in a series of agreements signed between Etec S.A., Telan, BanCuba (Central Bank of Cuba), Intesa BCI and Bancomext.

These charges were the subject of ordinary action brought by Bancomext before the Italian courts as well as an international arbitration requested by Telan and Etec S.A.

The arbitral panel issued its award on August 5, 2004, on the basis of which:

it accepted the defense of Etec S.A. that it is neither debtor toward Bancomext nor guarantor of Telan;

despite the foregoing, Etec S.A. is not exonerated from its obligations deriving from the financing contract and Etec S.A. therefore remains obliged to fulfill its obligations toward Bancomext and, more specifically, to re-establish the procedure for the payment of dividends owed to Telan, aimed at the satisfaction of Bancomext. This award is effective retroactively and requires Etec S.A. to pay Bancomext an amount of around U.S.$147 million.

Etec S.A. filed an appeal before the Paris Court of Appeals to nullify the award which, in the meantime, the Rome Court of Appeals (at the request of Bancomext) declared to be enforceable in Italy.

On May 3, 2005, Bancomext served the award on Etec S.A. and Telan along with a summons to pay an amount equal to the dividends to be distributed to Telan since April 2002. The executive proceedings undertaken by Bancomext against Telecom Italy, TI Sparkle and TIM were suspended, since Etec S.A. objected to recognition of the enforceability of the award in Italy.

In the meantime, Telecom Italia International (which has a letter from the Cuban government relieving it of any possible detrimental consequences arising from the award) has asked the Cuban government, Bancuba and Telan to take every necessary step to avoid harmful consequences for its affiliate Etec S.A., while reserving its right to take every protective measure.

Telecom Italia France

France Telecom brought an action before the Commercial Court of Paris against Telecom Italia France claiming damages allegedly derived from unfair trade practices.

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

SELECTED FINANCIAL AND STATISTICAL INFORMATION

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as follows:

- with respect to the statement of operations information, the unaudited financial data for the six-month periods ended June 30, 2004 and 2005; and

- with respect to the balance sheet information, the unaudited financial data as of December 31, 2004 and June 30, 2005.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of Telecom Italia reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia s consolidated results of operations for the unaudited interim periods. Results for the six-month period ended June 30, 2005, are not necessarily indicative of results that may be expected for the entire year.

Unless otherwise indicated, amounts presented in this section are prepared in accordance with IFRS. Until January 1, 2005, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual data) in accordance with Italian GAAP. The accompanying IFRS financial data has been prepared in accordance with those EU GAAP effective, or issued and early adopted, at June 30, 2005. The EU GAAP that will be applicable at December 31, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparation of the accompanying financial data. As a result, the accounting policies used to prepare this financial data are subject to change up to the reporting date of Telecom Italia s first IFRS financial statements.

	Six months ended June 30,	
	2004	2005
	(millions of Euro, except per share amounts) (Unaudited)	
Statement of Operations Data in accordance with IFRS:		
Revenues	13,968	14,692
Other income	177	224
Total revenues and operating income	**14,145**	**14,916**
Purchases of materials and external services	(5,769)	(6,116)
Personnel costs	(1,892)	(1,919)
Other operating expenses	(548)	(650)
Changes in inventories	113	77
Capitalized internal construction costs	304	211
Depreciation and amortization	(2,305)	(2,520)
Gains/losses on disposals of non-current assets(1)	(6)	(1)
Impairment losses/reversals on non-current assets	(286)	(9)
Total operating expenses	**(10,389)**	**(10,927)**
Operating income	**3,756**	**3,989**
Share of earnings of equity investments in associates accounted for by the equity method	(18)	(15)
Financial income	754	1,374
Financial expenses	(1,787)	(2,236)
Income from continuing operations before taxes	**2,705**	**3,112**
Income taxes for the period	(1,311)	(1,354)
Net income from continuing operations	**1,394**	**1,758**
Net income from discontinued operations / assets held for sale	24	421
Net income for the period	**1,418**	**2,179**
Attributable to:		
Parent Company	**979**	**1,775**
Minority interests	439	404
Basic and Diluted earnings per ordinary share(2):		
Net income per ordinary share from continuing operations	0.06	0.08
Net income per ordinary share from discontinued operations / assets held for sale		0.02
Net income per ordinary share	0.06	0.10

	As of December 31, 2004	As of June 30, 2005
	(millions of Euro, except ratio) (Unaudited)	
Balance Sheet Data in accordance with IFRS:		
Non-current assets:		
Goodwill and other intangible assets with an indefinite life	26,814	44,105
Intangible assets with a finite life	6,456	6,598
Tangible assets	18,009	18,352
Other non-current assets and deferred tax assets	6,787	7,246
Total non-current assets	**58,066**	**76,301**
Total current assets	**20,165**	**16,688**
Total discontinued operations / assets held for sale	**4,376**	**383**
TOTAL ASSETS	**82,607**	**93,372**
Shareholders equity:		
Attributable to Parent Company	16,251	24,128
Attributable to Minority interests	4,592	1,656
Total shareholders equity	**20,843**	**25,784**
Non-current liabilities:		
Non-current financial liabilities (Long-term debt)	38,229	42,037
Other non-current liabilities	4,712	4,810
Total non-current liabilities	**42,941**	**46,847**
Current liabilities:		
Current financial liabilities (Short-term debt)	4,336	8,725
Other current liabilities	12,321	11,799
Total current liabilities	**16,657**	**20,524**
Total liabilities relating to discontinued operations / assets held for sale	**2,166**	**217**
Total liabilities	**61,764**	**67,588**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	**82,607**	**93,372**
Financial Ratio in accordance with IFRS:		
Net financial debt/Net invested capital (debt ratio)(%)(3)	61.2	63.1

	As of June 30,	
	2004	2005
	(Unaudited)	
Financial Ratio in accordance with IFRS:		
Operating income/operating revenues (ROS)(%)	26.9	27.2
Employees:		
Employees (number in Group at period-end, excluding employees relating to the consolidated companies considered as discontinued operations / assets held for sale)	82,091	82,397
Employees (average number in Group at period-end, excluding employees relating to the consolidated companies considered as discontinued operations / assets held for sale)	78,344	77,670
Operating revenues/Employees (average number in Group) (thousands of)	178.3	189.2
Statistical Data:		
Wireline:		
Subscriber fixed-lines in Italy (thousands)(4)	26,264	25,615
ISDN equivalent lines in Italy (thousands)(5)	5,941	5,673
Broadband Access (thousands)(6)	3,273	5,568
Voice flat-rate plans (thousands)(7)	5,704	6,190
Page views Virgilio (millions)	3,833	4,565
Network infrastructure in Italy:		
access network in copper (millions of km pair)	105.2	105.2
access network and transport in fiber optics (millions of km of fiber optics)	3.6	3.7
Network infrastructure abroad:		
European backbone (km of fiber optics)	39,500	39,500
Mobile:		
TIM lines in Italy at period-end (thousands)(8)	26,011	26,117
TIM group foreign lines at period-end (thousands)(9)	11,189	18,207
TIM group lines total at period-end (Italy + foreign in thousands)(9)	37,200	44,324
GSM penetration in Italy (% of population)	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	97.9
Media:		
La7 average audience share (%)	2.3	2.6
La7 audience share (month of June) (%)	2.7	2.8

(1) Excluding gains/losses on disposals of assets classified as discontinued operations / assets held for sale and equity investments in companies other than subsidiaries.

(2) In accordance with IAS 33 Earnings per share , basic earnings per ordinary share is calculated by dividing the Group s net income available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group net income is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

Since Telecom Italia, has both ordinary and savings shares outstanding, the calculations take also into account the requirement that holders of savings shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the ordinary shares.

For the purpose of these calculations, the weighted average number of ordinary shares was 10,205,420,272 for the six months ended June 30, 2004 and 11,326,277,714 for the six months ended June 30, 2005.

In addition, net income per savings share Basic and Diluted was 0.07 in the first six months of 2004 and 0.11 in the first six months of 2005.

(3) Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. Although Net Financial Debt is a non-GAAP measure, it is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. Telecom Italia believes Net Financial Debt provides an

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

	As of December 31, 2004	**As of June 30, 2005**
	(millions of euro) (Unaudited)	
GROSS FINANCIAL DEBT		
Non-current financial liabilities (Long-term debt)		
Financial payables	36,392	40,195
Finance lease liabilities	1,834	1,841
Other financial liabilities	3	1
	38,229	**42,037**
Current financial liabilities (Short-term debt)		
Financial payables	4,107	8,491
Finance lease liabilities	224	229
Other financial liabilities	5	5
	4,336	**8,725**
Financial debt relating to discontinued operations / assets held for sale	**1,062**	**150**
TOTAL GROSS FINANCIAL DEBT (A)	**43,627**	**50,912**
FINANCIAL ASSETS		
Non-current financial assets		
Securities other than equity investments	7	6
Financial receivables and other non-current financial assets	438	671
Current financial assets		
Securities other than equity investments	786	444
Financial receivables and other current financial assets	765	1,537
Cash and cash equivalents	8,401	4,106
Financial assets relating to discontinued operations / assets held for sale	368	37
TOTAL FINANCIAL ASSETS (B)	**10,765**	**6,801**
NET FINANCIAL DEBT (A-B)	**32,862**	**44,111**

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

(5) Data exclude internal lines.

(6) Number of contracts.

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

(8) Includes TACS, GSM and UMTS services, including Prepaid Customers and excludes the silent lines. The Italian market, which has a high penetration of prepaid cards, is characterized by certain customers acquiring multiple lines in order to take advantage of specific/time-limited commercial offers. Once these offers expire these customers tend not to continue the use of such lines which is facilitated by the prepaid nature of the arrangement. As a result, TIM excludes the silent lines in order to provide greater consistency between the number of lines managed by the Company and the development of the business.

(9) Foreign lines exclude those of the consolidated companies considered as discontinued operations / assets held for the sale.

TELECOM ITALIA GROUP RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO JUNE 30, 2004

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

The summary selected financial data for the Telecom Italia Group as of June 30, 2005, and for the six months ended June 30, 2005 and 2004, have been extracted or derived from the unaudited interim consolidated financial statements prepared in accordance with IFRS which, in our opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our results of operations for the unaudited interim periods. Results for the six months ended June 30, 2005 are not necessarily indicative of results that may be expected for the entire year.

Change in scope of consolidation

Our results of operations fully consolidate all Italian and foreign subsidiaries in which we have effective control, from the date that control begins until the date that control ceases. In particular, control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In all periods presented for comparison purposes, the Entel Chile group (disposed of in March 2005), the Finsiel group and TIM Hellas (both disposed of during the month of June 2005) and Corporacion Digitel (classified as assets held for sale) have been treated as Discontinued operations. In particular, in accordance with IFRS standards, the statement of operations and the balance sheet figures relating to discontinued operations have been presented as follows:

- in two captions on the balance sheet: discontinued operations / assets held for sale and liabilities relating to discontinued operations / assets held for sale; and

- in one caption on the statement of operations: Net income (loss) from discontinued operations / assets held for sale.

Regardless of discontinued operations / assets held for sale, the effects arising from the changes in the scope of consolidation are not material.

The investments in the associates and in those companies that are under joint control are accounted for under the equity method. The equity in the earnings of such companies is included under the statement of operations line item Share of earnings of equity investments in associates accounted for by the equity method.

Organic growth

Throughout the discussion which follows we use the term organic growth . Organic growth means that the percentage changes provided assume that, on a six month period to six month period comparison basis, the effects of changes in the scope of consolidation are excluded, exchange rates are calculated on a constant currency basis and, as far as concern operating income, the exceptional items (items that are of a non-recurring nature) are excluded for both period presented. Constant currency means that the differences in exchange rates between periods are eliminated by using the same exchange rate.

The following table reconciles first half 2004 and first half 2005 historical figures to first half 2004 and first half 2005 adjusted figures, respectively, to show organic growth from the six months ended June 30, 2004 to the six months ended June 30, 2005 for revenues and operating income. Management believes that providing this additional information enables the reader to better understand the actual operating changes which are impacting the results of operations.

	Six months ended June 30, 2005 (A)	Six months ended June 30, 2004 (B)	Growth Amount (A-B)	Growth %
	(millions of Euro, except percentages)			
Revenues on a historical basis	**14,692**	**13,968**	**724**	**5.2**
Changes in Exchange rates		106		
Changes in the scope of consolidation		(52)		
Revenues on a comparable basis	**14,692**	**14,022**	**670**	**4.8**
Operating income on a historical basis	**3,989**	**3,756**	**233**	**6.2**
Changes in Exchange rates		(12)		
Changes in the scope of consolidation		1		
Exceptional items (*)	80	303		
Operating income on a comparable basis	**4,069**	**4,048**	**21**	**0.5**

(*) It refers to 282 million of expenses incurred in connection with the De Agostini transaction.

Business Unit Financial Data

The following table sets forth revenues, operating income, capital expenditures and number of employees by Business Unit.

	Period	Wireline (1) (2)	Mobile	Media (1)	Olivetti (3)	Other Activities (2) (4)	Eliminations	Consolidated Total
		(millions of Euro, except number of employees)						
Revenues	2005 first half (5)	8,844	6,248	154	223	808	(1,585)	**14,692**
	2004 first half (5) (6)	8,658	5,651	157	298	844	(1,640)	**13,968**
Operating income	2005 first half (5)	2,528	1,910	(62)	(6)	(408)	27	**3,989**
	2004 first half (5) (6)	2,506	1,844	(35)	12	(293)	(278)	**3,756**
Capital expenditures	2005 first half (5)	1,428	609	23	8	117	(4)	**2,181**
	2004 first half (5) (6)	1,104	609	14	8	176	(19)	**1,892**
Number of employees	As of June 30, 2005 (5)	54,637	19,013	1,039	1,809	5,899		**82,397**
	As of June 30, 2004 (5) (6)	54,423	17,473	1,207	2,289	6,699		**82,091**

(1) On June 1, 2005, Telecom Italia acquired all of Telecom Italia Media s Internet activities (Tin.it and Matrix); as a result of this, the Internet activities are included in the Wireline Business Unit for all periods presented, while they have been considered as discontinued operations in the Media Business Unit.

(2) The operating activity, IT Group, is no longer presented since it is now included in the Wireline Business Unit and in Other Activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.

(3) On April 5, 2005, Olivetti Tecnost S.p.A. changed its name to Olivetti S.p.A..

(4) Other Activities are principally constituted by the functions and by the companies which provide centralized services to the Group (R&D, real estate, training, audit and financial services) as well as the Corporate Functions. Furthermore, Other Activities comprise the foreign activities not included in the Business Units (the consolidated subsidiary Entel Bolivia and the associates Telecom Argentina and Brasil Telecom).

(5) All financial data exclude those relating to the consolidated companies considered as discontinued operations / assets held for sale.

(6) The data relating to the six months ended June 30, 2004 have been reclassified and presented consistent with the first half of 2005 presentation.

Telecom Italia Group Consolidated Results

For the six months ended June 30, 2005, our **consolidated net income** was 1,775 million (net income of 2,179 million before minority interests) compared to a consolidated net income of 979 million (net income of 1,418 million before minority interests) for the first six months ended June 30, 2004.

The increase in our consolidated net income (an increase of 796 million) was due to the following factors:

- an increase in operating income (233 million);
- lower share of losses of equity investments in associates accounted for by the equity method (3 million);
- lower financial expenses, net of financial income (171 million). In particular, in the first six months of 2005, financial income included the release to the statement of operations of a portion of the reserves recorded in 2002 for the guarantees provided by the Group to banks which had financed AVEA, an associate, since the risk has ceased with the cancellation of the same guarantees (343 million), partially offset by higher financial expenses due to the increase of the indebtedness connected with the tender offer for TIM shares;
- higher income taxes of 43 million;
- higher net income from discontinued operations / held for sale of 397 million, including in particular 410 million relating to the net gain realized for the sale of the entire investments held in TIM Hellas; and
- lower minority interests in net income (35 million).

The following chart summarizes the major items which had an impact on the consolidated net income of the Group in the first half of 2005:

Our **consolidated revenues** for the six months ended June 30, 2005 were 14,692 million, an increase of 724 million or 5.2% compared to 13,968 in the same period of 2004. Excluding the positive foreign exchange effect (106 million, of which 119 million related to the South America companies of the Mobile Business Unit) and the negative effect of the change in scope of consolidation (52 million), organic growth was equal to 4.8% (670 million).

Organic growth of consolidated revenues reflected:

- a significant contribution by the Mobile Business Unit (an increase of 478 million), mainly due to the positive contribution by operations in Brazil (an increase of 312 million) and the good performance of value-added services in the domestic market (an increase of 142 million);

an increase of 195 million in the revenues of the Wireline Business Unit, due to the success of development initiatives in the Broadband market and innovative services, particularly Web services, combined with the defence of our core Telephone market and enhanced offerings for wholesale services; and

an increase of 13 million in the revenues of the Media Business Unit, due to a growth in the television segment and a reduction in the sales of the Olivetti Business Unit (a decrease of 49 million) due to the reduction of average prices of faxes and lower sales volumes of Ink-jet print-heads, photocopiers, Gaming division and specialized printers.

Revenues from telecommunications services are shown gross of the portion due to third-party operators of 2,261 million (2,057 million in the first half of 2004).

Foreign revenues amounted to 2,757 million in 2005 (2,213 million in the first half of 2004); 51.9% of the total was focused in the South America area (43.5 % in the first half of 2004).

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

	Six months ended June 30,					
	2004(1) (2)			2005 (2)		
	Gross Revenues(3)	Consolidated Revenues(4)	% of Consolidated Revenues	Gross Revenues(3)	Consolidated Revenues(4)	% of Consolidated Revenues
	(millions of Euro, except percentages)					
Wireline (5) (6)	8,658	7,835	56.1%	8,844	8,093	55.1%
Mobile	5,651	5,533	39.6%	6,248	6,101	41.6%
Media (5)	157	154	1.1%	154	151	1.0%
Olivetti (7)	298	285	2.0%	223	196	1.3%
Other Activities (6) (8)	844	161	1.2%	808	151	1.0%
Total revenues	**15,608**	**13,968**	**100.0%**	**16,277**	**14,692**	**100.0%**

(1) The data relating to the six months ended June 30, 2004 have been reclassified and presented consistent with the first half of 2005 presentation.

(2) Excludes revenues relating to the consolidated companies considered as discontinued operations / held for sale.

(3) Gross revenues are total revenues of the various Business Units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(4) Consolidated revenues are revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.

(5) On June 1, 2005, Telecom Italia acquired all of Telecom Italia Media s Internet activities (Tin.it and Matrix); as a result of this, the revenues related to the Internet activities are included in the Wireline Business Unit for all periods presented.

(6) The revenues related to the operating activity, IT Group, are no longer presented since IT Group is now included in the Wireline Business Unit and in Other Activities following the merger of IT Telecom in Telecom Italia which took place at the end of 2004.

(7) On April 5, 2005, Olivetti Tecnost S.p.A. changed its name to Olivetti S.p.A..

(8) Other Activities are principally constituted by the functions and by the companies which provide centralized services to the Group (R&D, real estate, training, audit and financial services) as well as the Corporate Functions. Furthermore, Other Activities comprise the foreign activities not included in the Business Units (the consolidated subsidiary Entel Bolivia and the associates Telecom Argentina and Brasil Telecom).

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

Geographic Area	Six months ended June 30, 2004		2005	
	(millions of Euro, except percentages)			
		%		%
Italy	11,755	84.2	11,935	81.2
Rest of Europe	825	5.9	948	6.5
North America	238	1.7	191	1.3
Central and South America	962	6.9	1,430	9.7
Australia, Africa and Asia	188	1.3	188	1.3
Total consolidated revenues	**13,968**	**100.0**	**14,692**	**100.0**

Operating expenses

The table below sets forth, for the periods indicated, total consolidated operating expenses by major components and expressed as a percentage of total consolidated revenues.

	Six months ended June 30, 2004		2005	
	(millions of Euro, except percentages)			
Purchases of materials and external services	5,769	41.3%	6,116	41.6%
Personnel costs	1,892	13.6%	1,919	13.1%
Other operating expenses	548	3.9%	650	4.4%
Changes in inventories	(113)	(0.8%)	(77)	(0.5%)
Capitalized internal construction costs	(304)	(2.2%)	(211)	(1.4%)
Depreciation and amortization	2,305	16.5%	2,520	17.2%
(Gains)/losses on disposals of non-current assets	6	..%	1	..%
Impairment losses/(reversals) of non-current assets	286	2.1%	9	..%
Total operating expenses	**10,389**	**74.4%**	**10,927**	**74.4%**

Our operating expenses increased by 538 million in the first six months of 2005 compared to the first six months of 2004. The increase was mainly attributable to the followings:

- higher purchases of materials and external services, with an increase of 347 million, from 5,769 million in the first half of 2004 to 6,116 million in the first half of 2005; the percentage of purchases of materials and external services to revenues was 41.6% (41.3% in the first half of 2004); such costs were impacted, among other things, by start-up costs sustained by TI Media relating to its digital terrestrial TV project, the launch of Olivetti s Ink-Jet project, and those linked to the expansion of the European BroadBand project;

increased levels of depreciation and amortization, with an increase of 215 million, from 2,305 million in the first half of 2004 to 2,520 million in the first half of 2005; the percentage of depreciation and amortization to revenues was 17.2% (16.5% in the first half of 2004). Such increase was mainly due to the significant investments made during 2004.

Furthermore, personnel costs, equal to 1,919 million, remained substantially stable compared to the first half of 2004 (1,892 million); the percentage of personnel costs to revenues was 13.1% compared to 13.6% in the first half of 2004.

As of June 30, 2005, the Telecom Italia Group employees were 82,397 units (excluding 824 units related to discontinued operations/assets held for sale), compared with 80,799 units at December 31, 2004 (excluding 10,573 units related to discontinued operations/assets held for sale). The increase of 1,598 units was due for 1,573 units to turnover (balance between hirings and terminations) and for 25 units to changes in the scope of consolidation.

The changes in the scope of consolidation were related to: the purchase of Liberty Surf Group (an increase of 614 units) and the sales of Televoice (a decrease of 169 units), Innovis (a decrease of 222 units), Cell-Tell (a decrease of 112 units) and Databank (a decrease of 86 units).

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

	As of June 30, 2005	**As of December 31, 2004**	**Changes**
	(A)	**(B)**	**(A-B)**
Italy	70,824	71,058	(234)
Abroad	11,573	9,741	1,832
Total employees (excluding those related to discontinued operations/assets held for sale)	**82,397**	**80,799**	**1,598**
Employees related to discontinued operations/assets held for sale:			
Italy		3,979	(3,979)
Abroad	824	6,594	(5,770)
Total employees related to discontinued operations /assets held for sale	**824**	**10,573**	**(9,749)**
Total employees	**83,221**	**91,372**	**(8,151)**

The equivalent average number of salaried employees, excluding those related to discontinued operations/assets held for sale, were 77,670 units in the first half of 2005 (78,344 units in the first half of 2004).

The **operating income** amounted to 3,989 million for the six months ended June 30, 2005 compared to 3,756 million for the six months ended June 30, 2004, with an increase of 233 million or 6.2%. As a percentage of revenues, operating income was equal to 27.2% in the six months ended June 30, 2005 (26.9% in the first half of 2004).

Excluding the foreign exchange effect (a decrease of 12 million), the changes in the scope of consolidation (an increase of 1 million) and the exceptional items (which in the first half of 2004, included 282 million of expenses relating to the De Agostini transaction), organic growth was equal to 21 million or 0.5%.

The **Share of earnings of equity investments in associates accounted for by the equity method** was negative for 15 million (negative for 18 million in the first half of 2004).

This item includes:

	Six months ended June 30,		
(millions of Euro)	**2005**	**2004**	**Change**
	(a)	**(b)**	**(a-b)**

Solpart	64		64
Avea I.H.A.S.	(95)		(95)
Etec S.A. Cuba	19	20	(1)
Sky		(31)	31
Other	(3)	(7)	4
Total	**(15)**	**(18)**	**3**

In particular:

the income of 64 million was due to the restoring of the accounting to the equity method for the investment in Solpart. In fact, after the agreements signed on April 28, 2005, Telecom Italia has reinstated its governance rights in Solpart, temporarily suspended from August 2002, resuming its role in the management of the company;

the loss of 95 million, was related to the Group s equity in the losses of the period of the affiliate Avea. In the first half of 2004 we didn t recognize the Group s equity in the losses of Avea because the book value of such investment was already equal to zero.

Total financial income and expenses, net showed an expense balance of 862 million in the six months ended June 30, 2005 (1,033 million in the first half 2004), with an improvement in net financial expenses of 171 million compared to the first half of 2004. Such improvement was mainly due to:

the positive effect of the release to the statement of operations of a portion of the reserves recorded in 2002 for the guarantees provided by the Group to banks which had financed AVEA, an associate, since the risk has ceased with the cancellation of the same guarantees (343 million);

the negative impact on net financial expenses of higher level of indebtedness along with lower liquid assets arising from the tender offer for the TIM shares as well as other purchases of TIM shares; and the positive effects arising from the disposal of the equity investments in C-Mobil by the Mobile Business Unit (61 million) and in Intelsat by Entel Bolivia (2 million) and the adjustment to fair value of the call option on Sofora s shares (40 million).

In the first half of 2004, transactions regarding equity investments generated income of 96 million mainly as a result of the sale of the residual interest in Telekom Austria.

Net income from discontinued operations / assets held for sale amounted to 421 million (24 million in the first half of 2004) and included:

the gain for the disposal of TIM Hellas (410 million);

the Entel Chile group net income for the first three months of 2005 of 26 million (26 million in the first half of 2004);

the Finsiel group net loss of 11 million (a loss of 6 million in the first half of 2004); and

the net result of the period of Digitel Venezuela that was nil (a loss of 25 million in the first half of 2004) and the net income for the first five months of 2005 of TIM Hellas of 11 million (29 million in the first half of 2004).

This caption also includes, in the first half 2005, expenses incidental to the transactions regarding discontinued operations / assets held for sale for 15 million.

Business Units

The following discussion relates to our principal Business Units as they were organized in the first half of 2005.

Wireline. The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services for final (retail) customers and other (wholesale) providers. On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and in South America) and offers innovative broadband services in the most interesting metropolitan areas of Germany, France and Holland.

Mobile. The Mobile Business Unit operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America (Brazil).

Media. The Media Business Unit operates in the following segments: Television (La7 and MTV), Office Products (Gruppo Buffetti) and News (TM News).

Olivetti. The Olivetti Business Unit operates through: i) the Office Products Division in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS); ii) the Gaming & Service Automation and Specialized Printers Division which provides specialized applications for the banking field and commerce and information systems for gaming and lottery management; and iii) Nuove Iniziative Industriali in fixed and cell phone repairs.

Wireline

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

Wireline	**Six Months ended June 30,**	
	2004(1)(2)	**2005(2)**
	(millions of Euro, except percentages)	
Gross revenues	8,658	8,844
Operating income	2,506	2,528
% of gross revenues	28.9	28.6
Capital expenditures	1,104	1,428
Number of employees	54,423	54,637

(1) The data relating to the six months ended June 30, 2004 have been reclassified and presented consistent with the first half of 2005 presentation.

(2) The data include those of the Internet activities (Tin.it and Matrix) acquired from Telecom Italia Media on June 1, 2005 as well as the IT Telecom activities that were transferred in part to Wireline.

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

	As of June 30, 2004	**As of December 31, 2004**	**As of June 30, 2005**
Fixed network connections (thousands)	26,264	25,957	25,615
of which ISDN (thousands)	*5,941*	*5,805*	*5,673*
Minutes of traffic on the fixed network (billions)	104.0	192.0	96.9
national traffic (billions)	97.8	179.1	89.9
international traffic (billions)	6.2	12.9	7.0
TP Terminals using ISDN technology (thousands)	126.9	124.5	118.4

Internet customers:			
Dial up customers (Tin.it Free and Premium) (thousands)	1,408	1,291	1,102
Broadband accesses (including the European Broadband) (thousands)	3,273	4,430	5,568
Page views Virgilio (millions)	3,833	7,902	4,565

Gross revenues increased by 186 million (from 8,658 million in the first half of 2004 to 8,844 million) or 2.1%; organic growth, on a comparable consolidation basis and excluding the foreign exchange effect, was 2.3% (an increase of 195 million). This positive performance was achieved thanks to the success of efforts to develop the Broadband market and innovative services together with actions to support the core telephone market and a further development of the European Broadband Project.

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

Retail telephone revenues, equal to 5,169 million, showed a reduction of 156 million (a decrease of 2.9%) compared to the first half of 2004. This result showed a slight decrease in these revenues, thanks to the growth of Value Added Services (VAS) and Innovative Terminals which contributed to limit the effects of the migration of the traffic to the mobile network, supported by the level of the on-net tariffs, which starting from the second half of 2004 are more competitive.

The portfolio of the Innovative offers reached in June 2005 2,516,000 units also thanks the launch of new services such as Alice Mia (65,000 customers in June 2005), while the portfolio of innovative terminals (Aladino, Videotelephone and Cordless WI-FI) in June 2005 reached 2,810,000 units.

Retail Internet. Retail Internet services consist mainly of ADSL services (connections, traffic, services, equipment and portals) and traditional internet traffic (such as dial-up), which is declining as ADSL is growing.

Revenues from the Internet area, equal to 593 million, grew by 21% (an increase of 103 million), compared to the first half of 2004. The increase was due to the continuous growth of ADSL revenues (an increase of 150 million, or 58.8%, compared to the first half of 2004).

Wireline s total Broadband portfolio at June 30, 2005 reached 5,568,000 customers, of which 4,615,000 accesses in Italy (an increase of 605,000 accesses compared to the end of 2004) and 953,000 accesses in the rest of Europe (an increase of 533,000 accesses compared to the end of 2004, also thanks the purchase of Liberty Surf Group in France).

Data Business. Data Business consists primarily of:

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

Revenues from the Data Business area, equal to 1,011 million, showed an overall growth of 8.2% (an increase of 77 million) compared to the first half of 2004. This increase was especially driven by the strong growth of VAS Data (Web Services and Outsourcing), with higher revenues of 62 million (an increase of 38%) compared to the first half of 2004, and innovative data transmission services, mainly based on XDSL technologies, which increased by 19.5% (an increase of 58 million).

European Broadband Project. Revenues from the European Broadband Project (France, Germany and Holland), were equal to 212 million and grew strongly (an increase of 84.2% compared to the first half of 2004). The growth in the European Broadband Project also benefited from the purchase in May 31, 2005 of the French company Liberty Surf Group. Wireline s total European customers reached 1,417,000 units at June 30, 2005.

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

Revenues from Wholesale Services were 1,706 million in the first half of 2005, an increase of 124 million, or 7.8%, compared to the same period of 2004, of which 48 million relates to national wholesale services and 76 million to international wholesale services. In particular, the increase in national wholesale services was principally due to the growth of data services revenues (an increase of 42 million) and regulated intermediate services (connected in particular to Local Loop Unbundling (LLU)) which increased by 30 million; on the other hand circuits revenues decreased.

Operating income was 2,528 million, and presented an increase of 0.9% (an increase of 22 million) compared to the first half of 2004. Operating income represented 28.6% of sales (28.9% in the first half of 2004). On a comparable consolidation basis and excluding the foreign exchange effect, organic growth, net of exceptional items, was equal to 0.7%.

In the first half of 2005, **capital expenditures** amounted to 1,428 million and presented an increase of 324 million (an increase of 29.3%), compared to the same period of 2004. This growth was principally due to investments in innovative technologies and in the European Broadband Project.

The **number of employees**, equal to 54,637 units, increased by 1,209 units compared to December 31, 2004. The change was due to:

- the hiring of 1,238 units, of which 831 units in Italy and 407 units abroad, offset by 705 terminations of employment;
- intragroup transfers, which resulted in an increase of 62 units; and
- the purchase of Liberty Surf Group with an increase of 614 units.

Mobile

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

Mobile	Six Months ended June 30, 2004	Six Months ended June 30, 2005
	(millions of Euro, except percentages)	
Gross revenues	5,651	6,248
Operating income	1,844	1,910
% of gross revenues	32.6	30.6
Capital expenditures	609	609
Number of employees	17,473	19,013

The following table sets forth for the periods indicated certain domestic Italian statistical data for Mobile Business Unit.

	As of June 30, 2004	As of December 31, 2004	As of June 30, 2005
TIM lines in Italy (thousand)	26,011	26,259	26,117
TIM group foreign lines (thousand)	11,189	14,690	18,207
Mobile traffic (millions of minutes) in Italy	20,088	41,225	20,701
ARPU (euro/ line/month) in Italy	28.5	29.0	28.6

Gross revenues from mobile services were 6,248 million (5,651 million in the first half of 2004), with an increase of 597 million, or 10.6%. Revenues from domestic business amounted to 4,930 million (4,788 million in the first half of 2004), with an increase of 3.0%. Revenues of the TIM Brasil group amounted to 1,224 million (795 million in the first half of 2004), with an increase of 54%.

Excluding the positive effect of changes in exchange rates (an increase of 119 million), organic growth in revenues would have been 478 million, or 8.3%. The increase in revenues of the TIM Brasil group of 39.6% (an increase of 312 million), as well as the confirmation of the good trend on the domestic market (an increase of 142 million), contributed to organic growth.

Operating income was equal to 1,910 million and increased by 66 million (an increase of 3.6%) compared to the first half of 2004. Operating income as a percentage of revenues was 30.6% (32.6% in the first half of 2004).

Excluding the negative foreign exchange effect of 10 million and excluding exceptional items, organic growth was equal to 87 million (an increase of 4.7%). This growth was significantly impacted by the improvement in the operating results of the domestic activities (an increase of 23 million), TIM Brasil group (an increase of 37 million) and TIM Perù (an increase of 19 million).

In greater detail, operating income was impacted by:

depreciation and amortization, of 906 million (741 in the first half of 2004), which increased by 165 million, principally as a result of domestic activities (an increase of 61 million) and Brazilian activities (an increase of 104 million), which rose due to the increasing investments for the expansion of the network and business support infrastructures. Depreciation and amortization as a percentage of revenues was 14.5% (13.1% in the first half of 2004);

impairment reversals/losses on non-current assets were negative for 12 million in the first half of 2005 (2 million in the first half of 2004).

In the first half of 2005, total **capital expenditures** amounted to 609 million and remained stable with respect to the first half of 2004.

The **number of employees** at June 30, 2005 was equal to 19,837 units (20,361 units at December 31, 2004) and decreased by 524 compared to December 31, 2004, detailed as follows:

	As of December 31, 2004	As of June 30, 2005
Italy	10,424	10,455
Abroad	7,610	8,558
Total	**18,034**	**19,013**
Discontinued operations / assets held for sale	2,327	824
Total	**20,361**	**19,837**

The change was mainly due to the sale of TIM Hellas, partially offset by an increase of the employees in the Brazilian companies due to the expansion of their activities.

Mobile Italy

The following table sets forth certain financial data related to Tim Italia S.p.A., the company which resulted from the spin-off of the domestic mobile activities of TIM S.p.A. which was subsequently merged into Telecom Italia S.p.A., and the results of operations managed by TIM until March 1, 2005 (date in which the above mentioned spin-off took effect). The financial data of the first half of 2004 refers to TIM S.p.A..

	Six Months ended June 30,	
Mobile Italy	**2004**	**2005**
	(millions of Euro, except percentages)	
Gross revenues	4,788	4,930
Operating income	2,002	2,025
% of gross revenues	41.8	41.1
Capital expenditures	387	337
Number of employees	10,393	10,455

Mobile **gross revenues** in Italy were equal to   4,930 million (4,788 million in the first half of 2004) and increased by 3.0% compared to the first half of 2004. This increase was mainly driven by the strong growth of Value Added Services (VAS), equal to   691 million (an increase of 16.2%

compared to the first half of 2004), thanks to the continuous innovation of services and portfolio offers.

VAS represented 14.0% of total revenues (12.4% in the first half of 2004). Revenues of core business (voice) were equal to 3,972 million and remained stable with respect to the first half of 2004, thanks to higher usage of mobile phones and initiatives taken towards high spending customers.

Sales of terminals amounted to 267 million and increased by 20.1% due to the success of promotional campaign during the summer season in particular for 3G.

Operating income was equal to 2,025 million and showed an increase of 23 million, or 1.1%, compared to the first half of 2004. Operating income as a percentage of revenues was 41.1% (41.8% in the first half of 2004). Excluding the negative effects due to the exceptional items, operating income was equal to 2,022 million, with an increase of 23 million, or 1.2%, compared to the first half of 2004. This result was affected by a significant increase in depreciation and amortization due to the investments made for the development of the third generation network infrastructures and the support for the offers of new services.

In the first half of 2005, **capital expenditures** amounted to a total of 337 million (387 million in the first half of 2004) and are focused in the network infrastructures and the software development.

The **number of employees** at June 30, 2005 was equal to 10,455 units, with an increase of 31 units compared to December 31, 2004.

Mobile Brazil (TIM Brasil group)

TIM Brasil group provides mobile phone services in TDMA and GSM technology.

The following table sets forth, for the periods indicated, certain financial data for TIM Brasil group.

Brazil	**Six Months ended June 30, 2004**	**Six Months ended June 30, 2005**
	(millions of Euro, except percentages)	
Gross revenues	795	1,224