TELECOM ITALIA S P A
Form 6-K
July 07, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR JULY 7, 2003

Telecom Italia S.p.A.

(Translation of registrant s name into English)

Corso d Italia 41

Rome, Italy 00198

(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 Form 40-F: FORM 20-F x FORM 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether by furnishing the information contained in this Form, the registrant 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-____

Table of Contents

Cautionary Statement for Purposes of the Safe Harbor Provision of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation reform Act of 1995 provides a safe harbor for forward-looking statements. The Press Release included in this Form 6-K contains certain forward looking statements and forecasts reflecting management s current views with respect to certain future events. The ability of the Telecom Italia Group to achieve its projected results is dependant on many factors which are outside of management s control. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and are based on certain key assumptions.

The following important factors could cause the Telecom Italia Group s 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 the core domestic fixedline and wireless markets of the Telecom Italia Group;
- the ability of the Telecom Italia Group to introduce new services to stimulate increased usage of its fixed and wireless networks to offset declines in its fixed-line business due to the continuing impact of regulatory required price reductions, market share loss and pricing pressures generally;
- the ability of the Telecom Italia Group to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing its non-core assets;
- the impact of regulatory decisions and changes in the regulatory environment;
- the impact and consequences of the Merger;
- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on the international business of the Telecom Italia Group focused on Latin America and on its foreign investments and capital expenditures;
- the continuing impact of rapid changes in technologies;
- the impact of political and economic developments in Italy and other countries in which the Telecom Italia Group operates;
- the impact of fluctuations in currency exchange and interest rates;
- Telecom Italia Group s ability to continue the implementation of its 2003-2005 Industrial Plan, including the rationalization of its corporate structure and the disposition of Telecom Italia Group s interests in various companies;
- the ability of the Telecom Italia Group to successfully achieve its debt reduction targets;
- Telecom Italia Group s ability to successfully roll out its UMTS networks and services and to realize the benefits of its investment in UMTS licenses and related capital expenditures;

Telecom Italia Group s ability to successfully implement its internet strategy;

Table of Contents

the ability of the Telecom Italia Group to achieve the expected return on the significant investments and capital expenditures it has made in Latin America;

the amount and timing of any future impairment charges for Telecom Italia Group s 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. Accordingly, there can be no assurance that the group will achieve its projected results.

* * *

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States.

Financial statements included in the document, if any, were prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies. It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries.

You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court s judgment. You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELECOM ITALIA S.p.A.

/s/ CARLO DE GENNARO

Carlo De Gennaro

Date: July 7, 2003

Table of Contents

Olivetti S.p.A.

Information Statement

Merger of Telecom Italia S.p.A. into

Olivetti S.p.A.

This Information Statement has been prepared for the Telecom Italia S.p.A. (**Telecom Italia**) savings shareholders (the **Telecom Italia Savings Shareholders**) resident in the United States to provide information in connection with the merger (the **Merger**) of Telecom Italia with and into Olivetti S.p.A. (**Olivetti**) prior to the Merger becoming effective and the ordinary and savings shares to be issued by New Telecom Italia (as defined below) in the Merger being listed for trading on the Italian and New York stock exchanges. This Information Statement is for information purposes only and no action is required from Telecom Italia Savings Shareholders in connection with the Merger.

On April 15, 2003, the Boards of Directors of Olivetti and Telecom Italia approved the plan of merger (the **Plan of Merger**), the legal document that governs the Merger. On May 24, 2003 and May 26, 2003 the extraordinary meetings of Telecom Italia s and Olivetti s ordinary shareholders voted in favor of the Merger. The company resulting from the Merger will be called Telecom Italia S.p.A. The Merger is expected to become effective during the first half of August 2003, subject to the satisfaction of certain conditions which are more fully described in this Information Statement. We refer to the surviving company in the Merger in this Information Statement as **New Telecom Italia** and, with its consolidated subsidiaries, the **New Telecom Italia Group**.

If the Merger is completed, holders of ordinary shares issued by Telecom Italia (**Telecom Italia Ordinary Shares**) or ordinary shares issued by Olivetti (**Olivetti Ordinary Shares**) will receive ordinary shares issued by New Telecom Italia (**New Telecom Italia Ordinary Shares**) and holders of savings shares issued by Telecom Italia (**Telecom Italia Savings Shares** and, together with the Telecom Italia Ordinary Shares, the **Telecom Italia Shares**) will receive savings shares issued by New Telecom Italia (**New Telecom Italia Savings Shares** and, together with the New Telecom Italia Ordinary Shares, **New Telecom Italia Shares**). Holders of Telecom Italia Ordinary Share American Depositary Shares (**Telecom Italia Ordinary Share ADSs**) and Telecom Italia Savings Share American Depositary Shares (**Telecom Italia Savings Share ADSs** and, together with the Telecom Italia Ordinary Share ADSs, the **Telecom Italia ADSs**) represented by American Depositary Receipts (**ADRs**) under Deposit Agreements with JPMorgan Chase Bank (the **Depositary**) will have their New Telecom Italia Ordinary Shares and New Telecom Italia Savings Shares to be received in the Merger deposited with the Depositary and will be issued New Telecom Italia ordinary share ADRs (**New Telecom Italia Ordinary Share ADRs**) or New Telecom Italia savings share ADRs (**New Telecom Italia Savings Share ADRs** and, together with the New Telecom Italia Ordinary Share ADRs, the **New Telecom Italia ADRs**), as applicable, at no cost. In connection with the Merger it is the intention of New Telecom Italia to establish new ADR facilities for the New Telecom Italia Shares. See Terms of the Transaction Plan of Merger Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs.

Upon effectiveness of the Merger, all Olivetti Ordinary Shares and Telecom Italia Shares will be cancelled and New Telecom Italia Shares will be issued. For purposes of determining the number of New Telecom Italia Shares that holders of such cancelled shares will be entitled to receive, natural exchange ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each) were determined based upon a relative valuation of Olivetti and Telecom Italia (the **Exchange Ratios**). Pursuant to the Exchange Ratios, each Telecom Italia Savings Share or Telecom Italia Ordinary Share will entitle a holder thereof to receive a number of New Telecom Italia Shares equivalent to 7 times the number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares will be entitled to receive for each Olivetti Ordinary Share. (Olivetti does not currently have a class of savings shares.) The exact number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares receives for each Olivetti Ordinary Share will be based on an assignment ratio (the **Assignment Ratio**), which will be officially determined at the time of the signing of the official deed of the Merger (the **Deed of Merger**) after giving effect to a redistribution of the existing capital of Olivetti. See Terms of the Transaction Terms of the Merger What Telecom Italia Shareholders Will Receive.

The date of the Information Statement is July 1, 2003.

(Cover page continued on next page)

Table of Contents

Olivetti Ordinary Shares are traded on the Mercato Telematico Azionario (**Telematico**), the automated screen-based trading system of the Borsa Italiana S.p.A. (**Borsa Italiana**) and on the Frankfurt Stock Exchange. Telecom Italia Ordinary Shares and Savings Shares (collectively, **Telecom Italia Shares**) are traded on Telematico and the Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs are traded on the New York Stock Exchange. On June 26, 2003 the last reported official price on Telematico of the Olivetti Ordinary Shares was 1.11. On June 26, 2003, the last reported official price on Telematico of the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares was 7.98 and 4.78, respectively, and the last reported closing price on the NYSE of the Ordinary Share ADSs and the Savings Share ADSs was $91.40 and $53.50, respectively.

Except as provided below, any offer to purchase or sell securities described herein is not being made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States of America and any such offer will not be capable of acceptance by any such use, means, instrumentality or facility.

The information contained herein does not constitute an offer of securities for sale in the Unites States or offer to acquire securities in the United States.

The New Telecom Italia Shares referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the Securities Act) and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The New Telecom Italia Shares are intended to be made available within the United States in connection with the Merger pursuant to an exemption from the registration requirements of the Securities Act.

You and each of your employees, representatives, or other agents are authorized to disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the Merger and the ownership and disposition of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADRs acquired in the Merger and all materials of any kind, including opinions or other tax analyses, that have been provided to you relating to such U.S. federal income tax treatment and tax structure.

The cash tender offer for a portion of the Telecom Italia Ordinary Shares described herein is being made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act).

The cash tender offer for a portion of the Telecom Italia Savings Shares described herein is not being made and will not be made, directly or indirectly, in or into the United States and will not be capable of acceptance, directly or indirectly, in or from the United States or by the use of the mails of, or by any means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of the internet or otherwise) of interstate or foreign commerce, or any facility of any national securities exchange of the United States.

On completion of the Merger Olivetti will become a successor registrant under the Exchange Act and will become subject to the reporting requirements of a foreign private issuer under the Exchange Act, including the obligations to file an Annual Report on Form 20-F. Application has been made to list the New Telecom Italia Ordinary Shares and the New Telecom Italia Savings Shares for trading in the form of ADSs on the New York Stock Exchange and such application is expected to be completed by the effective date of the Merger.

This Information Statement is first being mailed to U.S. Telecom Italia Savings Shareholders (including holders of Telecom Italia Savings Share ADSs) on or about July 1, 2003.

These securities have not been approved or disapproved by the Securities and Exchange Commission (the **SEC**) or any state securities commission, nor have these organizations determined that this Information Statement is accurate or complete. Any representation to the contrary is a criminal offense.

Table of Contents

This Information Statement provides you with detailed information about the proposed Merger. It also provides you with important information about the New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADRs to be issued to Telecom Italia shareholders pursuant to the Merger and describes the new ADR facilities which will be established in connection with the Merger. You are encouraged to read this document in its entirety.

This Information Statement is for information purposes only and no action is required from Telecom Italia Savings Shareholders.

WHERE YOU CAN FIND MORE INFORMATION ABOUT TELECOM ITALIA AND OLIVETTI

Telecom Italia is subject to the informational requirements of the Exchange Act applicable to a foreign private issuer and files annual reports and other information with the SEC. You may read and copy any document Telecom Italia files with the SEC at its public reference facilities at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Since November 4, 2002, Telecom Italia has been required to file and furnish its documents to the SEC on EDGAR, the SEC s electronic filing system. All such filings made since such date can be reviewed on EDGAR by going to the SEC s website: www.sec.gov.

Olivetti furnishes certain information to the U.S. Securities and Exchange Commission pursuant to an exemption from the registration and reporting requirements of the Exchange Act, pursuant to Rule 12g3-2(b) of the 1934 Act. You may read and copy any document Olivetti files with the SEC at its public reference facilities at the address noted in the preceding paragraph.

As a foreign private issuer, Telecom Italia is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and Telecom Italia s officers, directors and controlling shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Telecom Italia s Ordinary Share ADSs and Savings Share ADSs are listed on the New York Stock Exchange and you can inspect Telecom Italia s reports and other information at the New York Stock Exchange Inc., 20 Broad Street, New York, New York. For further information about Telecom Italia s American Depositary Receipt arrangements, you may call the Depositary in the United States at (781) 575-4328.

INCORPORATION BY REFERENCE

We are incorporating by reference information into this Information Statement, which means that we may disclose important information to you by referring you to other documents filed separately with the SEC. This Information Statement incorporates by reference the following document set forth below which Telecom Italia has previously or concurrently filed or furnished with the SEC. This document contains important information about Telecom Italia and its finances.

•

Telecom Italia s Annual Report on Form 20-F for the year ended December 31, 2002 (the **Telecom Italia Annual Report**) (File No. 1-3882).

We will also incorporate any Form 6-K submitted by Telecom Italia to the SEC after the date of this Information Statement and prior to the effective date of the Merger if such Form 6-K filing specifically states that it is incorporated by reference into this Information Statement.

The possible incorporation of Form 6-Ks submitted by Telecom Italia to the SEC after the date of this Information Statement and prior to the effective date of the Merger means that this Information Statement may incorporate important business and financial information about Olivetti and/or Telecom Italia that is not delivered with this Information Statement. You may request, orally or in writing, a copy of any such Form 6-K, at no cost, by contacting us at Via Jervis 77, 10015 Ivrea (Turin), Italy, telephone number 011-39-125-5200. You may also read and copy such Form 6-K at the SEC s public reference facility, located at the address provided above and you may review such Form 6-K by going to the SEC s website: www.sec.gov.

Table of Contents

ENFORCEABILITY OF CIVIL LIABILITIES UNDER THE UNITED STATES SECURITIES LAWS

Olivetti and Telecom Italia are corporations organized under the laws of Italy. None of the directors or executive officers of Olivetti and Telecom Italia (and certain experts named in this Information Statement) lives in the United States. All or a substantial portion of the assets of Olivetti and Telecom Italia and such persons are located outside the United States. As a result, it may be difficult for you to file a lawsuit against Olivetti and Telecom Italia or such persons in the United States with respect to matters arising under the federal securities laws of the United States. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of such laws against Olivetti and Telecom Italia or such persons. Should a U.S. court issue judgment against Olivetti, Telecom Italia or their directors or executive officers based on the civil liability provisions of the federal securities laws of the United States, enforceability of such judgment in Italy will be subjected to the following requirements:

(i) the court which rendered the U.S. judgment could hear the case under the Italian rules on jurisdiction;

(ii) the writ of summons has been served upon the defendant in compliance with U.S. laws and the essential defense rights of the defendant have not been violated;

(iii) the parties have appeared in the proceedings in compliance with U.S. laws or, in case of default of appearance, such default has been declared in compliance with U.S. laws;

(iv) the U.S. judgment has become final and definitive (*passata in giudicato* *res judicata*) in compliance with U.S. law;

(v) the U.S. judgment is not contrary and does not conflict with another final and definitive judgment rendered by an Italian court;

(vi) court proceedings with same object and same parties are not pending before an Italian court, where such proceedings have commenced before the institution of U.S. proceedings; and

(vii) the provisions contained in the U.S. judgment do not conflict or contravene the Italian public policy rules.

The U.S. judgment would be enforceable and would constitute valid title for the commencement of enforcement proceedings in Italy provided that a decision of the competent Italian Court of Appeal has ascertained as a result of the appropriate proceedings the existence of the above mentioned requirements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information contained or incorporated by reference in this Information Statement is prepared using Italian GAAP. Note 26 of the Notes to the audited consolidated financial statements of Olivetti and Note 26 of the Notes to the audited consolidated financial statements of Telecom Italia included in this Information Statement describe the material differences between Italian GAAP and U.S. GAAP as it relates to each of Olivetti and Telecom Italia, respectively.

The currency used by each of Olivetti and Telecom Italia in preparing its consolidated financial statements is the euro. References to euro, euros and , are to euros and references to U.S. dollars, dollars, U.S.$ or $ are to U.S. dollars. For the purpose of this Information Statement, bill means a thousand million. For convenience only (except where noted otherwise), certain euro figures have been converted into dollars at the rate of euro 1 = U.S.$1.1843, the noon buying rate on June 16, 2003. The noon buying rate is determined based on cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate). These conversions are not a representation that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. On June 26, 2003, the Noon Buying Rate was euro 1 = U.S.$1.1429.

CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

This Information Statement contains certain forward-looking statements, which reflect the Olivetti management s current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof:

(i) the continuing impact of increased competition in a liberalized market, including competition from global and regional alliances formed by other telecommunications operators in the core domestic fixed-line and wireless markets of the New Telecom Italia Group;

(ii) the ability of the New Telecom Italia Group to introduce new services to stimulate increased usage of its fixed and wireless networks to offset declines in its fixed-line business due to the continuing impact of regulatory required price reductions, market share loss and pricing pressures generally;

(iii) the ability of the New Telecom Italia Group to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing its non-core assets;

(iv) the impact of regulatory decisions and changes in the regulatory environment;

(v) the impact and consequences of the Merger;

(vi) the impact of the slowdown in Latin American economies and the slow recovery of economies generally on the international business of the New Telecom Italia Group focused on Latin America and on its foreign investments and capital expenditures;

(vii) the continuing impact of rapid changes in technologies;

(viii) the impact of political and economic developments in Italy and other countries in which the New Telecom Italia Group operates;

(ix) the impact of fluctuations in currency exchange and interest rates;

(x) New Telecom Italia Group s ability to continue the implementation of its 2003-2005 Industrial Plan, including the rationalization of its corporate structure and the disposition of New Telecom Italia Group s interests in various companies;

(xi) the ability of the New Telecom Italia Group to successfully achieve its debt reduction targets;

(xii) New Telecom Italia Group s ability to successfully roll out its UMTS networks and services and to realize the benefits of its investment in UMTS licenses and related capital expenditures;

(xiii) New Telecom Italia Group s ability to successfully implement its internet strategy;

(xiv) the ability of the New Telecom Italia Group to achieve the expected return on the significant investments and capital expenditures it has made in Latin America;

(xv) the amount and timing of any future impairment charges for New Telecom Italia Group s licenses, goodwill or other assets; and

(xvi) 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 place undue reliance on such forward-looking statements, which speak only as of the date hereof. Accordingly, there can be no assurance that New Telecom Italia will achieve its projected results.

Olivetti is a corporation organized under the laws of Italy. Olivetti s full name is Ing. C. Olivetti & C. Società per Azioni. Olivetti is also free to use the following abbreviated versions of its legal name: Ing. C. Olivetti & C., S.p.A. and Olivetti S.p.A. The registered offices of Olivetti are at Via Jervis 77, 10015 Ivrea (Turin), Italy. The telephone number of Olivetti s headquarters is 011-39-125-5200. As used in this Information Statement, the **Company** or **Olivetti** refers to the holding company for various businesses, principally telecommunications, and the **Olivetti Group** refers to Olivetti and its consolidated subsidiaries, including the Telecom Italia Group.

Telecom Italia is a corporation organized under the laws of Italy. The registered offices of Telecom Italia are at Piazza degli Affari 2, 20123 Milan, Italy. The corporate headquarters and the principal executive offices are located at Corso d Italia 41, 00198 Rome, Italy. The telephone number of Telecom Italia s headquarters is 011-39-6-36881. As used in this Information Statement, **Telecom Italia** refers to the holding company and the fixed line operator, and the **Telecom Italia Group** refers to Telecom Italia and its consolidated subsidiaries.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

ANNEXES:

EXHIBITS:

Table of Contents

SUMMARY

This summary highlights selected information from this Information Statement, the annexes hereto and the documents we have referred you to in Where You Can Find More Information About Olivetti and Telecom Italia. It may not contain all the information which is important to you and we recommend that you read the entire document as well as the documents referred to under Where You Can Find More Information About Olivetti and Telecom Italia. You will find a glossary of selected telecommunications terms included in the Telecom Italia Annual Report which is attached hereto and incorporated by reference herein, which may assist your understanding of the businesses conducted by Olivetti and Telecom Italia.

THE COMPANIES

Olivetti

Established in Ivrea (Turin) in 1908 as a typewriter manufacturer, Olivetti is one of Europe s largest industrial holdings. Since its establishment in 1908, Olivetti has gradually shifted the focus of its core business from mechanical office products to electronic equipment, computers, IT systems and services and, more recently, to telecommunications. In May 1999, Olivetti, jointly with its subsidiary Tecnost S.p.A. (**Tecnost**), successfully made a tender offer for Telecom Italia, which ultimately resulted in Olivetti obtaining a 54.94% controlling interest in Telecom Italia s Ordinary Shares. The acquisition of control of Telecom Italia, the principal provider of domestic and international telecommunications services in Italy, marked a major development in the transformation of Olivetti s core businesses. Telecom Italia is Olivetti s largest subsidiary (representing approximately 96.8% of its revenues in 2002).

In addition to its fixed and mobile telecommunications business, through its operating companies in Italy and worldwide, the Olivetti Group also offer a broad range of other products and services (including office products, information technology, specialized automation systems and real estate and facility management and maintenance). These products and services are marketed directly by the Olivetti Group s various business units. For a detailed description of the Olivetti Group businesses, see Description of Olivetti Businesses Information About the Olivetti Group Business.

Olivetti s largest shareholder is Olimpia S.p.A. (**Olimpia**), a company owned by Pirelli S.p.A. (**Pirelli**), Edizione Holding (Benetton Group), Banca Intesa S.p.A. (**Banca Intesa**) and Unicredito Italiano S.p.A. (**Unicredito**) banks and Hopa S.p.A. (**Hopa**). Olimpia holds approximately 28.53% of Olivetti s equity. See Terms of the Transaction Background of the Merger The Pirelli-Olimpia Transaction for a more detailed description of Olimpia s holdings in Olivetti.

Telecom Italia Group

The Olivetti Group operates in the telecommunications sector through the Telecom Italia Group. At the end of 2002, the Telecom Italia Group was one of the world s largest fixed telecommunications operators, with approximately 27.1 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary Telecom Italia Mobile S.p.A. (**TIM**), the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with approximately 39.1 million mobile lines (which includes 31.5 million proportionate lines). The Telecom Italia Group also had 6.2 million mobile lines (2.2 million proportionate lines) through companies indirectly owned through Telecom Italia International. In Italy TIM is one of three operators with the right to provide GSM digital mobile telecommunications services and one of three operators with the right to provide DCS 1800 digital mobile telecommunications services (the fourth operator, Blu, was acquired in October 2002 and merged into TIM in December 2002). TIM is one of five entities which have acquired a UMTS license to provide third generation mobile services in Italy.

The Telecom Italia Group also provides leased lines and data communications services. Through Seat Pagine Gialle S.p.A. (**SEAT**), the Telecom Italia Group is a leading provider of Internet and directory publishing services, although Telecom Italia has recently agreed to sell the directory publishing business of SEAT. The sale is subject to the satisfaction of certain conditions. Please see Recent Developments SEAT Spin-off and Proposed Sale and Recent Developments Potential Sale of Telecom Italia s Stake in New SEAT. Other activities of the Telecom Italia Group include the provision of IT software and services.

1

Table of Contents

The Telecom Italia Group s international portfolio of subsidiaries and investments includes fixed and mobile telecommunications companies which operate mainly in Latin America and certain countries in Europe. For a detailed description of the Telecom Italia Group businesses, see Item 4. Information on the Telecom Italia Group Business of the Telecom Italia Annual Report incorporated by reference herein.

Telecom Italia s largest shareholder is Olivetti, which holds a 54.94% controlling interest in Telecom Italia s Ordinary Shares.

Recent Developments

SEAT Spin-off and Proposed Sale

On April 1, 2003, the Board of Directors of SEAT approved the proposed proportional spin-off of substantially all of the Directories, Directory Assistance and Business Information business segments of SEAT into a newly incorporated company which will assume the current name of SEAT (**New SEAT**). Effective as of the date of spin-off, the corporate name of the remaining part of SEAT will be Telecom Italia Media S.p.A. (hereinafter referred to as **Telecom Italia Media**). The spin-off plan was approved by the SEAT extraordinary shareholders meeting held on May 9, 2003.

The spin-off plan provides for a spin-off on a proportional basis. The allocation of the shares of, respectively, New SEAT and Telecom Italia Media, is based on the net assets of each company as of December 31, 2002. Consequently, for every 40 ordinary (or savings, as applicable) shares currently owned, the present shareholders of SEAT will receive:

- 11 new ordinary (or savings, as applicable) shares of Telecom Italia Media; and
- 29 new ordinary (or savings, as applicable) shares of New SEAT.

The shares of both companies will be listed on Telematico; the effectiveness of the spin-off is conditioned upon the shares of New SEAT being accepted for listing.

The spin-off plan contemplates the creation of two independent companies, each focused on its core businesses. It is SEAT management s view that SEAT operates in two broad market sectors that have increasingly developed separate and distinct characteristics in terms of strategy, operations and competitive landscape. The first sector is that of targeted advertising and telephone services, in which SEAT operates through its Directories, Directory Assistance and Business Information segments, providing answers to queries via printed, online and telephone products and services.

The second sector is that of traditional advertising and the Internet, in which SEAT operates through its Internet, TV and other business segments, primarily providing access and content services. In SEAT management s view, both sectors present interesting development prospects (including broadband access and digital TV).

The strategic objective of the spin-off plan is to allow SEAT s businesses in each of the two sectors to more rapidly respond to market developments and exploit market opportunities, with a more focused management and a resource allocation consistent with the development prospects of each business line.

The spin-off plan provides for the transfer to New SEAT of the following companies within the Directories, Directory Assistance and Business Information business segments of SEAT:

Directories:	Directory Italia Seat Pagine Gialle S.p.A. division, Annuari Italiani S.p.A., Euredit S.A., TDL Group, Euro directory S.A.
Directories Assistance:	Directories Assistance Seat Pagine Gialle division, Telegate Group, Telegate Holding GmbH, IMR S.r.l.
Business Information:	Consodata S.A., Consodata Group Ltd (including Netcreations Inc., Pan Adress).

The other companies and business segments will remain in SEAT, which, as noted above, will be known as Telecom Italia Media.

Table of Contents

For a more detailed discussion of these businesses, see Item 4. Information on the Telecom Italia Group Overview of the Telecom Italia Group s Major Business Areas Internet and Media of the Telecom Italia Annual Report incorporated by reference herein.

The spin-off, subject to certain conditions of Italian law, is expected to become effective by the end of July 2003.

Potential Sale of Telecom Italia s Stake in New SEAT

On June 10, 2003, the Telecom Italia Group concluded a contract with the consortium comprising BC Partners, CVC Capital Partners, Permira and Investitiori Associati for the sale of about 61.5% of the capital of New SEAT (after exercise of put/call options with JPMorgan, concluded on the occasion of the SEAT/Tin.it merger and subsequently renegotiated as explained in Telecom Italia s annual reports from 2000 onwards, exercised by Telecom Italia for a notional amount of 710,777,200 SEAT shares, corresponding to about 6.2% of the SEAT share capital, with an estimated outlay of about 2.3 billion). The price agreed is 0.598 per share, based on a valuation of the overall enterprise value of New SEAT equal to about 5.65 billion. The value of equity interest in question is thus about 3,032,923,166. Taking into account New SEAT s debt upon completion of the spin-off, estimated at about 708 million, the transaction will enable the Telecom Italia Group to reduce its consolidated net debt by about 3.74 billion, in line with the objective set. The completion of the sale is subject to the effectiveness of the SEAT spin-off, the listing of the shares of New SEAT, scheduled for early August 2003, and the granting of all the required authorizations by the competent antitrust authorities.

See Unaudited Pro Forma Condensed Consolidated Financial Data.

Other Recent Developments

For a discussion of other recent developments relating to the Olivetti Group, including a discussion of first quarter results of the Olivetti Group and the Telecom Italia Group, see Description of Olivetti Businesses Recent Developments Olivetti Group Results for the First Quarter Ended March 31, 2003 compared to March 31, 2002 and Item 4. Recent Developments Telecom Italia Group Results for the First Quarter Ended March 31, 2003 compared to March 31, 2002 of the Telecom Italia Annual Report incorporated by reference herein.

Table of Contents

THE MERGER

Terms of the Merger

What Telecom Italia Shareholders Will Receive

As a result of the Merger, Telecom Italia will be merged with and into Olivetti, with Olivetti as the surviving entity, and Olivetti will succeed to the business of Telecom Italia. Since the Merger will involve the merger into Olivetti of a subsidiary, it will result in the cancellation of Olivetti s interest in Telecom Italia upon the effectiveness of the Merger and the assignment to each holder of Telecom Italia Savings Shares or Telecom Italia Ordinary Shares (other than Olivetti) of a number of New Telecom Italia Savings Shares or New Telecom Italia Ordinary Shares. For purposes of determining the number of New Telecom Italia Shares that holders of Telecom Italia Shares will be entitled to receive, natural exchange ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each), which we refer to as the Exchange Ratios, were determined based upon a relative valuation of Olivetti and Telecom Italia. Pursuant to the Exchange Ratios, each Telecom Italia Savings Share or Telecom Italia Ordinary Share will entitle a holder thereof to receive a number of New Telecom Italia Shares equivalent to 7 times the number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares will be entitled to receive for each Olivetti Ordinary Share. (Olivetti does not currently have a class of savings shares.) The exact number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares receives for each Olivetti Ordinary Share will be based on the Assignment Ratio, which will be officially determined at the time of the signing of the Deed of Merger after giving effect to a redistribution of the existing capital of Olivetti. See Terms of the Transaction Terms of the Merger What Telecom Italia Shareholders Will Receive.

Each holder of Telecom Italia Ordinary Share ADRs and Telecom Italia Savings Share ADRs will be issued new ADRs representing the number of New Telecom Italia Ordinary Share ADSs or New Telecom Italia Savings Shares ADSs, as the case may be, such ADR holder will be entitled to receive pursuant to the Assignment Ratio relating to the underlying Telecom Italia Ordinary Shares or Telecom Italia Savings Shares, as the case may be. See Terms of the Transaction Plan of Merger Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs.

For the most part, the Assignment Ratio will be satisfied by redistributing the share capital of New Telecom Italia and having recourse to the issue of new shares only insofar as it is necessary to maintain the share capital of New Telecom Italia at the level of Olivetti s share capital as it existed on April 15, 2003 (equal to 8,845,537,520, divided into 8,845,537,520 ordinary shares with a par value of 1 each).

Terms of the New Telecom Italia Savings Shares

The New Telecom Italia Savings Shares will have identical economic rights to those of the Telecom Italia Savings Shares, including that the preferential rights provided for in the bylaws may be satisfied by distributing reserves. The maintenance of the preferential rights to which each New Telecom Italia Savings Share will be entitled to under the New Telecom Italia bylaws will be accompanied by an improvement in the preferential position of the New Telecom Italia Savings Shareholders, since they will be assigned, for each such share held, more than one New Telecom Italia Savings Share on the basis of the Assignment Ratio by means of which the exchange will be implemented. For a more detailed discussion of the Assignment Ratio and the mechanism for assigning the shares of New Telecom Italia, see Terms of the Transaction Terms of the Merger Other Factors Considered by the Boards of Directors Assignment of New Telecom Italia Shares and Start of Dividend Entitlement.

Specifically, since each New Telecom Italia Savings Share will have a par value equal to the present par value of the Telecom Italia Savings Shares (0.55) and will give the same percentage preferential right calculated with reference to its par value, at the time of the exchange each holder of Telecom Italia Savings Shares will receive, as a consequence of the Assignment Ratio, a larger amount of the nominal capital of New Telecom Italia than the amount previously held and will therefore be entitled to a larger preferred dividend in absolute terms.

The Merger will therefore not prejudice the Telecom Italia Savings Shareholders in any way. Consequently, in the absence of the preconditions referred to in Article 2376 of the Civil Code and Article 146 of the Consolidated Law, the Telecom Italia Board determined that the conditions did not exist for calling a special

Table of Contents

meeting of the Telecom Italia Savings Shareholders. At the request of one of the Telecom Italia Savings Shareholders, a special meeting was held on June 9, 2003, as described below under Background and Development of the Plan of Merger.

Olivetti Shareholders Withdrawal Rights

Olivetti shareholders who either voted against the Merger or abstained from participating in the extraordinary meeting of Olivetti s ordinary shareholders benefited from a withdrawal right at 0.9984 per share (which is the mean of the daily official prices of the Olivetti shares in the six months preceding the date the merger resolution was adopted). Olivetti shareholders were entitled to such a right by law due to the change in the corporate objectives of Olivetti which were necessary in order to permit New Telecom Italia to conduct the activities currently conducted by Telecom Italia (with particular reference to activities governed by public licenses and authorizations). As of June 12, 2003, the end of the withdrawal right period, withdrawal rights had been exercised in respect of 10,958,057 Olivetti Ordinary Shares, representing 0.12% of Olivetti s share capital. Pursuant to these declarations, Olivetti shareholders will receive from Olivetti an aggregate payment of 10,940,525 (plus yearly statutory interest at an annual rate of 3% accruing in the period from the date of effectiveness of the Merger to the date of payment) at the latest within 90 days of the date on which the Merger becomes effective.

The Tender Offer

In connection with the Merger, Olivetti has commenced a voluntary cash tender offer for a portion of the outstanding Telecom Italia Ordinary Shares (the **Ordinary Share Offer**) and Telecom Italia Savings Shares (the **Savings Share Offer** and, together with the Ordinary Share Offer, the **Tender Offers**). In addition to having an investment rationale, the Tender Offers are also intended to provide Telecom Italia shareholders who do not wish to maintain their holding in New Telecom Italia a means to liquidate part, or all, of their holdings in Telecom Italia in a similar manner as that afforded to Olivetti shareholders pursuant to their right of withdrawal.

Olivetti will tender for 908,873,776 (17.3%) of the Telecom Italia Ordinary Shares (including those represented by ADSs) and 354,560,274 (17.3%) of the Telecom Italia Savings Shares. However, if the acceptances of the Tender Offers fall short of the maximum quantity sought for one class of shares (either Telecom Italia Ordinary Shares or Telecom Italia Savings Shares) but exceed it for the other class, the amount not used to buy shares of the first class will be used to buy shares of the second class, and the maximum quantity of shares sought of the latter class will increase until all of the part of the Term Loan Facility (as defined below) remaining after paying for the withdrawal rights of Olivetti shareholders has been used, so as to ensure, by means of this communicating vessels mechanism, that the largest number of shareholders wishing to accept the Tender Offers can be satisfied. Where, even after the application of the above-mentioned communicating vessels mechanism, the total number of acceptances received exceeds the amount remaining under the Term Loan Facility after paying for withdrawals, Olivetti will prorate them for one or both classes.

The Savings Share Offer described above is not being made and will not be made, directly or indirectly, in or into the United States and will not be capable of acceptance, directly or indirectly, in or from the United States or by the use of the mails of, or by any means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of the internet or otherwise) of interstate or foreign commerce, or any facility of any national securities exchange of the United States.

New Loan Facility

On April 24, 2003, Olivetti entered into a 9 billion term loan facility (the **Term Loan Facility**). Pursuant to the terms of the Term Loan Facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving credit facility available for the short-term financial requirements, including the repayment of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) and for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised

Table of Contents

withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

Background and Development of the Plan of Merger

The Merger is part of the strategic plan pursued by the Olivetti-Telecom Italia Group with the aim of focusing on core businesses, improving the corporate structure and reducing debt. Since late in 2001 an important aspect of the strategic plan, intended to create value and protect the interests of all shareholders, has been the simplification of the Olivetti-Telecom Italia Group s corporate structure.

On January 7, 2003 a feasibility study was begun with the objective of drawing up a plan for the combination of Olivetti and Telecom Italia. In connection therewith and, in the event a decision was made to go ahead with the project, Olivetti retained JPMorgan Chase Bank (**JPMorgan**) and Telecom Italia retained Lazard & Co. S.r.l. (**Lazard**) as financial advisors. Subsequently, Telecom Italia also retained Goldman Sachs SIM S.p.A. (**Goldman Sachs**) as financial advisor. On February 21, 2003, members of the management of Olivetti and Telecom Italia and their respective financial and legal advisors began to discuss an operational plan for the combination, to be submitted to the Boards of Directors of Olivetti and Telecom Italia. Work on this plan and, in particular, on the relative valuations of Olivetti and Telecom Italia serving to determine the Exchange Ratios continued intensively from the above-mentioned date to early March 2003. A final proposal, together with the reports regarding the structure of the Merger and the proposed Exchange Ratios (including financial analyses prepared by JPMorgan for Olivetti, Lazard and Goldman Sachs for Telecom Italia and opinions as to the fairness of the proposed Exchange Ratios from a financial point of view) was reviewed by the Boards of Directors of Olivetti and Telecom Italia on March 11, 2003.

In their meetings on March 11, 2003, the Boards of Directors of Olivetti and Telecom Italia: (i) agreed that the conditions had been created for the shortening of the control chain (i.e. a stable ratio between the Olivetti and Telecom Italia Share prices and the achievement of certain targets announced in the 2002-2004 Business Plan); (ii) examined and approved the broad outline of the Merger; (iii) approved the proposed Exchange Ratios for the Merger; and (iv) resolved to set in motion the activities necessary for the finalization of the plan to be submitted to their respective shareholders meetings. They also agreed to wait for one month before approving the plan of merger, to give holders of Olivetti convertible bonds the possibility to exercise their conversion rights, as provided for in Article 2503-*bis* of the Civil Code.

The Boards of Directors of Olivetti and Telecom Italia reconvened on April 15, 2003 and in each case, on the basis of, among other things, their respective financial advisors opinions as to the fairness of the Exchange Ratios from a financial point of view or confirmation letters relating to their March 11, 2003 opinion as applicable, decided to proceed with the Merger and fixed the Exchange Ratios as described above. As a result, the plan of merger was agreed upon and the shareholders meetings of both companies were convened. The effectiveness of the Merger is conditioned upon the New Telecom Italia Savings Shares being accepted for listing on Telematico.

At the time the Merger proposal was approved, Olivetti and Telecom Italia called for extraordinary shareholders meetings which were held on May 26 and 24, 2003 on third and first notice, respectively. At such meetings each of the Olivetti Ordinary Shareholders and the Telecom Italia Ordinary Shareholders approved the Merger.

At the request of one of the Telecom Italia Savings Shareholders, a special meeting thereof was held on June 9, 2003, to, among other things, examine the resolutions adopted by the Telecom Italia extraordinary shareholders meeting and to approve any resolutions that might prejudice such shareholders rights. The Telecom Italia Savings Shareholders special meeting concluded that the resolutions adopted by the Telecom Italia extraordinary shareholders meeting did not prejudice the rights of Telecom Italia Savings Shareholders as a class.

The Merger is expected to be finalized in the first half of August 2003.

6

Table of Contents

Reasons for the Merger

The Merger is part of the reorganization aimed at creating value for Telecom Italia shareholders, launched in July 2001 and carried out through an industrial and financial restructuring. Among the principal business rationales for the merger are:

- improving the Olivetti-Telecom Italia ownership structure so that post-Merger, New Telecom Italia will be majority-owned by shareholders unaffiliated with Pirelli or Olimpia;
- improving the Olivetti-Telecom Italia corporate structure so that all of Olivetti s and Telecom Italia s respective operations will be combined in a single entity with a single Board of Directors;
- rationalizing the Olivetti-Telecom Italia capital and financial structure to provide for a more efficient management of Olivetti Group debt and a more effective use of financial leverage; and
- increasing the tax efficiency of Olivetti and Telecom Italia.

Opinions of Financial Advisors

In deciding to adopt the Plan of Merger, the Boards of Directors of Olivetti and Telecom Italia considered the opinions received from their financial advisors as to the fairness of the Exchange Ratios from a financial point of view. These opinions were provided to the Board of Directors of Olivetti by JPMorgan and to the Board of Directors of Telecom Italia by Lazard and Goldman Sachs at the respective Board of Directors meetings held on March 11, 2003. At the respective Board of Directors meetings held April 15, 2003, Goldman Sachs provided an opinion to Telecom Italia and JPMorgan and Lazard provided confirmation letters relating to their respective March 11, 2003 opinions to Olivetti and Telecom Italia, respectively. The Goldman Sachs opinion, an English translation of the Lazard opinion and confirmation letter and an English translation of the JPMorgan opinion and confirmation letter, provided in connection with the April 15, 2003 Board of Directors meetings, are attached, respectively, as Annexes C, D and E to this Information Statement. We encourage you to read these opinions in their entirety.

In connection with delivering their opinions, the financial advisors performed a variety of analyses with respect to the value of Olivetti and Telecom Italia. These analyses are summarized in Terms of the Transaction Opinion of Financial Advisors , which we encourage you to read in its entirety.

Opinions of Experts Appointed Pursuant to Italian Law

In accordance with Italian law, Deloitte & Touche S.p.A. (**Deloitte & Touche**) served as the expert appointed to report to Olivetti shareholders on the Exchange Ratios relating to the New Telecom Italia Shares to be received by the shareholders of Telecom Italia. Deloitte & Touche was appointed by the President of the Tribunal of Ivrea. In accordance with Italian law, Reconta Ernst & Young S.p.A. (**Ernst & Young**), the independent auditors for the Telecom Italia Group, served as the expert appointed to report to Telecom Italia shareholders on the Exchange Ratios relating to the New Telecom Italia shares to be received by the shareholders of Telecom Italia. Pursuant to the established practice of the Tribunal of Milan, Ernst & Young was appointed directly by Telecom Italia rather than by the Tribunal. Ernst & Young and Deloitte & Touche delivered written reports, dated April 22, 2003, to the Olivetti and Telecom Italia shareholders to the effect that the valuation methods adopted by the Olivetti Board of Directors and the Telecom Italia Board of Directors, respectively, are under the circumstances, reasonable and not arbitrary and they have been correctly applied by the respective Boards of Directors in determining the Exchange Ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each). For additional information, see Terms of the Transaction Reports of Experts Appointed Pursuant to Italian Law. English translations of the reports of Ernst & Young and Deloitte & Touche are attached, respectively, as Annexes F and G to this Information Statement. You are urged to read such reports in their entirety for a description of the procedures followed, including consideration of the recommendations made by the financial advisors, matters considered and limitations on their review.

Opinion of Other Expert

In addition, Olivetti retained Professor Angelo Provasoli of the Universitá Bocconi of Milan to evaluate the consistency and appropriateness for the purposes of the Merger of the valuation methodologies used by

Table of Contents

JPMorgan in analyzing Olivetti and Telecom Italia for purposes of its fairness opinion. Professor Provasoli prepared a preliminary written report dated March 11, 2003 and a final report dated April 14, 2003, which are summarized in Terms of the Transaction Report of Professor Angelo Provasoli to Olivetti below. An English translation of Professor Provasoli s final report is attached as Annex H to this Information Statement.

In accordance with Italian law, the Olivetti and Telecom Italia Boards of Directors have prepared reports about the Merger and the proposed Exchange Ratios. A summary of the reports of the Boards of Directors has been provided in Terms of the Transaction below. English translations of the Olivetti and Telecom Italia Boards of Directors reports are attached, respectively, as Annexes I and J to this Information Statement. You are urged to read such reports in their entirety for a description of the various factors and information taken into account by the Olivetti and Telecom Italia Boards of Directors in making their decisions about the Merger and the Exchange Ratios.

Conditions to the Completion of the Merger

Pursuant to Italian law, the Merger can only be completed if certain conditions required under Italian law are satisfied or waived. While certain conditions have been met, others remain to be fulfilled. The resolutions approved and such other documents presented by the Telecom Italia and Olivetti Boards of Directors at such meetings have been filed with the Company Registers of Milan and of Turin. The shareholders resolutions and such other documents are then recorded on the Company Register. The shareholders meetings resolutions of Olivetti and Telecom Italia approving the Merger were recorded on May 28, 2003. Under Italian law, Telecom Italia and Olivetti must wait two months after the recording of the shareholders meetings resolutions before executing the Deed of Merger unless they (i) prove that all of their creditors consent to the Merger, or (ii) if any creditor does not consent to the Merger, deposit funds in an account held for the benefit of such creditor or pay the creditor the amount owed. Within this two-month period between the recording of the shareholders meetings resolutions and the execution of the Deed of Merger, any creditor of Telecom Italia or Olivetti may file a writ of opposition to the Merger with a competent Tribunal. The filing of a writ of opposition will stop the Merger process until the relevant company duly authorized by a Tribunal to do so arranges for a guarantee in favor of the opposing creditor in such form and amount, and on such terms and conditions, as are determined by the Tribunal.

Upon expiration of the two-month creditor opposition period, the Deed of Merger will be executed by Olivetti and Telecom Italia and must then be recorded on the Company Register of Milan and of Turin within 30 days after its execution. The Merger is effective on the date of the last recording of the Deed of Merger or on such later date as may be specified in the Deed of Merger. The effective date is expected to be during the first half of August 2003. At the time of the effectiveness of the Merger, holders of Telecom Italia Shares and Olivetti shares on such date will be entitled to receive New Telecom Italia Shares.

The effectiveness of the Merger is also subject to the admission to listing of New Telecom Italia Savings Shares on Telematico.

Certain Income Tax Consequences of the Transaction

For a summary of certain Italian and U.S. Federal income tax consequences of the Merger and of the ownership of New Telecom Italia Savings Shares, see Certain Income Tax Consequences.

Required Regulatory Approvals

Other than the Italian law conditions to the completion of the Merger set forth above, no other Italian or EU regulatory approvals are required to consummate the Merger.

Certain Differences in Shareholders Rights

There are no material differences between the rights of Telecom Italia Savings Shares and the rights of New Telecom Italia Savings Shares. After the Merger becomes effective, the New Telecom Italia Savings Shares will have identical economic rights to those of the existing Telecom Italia Savings Shares, including the possibility of satisfying the preferential rights provided for in the bylaws by means of distributing reserves. You are encouraged to read Item 10. Additional Information Description of Bylaws and Capital

Table of Contents

Stock Capital Stock of the Telecom Italia Annual Report incorporated by reference herein for a detailed description of the Telecom Italia Savings Shares.

You should also read Comparison of Shareholders Rights for a description of the (i) special powers of the Italian Government in the New Telecom Italia bylaws and (ii) other relevant aspects of the bylaws of New Telecom Italia, as approved by the ordinary shareholders of Olivetti and Telecom Italia at their respective extraordinary shareholders meetings held on May 26, 2003 (Olivetti) and May 24, 2003 (Telecom Italia).

Accounting Treatment of the Merger

Telecom Italia is fully consolidated in the consolidated financial statements of Olivetti. In accordance with Italian GAAP, therefore, the Merger will be accounted for on a book value basis which means that the Merger will not change the consolidated financial statements of New Telecom Italia except for the inclusion in net income and stockholders equity of the minority interest resulting from the shares of Telecom Italia being held by shareholders other than Olivetti prior to the Merger. See, however, Unaudited Pro Forma Condensed Consolidated Financial Data for the U.S. GAAP treatment of the Merger.

Table of Contents

SUMMARY SELECTED FINANCIAL INFORMATION

Olivetti Selected Financial Data

The following financial information is provided to you to aid in the analysis of the financial aspects of the Merger. This information (other than the 2000 pro forma data) has been extracted or derived from the selected financial data for each of the three years in the period ended December 31, 2002 from Olivetti s financial statements prepared in accordance with Italian GAAP and audited by Ernst & Young, with respect to the periods ended December 31, 2001 and 2002 and by PriceWaterhouseCoopers S.p.A. with respect to the period ended December 31, 2000. You should read the financial information set forth below in conjunction with Olivetti s audited financial statements and notes thereto and Operating and Financial Review and Prospects appearing herein. The consolidated results of the Telecom Italia Group represented 96%, 96.3% and 96.8% of Olivetti s net revenues in 2000, 2001 and 2002, respectively, 21.7% and 12.6%, respectively, of net loss in 2001 and net income in 2002 (in 2000 Telecom Italia s net income was 683.9 million; on a consolidated basis, Olivetti showed a net loss of 939.5 million), and 90.6%, 86.7% and 85.2% of total assets (excluding goodwill related to Telecom Italia) at December 31, 2000, 2001 and 2002, respectively. For information regarding the Telecom Italia Group you should read the Telecom Italia Annual Report incorporated by reference herein, including the audited financial statements and notes thereto and Item 5. Operating and Financial Review and Prospects appearing therein.

Certain income statement and balance sheet amounts have been reconciled to U.S. GAAP for the years ended December 31, 2001 and 2002. For additional information about the U.S. GAAP reconciliation, you should read Note 26 of the Notes to the audited consolidated financial statements of Olivetti included herein.

	Year ended December 31,			
	2000(1)	2000 pro forma (1)(2)	2001	2002
	(millions of euro)			
Statement of Operations Data in accordance with Italian GAAP:				
Operating revenues	30,116	28,374	32,016	31,408
Other revenues	483	459	476	504
Total revenues	30,599	28,833	32,492	31,912
Cost of materials	3,058	2,931	2,640	2,315
Salaries and social security contributions	5,245	4,965	4,919	4,737
Depreciation and amortization	6,956	6,519	7,645	7,269
Other external charges	11,136	10,476	12,687	12,188
Charges in inventories	(318)	(296)	92	62
Capitalized internal construction costs	(912)	(831)	(583)	(675)
Total operating expenses	25,165	23,764	27,400	25,896
Operating income	5,434	5,069	5,092	6,016
Financial income	1,202	1,162	1,446	1,569

Financial expense	(3,847)	(3,638)	(6,526)	(4,605)
Other income and (expense), net	135	165	(3,109)	(5,496)
Income (loss) before income taxes and minority interests	2,924	2,758	(3,097)	(2,516)
Income taxes	(1,923)	(1,813)	(579)	2,210
Net income (loss) before minority interests	1,001	945	(3,676)	(306)
Minority Interest	(1,941)	(1,885)	586	(467)
Net Loss	(940)	(940)	(3,090)	(773)
Amounts in accordance with U.S. GAAP:				
Total Revenues			32,274	31,864
Operating Income			469	4,285
Loss before income taxes and minority interests			(6,056)	(100)
Income taxes			(240)	3,176
Net Income (loss) before minority interests			(6,296)	3,076
Minority interests			2,270	(1,120)
Cumulative effect of accounting changes, net of taxes			20	
Net Income (loss)			(4,006)	1,956
Net loss per Share Basic[3]			(0.4698)	0.2266
Net loss per Share Diluted[3]			(0.4698)	0.2266

Table of Contents

	Year ended December 31,			
	2000(1)	2000 pro forma (1)(2)	2001	2002
	(millions of euro)			
Balance Sheet Data in accordance with Italian GAAP:				
Cash and cash equivalents	2,772	2,753	3,706	4,426
Marketable Securities	3,648	3,498	4,009	2,100
Receivables	8,810	8,372	8,856	8,383
Inventories	968	918	861	584
Other current assets	4,866	5,383	5,942	7,059
Total current assets	21,064	20,924	23,374	22,552
Fixed assets	66,584		66,692	65,152
Less accumulated depreciation	(42,808)		(44,595)	(45,703)
Fixed assets, net	23,776	21,072	22,097	19,449
Intangible assets, net	39,640	39,174	39,220	34,561
Other assets	10,880	10,662	9,536	6,822
Investments in affiliates	7,766	8,153	6,716	2,576
Treasury stock	393	393	393	393
Securities	669	665	87	304
Other receivables	2,052	1,451	2,340	3,549
Total assets	95,360	91,832	94,227	83,384
Current liabilities:				
Short-term debt	16,927	16,536	9,072	6,827
Payables, trade and other	10,450	9,910	10,970	10,270
Accrued payroll and employee benefits	1,113	1,111	943	977
Accrued income taxes	305	305	224	244
Other accrued liabilities	1,384	1,345	1,775	2,067
Total current liabilities	30,179	29,207	22,984	20,385
Long-term debt	27,485	25,950	37,747	33,804
Reserves and other liabilities:				
Deferred income taxes	1,026	1,026	381	40
Other liabilities	3,916	3,733	5,348	7,167
Employee termination indemnities	1,388	1,388	1,414	1,364
Total liabilities	63,994	61,304	67,874	62,760
Stockholders equity:				
Share capital	6,914	4,915	8,785	8,845
Additional paid in capital	3,196	3,196	3,765	3,765
Reserves, retained earnings and profit (loss) of the year	3,746	5,745	179	(970)
Total stockholders equity before minority interest	13,856	13,856	12,729	11,640
Minority interest	17,510	16,672	13,624	8,984

Total stockholders equity	31,366	30,529	26,353	20,624
Total liabilities and stockholders equity	95,360	91,832	94,227	83,384
Amounts in accordance with U.S. GAAP:				
Total current assets			22,786	21,599
Total fixed assets, net			24,331	21,503
Intangible assets, net			45,880	41,170
Other long term assets			10,591	8,639
Total Assets			103,588	92,911
Total current liabilities			22,725	18,599
Total long-term debt			43,117	38,375
Other liabilities			10,594	11,340
Total liabilities			76,436	68,314
Minority interests			13,540	9,373
Stockholders equity			13,612	15,229
Total liabilities and stockholders equity			103,588	92,911

11

Table of Contents

	Year ended December 31,			
	2000(1)	2000 pro forma (1)(2)	2001	2002
	(millions of euro)			
Other Data in accordance with Italian GAAP:				
Third Party Revenues				
Telecom Italia Group	28,911	27,169	30,818	30,400
Olivetti Tecnost Group	1,120	1,120	1,076	906
Other	85	85	122	102
Total Olivetti Group	30,116	28,374	32,016	31,408
Net Financial Indebtedness:				
Short-term debt, including current portion of long-term debt	16,927	16,536	9,072	6,827
Long-term debt	27,485	25,950	37,747	33,804
Cash and cash equivalents:				
• Bank and postal accounts	(2,763)	(2,745)	(3,626)	(4,363)
• Cash and valuables on hand	(8)	(7)	(76)	(7)
• Receivables for sales of securities	(1)	(1)	(4)	(56)
Marketable debt securities	(2,909)	(2,759)	(3,616)	(1,927)
Financial accounts receivable	(1,538)	(1,538)	(1,599)	(1,506)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net	331	292	464	627
Net Financial Debt	**37,524**	**35,728**	**38,362**	**33,399**

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

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

(3) Computed on the weighted average number of Olivetti Ordinary Shares outstanding in 2001 and 2002, equal to 8,570 million and 8,631 million, respectively.

Telecom Italia Selected Financial Data

The following financial information is provided to you to aid in the analysis of the financial aspects of the Merger. This information (other than the 2000 pro forma data) has been extracted or derived from the selected financial data for each of the five years in the period ended December 31, 2002 from the Telecom Italia Group s financial statements prepared in accordance with Italian GAAP and which have been audited by the following independent auditors: Ernst & Young (only for the years ended December 31, 2001 and 2002), PricewaterhouseCoopers S.p.A. (only for the year ended December 31, 2000) and Arthur Andersen S.p.A. (now called Deloitte & Touche Italia S.p.A.) for all other periods. You should read the financial information set forth below in conjunction with the Telecom Italia Group s audited financial statements and notes thereto and Item 5. Operating and Financial Review and Prospects appearing in the Telecom Italia Annual Report and incorporated by reference herein.

Certain statement of operations and balance sheet amounts have been reconciled to U.S. GAAP. For additional information about the U.S. GAAP reconciliation, you should read Note 26 of the Notes to the audited financial statements of the Telecom Italia Group included in the Telecom Italia Annual Report and incorporated by reference herein.

Table of Contents

	Year ended December 31,					
	1998(1)	1999(1)	2000(1)	2000 pro forma (1)(2)	2001(1)	2002(1)
	(millions of euro, except per share and per ADS amounts)					
Statement of Operations Data in accordance with Italian GAAP:						
Operating revenues	25,052(3)	27,104	28,911	27,169	30,818	30,400
Other income	560	516	426	402	417	479
Total revenues	25,612(3)	27,620	29,337	27,571	31,235	30,879
Cost of materials	2,342	2,477	2,259	2,132	1,972	1,779
Salaries and social security contributions	4,992	4,977	5,025	4,745	4,666	4,540
Depreciation and amortization	5,412	5,339	5,647	5,209	6,275	5,877
Other external charges	9,065(3)	9,586	10,790	10,130	12,171	11,949
Changes in inventories	135	(130)	(277)	(255)	58	28
Capitalized internal construction costs	(1,078)	(1,062)	(912)	(831)	(581)	(675)
Total operating expenses	20,868(3)	21,187	22,532	21,130	24,561	23,498
Operating income	4,744(3)	6,433	6,805	6,441	6,674	7,381
Financial income	815	555	847	806	1,076	1,236
Financial expense	(868)	(1,466)	(2,470)	(2,261)	(5,031)	(3,399)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(178)*	*(565)*	*(1,025)*	*(1,011)*	*(1,616)*	*(465)*
Other income and expense, net	69(3)	(507)	(214)	(184)	(3,452)	(5,637)
Income (loss) before income taxes	4,760	5,015	4,968	4,802	(733)	(419)
Income taxes	(2,048)	(2,606)	(2,020)	(1,910)	(925)	716
Net income (loss) before minority interests	2,712	2,409	2,948	2,892	(1,658)	297
Minority interest	(734)	(672)	(920)	(864)	(410)	(619)
Net income (loss)	1,978	1,737	2,028	2,028	(2,068)	(322)
Net income (loss) per Ordinary Share(4)	0.2634	0.2309	0.2741	0.2741	(0.2858)	(0.0474)
Net income (loss) per Ordinary Share ADS(4)	2.6339	2.3086	2.7410	2.7410	(2.8581)	(0.4736)
Dividends per Ordinary Share	0.1446	0.3114	0.3125	0.3125	0.3125	0.3125(5)
Dividends per Savings Share	0.1549	0.3218	0.3238	0.3238	0.3237	0.3235(5)
Amounts in accordance with U.S. GAAP:						
Total revenues	25,612(3)	27,620	27,938		31,017	30,830
Operating income (loss)	4,662(3)	6,153	(1,926)		2,272	4,850
Income (loss) before income taxes	4,419	4,774	7,058		(3,379)	1,357
Net income (loss)	1,526	1,505	3,522		(4,039)	828
Net income (loss) per Ordinary Share Basic(6)	0.2026	0.1998	0.4731		(0.5553)	0.1103
Net income (loss) per Ordinary Share Diluted(6)	0.2026	0.1997	0.4717		(0.5553)	0.1103
	2.0255	1.9982	4.7307		(5.5531)	1.1031

Net income (loss) per Ordinary Share ADS Basic(6)						
Net income (loss) per Ordinary Share ADS Diluted(6)	2.0255	1.9966	4.7173		(5.5531)	1.1031

13

Table of Contents

	Year ended December 31,					
	1998(1)	1999(1)	2000(1)	2000 pro forma (1)(2)	2001(1)	2002(1)
	(millions of euro, except per share and per ADS amounts)					
Balance Sheet Data in accordance with Italian GAAP:						
Total current assets	12,186(7)	12,749	16,395	15,673	16,736	15,716
Total fixed assets, net	23,584	23,508	23,425	20,721	21,757	19,291
Intangible assets, net	1,884	2,737	16,037	15,571	16,197	13,052
Total assets	44,870(7)	46,058	65,515	61,985	62,670	52,786
Total short-term debt	4,824	4,969	15,136	14,745	9,114	5,089
Total current liabilities	16,865	17,448	27,482	26,510	21,945	17,616
Total long-term debt	5,598	5,166	8,268	6,733	16,083	15,018
Total liabilities	26,440(7)	26,270	39,986	37,293	43,361	39,959
Total stockholders equity before minority interest	16,346	17,045	18,821	18,821	13,522	9,049
Total stockholders equity	18,430	19,788	25,529	24,692	19,309	12,827
Amounts in accordance with U.S. GAAP:						
Total current assets	12,660	12,984	15,366		16,944	15,331
Total fixed assets, net	23,172	23,150	22,823		23,883	21,277
Intangible assets, net	5,292	5,894	24,084		22,506	18,384
Total assets	48,108	49,263	71,528		72,518	60,822
Total current liabilities	16,865	17,448	26,207		21,487	17,773
Total long-term debt	5,598	5,166	12,466		21,906	20,069
Total liabilities	26,908	26,908	44,848		52,332	46,129
Stockholders equity(8)	19,145	19,659	19,118		12,457	9,215
Financial Ratios in accordance with Italian GAAP:						
Gross operating margin (Gross operating profit/operating revenues)(%)(9)	47.2	45.1	45.4	45.0	44.2	45.9
Operating income/operating revenues (ROS) (%)	18.9	23.7	23.5	23.7	21.7	24.3
Return on equity (ROE) (%)	15.3	12.6	13.0	13.0	n.a.	n.a.
Return on investments (ROI) (%)	18.5	23.6	18.8	18.4	16.0	20.4
Net debt/Net invested capital (debt ratio) (%)(10)	30.7	29.1	42.7	41.1	53.2	58.6
Statistical Data:						
Subscriber fixed lines (thousands)(11)	25,986	26,502	27,153	27,153	27,353	27,142
ISDN equivalent lines (thousands)(12)	1,735	3,049	4,584	4,584	5,403	5,756
TIM lines in Italy (thousands)(13)	14,299	18,527	21,601	21,601	23,946	25,302
Subscriber fixed lines per full-time equivalent employee(14)	332	354	409	409	448	496
Page views Virgilio (millions)		505	2,218	2,218	3,945	5,267
Active Users (at year-end, thousands)		1,104	1,656	1,656	1,804	2,226

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

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

(3)

Beginning in 1999, the Telecom Italia Group changed the way in which it accounted for revenues from telecommunications services, calculating such revenues gross of interconnection and service charges payable to other operators and service providers and accounting for such interconnection and service charges as an operating expense (other external charges). In prior fiscal years, revenues from

Table of Contents

telecommunications services were accounted for net of interconnection and service charges. Due to this change, operating revenues from telecommunications services and other external charges increased by the same amount: 1,571 million in 1998. This accounting change had no impact on reported net income for 1998. In 1998, the item Other external charges also takes into account additional expenses (10 million) included in Other income and expense, net in the consolidated financial statements in Telecom Italia s 1998 Annual Report on Form 20-F.

(4) Net income per Ordinary Share in 1998 is calculated on the basis of 7,421,251,726 Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding. Net income per Ordinary Share in 1999 is calculated on the basis of 7,426,157,226 Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding. Net income per Ordinary Share in 2000 is calculated on the basis of 7,321,179,156 Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding; Telecom Italia Savings Shares are net of 104,978,070 shares of treasury stock acquired during 2000. Net loss per Ordinary Share in 2001 is calculated on the basis of 7,314,655,506 Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding. Net loss per Ordinary Share in 2002 is calculated on the basis of 7,265,103,156 Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding; Telecom Italia Ordinary Shares are net of 5,280,500 shares of treasury stock and Telecom Italia Savings Shares are net of 45,647,000 shares of treasury stock acquired during 2002.

The calculations take into account the requirement that holders of Telecom Italia Savings Shares are entitled to an additional dividend equal to 2% of the par value of Telecom Italia Savings Shares above dividends paid on the Telecom Italia Ordinary Shares. Prior to 2000, the par value of the Telecom Italia Savings Shares was Lit. 1,000 per share, while for 2001 and 2002, following the resolution of the extraordinary shareholders meeting held on May 3, 2001 regarding the re-denomination of Telecom Italia share capital into Euro, the calculations take into account the new par value per share of 0.55. Net income (loss) per Telecom Italia Savings Share was 0.2737, 0.2412, 0.2844, (0.2748) and (0.0364) in each of 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively, and net income (loss) per Telecom Italia Savings Share ADS was 2.7372, 2.4119, 2.8443, (2.7481) and (0.3636) in each of 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively.

As of December 31, 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, the number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding was 7,421,251,726, 7,426,157,226, 7,426,157,226, 7,314,655,506 and 7,316,030,656, respectively. The increase in Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding in 1999 is due to the issuance of 4,905,500 new Telecom Italia Ordinary Shares in connection with the Stock Option Plan. The decrease in Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding in 2001 is due to the cancellation of 112,998,070 Telecom Italia Savings Shares of treasury stock following the re-denomination of the share capital into Euro and the issuance of 1,496,350 new Telecom Italia Ordinary Shares in connection with the Stock Option Plan. The increase in Telecom Italia Ordinary Shares and Telecom Italia Savings Shares outstanding in 2002 is due to the issuance of 1,375,150 new Telecom Italia Ordinary Shares in connection with the Stock Option Plan.

(5) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed corresponding to a dividend of 0.1357 per Telecom Italia Ordinary Share and a dividend of 0.1357 per Telecom Italia Savings Share. Furthermore, the shareholders meeting held on May 24, 2003 approved the pay out of an additional dividend of 0.1768 per Telecom Italia Ordinary Share and 0.1878 per Telecom Italia Savings Share, by drawing from the income and capital reserves. Telecom Italia s dividend coupons for the year ended December 31, 2002 were clipped on June 23, 2003, and such dividends for the year ended December 31, 2002 are payable from June 26, 2003.

(6) In accordance with U.S. GAAP, the Net income (loss) per Ordinary Share has been calculated using the two class method, since the Company has both Ordinary Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standards No. 128, Earnings per Share , Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential common shares and is adjusted for any changes to income that would result from the assumed conversion of those potential common shares. For the purpose of these calculations, the weighted average number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares was 7,421,251,726 for the year ended December 31, 1998, 7,421,660,518 for the year ended December 31, 1999, 7,398,247,829 for the year ended December 31, 2000, 7,314,353,578 for the year ended December 31, 2001 and 7,297,953,685 for the year ended December 31, 2002. The calculations take into account the requirement that holders of Telecom Italia Savings Shares are entitled to an additional dividend equal to 2% of the par value of Telecom Italia Savings Shares above dividends paid on the Telecom Italia Ordinary Shares. Prior to 2001, the par value of the Telecom Italia Savings Shares was Lit. 1,000 per share, while for 2001 and 2002, following the resolution of the extraordinary shareholders meeting held on May 3,

Table of Contents

2001 regarding the re-denomination of Telecom Italia share capital into Euro, the calculations take into account the new par value per share of 0.55. In addition, in accordance with U.S. GAAP, net income (loss) per Telecom Italia Savings Share Basic was 0.2129, 0.2101, 0.4834, (0.5443) and 0.1213 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively, and net income (loss) per Telecom Italia Savings Share ADS Basic, was 2.1288, 2.1015, 4.8340, (5.4431) and 1.2131 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively.

(7) As a consequence of the introduction of the new Italian Accounting Principle for Income Taxes, beginning in 1999, deferred tax assets and liabilities are offset. Due to this change as of December 31, 1998 the amount of current assets was reduced by 114 million, while total assets and liabilities were reduced by the same amount of 379 million.

(8) Stockholders equity under U.S. GAAP is calculated after elimination of minority interest. See Note 26 of Notes to Consolidated Financial Statements included in the Telecom Italia Annual Report incorporated by reference herein.

(9) Gross Operating Profit was 11,821 million, 12,226 million, 13,118 million, 12,217 million, 13,619 million and 13,964 million in each of 1998, 1999, 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively. Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Regulation G of the 1934 Act. Telecom Italia believes that Gross Operating Profit provides the best indication of the Telecom Italia Group s operating performance and is a meaningful information for investors. In addition the Telecom Italia Group also believes (although other telecommunication operators will calculate such information differently) that Gross Operating Profit permits an adequate comparison of the Telecom Italia Group s performance against its peer group. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Year ended December 31,					
	1998	1999	2000	2000 pro forma	2001	2002
	(millions of euro)					
Operating income	4,744	6,433	6,805	6,441	6,674	7,381
Depreciation and amortization	5,412	5,339	5,647	5,209	6,275	5,877
Other external charges:						
• Provision for bad debts	364	363	477	394	439	542
• Write-downs of fixed assets and intangibles	950	73	48	48	16	57
• Provision for risk	178	80	119	108	189	109
• Other provisions and operating charges	654	380	382	353	382	436
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(481)	(442)	(360)	(336)	(356)	(438)
Gross Operating Profit	**11,821**	**12,226**	**13,118**	**12,217**	**13,619**	**13,964**

(10) For purposes of calculating the debt ratio, net financial debt is calculated as follows:

	As of December 31,					
	1998	1999	2000	2000 pro forma	2001	2002
	(millions of euro)					
Short-term debt, including current portion of long-term debt	4,824	4,969	15,136	14,745	9,114	5,089
Long-term debt	5,598	5,165	8,268	6,733	16,083	15,018
Cash and cash equivalents:						
• Bank and postal accounts	(582)	(668)	(1,299)	(1,281)	(757)	(1,251)
• Cash and valuables on hand	(3)	(9)	(5)	(4)	(5)	(4)
• Receivables for sales of securities		(5)	(1)	(1)	(3)	(55)
Marketable debt securities	(1,252)	(1,265)	(2,020)	(1,869)	(1,935)	(278)

Financial accounts receivable (included under Receivables and Other current assets)	(523)	(144)	(1,110)	(1,110)	(805)	(683)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net	112	95	59	20	250	282
Net Financial Debt	**8,174**	**8,138**	**19,028**	**17,233**	**21,942**	**18,118**

(11) Data include multiple lines for ISDN and exclude internal lines.
(12) Data exclude internal lines.
(13) Data refer to TACS and GSM services lines, including holders of Prepaid Cards.
(14) Ratio is based on employees of Telecom Italia only.

Table of Contents

SUMMARY UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

We are providing you with the following unaudited pro forma condensed consolidated financial information to aid in the analysis of the financial aspects of the Merger. The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 was prepared on the basis that the Merger occurred on January 1, 2002. The unaudited pro forma condensed consolidated balance sheet as of December 31, 2002 was prepared on the basis that the Merger occurred on December 31, 2002. The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 and the unaudited pro forma condensed consolidated balance sheet as of December 31, 2002 also gives effects to (i) the incurrence of additional debt of up to 9 billion that will be used to finance the required withdrawal right of Olivetti shareholders (11 million) and, with the residual amount of additional debt, the Tender Offers assuming the Tender Offers are fully subscribed and (ii) the proposed spin-off and announced sale of New SEAT, as if such transactions had occurred on January 1, 2002 for statement of operations purposes and as of December 31, 2002 for balance sheet purposes. The pro forma information is intended to give you a better understanding of the impact the Merger and the SEAT spin-off will have on the financial statements of Olivetti and Telecom Italia. The notes to the unaudited pro forma consolidated financial statements describe the adjustments made to the Olivetti financial statements to illustrate the pro forma effect of the Merger and the SEAT spin-off. The unaudited pro forma condensed consolidated financial information is prepared in accordance with U.S. GAAP.

We have derived the Summary Unaudited Pro Forma Condensed Consolidated Financial Information set out below from, and you should read it together with, the Unaudited Pro Forma Condensed Consolidated Financial Data which is included elsewhere in this Information Statement. You should understand that the unaudited pro forma consolidated financial information does not represent actual results and you should not rely on this unaudited pro forma consolidated financial information as being indicative of the results of operations and financial position we may have in the future or might have had in the past had the Merger and the SEAT spin-off been effective on the dates assumed.

You should also read this section in conjunction with the Olivetti Group s audited financial statements and notes thereto included elsewhere in this Information Statement and the Telecom Italia Group s audited consolidated financial statements and notes thereto contained in the Telecom Italia Annual Report incorporated by reference herein.

Table of Contents

U.S. GAAP Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2002

		Pro forma				
	Olivetti U.S. GAAP with Telecom Italia consolidated Year Ended December 31, 2002 (1)	Adjustments				New Telecom Italia U.S. GAAP Pro forma Year Ended December 31, 2002 (1+2+3+4)
		Disposal of New SEAT (2)		Effect of additional borrowing (3)	Effect of Merger (4)	
	(Millions of euro, except per share and per ADS amounts)	Net assets disposed of (*)	Cash received and early exercise of put option			(Millions of euro, except per share and per ADS amounts)
		(millions of euro)				
Total revenues	31,864	(1,379)				30,485
Cost of materials	(2,312)	96				(2,216)
Personnel costs	(4,771)	285				(4,486)
Depreciation and amortization	(5,731)	471			(291)	(5,551)
Impairments of goodwill	(3,444)	3,257				(187)
Other operating expenses, net	(11,321)	484				(10,837)
Total operating expenses	(27,579)	4,593			(291)	(23,277)
Operating income / (loss)	4,285	3,214			(291)	7,208
Financial income and (expense), net	(2,813)	58	135	(369)	(74)	(3,063)
Other income (expense), net	(1,572)	(6)				(1,578)
Net income (loss) before income taxes	(100)	3,266	135	(369)	(365)	2,567
Income tax benefit (expense)	3,176	(122)			(2,136)	918
Minority interest	(1,120)	(13)			505	(628)
Net income (loss)	1,956	3,131	135	(369)	(1,996)	2,857
Net income per Share Basic	0.2266(5)					0.0919(6)
Net income per Share Diluted	0.2266(5)					0.0919(6)
Net income per Share ADS Basic						0.9199(6)
Net income per Share ADS Diluted						0.9199(6)

(*) After elimination of infra group transactions.

18

Table of Contents

U.S. GAAP Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2002

	Olivetti U.S. GAAP consolidated with Telecom Italia as of December 31, 2002 (1)	Pro forma — Adjustments — Disposal of New SEAT (2): Net assets disposed of (*)	Disposal of New SEAT (2): Cash received and early exercise of put option	Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia U.S. GAAP Pro forma as of December 31, 2002 (1+2+3+4)
	(millions of euro)					
Assets:						
Current assets	21,599	(756)	(153)			20,690
Fixed assets, net	21,503	(54)				21,449
Goodwill relating to Telecom Italia	24,106				17,346	41,452
Other intangible assets, net	17,064	(4,237)			2,012	14,839
Other long-term assets	8,639	(35)	(139)	8,989	(8,899)	8,555
Total assets	92,911	(5,082)	(292)	8,989	10,459	106,985
Liabilities and stockholders equity:						
Current liabilities	18,599	(650)	(882)		988	18,055
Long-term debt	38,375	(433)	(2,417)	9,000		44,525
Reserves and other liabilities	11,340	(817)			770	11,293
Total liabilities	68,314	(1,900)	(3,299)	9,000	1,758	73,873
Minority interest	9,373	(3)			(6,367)	3,003
Stockholders equity	15,224	(3,179)	3,007	(11)	15,068	30,109
Total liabilities and stockholders equity	92,911	(5,082)	(292)	8,989	10,459	106,985

(*) After elimination of infra group transactions. The amount reported in the line Stockholders Equity relates to the percentage of ownership of Telecom Italia in New SEAT.

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information

Under U.S. GAAP, the combination of Telecom Italia and Olivetti will be accounted for under the purchase method of accounting for business combinations, with Olivetti treated as the acquiror. The total purchase consideration has been estimated based on several assumptions, including the estimated number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares to be acquired by Olivetti from Telecom Italia shareholders in the respective Tender Offers and cancelled prior to the Merger becoming effective.

The preliminary announcement of the Merger of the two companies was made on March 12, 2003. On April 15, 2003, each of the Telecom Italia Board and the Olivetti Board approved the Merger and set the Exchange Ratios for the Merger. The terms of the Plan of Merger, including the natural Exchange Ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each) were approved at the ordinary and extraordinary shareholders meeting of May 24, 2003 for Telecom Italia and May 26, 2003 for Olivetti. The Merger is expected to be completed in the first half of August 2003. Due to the fact that the Merger has not been completed yet, management has not had sufficient time to finalize its analysis of the purchase price allocation as of the date of this Information Statement. Therefore, the estimated consideration to be paid over the carrying value of Telecom Italia has been preliminarily reflected between identifiable intangible assets and goodwill as reported above in the accompanying pro formas. New Telecom Italia will use SFAS 142 in accounting for intangible assets with indefinite life and goodwill in the future, therefore no amounts have been amortized in the accompanying pro forma statement of operations for such assets and the amortization reported in the accompanying pro forma statement of operations relates only to intangible assets with lives between three to five years.

19

Table of Contents

The accompanying pro formas are presented in the following manner:

1. The condensed consolidated Olivetti statement of operations for the year ended December 31, 2002 and balance sheet dated as of December 31, 2002, which consolidates Telecom Italia have been derived from the Olivetti U.S. GAAP consolidated financial statements included elsewhere herein, after taking into account the significant differences between Italian GAAP and U.S. GAAP.

2. The adjustments in this column are to give effect to the proposed spin-off from SEAT, the controlled Internet and Media subsidiary of Telecom Italia, of New SEAT and to the gross proceeds of approximately 3 billion from the sale of New SEAT based on the announcement of June 11, 2003 which, as described above, takes into account the additional disposal of the New SEAT ordinary shares arising from the expected early exercise of the SEAT put option. These adjustments are derived from the carve-out U.S. GAAP financial statements of the affected SEAT businesses. The disposal of these businesses is occurring in two phases.

- Phase one is a spin-off to the existing shareholders, including Telecom Italia, of shares in the New SEAT. This entity will be listed on the Italian stock exchange.

- The second step is for Telecom Italia to sell the shares it will hold in New SEAT including, as described above, those arising from the expected early exercise of the SEAT put option. Pursuant to requirements of Italian Law, the purchasers of the New SEAT shares from Telecom Italia will be required to make the same offer to the remaining New SEAT shareholders.

These adjustments also include the pro forma effect of the fair value of the SEAT put option, expected to be exercised early, as of December 31, 2002, net of the previously deferred premium, for a total of 76 million, net of tax. Also included in equity is the preliminarily estimated loss on the closing of the New SEAT sale, estimated at approximately 96 million, net of tax.

3. The effects in this column include the additional borrowing of 9 billion in order to finance the Olivetti withdrawal right and to finance the Tender Offers that will be made based on the average market price, plus a premium of 20%, of 8.010 per Telecom Italia Ordinary Share and 4.820 per Telecom Italia Savings Share. As indicated, the full amount will be borrowed if the Tender Offers are fully subscribed. To the extent that Olivetti acquires fewer Telecom Italia Ordinary Shares and/or Telecom Italia Savings Shares in the Tender Offers it will borrow less under the Term Loan Facility. For each 100 million less borrowed, interest expense would be reduced by approximately 4.1 million.

4. This column gives effect to the estimated value of the completion of the Merger. Under U.S. GAAP, the average of the stock price for five days, two days before and two days after, the announcement are to be used to calculate the fair value of the Olivetti shares exchanged. The average price of the Olivetti shares according to this approach was 0.8884.

The purchase price for the Merger is expected to be 24,051 million plus direct acquisition costs of 110 million. These amounts are included in the adjustments in column 4. The total purchase price has been derived and allocated as follows:

	(millions of euros)

Cash to be paid to existing Telecom Italia shareholders(1)	8,989
Value of Olivetti shares to be exchanged(1)	15,062
Direct acquisition costs	110
Total purchase price to be allocated	24,161
Carrying value of Telecom Italia on a U.S. GAAP basis	(5,573)
Preliminary allocation of identifiable intangibles on a proportional basis with the allocation that had been made at June 30, 1999	(2,012)
Related deferred taxes	770
Preliminary goodwill	17,346

(1) Assumes the Tender Offers are fully subscribed. If the Tender Offers are less than fully subscribed, Olivetti will issue more shares in the Merger, which could result in a decrease in the amount of goodwill recorded for the Merger transaction.

Table of Contents

The preliminary purchase price has been allocated on a preliminary basis to identifiable intangible assets and to goodwill. After the transaction has been completed New Telecom Italia will perform a purchase price allocation that will allocate the final purchase price to the fair value of the assets and liabilities assumed. The actual amount of that allocation, and the resulting goodwill, could differ materially from the preliminary goodwill estimated above.

5. Net income per share for Olivetti, which currently does not have a class of savings shares outstanding prior to the Merger, has been computed by dividing income available to shareholders by the weighted average number of Olivetti Ordinary Shares outstanding, and the diluted earnings per Olivetti Ordinary Share is increased to include any potential Olivetti Ordinary Shares and is adjusted for any changes to income that would result from the assumed conversion of those potential Olivetti Ordinary Shares. For the purpose of these calculations, the weighted average number of Olivetti Ordinary Shares was 8,630,753,657 for the year ended December 31, 2002.

6. Pro forma net income per share has been calculated based on the estimated number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares that will be outstanding after the termination of the Tender Offers and the completion of the Merger. Olivetti currently does not have a class of savings shares outstanding prior to the Merger. In order to effect the Merger, Olivetti will issue new savings shares to the existing Telecom Italia Savings Shareholders. Net income per share has been calculated using the two-class method since New Telecom Italia will have both Ordinary Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standard 128, *Earnings Per Share,* Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential shares and is adjusted for any changes to income that would result from the assumed conversion of those potential shares. For purposes of these calculations, the weighted average number of shares was 30,333,649,850 for the year ended December 31, 2002. The calculations take into account the requirement that holders of New Telecom Italia Savings Shares are entitled to an additional dividend equal to 2% of the par value of New Telecom Italia Savings Shares) above dividends paid on New Telecom Italia Ordinary Shares. In 2002, pro forma net income per New Telecom Italia Savings Share Basic was 0.1030 and pro forma net income per New Telecom Italia Savings Share ADS Basic was 1.0300.

Table of Contents

COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

Comparative Per Share Data

We are including certain historical audited information and certain unaudited pro forma information with respect to net income per share for the Olivetti Ordinary Shares, Telecom Italia Ordinary Shares and Telecom Italia Savings Shares and for the New Telecom Italia Ordinary Shares and New Telecom Italia Savings Shares on a pro forma basis. You should read this information together with Olivetti s audited consolidated financial statements and notes thereto included elsewhere in this Information Statement. You should also read this information together with Telecom Italia s audited consolidated financial statements and notes thereto included in the Telecom Italia Annual Report incorporated by reference herein. This historical and pro forma information is included for comparative purposes only. All figures have been prepared in accordance with U.S. GAAP. You should not rely on this pro forma information as being indicative of the results of operations or financial position that we actually would have obtained if the Merger had been effective on the dates assumed.

	Year ended December 31, 2002		
	Olivetti(1)	Telecom Italia(2)	Pro Forma Consolidated(3)
	(euro)	(euro)	(euro)
U.S. GAAP:			
Net income per Ordinary Share	0.2266	0.1103	0.0919
Net income per Savings Share(4)	N/A	0.1213	0.1030

Notes:

(1) Computed on the weighted average number of Olivetti Ordinary Shares outstanding equal to 8,631 million share.

(2) Computed on the weighted average number of Telecom Italia Shares outstanding equal to 7,298 million shares.

(3) Computed on the pro forma weighted average number of New Telecom Italia Shares expected to be outstanding after completion of the Merger equal to approximately 30,333 million shares (before redistribution).

(4) Computed in accordance with the two class method described on page 21.

Market Data

Olivetti Shares

The principal trading market for the Olivetti Ordinary Shares is Telematico, an automated screen trading system managed by Borsa Italiana. Olivetti Ordinary Shares are also traded on the Frankfurt Stock Exchange.

Table of Contents

Olivetti Ordinary Shares

The table below shows the reported high and low official prices of Olivetti Ordinary Shares on Telematico for the periods indicated through June 26, 2003:

	Telematico	
	High	Low
	(euro)	
2000:		
First quarter	4.3889	2.1958
Second quarter	3.7860	2.9193
Third quarter	3.7733	2.8821
Fourth quarter	3.3581	2.3427
2001:		
First quarter	2.6482	1.8044
Second quarter	2.3500	1.7311
Third quarter	2.1293	0.8680
Fourth quarter	1.4620	0.9512
2002:		
First quarter	1.4830	1.2180
Second quarter	1.4040	1.0080
Third quarter	1.1910	0.8644
Fourth quarter	1.2460	0.8436
2003:		
January	1.0740	0.9244
February	0.9670	0.8771
March	0.9557	0.8593
April	1.0240	0.9524
May	1.0700	0.9789
June (through June 26, 2003)	1.1140	1.0180

On March 7, 2003, the last full trading day prior to the announcement of the Merger, Olivetti Ordinary Shares had an official price on Telematico of 0.8593 per Olivetti Ordinary Share. On June 26, 2003, Olivetti Ordinary Shares had an official price on Telematico of 1.11 per Olivetti Ordinary Share.

Telecom Italia Shares

The principal trading market for the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares is Telematico, the automated screen trading system managed by Borsa Italiana. The principal trading market for the Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs is the New York Stock Exchange.

Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs, each representing respectively 10 Telecom Italia Ordinary Shares and 10 Telecom Italia Savings Shares, have been quoted on the NYSE since July 27, 1995. JPMorgan Chase Bank is the Company s Depositary issuing ADRs evidencing the Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs.

Table of Contents

The table below sets forth, for the periods indicated, reported high and low official prices of the Telecom Italia Ordinary Shares on Telematico and high and low closing prices of Telecom Italia Ordinary Share ADSs on the NYSE.

	Telematico		NYSE	
	High	Low	High	Low
	(euro)		(U.S.$)	
2000:				
First quarter	19.12	11.81	195	121 9/16
Second quarter	16.08	12.78	150 6/16	117 7/16
Third quarter	14.93	11.68	145 1/16	105
Fourth quarter(1)	13.67	11.24	121 14/16	97 8/16
2001:				
First quarter	13.42	10.50	127.50	95.55
Second quarter	12.34	9.52	113.25	83.00
Third quarter	10.74	6.40	94.50	60.00
Fourth quarter	9.82	8.00	90.35	75.50
2002:				
First quarter	9.73	8.55	88.75	75.18
Second quarter	9.21	7.49	85.00	74.60
Third quarter	8.35	7.08	83.20	71.35
Fourth quarter	8.31	7.03	85.25	70.45
2003:				
January	7.53	6.73	80.19	73.00
February	7.08	6.40	75.64	68.88
March	6.47	5.31	70.20	58.65
April	7.35	6.44	81.40	70.14
May	7.88	7.23	94.43	80.41
June (through June 26)	8.14	7.64	94.35	89.56

Source: Reuters data.

(1) The official prices of Telecom Italia Ordinary Shares, Telecom Italia Savings Shares, Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs for the periods prior to and including November 10, 2000 are not comparable to the official prices of these shares and ADSs in the following periods due to the effect of the demerger of Tin.it, which became effective on November 10, 2000.

At the close of business on June 16, 2003, there were 2,253,738 Telecom Italia Ordinary Share ADSs outstanding held by 107 registered holders.

Table of Contents

The table below sets forth, for the periods indicated, reported high and low official prices of the Telecom Italia Savings Shares on Telematico and high and low closing prices of the Telecom Italia Savings Share ADSs on the NYSE for the period following such date.

	Telematico		NYSE	
	High	Low	High	Low
	(euro)		(U.S.$)	
2000:				
First quarter	8.38	5.39	82 11/16	58 10/16
Second quarter	6.85	5.94	67 2/16	56 14/16
Third quarter	7.15	5.79	71	55
Fourth quarter	6.29	5.50	58 8/16	52 4/16
2001:				
First quarter	6.84	5.44	63.38	52.50
Second quarter	6.89	5.05	61.00	45.94
Third quarter	5.83	3.63	50.50	37.50
Fourth quarter(1)	5.85	4.44	52.29	49.00
2002:				
First quarter	6.20	5.21	55.96	47.51
Second quarter	6.14	4.94	57.00	50.32
Third quarter	5.50	4.80	56.50	53.00
Fourth quarter	5.38	4.77	56.33	48.67
2003:				
January	4.90	4.39	50.50	49.49
February	4.64	4.38	52.00	49.50
March	4.44	3.35	42.97	36.00
April	4.39	3.89	47.00	42.50
May	4.76	4.32	52.70	47.25
June (through June 26)	4.96	4.61	57.59	53.00

Source: Reuters data.

(1) The official prices of Telecom Italia Ordinary Shares, Telecom Italia Savings Shares, Telecom Italia Ordinary Share ADSs and Telecom Italia Savings Share ADSs for the periods prior to and including November 10, 2000 are not comparable to the official prices of these shares and ADSs in the following periods due to the effect of the demerger of Tin.it, which became effective on November 10, 2000.

At the close of business on June 16, 2003, there were 137,359 Telecom Italia Savings Share ADSs outstanding held by 7 registered holders.

Fluctuations between the euro and the U.S. dollar will affect the dollar equivalent of the price of the Telecom Italia Ordinary Shares and the Telecom Italia Savings Shares on Telematico and the price of the Telecom Italia Ordinary Share ADSs and the Telecom Italia Savings Share ADSs on the New York Stock Exchange. On June 26, 2003, the Noon Buying Rate for the euro was U.S.$1.1843 = 1.00.

On March 7, 2003, the last full trading day prior to the announcement of the Merger, Telecom Italia Ordinary Shares had an official price on Telematico of 5.925 per Telecom Italia Ordinary Share and Telecom Italia Savings Shares had an official price on Telematico of 3.979 per

Telecom Italia Savings Share. On June 26, 2003, Telecom Italia Ordinary Shares had an official price on Telematico of 8.14 per Telecom Italia Ordinary Share and Telecom Italia Savings Shares had an official price on Telematico of 4.96 per Telecom Italia Savings Share.

Holders of Telecom Italia Shares

As of May 31, 2003, a total of 157,639,795 Telecom Italia Ordinary Shares (including Ordinary Share ADSs) were registered in the Telecom Italia shareholders register in the name of 1,290 holders resident in the U.S. These shares represented 2.995% of the 5,262,338,081 total outstanding Telecom Italia Ordinary Shares. As of May 28, 2003, there were seven record holders of Telecom Italia Savings Share ADSs resident in the United States. With respect to Telecom Italia Savings Shares that are in registered form (which at the time of the December 2002 dividend payment, represented approximately 14.5% of the outstanding Telecom Italia Savings Shares), as of May 31, 2003, there were no holders resident in the United States reflected on Telecom Italia s shareholders register. With respect to Telecom Italia Savings Shares that are in bearer form, Telecom Italia is unable to determine how many holders are resident in the United States.

Table of Contents

As of May 28, 2003, 0.77% of the Telecom Italia Ordinary Shares were traded in the form of Ordinary Share ADSs by 104 registered holders (19,082 beneficial owners) of record and approximately 0.07% of the Telecom Italia Savings Shares were traded in the form of Savings Share ADSs by seven registered holders (70 beneficial owners) of record.

Dividends

Olivetti

The table below shows the amount of dividends paid on each Olivetti Ordinary Share for each of the last five fiscal years:

Fiscal Year	Euro per Olivetti Ordinary Share	Euro per Olivetti Savings Share(2)
1998	0	0
1999	0.0311(1)	0.01938
2000	0.0350(1)	
2001	0	
2002	0	

(1) Dividends for 1999 and 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit.1,936.27 = 1.

(2) On July 24, 2000, the compulsory conversion of the Olivetti Savings Shares into Olivetti Ordinary Shares (approved by the special shareholders meeting held on July 6, 2000) became effective.

Telecom Italia

The table below shows the amount of dividends paid on each Telecom Italia Share and each Telecom Italia ADS for each of the last five fiscal years of Telecom Italia:

	Dividends on Shares			Dividends on Savings Shares		
Year ended December 31,	Euros per Share	U.S. dollars per Share(2)	Millions of euros	Euros per Share	U.S. dollars per Share(2)	Millions of euros
1998(1)	0.1446	0.15	759.94	0.1549	0.17	335.61
1999(1)	0.3099(3)	0.29	1,638.10	0.3218(3)	0.30	688.58
2000(1)	0.3125	0.27	1,643.93	0.3238	0.28	664.84
2001	0.3125(4)	0.28	1,644.19	0.3237(4)	0.29	662.33
2002	0.1357(5)	0.13	713.47	0.1357(5)	0.13	273.11

(1) Dividends for 1998, 1999 and 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit.1,936.27 = 1.

(2) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. See Presentation of Certain Financial and Other Information.

(3) The per share amount paid with respect to the fiscal year ended December 31, 1999 includes the distribution to all shareholders of the dividends payable on 26,046,820 Telecom Italia Savings Shares held in treasury on the date the dividend was paid. A total of approximately 3.12 million was also distributed from the statutory reserve in order to round up such per share amounts.

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

(5) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed and paid corresponding to a dividend of 0.1357 per Telecom Italia Ordinary Share and a dividend of 0.1357 per Telecom Italia Savings Share. Furthermore, the shareholders meeting held on May 24, 2003 approved an additional dividend of 0.1768 per Telecom Italia Ordinary Share and 0.1878 per Telecom Italia Savings Share, payable from income and capital reserves. Pursuant to Italian Stock Exchange rules, dividends on the Telecom Italia Ordinary Shares and the Telecom Italia Savings Shares are payable from the fourth business day after the third Friday of each month, and in any case, at least four business days after the Annual Meeting of Shareholders approving the dividends. Telecom Italia s additional dividend coupons for the year ended December 31, 2002 were clipped on June 23, 2003, and are payable from June 26, 2003.

For a discussion of certain tax consequences with respect to the payment of dividends on the New Telecom Italia Shares, you should read Certain Income Tax Consequences Taxation of dividends.

Table of Contents

RISK FACTORS

An investment in the New Telecom Italia Shares will involve a degree of risk, including those risks which are described in this section. You should carefully consider the following discussion of risks, as well as the risks set forth under the heading Risk Factors appearing in the Telecom Italia Annual Report before deciding whether an investment in the New Telecom Italia Shares is suitable for you.

Risk Factors Relating to the Merger

New Telecom Italia s ability to achieve its strategic objectives may be influenced by a number of factors

This Information Statement contains some operating objectives for New Telecom Italia, agreed by Olivetti and Telecom Italia in connection with the Merger and consistent with those of the Telecom Italia Group approved by the Telecom Italia Board on February 13, 2003. These objectives confirm the guidelines and objectives of the Telecom Italia Group s Business Plan for the years 2002-2004.

Factors beyond the New Telecom Italia Group s control that could affect the achievement of the objectives of the New Telecom Italia Group include:

- the New Telecom Italia Group s ability to manage costs;
- the New Telecom Italia Group s ability to attract and retain highly-skilled and qualified personnel;
- the New Telecom Italia Group s ability to divest additional non-core businesses and the adequacy of the returns of such divestitures;
- the New Telecom Italia Group s ability to leverage on its core skills with particular focus on Latin America mobile and international broadband operations;
- difficulties in developing and introducing new technologies, managing innovation and providing value-added services;
- the need to establish and maintain strategic relationships;
- declining prices for some of the New Telecom Italia Group s services and increasing competition;
- the effect of adverse economic trends on the New Telecom Italia Group s principal markets; and
- the effect of foreign exchange fluctuations on the New Telecom Italia Group s results of operations.

Furthermore, the achievement of the objectives may also be subject to other factors beyond the control of New Telecom Italia, including economic and market developments. Nor can any assurances be given that New Telecom Italia will actually achieve the objectives identified by management in the ways and according to the timetable envisaged.

New Telecom Italia s total net financial debt will increase if the Merger is successful

The debt of New Telecom Italia could be greater than the present total debt of Olivetti and Telecom Italia as a consequence of the Merger although the total amount will depend on the level of acceptances of Telecom Italia s shareholders of the Tender Offers by Olivetti. Under Italian GAAP, total net financial debt (see Summary Telecom Italia Selected Financial Data Note 10) is expected to be up to approximately 43.6 billion on a pro forma basis following the Merger, a maximum increase of approximately 25 billion from the net financial debt of 18.1 billion at December 31, 2002 of the Telecom Italia Group, of which about 15 billion is existing Olivetti net financial debt and a further 9 billion relates to the maximum amount of funding for the withdrawal rights exercised by certain Olivetti shareholders and the Tender Offers to be made by Olivetti. At December 31, 2002 net financial debt of the Olivetti Group was 33.4 billion (including the net financial debt of the Telecom Italia Group).

Net financial debt is projected to decrease and the 9 billion of additional debt which may be incurred is expected to be retired by the end of 2004, partly by using the proceeds of the sale of other non-strategic assets. There can be no assurance that factors beyond New Telecom Italia s control, including but not limited to deterioration in general economic conditions, will not significantly affect New Telecom Italia s ability to reduce such debt. The Telecom Italia Group s business will be adversely affected if it is unable to successfully implement its business plans, particularly in light of the Merger. Factors beyond the New Telecom Italia Group s control may prevent the New Telecom Italia Group from successfully implementing its strategy.

Table of Contents

New Telecom Italia may be unable to complete the sale of non-strategic assets

The failure to complete, in whole or in part, or the delayed execution of the program of disposals of equity interests in companies that operate in sectors considered non-strategic could cause results to diverge from the objectives set, particularly with respect to debt reduction. In addition, in the case of non-disposal or delayed disposal of such assets, the assets and liabilities, financial position and profits and losses of the companies earmarked for sale could have adverse effects on the profitability, assets and liabilities and financial position of New Telecom Italia and such adverse effects could be material.

Golden Share

Telecom Italia s bylaws grant certain special powers to the Minister for the Economy and Finance (the so-called Golden Share). The Minister for the Economy and Finance informed Telecom Italia that he considered the conditions did not exist for exercising his veto right in the event of the adoption by Telecom Italia s shareholders meeting of the resolution approving the Merger.

In connection with the Merger, the Minister for the Economy and Finance informed Telecom Italia that he considered it necessary to maintain in the bylaws of New Telecom Italia the power to assent to the acquisition of major shareholdings in the company s capital and the power of veto as set out in the current bylaws of Telecom Italia. However, the Minister for the Economy and Finance has agreed to forego its rights in the current Telecom Italia bylaws to assent to significant shareholders agreements and to appoint a member of the Board of Directors and a member of the Board of Statutory Auditors.

As a result, the powers retained by the Minister for the Economy and Finance in New Telecom Italia s bylaws may have an impact on the outcome of a possible acquisition of New Telecom Italia. See Comparison of Shareholders Rights and Item 7. Major Shareholders and Related Party Transactions Continuing Relationship with the Treasury in the Telecom Italia Annual Report incorporated by reference herein.

Risk Factors Relating to the Business of Olivetti and Telecom Italia

For a full discussion of the principal risk factors relating to the business of the New Telecom Italia Group, see Item 3. Key Information Risk Factors in the Telecom Italia Annual Report incorporated by reference herein.

Table of Contents

TERMS OF THE TRANSACTION

General

This section of the Information Statement describes certain aspects of the proposed Merger, including the material provisions of the Plan of Merger. The following description of the Merger does not purport to be complete and is qualified in its entirety by reference to the English translation of the Plan of Merger, which is attached as Annex A to this Information Statement and is incorporated herein by reference, as well as the English translations of the Olivetti Board of Directors Report to Shareholders dated April 15, 2003 (**Olivetti Board Report**) and the Telecom Italia Board of Directors Report to Shareholders dated April 15, 2003 (**Telecom Italia Board Report**), which are attached as, respectively, Annexes H and I to this Information Statement and are incorporated herein by reference. Capitalized terms in this description not previously defined herein have the meaning given in the Plan of Merger, the Olivetti Board Report or the Telecom Italia Board Report. Holders of Telecom Italia Savings Shares are urged to read the Plan of Merger, the Telecom Italia Board Report and the Olivetti Board Report carefully.

Terms of the Merger

What Telecom Italia Shareholders Will Receive

As a result of the Merger, Telecom Italia will be merged with and into Olivetti, with Olivetti as the surviving entity, and Olivetti will succeed to the business of Telecom Italia. Since the Merger will involve the merger into Olivetti of a subsidiary it will result in the cancellation of Olivetti s interest in Telecom Italia when the Merger becomes effective and the assignment to each holder of Telecom Italia Savings Shares or Telecom Italia Ordinary Shares (other than Olivetti) of a number of New Telecom Italia Savings Shares or New Telecom Italia Ordinary Shares. For purposes of determining the number of New Telecom Italia Shares holders of Telecom Italia Shares will be entitled to receive, natural Exchange Ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each) were determined based upon a relative valuation of Olivetti and Telecom Italia. Pursuant to the Exchange Ratios, each Telecom Italia Savings Share or Telecom Italia Ordinary Share will entitle a holder thereof to receive a number of New Telecom Italia Shares equivalent to 7 times the number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares will be entitled to receive for each Olivetti Ordinary Share. (Olivetti does not currently have a class of savings shares.) The exact number of New Telecom Italia Shares a holder of Olivetti Ordinary Shares receives for each Olivetti Ordinary Share will be based on the Assignment Ratio, which will be officially determined at the time of the signing of Deed of Merger after giving effect to a redistribution of the existing capital of Olivetti. See Terms of the Transaction Terms of the Merger What Telecom Italia Shareholders Will Receive.

Each holder of Telecom Italia Ordinary Share ADRs and Telecom Italia Savings Share ADRs will be issued new ADRs representing the number of New Telecom Italia Ordinary Share ADSs or New Telecom Italia Savings Share ADSs, as the case may be, such ADR holder will be entitled to receive pursuant to the Assignment Ratio relating to the underlying Telecom Italia Ordinary Shares or Telecom Italia Savings Shares, as the case may be. See Terms of the Transaction Plan of Merger Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs.

For the most part, the Assignment Ratio will be satisfied by redistributing the share capital of New Telecom Italia and having recourse to the issue of new shares only insofar as it is necessary to maintain the share capital of New Telecom Italia at the level of Olivetti s share capital as it existed on April 15, 2003 (equal to 8,845,537,520, divided into 8,845,537,520 ordinary shares with a par value of 1 each).

Terms of the New Telecom Italia Savings Shares

The New Telecom Italia Savings Shares will have identical economic rights to those of the Telecom Italia Savings Shares, including that the preferential rights provided for in the bylaws may be satisfied by distributing reserves. The maintenance of the preferential rights to which each New Telecom Italia Savings Share will be entitled to under the New Telecom Italia bylaws will be accompanied by an improvement in the preferential position of the New Telecom Italia Savings Shareholders, since they will ultimately be assigned, for each such share held, more than one New Telecom Italia Savings Share on the basis of the Assignment Ratio by means of which the exchange will be implemented. For a more detailed discussion of the Assignment Ratio and the mechanism for assigning the shares of New Telecom Italia, see Assignment of New Telecom Italia Shares and Start of Dividend Entitlement.

Table of Contents

Specifically, since each New Telecom Italia Savings Share will have a par value equal to the present par value of the Telecom Italia Savings Shares (0.55) and will give the same percentage preferential right calculated with reference to its par value, at the time of the exchange each holder of Telecom Italia Savings Shares will receive, as a consequence of the Assignment Ratio, a larger amount of the nominal capital of New Telecom Italia than the amount previously held and will therefore be entitled to a larger preferred dividend in absolute terms.

The Merger will therefore not prejudice the Telecom Italia Savings Shareholders in any way. Consequently, in the absence of the preconditions referred to in Article 2376 of the Civil Code and Article 146 of the Consolidated Law, the Telecom Italia Board determined that the conditions did not exist for calling a special meeting of the Telecom Italia Savings Shareholders. At the request of one of the Telecom Italia Savings Shareholders, a special meeting was held on June 9, 2003, as described below under Background of the Merger.

Olivetti Shareholders Withdrawal Rights

Olivetti shareholders who either voted against the Merger or abstained from participating in the extraordinary meeting of Olivetti s ordinary shareholders benefited from a withdrawal right at 0.9984 per share (which is the mean of the daily official prices of the Olivetti shares in the six months preceding the date the merger resolution was adopted). Olivetti shareholders were entitled to such a right by law due to the change in the corporate objectives of Olivetti which were necessary in order to permit New Telecom Italia to conduct the activities currently conducted by Telecom Italia (with particular reference to activities governed by public licenses and authorizations). As of June 12, 2003, the end of the withdrawal right period, withdrawal rights had been exercised in respect of 10,958,057 Olivetti Ordinary Shares, representing 0.12% of Olivetti s share capital. Pursuant to these declarations, Olivetti shareholders will receive from Olivetti an aggregate payment of 10,940,525 (plus yearly statutory interest at a rate of 3% accruing in the period from the date of effectiveness of the Merger to the date of payment) at the latest within 90 days of the date on which the Merger becomes effective.

The Tender Offers

In connection with the Merger, Olivetti has commenced the Tender Offers. In addition to having an investment rationale, the Tender Offers are also intended to provide Telecom Italia shareholders who do not wish to maintain their holding in New Telecom Italia a means to liquidate part, or all, of their holdings in Telecom Italia in a similar manner as that afforded to Olivetti shareholders pursuant to their right of withdrawal.

Olivetti will tender for 908,873,776 (17.3%) of the Telecom Italia Ordinary Shares (including those represented by ADSs) and 354,560,274 (17.3%) of the Telecom Italia Savings Shares. However, if the acceptances of the Tender Offers fall short of the maximum quantity sought for one class of shares (either Telecom Italia Ordinary Shares or Telecom Italia Savings Shares) but exceed it for the other class, the amount not used to buy shares of the first class will be used to buy shares of the second class, and the maximum quantity of shares sought of the latter class will increase until all of the part of the Term Loan Facility (as defined below) remaining after paying for the withdrawal rights of Olivetti shareholders has been used, so as to ensure, by means of this communicating vessels mechanism, that the largest number of shareholders wishing to accept the Tender Offers can be satisfied. Where, even after the application of the above-mentioned communicating vessels mechanism, the total number of acceptances received exceeds the amount remaining under the Term Loan Facility after paying for withdrawals, Olivetti will prorate them for one or both classes.

The Savings Share Offer described above is not being made and will not be made, directly or indirectly, in or into the United States and will not be capable of acceptance, directly or indirectly, in or from the United States or by the use of the mails of, or by any means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of the internet or otherwise) of interstate or foreign commerce, or any facility of any national securities exchange of the United States.

New Loan Facility

On April 24, 2003, Olivetti entered into a 9 billion term loan facility. Pursuant to the terms of this facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving

Table of Contents

credit facility available, for the short-term financial requirements, including the repayment of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

Background of the Merger

The Olivetti Tender Offer

Olivetti acquired control of Telecom Italia in 1999 through an unsolicited tender offer, which closed on May 21, 1999. Approximately 52.12% of Telecom Italia Ordinary Shares were tendered and accepted by Olivetti in the tender offer. Following the success of this tender offer, the Olivetti Group was expanded to include all of the operating companies of Telecom Italia and Olivetti s controlling interest in Telecom Italia s Ordinary Shares eventually increased to 54.94%.

On completion of the tender offer, in May 1999 the majority of Telecom Italia s existing Board of Directors tendered their resignations. A new Telecom Italia Board of Directors was elected at the Telecom Italia annual shareholders meeting held on June 28, 1999. The new Telecom Italia Board of Directors appointed Roberto Colaninno, the Chief Executive Officer and a director of Olivetti, as Chairman and Chief Executive Officer of Telecom Italia.

The Pirelli-Olimpia Transaction

The following information on Olimpia is based on publicly available information.

Olimpia became the major shareholder of Olivetti in 2001.

On July 30, 2001, Pirelli and Edizione Holding S.p.A. (**Edizione**) signed an agreement with Bell S.A., a Luxembourg holding company (**Bell**) for the acquisition, through a company to be designated, of the stake in Olivetti owned by Bell. Such stake represented approximately 23.3% of Olivetti s share capital. Edizione is the parent company of the Benetton group and is controlled by the Benetton family.

On August 3, 2001, Pirelli and Edizione Finance International S.A. (**Edizione Finance**), a wholly-owned subsidiary of Edizione), formed Olimpia, the company designated for the acquisition of Olivetti then controlled by Bell and other investors. Pirelli held 80% of Olimpia s share capital and Edizione held 20%.

Between August 9, 2001 and November 23, 2001, in a series of transactions involving Pirelli, two of Pirelli s subsidiaries, Edizione, Bell, Unicredito and Banca Intesa, and following the participation in the issuance of shares and convertible bonds to Olivetti, Olimpia acquired approximately 28.7% of Olivetti s share capital, as well as Olivetti convertible bonds convertible into 504,825,562 Olivetti shares and entered into a forward purchase agreement for a further 263,500,000 Olivetti shares. Settlement can be made through the physical delivery of the shares against payment of the agreed price or payment of the differentials compared to the market price.

As of June 30, 2003, Olimpia held 2,525,094,364 Olivetti Ordinary Shares (equal to approximately 28.55% of the share capital of Olivetti) and 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption.

As of the date of this Information Statement, the share capital of Olimpia is fully paid and is equal to 1,860,233,510 consisting of 1,860,233,510 shares with a par value per share of 1. This share capital is held by Pirelli (50.4%), Edizione Finance (16.8%), Hopa S.p.A. (**Hopa**) (16%), Banca Intesa (8.4%) and Unicredito (8.4%).

Through a series of shareholders agreements entered into in 2001-2003, Olimpia s shareholders agreed, among other things, to various ownership limits and standstill arrangements with respect to Olivetti shares and certain other Olivetti securities and to rights to nominate or designate directors to the boards of directors of Olivetti, Telecom Italia, TIM and SEAT. For a description of the shareholders agreements, please see Material Contracts below.

Table of Contents

At the time Olimpia acquired Bell s stake in Olivetti in July 2001, Roberto Colaninno resigned as Chairman and Chief Executive Officer of Telecom Italia and as Chief Executive Officer and a director of Olivetti. In September 2001, Marco Tronchetti Provera (Chairman and Chief Executive Officer of Pirelli) was elected Deputy Chairman of Olivetti and Chairman of Telecom Italia, Gilberto Benetton (Chairman of Edizione) was elected Deputy Chairman of both Olivetti and Telecom Italia and Carlo Buora (Managing Director of Pirelli) was elected Managing Director of Olivetti and member of the Telecom Italia Board. Marco Tronchetti Provera, Gilberto Benetton and Carlo Buora were also elected to the Boards of Olivetti and Telecom Italia. The shareholders meeting of Olivetti on October 13, 2001 and that of Telecom Italia on November 7, 2001 elected new Boards of Directors for the three-year period 2001-2003. For a description of the composition of the Boards of Directors of Olivetti and Telecom Italia and of the expected Board of Directors of New Telecom Italia, please see Management Information Subsequent to the Merger below.

The Development of the Plan of Merger

The Merger is part of the strategic plan pursued by the Olivetti-Telecom Italia Group with the aim of focusing on core businesses, improving the corporate structure and reducing debt. Since late in 2001 an important aspect of the strategic plan, intended to create value and protect the interests of all shareholders, has been the simplification of the Olivetti-Telecom Italia Group s corporate structure.

On January 7, 2003, a feasibility study was begun with the objective of drawing up a plan for the combination of Olivetti and Telecom Italia. In connection therewith, Olivetti retained JPMorgan and Telecom Italia retained Lazard to act as financial advisors in connection with evaluating and drawing up plans for the combination and, if it was decided to go ahead with the project, in assessing the fairness from a financial point of view of the proposed Exchange Ratios for the eventual merger. Subsequently, Telecom Italia also retained Goldman Sachs to act as a financial advisor.

On February 21, 2003, members of the management of Olivetti and Telecom Italia and their respective financial and legal advisors began to discuss an operational plan for the combination, to be submitted to the Boards of Directors of Olivetti and Telecom Italia. Work on this plan and, in particular, on the relative valuations of Olivetti and Telecom Italia serving to determine the proposed Exchange Ratios continued intensively from the above-mentioned date to early March 2003. In the same period, in view of the financial resources that would be needed under the plan that was emerging in order to pay for withdrawals by Olivetti shareholders and to finance a possible tender offer for Telecom Italia Ordinary and Telecom Italia Savings Shares, Olivetti began to negotiate a contract for a loan facility of 9,000,000,000, which was signed on April 24, 2003.

The final proposal regarding the structure of the Merger and the Exchange Ratios for the Merger, as developed by the management of Olivetti and Telecom Italia and their respective advisors, was submitted on March 11, 2003 to the Boards of Directors of Olivetti and Telecom Italia. In their meetings the Boards of Directors of Olivetti and Telecom Italia: (i) agreed that the conditions had been created for the shortening of the control chain (i.e. a stable ratio between the Olivetti and Telecom Italia Share prices and the achievement of certain targets announced in the 2002-2004 Business Plan); (ii) examined and approved the broad outline of the Merger; (iii) approved the proposed Exchange Ratios for the Merger; and (iv) resolved to set in motion the activities necessary for the finalization of the plan to be submitted to their respective shareholders meetings. They also agreed to wait for one month before approving the plan of merger, to give holders of Olivetti convertible bonds the possibility to exercise their conversion rights, as provided for in Article 2503-*bis* of the Civil Code.

In reaching its decisions on March 11, 2003, the Telecom Italia Board examined the financial analyses and the valuations prepared by Goldman Sachs and Lazard for the purposes of the Merger and the fairness opinions submitted by each advisor regarding the proposed Exchange Ratios. On the same date, the Olivetti Board examined the financial analyses and the valuations prepared by JPMorgan for the purposes of the Merger and the fairness opinion submitted by that advisor regarding the proposed Exchange Ratios. The Olivetti Board also took note of the preliminary report issued by Professor Angelo Provasoli, who had been retained by Olivetti for this purpose, on his verification of the consistency and appropriateness for the purposes of the Merger of the valuation methods used by JPMorgan to analyze the proposed Exchange Ratios for the

Merger. The report put forward by Professor Provasoli on March 11, 2003 was basically the same as the final report he submitted to Olivetti on April 14, 2003.

On April 15, 2003, the Boards of Directors of Olivetti and Telecom Italia approved the plan for the Merger.

Table of Contents

The resolutions voted by the Telecom Italia Board on March 11, 2003 and April 15, 2003 were adopted unanimously except for the abstention of Professor Francesco Denozza, who did not contest the Merger in itself, but stressed the existence of a degree of uncertainty regarding the advantages for Telecom Italia shareholders, some difficulties in determining the Exchange Ratios and the asymmetry of information due to the fact that the shareholders called to make the final decision on the merits of the Merger would not receive an evaluation by an independent expert of the views put forward in this respect by some minority shareholders, in contrast with the procedure followed for the directors conclusions.

The reports drawn up by the Boards of Directors of Olivetti and Telecom Italia pursuant to Article 2501- *quater* of the Civil Code are attached to this Information Statement (Annexes I and J). For the purposes of the Merger the Boards referred, pursuant to Article 2501-*ter* of the Civil Code, to the balance sheets contained in the draft financial statements of Olivetti and Telecom Italia for the year ended 31 December 2002 (Annexes I and J).

Specifically, the Boards of Directors of Olivetti and Telecom Italia, in view of the outcome of the discussions concerning the determination of the Exchange Ratios and with account also taken of the analyses of their respective financial advisors (JPMorgan for Olivetti, Lazard and Goldman Sachs for Telecom Italia), established that the natural Exchange Ratios for the assignment of the shares of New Telecom Italia were equal to 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each). In reaching its decisions in the meeting held on April 15, 2003, Olivetti s Board of Directors took note that JPMorgan had written a letter confirming the conclusions it had submitted on March 11, 2003 regarding the fairness of the Exchange Ratios. In reaching its decisions in the meeting held on the same date, the Telecom Italia Board examined the letter from Lazard confirming the conclusions of the fairness opinion it had submitted on March 11, 2003 and the fairness opinion submitted by Goldman Sachs on April 15, 2003. For more details on the establishment of the Exchange Ratios and the fairness opinions and confirmation letters sent to the Boards of Directors of Olivetti and Telecom Italia, see Valuations Attributed to Olivetti and Telecom Italia by the Olivetti and Telecom Italia Boards and Other Factors Considered by the Boards of Directors.

On April 15, 2003, the Boards of Directors of Olivetti and Telecom Italia also convened the extraordinary meetings of their respective shareholders: that of Olivetti on May 24, 25 and 26, 2003 on the first, second and third call, and that of Telecom Italia on May 24 and 25, 2003 on the first and second call. In order to obtain a report on the Exchange Ratios to Olivetti shareholders as required by Italian law, Olivetti applied for the appointment of an expert pursuant to Article 2501-*quinquies* of the Civil Code and Article 158 of the Consolidated Law to the President of the Ivrea Tribunal, who appointed the auditing firm Deloitte & Touche. For Telecom Italia, the report on the Exchange Ratios to Telecom Italia shareholders as required by Italian law was issued by the auditing firm Ernst & Young, its external auditors. The experts issued their respective reports on April 22, 2003. On April 24, 2003, in order to pay for withdrawals, and with the amount remaining, the Tender Offers, Olivetti entered into a contract, governed by English law, with a group of Italian and foreign banks, pursuant to which Olivetti may borrow 9 billion to finance the withdrawal rights of Olivetti shareholders and the Tender Offers to Telecom Italia shareholders. J.P. Morgan plc, a company indirectly controlled by JPMorgan Chase Bank (Olivetti s financial advisor for the Merger), acted as Global Coordinator. The 9 billion loan will be disbursed in three tranches with maturities of, respectively, 12, 18 and 24 months (the maturities of the first two tranches can be extended by 6 months and that of the third tranche by 12 months). For a more detailed description of this loan facility see Pro Forma Liquidity and Capital Resources.

Reasons for the Merger

Principal Business Rationales

The Merger is part of the reorganization aimed at creating value for Telecom Italia shareholders, launched in July 2001 and carried out through an industrial and financial restructuring. The strategic objective of creating value for Telecom Italia shareholders involved the identification of a series of actions and initiatives. In particular, industrial restructuring and refocusing on the core business completed earlier than had been announced to the financial community, in September 2001, and in line with Telecom Italia s Business Plan for the years 2002-2004. These initiatives also involved the disposal of a number of non-strategic assets (such as the equity interests in Auna, Telemaco Immobiliare, Bouygues Decaux Telecom, Mobilkom Austria, Telekom Austria, Telespazio, Sogei and Lottomatica) and enabled the Telecom Italia Group to:

- improve its operating result, which rose on a consolidated basis by 10.6% to 7.4 billion in 2002; and

33

- reduce total consolidated net debt from 21.9 billion at December 31, 2001 to 18.1 billion at December 31, 2002. In addition, Olivetti refinanced some of its borrowings in order to improve the maturity profile of its debt.

The Olivetti Board and Telecom Italia Board believe that the Merger will produce a simplified, more transparent corporate, capital and financial and ownership structure, which will benefit the shareholders of both Telecom Italia and Olivetti and allow them to benefit from the increase in value deriving from the implementation of the Business Plan for the years 2002-2004. The principal benefits include:

Improved ownership structure: Majority ownership by shareholders unaffiliated with Pirelli or Olimpia

As a result of and immediately after the Merger, shareholders unaffiliated with Olivetti, Pirelli or Olimpia will see their proportionate ownership of New Telecom Italia s share capital increase substantially. Currently, Olivetti owns approximately 54.94% of the Telecom Italia Ordinary Shares. The exact percentage of New Telecom Italia s share capital that shareholders unaffiliated with Pirelli or Olimpia will hold immediately after the Merger depends on a number of factors, such as:

- the number of Olivetti shares which may be issued upon conversion of Olivetti s outstanding convertible bonds (a portion of which are held by Olimpia and its affiliated entities) or exercise of Olivetti s outstanding warrants;
- the number of Olivetti shares issued pursuant to the exercise of outstanding stock options held by officers of Olivetti (Telecom Italia has suspended the exercise of outstanding stock options until after the Merger becomes effective); and
- the number of Telecom Italia Shares and Savings Shares tendered in response to Olivetti s Tender Offers.

As a result of the Merger it is expected that Olimpia will be the largest shareholder in New Telecom Italia. The exact percentage of Olimpia s interest in New Telecom Italia s share capital immediately after the Merger cannot currently be determined and depends on the factors discussed above but is expected to be in a range of 9.94% to 13.27% assuming no Conversions (as defined below), except for Conversions already requested through June 24, 2003, and no exercise of stock options. Solely for illustrative purposes, given that the actual withdrawal rights exercised by Olivetti Ordinary Shareholders represent 0.12% of Olivetti s share capital; and assuming that:

- there are no conversions of the Olivetti 1.5% 2001-2004 convertible bonds with repayment premium or the Olivetti 1.5% 2001-2010 convertible bonds with repayment premium , no exercise of the Warrants for Olivetti ex Tecnost ordinary shares 1999-2004 and no exercise of outstanding Olivetti stock options (collectively, **Conversions**), except for Conversions already requested through June 24, 2003;
- no outstanding Telecom Italia stock options are exercised until after the effective date of the Merger; and
- the Tender Offers, made at a price 8.010 per Telecom Italia Ordinary Share and 4.820 per Telecom Italia Savings Share for, respectively 17.3% or 17.3% of the Telecom Italia Ordinary Shares and Savings Shares, are fully subscribed;

the percentage of New Telecom Italia s ordinary share capital that would be owned by Olimpia immediately after the Merger is approximately 13.27%.

Conversely, assuming that:

- all Conversions are exercised;
- all outstanding Telecom Italia stock options are exercised immediately after the effective date of the Merger; and
- no one subscribes to the Tender Offers;

the percentage of New Telecom Italia s ordinary share capital that would be owned by Olimpia immediately after the Merger is approximately 10.29%.

The Olivetti and Telecom Italia Boards of Directors believe that the expected new ownership structure will facilitate the markets valuation of New Telecom Italia based on New Telecom Italia s business, financial condition and prospects and eliminates any negative effect that Telecom Italia s current ownership structure may have on valuation. The Olivetti and Telecom Italia Boards of Directors believe that the absence of a controlling shareholder will produce a corresponding increase in the liquidity of the New Telecom Italia Shares compared to the current liquidity of Telecom Italia Shares and Olivetti shares, and that this has the potential to enhance market valuations of New Telecom Italia Shares.

Improved corporate structure

The Merger will simplify and make more transparent the Olivetti Group s corporate structure. Instead of having Olivetti, an intermediate holding company with few operations of its own, between Olimpia and Olivetti s other shareholders on the one hand and Telecom Italia on the other, all of Olivetti s and Telecom Italia s respective operations will be combined in a single entity with a single Board of Directors and a single Board of Statutory Auditors. In New Telecom Italia, Olimpia, Olivetti s other shareholders and Telecom Italia s minority shareholders will have direct ownership interests. This, and the integration of Olivetti s and Telecom Italia s respective corporate support functions, is expected to simplify and improve the corporate governance, management and decision-making process of New Telecom Italia compared to the current situation.

Rationalized capital and financial structure

The Merger is intended to optimize financial and income flows within the Olivetti Group through a more efficient management of the Olivetti Group debt and more effective use of financial leverage. The Merger as a whole will also make it possible to attain a more efficient financial structure, with an increase in debt capital, which currently has a lower net cost than equity capital. It is also likely that these effects will lead to an improvement in the creditworthiness of New Telecom Italia, which, in turn, could lead to a more favorable rating and a reduction in the cost of future debt.

The Olivetti and Telecom Italia Boards of Directors also believe that the Merger will produce a more unified approach to debt management (for example, with respect to extending maturities and coordinating with the needs of the businesses) than is currently the case for Olivetti and Telecom Italia on a stand-alone basis.

Increased tax efficiency

As a result of Olivetti s write-down of its equity interest in Telecom Italia in connection with the preparation of its financial statements for the year ended December 31, 2002, Olivetti generated a tax loss that can be offset against its future earnings on a stand-alone basis. As a result of the Merger, the value of this tax loss to New Telecom Italia should be greater than its value to Olivetti on a stand-alone basis because New Telecom Italia s higher earnings potential should allow the tax loss to reduce taxable income to a greater extent and over a shorter period of time than would be the case for Olivetti.

Valuations Attributed to Olivetti and Telecom Italia by the Olivetti and Telecom Italia Boards

In view of the outcome of the discussions concerning the determination of the Exchange Ratios and with account also taken of the analyses of their respective financial advisors, the Boards of Directors of Olivetti and Telecom Italia determined and agreed the values of Olivetti and Telecom Italia for the purpose of fixing the Exchange Ratios and established that the natural Exchange Ratios on the basis of which the shares of

New Telecom Italia will be assigned are equal to 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each).

On April 22, 2003, the auditing firms appointed as experts to report on the Exchange Ratios in accordance with Article 2501-*quinquies* of the Civil Code, Deloitte & Touche, for Olivetti, and Ernst & Young, for Telecom Italia, issued their reports (Annexes F and G).

In order to determine the Exchange Ratios, the Boards of Directors of Olivetti and Telecom Italia proceeded in accordance with the best valuation methodologies and practices, taking account of the nature of Olivetti and Telecom Italia, and the sector to which most of their activities refer.

Since the sole purpose of the valuations procedure is to determine values that permit significant comparison, the methods used in the context of such valuations and the results obtained may differ from those of valuation procedures having a different purpose.

With respect to the valuation procedure, Olivetti s Board of Directors was in agreement with both the methodologies adopted and the conclusions reached by its financial advisor, JPMorgan. Similarly, Telecom Italia s Board of Directors was in agreement with both the methods adopted and the conclusions reached by its financial advisors, Lazard and Goldman Sachs.

Table of Contents

More specifically, the Olivetti Board chose the sum of the parts methodology as the fundamental methodology for valuing Telecom Italia and the net asset value methodology (broadly equivalent to the sum of the parts methodology) as the fundamental methodology for valuing Olivetti.

With respect to Telecom Italia s individual activities, in view of the complexity and extensiveness of the structure of the Telecom Italia Group and the many areas in which it operates, the Olivetti Board considered it advisable to value the main businesses using principally the discounted cash flow method, while the remaining assets, which were of limited importance for the overall valuation, were valued on the basis of stock market prices, for companies listed on regulated markets, and/or market multiples, with reference made for testing and control purposes to balance sheet values and the values published in analysts research reports on such businesses, where available.

The table below summarizes the range of the estimated values of the Olivetti and Telecom Italia Shares identified by the Olivetti Board for the purpose of determining the Exchange Ratios.

	Minimum	Mean	Maximum
Telecom Italia Ordinary Share ( )	8.1	8.6	9.1
Telecom Italia Savings Share ( )	5.4	5.8	6.1
Olivetti Ordinary Share ( )	1.13	1.26	1.39
Olivetti Savings Share ( )	0.76	0.84	0.93

The table below summarizes the range of the estimates of the Exchange Ratios calculated using the valuation methodologies and criteria described, as the ratio of the estimated value of the Telecom Italia Ordinary Share to the estimated value of the Olivetti share.

	Minimum	Mean	Maximum
Olivetti Ordinary Shares per Telecom Italia Ordinary Share	6.6	6.9	7.2
Olivetti Savings Shares per Telecom Italia Savings Share	6.6	6.9	7.2

In order to verify the accuracy of the Exchange Ratios obtained in the manner described above, the Olivetti Board also considered the values calculated using the stock market prices method. The following table shows the minimum, mean and maximum values of the average exchange ratio (number of Olivetti Ordinary Shares per Telecom Italia Ordinary Share) expressed by the stock market for the different periods analyzed preceding March 7, 2003 (inclusive).

	Minimum	Mean	Maximum
Olivetti Ordinary Shares per Telecom Italia Ordinary Share	6.7	6.9	7.1

To value Olivetti and Telecom Italia, the Telecom Italia Board chose, with an equal level of significance for the purposes of the valuation procedure, to use relative stock market prices as its principal methodology and the sum of the parts methodology for control purposes.

In applying the sum of the parts methodology, in view of the complexity of the corporate structure of the Telecom Italia Group and the many areas in which it operates, the principal businesses were valued on the basis of a discounted cash flow methodology. The remaining assets and liabilities were valued on a case-by-case basis mainly with reference to their book or market value, in view of their limited importance in the overall valuation of Telecom Italia.

The table below shows the values per Telecom Italia and Olivetti Ordinary Share obtained by the Telecom Italia Board using the sum of the parts method.

	Value
Telecom Italia Ordinary Share ( )	8.8
Olivetti Ordinary Share ( )	1.27

Table of Contents

The table below shows the exchange ratios derived from the application of the valuation methodologies used by the Telecom Italia Board.

Method	Exchange Ratio
Stock market prices	
March 7, 2003	6.7
Weighted averages:	
1 month	7.0
3 months	6.9
6 months	7.1
12 months	6.9
Sum of the parts (average value)	**6.9**

For further details regarding the valuation criteria and methodologies used by the Boards of Directors of Olivetti and Telecom Italia in determining the Exchange Ratios, you should review the reports of their respective Boards of Directors (Annexes I and J). You are encouraged to review the reports in their entirety.

For a summary description of the analyses prepared and carried out by the financial advisors (JPMorgan for Olivetti and Lazard and Goldman Sachs for Telecom Italia) see Opinions of Financial Advisors below. The respective fairness opinions and confirmation letters of the financial advisors are attached to this Information Statement (Annexes C-E).

The conclusions reached by Professor Angelo Provasoli, advisor to Olivetti, with regard to the valuation methodologies applied by JPMorgan in connection with its fairness opinion on the Exchange Ratios is also attached to this Information Statement (Annex H).

For a more detailed discussion of the Olivetti Board s determination of the appropriate valuation methods, see The Exchange Ratio Established and the Methods Used In Determining It included in Annex I (English Translation of Report of the Olivetti Board to the Shareholders dated April 15, 2003) attached to this Information Statement.

Valuations Assigned to Telecom Italia Shares Pursuant to Sales and Purchases in the Last Two Years

Under the plan to buy back the Telecom Italia Shares approved by Telecom Italia s ordinary shareholders meeting on November 7, 2001, by May 7, 2003, the expiration date of the authorization, Telecom Italia had purchased 54,309,500 Telecom Italia Savings Shares at an average price of 5.24 per share (for a total consideration of approximately 285 million) and 6,195,500 Telecom Italia Ordinary Shares at an average price of 8.00 per share (for a total consideration of about 50 million).

Based on publicly available information shows that on December 9, 2002, the Italian Ministry for the Economy and Finance sold 182,085,456 Telecom Italia Ordinary Shares (corresponding to approximately 3.5% of the ordinary share capital) at a price of 7.50 per share and 13,477,353 Telecom Italia Savings Shares (corresponding to approximately 0.7% of the savings share capital) at a price of 5.08 per share.The transaction settled on December 12, 2002.

In 2002 and 2003 Olivetti did not buy or sell any Telecom Italia Ordinary Shares or Telecom Italia Savings Shares, other than pursuant to a block trade on May 16, 2002 in which Olivetti Finance NV, a wholly-owned subsidiary of Olivetti, sold 41,401,250 Telecom Italia Ordinary Shares to its parent company, Olivetti, at a price per share of 8.904 for a total consideration of 368,636,730.

In 2002 Olivetti, through its subsidiaries Olivetti International SA and Olivetti Finance NV, concluded put and call options on Telecom Italia Ordinary Shares on the OTC market involving a total of approximately 60 million Telecom Italia Ordinary Shares. With the exception of a call-and-spread option with strike prices of 9.20-10.20 serving to hedge the bond issue described below, the average maturity of the options was less than one month.

On July 29, 2002 Olivetti Finance NV issued bonds guaranteed by Olivetti. The bonds mature on March 19, 2004 and are convertible into Telecom Italia Ordinary Shares at a price of 9.30 per share, with a conversion premium of approximately 17% with respect to the market value of Telecom Italia Ordinary Shares on the day

Table of Contents

the issue was made. The issue closed with a total value of approximately 350 million, but Olivetti subsequently exercised its right to re-open it, taking the total amount to approximately 385 million and the number of conversion shares to 41,400,000.

Other Factors Considered by the Boards of Directors

Olivetti

In reaching its decision to approve the Plan of Merger and its determination concerning the fairness of the Exchange Ratios, the Olivetti Board considered a number of material factors, including, without limitation, those described below:

- the benefits to Olivetti and its shareholders of simplifying the corporate, capital and financial structure of Olivetti and Telecom Italia, all as described above under Principal Business Rationales ;
- the financial condition, business and operations of Telecom Italia and Olivetti, including the Olivetti financial projections for the years 2003-2005 and the Telecom Italia Business Plan for the years 2002-2004;
- the analysis and presentation of JPMorgan as to the financial aspects of the Merger and the opinion of JPMorgan that the Exchange Ratios were fair, from a financial point of view, to Olivetti, as well as the reports of Professor Angelo Provasoli confirming, subject to certain issues that were raised with JPMorgan and addressed by JPMorgan in its fairness opinions, that the valuation and methodologies used by JPMorgan were appropriate;
- the Olivetti Board s view as to the most appropriate valuation methods for determining the relative value of Telecom Italia and Olivetti shares for the purpose of determining the Exchange Ratios;
- the Olivetti Board s view that the absence of a majority shareholder of New Telecom Italia will enhance the liquidity of the New Telecom Italia Shares compared to the current liquidity of Olivetti and Telecom Italia Shares to the benefit of all shareholders of New Telecom Italia;
- the right under Italian law of any Olivetti shareholders who vote against the merger or who do not participate in the extraordinary general meeting to exercise withdrawal rights for a period and at a cash price prescribed by Italian law and the Olivetti Board s view that it would be advisable to give Telecom Italia shareholders a partial cash-out option analogous to Olivetti shareholders withdrawal rights by proposing to make the Tender Offers (and that such Tender Offers would be available to U.S. holders of Telecom Italia Ordinary Shares but not to U.S. holders of Telecom Italia Savings Shares);
- the (i) projected increase in net debt of New Telecom Italia compared to the consolidated net debt of Olivetti resulting from the financing of the amounts payable to Olivetti shareholders who exercise their withdrawal rights and to Telecom Italia shareholders pursuant to the Tender Offers, and the Olivetti Board s view that (A) the expected level of net debt of New Telecom Italia is consistent and compatible with the cash from operating activities and disposals anticipated by the Olivetti financial projections for the years 2003-2005, (B) the debt leverage and interest coverage ratios will broadly be consistent with the debt leverage and interest coverage ratios of other comparable major European telecommunications companies and (ii) the impact of the Merger on New Telecom Italia s future cost of borrowing, in light of a preliminary assessment from Standard & Poor s that New Telecom Italia s aggregate long-term debt rating will be BBB+ with stable outlook, compared to Standard & Poor s current rating of Telecom Italia of

BBB+ with positive outlook;

- that New Telecom Italia expects to maintain a policy whereby holders of Telecom Italia Savings Shares and Telecom Italia Ordinary Shares will receive, after the Merger, dividends on New Telecom Italia Savings Shares or New Telecom Italia Ordinary Shares, as applicable, which, in the aggregate, correspond, at a minimum to the dividends such holder previously received as a holder of Telecom Italia Shares;

- that, except for receiving a higher number of shares with the same nominal value and the same dividend privileges per share, the rights of New Telecom Italia Savings Shareholders will not change compared to their rights as Telecom Italia Savings Shareholders, either in absolute terms or relative to the rights of New Telecom Italia Ordinary Shareholders; and

- the procedure for exchanging Telecom Italia Shares for New Telecom Italia Shares through a redistribution of Olivetti s share capital.

38

The foregoing discussion addresses the material information and factors considered by the Olivetti Board in its evaluation of the Plan of Merger and the Exchange Ratios, including factors that support the Merger as well as those that may weigh against it. In view of the variety of factors and the amount of information considered, the Olivetti Board did not find it practicable to quantify or otherwise assign relative weights to, and did not specifically make assessments of, the various factors and analysis considered in reaching its determination. Individual directors may have given different weights to different factors. The determination to approve the Plan of Merger and the Exchange Ratios was made after consideration of all the factors as a whole.

Telecom Italia

In reaching its decision to approve the Plan of Merger and its determination concerning the fairness of the Exchange Ratios, the Telecom Italia Board considered a number of material factors, including, without limitation, those described below:

- the benefits to Telecom Italia and its shareholders of simplifying and rationalizing the corporate capital and financial structure of Olivetti and Telecom Italia, all as described above under Principal Business Rationales ;
- the financial condition, business and operations of Telecom Italia and Olivetti, including the Olivetti financial projections for the years 2003-2005, the Telecom Italia financial projections for the years 2003-2005 and the Telecom Italia Business Plan for the years 2002-2004;
- the analysis and presentations of Lazard and Goldman Sachs as to the financial aspects of the Merger and the opinions of these two financial advisors that the Exchange Ratios were fair, from a financial point of view to the holders (other than Olivetti) of Telecom Italia Ordinary Shares and Savings Shares;
- the Telecom Italia Board s view as to the most appropriate valuation methods for determining the relative value of Telecom Italia and Olivetti shares for the purpose of determining the Exchange Ratios. See Annex J hereto;
- the Telecom Italia Board s view that the material reduction in the ownership stake of the largest shareholder of Telecom Italia, including the fact that immediately after the Merger it is not expected that there will be a majority shareholder of New Telecom Italia, will benefit New Telecom Italia and its shareholders;
- the right under Italian law of any Olivetti shareholders who vote against the Merger or who do not participate in the extraordinary general meeting to exercise withdrawal rights for a period and at a cash price prescribed by Italian law, and that while Telecom Italia shareholders will have no similar statutory rights to opt to cash out of the company, Telecom Italia shareholders will be offered, for a portion of their shares, a cash-out option analogous to Olivetti shareholders withdrawal rights pursuant to the Tender Offers (and that such Tender Offers will be available to U.S. holders of Telecom Italia Ordinary Shares but not to U.S. holders of Telecom Italia Savings Shares);
- the projected increase in net debt of New Telecom Italia compared to the unconsolidated net debt of Olivetti and the consolidated net debt of Telecom Italia resulting from the financing of the amounts payable to Olivetti shareholders who exercise their withdrawal rights and to Telecom Italia shareholders pursuant to the Tender Offers, and the Telecom Italia Board s view that (i) the expected level of net debt of New Telecom Italia is consistent and compatible with the cash from operating activities and disposals anticipated by the Olivetti financial projections for the years 2003-2005, (ii) the debt leverage and interest coverage ratios will broadly be consistent with the debt leverage and interest coverage ratios of other comparable major European telecommunications companies, and (iii) the impact of the Merger on New Telecom Italia s future cost of borrowing, in light of a preliminary assessment from Standard & Poor s that New Telecom Italia s aggregate long-term debt rating will be BBB+ with stable outlook, compared to Standard

& Poor s current rating of Telecom Italia of BBB+ with positive outlook;

- that New Telecom Italia expects to maintain a policy whereby holders of Telecom Italia Savings Shares and Telecom Italia Ordinary Shares will receive, after the Merger, dividends on New Telecom Italia Savings Shares or New Telecom Italia Ordinary Shares, as applicable, which, in the aggregate, correspond, at a minimum to the dividends such holder previously received as a holder of Telecom Italia Shares and that such policy is consistent with the Telecom Italia financial projections for the years 2003-2005;

- that, except for receiving a higher number of shares with the same nominal value and the same dividend privileges per share, the rights of New Telecom Italia Savings Shareholders will not change

Table of Contents

compared to their rights as Telecom Italia Savings Shareholders, either in absolute terms or relative to the rights of New Telecom Italia Ordinary Shareholders; and

- the procedure for exchanging Telecom Italia Shares for New Telecom Italia Shares through a redistribution of Olivetti s share capital.

The foregoing discussion addresses the material information and factors considered by the Telecom Italia Board in its evaluation of the Plan of Merger and the Exchange Ratios, including factors that support the Merger as well as those that may weigh against it. In view of the variety of factors and the amount of information considered, the Telecom Italia Board did not find it practicable to quantify or otherwise assign relative weights to, and did not specifically make assessments of, the various factors and analysis considered in reaching its determination. Individual directors may have given different weights to different factors. The determination to approve the Plan of Merger and the Exchange Ratios was made after consideration of all the factors as a whole.

Assignment of New Telecom Italia Shares and Start of Dividend Entitlement

In view of the interest in maintaining a flexible capital structure of a size suitable for corporate activities and with a view to limiting the effects of the Merger on the future remuneration of the New Telecom Italia Shares, it was considered advisable to leave the nominal capital of Olivetti basically unchanged at the conclusion of the Merger, inasmuch as the absolute increase in the nominal capital by issuing as many new shares as would be necessary to satisfy the Exchange Ratios of all the Telecom Italia Shares to be exchanged would lead, under current accounting rules, (i) to an increase in the shareholders equity consisting of capital, with a consequent significant (exchange) merger deficit subject to amortization, which would adversely impact the net income per share in future years, and (ii) to a capital structure consisting almost entirely of items not available for distribution.

It was therefore decided to carry out the share exchange primarily by redistributing Olivetti s capital and to have recourse to the issue of additional shares only insofar as this proved necessary to maintain the share capital at the level attested at the time the Plan of Merger was approved on April 15, 2003.

The redistribution technique consists of dividing the share capital of the absorbing company and hence the shares composing it (in an equal, larger or smaller number than that existing, depending on whether the intention is to hold the par value of each share unchanged, decrease it or increase it) among the shareholders of the absorbing company and those of the absorbed company, according to what was referred to above as the natural Exchange Ratio between the Olivetti shares and the Telecom Italia Shares.

The redistribution naturally takes the share capital of the absorbing company at the time the Merger is implemented as the baseline.

The share capital of Olivetti at the time the Merger is implemented may vary from that attested on April 15, 2003 of 8,845,537,520: (i) increasing as a consequence of the Conversions (as defined on page 36 above) and (ii) decreasing by the 10,958,057 shares in respect of which withdrawal rights were exercised. Olivetti s capital to be redistributed will therefore be the algebraic sum of the subscribed capital at the time the Plan of Merger was approved and the subsequent variations up to the implementation of the Merger.

Based on the number of shares in respect of which withdrawal rights were exercised, and assuming the extreme cases of (i) the total exercise of Conversions and (ii) no Conversions (except for Conversions already requested through June 24, 2003), Olivetti s share capital at the time the

Merger is completed can vary between a maximum of 11,915,739,221 and a minimum of 8,840,356,223.

Since it is assumed that the share capital of New Telecom Italia must not be less than 8,845,537,520 (the amount of Olivetti s share capital as attested on April 15, 2003, the date the Plan of Merger was approved by the Board of Directors), in the event that the number of shares in respect of which withdrawal rights were exercised exceeds the number of shares issued as a result of Conversions (as was the case as of June 24, 2003) so that the share capital at the time the Merger is implemented is less than 8,845,537,520, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the Merger to bring the share capital up to the above-mentioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares. In connection with this possibility, Olivetti International S.A. has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to complete the Merger.

Table of Contents

In the light of the methods and principles described above, the share capital will be established and the share exchange will be carried out according to the following rules:

(a) Olivetti will fix the par value of its shares in the amount resulting after Conversions and withdrawals at 0.55 (equal to the par value of Telecom Italia Shares), in place of the current par value of 1. Consequently, Olivetti s share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares.

(b) The new ordinary and savings shares with a par value of 0.55 each making up the share capital at the time of the Merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia Ordinary Shares and the Telecom Italia Savings Shareholders according to the applicable Assignment Ratio reflecting, with reference to the actual number of shares to be redistributed, the natural Exchange Ratios specified above of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each). In the redistribution only the Telecom Italia Shares held by persons other than Olivetti and Telecom Italia itself will be exchanged with shares of New Telecom Italia. The number of shares of Telecom Italia held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the Tender Offers.

More precisely, where:

- **No. OLI 1 shares** denotes the number of Olivetti shares, with a par value of 1 each, resulting after Conversions and withdrawals;
- **No. OLI 0.55 shares** denotes the number of shares of New Telecom Italia with a par value of 0.55 each actually to be redistributed following the operation referred to under clause (a) above;
- **No. T.I. shares** denotes the number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares held by minority shareholders that must be exchanged;

(1) the holders of Olivetti Ordinary Shares will be assigned, for every share held, a number of New Telecom Italia Ordinary Shares equal to:

$$\frac{\text{No. OLI 0.55 shares}}{\text{No. OLI 1 shares} + (\text{No. T.I. shares} \times 7)}$$

(2) the holders of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares will respectively be assigned, for every such share held, a number of New Telecom Italia Ordinary Shares or New Telecom Italia Savings Shares equal to:

seven times the number of New Telecom Italia Ordinary Shares assigned to Olivetti shareholders for every Olivetti Ordinary Share held by the latter

Based on the 10,958,057 shares in respect of which withdrawal rights were exercised and assuming the extreme case in which all Conversions are exercised and no one accepts the Tender Offers, the redistribution would involve 21,664,976,686 shares of New Telecom Italia with a par value of 0.55 each and the Telecom Italia Shares to be exchanged would total (taking into account Olivetti s holding in the capital of Telecom Italia and the latter s holding of treasury stock) 4,363,898,424. In such a case, applying the formula above would give the following assignment ratios:

(i) 0.510208 New Telecom Italia Ordinary Shares with a par value of 0.55 each for every Olivetti Ordinary Share with a par value of 1 held at the date at which the Merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.571456 New Telecom Italia Ordinary Shares or New Telecom Italia Savings Shares for every Telecom Italia Ordinary Share or Telecom Italia Savings Share, respectively, held at the date at which the Merger becomes effective by minority shareholders other than Olivetti and Telecom Italia itself.

In light of the above, since the variables represented by Conversions and acceptances of the Tender Offer can only be officially determined at the time of the signing of the Deed of Merger, the Assignment Ratio for the purposes of redistribution can be officially determined only at the time of the signing of the Deed of Merger.

In any event, upon completion of the Merger the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will be exactly the same as the natural Exchange Ratios of 1 to 7, as calculated above.

Table of Contents

(c) As already indicated, if at the time the Merger is implemented Olivetti s share capital is less than the attested figure on April 15, 2003 of 8,845,537,520 because the number of shares in respect of which withdrawal rights were exercised exceeds the Conversions (as was the case as of June 24, 2003), the redistribution of the share capital just described will be accompanied by the simultaneous issue of up to a maximum of 9,420,540 New Telecom Italia Shares with a par value of 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia s shareholders equity belonging to minority interests. These additional shares will be assigned to all the shareholders of both Olivetti and Telecom Italia in proportion to their respective shareholdings obtained by applying Assignment Ratios as calculated and described under clause (b) above.

Thus, even if such an event occurs, upon completion of the Merger the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will be exactly the same as the natural Exchange Ratios of 1 to 7, as calculated above.

(d) As part of the procedure for assigning the shares of New Telecom Italia, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to permit the rounding of the number of newly-issued New Telecom Italia Shares owned down or up to the nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions. For a discussion of the arrangements for Telecom Italia Savings Share ADR holders, see Terms of the Transaction Plan of Merger Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs.

(e) The newly-issued New Telecom Italia Shares to be utilized for the share exchange will be assigned to the persons having entitlement through the respective authorized intermediaries participating in Monte Titoli S.p.A., the Italia centralized securities depository (**Monte Titoli**), at the date the Merger becomes effective. It will be possible to exchange Olivetti and Telecom Italia Shares which have not been dematerialized only by delivering them to an authorized intermediary for dematerialized book-entry Monte Titoli.

Once the Deed of Merger has been executed and filed, Olivetti will promptly publish a notice in Italian newspapers as well as other major financial journals including the international and U.S. editions of the *Financial Times*, announcing the amount of the capital of New Telecom Italia as a result of the quantification of the variables involved in the Merger (Conversions, withdrawals from Olivetti, acceptances of the Tender Offer), the exact Assignment Ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at clause (c) above, if any, and the detailed instructions on how to carry out the share exchange, trade and obtain fractional rights as provided for at clause (d) above.

Opinions of Financial Advisors

In deciding to adopt the Plan of Merger, the Olivetti Board and the Telecom Italia Board considered the opinions received from their financial advisors as to the fairness of the Exchange Ratios from a financial point of view. These opinions were provided to the Olivetti Board by JPMorgan and to the Telecom Italia Board by Lazard and Goldman Sachs at the respective Board of Directors meetings held on March 11, 2003. At the respective Board of Directors meetings held April 15, 2003, Goldman Sachs provided an opinion and JPMorgan and Lazard provided confirmation letters relating to their respective March 11, 2003 opinions. On April 15, 2003 the respective Board of Directors adopted the Exchange Ratios. The Goldman Sachs opinion, an English translation of the Lazard opinion and confirmation letter and an English translation of the JPMorgan opinion and confirmation letter, provided in connection with the April 15, 2003 Board of Directors meetings, are attached, respectively, as Annexes C, D and E to this Information Statement. We encourage you to read these opinions in their entirety.

Opinion of Goldman Sachs to Telecom Italia

On March 11, 2003, Goldman Sachs SIM S.p.A. delivered an oral opinion to the Telecom Italia Board, subsequently confirmed by delivery of a written opinion, dated as of March 11, 2003, which opinion was reconfirmed by a subsequent written opinion, dated as of April 15, 2003, to the effect that, as of those dates and subject to the matters and assumptions set forth in the opinions, the Exchange Ratios of 7 Olivetti Ordinary Shares to one Telecom Italia Ordinary Share and 7 Olivetti Savings Shares to one Telecom Italia Savings Share, respectively, were fair from a financial point of view to the holders (other than Olivetti) of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares.

The full text of the written opinion of Goldman Sachs, dated as of April 15, 2003, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by

Table of Contents

Goldman Sachs in connection with the opinion, is attached as Annex C and is incorporated by reference into this Information Statement. You should read the opinion in its entirety.

In connection with its April 15, 2003 opinion, Goldman Sachs reviewed, among other things:

- drafts of the Plan of Merger (*progetto di fusione*) and the board report (*relazione degli amministratori*);
- the Annual Report of Telecom Italia and various of its subsidiaries and the Annual Report of Olivetti for the years ended December 31, 2000 and 2001;
- the Semiannual Financial Statements of Telecom Italia and various of its listed subsidiaries and the Semiannual Financial Statements of Olivetti for the six months ended June 30, 2002;
- the Quarterly Financial Statements of Telecom Italia and various of its listed subsidiaries and the Quarterly Financial Statements of Olivetti for the three months ended September 30, 2002;
- a draft of the 2002 Annual Report for Telecom Italia, including Telecom Italia s 2002 financial statements, the audit of which was not completed;
- a draft of the 2002 Annual Report for Olivetti, including Olivetti s 2002 financial statements, the audit of which was not completed; and
- various internal financial analyses and forecasts for Olivetti, Telecom Italia and various subsidiaries of Telecom Italia approved by Telecom Italia s management for use in Goldman Sachs opinion.

Goldman Sachs also held limited discussions with various members of the senior management of Telecom Italia and Olivetti and with Olivetti s advisors and representatives regarding their assessment of the past and current business operations, financial condition and future prospects of Telecom Italia and Olivetti, including the expected credit rating and the expected dividend policy of the combined company subsequent to the Merger. Goldman Sachs did not participate in any of the negotiations leading up to the Merger. In addition, Goldman Sachs:

- reviewed the reported price and trading activity for the Telecom Italia Ordinary Shares and Olivetti Ordinary Shares;
- compared financial and stock market information for Telecom Italia and Olivetti with similar information for the securities of other publicly traded companies;
- reviewed the financial terms of recent business combinations and reorganizations; and
- performed other studies and analyses that Goldman Sachs considered appropriate.

In connection with its written opinion, dated April 15, 2003, Goldman Sachs noted that, as a result of the merger, the approximate 55% ownership interest of Olivetti in Telecom Italia will be diluted and that Olimpia S.p.A. will own less than approximately 15% of the voting equity in the corporation surviving the Merger (excluding the effect of convertible securities, options and warrants, a portion of which is held by Olimpia S.p.A. and related entities).

Goldman Sachs relied, without independent verification, upon the accuracy and completeness of all of the financial, accounting, tax and other information that was discussed with or reviewed by it, and Goldman Sachs assumed the accuracy and completeness of that information for purposes of rendering its opinion. The managements of each of Telecom Italia and Olivetti advised Goldman Sachs that the financial forecasts and other information and data provided to or otherwise discussed with Goldman Sachs were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of Telecom Italia and Olivetti, and Goldman Sachs expressed no opinion with respect to those financial forecasts or other information and data or the assumptions on which they were based. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any derivative or off-balance-sheet assets and liabilities) of Telecom Italia or Olivetti or any of their respective subsidiaries, and Goldman Sachs was not furnished with any such evaluation or appraisal. In rendering its opinion, Goldman Sachs was instructed by Telecom Italia to assume that, except for (i) an increase in aggregate nominal value and related economic privileges and (ii) the further ability to satisfy such privileges also through the distribution of reserves, the rights of the holders of the Telecom Italia Savings Shares will be identical to their rights as holders of the Olivetti Savings Shares and that neither the relative rights nor the relative values of the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares will change, in any material respect, as a result of the Merger.

Table of Contents

Goldman Sachs provided its advisory services and opinion exclusively for the information and assistance of the Telecom Italia Board in connection with its consideration of the Merger and Goldman Sachs opinion does not constitute a *perizia* within the meaning of Annex 3A no. 1 of the Regolamento Emittenti no. 11971 dated May 14, 1999 as subsequently amended, nor a *relazione di stima* within the meaning of that statute. Goldman Sachs opinion did not constitute a recommendation as to how any holder of Telecom Italia Ordinary Shares should vote with respect to the Merger.

Goldman Sachs expressed no opinion as to the likely trading value of the Telecom Italia Ordinary Shares or Telecom Italia Savings Shares or the Olivetti Ordinary Shares during the period for determining the value of Olivetti Ordinary Shares in connection with the exercise of withdrawal rights (which period covers the six-months ending on the date prior to the Olivetti shareholders meeting), or during the 15-day period following the day the shareholders resolution is deposited with the *Registro delle Imprese*, in which period holders of Olivetti Ordinary Shares may exercise withdrawal rights. In addition, Goldman Sachs expressed no opinion as to the likelihood of Olivetti shareholders exercising withdrawal rights or as to the amount of funds available to or the participation of shareholders of Telecom Italia in the tender offer. Goldman Sachs expressed no opinion as to the likely trading value of the Olivetti Ordinary Shares or Olivetti Savings Shares of Olivetti upon consummation of the Merger. Goldman Sachs opinion was necessarily based upon information available to it and financial, economic, political, market and other conditions as they existed and could be evaluated on April 15, 2003, the date the opinion was rendered, and Goldman Sachs assumed no duty to update or revise its opinion based on circumstances or events after that date. Goldman Sachs opinion does not address the relative merits of the transactions contemplated by the Plan of Merger and board report as compared to any alternative business transaction that might be available to Telecom Italia.

The following is a summary of the material financial analyses presented by Goldman Sachs to the Telecom Italia Board on March 11, 2003 in connection with the rendering of its March 11, 2003 opinion, which analyses, as updated, Goldman Sachs also relied upon in connection with the rendering of its April 15, 2003 opinion. The following summary does not purport to be a complete description of the analyses performed by Goldman Sachs. The order of the analyses described, and the results of those analyses, do not represent the relative importance or weight given to the analyses by Goldman Sachs.

The following summary includes information presented in tabular format. You should read these tables together with the text of each summary.

In connection with these analyses, Goldman Sachs used two main valuation methodologies: a market exchange ratio analysis and a sum of the parts analysis. In performing these analyses, Goldman Sachs believed it was appropriate to apply uniform and comparable valuation methodologies. Therefore, when performing a market value methodology, Goldman Sachs used the respective market prices of Telecom Italia Shares and Olivetti Ordinary Shares. In performing the sum of the parts analysis, Goldman Sachs analyzed the various Telecom Italia assets utilizing primarily a discounted cash flow methodology; and the resulting value for Telecom Italia from the application of that methodology was used for the Olivetti sum of the parts analysis. Goldman Sachs did not use the market price of Telecom Italia Shares in the sum of the parts analysis of Olivetti because the use of a market value methodology in this instance would not have been consistent with the valuation methodology performed with respect to Telecom Italia.

Market Exchange Ratio Analysis. Goldman Sachs analyzed the relative share prices for various periods ending March 7, 2003, including, for purposes of mitigating the impact of short-term market fluctuations, the 12-month period ending March 7, 2003. Goldman Sachs calculated the implied historical exchange ratios of Telecom Italia Ordinary Shares to Olivetti Ordinary Shares based on the weighted average ordinary share prices as reported as the official prices on Telematico, an automated screen trading system managed by Borsa Italiana, for March 7, 2003 and the periods set forth below. In performing this analysis, Goldman Sachs adjusted the price of Telecom Italia Ordinary Shares to take into account the dividend distribution in June 2003 of the remaining portion of the dividend in respect of 2002. Additionally, Goldman Sachs took into account that both Telecom Italia and Olivetti Ordinary Shares have significant market capitalization and liquidity. The results of this analysis were as follows:

Period	Implied Exchange Ratio
March 7, 2003	6.7x
Three months ended March 7, 2003	6.9
Six months ended March 7, 2003	7.1
Twelve months ended March 7, 2003	6.9

Table of Contents

Sum of the Parts Analysis of Telecom Italia. Goldman Sachs computed for Telecom Italia an implied total equity value and implied exchange ratio based on the value of the sum of the various business segments (valued as separate economic entities) less net debt as of December 31, 2002 and anticipated dividend payments in June 2003 of the remaining portion of the dividend in respect of 2002. The values of the main businesses were calculated using a discounted cash flow methodology based on:

- management projections of future operating cash flows for the years 2003 through 2005;
- discount rates ranging from 7.5% to 9.8% based on the weighted average cost of capital for each business; and,
- terminal values determined on the basis of:

  the net present value of future operating cash flows beyond 2005 (the **Perpetuity Growth Method**); and

  multiples applied to the 2005 projected earnings before interest, taxes, depreciation and amortization, or EBITDA (the **Exit Multiple Method**).

For purposes of the Perpetuity Growth Method, Goldman Sachs selected perpetual growth rates for each business based on growth rates estimated by research analysts for comparable businesses ranging from a low of 1.0% to a high of 3.0%. For purposes of the Exit Multiple Method, Goldman Sachs utilized EBITDA trading multiples ranging from 3.8x to 8.9x based on companies comparable to each of the businesses.

The equity values of Telecom Italia s minority investments, certain real estate assets and other businesses were based upon carrying values as of December 31, 2002. Goldman Sachs calculated the implied share price for Telecom Italia Savings Shares and Telecom Italia Ordinary Shares assuming a 35% discount of Telecom Italia Savings Shares to Telecom Italia Ordinary Shares, corresponding to the average discount of those shares over the three-month period prior to March 7, 2003. The implied equity value of Telecom Italia reflects the dilutive impact of in-the-money stock options, which was immaterial. In performing this analysis, Goldman Sachs also took into account the tax benefits (based on the pre-merger stand-alone taxable income of Telecom Italia) generated by the writedown of Telecom Italia s controlling interest in SEAT PG. For purposes of its presentation, Goldman Sachs used the mid-point of the value range derived from the application of the Exit Multiple Method and the Perpetuity Growth Method as follows:

	Mid-point of value range of Telecom Italia (in billions, except per share data)
Implied Total Equity Value (post-dilution)	58.7
Implied Total Equity Value Per Ordinary Share (post-dilution)	8.9
Implied Total Equity Value Per Savings Share (post-dilution)	5.8

Sum of the Parts Analysis of Olivetti. Goldman Sachs computed for Olivetti an implied equity value, an implied ordinary share price and an implied exchange ratio based on valuations of Olivetti s ownership stake in Telecom Italia (using the discounted cash flow methodology based on the Exit Multiple Method and Perpetuity Growth Method set forth above), Olivetti s other investments at carrying value as of December 31, 2002 or at market prices where available and net debt as of December 31, 2002. The implied price of Olivetti Ordinary Shares reflects the dilutive impact of in-the-money convertible securities, including the Olivetti 1.5% 2001-2010 convertible notes. In performing this analysis, Goldman Sachs also took into account the tax benefits (based on the pre-merger stand-alone taxable income of Olivetti) generated by the writedown of Olivetti s controlling interest in Telecom Italia. Goldman Sachs presented the mid-point of the value range derived from the application of the Exit Multiple Method and the Perpetuity Growth Method as follows:

	Mid-point of value range of Olivetti (in billions, except per share and exchange ratio data)
Implied Equity Value (pre-dilution)	12.2
Implied Ordinary Share Price (post-dilution)	1.3
Implied Exchange Ratio	6.9x

Review of Expected Impact of the Merger on Cash Earnings. Goldman Sachs analyzed the expected impact of the proposed merger to the cash earnings per share, or cash EPS (defined as net income plus depreciation and amortization) for the Telecom Italia shareholders. In performing this analysis, Goldman Sachs

Table of Contents

assumed that no holder of Olivetti Ordinary Shares will exercise withdrawal rights and that the tender offer will be fully subscribed and completed at the maximum price. Based on these assumptions and management projections, this analysis indicated that the merger would be substantially accretive to the estimated cash EPS for Telecom Italia shareholders for 2003, 2004 and 2005, respectively.

Review of Combined Entity Key Credit Ratios. Goldman Sachs reviewed the estimated ratio of net debt to EBITDA and the estimated interest coverage ratio for 2003 for Telecom Italia/Olivetti as a combined entity on both a pre-merger and post-merger basis. Goldman Sachs compared those ratios to similar ratios for selected companies consisting of Deutsche Telekom, Telefónica and France Telecom. Goldman Sachs review of these ratios for Telecom Italia/Olivetti was based on estimates provided by Telecom Italia management and, for the comparable companies, Goldman Sachs public analyst estimates. This review indicated that, while the leverage of Telecom Italia/Olivetti will increase and its interest coverage will decrease, the leverage and interest coverage ratios of Telecom Italia/Olivetti following the Merger will be in line with the average of those ratios for the selected companies. Additionally, Goldman Sachs was informed that, based on a preliminary assessment by Standard & Poor s, Telecom Italia/Olivetti is expected to maintain a credit rating of BBB+ following the completion of the Merger.

Public Comparable Multiples Analysis. Goldman Sachs also reviewed implied EBITDA and free cash flow multiples for Telecom Italia/Olivetti on a combined basis at various levels of enterprise value and compared those multiples to similar information for the selected companies.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all these analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Telecom Italia or Olivetti or the contemplated transactions.

The analyses were prepared solely for purposes of providing an opinion to the board of directors of Telecom Italia as to the fairness from a financial point of view to the holders of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares of Telecom Italia of the exchange ratios to be received in connection with the Merger. The analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than those suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Telecom Italia, Olivetti, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast. As described above, the financial analyses presented by Goldman Sachs to the board of directors of Telecom Italia was one of many factors taken into consideration by the Telecom Italia Board in making its determination to approve the Merger.

Goldman Sachs, as part of its investment banking business, is continually engaged in preparing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and financial analyses for estate, corporate and other purposes. Goldman Sachs is familiar with Telecom Italia having provided investment banking services to it from time to time, for which Goldman Sachs has received customary compensation for its services, including having acted as its financial advisor in connection with the separation of the Italtel joint venture and the subsequent sale of an 80% stake in Italtel. Goldman Sachs is also familiar with Olivetti having provided investment banking services to it from time to time, for which Goldman Sachs has received customary compensation for its services, including having acted as joint bookrunner on various recent Eurobond offerings and as counterparty to various derivatives transactions.

Goldman Sachs provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold positions in securities, including derivative securities, of Telecom Italia or Olivetti for its own account and for the accounts of customers.

Telecom Italia retained Goldman Sachs on March 6, 2003 as a financial advisor in connection with the proposed transactions, which engagement was formalized in a letter dated March 10, 2003. Under the terms of that letter, 3,750,000 became payable to Goldman Sachs on March 11, 2003. Telecom Italia has also agreed to pay Goldman Sachs an additional 11,250,000 upon the completion of the Merger. In addition, Telecom Italia

46

has agreed to reimburse Goldman Sachs for its out-of-pocket expenses, including fees and disbursements of its lawyers, plus value added tax, up to a maximum amount of 100,000 and to indemnify Goldman Sachs against various liabilities arising out of or in connection with the engagement or any matter referred to in the engagement letter.

Opinion of Lazard to Telecom Italia

In accordance with the mandate between Telecom Italia and Lazard, the Telecom Italia Board engaged Lazard to act as financial advisor for the proposed Merger. Lazard was requested to carry out an assessment regarding the appropriate exchange ratio for the realization of the proposed Merger, to be accompanied by the launch of a partial tender offer by Olivetti with respect to the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares.

On March 11, 2003, Lazard provided the Telecom Italia Board a written document (the **Assessment**) in which it was considered that, at such date and subject to the assumptions and qualifications set forth in the Assessment, an exchange ratio of around 7 Ordinary/Savings shares of Olivetti for 1 Savings/Ordinary share of Telecom Italia was fair from a financial point of view to the shareholders of Telecom Italia (excluding Olivetti).

Subsequently, by letter dated April 15, 2003, Lazard reaffirmed, at such date, the conclusions expressed in the aforementioned Assessment on the basis of, and subject to, the assumptions and qualifications described in the letter and in the Assessment.

Lazard was requested to carry out the Assessment, and to assume and consider, among other things, that the Boards of Directors of Telecom Italia and Olivetti will evaluate and propose, in their sole and independent judgment and discretion, each respectively, the proposed Merger and the exchange ratio, and prepare and provide for the approval of the Plan of Merger, the reports and related documentation which will contain customary terms and conditions, as well as obtain appraisals of independent experts, all in accordance with applicable Italian and foreign laws and regulations. In addition, Lazard was instructed by Telecom Italia to assume that, except for an increase in the aggregate nominal value and related economic privileges and the further ability to satisfy such privileges also through the distribution of reserves, the rights of holders of the New Telecom Italia Savings Shares will be identical to the rights of the holders of the Telecom Italia Savings Shares and that neither the relative rights nor the relative values of the Telecom Italia Ordinary Shares and Savings Shares will change, in any material respect, as a result of the Merger.

The Assessment was addressed to the Telecom Italia Board for its exclusive use and solely addresses the fairness of the exchange ratio from a financial point of view for the ordinary and savings shareholders of Telecom Italia (excluding Olivetti) as of the date of the Assessment. The Assessment does not address any other aspect of the proposed Merger and did not constitute a recommendation to any shareholder of Telecom Italia as to how such shareholder should vote with respect to the proposed Merger, if presented for its approval. Lazard did not express any opinion in relation to the price at which the Telecom Italia Ordinary Shares or the Telecom Italia Savings Shares or any security of Olivetti could be traded following the announcement of the proposed Merger or in relation to the price at which the securities of Olivetti could be traded following the realization of the proposed Merger.

The Assessment does not constitute a perizia within the meaning of Annex 3A no. 1 of the Regolamento Emittenti no. 11971 dated May 14, 1999 and subsequent amendments, nor a *relazione di stima* within the meaning generally assigned to such term in such Regulation.

The full Assessment, which describes the assumptions adopted, the methodologies applied, and the elements considered and the limitations of the analyses carried out by Lazard for the purposes of completing the valuation is attached to this Information Statement as Annex D. The following is simply a summary of the Assessment and you are urged to make reference to and read the full Assessment in its entirety.

The Assessment carried out by Lazard was based, among other things, on the following elements:

- historical economic-financial information relating to Telecom Italia and Olivetti;
- financial forecasts and other data relating to activities provided by Telecom Italia;
- the historical stock prices and trading volumes of the Telecom Italia Ordinary Shares and the Telecom Italia Savings Shares as well as the Olivetti Ordinary Shares;

Table of Contents

- information gathered in a limited number of meetings with members of the senior management of Telecom Italia who provided and explained the documentation supplied;
- publicly available information on companies operating in business lines believed to be generally comparable to those of Telecom Italia and Olivetti; and
- such other financial analyses and investigations deemed appropriate.

For the purpose of completing the necessary analyses for the Assessment, Lazard relied upon the accuracy and completeness of the information and the data of a financial, legal, accounting and fiscal nature provided and did not assume any responsibility with respect to any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Telecom Italia or Olivetti.

With respect to the financial forecasts, Lazard assumed that they were reasonably prepared on bases reflecting the best and most current, available estimates and judgments of management of Telecom Italia as to the future financial performance of the group. Lazard did not assume any responsibility for, nor express any opinion as to such forecasts or the assumptions on which they were based.

The Assessment was necessarily based on the economic, monetary, market and other conditions and the information made available to Lazard, on the date of the Assessment.

The methods adopted and the analyses carried out in connection with the valuation of the companies participating in the proposed Merger are illustrated in summary form in the following paragraphs. It should be pointed out that the summaries do not constitute an exhaustive representation of the analyses carried out by Lazard.

Lazard utilized, it being understood the equivalent level of significance, for the purpose of the valuation procedures, the following methodologies:

- as the principal method that of the stock exchange quotation or market prices (**Market Prices Valuation**) utilizing the market prices of Telecom Italia and Olivetti over different time periods. In the present case, the stock exchange quotations were particularly significant, taking into account the high levels of capitalization and liquidity of Telecom Italia and Olivetti;
- as a control method that of the sum-of-the-parts (**SOP**), by determining the value of Telecom Italia using a discounted cash flow methodology, and applying the SOP criterion to Olivetti on the basis of the results that emerged from the valuation of the different activities of Telecom Italia. Lazard did not consider that under the circumstances the method of the SOP applied with reference to the current market value of the shareholding held by Olivetti in Telecom Italia would be useful insofar as such application (i) would have lead to strongly volatile results also due to the effect of the financial leverage present in Olivetti itself, (ii) would have implied a reference to the market values for only one of the companies participating in the Merger, an aspect that was not deemed to be admissible and consistent from a methodological point of view.

The aforementioned valuation methodologies were applied with homogeneous criteria to each of the companies participating in the Merger.

Market Prices Valuation

The method of Market Prices Valuation assessed the value of the capital on the basis of the stock exchange quotations of Telecom Italia and Olivetti gathered during a significant period prior to the announcement of the proposed Merger.

On the basis of the market data as of March 7, 2003 (last day of trading of the securities prior to the date on which the Boards of Directors of Olivetti and Telecom Italia announced the proposed Merger), it was considered that:

- both companies participating in the Merger have a high market capitalization and a significant and broadly diffused float;

Table of Contents

- high volumes of the Telecom Italia Ordinary Shares and Olivetti Ordinary Shares are traded daily (on the average approximately 1% of the float is traded); in addition, during the course of the 12 months preceding the announcement of the proposed Merger:

    trading of the shares of Olivetti was equal to approximately 240% of the share capital (not considering the amounts held by Olimpia S.p.A.) for a countervalue of approximately 16.9 billion;

    trading of the Telecom Italia Ordinary Shares equal to approximately 289% of the social capital of the company represented by such category of shares (excluding the shares held by Olivetti) for a countervalue of approximately 54 billion;

- both Telecom Italia and Olivetti represent a considerable proportion of the total capitalization of the Mibtel and MIB30. As of January 31, 2003, according to the data provided by the Italian Stock Exchange S.p.A.:

    Olivetti represented 2% of Mibtel and 2.5% of the MIB30; and

    Telecom Italia represented 8% of Mibtel and 11% of the MIB30;

- the float of Telecom Italia and Olivetti proved to be significantly divided among Italian and foreign institutional investors and Italian retail investors, none of which enjoyed a position such that it could influence the course of the securities.

In order to mitigate short-term fluctuations that typically characterize the financial markets, Lazard proceeded to extend the analysis of the simple and weighted average data expressed by the market over a sufficiently broad time period, correcting the value of the shares of Telecom Italia to take into account the expected distribution of the dividend with respect to the 2002 fiscal year.

From the analyses of the historical trends, the averages at 1, 3, 6 and 12 months were identified, as illustrated in the following table, as falling within a steady valuation band.

Market Prices	Market Prices Valuation		Values for the Purposes of the Exchange Ratio		Ratio (*)
	TI ( )	OL ( )	TI post div ( )	OL ( )	
Weighted Averages					
March 7, 2003	5.9	0.86	5.7	0.86	6.7
Average at 1 month	6.5	0.91	6.3	0.91	7.0
Average at 3 months	7.0	0.99	6.8	0.99	6.9
Average at 6 months	7.4	1.02	7.2	1.02	7.1
Average at 12 months	7.8	1.11	7.6	1.11	6.9
Arithmetic Average					
March 7, 2003	5.9	0.86	5.7	0.86	6.7
Average at 1 month	6.6	0.91	6.4	0.91	7.0
Average at 3 months	7.0	0.99	6.9	0.99	7.0
Average at 6 months	7.4	1.01	7.2	1.01	7.1

Average at 12 months	7.9	1.11	7.7	1.11	6.9
Maximum and Minimum Prices					
Maximum Price during the last 12 months	9.7	1.47	9.5	1.47	6.5
Minimum Price during the last 12 months	5.9	0.84	5.7	0.84	6.8

Source: Datastream
(*) Possible differences attributable to rounding

The results set forth above were also confirmed by extending the timeline of the analyses over an 18-month time period.

Sum of the Parts Method

On the basis of the SOP method, the value of Telecom Italia and of Olivetti was determined as the sum of the values of the different business lines and investments applying, principally, the methodology of discounted cash flows. Such sum was duly corrected to take into account the financial position of, and the interests of third parties in, each of the companies participating in the Merger and, when important, other effects such as, among other things, those relating to possible off-balance sheet items and possible tax benefits.

Table of Contents

Telecom Italia

The discounted cash flow (**DCF**) methodology was utilized for the principal activities, such as, for example, fixed and mobile telephone services.

The remaining assets and liabilities were evaluated with principal reference to, as the case may be, the book or market value, in consideration of their limited weight within the total valuation of Telecom Italia.

In applying the DCF methodology reference was made to the cash flows from operations for the principal activities resulting from the plans developed by management of Telecom Italia with reference to the period 2003-2005 which was extended until 2009 assuming progress in accordance with the market consensus for each single business unit.

The DCF methodology was applied by discounting the cash flows from operations gross of any element of a financial nature (**Free Cash Flows** or **FCF**) that the company would be able to generate in the future, discounted at a rate representing the weighted average cost of capital, after the net financial position and third parties interests, which in the present case were taken into consideration as of December 31, 2002.

The DCF methodology was applied in accordance with the logic for determining the basic value to the financial investor and reflects the following assumptions and methodologies:

- the weighted average cost of capital (**Weighted Average Cost of Capital** or **WACC**) is calculated on the basis of a capital structure in accordance with the actual structure. The WACC of the Telecom Italia Group utilized was equal to 7.7%;
- the growth rates of sales and margins utilized for the purpose of the financial projections beyond the business plan of Telecom Italia (2006-2009) reflect growth prospects which are consistent with the relevant benchmarks of the market, in particular during the 2006-2009 period, with regard to fixed telephony, revenues of CAGR equal to -0.5% with an EBITA margin included within a range of 31%-35% were assumed; and with regard to mobile telephony, revenues of CAGR equal to around 5% with an EBITA margin of about 37% were assumed;
- for the purpose of assessing the final value, Lazard proceeded to capitalize the standardized cash flows from operations (or the current value of the cash flows from operations expected for the period following the time periods of the express projections); to such end, Lazard selected the perpetual growth rates for the different business lines in accordance with the benchmarks of the market included within a range of -0.5% and 3%;
- in addition, the values of the single business lines, as determined above, were compared against a range of relevant multiples for a panel of comparable companies.

Olivetti

For Olivetti, which is set up as a holding company, and whose assets consist mainly of the shareholding held in Telecom Italia, the SOP methodology was applied by evaluating such shareholding in accordance with the procedures described above and by evaluating the remaining assets and liabilities, primarily at their book or market value, by virtue of the limited weight thereof within the total valuation.

Furthermore, within the framework of evaluating Telecom Italia and Olivetti, the tax assets generated by the correction to the value of the controlling interest held, respectively, by Telecom Italia in Seat Pagine Gialle and by Olivetti in Telecom Italia were taken into account to the extent they are available to be used by the companies participating in the Merger independently of the realization of the proposed Merger on the basis of expected taxable profits on an individual basis and considering the current tax regulations.

From the sum of the values of the assets and the tax assets, calculated using the criteria indicated above, the net financial position at December 31, 2002 was deducted, corrected (i) for Telecom Italia for the expected distribution of reserves (June 2003) and (ii) for Olivetti, to take into account the pro forma effect of the conversion of the convertible bonds of Olivetti 1.5% 2001-2010 Convertible with a Reimbursement Premium, consistent with the fully-diluted methodology which assumes the conversion into ordinary shares.

Table of Contents

Summary of the Results

With reference to the SOP method and considering the afore-described assumptions relative to the perpetual growth rate and the tax assets, a range of values was identified for the Telecom Italia Ordinary Shares and Olivetti Ordinary Shares, the average values of which are as follows:

	Value per ordinary share		Values at the end of the Exchange		Ratio
	TI( )	OL( )	TI post div( )	OL( )	
Sum of the Parts (average value)	8.9	1.28	8.8	1.28	6.8

The results obtained by applying the SOP method confirmed the relative values evidenced by the Market Prices Valuation method.

With respect to the savings shares, because as of today such category of shares has not been issued by Olivetti, it was assumed taking also into account the capital rights that will be accorded the Olivetti savings shares that the quotations of the Olivetti savings shares may reflect an analogous discount as that recognized by the market with respect to the Telecom Italia Savings Shares, and it was, therefore, deemed to be appropriate to adopt the same exchange ratio identified for the Olivetti Ordinary Shares.

Determination of the Exchange Ratio

The following is a summary of the exchange ratios inferred from the application of the methods used by the Telecom Italia Board:

	TI post div( )	OL( )	Exchange Ratio
Market Prices Valuation Method:			
7/3/2003	5.7	0.86	6.7
Weighted Averages:			
Average at 1 month	6.3	0.91	7.0
Average at 3 months	6.8	0.99	6.9
Average at 6 months	7.2	1.02	7.1
Average at 12 months	7.6	1.11	6.9
Sum of the Parts Method:			
Average Value	8.8	1.28	6.8

As described above, Lazard carried out the Assessment by applying and comparing various financial methodologies, solely for the purpose of providing the Telecom Italia Board an opinion regarding the fairness of the exchange ratio considered to be fair, both for the ordinary shareholders and the savings shareholders of Telecom Italia (excluding Olivetti). The summary of such valuations is not a complete description of the valuations and analyses carried out by Lazard. The preparation of a valuation is, from an analytical point of view, a complex process that cannot be entirely described by partial analyses or summary descriptions but must be considered in its entirety. The selection of partial, single aspects, without considering all the valuations or factors could create a misleading or incomplete view of the processes underlying the Assessment.

In carrying out its analyses, Lazard made numerous assumptions with respect to industry performance, general business, macroeconomic, market and financial conditions and other aspects, many of which are beyond the control of Telecom Italia. The estimates contained in the analyses do not necessarily indicate actual values or predict future results or values, which may be significantly better or worse than those suggested by the analyses carried out. In addition, analyses and estimates relating to the value of the businesses or securities do not reflect the prices at which the businesses or securities may actually be listed or traded in the market. As a result, the analyses and estimates carried out reflect substantial uncertainty. Because the analyses are subject to such uncertainty, none of Lazard, Telecom Italia, Olivetti or any other person, assumes any responsibility in the event that future results are different from the projections.

The Assessment of Lazard and the financial valuations were not the only factors considered by the Telecom Italia Board in approving the resolution concerning the proposed Merger and, therefore, must not be viewed as determinative of the decision of the Board of Directors or the management of Telecom Italia.

Lazard is acting as financial advisor to Telecom Italia with respect to the proposed Merger for which a fee of 5.0 million became payable upon the public announcement of the proposed Merger (March 12, 2003). In addition, Telecom Italia has agreed to pay Lazard an additional fee of up to 20.0 million upon consummation of the proposed Merger as well as reimbursement of expenses incurred. Lazard has in the past provided financial advisory services to Telecom Italia for which it has received customary fees; in addition, Lazard is currently providing advisory services in connection with an operation for the disposal of the entity resulting from the spin-off of Seat Pagine Gialle S.p.A. for which it will receive customary fees for such type of transaction.

Lazard is an internationally recognized investment banking firm and is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, capital increases, secondary distributions of listed and unlisted securities, private placements, valuations of real estate, corporate and other purposes. Lazard was chosen by the Telecom Italia Board to carry out the role of financial advisor because of its expertise and market reputation.

Opinion of JPMorgan to Olivetti

Olivetti retained JPMorgan to advise it in connection with the proposed Merger and related transactions, including as to the fairness, from a financial point of view, to Olivetti of the exchange ratio with respect to the Merger.

In selecting JPMorgan as its financial advisor, Olivetti considered JPMorgan s knowledge of the business and affairs of Olivetti and Telecom Italia, as well as its qualification as an internationally recognized investment banking firm that has substantial experience in transactions similar to the Merger and related transactions. JPMorgan, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

On March 11, 2003, at a meeting of the Olivetti Board held to consider the Merger and related transactions, JPMorgan delivered a written opinion to the Olivetti Board to the effect that, as of that date, based on the procedures followed, and subject to the premises, qualifications and assumptions on the scope of review undertaken described in the opinion, the pre-redistribution Merger exchange ratio of seven Olivetti Ordinary Shares for each Telecom Italia Ordinary Share and of seven Olivetti Savings Shares for each Telecom Italia Savings Share was fair, from a financial point of view, to Olivetti.

On April 15, 2003, JPMorgan confirmed to the Olivetti Board in writing that, to JPMorgan s knowledge, taking into account the criteria upon which the March 11, 2003 opinion was based, as well as the premises, qualifications and assumptions set out therein, no material event had occurred since March 11, 2003 that would lead JPMorgan to change, as of the date of the confirmation, the conclusion of its March 11, 2003 opinion. In providing this confirmation, JPMorgan did not take into account the prices of the shares of Telecom Italia or Olivetti subsequent to the announcement of the proposed Merger.

JPMorgan s March 11, 2003 opinion and its April 15, 2003 letter (the **JPMorgan reports**) were directed to the Olivetti Board and addressed only the fairness, from a financial point of view, to Olivetti of the pre-redistribution Merger exchange ratio, which was arrived at by the Olivetti and Telecom Italia Boards after considering the advice of their respective financial advisors. JPMorgan provided the reports to inform and assist the Olivetti Board in connection with its consideration of the Merger and related transactions. This summary of the JPMorgan reports is included only for informational purposes, and neither this summary nor the JPMorgan reports constitute a recommendation to any securityholder of Olivetti or Telecom Italia as to whether they should take any action with respect to the Merger and related transactions including, without limitation, with respect to the right of withdrawal available to Olivetti shareholders or the tender offer that may be made available to Telecom

Italia shareholders. The JPMorgan reports did not address the underlying decision of the Olivetti Board or the Telecom Italia Board to approve the Merger and related transactions, or whether any alternative transaction might have been more beneficial.

The full text of JPMorgan s March 11, 2003 opinion, which sets forth the assumptions made, procedures followed, matters considered, documents reviewed and limitations on the review undertaken by JPMorgan in connection with the opinion, as well as the full text of JPMorgan s April 15, 2003 confirmation letter, are attached as Annex E and are incorporated by reference into this document. You are urged to read the opinion and confirmation letter carefully and in their entirety.

Table of Contents

In the course of performing its review and analyses for the purpose of rendering its March 11, 2003 opinion, JPMorgan, among other things:

- reviewed documents that set out the terms of the proposed Merger and related transactions;
- reviewed financial and other information that was publicly available or furnished to JPMorgan by Olivetti, including internal financial analyses, budgets and forecasts for Olivetti and for Telecom Italia prepared by Olivetti or Telecom Italia management;
- held discussions with various members of the senior management of Olivetti and Telecom Italia and with their respective representatives and advisors;
- reviewed the historical market price and trading activities of Olivetti and Telecom Italia securities;
- reviewed publicly available equity analyst research reports; and
- conducted other financial studies, analyses and investigations as it deemed appropriate.

In the course of its review and analysis and in rendering the JPMorgan reports, JPMorgan relied upon the accuracy and completeness of all financial and other information reviewed by it and did not assume any responsibility for independent verification of such information. With respect to the financial and operating forecasts provided by Olivetti and by Telecom Italia, JPMorgan assumed that those forecasts had been reasonably prepared on bases reflecting the best estimates and judgments then available of the respective managements of those companies as to the future financial and operating performance of those companies.

JPMorgan did not prepare any independent evaluation or appraisal of the assets or liabilities of, nor did JPMorgan conduct a physical inspection of any of the assets of, Olivetti or Telecom Italia or any of their subsidiaries. With respect to the projections provided to JPMorgan, JPMorgan notes that projecting future results is inherently subject to substantial uncertainty. Although those projections constituted one of many items that JPMorgan employed in the formation of its reports, changes to the projections could affect JPMorgan s conclusion. JPMorgan s reports were based on economic, industry, regulatory, market, political and other conditions existing at the date of its reports, including in the case of its March 11, 2003 opinion, market prices of Olivetti s and Telecom Italia s securities. These conditions are generally beyond Olivetti s or Telecom Italia s control and are subject to rapid and unpredictable changes, which changes could affect the conclusion JPMorgan expressed. JPMorgan made no independent investigation of any legal matters affecting Olivetti or Telecom Italia and assumed the correctness of all legal, tax and accounting advice given to each of Olivetti and Telecom Italia and their respective boards of directors, including without limitation advice as to the legal, tax and accounting consequences of the Merger and related transactions to Olivetti, Telecom Italia and their respective securityholders. JPMorgan assumed that the Merger and related transactions will be consummated in accordance with the expected terms and within the expected time periods.

The following is a brief summary of the material financial analyses performed by JPMorgan in connection with rendering its March 11, 2003 opinion. The summary is not a complete description of the analyses performed by JPMorgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. The order of the analyses described, and the results of those analyses, do not necessarily represent the relative importance or weight given to the analyses by JPMorgan. Selecting portions of this summary without considering the analyses as a whole could create an incomplete view of the processes underlying JPMorgan s analyses and opinion. The analyses JPMorgan performed are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by the analyses. Additionally, the analyses relating to the value of businesses do not purport to be prices realizable in a transaction or to reflect actual or future market valuations or trading ranges.

JPMorgan expressed no opinion as to the prices at which the Olivetti Ordinary Shares or Olivetti Savings Shares will trade following completion of the Merger, or as to the prices at which the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares or the Olivetti Ordinary Shares will trade prior to completion of the Merger, including during any period relevant to withdrawal rights. Although JPMorgan reviewed the withdrawal rights, the tender offer and the financing therefor as part of its review of the general terms of the Merger and related transactions, JPMorgan expressed no opinion as to the likelihood that Olivetti shareholders would exercise their withdrawal rights or as to the amount of funds available to or the participation by shareholders of Telecom Italia in the tender offer.

JPMorgan did not use the values resulting from its analyses for any purpose other than that of evaluating the fairness of the pre-redistribution Merger exchange ratio to Olivetti and those values should not be used for any other purpose. In accordance with customary investment banking practice, JPMorgan employed generally accepted valuation methods in preparing its March 11, 2003 opinion. In particular, in evaluating the Merger exchange ratio, JPMorgan focused on the relative valuations of Olivetti and Telecom Italia, giving priority to the consistency and comparability of the criteria adopted, rather than the absolute value of those companies. JPMorgan carried out its analyses considering the two companies as separate entities and therefore ignored any strategic, operational or financial synergies that may result from the Merger, as well as any control premiums and minority discounts. JPMorgan adopted a sum-of-the-parts approach with respect to Telecom Italia because Telecom Italia s businesses operate in different operational, industrial and strategic environments and because of the differing importance and materiality of those businesses in relation to Telecom Italia as a whole. JPMorgan adopted a net asset value approach, which is substantially equivalent in methodological terms to the sum-of-the-parts approach, with respect to Olivetti, analyzing the value of its stake in Telecom Italia based on the range of values identified by the sum-of-the-parts method. JPMorgan did not use the market price of Telecom Italia Shares to analyze the value of Olivetti s stake in Telecom Italia in deriving the net asset value of Olivetti because the use of a market value method in this instance would not have been consistent with the analyses performed with respect to Telecom Italia. Lastly, JPMorgan compared the range of exchange ratios calculated using the above criteria with the exchange ratios derived from the relative historical trading prices of the Olivetti Ordinary Shares and Telecom Italia Ordinary Shares over selected time periods prior to the announcement of the transaction.

Sum-of-the-Parts Analysis of Telecom Italia

JPMorgan analyzed the three main businesses of Telecom Italia, Telecom Italia S.p.A., Telecom Italia Mobile and the directory business of Seat Pagine Gialle, using the discounted cash flow method. The remaining Telecom Italia businesses, which are minor in relation to Telecom Italia as a whole, were analyzed using their market value, if their securities were publicly traded, and on various other criteria depending on the nature of the business, including market multiples and book value. In addition, JPMorgan compared the values derived by the foregoing analyses with values identified by research analysts for such businesses, where available.

JPMorgan performed a discounted cash flow analysis based on operating and financial assumptions, forecasts and other information prepared by Telecom Italia for the years 2003 through 2005, which were extended through 2012, and for the calculation of terminal values, as described below. Assumptions regarding weighted average cost of capital (**WACC**) were based on market conditions and on a capital structure substantially in line with the current one. The growth rates used by JPMorgan for the projections from the years 2006 through 2012 and for the terminal values are consistent with relevant market benchmarks.

With regards to Telecom Italia S.p.A. activities, a 2005-2012 revenue compound annual growth rate (**CAGR**) of 0.0% and an average earnings before interest, taxes, depreciation and amortization (**EBITDA**) margin of 45.2% were assumed for the 2006-2012 financial projections, and a terminal value growth rate of 0.0% and a WACC of 7.4% were used in the discounted cash flow valuation. With regards to Telecom Italia Mobile, a 2005-2012 revenue CAGR of 5.0% and an average EBITDA margin of 45.7% were assumed for the 2006-2012 financial projections, and a terminal value growth rate of 2.0% and a WACC of 8.8% were used in the discounted cash flow valuation. With regards to the directory business of Seat Pagine Gialle, a 2005-2012 revenue CAGR of 3.1% and an average EBITDA margin of 44.8% were assumed for the 2006-2012 financial projections, and a terminal value growth rate of 2.0% and a WACC of 8.9% were used in the discounted cash flow valuation.

As a further part of its analysis, JPMorgan compared the values derived from the discounted cash flow analysis to values derived for the businesses by applying relevant multiples in line with those of certain comparable companies and to values identified by research analysts for such businesses, where available.

The values derived from the foregoing analyses were adjusted to take into account net debt as of December 31, 2002, and where relevant, the net value of other adjustments, including certain off-balance sheet items and certain tax benefits.

The sum-of-the-parts method described above resulted in the following minimum, mid-point and maximum values for each Telecom Italia Ordinary Share on a fully diluted basis before adjustment for the dividend expected to be paid in June 2003.

	Minimum	Mid-point	Maximum
Value per Telecom Italia Ordinary Share in euro	8.3	8.8	9.3

Note: the figures in this table have been rounded up.

Table of Contents

JPMorgan compared the results obtained using the sum-of-the-parts method before adjustment for the dividend expected to be paid in June 2003 with target prices published by equity research analysts prior to March 11, 2003. These target prices for a Telecom Italia Ordinary Share ranged from 7.5 to 12.0 for each Telecom Italia Ordinary Share with an average value of 9.2 for each Telecom Italia Ordinary Share and a mid-point of 9.8 for each Telecom Italia Ordinary Share.

The following table shows the minimum, mid-point and maximum values per Telecom Italia Ordinary Share identified by the sum-of-the-parts fundamental method, adjusted to take into account the effect of the dividend expected to be paid in June 2003.

	Minimum	Mid-point	Maximum
Value per Telecom Italia Ordinary Share in euro	8.1	8.6	9.1

Note: the figures in this table have been rounded up.

The following table shows the minimum, mid-point and maximum values for each Telecom Italia Savings Share, calculated based on the average market discount to the Telecom Italia Ordinary Shares during the last month before public announcement of the proposed Merger of approximately 33%, which is in line with the discount of the last day of trading prior to the announcement of the transaction, March 7, 2003, and substantially in line with the average market discount during the previous three, six and 12 months.

	Minimum	Mid-point	Maximum
Value per Telecom Italia Savings Share in euro	5.4	5.8	6.1

Note: the figures in this table have been rounded up.

Net Asset Value Analysis of Olivetti

JPMorgan performed a net asset value analysis of Olivetti, reflecting Olivetti s nature as a financial holding company without substantial operating activities. JPMorgan analyzed Olivetti s net asset value as the sum of the value of Olivetti s holdings and other activities (including the effect of treasury shares), considering the negative net present value of the centralized costs of the holding company and deducting net financial liabilities. Olivetti s principal asset is its stake in Telecom Italia Shares, the value of which JPMorgan derived using the sum-of-the- parts method described above, adjusted for the effect of the dividend expected to be paid by Telecom Italia in June 2003. The remaining Olivetti holdings form a minor component of its overall valuation and were analyzed using a variety of valuation methods depending on the nature of the holding, including a simplified discounted cash flow method for Olivetti Tecnost S.p.A. (**Olivetti Tecnost**), market value, if the holding was publicly traded, market multiples and book values. In addition, JPMorgan compared the values derived using the methods described above with values identified by research analysts for such holdings, where available. The calculation of Olivetti s net asset value also included the value of tax benefits in connection with the write-down of Olivetti s stake in Telecom Italia, which were calculated using the net present value of the tax savings expected by Olivetti on a stand-alone basis.

The values derived from the foregoing analyses were adjusted to take into account Olivetti s net debt as of December 31, 2002, adjusted for the effect of the dividend on Telecom Italia Shares expected to be paid in June 2003 and adjusted to reflect the pro forma effect on a fully diluted basis of the conversion of all Olivetti s 1.5% convertible bonds due 2010.

This method resulted in the following minimum, mid-point and maximum values for each Olivetti Ordinary Share on a fully-diluted basis.

	Minimum	Mid-point	Maximum
Value per Olivetti Ordinary Share in euro	1.13	1.26	1.39

Note: the figures in this table have been rounded up.

This method would result in the following minimum, mid-point and maximum values for each Olivetti Savings Share, if the same discount of 33% assumed for each Telecom Italia Savings Share were applied, taking into account, among other things, that Olivetti Savings Shares will enjoy economic and administrative rights not less than those of Telecom Italia Savings Shares.

	Minimum	Mid-point	Maximum
Value per Olivetti Savings Share in euro	0.76	0.84	0.93

Note: the figures in this table have been rounded up.

Table of Contents

Analysis of the Exchange Ratio

JPMorgan compared the results derived from the application of the above valuation methods for Telecom Italia and Olivetti, obtaining the following range of implied Merger exchange ratio.

	Minimum	Mid-point	Maximum
Olivetti Ordinary Shares for each Telecom Italia Ordinary Share	6.6	6.9	7.2
Olivetti Savings Shares for each Telecom Italia Savings Share	6.6	6.9	7.2

Note: the figures in this table have been rounded up.

JPMorgan also compared the range of Merger exchange ratios set forth above against the Merger exchange ratio derived from the relative historical trading prices of the Telecom Italia Ordinary Shares and Olivetti Ordinary Shares over selected time periods prior to the announcement of the transaction, adjusted to take into account the effect of the dividend expected to be paid in June 2003. A similar comparison could not be made with respect to the savings shares because there are currently no Olivetti Savings Shares.

	March 7	Average of 1 month Ending March 7	Average of 3 months Ending March 7	Average of 6 months Ending March 7	Average of 12 months Ending March 7
Olivetti Ordinary Shares for each Telecom Italia Ordinary Share	6.7	7.0	6.9	7.1	6.9

Note: the figures in this table have been rounded up.

On 13 January 2003, JPMorgan was retained by Olivetti initially to assist in considering the feasibility of, and, upon Olivetti s decision to proceed, to act as its financial advisor with respect to, the Merger and related transactions, which engagement was formalized in an engagement letter dated March 5, 2003. Pursuant to the terms of the engagement letter, JPMorgan was paid a fee of 5 million by Olivetti, which became due upon the public announcement of the proposed Merger. In addition, Olivetti has agreed to pay JPMorgan a fee of between 10 million and 15 million upon completion of the Merger (the amount in excess of 10 million to be paid will be decided by Olivetti based on the performance of JPMorgan in executing its duties) or in certain other circumstances. Olivetti has also agreed to reimburse JPMorgan for its reasonable expenses incurred in connection with its services, including the fees and disbursements of outside counsel, and will indemnify JPMorgan against certain liabilities. In addition J.P. Morgan plc, an affiliate of JPMorgan, acted as global coordinator, bookrunner and mandated lead arranger of the 9 billion term loan facility entered into in connection with the Merger and related transactions, for which it will receive maximum total fees of approximately 21 million, of which approximately 4.9 million became due on April 24, 2003. JPMorgan and its affiliates, in the ordinary course of their activities, may actively trade for their own account or for the accounts of customers the equity and debt securities of Olivetti or Telecom Italia or companies directly or indirectly controlled by, affiliated with Olivetti or Telecom Italia or in which Olivetti or Telecom Italia holds securities, and, accordingly, JPMorgan and its affiliates may at any time hold long or short positions in such securities. JPMorgan and its affiliates have in the past represented Olivetti and Telecom Italia or companies directly or indirectly controlled by, affiliated with Olivetti or Telecom Italia or in which Olivetti or Telecom Italia holds securities in connection with a variety of commercial banking, investment banking, capital markets, and other transactions. JPMorgan and its affiliates may currently have and may in the future have commercial banking, investment banking, trust or other relationships or engagements with counterparties that may have interests with respect to Olivetti, Telecom Italia or companies directly or indirectly controlled by, associated with Olivetti or Telecom Italia or in which Olivetti or Telecom Italia holds securities, which interests may in some cases be contrary to the interests of any of those companies. JPMorgan and its affiliates may have fiduciary or other relationships or engagements in which JPMorgan or its affiliates may exercise voting power over securities of various persons, which securities may from time to time include securities of Olivetti, Telecom Italia, or companies directly or indirectly controlled by, affiliated with Olivetti or Telecom Italia or in which Olivetti or Telecom Italia holds securities, or other parties with an interest with respect to the Merger and related transactions.

Reports of Experts Appointed Pursuant to Italian Law

Report of Deloitte & Touche to Olivetti Shareholders

In accordance with Italian law, Deloitte & Touche served as the expert appointed to report to Olivetti shareholders on the Exchange Ratios relating to the New Telecom Italia Shares to be received by the

Table of Contents

shareholders of Telecom Italia. Deloitte & Touche was appointed as an expert by the President of the Tribunal of Ivrea, the competent commercial court in Italy which, as a condition to the completion of the Merger, must issue a decree authorizing the recording of the Olivetti shareholders resolution adopting the Plan of Merger proposed by the Olivetti Board. Deloitte & Touche delivered a written report, dated April 22, 2003, to the Olivetti shareholders to the effect that the methods of valuation adopted to determine the Exchange Ratios are reasonable and not arbitrary and have been correctly applied by the Olivetti Board in determining the Exchange Ratios.

Deloitte & Touche stated in its report that to better understand the values of Olivetti and Telecom Italia identified by JPMorgan, Olivetti s financial advisor, it must be recognized that the purpose of the valuations was to determine the share exchange ratios on the basis of meaningfully comparable values and not necessarily to establish absolute equity values of Olivetti and Telecom Italia, and, therefore, such valuations may not be appropriate for use in other circumstances.

In rendering its report, Deloitte & Touche reviewed, among other things, the following:

- the Plan of Merger, the Olivetti Board Report and the Telecom Italia Board Report, proposing the exchange ratios;
- the fairness opinions with respect to the exchange ratios prepared by JPMorgan, as financial advisor to Olivetti and by Lazard and Goldman Sachs, as financial advisors to Telecom Italia dated March 11, 2003, and updated on April 15, 2003, as well as the report of Professor Provasoli requested by Olivetti regarding the valuation criteria applied by JPMorgan for the determination of the ratio for the exchange of shares;
- the consolidated financial statements and parent company financial statements for 2001 and the draft financial statements for 2002 of Olivetti, Telecom Italia, Telecom Italia Mobile and Seat Pagine Gialle;
- the half-year and quarterly reports of the years 2001 and 2002 of Olivetti, Telecom Italia, Telecom Italia Mobile and Seat Pagine Gialle;
- the 2002-2004 Group Business Plan of Telecom Italia (January 2003 version) and related updates;
- the condensed Business Plan 2003-2005 of Olivetti Tecnost;
- financial research and analyses published by third parties, including for comparable companies; and
- the reports of Ernst & Young and analyses of certain work papers and information obtained from Ernst & Young relating to the audit of the financial statements for 2002 of Olivetti and Telecom Italia.

On the basis of the documentation provided in connection with its review, Deloitte & Touche performed the following procedures:

- analyzed the reports and the work papers of Ernst & Young with respect to the parent company financial statements and the consolidated financial statements of Olivetti and Telecom Italia for the year ended December 31, 2002;

- analyzed the valuation criteria used for the preparation of the parent company financial statements and consolidated financial statements of Olivetti and Telecom Italia for the year ended December 31, 2002, to determine the consistency thereof or to assess the effects of any inconsistencies;

- obtained information from management of Olivetti and Telecom Italia regarding events subsequent to the closing of the 2002 financial statements which could have a significant effect on the determination of the values that are the subject of Deloitte & Touche s report;

- discussed with management of Olivetti and Telecom Italia the assumptions used for the preparation of the Olivetti Group Business Plan of Telecom Italia and the condensed Business Plan 2003-2005 of Olivetti Tecnost, respectively. In particular, Deloitte & Touche examined the principal characteristics of the forecasting process and the methodological consistency of the assumptions used, including with regard to the comparability of the data obtained, taking into account the specificity and characteristics of each of Olivetti and Telecom Italia; and

- verified the stock market prices of Olivetti and Telecom Italia Shares.

Deloitte & Touche performed the following procedures in analyzing the valuation methods used to determine the exchange ratios:

- critically examined the valuation methods adopted by the Olivetti Board and the elements considered necessary to determine whether such methods were technically appropriate, in the specific

Table of Contents

circumstances, to determine the economic values of Olivetti and Telecom Italia in relation to the exchange ratios;

- participated in meetings with JPMorgan to obtain information regarding the work it performed and the calculations it made;
- compared the procedures and results included in the opinion of JPMorgan as financial advisor to Olivetti with the procedures and results included in the opinions of Lazard and Goldman Sachs as financial advisors of Telecom Italia;
- verified the completeness and consistency of the procedures followed by the Olivetti Board in determining the Exchange Ratios;
- verified that the valuation methods were applied on a consistent basis;
- verified the consistency of the data used with respect to the sources of information and documents to be reviewed;
- verified the mathematical accuracy of the calculation of the Exchange Ratios obtained by applying the valuation methods adopted by the Olivetti Board; and
- applied a sensitivity analyses to the valuation methods adopted in order to assess the extent to which the exchange ratios are influenced by changes in the significant assumptions and parameters referred to in the opinions of the advisors.

In rendering its report, Deloitte & Touche considered the objective difficulties associated with the valuation process and their relative significance which were encountered by the Olivetti Board. The principal aspects of the valuation difficulties were as follows:

- the possible effects of Italian tax law reform (details of the regulations proposed have not yet been finalized and are difficult to assess given the current status);
- the valuation of Olivetti Savings Shares (which have not yet been issued, but will be issued by Olivetti in connection with the Merger) in which the Olivetti Board took into account the discount between Telecom Italia Ordinary Shares and Savings Shares based on historical market prices;
- the assumption that the treasury shares held by Olivetti and Olivetti International S.A. can be valued on the basis of the overall economic value of Olivetti itself (an assumption consistent with applicable accounting literature and practice); and
- the difficulty in making an accurate forecast of the outcome of the proposed disposal of SEAT s directories business (although, considering the overall significance of Telecom Italia s investment in SEAT, it was considered that the disposal could not produce effects which would require the exchange ratios to be modified).

In each case Deloitte & Touche concluded that the methods adopted by the Olivetti Board were acceptable or appropriate in the circumstances.

In addition, in arriving at its conclusions, Deloitte & Touche also considered the application of the valuation methodologies used (sum of the parts and net asset value), and the use of stock market prices over time (considering Olivetti s and Telecom Italia s significant share of total capitalization of Mibtel and Mib30), including certain inherent difficulties generally associated with the use of these valuation methods. It also reviewed the Olivetti Board s consideration of the impact on the Exchange Ratios associated with the withdrawal rights which were made available to Olivetti shareholders and the Tender Offers.

An English translation of Deloitte & Touche s report is attached as Annex F to this Information Statement. We recommend that you read this report in its entirety.

Deloitte & Touche represented that the report does not express an opinion on the fairness of the transaction, the value of the security, or the adequacy of consideration to the shareholders and that therefore the issuance of the report would not impair the auditor s independence under U.S. independence requirements.

Report of Ernst & Young to Telecom Italia Shareholders

In accordance with Italian law, Ernst & Young, Telecom Italia s independent auditors, served as the expert appointed to report to Telecom Italia Shareholders on the Exchange Ratios relating to the New Telecom Italia

Table of Contents

Shares to be received by the shareholders of Telecom Italia. Pursuant to the established practice of the Tribunal of Milan, Ernst & Young was appointed directly by Telecom Italia. Ernst & Young delivered a written report, dated April 22, 2003, to the Telecom Italia shareholders to the effect that the methods of valuation adopted to determine the Exchange Ratios are reasonable and not arbitrary and have been correctly applied by the Telecom Italia Board in determining the Exchange Ratios.

Ernst & Young stated in its report that to better understand the values of Olivetti and Telecom Italia identified by Lazard and Goldman Sachs, Telecom Italia s financial advisors, it must be recognized that the purpose of the valuations was to determine the share exchange ratios on the basis of meaningfully comparable values and not necessarily to establish absolute equity values of Olivetti and Telecom Italia, and, therefore, such valuations may not be appropriate for use in other circumstances.

In rendering its report, Ernst & Young reviewed, among other things, the following:

- the Plan of Merger and the reports of the Olivetti Board and the Telecom Italia Board proposing the exchange ratios;
- the report on the exchange ratios prepared by Lazard, as financial advisor to Telecom Italia;
- the fairness opinion issued by Goldman Sachs on March 11, 2003 and April 15, 2003 to the Telecom Italia Board with respect to the fairness of the exchange ratios;
- the consolidated financial statements and parent company financial statements of Telecom Italia and Olivetti as at December 31, 2001, accompanied by the Report of the Board of Directors, the Report of the Board of Statutory Auditors and the Independent Auditors Report;
- draft consolidated financial statements and draft parent company financial statements of Telecom Italia and of Olivetti as at December 31, 2002, accompanied by the Report of the Board of Directors;
- the 2002-2004 Group Business Plan of Telecom Italia (version dated January 16, 2003) and related updates;
- the condensed Business Plan 2003-2005 of Olivetti Tecnost;
- historical market prices and trading volumes of ordinary and savings shares of Telecom Italia and Olivetti, as applicable;
- publicly available information about companies operating in the same sector; and
- financial research and analyses published by third parties, including for comparable companies.

In rendering its report, Ernst & Young considered the results of its work as independent auditors of Telecom Italia, including the work performed on the 2002 draft financial statements of Olivetti and Telecom Italia in connection with the audits of Olivetti and Telecom Italia, respectively, and the audited financial statements of Olivetti and Telecom Italia for the year ended December 31, 2001. Ernst & Young also performed the following additional procedures:

- met with Telecom Italia management to obtain information on any subsequent events that could have a significant effect on the financial statements referred to above and any amounts being examined in the report;

- with regard to the 2002-2004 Group Business Plan of Telecom Italia and cash flow projections of Telecom Italia, Ernst & Young discussed with Telecom Italia s management the main characteristics of the forecasting process and the assumptions used for their compilation;

- examined the methods followed by the Telecom Italia Board in determining the relative values of Olivetti and Telecom Italia and the Exchange Ratios, assessing their technical suitability under the circumstances;

- analyzed the Telecom Italia Board report and the fairness opinions of Telecom Italia s financial advisors to verify the completeness and consistency of the processes followed by the Telecom Italia Board in determining the Exchange Ratios, as well as in applying the valuation methods;

- applied sensitivity analyses to the valuation methods adopted in order to asses the extent to which the Exchange Ratios are influenced by changes in the significant assumptions and parameters referred to in the opinions of the advisors;

- verified the consistency of data utilized, with respect to the sources of information and documents to be reviewed;

Table of Contents

- verified the mathematical accuracy of the calculation of the Exchange Ratios, by applying the valuation methods adopted by the Telecom Italia Board; and
- met with Telecom Italia s financial advisors to discuss the procedures performed, the issues encountered and the solutions adopted.

In rendering its report, Ernst & Young considered the objective difficulties associated with the valuation process and their relative significance which were encountered by the Telecom Italia Board. The principal aspects of the valuation difficulties were as follows:

- the difficulty of making an accurate forecast of the outcome of the proposed disposal of SEAT s directories business (although, considering the overall significance of Telecom Italia s investment in SEAT, the Telecom Italia Board considered that the disposal could not produce effects which would require the exchange ratios to be modified);
- the possible effects of Italian tax law reform (details of the regulations proposed have not yet been finalized and are difficult to assess given the current status); and
- the valuation of Olivetti Savings Shares (which as of the date of the report have not been issued by Olivetti but will be issued as part of the Merger) in which the Telecom Italia Board took into account the discount between Telecom Italia Ordinary Shares and Telecom Italia Savings Shares based on historical market prices;

Ernst & Young noted, in arriving at its conclusions, among other things, that:

- in connection with the valuation methods adopted by the Telecom Italia Board:
  - they are widely accepted in Italian and international practice;
  - they appear adequate in the circumstances taking into account the companies involved in the Merger;
  - they were developed on an entity by entity basis;
  - they allowed the Telecom Italia Board to adopt uniform valuation methods in order to apply comparable valuation methodologies to Telecom Italia and Olivetti; and
  - the application of two valuation methodologies one used as a primary method and one used as a control method broadened the valuation process and verified the results obtained.
- market exchange ratio analysis is particularly appropriate where companies have a high market capitalization, including using a suitable period to mitigate short-term market fluctuations;
- the sum-of-the-parts analysis was appropriately applied and supported by the consensus analysis of financial analysts on target prices for Telecom Italia in the three months preceding announcement of the merger transaction; and

- the determination of the Exchange Ratio for the Telecom Italia Savings Shares was objective and appropriate under the circumstances.

An English translation of Ernst & Young s report is attached as Annex G to this Information Statement. We recommend that you read this report in its entirety.

Ernst & Young represented that the report does not express an opinion on the fairness of the transaction, the value of the security, or the adequacy of consideration to the shareholders and that therefore the issuance of the report would not impair the auditor s independence under U.S. independence requirements.

Report of Professor Angelo Provasoli to Olivetti

Olivetti retained Professor Angelo Provasoli to evaluate the valuation methodologies used by JPMorgan in analyzing Olivetti and Telecom Italia for purposes of its fairness opinion.

Professor Provasoli is a tenured professor at the Università Bocconi (University of Economics and Business Administration) in Milan.

On March 11, 2003, Professor Provasoli delivered a preliminary written report on the valuation methodologies used by JPMorgan in giving its fairness opinion. On April 15, 2003, Professor Provasoli delivered

Table of Contents

a final report dated April 14, 2003. In this report Professor Provasoli considered the use and application of the valuation methodologies used by JPMorgan in giving its fairness opinion and concluded that such valuation methodologies, and their application in relation to the exchange ratios, were appropriate.

In rendering his report, Professor Provasoli:

- participated in meetings with the Olivetti management and JPMorgan;
- reviewed and analyzed the JPMorgan fairness opinion;
- verified the consistency of the methodologies of valuation applied by JPMorgan in relation to the exchange ratios; and
- verified the appropriateness and consistency of JPMorgan s overall approach.

In rendering his report, Professor Provasoli considered certain objective difficulties associated with the valuation process. The principal aspects of the valuation difficulties were as follows:

- the possible effects of Italian tax law reform (details of the regulations proposed have not yet been finalized and are difficult to assess given the current status);
- the valuation of Olivetti Savings Shares (which have not yet been issued, but will be issued by Olivetti in connection with the Merger) in which the Olivetti Board took into account the discount between Telecom Italia Ordinary Shares and Telecom Italia Savings Shares based on historical market prices; and
- the assumption that the treasury shares held by Olivetti and Olivetti International S.A. can be valued on the basis of the overall economic value of Olivetti itself (an assumption consistent with applicable accounting literature and practice).

In each case Professor Provasoli concluded that the methods suggested by JPMorgan were acceptable or appropriate in the circumstances and consistent with applicable accounting literature and established accounting practice.

Professor Provasoli noted, in arriving at his conclusions, among other things, that in connection with the valuation methods suggested by JPMorgan:

- they are widely accepted in Italian and international practice;
- they appear adequate in the circumstances taking into account the companies involved in the Merger;

- they were developed on an entity by entity basis; and
- they would allow the adoption of uniform valuation methods in order to apply comparable valuation methodologies to Telecom Italia and Olivetti.

An English translation of Professor Provasoli s final report is attached as Annex H to this Information Statement. We recommend that you read this report in its entirety.

Reports of the Olivetti and Telecom Italia Boards of Directors

In accordance with Italian law, the Olivetti and Telecom Italia Boards of Directors have each prepared a report about the Merger and the proposed Exchange Ratios. See Annexes I and J hereto.

Plan of Merger

Assignment and Exchange Ratios

When the Merger becomes effective, holders of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares will be assigned New Telecom Italia Ordinary Shares and New Telecom Italia Savings Shares and holders of Olivetti Ordinary Shares will be assigned New Telecom Italia Ordinary Shares, each based on the Assignment Ratio determined at the time of signing the Deed of Merger and corresponding to the Exchange Ratios. The assignment will be satisfied by redistributing the share capital of New Telecom Italia and having recourse to the issue of new shares only insofar as this is necessary to maintain the share capital of New Telecom Italia at the level of Olivetti s share capital as attested on April 15, 2003. For more details on the determination of the Exchange Ratios, see Terms of the Transaction Reasons for the Merger Valuations Attributed to Olivetti and Telecom Italia by the Olivetti and Telecom Italia Boards.

Table of Contents

Exchange of Shares

Telecom Italia shareholders will receive a number of New Telecom Italia Ordinary and/or New Telecom Italia Savings Shares which will be based on the Assignment Ratio determined pursuant to the Exchange Ratios. The procedures for exchanging Telecom Italia Shares for New Telecom Italia Shares will be set forth in a notice to shareholders to be published in Italian newspapers as well as other major financial journals including the international and U.S. editions of the *Financial Times*. Such notices will be published before the effectiveness of the Merger. Holders of Telecom Italia Savings Share ADRs will be notified by the Depositary as to the issuance of New Telecom Italia Savings Share ADRs in exchange for existing ADRs. See Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs and Conditions to the Completion of the Merger.

Fractional Shares

The details of the treatment of fractional shares in connection with the Merger will be published in a notice to shareholders in Italian newspapers as well as other major financial journals including the international and U.S. editions of the *Financial Times*.

Exchange of Telecom Italia Savings Share ADRs for New Telecom Italia Savings Share ADRs

Holders of Telecom Italia Savings Share ADSs will have their underlying New Telecom Italia Savings Shares to be received in the Merger deposited with the Depositary and will be issued New Telecom Italia Savings Share ADSs (representing the underlying New Telecom Italia Savings Shares) represented by ADRs at no cost. For a description of the New Telecom Italia Savings Share ADRs see Description of ADR Facility for New Telecom Italia Savings Shares. Unless specifically requested by a holder of New Telecom Italia Savings Share ADSs, all New Telecom Italia Savings Share ADSs will be issued in the form of a Direct Registration ADR on the books of the Depositary in book-entry form and a statement will be mailed to such holder that reflects such holder s ownership interest in such New Telecom Italia Savings Share ADSs. The Depositary will notify holders of Telecom Italia Savings Share ADSs of the procedures to be followed in order to exchange their Telecom Italia Savings Share ADSs for New Telecom Italia Savings Share ADSs.

Fractional ADSs

To the extent that the Assignment Ratio (and the Exchange Ratio) would result in any holders of Telecom Italia Savings Share ADSs being entitled to a number of underlying New Telecom Italia Savings Shares which is not evenly divisible by 10 (as each New Telecom Italia ADS will represents 10 underlying New Telecom Italia Savings Shares), such New Telecom Italia Savings Shares, or any fractions thereof to which New Telecom Italia ADS holders may be entitled, will be aggregated and sold, and the net proceeds distributed *pro rata* to the holders of New Telecom Italia Savings Share ADSs entitled thereto; except that individual amounts of less than U.S.$5 will be held without liability for interest and added to future cash distributions.

Conditions to the Completion of the Merger

Pursuant to Italian law, the Merger can only be completed if certain conditions required under Italian law are satisfied or waived. While certain conditions have been met, others remain to be fulfilled. The resolutions approved and such other documents presented by the Telecom Italia and Olivetti Boards of Directors at such meetings have been filed with the Company Registers of Milan and of Turin. The shareholders resolutions and such other documents are then recorded on the Company Register. The shareholders meetings resolutions of Olivetti and Telecom Italia approving the Merger were recorded on May 28, 2003. Under Italian law, Telecom Italia and Olivetti must wait two months after the recording of the shareholders meetings resolutions before executing the Deed of Merger unless they (i) prove that all of their creditors consent to the Merger, or (ii) if any creditor does not consent to the Merger, deposit funds in an account held for the benefit of such creditor or pay the creditor the amount owed. Within this two-month period between the recording of the shareholders meetings resolutions and the execution of the Deed of Merger, any creditor of Telecom Italia or Olivetti may file a writ of opposition to the Merger with a competent Tribunal. The filing of a writ of opposition will stop the Merger process until the relevant company duly authorized by a Tribunal to do so arranges for a guarantee in favor of the opposing creditor in such form and amount, and on such terms and conditions, as are determined by the Tribunal.

Upon expiration of the two-month creditor opposition period, the Deed of Merger will be executed by Olivetti and Telecom Italia and must then be recorded on the Company Register of Milan and of Turin within

Table of Contents

30 days after its execution. The Merger is effective on the date of the last recording of the Deed of Merger or on such later date as may be specified in the Deed of Merger. The effective date is expected to be during the first half of August 2003. At the time of the effectiveness of the Merger, holders of Telecom Italia Shares on such date will be entitled to receive New Telecom Italia Shares.

The effectiveness of the Merger is also subject to the admission to listing of New Telecom Italia Savings Shares on Telematico.

Required Regulatory Approvals

Other than the Italian law conditions to the completion of the Merger set forth above, no other Italian, EU or U.S. regulatory approvals are required to consummate the Merger.

Accounting Treatment

Telecom Italia is fully consolidated in the consolidated financial statements of Olivetti. In accordance with Italian GAAP, therefore, the Merger will be accounted for on a book value basis which means that the Merger will not change the consolidated financial statements of New Telecom Italia except for the inclusion in net income and stockholders equity of the minority interest resulting from the shares of Telecom Italia being held by shareholders other than Olivetti prior to the Merger. See, however, Unaudited Pro Forma Condensed Consolidated Financial Information for the U.S. GAAP treatment of the Merger.

Table of Contents

CERTAIN INCOME TAX CONSEQUENCES

The following discussion is a summary of certain Italian and U.S. federal income tax consequences of the Merger to holders of Telecom Italia Savings Shares and Telecom Italia Savings Share ADSs represented by ADRs and of certain Italian and U.S. federal income tax consequences of ownership of New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADSs. The following discussion is not intended to be a complete discussion of all potential tax effects that might be relevant and does not address the tax consequences to a holder of both Telecom Italia Savings Shares (or Telecom Italia Savings Share ADSs) and Telecom Italia Ordinary Shares (or Telecom Italia Ordinary Share ADSs) with respect to such Telecom Italia Ordinary Shares (or Telecom Italia Ordinary Share ADSs).

Italian Taxation

The following is a summary of certain Italian tax consequences of (i) the Merger to a holder of Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs who is not a resident of Italy and (ii) the ownership and disposition of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs by a holder who is not a resident of Italy as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Telecom Italia Savings Shares, Telecom Italia Savings Share ADSs, New Telecom Italia Shares or New Telecom Italia Savings Share ADSs. For purposes of Italian law and the Italian-U.S. income tax convention (the **Treaty**), owners of ADSs will be treated as owners of the underlying Telecom Italia Savings Shares or New Telecom Italia Savings Shares, as the case may be.

This summary is based upon tax laws and practice of Italy in effect on the date of this Information Statement which are subject to change, potentially retroactively. Law No. 80 of April 7, 2003 for the reform of the Italian tax system was approved by the Italian Parliament on March 26, 2003 which authorizes the Italian Government, *inter alia*, to issue, within two years of the entering into force of such law, legislative decrees introducing a general reform of the tax treatment of financial income, which may impact upon the tax regime of New Telecom Italia Savings Shares and New Telecom Italia Savings Shares ADSs, as described below. It is possible that the planned reform may apply from the start of 2004 and is likely to be in force by 2006.

Tax Consequences of the Merger

For Italian tax purposes, the exchange of Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs pursuant to the Merger does not constitute a disposition of Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs and is, therefore, not subject to capital gains tax. The tax value and the holding period of the exchanged Telecom Italia Savings Shares and Telecom Italia Savings Share ADSs are rolled over to the New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADSs received in exchange. The exchange of Telecom Italia Savings Shares pursuant to the Merger is not subject to Italian transfer tax.

Tax Consequences of the Ownership and Disposition of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs

Income Tax

Under Italian law dividends paid to holders of New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADSs who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 12.5% withholding tax.

Under Italian law, all shares of Italian listed companies have to be registered in a centralized deposit system. With respect to dividends paid in connection with shares held in the centralized deposit system managed by Monte Titoli, such as New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADSs, instead of the 12.5% withholding taxes mentioned above, a substitute tax will apply at the same tax rate as the above-mentioned withholding taxes. This substitute tax is levied by the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system.

Transfer Tax

No transfer tax is payable upon the transfer of New Telecom Italia Savings Shares through Telematico. Other types of transfers of shares listed on Telematico and ADSs are also exempted from the payment of transfer

Table of Contents

tax, provided that the parties entering into the agreement pursuant to which the transfer takes place are (i) banks, Italian securities dealing firms (**SIMs**) exchange agents or (ii) banks, SIMs or exchange agents on the one hand, and non-residents on the other hand or (iii) banks, SIMs or exchange agents either resident or not resident, on the one hand, and investment funds on the other hand. In any other case, transfer tax is currently payable at the following rates:

- 0.072 per 51.65 (or any fraction) of the price at which the shares or ADSs are transferred when the transfer is made between private individuals directly or through an intermediary that is not a bank, SIM or exchange agent;
- 0.0258 per 51.65 (or any fraction) of the price at which the shares or ADSs are transferred when the transfer is made either (i) between a bank, SIM or exchange agent and a private individual or (ii) between private individuals through a bank, SIM or exchange agent; and
- 0.0062 per 51.65 (or any fraction) of the price at which the shares or ADSs are transferred when the transfer is made between a bank, SIM or exchange agent.

The mere change of the depositary (e.g., Euroclear, Clearstream, Monte Titoli, DTC or the Depositary) not involving a transfer of the ownership of the transferred shares will not trigger the Italian transfer tax.

Capital Gains Tax

Under Italian law, capital gains tax (**CGT**) is levied on capital gains realized by non-residents from the disposition of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy.

Capital gains on the disposition of savings shares are in principle subject to CGT at a rate of 12.5%. However, capital gains realized by non-resident holders on the sale of non-qualified shareholdings in companies listed on a stock exchange and resident in Italy for tax purposes (as will be the case for New Telecom Italia Savings Shares and New Telecom Italia Savings Share ADSs) are not subject to CGT. In order to obtain this exemption for non-resident holders, New Telecom Italia could require a simple declaration from U.S. residents in which they have to declare that they are U.S. residents for tax purposes.

Where losses exceed gains, they can be carried forward for up to the fourth taxable period.

Pursuant to the Treaty, a U.S. resident will not be subject to CGT unless the New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty have been satisfied if CGT would otherwise be applicable.

Inheritance and Gift Tax

According to Law No. 383 of October 18, 2001 (**Law No. 383**), Italian inheritance and gift tax, previously payable on transfer of securities on death or by gift, has been abolished as of October 25, 2001.

However, for donees other than spouses, direct descendants or ancestors and other relatives within the fourth degree, if and to the extent that the value of the gift to any such donee exceeds 180,759.91, the gift of shares may be subject to the ordinary transfer taxes that would apply if the shares had been transferred for consideration (i.e. registration tax at the flat rate of 129.11).

Moreover, an anti-avoidance rule is provided by Law No. 383 for any gift of assets (such as shares) which, if sold for consideration, would give rise to capital gains subject to CGT. In particular, if the donee sells the shares for consideration within five years from the receipt thereof as a gift, the donee will be required to pay the relevant CGT, where applicable, as if the gift had never taken place.

There is currently no gift tax convention between Italy and the United States.

Table of Contents

United States Taxation

The following are certain U.S. federal income tax consequences to a holder of Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs of (i) the Merger and (ii) the ownership and disposal of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs acquired in the Merger. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), applicable U.S. Treasury regulations, administrative interpretations, court decisions as well as the Italian-U.S. income tax convention (the **Treaty**), all as in effect as of the date of this Information Statement, all of which may change, possibly with retroactive effect.

The discussion below applies to you only if you are a beneficial owner of Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs who holds such shares or ADSs as capital assets and are, for U.S. federal tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

It does not address all aspects of U.S. federal income taxation that may be important to you in light of your particular circumstances or if you are a shareholder or ADS holder subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs as part of a hedge, straddle or conversion transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;

- a shareholder or ADS holder who, actually or constructively, owns, or has owned at any time during the five year period ending on the date of the Merger, 10% or more of the total combined voting power of all classes of Telecom Italia stock entitled to vote or who will own 10% or more of the total voting combined power of all classes of stock of New Telecom Italia entitled to vote after the Merger; or

- persons who acquired Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

This discussion is based on representations made by Telecom Italia and Olivetti in certificates of officers of Telecom Italia and Olivetti and assumes that the Merger will be completed in the manner contemplated by this Information Statement. If this assumption or any of those representations is inaccurate, the tax consequences of the Merger could differ from those described herein. Neither Telecom Italia nor Olivetti intends to obtain a ruling from the U.S. Internal Revenue Service on the tax consequences of the Merger.

You and each of your employees, representatives, or other agents are authorized to disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the Merger and the ownership and disposition of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADRs acquired in the Merger and all materials of any kind, including opinions or other tax analyses, that have been provided to you relating to such U.S. federal income tax treatment and tax structure.

U.S. Federal Income Tax Consequences of the Merger

The Merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and Olivetti and Telecom Italia will each be a party to that reorganization within the meaning of Section 368(b) of the Code.

For U.S. federal income tax purposes:

- You will not recognize any gain or loss upon your exchange of Telecom Italia Shares or Telecom Italia ADSs for New Telecom Italia Shares or New Telecom Italia ADSs, except, if you are also a Telecom Italia Ordinary Shareholder or Telecom Italia Ordinary Share ADS holder, to the extent of any euros received in the Ordinary Share Offer.
- You will have a tax basis in the New Telecom Italia Shares or New Telecom Italia ADSs received in the Merger equal to the tax basis of the Telecom Italia Shares or Telecom Italia ADSs you surrender in the Merger, which, if you are a Telecom Italia Ordinary Shareholder or Telecom Italia Ordinary Share ADS holder, will be decreased by the U.S. dollar value of any euros received in the Ordinary Share Offer and increased by the amount of any dividend income or any gain recognized in connection with the Ordinary Share Offer.
- The holding period for New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs received in exchange for Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs in the Merger will include the holding period for the Telecom Italia Savings Shares or Telecom Italia Savings Share ADSs surrendered in the Merger.

If you are also a Telecom Italia Ordinary Shareholder or Telecom Italia Ordinary Share ADS holder, you should consult Appendix II of the Offer Document for the Ordinary Share Offer made to U.S. holders of Telecom Italia Ordinary Shares and Telecom Italia Ordinary Share ADSs for a description of the U.S. federal income tax consequences of the receipt of euros in the Ordinary Share Offer. This discussion does not address the receipt of cash instead of fractional shares or ADSs in the Merger. Please consult your own tax adviser regarding the taxation of cash received instead of fractional shares or ADSs and the taxation of euros received in the Ordinary Share Offer.

U.S. Federal Income Tax Consequences of Owning and Disposing of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADRs

This discussion is based in part upon representations of the Depositary and assumes that each obligation provided for in, or otherwise contemplated by, the Deposit Agreement (as defined herein) and any related agreement will be performed in accordance with its respective terms. The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Accordingly, the analysis of the creditability of Italian taxes described below could be affected by future actions that may be taken by the U.S. Treasury.

For U.S. federal income tax purposes, owners of New Telecom Italia Savings Share ADSs will be treated as owners of the underlying New Telecom Italia Savings Shares represented by those ADSs.

Taxation of dividends

Distributions made with respect to the New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs, without reduction for any Italian tax withheld, will generally constitute foreign source dividend income for U.S. federal income tax purposes to the extent such distributions are made from New Telecom Italia s current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Under recently enacted legislation, dividends received by noncorporate persons on New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADRs may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. You should consult your own tax advisor regarding the application of this new legislation to your particular circumstances.

You will not be entitled to claim a dividends-received deduction for dividends paid on the New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs. The amount of any cash distribution paid in euros will be equal to the U.S. dollar value of the euro distribution, including the amount of any Italian tax withheld, on the date of receipt by the Depositary in the case of an ADR holder, or by you in the case of a shareholder, regardless of whether the payment is in fact converted into U.S. dollars. Gain or loss, if any, recognized on the sale or other disposition of euros will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Table of Contents

Subject to certain limitations and restrictions, Italian taxes withheld from distributions at a rate not in excess of the rate provided in the Treaty will be eligible for credit against your U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends on the New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs will generally constitute passive income or, for certain holders, financial services income. You should consult your tax advisor concerning the foreign tax credit implications of the payment of these withholding taxes.

Sale or other disposition of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs

You will recognize capital gain or loss for U.S. federal income tax purposes on the sale or exchange of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs in the same manner as you would on the sale or exchange of any other shares held as capital assets. As a result, you will generally recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the amount realized and your adjusted basis in the New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs. The gain or loss will generally be U.S. source gain or loss. You should consult your own tax advisor about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

Passive Foreign Investment Company Rules

Based on the nature of its business, New Telecom Italia does not expect to be considered a passive foreign investment company (**PFIC**) for United States federal income tax purposes. However, since PFIC status depends upon the composition of New Telecom Italia s income and assets and the market value of New Telecom Italia s assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that New Telecom Italia will not be considered a PFIC for any taxable year. If New Telecom Italia were treated as a PFIC for any taxable year during which you held New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs, certain adverse consequences could apply to you.

Information Reporting and Backup Withholding

Holders of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to dividends or the proceeds of any sale, exchange or redemption of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs unless you:

- are a corporation or come within certain other exempt categories, and, when required, demonstrate this fact, or
- provide a correct taxpayer identification number, certify that you are not subject to backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under these rules will be creditable against your U.S. federal income tax liability if you provide the required information to the U.S. Internal Revenue Service. If you are required to and do not provide a correct taxpayer identification number, you may be subject to penalties imposed by the U.S. Internal Revenue Service.

This discussion of material U.S. federal income tax consequences is not a complete analysis or description of all potential federal income tax consequences of the Merger or of owning or disposing of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs received in the Merger. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any non-U.S. federal income tax or any foreign, state or local tax consequences of the Merger or of owning or disposing of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs received in the Merger. **Accordingly, we strongly urge you to consult your own tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences to you of the Merger and of owning or disposing of New Telecom Italia Savings Shares or New Telecom Italia Savings Share ADSs received in the Merger.**

Table of Contents

MATERIAL CONTRACTS

Material Contracts between Olivetti and Telecom Italia

For information regarding related party transactions between Olivetti and Telecom Italia, see Note 28 of the Notes to the audited financial statements of Telecom Italia included in the Telecom Italia Annual Report and incorporated by reference herein and Major Shareholders and Related-Party Transactions Related-Party Transactions appearing therein.

Contracts and Shareholders Agreements Concerning Olimpia

Olimpia is the largest shareholder of Olivetti. Please see Terms of the Transaction The Pirelli-Olimpia Transaction above. Upon completion of the Merger, Olimpia is expected to be the largest shareholder in New Telecom Italia although its shareholding in New Telecom Italia will be diluted to between 9.94% and 13.27%, depending on certain assumptions, from its current holding in Olivetti of 28.53%. See Terms of the Transaction Reasons for the Merger Principal Business Rationales.

As already noted above, through a series of shareholders agreement entered into in 2001-2003, Olimpia s shareholders have agreed, among other things, to various ownership limits and standstill arrangements with respect to Olivetti shares and to rights to nominate or designate directors to the boards of directors of Olivetti, Telecom Italia, TIM and SEAT.

The descriptions of the shareholders agreements contained herein are not complete summaries. The descriptions below have been derived from publicly available documents filed with regulatory authorities.

Shareholders Agreements

Olimpia s shareholders have entered into a series of shareholders agreements.

In particular, shareholders agreements were entered into between Pirelli and Edizione on August 7, 2001, as amended on September 14, 2001 and February 13, 2002 (the **Agreements**); among Pirelli, Banca Intesa and UniCredito on September 14, 2001, as amended on September 26, 2001 and October 24, 2001 (the **Agreements with the Banks**); and among Pirelli, Edizione, UniCredito, Banca Intesa, Olimpia and Hopa on December 19, 2002 (the **Hopa Term Sheet**) and February 21, 2003 (the **Hopa Agreement**).

The Agreements and the Agreements with the Banks have a duration of three years and can be renewed at each expiration date. The renewal period is three years for the Agreements and two years for the Agreements with the Banks.

The Agreements and the Agreements with the Banks deal with the nomination of the Board of Directors of Olimpia, Olivetti, Telecom Italia, TIM and SEAT. They identify the key issues on which the board resolutions of Olimpia, Olivetti, Telecom Italia, TIM and SEAT have to decide in accordance with the Agreements and the Agreements with the Banks. The Agreements and the Agreements with the Banks also discuss the rules for the resolution of disagreements among the contracting parties on key issues (the so-called deadlock situations). In addition, the Agreements and the Agreements with the Banks govern the consequences among the parties of any change in the structure of control of Pirelli (in the Agreements with the Banks) and of Edizione or of Pirelli (in the Agreements); and grant the parties the right to purchase or sell (puts and calls) Olimpia shares in the event of withdrawal from the agreements themselves.

The provisions relating to the nomination of the members of the Boards of Directors of Olivetti, Telecom Italia, TIM and SEAT are set forth below. In connection with the composition of the Boards of Directors of Olivetti, Telecom Italia, TIM and SEAT, the parties to the Agreements and the Agreements with the Banks have agreed to use their best efforts, within the limits established by law, in order to cause:

- the nomination by Edizione of one-fifth of the Boards of Directors, without taking into account the directors whose designation is reserved by law or applicable bylaws to the market or other parties;
- the nomination of one director by Banca Intesa;
- the nomination of one director by Unicredito;
- the nomination of the vice-president of the Boards of Directors from among the directors nominated by Edizione; and

Table of Contents

- in the event of the establishment of an Executive Committee, the election of one member of the Executive Committee from among the directors nominated by Edizione.

On December 19, 2002, Pirelli, Edizione, UniCredito and Banca Intesa (collectively, the **Former Olimpia Shareholders**), Olimpia and Hopa (collectively with the Former Shareholders and Olimpia, the **Parties**) executed the Hopa Term Sheet. Pursuant to the Hopa Term Sheet, the Parties agreed that, subject to certain terms and conditions, Holy s.r.l. (**Holy**), a wholly-owned subsidiary of Hopa, would be merged into Olimpia (the **Holy Merger**). Pursuant to the Hopa Agreement signed by the Parties on February 21, 2003, the Holy Merger took place on May 9, 2003.

The Hopa Agreement provides that, from the effective date of the Holy Merger, Hopa and the Former Olimpia Shareholders are bound by an agreement governing their relationship as shareholders of Olimpia (the **Expanded Olimpia Shareholders Agreement**).

Under the Expanded Olimpia Shareholders Agreement, Hopa has the right to appoint one Olimpia director and the Former Olimpia Shareholders must use their best efforts in order to cause a director designated by Hopa to be nominated to the Boards of Directors of Olivetti, Telecom Italia, SEAT and TIM (with a corresponding reduction in the number of Pirelli nominees). See Item 6. Directors, Senior Management and Employees Directors of the Telecom Italia Annual Report incorporated by reference herein.

Hopa does not have the right to veto any decision taken by the Board of Directors or shareholders of Olimpia. In the event of a disagreement between the former Olimpia Shareholders and Hopa with respect to the passage of a resolution by either the extraordinary shareholders meeting or the Board of Directors of Olimpia concerning certain matters (including (i) the determination as to how Olimpia will vote its Olivetti shares at an extraordinary shareholders meeting of Olivetti, (ii) the purchase or sale of securities exceeding a certain amount and (iii) the failure of Olimpia to maintain a debt to equity ratio of 1:1), Hopa may cause the partial demerger of Olimpia, in which event Olimpia may cause the partial demerger of Holinvest S.p.A. (**Holinvest**), a company jointly owned by Hopa (80.001%) and Olimpia (19.999%). In the event of any such partial demerger transactions, Hopa would receive its proportional share of Olimpia s assets and liabilities (determined in accordance with the Hopa Agreement) and Olimpia would receive its proportional share of Holinvest s assets and liabilities (determined in accordance with the Hopa Agreement). Except under certain extraordinary circumstances (including the failure of Olimpia to hold at least 25% of Olivetti s share capital or to maintain a debt to equity ratio of 1:1 after a specified cure period), no such partial demerger transaction may be implemented prior to the third anniversary of the Holy Merger.

Hopa is granted certain co-sale rights in the event Pirelli reduces its equity interest in Olimpia.

The Expanded Olimpia Shareholders Agreement will have a three-year term as from the Holy Merger, subject to renewal by mutual agreement of the parties thereto. If the Expanded Olimpia Shareholders Agreement is not renewed, the partial demerger transactions will occur and Hopa will receive a premium of at least 0.35 per Olivetti share (or financial instrument).

Ownership Restrictions relating to Olivetti Securities in the Shareholders Agreements

Olimpia may not hold, directly or indirectly, more than 30% of the share capital of Olivetti. The restriction applies to Olivetti shares as well as to Olivetti securities and other rights pertaining to Olivetti s share capital which are taken into account for purposes of the Italian law on public tender offers, in particular the threshold above which a mandatory public tender offer must be made for a company s remaining shares.

Hopa, Holinvest and Hopa s controlling shareholders (the **Hopa Controlling Shareholders**) may not hold Olivetti shares or Olivetti Instruments (as defined below), directly or indirectly, other than through Olimpia, with the following exceptions:

- In the case of Hopa: Olivetti Instruments (as defined below) corresponding to a maximum of 40 million Olivetti shares (about 0.45% of Olivetti shares).
- In the case of Holinvest: the CDC IXIS Notes (as defined below), up to 298,279,448 Olivetti 2001-2010 1.5% convertible bonds (the **2001-2010 Olivetti Convertible Bonds**) and 2,431 Olivetti shares.
- In the case of the Hopa Controlling Shareholders: one million Olivetti shares each.

70

Table of Contents

Subject to the exceptions listed below, the Olimpia shareholders may not purchase, other than through Olimpia, Olivetti shares:

- Pirelli may exercise:

  A share swap transaction with JPMorgan Chase Bank on 100,000,000 Olivetti shares (about 1.13% of Olivetti shares) or, under certain circumstances on 2001-2010 Olivetti Convertible Bonds. The swap expires in December 2006.

  A call option with JPMorgan Chase Bank on 100,000,000 Olivetti shares (about 1.13% of Olivetti shares) or 2001-2010 Olivetti Convertible Bonds. The option expires in September 2007.

  A convertible bond asset-swap with Credit Agricole Lazard FP Bank on 200,000,000 2001-2010 Olivetti Convertible Bonds. The contract expires in November 2006.

- Unicredito and Banca Intesa may acquire Olivetti shares (including Olivetti shares acquired through the conversion of convertible bonds or the exercise of warrants), provided that such Olivetti shares may not exceed 0.4% of the Olivetti share capital.

- Edizione may acquire Olivetti shares through the conversion of convertible bonds or the exercise of warrants, provided that the Olivetti shares acquired through such acquisition may not exceed the difference between 28.74% of Olivetti s ordinary share capital and the percentage of Olivetti s ordinary share capital held by Olimpia immediately preceding such conversion or exercise.

Notwithstanding the foregoing, each of Olimpia, Pirelli, Edizione, Hopa, Unicredito and Banca Intesa may acquire bonds convertible into Olivetti shares and warrants exchangeable for bonds convertible into Olivetti shares, provided that:

- the exercise by Hopa of the rights pertaining to such bonds or warrants are subject to the consent of (collectively) Olimpia, Pirelli, Edizione, Unicredito and Banca Intesa; and

- the exercise by any of Olimpia, Pirelli, Edizione, Unicredito and Banca Intesa of the rights pertaining to such bonds or warrants are subject to the consent of Hopa.

The **Olivetti Instruments** are defined to be:

- Olivetti 2001-2010 1.5% Convertible Bonds;

- Olimpia 2001-2007 1.5% bonds; and

- Equity linked notes issued by CDC IXIS Capital Market (the **CDC IXIS Notes**) with the following terms:

  Maturity date of February 2008.

The right of the issuer at maturity to deliver either 486,500,000 Olivetti Ordinary Shares or pay the cash equivalent thereof.

After three months from the date of issuance, the right of the holder to request the payment of the notes at any time. In the event of such payment before maturity, the issuer will pay a cash equivalent based on the market price of Olivetti Ordinary Shares or, if there is low liquidity with respect to such shares, the issuer may choose to repay a portion in cash and a portion in Olivetti Ordinary Shares in accordance with the terms and conditions of the CDC IXIS Notes.

Interest payments corresponding to 85% of the dividend paid on 486,500,000 Olivetti shares.

Effect of the Merger on the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreements

The parties to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement have not sent any notification concerning the possible effects of the Merger on those agreements.

Table of Contents

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following pro forma unaudited condensed consolidated statement of operations for the year ended December 31, 2002 was prepared on the basis that the Merger occurred on January 1, 2002. The pro forma unaudited condensed consolidated balance sheet as of December 31, 2002 was prepared on the basis that the Merger occurred on December 31, 2002.

The pro forma unaudited condensed consolidated statement of operations for the year ended December 31, 2002 and the pro forma unaudited condensed consolidated balance sheet as of December 31, 2002 also give effect to the proposed spin-off of New SEAT and the sale of Telecom Italia s stake in New SEAT, announced on June 11, 2003, as if such transactions had occurred on January 1, 2002 for statement of operations purposes and as of December 31, 2002 for balance sheet purposes.

The pro forma information is intended to give a better understanding of the impact the Merger and the proposed spin-off and announced sale of New SEAT will have on the financial statements of New Telecom Italia when the Merger is completed. The presentation includes more detailed discussions below regarding the adjustments made to illustrate these effects. The unaudited pro forma condensed consolidated financial data were prepared by combining certain historical amounts of each company. These amounts were then adjusted based on Olivetti s assessment of the likely outcome of certain events. The notes to the unaudited pro forma condensed consolidated financial data describe the adjustments made to the pro forma condensed consolidated financial data to illustrate the pro forma effects of the Merger and the proposed spin-off and announced sale of New SEAT.

You should read the following sections in conjunction with Olivetti s audited consolidated financial statements and notes thereto included elsewhere in this Information Statement and Telecom Italia s audited consolidated financial statements and notes thereto contained in the Telecom Italia Annual Report incorporated by reference herein.

The following unaudited pro forma condensed consolidated financial data is presented to illustrate the effects of:

i) the Merger;

ii) the incurrence of additional debt of up to 9 billion that will be used to finance the required withdrawal right of Olivetti shareholders (11 million) and, with the residual amount of the additional debt, the Tender Offers, assuming the Tender Offers are fully subscribed. The actual level of the additional debt will depend on the final results of the Tender Offers; and

iii) the proposed spin-off and announced sale of New SEAT;

on the historical operating results and financial position of the Olivetti Group for the year ended December 31, 2002 and at December 31, 2002.

Olivetti, as the surviving company in the Merger, will account for the Merger using the purchase method of accounting, under which tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their respective fair values. The unaudited pro forma condensed consolidated statement of operations includes such adjustments as are necessary to give effect to events directly attributable to the Merger, which are expected to have a continuing impact and are factually supportable. The pro forma allocations of the purchase price in the Merger have been reflected between identifiable intangible assets and goodwill applying the ratio deriving from the allocation that had been made in connection with the acquisition of the controlling interest in Telecom Italia by Olivetti in 1999. The purchase price allocation is subject to a complete fair value assessment and has therefore not been finalized due to the recent approval of the Merger transaction. Differences between the amounts included herein and the final allocations could be material.

The unaudited pro forma condensed consolidated financial information is presented in accordance with U.S. GAAP and includes the following:

- The financial statements of Olivetti, with Telecom Italia consolidated, on a U.S. GAAP basis.
- The proposed spin-off of New SEAT. The pro forma gives effect to the deconsolidation of the revenues, expenses, assets and liabilities of the spun-off entity and to the gross proceeds of approximately 3 billion to the Olivetti Group deriving from the above mentioned sale. The gross

72

Table of Contents

proceeds include amounts attributable to the disposal of the New SEAT ordinary shares to be acquired by Telecom Italia through the expected early exercise of the SEAT put option.

- The effect of borrowing up to 9 billion in additional debt to finance the withdrawal rights of the Olivetti shareholders and the Tender Offers. For purposes of these pro formas we have assumed that the Tender Offers are fully subscribed and the full amount is borrowed. The actual borrowed amount will depend, as described above, on the result of such Tender Offers. New Telecom Italia will assume this debt.

- The estimated effect of the Tender Offers. The effects of the Tender Offers have been estimated based on the assumption that the maximum number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares are tendered to Olivetti in the Tender Offers. The tender offer price for each of the Ordinary Share Offer and the Savings Share Offer has been fixed based on the weighted average, plus a premium of 20%, of the official stock exchange prices of the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares from March 12, 2003 to May 26, 2003, the day of the second call of Olivetti s extraordinary shareholders meeting. This price has recently been fixed at 8.01 per Telecom Italia Ordinary Share and 4.82 per Telecom Italia Savings Share. The Tender Offers are being made for 17.3% of each class, which represents approximately 908.9 million Telecom Italia Ordinary Shares and 354.6 million Telecom Italia Savings Shares. The funding for the Tender Offers will come from the 9 billion discussed above.

- The estimated impact of the Merger based on the agreed natural Exchange Ratio of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each) still held by third parties after the Tender Offers have been completed. Based on the estimates of Olivetti management, after taking into account the expected usage of the 9 billion borrowing for the Olivetti withdrawal right and the Tender Offers, approximately 10,193 million Telecom Italia Ordinary Shares and 11,510 million Telecom Italia Savings Shares will be held by third parties as a result of the Merger. The accompanying pro forma presentation uses the market share price of Olivetti s stock as of two days before and two days after the announcement of the transaction on March 12, 2002 as the basis to estimate the fair value of the exchange offer for the Telecom Italia Shares. Since Olivetti at the time of the announcement did not have savings shares, in order to estimate the fair value of the exchange with respect to the Telecom Italia Savings Shares, the market share price of Telecom Italia Savings Shares as of two days before and two days after the announcement of the transaction on March 12, 2002 has been used as the basis to estimate the fair value of the exchange offer for the savings shares.

- The effects of the conversion of the Olivetti 1.5% 2001 2004 and Olivetti 1.5% 2001 2010 convertible bonds that had been converted for a total amount of 7 million by April 15, 2003, the last date for the conversion of Olivetti convertible bonds under the terms governing the issues.

- The Telecom Italia dividend distribution to minority interest of approximately 794 million, approved at the shareholders meeting called to approve the Plan of Merger.

- As regards the financing of the withdrawals by Olivetti shareholders and, for the remaining availability of the line of credit, for the purchase of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares in the Tender Offers, the 9 billion granted for that purpose and the related cost included in the pro forma statement of operations at an interest rate of 4.1% with consideration given to the three tranches in which it will be disbursed.

- The financing costs incurred in obtaining the line of credit to pay for the Olivetti withdrawal right and the purchase of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares in the Tender Offers of 90 million. This amount has been capitalized and amortized over the life of the debt, which is two years.

- The costs that will be incurred in 2003 in connection with the successful outcome of the Merger for advisory services, legal opinions, valuations, etc., estimated to amount at most to 110 million have been included in the purchase price and short-term borrowings.

- The reversal of the tax effect of 2,400 million of the write-down of the investment in Telecom Italia included in Olivetti s statement of operations, since it was made only for tax purposes and in view of the fact that the write-down would not have been made on the assumption that the Merger was effective from January 1, 2002 and the tax effects of the pro forma adjustments reported in the statement of operations.

- The elimination of the minority interest on the U.S. GAAP result for the year 2002 of Telecom Italia consolidated by Olivetti.

73

Table of Contents

The pro forma presentation indicates that the total additional goodwill from the Merger is approximately   17.3 billion. New Telecom Italia will adopt the requirements of SFAS 142 for goodwill and other indefinite lived intangibles. Therefore, no amortization has been reflected in the accompanying pro formas for the amount of the purchase price preliminarily allocated to goodwill and to intangibles with indefinite life.

The unaudited pro forma condensed consolidated financial information is presented for informational purposes only and, because of its nature, is not necessarily indicative of the results of operations and the financial position of the Telecom Italia Group or New Telecom Italia had the Merger in fact occurred on those dates nor of the results of operations or the financial position of the Telecom Italia Group or New Telecom Italia for any future period.

You should read this section in conjunction with Olivetti s audited consolidated financial statements and notes thereto included elsewhere in this Information Statement and Telecom Italia s audited consolidated financial statements and notes thereto contained in the Telecom Italia Annual Report incorporated by reference herein.

U.S. GAAP Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2002

		Pro forma				
		Adjustments				
	Olivetti U.S. GAAP with Telecom Italia consolidated Year Ended December 31, 2002 (1)	Disposal of New SEAT (2)		Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia U.S. GAAP Pro forma Year Ended December 31, 2002 (1+2+3+4)
	(Millions of euro, except per share and per ADS amounts)	Net assets disposed of (*)	Cash received and early exercise of put option			(Millions of euro, except per share and per ADS amounts)
		(millions of euro)				
Total revenues	31,864	(1,379)				30,485
Cost of materials	(2,312)	96				(2,216)
Personnel costs	(4,771)	285				(4,486)
Depreciation and amortization	(5,731)	471			(291)	(5,551)
Impairments of goodwill	(3,444)	3,257				(187)
Other operating expenses, net	(11,321)	484				(10,837)
Total operating expenses	(27,579)	4,593			(291)	(23,277)
Operating income / (loss)	4,285	3,214			(291)	7,208

Financial income and (expense), net	(2,813)	58	135	(369)	(74)	(3,063)
Other income (expense), net	(1,572)	(6)				(1,578)
Net income (loss) before income taxes	(100)	3,266	135	(369)	(365)	2,567
Income tax benefit (expense)	3,176	(122)			(2,136)	918
Minority interest	(1,120)	(13)			505	(628)
Net income (loss)	1,956	3,131	135	(369)	(1,996)	2,857
Net income per Share Basic	0.2266(5)					0.0919(6)
Net income per Share Diluted	0.2266(5)					0.0919(6)
Net income per Share ADS Basic						0.9199(6)
Net income per Share ADS Diluted						0.9199(6)

(*) After elimination of infra group transactions.

74

Table of Contents

U.S. GAAP Unaudited Pro Forma Consolidated Balance Sheet as of December 31, 2002

	Olivetti U.S. GAAP consolidated with Telecom Italia as of December 31, 2002 (1)	Pro forma — Adjustments — Disposal of New SEAT (2): Net assets disposed of (*)	Pro forma — Adjustments — Disposal of New SEAT (2): Cash received and early exercise of put option	Pro forma — Adjustments — Effect of additional borrowing (3)	Pro forma — Adjustments — Effect of Merger (4)	Pro forma — New Telecom Italia U.S. GAAP Pro forma as of December 31, 2002 (1+2+3+4)
	(millions of euro)					
Assets:						
Current assets	21,599	(756)	(153)			20,690
Fixed assets, net	21,503	(54)				21,449
Goodwill relating to Telecom Italia	24,106				17,346	41,452
Other intangible assets, net	17,064	(4,237)			2,012	14,839
Other long-term assets	8,639	(35)	(139)	8,989	(8,899)	8,555
Total assets	92,911	(5,082)	(292)	8,989	10,459	106,985
Liabilities and stockholders equity:						
Current liabilities	18,599	(650)	(882)		988	18,055
Long-term debt	38,375	(433)	(2,417)	9,000		44,525
Reserves and other liabilities	11,340	(817)			770	11,293
Total liabilities	68,314	(1,900)	(3,299)	9,000	1,758	73,873
Minority interest	9,373	(3)			(6,367)	3,003
Stockholders equity	15,224	(3,179)	3,007	(11)	15,068	30,109
Total liabilities and stockholders equity	92,911	(5,082)	(292)	8,989	10,459	106,985

(*) After elimination of infra group transactions. The amount reported in the line Stockholders Equity relates to the percentage of ownership of Telecom Italia in New SEAT.

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Data

Under U.S. GAAP, the combination of Telecom Italia and Olivetti will be accounted for under the purchase method of accounting for business combinations, with Olivetti treated as the acquiror. The total purchase consideration has been estimated based on several assumptions, including the estimated number of Telecom Italia Ordinary Shares and Telecom Italia Savings Shares to be acquired by Olivetti from Telecom Italia shareholders in the Tender Offers and cancelled prior to the Merger becoming effective.

The preliminary announcement of the Merger of the two companies was made on March 12, 2003. On April 15, 2003, each of the Telecom Italia Board and the Olivetti Board approved the Merger and set the Exchange Ratios for the Merger. The terms of the Plan of Merger, including the natural Exchange Ratios of 7 Olivetti Savings Shares (with a par value of 1 each) for each Telecom Italia Savings Share (with a par value of 0.55 each) and 7 Olivetti Ordinary Shares (with a par value of 1 each) for each Telecom Italia Ordinary Share (with a par value of 0.55 each) were approved at the ordinary and extraordinary shareholders meeting of May 24, 2003 for Telecom Italia and May 26, 2003 for Olivetti. The Merger is expected to be completed in the first half of August 2003. Due to the fact that the Merger has not been completed yet, management has not had sufficient time to finalize its analysis of the purchase price allocation as of the date of this Information Statement. Therefore, the estimated consideration to be paid over the carrying value of Telecom Italia has been preliminarily reflected between identifiable intangible assets and goodwill as reported above in the accompanying pro formas. New Telecom Italia will use SFAS 142 in accounting for intangible assets with indefinite life and goodwill in the future, therefore no amounts have been amortized in the accompanying pro forma statement of operations for such assets and the amortization reported in the accompanying pro forma statement of operations relates only to intangible assets with lives between three to five years.

The accompanying pro formas are presented in the following manner:

1. The condensed consolidated Olivetti statement of operations for the year ended December 31, 2002 and balance sheet dated as of December 31, 2002, which consolidates Telecom Italia, have been derived from the

Table of Contents

Olivetti U.S. GAAP consolidated financial statements included elsewhere herein which have been audited by Ernst & Young, after taking into account the significant differences between Italian GAAP and U.S. GAAP.

2. Adjustments in this column are to give effect to the proposed spin-off from SEAT, the controlled Internet and Media subsidiary of Telecom Italia, of New SEAT and to the gross proceeds of approximately 3 billion from the sale of New SEAT based on the announcement of June 11, 2003 which, as described above, takes into account the additional disposal of the New SEAT ordinary shares arising from the expected early exercise of the SEAT put option. These adjustments are derived from the carve-out U.S. GAAP financial statements of the affected SEAT businesses. The disposal of these businesses is occurring in two phases.

- Phase one is a spin-off to the existing shareholders, including Telecom Italia, of shares in the New SEAT. This entity will be listed on the Italian stock exchange.

- The second step is for Telecom Italia to sell the shares it will hold in New SEAT including, as described above, those arising from the expected early exercise of the SEAT put option . Pursuant to requirements of Italian law, the purchasers of the New SEAT shares from Telecom Italia will be required to make the same offer to the remaining New SEAT shareholders.

These adjustments also include the pro forma effect of the fair value of the SEAT put option, expected to be exercised early, as of December 31, 2002 net of the previously deferred premium, for a total of 76 million, net of tax. Also included in equity is the preliminarily estimated loss on the closing of the New SEAT sale, estimated at approximately 96 million, net of tax.

3. The effects in this column include the additional borrowing of 9 billion in order to finance the Olivetti withdrawal right and to finance the Tender Offers that will be made based on the average market price, plus a premium of 20%, of 8.01 per Telecom Italia Ordinary Share and 4.82 per Telecom Italia Savings Share. As indicated, the full amount will be borrowed if the Tender Offers are fully subscribed. To the extent that Olivetti acquires fewer Telecom Italia Ordinary Shares and/or Telecom Italia Savings Shares in the Tender Offers it will borrow less under the Term Loan Facility. For each 100 million less borrowed, interest expense would be reduced by approximately 4.1 million.

4. This column gives effect to the estimated value of the completion of the Merger. Under U.S. GAAP, the average of the stock price for five days, two days before and two days after, the announcement are to be used to calculate the fair value of the Olivetti shares exchanged. The average price of the Olivetti shares according to this approach was 0.8884.

The purchase price for the Merger is expected to be 24,051 million plus direct acquisition costs of 110 million. These amounts are included in the adjustments in column 4. The total purchase price has been derived and allocated as follows:

	(millions of euros)
Cash to be paid to existing Telecom Italia shareholders(1)	8,989
Value of Olivetti shares to be exchanged(1)	15,062
Direct acquisition costs	110
Total purchase price to be allocated	24,161
Carrying value of Telecom Italia on a U.S. GAAP basis	(5,573)

Preliminary allocation of identifiable intangibles on a proportional basis with the allocation that had been made at June 30, 1999	(2,012)
Related deferred taxes	770
Preliminary goodwill	17,346

(1) Assumes the Tender Offers are fully subscribed. If the Tender Offers are less than fully subscribed, Olivetti will issue more shares in the Merger, which could result in a decrease in the amount of goodwill recorded for the Merger transaction.

The preliminary purchase price has been allocated on a preliminary basis to identifiable intangible assets and to goodwill. After the transaction has been completed New Telecom Italia will perform a purchase price allocation that will allocate the final purchase price to the fair value of the assets and liabilities assumed. The actual amount of that allocation, and the resulting goodwill, could differ materially from the preliminary goodwill estimated above.

Table of Contents

5. Net income per share for Olivetti, which currently does not have a class of savings shares outstanding prior to the Merger, has been computed by dividing income available to shareholders by the weighted average number of Olivetti Ordinary Shares outstanding, and diluted earnings per Olivetti Ordinary Share is increased to include any potential Olivetti Ordinary Shares and is adjusted for any changes to income that would result from the assumed conversion of those potential Olivetti Ordinary Shares. For the purpose of these calculations, the weighted average number of Olivetti Ordinary Shares was 8,630,753,657 for the year ended December 31, 2002.

6. Pro forma net income per share has been calculated based on the estimated number of Telecom Italia Shares and Telecom Italia Savings Shares that will be outstanding after the termination of the Tender Offers and the completion of the Merger. Olivetti currently does not have a class of savings shares outstanding prior to the Merger. In order to effect the Merger, Olivetti will issue new savings shares to the existing Telecom Italia Savings Shareholders. Net income per share has been calculated using the two-class method since New Telecom Italia will have both Ordinary Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standard 128, *Earnings Per Share,* Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential shares and is adjusted for any changes to income that would result from the assumed conversion of those potential shares. For purposes of these calculations, the weighted average number of shares was 30,333,649,850 for the year ended December 31, 2002. The calculations take into account the requirement that holders of New Telecom Italia Savings Shares are entitled to an additional dividend equal to 2% of the par value of New Telecom Italia Savings Shares above dividends paid on New Telecom Italia Ordinary Shares. In 2002, pro forma net income per New Telecom Italia Savings Share Basic was 0.1030 and pro forma net income per New Telecom Italia Savings Share ADS Basic was 1.0300.

Potential Effects of the Merger

The following is a discussion of potential effects of the Merger.

The Merger will add approximately 6.1 billion in additional long-term debt to the New Telecom Italia consolidated balance sheet, with respect to the Olivetti balance sheet, as a result of 9 billion to finance the withdrawal rights of the Olivetti shareholders and the Tender Offers for the Telecom Italia Ordinary Shares and Telecom Italia Savings Shares, partially offset by the gross cash proceeds from the announced sale of New SEAT for approximately 3 billion.

The businesses of New SEAT, together with the related adjusting entries at Telecom Italia consolidated level resulted in an operating loss of approximately 3,214 million, of which 3,257 million was for impairments of goodwill and 471 million was for depreciation and amortization. The disposal of these units could have a material impact on New Telecom Italia s continuing results of operations and financial conditions in the future.

New Telecom Italia requires additional investment for its ongoing business, including additional capital expenditures for its fixed and mobile businesses. The additional indebtedness could impact the ability of New Telecom Italia to make these additional investments.

It is further expected that after the allocation of the final purchase price, there will remain a significant amount of goodwill. Prior to the Merger, Olivetti already had 24,106 million in goodwill related to the acquisition of the 55% of Telecom Italia Ordinary Shares in 1999. This goodwill will not be amortized on a periodic basis; instead, it will be subject to an annual impairment review under U.S. GAAP. The annual impairment review is contingent upon a number of variables and estimates. Depending on the future results of the underlying reporting units involved, the fair value of the reporting units could in the future be less than their carrying value, requiring additional write-offs of goodwill.

Table of Contents

PRO FORMA LIQUIDITY AND CAPITAL RESOURCES

The discussion which follows is based on the pro forma balance sheet which is prepared in accordance with U.S. GAAP and the total amount of indebtedness expected to be outstanding on completion of the Merger. There are significant differences between U.S. GAAP and Italian GAAP with respect to total historical long-term debt of the New Telecom Italia Group, which increases from 33,804 million under Italian GAAP to 38,375 million under U.S. GAAP.

The primary differences between U.S. GAAP and Italian GAAP long-term debt relates to the U.S. GAAP treatment of the SEAT Put/Call arrangements and the sale by Telecom Italia of real estate to IM.SER as well as the Tiglio Projects carried out by Olivetti and Telecom Italia. For a discussion of these transactions, see Description of Olivetti Businesses Information about the Olivetti Group Business Facility Management Services: Olivetti Multiservices and Note 28(d) and (i) of Notes to the audited financial statements of Olivetti, herein and Item 5. Operating and Financial Review and Prospects Consolidated Financial Statements as of and for the Three Year Period Ended December 31, 2002 Reconciliation of Italian GAAP to U.S. GAAP Year ended December 31, 2002 of the Telecom Italia Annual Report incorporated by reference herein.

On a pro forma consolidated basis, under U.S. GAAP, at December 31, 2002 New Telecom Italia s outstanding long-term debt was 44,525 million (38,375 million at December 31, 2002 on an historical basis) and its short-term debt at December 31, 2002 was 6,126 million, including current portion of long-term debt, (6,827 million at December 31, 2002 on an historical basis). Pro forma financial expenses, net, which include the effect of the increased debt would have totaled approximately 3,063 million in 2002 compared with

2,813 million in 2002 on an historical basis.

Pro forma long-term debt of New Telecom Italia Group under U.S. GAAP includes the bank facility of

9 billion to be entered in 2003 and utilized to fund the withdrawal rights of the Olivetti shareholders and the Tender Offers. If the total amount of the facility is used for the aforementioned reasons, the expected repayment terms are for 3,600 million in 2004 and for 5,400 million in 2005. In addition, pro forma long-term debt is presented net of the gross proceeds from the announced sale of New SEAT of 3,033 million, of the lower amount of 266 million to be paid for the expected early exercise of the SEAT Put/Call arrangements originally recorded for 2,417 million and net of long-term debt of New SEAT of 433 million. Finally pro forma long-term debt is presented net of the conversion of convertible bonds by Olivetti for 7 million.

The New Telecom Italia Group s short-term debt due to banks, including the current portion of long-term debt to banks, was 4,115 million on an U.S. GAAP pro forma basis (3,926 million at December 31, 2002 on an historical basis). The increase is due to the pro forma short-term debt for the payment of dividends to third parties of 794 million, the direct costs associated with the Merger of 110 million, net of short-term borrowings of New SEAT of 15 million and current portion of long-term debt of New SEAT of 700 million. As of December 31, 2002 the amount of unutilized short-term bank facilities on a pro forma basis was 9,081 million. Approximately 69% of these facilities were denominated in Euro and had varying interest rates. In addition, at December 31, 2002, the New Telecom Italia Group had pro forma cash and marketable securities in excess of 5,585 million.

The following table aggregates New Telecom Italia Group s U.S. GAAP pro forma contractual obligations and commitments with expected repayment terms in the future. The pro forma amounts payable as of December 31, 2002 are reported below.

	Year ended December 31,						
	2003	2004	2005	2006	2007	After 2007	Total
	(millions of euros)						
Historical long-term debt (including current portion)	3,059	7,709	6,131	6,406	3,583	14,397	41,285
Finance lease	391	32	19	16	16	66	540
Total historical long-term debt	3,450	7,741	6,150	6,422	3,599	14,463	41,825
Pro forma disposal of New SEAT	(700)		(303)			(130)	(1,133)
Pro forma long-term bank facility for the Merger (withdrawals and voluntary Tender Offers)		3,600	5,400				9,000
Pro forma proceeds from sale of New SEAT	(3,033)						(3,033)
Pro forma early exercise of the SEAT Put/Call arrangements	2,151		(2,417)				(266)
Pro forma conversion of bonds	(7)						(7)
Pro forma long-term debt (including current portion)	1,861	11,341	8,830	6,422	3,599	14,333	46,386
Operating lease	29	14	8	7	6	5	69
Total	1,890	11,355	8,838	6,429	3,605	14,338	46,455

Table of Contents

The table above does not include pro forma short-term financial debt of 4,265 million (excluding current portion of long-term debt) outstanding at December 31, 2002.

As of December 31, 2002, on a U.S. GAAP pro forma basis, approximately 95% of New Telecom Italia Group s long-term debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Chilean Peso. At December 31, 2002, approximately 19% of the long-term debt is carried at a floating rate.

Pro forma U.S. GAAP long-term debt of 1,861 million, 30,192 million and 14,333 million is scheduled to become due for repayment during 2003, in the years 2004-2007 and beyond 2007, respectively.

Long-term debt includes medium term notes issued by the Olivetti Group and its subsidiaries for a total amount of 13,780 million. For each note issued, the original rate an any credit protection step-ups are reported below.

Olivetti International N.V. - 700 million

- Note (1998-2003) with a fixed annual 5.875% coupon + 0.15% step-up maturing in May 2003;

Olivetti International N.V. - 1,500 million

- Note (1999-2009) with a fixed annual 5% coupon + 0.15% step-up maturing in February 2009;

Olivetti International N.V. - Swiss francs 100 million equivalent to 69 million

- Swiss franc bond (1986-2046) with a fixed annual 5.625% coupon maturing in June 2046;

Olivetti Finance N.V. (originally Olivetti International Finance N.V.) - 4,200 million

- Note (1999-2004) with a fixed annual 5 $^{3}/8$% coupon + 0.45% step-up maturing in July 2004;

Olivetti Finance N.V. - 200 million

- Note (2002-2005) with a floating rate coupon of 1.45% over the EONIA maturing in February 2005;

Olivetti Finance N.V.- 500 million

- Note (2002-2005) with a floating rate coupon linked to quarterly EURIBOR + 130 basis points. Bondholders may extend maturity for subsequent periods of 21 months up to an overall maximum term of 10 years;

Olivetti Finance N.V. - 1,100 million

- Note (2002-2006) with a floating rate quarterly coupon + 1.25% spread maturing in January 2006;

Olivetti Finance N.V. - 1,750 million

- Note (2002-2007) with a fixed annual 6.5% coupon maturing in April 2007;

Olivetti Finance N.V. (originally Olivetti International Finance N.V.) - 2,350 million

- Note (1999-2009) with a fixed annual 6 1/8% coupon + 0.45% step-up maturing in July 2009;

Olivetti Finance N.V. - 1,000 million

- Note (2002-2012) with a fixed annual 7.25% coupon maturing in April 2012;

Olivetti Finance N.V. - 20 billion yen equivalent to 161 million

- Note (2002-2032) with a fixed six-monthly 3.55% coupon maturing in May 2032 (callable by the issuer annually as from the tenth year); and

Olivetti Finance N.V. - 250 million

- Note (2002-2032) with a fixed annual 7.77% coupon maturing in August 2032.

All the above Olivetti Finance N.V. notes were issued under the Euro Medium Term Note Program (the **EMTN Program**) which was launched in July 1999. In particular, the Boards of Directors of Olivetti and its financial subsidiaries Olivetti Finance N.V. and Olivetti International Finance N.V. approved in May 2002 a review of the Program, including the increase of the overall amount from 10 billion to 15 billion.

Long-term debt also includes convertible bonds issued by Olivetti and its subsidiaries for a total amount of 5,437 million, detailed as follows:

Olivetti Finance N.V.: 2000-2005 bond for 765 million exchangeable for Telecom Italia Ordinary Shares, with a fixed annual 1% coupon and redemption premium of 113.41% of the issue price (approximately 15.22 per bond) maturing in November 2005. Accordingly the loan results in an aggregate payable of 868 million. The yield on maturity is 3.5% per annum;

Olivetti S.p.A.: 2001-2004 bond for 1,267 million convertible into Olivetti Ordinary Shares, with a fixed annual 1.5% coupon and redemption premium of 105.07759% of the issue price (2.6 per bond) maturing in January 2004. Accordingly the loan determines an aggregate payable of 1,331 million. The yield on maturity is 3.25% per annum.

Table of Contents

Olivetti Finance N.V.: 2002-2004 zero-coupon bond for 385 million maturing in March 2004. The loan is convertible into Telecom Italia Ordinary Shares; and

Olivetti S.p.A.: 2001-2010 bond for 2,410 million convertible into Olivetti Ordinary Shares, with a fixed annual 1.5% coupon and redemption premium of 118.37825% of the issue price (1.0 euros per bond) maturing in January 2010. Accordingly the bond results in an aggregate payable of 2,853 million. The yield on maturity is 3.5% per annum.

In addition, long-term debt includes notes issued by Telecom Italia in order to reduce its dependence on short-term debt, extend the average life of its financial indebtedness and expand its investor base. For these purposes, Telecom Italia established a U.S.$10 billion global medium term note program (the **Global Note Program**) at the end of 2000; on December 18, 2001, the Board of Directors approved the increase of the above mentioned Global Note Program up to U.S.$12 billion. Since January, 2001, the Telecom Italia Group has issued an aggregate principal amount of 12.5 billion in long-term debt in the capital markets under its Global Note Program, the net proceeds of which have been used to repay short-term indebtedness. The debt issued consisted of:

- 2.5 billion of 1% exchangeable notes due 2006 (in September 2002, the notes decreased by 536 million, becoming 1,964 million, due to the buy-back of the notes by Sogerim, merged in 2002 into Telecom Italia Finance, and their subsequent cancellation;
- 3.0 billion of 6.125% fixed rate notes due 2006;
- 1.0 billion of floating rate notes due 2004;
- 2.0 billion of 7% fixed rate notes due 2011;
- 1.5 billion of floating rate notes due 2005;
- 1.25 billion of 5.625% notes due 2007; and
- 1.25 billion of 6.25% notes due 2012.

In connection with the Merger, Olivetti mandated a group of Mandated Lead Arrangers to arrange and underwrite 15.5 billion of senior credit facilities (the **Facilities**). The Facilities, which have been subsequently fully syndicated, consist of:

- a 9.0 billion senior term loan (the **Term Loan Facility**) to fund both the cash out payment to dissenting Olivetti shareholders and the cash consideration payable upon completion of the Tender Offers, and
- a 6.5 billion senior revolving credit facility (the **Revolving Credit Facility**) which will be used for the short-term financial requirements, including the repayment of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) and for general corporate purposes.

The drawn cost under the Facilities will be subject to a ratings grid; the repayment and cancellation of the 9.0 billion senior term loan will lead to a progressive reduction in the drawn cost.

Details of the Facilities are as follows.

Term Loan Facility

On April 24, 2003, Olivetti entered into a 9 billion Term Loan Facility with Banca Intesa, Barclays Capital, BNP Paribas, HSBC Bank plc, J.P.Morgan plc, The Royal Bank of Scotland plc, Unicredit Banca Mobiliare S.p.A. (as mandated lead arrangers), and J.P.Morgan Europe Limited (as agent).

Pursuant to the Term Loan Facility, up to 9 billion are available to finance:

- The cash-out payment to Olivetti shareholders who have exercised their withdrawal right; and, for the amounts not used to finance the cash-out payment,
- The Tender Offers made by Olivetti for a portion of the Telecom Italia Ordinary Shares and a portion of the Telecom Italia Savings Shares.

The Term Loan Facility is divided into three tranches. Under the terms and conditions of the Term Loan Facility the borrower may only use funds for the purposes described above.

Advances under the Term Loan Facility will bear interest at EURIBOR plus a margin that will depend on the long-term credit rating assigned by Standard & Poor s or Moody s, or both, to New Telecom Italia s debt.

Table of Contents

The margin will also vary depending on which tranche the borrower utilizes. The agreement includes customary representations and warranties, and may only be drawn if the Merger becomes effective.

Revolving Facility

On April 24, 2003, Olivetti received a binding offer from Banca Intesa, Barclays Capital, BNP Paribas, HSBC Bank plc, J.P.Morgan plc, The Royal Bank of Scotland plc, Unicredit Banca Mobiliare S.p.A. (as mandated lead arrangers), and J.P.Morgan Europe Limited (as agent) to enter into the 6.5 billion multicurrency Revolving Credit Facility with:

- New Telecom Italia (i.e. the company resulting from the Olivetti/Telecom Italia merger) and Telecom Italia Finance société anonyme (with the guarantee of Telecom Italia) if the Merger is effective prior to August 8, 2003; or
- Telecom Italia and Telecom Italia Finance société anonyme (with the guarantee of Telecom Italia) if the Merger is not effective prior to August 8, 2003.

The Revolving Credit Facility is divided into two tranches aggregating 6.5 billion. Under the terms and conditions of the Revolving Credit Facility the borrower or borrowers (as defined therein) may use funds available for short-term financial requirements of the New Telecom Italia Group, including repayments of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including existing 7.5 billion facility) and for general corporate purposes of the New Telecom Italia Group.

Advances made under the Revolving Credit Facility will bear interest at EURIBOR or LIBOR, as applicable, plus a margin that will depend on the long-term credit rating assigned by Standard & Poor s or Moody s or both, to the debt of New Telecom Italia. The margin will also vary depending on which tranche the borrower utilizes. The agreements include customary representations and warranties, including customary conditions to the utilization of the Revolving Credit Facility.

A summary of the maturities of the Facilities is reported below.

Facility	Amount (millions of euro)	Tenor	Term out
Term Loan Facility			
Tranche A	3,600	364 days	6 months
Tranche B	3,600	18 months(1)	6 months
Tranche C	1,800	2 years	12 months
Revolving Credit Facility			
Tranche D	4,500	364 days	12 months
Tranche E	2,000	3 years	None

(1) Less one day

On a pro forma basis, New Telecom Italia Group s debt to equity ratio, calculated as the ratio of consolidated net financial indebtedness to total stockholders equity (including minority interest), was 135% under U.S. GAAP as of December 31, 2002 compared with Telecom Italia s debt to equity ratio of 156% on a historical basis.

Management believes that the potential increase of debt of the merged entity can be serviced by the sale of non-core assets and the cash flow generated from continuing operations.

Table of Contents

DESCRIPTION OF OLIVETTI BUSINESSES

General

Olivetti, the parent of the Olivetti Group, acts as the industrial holding company for all of the Olivetti Group s operating subsidiaries. Although the Olivetti Group has operations in office products, information technology, specialized automation systems and real estate and facility management and maintenance, it conducts its core operations in the fixed and mobile telecommunications business through its controlling stake in Telecom Italia. For a detailed description of the Telecom Italia business, please see Item 4. Information on the Telecom Italia Group of the Telecom Italia Annual Report incorporated by reference herein.

The current registered share capital of Olivetti is 8,851,162,824, composed of 8,851,162,824 ordinary shares with a nominal value of 1 each. There are no other classes of shares other than ordinary shares. The share capital is fully paid.

The authorized capital (fully paid capital plus capital that can be issued on the basis of resolutions already approved by the company s Board of Directors concerning stock option plan, warrants or convertible bonds) is equal to 11,926,697,278.

Predecessor Activities

Olivetti, founded on October 29, 1908 under the laws of Italy, has transformed from a diversified conglomerate to an industrial holding company focused on specific sectors with a high technology content.

From the late 1980s to the mid 1990s, several industries in which Olivetti s principal companies operate, particularly personal computers and certain operations in information technology systems, experienced a significant market downturn in Europe due in part to a considerable decrease in demand as a result of the overpricing of certain products. During this period, the Olivetti Group experienced significant financial difficulties due mainly to declining earnings and margin erosion and accumulated substantial debt. As a result, Olivetti decided to reorganize the Olivetti Group s business activities.

Between 1995 and 1998, Olivetti implemented a number of restructuring measures aimed at reducing indebtedness, improving earnings and strengthening the Olivetti Group s competitiveness, profitability and financial position. As part of these restructuring efforts, the Olivetti Group reduced its workforce, streamlined production, distribution, management and administration functions and improved cost and other controls. Olivetti also sold a number of the Olivetti Group s under-performing assets, including its personal computer manufacturing operations in 1997 and certain information technology services operations in 1998.

As part of its restructuring initiatives in the mid 1990s, the Olivetti Group also expanded into the growing Italian fixed and mobile telecommunications market as a result of the award of mobile and fixed telecommunications licenses to two start-up companies in which Olivetti held an equity interest, Omnitel Pronto Italia S.p.A. (**Omnitel**) and Infostrada S.p.A. (**Infostrada**). Omnitel and Infostrada were awarded such licenses in 1994 and 1998, respectively. Prior to June 15, 1999, Olivetti s interests in Omnitel, Italy s second largest mobile telecommunications operator after TIM, and Infostrada, Italy s second largest fixed wireline telecommunications operator after Telecom Italia, were held through OliMan Holding B.V. (**OliMan**), a joint holding company of Olivetti and Mannesmann AG (**Mannesmann**) in which Olivetti and Mannesmann had a 50.1% interest and 49.9% interest, respectively.

Tender Offer for Telecom Italia

In early 1999, Olivetti made a strategic decision to focus primarily on and expand the Olivetti Group s business activities in the telecommunications services sector while continuing to take advantage of the Olivetti Group s market position in its traditional office products and information technology segments and pursuing and developing new technologies and opportunities for expansion in these segments. This strategy was adopted largely as a result of new opportunities in the fixed and mobile telephone products and services market created following worldwide market deregulation in the telecommunications industry and advances in new digital and multimedia telephone technologies.

Accordingly, in May 1999, Olivetti jointly with its subsidiary Tecnost S.p.A. (**Tecnost**), made a tender offer for Telecom Italia, giving Olivetti an indirect 52.12% controlling interest in Telecom Italia s Ordinary Shares. Following the success of this tender offer, the Olivetti Group was expanded to include all of the operating companies of Telecom Italia and Olivetti s controlling interest in Telecom Italia s Ordinary Shares eventually increased to 54.94%. The Telecom Italia Group operates in a wide range of fixed and mobile telecommunications sectors (including information technology, manufacturing and systems facilities) which complement its telecommunications operations, as well as in multimedia services and the Internet, in Italy and worldwide.

The tender offer was financed through the disposal of investments (including Olivetti s interests in Omnitel and Infostrada), bank facilities, issue of ordinary shares and the issue of notes.

Information about the Olivetti Group Business

The Olivetti Group operates:

- in the fixed and mobile telecommunications sector through the companies of the Telecom Italia Group (which accounted for third party revenues of approximately 96.8% of total consolidated revenues for the year ended December 31, 2002;
- in the products, IT services and specialized systems sector through the Olivetti Tecnost Group; and
- in the facility management sector through Olivetti Multiservices S.p.A. (**Olivetti Multiservices**).

Until the first half of 2002, Olivetti operated in the Internet services sector through Webegg S.p.A. (**Webegg**). At the end of July 2002, Olivetti sold its 50% stake in Webegg to Telecom Italia. For a more detailed discussion of the Webegg sale, see Item 4. Information on the Telecom Italia Group Business Acquisitions in the Telecom Italia Annual Report incorporated by reference herein.

Fixed and Mobile Telecommunications Sector: Telecom Italia Group

For a description of the Telecom Italia Group and its businesses see Item 4. Information on the Telecom Italia Group in the Telecom Italia Annual Report incorporated by reference herein.

As of December 31, 2002, the Telecom Italia Group businesses represented approximately 96.8% of consolidated net revenues and contributed a net loss for Olivetti Group consolidation purposes of 97 billion (12.6% of the Olivetti Group consolidated loss).

Products, IT services and specialized systems: the Olivetti Tecnost Group

Olivetti Tecnost and its subsidiaries (the **Olivetti Tecnost Group**) are active in office products (Olivetti Advalia) and specialized application for service automation in banking, retail, gaming and public authorities (Vertical Division). Olivetti Tecnost has also extended its industrial and marketing activities to include a home automation service for private residential users, through DomusTech S.p.A. Gross revenues in 2002 were

914 million (of which 906 million were derived from customers outside the Olivetti Group) which represented approximately 2.9% of consolidated net revenues of the Olivetti Group.

The Olivetti Tecnost Group operates in a number of international markets (which account for 68% of its aggregate revenues). While its primary focus is in Europe (29%), Asia (12%) and Latin America (15%), it is also active in the consumer sector in North America (11%) through the subsidiary Royal Consumer Information Product Inc.

Olivetti Advalia. Olivetti Advalia operates in the PC market, in the fax, ink jet, multifunctional products (MFP) businesses (products and supplies) and copier (products and supplies) businesses.

In the second half of 2002, Olivetti Advalia introduced new laser printers and color copiers to complete its offer for the professional channel and business users, renewed its laser and ink-jet fax range and expanded its digital copier offer.

Vertical Division. The Vertical Division of the Olivetti Tecnost Group is active in the gaming, banking and retail, special products and the shop automation sectors.

In 2002, new initiatives were developed in the gaming sector, especially overseas: in Tunisia (contract with the Sport Commission to supply a turnkey solution for automation of the local football pools system), Peru (football pools automation, with supply of 1,500 terminals, of which 150 were delivered in 2002), India and China (with the launch of the new M380 family).

Olivetti Tecnost Group Industrial Plan. In June 2002, Olivetti Tecnost presented its 2003-2005 Industrial Plan to the trade unions. The Plan s main goal is to return Olivetti Tecnost to profitability through a series of

Table of Contents

business-specific measures: consolidation and expansion of the specialized IT systems sector (vertical business) and a re-launch operations in office products (office business), with a gradual move towards an offer of solutions and services and the start-up of new initiatives in the Canavese area around Ivrea in sectors where synergies exist with the Telecom Italia Group.

Measures in the Vertical Division will aim to consolidate and expand operations by gradually moving towards a solutions and services offer:

- introduction of new products and solutions by integrating existing product ranges, enhancing R&D activities and improving the systems competencies of sales personnel; and
- strengthening of sales operations in Italy and the Far East, growth in strategic overseas countries (Europe, Latin America) and entry into the United States.

In the office business, action will be taken to re-focus operations and re-launch the sales offer, by:

- launching new digital products;
- extending the offer for small and medium sized businesses towards integrated solutions;
- re-organizing and strengthening the dealer channel; and
- restructuring manufacturing operations in the ink-jet business.

The re-organization of Olivetti Tecnost Group s industrial operations involved a review of production capacity and the transfer of all ink-jet technology to a single facility.

Therefore:

- an agreement was reached with the trade unions on June 25, 2002 for the restructuring of the loss-making ink-jet business, through a re-conversion of the Scarmagno site, where new industrial operations will be set up, and the location of all ink-jet activities in the Arnad site. It was agreed with the trade unions that a two-year Extraordinary Redundancy Fund would be set up for a maximum of approximately 810 employees to permit start-up of the new operations and achieve a non-traumatic solution to surplus labor capacity, and that a special professional skills re-training program would be introduced for at least 300 people involved in the industrial restructuring;
- new initiatives will be set up in the Canavese area (at the Scarmagno site) together with the Telecom Italia Group; and
- all ink-jet activities will be located in the Aosta Valley (at the Arnad site), where R&D activities on new applications will be enhanced (in cooperation with Pirelli Labs, Telecom Italia Lab or other partners specializing in the various sectors concerned).

The agreement was ratified by the Ministry of Employment and Social Policies to enable Tecnost to forward its application for the Extraordinary Redundancy Fund from July 15, 2002 to July 14, 2004.

Regarding the Canavese area, an agreement was reached for the formation by the end of September 2002 of a company to operate in document management. The new company will be owned 80% by Olivetti Tecnost S.p.A. and 20% by Comdata Bis S.r.l., which is already active in this field.

Facility Management Services: Olivetti Multiservices

During 2002, Olivetti Multiservices made sweeping changes in its operations. As part of a framework agreement between the Pirelli and Olivetti-Telecom Italia Groups for the integration and enhancement of the real-estate assets and property services providers of the companies involved in the project (**Project Tiglio**), on September 1, 2002 the partial split-up of Olivetti Multiservices (as approved by the company Board of Directors on June 21, 2002) took effect through the transfer at book value of the company s real estate assets, specifically 23 buildings and 10 development areas, to OMS2 s.r.1. (a wholly-owned subsidiary of Olivetti), and the consequent reduction of the share capital of Olivetti Multiservices.

Aggregate revenues for 2002 were 119.3 million, of which 75.8 million (0.2% of the Olivetti Group consolidated revenues) was derived from third parties outside the Olivetti Group and 43.5 million from the captive market.

Table of Contents

Information about the Telecom Italia Group Business

On June 26, 2003, Telecom Italia filed its Annual Report on Form 20-F for 2002 with the SEC. The Telecom Italia Annual Report, which is attached as Exhibit A hereto, is hereby incorporated by reference. You are encouraged to read the Telecom Italia Annual Report in its entirety as it sets out, among other things, the following information about the Telecom Italia Group:

Item 3. Key Information

- Risk Factors
- Rates of Exchange
- Selected Financial and Statistical Information
- Dividends

Item 4. Information on the Telecom Italia Group

- Business
- Business Units
- Regulation
- Description of Property

Item 5. Operating and Financial Review and Prospects

- Background
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Consolidated Financial Statements
- Quantitative and Qualitative Disclosure about Market Risk

Item 6. Directors, Senior Management and Employees

- Directors
- Employees
- Compensation of Directors and Officers
- Options to Purchase Securities from Registrant

Item 7. Major Shareholders and Related-Party Transactions

Item 8. Financial Information

Item 9. Listing

Item 10. Additional Information

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Item 18. Financial Statements

Table of Contents

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of Olivetti s Operating and Financial Review and Prospects should be read in conjunction with Unaudited Pro Forma Condensed Consolidated Financial Data and the audited financial statements and notes thereto of Olivetti contained elsewhere in this Information Statement. The audited financial statements of Olivetti, and the financial information discussed below, have been prepared in accordance with Italian GAAP which differs in significant respects from U.S. GAAP. For a discussion of the principal differences between Italian GAAP and U.S. GAAP, see Note 26 entitled Reconciliation to Generally Accepted Accounting Principles in the United States of the Notes to the audited financial statements of Olivetti.

The following discussion primarily relates to the Olivetti Group s businesses, other than the Telecom Italia Group businesses. The Telecom Italia Group represented over 96.8% of the Olivetti Group s total revenues and 85.2% of the Olivetti Group s total assets (excluding goodwill related to Telecom Italia) in 2002. For a discussion of the Telecom Italia Group, see Item 4. Information on the Telecom Italia Group and Item 5. Operating and Financial Review and Prospects in the Telecom Italia Annual Report incorporated by reference herein.

General

Following the acquisition of Telecom Italia in 1999, the results of operations of the Telecom Italia Group operations have been included in the consolidated financial statements of Olivetti. As of December 31, 2002, the Telecom Italia Group businesses represented approximately 96.8% of the Olivetti Group consolidated revenues and contributed a net loss of 97 million (12.6% of the Olivetti Group consolidated loss).

During 2002, the Olivetti Group pursued the targets set forth in its 2002-2004 Industrial Plan (which encompassed Telecom Italia Group s 2002-2004 Industrial Plan), in part by continuing the disposals program introduced in the last quarter of 2001 to strengthen the focus on core businesses and improve the Olivetti Group s financial position. This program, which also envisages a select number of acquisitions, enabled the Olivetti Group to reach the target set by the strategic plan of disposals for 5 billion a year earlier than expected. For a discussion of significant dispositions and acquisitions of the Telecom Italia Group, see Item 4. Information on the Telecom Italia Group Significant Developments during 2002 Disposition and Acquisition of Certain Equity Investments of the Telecom Italia Annual Report incorporated by reference herein.

The year 2002 was also a year of intense financial activity, mainly for the purpose of re-financing existing debt to extend overall maturity of the debt portfolio. A key event was the issue by Telecom Italia in the first half of 2002 of 2.5 billion dual-tranche fixed rate bonds (maturing in five and 10 years), as part of the Telecom Italia Group s Global Note Program.

An important transaction at Olivetti was the placement of a 1.5 billion multi-tranche benchmark bond, divided into a five-year tranche for 1,000 million and a 10-year tranche for 500 million by the subsidiary Olivetti Finance. Olivetti Finance also called the Olivetti Finance N.V. 1999-2004 bond two years ahead of the original maturity date in 2004, for an amount equivalent to the nominal amount plus accrued interest. Both transactions are part of the Olivetti Group s re-financing and debt-maturity extension plan.

Olivetti Group also conducted various financial transactions in the second half of 2002. In July and August 2002, Olivetti Finance N.V. launched and placed a 385 million bond exchangeable for Telecom Italia Ordinary Shares, maturing on March 19, 2004. The bonds have a per-share conversion price of 9.30, and correspond to 41,400,000 Telecom Italia Ordinary Shares (0.79% of capital).

In September 2002, Olivetti successfully re-opened three bonds, for an aggregate amount of 1,550 million, subdivided into three tranches:

- 400 million, raising the Olivetti Finance N.V. floating-rate 2002-2006 bond to 1,000 million;
- 650 million, raising the Olivetti Finance N.V. 6.5% 2002-2007 bond to 1,650 million; and
- 500 million, raising the Olivetti Finance N.V. 7.25% 2002-2012 bond to 1,000 million.

These transactions raised the average life of Olivetti s debt to 5.5 years (4.8 years in February 2002), with medium/long-term debt accounting for 93% of the total amount.

Table of Contents

As part of its re-financing plans, Olivetti also undertook extensive buy-backs of its own securities on the market and consequently cancelled the following:

- Olivetti S.p.A. Eonia linked notes 2001-2003 for 400 million; the issue was extinguished as a result;
- Olivetti Finance N.V. 1% 2000-2005 notes exchangeable for Telecom Italia Ordinary Shares for 1,235 million, reducing the principal amount of the notes to 765 million; and
- Olivetti Finance N.V. 5.375% 1999-2004 notes for 750 million, reducing the principal amount of notes to 4.2 billion.

Recent Developments Olivetti Group Results for the First Quarter Ended March 31, 2003 compared to March 31, 2002

The information in this section should be read in conjunction with Olivetti s audited consolidated financial statements, and the notes thereto, included elsewhere in this Information Statement. For a discussion of the Telecom Italia Group s first quarter results, see Item 5. Operating and Financial Review and Prospects Recent Developments Telecom Italia Group Results for the First Quarter Ended March 31, 2003 compared to March 31, 2002 in the Telecom Italia Annual Report incorporated by reference herein.

The summary historical condensed consolidated financial data for the Olivetti Group for the three months ended March 31, 2003 and March 31, 2002, have been derived from unaudited interim consolidated financial statements which, in Olivetti s opinion, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Olivetti s results of operations for the unaudited interim period. Olivetti Group results for the three months ended March 31, 2003 are not necessarily indicative of results that may be expected for the entire year. The discussion that follows will focus on the material business segment of the Olivetti Group other than the Telecom Italia Group.

Condensed Income Statement Data(1):

	March 31, 2002		**March 31, 2003**	
	Total	**%**	**Total**	**%**
	(in millions of euros, except percentages)			
Operating revenues	7,533	100.0	7,291	100.0
Operating income	1,391	18.5	1,515	20.8
Income (loss) before income taxes and minority interest	1,313	17.4	868	11.9
Income taxes	(636)	(8.4)	(713)	(9.8)
Net loss before minority interest	677	9.0	155	2.1
Minority interests	(864)	(11.5)	(552)	(7.5)

Net loss	**(187)**	**(2.5)**	**(397)**	**(5.4)**

Condensed Balance Sheet Data(1):

	December 31, 2002		As of March 31, 2003		
	Total	**%**	**Total**	**%**	**Changes**
	(in millions of euros, except percentages)				
Total assets	83,384	100.0	84,833	100.0	1,449
Total liabilities	62,760	75.3	64,174	75.6	1,414
Total stockholders equity	20,624	24.7	20,659	24.4	35
Total liabilities and stockholders equity	**83,384**	**100.0**	**84,833**	**100.0**	**1,449**

(1) This financial data has been presented in condensed form because the available Olivetti financial data for the three months ended March 31, 2002 and 2003 use a classification system which differs in presentation from that used in the Olivetti financial statements provided elsewhere in this Information Statement. Accordingly, only those items which are common to both presentations are included in this table and discussed below.

Olivetti Group operating revenues amounted to 7,291 million for the three months ended March 31, 2003, compared to 7,533 million for the three months ended March 31, 2002, a decrease of 242 million, or 3.2%

Table of Contents

(+4.8% on a like-for-like basis and net of the impact of exchange rate movements). Telecom Italia Group operating revenues (which accounted for 97.7% of total operating revenues) decreased by 140 million, or 1.9%. Excluding the exchange rate effect and the changes in the consolidation area, Telecom Italia Group operating revenues improved by 6.4%.

Operating income for the three months ended March 31, 2003 was 1,515 million, an increase of 124 million from the three months ended March 31, 2002 (1,391 million). The increase in operating income was primarily due to a reduction of costs (366 million) which was higher than the decrease in revenues (242 million).

Income before income taxes and minority interests for the three months ended March 31, 2003 was 868 million, compared to 1,313 million for the three months ended March 31, 2002. The decrease in income was primarily due to:

- gains on disposals and other non-recurring income which totaled 70 million compared to 792.4 million in 2002; and
- financial charges, net which totaled 518 million compared to 665 million for the three months ended March 31, 2002, a decrease of 167 million, largely attributable to the Telecom Italia Group as a result of lower average debt exposure and improved exchange rates in Brazil and Venezuela.

After income taxes of 713 million (compared to 636 million for the three months ended March 31, 2002) and minority interests of 552 million (compared to 864 million for the three months ended March 31, 2002), the Olivetti Group posted a consolidated net loss of 397 million for the three months ended March 31, 2003 (compared to a loss of 187 million in three months ended March 31, 2002). The increase in losses was primarily due to lower income before income taxes, partially offset by lower minority interest.

The table below analyses Olivetti Group net financial debt:

	As of December 31,			
	2000	**2000(1)**	**2001**	**2002**
	(millions of euro)			
Short-term debt, including current portion of long-term debt	16,927	16,536	9,072	6,827
Long-term debt	27,485	25,950	37,747	33,804
Cash and cash equivalents:				
• Bank and postal accounts	(2,763)	(2,745)	(3,626)	(4,363)
• Cash and valuables on hand	(8)	(7)	(76)	(7)
• Receivables for sales of securities	(1)	(1)	(4)	(56)
Marketable debt securities	(2,909)	(2,759)	(3,616)	(1,927)
Financial accounts receivable	(1,538)	(1,538)	(1,599)	(1,506)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net	331	292	464	627
Net Financial Debt	**37,524**	**35,728**	**38,362**	**33,399**

(1) Amounts Restated by Consolidating the Nortel Inversora Group with the Equity Method instead of the Proportional Method.

Analysis by company

	March 31, 2003 (a)	December 31, 2002 (b)	Changes (a-b)
	(millions of euros)		
Telecom Italia Group	16,079	18,118	(2,039)
Olivetti S.p.A., and other operating and finance companies	15,812	15,281	531
Total net financial indebtedness	**31,891**	**33,399**	**(1,508)**

As of March 31, 2003, the Olivetti Group had 104,370 employees compared to 106,620 at March 31, 2002. The fall is primarily due to the change in the sale of manufacturing operations in Mexico (resulting in a decrease of 1,266 heads at Olivetti Tecnost Group), the consolidation within the Telecom Italia Group (resulting in a net decrease of 819 heads) and the disposal of certain companies by SEAT.

Table of Contents

Business Unit

The following discussion relates to the Olivetti Group s principal business unit (other than the Telecom Italia Group), Olivetti Tecnost Group. Together, Telecom Italia and the Olivetti Tecnost Group account for more than 99% of the Olivetti Group s consolidated net revenues.

Condensed Income Statement for Three Months ended March 31, 2003 and 2002(1):

	Olivetti Tecnost Group	
	2002	**2003**
	(millions of euros)	
Operating revenues	234.4	158
Operating income	1.7	(4)
Income (loss) before taxes and minority interest	(1.1)	(6.4)
Income taxes	(6.4)	(2.5)
Net loss before minority interest	(7.5)	(8.9)
Minority interests	0.9	0.6
Net result for consolidation purposes	**(6.6)**	**(8.3)**

(1) This financial data has been presented in condensed form because the available Olivetti Tecnost Group financial data for the three months ended March 31, 2002 and 2003 uses a classification system which differs in presentation from that used in the Olivetti financial statements provided elsewhere in this Information Statement. Accordingly, only those items which are common to both presentations are included in this table and discussed below.

Olivetti Tecnost Group operating revenues in the three months ended March 31, 2003 totaled 158 million. This included 153 million of third-party revenues outside the Olivetti Group as follows: 99 million from hardware sales, 32 million from sales of consumables, 22 million from service sales and other revenues.

Compared with first three months ended March 31, 2002, revenues were down 32.8% (27.3% net of the impact of exchange rate movements), a decrease that to a large extent was expected in the Office area, as a result of the decision to cut sales of low-margin products, and in the specialized printer area due to the temporary sales slowdown in China, where an upturn is expected in the second half of the year.

Operating income for the three months ended March 31, 2003 was a loss of 4 million, a better result than business plan projections. Operating income for three months ended March 31, 2002 was 1.7 million, reflecting the positive impact of high specialized printer sales volumes in China.

Loss before income taxes and minority interests for the three months ended March 31, 2003 amounted to 8.9 million, compared to 7.5 million for the three months ended March 31, 2002. The increased loss was primarily due to lower revenues, which were only partially offset by the reduction in operating costs.

For Olivetti Group consolidation purposes, the Olivetti Tecnost Group posted a net loss of 8.3 million in the first three months of 2003, compared to a loss of 6.6 million in the first three months of 2002.

Olivetti Group Results of Operations for the Three Years Ended December 31, 2000, 2001 and 2002

The following table presents the Olivetti Group Italian GAAP statement of operations for the years ended December 31, 2000, 2001 and 2002, during which the Telecom Italia Group represented over 90.2%, 96.3% and 96.8% of net revenues, respectively. The following discussion of the results of the Olivetti Group will largely focus on the results of the Olivetti Tecnost Group, the principal business unit of the Olivetti Group other than the Telecom Italia Group. For a full discussion of the results of operations of the Telecom Italia Group for each of the years ended December 31, 2000, 2001 and 2002, see Item 5. Operating and Financial Review and Prospects in the Telecom Italia Annual Report incorporated by reference herein.

	Year ended December 31,			
	2000(1)	2000 pro forma (1)(2)	2001	2002
	(millions of euro)			
Statement of Operations Data in accordance with Italian GAAP:				
Operating revenues	30,116	28,374	32,016	31,408
Other revenues	483	459	476	504
Total revenues	30,599	28,833	32,492	31,912
Cost of materials	3,058	2,931	2,640	2,315
Salaries and social security contributions	5,245	4,965	4,919	4,737
Depreciation and amortization	6,956	6,519	7,645	7,269

Table of Contents

	Year ended December 31,			
	2001(1)	2000 pro forma (1)(2)	2001	2002
	(millions of euro)			
Other external charges	11,136	10,476	12,687	12,188
Changes in inventories	(318)	(296)	92	62
Capitalized internal construction costs	(912)	(831)	(583)	(675)
Total operating expenses	25,165	23,764	27,400	25,896
Operating income	5,434	5,069	5,092	6,016
Financial income	1,202	1,162	1,446	1,569
Financial expense	(3,847)	(3,638)	(6,526)	(4,605)
Other income and (expense), net	135	165	(3,109)	(5,496)
Income (loss) before income taxes and minority interests	2,924	2,758	(3,097)	(2,516)
Income taxes	(1,923)	(1,813)	(579)	2,210
Net income (loss) before minority interests	1,001	945	(3,676)	(306)
Minority Interest	(1,941)	(1,885)	586	(467)
Net loss	(940)	(940)	(3,090)	(773)
Amounts in accordance with U.S. GAAP:				
Total revenues			32,274	31,864
Operating Income			3,981	7,729
Loss before income taxes and minority interests			(6,056)	(100)
Income taxes			(240)	3,176
Income (loss) before minority interests			(6,296)	3,076
Minority interests			2,270	(1,120)
Cumulative effect of accounting changes, net of taxes			20	
Net Income (loss)			(4,006)	1,956
Net Income (loss) per Share Basic(3)			(0.4698)	0.2266
Net Income (loss) per Share Diluted(3)			(0.4698)	0.2266

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

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

(3) Computed on the weighted average number of Olivetti Ordinary Shares outstanding in 2001 and 2002, equal to 8,570 million and 8,631 million, respectively.

Operating Revenues

2002 compared to 2001

Olivetti Group operating revenues amounted to 31,408 million in 2002, compared with 32,016 million in 2001, a decrease of 1.9% (an increase of 3.1% on a comparable consolidation basis and net of the impact of exchange-rate movements). Excluding the Telecom Italia Group, operating revenues in 2002 were 1,007.5 million compared to 1,198.1 million in 2001, a 15.9% decrease. This decrease was primarily due to the decrease in revenues of Olivetti Tecnost and the disposal of Webegg to the Telecom Italia Group in the second part of the year.

2001 compared to 2000

Olivetti Group operating revenues for 2001 totaled 32,016 million, an increase of 12.8%, after deconsolidation of the Nortel Inversora Group, compared to 2000 (an increase of 2.5% at constant consolidation, considering companies present in both years). This increase reflected the positive performance of the Telecom Italia Group (primarily in mobile services). Telecom Italia operating revenues amounted to 30,818 million and

Table of Contents

accounted for 96.3% of total operating revenues; net of amounts due to other telecommunications operators, operating revenues totaled 27,104 million and rose by 2,648 million from 2000 (an increase of 10.8%). Excluding the Telecom Italia Group, operating revenues in 2001 were 1,198 million compared to 1,205 million in 2000, a 0.5% decrease.

Operating Income

2002 compared to 2001

Operating income for the year 2002 amounted to 6,016 million compared to 5,092 million for the year 2001. The 18.1% increase in operating income for the year 2002 was primarily due to a decrease in operating costs, which was greater than the increase in revenues. Among the other items affecting operating income for the year 2002 were cost of materials amounting to 4,737 million (a decrease from 4,919 million in 2001), other external charges amounting to 12,188 million (a decrease from 12,687 for 2001) and depreciation and amortization charges which totaled 7,269 million (compared to 7,645 in 2001).

Excluding the Telecom Italia Group, operating income in 2002 reflected a loss of 1,399 million compared to a loss of 1,651 million in 2001. This decrease in the loss was primarily due to the strong cost containment policy and to the consolidation of the Webegg Group into the Telecom Italia Group in the second half of the year.

2001 compared to 2000

Operating income in 2001 was 5,092 million, compared to 5,069 million in 2000. The 0.5% increase for the year 2001 was primarily due to the growth in operating revenues.

Excluding the Telecom Italia Group, operating income in 2001 reflected a loss of 1,651 million compared to a loss of 1,483 million in 2000. The 168 million increase in loss was mainly due to provisions for risks on certain businesses.

Loss before income taxes and minority interests

2002 compared to 2001

The Olivetti Group loss before income taxes and minority interests for the year 2002 was 2,516 million (compared to a loss of 3,097 million in 2001). The 18.8% decrease in the loss before income taxes and minority interests was primarily due to the above mentioned factors and to:

- gains on disposals and other non-recurring income of 2,990 million, a 199% increase compared to 999 million in 2001;

- non-recurring charges of 8,486 million (including 3,486 million attributable to the write-down of goodwill and the call option on SEAT shares), a 106.6% increase compared to 4,108 million in 2001; and

- write-downs and other net financial charges of 3,036 million, a 42.5% decrease compared to 5,280 million in 2001 which reflects income from equity investments of 57 million (compared to 221 million in income from 2001), financial charges of 2,307 (compared to charges of 3,105 in 2001) and write-downs on financial assets of 786 million (compared to write-downs of 2,196 million in 2001).

The Telecom Italia Group loss before income taxes and minority interest in 2002 for Olivetti consolidation purposes amounted to 313 million (a 2.3% increase compared to 306 million in 2001) of the total Olivetti Group result.

Excluding the Telecom Italia Group, the loss before income taxes and minority interests in 2002 was 2,203 million compared to 2,790 million in 2001, a 21.0% decrease. The decrease in loss was primarily due to:

- non-recurring charges which totaled 111 million, a 31.1% decrease compared with 161 million in 2001;

- net financial charges which totaled 807 million, a 15.1% decrease compared with 951 million in 2001, mainly due to a lower average financial exposure;

- value adjustments to financial assets which totaled 105 million, a 56.4% decrease (compared to 241 million in 2001), which included 118 million of write-down of 174 million SEAT shares.

Table of Contents

2001 compared to 2000

The Olivetti Group loss before income taxes and minority interests for the year 2001 was 3,097 million (compared to a gain of 2,758 million in 2000). The decline of 5,855 million compared to 2000 was primarily due to an increase in non-recurring costs in 2001 (primarily attributable to a 2,984 million write-down of goodwill related to Telecom Italia s subsidiaries and equity investments), in net financial charges (primarily attributable to the increased financial exposure and to the renegotiation of Telecom Italia put/call options on SEAT shares) and in write-downs of equity investments and other financial assets. The decrease reflects a 43.5% decrease in income from equity investments of 221 million (compared to 391 million in income from 2000), an 85.6% increase in financial charges of 3,105 million (compared to charges of 1,673 million in 2000) and an 83.9% increase in value adjustments to financial assets of 2,196 million (compared to adjustments of 1,194 million in 2000). The loss before income taxes and minority interests in 2001 of Telecom Italia represented 306 million of the total Olivetti Group result. In 2000, the profit before income taxes and minority interest of Telecom Italia represented 4,964 million of the total Olivetti Group result.

Excluding the Telecom Italia Group, the loss before income taxes and minority interests in 2001 was 2,790 million compared to 2,206 million in 2000, an increase in losses of 584 million primarily due to:

- non-recurring income of 147 million compared to 326 million in 2000, a 54.9% decrease mainly attributable to a reduction in gains on disposals;
- non-recurring charges of 161 million, compared to 28 million in 2000, a 475% increase mainly attributable to miscellaneous charges;
- value adjustments to financial assets of 241 million, compared to 47 million in 2000, a 412.8% increase mainly attributable to write-downs on Telecom Italia and SEAT shares (both excluded from the consolidation as classified as current assets); and
- net financial charges of 951 million, compared to 1,064 million in 2000, a 10.6% decrease due to lower average financial exposure.

Net loss

2002 compared to 2001

The Olivetti Group net loss for financial 2002 was 773 million, a 75.0% decrease (compared to a loss of 3,090 million in 2001). Excluding amortization of goodwill on the acquisition of Telecom Italia, the Olivetti Group had net income of 520 million in 2002, a 2,311 million improvement (compared to a net loss of 1,791 million in 2001). The net loss for the year 2002 for Telecom Italia amounted to 97.2 million, a 85.5% decrease compared to a net loss of 671.7 million in 2001.

Excluding the Telecom Italia Group, the net loss for the year was 676 million, a 72% decrease compared to a loss of 2,418 million in 2001. In 2002, Olivetti S.p.A. recorded a tax credit of 1,603 million, largely as a result of the writedown of the Telecom Italia equity investment solely for tax purposes; this produced a positive overall tax effect of 1,078 million, including a tax asset of 609 million.

2001 compared to 2000

The Olivetti Group net loss for 2001 was 3,090 million, a 228.7% increase compared to a loss of 940 million in 2000. Excluding amortization of goodwill on the acquisition of Telecom Italia, the Olivetti Group net loss amounted to 1,791 million (compared to net earnings of 111 million in 2000). The net loss for the year 2001 for Telecom Italia (for Olivetti consolidation purposes) amounted to 672 million, a 1,356 million decline compared to 684 million in income in 2000.

Excluding the Telecom Italia Group, the net loss for the year was 2,418 million, a 49% increase compared to a loss of 1,623 million in 2000. Such result was primarily due to the reasons cited above.

Table of Contents

Olivetti Tecnost Results for the Three Years Ended December 31, 2000, 2001 and 2002

Business Unit Financial Data

The following table sets forth condensed income statement for the Olivetti Tecnost Group for the three years ended December 31, 2000, 2001 and 2002.

	Olivetti Tecnost Group		
	2000	**2001**	**2002**
	(millions of euros)		
Operating revenues	1,130.2	1,097.0	914.0
Operating Income	(2.5)	13.1	13.9
Income (loss) before income taxes and minority interest	19.4	(41.5)	(80.2)
Income taxes	13.0	(14.5)	(11.0)
Income (loss) before minority interest	32.4	(56.0)	(91.2)
Minority interest	(8.9)	1.3	4.1
Net result for consolidation purposes	**23.5**	**(54.7)**	**(87.1)**

(1) This financial data has been presented in condensed form because the available Olivetti Tecnost Group financial data for the years ended December 31, 2000, 2001 and 2002 use a classification system which differs in presentation from that used in the Olivetti financial statements provided elsewhere in this Information Statement. Accordingly, only those items which are common to both presentations are included in this table and discussed below.

Operating revenues

2002 compared to 2001

Revenues for the Olivetti Tecnost Group for financial 2002 amounted to 914 million (including 906 million from customers outside the Olivetti Group), a decrease of 16.7% from operating revenues of 1,097 million in 2001 (down 12.7% net of the exchange rate effect). Operating revenues comprised 588 million for hardware products, 154 million for supplies, 73 million for services and 99 million of other revenues.

The decrease in operating revenues was primarily attributable to the office products division where third-party revenues fell sharply (down 19%) and to a lesser extent to the vertical applications division where third-party revenues also fell (down 11.6%).

In the special products sector, operating revenues more than doubled in 2002, mainly as a result of the supply of TP Label automatic weighing and franking machines to the Italian Post Office.

2001 compared to 2000

In 2001, the Olivetti Tecnost Group achieved total operating revenues of 1,097 million (of which 1,076 million with third-party customers outside the Olivetti Group), a decrease from year 2000 (1,130.2 million in 2000). Digital product deliveries revenues increased 114% in 2001 (volume increased 64% over 2000), due to the introduction of a complete range of multifunctional photocopiers. Specialized products and services for vertical applications division also recorded an increase over 2000 in third-party revenues of approximately 295 million, a 29% increase in value compared to the year before.

Operating income

2002 compared to 2001

Operating income for the year 2002 amounted to 13.9 million compared to 13.1 million in 2001, an increase of 6.1%. The increase was primarily due to the following factors which offset the decline in revenues:

- operating costs for the year 2002 decreased to 850.2 million (compared to 1,017 million for the year 2001);

Table of Contents

- depreciation and amortization charges fell to 24.7 million (compared to 43.7 million in 2001); and
- value adjustments and provisions for risks totaled 15.5 million (compared to 20.3 million in 2001).

2001 compared to 2000

Operating income for the year 2001 amounted to 13.1 million (compared to a loss of 2.5 million in 2000). The increase in operating income for 2001 was primarily due to the following factors, which offset the decline in revenues:

- operating costs for the year 2001 amounted to 1,017 million compared to 1,061.2 million for the year 2000;
- depreciation and amortization charges totaled 43.7 million (compared to 47 million in 2000); and
- value adjustments and provisions for risks were 20.3 million compared with 21.8 million.

Loss before income taxes and minority interest before taxes

2002 compared to 2001

The Olivetti Tecnost Group loss before income taxes and minority interest in 2002 was 80.2 million, (compared to a loss of 41.5 million in 2001). The increase in such loss was primarily due to:

- gains on disposal and other non recurring income which totaled 5.6 million compared to 26.6 million in 2001;
- non recurring charges which totaled 82.1 million compared to 69.7 million in 2001; and
- net financial charges which totaled 17.4 million compared to 9.8 million in 2001.

2001 compared to 2000

The Olivetti Tecnost Group loss before income taxes and minority interest for the year 2001 was 41.5 million (compared to income of 19.4 million in 2000). The main causes of the loss before income taxes and minority interest for 2001 were:

- non recurring income of 26.6 million, decreased from 59.2 million in 2000; and
- non recurring charges increased to 69.7 million in 2001 compared to 32.8 million in 2000 (mainly due to higher reorganization charges).

Net result for the year for consolidation purposes

2002 compared to 2001

After taxes and minority interests, the Olivetti Tecnost Group posted a net loss after adjustments for Olivetti consolidation purposes of 87.1 million for financial 2002 (a loss of 54.7 million in 2001), after taking a net non-recurring charge of 76.5 million relating to the corporate restructuring, implementation of which is essential to ensure a return to profitability in the future.

2001 compared to 2000

After taxes and minority interests, the Olivetti Tecnost Group posted a net loss after adjustments for Olivetti consolidation purposes of 54.7 million for financial 2001 (23.5 million in 2000).

Liquidity and Capital Resources

Set forth below is a discussion of the liquidity and capital resources of the Olivetti Group. For a discussion of the liquidity and capital resources of the Telecom Italia Group, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resouces of the Telecom Italia Annual Report incorporated by reference herein. For a discussion of the impact the Merger will have on the financial statements of Olivetti and Telecom Italia when they are combined into one (including the impact of to the assumption of Olivetti s debt together with the incurrence of additional debt of up to 9 billion that will be used to finance the required withdrawal right of Olivetti shareholders (11 million) and the Tender Offers) see Pro Forma Liquidity and Capital Resources.

Table of Contents

Liquidity

The Olivetti Group s primary source of liquidity is cash generated from operations, particularly from telecommunications services, and its principal uses of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders and strategic investments, such as international acquisitions.

The table below summarizes, for the periods indicated, the Olivetti Group s cash flows.

	Year ended December 31,	
	2001	**2002**
	(millions of euro)	
Net cash provided by operating activities	5,657	7,083
Net cash used in investing activities	(10,042)	(1,065)
Net cash provided by (used in) financing activities	5,319	(5,298)
Net increase (decrease) in cash and cash equivalents	934	720
Cash and cash equivalents:		
Beginning of year	2,772	3,706
End of year	3,706	4,426

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

Net Cash Provided by Operating Activities

Net cash provided by operating activities was 7,083 million in 2002 and 5,657 million in 2001. The increase in 2002 compared to 2001 was primarily due to lower levels of losses before minority interest (2,597 million in 2002 compared to 3,097 million in 2001), the significant level of write-downs of fixed assets, intangibles and other long-term assets (4,387 million in 2002 compared to 3,753 million in 2001), the net change in other liabilities which increased cash from operating activities by 1,819 million in 2002 compared with a positive contribution of 1,432 million in 2001. Such effects were only partially offset by lower levels of depreciation and amortization in 2002 (7,269 million) compared to 2001 (7,645 million) and net gains on disposals of fixed and intangible assets and other long-term assets (2,243 million in 2002 compared with 373 million in 2001).

Net Cash Used in Investing Activities

Net cash used in investing activities was 1,065 million in 2002 and 10,042 million in 2001. Investments in fixed assets, which consisted for the most part of telecommunications installations acquired by Telecom Italia and TIM, were 3,291 million in 2002 and 4,317 million in 2001. Investments in intangible assets (including goodwill of 346 million in 2002 and 1,193 million in 2001) were 1,956 million in 2002 and 4,107 million in 2001. The decrease in 2002 compared to 2001 was principally due to the reduced level of acquisitions in 2002. In 2002 such investments include 1,325 million of equity investments (of which 287 million related to Telecom Italia treasury stock); in 2001 such investments include 1,906 million of investments made by TIM International in the associated company Is TIM (this entire investment was written off in 2002). In 2001 and 2002 proceeds from sales of fixed assets, intangible assets and long-term investments were 1,484 million and 5,968 million (mainly relating to the disposal of equity investments). Net proceeds in 2002 are largely responsible for the net cash used as it offset the levels of investment in fixed assets, intangible assets and other long-term assets.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by (used in) financing activities was a net cash use of 5,298 million in 2002 compared to net cash provided of 5,319 million in 2001. Net cash used in financing activities in 2002 reflected a decrease of 3,089 million in long-term debt and a decrease in short term debt of 2,245 million Net cash provided by in financing activities in 2001 reflected a significant increase in long term debt (11,009 million) as the Telecom Italia Group replaced short term debt with long term debt to extend the average life of its debt. The proceeds of such long term debt was primarily used to retire indebtedness, including 7,855 million of short term debt.

Capital Resources

As a result of the Merger an historical discussion of the Olivetti Group s Capital Resources would not be meaningful. For a discussion of capital resources, including repayment obligations on the New Telecom Italia Group s financial indebtedness, see Pro Forma Liquidity and Capital Resources.

Table of Contents

New Loan Facility

On April 24, 2003, Olivetti entered into a 9 billion term loan facility. Pursuant to the terms of this facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving credit facility available for short-term financial requirements including the repayment of commercial paper issued by any members of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) and for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

Legal Proceedings

For a description of material legal proceedings involving Telecom Italia or its affiliates and subsidiaries, please see Item 8. Financial Information Legal Proceedings of the Telecom Italia Annual Report incorporated by reference herein.

Olivetti Group (other than Telecom Italia Group)

Poste Italiane

Criminal proceedings were brought by the Rome public prosecutors against former representatives and former employees of Olivetti and of Poste Italiane S.p.A. (**Poste Italiane**), the Italian Postal company) regarding products and services provided by Olivetti to Poste Italiane in the early 1990s. The Rome magistrates recently acquitted all the Olivetti personnel involved in the investigation of the charge of misappropriation. The verdict became final after an appeal made by the Public Prosecutor was rejected by the Rome Court of Appeal. A Rome judge also recently acquitted all the former Olivetti managers involved in the investigations as far as alleged corruption was concerned. This decision has been appealed by the Public Prosecutor.

Disputes in the Rome courts between Olivetti and Poste Italiane. for non-payment by Poste Italiane for products and/or technical assistance are still pending. Rulings made by the courts to date are in favor of Olivetti and have been appealed by Poste Italiane.

Personal Computer Business

In relation to the disposal of the personal computers business in April 1997, lawsuits have been brought and are still pending before the Ivrea courts against Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A. by:

- Centenary Corporation and Centenary International, for damages of 250 billion Italian lire or 129.1 million, which the plaintiffs allege they suffered as a consequence of the acquisition of the Olivetti Group s personal computer business (through the acquisition of the specific company division, which was demerged and transferred to OP Computers S.p.A., established for that purpose);

- ex-employees of OP Computers S.p.A., claiming that the contracts relating to the aforementioned disposal of the personal computer business are null and void, to obtain reinstatement as employees of Olivetti, with payment of salary differences and damages (of 310 billion Italian lire or 160.1 million);

- the receiver of OP Computers S.p.A. (which is in bankruptcy proceedings), claiming that the contract of sale of the personal computers business by Olivetti Personal Computers to OP Computers is either null and void, or to be annulled or revoked with a claim for damages (of 158 billion Italian lire, or 81.6 million); and

- a group of ex-employees of OP Computers S.p.A., who in 1998 filed a complaint against former legal representatives of the company. The Ivrea Public Prosecutor s office is currently investigating the complaint and the case is still pending.

Olivetti and its external advisors believe that the transactions carried out regarding the disposal of the personal computers business were legal and proper, and therefore consider the above legal actions to be essentially groundless in fact and in law.

Table of Contents

Piedmont International

Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A., for their part, have brought a lawsuit against Piedmont International S.p.A. (a Centenary Group company) before the Court of Milan for the recovery of credits from the latter amounting to 100 billion Italian lire (51.6 million) or for a higher amount to be proven in court. On February 4, 2003, the Milan Court, first grade, ordered Piedmont to pay Olivetti and Olivetti Finanziaria Industriale S.p.A. a total amount of approximately 46 million.

Table of Contents

OWNERSHIP OF OLIVETTI AND TELECOM ITALIA SHARES BY DIRECTORS, EXECUTIVE OFFICERS, STATUTORY AUDITORS AND AFFILIATES

The following table shows the shares issued by Olivetti and its subsidiaries (including Telecom Italia) that were owned by Olivetti directors, statutory auditors and their affiliates as of December 31, 2002. According to Olivetti s Code of Conduct on Internal Dealing, each of Olivetti directors and executive officers is obliged to disclose material transactions directly or indirectly undertaken on listed securities issued by Olivetti and its subsidiaries, either on a quarterly basis or immediately, depending on the value of the transaction. In 2003 no such disclosure has been made to date and therefore the following information is considered to be current.

Name	Company	Number of shares held at end of prior year	Number of shares purchased	Number of shares sold	Number of shares held at end of 2002 (or at date of resignation)
Board of Directors					
Chairman					
Antonio Tesone	Olivetti Ordinary Shares	224	0	0	224
	TIM ordinary shares	625	0	0	625
Cesare Geronzi	Olivetti Ordinary Shares	15,250	59,475	74,725	0
	Telecom Italia Ordinary Shares	0	3,980	2,180	1,800
	Telecom Italia Ordinary Shares	4,950	7,250	6,600	5,600
	TIM ordinary shares	5,000	4,900	2,900	7,000
	SEAT ordinary shares	23,000	13,000	36,000	0
Alberto Pirelli	Telecom Italia Ordinary Shares	550	0	0	550
	TIM ordinary shares	750	0	0	750
	SEAT ordinary shares	3,000	0	0	3,000
Dario Trevisan(3)	Olivetti Ordinary Shares(1)	6,961	0	0	6,961
	SEAT ordinary shares	1,000	0	0	1,000
Alberto Varisco	SEAT ordinary shares	5,000	0	0	5,000
Board of Statutory Auditors					
Franco Caramanti	Telecom Italia Savings Shares	20,000	0	0	20,000
Chief Operating Officer					
Corrado Ariaudo(4)	Olivetti Ordinary Shares	0	533,332(2)	233,332	300,000
	Telecom Italia Ordinary Shares	50,000	0	0	50,000
	Telecom Italia Savings Shares	200,000	0	0	200,000
	TIM ordinary shares	25,000	0	0	25,000

(1) Operations carried out by separate company-managed asset portfolio.
(2) Through exercise of stock options.
(3) Resigned with effect from April 16, 2003.
(4) Resigned with effect from December 31, 2002.

For details of the listed shares issued by Telecom Italia and its subsidiaries that are owned by Telecom Italia directors, executive officers, statutory auditors and their affiliates, see Item 7. Major Shareholders and Related-Party Transactions of the Telecom Italia Annual Report incorporated by reference herein. As of June 16, 2003, apart from the director, executive officers and statutory auditor listed below, no Telecom Italia director, executive officer and statutory auditor owned Olivetti shares:

Name	Company	Number of Shares

Directors		
Umberto Colombo	Olivetti Ordinary Shares	14,062
Board of Statutory Auditors		
Salvatore Spiniello	Olivetti Ordinary Shares	50,000
Executive Officers		
General Counsel		
Francesco Chiappetta	Olivetti Ordinary Shares	1,000
Head of Information Technology Market		
Giuseppe Tronchetti Provera	Olivetti Ordinary Shares	47,000

Table of Contents

VOTING SECURITIES OF NEW TELECOM ITALIA AND THE PRINCIPAL HOLDERS THEREOF

Ownership of New Telecom Italia Ordinary Shares

For a description of the estimated percentage ownership of New Telecom Italia Ordinary Shares by Olimpia, which will be New Telecom Italia s largest shareholder, see Terms of the Transaction Reasons for the Merger Principal Business Rationales Improved Ownership Structure: Majority ownership by shareholders unaffiliated with Pirelli or Olimpia.

There are no arrangements known to Olivetti the operation of which may, at a date subsequent to the effectiveness of the Merger, result in any entity acquiring control of New Telecom Italia.

For a description of certain shareholders agreements concerning Olimpia, Olivetti s largest shareholder, see Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to the shareholders agreements concerning Olimpia have not sent any notification concerning the possible effects of the Merger on such agreements.

Ownership of New Telecom Italia Shares by Directors, Executive Officers and Statutory Auditors

The following table shows certain information about the ownership of New Telecom Italia s Ordinary Shares and Savings Shares by New Telecom Italia directors and executive officers as a group and by the members of New Telecom Italia Board of Statutory Auditors as a group as a result of the ownership of Olivetti and Telecom Italia Ordinary and Savings Shares at June 16, 2003 after giving effect to the Merger.

Title of Class	Owner	Number Owned(1)	% of Class(1)
Ordinary Shares	Directors and executive officers as a group (27 persons)(2)	333,653	0.0033%
	Board of Statutory Auditors as a group (5 persons)	92,672	0.0009%
Savings Shares	Directors and executive officers as a group (27 persons)(2)	103,793	0.0017%
	Board of Statutory Auditors as a group (5 persons)	250,638	0.0041%

(1) Based on the actual number of Olivetti Ordinary Shares in respect of which withdrawal rights were exercised and assuming no Conversions (except for Conversions already requested through June 24, 2003) and full acceptance of the Tender Offers.

(2) Both the current Olivetti executive officers and the current Telecom Italia executive officers are included.

Table of Contents

MANAGEMENT INFORMATION SUBSEQUENT TO THE MERGER

Directors, Executive Officers and Statutory Auditors of Olivetti

Board of Directors of Olivetti

The following are the members of the Olivetti Board of Directors as of June 23, 2003(1).

Name	Age	Position	Appointed
Antonio Tesone	79	Chairman	October 13, 2001
Marco Tronchetti Provera	55	Deputy Chairman and Chief Executive Officer	October 13, 2001
Gilberto Benetton	62	Deputy Chairman	October 13, 2001
Carlo Buora	57	Managing Director	October 13, 2001
Lorenzo Caprio	45	Director	October 13, 2001
Giorgio Cirla	63	Director	October 13, 2001
Pier Luigi Fabrizi	55	Director	October 13, 2001
Cesare Geronzi	68	Director	October 13, 2001
Gianni Mion	59	Director	October 13, 2001
Giampietro Nattino	68	Director	October 13, 2001
Paola Pierri	43	Director	May 26, 2003(2)
Alberto Pirelli	48	Director	October 13, 2001
Carlo Alessandro Puri Negri	51	Director	October 13, 2001
Gian Carlo Rocco Di Torrepadula	60	Director	May 26, 2003(2)
Alberto Varisco	62	Director	October 13, 2001

(1) Dario Trevisan, formerly a member of the Board of Directors, resigned from the position of director with effect from the day following the Board meeting that approved the plan of merger, i.e. from April 16, 2003.

(2) Mrs. Pierri was previously co-opted to the Board on November 7, 2002 and Mr. Rocco was co-opted to the Board on September 5, 2002.

Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Olivetti directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

Executive Officers of Olivetti

The following are the executive officers of Olivetti as of June 23, 2003.

Name	Age	Position	Appointed

Loris Bisone	55	Legal Affairs	July 9, 1999
Mario Ferrero	54	Administration Department	October 30, 1995
Angelo Landriani	52	Human Resources	January 1, 2001
Luigi Premoli	43	Finance Department	March 15, 2002

Board of Statutory Auditors of Olivetti

The Olivetti Board of Statutory Auditors was appointed at Olivetti s shareholders meeting held on May 26, 2003 and will expire with the approval of the 2005 financial statements. The following are the members of the Olivetti Board of Statutory Auditors.

Name	Position	Appointed
Ferdinando Superti Furga	Chairman	May 26, 2003(1)
Gianfranco Zanda	Auditor	May 26, 2003
Salvatore Spiniello	Auditor	May 26, 2003
Paolo Golia	Auditor	May 26, 2003
Rosalba Casiraghi	Auditor	May 26, 2003
Enrico Laghi	Alternate	May 26, 2003
Enrico Maria Bignami	Alternate	May 26, 2003

(1) Mr. Superti Furga was appointed to the Statutory Board of Auditors on May 26, 2003; he became Chairman of the Statutory Board of Auditors on June 3, 2003.

Table of Contents

Directors, Executive Officers and Statutory Auditors of Telecom Italia

For a complete list of the current directors, senior management and Board of Statutory Auditors of Telecom Italia, see Item 6. Directors, Senior Management and Employees in the Telecom Italia Annual Report incorporated by reference herein.

Voto di lista

Pursuant to Telecom Italia s bylaws, the election of directors and statutory auditors, other than those appointed pursuant to the special powers described in Comparison of Shareholders Rights Limitations on Shareholders; Special Powers of the State , is made through the *voto di lista* system. The *voto di lista* system is primarily aimed at ensuring that minority shareholders are represented on the Telecom Italia Board and the Telecom Italia Board of Statutory Auditors. For the Telecom Italia Board of Statutory Auditors, representation of minority shareholders is mandatory.

By the *voto di lista* system, the Telecom Italia Board is elected on the basis of lists or slates of candidates presented by the shareholders or by the outgoing Telecom Italia Board; candidates are listed by means of progressive numbers. Each shareholder may submit only one slate, and each candidate may appear only on one slate. Only those shareholders who alone or together with other shareholders hold a total number of Telecom Italia Ordinary Shares representing at least 1% of the share capital entitled to vote at the shareholders meeting may submit slates. Each person entitled to vote may vote for only one slate. Four-fifths of the directors to be elected are chosen from the slate that obtains the highest number of shareholders votes in the progressive order in which they are listed on the slate. The remaining directors are chosen from the other slates; the votes obtained by the various slates are successively divided by one, two, three or four, depending on the number of directors to be chosen, and the quotients obtained are assigned progressively to candidates on each of these slates, in the order respectively specified on the slate. The quotients thus assigned to the candidates on the various slates are arranged in a single decreasing order. Those candidates who have obtained the highest quotients are elected to the Telecom Italia Board.

The election of the Telecom Italia Board of Statutory Auditors is governed by the same procedures used for the election of the Telecom Italia Board as far as presentation, filing and publication of slates are concerned. Since the Telecom Italia Board of Statutory Auditors consists of more than three members, in accordance with Italian law, two members must be elected from slates proposed by minority shareholders.

Olivetti s Election of Telecom Italia Directors

As the controlling shareholder of Telecom Italia, Olivetti, through the *voto di lista* , has elected four-fifths of the Telecom Italia Directors. Most of the current Directors of Telecom Italia were elected at the Telecom Italia shareholders meeting held on November 7, 2001. The shareholders meeting was called following the resignation of the previous Board of Directors following Olimpia s acquisition of its stake in Olivetti. See Terms of the Transaction Background of the Merger The Pirelli-Olimpia Transaction.

The current Telecom Italia directors which were chosen from the slate submitted by Olivetti are:

- Mr. Marco Tronchetti Provera;
- Mr. Gilberto Benetton;
- Mr. Carlo Buora;
- Mr. Gianni Mion;
- Mr. Massimo Moratti;
- Mr. Carlo Alessandro Puri Negri; and
- Mr. Pier Francesco Saviotti.

Messrs. Enrico Bondi and Luigi Grandi were also chosen from the slate submitted by Olivetti, but they resigned in 2002 and were replaced by Messrs. Riccardo Ruggiero and Pietro Modiano, in accordance with the ordinary rules (i.e., by the shareholders meeting on December 12, 2002, with the absolute majority of those present).

Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Telecom Italia directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

Table of Contents

There is currently a significant overlap between the Olivetti Board of Directors and the Telecom Italia Board of Directors. The following sit on both the Olivetti and Telecom Italia Boards of Directors.

- Mr. Marco Tronchetti Provera (Chairman of the Board of Directors of Telecom Italia and Deputy Chairman and Managing Director of Olivetti);
- Mr. Gilberto Benetton (Deputy Chairman of both the Telecom Italia and Olivetti Boards of Directors);
- Mr. Carlo Buora (director and Managing Director of both Telecom Italia and Olivetti);
- Mr. Gianni Mion (director of both Telecom Italia and Olivetti); and
- Mr. Carlo Alessandro Puri Negri (director of both Telecom Italia and Olivetti).

Directors, Executive Officers and Statutory Auditors of New Telecom Italia

Olivetti s directors, recognizing that New Telecom Italia will be inherently different from Olivetti as it is now, determined that it would be appropriate that the direction of New Telecom Italia remain entrusted essentially to the directors of Telecom Italia. Accordingly, the members of the Olivetti Board have declared that, upon effectiveness of the Merger, they will consider their mandate as directors of Olivetti to be essentially completed. At the April 15, 2003 meeting of the Olivetti Board, the members of the Olivetti Board tendered their resignation with effect from the date of effectiveness of the Merger (apart from one director, Mr. Dario Trevisan, who resigned effective as of April 16, 2003).

At the Olivetti shareholders meeting held on May 26, 2003, the Olivetti shareholders appointed a new Board of Directors that essentially reproduced the current Telecom Italia Board and, upon effectiveness of the Merger, will become the Board of Directors of New Telecom Italia. The new Board was appointed with the absolute majority of the shareholders who attended the meeting, consistent with the current procedure for appointing Olivetti s Board of Directors. The names, ages and positions of the members of the New Telecom Italia Board of Directors as from the date of effectiveness of the Merger are provided below.

Name	Age	Position(1)
Gilberto Benetton	62	Director
Carlo Buora	57	Director
Umberto Colombo	75	Director
Giovanni Consorte	55	Director
Francesco Denozza	56	Director
Luigi Fausti	74	Director
Guido Ferrarini	52	Director
Natalino Irti	67	Director
Gianni Mion	59	Director
Pietro Modiano	51	Director
Massimo Moratti	58	Director
Carlo Alessandro Puri Negri	51	Director
Marco Tronchetti Provera	55	Director

Riccardo Ruggiero	42	Director
Pier Francesco Saviotti	61	Director

(1) Pending the effectiveness of the appointment, no executive powers have been granted.

The term of the New Telecom Italia Board of Directors will expire in 2004 after the approval of the 2003 financial statements. Consistent with the New Telecom Italia bylaws, the Board of Directors of New Telecom Italia that will be elected in 2004 will be elected under the *voto di lista* system currently applicable to Telecom Italia and described above.

Olimpia, who will be New Telecom Italia s largest shareholder, will have the ability under the *voto di lista* system to propose a slate of directors and therefore may have the ability to cause its slate to obtain the majority of the shareholders vote. If this is the case, Olimpia will be able to elect four-fifths of the directors of New Telecom Italia and consequently have substantial involvement in the day-to-day activities of New Telecom Italia and a significant influence on all matters to be decided by a vote of shareholders. See Item 4. Information on the Telecom Italia Group Business Significant Developments during 2002 The Pirelli-Olimpia Transaction of the Telecom Italia Annual Report incorporated by reference herein.

Table of Contents

Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Olivetti and Telecom Italia directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia . The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

For biographical information relating to the New Telecom Italia directors, see Item 6. Directors, Senior Management and Employees Biographical Data in the Telecom Italia Annual Report incorporated by reference herein.

Executive Officers of New Telecom Italia

Under Italian law, the adoption of a new organizational and management structure (including the appointment of new or additional executive officers) for the surviving entity in a merger is not required as a condition to the completion of a merger. Therefore, the New Telecom Italia executive officers are expected to be the executive officers of Telecom Italia and Olivetti on the effective date of the Merger, subject to changes made in the ordinary course of business and as otherwise described above. As of the date of this Information Statement, no decision has been made regarding any such changes.

Board of Statutory Auditors of New Telecom Italia

In accordance with Italian law, there is no requirement to change the members of the Olivetti Board of Statutory Auditors pursuant to the Merger. At the shareholders meeting of May 26, 2003, the Olivetti shareholders elected a new Board of Statutory Auditors which is the same as the Board of Statutory Auditors of Telecom Italia. See Directors, Executive Officers and Statutory Auditors of Olivetti Olivetti Statutory Auditors above. As a result of the Merger and Telecom Italia not being the surviving company, the Board of Statutory Auditors of Olivetti, as elected on May 26, 2003, will become the Board of Statutory Auditors of New Telecom Italia. For further details on this new Board of Statutory Auditors, see Item 6. Directors, Senior Management and Employees Board of Statutory Auditors of the Telecom Italia Annual Report incorporated by reference herein.

The election of the New Telecom Italia Board of Statutory Auditors will be governed substantially by the same procedures used for the election of the Telecom Italia Board as far as presentation, filing and publication of slates are concerned. According to New Telecom Italia s bylaws, the Board of Statutory Auditors will be composed of either five or seven members.

Outside Auditors

The consolidated financial statements of Olivetti (i.e., New Telecom Italia) are required to be audited by independent auditors appointed by the shareholders meeting. Both the Olivetti Group s consolidated financial statements and Telecom Italia s financial statements have been audited by Ernst & Young. According to Italian law, such appointment is for three years and the shareholders meeting may not appoint the same external auditors for more than three consecutive three-year terms. Ernst & Young has audited the financial statements of Olivetti since the fiscal year ending December 31, 2001. The appointment of Ernst & Young was for the three year period 2001- 2003.

Options to Purchase Securities from New Telecom Italia in the Aggregate

For a description of the Olivetti and Telecom Italia stock option plans, respectively, see Note 28(o) of Notes to the audited financial statements of Olivetti and Item 6. Directors, Senior Management and Employees Options to Purchase Securities From Registrant of the Telecom Italia Annual Report incorporated by reference herein.

Interest of Management in Certain Transactions

For a presentation of the related party transactions involving members of the Olivetti Board and the companies in which they hold corporate office or significant responsiblity see Note 28(w) to the audited financial statements of Olivetti included in this Information Statement.

Table of Contents

COMPARISON OF SHAREHOLDERS RIGHTS

There are no differences between the rights of Telecom Italia Savings Shares and the rights of New Telecom Italia Savings Shares. The New Telecom Italia Savings Shares will have identical economic rights to those of the existing Telecom Italia Savings Shares, including the possibility of satisfying the preferential rights provided for in the bylaws by means of distributing reserves. For a description of Telecom Italia Savings Shares and the rights of holders with respect thereto, see Item 10. Additional Information Description of Bylaws and Capital Stock in the Telecom Italia Annual Report incorporated by reference herein.

Included below is a description of the (i) special powers of the Italian Government in the New Telecom Italia bylaws and (ii) other relevant aspects of the bylaws of New Telecom Italia (attached hereto as Annex B), as approved by the ordinary shareholders of Olivetti and Telecom Italia at their respective extraordinary meetings held on May 26, 2003 (Olivetti) and May 24, 2003 (Telecom Italia).

Limitations on Shareholders; Special Powers of the State

Telecom Italia s current bylaws contain clauses that give the Minister for the Economy and Finance certain special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994. These powers, which include, *inter alia*, the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter the powers themselves, were introduced into Telecom Italia s bylaws under a Decree of the Prime Minister dated March 21, 1997 in the light of the sector of the company s operations (telecommunications) and with a view to its privatization. On May 22, 2003, the Minister for the Economy and Finance issued a Decree stating that it is necessary to maintain in the bylaws of New Telecom Italia the power of assenting to the acquisition of major shareholdings (equal to at least 3%) in New Telecom Italia s capital and the power of veto as set out in the current bylaws of Telecom Italia. However, pursuant to the Decree issued on May 22, 2003, the power of assenting to New Telecom Italia s major shareholders agreements and the power of appointment of one director and one Statutory Auditor of New Telecom Italia were relinquished.

Other changes reflected in the New Telecom Italia Bylaws

Article 5 of the New Telecom Italia bylaws, which addresses the share capital of New Telecom Italia, incorporates a series of amendments to take into account, in particular, the assignment mechanics of the New Telecom Italia Shares issued for the purpose of the exchange and the adjustments necessary, in the light of the new amount of the share capital following the Merger, for the conversion of the convertible bonds and the exercise of the warrants issued by Olivetti and for the stock-option plans approved by Olivetti and Telecom Italia.

New Telecom Italia will also take over Telecom Italia s stock-option plans and will therefore honor the stock options already assigned thereunder. To this end, Olivetti has approved corresponding increases in capital permitting the issue, in relation to such stock options, of a number of shares to be updated in accordance with the Assignment Ratio provided for in the Plan of Merger, while the exercise price will remain unchanged. The owner of Telecom Italia stock options will therefore maintain the right to subscribe, at the price already fixed, the larger number of shares of New Telecom Italia established on the basis of the Assignment Ratio (as opposed to the original number of Telecom Italia Shares). The exact quantification of the new quantities that can be subscribed will only be possible at the time the Deed of Merger is executed and the Assignment Ratio is officially determined.

The New Telecom Italia bylaws will include an ad hoc article (Article 6) concerning the New Telecom Italia Savings Shares. In accordance with Article 145 of the Consolidated Law, the article will specify the substance of the preferential rights attaching to the New Telecom Italia Savings Shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof, and will describe the legal treatment of this class of shares in the event of the delisting of the New Telecom Italia Ordinary Shares or New Telecom Italia Savings Shares. The preferential rights of the New Telecom Italia Savings Shares to be issued in exchange will be the same as those of the Telecom Italia Savings Shares, including the possibility of satisfying the economic rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws, with immediate effect, was proposed and approved at the shareholders meeting called to approve the Merger.

As regards corporate governance, the bylaws of New Telecom Italia will provide for a board of directors of not less than 7 and not more than 23 members, appointed by means of a slate mechanism which is based in large part on the mechanism provided for in Telecom Italia s current bylaws (see the text of the bylaws attached to the Plan of Merger; Annex A).

Table of Contents

SECURITIES TRADING IN ITALY

Since July 1994, all Italian equity securities have been traded on Telematico except for those of certain smaller companies and cooperative banks traded on *Mercato Ristretto* under certain specific rules concerning trading hours and procedures and for those of high growth companies traded on *Nuovo Mercato*.

Telematico operates under the control of CONSOB, the public authority charged, among other things, with regulating securities markets and all public offerings of securities in Italy, and is managed by Borsa Italiana a joint stock company previously owned by the Treasury, sold through a tender offer to authorized intermediaries.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third business day following the trading date. Borsa Italiana issues a daily official list with certain information on transactions in each listed security, including the volume traded and the high and low prices of the day. No closing price is reported, but an official price calculated as a weighted average price of all trades effected during the trading day and a reference price[2]. The Bank of Italy clearing system assists with the settlement of transactions and the delivery of securities traded.

Residents of Italy and non-residents through their authorized agents may purchase or sell shares on Telematico, subject to satisfying (i) in case of sales, either the Margin or the Deposit, and (ii) in case of purchases, the Margin. Margin means a deposit equal to 100% of the agreed price, and Deposit means a deposit of an equal number of the same shares as those sold. If in the course of a trading day the maximum price variation between two consecutive contracts is ±5%, or maximum price variation of the contracts with respect to the control price[3] is ±10% an automatic five-minute suspension is declared. In the event of such a suspension, effect is not given to trades agreed but not confirmed before the suspension. In addition, Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

Starting May 15, 2000 the most liquid shares traded on Telematico, including the Shares and the TIM ordinary shares, have been traded on Mercato After Hours, an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 8.30 p.m. on every trading day, substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

American style call and put options are traded on the derivative market managed by Borsa Italiana which currently include the Shares, the Savings Shares and the TIM ordinary shares.

Effective July 1, 1998, the Italian financial markets have been regulated by the Draghi Law. With the Draghi Law, the Italian Government has introduced new laws and regulations governing some aspects of the financial sector and, in particular: (i) brokers and firms managing financial instruments; (ii) the Italian regulated Stock Exchanges; (iii) the offering to the public of financial instruments; (iv) public tender offers; (v) some aspects of corporate governance of listed companies; and (vi) insider trading. The Draghi Law contains framework provisions which have been implemented by specific regulations.

---

2 The reference price shall be the closing auction price. Where it is not possible to determine the closing auction price, the reference price shall be the weighted average price of the last 10% of the quantiry traded. Where no contracts have been concluded during the session,

the reference price shall be determined by the Italian Exchange on the basis of a significant number of best bids and offers on the book during the session, giving greater weight to the most recent.

[3] The daily control price shall be the reference price in the opening auction, the opening-auction price during continuous trading; the opening-auction price in the closing auction.

Table of Contents

CLEARANCE AND SETTLEMENT OF NEW TELECOM ITALIA SHARES

Legislative Decree No. 213 of June 24, 1998 (**Dematerialization Decree**) provided for the dematerialization of financial instruments publicly traded on regulated markets including treasury bonds. From July 9, 1998, all companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of New Telecom Italia Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of New Telecom Italia Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those New Telecom Italia Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their New Telecom Italia Savings Shares. All new issues of New Telecom Italia Savings Shares and all other transactions involving New Telecom Italia Savings Shares must settle electronically in book-entry form.

New Telecom Italia Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such New Telecom Italia Savings Shares through Euroclear or Clearstream (outside the United States).

Table of Contents

DESCRIPTION OF ADR FACILITY FOR NEW TELECOM ITALIA SAVINGS SHARES

JPMorgan Chase Bank, as Depositary, will issue the New Telecom Italia Savings Share ADSs pursuant to a Deposit Agreement (the **Deposit Agreement**) among New Telecom Italia, JPMorgan Chase Bank and each New Telecom Italia Savings Share ADR holder. Each New Telecom Italia Savings Share ADS will represent an ownership interest in 10 New Telecom Italia Savings Shares deposited with a custodian, as agent of the Depositary, under the Deposit Agreement among New Telecom Italia, the Depositary and each holder of New Telecom Italia Savings Share ADSs. In the future, each New Telecom Italia Savings Share ADS will also represent any securities, cash or other property deposited with the Depositary but which they have not distributed directly to a holder of New Telecom Italia Savings Share ADSs. Unless specifically requested by a holder of New Telecom Italia Savings Share ADSs, all New Telecom Italia Savings Share ADSs will be issued on the books of the Depositary in book-entry form and a statement will be mailed to such holder that reflects such holder s ownership interest in such ADSs. In this description, references to American Depositary Receipts or ADRs shall include the statements holder of New Telecom Italia Savings Share ADSs will receive that reflect such holder s ownership of New Telecom Italia Savings Share ADSs.

The Depositary s office is located at 1 Chase Manhattan Plaza, New York, NY 10081.

A holder of New Telecom Italia Savings Share ADSs may hold such ADSs either directly or indirectly through a broker or other financial institution. If a holder holds the New Telecom Italia Savings Share ADSs directly, by having ADSs registered in such holder s name on the books of the Depositary, such holder will be a New Telecom Italia Savings Share ADR holder. This description assumes a holder of New Telecom Italia Savings Share ADSs will hold such ADSs directly. If a holder holds New Telecom Italia Savings Share ADSs through a broker or financial institution nominee, such holder must rely on the procedures of the broker or financial institution to assert the rights of a New Telecom Italia Savings Share ADR holder described in this section. Each holder of New Telecom Italia Savings Share ADSs should consult with his or her broker or financial institution about such procedures.

Because the Depositary s nominee will actually be the registered owner of the New Telecom Italia Savings Shares, holders of New Telecom Italia Savings Share ADSs must rely on the Depositary to exercise certain rights of a shareholder on their behalf. The Deposit Agreement will set out the obligations of the Depositary and its agents. New York law will govern the Deposit Agreement and the New Telecom Italia Savings Share ADSs.

The following is a summary of the material terms of the Deposit Agreement. Because it is a summary, it does not contain all the information that may be important to a holder of New Telecom Italia Savings Share ADSs. For more complete information, each holder of New Telecom Italia Savings Share ADSs should read the entire Deposit Agreement and the form of ADR that contains the terms of such holders New Telecom Italia Savings Share ADSs. The Deposit Agreement will be available at the offices of the Depositary during normal business hours on advance notice. Any holder of New Telecom Italia Savings Share ADSs will also be able to obtain a copy of the Deposit Agreement at the SEC s Public Reference Room, located at 450 Fifth Street, N.W., Washington, D.C. 20549. Any holder of New Telecom Italia Savings Share ADSs may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

Share Dividends and Other Distributions

New Telecom Italia may make various types of distributions with respect to its securities. The Depositary has agreed to pay to each holder of New Telecom Italia Savings Shares the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting any fees and expenses. Each holder of New Telecom Italia Savings Share ADSs will receive these distributions in proportion to the number of underlying shares that such holder s ADSs represent.

Except as stated below, to the extent the Depositary is legally permitted, the Depositary will deliver distributions to ADR holders in proportion to their interests in the following manner:

- *Cash.* The Depositary will distribute any dollar available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an average or other practicable basis, subject to:

  appropriate adjustments for taxes withheld; and

  deduction of the Depositary s expenses in (1) converting any foreign currency to dollars to the extent that it determines that the conversion may be made on a reasonable basis, (2) transferring foreign currency or dollars to the United States by such means as the Depositary may determine to the extent that it determines that the transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for the conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

The Depositary will not make any distribution to certain registered holders if it would be impermissible or impractical to make such distribution. If exchange rates fluctuate during a time when the Depositary converts a foreign currency, a holder of New Telecom Italia Savings Share ADSs may lose some or all of the value of a distribution.

- *Shares.* In the case of a distribution in New Telecom Italia Savings Shares, the Depositary will issue additional New Telecom Italia Savings Share ADRs to evidence the whole number of New Telecom Italia Savings Share ADSs representing such New Telecom Italia Savings Shares. The Depositary will issue only whole New Telecom Italia Savings Share ADSs. Any New Telecom Italia Savings Shares that would result in fractional New Telecom Italia Savings Share ADSs will be sold and the net proceeds will be distributed to the New Telecom Italia Savings Share ADR holders entitled thereto.

- *Rights to Receive Additional Shares.* In the case of a distribution of rights to subscribe for additional New Telecom Italia Savings Shares or other rights, if New Telecom Italia provides satisfactory evidence to the Depositary that the Depositary may lawfully distribute the rights (New Telecom Italia has no obligation to furnish such evidence), the Depositary may arrange for New Telecom Italia Savings Share ADR holders to instruct the Depositary as to the exercise of the rights. However, if New Telecom Italia does not furnish such evidence or if the Depositary determines it is not practical to distribute the rights, the Depositary may:

    sell the rights if practicable and distribute the net proceeds as cash; or

    allow the rights to lapse, in which case New Telecom Italia Savings Share ADR holders will receive nothing.

New Telecom Italia has no obligation to file a registration statement under the Securities Act of 1933, as amended, in order to make any rights available to New Telecom Italia Savings Share ADR holders.

- *Other Distributions.* In the case of a distribution of securities or property other than those described above, the Depositary may:

    distribute such securities or property in any manner it deems equitable and practicable;

    to the extent the Depositary deems distribution of the securities or property not to be equitable and practicable, sell the securities or property and distribute any net proceeds in the same way it distributes cash; or

    hold the distributed property in which case the New Telecom Italia Savings Share ADSs will also represent the distributed property.

Any dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. The Depositary will withhold fractional cents without liability for interest and will add them to future cash distributions.

The Depositary may choose any practical method of distribution for any specific New Telecom Italia Savings Share ADR holder, including the distribution of foreign currency, securities or property, or it may retain these items, without paying interest on or investing them, on behalf of the New Telecom Italia Savings Share ADR holder as deposited securities.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any New Telecom Italia Savings Share ADR holders.

The Depositary may not be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price or complete that any of these transactions within a specified time period.

Deposit, Withdrawal and Cancellation

Issuance of ADSs

The Depositary will issue New Telecom Italia Savings Share ADSs to or upon the order of those who deposit New Telecom Italia Savings Shares or evidence of rights to receive New Telecom Italia Savings Shares with the custodian for the Depositary.

Table of Contents

New Telecom Italia Savings Shares deposited in the future with the custodian for the Depositary must be accompanied by certain documents, including instruments showing that the New Telecom Italia Savings Shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian for the Depositary will hold all deposited New Telecom Italia Savings Shares for the account of the Depositary. New Telecom Italia Savings Share ADR holders thus have no direct ownership interest in the New Telecom Italia Savings Shares and only have rights defined in the Deposit Agreement. The custodian for the Depositary will also hold any additional securities, property and cash received on or in substitution for the deposited New Telecom Italia Savings Shares. The deposited New Telecom Italia Savings Shares and any of these additional items are referred to as deposited securities.

New Telecom Italia Savings Shares or evidence of rights to receive New Telecom Italia Savings Shares may be deposited through (x) electronic transfer of such shares to the account maintained by the custodian for such purpose at Monte Titoli, (y) evidence satisfactory to the custodian of irrevocable instructions to cause such New Telecom Italia Savings Shares to be transferred to such account or (z) delivery of the certificates representing such New Telecom Italia Savings Shares. Upon each deposit of New Telecom Italia Savings Shares, receipt of related delivery documentation and compliance with the other provisions of the Deposit Agreement, including the payment of the fees and charges of the Depositary and any taxes or other fees or charges owing, the Depositary will issue a New Telecom Italia Savings Share ADR or New Telecom Italia Savings Share ADRs in the name of the person entitled thereto evidencing the number of New Telecom Italia Savings Share ADSs to which the person is entitled. Certificated New Telecom Italia Savings Share ADRs will be delivered at the Depositary s principal New York office or any other location that it may designate as its transfer office. New Telecom Italia Savings Share ADRs issued in book-entry form will be reflected on a statement which will be mailed to the address set forth on the books of the Depositary.

Cancellation of ADSs

When a holder of New Telecom Italia Savings Shares turns in his or her New Telecom Italia Savings Share ADSs at the Depositary s office, the Depositary will, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions, deliver the underlying shares to such holder s attention at an account of an accredited financial institution on such holder s behalf.

The Depositary will effect the delivery to a holder of New Telecom Italia Savings Shares or upon such holder s order of only that portion of the deposited securities comprising a unit or an integral multiple thereof. Currently a unit comprises 10 New Telecom Italia Savings Shares. The Depositary will promptly advise each holder of New Telecom Italia Savings Shares as to the amount of deposited securities, if any, represented by the New Telecom Italia Savings Share ADSs such holder has surrendered that it cannot deliver as a result of the unit requirement. At each holder s risk, expense and request, the Depositary may deliver deposited securities at another place such holder may request.

The Depositary may only restrict the withdrawal of deposited securities in connection with matters covered by general instruction I.A.(1) of Form F-6, which, on the date hereof, includes:

- temporary delays caused by closing New Telecom Italia s transfer books or those of the Depositary or the deposit of shares in connection with voting at a shareholders meeting or the payment of dividends;
- the payment of fees, taxes and similar charges; or

- compliance with any U.S. or foreign laws or governmental regulations relating to the New Telecom Italia Savings Share ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the Deposit Agreement.

Voting Rights

Upon receipt of notice of any meeting or solicitation of consents or proxies of New Telecom Italia Savings Share ADR holders, the Depositary will, unless otherwise instructed by New Telecom Italia, promptly thereafter, distribute to all New Telecom Italia Savings Share ADR holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the New Telecom Italia Savings Share ADR holders, as of the close of business on a specified record date, will be entitled, subject to applicable provisions of Italian law and of New Telecom Italia s certificate of incorporation and bylaws (any such provisions will be summarized in such notice), to instruct the

Depositary as to the exercise of voting rights, if any (subject to compliance by such holder with the requirements described below) pertaining to the number of New Telecom Italia Savings Shares represented by their respective New Telecom Italia Savings Share ADSs, (iii) if applicable, a statement as to the manner in which such New Telecom Italia Savings Share ADR holders may request a certificate for such meeting attesting that beneficial ownership of the related New Telecom Italia Savings Shares is in the name of the New Telecom Italia Savings Share ADR holders and therefore enabling them to exercise voting rights with respect to the New Telecom Italia Savings Shares represented by their New Telecom Italia Savings Share ADSs without the use of Voting Proxy Cards as defined hereinafter (the **Certificate**), (iv) if applicable, a proxy card (the **Voting Proxy Card**) pursuant to which such New Telecom Italia Savings Share ADR holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such Voting Proxy Card as hereinafter described, and (v) such other information, including any such modification to the foregoing procedures, as agreed between the Depositary and New Telecom Italia.

The Voting Proxy Card will, among other things, require the New Telecom Italia Savings Share ADR holder to set forth its name and the number of such holder s New Telecom Italia Savings Share ADSs, authorize the Depositary (or the broker, custodian or other nominee holding such holders New Telecom Italia ADRs) to prohibit any transfers of New Telecom Italia Shares evidenced by such New Telecom Italia Savings Share ADRs for a period of time (i) as set forth by applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of New Telecom Italia s certificate of incorporation and bylaws and in any case (ii) beginning from the issuance of the Certificate for such meeting and ending at the end of the day on the date upon which such meeting is held with a quorum (the Blocked Period) and authorize the Depositary to request the Custodian to cause the name and address of such New Telecom Italia Savings Share ADR holder to be registered in the share register of New Telecom Italia during such Blocked Period and to issue or cause to be issued a Certificate for such meeting during such Blocked Period in respect of the number of New Telecom Italia Savings Shares represented by such Holder s New Telecom Italia Savings Share ADSs. If practicable, the Depositary shall provide New Telecom Italia with written notice of the number of New Telecom Italia Savings Shares and the number of New Telecom Italia Savings Share ADR holders (including the name of the holder, if practicable) for which the Depositary has been appointed as a proxy.

Upon receipt by the Depositary of a properly completed Voting Proxy Card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and New Telecom Italia s certificate of incorporation and bylaws, to vote or cause to be voted the New Telecom Italia Savings Shares underlying such New Telecom Italia Savings Share ADRs in accordance with any nondiscretionary instructions set forth in such Voting Proxy Card. The Depositary will not vote, or attempt to exercise the right to vote that attaches to New Telecom Italia Savings Shares underlying such New Telecom Italia Savings Share ADRs, other than in accordance with such instructions.

A New Telecom Italia Savings Share ADR holder desiring to exercise voting rights with respect to the New Telecom Italia Savings Shares represented by its New Telecom Italia Saving Share ADSs without the use of Voting Proxy Cards may do so by (A) depositing its New Telecom Italia Savings Share ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such holder, the number of New Telecom Italia Savings Share ADSs represented by New Telecom Italia Savings Share ADRs held by such Holder and any other information required in accordance with Italian law or New Telecom Italia s certificate of incorporation and bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a Certificate for such meeting, and to give notice to New Telecom Italia of such holder s intention to vote the New Telecom Italia Savings Shares underlying its New Telecom Italia Savings Share ADRs. By giving the instructions set forth under clause (B) above, holders of New Telecom Italia Savings Share ADRs will be deemed to have authorized the Custodian to prohibit any transfers of the related New Telecom Italia Savings Shares for the Blocked Period. Each Holder understands and agrees that a precondition for the issue of the Certificate for a specific meeting by the Custodian may be that beneficial ownership of the related New Telecom Italia Savings Shares has been in the name of the New Telecom Italia Saving Share ADR holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of New Telecom Italia s certificate of incorporation and bylaws.

Under Italian law, shareholders at shareholders meetings may modify the resolutions presented for their approval by the Board of Directors. In such case holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

Table of Contents

The Depositary and New Telecom Italia agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable holders of New Telecom Italia Savings Share ADRs to vote the New Telecom Italia Savings Shares underlying their New Telecom Italia Savings Share ADRs.

Record Dates

The Depositary may, subject to the provisions of the Deposit Agreement fix record dates, which will be as close as possible to the record date on the New Telecom Italia Savings Shares, for the determination of the New Telecom Italia Savings Share ADR holders who will be entitled:

- to receive a dividend, distribution or rights, or
- to give instructions for the exercise of voting rights at a meeting of holders of ordinary shares or other deposited securities.

Reports and Other Communications

The Depositary will make available for inspection by New Telecom Italia Savings Share ADR holders any written communications from New Telecom Italia that are both received by the custodian for the Depositary or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. New Telecom Italia will furnish these communications in English when so required by any rules or regulations of the Securities and Exchange Commission.

Additionally, if New Telecom Italia makes any written communications generally available to holders of its shares, including the Depositary or the custodian for the Depositary, and the Depositary or the custodian actually receive those written communications, the Depositary will distribute copies of them, or, at its option, summaries of them to New Telecom Italia Savings Share ADR holders.

Fees and Expenses

The Depositary will charge New Telecom Italia Savings Share ADR holders a fee for each issuance of New Telecom Italia Savings Share ADSs, including issuances resulting from distributions of New Telecom Italia Savings Shares, rights and other property, and for each surrender of New Telecom Italia Savings Share ADSs in exchange for deposited securities. The fee in each case is $5.00 for each 100 New Telecom Italia Savings Share ADSs, or any portion thereof, issued.

The following additional charges, whichever is applicable, will be incurred by the New Telecom Italia Savings Share ADR holders, by any party depositing or withdrawing New Telecom Italia Savings Shares or by any party surrendering New Telecom Italia Savings Share ADRs or to whom New Telecom Italia Savings Share ADRs are issued, including, without limitation, issuance pursuant to a stock dividend or stock split declared by New Telecom Italia or an exchange of stock regarding the New Telecom Italia Savings Share ADRs or the deposited securities or a distribution of New Telecom Italia Savings Share ADRs:

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at a holder s request;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- expenses of the Depositary in connection with the conversion of foreign currency into dollars; and
- such fees and expenses as are incurred by the Depositary in delivery of deposited securities or otherwise in connection with the Depositary s or its custodian s compliance with applicable law, rule or regulation.

We will pay all other charges and expenses of the Depositary and any agent of the Depositary, except the custodian for the Depositary, pursuant to agreements from time to time between New Telecom Italia and the Depositary. The fees described above may be amended from time to time.

Payment of Taxes

New Telecom Italia Savings Share ADR holders must pay any tax or other governmental charge payable by the custodian for the Depositary or the Depositary on any New Telecom Italia Savings Share ADS or New

Telecom Italia Savings Share ADR, deposited security or distribution. If a New Telecom Italia Savings Share ADR holder owes any tax or other New Telecom Italia Savings Share governmental charge, the Depositary may:

- deduct the amount thereof from any cash distributions, or
- sell deposited securities and deduct the amount owing from the net proceeds of such sale.

In either case the New Telecom Italia Savings Share ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the Depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities, except under limited circumstances mandated by securities regulations. If any tax or governmental charge is required to be withheld on any non-cash distribution, the Depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the New Telecom Italia Savings Share ADR holders entitled thereto. The Depositary and New Telecom Italia agree to use reasonable efforts to make and maintain arrangements to enable persons that are considered U.S. residents for purposes of applicable law to receive any rebates, tax credits or other benefits relating to distributions on the New Telecom Italia Savings Share ADSs to which such persons are entitled. The Depositary will establish procedures, and notify holders of New Telecom Italia Savings Share ADSs of the actions necessary, to enable such holders to take advantage of any such tax rebates or tax credits relating to distributions on the New Telecom Italia Savings Share ADSs to which such holders are entitled. However, absent New Telecom Italia s gross negligence or bad faith, or that of the Depositary, neither New Telecom Italia nor the Depositary assumes any obligation, and shall not be subject to any liability, for the failure of any New Telecom Italia Savings Share ADR holder or beneficial owner of New Telecom Italia Savings Share ADSs, or their agent or agents, to receive any tax benefit under applicable law or tax treaties. Neither New Telecom Italia nor the Depositary shall be liable for any acts or omissions of any other party in connection with any attempts to obtain any such benefit, and, by holding an interest in New Telecom Italia Savings Share ADSs, New Telecom Italia Savings Share ADR holders and beneficial owners are deemed to agree that each of them shall be conclusively bound by any deadline established by New Telecom Italia and the Depositary in connection therewith.

Reclassifications, Recapitalizations and Mergers

If New Telecom Italia takes certain actions that affect the deposited securities, including

- any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or
- any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of New Telecom Italia s assets,

then the Depositary may choose to:

- amend the form of New Telecom Italia Savings Share ADR;
- distribute additional or amended New Telecom Italia Savings Share ADRs;
- distribute cash, securities or other property it has received in connection with such actions; or

- sell any securities or property received and distribute the proceeds as cash.

If the Depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each New Telecom Italia Savings Share ADS will then represent a proportionate interest in such property.

Amendment and Termination

Amendment

We may agree with the Depositary to amend the Deposit Agreement and the New Telecom Italia Savings Share ADSs for any reason without the consent of holders. New Telecom Italia Savings Share ADR holders must be given at least 30 days notice of any amendment that:

- imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses) or

- affects any substantial existing right of New Telecom Italia Savings Share ADR holders.

Table of Contents

If a New Telecom Italia Savings Share ADR holder continues to hold a New Telecom Italia Savings Share ADR or ADRs after receiving the notice, the New Telecom Italia Savings Share ADR holder is deemed to agree to the amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair a holder s right to surrender his or her New Telecom Italia Savings Share ADSs and receive the underlying securities. If a governmental body adopts new laws or rules that require the Deposit Agreement or New Telecom Italia Savings Share ADSs to be amended, New Telecom Italia and the Depositary may make the necessary amendments, which could take effect before holders receive notice thereof.

Termination

The Depositary may and, if so requested by New Telecom Italia, must terminate the Deposit Agreement by mailing notice of termination to the New Telecom Italia Savings Share ADR holders. The notice of termination must be mailed to New Telecom Italia Savings Share ADR holders at least 30 days prior to the date fixed in such notice for such termination. The Depositary may also terminate the Deposit Agreement if at any time 90 days shall have expired after the Depositary shall have delivered to New Telecom Italia a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment within such 90 days.

After termination, the Depositary s only responsibility will be:

- to deliver deposited securities to New Telecom Italia Savings Share ADR holders who surrender their New Telecom Italia Savings Share ADRs; and
- to hold or sell distributions received on deposited securities.

As soon as practicable after the expiration of six months from the termination date, the Depositary will sell the deposited securities that remain and hold the net proceeds of such sales, without liability for interest, in trust for the New Telecom Italia Savings Share ADR holders who have not yet surrendered their New Telecom Italia Savings Share ADRs. After making such sale, the Depositary will have no obligations except to account for such proceeds and other cash. The Depositary will not be required to invest such proceeds or pay interest on them.

Limitations on Obligations and Liability to ADR holders

The Deposit Agreement expressly limits the obligations and liability of the Depositary, New Telecom Italia and their respective agents. Neither New Telecom Italia nor the Depositary nor any such agent will be liable if:

- present or future law, regulation, the provisions of or governing any deposited securities, act of God, war or other circumstance beyond its control prevents, delays or subject to any civil or criminal penalty any act that the Deposit Agreement or New Telecom Italia Savings Share ADRs provide will be done or performed by it, or by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or New Telecom Italia Savings Share ADRs;

- it exercises or fails to exercise discretion under the Deposit Agreement or New Telecom Italia Savings Share ADR;
- it performs its obligations without gross negligence or bad faith;
- it takes any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of New Telecom Italia Savings Share ADRs, or any other person believed by it in good faith to be competent to give advice or information; or
- it relies upon any written notice, request, direction or other document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties.

Neither the Depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the New Telecom Italia Savings Share ADRs. Neither New Telecom Italia nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the New Telecom Italia Savings Share ADRs which, in the opinion of New Telecom Italia, may involve New Telecom Italia in expense or liability, unless indemnity satisfactory to New Telecom Italia against all expenses (including fees and disbursements of counsel) and liability is furnished as often as New Telecom Italia requires.

Table of Contents

The Depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote. In no event will the Depositary or any of its agents be liable for any indirect, special, punitive or consequential damages.

The Depositary may own and deal in deposited securities and in New Telecom Italia Savings Share ADSs.

Disclosure of Interest in ADSs

From time to time New Telecom Italia may request holders and beneficial owners of New Telecom Italia Savings Share ADSs to provide information as to:

- the capacity in which holders and beneficial owners own or owned New Telecom Italia Savings Share ADSs;
- the identity of any other persons then or previously interested in New Telecom Italia Savings Share ADSs; and
- the nature of the interest and various other matters.

Holders of New Telecom Italia Savings Share ADSs agree to provide any information requested by New Telecom Italia or the Depositary pursuant to the Deposit Agreement. The Depositary has agreed to use reasonable efforts to comply with written instructions received from New Telecom Italia requesting that it forward any such requests to holders and beneficial owners of New Telecom Italia Savings Share ADSs and to forward to New Telecom Italia any responses to such requests to the extent permitted by applicable law. In addition, holders of New Telecom Italia Savings Share ADSs will be required to comply with any applicable local law reporting requirements to which they are subject.

Requirements for Depositary Actions

The Depositary or the custodian for the Depositary may refuse to:

- issue, register or transfer a New Telecom Italia Savings Share ADR or New Telecom Italia Savings Share ADRs;
- effect a split-up or combination of New Telecom Italia Savings Share ADRs;
- deliver distributions on any such New Telecom Italia Savings Share ADRs; or
- permit the withdrawal of deposited securities, unless the Deposit Agreement provides otherwise,

until the following conditions have been met:

- the holder has paid all taxes, governmental charges, and fees and expenses as required in the Deposit Agreement;
- the holder has provided the Depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and
- the holder has complied with such regulations as the Depositary may establish under the Deposit Agreement.

The Depositary may also suspend the issuance of New Telecom Italia Savings Share ADSs, the deposit of shares, the registration, transfer, split-up or combination of New Telecom Italia Savings Share ADRs, or the withdrawal of deposited securities, unless the Deposit Agreement provides otherwise, if the register for New Telecom Italia ADRs or any deposited securities is closed or if New Telecom Italia or the Depositary decide it is advisable to do so.

Books of the Depositary

The Depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of New Telecom Italia Savings Share ADRs. Any holder of New Telecom Italia Savings Share ADSs may inspect these records at the Depositary s office during regular business hours, but solely for the purpose of communicating with other holders in the interest of business matters relating to the Deposit Agreement.

Table of Contents

The Depositary will maintain facilities to record and process the issuance, cancellation, combination, split-up and transfer of New Telecom Italia Savings Share ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Pre-release of New Telecom Italia Savings Share ADSs

The Depositary may issue New Telecom Italia Savings Share ADSs prior to the deposit with the custodian for the Depositary of shares or rights to receive shares. This is called a pre-release of ADSs. A pre-release is closed out as soon as the underlying shares or other ADSs are delivered to the Depositary. The Depositary may pre-release New Telecom Italia Savings Share ADSs only if:

- the Depositary has received collateral for the full market value of the pre-released New Telecom Italia Savings Share ADSs; and
- each recipient of pre-released New Telecom Italia Savings Share ADSs agrees in writing that he or she:
  - owns the underlying New Telecom Italia Savings Shares;
  - assigns all rights in the New Telecom Italia Savings Shares to the Depositary;
  - holds the New Telecom Italia Savings Shares for the account of the Depositary; and
  - will deliver the New Telecom Italia Savings Shares to the custodian for the Depositary as soon as practicable, and promptly if the Depositary so demands.

In general, the number of pre-released New Telecom Italia Savings Share ADSs will not evidence more than 20% of all New Telecom Italia Savings Share ADSs outstanding at any given time, excluding those evidenced by pre-released New Telecom Italia Savings Share ADSs. However, the Depositary may change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for pre-released New Telecom Italia Savings Share ADSs and its charges for issuance thereof.

EXPERTS

Reconta Ernst & Young S.p.A., independent auditors, have audited the Olivetti consolidated financial statements at December 31, 2001 and 2002, and for each of the two years in the period ended December 31, 2002, as stated in their report appearing herein.

Table of Contents

OLIVETTI CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

Olivetti S.p.A.

We have audited the accompanying consolidated balance sheets of Olivetti S.p.A., as of December 31, 2001 and 2002, and the related consolidated statements of operations, shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries and affiliated companies accounted for by the equity method of accounting, which statements reflect total assets of six percent and three percent as of December 31, 2001 and 2002, respectively, and revenues constituting seven percent as of December 31, 2001 and 2002, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of those other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Olivetti S.p.A. at December 31, 2001 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles established by the Italian accounting profession, which differ in certain respects from those followed in the United States (see Notes 26, 27 and 28 to the consolidated financial statements).

Reconta Ernst & Young S.p.A.

Turin, Italy

April 18, 2003

Table of Contents

OLIVETTI S.P.A.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2001 AND 2002

	December 31, 2001	December 31, 2002
	(millions of euro)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	3,706	4,426
Marketable securities (Note 4)	4,009	2,100
Receivables (Note 5)	8,856	8,383
Inventories (Note 6)	861	584
Other current assets (Note 7)	5,942	7,059
TOTAL CURRENT ASSETS	23,374	22,552
Fixed assets	66,692	65,152
Less Accumulated depreciation	(44,595)	(45,703)
Fixed assets, net (Note 8)	22,097	19,449
Intangible assets, net (Note 9)	39,220	34,561
Other assets (Note 10):		
Investments in affiliates	6,716	2,576
Treasury stock	393	393
Securities	87	304
Other receivables	2,340	3,549
TOTAL ASSETS	94,227	83,384
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt (Note 11)	9,072	6,827
Payables, trade and other (Note 12)	10,970	10,270
Accrued payroll and employee benefits	943	977
Accrued income taxes	224	244
Other accrued liabilities (Note 14)	1,775	2,067
TOTAL CURRENT LIABILITIES:	22,984	20,385
Long-term debt (Note 11)	37,747	33,804
RESERVES AND OTHER LIABILITIES		
Deferred income taxes	381	40
Other liabilities (Note 13)	5,348	7,167
Employee termination indemnities (Note 15)	1,414	1,364
TOTAL LIABILITIES	67,874	62,760
STOCKHOLDERS EQUITY:		

Share capital (Note 16)	8,785	8,845
Additional paid in capital	3,765	3,765
Reserves, retained earnings and loss of the year (Note 17)	179	(970)
TOTAL STOCKHOLDERS EQUITY BEFORE MINORITY INTEREST	12,729	11,640
Minority interest	13,624	8,984
TOTAL STOCKHOLDERS EQUITY	26,353	20,624
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	94,227	83,384

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

Table of Contents

OLIVETTI S.P.A.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002

	2001	2002
	(millions of euro)	
Operating revenues	32,016	31,408
Other revenues (Note 19)	476	504
Total revenues	32,492	31,912
Cost of materials	2,640	2,315
Salaries and social security contributions	4,919	4,737
Depreciation and amortization	7,645	7,269
Other external charges (Note 20)	12,687	12,188
Changes in inventories	92	62
Capitalized internal construction costs	(583)	(675)
Total operating expenses	**27,400**	**25,896**
Operating income	**5,092**	**6,016**
Financial income (Note 21)	1,446	1,569
Financial expense (Note 22)	(6,526)	(4,605)
Other income and (expense), net (Note 23)	(3,109)	(5,496)
Loss before income taxes and minority interests	**(3,097)**	**(2,516)**
Income taxes (Note 24)	(579)	2,210
Net loss before minority interests	**(3,676)**	**(306)**
Minority interest	586	(467)
Net loss	**(3,090)**	**(773)**

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

OLIVETTI S.P.A.

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002

	2001	2002
	(millions of euro)	
OPERATING ACTIVITIES:		
Net loss after minority interest	(3,090)	(773)
Minority interests	(586)	467
Depreciation and amortization	7,645	7,269
Net change in deferred taxes	(645)	(341)
Losses (gains) on disposal of fixed assets and other long-term assets	(373)	(2,243)
Write-down of fixed assets and other long-term assets	3,753	4,387
Net change in other liabilities, excluding investments grants	1,432	1,819
Net change in reserve for employee termination indemnities	26	(50)
Change in operating assets and liabilities	(280)	86
Other changes, net	(2,225)	(3,538)
Net cash provided by operating activities	5,657	7,083
INVESTING ACTIVITIES:		
Investments in fixed assets	(4,317)	(3,291)
Investments grants	22	42
Additions to goodwill	(1,193)	(346)
Additions to other intangible assets	(2,914)	(1,610)
Additions to other long term assets	(3,141)	(1,777)
Changes in consolidation area (net cash flow from acquisition and disposal)	17	(51)
Proceeds from sale or redemption value of tangible and intangible assets, and long-term investments	1,484	5,968
Net cash used in investing activities	(10,042)	(1,065)
FINANCING ACTIVITIES:		
Changes in short term debt	(7,855)	(2,245)
Increase in long term debt	16,429	3,881
Repayment of and other changes to long term debt	(5,420)	(6,970)
Paid in capital in subsidiaries	2,420	36
Dividends paid	(255)	
Net cash provided by (used in) financial activities	5,319	(5,298)
Net increase in cash and cash equivalents	934	720
Cash and cash equivalents, beginning of the year	2,772	3,706
Cash and cash equivalents, end of year	**3,706**	**4,426**

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

Table of Contents

OLIVETTI S.P.A.

STATEMENTS OF CONSOLIDATED STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002

	Attributable to Olivetti				Attributable to minority interest	
	Share Capital	Additional Paid in Capital	Reserves, retained earnings and net income (loss) of the year	Total	Reserves, retained earnings and net income (loss) of the year	TOTAL
	(millions of euro)					
BALANCE AS OF JANUARY 1, 2001	**6,914**	**3,196**	**3,746**	**13,856**	**17,510**	**31,366**
Dividend distribution			(255)	(255)	(2,206)	(2,461)
Conversion of Olivetti 1998-2002 bonds	9		(4)	5		5
Exercise of Olivetti common shares 1998-2002 warrants	4		(2)	2		2
Resolutions of the Board of Directors on June 9, 1999 in accordance with the powers granted by Extraordinary Shareholders Meeting on April 7, 1999	17	12	(8)	21		21
Share capital increase in March 2001 (no. 348,249,405 subscribed shares)	349	557		906		906
Share capital increase in November 2001 (no. 1,491,373,698 subscribed shares)	1,492			1,492		1,492
Cancellation of Telecom Italia saving shares			(277)	(277)	(434)	(711)
Effect of change in method of accounting for the investments in the Nortel Inversora Group					(837)	(837)
Entel Chile group acquisitions					358	358
Translation adjustments and other			69	69	(181)	(112)
Net loss for the year 2001			(3,090)	(3,090)	(586)	(3,676)
BALANCE AS OF DECEMBER 31, 2001	**8,785**	**3,765**	**179**	**12,729**	**13,624**	**26,353**
Dividend distribution					(2,357)	(2,357)
Extraordinary dividend distribution of reserves					(1,311)	(1,311)
Conversion of Olivetti 1998-2002 bonds	29		(14)	15		15
Exercise of Olivetti common shares 1998-2002 warrants	23		(11)	12		12
Resolutions of the Board of Directors on June 9, 1999 in accordance with the powers granted by Extraordinary Shareholders Meeting on April 7, 1999	5			5		5
Conversion of Olivetti 2001-2010 bonds	3			3		3
Translation adjustments and other			(351)	(351)	(1,439)	(1,790)

Net income (loss) for the year 2002			(773)	(773)	467	(306)
BALANCE AS OF DECEMBER 31, 2002	**8,845**	**3,765**	**(970)**	**11,640**	**8,984**	**20,624**

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Form and Content of the Consolidated Financial Statements

The consolidated financial statements of Olivetti S.p.A. (**Olivetti**) and its subsidiaries (the **Olivetti Group**) are prepared on the basis of the accounts of Olivetti and the financial statements of the individual consolidated companies as of December 31, 2002 as approved by their respective Boards of Directors, adjusted, where necessary, to conform with the accounting policies adopted by Olivetti. The accounting policies are consistent with the Italian law related to consolidated financial statements interpreted and integrated by the accounting principles established or adopted by the Italian Accounting Profession (collectively, **Italian GAAP**).

Italian GAAP differs in certain material respects from U.S. generally accepted accounting principles (**U.S. GAAP**). The effects of these differences on stockholders equity as of December 31, 2001 and 2002 and on consolidated net result for the years then ended are set forth in Note 26.

The consolidated financial statements and related notes as presented herein reflect certain reclassifications and disclosures to conform to an international presentation format, which differs from Olivetti s financial statements and disclosures which are prepared in accordance with Italian legal requirements. The format presented does not result in any modification of the portions attributable to Olivetti stockholders equity and net income (loss) as reported on an Italian GAAP basis.

The consolidated financial statements of the Olivetti Group include the financial statements of Olivetti and all Italian and foreign subsidiaries in which Olivetti holds, directly or indirectly, more than 50% of the voting capital or has dominant influence (effective control), primarily Telecom Italia S.p.A. (**Telecom Italia**) and its subsidiaries (together with Telecom Italia, the **Telecom Italia Group**) which was acquired by Olivetti during 1999 as detailed below.

In 1999, Olivetti, through its 72.9% owned subsidiary Tecnost S.p.A. (**Tecnost**), made a tender offer for the majority of the Telecom Italia Ordinary Shares. The transaction was announced at the end of February 1999, when Tecnost and Olivetti declared their intention to proceed with a joint public tender and exchange offer for 100% of Telecom Italia Ordinary Shares. The tender offer took place in May 1999 and was completed on June 23, 1999, giving Tecnost 52.12% controlling interest in Telecom Italia Ordinary Shares. The tender offer was financed through a combination of cash, bonds and shares for a total amount equal to 31,501 million. The cash component, accounting for a total amount equal to 18,955 million, was financed mainly through: (i) the disposal by Olivetti to Mannesman of OliMan (controlling the telecommunication companies Omnitel and Infostrada), (ii) a share capital increase, and (iii) borrowings under a bank facility, reimbursed in July 1999 with the issuing of two tranches of notes under an Euro Medium Term Note program. The bonds component of 7,944 million was represented by the issue of the Floating Rates Note offered in exchange to shareholders tendering the Telecom Italia Shares. The shares component, valued at 4,602 million, was represented by new Tecnost shares issued in order to be offered in exchange to tendering shareholders. During 1999, Tecnost increased its controlling interest in Telecom Italia to 54.16% acquiring an additional interest of 2.04%, as a result of certain cash transactions. Total consideration amounted to approximately 32,506 million, including direct acquisition costs. The excess of purchase price over the adjusted net book value assets acquired amounting to approximately 26,208 million was allocated to goodwill and amortized over a period of 20 years. The adjustments to the net book value of the of the assets acquired to determine the excess purchase price related principally to: i) the recognition of the estimated minimum liability to the Italian National Social Security Board (see Notes 14 and 18), in connection with the telephone workers social security obligations and the related tax effect, ii) the elimination of goodwill recorded in the books of Telecom Italia, and iii) dividends subsequently paid.

In 2000, to rationalize the organizational structure of the Olivetti Group, the 72.9% owned subsidiary Tecnost was merged into Olivetti. The merger was announced on May 15, 2000 and the Boards of Directors of the companies involved in the merger, with the assistance of their advisors, fixed an exchange ratio of 1.12 Olivetti shares for each Tecnost share, both with a par value of 1.00 per share. No cash consideration was involved. The merger was effective from December 31, 2000, with the cancellation of all the Tecnost shares previously held by Olivetti and with the issue of 1,999,439,092 Olivetti shares, par value 1.00 to minority shareholders in exchange for their 1,785,213,475 shares. The merger was accounted for at book value. Included in the minority shareholders was Olivetti s subsidiary, Olivetti International S.A., which owned 3.2% of total Tecnost shares and obtained in exchange of the Olivetti shares (thus becoming treasury shares at the consolidated level) carried at a total value of 391 million, the original book value of the Tecnost shares.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2001 and 2002 Olivetti owned 2,850,255,432 Telecom Italia Ordinary Shares, equal to 54.16% of total Telecom Italia Ordinary Shares and to 38.96% of total share capital.

The significant changes in the composition of the Olivetti Group in 2002 and 2001, principally related to the changes in the Telecom Italia Group, are as follows:

Year 2002

- In February 2002, Olivetti and Finsiel S.p.A. accepted the tender offer from Tyche S.p.A. (De Agostini group), for their 34% investment in Lottomatica S.p.A. Total proceeds were 391 million realizing a gain, which contributed 135 million to the consolidated net result of the Olivetti Group.

- In March 2002, the Telecom Italia Group disposed of its 19.61% stake held by TIM International in BDT (Bouygues Decaux Telecom), parent company of the French operator Bouygues Telecom, generating proceeds of 750 million which contributed 104 million to the consolidated net result of the Olivetti Group.

- On June 28, 2002, TIM International N.V. disposed of its entire 25% stake in the Mobilkom Austria group to Telekom Austria (a company 14.78% owned by Telecom Italia International as of December 31, 2002), generating proceeds of 756 million and realizing a gain, which contributed 25 million to the consolidated net result of the Olivetti Group.

- On July 31, 2002, Finsiel disposed of its 100% stake in Sogei to the Ministry of Economy and Finance, which had the effect of reducing the Olivetti Group net financial debt by 68 million (defined as long-term debt and short-term debt less cash and cash equivalents, marketable debt securities and financial receivables).

- On August 1, 2002, the Telecom Italia Group concluded the sale of Auna to Endesa, Union Fenosa and Banco Santander Central Hispano. The transfer of the entire 26.89% interest held by the Olivetti Group resulted in proceeds of 1,998 million and contributed 402 million to the consolidated net result of the Olivetti Group.

- On August 1, 2002, Telecom Italia sold the 40% interest held in Telemaco Immobiliare to Mirtus, an indirect subsidiary of the American real estate fund Whitehall promoted by the Goldman Sachs group, for net proceeds of 192 million. The net gain realized by the Group was 25 million.

- On August 2, 2002, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli S.p.A. (25.3%), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). EPIClink specialized in outsourcing services in Information and Communication Technology (ITC) for small and medium-size businesses. After this transaction, EPIClink s shareholder base is as follows: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2% and

E_voluzione 2%. Telecom Italia is committed to acquire the residual 14% stake for a total consideration of   10 million.

- On August 26, 2002, the Telecom Italia Group completed, with the Louis Dreyfus Communication Networks Group (LDCom), the sale of the Olivetti Group s investment in 9Télécom and the concurrent purchase of approximately 7% of LDCom by the Olivetti Group. The net impact on the Olivetti Group s results was a loss of   104 million. LDCom is part of the Louis Dreyfus Group, a leading French holding company with international operations in telecommunications, energy, oil, maritime and agricultural commodities trading.

- On August 27, 2002, the Telecom Italia Group reached agreement with the other shareholders in Solpart Participações (which has indirect control of Brasil Telecom) to reduce its own stake in Solpart (from 37.29% to 19% of ordinary share capital) through a sale of 18.29% of the ordinary share capital to Timepart Participações and to Techold Participações. This reduction was carried out to overcome regulatory constraints which had prevented TIM´s local subsidiaries from commencing commercial operations of its GSM 1800 service. As soon as legally possible, the Telecom Italia Group intends to return to its previous investment position. To this extent option rights have been granted to all parties.

- In August 2002, TIM International N.V., a subsidiary of TIM, purchased from the Verizon Europe Holding II group, a 17.45% stake in the share capital of Stet Hellas, in which it already owned a 63.95% interest, for a price of   108 million. The transaction, which in effect makes TIM International

F-8

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

N.V. the only industrial partner and strategic shareholder in the company, falls within the framework of the Olivetti Group s strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

- On October 1, 2002, Telecom Italia signed an agreement with the News Corporation Group (**News Corporation**), partner of Telecom Italia in Stream, and Vivendi Universal (**Vivendi**), current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single Italian pay-TV company on one platform.

On April 30, 2003, following the approval by the competent authorities, the agreement with News Corporation announced in October 2002 was concluded. The new company arising from the integration between Stream and Tele+ has been named SKY ITALIA and Telecom Italia paid approximately 30 million for the transaction. The company is held by Telecom Italia (19.9%) and News Corporation (80.1%).

- On October 7, 2002, TIM finalized the preliminary contract signed on August 7, 2002 with Blu S.p.A. shareholders for the purchase of 100% of the company, subsequently merged with TIM S.p.A. The deed of merger was registered on December 18, 2002; on the same date the definitive price of 84 million was established. The merger became effective on December 23, 2002.

- On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized, allowing the integration of certain of the real estate properties of the companies involved, as well as the entities that provide real estate services to the same companies or to their subsidiaries.

Under the framework agreement the Olivetti Group transferred assets to Tiglio I and Tiglio II in various corporate forms. The market value of these assets was 1,582 million, of which 50 million was related to Seat Pagine Gialle, approximately 1,310 million to real estate from Telecom Italia and approximately 222 million for Olivetti. The transaction had a net impact on the consolidated statement of operations of approximately 121 million for the Olivetti Group.

- In November 2002, Telecom Italia finalized the agreement that was initially signed on August 2, 2002 with Finmeccanica for the sale of Telespazio. The total impact on the net financial debt of the Olivetti Group was 239 million with a net gain for the Olivetti Group of 14 million.

- In November 2002, Telecom Italia International N.V. closed the private placement of 75 million Telekom Austria A.G. shares previously held by the Olivetti Group. The placement price was set at 7.45 per share, generating gross proceeds of 559 million and a net loss of 52.5 million. After this transaction, Telecom Italia Group s stake in Telekom Austria decreased from 29.78% to 14.78%.

- On November 22, 2002, Telecom Italia disposed of its 45% stake in IMMSI to Omniapartecipazioni S.p.A. for a consideration of 69 million.

- Under the reorganization of the Telecom Italia Group companies in Luxembourg, in October 2002, Sogerim S.A., was absorbed by its sole shareholder Softe S.A., and Huit II was absorbed by its sole shareholder TI Media S.A. On December 16, 2002, Softe S.A.

incorporated TI Media S.A. and the new company was merged with TI WEB S.A., which, on the same date, changed its name to Telecom Italia Finance. All the rights and obligations of the merged companies are vested in Telecom Italia Finance.

Year 2001

- In February 2001, SEAT acquired a 54.5% stake in Consodata S.A. (**Consodata**), a French company listed on Paris s Nouveau Marché. This acquisition was made through the issuance by SEAT of 63,789,104 of its ordinary shares in exchange for Consodata shares held by certain funds and management, followed by the contribution by SEAT to Consodata of its business information activity. In June 2001, SEAT exchanged 1,084,913 Consodata shares for a 100% stake in Pan-Adress GmbH, a German company operating in the direct marketing sector. Furthermore, in August 2001, as a result of a public exchange offer through the issuance by SEAT of 95,706,000 of its ordinary shares in exchange for 5,981,625 Consodata shares, SEAT s stake in Consodata increased to 90.74%. As of December 31, 2002, SEAT s stake in Consodata was 90.42%. Consodata operates in the business information sector in the French market.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- In April 2001, SEAT increased its total stake in Telegate A.G. to 64.53% after acquiring Telegate Holding s remaining 48.63% share capital. The acquisition was effected by SEAT issuing 150,579,625 of its ordinary shares in exchange for Telegate Holding shares. As of December 31, 2002, SEAT holds a 78.44% stake in Telegate A.G.. Telegate operates predominantly in Germany in the Directory Assistance sector.

- In August 2001, subsidiary Huit II exchanged 186,000,000 Seat Pagine Gialle shares for 100% of ISM, a company that holds 33.3% of the share capital of Matrix. After this transaction, the Telecom Italia Group controls Matrix, a company that operates in the Internet sector.

- In December 2001, Telecom Italia s stakes in the former satellite consortia companies Eutelsat, Intelsat, Inmarsat and New Skies Satellites were transferred to a new company (Mirror International Holding S.a.r.l., **Mirror**), of which 70% was subsequently acquired by the Lehman Brothers Merchant Banking II L.P. closed fund with a minority stake acquired by Intesa BCI and Interbanca. As a result of the sale, Telecom Italia received 450 million in cash and recorded in the consolidated financial statements a capital gain, before taxes, of 170 million. The remaining interest in Mirror is accounted for using the equity method of accounting.

As a result of such changes the following operations disposed of during the fiscal year 2002 have been consolidated in the statement of operations as follows: the 9Télécom group for the period from January 1, 2002 to June 30, 2002; the Telespazio group for the period from January 1, 2002 to September 30, 2002 and the company Sogei for the period from January 1, 2002 to June 30, 2002;

The consolidation principles applied by Olivetti are as follows:

- The assets and liabilities of the companies consolidated on a line-by-line basis are included in the consolidated financial statements after eliminating the carrying value of the investments against the related stockholders equity.

- Differences arising on elimination of the investments against the fair value of the related stockholders equity of the subsidiaries at the date of acquisition are treated as follows:

  if positive, they are recorded as goodwill in intangible assets and amortized on a straight line basis over the period estimated to be benefited and, in any case, not more than a period of 20 years;

  if negative, they are recorded in stockholders equity as consolidation reserve , or, when the amount is due to expectations of unfavorable financial results, to other liabilities (consolidation reserve for future risks and charges) .

- All significant intercompany transactions are eliminated, together with the unrealized intercompany profits included in inventory.

-

Unrealized intercompany profits, included in fixed assets and intangible assets, which arise from intraGroup sales of goods and services at market prices are eliminated, along with the related tax effects. Such sales, net of intercompany profits, are reclassified under the heading of capitalized internal construction costs in the accompanying consolidated statements of operations.

- Accruals and adjustments made in the individual financial statements of the consolidated companies in accordance with the current tax legislation in order to obtain tax benefits otherwise not obtainable are eliminated.

- The minority stockholders share of the equity and net income (loss) of consolidated subsidiaries, calculated using financial statements reflecting the Olivetti Group s accounting principles, are classified separately in the consolidated stockholders equity and the statement of operations for the year.

The financial statements expressed in foreign currency have been translated into Euro by applying the average annual exchange rate to the individual items of the statement of operations and the year-end exchange rate to the items of the balance sheet. The difference arising from the translation of beginning stockholders equity and the net result for the year at the year-end exchange rate is recorded in the reserves under consolidated stockholders equity.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For those consolidated subsidiaries and affiliated companies that use inflation accounting to eliminate distorting effects of inflation on the financial statements, these inflation adjusted financial statements have been translated at the year-end exchange rates for inclusion in the consolidation. The companies in the Olivetti Group that apply inflation accounting principles are Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), Is TIM Telekomunikasyon Hizmetleri A.S. (Turkey), Teco Soft Argentina S.A. (Argentina) and Olivetti Argentina S.A.C.è.l. (Argentina).

Note 2 Regulation

The legal framework for the regulation of the telecommunications sector in Italy has been extensively revised in recent years. This revision includes the liberalization of substantially all telecommunication services including the provision of fixed public voice telephony services and the operation of networks to support the provision of such services, which were opened to competition as of January 1, 1998. Most importantly, the legal framework for regulation of the telecommunications sector in Italy has been completely transformed through the formation of the National Regulatory Authority (**NRA**) in accordance with the Maccanico Law, which implemented the Framework Law, and the adoption of the Telecommunications Regulations by the Italian Government pursuant to Law No. 650 of December 23, 1996 (**Law 650**) and Law No. 189 of July 1, 1997 (**Law 189**) to implement a number of EU directives in the telecommunications sector. The Telecommunications Regulations became effective on October 7, 1997, and have been implemented by specific regulations. The Framework Law in general is aimed at:

- ensuring the improvement of competition and efficiency in the telecommunications sector;
- establishing adequate quality standards;
- ensuring access to telecommunications services in a homogeneous manner throughout Italy;
- defining a clear and transparent tariff system on the price cap method which, pursuant to the Maccanico Law, applied to Telecom Italia s fixed public voice telephony services for up two years from August 1, 1997 (which price cap method was extended by the NRA from August 1, 1999 to December 31, 2002); and
- protecting the interests of consumers and users.

The Telecommunications Regulations completed the liberalization of the provision of all telecommunications services and the operation of all telecommunications networks in Italy, effective from October 7, 1997, except for the provision of fixed public voice telephony services and the operation of telecommunications networks to support provision of such services, which were liberalized as of January 1, 1998. Restrictions on other operators providing telecommunications services, other than fixed public voice telephony services and the operation of telecommunications networks, had been lifted by several previous measures.

The Telecommunications Regulations contain provisions concerning:

- the granting of general authorizations or individual licenses to provide telecommunications services;
- universal service obligations and the mechanism for funding the net cost of such obligations;
- special obligations imposed on operators having significant market power, including the determination of interconnection charges using principles cost orientation;
- numbering, carrier selection and number portability;
- right of way; and
- the essential requirements that must be complied with in the provision of services and when interconnecting between public telecommunications networks.

The NRA has established and will continue to establish detailed regulations governing the telecommunications sector and will monitor their application, while the Ministry of Communications will retain the responsibility for defining telecommunications policy in Italy.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2001 and 2002 the NRA adopted numerous resolutions in order to implement and detail general framework regulation. In particular, implementing regulations on carrier preselection, interconnection and local loop unbundling/shared access were adopted.

New European Regulatory Framework, that was published on April 2002 and will be transposed in National Laws by July 2003, will change the nature of regulatory and competitive markets, through increased liberalization and a decrease of ex ante regulation. Converging markets regulation will be privileged.

Note 3 Accounting Policies

The principal accounting policies applied are as follows:

Securities

Debt securities included under current assets are valued at the lower of cost of acquisition or net realizable value based on market prices.

Debt securities acquired under repurchase agreements , for which the obligation exists to resell them at maturity, are included at purchase cost under current assets. The difference between the sales price and the purchase price is allocated to the statement of operations as it accrues.

Debt securities classified under non current assets (other assets) are held to maturity and recorded at purchase cost adjusted for the unamortized discount or premium. They are also adjusted for any permanent impairment in value.

Equity investments considered long-term in nature are recorded under non current assets (other assets) or, if acquired for subsequent sale, recorded under current assets.

Equity investments included under current assets, consisting mainly of shares of consolidated listed subsidiaries anticipated to be sold, are stated at the lower of cost and realizable value, based on the year-end stock market prices.

Contracts for the loan of equity securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, other current assets and short term debt include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract.

Other long-term equity investments are recorded at acquisition or subscription cost, including incidental costs, adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of long-term equity investments is written down and the impairment in value in excess of the corresponding carrying value is recorded under reserves and other liabilities other liabilities (reserve for contract and other risks and charges) .

Write-downs of securities are reversed if the reason for the write-down no longer exists, but in no event can the subsequent reversal of the previous write-down exceed the prior carrying value..

Accounts receivable and payable

Accounts receivable and payable are recorded at their nominal value. Where required, provision is made to write-down the receivables to their estimated realizable value.

An estimate is made for doubtful receivables based upon a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies have been recorded at the exchange rate in effect at the date of the transaction; such assets and liabilities denominated in foreign currencies are remeasured at the prevailing rate at the balance sheet date, taking into consideration the hedging contracts, and any resulting unrealized losses are charged to the statement of operations as financial expense and unrealized gains are credited to the statement of operations as financial income .

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the LIFO method for raw materials and finished products the manufacturing cost for work in progress and semi-finished products and the weighted average method for purchased finished goods. Provision is made for potential losses on obsolete or slow-moving raw materials, finished products and other inventories, taking into account their expected future use and estimated realizable value. Contracts covering less than 12 months are valued using the actual manufacturing cost, while long-term contracts are accounted for using the percentage of completion method. Provision is also made for estimated losses on completion and any other related risks on long-term contracts.

Accruals and deferrals

These items are recorded on the accrual basis

Fixed assets

Fixed assets are stated at purchase or construction cost plus accessory costs and directly attributable expenses. The values are periodically adjusted in those jurisdictions where the assets are located that allow or require monetary revaluations.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets using the following annual rates applied to the historical or revalued costs:

Buildings	3 7 %

Telecommunication system and equipment	3	33%
Machinery and installation.	20	33%
Industrial and commercial equipment	15	25%
Other fixed assets	6	33%

Construction in progress is stated at cost. Ordinary repair and maintenance costs are charged to the statement of operations in the year they are incurred. Alterations and major overhauls that extend the life or increase the capacity of the asset are capitalized.

Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the accounts with any resulting gain or loss reflected in the statement of operations.

Capital grants

Capital grants provided by the Italian government or other public agencies in connection with investments in fixed assets are recorded in the year the grant is formally approved and, in any event, when the right to their receipt is definite. The grants are not subject to any restriction as to use and may not be reclaimed by the government. Capital grants are included in deferred income and recorded in the statement of operations in connection with the gradual depreciation of the assets they refer to.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets

Intangible assets are recorded at cost, and amortized on a straight line basis over the period of expected future benefit as follows:

Licenses, trademarks and similar rights	Contract duration(1)
Goodwill	Years to be benefited (20 years for the Telecom Italia acquisition)
Software	Principally in 3 years
Leasehold improvements	Rental contract duration
Other, including start-up costs	Principally in 5 years

(1) Except that telecommunications licenses are amortized for not more than 15 years.

Software costs capitalized represent only those costs associated with the development of new software or the enhancement of software when additional functionality is provided. The Company applies the same policy in accounting for web site development costs and for costs of computer software developed or obtained for internal use. All costs of maintaining existing software, costs for the enhancement of software that does not provide for additional functionality, and costs pertaining to the preliminary stage of software development are expensed as incurred.

Write-down of long-lived assets

The Olivetti Group periodically evaluates potential impairment loss relating to long lived assets (fixed assets, intangible assets, including goodwill, and equity investees) when a change in circumstances occurs by assessing whether permanent diminution in value has occurred. Impairment is recognized if the recoverable amount falls below its carrying value. In that event, an impairment loss is recognized based on the amount by which the net carrying value exceeds the recoverable amount, pursuant to Article 2426, Section 1, item 3 of the Italian Civil Code. Write-downs are reversed if the reason for the write-down no longer exists.

Employee termination indemnities

The amount of this reserve is determined in accordance with current laws and collective bargaining agreements.

The reserve for termination indemnities shown in the consolidated balance sheets reflects the total amount of the indemnities, net of any advances taken, that each employee in the Italian consolidated companies would be entitled to receive if termination were to occur as of the balance sheet date.

Reserves for risks and other charges

Reserves for risks and other charges are recognized when the Olivetti Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Research and development costs

Research and development costs are charged to the statement of operations as incurred. In 2001 and 2002 gross research and development costs charged to the statement of operations (before revenue grants) amounted to 204 million, and 151 million, respectively.

Revenue grants

Revenue grants represent contributions against operating costs mainly provided by the government or other public agencies in connection with research and development costs. They are recorded in the statement of operations in the year they are formally approved and in any event when the right to their receipt is definite.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These grants are not subject to any restriction as to use and they may not be reclaimed by the government. Revenue grants are included in other income and are recorded as part of total revenues in the accompanying statement of operations.

Recognition of revenues and expenses

Revenues and expenses are recorded on the accrual basis.

Revenues are recorded in the statements of operations as follows:

i) for telecommunication services companies (both fixed and mobile providers), in the year in which the services are provided. Revenue from telecommunication traffic are reported gross of the shares belonging to other operators and service providers which are reported, for the same amount, under operating expenses (other external charges).

Certain revenues deriving from fixed telephone and mobile services are billed in advance and are recognized when services are provided. Revenues deriving from other telecommunications services, principally network access, long distance, local and wireless airtime usage, are recognized based on minutes of traffic processed or contracted fee schedules. Revenues from installation and activation activities are recognized at the date of the installation or activation.

The revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by customers, as this is considered to be a separate earnings process from the sale of wireless services;

ii) for IT software and services and other activities, on the basis of the services rendered during the year; and

iii) revenues of the Internet and Media segment are primarily derived from advertising and publishing, sale of office and related products, and internet access and related services. Revenues from the sale of advertising and publishing are recognized in the statement of operations according to the date of publication, which corresponds to the time at which the directories are printed and delivered. Advertising revenue from on-line services is recorded on the date the on-line advertisement is posted to the related web site and advertising revenue from television is recorded on the date at which the advertisement is shown. Revenues from the sale of office and related products are recognized when title transfers, which generally corresponds to the date when products are shipped. Provisions for returns and other adjustments related to sales are provided in the same period the related sales are recorded. Revenues from internet access and related services, primarily subscription services, are recognized over the subscription period on a straight line basis.

Capitalization of interest policy

Interest on construction projects is capitalized when specific borrowings can be attributed to the project.

Income taxes

The companies within the Olivetti Group are required to pay taxes on a separate company basis. Income taxes currently payable, recorded in accrued income taxes, are provided on the basis of a reasonable estimate of the tax liability for the year of all consolidated companies.

The Olivetti Group also recognizes deferred income tax assets and liabilities that are determined under the liability method. Deferred income taxes represent the tax effect of temporary differences between the tax and financial reporting bases of assets and liabilities, using enacted tax rates, and the expected future benefit of net operating loss carry forward. The tax benefit of tax loss carry-forwards is recorded only when there is a reasonable expectation of realization.

Deferred tax assets and deferred tax liabilities are offset, whenever allowed by local tax laws.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

No deferred taxes are established on certain equity reserves, as management s intent is not to distribute these reserves. Taxes would need to be provided for on these reserves if management expects to utilize or distribute them in the future.

Accounting for leases

Assets covered by finance lease contracts are recorded in fixed assets and depreciated from the date of the lease contract. The corresponding liability is allocated between short and long term debt. The interest element of the finance lease and the depreciation charge are recorded in the statement of operations. Depreciation is calculated on the same basis as that for similar owned assets.

All other leases are accounted for as operating leases.

Financial derivatives

Financial derivative contracts are used by the Olivetti Group to hedge exposure to interest rate and foreign currency exchange risks. They are valued consistently with the underlying asset and liability positions and any net expense connected with each single transaction is recognized in the statement of operations.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of operations in financial income or financial expense based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or financial component calculated as the difference between the rate at the date of entering into the contract and the forward rate) is recorded in the statement of operations in financial income or financial expense based on the accrual principle.

Non-hedging derivatives are assessed by comparing the instrument value at the contract date and its year-end value. Any losses are charged to income, while gains are not recorded since they are not realized.

Premiums collected (paid) on the sale or purchase of put and call options on listed portfolio shares are classified under other payables or receivables due from others . If the option is exercised, the premium collected (paid) is treated as an accessory component of the strike price of the underlying instruments; if the option is not exercised, the premium collected (paid) is recorded under financial income (financial charges). Purchase or sale commitments in respect of the sale of put and call options are described in Note 18.

Securitization of accounts receivable

Upon the sale of receivables to the TI Securitization Vehicle S.r.l. (the **Vehicle**), the underlying receivables are removed from the balance sheet. The difference between the carrying value of the receivables sold and the consideration received (including the deferred consideration under the deferred purchase price) is charged on the accrual basis to the consolidated statement of operations in other external charges or in financial expense . All expenses to initiate and operate the program are charged to other external charges . The notes issued under the program are not included in the consolidated balance sheet of Olivetti, as they are considered to be legal obligations of the Vehicle see Note 5).

Note 4 Cash and Cash Equivalents and Marketable Securities

Cash and Cash Equivalents

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Bank and postal accounts	3,626	4,363
Cash and valuables on hand	76	7
Receivables for securities held under reverse repurchase agreements	4	56
	3,706	4,426

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Bank and postal accounts consist mainly of funds on deposit in Italian and foreign banks in current accounts. 300 million, due in the first months of 2003, are reserved for the creditors of Telesoft due to its merger and absorption in IT Telecom, for the creditors of Blu due to its merger and absorption by TIM and for the creditors of the companies H.M.C. Broadcasting and H.M.C. Produzioni for their mergers and absorptions in TV Internazionale. 198 million are reserved for a guarantee provided by Royal Bank of Scotland on behalf of Mediobanca in the interest of Is TIM. Therefore, as of December 31, 2002 a total of 498 million in cash was restricted.

Marketable Securities

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Marketable equity securities	393	472
Marketable debt securities	3,616	1,628
	4,009	2,100

As of December 31, 2002, marketable equity securities include 299 million concerning 41,401,250 Telecom Italia ordinary shares not held as fixed assets (and valued at 7.23 per share, corresponding to the stock price on the last day of trading in December) and 170 million (247 million as of December 31, 2001) of other listed shares in otherwise consolidated subsidiaries. The reduction from December 31, 2001 is mainly attributable to the write-down of TIM shares (75 million) to their market value.

Marketable debt securities are held in the main by Group finance companies in connection with trading activities; they included 278 million for securities held by the Telecom Italia Group (consisting of bank certificates of deposits held by the Tele Nordeste Celular Group and of bonds held by TI Finance) and 1,649 million for securities held by other Olivetti Group companies, in particular bonds (517 million), own bonds (649 million) and other securities (483 million). The decrease of 1,988 million from December 31, 2001 is essentially attributable to Softe and Sogerim, which, before their merger into TI Finance, reduced their bond portfolios.

The carrying values of both marketable equity and debt securities have been written-down by 259 million to reflect market values at year end.

Note 5 Receivables

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Trade	9,081	8,967
Reserve for bad debt	(826)	(839)
	8,255	8,128
Unconsolidated subsidiaries	32	41
Affiliated companies	569	214
	8,856	8,383

Gross trade accounts receivable at December 31, 2002 totaled 8,967 million (9,081 million in 2001) and consist, for the most part, of receivables for telecommunications services. Receivables are adjusted to estimated realizable value through write-downs. Such write-downs mainly relate to the telecommunications companies. Trade accounts receivable are primarily held by Telecom Italia (3,753 million), TIM (1,404 million) and Seat Pagine Gialle group (894 million).

This caption also includes 1,107 million of receivables from other telecommunications carriers and 113 million of services to be performed by Seat Pagine Gialle representing the advertising commitments undertaken and invoiced by the company for directories that will be published in 2003. The same amount is recorded in payables, trade and other, as deferred revenue.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2002, Olivetti Group sold trade accounts receivable under non-recourse factoring arrangements for a total of 3,969 million of which 3,843 million related to Telecom Italia Group and 126 million related to other companies (3,516 million in 2001, of which 3,297 million related to TIM S.p.A. and 219 million related to other Olivetti Group companies). At December 31, 2002, receivables sold and not yet due totaled 585 million (130 million as of December 31, 2001).

During 2001, Telecom Italia began a program (the **Program**) for the securitization of receivables generated by the services rendered to the customers of the Telecom Italia Domestic Wireline (TIDW) business unit and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the Public Administration). A first tranche of 700 million of Notes was issued in June 2001 by the Vehicle, a non-consolidated special purpose vehicle for the Program which operates under Law No. 130/1999. The Program allows for the possibility of successive issues of notes, all with the same rights and risk profile, up to a total maximum amount of 2 billion. This program continued in 2002.

The Program, regulated by the aforementioned law, allows the transfer of trade receivables, on a non-recourse basis, between Telecom Italia and Path.Net (assignors) and the Vehicle (assignee). The cash flows from the trade accounts receivable covered by the Program constitute the funds that the securitization vehicle uses to pay the interest and the principal to the note holders. Within the framework of the Vehicle s disbursement plans and the time frame for the collection of the receivables, the sums received are also used to purchase new receivables generated by the normal operating activities of the assignors.

The price for this transaction, equals to the nominal value of the receivables, less a discount which takes into account the expenses that the Vehicle must bear, is paid to the respective assignor partly as an advanced purchase price, at the time of sale, and partly as a deferred purchase price. The deferred portion, which constitutes the credit enhancement under the Program, is paid to the assignor each time new receivables are sold, subject to the collection of the receivables, and is calculated by the rating agencies on the basis of pre-established estimates of the collection times and the amounts of the credit notes that will eventually be issued. Such estimates, and therefore also the deferred purchase price, is adjusted monthly on the basis of the effective performance of the receivables (i.e., a dynamic credit enhancement).

As regards the risk of non-collectibility, the respective assignor is responsible for the ultimate recovery from the debtors on the receivables sold, up to the limit of the amount of the deferred purchase price. The Vehicle would absorb any amounts over the deferred purchase price.

The first issue of notes backed by the securitization of receivables (called Series 2001-1) for a total of 700 million, was divided into three classes having the following characteristics:

- Class A1: 100 million variable rate notes denominated in with a maturity of approximately 18 months (maturing January 25, 2003) with a margin of 19 basis points over the 3-month Euribor;

- Class A2: 150 million variable rate notes denominated in with a maturity of approximately 3 years (maturing July 25, 2004) with a margin of 27 basis points over the 3-month Euribor;

- Class A3: 450 million variable rate notes denominated in with a maturity of approximately 5 years (maturing July 25, 2006) with a margin of 34 basis points over the 3-month Euribor.

These notes have been rated by Fitch, Moody s and Standard & Poor s at AAA/Aaa/AAA, respectively. The high ratings reflect the quality and diversification of the underlying receivable portfolio, the element of over collateralization represented by the dynamic credit enhancement, the legal structure of the transaction and other qualifying aspects of the program. The total amount of the trade accounts receivable sold under the securitization transactions in 2002 was 9 billion (5.9 billion in 2001) and solely referred to receivables from residential customers generated by Telecom Italia. As of December 31, 2002, the receivables sold and not yet collected amounted to 849 million (877 million as of December 31, 2001), of which 757 million (684 million as of December 31, 2001) were not yet due.

The securitization and the factoring transactions led to an improvement in consolidated net financial debt as of December 31, 2002 of 1,049 (848 million as of December 31, 2001), of which 826 million was due to the securitization Program.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the securitization Program, the Vehicle can invest the temporary excess liquidity from the Program by lending the excess cash to Telecom Italia. As of December 31, 2002, the balance of such loans to the Olivetti Group totaled 165 million (168 million as of December 31, 2001). The Olivetti Group has recorded these amounts as financial payables included under short term debt in the accompanying consolidated balance sheet.

Note 6 Inventories

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Raw materials	42	30
Work in progress	29	27
Total manufacturing inventories	71	57
Finished products and goods for resale:		
in respect of group core business	409	323
Property for sale	27	23
Contracts in progress	352	179
Advances to suppliers	2	2
	861	584

Inventories of 411 (636 million as December 31, 2001) are held by Telecom Italia Group companies and of 173 million (225 million as of December 31, 2001) by other companies (mainly Olivetti Tecnost Group). In particular, as far as Telecom Italia Group companies are concerned, inventories of 193 million (245 million as of December 31, 2001) are held by companies providing telecommunications services, 170 million (234 million as of December 31, 2001) by companies providing information technology services and 48 million by the Seat Pagine Gialle group and other minor subsidiaries. The reduction from December 31, 2001 is mainly attributable to the disposals of Sogei and the Telespazio Group (a decrease of 133 million).

Note 7 Other Current Assets

As of

December 31,

	2001	2002
	(millions of euro)	
Receivables from banks and other loans	681	976
Receivables from national government and public agencies for subsidies and contributions	43	59
Cash receipts in transit	210	98
Tax receivables	2,215	2,092
Deferred tax assets	991	2,151
Accrued income	466	367
Prepaid expenses	408	328
Other	928	988
	5,942	7,059

Receivables from banks and other loans are mainly due to the deferred purchase price due from the securitization Vehicle (370 million) and amounts due from financial institutions for the lending of Seat Pagine Gialle shares (176 million) by Telecom Italia. These shares continue to be consolidated for financial reporting purposes. As required by the Bank of Italy regulations, an offsetting debt is recorded against the receivable from the financial institution. Such agreements were concluded during the months of February and March 2003. Receivables from banks and other loans also includes 300 million related to a shares lending agreement entered by Olivetti Finance N.V. with a financial institution; a short term liability is also recognized for an equal amount.

The 123 million decrease in tax receivables is principally due to lower VAT and current tax receivables at Telecom Italia (a decrease of 596 million), partially offset by the increase in TIM current tax receivables (an increase of 335 million) mainly due to the benefit arising from the merger of Blu into TIM.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets, including those under Other assets (see Note 10), totaled 4,190 million (1,695 million as of December 31, 2001), while deferred tax liabilities amounted to 40 million (381 million as of December 31, 2001). As a result, net deferred tax assets amounted to 4,150 million (1,314 million as of December 31, 2001).

The 2,495 million increase in deferred tax assets is mainly due to TIM (an increase of 928 million), Telecom Italia (an increase of 1,080 million) and Olivetti (an increase of 598 million) and is related to the write-downs of equity investees and the provisions to the reserves for risks and charges; deferred tax liabilities are generally associated with deferred gains.

Other current assets include miscellaneous receivables due from the Italian government and other public institutions and advances to personnel.

Note 8 Fixed assets, net

Fixed asset balances, net of accumulated depreciation and write-downs are detailed as follows:

	As of December 31, 2001	As of December 31, 2002		
		Cost	Accumulated Depreciation	Net Book Value
	(millions of euro)			
Land and buildings	3,137	3,712	1,467	2,245
Telecommunications systems and equipment, machinery and installations	16,695	56,801	41,843	14,958
Industrial and commercial equipment	83	1,043	983	60
Other	746	2,101	1,410	691
Construction in progress and advances to suppliers	1,436	1,495		1,495
	22,097	65,152	45,703	19,449

As of December 31, 2002 fixed assets include leased assets with a net book value of 565 million (680 million as of December 31, 2001), with a gross value of 728 million (831 million as of December 31, 2001) less accumulated depreciation of 163 million (151 million as of December 31, 2001). In January 2003, some property units leased by Telecom Italia and other Group s companies were purchased ahead of schedule.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

An analysis of movements in fixed assets for each of the years is as follows:

	As of December 31, 2001	As of December 31, 2002
	(millions of euro)	
Balance, at beginning of the year	23,776	22,097
Effect of change in accounting for the Nortel Inversora Group	(2,704)	
	21,072	22,097
Investments in fixed assets	4,317	3,291
Disposals	(188)	(542)
Depreciation(1)	(4,080)	(3,807)
Changes in consolidation area	1,347	(313)
Translation adjustments	(352)	(1,168)
Write-downs and other	(19)	(109)
Balance, end of the year	22,097	19,449

(1) A breakdown of depreciation is as follows:

	As of December 31, 2001	As of December 31, 2002
	(millions of euro)	
Buildings	165	155
Telecommunications systems and equipment, machinery and installations	3,560	3,336
Industrial and commercial equipment	44	38
Other	311	278
	4,080	3,807

Translation adjustments amount to 1,168 million, associated with the segment Mobile (674 million), the Entel Chile group (305 million), the Entel Bolivia group (111 million) and other minor subsidiaries (78 million).

In 2001, changes in consolidation area mainly refer to the inclusion of the Entel Chile group and consolidation of certain SEAT s subsidiaries all of which were acquired in 2001.

A detail of investments in fixed assets by segment during each of the years is as follows:

	As of December 31,	
	2001	2002
	(millions of euro)	
Domestic Wireline	1,949	1,828
Mobile	1,547	1,075
Internet and Media	82	28
Latin America	351	201
IT Group	111	85
IT Market	19	12
Other activities and intercompany eliminations	195	29
Telecom Italia Group	4,254	3,258
Olivetti S.p.A and other operating companies	63	33
	4,317	3,291

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Intangible assets

	As of December 31,	
	2001	2002
	(millions of euro)	
Licenses, trademarks and similar rights	4,452	3,995
Goodwill	31,887	27,894
Software and other rights	1,291	1,269
Leasehold improvements	238	222
Work in progress and advances	874	832
Other	478	349
	39,220	34,561

- Licenses, trademarks and similar rights decreased by 457 million mainly as a result of the change in the exchange rates of South American countries (a decrease of 650 million). They refer to the Mobile segment for 3,446 million, mainly in respect of the remaining unamortized cost on the UMTS and PCS licenses (of which 2,417 million relating to TIM), and other Telecom Italia Group companies for 549 million, principally for Indefeasible Rights of Use (IRU) that have been granted to the Olivetti Group and capitalized.

- Goodwill decreased by 3,993 million compared to December 31, 2001. This is mainly due to the amortization charge for the period (2,151 million), the write-downs of the residual goodwill of Jet Multimedia prior to its disposal (134 million) and of goodwill relating to Seat Pagine Gialle (1,544 million, in consideration of the fact that the Olivetti Group no longer considers its Directories business to be of a core, strategic business), Blu (103 million), Corporacion Digitel (75 million) and other minor subsidiaries (47 million) and the negative performances of the Brasilian Real and Chilean Peso as regards goodwill in those currencies (84 million).

Additions of goodwill for the year 2002 amount to 349 million (1,196 million in 2001) mainly for the purchase by TIM of Blu (103 million) Stet Hellas (66 million) and Corporacion Digitel (27 million) and by Telecom Italia of Netesi and Epiclink (67 million).

As of December 31, 2002, the residual value of goodwill mainly refers to:

(millions of euro)

Telecom Italia	21,351
Seat Pagine Gialle	3,780
TIM	748
Entel Chile	739
Corporacion Digitel	266
TDL Infomedia	252
Holding Media e Comunicazione	163
Other Companies	595
	27,894

- Software and other rights principally include software for telecommunications services.

- Work in progress and advances relate primarily to costs of developing software projects incurred by Telecom Italia, mainly for internal use.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in intangible assets during the year 2002 are as follows:

	2001	2002
	(millions of euro)	
Balance, at beginning of the year	39,640	39,220
Goodwill	796	349
Other additions	3,311	1,610
Amortization	(3,565)	(3,462)
Writedowns	(1,017)	(2,004)
Changes in consolidation area, translation adjustment and other	55	(1,152)
Balance, at the end of the year	39,220	34,561

In 2002 other additions mainly refer to capitalization of costs for telecommunications software and new licenses and similar rights acquired.

The significant write-down in 2002 is substantially related to the Olivetti Group s investment in Seat Pagine Gialle.

Note 10 Other assets

	As of December 31,	
	2001	2002
	(millions of euro)	
Equity investments in:		
Unconsolidated subsidiaries	19	19
Affiliated companies	4,651	2,101
Other companies	387	456
Advances on future capital contributions	1,659	
Total Investments	6,716	2,576
Treasury stock	393	393
Other securities	87	304
Deferred tax asset	704	2,039
Other receivables	1,636	1,510

	9,536	6,822

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments in affiliated companies (4,651 million and 2,101 million, respectively, as of December 31, 2001 and 2002) comprised:

	As of December 31,	
	2001	2002
	(millions of euro)	
Telekom Austria	1,460	708
GLB Serviços Interativos	24	13
Solpart Participaçoes	238	142
Mobilkom Austria	544	
AUNA	690	
Etec S.A.	551	467
Telekom Srbija	195	187
Is TIM	81	
B.D.T.	158	
IM.SER	141	12
Netco Redes	125	22
Telemaco immobiliare	91	
Tiglio I		242
Tiglio II		74
Mirror International Holding	94	94
Italtel Holding	65	43
Stream	32	19
Other	162	78
	4,651	2,101

The investments valued by the equity method include the remaining unamortized portion (504 million, against 1,688 million as of December 31, 2001) of goodwill relating to such investments. Goodwill is mainly associated with Telekom Austria for 315 million and Etec S.A. for 100 million.

Investments in associated companies in 2002 decreased by 2,550 million compared to 2001, as a result of the following:

	(millions of euro)
Balance, at the beginning of the year	4,651

Additions	751
Disposals	(2,615)
Valuation using equity method	(682)
Other	(4)
Balance, at the end of year	2,101

Additions of 751 million mainly relate to stakes in Stream (234 million), Tiglio I (242 million), Tiglio II (74 million) and AUNA (193 million, before the subsequent disposal).

Disposals of 2,615 million mainly relate to AUNA (883 million), Mobilkom Austria (553 million), Telekom Austria (718 million), BDT (158 million), IM.SER (126 million) and Telemaco Immobiliare (109 million).

As of December 31, 2001, advances on future capital contributions amounted to 1,659 million relating to advances made by Tim International to its Turkish investee, Is Tim. As of December 31, 2002, such advances were completely written off due to the deteriorating prospects for recoverability of the investment in Is Tim.

Treasury stock refers to 211,931,328 Olivetti ordinary shares held by Olivetti International S.A. and to 2,697,500 Olivetti ordinary shares held by Olivetti itself, carried at a total value of 393 million. Treasury shares held by Olivetti are 2 million and arose partly from purchases authorized by the shareholders meeting of stock

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

held by employees of the Parent Company and its subsidiaries; the shares held by Olivetti International S.A. were obtained in exchange of the Tecnost shares following the upstream merger of Tecnost into Olivetti and are carried at a total value of 391 million, the original book value of the Tecnost shares.

Other securities as of December 31, 2002 include 287 million referring to 45,647,000 Telecom Italia savings shares and 5,280,500 Telecom Italia ordinary shares; such shares have been bought under the buyback plan authorized by the Ordinary Telecom Italia shareholders Meeting of November 7, 2001.

Other receivables include the non current portion of the expenses related to the deferral of the premium paid for the put option on the SEAT shares, as well as receivables from associated companies, the revalued amount of the tax receivable from the prepayment of the tax on the reserve for employee severance indemnities, loans to employees, loans to third parties and security deposits.

Note 11 Financial Debt

	As of December 31, 2001	As of December 31, 2002		
	Total	**Denominated in euro**	**Denominated in Foreign currency**	**Total**
Short-term debt(1)	9,072	6,050	777	6,827
Long-term debt	37,747	32,400	1,404	33,804
	46,819	38,450	2,181	40,631

(1) Including current portion of long-term debt.

The total financial debt fell by 6,188 million compared to the end of 2001, after the payment of dividends and the distribution of reserves of 3,649 million.

In particular, the total financial debt as of December 31, 2002 benefited from the disposals during the year 2002, net of the related expenses, for a total amount of 4,771 million, mainly in connection with the sale of AUNA (1,998 million), Bouygues Decaux Telecom (750 million), Mobilkom Austria (756 million), Lottomatica (391 million), Sogei (176 million), Telemaco Immobiliare (192 million), Immsi (69 million), Tiglio (551 million), Telekom Austria (559 million), Telespazio (239 million), 9Télécom (an out-flow of 529 million).

At the end of 2000, the Telecom Italia Group established a Global Note Program, which allowed for the issuance of a total amount of U.S.$.12 billion in debt, at various terms, rates and maturities. From time to time, the Telecom Italia Group has issued debt under the Global Note Program in order to meet funding requirements and to refinance existing debt.

In July 1999, the Olivetti Group established a Euro Medium Term Note Program (the **EMTN Program**). The EMTN Program, as updated and amended on June 8, 2001 and May 14, 2002, allows for the issuance of a total amount of 15 billion in debt, at various terms, rates and maturities. From time to time, the Olivetti Group has issued debt under the EMTN Program in order to meet funding requirements and to refinance existing debt.

The portion of financial debt due beyond one year rose from 81% at December 31, 2001 to 83% at December 31, 2002: including also in long-term debt its current portion (3,450 million) the percentage went up to 92% (85% as of December 31, 2001). Such increase is due to refinancing of the debt with the issue of fixed-rate notes by Telecom Italia S.p.A. for 2,500 million on February 1, 2002, divided into two tranches of 1,250 million each, due, respectively, on February 1, 2007 and February 1, 2012. This issue falls under the Global Note Program .

As of December 31, 2002, the amount of unutilized short-term bank facilities was 9,985 million (10,641 million as of December 31, 2001). Approximately 69% of these facilities were denominated in Euro and had varying interest rates.

F-25

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial debt denominated in foreign currency as of December 31 of each year is as follows:

	2001	2002	2001	2002
	(millions of foreign currency)		(millions of euro)	
U.S.$	970	1,073	1,100	1,023
GBP	305	271	502	417
BRL (Brazil)	3,239	1,072	1,584	289
CLP (Chile)	538,381	200,847	937	267
NUEVO SOL (Peru)	329	258	109	70
YEN	450	631	4	3
Other			84	112
			4,320	2,181

A grouping of the financial debt by interest rates is as follows:

	As of December 31, 2001	2002
	(millions of euro)	
Up to 2.5%	5,179	4,779
Fm 2.5% to 5%	25,753	15,941
From 5% to 7.5%	13,795	17,370
From 7.5% to 10%	1,129	935
Over 10%	1,129	935
	46,583	39,763
Non-interest bearing	236	868
	46,819	40,631

The non-interest bearing financial payables relate to certain agreements entered into by Telecom Italia for the lending of SEAT shares (prestito titoli).

Long-term debt as of December 31, 2002 classified by maturity is as follows (in millions of euro):

2003 (current portion of long-term debt)	3,450
2004	7,953
2005	3,826
2006(1)	6,422
2007	3,599
Beyond 2007	12,003
	37,253

(1) Includes 1,964 million Opera Notes puttable from investors in March 2004.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial debt consists of the following:

	As of December 31,			
	2001	2002		
	Total	Long-term debt	Short-term debt(1)	Total
	(millions of euro)			
Debt to banks	10,865	1,850	3,926	5,776
Debt to other financial institutions	2,425	866	1,104	1,970
Convertible notes	8,972	7,401		7,401
Notes and bonds	23,050	23,591	813	24,404
Payables to associated companies	572	24	382	406
Note payables	220		241	241
Suppliers	168	13	8	21
Other	547	59	353	412
	46,819	33,804	6,827	40,631

(1) Including current portion of long-term debt.

- Debt to banks of 5,776 million, decreased by 5,089 million compared to December 31, 2001. Certain bank borrowings are secured by mortgages for 25 million and liens and pledges for 258 million mainly related to Maxitel. Furthermore, TIM International has pledged Digitel shares as a guarantee for a credit facility granted to the same company.

- Debt to other financial institutions, of 1,970 million, decreased by 455 million compared to December 31, 2001. This debt is related to loans payable by Seat Pagine Gialle (780 million) to Seat Pagine Gialle Finance S.r.l., a special purpose vehicle, entirely owned by third parties, operating under Law No. 130/99 on securitization, loans payable to Cassa Depositi e Prestiti by Telecom Italia (284 million) and loans payable by Telecom Italia to the securitization Vehicle (165 million), as well as a loan payable by Olivetti International Finance N.V. to a Japanese investor (174 million); such borrowing due 29 October 2029, was previously under the form of a bond loan of Yen 20 billion .

- Convertible notes of 7,401 million include notes issued by Telecom Italia Group of 1,964 million and notes issued by other Olivetti Group companies of 5,437 million.

Notes issued by Telecom Italia Group include those issued by TI Finance in an aggregate principal amount of 2,500 million, convertible into TIM or Seat Pagine Gialle shares, with the right of the issuer to pay off the amount due in cash. These are five-year notes and can be redeemed by the noteholders before the maturity at the end of the third year after issue. Convertible notes issued by Telecom Italia Group decreased by 536 million due to the buy back and subsequent cancellation of notes by TI Finance.

Notes issued by other Olivetti Group companies decreased by 1,035 million and include:

- Olivetti Finance N.V. 2000-2005 bond for 765 million exchangeable for Telecom Italia ordinary shares, with a fixed annual 1% coupon and redemption premium of 113.41% of the issue price (approximately 15.22 per bond) maturing in November 2005. The bond would result in an aggregate payable of 868 million . The yield on maturity is 3.5% per annum and the exchange will be one Telecom Italia Share for each bond;

- Olivetti S.p.A. 2001-2004 bond for 1,267 million convertible into Olivetti S.p.A. shares, with a fixed annual 1.5% coupon and redemption premium of 105.07759% of the issue price (2.6 per bond) maturing in January 2004. The bond would result in an aggregate payable of 1,331 million. The yield on maturity is 3.25% per annum and the conversion rate is one Olivetti share for each bond.

- Olivetti Finance N.V. 2002-2004 zero-coupon bond for 385 million maturing in March 2004. The loan is convertible into 41,400,000 Telecom Italia ordinary shares (at an exercise price of 9.30 per share);

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Olivetti S.p.A. bonds, with a fixed annual 1.5% coupon and redemption premium of 118.37825% of the issue price (1.0 per bond) maturing in January 2010. The bond would result in an aggregate payable of 2,853 million. The yield on maturity is 3.5% per annum and the conversion rate is one Olivetti share for each bond.

Notes and bonds, which totaled 24,404 million and increased by 1,354 million from December 31, 2001, include the following:

- on April 10, 2001, notes were issued by TI Finance in an aggregate principal amount of 6,000 million. The issue was divided into three tranches: the first, for 1,000 million principal amount of floating rate notes, maturing on April 20, 2004; the second, for 3,000 million principal amount of fixed-rate notes, maturing on April 20, 2006; the third, for 2,000 million principal amount of fixed-rate notes, maturing on April 20, 2011;

- on December 21, 2001, Telecom Italia issued floating rate notes of 1,500 million principal amount maturing June 21, 2005. Telecom Italia can call the notes at an earlier date at par, beginning from the second year and at every interest coupon date thereafter;

- notes maturing in 2003 issued by the Brazilian subsidiaries Tele Nordeste Celular and Tele Celular Sul for 108 million;

- notes maturing between 2007 and 2023 issued by Entel Chile for 208 million;

- notes maturing between 2009 and 2010 issued by the TDL Infomedia Ltd group for 116 million;

- notes issued by Telecom Italia as part of the Global Note Program on February 1, 2002 for 2,500 million, divided into two tranches of 1,250 million each, at fixed interest rates, maturing, respectively on February 1, 2007 and February 1, 2012;

- notes 2002-2022 reserved for subscription by employees, in service and retired, of companies directly and indirectly controlled by Telecom Italia with headquarters in Italy, for 192 million.

- Olivetti International N.V. bond (1998-2003) with a fixed annual 5.875% coupon + 0.15% step-up maturing in May 2003, for 700 million;

- Olivetti International N.V. bond (1999-2009) with a fixed annual 5% coupon + 0.15% step-up maturing in February 2009, for 1,500 million;

- Olivetti International N.V. Swiss Francs bond (1986-2046) with a fixed annual 5.625% coupon maturing in June 2046, for 100 million Swiss Francs equivalent to 69 million;

- Olivetti Finance N.V. (originally Olivetti International Finance N.V.) bond (1999-2004) with a fixed annual 5 $^{3}/8$% coupon + 0.45% step-up maturing in July 2004, for 4,200 million;
- Olivetti Finance N.V. bond (2002-2005) with a floating rate coupon of 1.45% over the EONIA maturing in February 2005, for 200 million;
- Olivetti Finance N.V. bond (2002-2005) with a floating rate coupon linked to quarterly EURIBOR + 130 basis points for 500 million. Bondholders may extend maturity for subsequent periods of 21 months up to an overall maximum term of 10 years;
- Olivetti Finance N.V. bond (2002-2006) with a floating rate quarterly coupon + 1.25 spread maturing in January 2006, for 1,100 million;
- Olivetti Finance N.V. bond (2002-2007) with a fixed annual 6.5% coupon maturing in April 2007, for 1,750 million;
- Olivetti Finance N.V. (originally Olivetti International Finance N.V.) bond (1999-2009) with a fixed annual 6 $^{1}/8$% coupon + 0.45% step-up maturing in July 2009, for 2,350 million;
- Olivetti Finance N.V. bond (2002-2012) with a fixed annual 7.25% coupon maturing in April 2012, for 1,000 million;
- Olivetti Finance N.V. bond (2002-2032) with a fixed six-monthly 3.55% coupon maturing in May 2032 (callable by the issuer annually as from the tenth year), for 20 billion yen equivalent to 161 million;

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Olivetti Finance N.V. bond (2002-2032) with a fixed annual 7.77% coupon maturing in August 2032, for 250 million.

All the above Olivetti Finance N.V. bonds were issued under the EMTN Program.

- Payables to affiliates, of 406 million, decreased by 166 million compared to the end of 2001 and are related mainly to Teleleasing (393 million) for financial lease contracts, some of which were redeemed early in January 2003.

- Notes payable, of 241 million, increased by 21 million and refer to investment certificates, maturing in June 2003, issued by Seat Pagine Gialle as part of the securitization transaction with Seat Pagine Gialle Finance S.r.l. (221 million) and to financial paper with a short-term maturity issued by Telecom Italia (20 million).

- Other, of 412 million, decreased by 135 million compared to the end of 2001. The 2002 amounts were mainly due to the financial payables of Telecom Italia (213 million, of which 176 million represents the loan of Seat Pagine Gialle shares and 32 million for medium/long-term financial debt relating to the agreement reached with the Tax Administration over the assessments received in 2001 by Telecom Italia) and the TIM group (161 million, relating to the remaining amounts payable on the UMTS licenses acquired in Italy and Greece; such liabilities have considerably decreased as a result of the payment of the residual liability for the purchase of the PCS licenses by Tim Celular).

Note 12 Payables, trade and other

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Advances from customers	399	270
Trade payables	6,339	5,649
Payables to associated companies	362	259
Other taxes payable	695	628
Payables to customers	1,650	1,604
Other	1,525	1,860
	10,970	10,270

Advances from customers, which totaled 270 million, decreased by 129 million compared to December 31, 2001.

Trade payables decreased by 690 million from December 31, 2001, mainly as a result of the reduction in payables by Telecom Italia (a decrease of 146 million), the changes in the scope of consolidation (a decrease of 368 million) and the negative performance of the Latin American currencies (282 million). This item also includes 513 million of amounts due to other telecommunications operators.

Payables to customers consist of deposits paid by customers and pre-billed basic subscriber charges (mainly for January and February 2003), as well as prepaid traffic. The item also includes other liabilities for services to be performed by Seat Pagine Gialle (113 million) in relation to the delivery of the directories.

Other includes payables for the telecommunications license fee totaling 1,394 million (1,034 million as of December 31, 2001). Telecom Italia and TIM have contested the Ministerial Decree dated March 21, 2000 that introduced Law No. 448/1998, which set forth a new license fee as from January 1, 1999 in lieu of the previous concession fee. Consequently, they did not pay the license fee for the years 2000, 2001 and 2002.

Note 13 Other accrued liabilities

Other accrued liabilities consist of accrued expenses (primarily interest) of 967 million as of December 31, 2001 and 1,168 million as of December 31, 2002 and deferred income of 808 million as of December 31, 2001 and 899 million as of December 31, 2002. Deferred income includes, among other things, the pre-billed basic charges and rentals of telephone equipment and the unavailable portion of capital grants received.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Other liabilities

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Reserve for taxes	378	344
Reserves for pensions and similar obligations	66	47
Reserve for restructuring costs	161	345
Reserve for forward purchase commitments (Put option on SEAT s shares)	569	1,942
Reserve for risks and charges related to IS Tim		850
Reserve for contract and other risks and charges	2,879	2,258
Payable to INPS and other accruals	1,295	1,381
	5,348	7,167

- The reserve for taxes mainly consists of estimated tax liabilities on positions still to be agreed or in dispute.

- As of December 31, 2002, the reserve for restructuring costs includes 194 million related to Telecom Italia.

- The reserve for forward purchase commitments includes the accrual costs related to the contractual commitments to acquire the additional Seat Pagine Gialle shares for 1,942 million. The amount of 569 million recorded for the same purpose in 2001 was paid in November 2002 at the present value of 500 million (see also Note 18).

- The reserve for risks and charges related to Is TIM (850 million) was recorded in 2002 against the guarantees provided by the Telecom Italia Group to financial institutions on behalf of IS TIM and the loans to Is TIM by the Telecom Italia Group.

- The reserve for contract and other risks and charges (2,258 million; 2,879 million as of December 31, 2001) includes:

  the reserves for contractual risks and other risks, mainly related to Telecom Italia, for a total of 946 million (704 million as of December 31, 2001) provided in previous years and in the current year, relating to the 2000 IM.SER real estate transaction , the sales of Italtel, Sirti and Telespazio, the sale of the satellite consortiums (Mirror);

  the reserves for the risks of technological revisions and future risks inherent to the regulatory framework of TIM for 453 million (465 million as of December 31, 2001);

the TI Finance reserve of   124 million relating to the financial expenses connected with the notes;

the Seat Pagine Gialle reserve of   43 million recorded in 2002 for the estimated losses arising from the exercise of put options by the founding shareholders of Consodata S.A.; and

- Payable to the Italian Social Security Agency (**INPS**) and other accruals includes the non current portion of the contributions due for the personnel of IRITEL, the company merged into Old Telecom Italia in 1994 (see Note 18), as well as the deferred revenue from the capital grants provided by the government.

Pursuant to law no. 58/1992, Telecom Italia is required to provide full national insurance coverage for all employees on the payrolls of STET, SIP, Italcable and Telespazio as at 20 February 1992, as well as for all employees transferred from the Public Administration to IRITEL, through the Telephone Companies Employees Social Security Fund (Fondo Previdenza Telefonici, FPT). This coverage also extends to previous periods of employment in other companies. The amounts due were calculated by the Italian National Social Security Board (INPS) and are to be paid in 15 annual instalments. Subsequently, article 66 of Law no. 427/1993 ruled that these costs be recorded in the financial statements and deducted against taxes for the years in which the payments are made.

The amount of the liability is uncertain, since Telecom Italia and the INPS do not agree on the calculation methods to be used.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The matter is being examined in the Courts. Telecom Italia believes that the total liability at 31 December 2002 in respect of the above payments is between 964 million and 1,289 million (of which 409 million have already been paid), net of the residual amount already recorded by IRITEL and currently carried in the financial statements of Telecom Italia and TIM following the merger of IRITEL.

In accordance with accepted accounting principles, a payable for an amount equivalent to the minimum estimated liability was initially recorded in the Olivetti Group s consolidated financial statements at the time of the allocation of the excess of purchase of the Telecom Italian acquisition in June 1999.

Note 15 Employee termination indemnities

Under Italian labor laws and regulations all employees are entitled to an indemnity upon termination of their employment relationship for any reason. The benefit accrues to the employees on a pro-rata basis during their employment period and is based on the individuals salary. The vested benefit payable accrues interest, and employees can receive advances thereof in certain specified situations, all as defined in the applicable labor contract regulations. The reserve for termination indemnities shown in the consolidated financial statements reflects the total amount of the indemnities, net of any advances taken, that each employee would be entitled to receive if termination were to occur as of the balance sheet date.

The reserve for employee termination indemnities decreased by 50 million compared to the end of 2001, as a result of the followings:

	(millions of euro)
Balance, at beginning of the year	1,414
Provision for the year	216
Indemnities paid	(168)
Advances	(19)
Other variations	(79)
Balance, end of the year	1,364

Other variations mainly refer to the changes in the scope of consolidation.

Note 16 Share capital

Share capital increased by 60 million, compared to December 31, 2001. This increase is due to conversion of bonds (32 million, including 14 million on a free basis through the utilization of Reserves) and to exercise of warrants (23 million, including 11 million on a free basis through the utilization of Reserves) and stock options (5 million).

After these transactions, the share capital of Olivetti as of December 31, 2002 amounts to 8.845 million and is fully paid and consists of ordinary shares of par value 1 each.

Note 17 Additional paid-in capital and reserves, retained earnings and net income (loss) of the year

Additional paid-in capital

Additional paid-in capital of 3,765 million relates to the Parent Company and remained unchanged from December 31, 2001.

	As of December 31,	
	2001	**2002**
	(millions of euro)	
Reserves and retained earnings	3,269	(197)
Net loss of the year	(3,090)	(773)
	179	(970)

F-31

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reserves, retained earnings and net result of the year decreased by 1,149 million compared to December 31, 2001. The reduction was due to the net loss of the year (773 million), to the transfer of certain reserves to capital (25 million, see above) and to other changes (351 million).

Included in reserves and retained earnings are retained earnings of subsidiaries, legal reserves, revaluation reserves and the reserves held on a tax-deferred basis. No income taxes have been provided with respect to such reserves either because they are considered permanently reinvested in the subsidiaries or because the conditions which could give rise to a tax liability are not expected to occur. Legal reserves are not available for payment of dividends.

Note 18 Commitments, Guarantees and Contingent Liabilities

As of December 31, 2002, the Olivetti Group has purchase commitments totaling 2,905 million (3,367 million as of December 31, 2001).

In particular, the purchase commitments mainly refer to:

- Telecom Italia s commitment for the put option on Seat Pagine Gialle shares (2,417 million)

Under the contract agreed on March 15, 2000 (as subsequently amended), Telecom Italia gave Huit II a put option on 710,777,200 Seat Pagine Gialle shares at a strike price of 4.2 per share. The contract provided for the exercise of such option after the deed of merger between Seat Pagine Gialle and Tin.it was recorded in the Companies Register. Huit II later transferred the put option to JP Morgan Chase Equity Limited (JPMCEL), together with the ownership of the corresponding Seat Pagine Gialle shares. On December 4, 2000, JPMCEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of exercising the option at an earlier date in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact of acquiring the shares.

Telecom Italia International then purchased from JPMCEL, a call option on 660,777,200 Seat Pagine Gialle ordinary shares with the same expiry date and strike price as the put option, paying a total premium of 747 million. Moreover, for the purpose of transferring the effects of this latter transaction to Telecom Italia, an identical call option agreement was then entered into, with the same features, between Telecom Italia and Telecom Italia International.

On February 25, 2002, Telecom Italia concluded the renegotiation of the December 4, 2000 put and call options with the JPMorgan Chase group.

In particular, a decision was made to reduce the exercise price of the aforementioned options from 4.20 to 3.40 per share; in view of the reduction, Telecom agreed to pay JPMorgan Chase 569 million at the original expiration date of December 2005, unless Telecom Italia decided to exercise the right to pay the present value of the same amount prior to that date. To guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares, TI Finance provided a guarantee (1,940 million) in the form of a Direct Participation Letter of Credit to JPMCEL.

A decision was also made to eliminate the right of either party to exercise the options, which expire on December 6, 2005, except for Telecom Italia s right to exercise part of the call options earlier; the early exercise of the call option per tranche, beginning from December 2004, covers 355 million Seat Pagine Gialle shares.

As a result of such renegotiation, the aforementioned expense connected with the revision of the strike price of the options (569 million) was accounted for in the caption due to other financial institutions and had no effect on the statement of operations for the year 2002 after utilization of the reserve for forward purchase commitments of Seat Pagine Gialle shares accrued for the same amount at the end of 2001. In November 2002, the renegotiated debt was settled with the payment to JP Morgan Chase of 500 million, corresponding to the present value of the debt.

Following an additional assessment as of December 31, 2002, a reserve for forward purchase commitments of Seat Pagine Gialle Shares of 1,942 million was recorded for the estimated non recoverability of the original price of the put option; this was done to reflect that the Olivetti Group no longer considers its Directories business to be a core, strategic business;

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Seat Pagine Gialle s commitment (55 million) relating to the purchase of 9,122,733 Seat Pagine Gialle shares and the residual 0.27% stake of TDL Infomedia Ltd, held by certain executives, who are also shareholders of TDL Infomedia Ltd;
- Telecom Italia s commitment (10 million) relating to the purchase of the residual 14% stake of Epiclink s share capital, held by Pirelli and other shareholders;
- TIM s commitment (20 million) for the purchase from Wind of assets related to the Blu s core network;
- operating lease commitments of 34 million.

The reduction in the purchase commitments of 462 million from December 31, 2001 is mainly related to the above mentioned revision of the strike price of the options connected to the Seat Pagine Gialle Shares.

As of December 31, 2002, the Olivetti Group has sale commitments totaling 219 million (2,064 million as of December 31, 2001). The decrease of 1,845 million is mainly due to the sale of Auna (as of December 31, 2001 the Olivetti Group s commitment for the sale of such company amounted to 1,999 million).

As of December 31, 2002, the Olivetti Group s sales commitments include 195 million for the sale to the PTT Srbija of the investment held in Telekom Srbija, 10 million for the sale to the Accenture group of the investment held in TE.SS and 7 million for the sale of the investment held in Siteba to the other shareholders.

As of December 31, 2002, the Olivetti Group has given guarantees of 1,227 million (1,538 million as of December 31, 2001). The amount of the guarantees provided is presented net of counter-guarantees received amounting to 596 million (806 million as of December 31, 2001). Guarantees provided mainly consist of sureties provided by Telecom Italia and TIM on behalf of affiliated companies (of which 537 million on behalf of Is TIM, against which a provision was recorded under the reserve for risks and charges) and others for medium/long-term loan transactions and guarantees on bids to acquire TLC licenses abroad.

As of December 31, 2002, the Olivetti Group has given collateral of 111 million (163 million as of December 31, 2001). Collateral provided mainly refers to Is TIM shares pledged as guarantees by TIM International for the performance of the obligations covered by the supply contracts signed by Is TIM with Ericsson and Siemens.

The total amount of Telecom Italia commitments as of December 31, 2002 for building rental obligations to be paid to IM.SER 60, Tiglio I and Tiglio II under 21-year contracts was 3,818 million. The commitment is 209 million per year. Furthermore, Telecom Italia has given guarantees for a maximum amount of 450 million on behalf of IM.SER 60 against contractual risk on buildings previously sold.

Some Olivetti Group companies are involved in various legal actions. However, in the opinion of the Olivetti Group s management, the risks relating to such actions will not materially affect the Olivetti Group s financial position or results of operations.

Pursuant to a law enacted in 1992, Telecom Italia is required to ensure that all personnel employed on February 20, 1992 are covered by the Fondo Previdenza Telefonici (**FPT**), the telephone workers social security fund, for their entire retirement benefit, including sums due in respect to prior employment in other companies. The contributions to cover these benefits are to be computed by INPS (the Italian social security institution), and would be paid in 15 equal annual installments. A subsequent law established that the cost for such contributions should be recorded in the financial statements and be deductible for tax purposes in the respective years as paid. The amount of the liability for the contributions due is not certain as there is disagreement between the Olivetti Group and INPS as to the computation of the amounts due. The issues are presently being debated in legal proceedings between the parties involved pending in front of the Italian judicial courts. Telecom Italia s management believes that the aggregate liability as of December 31, 2002 relating to such contributions can be estimated to range from 964 million to 1,289 million (of which 409 million has already been paid), net of the residual amount already recorded in 1993 by Iritel and presently appearing in these consolidated financial statements following the IRITEL merger (595 million).

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In compliance with accepted accounting principles, a provision for an amount in line with the minimum estimated liability has been recorded in the consolidated financial statements of the Olivetti Group at 31 December 2002.

Pre-amortization interest (including that relating to the employees of the former Iritel), subsequent to the agreement between INPS and Telecom Italia, was paid by the latter with reservation in fifteen equal annual deferred installments, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of 110 million, net of interest adjustments and certain reimbursements made by INPS. The dispute was resolved in Telecom Italia s favor in order No. 3398/2002 decided by the Supreme Court, conforming to the previous order No. 4242/2000 that was handed down (by which the payment of the above interest and accrued interest related thereto was suspended as from June 2000).

Telecom Italia has a receivable of 131 million (including interest at 5%) recorded in the 2002 statement of operations in other income and (expense) net . This receivable was entirely offset by the payment of the current installments.

Management also believes that the other contributions eventually due will not significantly affect the Olivetti Group s financial position or future results of operations since, as provided for by the pertinent law, any costs required to be paid will be paid and recorded over a period of fifteen years.

Financial derivatives

The Olivetti Group uses derivatives mainly for the management of its debt positions, primarily interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, and cross-currency and interest rate swaps (CCIRS) and currency forwards to convert various currency loans mainly in U.S. dollars and Euro into the functional currencies of the various subsidiaries.

At December 31, 2002, the Olivetti Group had short- and long-term forward contracts covering financial liabilities based on a total notional principal amount for the equivalent of 16,735 million (5,881 million relating to Telecom Italia Group companies and 10,854 million relating to other Olivetti Group companies), as illustrated below:

	As of December 31, 2002
	(millions of euro)
Telecom Italia Group	
Interest Rate Swaps (IRS) and Interest Rate Options (IRO)	5,054
Cross currency and Interest Rate Swap (CCIRS)	827

Total Telecom Italia Group	5,881

F-34

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Group companies

IRS contracts expiring June 2046, carried out by Olivetti International S.A. on the bonds of 100 million Swiss francs (1986-2046) issued by Olivetti International N.V.	69
IRS contracts with cap structures, expiring February 2009, carried out by Olivetti International S.A. and Olivetti Finance N.V. on the bonds of euro 1,500 million (1999-2009) issued by Olivetti International N.V.	1,500
IRS contracts, expiring May 2003 carried out by Olivetti International S.A. on the bonds of euro 700 million (1998-2003) issued by Olivetti International N.V.	700
CIRS contracts expiring October 2029 carried out by Olivetti S.p.A., on the loan of Yen 20 billion received by Olivetti International Finance N.V.	174
IRS contracts, expiring May 2032 carried out by Olivetti Finance N.V. on bonds of Yen 20 billion issued by Olivetti Finance N.V.	161
IRS contracts (with cap and floor structures) carried out by Olivetti Finance N.V.:	
expiring July 2009 on the bonds of euro 2,350 million issued by Olivetti Finance N.V., originally issued by Olivetti International Finance N.V. (1999-2009)	2,350
expiring July 2004 on the bonds of euro 4,200 million issued by Olivetti Finance N.V., originally issued by Olivetti International Finance N.V. (1999-2004)	4,000
expiring March 2005 on the bonds of euro 500 million issued by Olivetti International Finance N.V. (2002-2005)	500
expiring January 2006 on the bonds of euro 1,100 million issued by Olivetti Finance N.V. (2002-2006)	800
expiring April 2007 on the bonds of euro 1,750 million issued by Olivetti Finance N.V. (2002-2007)	250
expiring April 2012 on the bonds of euro 1.000 million issued by Olivetti Finance N.V. (2002-2012)	350
Total other Olivetti Group companies	10,854
Total hedging contracts	16,735

IRSs and IROs respectively involve or can involve the exchange of flows of interest calculated on the applicable notional principal amount at the agreed fixed or variable rates at the specified maturity date with counterparts. This principal amount does not represent the amount exchanged between the parties and therefore does not constitute a measure of exposure to credit risk, which is instead limited to the amount of interest or interest differentials to be received at the interest date.

The same also applies to CCIRSs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity and eventually at another date.

The counterparties to derivative contracts are generally highly rated banks and financial institutions and such counterparties are continually monitored in order to minimize the risk of non-performance.

In addition, the Olivetti Group enters into forward contracts to hedge risks associated with exchange rate fluctuations among the currencies of denomination of commercial and financial transactions undertaken by Olivetti Group companies.

At December 31, 2002, the Olivetti Group companies had forward contracts and options for the purchase or sale of foreign currency at pre-arranged rates of exchange for the equivalent of 702 million, comprising hedging contracts for 537 million on financial transactions entered by Olivetti International S.A. and exchange-risk hedges for 165 million arranged by Olivetti Finance N.V. (on the 20 billion yen 2002/2032 bond issued by Olivetti Finance N.V.).

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19 Other revenues

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Operating grants	26	20
Gain on disposal of fixed intangible and tangible assets	12	6
Amount credited to income of grants related to assets	73	65
Charges to customers for late bill payments	112	106
Miscellaneous income	253	307
	476	504

In particular:

- operating grants refer chiefly to the amounts received from government agencies to cover the costs of research, development and technological innovation;
- capital grants recorded in the consolidated statement of operations represent the portion that became available during the year based on the depreciation pattern of the underlying fixed asset;
- miscellaneous income from operations includes, among other things, late payment fees charged to customers of the telecommunications services companies for the late payment of telephone bills (106 million in 2002 and 112 million in 2001).

Note 20 Other external charges

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Cost of external services rendered	9,782	9,407
Rents and lease payments	1,096	1,166

Provision for bad debts	448	546
Provisions for risk	389	114
Write-down of tangible and intangible fixed assets	17	58
TLC license fee	524	431
Other provisions and operating charges	431	466
	12,687	12,188

The 2002 decrease in costs of external services rendered of 375 million was mainly due to the deconsolidation of the Telespazio and 9Télécom groups and Sogei partly offset by the higher costs for the operation and development of mobile telecommunications. The 2001 increase in costs of external services rendered of 1,159 million was mainly due to the higher costs for the operation and development of mobile telecommunications and the change in the scope of consolidation described in Note 1.

The decrease in the TLC license fee, which is principally payable to the Italian Government and is proportional to revenues, decreased in 2002 compared to 2001 and in 2001 compared to 2000 due to a reduction in the domestic fixed line revenue base and a reduction in the rate (the aggregate rate for Telecom Italia and TIM declined from 2.7% in 2000 to 2.5% in 2001 and 2% in 2002).

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21 Financial income

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Dividends	30	51
Capital gain on sale and other income from equity investments	191	6
Interest and capital gains on fixed-income securities	295	125
Interest and commission from:		
unconsolidated subsidiaries and associated companies	24	14
banks	197	185
customers	2	2
Gain on foreign exchange	257	508
Other	450	678
	1,446	1,569

In 2002, other includes 392 million of Telecom Italia Group (298 million in 2001) income on hedging contracts and income from the application of inflation accounting principles.

Note 22 Financial expense

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Interest and commission paid to:		
banks, on short and long term loans	855	285
suppliers	10	12
unconsolidated subsidiaries and associated companies	31	23
Interest and other charges on debenture loans	1,501	1,751
Losses on foreign exchange	392	905
Write-downs and equity in losses in unconsolidated subsidiaries, affiliated and other companies, net	1,618	467

Write-downs of marketable debt and equity securities	529	259
Other	1,590	903
	6,526	4,605

Financial expense decreased by 1,921 million compared to 2001 as a result of the followings:

- the decrease in interest expense due to the lower average borrowings outstanding during 2002;
- the increase in losses on foreign exchange due to the negative performance of the rates of exchange which impacted some Latin American companies, in particular Venezuela and Brazil;
- the reduction in net write-downs and equity in losses in unconsolidated subsidiaries, affiliated and other companies;
- the decrease in other of 687 million mainly as a result of the provision of 569 million recorded in 2001 for the forward purchase commitment of Seat Pagine Gialle shares connected with the estimated non recoverability of the original price to exercise the option. The provision for the year 2002 was recorded in other income and (expense), net .

The decrease in 2002 of 1,151 million in net write-downs and equity in losses in unconsolidated subsidiaries, affiliated and other companies was mainly due to:

- the reduction of 236 million in amortization of goodwill in companies accounted for using the equity method (80 million compared to 316 million in 2001) as a result of the write-downs of goodwill taken in the 2001 financial statements;

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- the decrease of 915 million in the value adjustments to financial assets for the Olivetti Group s share of the equity in the earnings and losses of equity investees (a loss of 387 million compared to a loss of 1,302 million in 2001). Such value adjustments refer to the losses of Stream for 246 million (241 million in 2001), of Is Tim for 171 million (334 million in 2001) and the earnings balance of 30 million relating to the earnings (losses) of the other unconsolidated companies.

In 2001 this item was affected by the negative results of the investments in the Nortel Inversora group (238 million) and in the AUNA group (203 million) and the write-down of Astrolink (259 million) by Telespazio as the related project was interrupted. The investment in the Nortel Inversora group, the carrying value of which was written-off in the consolidated financial statements at December 31, 2001, has remained unchanged.

Note 23 Other income and (expense), net

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Provisions and write downs of goodwill and equity investments	(2,984)	(6,237)
Restructuring costs	(400)	(494)
Charges as required under Law n.58/1992	(84)	(79)
Gains on the disposal of equity investments, tangible and intangible assets	465	2,553
Other, net	(106)	(1,239)
	(3,109)	(5,496)

In 2002, provision and write-downs of goodwill and equity investments amounted to 6,237 million (an increase of 3,253 million compared with 2001). In 2002 it consisted of the following:

- write-down of the equity investment held in Is Tim (1,491 million) and provision to the reserve for risks and charges related to Is TIM (850 million) for the guarantees provided by the Telecom Italia Group to the creditors of Is TIM. It also includes the provision for the loans to IS TIM extended by the Telecom Italia Group. Telecom Italia concluded that the value of its investments was permanently impaired, since, starting from the awarding of the license, some measures which should have fostered effective competition and guaranteed the full operability of the new entrant, did not effectively take place. These measures are essential in the light of international experience and pursuant to applicable legislation in Turkey. Is TIM made reiterated and formal efforts but was de facto prevented from entering the Turkish mobile telephony market, thereby infringing the terms and conditions of the tender. Due to the above mentioned difficulties, no conditions enabling the return of investment seem to be granted;

- write-down of the Seat Pagine Gialle goodwill (1,544 million) and accrual for the forward purchase commitments of Seat Pagine Gialle shares (1,942 million). The write-down and the provision were made on the basis of the average Seat Pagine Gialle ordinary shares based on trading on the Italian Stock Exchange over the second half of 2002;

- other write-downs of investments for 46 million and of goodwill for 321 million (of which: 103 million for Blu, 75 million for Corporacion Digitel, 96 million for Netco Redes and 47 million for other minor companies);

- reserve provision (43 million), made by Seat Pagine Gialle, for the estimated losses arising from the exercise of put options by the founding shareholders of Consodata S.A..

In 2001, provision and write-downs of goodwill and equity investments amounted to 2,984 million. In 2001 it consisted of the following:

- 1,303 million for the writedown of goodwill relating to consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brazil, Med-1 group and certain companies in the Seat Pagine Gialle group);

- 1,078 million for the writedown of goodwill relating to companies accounted for by the equity method (GLB Serviços Interativos, Solpart Participacoes, Telekom Austria and the Nortel Inversora group); and

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 603 million for other provisions relating to equity investees.

Restructuring costs are related to expenses and provisions for employee cutbacks and layoffs.

In 2002, gains on the disposal of equity investees, fixed and intangible fixed assets (2,553 million) arose from:

- the sale of the 26.89% interest in AUNA (1,245 million);
- the sale of the 19.61% interest in Bouygues Décaux Télécom (484 million);
- the acceptance of the tender offer for Lottomatica shares by the Telecom Italia Group (133 million) and by Olivetti and Olivetti International (overall 107 million);
- the sale of the 25% interest in the Mobilkom Austria group (115 million);
- the sale of the 40% interest held in Telemaco Immobiliare (110 million);
- the sale of the 100% interest held in Telespazio (70 million);
- the concentration of the real-estate assets through the companies IMSER, Emsa and Telimm into Tiglio I (159 million);
- the transfer of the Telecom Italia s Asset Management unit to Tiglio II (60 million);
- the transfer by Telecom Italia of its real estate services businesses (excluding facilities management) to the Pirelli & C. Real Estate Group (15 million);
- the sale of the 100% interest held in OMS2 to Tiglio I (26 million); and
- the disposal of other equity investments, fixed assets and business segments (29 million).

In 2001, gains on the disposal of equity investments fixed and intangible assets (465 million), mainly arose from the sale of the 70% holding in Mirror International Holding, the company through which the satellite companies were contributed to the Lehman Brothers group (170 million) and the 30% holding in Mediterranean Nautilus S.A. to the Israeli company F.T.T. Investment (94 million), the dilution of the investment in AUNA (16 million) and the increase in the net equity of Lottomatica as a result of the capital increase set aside for third parties when it was listed (64 million), the sale of the residual equity investment in Globespan Virata Corp. (43 million), and other minor disposals (78 million).

In 2002, other, net (1,239 million net charge) included:

- income arising from the recovery of pre-amortization interest on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 following the termination of litigation after the courts ruled in Telecom Italia s favor (131 million);
- the release of reserves (98 million), primarily set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to New Corporation and Vivendi Universal/Canal+ after the parties did not go through with the agreement;
- grants (9 million) and other income (199 million);
- the provisions made in conjunction with the disposal of the investment in the 9Télécom Group (316 million). In particular, in view of the loss reported prior to sale, the French group 9Telecom had a negative effect on the 2002 statement of operations of the Telecom Italia Group for a total of 389 million;
- losses for the sale of the 15% stake in Telekom Austria (135 million) and for the sale of the whole equity investment in Seat P.G. held by Olivetti (62 million);
- expenses connected with the disposal of equity investees (239 million);
- the extraordinary contributions to INPS established by the year 2000 Italian Budget for the three years 2000-2002 to meet the higher financial requirements covered by the rules of the Fondo Previdenza Telefonici (FPT) that was abolished and became part of the general Employee Pension Fund (74 million);

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- write-downs of tangible and intangible fixed assets (190 million, of which 142 million related to the Brazilian companies);
- provisions to the reserves for risks and charges (226 million, of which 135 million for guarantees provided for the disposals of equity investments and business segments);
- adjustment to Telecom Italia s payable to customers relating to telephone prepaid cards (158 million); and
- other losses on disposals of equity investments, tangible and intangible fixed assets (39 million) and other expenses (237 million).

In 2001, other, net (106 million net charges) included: i) income from the release of reserves by Telecom Italia recorded in prior years for risks which did not materialize (120 million mainly relating to the reserve for the contract with Iraq of 62 million and the reserve for corporate restructuring of 50 million); ii) income (32 million) deriving from the partial cancellation, by the Council of State, of resolution No. 7533/1999 of the Antitrust Authority under which TIM and Omnitel Pronto Italia were levied administrative fines for the alleged violation of antitrust laws relating to the price fixing of fixed-mobile rates; iii) the provision for expenses connected with the Vivendi/Canal Plus agreement for the transfer of the investment in Stream (248 million); iv) the extraordinary contributions to INPS established by the 2000 Finance Bill for the three years 2000-2002 to meet the higher financial requirements covered by the rules of the Fondo Previdenza Telefonici (FPT) that was abolished and became part of the general Employee Pension Fund (77 million); and v) the costs resulting from the decision to reposition the broadcasting station La7 as a consequence of the closing of a series of contracts (85 million).

Note 24 Income taxes

Income taxes include the current, deferred and prepaid income taxes of individual consolidated companies.

In 2002, an income tax benefit of 2,210 million was recognized (compared to an expense of 579 million in 2001) as a result of a current income tax expense of 1,585 million and a deferred income tax benefit of 3,795 million.

The 2002 decrease in income taxes (2,789 million) was due to a reduction in the taxable income deriving from the write-down for tax purposes only of the investment in Telecom Italia and of equity investees which involved an increase in prepaid income taxes, as well as to the benefits arising from the merger of Blu into TIM.

Italian and Foreign income (loss) before taxes are as follows:

	Year ended December 31,	
	2001	2002
	(millions of euro)	
Italy	234	(232)
Foreign	(3,331)	(2,284)
	(3,097)	(2,516)

F-40

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision for income taxes consisted of the following in the years ended December 31, 2001 and 2002:

	Year ended December 31,	
	2001	**2002**
	(millions of euro)	
Current tax expense:		
Italy	1,258	1,418
Foreign	33	167
Total current tax expense	1,291	1,585
Deferred (prepaid) taxes		
Italy	(785)	(3,861)
Foreign	73	66
Deferred prepaid taxes, net	(712)	(3,795)
Income tax expense (benefit)	579	(2,210)

Net Operating Losses

At December 31, 2001 and 2002, the Olivetti Group has net operating loss carry-forwards of 6,372 million and 3,208 million, respectively, for which no deferred tax asset has been provided. Utilization of these losses are limited to future earnings of the respective companies.

Note 25 Subsequent events

Proposed Merger of Telecom Italia and Olivetti (the Merger)

On March 11, 2003, the Boards of Directors of Telecom Italia and Olivetti met and agreed to propose to the shareholders the combination of Telecom Italia with Olivetti (the **Merger**), with the combination to be effected through a series of steps. In May 2003, the ordinary shareholders of both the Olivetti Group and Olivetti authorized that the Merger be accepted based on the terms as proposed by the Boards. Those terms include the extension of a withdrawal right to certain Olivetti shareholders (to be made at 0.9984 per Olivetti share), after which the Tender Offers will be made to the ordinary shareholders and the savings shareholders of Telecom Italia at a price of 8.010 per Telecom Italia Ordinary

Share and 4.820 per Telecom Italia Savings Share, respectively. The total amount of cash to be expended on the Olivetti withdrawal right and the Tender Offers is not to exceed 9 billion. The completion of the tender offers is contingent on the Merger becoming effective. On completion of the Merger, Telecom Italia will be legally merged into Olivetti, with Olivetti then assuming the name, Board of Directors and corporate mission of Telecom Italia. The New Telecom Italia will assume the outstanding debt obligations of Olivetti, including the additional funds (up to 9 billion) to be borrowed as part of the withdrawal and tender offer cash payments.

Disposal of GLB Serviços Interativos

On January 15, 2003, Telecom Italia disposed of its 28.57% stake held in GLB Serviços Interativos for a consideration of U.S.$ 15 million, realizing a net gain of 4 million.

Renewal of first 2001 securitization tranche

On January 22, 2003, the securitization Vehicle renewed the first 100 million tranche of Asset Backed Notes issued on January 29, 2001.

Early purchase of leased assets

On January 27, 2003, the procedures were completed for the early purchase of 12 property units (for about 300,000 square meters) from Teleleasing S.p.A. that are used by Telecom Italia S.p.A. and other Telecom Italia Group companies under financial leasing contracts. The deal involved a total cash payment of approximately 369 million for the all the assets.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disposal of TI logistics company arm

On 27 January, 2003, Telecom Italia announced a transaction with TNT Logistics Italia whereby TNT takes over the stocking and distribution of fixed-line telephony products for customers and Telecom Italia Network assistance and installation. Among other factors, the transaction includes the transfer to TNT Logistics of a portion of the Telecom Italia company comprising 6 central warehouses, 100 outlying warehouses and over 4.5 million pieces of telephone sets and telephone installation articles annually. Devised to promote a company focus on core business, the agreement became operational on March 5, 2003, upon receipt of clearance from the Italian Competition Authority and completion of union consultation procedures.

Lisit Informatica

On February 4, 2003, Telecom Italia, in a temporary association of companies with Finsiel and Lutech (Lucchini Group), won the bid held by the Lombardy Regional Authority for the supply of the goods and services needed to disseminate and manage the Regional Services Card throughout the Lombardy Region.

The total value of the bid won by the association led by Telecom Italia, scheduled to last until 2009, is approximately 350 million.

Within the framework of the obligations undertaken, Telecom Italia and Finsiel acquired 35.2% of the share capital of LISIT, for a total of 54 million.

Acquisition of Consodata shares

On February 12, 2003 Seat Pagine Gialle acquired 1,108,695 ordinary shares in the French subsidiary Consodata S.A. listed on the Paris Nouveau Marché stock exchange after the founding shareholders exercised their option to sell, which was extended to them under an agreement made in the original acquisition by the preceding Seat Pagine Gialle management on July 31, 2000. This transaction, undertaken at an agreed consideration of 44 per share for a total of approximately 48.8 million has enabled Seat Pagine Gialle to acquire a further 8.17% of the company share capital and voting rights, thereby raising its stake in Consodata S.A. to 98.60%.

2002 2022 notes reserved for employees of the Telecom Italia Group

On February 13, 2003, the Board of Directors of Telecom Italia decided to reduce the 2002 2022 notes reserved for employees program from 1 billion to 400 million.

Disposal of Telekom Srbija

On December 28, 2002, the Telecom Italia Group announced that it had agreed to sell to PTT Srbija its 29% holding in Telekom Srbija. The deal was finalized on February 20, 2003 and is expected to be completed by the end of June. PTT Srbija is to pay 195 million, of which 120 million is to be paid by June 2003, and the remainder to be settled in six half-yearly installments from January 2006. The shares disposed of shall be placed in escrow with an international bank until payment of the consideration is complete.

Mobile termination rates

On February 5, 2003, NRA issued Order n. 47/03 setting new maximum values for the termination rates applied by mobile notified operators (TIM and Vodafone Omnitel) for calls originated on third networks. The ceilings for mobile termination charges will be 14.95 eurocents/min, as from June 1, 2003. For 2004 and 2005 the NRA has provided a mechanism (so called network cap) for the planned reduction of termination costs of fixed-mobile which will be introduced along with the improvements and fine-tuning of the regulatory accounting system based on incremental costs and the review of the obligations following the implementation of the new European regulatory framework. The NRA believes that, within this framework, a planned reduction of a maximum of 10% per year minus inflation in 2004/2005 would be reasonable.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Telecom Italia Hewlett-Packard deal

On February 21, 2003, Telecom Italia and Hewlett-Packard agreed a five-year management services and outsourcing arrangement worth a total of 225 million. This outsourcing arrangement became operational on April 6, 2003 following receipt of clearance from the Italian Antitrust Authority and completion of union consultation procedures. Under the agreement, Hewlett-Packard is to supply asset management, help desk, maintenance and administration operations regarding 90,000 Telecom Italia workstations, drawing upon the skills of around 600 IT Telecom specialists who will be transferred to a new Hewlett-Packard entity specialized in these services. For its part, IT Telecom is to house the systems and administer Hewlett-Packard Italia s SAP environment operations. The agreement will lead to a closer focus on core business and is expected to generate efficiency gains through the realization of distributed environment management savings.

Restructuring of the Telecom Argentina group s debt obligations

On February 12, 2003, Telecom Argentina STET-France Telecom S.A. (controlled by Nortel Inversora) and its subsidiaries Telecom Personal S.A. and Publicom S.A. announced their intention to launch a cash tender offer for a portion of their financial debt obligations and to make partial interest payments on their financial debt obligations. Having obtained any necessary authorizations, the offer started on April 16, 2003 and represents the beginning of the process for restructuring the Telecom Argentina group s debt obligations.

In June 2003, Telecom Argentina STET-France Telecom S.A. (controlled by Nortel Inversora) and its subsidiaries Telecom Personal S.A. and Publicom S.A., pursuant to a tender offer, repurchased, U.S.$ 292 million principal amount of their financial debt obligations at a price of U.S.$ 160.6 million (55% of the face value).

Regulator approves 2002 interconnection price list

On February 27, 2003, the Infrastructures and Networks Commission of the NRA approved the interconnection price list for 2002, which Telecom Italia must apply to competing operators for the use of its network in the areas of interconnection services for traffic, billing services with the risk of non-payment for access by Telecom Italia subscribers to non geographical numbers and unbundling local loop access services. The economic effects are included in the 2002 financial statements.

Agreement for the acquisition of Megabeam

In March 2003, Telecom Italia signed the agreement for the acquisition of 100% of the share capital of Megabeam Italia S.p.A., the first Italian wireless Internet service provider, for consideration of 11.5 million.

Megabeam s acquisition falls under Telecom Italia s broadband strategy, in which wireless technology, such as Wi-Fi, occupies a fundamental role in solutions both for the family and for business. Megabeam offers Wi-Fi networking services in private sites and is experimenting the same Wi-Fi service in public places for example, in significant Italian airports and a hotel chain using Wireless-Lan which operates on the 2,400-2,483.5 frequency.

The execution of the agreement is subject to the approval of the Antitrust Authority.

Bond issues

- On January 10, 2003, the multi-tranche benchmark bond issued by Olivetti Finance N.V. and guaranteed by Olivetti S.p.A. was successfully placed. The bond is part of the operations to refinance debt and extend average maturity and does not imply any change in net financial indebtedness.

The bond amount was set at 3 billion to be divided into three tranches, for five, 10 and 30 years. The 30-years Eurobond is the first public euro-denominated bond with such a long maturity.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The terms of the bond are as follows:

first tranche

amount:	1,750 million
issue date:	24 January 2003
maturity:	24 January 2008
term:	5 years
coupon:	5.875% per annum
issue price:	98.937%
effective yield on maturity:	5.89% per annum, corresponding to a yield of +225 basis points over the mid-swap rate

second tranche

amount:	850 million
issue date:	24 January 2003
maturity:	24 January 2013
term:	10 years
coupon:	6.875% per annum
issue price:	99.332%
effective yield on maturity:	6.97% per annum, corresponding to a yield of +255 basis points over the mid-swap rate

third tranche

amount:	400 million
issue date:	24 January 2003
maturity:	24 January 2033
term:	30 years
coupon:	7.75% per annum
issue price:	98.239%
effective yield on maturity:	7.905% per annum, corresponding to a yield of +300 basis points over the mid-swap rate

Integration of Olivetti and Pirelli & C. Real Estate Facility Management operations

As envisaged under Project Tiglio, on April 4, 2003 Pirelli & C. Real Estate and Olivetti signed an agreement for the integration of the facility management operations of Olivetti Multiservices and Pirelli & C. RE Facility Management.

The operation will take place through the transfer to Olivetti of Pirelli & C. Real Estate treasury shares, in line with the approach adopted by the Olivetti Group in its latest acquisitions of services companies. Olivetti will in turn cede its facility management operations, which are valued at 22.5 million and headed by a specific company, OMS Facility.

The number of Pirelli & C. Real Estate shares transferred to Olivetti is 809,946 (just under 2% of share capital) and was agreed by the parties on the basis of valuations conducted by Mediobanca and KPMG. Lazard acted as financial advisor on the operation, while the Chiomenti law firm acted as legal advisor. The agreement also provides for a further price adjustment, if required, to be finalized on December 31, 2005, based on the stock market performance of Pirelli & C. Real Estate shares.

Note 26 Reconciliation to Accounting Principles Generally Accepted in the United States

The consolidated financial statements of the Olivetti Group are prepared in accordance with accounting principles established or adopted by the Italian Accounting Profession as described in Notes 1, 2 and 3, which differ in certain significant respects from U.S. GAAP. A summary of the significant differences is as follows:

F-44

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business combinations

The accounting for business combinations and goodwill differs between Italian and U.S. GAAP for various reasons, which include but are not limited to the following:

(i) Italian GAAP allows, for certain transactions that use shares for part or all of the consideration, that the shares exchanged be accounted for as a pooling of interest, while U.S. GAAP requires that an acquirer be determined, the fair value of the securities exchanged be accounted for and that purchase accounting be used for all business combinations (subsequent to the adoption of Statement of Financial Accounting Standards (**SFAS**) 141, *Business Combinations*),

(ii) Italian GAAP allows that a different measurement date may be used in valuing the securities issued in purchase combinations. Typically U.S. GAAP requires the average stock price be used for a reasonable period of time before and after the date of announcement, while Italian GAAP often does not account for the value of the securities exchanged,

(iii) Italian GAAP allows flexibility as to the effective date, and therefore when the results of operations, can be included in the results of the Olivetti Group, while U.S. GAAP requires that the acquisition be accounted for as of the effective date,

(iv) a detailed allocation of the purchase price of a company is required under U.S. GAAP for intangible assets other than goodwill,

(v) under U.S. GAAP certain put and call arrangements are considered to be acquisition financing and therefore part of the original purchase price, whereas under Italian GAAP they are not recorded until the amounts are paid,

(vi) the amortization of goodwill is required under Italian GAAP, but has ceased as of January 1, 2002 for purposes of U.S. GAAP upon the adoption of SFAS 142,

(vii) the measurement of goodwill impairment under U.S. GAAP requires at least an annual fair value assessment under SFAS 142.

As discussed further in U.S. GAAP accounting policy footnote (k), the Olivetti Group has ceased amortization on all goodwill and indefinite lived assets associated with all acquisitions and equity investees, including those transactions below that have given rise to U.S. GAAP reconciling differences.

Purchase price allocation of acquisition of Telecom Italia

As reported in Note 1, in 1999 Olivetti, through its 72.9% owned subsidiary Tecnost, made a tender offer for the majority of the ordinary shares of Telecom Italia. The transaction was announced at the end of February 1999. The tender offer took place in May 1999 and was completed on June 23, 1999 giving Tecnost a 52.12% controlling interest in Telecom Italia s ordinary shares. The tender offer was financed through a combination of cash, bonds and shares for a total amount equal to 31,501 million. During 1999 Tecnost increased its controlling interest in Telecom Italia acquiring an additional interest of 2.04%, as a result of certain cash transactions. Total consideration amounted to approximately 32,506 million including direct acquisition costs, for the acquisition of a total of 2,850,255,432 ordinary shares of Telecom Italia, equal to 54.16% of total ordinary shares and to 38.96% of total share capital.

Under Italian GAAP, as reported in Note 1, the excess of purchase price was computed with respect to the net book value of the assets acquired, adjusted for certain specific items, related principally to: (i) the recognition of the estimated minimum liability to the Italian National Social Security Board (see Notes 14 and 18), in connection with the telephone workers social security obligations and the related tax effect, (ii) the elimination of goodwill recorded in the books of Telecom Italia, and (iii) dividends paid. Such excess of purchase price, amounting to approximately 26,208 millon was allocated to goodwill and amortized over a period of 20 years.

Under U.S. GAAP, the Telecom Italia acquisition was accounted for by the purchase method with July 1, 1999 designated as the effective date of the acquisition. The tangible and intangible assets acquired and liabilities assumed were recorded at estimated fair values, as determined by the Olivetti Group s management.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following represents the final purchase price allocation to the fair value of the assets acquired and liabilities assumed:

		(millions of euro)	
Tender offer:			
Cash purchase price		18,955	
Bonds issued		7,944	
Fair value of Olivetti Tecnost shares exchanged		4,602	
Consideration for tender offer		31,501	
Subsequent cash purchases		1,005	
Total consideration	**(A)**		32,506
Net tangible and intangible assets acquired		21,593	
Minority interest		(13,180)	
	(B)		8,413
Goodwill from acquisition, amortized over 20 years	**(A-B)**		24,093

As reported in Note 1, in 2000, to rationalize the organizational structure of the Olivetti Group, the 72.9% owned subsidiary Tecnost was merged into Olivetti. The merger was announced on May 15, 2000 and the Boards of Directors of the companies involved in the merger, with the assistance of their advisors, fixed an exchange ratio of 1.12 Olivetti shares for each Tecnost share, both with a par value of 1.00 per share. No cash consideration was involved. The merger was effective from December 31, 2000, with the cancellation of all the Tecnost shares previously held by Olivetti and with the issue of 1,999,439,092 Olivetti shares, par value 1.00 to minority shareholders in exchange for their 1,785,213,475 shares.

Under Italian GAAP the merger was accounted for at book value. Included in the minority shareholders was the Olivetti s subsidiary Olivetti International S.A. which owned 3.2% of total Tecnost shares and obtained in exchange the Olivetti shares (thus becoming treasury shares at consolidated level) carried at a total value of 391 million, the original book value of the Tecnost shares.

Under U.S. GAAP the acquisition of the minority interest through the merger was accounted for under the purchase method, at fair value. Accordingly the acquisition of the 27.1% minority interest from third parties was accounted for at the fair value of the Olivetti shares, determined as the average of the quoted market prices of the shares on the date of the announcement of the transaction and two days before and two days after such date. In addition, for U.S. GAAP purposes, the Olivetti treasury shares decreased consolidated shareholders equity. The excess of cost of the acquisition of the minority interest over the fair value of the net assets acquired amounted to 2,774 million that was recorded as additional goodwill.

As reported in Note 4, under Italian GAAP Olivetti classifies certain shares of Telecom Italia in marketable securities and these shares are not eliminated in consolidation. Under U.S. GAAP the shares have to be consolidated together with the other shares representing 39.86% of total Telecom Italia capital stock. These 41,401,250 shares, which correspond to approximately 0.57% of the share capital, were acquired by Olivetti, through its subsidiary Olivetti International S.A., at the end of the year 2000 for a cash consideration of 508 million.

Under Italian GAAP these shares are accounted for at the lower of cost or market. At December 31, 2001 Olivetti recognized a write down of the value of these shares in the statement of operations of 18 million. At December 31, 2002 an additional write off of 93 million was recognized, thus reducing the carrying value of the shares to 396 million. In 2002, an additional write down was recognized by Olivetti in the statement of operations. The carrying value of such shares at December 31, 2002, as reported in Note 4, is 299 million.

Under U.S. GAAP the Telecom Italia shares classified in marketable securities were accounted for under the purchase method and consolidated starting on December 31, 2000, resulting in the recognition of an additional goodwill of 400 million. The accounting entries provided for Italian GAAP purposes were reversed. Starting from December 31, 2000, the Olivetti interest in Telecom Italia for U.S. GAAP consolidation purposes has been increased by approximately 0.57%.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase method accounting transactions

Several acquisitions, which are required to be accounted for under the purchase method of accounting for U.S. GAAP purposes, have been recorded differently under Italian GAAP. Such acquisitions relate principally to Seat Pagine Gialle S.p.A. (**SEAT**) that made several acquisitions since it was acquired in 2000. Certain of these acquisitions were made through the issuance of additional SEAT shares for the targets stock. For purposes of Italian GAAP, these transactions were recorded as changes in equity. For purposes of U.S. GAAP, the fair value of the stake received is used to determine the purchase price and if not readily determinable, the fair value of SEAT s shares were used to measure the acquisition price.

Revaluation of fixed assets

The Group has periodically revalued its fixed assets as permitted by Italian law. Under Italian GAAP the depreciation charge is based on the revalued amounts. U.S. GAAP does not permit revaluation of fixed assets and requires depreciation based on historical acquisition cost.

Elimination of intercompany profit on sales of intangible and fixed assets and related depreciation

Until 1993, the Olivetti Group did not eliminate intercompany profit on sales of intangible and fixed assets within the Olivetti Group. Therefore, certain intangible and fixed assets are valued at the sales amount instead of historical book value. The amounts, principally from Group manufacturing and installation companies to telecommunication companies, are being depreciated over the useful life of the assets. U.S. GAAP requires the elimination of intercompany profits and requires depreciation based on historical cost.

Capitalization of interest on tangible and intangible assets under construction and related depreciation

The Group capitalizes interest on construction projects only when specific borrowings can be attributed to the project. U.S. GAAP requires interest to be capitalized on both tangible and intangible assets regardless of whether specific borrowings relate to the project. The capitalized interest is being amortized over the remaining useful life of the assets.

Investment in stock of subsidiary companies

The Group records the portion of the total stock owned in certain consolidated subsidiaries within current assets. These shares can be traded by the Olivetti Group when market conditions allow. The portion of the earnings, losses and the ownership interest in the net assets associated with such stock is not consolidated under Italian GAAP, and the shares of the subsidiary are recorded at the lower of historical cost or fair value within current assets. Write-downs below historical cost are reversed in subsequent periods up to the original cost, if the fair value of the equity securities increases. Write-downs and any subsequent reversals are recorded in the statement of operations.

Under U.S. GAAP shares in consolidated subsidiaries cannot be treated as marketable securities, but rather must be consolidated. The value of the investment in subsidiary stock has been adjusted to original cost and has been eliminated upon consolidation. The elimination of the investment results in additional goodwill, the reversal of any write-downs or write-ups taken under Italian GAAP, and the accrual of the incremental income or losses from the additional ownership percentage being consolidated.

SEAT-Tin.it transaction

In 2000, several significant events occurred in connection with the acquisition of a controlling interest in SEAT, giving rise to the following differences. See also Note 28 (d) for further discussion of the SEAT acquisition.

- In February 2000, the Olivetti Group announced its intention to acquire a controlling interest in SEAT, the publisher of the Italian yellow pages. The acquisition was made with a combination of cash and the issuance of shares in Telecom Italia s wholly-owned internet subsidiary, Tin.it, to SEAT. For purposes of Italian GAAP, the transaction was accounted for as an acquisition using purchase accounting for the cash portion of the acquisition, and as a pooling of interest for the exchange of shares. Goodwill of 6,796 million was

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

created under Italian GAAP. For purposes of U.S. GAAP the acquisition, including the shares exchanged, was accounted for at fair value using the purchase method of accounting. For U.S. GAAP purposes the distribution of the subsidiary s shares to SEAT generated a gain of 6,537 million representing the difference between the fair value of the SEAT shares received and the book value of the subsidiary s shares issued. Additionally, SEAT shares were issued directly to Telecom Italia shareholders in exchange for 8.168 percent of the wholly-owned subsidiary s shares, which has been accounted for as a dividend at fair value, generating a gain of 1,329 million.

- For purposes of Italian GAAP, the SEAT acquisition was considered effective as of December 31, 2000. For purposes of U.S. GAAP, the acquisition was considered effective as of October 1, 2000, the date that operating control of SEAT passed to Telecom Italia. Therefore, an adjustment has been recorded to account for the fourth quarter results of SEAT.

- Under U.S. GAAP purchase accounting requirements, the fair value of the SEAT acquisition was 16,025 million. Included in this amount was acquisition goodwill relating to SEAT of 13,834 million . From the date at which the acquisition was announced until the end of December 31, 2000, the market valuations of hi-tech companies, in particular those associated with internet activity, were severely reduced. The share-price reduction was considered a possible indication of impairment, thereby requiring an analysis of a potential impairment of SEAT based upon SFAS 121, as discussed in the U.S. GAAP policy Note 28(j). Based on this review, an impairment charge of 7,966 million was recorded in the 2000 U.S. GAAP results to reduce the value of the SEAT investment.

- As discussed further in Note 28 (d), Telecom Italia entered into a put/call arrangement with a third party in 2000 as part of the acquisition of SEAT. For U.S. GAAP purposes, the put/call was recorded as indebtedness as part of the SEAT acquisition. As discussed in Notes 14 and 18, for Italian GAAP purposes, no initial recognition of the liability occurred in 2000. However, 569 million and 1,942 million were recorded in 2001 and 2002, respectively. As the acquisition and related debt has already been recorded under U.S. GAAP in 2000, the accruals made under Italian GAAP in subsequent periods have been reversed.

- After the acquisition of SEAT by the Olivetti Group, SEAT made additional acquisitions in the fourth quarter of 2000 and throughout 2001. Certain of these acquisitions were done through the issuance of additional SEAT shares for the targets stock. For purposes of Italian GAAP, these transactions were recorded as changes in equity. For purposes of U.S. GAAP, the difference between the fair value of the assets received versus the proportional dilution of the SEAT investment resulted in a gain.

Sale of real estate properties

During the year 2000 the Telecom Italia Group transferred certain real estate properties to a wholly-owned subsidiary (**IM.SER**), 60% of which was then sold to third parties. Concurrent with the sale, the Olivetti Group entered into long-term lease agreements for a portion of the real estate portfolio. Concurrent with the partial sale of the subsidiary, IM.SER borrowed funds from a syndicate of banks, with the funds being dispersed to the shareholders as a special dividend. For purposes of Italian GAAP, a gain was recognized to the extent of the fair market value of the transferred property over its historical cost for that portion sold to third parties. For purposes of U.S. GAAP, the transfer of the assets to the wholly-owned subsidiary, the subsequent lease agreement, the receipt of cash by the Olivetti Group from the partial sale of the subsidiary and the special dividend are treated as a secured borrowing; therefore the gain recorded has been reversed and the real estate retained, along with the additional indebtedness, has been recorded at historical cost. See also Note 28(i) for a further discussion of the Olivetti Group s real estate transactions. In 2002 the Olivetti Group entered into a series of other transactions that involved IMSER, Olivetti, Pirelli and SEAT. Under U.S. GAAP these transactions did not meet the sale/leaseback criteria; therefore the assets and certain debts of the special purpose entities are included in the U.S. GAAP financial statements.

Non-capitalizable expenses

The Group entered into several transactions for which certain costs were capitalized under Italian GAAP. These costs include expenses related to the SMH (renamed TIM International) transaction, start-up and

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expansion costs, research and development costs, software costs and other costs associated with certain intangible assets. For purposes of U.S. GAAP, these costs cannot be capitalizable and have therefore been expensed. Subsequent periods amortization of these expenses is reversed for U.S. GAAP purposes.

Reversal of provisions

During the year 2000, due to the technological changes in the mobile phone industry, TIM determined that the invested cost related to analogic services, and the related network plants and billing systems, was rapidly approaching obsolescence due to the evolution of third generation services. The 2002 Italian GAAP financial statements reflect reserves for 320 million recorded to accrue the estimated costs to modify these systems and/or to reflect their potentially reduced lives. U.S. GAAP requires that certain conditions must be met before reserves can be established and that the lives of fixed assets be evaluated to consider potential changes in the related depreciation period. These conditions, which under U.S. GAAP are stricter and more formal, have not been met. As a result, in the U.S. GAAP reconciliation these provisions have been reversed and the remaining lives and related depreciation expense have been revised to reflect the expected remaining useful lives of the assets. For 2001 and 2002 charges and reversals of the reserve and the modified depreciation are treated as expenses under U.S. GAAP.

In 1999, Olivetti, as a part of the sale transaction of the Omnitel business to Mannesman, recorded, for Italian GAAP purposes, a provision of 88 million in connection with certain contingent obligations for certain options granted to Bell Atlantic in connection with such sale transaction. The provision was subsequently increased in 2000 by 7 million to adjust it for exchange differences. In 2001 the provision was reversed to the statement of operations, since the option was not exercised by Bell Atlantic. This provision did not meet the U.S. GAAP requirements for being provided for and, therefore, it has been reversed in the statement of operations in the years in which it had been provided for. In addition, in 2001, Olivetti, for Italian GAAP purposes, accounted for a provision for risks on various subsidiaries of 200 million, principally in connection with certain estimated liabilities of Olivetti Tecnost and the eventual disposal of the same Olivetti Tecnost. This provision did not meet the U.S. GAAP requirements for being accrued and, therefore, it has been reversed in the statement of operations. In 2002, Olivetti, for Italian GAAP purposes, utilized 87 million of the 2001 provision with respect to certain losses incurred by Olivetti Tecnost and 67 million with respect to certain cash payments for the settlement of a dispute with Verizon (previously Bell Atlantic), while the remaining portion of the 2001 provision of 46 million was maintained to cover certain estimated liabilities of the subsidiaries Olivetti Tecnost and Olivetti Finance. Since the 2001 provision did not meet the U.S. GAAP requirements, these transactions were reversed in the statement of operations for U.S. GAAP purposes. Finally, in 2002 Olivetti Tecnost provided for approximately 8 million related to restructuring charges that did not meet the U.S. GAAP requirements required by EITF 94-3 and also this provision was reversed in the statement of operations for U.S. GAAP purposes.

Common control transactions

During 2000, Telecom Italia acquired an additional ownership percentage of TIM by contributing its ownership of SMH (renamed TIM International) to TIM in exchange for new shares issued by TIM. Under Italian GAAP, this transaction resulted in an increase in equity and goodwill. As the timing of this transaction was near December 31, 2000, no amortization of the goodwill was recognized in the Italian GAAP financial statements.

Under U.S. GAAP, transactions between entities under common control require predecessor basis accounting. Therefore, the increase in equity and goodwill has been reversed. For periods subsequent to 2000, the annual amortization of the goodwill arising from this transaction is reversed for U.S. GAAP purposes.

Securitization of satellite investments

In late 2001, Telecom Italia formed a wholly-owned subsidiary domiciled in Luxembourg (Mirror International Holding, or **Mirror**) to which it transferred its non-controlling investments in certain entities in the satellite communications sector at an amount equal to the fair value of the investments contributed. Subsequently, 70% of the interest in Mirror was sold to Lehman Brothers Merchant Bank (LBMB), with Mirror subsequently obtaining debt financing. For Italian GAAP purposes this transaction was accounted for as a partial sale of financial assets with a pretax gain of 170 million being recorded. For U.S. GAAP purposes, Mirror is deemed a non-qualifying special purpose entity and the transaction is not accounted for as a sale. Instead, the

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounts of Mirror have been consolidated by the Olivetti Group with an elimination of the related step-up of the assets and an elimination of the gain. The cash received from the debt financing of Mirror has been reflected as debt on the Olivetti Group s balance sheet and the cash received from the partial sale of the investment has been reflected as minority interest in Mirror.

Derivative financial instruments

Olivetti enters into a number of derivative agreements to manage its risks related to changes in interest rates, foreign currency exchange rates and values of equity investments. Olivetti s derivative instruments include interest rate swap and collar agreements, cross currency and interest rate swaps, foreign currency options and forward contracts and equity securities options.

Olivetti s accounting policies related to its derivative financial instruments under Italian GAAP are described as follows:

- *Interest rate swap and collar agreements* Olivetti enters into interest rate swap and collar agreements as part of the management of its interest rate exposures. Interest rate differentials to be paid or received as a result of interest rate swap and collar agreements are accrued and recognized as an adjustment of interest expense related to the designated debt.

- *Cross currency and interest rate swaps* Olivetti enters into cross currency and interest rate swap agreements to manage its interest rate and foreign currency exchange exposures related to foreign currency denominated debt. The related foreign currency denominated debt and the foreign currency portion of the cross currency and interest rate swap agreements are adjusted using foreign currency exchange rates as of the related balance sheet date. Interest rate differentials to be paid or received as a result of cross currency and interest rate swap agreements are accrued and recognized as an adjustment of interest expense related to the designated debt.

- *Foreign currency options and forward contracts* Olivetti enters into foreign currency forward exchange contracts as part of the management of its foreign currency exchange rate exposures related to existing foreign currency denominated assets and liabilities or firm commitments denominated in foreign currencies. The foreign currency forward exchange contracts and the related hedged positions are adjusted using foreign currency exchange rates as of the related balance sheet date and any net expense connected with each single transaction is recognized in the statement of operations. Discounts or premiums on forward contracts are recorded in the statement of operations using the straight-line method over the term of the related contract.

Effective January 1, 2001, the Olivetti Group for U.S. GAAP purposes adopted the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* . SFAS 133 requires Olivetti to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in current earnings during the period of change.

For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. Any ineffective portions of net investment hedges are recognized in current earnings during the period of change.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For derivative instruments not designated or qualifying as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

Impairment of long-lived assets and goodwill

Under Italian GAAP, the Olivetti Group recognizes impairments of fixed and long-lived assets when it becomes apparent that there has been a permanent diminution in value. Due to a strategic shift in the Olivetti Group s priorities in 2001, coupled with a general decrease in asset values in the telecommunications sector, the Olivetti Group has recorded write-downs to investments, including equity investees in both 2001 and 2002. See Note 28 (j) for the related discussion.

For U.S. GAAP, the Olivetti Group follows the guidance provided in SFAS 142, as discussed previously, for all goodwill and indefinite lived assets in 2002. For 2001, the Olivetti Group used the guidance as outlined in SFAS 121, *Accounting for the Impairment of Long-lived Assets and for Long-Lived Assets to be Disposed Of* . The application of SFAS 121 required, among other things, that an asset be identified and measured at its lowest level of cash flows for impairment. For purposes of recognizing impairment, the use of both SFAS 121 and SFAS 142 resulted in differences from the impairment amounts recognized under Italian GAAP. See Note 28 (j) for further details. In 2002, the Olivetti Group adopted SFAS 144, as discussed at Note 28 (b).

Reversal of goodwill amortization

Italian GAAP requires that goodwill related to assets be amortized over the assets estimated economic life. Upon the adoption of SFAS 142, the Olivetti Group has ceased amortizing goodwill associated with both subsidiaries and equity investees. Instead, the goodwill asset will be revised on at least an annual basis for impairment.

Other

Other is comprised of the following:

Stock options

From time to time Olivetti Group companies award shares and stock options to certain employees. For purposes of Italian GAAP, the Olivetti Group treats the exercise of stock options as increases in share capital and additional paid-in-capital upon exercise. For U.S. GAAP purposes the Olivetti Group applies Accounting Principles Board Opinion (**APB**) 25, *Accounting for Stock Issued to Employees* and its related interpretations. Under APB 25, these transactions are treated as compensation expense for the difference between the quoted market price of the shares and the cost of those shares to the managers. This difference is determined on the measurement date , which is the first date on which both the ultimate number of shares and the option or award prices are known.

Restructuring reserve

The Italian GAAP financial statements include a restructuring reserve made prior to 2001 as part of a group plan to reduce the workforce and re-train employees. U.S. GAAP requires that certain conditions must be met before a restructuring accrual can be established, as well as the type of costs that can be accrued. Training costs included within the accrual do not meet these conditions, and therefore the U.S. GAAP reconciliation reflects an adjustment to eliminate this amount. In 2001 and 2002, any charges to or reversals from the reserve are treated as expenses for U.S. GAAP purposes. In 2002 the Olivetti Group recorded an additional restructuring reserve, covering approximately 5,813 employees, predominantly in Telecom Italia s Domestic Wireline Business Unit.

Investments in marketable securities

Telecom Italia Group holds marketable securities both for the purpose of selling them in the near term as well as holding them to take advantage of investment opportunities. As described in Note 3, under Italian GAAP, all investments are carried at the lower of cost or market value. Write-downs below historical cost are reversed in subsequent periods up to original cost if the fair market value of the securities increases.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under U.S. GAAP, the securities must be classified into various categories depending on the intent of management. Under U.S. GAAP the securities are classified as either trading or available for sale. The Group s trading securities are recorded at fair value, with unrealized gains and losses included in earnings. Available for sale securities are carried at fair value, with any unrealized gains or losses reflected in other comprehensive income on a net of tax basis. Declines in fair value of available for sale securities that are other than temporary are reflected in current period earnings.

Revenue recognition

Under Italian GAAP, non-refundable activation and installation fees, and their related costs, are generally charged and recognized at the outset of a service contract. Additionally, on-line advertising revenues are recognized at the date the advertisement is first posted. Under U.S. GAAP, up front revenues related to non-refundable fees and certain related direct costs are deferred and recognized over the expected customer relationship period, and on-line advertising revenues are recognized over the life of the advertising period on a straight-line basis.

Equity investees

The Group has certain investments in equity investees whereby the periodic accrual of income or loss is recorded on the basis of the Olivetti Group accounting policies. For purposes of U.S. GAAP, the results of the equity investees are recognized on a U.S. GAAP basis.

Universal service

Telecom Italia provides certain services, known as universal services , which essentially requires the Olivetti Group to offer telephony services to remote and difficult areas, thereby generating losses due to the high fixed and maintenance costs not being offset by an adequate revenue stream. These universal services have been deemed by the National Regulatory Authority to have benefited new fixed and mobile competitors who have entered the marketplace after the deregulation of the industry. Consequently, the National Regulatory Authority determined the costs of providing these services, based on data provided by Telecom Italia, and allocated a pro rata portion of the costs to various competitors, who were requested to pay such allocated amounts to a fund, a portion of which should be remitted to Telecom Italia. The legality and propriety of the allocated charge has been disputed by the competitors who have initiated legal proceeding with the National Regulatory Authority. Under Italian GAAP, Telecom Italia has accrued revenues related to universal service as other income in the accompanying statements of operations. Under U.S. GAAP the revenues for universal services will not be recognized until collected due to the uncertainty surrounding the amount and the collectibility of the revenues.

Deferred tax adjustments

The differences between Italian GAAP and U.S. GAAP are primarily related to the recognition of certain deferred tax assets, including net operating losses, the tax treatment for capital grants received by the Olivetti Group prior to 1998 and the deferred taxes established for the basis differences of assets revaluations. With respect to the benefit of net operating losses or other deferred tax assets, the Olivetti Group under Italian GAAP generally recognizes such benefit when is reasonably certain, while under U.S. GAAP it is recognized when it is more likely than not.

Comprehensive income

SFAS 130 *Reporting Comprehensive Income* requires disclosure of the components of and total comprehensive income in the period in which they are recognized in the consolidated financial statements. Comprehensive income is defined as the change in equity of a business enterprise arising from transactions and other events and circumstances from non-owner sources. It includes all changes in stockholders equity during the reporting period except those resulting from investments by and distributions to owners. Unrealized gains and losses on investments classified as available for sale securities under U.S. GAAP, the cumulative effect of translation adjustments of foreign subsidiaries and the impact of adopting SFAS 133 related to derivatives have been recognized as a component of comprehensive income.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Treasury stock

Olivetti and its subsidiary Olivetti International S.A. purchased its own ordinary shares. Under Italian GAAP, these ordinary shares have been recorded at historical cost within long-term assets, while under U.S. GAAP, the cost of the acquired shares is shown as a deduction from stockholders equity.

Significant differences and the effect of the above on consolidated net loss and stockholders equity are set out below:

	Years ended December 31,	
	2001	**2002**
	(millions of euro)	
NET LOSS		
Net loss as reported in the consolidated statements of operations	(3,676)	(306)
Minority interest	586	(467)
Net loss, net of minority interest applicable for U.S. GAAP purposes	**(3,090)**	**(773)**
Items increasing (decreasing) reported net loss:		
Goodwill related to Telecom Italia acquisition	(483)	512
Purchase method accounting transactions	(524)	(138)
Revaluation of fixed assets	61	155
Elimination of intercompany profit on sales of intangibles and fixed assets and related depreciation	54	34
Capitalization of interest on tangible and intangible assets under construction and related depreciation	124	127
Investment in stock of subsidiary companies	65	83
SEAT put and call amortization	(145)	
Reversal of provision on SEAT put option	569	1,942
Gain on subsidiary dilution	325	
Sale of real estate properties	(34)	(153)
Non-capitalizable expenses	71	82
Reversal of provisions	20	(158)
Common control transactions	14	14
Securitization of Satellite investments	(130)	
Derivative financial instruments	(155)	326
Impairment of goodwill and long-lived assets	(2,626)	(1,469)
Reversal of goodwill amortization		952
Other	(145)	107
Net adjustments	(2,939)	2,416
	(6,029)	1,643

U.S. GAAP income (loss) before reconciliation effects of income taxes, minority interest and cumulative effect of accounting changes		
Income taxes:		
Deferred tax adjustments	(55)	1,386
Tax effect on reconciling items	374	(420)
U.S. GAAP income (loss) before reconciliation effect of minority interest and cumulative effect of accounting changes	(5,710)	2,609
Minority interest on reconciling items	1,684	(653)
Net income (loss) in accordance with U.S. GAAP, before cumulative effect of accounting changes	(4,026)	1,956
Cumulative effect of accounting changes (net of tax)	20	
Net income (loss) in accordance with U.S. GAAP	**(4,006)**	**1,956**

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Ordinary Share Amounts in Accordance with U.S. GAAP (*)

	Years ended December 31,	
	2001	2002
	(euro)	
Basic EPS per Ordinary Share amounts in accordance with U.S. GAAP before cumulative effect of accounting changes	(0.47)	0.23
Diluted EPS per Ordinary Share amounts in accordance with U.S. GAAP before cumulative effect of accounting changes	(0.47)	0.23
Basic EPS per Ordinary Share amounts in accordance with U.S. GAAP	(0.47)	0.23
Diluted EPS per Ordinary Share amounts in accordance with U.S. GAAP	(0.47)	0.23

(*) The earnings per share amounts have been calculated as set forth in SFAS 128, *Earnings Per Share*. Also refer to Note 28 (s) for additional information on earnings per share. For purposes of these calculations the weighted average number of shares was 8,569,939,283 and 8,630,753,657 as of December 31, 2001 and 2002, respectively.

F-54

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31,	
	2001	**2002**
	(millions of euro)	
STOCKHOLDERS EQUITY		
Stockholders equity as reported in the consolidated balance sheets	26,353	20,624
Minority interest	(13,624)	(8,984)
Stockholders equity, net of minority interest	**12,729**	**11,640**
Items increasing (decreasing) reported stockholders equity:		
Goodwill deriving from Telecom Italia acquisition	2,855	3,074
Purchase method accounting transactions	5,861	4,358
Revaluation of fixed assets	(650)	(489)
Elimination of intercompany profit on sales of intangibles and fixed assets and related depreciation	(177)	(143)
Capitalization of interest on tangible and intangible assets under construction and related depreciation	715	802
Investment in stock of subsidiary companies	150	211
SEAT acquisition	5,653	5,653
Effects of SEAT s 4th quarter results	(182)	(182)
SEAT put and call amortization	(160)	(160)
Reversal of provision on SEAT put option	569	2,511
Sale of real estate properties	(349)	(502)
Non-capitalizable expenses	(226)	(144)
Reversal of provisions	522	352
Common control transactions	(197)	(183)
Securitization of Satellite investments	39	39
Derivative financial instruments	(155)	199
Impairment of goodwill and Long-lived Assets	(10,630)	(10,623)
Other	(139)	(50)
Deferred tax adjustments	(55)	1,343
Treasury stock	(393)	(393)
Reversal of goodwill amortization		952
Cumulative effect of accounting changes, net of tax	22	
Tax effect on reconciling items	(2,274)	(2,652)
Minority interests on reconciling items	84	(389)
Stockholders equity in accordance with U.S. GAAP	**13,612**	**15,224**

F-55

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 27 Condensed U.S. GAAP consolidated financial statements

The condensed consolidated financial statements as of December 31, 2001 and 2002 and for the two years then ended presented below have been prepared to reflect the principal differences between the Olivetti Group s accounting policies and U.S. GAAP discussed above.

	As of December 31,	
	2001	2002
	(millions of euro)	
ASSETS		
Current assets	22,786	21,599
Fixed assets, net	24,331	21,503
Goodwill	34,323	31,065
Other intangible assets	11,557	10,105
Other long-term assets:		
Deferred tax assets	1,278	3,950
Other	9,313	4,689
Total assets	103,588	92,911

	As of December 31,	
	2001	2002
	(millions of euro)	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities	22,725	18,599
Long-term debt	43,117	38,375
Reserves and other liabilities:		
Deferred tax liabilities	3,724	2,560
Other liabilities	5,456	7,416
Employee termination indemnities	1,414	1,364
Total liabilities	76,436	68,314
Minority interest	13,540	9,373
Stockholders equity	13,612	15,224
Total liabilities and stockholders equity	103,588	92,911

	Years ended December 31,	
	2001	2002
	(millions of euro)	
STATEMENTS OF OPERATIONS		
Operating revenues	31,792	31,365
Other revenues	482	499
Total revenues	32,274	31,864
Operating expenses	(28,293)	(24,135)
Impairments of goodwill	(3,512)	(3,444)
Operating income	469	4,285
Financial income and expenses and other income and expense, net	(5,381)	(2,813)
Gains on merger, demerger, subsidiary dilution and share conversions	(1,164)	(1,572)
Income (loss) before income taxes	(6,056)	(100)
Income taxes (expense) benefit	(240)	3,176
Income (loss) before minority interest and cumulative effect of accounting changes	(6,296)	3,076
Minority interest	2,270	(1,120)
Income (loss) before cumulative effect of accounting changes	(4,026)	1,956
Cumulative effect of accounting changes (net of tax)	20	0
Net income (loss)	(4,006)	1,956

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Share Capital	Additional Paid in Capital	Reserves, Retained Earnings and Profit (Loss) of the Year	Total
		(millions of euro)		
Balance as of January 1, 2001	6,914	2,773	5,854	15,541
Dividend paid			(255)	(255)
Capital increases for exercise of conversion of bonds, exercise of warrants and stock options	30			30
Capital increases	1,841	569		2,410
Available for sale securities			(91)	(91)
Other movements			(67)	(67)
Translation adjustments on foreign currency financial statements during the year			50	50
Net loss			(4,006)	(4,006)
Balance as of December 31, 2001	8,785	3,342	1,485	13,612
Capital increases for exercise of conversion of bonds, exercise of warrants and stock options	60			60
Available for sale securities			(40)	(40)
Other movements			(13)	(13)
Translation adjustments on foreign currency financial statements during the year			(351)	(351)
Net income			1,956	1,956
Balance as of December 31, 2002	8,845	3,342	3,037	15,224

Other Comprehensive Income:

	2001	2002
	(millions of euro)	
Net income (loss) for the year under U.S. GAAP	(4,006)	1,956
Translation adjustments on foreign currency financial statements during the year	50	(351)

Unrealized gains/(losses) on available for sale securities during the year	(91)	(40)
Adoption of derivative accounting (net of tax of 1 million)	2	1
Total comprehensive income (loss) under U.S. GAAP	(4,045)	1,566

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 28 Additional U.S. GAAP Disclosures

(a) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Accounting changes

(i) Business combinations

In June 2001, the Financial Accounting Standards Board (**FASB**) issued SFAS 141, *Business Combinations* (**SFAS 141**). The Statement requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating the use of the pooling of interest method of accounting for business combinations. In addition, SFAS 141 requires that intangible assets be recorded apart from goodwill if they meet certain criteria. This new standard did not have an impact on the Olivetti Group s results of operations, financial position or cash flows upon adoption as there were no acquisitions after July 1, 2001 that necessitated the accounting requirements of SFAS 141.

(ii) Accounting for goodwill and other intangible assets

In June 2001, the FASB issued SFAS 142 effective for fiscal years beginning after December 15, 2001. SFAS 142 changed the accounting for goodwill from an amortization method to an impairment-only approach based on the supposition that goodwill is not a wasting asset that requires periodic cost allocation. Thus, amortization of goodwill, including goodwill recorded in past business combinations and amortization of intangibles with an indefinite life, ceased upon adoption of SFAS 142. The Group adopted the provisions of SFAS 142 effective January 1, 2002.

The Group completed the SFAS 142 transitional impairment test during the second quarter of 2002 and concluded that there was no impairment of goodwill at that time, as the fair value of its reporting units exceeded their carrying amounts as of January 1, 2002. Therefore, the second step of the transitional impairment test required under SFAS 142 was not necessary.

As required under SFAS 142, the Olivetti Group performed the required impairment testing as of December 31, 2002. Based on that assessment, it was determined that certain reporting units within the Internet and Media segment were impaired. As a result, the Olivetti Group recorded a goodwill impairment charge of 3,444 million. See also Note (k) for further information on the impairment charge.

The Groups 2001 results of operations do not reflect the provisions of SFAS 142. Had the Olivetti Group adopted SFAS 142 as of January 1, 2001, the net income (loss) and basic and diluted net income (loss) per ordinary share and savings share would have been the adjusted pro forma amounts indicated below:

	2001
	(millions of euro)
Net loss for the year under U.S. GAAP	(4,006)
Net income adjustment for amortization of goodwill	3,841
Adjusted net loss	(165)
Reported Basic EPS per Ordinary Share	(0.47)
Reported Diluted EPS per Ordinary Share	(0.47)
Adjusted Basic EPS per Ordinary Share	(0.02)
Adjusted Diluted EPS per Ordinary Share	(0.02)

(iii) Impairment or disposal of long-lived assets (plant and equipment and acquired technology)

In August 2001, the FASB issued SFAS 144 *Accounting for the Impairment of Long-Lived Assets* which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Statement applies to certain long-lived assets, including those reported as discontinued operations, and develops one

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounting model for long-lived assets to be disposed of by sale. SFAS 144 supersedes SFAS 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* , and APB 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* , for the disposal of a segment. The Group adopted the provisions of SFAS 144 effective January 1, 2002.

The Statement requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The new statement also changes the measurement criteria for discontinued operations. SFAS 144 broadens the reporting of discontinued operations to include the disposal of a component of an entity provided that the operations and cash flows of the component will be eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component. The Statement does not apply to investments in equity investees. No write-downs of long-lived assets were recorded under SFAS 144 in 2002.

(iv) Derivative financial instruments

Effective January 1, 2001, the Olivetti Group adopted SFAS 133, *Accounting for Derivative Instrument and Hedging Activities* (**SFAS 133**), and the corresponding amendments and interpretations to this Statement. The Statement requires that all derivative financial instruments be recognized in the financial statements and are to be measured at fair value regardless of the purpose or intent of holding them. If the derivative is designated as a fair value hedge, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in net earnings (loss). If the derivative is designated as a cash flow hedge, the effective portions of the change in the fair value of the derivative are recorded in other comprehensive income (**OCI**) and are recognized in net earnings (loss) when the hedged item affects operations. Ineffective portions of changes in the fair value of cash flow hedge are to be recognized in net earnings (loss). If the derivative used in a hedging relationship is not designated as a hedge, changes in the fair value of the derivate are recognized in the statement of operations through the life of the contract.

For the year ended December 31, 2001, the adoption of SFAS 133 resulted in a cumulative decrease in the net loss of 20 million, net of tax of 7 million and an increase to OCI of 2 million. The adoption of SFAS 133 did not materially affect either the basic or diluted loss per share ordinary or savings share.

(c) New accounting standards

In November 2002, the FASB issued FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* . The Interpretation requires expanded disclosure to be made in the guarantor s financial statements in regards to the guarantees and obligations under certain agreements. It also requires that a guarantor recognize, as of the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statement periods ending after December 15, 2002 and have therefore been applied in the accompanying financial statements. The recognition requirements of FIN 45 are applicable for guarantees issued or modified after December 31, 2002. The Group is still evaluating the effect, if any, that adoption of the Interpretation will have on its financial condition and results of operations.

In January 2003, the Financial Accounting Standards Board issued FIN No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51* . The Interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. Olivetti has sold certain of its trade accounts receivables to a sponsored conduit under a 2 billion accounts receivable securitization facility. Under the securitization facility, Olivetti has an agreement to sell, on a revolving basis, pools of certain accounts receivables to a special-purpose entity vehicle (the **Vehicle**). The Vehicle then issues notes to investors, with the receivables being used as collateral. The revolving facility with Olivetti is to be used to pay off

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the issued securities. The Vehicle then sells a senior interest in the receivables at a discount to the conduit in exchange for cash, which is used to purchase additional receivables from the Olivetti Group. The Vehicle s assets are legally isolated from Olivetti s general creditors and the conduit entity s investors have no recourse to Olivetti s other assets for failure of debtors to pay when due. Olivetti also retains servicing responsibilities and receives a market-based servicing fee.

The transfers of the accounts receivable are recognized as sales in accordance with SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilitie*s. Gains and losses from transfers are recognized in the statement of operations when the Olivetti Group relinquishes control of the transferred financial assets. The gain or loss recognized on a sale depends in part on the previous carrying amount of the assets involved in the transfer, allocated between the portion of the assets sold and the retained interests based upon their respective fair values at the date of sale. The Company is in the process of evaluating the implications of the Interpretation to all variable interest entities with which it has involvement, but has determined that it will not be required to consolidate the Vehicle.

In November 2002, the Emerging Issues Task Force (**EITF**) of the FASB reached a consensus on EITF 00-21, *Accounting for Revenue Arrangements with Multiple Element Deliverables* . The EITF addresses how to account for arrangements that may involve the delivery or performance of multiple products, services and / or rights to use assets. Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration should be divided into separate units of accounting based on their relative fair values. The Issue also supersedes certain guidance set forth in SEC Staff Accounting Bulletin (**SAB**) 101. The final consensus is applicable to agreements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. Additionally, companies are permitted to apply the consensus guidance to all existing arrangements as a cumulative effect of a change in accounting principle. The Group will adopt this new pronouncement as of January 1, 2004. The Group is currently evaluating the impact of the Issue on results of operations, financial position and cash flows.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations,* which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated long-lived asset and is depreciated over the asset s useful life. The liability is accreted to its present value each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, a gain or loss on settlement is recognized. The Group is required and plans to adopt the provisions of SFAS 143, effective January 1, 2003. To accomplish this, the Olivetti Group must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require gathering market information and the development of cash flow models. Additionally, the Olivetti Group will be required to develop processes to track and monitor these obligations. The Group has not completed its assessment of the impact SFAS 143 will have on its results of operations, financial position and cash flows.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* , which addresses financial accounting and reporting for costs associated with exit or disposal activities, which effectively nullifies EITF 94-3, *Liability Recognition for Certain Employee Termination Benefitsand Other Costs to Exit Activity Including Certain Costs Incurred in a Restructuring* . The principal differences between SFAS 146 and EITF 94-3 relates to SFAS 146 s requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity s commitment to an exit plan. A fundamental conclusion reached by the FASB in SFAS 146 is that an entity s commitment to a plan, in and of itself, does not create an obligation that meets the definition of a liability. Therefore, this statement eliminates the definition and requirements for recognition of exit costs in EITF 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 changes the accounting recognition of one-time termination

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

benefits, requiring that those costs be recognized over the period of the employees service beyond a minimum retention period. Under EITF 94-3, these costs were accrued upfront when all the criteria of EITF 94-3 were met. The effective date for the new Statement is January 1, 2003, with earlier adoption allowed. The Group will apply the provisions of the Statement beginning January 1, 2003.

In December 2002, the FASB issued SFAS 148 *Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of SFAS 123* . SFAS 148 is applicable to those entities that decide to adopt the fair value stock based compensation as their primary accounting policy, as opposed to APB 25. The Group has adopted the additional disclosure requirements of SFAS 148.

In May 2003 the FASB issued SFAS 150 *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* , the new accounting standard for certain types of freestanding financial instruments and disclosure regarding possible alternatives to settling financial instruments. The Group has started to evaluate what impact, if any, adoption of SFAS 150 will have on the Olivetti Group s consolidated financial condition and results of operation. The Statement is effective for all financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period after June 15, 2003.

(d) Acquisitions

Year 2002

The Group uses SFAS 141, *Business Combinations* to account for acquisitions. Under SFAS 141, in every business combination an acquirer must be identified based on an overall assessment of the facts in each situation. The Group made several insignificant acquisitions in 2002. Periodically the Olivetti Group also acquires shares or companies from related parties. The purchase accounting treatment for these acquisitions depends on an overall assessment of the share ownership before and after the transaction. In general, if the Olivetti Group or an affiliate owns 50% or more of the shares before and after the transaction it is accounted for based on common control, and therefore historical basis accounting is used. The Group paid a total of 1,199 million in cash for acquisitions in 2002, of which 465 million was for existing equity investees. Of the remaining 734 million, 108 million was for an additional stake in Stet Hellas, a controlled subsidiary of TIM. The acquisitions have not had a material impact on consolidated operating revenues, income before income tax, net income or earning per share. The following represents the significant acquisitions in 2002:

Blu

On October 7, 2002, TIM purchased the number four wireless operator in Italy, Blu S.p.A. (**Blu**), with Blu being merged into TIM S.p.A. on December 23, 2002 (effectiveness date). Immediately prior to the acquisition, Blu sold off most of its core assets to the other rival phone companies in Italy, as called for in the final anti-trust resolution that allowed the sale to go forward. TIM paid approximately 84 million in cash to receive 100% of the shares of Blu, assumed approximately 546 million in debt and forfeited approximately 90 million in net receivables from Blu for a total purchase price under U.S. GAAP of 720 million The Italian anti-trust authorities requirement that Blu be acquired in pieces by all of the Italian market operators immediately before TIM acquired the stock resulted in the assessment that, under SFAS 141 and EITF No.98-3, *Determining Whether Non monetary Transactions Involves Receipt of Productive Assets or of a Business* , Blu did not represent a business as defined and therefore, no goodwill could be assigned based on the purchase price. As the acquisition of Blu did not qualify as a business as required under SFAS 141, the Olivetti Group applied the guidance as established in EITF 98-11, *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations* . Based on the guidance in EITF 98-11, the acquisition of Blu has been treated as the acquisition of a collection of assets, including a part of the benefit of the net operating losses (**NOL s**) acquired. In accordance with this guidance, part of the deferred tax assets related to the NOL s of Blu were not recorded at the acquisition date, as these items were not known at the time of the acquisition. In accordance with EITF 98-11, the NOL s first reduced long-lived assets to zero, prior to being recorded in the statement of operations. The benefit of the deferred tax assets was recognized in 2002, along with the deferred credit. The benefit from both the NOL s and the deferred credit were recognized in the tax expense line of the condensed financial statements. The following represents the allocation of the purchase price paid for Blu:

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	(millions of euro)
Current assets, net	617
Long-term assets	53
Intangibles	22
Deferred tax on assets purchased	2
Tax net operating losses	103
Deferred credit	(77)
Net assets purchased	720

EpiClink

On August 2, 2002, Telecom Italia reached an agreement with EpiClink S.p.A. (**EpiClink**) shareholders for the purchase of 86% of the outstanding shares of EpiClink. EpiClink is a company operating as a specialized operator in outsourcing services in information and communication technology for small and medium sized businesses. In particular it provides communication and Internet hosting and servicing management. The price paid for the controlling interest in EpiClink was 60.2 million. The allocation of the purchase price paid for the controlling interest in EpiClink resulted in additional goodwill of 49 million. The Group was granted a call option, exercisable in the first two years following the acquisition, by which the Olivetti Group can acquire the remaining shares for the higher of either 10 million or the fair value of the minority interest. After the expiration of the call option, the minority interests will have a put option by which they can put the remaining shares to the Olivetti Group based on substantially the same terms. The results of Epiclink have been included on a consolidated basis since June 2002.

Stet Hellas

In 2002, the Olivetti Group increased its controlling interest in its Greek mobile subsidiary, Stet Hellas. The Group purchased from Verizon Europe Holding II group an additional 17.45% interest in Stet Hellas for 108 million in cash, increasing its total percentage to 81.40%. The acquisition has been accounted for under SFAS 141 using step acquisition accounting. An additional 66 million of goodwill was associated with the additional ownership acquired.

2001

Entel Chile

In December 2000, the Telecom Italia Group signed an agreement to increase its investment in Entel Chile (**Entel**) from 26.16% to 54.76% by purchasing shares held by the Chilquinta Group and the Matte Group in a cash transaction. Entel operates in the sectors of fixed and mobile telephone services, data-transmission and Internet-access services. Previous to this investment the Olivetti Group had owned a 26.16% interest in Entel Chile, which in accordance with U.S. GAAP was accounted for using the equity method. The overall cost of the acquisition was 970 million, with the acquisition completed and accounted for as of April 1, 2001.

Under Italian GAAP, the Entel acquisition was accounted for by the purchase method, with the date of effective control designated as of January 1, 2001. The excess of the acquisition cost over the equity in the net book value of net assets acquired was allocated to goodwill, which was being amortized by the straight-line method over 15 years. Entel Chile has been included in the consolidated financial statements of Telecom Italia from January 1, 2001.

Under U.S. GAAP, the Entel acquisition was accounted for by the purchase method with April 1, 2001 designated as the effective date of the acquisition. The tangible and intangible assets acquired and liabilities assumed were recorded at estimated fair values. The following represents the purchase price allocation to the fair value of assets acquired and liabilities assumed:

	(millions of euro)
Purchase price	970
Net tangible and intangible assets acquired	(342)
Goodwill from acquisition	628

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortization of costs assigned to intangible assets and goodwill is computed by the straight line method over the expected period to be benefited, which is five years for software and 15 years for licenses and goodwill. Goodwill ceased being amortized as of January 1, 2002, the date that the Olivetti Group adopted SFAS 142.

For U.S. GAAP purposes, Entel Chile has been included in the consolidated financial statements of Telecom Italia by the equity method of accounting for the 26.16% interest through March 31, 2001 and fully consolidated from April 1, 2001.

The following table reflects the results of operations on a pro forma basis as if the acquisition of Entel Chile had occurred as of January 1, 2001. The following unaudited pro forma information also excludes the effects of synergies and any other cost saving initiatives related to the acquisitions.

	Unaudited
	2001
	(millions of euro, except per share amounts)
Operating revenues	32,581
Net income (loss)	(4,154)
Earnings per Share:	
Basic EPS per ordinary share	(0.48)
Diluted EPS per ordinary share	(0.48)

Consodata

On February 9, 2001, SEAT gained a controlling stake (54.5%) of Consodata S.A. (**Consodata**), a company listed on the Paris Nouveau Marché in the business of information marketing. The acquisition occurred in the following manner: (i) SEAT issued 63,789,104 ordinary shares to the Consodata shareholders for 3,986,819 Consodata shares, corresponding to 39.27% of the French company s share capital; then (ii) SEAT contributed their entire stake (100%) in the operating subsidiary Giallo Dat@ to Consodata in return for 3,383,520 new ordinary shares (25% of the new post-increase capital of Consodata). On May 30, 2001, SEAT announced a public tender offer in which sixteen new ordinary SEAT shares were offered for each Consodata share. The holders of 5,981,625 Consodata shares, equivalent to approximately 44.19% of the share capital, participated in the offer in which 95,706,000 new ordinary SEAT shares were issued on August 8, 2001. SEAT, therefore, gained a total interest of 90.74% in the new combined entity Consodata-Giallo Dat@. The Company s total investment in Consodata totaled 554 million. The operations of Consodata have been included in the consolidated financial statements from the date of majority acquisition. The transaction was accounted for as a purchase, using step-acquisition accounting, and the excess cost over the fair value of the identifiable tangible and intangible net assets acquired of 514 million was recorded as goodwill, which was being amortized over 10 years computed on the straight line method. During 2002, the Olivetti Group recorded an additional purchase of 8.17% of Consodata for approximately 49 million. This purchase completed SEAT s obligations under previously signed put and call arrangement. The entire amount paid was recorded as additional goodwill. The Company performed an impairment review under U.S. GAAP in accordance with its policy described in Note 28 (j), and as a result, recorded a non-cash impairment charge to the goodwill related to Consodata of 457 million in 2001.

Telegate

As of October 1, 2000, SEAT owned 2.2% of Telegate AG, a publicly traded company in Germany, with a fair value of 37 million. During November 2000, the Company acquired an additional 11.34% of Telegate AG and 51.37% of Telegate GmbH, a German holding company. Telegate GmbH directly owns 50.99% of Telegate AG. The acquisition was accomplished through the issuance by SEAT of 147,446,627 ordinary shares for a total purchase price of 758 million. On April 5, 2001, SEAT purchased the remaining 48.63% of Telegate GmbH through the issuance of 150,579,625 new ordinary shares for a purchase price of 309 million. The total investment in Telegate GmbH and Telegate AG totaled 1,104 million. The operations of Telegate GmbH and Telegate AG have been included in the consolidated financial statements from the date of majority acquisition.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The transaction was accounted for as a purchase, using step-acquisition accounting, and the excess cost over the fair value of the identifiable tangible and intangible net assets acquired of 1,048 million was recorded as goodwill, which was being amortized over 7 years computed on the straight line method. During 2002, the Olivetti Group purchased an additional 13.9% of Telegate AG for approximately 30 million via a capital increase. The capital increase was subscribed to only by SEAT and Telegate Gmbh, therefore giving the Olivetti Group 78.44% of Telegate AG. An additional 9 million in goodwill was recorded from this transaction. The Company performed an impairment review under U.S. GAAP in accordance with its policy described in Note 28 (j), and as a result, recorded a non-cash impairment charge to goodwill related to Telegate of 907 million in 2001.

Prior to January 1, 2001

SEAT Acquisition

On February 10, 2000, Telecom Italia announced that it had reached an agreement to acquire a controlling interest in the Italian yellow page publisher, SEAT Pagine Gialle S.p.A. (the **SEAT Acquisition**). In addition to its publishing business, SEAT also has Internet and television properties. The SEAT Acquisition was effected in a series of steps and was financed through a combination of cash and the issuance of shares in a wholly-owned subsidiary of Telecom Italia, Tin.it, to SEAT. Through a proxy offering and an acquisition from a private investment vehicle (**Huit II**), Telecom Italia paid 6,104 million in August 2000 and 6 million in November 2000 to acquire 1,156 million ordinary shares and 327 million savings shares of SEAT. On November 15, 2000, Telecom Italia distributed shares in its previously wholly-owned Internet subsidiary, Tin.it, to SEAT to obtain a further 4,675 million ordinary shares of stock. Concurrent with the shares issued, Telecom Italia distributed 8.168% of Tin.it to SEAT on November 10, 2000, for which SEAT issued new shares directly to Telecom Italia s shareholders. This part of the SEAT Acquisition was accounted for as a dividend to the Shareholders of Telecom Italia at fair market value. On November 20, 2000, Telecom Italia paid 258 million to acquire a further 53 million ordinary shares.

For purposes of Italian GAAP, the cash consideration paid for SEAT s shares was recorded under purchase accounting, the shares of Tin.it exchanged for the controlling interest in SEAT were accounted for based on the pooling of interest basis of accounting, therefore no value was ascribed to this portion of the SEAT Acquisition. For Italian GAAP purposes, the SEAT Acquisition was accounted for as of December 31, 2000. For purposes of U.S. GAAP, the shares of Tin.it exchanged for the controlling interest in SEAT have been accounted for as a purchase. The shares issued to Telecom Italia have been valued using the average quoted market price of the SEAT shares in the period from February 8 to February 14, 2000, including the announcement day of the SEAT Acquisition on February 10, 2000. For purposes of U.S. GAAP, the SEAT Acquisition was considered effective as of October 1, 2000, the date that operating control of SEAT was deemed to have passed to Telecom Italia, and therefore the SEAT Acquisition was accounted for as a purchase as of that date.

As part of the SEAT Acquisition, a put option was granted to minority shareholder Huit II under the agreement relating to the SEAT/Tin.it transaction entered into by, among others, Telecom Italia and Huit II on March 15, 2000. The put option allowed the holders of the option to put approximately 710 million SEAT shares to Telecom Italia at 4.20 per share. The option was exercisable not later than the 12th business day after the completion of the transaction. On December 5, 2000, upon notification from the put holders of their intent to exercise, Telecom Italia entered into a transaction with a company of the JPMorgan Chase, whereby JPMorgan Chase acquired approximately 710 million SEAT ordinary shares from Huit II along with Huit II s put option to sell such shares to Telecom Italia at the price of 4.20 per share. In addition, the exercise period was lengthened to a maximum of five years and a corresponding call option over approximately 660 million shares was granted to Telecom Italia under the same terms and conditions as the put option, with the payment of a premium of approximately 747 million. For purposes of U.S. GAAP, the put and call agreement has been accounted for as the acquisition financing of an additional equity interest, with the amounts due under the agreement included in the purchase price allocation below. The put/call agreement increased the investment in SEAT, including goodwill, by 2,985 million with a corresponding increase in long-term debt. For purposes of Italian GAAP, the put and call obligations were not recognized in the financial statements in 2000. However, 569 million and 1,942 million were recognized in 2001 and 2002, respectively, based on the estimated portion of the fixed option price that would not be recoverable upon exercise. The Group has decided to divest the Directories, Directories Assistance and Business Information businesses of SEAT in 2003.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following represents the final purchase price allocation to the fair value of the assets acquired and liabilities assumed.

		(millions of euro)	
Cash purchase price		6,368	
Fair value of merger transaction and put/call financing of minority interest acquisition		9,607	
Transaction costs		49	
Total consideration	**(A)**		16,024
Net tangible and intangible assets acquired		3,639	
Minority interest		(1,449)	
	(B)		2,190
Goodwill from acquisition	**(A-B)**		13,834

Like many companies operating in the technology sector, and in particular the Internet, as of December 31, 2000 the share price of SEAT had declined substantially from the date of the SEAT Acquisition announcement, falling to 2.375 from the acquisition and merger price of 4.2 agreed upon in February 2000. The reduction was considered to be an indicator of impairment for purposes of SFAS 121, *Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of*, which was the accounting principle used by the Olivetti Group at that time to assess impairment.

Based on Telecom Italia s analysis and comparison of the undiscounted cash flow of SEAT, it was apparent that the undiscounted cash flows of SEAT were less than the carrying value of the investment in SEAT, at which point the goodwill related to the investment was considered impaired. Upon an analysis of the SEAT business plan, a discounted cash flow analysis was performed, with the outcome being a 7,966 million reduction in the acquisition goodwill.

The remaining goodwill was being amortized on a straight-line basis over 12 years until January 1, 2002, when the Olivetti Group adopted SFAS 142.

Holding Media e Comunicazione (formerly Cecchi Gori Communications)

On August 8, 2000, SEAT purchased 25% of Cecchi Gori Communications S.p.A. (**CGC**) for a total of 129 million in cash from Cecchi Gori Communication Media Holdings (**CGCMH**). During 2001, SEAT acquired the remaining 75% of CGC, bringing the Olivetti Group s total investment in CGC to 217 million. The operations of CGC have been included in the consolidated financial statements from the date of majority acquisition. The transaction was accounted for as a purchase, using step-acquisition accounting, and the excess cost over the fair value of the identifiable tangible and intangible net assets acquired of 72 million was recorded as goodwill, which was being amortized over 10 years computed on the straight line method until January 1, 2002, when the Olivetti Group adopted SFAS 142.

TDL Infomedia

During December 2000, the Company acquired 99.6% of TDL Infomedia Ltd. (TDL) through the issuance of 140,672,537 ordinary shares for a total purchase price of 527 million. The operations of TDL Infomedia Ltd. are included in the consolidated financial statements from the date of acquisition. The transaction was accounted for as a purchase and the excess cost over the fair value of the identifiable tangible and intangible net assets acquired of 443 million was recorded as goodwill, which was being amortized over 15 years computed using the straight line method. The Company has an option to acquire the remaining shares at a price to be determined based on a multiple of the operating results of TDL from 2001 through 2003 up to a maximum purchase price of 120.2 million. In connection with the acquisition of TDL, SEAT entered into share lock-up agreements with certain executive shareholders of TDL. Under the terms of these agreements, the executives are restricted through 2004 from selling the 13,684,099 aggregate shares of SEAT received. As consideration, SEAT has guaranteed the executives a value of 3.53 per share, as long as the executive remains employed by TDL at the end of the lock-up period. If at the conclusion of the lock-up period the quoted market price of SEAT s shares fall below the guaranteed value, Seat will be required to issue additional shares to the executives such that the

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

total market value of all shares received equals the value of the original number of shares at the guaranteed value. The purchase option and share lock-up agreements result in potential additional compensation to the executives. As a result, during the term of the option and lock-up periods, compensation expense will be recorded to reflect the fair value of any additional shares, if any, to be issued at the end of each reporting period and the excess of the option price over the estimated fair value of additional shares to be acquired. The amount of compensation expense related to these agreements was 21 million and 32 million in 2002 and 2001, and was immaterial in 2000. No additional acquisition amounts payable have been recorded for the contingent consideration.

(e) Supplemental disclosure of cash flow information

Cash and cash equivalents

Cash and cash equivalents represent highly liquid investments that are readily convertible to cash and have original maturities of ninety days or less.

Other Information

	2001	2002
	(millions of euro)	
Changes in Operating Assets and Liabilities		
Marketable securities	(361)	1,909
Receivables	(46)	473
Inventories	107	277
Other current assets	(931)	(2,295)
Payables, trade and other	811	(624)
Accrued payrolls and employee benefits	(170)	34
Accrued income taxes	(81)	20
Other accrued liabilities	391	292
	(280)	86
Cash Paid During the Year For:		
Interest	2,147	1,836

Income taxes	2,080	725

(f) Marketable securities

The Group s investments consist primarily of investment grade marketable debt and equity securities. For purposes of U.S. GAAP these securities are classified as either held to maturity, trading or available for sale. Held to maturity securities are securities that the Olivetti Group has the ability and positive intent to hold until maturity, therefore they are carried at amortized cost. Trading securities are recorded at fair value with unrealized gains and losses included in the statement of operations. Available for sale securities are recorded at fair value with the net unrealized gains or losses reported, net of tax, in other comprehensive income. Prior to December 31, 2002, virtually all of the Telecom Italia Group s marketable securities were classified as trading. Given the prolonged drop in security valuations over the last two years, and the adequate liquidity generated by the Telecom Italia Group operations, the Olivetti Group reclassified the portfolio of Telecom Italia to available for sale. The transfer was made at market value, resulting in a loss of 169 million as of December 31, 2002. For purposes of Italian GAAP, investments are carried at the lower of cost or market value, with any gains or losses reflected in the statement of operations. Securities are valued using their specific identification.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of all portfolios is determined by quoted market prices.

December 31, 2001	Amortized cost (euro millions)	Unrealized gains (euro millions)	Unrealized losses (euro millions)	Fair value (euro millions)
Trading securities	3,157	4	(238)	2,923
Available for sale				
Total marketable securities	3,157	4	(238)	2,923

December 31, 2002	Amortized cost (euro millions)	Unrealized gains (euro millions)	Unrealized losses (euro millions)	Fair value (euro millions)
Trading securities	878	3	(1)	880
Available for sale	447		(168)	279
Total marketable securities	1,325	3	(169)	1,159

(g) Securitization of accounts receivable

During 2001, the Olivetti Group began selling trade accounts receivable to a Special Purpose Entity (an **SPE**) Vehicle (the **Vehicle**) in a securitization transaction. In order to fund the purchase of the accounts receivable, the Vehicle issued Euro Medium Term Asset Backed Notes (the **Notes**) in the amount of 700 million which are secured by the accounts receivable acquired. The Vehicle has the ability to issue additional Notes up to an aggregate amount of 2 billion. Funds received from the collection of sold accounts receivable may be used to acquire additional accounts receivable from the Olivetti Group.

Under Italian GAAP, the determination of whether the transfer of accounts receivable represents a sale, the inclusion or exclusion of the SPE in the consolidated financial statements of the Olivetti Group and the determination of the amount of gain or loss on the sale is determined by the legal and contractual provisions of the agreement. For U.S. GAAP, the accounting for the transaction is primarily governed by SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under the provisions of SFAS 140, the agreement must meet certain defined criteria to qualify as a sale of financial assets, the SPE must meet certain defined criteria to preclude consolidation, and the amount of gain or loss on the sale is determined based on the consideration received, the carrying value of the underlying financial components sold and the fair value of the financial components retained. Even though the underlying accounting principles differ, there was no material difference in the accounting treatment of this transaction between Italian and U.S. GAAP.

Under the terms of the agreement, the Vehicle charges the Olivetti Group an initial discount which varies based on the credit profile and other characteristics of each tranche of accounts receivable sold. Additionally, for the purposes of credit enhancement, the Vehicle withholds a portion of the purchase price as a deferred payment, representing the Olivetti Group s retained interest in the sold receivables. The amount of deferred payment withheld is adjusted on a monthly basis based on an evaluation of actual collections, delinquencies and other factors. The Group retains the servicing responsibility related to the sold receivables and receives a servicing fee from the Vehicle which is estimated to approximate the fair value of providing such services.

During 2002 and 2001, the following cash flows were received from and paid to the Vehicle:

	December 31,	
	2001	**2002**
	millions of euro	
Gross trade receivables sold to the Vehicle	5,907	9,003
Collections remitted to the Vehicle	(5,030)	(8,155)
Discount	(44)	(65)
Remaining retained interest	(337)	(394)
Net cash received in advance from the Vehicle	496	389

F-67

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amounts recorded in the balance sheets and statements of operations for 2002 and 2001 are as follows:

	December 31,	
	2001	2002
	millions of euro	
Receivables to be collected still held by the Vehicle	877	849
Retained interest	337	394
Allowance for bad debts	29	24
Loss recognized in the statement of operations	73	89

The losses on the sales of receivables to the Vehicle are due to the discount charged by the Vehicle and the bad debt provisions to adjust the retained risks to fair value. The retained interests represent the deferred purchase price that has yet to be received from the Vehicle and are included under other current assets.

(h) Securitization of satellite investments

In 2001 Telecom Italia formed a wholly-owned subsidiary domiciled in Luxembourg, Mirror, to which it transferred certain investments in entities in the satellite communications sector at their fair market values of 550 million. Mirror subsequently obtained a non-recourse loan of 217 million from a merchant bank, which was subsequently disbursed to Telecom Italia, leaving Telecom Italia with net equity of 333 million in Mirror under Italian GAAP. Subsequent to the loan, 70% of the equity in Mirror was sold to the same merchant bank for a total of 233 million, providing Telecom Italia a total of 450 million in cash from the partial disposal of the satellite shareholdings. In the consolidated Italian GAAP financial statements the transaction has been accounted for as a sale, with a gain of 170 million being recognized on the sale of 70% of the assets and the remaining 30% interest in Mirror being recorded as an equity investment. For Italian GAAP purposes the remaining equity investment was considered impaired for 40 million at December 31, 2001.

Under U.S. GAAP the structuring of the transaction was considered a securitization, with Mirror being deemed a non-qualifying special purpose entity, therefore the requirements for sales recognition accounting were not met. Consequently, U.S. GAAP requires that (i) the equity securities transferred to Mirror should continue to be reflected in the consolidated financial statements of Telecom Italia at historical cost, (ii) the gain of 170 million and the valuation allowance of 40 million recognized for Italian GAAP purposes should not be recognized and (iii) the accounting for the 450 million of cash received by Telecom Italia be reflected in the consolidated balance sheet as additional bank debt of 217 million and minority interest of 233 million, representing the debt of Mirror and the cash received from Lehman Brothers Merchant Bank for its purchase of 70% of Mirror from Telecom Italia, respectively.

(i) Sale of real estate properties

In late 2000, the Olivetti Group transferred a going concern including a portion of their real estate portfolio to a wholly-owned subsidiary, IM.SER, at the fair market value of 2,900 million. The assets net book value on the date of transfer was 2,392 million. Subsequently, the Olivetti Group sold 60% of their interest in IM.SER to third parties for cash in the amount of 1,740 million. Telecom Italia subsequently leased back 90% of the buildings contributed to IM.SER on long-term contracts. In total Telecom Italia received cash in the amount of 2,700 million, which came from both the sale of the investment and a cash dividend distribution from IM.SER, with the distribution of funds being provided by IM.SER s borrowing from a consortium of banks. Under Italian GAAP, a pre-tax gain for the amount of 312 million was recorded in the consolidated financial statements. Under U.S. GAAP, the transfer of the assets to the wholly-owned subsidiary, the subsequent lease agreement, the receipt of cash by the Olivetti Group from the partial sale and the special dividend are considered to be secured borrowings. This type of accounting treatment requires that the real estate continue to be reflected in the consolidated financial statements and depreciated based on its historical net book value. Additionally, the gain recognized under Italian GAAP on the partial sale of the subsidiary is reversed for U.S. GAAP purposes. The balance sheet of the Olivetti Group at December 31, 2002 under U.S. GAAP reflects an increase in long-term debt of 2,366 million, an increase in real estate of 1,907 million (net of the depreciation from the date of transfer) and a reduction in investments for 271 million.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2002, the Olivetti Group entered into additional arrangements in relation to its real estate assets. Through a series of assets contributions, transfers and partial sales, the Olivetti Group re-packaged selected real estate assets with investors, recognizing a net impact of approximately 150 million on the consolidated statement of operations under Italian GAAP. For purposes of U.S. GAAP, significant portions of these transactions were considered to be either failed-sale leasebacks or failed sales . These transactions, including those related to Tiglio I and IM.SER, did not meet the accounting requirements for sale under either SFAS 98 *Accounting for Leases* or FAS 66 *Accounting for Sales of Real Estate* , requiring that assets continue to be accounted for on the balance sheet. The transactions under Tiglio II are newly contributed assets and were also considered *failed sales* requiring similar accounting to the aforementioned IM.SER transaction in 2000. The result in 2002 was such that a significant portion of the gains recognized under Italian GAAP were reversed for U.S. GAAP and the additional assets and liabilities consolidated.

(j) Impairment of long-lived assets

As discussed in Note 28 (b), the Olivetti Group changed its method of accounting for long-lived assets, including goodwill, in 2002. Prior to 2002, the Olivetti Group applied SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* , to all long-lived assets, including goodwill.

Under both SFAS 121 and 144, the Olivetti Group assesses potential impairments whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or if the price of the asset has had considerable market depreciation. The recoverability of an asset s carrying value is initially determined by comparing the undiscounted cash flows of the asset to its carrying value. If, after the initial assessment, impairment is deemed to exist, then the Olivetti Group estimates the fair value of the asset based on discounted cash flows, independent appraisals or quoted market prices, if available. Any excess of carrying value over estimated fair value is written off and recorded as an expense in current period earnings. No impairment charges were taken under SFAS 144 in 2002.

As described in footnote 28 (d), in 2000 the Olivetti Group acquired SEAT, a company operating in the Internet and publishing sectors. In 2000 under SFAS 121, the Olivetti Group took a charge of approximately 7,966 million in the initial year of the acquisition due to the decrease in asset prices for that sector. In 2001, Telecom Italia took additional impairment charges for goodwill under SFAS 121of 5,022 million, 2,496 million of which was again related to SEAT.

Under Italian GAAP an impairment charge was recognized by I-jet, a subsidiary of Olivetti Tecnost. in the statement of operations of the years 2001 and 2002 for 32 million and 18 million, respectively, to write-down the assets .

Under U.S. GAAP these impairments were recognized under SFAS 121 in 2000 for 37 million and in 2001 for 17 million.

Upon the adoption of SFAS 142, as of January 1, 2002, no impairments of goodwill were recorded using SFAS 142, and no impairments for other long-lived assets were recorded in 2002 under SFAS 144. See (k) for further discussion of impairments in 2002.

(k) Goodwill and other intangible assets

As a technology, media and information company, the Olivetti Group creates, distributes and manages information with inherent value. The Group does not recognize the fair value of internally generated intangible assets.However, intangible assets acquired in business combination accounted for under the purchase method of accounting are recorded at fair value in the consolidated balance sheet. As discussed previously, SFAS 142 was adopted by the Olivetti Group as of January 1, 2002, and required that goodwill and certain other intangible assets deemed to have an indefinite life cease being amortized.

The Group annually reviews the carrying value of acquired indefite-lived intangible assets, including goodwill, to determine if impairment may exist. An interim assessment of goodwill may be necessary if an impairment indicator exists that indicates that the fair value of a reporting unit may have decreased. The

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requirements of SFAS 142 include that indefinite-lived intangible assets be assessed for impairment using fair value measurement techniques, and, specifically, a two-step process must be utilized. The first step is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second part of the test is not considered necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the loss, if any. The second part of the goodwill impairment test compares the implied value of the operating unit s goodwill with the carrying amount of that goodwill. The excess of the carrying value over the implied value is then written-off in the period. Implied value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the asset and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized equal to that excess.

In accordance with the requirements of SFAS 142, the annual impairment test of goodwill was conducted as of December 31, 2002. As part of that assessment, it was determined that certain reporting units within the Internet & Media reporting segment contained goodwill that was potentially impaired. The 2002 review incorporated into the analysis all of the known facts and management strategies at the time, including the possibility that the assessment that the ownership levels of certain businesses may change in the future. In particular, management had been assessing the structure and benefits of having the Internet & Media segment constituted as a single business. Although management had not committed to a plan regarding the disposal of certain reporting units of SEAT until after December 31, 2002, and therefore the requirements to meet discontinued operations or assets held for sale accounting criteria were not met at that time, the probability that a realignment of the business would take place, including the possible disposal valuations of those businesses, were considered. The 2001 valuation approach was based on a discounted cash flow model, using the best estimates of management at that time, including the intention to keep SEAT together as an integrated asset for the foreseeable future. In 2002 the fair value of the affected reporting units, in particular the Directories, Directory Assistance and Business Information, were derived based on an assessment of recent trading multiples for other similar assets. This approach was used as, given the increasing likelihood that Telecom Italia would sell these assets, the use of multiples for recent transactions for similar assets was considered more indicative of fair value than a discounted cash flow analysis. The remaining businesses of the Internet & Media segment that are not being sold were valued based on a combination of both multiples and the discounted cash flow method, with impairments identified recorded at the SEAT level and included as part of the Olivetti Group s reconciliation to U.S. GAAP. Using the comparables approach to the valuation, Telecom Italia identified that the fair value of the reporting units implied goodwill, after performing a hypothetical purchase price allocation, including intangibles, was 3,352 million less than these assets carrying value, of which 96 million related to businesses that are expected to remain as part of the Olivetti Group. This charge was taken as of December 31, 2002.

(l) Exchangeable Opera Notes

In March 2001 the Olivetti Group issued, through its 100% owned finance subsidiary Sogerim (now TI Finance), Senior Unsecured Guaranteed Exchangeable Out Performance Equity, Redeemable in Any-Asset (**OPERA**) Notes, which bear interest at 1% per year, mature in 2006 and are fully and irrevocably guaranteed by Telecom Italia S.p.A. The Opera Notes are exchangeable for ordinary shares in Telecom Italia s controlled subsidiaries TIM or SEAT. During the exchange period ending 10 business days before March 15, 2006, the holders of the Opera Notes have the right to exchange such notes for either SEAT or TIM shares, with the initial exchange ratios being 1,000 nominal amount of Opera Notes for 232.5581 SEAT ordinary shares (giving the SEAT shares an exchange ratio value of 4.30 per share) or 90.9091 TIM ordinary shares (giving TIM share an exchange ratio value of 11.00 per share). On March 15, 2004, the holders of Opera Notes have an option to cause any remaining Opera Notes then outstanding to be redeemed, at the Accreted Principal amount, plus accrued interest. At maturity any remaining outstanding Opera Notes will be redeemed at 117.69% of their original principal amount, representing a yield to maturity of 4.25% for unredeemed notes.

TI Finance has the option of honoring the exchange request in shares made by the holders of the Opera Notes, or giving in exchange the cash value of the shares calculated at 95% of the simple arithmetic average of the quoted market price of the shares, or settle the exchange in any combination thereof.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TI Finance has the option to call the Opera Notes in whole, but not in part, after March 15, 2004 at the accreted principal amount plus accrued interest up to, but excluding the date of the redemption, if the cash value of either the TIM exchange property or the SEAT exchange property is equal to or greater than 120% of the aggregate accreted principal amount of the Opera Notes for at least 20 dealing days during any 30 consecutive dealing days.

The notes contain certain restrictive covenants including, but not limited to, restrictions related to the Company s ability to incur debt senior to the Opera Notes. The covenants do not restrict dividends or loans to the Company.

At December 31, 2002 no holders of the Opera Notes has requested exchange of the Notes for either the shares of SEAT or TIM. The quoted market prices of SEAT and TIM at December 31, 2002 were 0.64 and 4.33, respectively. For the year ended December 31, 2002, TI Finance accrued interest on the nominal amount of the Opera Notes outstanding at the rate of 4.25%, the stipulated yield rate assuming the Opera Notes will be held to maturity in 2006.

(m) Derivative financial instruments

The Group derivative financial instruments at December 31, 2002 consist of interest rate swap and collar agreements, cross currency and interest rate swaps, foreign currency options and forward contracts and equity securities options. Under SFAS 133, effective January 1, 2001, all such derivatives have been recognized on the balance sheet at fair value. Under the transition provisions of SFAS 133, the initial recognition of the fair value of derivative instruments was treated as a cumulative effect of a change in accounting principle in either current period earnings or as other comprehensive income depending on the previous nature and hedge designation of the derivative. As the Olivetti Group did not formally designate its derivative instruments as hedges upon the adoption of SFAS No. 133, subsequent changes in the fair value of the derivative instruments have been recognized as a component of current period earnings according to the requirements of SFAS 133 described above.

The Group recognized pre-tax gains in current period earnings related to changes in the fair value of its derivative financial instruments of 326 million in 2002 and losses of 155 million 2001, and pre-tax gains in current period earnings of 3 million for the amortization of the cumulative effect of adoption recorded in accumulated comprehensive income. The net gain of 329 million and the net loss of 151 million is included in the accompanying 2002 and 2001 U.S. GAAP basis statement of operations. For U.S. GAAP purposes, as of December 31, 2002 and 2001, the Company has recorded net derivative assets of 216 million in 2002 and net derivative liabilities of 88 million in 2001, additional long-term debt of 2 million and 30 million in 2002 and 2001, respectively, and pre-tax accumulated comprehensive income of 2 million and 3 million in 2002 and 2001, respectively, under the requirements of SFAS 133. All of the 2 million in accumulated other comprehensive income will be amortized to current period earnings in 2003.

(n) Fair value of financial instruments

As required by SFAS 107, *Disclosures about Fair Value of Financial Instruments*, the Olivetti Group has estimated, where possible, the fair values of the most significant financial instruments held. The Group has not estimated the value of certain unlisted long-term investments, primarily relating to investments in affiliated companies. The fair value for marketable securities and long-term investments are based on quoted market prices for those instruments or discounted cash flow analysis.

For cash and cash equivalents, financial receivables from banks and short-term debt, the amounts reflected in the consolidated financial statements are reasonable estimates of fair value because of the relatively short period of time between the origination of the investments and the expected realization.

For long-term debt, the fair value was determined by discounting contractual future cash flows using the Olivetti Group s incremental borrowing rates for similar types of borrowing arrangements. The Group has certain investments for which it is not practicable to estimate fair value due to the lack of quoted market prices and the inability to estimate fair value without excessive costs.

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values and carrying amounts of financial instruments are as follows:

	As of December 31,			
	2001		2002	
	Carrying amount	Estimated Fair value	Carrying amount	Estimated fair value
	(millions of euro)			
Cash & cash equivalents	3,690	3,690	4,426	4,426
Marketable securities	2,923	2,923	1,159	1,159
Long term investments:				
Affiliates:				
Practicable to determine	5,100	5,348	222	236
Not practicable	1,483		2,283	
Other:				
Practicable to determine	247	247	126	126
Short term debt (excluding current portion of long-term debt)	7,564	7,564	3,377	3,377
Long-term debt (current portion included):				
Floating rates	13,064	13,162	8,096	8,088
Fixed rates	31,800	31,973	33,729	34,352
	44,864	45,135	41,825	42,440

(o) Stock-Based Compensation

The Group accounts for employee stock-based compensation issued under the provisions and related interpretations of Accounting Principles Board Opinion (**APB**) No. 25, *Accounting for Stock Issued to Employees*. Stock-based compensation expense of 15 million and 4 million was recognized in 2001 and 2002, respectively. The stock compensation plans of Olivetti are described below:

Plan I: On June 9, 1999, the 1999 stock option plan was authorized by the board of directors and 30,000,000 options were granted under this plan. On November 29, 1999, 12,000,000 additional options were granted. All options were granted at an exercise price of 1.198 which is equivalent to the average price of the stock over the 30 days preceding the authorization of the plan. Exercise of the options is contingent upon stock price performance. Option prices were adjusted downward in accordance with plan terms on February 19 and November 5, 2001 as a result of equity restructurings. One-third of the options fully vest after 8, 20, and 32 months provided the Olivetti stock price increases 10% over the prior year. The contractual and expected lives of the options is 32 months. At the date of grant, the market price exceeded the exercise price and compensation expense was adjusted at the balance sheet dates accordingly since it was considered probable that the stock price targets would be reached. On November 29, 1999, vesting of 6,000,000 options were accelerated. However, the Company was unable to estimate the number of options that employees would have forfeited absent the modification. The plan was accounted for as a variable plan from the date of authorization due to its performance based features.

Plan II: On February 24, 2000, 29,500,000 options were awarded to employees by authorization of the board of directors at an exercise price of 3.705 which represented the average stock price over the 30 days preceding the authorization of the plan. Option prices were adjusted downward in accordance with plan terms on February 19 and November 5, 2001 as a result of equity restructurings. One-third of the options fully vest after 34, 46, and 58 months. The contractual and expected lives of the options is 58 months. At the date of grant, the market price exceeded the exercise price and compensation expense was recorded at the balance sheet dates accordingly. On February 9, 2001, 28,170,000 of these options were cancelled and replaced with options in Plan III. The remaining 1,033,000 options remained outstanding, due to managers who had left Olivetti during the period, and from this date forward the new plan and remaining outstanding options were accounted for as variable plans.

Plan III: On February 9, 2001, the board of directors authorized the issuance of 29,000,000 options at an exercise price of 2.81 in replacement of options awarded under Plan II as noted above which were cancelled at

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that date. The exercise price represented the average stock price over the 30 days preceding the authorization of the plan. Option prices were adjusted downward in accordance with plan terms on February 19 and November 5, 2001 as a result of equity restructurings. One-third of the options fully vest after 23, 35, and 47 months. The contractual and expected lives of the options is 58 months. At the date of grant, the market price exceeded the exercise price and compensation expense has been recorded at the balance sheet dates accordingly. Due to the fact that Plan III replaced and cancelled Plan II, the plan is accounted for as a variable plan in accordance with APB 25.

The status of the stock options granted under all stock option plans is as follows:

	Number of options	Weighted Average price per option
		(Euro)
Balance at January 1, 2001	55,755,000	2.52
Granted	29,000,000	2.81
Exercised	(18,216,685)	1.15
Forfeited		
Cancelled	(28,170,000)	3.71
Outstanding at December 31, 2001	38,368,315	2.23
Granted		
Exercised	(5,654,982)	1.00
Forfeited		
Cancelled	(2,383,333)	1.00
Outstanding at December 31, 2002	30,330,000	2.55

The following table summarizes certain information for the stock options granted under the stock option plans, which are outstanding at December 31, 2002:

Range of Grant Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life	Weighted Average Grant Price	Shares	Weighted Average Grant Price
(euro)			(euro)		(euro)

2.515	29,000,000	0.92	2.515	9,666,667	2.515
3.308	1,330,000	0.92	3.308	1,330,000	3.308
	30,330,000			10,996,667	

SFAS No. 123, *Accounting for Stock-Based Compensation* requires the disclosure of pro forma net income (loss) per share as if the Olivetti Group had adopted fair-value accounting for stock-based awards.

	2001	**2002**
Expected life (years)	1.72	0.92
Expected volatility	56.2%	56.2%
Risk free interest rate	4.91%	5.00%
Expected dividend yield		

F-73

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group s pro forma earnings (loss) per share, had compensation costs been recorded in accordance with SFAS No. 123, are presented below, for all plans:

	2001	2002
	(millions of euro, except per share amounts)	
Net income (loss), as reported	(4,006)	1,956
Add: Stock-based compensation expense recognized under intrinsic value method	15	4
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	(55)	(48)
Pro forma net income (loss) available to each class of shares	(4,046)	1,912
Earning (Loss) per share:		
Basic EPS per Ordinary share as reported	(0.47)	0.23
Basic EPS per Ordinary share pro forma	(0.47)	0.22
Diluted EPS per Ordinary share as reported	(0.47)	0.23
Diluted EPS per Ordinary share pro forma	(0.47)	0.22

The effects of applying SFAS No. 123 in this pro forma disclosure should not be interpreted as being indicative of future effects.

Telecom Italia and its subsidiaries granted certain stock option plans to their employees, in addition to the plans described above.

(p) Capitalization of interest expense

The Group capitalizes interest expense on both tangible and intangible assets under construction. The Group is currently capitalizing interest expense on acquired UMTS licenses, which under U.S. GAAP are considered as construction in progress. Amortization of the assets, including the capitalized interest costs, will begin when the assets are put in service. The Group incurred interest expense of 1,670 million and 1,870 million in 2002 and 2001, respectively, of which 235 million and 236 million was capitalized in 2002 and 2001, respectively.

(q) Accounting for income taxes

For U.S. GAAP reporting purposes, Olivetti follows the provisions of SFAS 109, *Accounting for Income Taxes*. In accordance with SFAS 109, Olivetti has recognized deferred tax assets and liabilities to reflect the future tax consequences of events that have already been recognized in the consolidated financial statements or income tax returns. Where it is more likely than not that all or a portion of a deferred tax asset will not be utilized, a valuation allowance has been recorded against it.

The provision (benefit) for income taxes consisted of the following in the years ended December 31, 2001, and 2002:

	2001	2002
	(millions of euro)	
Current	1,319	916
Deferred	(1,079)	(4,092)
Total provision/(benefit) for income taxes	240	(3,176)

In 2002, the Olivetti Group recognized a total tax benefit of 4,092 million which include 2,400 million deriving from the write-down, for tax purposes only, of the investment in Telecom Italia for 8,051 million and certain other tax benefit deriving from the acquisition of Blu and related to deferred tax assets pertaining to existing tax loss carryforwards that could be recognized due to the Olivetti Group implementing certain tax planning strategies.

The actual provision for income taxes is different from income taxes computed by applying the Italian statutory tax rate (40.25% in 2001 and 2002) for a number of reasons in addition to the matters reported in the preceding paragraph for the year 2002. The Group in 2002 also has recognized certain gains in lower foreign tax jurisdictions, thereby lowering the overall effective tax rate.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the net deferred tax assets (liabilities) as of December 31, 2001 and 2002 are as follows:

	2001	2002
	(millions of euro)	
Deferred tax assets:		
Intercompany profits	298	69
Accrued pension obligation	288	211
Revaluation of fixed assets	246	223
Provisions	713	2,073
Net operating losses	2,236	1,432
Write-down of investment for tax purposes		1,931
Other	367	1,417
Subtotal	4,148	7,356
Less valuation allowance	(2,145)	(1,390)
	2,003	5,966
Deferred tax liabilities:		
Capitalization of interest on assets	(195)	(175)
Intangible assets	(2,012)	(1,585)
Tax suspended reserves in equity	(264)	(253)
Other	(665)	(994)
Subtotal	(3,136)	(3,007)
Net deferred tax asset/(liability)	(1,133)	2,959

At December 31, 2002, the Company has net operating loss carryforwards of 3,686 million. Net operating losses in Italy expire within five years. The following outlines the scheduled expiration periods for the aforementioned net operating losses:

	(millions of euro)
2003	17
2004	46
2005	108
2006	209
2007	96

After 2007	208
Without expiration	3,002
Total NOL s	3,686

No provision has been made for Italian taxes, or foreign taxes that may result from future remittances of undistributed earnings of foreign subsidiaries, because it is expected that all such earnings will be permanently reinvested in these foreign operations. It is not practical to estimate the amount of taxes that might be payable on the eventual remittance of these earnings due to the complexities associated with its hypothetical calculation.

(r) Transactions with subsidiary and equity investee stock

Occasionally Olivetti and Telecom Italia will sell shares in its controlled subsidiaries or equity investees in the public market or through private placements. Gains and losses recognized on these transactions are recognized as non-operating in the statement of operations. No such transactions occurred in 2002.

(s) Earnings per Share

In accordance with SFAS No. 128, *Earnings per Share* , basic earnings per share is computed by dividing income available to ordinary shareholders by the weighted average number of ordinary shares outstanding. The

computation of diluted earnings per share is increased to include any potential ordinary shares. Potential ordinary shares are those securities that, if converted into shares, would increase the total number of shares outstanding

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and reduce the earnings attributable to each share. The effects of any potential ordinary shares are omitted when the effects of including them is anti-dilutive. Potential ordinary shares include options, warrants and convertible securities. In 2001 and 2002, no potential ordinary shares were considered dilutive, therefore basic and diluted shares were the same.

The computations of basic and diluted earnings per share for the years ended December 31, 2001 and 2002, prepared in accordance with U.S. GAAP, are as follows:

	2001	2002
	(millions of euro, except per share amounts)	
Basic EPS		
Net Income/(loss)	(4,066)	1,956
Weighted average number of shares (millions)	8,570	8,631
Basic EPS ordinary shares	(0.47)	0.23
Diluted EPS		
Weighted average number of shares (millions)	8,570	8,631
Diluted weighted average number of shares (millions)	8,570	8,631
Diluted EPS ordinary shares	(0.47)	0.23

(t) Effects of Regulation

As discussed in Note 2, Telecom Italia is subject to the regulatory control of the NRA with additional oversight provided by numerous laws, decrees and codes. The regulatory framework is still evolving, taking into consideration EU requirements. It is anticipated that the final method will allow Telecom Italia to recover a certain level of costs (subject to price caps), but not necessarily its specific cost of providing service. Accordingly, U.S. GAAP, as described in SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, which relates to an entity whose rates are regulated on an actual cost basis, is not currently applicable to these financial statements.

(u) Segment information

Following Olimpia s controlling acquisition in Olivetti, along with new management and Board of Directors taking control, the Olivetti Group implemented a further restructuring plan. This plan also included further divestitures of assets, particularly non-strategic international assets. As a result, during 2002 the Olivetti Group reorganized its business units as follows:

- in early 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group; beginning January 1, 2002, Saritel S.p.A. has been consolidated in the Information Technology Group Business Unit instead of the Domestic Wireline Business Unit. For purposes of a more meaningful comparison, the data relating to 2001 and 2000 has been restated;

- in May 2002, the International Operations (IOP) was eliminated. While the companies involved maintained the same corporate control structure, the companies and business segments of Telecom Italia which formerly reported to the IOP have been transferred to selected Business Units, including Domestic Wireline (Intelcom San Marino and Golden Lines) and the Foreign Holdings Corporate Function (9Telecom Reseau group, BBNed group, Auna group, Telekom Austria group, Telekom Serbia, Etec S.A. and the residual segment of the ex IOP). All the companies based in Latin America are now coordinated by Latin America Operations (LAO).

At the end of 2002 the businesses of the Olivetti Group were organized on the basis of the following Business Units:

Domestic Wireline. This business unit includes Telecom Italia Domestic Wireline (TIDW) which relates to the Italian domestic fixed line voice and data businesses; including, also, national businesses such as Atesia

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(call center, telemarketing and market researches) and Path.Net, responsible for the development and management of the single Public Administration Network (R.U.P.A.). Domestic Wireline Business Unit also includes the international activities relating to developing networks such as the European, Mediterranean and Latin American fiber optic rings. As a result of the 2002 reorganization Saritel has been moved to the Information Technology Group Business Unit and Intelcom San Marino S.p.A. has joined the Domestic Wireline Business Unit.

Mobile. This business unit includes national and international mobile telecommunications businesses that are managed by TIM. Beginning in 2001 international mobile operations were consolidated with, and managed by TIM, through TIM International. International mobile operations are concentrated in the Mediterranean Basin and in Latin America.

South America. In May 2002, following the elimination of the IOP, all the companies based in Latin America are now coordinated by Latin America Operations (LAO). The South America segment consists of Entel Chile, Entel Bolivia and Telecom Italia America Latina and the South America business operations of Telecom Italia. The Mobile operations of the Olivetti Group in South America are in the Mobile segment discussed above.

Internet and Media. This business unit includes the SEAT group, which under Italian GAAP was consolidated with the Telecom Italia Group results of operations for the first time in 2001. This business segment is responsible for the whole chain of value in the media sector. Its operations run from directories to telephone publishing and television. The Business Unit is also the national leader in the marketing of products and services for the office. Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies; offering access, portals and web services.

Information Technology Market. The Information Technology Market Business Unit (the Finsiel group) was created at the beginning of 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services Business Unit according to the type of customer. This Business Unit is predominantly composed of the Finsiel Group. The Business Unit is responsible for organizing the information technology activities of the Olivetti Group, that are marketed to third parties, in particular, central and local governmental administrations moving towards decentralization and e-government, as well as banks and businesses. Its product range covers the whole chain of value of information services. The IT Market Business Unit creates solutions and services around platforms and products of the main market vendors. Customers problems are solved in one of three possible ways: by acquiring existing solutions on the market, developing special solutions, or by integrating components offered by Finsiel with typical market platforms (e.g.; Microsoft, SAP and Oracle).

Information Technology Group. The Information Technology Group was created at the beginning of 2002 as a result of the rationalization of activities previously carried out in the Information Technology Services Business Unit. The unit also incorporates the operations of the TILab group, which focuses on research and development. The Information Technology Group is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group, pursuing objectives that will augment efficiency, improve quality and stimulate innovation.

Olivetti Tecnost Group. The Olivetti Tecnost Group is active in office products and solutions and specialized applications for banking retail and gaming automation. The Olivetti Tecnost Group has its primary focus in Europe, Latin America and Asia and it is also active in the consumer business in North America. The Olivetti Tecnost Group is implementing an industrial plan which aims to return to profitability through a series of business-specific measures.

The accounting policies of the segments are the same as those described in the significant accounting policies (Note 3). Information about the Olivetti Group s segments for the years ended December 31, 2001 and 2002 is as follows (in millions of euro). All amounts have been reclassified for a consistent presentation:

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Domestic Wireline (1)(3)	Mobile	South America (1)(2)	Internet and Media	IT Market (3)	IT Group (3)	Olivetti Tecnost Group (4)	Other Activities (5)	Elimination and consolidation adjustments	Consolidated
2001										
Operating revenues										
-Third parties	15,220	9,963	1,531	1,880	1,135	156	1,076	1,055	0	32,016
-Intersegment (5)	1,948	287	3	77	63	1,042	21	1,143	(4,584)	0
	17,168	10,250	1,534	1,957	1,198	1,198	1,097	2,198	(4,584)	32,016
Gross operating profit (6)	7,750	4,760	527	444	166	188	82	(153)	(58)	13,706
Operating income	4,361	3,136	187	31	123	22	(16)	(2,381)	(371)	5,092
Depreciation and amortization	3,196	1,469	253	320	32	157	45	568	1,605	7,645
Investments in fixed assets	1,949	1,547	351	82	19	111	42	236	(20)	4,317
Identifiable assets	20,230	17,018	3,242	4,072	1,418	1,422	990	90,285	(44,450)	94,227
2002										
Operating revenues										
-Third parties	15,091	10,595	1,369	1,900	876	111	906	560	0	31,408
-Intersegment (5)	1,931	272	40	91	36	1,104	8	913	(4,395)	0
	17,022	10,867	1,409	1,991	912	1,215	914	1,473	(4,395)	31,408
Gross operating profit (6)	7,965	5,039	450	593	104	140	65	(304)	(19)	14,033
Operating income	4,700	3,358	146	232	61	(21)	14	(2,102)	(372)	6,016
Depreciation and amortization	2,931	1,511	252	280	32	154	34	412	1,663	7,269
Investments in fixed assets	1,828	1,075	201	28	12	85	26	137	(101)	3,291
Identifiable assets	19,386	14,203	2,571	3,852	1,221	1,704	772	84,591	(44,916)	83,384

(1) The data relating to 2001 have been reclassified and presented consistent with the 2002 presentation.

(2) The data refer to Entel Chile Group, Entel Bolivia Group, the company Telecom Italia America Latina and the business of Telecom Italia South America.

(3) In early 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group. Beginning January 1, 2002, Saritel S.p.A. has been consolidated in the Information Technology Group Business Unit instead of the Domestic Wireline Business Unit.

(4) The data presented also include the operations of the Foreign Holdings Corporate Function and the former Business Unit Satellite Services (the Telespazio Group) which was disposed of during the 4th quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002.

(5) Intersegment sales consist of sales made between consolidated subsidiaries of the Olivetti Group belonging to different segment. Such sales between segment are accounted for at selling prices which generally approximate prices to unaffiliated customers.

(6) Gross operating profit represents operating income plus non-cash charges related to depreciation and amortization expense, provisions for bad debts, write-downs of fixed and intangible assets and accruals for risk and other provisions, reduced by other income except for operating grants, reimbursements for personnel costs and the costs of external services rendered.

Information about the Olivetti Group s segments by geographic area for the year ended December 31, 2001 and 2002 is as follows (in millions of euro):

	Italy	Rest of Europe	Central and South America	Australia, Africa and Asia	Consolidated
2001					
Operating revenues	24,902	2,490	2,877	1,747	32,016
Identifiable assets	68,590	17,453	8,061	123	94,227
Investments in fixed assets	2,935	415	966	1	4,317
2002					
Operating revenues	25,046	2,449	2,875	1,038	31,408
Identifiable assets	66,615	11,058	5,506	205	83,384
Investments in fixed assets	2,432	206	631	22	3,291

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(v) Lease commitments

The following is a summary of all future minimum lease payments as of December 31, 2002 (in millions of euro):

	Finance Leases	Operating Leases
2003	391	29
2004	32	14
2005	19	8
2006	16	7
2007	16	6
Thereafter	66	5
Total	540	69
Less current portion	391	29
Long-term portion	149	40

F-79

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(w) Related party transactions

The Olivetti Group enters into transactions with affiliates, and various related parties. The following related party transactions relate to transactions between Olivetti and its subsidiaries and the Olivetti Group s unconsolidated subsidiaries and affiliated companies as well as the members of the Board of Directors and the companies in which they hold corporate office or significant responsibility. Transactions between members of the Olivetti Group are excluded as they are eliminated on consolidation.

The following related party transactions are reflected in the statement of operations for the years ended December 31, 2001 and 2002:

Items	**Related party transactions in the year ended December 31,**			
	2001		**2002**	
	In the aggregate	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***	***In the aggregate***	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***
Operating revenues	954 million	n Astrolink (296 million) n Brasil Telecom (120 million) n Nortel Inversora group (119 million)	306 million	n Teleleasing (105 million) n Brasil Telecom (48 million) n Stream (42 million) n Auna group (18 million)

		n Teleleasing (82 million) n Auna group (63 million) n Stream (55 million) n Lottomatica (123 million)		n Telecom Argentina (18 million) n Telekom Srbija (17 million)
Cost of materials and other external charges	596 million	n Refers mainly to rent payable to IM.SER (199 million) and Telemaco Immobiliare (77 million) n TLC service costs from Etec S.A. Cuba (79 million)	475 million	n Refers mainly to rent payable to IM.SER (153 million) and Telemaco Immobiliare (37 million) n TLC service costs from Etec S.A. Cuba (77 million) n Maintenance and assistance contracts from Italtel (40 million) and Siemens Informatica (24 million)

F-80

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Items	**Related party transactions in the year ended December 31,**			
	2001		**2002**	
	In the aggregate	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***	***In the aggregate***	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***
Other income, net	25 million	n Mainly relates to cost recoveries for personnel on loan to some foreign unconsolidated subsidiaries and affiliated companies	9 million	n Mainly relates to cost recoveries for personnel on loan to some foreign unconsolidated subsidiaries and affiliated companies
Financial income and expense, net	Expense for 8 million	n Refers to accrued interest income on loans made to certain foreign unconsolidated subsidiaries and affiliated companies (22 million) n Interest expense payable to Teleleasing (30 million) for financial leasing	Expense for 9 million	n Includes accrued interest income on loans made to certain subsidiaries and affiliates (14 million) n Interest expense payable to Teleleasing for financial leasing transactions (23 million)

transactions

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following related party transactions are reflected on the balance sheets as of December 31, 2002 and 2001:

Items	Related party transactions in the year ended December 31,			
	2001		2002	
	In the aggregate	*Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies*	*In the aggregate*	*Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies*
Loans in long-term investments	119 million	Refers mainly to loans granted to Bouygues Décaux Télécom (BDT) (108 million) and other foreign unconsolidated subsidiaries and affiliated companies	456 million	Refers mainly to medium/long term loans made to Is TIM (313 million), Tiglio I (70 million), Telegono (34 million) and Tiglio II (30 million)
Trade accounts receivables and other current assets	476 million	Comprises mainly receivables from Auna group (90 million), Stream (82 million), Telekom Srbija (56 million net of provision), Nortel	222 million	Comprises mainly receivables from Stream (71 million), Telekom Srbija (21 million net of provision), Teleleasing (38

		Inversora group (21 million net of provision) and Teleleasing (18 million) and Lottomatica (42 million)		million) and Consorzio Telcal (14 million)
Trade accounts payable and other current liabilities	490 million	Pertains mainly to supplier relationships connected with investments and transactions. In particular, they comprise trade accounts payable to Italtel group (173 million), Siemens Informatica (51 million), Teleleasing (42 million) and advances from Consorzio Telcal (85 million)	405 million	They refer to payables for supply contracts connected with operating and investment activities. They include: payables to the Italtel Group (150 million), Siemens Informatica (40 million), Teleleasing (17 million) and advances from Consorzio Telcal (103 million)

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Items	**Related party transactions in the year ended December 31,**			
	2001		**2002**	
	In the aggregate	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***	***In the aggregate***	***Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies***
Long-term and short-term debt	560 million	They refer mainly to payables for finance leases to Teleleasing (522 million)	406 million	They refer mainly to payables for finance leases to Teleleasing (393 million)
Short-term financial receivables	213 million	They refer mainly to short-term loans receivable from Stream (122 million), Is TIM (29 million), Telekom Srbija (23 million)	35 million	They comprise short-term loans made to TMI group companies (14 million) and Golden Lines (10 million net of provisions)
Long-term and short-term contracts	116 million	They refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan (110	110 million	They refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan

million)

Guarantees and collateral	1,261 million	They include sureties given on behalf of the Auna group (510 million), Is TIM (228 million), Stream (86 million), as well as collateral given on behalf of Is TIM (147 million)	935 million	They comprise sureties provided on behalf of Is TIM (537 million), Consorzio Csia (85 million) and Stream (72 million) as well as collateral on behalf of Is TIM (110 million)
Capital expenditures	665 million	They mainly consist of acquisitions telephone exchanges from the Italtel group (567 million) and information and computer projects from Siemens Informatica (31 million)	441 million	They mainly consist of acquisitions of telephone exchanges from the Italtel group (406 million) and computer projects and Siemens Informatica (19 million)

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Moreover, related party transactions as of December 31, 2002 include:

Items	In the aggregate	Nature of the transaction
Purchases and sales commitments	17 million	They refer to commitments with Teleleasing under operating leases.
Acquisition of investments	58 million	They refer to the acquisition of the 50% of Webegg from Olivetti.
Disposal of investments	690 million	They refer to the disposal of the 25% of Mobilkom Austria, through the disposal of the Autel holding to Telekom Austria.
Contribution and sale of business segments	245 million	They refer to gains realized on the concentration of real estate assets in Tiglio I (185 million) and the contribution of the asset management business segment to Tiglio II (60 million).

Pirelli group and Edizione Holding group

Related party transactions, excluding transactions among group companies, also comprise those between the Olivetti Group with the Pirelli group and the Edizione Holding group in 2002 as follows.

The following related party transactions are reflected in the statement of operations for the year ended December 31, 2002:

Items	In the aggregate	Nature of the transaction
Operating revenues	26 million	These mainly refer to telephone services to Pirelli group (8 million) and to Edizione Holding (16 million) and to information services to Pirelli group (2 million).
Cost of materials and other external charges	23 million	These essentially refer to R & D expenditures and the supply of services in the IPR field to Pirelli group (21 million) and to Edizione Holding group (2 million).

The following related party transactions are reflected on the balance sheet as of December 31, 2002:

Items	In the aggregate	Nature of the transaction
Trade accounts receivables and other current assets	3 million	These mainly refer to the above-mentioned telephone services to Pirelli group (1.6 million) and to Edizione Holding group (1.5 million).
Trade accounts payable and other current liabilities	9 million	These mainly refer to the supply contracts connected with investment activities to Pirelli group (8 million) and to Edizione Holding group (1 million).
Capital expenditures	32 million	These mainly refer to purchases of telecommunications cables from Pirelli group.
Acquisition of investments and purchases commitments	21 million	Purchase of 25.3% stake in Epiclink by Telecom Italia S.p.A. from Pirelli S.p.A. (18 million) and purchase commitment for the remaining 5% (3 million).
	35 million	Purchase by TIM of Blu S.p.A. shares, stake from Edizione Holding S.p.A. and Autostrade S.p.A
Acquisition of business segments	3 million	Purchase of a business segment by Epiclink S.p.A. from Pirelli Informatica.
Disposal of business segments	19 million	Gain on the sale of non-facility business segments to Pirelli Real Estate from the Telecom Italia Group and of Property and Project business from Olivetti Multiservices.

Moreover in 2002, 20 million of telephone cards, mostly for mobile phones, were sold to Autogrill S.p.A. (Edizione Holding group).

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Related party transactions in 2001 also include those by Olivetti with the Pirelli group. In detail:

- *Operating revenues:* mainly refers to telephone services (6.9 million).

The following related party transactions are reflected on the balance sheet as of December 31, 2001:

- *Trade accounts receivables and others*: mainly refers to the above-mentioned telephone services (0.6 million).
- *Trade accounts payable and others*: mainly pertain to the supply contracts connected with supplier relationships (6.4 million).
- *Capital expenditures:* mainly consist of purchases of telecommunications cables (21.5 million).

(x) Is TIM investment

During 2002, the Olivetti Group continued to make investments in Telekomunikasyon Hizmetleri A.S. (Is TIM), its start up mobile telecom equity investee in Turkey. At December 31,2002, the Olivetti Group owned 49% of the voting stock of Is TIM. Since being awarded its license in April 2000, measures which should have fostered effective and open competition and permitted a new entrant to compete against the incumbent operators (roaming arrangements in particular), have not occurred. The de-regulation of the Turkish market has not occurred for a variety of reasons, including apparent opposition to the necessary changes by the incumbent operators and the regulatory approach of the competent institutions. In order to effectively compete in this and other markets, it is essential that new entrants be allowed to have access to the existing incumbent operators networks, in this case that includes the ability to have effective roaming coverage over a vast terrain. Since its inception, Is TIM and its shareholders have made repeated and formal efforts to have this situation rectified but have been de facto prevented from entering the Turkish mobile telephony market, thereby infringing the terms and conditions of the tender made for the license. As a result of the necessary conditions to open the mobile telecommunications market in Turkey to competition not having occurred, Is TIM has suffered significant losses and has been unable to effectively compete against the two much larger incumbent operators. Due to the considerable damages suffered by Is TIM, Is TIM filed a Request for Arbitration against the local telecommunications Authority, requesting a refund reflecting damages in the amount of U.S.$2.5 billion. In conjunction with the arbitration claim, TIM undertook full review of the Is TIM investment at year end December 31, 2002. That review included two appraisals, one from an independent major investment bank, to assess the fair value of the equity investee. The review encompassed all of the investments to date in Is TIM, including the original 1.7 billion in convertible loans and the 850 million relating to the Telecom Italia Group exposure with the same investee. Based on the fair value report of the investment bank and the independent analysis of the Olivetti Group, a charge of 2,341 million was taken. This charge together with the 171 million accrual for losses of Is TIM resulted in total charges related to the equity investee in 2002 of approximately 2.5 billion. As is customary for significant investors, the Olivetti Group attempted to obtain the audited financial statements of Is TIM as of December 31, 2002. Due to an impasse at the Board of Directors level relating to valuation of the assets of Is TIM, TIM was not able to obtain these financial statements. Set forth below are a list of some of the pertinent facts related to the structure of the joint venture arrangements between TIM and IS Bank Group which sets out certain of the reasons why TIM has been unable to resolve the impasse and obtain audited financial statements:

(i) under the telecom sector rules of Turkey, TIM is not allowed to control more than 49% of Is TIM as at least 51% must be owned by a Turkish company;

(ii) Board of Directors: 4 IS Bank, 3 from TIM;

(iii) based on the shareholders agreement, all resolutions of the Board of Directors require the affirmative vote of the majority of the total Directors present at the meeting but the affirmative vote of at least two Directors designated by TIM and two Directors designated by IS Bank is required to adopt a resolution approving the balance sheet and the statement of operations of the company.

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Subsequent events Unaudited

Partial sale of Stream stake

On April 30, 2003, following the approval by the competent authorities, the agreement with News Corporation announced in October 2002 was concluded. The new company arising from the integration between Stream and Tele+ has been named SKY ITALIA and Telecom Italia paid approximately 30 million for the transaction. The company is held by Telecom Italia (19.9%) and News Corporation (80.1%).

Telecom Italia share buyback

Under the buyback plan authorized by the Ordinary Telecom Italia Shareholders Meeting of November 7, 2001, Telecom Italia in March 2002 began to buy-back treasury shares on the market according to the terms and in the manner established by existing laws and the above shareholders resolution. During the period between January 1 and May 7, 2003, 8,662,500 savings shares were acquired at an average price of 4.73 per share, corresponding to an investment of 41 million, plus 915,000 ordinary shares at an average price of 6.83 per share, corresponding to a 6 million investment. The above authorization expired on May 7, 2003 and at such date, 54,309,500 savings shares had been acquired at an average price of 5.24 per share, corresponding to an investment of 285 million, plus 6,195,500 ordinary shares at an average price of 8.00 per share, corresponding to a 50 million investment. As a result of the merger between TI and Olivetti, the ordinary and savings shares treasury stock will be cancelled.

Turkey

On May 13, 2003, TIM International signed a Term Sheet with Turk Telekom (the fixed line operator) for the definition of the guidelines for the integration between Is TIM and Aycell (the 4th Turkish mobile operator wholly owned by Turk Telekom). The agreement aims at obtaining significant operating and financial synergies through the combination of the two companies. Both the two telecoms operators, TIM and Turk Telekom will hold 40% of the shares of the new entity respectively; the remaining 20% will be held by Is Bank. The closing of the operation is expected by the end of June 2003.

Spin-off and sale of Seat Pagine Gialle

The Olivetti Group also decided to dispose of certain businesses of SEAT, in particular the Directories, Directory Assistance and Business Information components. On June 10, 2003 Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT (which includes the shares resulting from the JPMorgan Chase put option) held by the Telecom Italia Group, the new company to be composed of the aforementioned reporting units. The parties agreed on a sale price of 0.598 per New SEAT ordinary share, representing an enterprise value of approximately 5.65 billion. Telecom Italia will receive approximately 3.03 billion for its stake. The buyers will also accept the estimated 708 million of debt at the closing. The completion of the sale will be subject to the proportional spin-off becoming effective, the admission to listing of New SEAT, that is expected to occur by the beginning of August, and the approval of the relevant Antitrust Authorities.

The transaction will allow the Telecom Italia Group to reduce its net financial debt by approximately 3.74 billion.

As discussed above, Telecom Italia on June 11, 2003 announced the formal decision to sell SEAT after December 31, 2002. The following represents the carrying value of the major classes of assets and liabilities as of December 31, 2002 that will be included as part of the disposal group:

	(millions of euro)
Current assets	1,530
Intangible assets	1,847
Current liabilities	1,424
Long-term debt	434
Deferred tax liabilities, net	834

Table of Contents

OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Olivetti Shareholders

At June 11, 2003, the major shareholders of Olivetti are Olimpia S.p.A. with a 28.53% interest, CDC Ixis Capital Market with a 5.43% interest, Assicurazioni Generali S.p.A. with a 4.01% interest and Mediobanca S.p.A. with a 2.39% interest.

Sale of Real Estate Assets to Lastra Holding B.V.

On June 20, 2003, the Telecom Italia Group announced that it reached an agreement with Lastra Holding B.V. a company within the Five Mounts Properties group (FMP), for the sale of certain of these real estate assets. FMP is the real estate arm of BSG (the Beny Steinmetz Group), which is owned and managed by the Geneva based Beny Steinmetz family trusts and foundation.

The value of the agreement, which is expected to be finalized by the end of July 2003, is equal to approximately 355 million.

Telecom Argentina Debt Repurchase

In June 2003, Telecom Argentina STET-France Telecom S.A. (controlled by Nortel Inversora) and its subsidiaries Telecom Personal S.A. and Publicom S.A., pursuant to a tender offer repurchased, U.S.$292 million principal amount of their financial debt obligations at a price of U.S.$160.6 million (55% of the face value).

Bank facility syndication for 15.5 billion in connection with the proposed merger of Telecom Italia and Olivetti

On April 30, 2003, the book of bank facilities for a total of 15.5 billion, launched on March, 21st, was successfully closed. This is a key step in the Telecom Italia and Olivetti merger project, announced on March 12, 2003.

These facilities, provided to support the Telecom Italia and Olivetti Merger, consist of:

- a 9 billion term loan facility that will fund the cash out to Olivetti s withdrawing shareholders and, the Tender Offers; and
- a 6.5 billion revolving facility that will be available to guarantee an appropriate liquidity margin to the merged entity.

The transaction was led by Banca Intesa S.p.A., Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, the Royal Bank of Scotland plc and Unicredit Banca Mobiliare S.p.A (together the Mandated Lead Arrangers). JPMorgan acted as Global Coordinator of the Facilities and together with Banca Intesa S.p.A. and Unicredit Banca Mobiliare S.p.A., as joint book runner.

Table of Contents

Annex A

Plan of Merger

Table of Contents

PLAN FOR THE MERGER

OF TELECOM ITALIA S.P.A.

INTO OLIVETTI S.P.A.

(under Article 2501-*bis* of the Civil Code)

Milan, April 15, 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

A-2

Table of Contents

Except as provided below, any offer to purchase or sell securities described herein is not being made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States of America and any such offer will not be capable of acceptance by any such use, means, instrumentality or facility.

The information contained herein does not constitute an offer of securities for sale in the United States or offer to acquire securities in the United States.

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the Securities Act) and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States.

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. Court s judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

Table of Contents

PLAN FOR THE MERGER

OF TELECOM ITALIA S.P.A.

INTO OLIVETTI S.P.A.

(under Article 2501-*bis* of the Civil Code)

1. Companies participating in the Merger

Absorbing Company

OLIVETTI S.P.A.

Olivetti S.p.A. (Olivetti or the Absorbing Company), with registered office at 77 Via Jervis, Ivrea, fully paid-up share capital of Euro 8,845,537,520 divided into 8,845,537,520 ordinary shares with a par value of Euro 1 each, tax code and registration number in the Turin Company Register: 00488410010.

Company to be Absorbed

TELECOM ITALIA S.P.A.

Telecom Italia S.p.A. (Telecom Italia or the Company to be Absorbed), with registered office at 2 Piazza degli Affari, Milan, and headquarters and secondary office at 41 Corso d Italia, Rome, fully paid-up share capital of Euro 4,023,816,860.80 divided into 5,262,908,631 ordinary shares with a par value of Euro 0.55 each and 2,053,122,025 savings shares with a par value of Euro 0.55 each, tax code and registration number in the Milan Company Register: 00471850016.

2. Bylaws of the Absorbing Company and amendments thereto deriving from the Merger

As a consequence of the Merger, Olivetti will basically adopt the current bylaws of Telecom Italia.

In particular:

(i) the Absorbing Company will change its name to Telecom Italia S.p.A. ;

(ii) the Absorbing Company will take over the corporate purpose of Telecom Italia in its entirety, so as to be able to continue to perform the activities that Telecom Italia is authorized to perform under administrative measures. The amendment to the corporate purpose will give the right of withdrawal to Olivetti shareholders who are absent or contrary to the Merger, pursuant to Article 2437 of the Civil Code;

(iii) the bylaws of the Absorbing Company will be amended to take account of the changes that will be made to the number and par value (which will be fixed at Euro 0.55) of the ordinary and savings shares at the end of the Merger and hence following the application of the share exchange ratio and assignment procedure described in Sections 3 and 4. As a further consequence of the Merger the bylaws will also be amended to take account of (a) the updating of the amount of the increases in capital already approved by Olivetti for the purposes of the Piano triennale di Stock Option 2002-2004 stock-option plan, the Piano triennale di Stock Option febbraio 2002-dicembre 2004 stockoption plan, the Warrant Azioni Olivetti ex Tecnost 1999-2004 warrants, and the convertible bond issues Prestito Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Prestito Olivetti 1,5% 2001-2010 convertibile con premio al rimborso , and (b) the increases in capital that the Olivetti shareholders meeting will be called to approve for the purposes of the stockoption plans of the Company to be Absorbed (Piano 1999, Piano 2000, Piano 2001, Piano Top 2002 and Piano 2002), for the part still applicable;

(iv) the bylaws of the Absorbing Company will contain an article concerning the savings shares that will be assigned in exchange to the holders of Telecom Italia savings shares on the basis of the exchange ratio and assignment procedure described in Sections 3 and 4. In accordance with Article 145 of Legislative Decree 58/1998, this article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof and describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Absorbing Company. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws will be proposed at the shareholders meeting called to consider the Merger Plan;

(v) the Minister for the Economy and Finance has notified Telecom Italia that he does not consider there are grounds for vetoing the adoption of the merger resolution by the Telecom Italia shareholders. With regard to the inclusion in the bylaws of the clauses providing for special powers, the Minister for the Economy and Finance has communicated that he considers it necessary to maintain the power of approval of the acquisition of major equity interests in the company and the veto powers, in the text currently contained in the Telecom Italia bylaws. The Minister for the Economy and Finance has also communicated that he has reached the agreement on these decisions with the Minister for Productive Activities. This premised, pending the formalization of the measure most appropriate to these decisions and the opinion, if any, that the competent European Union authorities may see fit to express on the matter, the Minister for the Economy and Finance has requested that the bylaws to be submitted to the shareholders meetings of the Companies Participating in the Merger contain the provisions specified above.

(vi) It is also pointed out the shareholders meeting of the Absorbing Company called to approve the Merger Plan will also be requested to grant a delegation under Article 2443 of the Civil Code to increase the share capital following the Merger by means of the issue of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for a maximum of Euro 48,644,750), to be offered for subscription to employees of the Absorbing Company or its subsidiaries, with the exclusion of the right of pre-emption under the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998.

(vii) Lastly, it is pointed out that the shareholders meeting of the Absorbing Company called to approved the Merger Plan will first be requested to approve the replacement of Article 20 (Board of Auditors) and the amendment of Article 13 (Board of Directors) of Olivetti s bylaws.

The complete text of the Absorbing Company s bylaws incorporating all the amendments deriving from the Merger, including what is provided for at points (v) and (vi), is annexed to this Merger Plan. The numbers contained in such bylaws will be specified in the merger instrument, on the basis of the principles and methods described in Sections 3 and 4.

3. Exchange ratio

The draft financial statements for the year ended 31 December 2002 of Olivetti and Telecom Italia were taken as showing their assets and liabilities in accordance with and for the purposes of Article 2501-*ter* of the Civil Code.

The exchange ratio has been fixed as follows:

- 7 Olivetti ordinary shares with a par value of Euro 1 (one) each for every Telecom Italia ordinary share with a par value of Euro 0.55;
- 7 Olivetti savings shares with a par value of Euro 1 (one) each for every Telecom Italia savings share with a par value of Euro 0.55;

No cash consideration is envisaged.

4. Procedure for assigning the shares of the Absorbing Company

The exchange ratio between the economic values underlying the shares will be satisfied principally by redistributing Olivetti s capital at the time of the Merger s implementation, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal referred to in Section 2(ii) has been exercised. This redistribution, subsequent to the change of the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, will be made to the shareholders of Olivetti and the shareholders of Telecom Italia other than Olivetti at the time of the implementation of the Merger on the basis of the exchange ratio specified above and will thus give rise to the following assignment ratios:

- for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;
- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, 7x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, 7x newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

where x is the ratio between

- the total number of shares of the Absorbing Company with a par value of Euro 0.55 to be redistributed

- the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the Mergers implementation and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the Merger s implementation.

Moreover, if the capital to be redistributed is less than Euro 8,845,537,520, the redistribution will be accompanied by the assignment to all the holders of the Absorbing Company s ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the abovementioned exchange ratio, of up to a maximum of 11,103,237,961 new ordinary or savings shares with a par value of Euro 0.55 each (and hence up to a total maximum of Euro 6,106,780,879.1) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company s shares to Euro 0.55), without prejudice to any rounding deriving from the exchange operations.

A service will be provided to the shareholders of both Olivetti and Telecom Italia through authorized intermediaries to handle any fractions of shares, at market prices and at no cost in terms of expenses, stamp duty or commissions, which will permit the number of newly-issued shares due to be rounded down or up to the nearest whole number.

In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued Olivetti share at the end of the Operation, maintenance of the position of shareholder can be ensured by the assignment free of charge to such persons of one share of the Absorbing Company made available by Olivetti International S.A.

The ordinary and savings shares assigned in exchange as specified above will be listed in the same way as the Olivetti ordinary shares currently outstanding.

Upon completion of the assignment procedure described above, the share capital of the Absorbing Company will be fixed in an amount between a minimum of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company s shares to Euro 0.55) corresponding to Olivetti s paid-up share capital and certified as per Article 2444 of the Civil Code at the date of this Merger Plan, and a maximum of Euro 11,926,697,278 (more precisely: Euro 11,926,697,277.55, taking account of the change of the par value of the Absorbing Company s shares to Euro 0.55) corresponding to the Absorbing Company s share capital assuming that the conversion and subscription rights attaching respectively to the bonds and to the warrants and stock options issued by Olivetti are exercised in full, without prejudice to any rounding deriving from the exchange operations.

5. Date from which the ordinary and savings shares assigned in exchange will be entitled to a share of profits

The ordinary and savings shares issued by the Absorbing Company in exchange for the shares of the Company to be Absorbed that are cancelled as a result of the Merger will have regular dividend rights.

6. Date of effectiveness of the Merger. Recording of Telecom Italia transactions in the accounts of Olivetti. Start of the tax effects of the Merger

In accordance with Article 2504-*bis* of the Civil Code, the effects of the Merger shall start on the date of the last filing of the merger instrument, or from such later date as may be specified in that instrument.

The effectiveness of the Merger is subject to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares assigned by the Absorbing Company for the purpose of the exchange.

Table of Contents

With reference to point 6 of Article 2501-*bis* of the Civil Code, the transactions carried out by the Company to be Absorbed will be recorded in the accounts of the Absorbing Company from 1 January of the year in which the Merger will become effective in respect of third parties. The tax effects of the Merger will also start on that date.

7. Treatment reserved to particular categories of shareholders or holders of securities other than shares. Special advantages for directors

No special treatment is envisaged in connection with the Merger for any categories of shareholders or for holders of financial instruments other than the shares of the Absorbing Company or the shares of the Company to be Absorbed, although:

a) the number of shares obtainable by exercising warrants (Olivetti) and stock options (Olivetti and Telecom Italia) and the conversion ratios for the convertible bonds issued by Olivetti will be adjusted to take account of the exchange ratio and assignment procedure described in Sections 3 and 4, with ensuing amendment to all the respective rules;

b) the savings shares issued by the Absorbing Company in exchange for the savings shares of the Company to be Absorbed will have the same rights and features as the latter, as specified in Section 2(iv).

The Absorbing Company will assume the bonds already issued by Telecom Italia and adopt the rules thereof.

No special advantages are envisaged in favour of the directors of the Companies Participating in the Merger.

All numerical and other changes, additions and updates to this Merger Plan or the bylaws of the Absorbing Company annexed hereto shall be made that may be required by the administrative authorities, *inter alia* with reference to the powers referred to in Section 2(v), or on the occasion of filing with the Company Register or in connection with and/or attendant upon the operations envisaged in this Plan.

Milan, 15 April 2003.

TELECOM ITALIA S.p.A. OLIVETTI S.p.A.

(in original signed by the respective Legal Representatives)

A-7

Table of Contents

Annex B

Bylaws of New Telecom Italia

Table of Contents

POST-MERGER BYLAWS OF THE ABSORBING COMPANY

NAME REGISTERED OFFICE PURPOSE AND DURATION OF THE COMPANY

Article 1

The name of the Company shall be TELECOM ITALIA S.p.A.

Article 2

The registered office of the Company shall be at 2 Piazza degli Affari, Milan, and the headquarters and secondary office at 41 Corso d Italia, Rome.

Article 3

The Company s purpose shall be:

- the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a free-market environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;

- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;

- the acquisition, provided it is not the Company s principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;

- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

Activities reserved to persons entered in a professional register, activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993, and those which are otherwise prohibited by applicable legislation shall be expressly excluded.

Article 4

The duration of the Company shall be until 31 December 2100.

SHARE CAPITAL SHARES BONDS

Article 5

The share capital shall be Euro [-] divided into [-] ordinary shares with a par value of Euro 0.55 each and [-] savings shares with a par value of Euro 0.55 each.

The Extraordinary Shareholders Meeting of 4 October 2000 approved the increase, in one or more steps, of the share capital by up to a maximum amount now remaining, partly as a consequence of the resolution adopted by the Extraordinary Shareholders Meeting of [-], of Euro 56,992,575.20, which is reserved exclusively for the exercise of the Warrant Tecnost 1999-2004 (now Warrant Azioni Olivetti ex Tecnost 1999-2004) warrants, by means of the issue of up to a maximum of 103,622,864 ordinary shares with a par value of Euro 0.55 each.

Table of Contents

The Shareholders Meeting of [-] reiterating, updating and, where necessary, renewing earlier resolutions of the Shareholders Meeting and the Board of Directors resolved to increase the share capital by the following divisible amounts:

1. up to a maximum of Euro 492,726.30, by means of the issue of up to a maximum of 895,866 shares with a par value of Euro 0.55 each for the exercise of the Piano triennale Stock Option 2002-2004 stock options, increase to be implemented by 15 December 2004;

2. up to a maximum of Euro 10,743,649.40, by means of the issue of up to a maximum of 19,533,908 shares with a par value of Euro 0.55 each for the exercise of the Piano triennale Stock Option febbraio 2002-dicembre 2004 stock options, increase to be implemented by 31 December 2004;

3. up to a maximum of Euro 180,568,488.10, by means of the issue of up to a maximum of 328,306,342 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the Olivetti 1,5% 200 1-2004 convertibile con premio al rimborso convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.;

4. up to a maximum of Euro 892,681,820.80, by means of the issue of up to a maximum of 1,623,057,856 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.

The Shareholders Meeting of [-] also resolved to increase the share capital by up to a maximum of Euro 261,956,575.10, by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following divisible tranches:

1. a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the Piano di Stock Option 1999 stock options, increase to be implemented by 31 January 2005 by means of the issue of up to a maximum of 39,943,826 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.79 per option held;

2. a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the Piano di Stock Option 2000 stock options, increase to be implemented by 30 July 2008 by means of the issue of up to a maximum of 97,130,710 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held;

3. a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the Piano di Stock Option 2001 stock options, increase to be implemented by 30 April 2008 by means of the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held;

4. a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the Piano di Stock Option Top 2002 stock options, increase to be implemented by 28 February 2010 by means of the issue of up to a maximum of 55,637,980 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held;

5. a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the Piano di Stock Option 2002 stock options, increase to be implemented by 31 March 2008 for the first lot, by 31 March 2009 for the second lot and by 31 March 2010 for the third lot by means of the issue of up to a maximum of 130,555,934 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

The Extraordinary Shareholders Meeting of 8 May 2002 authorized the directors, under Article 2420-*ter* of the Civil Code, to issue, in one or more steps, for up to a maximum of five years from the date of the resolution referred to above, bonds, in euros or other currencies, possibly convertible into the shares of other companies, with or without warrants giving the right to acquire shares of other companies, up to a maximum amount of Euro 9 billion, within the limits permitted from time to time by law, and to establish the procedures, time limits, conditions and related rules of such issues.

The Shareholders Meeting of [-] authorized the Board of Directors, under Article 2443 of the Civil Code and for a period of up to a maximum of five years from [-], to increase the share capital in one or more steps by means of the issue for cash of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for up to a maximum of Euro [-]), to be offered for subscription to employees of Telecom Italia S.p.A.

Table of Contents

or its subsidiaries, with the exclusion of the right of pre-emption pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998. The Board of Directors resolutions shall establish a time limit for the subscription of the shares and provide that, in the event of the increase approved not being subscribed for within the time limit established from time to time for the purpose, the share capital be increased by an amount equal to the subscriptions collected by such time limit.

Article 6

The savings shares shall have the preferential rights set forth in this Article.

The net profit shown in the duly approved annual accounts, less the amount allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.

The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.

When the dividend paid on savings share in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years.

In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph.

A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares.

Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value.

If the Company s ordinary or savings shares are delisted, holders of saving shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an Extraordinary Shareholders Meeting called ad hoc within two months of the delisting.

Article 7

The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa.

Vis-á-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders Register.

Article 8

The Company may issue bonds and shall establish the terms and conditions of their placement.

BOARD OF DIRECTORS

Article 9

The Company shall be managed by a Board of Directors consisting of not less than seven and not more than twenty-three members. The Shareholders Meeting shall establish the number of members of the Board, which shall remain unchanged until the Meeting establishes a different number.

Table of Contents

The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs or by the outgoing Board of Directors, on which the candidates shall be listed by serial number.

When the Board of Directors presents its own slate, it shall be filed at the registered office of the Company and published in at least one Italian daily newspaper with national circulation, at least twenty days prior to the date set for the Shareholders Meeting on the first call.

The slates presented by the shareholders shall be filed at the registered office of the Company and published at the expense of the shareholders in the manner indicated in the preceding paragraph at least ten days prior to the date set for the Shareholders Meeting on the first call.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders Meeting may submit slates. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the Company, at least five days prior to the date set for the Shareholders Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Together with each slate, and within the respective time limits specified above, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication, where appropriate, of the grounds for their qualifying as independent.

Each person entitled to vote may vote for only one slate.

The Board of Directors shall be elected as specified below:

a) four-fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number;

b) the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided first by one, then by two, then by three and then by four, up to the number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected.

   If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected.

If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders Meeting and the candidate obtaining the simple majority of the votes shall be elected.

In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders Meeting shall vote on the basis of the majorities required by law.

If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed.

Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board has been reconstituted by persons appointed by the Shareholders Meeting.

Table of Contents

Article 10

The Board of Directors shall elect a Chairman from among its member if the Shareholders   Meeting has not already done so and may also appoint a Deputy Chairman; both may be re-elected.

In the absence or disability to act of the Chairman, the Deputy Chairman, if one has been appointed, shall take his/her place or, if the Deputy Chairman is absent, the most senior director by age.

The Board of Directors may elect a Secretary who need not be a director.

Extracts from the register of the minutes of meetings of the Board of Directors signed by the Chairman or by two directors and countersigned by the Secretary shall be conclusive evidence.

Article 11

The Chairman or whoever takes his/her place shall call meetings of the Board of Directors at the Company s registered office or elsewhere, indicating the time and place, whenever he/she deems this appropriate in the interests of the Company or receives a written request to do so from at least one third of the directors holding office or from the members of the Board of Auditors.

In general, meetings shall be called at least five days prior to the date thereof, except in urgent cases, when it may be given by telegram, fax or e-mail with at least twenty-four hours   notice.

Notice shall be given to the Board of Auditors within the same time limits.

Meetings of the Board of Directors may be held if the Chairman or the person acting in his/her place deems it necessary by video-conference or audio-conference, provided that all those taking part can be identified by the Chairman and all the other participants, that they are able to follow the debate and intervene in real time in relation to the matters under discussion, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the Board meeting shall be considered to have taken place where the Chairman is located, where the Secretary to the meeting must also be.

Article 12

The Board of Directors shall have the broadest possible powers of ordinary and extraordinary administration of the Company, since all matters not expressly reserved to the General Shareholders Meeting by law or these bylaws are within its jurisdiction.

The Board of Directors, through the Chairman or other directors delegated for the purpose, shall report to the Board of Auditors on the activities carried out and the transactions of greatest economic, financial or asset-related significance concluded by the Company or its subsidiaries; in particular, transactions involving a potential conflict of interest must be reported on. The report shall be made in good time, and at least once in each quarter, on the occasion of the meetings of the Board of Directors and the Executive Committee or in a written memorandum addressed to the Chairman of the Board of Auditors.

In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated for the purpose of any corporate transactions that might affect the price of the shares of that class.

Article 13

To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may:

- create an Executive Committee, establishing its powers and the number of members;
- delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer;
- appoint one or more General Managers, establishing their powers and duties;

- appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time.

Article 14

The company signature and the legal representation of the Company vis-á-vis third parties and in legal proceedings shall pertain to the Chairman and, in his absence or disability to act, the Deputy Chairman, if one is appointed; they shall also pertain to the directors with delegated powers.

Article 15

The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders Meeting shall also decide the annual compensation payable to the Board. Once fixed, this compensation shall remain unchanged until the Meeting establishes a different amount.

BOARD OF AUDITORS

Article 16

The Board of Auditors shall consist of five or seven auditors. The Shareholders Meeting shall establish the exact number, which shall remain unchanged until the Meeting establishes a different number. The Meeting shall also appoint two alternates.

The Board of Auditors shall elect a Chairman from among its members by majority vote. In the absence or disability to act of the Chairman, he/she shall be replaced by the most senior auditor by age.

Without prejudice to the situations of incompatibility established by law, persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets may not be appointed auditors and shall forfeit the post if they are elected. TELECOM ITALIA S.p.A. and its subsidiaries shall not be included when computing the above limit.

For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.

The appointment of the Board of Auditors shall be based on the slates presented by shareholders who individually or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders Meeting. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the

Company, at least five days prior to the date set for the Shareholders Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

The slates must be filed at the registered office of the Company and published at the expense of the shareholders who present them in at least one Italian daily newspaper with national circulation, at least ten days prior to the date set for the Shareholders Meeting on the first call.

Together with each slate, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and these bylaws. Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data.

The slates shall be divided into two sections: one for candidates to the position of auditor and the other for candidates to the position of alternate. The first candidate in each section must be selected from among persons entered in the register of auditors who have worked on statutory audits for a period of not less than three years.

Each person entitled to vote may vote for only one slate.

The Board of Auditors shall be elected as specified below:

a) from the slate that obtains the majority of the votes cast by the shareholders (the Majority Slate) one alternate and all the auditors not chosen from the other slates (the Minority Slates) shall be chosen in the order in which they are listed on the slate;

b) from the Minority Slates two auditors shall be chosen. One alternate shall be chosen from the Minority Slate that obtains the largest number of votes.

For the appointment of the auditors from the Minority Lists, the votes obtained by the various slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate auditors on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking and those who have obtained the highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders Meeting and the slate that obtains the simple majority of the votes shall prevail.

In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders Meeting shall vote on the basis of the majorities required by law.

In the event of the substitution of an auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority List or the Minority Lists shall take his/her place. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be made by the Shareholders Meeting on the basis of the majorities required by law.

After notifying the Chairman of the Board of Directors, the Board of Auditors, or at least two auditors, may call, as provided for by law, a meeting of the shareholders, the Board of Directors or the Executive Committee.

Meetings of the Board of Auditors if the Chairman deems it necessary may be validly held by video-conference or by audio-conference, provided all those taking part can be identified by the Chairman and by all the other participants, that they are able to follow the debate and intervene in real time in dealing with the matters being discussed, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the meeting of the Board of Auditors shall be considered to have taken place where the Chairman is located.

SHAREHOLDERS MEETING

Article 17

An Ordinary Shareholders Meeting shall be called to approve the annual accounts every year within six months of the end of the fiscal year. Ordinary and Extraordinary Shareholders Meetings may be held in a place other than the Registered Office, provided it is in Italy.

An Extraordinary Shareholders Meeting shall be called whenever it is deemed advisable by the Board of Directors and when it is required by law.

Article 18

Every shareholder entitled to attend may be represented at the Shareholders Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law.

In order to facilitate the collection of proxies among employee shareholders of the Company and its subsidiaries who belong to shareholder associations satisfying the requirements established by law, special areas shall be made available in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided and proxy forms collected.

Article 19

The Chairman of the Board of Directors or whoever takes his/her place or, in the absence thereof, the person appointed by those present, shall chair the Shareholders Meeting and set the rules for the proceedings.

Table of Contents

The Secretary shall be appointed by the Meeting, which may select a person who is not a shareholder.

The proceedings of shareholders meetings shall be governed by law, these bylaws and the Meeting Rules approved by the Ordinary Shareholders Meeting.

Article 20

Resolutions may be adopted by a show of hands. The Chairman shall establish the procedures for recording votes and may choose two or more tellers from among the persons present.

Each shareholder may exercise his/her right to vote by mail, in accordance with the applicable law.

FISCAL YEAR DIVIDENDS

Article 21

The fiscal year shall end on 31 December of each year.

From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

The remainder shall be used to pay the dividend determined by the Shareholders Meeting, and for such other purposes as the Meeting deems most appropriate or necessary.

During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.

SPECIAL POWERS

Article 22

Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

a) approval, to be granted expressly upon the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote at the Ordinary Shareholders Meeting. Approval must be granted within sixty days of the date of the communication that the Board of Directors must send at the time of the application for entry in the Shareholders Register. Until approval has been granted and after expiration of the time limit without any action, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding. If approval is refused or the time limit expires without action, the transferee must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares representing the major holding pursuant to the procedures established in Article 2359-*ter* of the Civil Code;

b) veto of any resolution to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in subparagraphs a) and b).

In accordance with the provisions of the Prime Ministerial Decree issued on 21 March 1997 pursuant to Law 474/1994 and the Treasury Minister Decree issued pursuant to the same law on 21 March 1997, this article shall remain in the bylaws for three years and in any case until the liberalization of the telecommunications industry has reached a sufficiently advanced stage and the industry regulatory authority has become firmly established; the decision that these conditions have been met shall be adopted in an instrument issued in the form indicated in the above-mentioned Prime Ministerial Decree.

Table of Contents

Annex C

Goldman Sachs Fairness Opinion to Telecom Italia

dated April 15, 2003

C-1

Table of Contents

Goldman Sachs SIM S.p.A.

Societa di Intermediazione Mobilare

Sede Legale a Milano, Passaggio Centrale 2, 20123 Milano

Tel: +39 02 80 22 1000 Fax: +39 02 80 22 2130

Sede secondaria a Londra: Peterborough Court, 133 Fleet Street, London EC4A 2BB

PERSONAL AND CONFIDENTIAL

April 15, 2003

Board of Directors

Telecom Italia S.p.A

Corso Italia, 41

00198 Roma

Italy

Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the holders, other than Olivetti S.p.A. (Olivetti), of the outstanding ordinary shares, par value 0.55 per share (the Ordinary Shares), and of the savings shares, par value 0.55 per share (the Savings Shares) (together, the Shares), of Telecom Italia S.p.A .(the Company) of the exchange ratio of seven (7) ordinary shares of Olivetti S.p.A. (the Olivetti Ordinary Shares) to be received for each Ordinary Share (the Ordinary Shares Exchange Ratio) and of the exchange ratio of seven (7) savings shares of Olivetti (the Olivetti Savings Shares) to be received for each Savings Share (the Savings Shares Exchange Ratio) (together, the Ordinary Shares and the Savings Shares Exchange Ratios) in connection with the potential merger by incorporation (*fusione per incorporazione*) of the Company into Olivetti (the Merger) pursuant to the merger plan and the board report (*progetto di fusione* and *relazione degli administration* , together the Transaction Documents) approved by you on the date hereof and as previously announced by you on March 12, 2003. We further understand that as a result of the Merger, the approximate 55% ownership interest of Olivetti in the Company will be diluted and that Olimpia S.p.A. will own less than approximately 15% of the voting equity in the corporation surviving the Merger (excluding the effect of convertible securities, options and warrants, a portion of which is held by Olimpia S.p.A. and certain other related entities).

You have advised us that (i) following the Olivetti shareholders meeting convened to approve the Merger and the amendment to the definition of Olivetti s corporate object included in its by-laws (*ragione sociale*)

C-2

Table of Contents

Board of Directors

Telecom Italia S.p.A

April 15, 2003

Page Two

(the Olivetti Shareholders Meeting), Olivetti shareholders who vote against the change in corporate object or do not participate in the Olivetti Shareholders Meeting will be entitled to put their shares to Olivetti (*diritto di recesso*) (the Withdrawal Rights) for a cash consideration equal to the average price of the Olivetti Ordinary Shares during the six months ending on the date prior to the Olivetti Shareholders Meeting (the Valuation Period), such consideration to be paid to withdrawing shareholders upon completion of the Merger and (ii) Olivetti will make a conditional cash tender offer (the Tender Offer) for up to a maximum amount ranging between approximately 16% and 19% of each of the outstanding Ordinary Shares (which includes Ordinary Shares owned by Olivetti) and Savings Shares at a price equal to a 20% premium to the average share price of the Ordinary Shares and Savings Shares, respectively, between March 12, 2003 and the date of the Olivetti Shareholders Meeting, subject to (1) a minimum price of 7.00 and a maximum price of 8.40 for each Ordinary Share, (2) a minimum price of 4.70 and a maximum price of 5.65 for each Savings Share, and (3) an aggregate cap of 9 billion, less the aggregate amount paid, if any, to shareholders of Olivetti in connection with the exercise of Withdrawal Rights. In rendering this opinion, you have instructed us to assume that, except for (i) an increase in aggregate nominal value and related economic privileges and (ii) the further ability to satisfy such privileges also through the distribution of reserves, the rights of the holders of the Savings Shares will be identical to their rights as holders of the Olivetti Savings Shares and that neither the relative rights of the holders of the Ordinary Shares and the Savings Shares nor the relative values of such Ordinary Shares and Savings Shares will change, in any material respect, as a result of the Merger.

Goldman Sachs SIM S.p.A. (together with its affiliates, Goldman Sachs), as part of its investment banking business, is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities and private placements as well as for estate, corporate and other purposes. We are familiar with the Company having provided certain investment banking services to the Company from time to time, including having acted as its financial advisor in connection with the separation of the Italtel joint venture and the subsequent sale of an 80% stake in Italtel. We also have provided certain investment banking services to Olivetti from time to time, including having acted as joint bookrunner on a number of recent Eurobond offerings and as counterparty to certain derivatives transactions. We also may provide investment banking services to the Company and Olivetti in the future. Goldman Sachs provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold positions in securities, including derivative securities, of the Company or Olivetti and their affiliates for its own account and for the accounts of customers.

In connection with this opinion, we have reviewed (i) drafts of the Transaction Documents; (ii) the Annual Report of the Company and of certain of its subsidiaries and of Olivetti for the years ended 31 December 2000 and 2001; (iii) the Semi-Annual Financial Statements of the Company and of certain of its listed subsidiaries and of Olivetti for the six months ended 30 June 2002; (iv) the Quarterly Financial Statements of the Company and certain of its listed subsidiaries and of Olivetti for the three months ended 30 September 2002; (v) a draft of the 2002 Annual Report for the Company, including the Company s 2002 financial statements, the audit of which is not yet completed; (vi) a draft of the 2002 Annual Report for

Table of Contents

Board of Directors

Telecom Italia S.p.A

April 15, 2003

Page Three

Olivetti, including Olivetti s 2002 financial statements, the audit of which is not yet completed; and (vii) certain internal financial analyses and forecasts of Olivetti, the Company and certain of its subsidiaries approved for use in this opinion by the Company s management. We also have held limited discussions with certain members of the senior management of the Company and of Olivetti as well as with Olivetti s advisors and representatives, regarding their assessment of the past and current business operations, financial condition and future prospects of the Company and of Olivetti, including the expected credit rating and the expected dividend policy of the combined company subsequent to the Merger. We did not, however, participate in any of the negotiations leading up to the Merger. In addition, we have reviewed the reported price and trading activity for the Shares and the Olivetti Shares, compared certain financial and stock market information for the Company and its listed subsidiaries and for Olivetti with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combination transactions and reorganizations and performed such other studies and analyses as we considered appropriate.

We have relied, without independent verification, upon the accuracy and completeness of all of the financial, accounting, tax and other information discussed with or reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us, we have been advised by the Company s and Olivetti s management that such financial forecasts and other information and data were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company and of Olivetti, and we express no opinion with respect to such financial forecasts or other information and data or the assumptions on which they are based. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities (including any derivative or off-balance-sheet assets and liabilities) of the Company or Olivetti or any of their respective subsidiaries and we have not been furnished with any such evaluation or appraisal.

Our advisory services and the opinion expressed herein are provided exclusively for the information and assistance of the Board of Directors of the Company in connection with its consideration of the Merger and such opinion does not constitute a *perizia* within the meaning of Annex 3A no. 1 of the Regolamento Emittenti no. 11971 dated May 14, 1999 as subsequently amended, nor a *relazione di stima* within the meaning of that statute, nor a recommendation as to how any holder of Shares should vote with respect to the Merger.

We express no opinion as to the likely trading value of the Shares or the Olivetti Ordinary Shares during either the Valuation Period or the period during which Withdrawal Rights may be exercised, the likelihood of Olivetti shareholders exercising Withdrawal Rights or the amount of funds available to or the participation of shareholders of the Company in the Tender Offer. We also express no opinion as to the likely trading value of the Olivetti Ordinary Shares or the Olivetti Savings Shares upon consummation of the Merger. Our opinion is necessarily based upon information available to us and financial, economic, political, market and other conditions as they exist and can be evaluated on the date hereof, and we assume no duty to update or revise our opinion based on circumstances or events after the date hereof.

Table of Contents

Board of Directors

Telecom Italia S.p.A

April 15, 2003

Page Four

Our opinion does not address the relative merits of the transactions contemplated pursuant to the Transaction Documents as compared to any alternative business transaction that might be available to the Company.

Based upon and subject to the foregoing and based upon such other matters as we consider relevant, it is our opinion that, as of the date hereof, the Ordinary Shares and the Savings Shares Exchange Ratios pursuant to the Merger are fair from a financial point of view to the holders (other than Olivetti) of the Ordinary Shares and Savings Shares respectively.

Very truly yours,

GOLDMAN SACHS SIM S.p.A.

By: ______________________________

Managing Director

C-5

Table of Contents

Annex D

English Translation of Lazard Fairness Opinion to

Telecom Italia dated March 11, 2003 and

Confirmation Letter dated

April 15, 2003

D-1

Table of Contents

Execution Copy

STRICTLY CONFIDENTIAL

LAZARD & CO. S.R.L

Via dell Orso - 2 20121 MILANO

CAP.SOC. 9.000.000.

R.E.A. 1630616

C.F. e P.IVA 13233960155

TELEFONO +39 02 72312.1

FAX +39 02 72312387

To:

Telecom Italia S.p.A.

The Board of Directors

Piazza Affari 2

20123 Milano

Attn: Dott. Carlo Buora, Amministratore Delegato

March 11, 2003

Dear Members of the Board,

The present document (the *Assessment*) is addressed to the Board of Directors of Telecom Italia S.p.A. (*Telecom*) for its exclusive use and is intended to provide elements to permit the Board of Directors of Telecom, in its full independence of judgment and decision, to put forward the appropriate exchange ratio for the implementation of an operation involving the merger to incorporate Telecom into Olivetti S.p.A. (*Olivetti* , and together with Telecom, the *Companies*), which will be accompanied by the launch of a tender offer by Olivetti for the ordinary shares and the savings shares of Telecom (the *Proposed Merger*). The holders of the ordinary shares and the savings shares of Telecom other than Olivetti are collectively referred to herein as the *Public Shareholders* .

The contents of the Assessment are confidential and may not be used for any purpose other than the purpose for which the Assessment has been prepared nor be disclosed to third parties. Any possible different use of the Assessment is subject to the prior written authorization of Lazard & Co. S.r.l. (*Lazard*). In addition, the use of partial results and data referred to in individual aspects of the present Assessment may not be used outside the context and the purpose for which the entire Assessment has been carried out. You are reminded that the conclusions set forth in the Assessment are based on the totality of the valuations included herein, and consequently none of the components of the Assessment may be used separately from the other components.

The Assessment is necessarily based on economic, monetary and market conditions existing as of the date hereof, and the information made available to us as of the date hereof. Events occurring after the date hereof may affect this Assessment and the assumptions on which it has been prepared, and Lazard has no obligation and may not be in a position to update, revise or reaffirm this Assessment. In addition, it is finally pointed out that the Assessment has been carried out in a normative, regulatory and competitive context that is in constant evolution. Subsequent changes to the structural aspects of the telecommunications sector, laws and regulations could influence the variables affecting the value of the Companies.

Lazard does not express any opinion with respect to Telecom s decision to proceed with or implement the Proposed Merger and the Assessment does not constitute an indication as to how Telecom should make its decision with respect to the Proposed Merger. Lazard hereby acknowledges that the exchange ratio of the ordinary shares and the savings shares of Telecom, which will be determined by the Boards of Directors of Telecom and Olivetti, will be subject to a fairness opinion issued by experts appointed by the President of the Court of Milan, pursuant to article 2501 *quinquies*, last paragraph of the Italian Civil Code. The engagement of Lazard and the Assessment expressed herein are solely for the benefit of the Board of Directors of Telecom and are not on behalf of, and are not intended to grant any rights or remedies upon, Telecom, Olivetti, or any their respective shareholders or any other person.

Table of Contents

Lazard was been requested to deliver this Assessment at a preliminary stage of the Proposed Merger, and to assume and take into consideration that: (i) the Boards of Directors of the Companies will, in their sole and independent judgment and discretion, each respectively evaluate the Proposed Merger and prepare and approve merger plans, reports, and related documentation, which will contain customary terms and conditions, as well as obtain appraisals of independent experts, all in accordance with applicable Italian and foreign laws and regulations, (ii) the Proposed Merger will be consummated on the terms and conditions to be described in the aforementioned merger plans and related documentation, and (iii) the obtaining of the necessary regulatory approvals for the Proposed Merger will not have an adverse effect on the Companies. Consequently, it is hereby underlined that the Assessment is necessarily preliminary in nature and the conclusions contained herein could vary depending on several factors, including the actual terms and conditions of the merger plans and related documentation prepared by the Boards of Directors of Telecom and Olivetti.

Lazard is acting as financial advisor to Telecom in connection with the Proposed Merger and will receive a fee for its services, a considerable part of which is contingent upon the Proposed Merger being completed. Lazard has in the past provided financial advisory services to Telecom for which it has received customary fees. Lazard and its affiliate companies have also provided financial advisory services to Olivetti and Pirelli S.p.A., including with respect to acquisition transactions, in particular with respect to Telecom. Lazard may provide financial advisory services to Olivetti or Pirelli S.p.A. in the future. In addition, certain of companies affiliated with Lazard may trade shares and other securities of the Companies for their own account and for the accounts of their customers.

Subject Companies

Olivetti

Olivetti is an industrial holding company, which as of the date hereof holds approximately 54,94% of the outstanding ordinary shares of Telecom. Olivetti indirectly acquired, through a subsidiary Tecnost S.p.A., and following a Public Tender and Exchange Offer launched in February 1999 and realized in June 1999, 52,12% of the ordinary shares of Telecom. Thereafter, Tecnost S.p.A. was incorporated by merger into Olivetti at the end of 2000 within the framework of a project to rationalize the structure of the Olivetti group. Such shareholding subsequently increased as a result of new acquisitions on the market carried out by Olivetti.

The Olivetti group is also present in areas of activity other than telecommunications services through it subsidiaries, the most significant of which are Olivetti Tecnost S.p.A. (formerly Olivetti Lexikon S.p.A.), which is involved in the production of office products and Olivetti Multiservices S.p.A., which is involved in the management of realty.

Telecom

The core business of the Telecom group (Telecom, TIM S.p.A., SEAT S.p.A) consists of the supply of fixed and mobile telecommunications services and Internet services. In addition, Telecom is present in a few specific information and communications technology sectors.

Overseas, Telecom has an active presence through investments in other companies and joint ventures which manage fixed and mobile telecommunications services in different markets, in particular in Europe, in the Mediterranean basin and in South America (Argentina, Brazil and Chile, etc.).

With respect to information and communications technology, Telecom is present through I.T. Telecom Italia S.p.A., a company that was formed in July 2000 to group all of Telecom s information technology activities carried out by several companies of the Telecom Group, including Finsiel S.p.A., leader in Italy and in top positions in Europe in the information services market, Telesoft S.p.A. and Sodalia S.p.A., which are active in software for telecommunications and information services, and Netsiel S.p.A., which manages the outsourcing of information systems for Telecom and other companies.

Documents Considered

The Assessment is based on:

(i) historical economic-financial information relating to the Companies;

(ii) financial forecasts and other data relating to its activities provided to us by Telecom;

D-3

Table of Contents

(iii) the historical stock prices and trading volumes of the ordinary shares and the savings shares of Telecom as well as the shares of Olivetti;

(iv) meetings with members of the senior management of Telecom who delivered and explained the documentation provided;

(v) publicly available information on companies operating in business lines we believe to be generally comparable to those of Telecom and Olivetti; and

(vi) such other financial analyses and investigations deemed appropriate.

Lazard has relied upon the accuracy and completeness of the foregoing information and data, and does not assume any responsibility with respect to any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of the Companies. With respect to financial forecasts, Lazard has assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Telecom as to its future performance. Lazard does not assume any responsibility for, nor expresses any opinion as to such forecasts or the assumptions on which they are based.

Valuation

The relative market prices valuation (the *Market Prices Valuation*) was used as principal criterion to determine the exchange ratio with respect to the Proposed Merger. In addition, the so-called sum of the parts (*SOP*) control methodology was carried out for Telecom and Olivetti (on a fully diluted basis).

In compliance with the engagement conferred by Telecom on February 5, 2003 and your requests, Lazard expresses no opinion with respect to the absolute value of such securities or any other method of analyzing the exchange ratio and Lazard has not undertaken any independent evaluation of the absolute value of the securities of Telecom or Olivetti.

With respect to the application of the principal methodology, the following is deduced:

- the significance of the prices expressed by the market where the securities subject of the valuation are traded;
- the significance of the prices expressed by the market for the shares of the Companies being studied;
- the existence of comparable share prices for the Companies being examined over a sufficiently broad time period.

In such regard, the following is pointed out:

- both Companies have a high market capitalization and a significant and broadly diffused float;
- the considerably high volume of trading of the securities leads one to consider that the market prices can be considered to be indicative of the potential value of Telecom and Olivetti;
- high volumes of the securities of Telecom and Olivetti are traded daily (on the average approximately 1% of the capital is traded):
  - over the course of the last twelve months, 240% of Olivetti s capital has been traded (excluding Olimpia S.p.A.) for a countervalue of approximately 16,9 billion; and
  - over the course of the last twelve months, approximately 289% of Telecom s capital has been traded (excluding the shares held by Olivetti) for a countervalue of approximately 54 billion.

			Average Volume (000)		Cumulative Volume (000)		Average traded Share Capital (%) (*)		Cumulative traded Share Capital (%) (*)	
	TI	Olivetti	TI	Olivetti	TI	Olivetti	TI	Olivetti	TI	Olivetti
Prices										
3/7/2003	5.93	0.86	42,131.3	90,695.9	42,131.3	90,695.9	1.8%	1.0%	1.8%	1.0%
Last week	6.25	0.88	38,225.3	86,240.0	191,126.4	431,200.0	1.6%	1.4%	8.1%	6.8%
Last month	6.57	0.91	28,994.8	59,319.6	579,895.0	1,186,392.2	1.2%	0.9%	24.5%	18.8%
Last 3 months	7.05	0.99	31,411.6	61,400.2	1,884,693.5	3,684,009.3	1.3%	1.0%	79.5%	58.3%
Last 6 months	7.39	1.01	30,126.5	61,220.3	3,765,810.3	7,652,538.4	1.3%	1.0%	158.8%	121.2%
Last year	7.90	1.11	27,073.7	59,851.9	6,849,656.0	15,142,528.8	1.1%	1.0%	288.8%	240.6%

(*) On total number of shares owned by market shareholders

Table of Contents

- Both Companies have a high float such that they represent a considerable share of the total capitalization of Mibtel and MIB30 (at January 31, 2003):

  - Olivetti 2% on the total Mibtel, 2,5% MIB30; and

  - Telecom 8% on the total Mibtel, 11% MIB30.

- The float of Telecom and Olivetti proves to be significantly divided among Italian and foreign institutional investors and Italian retail investors, none of which enjoys a position such that it could influence the course of the securities;

- in addition, it has been assumed that the new entity resulting from the merger by incorporation of Telecom into Olivetti will maintain a dividend distribution policy such that it will assure an equivalent dividend for the current shareholders of Telecom.

With respect to the Market Prices Valuation method, we have proceeded, among other things, to carry out the following analyses:

- analyses of the historical simple averages for a time period covering the preceding 18 months;

- analyses of the historical weighted averages for the volumes for a time period covering the preceding 18 months;

- analyses of the moving averages at 1, 2, 3, 6 and 12 months for a time period covering the preceding 18 months;

- adjustment to the value of the Telecom shares to take into account the expected dividend distribution for fiscal year 2002.

In order to mitigate short-term fluctuations that typically characterize the financial markets, and consistent with customary practise, we proceeded to extend the analysis of the prices, including average data expressed by the market, over a sufficiently broad time period.

From the analysis of the historical trends, the averages at 1, 2, 3 and 12 months were identified to fall within a steady valuation corridor. The arithmetic mean of the weighted averages calculated at intervals of 3, 6, and 12 months was equal to 6,94.

	Market values			Values considered for the determination of the exchange ratio			
	TI ( )	**Oli ( )**	**Exch. ratio**	**TI ex div.[1]( )**	**Oli ( )**	**Exch. ratio**	**Average**
Market price: weighted average							
07/03/2003	5.93	0.86	**6.90**	5.75	0.86	**6.69**	
1 month average	6.51	0.91	**7.18**	6.34	0.91	**6.98**	
3 months average	7.02	0.99	**7.06**	6.85	0.99	**6.88**	
6 months average	7.38	1.02	**7.24**	7.20	1.02	**7.07**	**6.94**
12 months average	7.79	1.11	**7.04**	7.61	1.11	**6.88**	
18 months average	8.06	1.15	**6.98**	7.88	1.15	**6.82**	

Sept. 11, 2001 average	8.06	1.16	**6.97**	7.88	1.16	**6.82**
July 27, 2001 average	8.14	1.20	**6.76**	7.96	1.20	**6.61**
Last 12 months highest price	9.72	1.47	**6.60**	9.54	1.47	**6.48**
Last 12 months lowest price	5.93	0.84	**7.02**	5.75	0.84	**6.81**
Market prices: simple average						
07/03/2003	5.93	0.86	**6.90**	5.75	0.86	**6.69**
1 month average	6.57	0.91	**7.19**	6.39	0.91	**7.00**
3 months average	7.03	0.99	**7.11**	6.85	0.99	**6.93**
6 months average	7.39	1.01	**7.30**	7.21	1.01	**7.12**
12 months average	7.90	1.11	**7.10**	7.72	1.11	**6.94**
Last 12 months highest price	9.72	1.47	**6.60**	9.54	1.47	**6.48**
Last 12 months lowest price	5.93	0.84	**7.02**	5.75	0.84	**6.81**

With respect to the methodology of control, we proceeded to:

- evaluate the different business lines and investments of Telecom, applying, principally, the discounted cash flow method;

- apply the SOP methodology to Olivetti, on the basis of the results that surfaced from the evaluation of Telecom s different activities.

Such methodology of control substantially confirmed the indications resulting from the Market Prices Valuation analysis.

With respect to the expected issuance of savings shares of Olivetti a class of shares which does not yet exist which will be issued to the current savings shareholders of Telecom, there were no elements for which the savings shares of Olivetti should reflect a different discount than that currently in existence between the savings/ordinary shares of Telecom, also taking into consideration the expected increase in capital rights inuring to the savings shareholders of Telecom following the merger with Olivetti.

Finally, the withdrawal price for the shareholders of Olivetti, estimated on the basis of the arithmetic mean of the prices for the last 4 months (from November 25, 2002) resulted to be equal to 1,008. Such value is, moreover, lower that the value of Olivetti on the basis of SOP, lower than the average of the prices of Olivetti at six and 12 months and slightly higher than the value on the basis of 3 months.

Therefore, exclusively from a basic value point of value and absent considerable fluctuations in the market in the next two months, the possible exercise of the withdrawal right on the part of the shareholders of Olivetti should not influence the exchange ratio.

Conclusions.

Lazard does not express any opinion in relation to the price at which the ordinary shares or the savings shares of Telecom or any securities of Olivetti may be traded subsequent to the announcement of the Proposed Merger or in relation to the price at which the securities of Olivetti may be traded subsequent to the implementation of the Proposed Merger.

Based on and subject to the foregoing, we are of the opinion, as of the date hereof, that an exchange ratio of around 7 savings/ordinary shares of Olivetti for 1 ordinary/savings share of Telecom in relation to the Proposed Merger is fair from a financial point of view to the Public Shareholders.

In accepting this Assessment and in accordance with the mandate, entered into effective February 5, 2003, between Telecom and Lazard, the Board of Directors of Telecom hereby agrees that this Assessment is confidential and may not be disclosed to any third party or otherwise reproduced, in whole or in part, without our prior written authorization.

Very truly yours,

LAZARD & CO. S.R.L.

Name:

Title:

D-6

Table of Contents

English Translation

To:

Telecom Italia S.p.A.

The Board of Directors

Piazza Affari, 2

20123 Milano

Attn: Dr. Carlo Buora, Managing Director

Milan, April 15, 2003

Subject: Merger operation for the incorporation of Telecom Italia S.p.A. into Olivetti S.p.A.

We refer to our letter dated March 11, 2003 (the Letter) pursuant to which an assessment was delivered to the Board of Directors of Telecom Italia S.p.A. with respect to the exchange ratio concerning the present merger operation.

You have informed us that from March 11, 2003 to the date hereof, it has been confirmed that no event has affected or could affect in any material respect any of the documents, information, data, projections or assumptions referred to in the Letter or the economic-financial condition, the business, the assets or liabilities or prospects of Telecom Italia S.p.A. or its subsidiaries, or, to our knowledge, of Olivetti S.p.A. or its subsidiaries.

Based on, and subject to the foregoing and the assumptions and qualifications identified in the Letter, we reaffirm, as of the date hereof, the conclusions expressed in the Letter.

Consistent with the mandate, entered into effective February 5, 2003, between the Board of Directors of Telecom Italia S.p.A. and Lazard & Co. S.r.l., this letter is confidential for the exclusive use of the Board of Directors of Telecom Italia S.p.A. and may not be disclosed to any third party or otherwise referred to, in whole or in part, without our prior written authorization.

Best regards.

Lazard & Co.

Table of Contents

Annex E

English Translation of JPMorgan Fairness Opinion to

Olivetti dated March 11, 2003 and JPMorgan Confirmation Letter dated April 15, 2003

E-1

Table of Contents

ORIGINAL DOCUMENT ISSUED ON JPMORGAN CHASE BANK HEADED PAPER.

TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.

Dottor Carlo Buora

Managing Director

Olivetti S.p.A.

Via Jervis, 77

Ivrea (TO)

Italy

Milan, March 11, 2003

1. INTRODUCTION

On March 5, 2003, Olivetti S.p.A. (Olivetti) engaged JPMorgan Chase Bank (JPMorgan) to act as its financial adviser (the Engagement) in connection with the acquisition of Telecom Italia S.p.A. (Telecom Italia) ordinary and savings shares (the Acquisition) and the merger between Olivetti and Telecom Italia (the Merger) (the Acquisition and the Merger together, the Transaction).

As part of the Engagement, Olivetti has requested that JPMorgan provide an opinion (the Opinion) as to the fairness of the exchange ratio with respect to the Merger. Olivetti has not requested that JPMorgan express its opinion on the underlying business decision to proceed with and/or to execute the Transaction, nor does the Opinion provided by JPMorgan have regard to that decision. Likewise, Olivetti has not requested that JPMorgan provide, nor has JPMorgan provided, any legal, accounting or tax advice in connection with the Transaction.

This letter represents the final report of JPMorgan (the Final Report) with regards to the Opinion requested.

The Final Report has been prepared for the internal and exclusive use of the Board of Directors of Olivetti (the Board of Directors) in support of the decisions to be taken by it. Therefore, the Final Report may not be disclosed, in whole or in part, to any third party or used for any purpose whatsoever other than those indicated in the Engagement and in the Final Report itself, provided that the Final Report may be transmitted to the experts appointed in compliance with the law and its content may be disclosed publicly where required by regulations of the Italian and/or U.S. stock exchange authorities. Any other use, in whole or in part, of the Final Report will have to be previously agreed and authorised in writing by JPMorgan.

In preparing the Final Report, JPMorgan has relied upon and assumed, without independent verification, the truthfulness, accuracy and completeness of the information and the financial data provided by Olivetti. JPMorgan has therefore relied upon all specific information as received and declines any responsibility should the results presented be affected by the lack of completeness or truthfulness of such information. Publicly available information deemed relevant for the purpose of the analyses contained in the Final Report has also been used. Therefore the Final Report is based on: (i) our interpretation of the information which Olivetti, as well as its representatives and advisers, have supplied to us to date; (ii) our understanding of the terms upon which Olivetti intends to consummate the Transaction and upon which Olivetti intends to execute the Acquisition; (iii) the assumption that the Transaction will be consummated in accordance with the expected terms and within the expected time periods.

In the execution of the Engagement, JPMorgan has elaborated its own analyses based on the methodologies illustrated below, reaching the conclusions contained in the final paragraph of this Final Report.

The conclusions described in the Final Report have been prepared with the sole purpose of determining relative values and identifying the share exchange ratio for the purpose of the Merger and, therefore, the values contained in this Final Report have no relevance for purposes other than those related to the Merger. The Final Report and the Opinion concern exclusively the share exchange ratio in connection with the Merger and do not constitute an opinion by JPMorgan as to the absolute value of the shares of Olivetti and Telecom Italia.

The conclusions contained in this Final Report are based on the whole of the valuations contained herein and therefore no part of the Final Report may be used apart from the document in its entirety.

Table of Contents

The Final Report and the Opinion are necessarily based on economic, market and other conditions as of the date hereof, and the written and oral information made available to us until March 11 2003. It is understood that subsequent developments may affect the conclusions of the Final Report and of the Opinion and that, in addition, JPMorgan has no obligation to update, revise, or reaffirm the Opinion.

In addition, JPMorgan is expressing no opinion as to the price at which any securities of Olivetti or Telecom Italia will trade on the stock market at any time. Other factors after the date hereof may affect the value of the businesses of Olivetti or Telecom Italia either before or after completion of the Acquisition and/or the Merger, including but not limited to: (i) the total or partial disposal of the shares of Olivetti or Telecom Italia by their respective shareholders within a short period of time after the date of announcement or completion of the Acquisition or the Merger, (ii) changes in prevailing interest rates and other factors which generally influence the price of securities, (iii) adverse changes in the current capital markets, (iv) the occurrence of adverse changes in the financial condition, the businesses, certain extraordinary transactions or the prospects of Olivetti or Telecom Italia, (v) any actions taken or restrictions imposed by any state or governmental agencies or regulatory authorities, and (vi) the execution of the Transaction in accordance with the expected terms and within the expected time periods. No opinion is expressed by JPMorgan whether any alternative transaction might have been more beneficial to Olivetti.

JPMorgan has acted as financial advisor to Olivetti with respect to the proposed Transaction and will receive a fee from Olivetti for the services provided, as well as an additional fee upon completion of the Transaction or in certain other circumstances.

It is understood that JPMorgan or certain JPMorgan affiliates, in the ordinary course of their activities, may actively trade, for their own account or for the account of customers, the equity and debt securities of Olivetti or Telecom Italia or companies directly or indirectly controlled by, affiliated with Olivetti and/or Telecom Italia or in which Olivetti or Telecom Italia holds securities, and, accordingly, may at any time hold long or short positions in such securities. It also remains understood that JPMorgan or certain JPMorgan affiliates may currently have and may in the future have commercial banking, investment banking, trust and other relationships and/or engagements with counterparties which may have interests with respect to Olivetti, Telecom Italia or companies directly or indirectly controlled by, affiliated with Olivetti and/or Telecom Italia or in which Olivetti or Telecom Italia holds securities. Finally, it remains understood that JPMorgan or certain JPMorgan affiliates may have fiduciary or other relationships and engagements whereby JPMorgan or certain JPMorgan affiliates may exercise voting power over securities of various persons, which securities may from time to time include securities of Olivetti, Telecom Italia, or companies directly or indirectly controlled by, affiliated with Olivetti and/or Telecom Italia, or in which Olivetti or Telecom Italia holds securities, or other parties with an interest in the Transaction.

2. PURPOSES OF THE ASSESSMENT OF THE EXCHANGE RATIO

This Final Report is intended to:

- Provide the Board of Directors with all the useful elements, data and references in order to assess the fairness of the Merger exchange ratio and, if appropriate, propose it for approval to the Shareholders Meeting
- Provide the same elements to the auditing firm appointed to express its own opinion as required by law

This Final Report is provided solely for the benefit of the Board of Directors of Olivetti. Therefore, no one, with the exception of members of the Board of Directors of Olivetti, is authorised to rely upon this opinion. The shareholders of Olivetti, to whom this Final Report does not confer any rights, shall use their own financial advisers if they deem it necessary.

3. SOURCES OF INFORMATION USED FOR THE VALUATION

In the execution of the Engagement, JPMorgan has collected and analysed certain publicly available data and information and other documentation provided by Olivetti (the Information).

In particular:

- Consolidated and statutory 2000 and 2001 accounts and draft 2002 accounts of Olivetti, Telecom Italia, Telecom Italia Mobile, Seat Pagine Gialle

Table of Contents

- Half-yearly and quarterly reports for the years 2000, 2001 and 2002 of Olivetti, Telecom Italia, Telecom Italia Mobile, Seat Pagine Gialle;
- The Group Business Plan 2003-2005 of Telecom Italia (January 15, 2003 version) and its update (March 10, 2003);
- Summary table of Telecom Italia concerning the holdings of the Telecom Italia Group;
- Note of Telecom Italia regarding the debt ex legge 58/1992 ;
- Note of Telecom Italia regarding certain details on the calculation of certain items of the cash flow statement and the taxes on the income statement included in the Group Business Plan 2003-2005;
- Summary note of Telecom Italia on the write-down of the Seat Pagine Gialle holding and of the Seat Pagine Gialle derivative;
- Summary note of Telecom Italia on the stock option plans;
- Summary table of Olivetti concerning the holdings of the Olivetti Group;
- Summary table of Olivetti on outstanding convertible bonds and warrants;
- Summary note of Olivetti on the write-down of its holding in Telecom Italia; and
- Summary Business Plan 2003-2005 of Olivetti Tecnost.

In addition, JPMorgan has analysed publicly available information, including:

- Financial research and analysis published by brokers and investment banks;
- Research and analysis concerning competitors or companies with similar operating characteristics;
- Share price performance.

JPMorgan has not been requested to conduct, nor has JPMorgan conducted, any independent evaluation or appraisal of any assets or liabilities of Olivetti or Telecom Italia.

The Final Report is necessarily based on financial, economic and market information available for evaluation as of the date hereof. The accuracy, truthfulness, and completeness of the Information has not been independently verified by JPMorgan.

4. DESCRIPTION OF THE TRANSACTION

The Transaction is part of a unified project aimed at the simplification of the structure of the Olivetti Group, described below in its key terms:

- Merger by incorporation of Telecom Italia into Olivetti;
- Issuance of Olivetti savings shares assigned to Telecom Italia savings shareholders in accordance with the Merger exchange ratio;
- Technique of redistribution of the post Merger Olivetti shares to Telecom Italia and Olivetti shareholders as way of implementation of the exchange ratio, with the stock split of the existing share capital from a par value of Euro 1 per share to Euro 0.55 per share;
- Adoption of the corporate purpose and company name of Telecom Italia by Olivetti;
- Withdrawal right due to Olivetti shareholders, as provided for by law;
- Preservation of the privilege currently established by art. 7 of the Bylaws of Telecom Italia for the savings shareholders of Telecom Italia and inclusion in the Bylaws of the opportunity to benefit from the same privilege in the event of distribution of reserves as well;
- Expected distribution of a dividend by Telecom Italia prior to the completion of the Merger and crystallisation of the fiscal benefits connected with the write-down of the stake in Telecom Italia owned by Olivetti in the draft 2002 accounts;
- Securing of a Euro 9 billion credit facility by Olivetti to meet the needs deriving from the potential exercise of the withdrawal right;

Table of Contents

- The portion of the Euro 9 billion funds not used for the withdrawal right will be used to launch a partial voluntary public tender offer by Olivetti on Telecom Italia ordinary and Telecom Italia savings shares in equal percentages of the total number of each category of shares. Such public tender offer will be made at a price calculated as the average share price between March 12 and the date of the Olivetti s Shareholders Meeting for the approval of the Merger, increased by a premium of 20%. The resulting tender offer price will be subject to a minimum and a maximum of Euro 7.0 and Euro 8.4 respectively per Telecom Italia ordinary share, and of Euro 4.7 and Euro 5.65 respectively per Telecom Italia savings share; and

- Preliminary timetable envisaging the completion of the Merger by the month of July 2003.

5. VALUATION METHODOLOGIES USED FOR THE ASSESSMENT OF THE EXCHANGE RATIO

In the assessment of the exchange ratio, we have used the valuation methodologies that are commonly used, in an international context, for transactions of a similar nature and for companies operating in this sector.

In particular, the exchange ratio has been assessed by looking at the relative valuation of the companies considered, giving priority to the consistency and comparability of the criteria adopted rather than the estimate of the absolute value of the economic capital of those companies considered as individual entities.

As a consequence, the results indicated in this document refer to the assessment of the relative values of the economic capital of Olivetti and Telecom Italia. From such perspective, the valuations have been performed by considering the two companies as independent entities from an operating standpoint. Hence, they do not include any considerations concerning strategic, operating and financial synergies that may result from the Merger.

The valuation of Telecom Italia has been performed using the Sum-of-the-Parts fundamental methodology, which it is market practice to employ to assess the value of a group operating in various business sectors, and the main businesses have been valued with the Discounted Cash Flow methodology. The results obtained employing the Sum-of-the-Parts methodology have been verified with the analysis of the target prices expressed by research analysts.

The valuation of Olivetti has been performed using the NAV (Net Asset Value) methodology, which it is market practice to employ to value financial holding companies without substantial operating activities.

The estimated range for the exchange ratio has therefore been calculated as the ratio between the estimated value of a Telecom Italia share and the estimated value of an Olivetti share based on the minimum and maximum values of the respective ranges.

In order to verify the accuracy of the assessment of the exchange ratio determined using the criterion mentioned above, we have also performed an additional check based on the average exchange ratio expressed by the stock market over different time periods.

6. VALUATION OF TELECOM ITALIA

The valuation of Telecom Italia has been performed using the Sum-of-the-Parts fundamental methodology, in which the main businesses (Telecom Italia S.p.A., Telecom Italia Mobile, Seat Pagine Gialle-directory) have been valued primarily with the Discounted Cash Flow method. The other remaining businesses have been valued using the criterion of market values, where listed on regulated stock markets, and/or the market multiples method, also using book values and values identified by research analysts for such businesses, where available, as a verification and control criterion.

To the sum of the values of the activities calculated using the criteria indicated above, we have added up algebraically the value of the net financial position as at 31/12/2002 adjusted to take into account the effects of proportionate net debts, where relevant, and the net value of other adjustments including the value of certain off-balance sheet items and certain tax benefits.

The following table shows the minimum, the mid-point and the maximum value for each Telecom Italia ordinary share identified using the Sum-of-the-Parts fundamental methodology, before adjustment for the dividend payment expected for the month of June 2003 and hence prior to completion of the Merger.

Table of Contents

	Minimum	Mid-point	Maximum
Values per Telecom Italia ordinary share (Euro)	8.3	8.8	9.3

Note: the figures in this table have been rounded up

The results obtained using the Sum-of-the-Parts fundamental methodology have been verified with the analysis of the target prices expressed by research analysts. The research and financial analyses published by brokers and investment banks available as of the date hereof, resulting in a sample of 20 data for the target prices for a Telecom Italia ordinary share, highlight a value range comprised between Euro 7.5 and Euro 12.0 for each Telecom Italia ordinary share. The average value of such sample equals Euro 9.2 for each Telecom Italia ordinary share; the mid-point value of the range identified equals Euro 9.8 for each Telecom Italia ordinary share.

The following table shows the minimum, the mid-point and the maximum value per Telecom Italia ordinary share identified by the Sum-of-the-Parts fundamental methodology, adjusted to take into account the effect of the dividend payment expected for the month of June 2003.

	Minimum	Mid-point	Maximum
Values per Telecom Italia ordinary share (Euro)	8.1	8.6	9.1

Note: the figures in this table have been rounded up

The following table shows the minimum, the mid-point and the maximum value for each Telecom Italia savings share calculated based on the average market discount in the last month of approximately 33%, which is in line with the discount of the last day of trading (March 7) and substantially in line with the average discount in the last 3, 6 and 12 months.

	Minimum	Mid-point	Maximum
Values per Telecom Italia savings share (Euro)	5.4	5.8	6.1

Note: the figures in this table have been rounded up

7. VALUATION OF OLIVETTI

The valuation of Olivetti has been performed using the NAV (Net Asset Value) methodology, which reflects Olivetti s nature as a financial holding company without substantial operating activities. The Net Asset Value is calculated as an algebraic sum of the value of the holdings and other activities, deducting net financial liabilities. In calculating this algebraic sum, the main holding is the stake held in Telecom Italia shares, which is valued based on the range of values identified by the Sum-of-the-Parts fundamental methodology, adjusted for the effect of the payment of the dividend expected for the month of June 2003. The other holdings and activities are valued utilising the discounted cash flow methodology (Olivetti Tecnost), utilising the criterion of market values, where listed on regulated stock markets, and/or the market multiples method, also using book values and the values identified by research analysts for such activities, where available, as the verification and control criterion. The calculation of the Net Asset Value also includes the value of the tax benefits in connection with the write-down of the stake in Telecom Italia held by Olivetti in the draft 2002 accounts of Olivetti. The value of such tax benefit is calculated as the net present value of the tax savings expected for Olivetti on a stand-alone basis as provided by Olivetti.

To the sum of the values of the activities and the tax benefit calculated using the criteria indicated above, we have added algebraically the value of the net financial position as of 31/12/2002, adjusted for the effect of the dividend relative to the Telecom Italia shares to be received in the month of June 2003, and also adjusted for the pro-forma effect of the conversion of the convertible bonds 1.5% 2001-2010 consistent with the fully diluted methodology, which assumes their conversion into ordinary shares.

The following table shows the minimum, the mid-point and the maximum value for each Olivetti ordinary share consistent with the fully diluted methodology.

	Minimum	**Mid-point**	**Maximum**
Values per Olivetti ordinary share (Euro)	1.13	1.26	1.39

Note: the figures in this table have been rounded up

Table of Contents

The following table shows the minimum, the mid-point and the maximum value for each Olivetti savings share, calculated assuming the same discount of 33% assumed for each Telecom Italia savings share, having taken into account that Olivetti savings shares will enjoy economic and administrative rights which are not less than those enjoyed by Telecom Italia savings shares.

	Minimum	Mid-point	Maximum
Values per Olivetti ordinary share (Euro)	0.76	0.84	0.93

Note: the figures in this table have been rounded up

8. CONCLUSIONS OF THE ASSESSMENT AND VERIFICATION OF THE EXCHANGE RATIO

The following table summarises the estimated range for the exchange ratio calculated as a ratio between the estimated value for each Telecom Italia share and the estimated value for each Olivetti share based on the minimum and the maximum of their respective ranges previously identified.

	Minimum	Mid-point	Maximum
Olivetti ordinary shares for each Telecom Italia ordinary share	6.6	6.9	7.2
Olivetti savings shares for each Telecom Italia ordinary share	6.6	6.9	7.2

Note: the figures in this table have been rounded up

In order to verify the accuracy of the estimated exchange ratio determined with the criterion mentioned above, we have also performed an additional control based on the exchange ratio (Olivetti ordinary shares for each Telecom Italia ordinary share) expressed by the stock market over different time periods (data as of March 7, 1-month, 3-month, 6-month and 12-month averages) adjusted to take into account the effect of the payment of the dividend expected for the month of June 2003 prior to the Merger.

	March 7	1 month	3 months	6 months	12 months
Olivetti ordinary shares for each Telecom Italia ordinary share	6.7	7.0	6.9	7.1	6.9

Note: the figures in this table have been rounded up

The following table shows the minimum, the mid-point, and the maximum exchange ratio (Olivetti ordinary shares for each Telecom Italia ordinary share) expressed by the stock market calculated above.

	Minimum	Mid-point	Maximum
Olivetti ordinary shares for each Telecom Italia ordinary share	6.7	6.9	7.1

Note: the figures in this table have been rounded up

The results of the valuation carried out using the main methodology, further verified in light of the control methodology based on the average exchange ratio expressed by the stock market, show that the pre-redistribution Merger exchange ratio of 7.0 Olivetti ordinary shares for each Telecom Italia ordinary share and of 7.0 Olivetti savings shares for each Telecom Italia savings share is within the identified ranges and is therefore fair, from a financial point of view, to Olivetti.

Best regards,

/s/ Francesco Rossi Ferrini	/s/ Guido Tugnoli
Francesco Rossi Ferrini	**Guido Tugnoli**
Managing Director	**Managing Director**
JPMorgan Chase Bank	**JPMorgan Chase Bank**

Table of Contents

ORIGINAL DOCUMENT ISSUED ON JPMORGAN CHASE BANK HEADED PAPER.

TRANSLATION FROM THE ORIGINAL DOCUMENT ISSUED IN ITALIAN PREPARED EXCLUSIVELY FOR INFORMATIVE PURPOSES. THE ORIGINAL DOCUMENT IN ITALIAN PREVAILS ON ANY TRANSLATION.

Milan, April 15, 2003

Olivetti S.p.A.

Via Jervis, 77

Ivrea (TO)

Italia

To the kind attention of Dott. Carlo Buora, Managing Director

Dear Sirs,

With reference to our fairness opinion dated 11 March 2003 on the share exchange ratio of the merger of Olivetti S.p.A. with Telecom Italia S.p.A. provided pursuant to our engagement letter dated 5 March 2003 (the Fairness Opinion), we hereby confirm that, to our knowledge - taking into account the same criteria upon which the Fairness Opinion was given as well as the same premises, qualifications and assumptions set out therein - no material event has occurred since the date of the Fairness Opinion that would lead us to change, as of the date hereof, the conclusions of the Fairness Opinion.

Please note that in providing this confirmation we have not taken into account the share prices of either Olivetti S.p.A. or Telecom Italia S.p.A. subsequent to the announcement of the proposed merger between these two companies.

Best regards,

/s/ Francesco Rossi Ferrini	/s/ Guido Tugnoli
Francesco Rossi Ferrini	**Guido Tugnoli**
Managing Director	**Managing Director**

JPMorgan Chase Bank **JPMorgan Chase Bank**

E-8

Table of Contents

Annex F

English Translation of Auditors Report Relating to the Exchange Ratios

Pursuant to Article 2501-*quinquies* of the Civil Code by Reconta Ernst & Young S.p.A.

to the Shareholders of Telecom Italia dated April 22, 2003

Table of Contents

ERNST & YOUNG **• Reconta Ernst & Young S.p.A.**

PLAN FOR THE MERGER OF

TELECOM ITALIA S.P.A.

INTO OLIVETTI S.P.A.

AUDITORS REPORT

Relating to the exchange ratio of shares

pursuant to Art. 2501 quinquies of the Italian Civil Code.

(Translation from the original Italian text)

To the Shareholders of

Telecom Italia S.p.A.

1. OBJECTIVE, SUBJECT AND SCOPE OF THE ENGAGEMENT

We have been appointed by Telecom Italia S.p.A. to prepare our report on the exchange ratio of shares (hereinafter the **exchange ratio**) of Telecom Italia S.p.A. (hereinafter **Telecom Italia** or the **company to be absorbed**) and Olivetti S.p.A. (hereinafter **Olivetti** or the **absorbing company** and, together with Telecom Italia, the **Companies**), in accordance with Article 2501 quinquies of the Italian Civil Code. To this end, we have been provided by Telecom Italia with the plan for the merger, accompanied by the Directors Report, which identifies, explains and justifies, pursuant to Article 2501 quater of the Italian Civil Code, the exchange ratio, as well as the Balance Sheet as of December 31, 2002 provided by Article 2501 ter of the Italian Civil Code.

The plan for the merger will be subject to approval at the Extraordinary General Meeting of the shareholders of Telecom Italia to be held on May 24, 2003, first meeting, or on May 25, 2003, second meeting.

Similarly, the shareholders of Olivetti will be required to approve the plan for the merger at the Extraordinary General Meeting to be held on May 24, 2003, first meeting, or on May 25, second meeting or, on May 26, 2003, third meeting if required.

Deloitte & Touche Italia S.p.A. has been appointed by Olivetti to prepare a similar report on the exchange ratio.

In order to provide the shareholders with adequate information regarding the exchange ratio, this report illustrates the methods adopted by the Directors in determining the exchange ratio and the difficulties encountered by them; in addition, this report also indicates whether, under the circumstances, such methods are reasonable and not arbitrary, whether the Directors have considered the respective importance of such methods and whether the methods have been correctly applied.

In our examination of the valuation methods adopted by the Directors, also based on indications from their Professional Advisors, we have not made a valuation of the Companies participating in the merger. This was done solely by the Directors and the Professional Advisors appointed by them.

2. SUMMARY OF THE TRANSACTION

The Boards of Directors of Telecom Italia and of Olivetti have developed a plan, the purpose of which is to simplify the corporate structure of the Olivetti and Telecom Italia Group.

As indicated in the report of the Board of Directors of Telecom Italia, the proposed transaction provides for the merger of Telecom Italia into Olivetti, pursuant to Articles 2501 and following of the Italian Civil Code. Such transaction, with respect to its scope and main characteristics, was approved by the Boards of Directors of the companies participating in the merger, held on March 11, 2003.

On April 15, 2003, the Board of Directors of Telecom Italia approved the plan for the merger of Telecom Italia into Olivetti, confirming the exchange ratio preliminarily indicated by the Board of Directors on March 11, 2003.

Table of Contents

The merger will be effected on the basis of the draft financial statements of Telecom Italia and of Olivetti as of December 31, 2002, adopted by the Boards of Directors of the Companies as the balance sheets required by Article 2501 ter of the Italian Civil Code.

As a result of the merger, the absorbing company will take the name and the corporate scope of Telecom Italia and will adopt new bylaws, based on the current bylaws of Telecom Italia.

As a consequence of the change in the corporate scope, the shareholders of Olivetti who are absent or contrary to the resolutions approving the transaction, will have the right to withdraw pursuant to Article 2437 of the Italian Civil Code.

In the context of the transaction, Olivetti announced the intention to proceed with a voluntary and partial tender offer on Telecom Italia s ordinary and savings shares. In particular, Olivetti intends to offer a consideration based on the average of the stock market prices of Telecom Italia s ordinary and savings shares in the period between March 12, 2003 and the date of the shareholders meeting called to approve the merger project, increased by a premium of 20%. In any case, the consideration will not be (i) higher than Euro 8.40 for each ordinary share and Euro 5.65 for each savings share and (ii) lower than Euro 7 for each ordinary share and Euro 4.70 for each savings share.

Based on information already made public, the number of shares subject to the tender offer will be determined when the period to exercise the right of withdrawal pursuant to Article 2437 of the Italian Civil Code will expire and, accordingly, at the time Olivetti will have determined the total amount of disbursement to be incurred for such withdrawals. The maximum total amount for the tender offer will be Euro 9 billion, net of the amount of withdrawals. The financial resources allocated to the tender offer for each class of shares (ordinary and savings), if not totally utilized for a class will be assigned to the other class. If the acceptances of the tender offer by the holders of ordinary shares and savings shares were to exceed the quantity tendered for, they will be prorated with respect to each class.

The tender offer will start subsequent to the expiration of the term for the exercise of the right of withdrawal and will be completed prior to the execution of the merger deed. The offering will cease its effects in case the registration of the merger deed at the Companies Register will not be completed.

The offering will be evaluated by the Board of Directors of Telecom Italia, pursuant to Article 39 of the Ruling for the Issuers on the Italian Stock Exchange.

The merger will result with the cancellation of Olivetti s investment in Telecom Italia. Olivetti s share capital, as resulting on the date the merger will become effective, will be re-determined on the basis of the reduction of the par value of the shares (from Euro 1.00 to Euro 0.55), of its allocation to ordinary and savings shares (the latter category being introduced in the new bylaws of the absorbing company as a result of the merger) and of the necessity to maintain its current level in terms of absolute value. After the allocation, the capital of the company resulting from the merger will be distributed to the shareholders of Olivetti and those of Telecom Italia on the basis of a distribution ratio which will reflect the exchange ratio of Olivetti s shares with the ordinary and savings shares of Telecom Italia. In particular, with respect to the criteria for the allocation of Olivetti s shares, the Directors propose to proceed to the exchange by adopting principally the method of the re-distribution of Olivetti s capital and issuing new shares only within the limits eventually required to maintain the share capital at the current level. The re-distribution method consists in the allocation of the absorbing company s share capital among the shareholders of the absorbing company and those of the company to be absorbed, on the basis of the so called natural exchange ratio. The determination of the share capital and the exchange transaction will be made in accordance with the following principles:

- Olivetti will set the par value of its shares to the amount resulting from the conversions of the convertible bonds, the exercise of the warrants and the exercise of the stock options on one hand, and the exercise of the right of withdrawal on the other hand at Euro 0.55 each (equal to the par value of Telecom Italia s shares), in place of the current par value of Euro 1. Therefore, the share capital of Olivetti will be divided in a greater number of shares. These shares, will be divided into ordinary and savings shares;

- the new shares, ordinary and savings, with a par value of Euro 0.55 each, representing the share capital of Olivetti at the time of the merger, will be distributed to Olivetti s ordinary shareholders and to ordinary and savings shareholders of Telecom Italia, respectively. This distribution will be made on the basis of the distribution ratios, which will reflect the so called natural exchange ratio, with reference to the actual number of shares to be distributed, not yet known as of to date. Paragraph 6.4 below indicates this ratio as 7 ordinary or savings shares of Olivetti for each of ordinary and savings shares of Telecom Italia.

Should the capital of the absorbing company at the time of the merger fall, as a result of the effect of the withdrawals in respect to those of the conversions, below the current amount of Euro 8,845,537,520, the distribution of the share capital will be accompanied by the issuance of new ordinary and savings shares of the company resulting from the merger, to service the exchange of shares, up to a maximum number of 11,103,237,962, with a par value of Euro 0.55 each, in respect to the assignment to capital of the portion of minority interests of the company to be absorbed. These additional shares will be allocated to the shareholders of the absorbing company as well as those of the company to be absorbed, in respect of their proportional ownership.

At the time of the exchange of shares, Olivetti will assign to the savings shareholders of Telecom Italia new savings shares with characteristics corresponding to those currently issued by Telecom Italia.

The transaction provides for the listing of savings shares that will be issued by the absorbing company to service the exchange of shares in favor of the savings shareholders of Telecom Italia. The new Olivetti savings shares will have a par value of Euro 0.55 each, corresponding to that of the current savings shares of Telecom Italia.

Pursuant to Articles 2504 bis, last paragraph and 2501 bis, first paragraph, n. 5 of the Italian Civil Code, the new shares of the company resulting from the merger will have regular dividend rights.

Pursuant to Article 2504 bis, last paragraph of the Italian Civil Code, the effects of the merger, except for those effects provided for by Article 2501 bis, numbers 5 and 6 of the Italian Civil Code, will start from the last of the registrations of the merger deed, or from such subsequent date provided for by the merger deed.

The operations of the company to be absorbed, including income taxes, will be imputed to the financial statements of the absorbing company, with effect from January 1 of the year in which the transaction will become effective.

3. DOCUMENTATION UTILIZED

In performing our work, we obtained from Telecom Italia and Olivetti, such documentation and information as was considered useful in the circumstances. We analyzed such documentation and, in particular:

a) the plan for the merger and the reports of the Boards of Directors of the two Companies addressed to the respective Extraordinary General Meetings which, on the basis of the Balance Sheet as at December 31, 2002, propose an exchange ratio as follows:

7 Olivetti ordinary shares, with a par value of Euro 1.00 (one) each for each Telecom Italia ordinary share, with a par value of Euro 0.55 each;

7 Olivetti savings shares, with a par value of Euro 1.00 (one) each for each Telecom Italia ordinary share, with a par value of Euro 0.55 each.

This exchange ratio, so called natural, corresponds to the exchange ratio that would be applied, had the merger been realized without re-distribution, but issuing new shares to service the exchange ratio.

The ratio for the exchange of shares has been determined by the Directors also taking into account the valuation reports of the Professional Advisors indicated in points b) and c) below. The report of the Board of Directors sets out in detail the valuation criteria adopted, the reasons for their choice, the values resulting from their application and the related comments;

b) the appraisal report of the exchange ratio prepared by Lazard, as Professional Advisor of the Directors; this report, dated May 11, 2003, and prepared at the request of Telecom Italia, sets out the valuation criteria adopted, the reason for which they were chosen and the results of their application;

Table of Contents

c) the fairness opinion issued by Goldman Sachs on March 11, 2003 at the request of Telecom Italia, with respect to the fairness of the exchange ratio;

d) the following documentation, used by the Professional Advisors to prepare their appraisal reports and, subsequently, within the scope of our engagement, also utilized by us:

- the financial statements and the consolidated financial statements of Telecom Italia and Olivetti as at December 31, 2001 accompanied by the Report of the Board of Directors, the Report of the Board of Statutory Auditors and the Independent Auditors Report;
- draft financial statements and draft consolidated financial statements of Telecom Italia and of Olivetti as at December 31, 2002 accompanied by the Report of the Board of Directors;
- Telecom Italia s consolidated Business Plan 2003 2005 (version dated January 16, 2003) and related updates;
- Tecnost Group s condensed business plan;
- historical market prices and trading volumes of ordinary and savings shares of Telecom Italia and Olivetti;
- publicly available information about companies operating in the same sector;
- financial research and analyses, published by specialized institutions and investment banks;

e) additional documentation, as follows, has been utilized by us:

- data and information obtained from the Professional Advisors and used by them for the determination of the exchange ratio;
- rulings of convertible bonds of Olivetti;
- appraisal report of the exchange ratio dated March 11, 2003, issued by JPMorgan as Professional Advisor of Olivetti and the report prepared by Professor Angelo Provasoli, who reviewed and concurred with the valuation methodologies adopted by JP Morgan;
- bylaws of the companies participating to the merger;
- accounting elements and other information as deemed necessary for this report.

Finally, we obtained representation from Telecom Italia that, as to the Directors best knowledge, no significant changes occurred in the data and information considered during our analysis. The same representation has been obtained by Deloitte & Touche Italia S.p.A. from the Directors of

Olivetti.

4. VALUATION METHODS ADOPTED BY THE BOARDS OF DIRECTORS FOR THE DETERMINATION OF THE EXCHANGE RATIO

The Directors, also supported by their Professional Advisors, considering the importance and complexity of the merger transaction, deemed it appropriate to identify the valuation methods which, in addition to be in accordance with current best practice, would enable the two companies to be valued on a homogeneous basis.

4.1. Selection of the methods and valuation criteria

The Board of Directors of Telecom Italia determined the exchange ratio by selecting, among a number of valuation methods, those deemed more appropriate to express the value of the entities involved in the merger, considering the activities carried out by the absorbing company and by the company to be absorbed.

In addition, as suggested by corporate doctrine and professional practice, the Directors compared the values attributed to the companies participating in the merger process under the assumption that they will continue as a going concern. These values cannot be considered representative of a valuation in absolute terms of the two companies participating in the merger, nor can they be compared with any acquisition or sale prices (which normally reflect majority premiums or minority discounts).

The Directors of Telecom Italia, supported by their Professional Advisors, selected the valuation methods and principles to be adopted taking into account:

a) the specific objectives attributed to the valuations with reference to the underlying transaction;

Table of Contents

b) the nature of the activities carried out by each company participating in the merger.

In connection with the first aspect, in the selection of the valuation principles the Directors referred to the purpose of the valuation and to the relevant factors that allow to estimate the value of the entities being valued. As the objective is to express comparable values in order to determine the exchange ratio, the Directors adopted, for both companies participating to the merger, valuation methods based on homogeneous criteria.

As to the second aspect, the Directors considered on one hand the various areas of operations of Telecom Italia and, on the other hand, the circumstances that the controlling investment of Olivetti in Telecom Italia represents a significant component of total assets of Olivetti.

On the basis of the above, the Directors, for the purpose of determining the values of Olivetti and Telecom Italia, have utilized, given the equal significance level in the valuation process, the method of stock-market prices as the principal method and the sum-of-parts method as the control method.

Stock market prices method: when the companies involved in the merger have shares listed on regulated markets, doctrine and professional practice suggest to consider the results deriving from the stock prices of the respective shares, averaged over an adequate period of time. In this case, the Directors deemed the stock prices particularly significant and, on the basis of the stock-market prices at March 7, 2003 (last date of stock trading prior to the announcement of the transaction by the Boards of Directors), they note that both companies show high levels of volumes exchanged, high capitalization and a high liquidity of their respective shares.

Sum-of-parts method: according to this method, the value of a company is determined as the sum of the values of each of its businesses (intended as economic entities which can be individually evaluated), adjusted to take into account the financial position of the company, minority interests and, where significant, other effects such as those relating to off-balance sheet items, if any, and to potential tax benefits.

In the application of the valuation methods described, the Directors considered the expected distribution of reserves by Telecom Italia, approved by the Board of Directors on March 11, 2003.

4.1.1. Stock-market prices method

The stock market prices method estimates the value of the equity on the basis of stock market prices during a significant period, that expires on a date close to which the valuation is prepared. The Directors believe that the stock market prices following the announcement of the transaction are not relevant.

In order to mitigate short-term fluctuations that typically characterize financial markets, the Directors extended the analysis of stock market prices to the average prices expressed by the market over sufficiently long periods.

Accordingly, in the application of the stock market prices method, with reference to the date of March 7, 2003, the Directors proceeded to:

a) analyze the historical simple averages over a period covering the preceding 12 months;

b) analyze the historical averages weighted for volumes over a period covering the preceding 12 months;

c) analyze the mobile averages for 1, 3, 6 and 12 months;

d) adjust the value of Telecom Italia s shares, to take into account the expected distribution of reserves.

From the analysis of the historical trends, the Directors identified the averages for 1, 3, 6 and 12 months as those within a range of constant ratios of values.

4.1.2. Sum-of-Parts method

According to the sum-of-parts method, the value of Telecom Italia and Olivetti is determined as the sum of the values of the individual businesses of each company, considered as economic entities which can be

Table of Contents

individually evaluated. This sum, for each of the companies participating to the merger, is adjusted to reflect the financial position, minority interests and, where significant, other effects, such as off-balance sheet items, if any, and potential tax benefits.

On the basis of the significance of the investment in Telecom Italia in respect to Olivetti s total assets, the valuation process was concentrated on the estimated value of Telecom Italia, decisive element to identify Olivetti s value.

Taking into account the complexity of the company s structure and the various areas of the operations of the Telecom Italia Group, the individual businesses were evaluated on the basis of those methodologies, among those utilized by the practice, considered more suitable in the specific situation. In particular, the method of the discounted cash flow (**DCF**) was utilized for the main businesses, such as for instance, the services connected to mobile and wire-line communications.

The remaining assets and liabilities of Telecom Italia have been valued principally on either book or market value basis, in consideration of their limited weight with respect to the entire value of Telecom Italia.

The DCF method has been applied by computing the present value of operating cash flows, gross of any component of financial nature (**Free Cash Flow** or **FCF**). According to this method, the economic value of an enterprise is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital;
- net financial position and minority interests, which, in this case, refer to December 31, 2002.

In applying the DCF method, the Directors made reference to the operating cash flows connected to the main activities, as resulting from the economic and financial forecasts made for Telecom Italia.

For Olivetti, which is a holding company, the main asset of which is represented by the investment in Telecom Italia, the sum-of-parts method has been applied by evaluating this investment according to the principles described above and by evaluating the remaining assets and liabilities at book or market value, in light of their limited weight in respect to the valuation of the company taken as a whole.

In the valuation of Telecom Italia and Olivetti, the Directors have also taken into consideration the tax assets, for the portion deemed utilizable by the companies participating to the merger, regardless if the merger transaction will become effective or not, on the basis of expected taxable income on a stand alone basis. The Directors have also considered, for Telecom Italia, the expected distribution of reserves and, for Olivetti, the pro forma effect of the conversion of convertible bonds consistent with the fully diluted methodology.

4.2. Treatment of saving shares

With respect to the category of savings shares, which, as of to date are not issued by Olivetti, the Directors supported by their Professional Advisors assumed that, also considering the economic benefits that will be granted to Olivetti s savings shares, the discount currently recognized by the market to Telecom Italia s savings shares, with respect to the ordinary shares, may be utilized in the determination of the exchange ratio applicable to Olivetti s savings shares to be issued. The Directors therefore deemed appropriate to adopt the same exchange ratio, as that adopted for ordinary shares.

The Directors believe that, on the basis of a generally accepted principle, different methods of allocation between ordinary and savings shares would imply discretionary factors in the valuation, not supported by objective factors.

5. VALUATION DIFFICULTIES ENCOUNTERED BY THE BOARD OF DIRECTORS

In carrying out the valuations for the purpose of determining the exchange ratio, the Board of Directors of Telecom Italia encountered the following main difficulties:

a) *asset disposals during 2003, if any*: at present, it is not possible to precisely determine the outcome of the expected disposal of the new company that will be incorporated, as a result of the de-merger of Seat Pagine Gialle. In any case, the Directors, on the basis of the significance of the investment in Seat Pagine Gialle in

Table of Contents

respect of the total value of Telecom Italia, expect that the disposal should not have such effects that would require changes to the exchange ratio;

b) *taxation*: the valuation was made on the basis of current tax legislation; therefore, the Directors did not consider the tax reform currently in process, and not yet enacted, the effects of which are to date difficult to be quantified;

c) *valuation of savings shares*: as of to date there are no Olivetti savings shares; in order not to include in the analysis discretionary factors, not supported by objective factors, lacking historical data of reference for Olivetti, the Directors took into account the price differentials of ordinary and savings shares of Telecom Italia only.

The Directors, supported by their Professional Advisors, made a thorough analysis of the argumentations raised by some institutional investors, in connection with the application of the NAV method to Olivetti as holding company owing as its main asset the investment in Telecom Italia, and in particular in respect to the opportunity to value such investment at stock-market prices. In light of the purposes of the valuation, the Directors, even though recognizing the complexity of the subject, deemed to adopt homogeneous criteria for both companies and therefore to utilize for Olivetti the same method as that utilized for Telecom Italia (Sum-of-Parts).

6. RESULT OF THE VALUATION PERFORMED BY THE BOARDS OF DIRECTORS

6.1. Stock market prices method

The results obtained with the application of the principal method led the Directors supported by their Professional Advisors to identify the following values:

	Values (Euro)		
Stock market prices	**Telecom Italia post dividend**	**Olivetti**	**Value Ratio**
Weighted averages			
March 7, 2003	5.7	0.86	6.7
Average 1 month	6.3	0.91	7.0
Average 3 months	6.8	0.99	6.9
Average 6 months	7.2	1.02	7.1
Average 12 months	7.6	1.11	6.9
Arithmetic averages			
March 7, 2003	5.7	0.86	6.7
Average 1 month	6.4	0.91	7.0
Average 3 months	6.9	0.99	7.0
Average 6 months	7.2	1.01	7.1
Average 12 months	7.7	1.11	6.9
Maximum and minimum prices			
Maximum price last 12 months	9.5	1.47	6.5
Minimum price last 12 months	5.7	0.84	6.8

The Directors noted that the above results are confirmed also when expanding the time range to 18 months.

6.2. Sum-of-Parts method

As to the sum-of-parts method, the Directors of Telecom Italia supported by their Professional Advisors identified the following values for each ordinary share:

	Telecom Italia	Olivetti	Value Ratio
Value per each ordinary share (Euro)	8.8	1.27	6.9

6.3. Determination of the exchange ratio

On the basis of the valuations performed with the support of the respective Professional Advisors and in accordance thereto, the Directors defined the relative values of the companies participating to the merger, for the purpose of the exchange ratio.

Table of Contents

The value ratios resulting from the application of the methods adopted by the Board of Directors of Telecom Italia are summarized as follows:

Method	Value ratio
Stock market prices method	
March 7, 2003	6.7
Weighted averages:	
Average 1 month	7.0
Average 3 months	6.9
Average 6 months	7.1
Average 12 months	6.9
Sum-of-parts method	6.9

On the basis of the valuation methods applied to the companies participating to the merger described above, the Directors identified the following exchange ratio, so called natural, corresponding to the exchange ratio that would result, had the merger been realized without re-distribution, but through the issuance of new shares to service the exchange:

7 ordinary shares of Olivetti, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia with a par value of Euro 0.55 each;

7 savings shares of Olivetti, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia with a par value of Euro 0.55 each.

6.4. Procedures for assigning the shares and carrying out the share exchange

As previously described, the Directors considered advisable to leave the nominal capital of Olivetti basically unchanged at the completion of the transaction. Accordingly, they proposed that the share exchange be carried out primarily by redistributing Olivetti s capital, with recourse to the issue of new shares only insofar as this is required to maintain the share capital at the current level.

The redistribution technique consists of dividing the share capital of the absorbing company and hence the shares composing it among the shareholders of the absorbing company and those of the company to be absorbed, according to the so called natural exchange ratio between the shares.

The redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline.

The amount of capital will be determined and the share exchange transaction will be carried out according to the following methodologies:

a) Olivetti will set the nominal value of its shares in the amount resulting after the conversions and withdrawals at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1.00. Accordingly, Olivetti s share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares, the latter category with the same rights and features of the Telecom Italia savings shares;

b) the new ordinary and savings shares with a par value of Euro 0.55 each constituting the share capital at the time of the merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to the assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the so called natural exchange ratio of 7 Olivetti ordinary or savings shares for each Telecom Italia ordinary or savings share.

The variables represented by conversions, exercise of stock options, withdrawals and acceptances of the tender offer can only be quantified exactly at the time the merger is effective. Accordingly, the determination of the assignment ratio for the purpose of redistribution can be established precisely only at the time the merger becomes effective.

At the end of the merger transaction, the ratio between the shares assigned to the Olivetti shareholders and those assigned to the Telecom Italia shareholders will exactly reflect the natural exchange ratio between the shares of the two companies prior to the merger (1/7) determined above.

Table of Contents

7. WORK DONE

7.1. Work done on the documentation utilized as mentioned at point 3.

The valuation methods applied by the Directors, also on the basis of the indications of their Professional Advisors, take as a reference basis the draft financial statements of the Companies as at December 31, 2002, in accordance with art. 2501 ter of the Italian Civil Code. It should be noted that the statutory and consolidated financial statements of Telecom Italia and of Olivetti as at December 31, 2002, were audited by us.

In addition, we have performed the following activities:

- We have met with the Telecom Italia management to obtain information on the subsequent events with respect to the financial statements mentioned above that could have a significant effect on the amounts being examined here;

- With regard to the three-year plan 2003-2005 and cash flow forecasts of Telecom Italia, while considering the inherent uncertainty and limits of any type of forecast, we have discussed with the management of Telecom Italia the main characteristics of the forecasting process and the criteria used for their compilation.

The above activities have been performed to the extent necessary for the purpose of our engagement, indicated in paragraph 1 above.

7.2. Work done on the methods used to determine the exchange ratio

We have examined the methods followed by the Directors, also based on the indications given by their Professional Advisors, for the determination of the relative value of the Companies and, thus, of the exchange ratios, ascertaining their technical suitability under the circumstances.

We have also performed the following procedures:

- analysis of the Directors report and of the Professional Advisors reports to verify the completeness and consistency of the processes followed by the Directors in the determination of the exchange ratio, as well as the homogeneity in the application of the valuation methods;

- sensitivity analyses within the valuation methods adopted, with the aim to verify to what extent the exchange ratio would be affected by changes in the assumptions and parameters, considered as significant, utilized in the reports of the Professional Advisors;

- verification of the consistency of data utilized, with respect to the reference sources and with the Documentation used, described in paragraph 3 above;

-

verification of the mathematical correctness of the computation of the exchange ratio, by applying the valuation methods adopted by the Directors, also on the basis of the indications from their Professional Advisors;

- meetings with the Professional Advisors of Telecom Italia, to discuss the activities performed, the matters encountered and the solutions adopted.

We have also obtained representation that, to the management of Telecom Italia s best knowledge, no significant changes occurred in the data and information considered in our analyses.

8. COMMENTS ON THE SUITABILITY OF THE METHODS USED AND THE ACCURACY OF THE ESTIMATES

With reference to this engagement we believe it is worth noting that the principal purpose of the decisional process used by the Directors was to make an estimate of relative values of the companies involved in the merger, by applying homogeneous criteria, in order to obtain comparable values. In fact, the main objective of valuations for mergers is to identify comparable values in order to determine the exchange ratio, rather than to determine absolute values of the companies involved. As such, valuations for merger transactions have a meaning solely in respect of their relative profile and cannot be regarded as estimates of the absolute values of the companies involved, for transactions different from the merger and for which they were not made.

Table of Contents

In connection with the valuation methods adopted, we note that:

- they are widely spread in Italian and international practice, they have solid doctrinal bases and are based on parameters determined according to a rigorous methodology process;
- they appear adequate in the circumstances, in light of the characteristics of the companies involved in the merger;
- in conformity with the valuation context required for a merger, the methods have been developed on a stand alone basis;
- the methodology approach adopted by the Directors allowed to meet the criterion of homogeneity of valuation methods and thus that of comparability of values;
- the application of a principal method and of a control method allowed, in any case, to enlarge the valuation process and to verify the results obtained.

With reference to the development of the valuation methodologies made by the Directors, we note that:

- the stock market prices method is particularly suitable in connection with companies with a high capitalization, an ample and spread floating and high volumes of exchange. In this case, the adoption of averages over a sufficiently long period of time allowed to mitigate the effect of shares fluctuations, connected to the general situation of the stock markets; the results are confirmed also by expanding the analysis over 18 months;
- the sum-of-parts method is generally applied by professional practice in the valuation of complex enterprises, characterized by various areas of business. In the specific case, the utilization of the DCF method allowed to appreciate the operational characteristics of the companies participating to the merger. The selection of the DCF method for the main business areas of Telecom Italia is justified by the activity carried on which turns both the balance sheet and the economic and financial aspects into relevant elements for the valuation process;
- the results obtained with the sum-of-parts method, utilized by the Directors for verification purposes, are supported by the analysis of the consensus expressed by financial analysts on target prices of Telecom Italia in the three months preceding the announcement of the transaction;
- lacking the historical data for Olivetti, the determination of the exchange ratio for the savings shares of Telecom Italia, provided for in the merger, even in consideration of the limits of the empirical process described in paragraph 4.2, is appropriate under the circumstances and in any case objective.

9. SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITORS IN CARRYING OUT THE ENGAGEMENT

During our engagement we did not encounter limitations or difficulties that should be mentioned in this section of the report.

10. CONCLUSION

Based on the documentation we have examined and on the procedures described above, and considering the nature and extent of our work as described in this report, we believe that the valuation methods adopted by the Directors, also based upon the advice of their Professional Advisors are, under the circumstances, reasonable and not arbitrary and they have been correctly applied by them in their determination of the following exchange ratio of shares:

7 Olivetti ordinary shares, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia, with a par value of Euro 0.55 each,

7 Olivetti savings shares, with a par value of Euro 1.00 (one) each, for each savings share of Telecom Italia, with a par value of Euro 0.55 each,

indicated in the plan for the merger.

Milan, April 22, 2003

Reconta Ernst & Young S.p.A.

Signed by Giovanni Aspes, partner

Table of Contents

Annex G

English Translation of Auditors Report Relating to the Exchange Ratios

Pursuant to Article 2501-*quinquies* of the Civil Code by

Deloitte & Touche Italia S.p.A. to the Shareholders of Olivetti dated April 22, 2003

G-1

Table of Contents

OLIVETTI S.p.A.

REPORT ON THE FAIRNESS OF THE RATIO FOR THE

EXCHANGE OF SHARES RELATED TO THE PROPOSED

MERGER OF TELECOM ITALIA S.p.A. INTO OLIVETTI

S.p.A. PURSUANT TO ART. 2501 QUINQUIES OF THE

ITALIAN CIVIL CODE.

(Translation of Original Issued in Italian)

G-2

Table of Contents

Deloitte

& Touche

To the Shareholders of

Olivetti S.p.A.:

1. OBJECTIVE, SUBJECT AND SCOPE OF THE ENGAGEMENT

In the context of the proposed merger of Telecom Italia S.p.A. (hereinafter also Telecom Italia or the Absorbed Company) into Olivetti S.p.A. (hereinafter also Olivetti or the Absorbing Company; Olivetti, subsequent to the effective date of the merger, is also defined as the Company Resulting from the Merger), on March 18, 2003, we were appointed by the President of the Ivrea Tribunal, following the petition presented by Olivetti, as experts for the preparation of the report on the fairness of the ratio for the exchange of the shares of the Absorbed Company with those of the Absorbing Company, in accordance with Article 2501 quinquies, last paragraph, of the Italian Civil Code.

To this end, we have received from the Board of Directors of Olivetti the proposed merger project together with the report prepared by the Board which identifies, explains and justifies in accordance with Article 2501 quarter of the Italian Civil Code the exchange ratio as well as the Balance Sheet situation as of December 31, 2002, prepared in accordance with Article 2501 ter, last paragraph, of the Italian Civil Code.

The proposed merger project will be subject to approval at the Extraordinary General Meeting of the Shareholders of Olivetti called for the days of May 24, 25 and 26, 2003, in first, second and third convocation, respectively. In the same way, the Shareholders of Telecom Italia will also be required to be called to deliberate at an Extraordinary General Meeting.

The audit firm Reconta Ernst & Young S.p.A. has been appointed to prepare a similar report on the fairness of the ratio for the exchange of shares for Telecom Italia.

In order to provide the Shareholders with suitable information regarding the ratio for the exchange of shares, this report indicates the methods followed by the Directors for its determination and the valuation difficulties encountered by them; it also contains our evaluation of the adequacy in the circumstances of such methods, from the point of view of their reasonableness and non-arbitrariness, on the relative importance attributed to each method by the Directors and on their correct application.

In examining the valuation methods adopted by the Directors, also on the basis on the indications of the Advisor used by them, we have not performed an economic valuation of the Companies. Such valuation has been performed exclusively by the Directors and the Advisor.

2. SUMMARY OF THE OPERATION

The Boards of Directors of Olivetti and Telecom Italia have prepared a project aimed at simplifying the corporate structure of the Olivetti Group, as summarized in the following points:

- Merger of Telecom Italia into Olivetti and adoption of the corporate object and name of Telecom Italia by Olivetti.

- Obtaining, on the part of Olivetti, of a credit line up to Euro 9 billion to meet the financial requirements deriving from eventual withdrawal requests by Olivetti Shareholders communicated in accordance with Article 2437 of the Italian Civil Code, and to promote the public offering discussed in the following point.

- The Euro 9 billion financing not eventually utilized for the aforementioned withdrawal of Olivetti Shareholders will then be destined to promote a voluntary and partial public offer by Olivetti to acquire Telecom Italia shares (OPA). The purchase price of the OPA will be equal to the average of the share price in the period between March 12 and the date of the Meeting of Olivetti called to approve the merger, increased by a premium of 20%, with a minimum and maximum, respectively, of Euro 7.0 and Euro 8.4 for each ordinary share and Euro 4.7 and Euro 5.65 for each savings share. The right of withdrawal and OPA are both subordinate to the realization of the merger.

- Distribution of reserves by Telecom Italia prior to the completion of the merger, up to a maximum amount estimated to approximate Euro 1,333 million.

- The merger will result in the elimination of the investment held by Olivetti in the capital of Telecom Italia, and the capital of Olivetti, which will result as of the effective date of the merger, will be re-determined in relation to the reduction in the nominal value of the shares (which will pass from Euro 1.00 to Euro 0.55), to their division between ordinary and savings shares (a category that will be introduced in the new articles of incorporation of the Absorbing Company subsequent to the merger) and to the eventual need to maintain the present consistency in terms of absolute value. After having been so divided, the capital of the Company Resulting from the Merger will be re-allocated between the Shareholders of Olivetti and the Shareholders of Telecom Italia on the basis of an allotment ratio which will reflect the ratio of exchange between the shares of Olivetti and the ordinary and savings shares of Telecom Italia. In particular, with regard to way of allotment of the Olivetti shares, the report of the Olivetti Board of Directors informs that considering the adequacy of Olivetti s share capital in relation also to the overall size of the debt when this is measured against the cash generating capacity of the Company Resulting from the Merger, both in absolute tenns and relative to the main European competitors it was decided to carry out the share exchange primarily by redistributing Olivetti s capital and have recourse to the issue of new shares only insofar as this proved necessary to maintain the share capital at the level currently subscribed. The redistribution technique consists in dividing the share capital of the Absorbing Company among the shareholders of the Absorbing Company and those of the Absorbed Company, in accordance with the natural exchange ratio between the shares. In the light of the method and principles described in paragraph 4 below, the share capital will be established and the share exchange operation carried out according to the following rules:

- Olivetti will fix the nominal value of its shares in the amount resulting after conversions on the one hand and withdrawals on the other at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1. Consequently, Olivetti s share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares;

- the new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital of Olivetti at the time of the merger will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment ratios reflecting, with reference to the actual number of shares to be redistributed, not known as of to-day, the natural exchange ratio, by which for each Telecom Italia share of par value Euro 0.55 will correspond 7 Olivetti shares of par value Euro 1.

3. DOCUMENTATION UTILIZED

In the performance of our work we have obtained the documents and the information considered useful in the circumstances. To this end we have analyzed the documentation and information received, and in particular:

- The merger project and the reports of the Boards of Directors of the two Companies addressed to the respective Extraordinary General Meetings which, on the basis of the draft financial statements as of December 31, 2002, taken as the basis for the reference financial position, propose a ratio for the exchange of 7 Olivetti shares for each Telecom Italia share, following the planned distribution of reserves. This ratio for the exchange of shares has been determined by the Directors also using the indications resulting from the reports discussed in the following point.

- The reports on the ratio for the exchange of shares prepared by JPMorgan appointed by Olivetti and by Lazard and Goldman Sachs for Telecom Italia (also described below as Advisors), dated March 11, 2003, and updated on April 15, 2003. These reports detail the valuation criteria adopted, the work performed and the conclusions reached. In addition, we have examined the report of Prof. A. Provasoli, requested by Olivetti to check the consistency and relevancy with respect to the finalities of the operation of the valuation criteria applied by JPMorgan for the determination of the ratio for the exchange of shares.

- The following documentation, used by JPMorgan for the preparation of its report and subsequently also by us, for the performance of our engagement:

    - the consolidated financial statements and Company financial statements for 2001 and the draft financial statements for 2002 of Olivetti, Telecom Italia, Telecom Italia Mobile, Seat Pagine Gialle;

- the half-year and quarterly reports of the years 2001 and 2002 of Olivetti, Telecom Italia, Telecom Italia Mobile, Seat Pagine Gialle;

- the Group Business Plan of Telecom Italia 2003-2005 (January 2003 version) and the related updates;

Table of Contents

- the condensed Business Plan 2003-2005 of Olivetti Tecnost;
- research and financial analyses published by specialized institutes and investment banks;
- research and analyses related to companies which are comparable or have similar operating characteristics;
- stock market trends;
- other detailed documentation on specific aspects which Olivetti provided to the Advisor in the course of their work.

- Further documentation obtained and information received are:
  - the reports of the audit firm Reconta Ernst & Young S.p.A. and analyses of certain work papers and information obtained verbally from the firm relating to the audit of the financial statements for 2002 of the Companies involved in the merger;
  - accounting and statistical elements as well as other information publicly available considered useful for the purposes of this report.

We have also obtained representation that, as far as the Management of the Company are aware, there have been no significant changes to the data and information taken into consideration in the performance of our analyses.

4. VALUATION METHODS ADOPTED BY THE BOARD OF DIRECTORS

The Directors of Olivetti, also on the basis of the indications of its Advisor, in consideration of the significance and complexity of the merger operation, considered it appropriate to identify valuation methods which, as well as having consolidated authoritative and applicative bases, would enable the two Companies to be valued in a homogeneous manner. In particular:

- Since the exclusive aim of the estimates is to establish significantly comparable values, the methods adopted in the context of valuations for merger purposes and the related results may differ from those used for valuations having a different purpose. On the basis of these assumptions and as a consequence of the adoption of the redistribution method for the assignment of the shares of the Company Resulting from the Merger, summarized in paragraph 2 above, it is first necessary to establish a natural exchange ratio between the shares of the two Companies, corresponding to the exchange ratio that would have been applied if the merger had involved the issue of new shares for the purpose of the exchange. This natural exchange ratio will correspond to a variety of assignment ratios, which will depend on other variables and in particular on the change in the nominal value of the shares, the number of withdrawals and conversions and total amount of share capital. With this premise, the natural exchange ratio was established by applying valuation methods that are commonly used, also internationally, for operations of this kind and for businesses in this sector. In particular, account was taken of the comparative valuation of the Companies involved and priority given to the homogeneousness and comparability of the methods used with respect to the simple estimate of the economic capital of each Company considered on its own. In this perspective, the valuations were carried out considering the two Companies as separate entities and therefore ignoring all the strategic, operational and financial synergies expected from the merger, as well as the question of control premiums/minority discounts associated with the possession of equity interests.

- Telecom Italia has been valued applying, as the basic method, the criterion known as the Sum of Parts (SOP) method, which it is standard market practice to use to estimate the value of a group operating in several sectors. Under this method the value of a company s economic capital is calculated as the sum of the values of its separate units, in the sense of economic entities that can be valued independently and suitably adjusted to take account of the company s net financial position and minority interests where material as well as other factors such as off-balance-sheet items and potential tax benefits. It was considered appropriate to use this method in view of the numerous areas in which Telecom Italia is active. As regards the single units, the Board of Directors of Olivetti decided that it was advisable to value each of them using the methods deemed most appropriate to each situation. In particular, the valuation of the principal units was based primarily on the Discounted Cash Flow method, following the logic of determining the fundamental value for the financial investor, on the basis of the following methodological approach:

  - reference was made to the cash flows of the individual units as set out in the economic and financial plans drawn up by Telecom Italia;

Table of Contents

- the growth rates used for the financial projections beyond the time horizon of Telecom Italia s business plan and for the calculation of the terminal value reflect growth prospects consistent with the relevant market benchmarks; the terminal value, determined on the basis of the flows estimated in the manner indicated, is basically consistent with the multiples implicit in the current prices of comparable companies;

- the weighted average cost of capital (WACC) was calculated on the basis of a capital structure basically in line with the present one.

The remaining activities (not valued applying the Discounted Cash Flow method), which have a limited weight within the overall valuation, have been valued using the stock market price method for companies listed on regulated markets and/or the market multiples method, with use also made for testing and control purposes of financial statement values and the values published in analysts research reports on such companies, where available.

- Olivetti has been valued applying, as the basic method, the Net Asset Value (NAV) criterion an approach substantially equivalent to the Sum of Parts criterion from a methodological point of view since commonly considered the most suitable for the valuation of a holding company without significant operations. At the basis of the NAV criterion, the value of the economic capital of a company is determined as the sum of the values of the equity investments and of its other assets, appropriately adjusted to take into account the net financial position of the company and third party interests where significant, as well as other aspects, including those relative to the central costs of the holding, off-balance sheet items and potential tax benefits. In the specific case, for the purposes of such computation, the principal equity investment is that in Telecom Italia, which has been valued using the Sum of Parts method (described above), adjusted for the effect of the distribution of reserves planned for June 2003. The other equity investments and assets were valued using the Discounted Cash Flow method (Olivetti Tecnost), the stock market price method for companies listed on regulated markets and/or the market multiples method, with use also made for testing and control purposes of financial statement values and the values published in analysts research reports on such companies, where available. To the sum of the values of the assets and the Tax Asset, described more fully below, was added the value of the net financial position as of December 31, 2002, adjusted for the effect of Telecom Italia s distribution of reserves planned for June 2003. Finally, account was taken of the pro forma effect of the conversion of the Olivetti 1.5% 2001-2010 convertible con premio al rimborso convertible bonds, consistently with the fully-diluted method, which assumes the conversion into ordinary shares (the price of such conversion, equal to Euro 1 per bond, is lower than the value of the economic capital per Olivetti ordinary share obtained using the Net Asset Value valuation method).

- In addition, the Board of Directors of Olivetti has tested the ratio of exchange for shares resulting from the application of the above methods by using, as the control method, the stock market prices method. This method expresses the value of the enterprise on the basis of the share prices negotiated on regulated stock markets. In particular, the stock market prices method is considered significant when the average volumes traded are large, since in such circumstances the value attributed by the market represents a reference which is certainly of significance in the relative assessment of profiles of profitability, patrimonial solidity, growth prospects and riskiness. In applying this method it is necessary to strike a balance between the need to mitigate the volatility of daily share prices by considering a sufficiently long period and the need to use recent data that are indicative of the market values of the companies in question. Since both Telecom Italia and Olivetti are listed on Borsa Italiana s MTA electronic share market and are among the largest Italian companies in terms of market value, the Board of Directors considered that the stock market prices of their securities constituted a reliable benchmark and reference was made to the average exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) obtaining in the market in different periods prior to the day on which Borsa Italiana S.p.A. suspended trading in the Olivetti and Telecom Italia securities in view of the forthcoming announcement of the Operation (data as of March 7, 2003 and the weighted averages of the official prices in the preceding 1, 3, 6 and 12 months).

In the application of the valuation methods described above, the Directors of Olivetti have taken into account the following:

- The valuations of the tax assets generated from the adjustments to the values of the controlling equity investments held by Olivetti and Telecom Italia in, respectively, Telecom Italia itself and Seat Pagine Gialle have been made on the basis of the expected taxable income and limits effectively utilizable by the Companies, independent of the realization of the merger operation. In this respect, it should be noted that: (a) the adjustments made to the investment in Telecom Italia were made to obtain tax benefits not otherwise available; (b) those regarding Seat Pagine Gialle, of an economic nature, are, among other things, the result of the decision of Telecom Italia to consider no longer strategic the Directories business of Seat Pagine Gialle. This has been taken into account in the application of the SOP and NAV methodologies used, respectively, for Telecom Italia and Olivetti.

- Since there are no Olivetti savings shares as of today, the hypothesis has been made that the quotations of the savings shares of the Company Resulting from the Merger may reflect a discount analogous to that recognized by the market to the Telecom Italia savings shares with respect to the ordinary shares. This discount was quantified in the measure of 33% as illustrated below in paragraph 6. This has been taken into account in the determination of the ratio for the exchange of shares applicable to the Telecom Italia savings shares, calculated applying both the basic SOP and NAV methods and the stock market price method.

- In the determination of the values attributed to Olivetti, the Directors decided not to calculate the NAV on the basis of the current stock market prices of the investment held by Olivetti in Telecom Italia since, in the contest of a valuation made to determine an exchange ratio, having considered appropriate the valuation of Telecom Italia on the basis of the fundamental methodology (SOP), the valuation of the investment Telecom Italia within the context of the valuation of Olivetti with the NAV method must also be based on a fundamental methodology, in order to assure the homogeneity of criteria adopted and the overall reliability of the valuation conclusions. On the contrary, the calculation of the NAV of Olivetti based on the stock market quotations of Telecom Italia would be characterized, apart from the lack of homogeneousness of the criteria adopted, also by the high volatility determined by the financial lever present in Olivetti, which would render the resulting valuation unreliable.

- The Olivetti own shares and the Olivetti shares held by the subsidiary Olivetti International S.A. have been valued at the implicit final value resulting from the Net Asset Value of Olivetti.

- The values attributed to Olivetti and Telecom Italia for the purpose of determining the ratio for the exchange of shares take account of the planned distribution of reserves by Telecom Italia up to a maximum of about Euro 1,333 million, since the timing of the merger provides that the share exchange will take place subsequent to the payment of these reserves.

- Lastly, account was taken in determining the exchange ratio of the eventuality of the exercise of financial instruments giving rise to the subscription of Olivetti and Telecom Italia shares (stock options, convertible bonds and warrants) exclusively to the extent that their exercise was reasonable likely in the light of the related economic and financial benefits.

The choice of the methods and valuation criteria adopted by the Board of Directors of Telecom Italia is substantially in line with that adopted by the Olivetti Board, with the clarification that the Telecom Italia Directors have used, with equal weight, the stock market price method (as the principal method) and the Sum of Parts method (as the control method).

5. VALUATION PROBLEMS ENCOUNTERED BY THE DIRECTORS

In making the valuations, as described in their report, the Olivetti Directors encountered the following main difficulties:

- The valuations were made assuming that the present tax system will remain in force in the future. The tax reform under way envisages a series of changes (including new rates, consolidation for tax purposes and the abolition of Dual Income Tax, etc.), whose effects are difficult to assess.

- The estimation of the value of the savings shares assigned by the Company Resulting from the Merger for the purpose of the exchange was based on the differential found between the stock market prices of Telecom Italia ordinary and savings shares. As explained in detail in the report, the decision to differentiate the estimated values of the shares of different classes according to the differences between their market prices is consistent with standard practice in this field. However, even though in the case in question there were no objective elements permitting any other solution, some empirical analyses have shown that the differentials between the prices of ordinary and savings shares tend to be larger for companies, such as the Company Resulting from the Merger, where control is contestable. In such cases, in fact, the importance of the administrative rights exceeds that of the property rights. This principle, however, is not applicable objectively to the case in question in the absence of historical data regarding Olivetti and it would only be possible to estimate its effects

Table of Contents

generically on the basis of data regarding comparable companies. Acting in the opposite direction to the foregoing, is both the increase in the property rights attached to the savings shares as a result of the planned introduction of more extensive property rights which will be introduced with the Meeting called to deliberate the Merger and the fact that to each Savings Shareholder of Telecom Italia will be assigned, for each Telecom Italia savings share held, more than one savings share of the Company Resulting from the Merger (in proportion to the exchange ratio).

- The own shares held by Olivetti and the Olivetti shares held by the subsidiary Olivetti International S.A., which can be likened to own shares, were valued on the basis of the overall economic value of Olivetti itself. This approach assumes that the economic value is the same as the realizable value, i.e. the market value, of the shares in question, an assumption that has not always been true in practice. However, the valuation method adopted comes close to one of the technical solutions suggested by the literature and practice, which recommend treating own shares as early retirement of capital and accordingly setting their value equal to zero and calculating the value per share with reference to a smaller number of shares than the total issued, equal to those actually in circulation.

- At the present time it is not possible to make an accurate forecast of the outcome of the proposed disposal of the new company that will be created as a result of the spin-off of Seat Pagine Gialle. It is nonetheless considered, in view of the percentage of Telecom Italia s overall value accounted for by its equity investment in Seat Pagine Gialle, that the disposal cannot produce effects requiring the exchange ratio to be changed.

- In view of the size of the holding in Telecom Italia, the Directors of Olivetti, with the help of the Advisor, have made a careful analysis of the arguments put forward by some institutional investors regarding the application of the NAV method to Olivetti, as a holding company whose most important asset is the holding in Telecom Italia and with special reference to the appropriateness of valuing that holding on the basis of stock market prices. Given the purpose of the valuation, the Directors, whilst recognizing the complexity of the question, have decided to adopt uniform criteria for both the Companies and thus to use for the valuation of Olivetti the same method used for the valuation of Telecom Italia (Sum of Parts).

6. RESULTS OF THE VALUATION PERFORMED BY THE DIRECTORS

In the light of the indications provided by JPMorgan, the Board of Directors of Olivetti, using the principal method (SOP and NAV) has identified the following estimated interval of the ratio for the exchange of shares, calculated as a quotient between the value estimated per Telecom Italia shares and the value estimated per Olivetti shares (rounded data):

	Minimum	Mean	Maximum
		(Exchange ratio)	
Olivetti ordinary shares per Telecom Italia ordinary share	6.6	6.9	7.2
Olivetti savings shares per Telecom Italia savings share	6.6	6.9	7.2

In particular, the above reflects, allocated in the respective categories of Minimum, Mean and Maximum , the ratios between the following values of the shares of the Companies involved in the merger (rounded data):

	Minimum	Mean	Maximum
		(Euro)	
Value per Telcom Italia ordinary share, after distribution of reserves(a)	8.1	8.6	9.1
Value per Telcom Italia savings share(b)	5.4	5.8	6.1

Value per Olivetti ordinary share(c)	1.13	1.26	1.39
Value per Olivetti savings share(d)	0.76	0.84	0.93

a) Minimum, mean and maximum values of Telecom Italia ordinary shares determined using the principal method SOP, adjusted for the effect of the distribution of the reserves planned for month of June 2003.

b) Minimum, mean and maximum values of Telecom Italia savings shares calculated on the basis of the average market discount of the last month prior to the announcement of the Operation (March 7, 2003), equal to circa 33%, which is in line with the discount on the last trading day of Olivetti and Telecom Italia shares before March 7, 2003, and substantially in line with the average discount of the last 3, 6 and 12 months.

Table of Contents

c) Minimum, mean and maximum values of Olivetti shares determined using the NAV method.

d) Minimum, mean and maximum values of the savings shares of the Company Resulting from the Merger, calculated assuming the above discount of 33% relative to the savings shares of Telecom Italia.

The minimum, mean and maximum values of the Telecom Italia ordinary shares, determined using the principal method SOP, prior to the distribution of the reserves planned for the month of June 2003, are the following (rounded data):

	Minimum	Mean	Maximum
		(Euro)	
Value per Telcom Italia ordinary share	8.3	8.8	9.3

The above results were tested by analyzing the target prices identified by financial analysts. The research reports published by specialized institutes and investment banks available at March 7, 2003, which gave a sample of 20 target prices for the Telecom Italia ordinary share, showed a mean value of Euro 9.2 per Telecom Italia ordinary share, a value within the above range.

Moreover, in order to test the accuracy of the exchange ratio obtained in the manner described above, the Board of Directors of Olivetti, with the help of its Advisor, made a further test using the method based on stock market prices, on the basis of the ratio between the average exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) obtaining in the market in different periods prior to the last trading day of Olivetti and Telecom Italia shares before the suspension of trading by Borsa Italiana S.p.A. in view of the forthcoming announcement of the Operation (data as of March 7, 2003 and averages weighted for the preceding 1, 3, 6 and 12 months), which evidence the following (taking account of the necessary roundings):

	Telecom Italia(1)	Olivetti	Exchange Ratio
	(Euro)	(Euro)	
March 7, 2003	5.7	0.9	6.7
Average - 1 month	6.3	0.9	7.0
Average - 3 months	6.8	1.0	6.9
Average - 6 months	7.2	1.0	7.1
Average - 12 months	7.6	1.1	6.9

(1) Value adjusted for the effect of the distribution of reserves planned for the month of June 2003.

The following table evidences the minimum, mean and maximum exchange ratios (Olivetti ordinary shares for Telecom Italia ordinary share) expressed by the stock market detailed above (rounded data):

	Minimum	Mean	Maximum
		(Exchange ratio)	
Olivetti ordinary shares for Telcom Italia ordinary share	6.7	6.9	7.1

The above figures are consistent with the exchange ratio established using the main valuation method. It should be noted that the stock market price method cannot be used to test the exchange ratio for the savings shares owing to the non-existence of Olivetti savings shares. Nonetheless, in the light of the arguments put forward in paragraph 4 above regarding the hypothesis of a basically unchanged discount for the savings shares of the Company Resulting from the Merger with respect to its ordinary shares compared with that recorded by Telecom Italia s savings shares, the consistency of the exchange ratio established using the main valuation method can also be confirmed for the savings share ratio.

7. DETERMINATION OF THE EXCHANGE RATIO

The Directors of Olivetti, taking account of the indications provided by JPMorgan and after examining the results of the application of the above-mentioned valuation methods, have thus reach a valuation of the ratio existing between the economic values of the two Companies involved in the merger, which has then been compared with the conclusions reached by the Board of Directors of Telecom Italia, taking into account the indications provided by Lazard and Goldman Sachs.

At the end of the valuation process, the Board of Directors of Olivetti and the Board of Directors of Telecom Italia have established that the natural exchange ratio on the basis of which to determine the assignment of the shares of the Company Resulting from the Merger is:

7 Olivetti shares, assuming the current par value of Euro 1.00 each

for every

1 Telecom Italia share, assuming the current par value of Euro 0.55 each

Table of Contents

The exchange ratio will be the same for both the Telecom Italia ordinary shares and for the Telecom Italia savings shares. To this natural exchange ratio will correspond a different assignment ratio, made necessary by the decision to carry out the exchange through the redistribution of the capital of the Company Resulting from the Merger, as summarized in paragraph 2 above.

8. WORK PERFORMED

The work performed on the documentation utilized as described in the preceding paragraph 3 is summarized as follows:

- Analysis of the reports and the work papers of the audit firm Reconta Ernst & Young on the Company financial statements and the consolidated financial statements of Olivetti and of Telecom Italia as of December 31, 2002.
- Analysis of the valuation criteria used for the preparation of the Company financial statements and consolidated financial statements of Olivetti and Telecom Italia as of December 31, 2002, to determine the consistency thereof or to assess the effects of any inconsistencies.
- Obtaining information from Management regarding events subsequent to the closing of the 2002 financial statements which could have a significant effect on the determination of the values object of this examination.
- Discussion with the Management of the Companies involved in the merger regarding the criteria used for the preparation of the Group Business Plan of Telecom Italia and the condensed Business Plan of Olivetti Tecnost, the uncertainties and limitations inherent in all forecasts being understood. In particular, we have examined the principal characteristics of the forecasting process and the methodological coherence of the process itself, also with regard to the comparability of the data obtained, taking into account the specificity and characteristics of the Companies involved.
- Verification of the stock market prices referring to the shares of the Companies involved in the merger, considered important in connection with the determination of the ratio for the exchange of shares.

The work performed with reference to the methods of determination of the ratios for the exchange of shares is summarized as follows:

- Critical examination of the valuation methods adopted and of all elements considered necessary to determine whether such methods were technically appropriate, in the specific circumstances, to determine the economic values of the two Companies involved in the merger in relation to the ratio for the exchange of shares.
- Participation in meetings with JPMorgan in order to obtain information regarding the work they performed and the calculations they made.
- Comparison between the procedures and results obtained by the Advisor of Olivetti with those of the Advisors of Telecom Italia.
- Verification of the completeness and uniformity of the procedures followed by the Directors of Olivetti in the determination of the ratio for the exchange of shares.

- Verification that the valuation methods were applied in the uniform way.

- Verification of the consistency of the data utilized with respect to the reference sources and with the Documentation utilized described in the preceding paragraph 3.

- Verification of the mathematical accuracy of the calculation of the ratio for the exchange of shares performed through the application of valuation methods adopted by the Directors of Olivetti also on the basis of the indications of JPMorgan.

- Sensitivity analyses in relation to the valuation methods adopted with the objective of verifying the extent to which the ratio for the exchange of shares are influenced by changes in the hypotheses and parameters.

9. COMMENTS ON THE SUITABILITY OF THE METHODS USED AND THE VALIDITY OF ESTIMATES PRODUCED

With reference to the present engagement we believe it appropriate to emphasize that the principal purpose of the Directors decisional process was to arrive at an estimate of the relative economic values of the

Table of Contents

individual Companies involved in the merger by applying uniform criteria for the purpose of the determination of the ratio for the exchange of shares. The estimate, therefore, is not suitable for other purposes.

That being stated, we bring to the attention of the Shareholders the following:

- The ratio for the exchange of shares has been determined, as suggested by business doctrine and generally applied in professional practice, on the basis of the comparison of the values attributed to each of the Companies involved in the merger on a going concern basis, that is excluding, in general, considerations of any synergies deriving from the integration of the activities of the two Companies. In particular, with reference to the tax assets, these have only been considered for the part recoverable by the Companies involved in the merger on a stand-alone basis, as described in the following paragraph.

- The determination of the relative economic values of the Companies involved in the merger include the value of the tax benefits deriving from the write-down of investments, in particular those relating to the write-down of Telecom Italia in Olivetti and of Seat Pagine Gialle in Telecom Italia. Such value has been calculated at the present value of the tax savings utilizable by Olivetti and Telecom Italia, on the basis of forecast taxable income, on a stand-alone basis. The cited valuations, and, more generally, all the assumptions of a fiscal nature considered, are based on current fiscal legislation and therefore exclude consideration of future developments deriving from the tax reform in process. This approach seems acceptable since it allows for a reasonable valuation of the position, without taking into consideration future effects not presently reasonably quantifiable. More specifically, we believe it to be correct that no account has been taken of the eventual benefit of a complete and more rapid recovery of the tax benefit which should derive from the merger. In fact, such benefit should be shared with the shareholding structure of the Company Resulting from the Merger and, prior to the merger, does not represent for either the Absorbing Company or the Absorbed Company an asset that can be ascribed directly and exclusively to one of these.

- The savings shares which will be issued by the Company Resulting from the Merger in favor of the Telecom Savings Shareholders will have more extensive property rights than those enjoyed by Telecom Italia savings shares presently in circulation and on which was calculated the spread, both with regard to the extent of the privilege in the distribution of reserves which will be introduced statutorily by the Telecom Italia General Meeting called to deliberate the merger and for the improvement of the basis on which the privilege will be quantified in absolute value terms; in fact, to each Telecom Italia Savings Shareholder will be allocated for each Telecom Italia savings share more than one savings share of the Company Resulting from the Merger (as a result of the allocation ratio through which the ratio for the exchange of shares will be satisfied). The estimate of the value of the savings shares allotted to the Company Resulting from the Merger has been effected by reference to the spread between the quotations for Telecom Italia ordinary and savings shares. In this regard we bring to your attention that the methodology adopted by the Olivetti Directors presents the limits inherent whenever an empirical method is used, even if it appears to be the only one with the quality of a degree of objectivity otherwise lacking. Furthermore, the creation of one new Olivetti savings share with the characteristics described above and the lower takeover risk of the Company Resulting from the Merger compared to Telecom Italia, constitute a further limit on the utilization of the spread on which the ratio for the exchange of the savings shares of the Company Resulting from the Merger and Telecom savings shares has been defined. However, the method used, even with the above-mentioned limits, is considered to be the most appropriate in the circumstances and, in any event, the most objective.

- The approach used to value the own shares and the Olivetti shares owned by Olivetti International S.A. assumes that economic value and the realizable value are substantially in line. The simplification implicit in the method adopted seems, however, acceptable.

- Following the decision taken by Telecom Italia no longer to consider as strategic the Directories business of Seat Pagine Gialle, such investment has been written down to reflect a permanent loss of value. In the light of the impact of the investment in Seat Pagine Gialle on the total value of Telecom Italia and of the information available as of today, we agree with the Directors of Olivetti in considering that such disinvestment should not reasonably have effects such as to require modifications to the ratio for the exchange of shares. However, we point out that only when the disinvestment has been concluded will it he possible to evaluate fully the correctness of such assumption.

Table of Contents

- The values attributed to Olivetti and Telecom Italia take into account the planned distribution of reserves by Telecom Italia, up to a maximum of approximately Euro 1,333 million. This relates to the distribution of reserves forming part of shareholders equity not tied to the results for 2002. This approach is to be considered correct and consistent with the methodological approach followed in the valuation under consideration.

- The methods adopted by the Directors of Olivetti are commonly accepted and utilized, both nationally and internationally. We believe that such methods, in this specific case, have adequately taken into account the characteristics of the Companies being valued and the factors which are significant to the valuation itself. In particular, in the application of the analytical methodologies used to value the two Companies (SOP for Telecom Italia and NAV for Olivetti), the numerous operational areas of the Telecom Italia Group and the fact that the controlling interest held by Olivetti in Telecom Italia represents the most significant component of its assets have been taken into consideration. Furthermore, we have verified the substantial uniformity in application of the valuation process and the consistency of the methods. Finally, we point out that the Directors of Telecom Italia have also utilized substantially equivalent methods (even if with the inversion between the principal method and that of control), which confirms the acceptability of the valuation approach adopted.

- In the development of the valuations, the individual components have been valued by the Directors of Olivetti on the basis of the methodologies considered suitable in the circumstances. In particular, even with the different gradations of the two analytical valuation methods adopted (NAV and SOP), the Discounted Cash Flow (DCF) method has been consistently used for the valuation of the principal activities of both Companies. This method is generally considered to be the most rational of those alternatively used. However, it is to be noted that the implicit difficulty in expressing an opinion on the realizability of economic forecasts on which the DCF method is constructed is inherent in every forecasting process. On the whole, however, the forecasts seem to have been developed through a rigorous and methodologically coherent process. In particular, for Telecom Italia such forecasts are based on the detailed Business Plan 2003-2005.

- Considering that both Companies involved in the merger have a high stock market capitalization and a high flotation and that both Companies represent a significant share of the total capitalization of Mibtel and Mib3O, the utilization of stock market prices over a sufficient period of time, as performed in the case under examination, is considered to be a particularly important parameter and in any event necessary at least as a point of comparison and control. Moreover, it is to be noted that the difficulties is fully assessing the potential incongruities originating, on the one hand, from a depressed stock market and, on the other, from the possible gaps between quotations and absolute values represents an inherent limitation in the valuation process; however, this difficulty is mitigated by the convergence in the ratios for the exchange of shares provided by the methods used. Moreover, we agree with the reasons provided by the Directors of Olivetti in support of the utilization of the NAV method for not considering the current stock market value for the valuation of Telecom Italia. This because the inclusion of current market quotations in a valuation made with the NAV method, in the presence of significant controlling interests, can originate incongruities for the possible high volatility of the quotations (with a distortive effect on the exchange ratio) and, in this specific case, a lack of homogeneity of criteria, which is certainly inappropriate when the objective is the estimate of an exchange ratio and not the estimate of absolute values.

- The Directors, in the determination of the exchange ratio, have performed an analysis of the effects which can be reasonably foreseen of the possible exercise of the right of withdrawal by Olivetti Shareholders, and have considered that, also on the basis of the stock market trends of the significant period already elapsed, the outcome of such withdrawals will not be such as to render necessary a modification of the exchange ratio. As a result of the checks performed, we believe we are in a position to agree with the Directors considerations supporting their decisions.

Similar considerations could be made with regard to the effects which the planned OPA on Telecom Italia shares could determine. The simulations performed independently by us on the possible outcomes of the OPA, the results of which, however, are also linked to the extent and conditions of the eventual withdrawals, confirm that the fairness of the exchange ratio cannot be significantly influenced.

-

The sensitivity analyses we performed to evaluate better the impact of the variations in the different hypotheses and parameters assumed, always within the context of the valuation methods adopted, confirm that the results reached by the Directors are reasonable and not arbitrary.

Table of Contents

10. SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITOR IN CARRYING OUT THE ENGAGEMENT

Notwithstanding the complexity of the problems faced in the course of our activity, we did not encounter any limitations or difficulties in the performance of this engagement worthy of specific mention in this Section of our report.

11. CONCLUSIONS

On the basis of the documentation examined and the procedures described above and considering the nature and extent of our work as described in this report, we believe that the valuation methods adopted by the Directors also on the basis of the indications of their Advisor are, under the circumstances, reasonable and not arbitrary and have been correctly applied by them in the determination of the ratio for the exchange of shares contained in the proposed merger project.

DELOITTE & TOUCHE ITALIA S.p.A.

/s/ Vincenzo Ceppa

Partner

Milan, Italy

April 22, 2003

Table of Contents

Annex H

English Translation of Report of Professor Angelo Provasoli

to Olivetti dated April 14, 2003

H-1

Table of Contents

REPORT ON THE SHARE EXCHANGE RATIOS IN THE

MERGER OF TELECOM ITALIA S.P.A. INTO OLIVETTI S.P.A.

Professor Angelo Provasoli

(Università L. Bocconi)

H-2

Table of Contents

1. *THE ENGAGEMENT*

In the matter of the merger of Telecom Italia S.p.A. into Olivetti S.p.A., I was asked at the conclusion of the valuations performed by Olivetti s Advisor, JP Morgan, to express a professional opinion concerning the consistency and appropriateness with respect to the purpose of the operation of the valuation methodologies applied in determining the exchange ratio, taking account of the relevant literature and practice.

In accordance with the engagement conferred, the analysis performed did not enter into the merits of the application of the valuation methodologies adopted by the Advisor.

2. *VALUATIONS FOR MERGER PURPOSES*

To begin with, it is necessary to observe that the merger raises a complex valuation problem whose initial prerequisite is the valuation of the individual companies directly involved in the operation and whose final objective is the determination of the exchange ratio between their shares.

It follows that the ultimate objective of the valuations for a merger is to obtain essentially comparable values for the calculation of the exchange ratio.

Consistently with this objective, and in accordance with standard practice in this field, a uniform yardstick must be adopted throughout the whole valuation process in order to protect the interests of the shareholders of the company being absorbed and of the absorbing company.

The adoption of a uniform yardstick does not necessarily mean that identical valuation methods must be used for all the companies directly or indirectly involved in the merger, especially if they operate in different sectors, but rather that there must be the same approach to valuation.

In the case considered here, it is possible to confirm that in determining the exchange ratio uniform valuation criteria were adopted both for the principal valuation methodologies and for those used for control purposes.

It should also be noted that in a merger the calculation of the values of the companies participating therein and, consequently, of the exchange ratios must have the pre-eminent objective of preserving for the shareholders directly involved in the exchange the value of the investment held. Where the shares are listed on regulated markets and also have a large float, this objective is achieved by paying due consideration to the expectations of financial investors, expectations that under the assumptions adopted are normally reflected in the behavior of stock-market prices, above all where the shareholders involved in the exchange own holdings not included in the controlling interest.

In the case examined the Advisor calculated the absolute and relative values of the shares of the companies involved in the merger with a variety of methodologies, divided into principal methodologies and those used for control purposes.

The former, with some exceptions suggested by the specific characteristics of the activities carried on by marginal business units, involve fundamental analysis, in that they are based on estimation and discounting of expected unlevered cash flows for aggregated business segments. The manner of applying these methods, in accordance with the conceptual approach mentioned above, appears directed towards capturing and expressing in the reference data the economic and financial prospects either known to financial investors or that they have estimated or can estimate. The control methodology, used to test the results obtained from applying the principal methodologies, refers to stock-market prices.

The valuations of the two companies directly involved in the merger, in accordance with the prevailing practice designed to protect the property rights of minority shareholders, were formulated, moreover, on a stand-alone basis. In other words, the synergies deriving from the merger were not taken into account for the purposes of determining the exchange ratios. In addition, for the same reasons and, again, as suggested by the literature and practice concerning valuations for merger purposes, the valuations were performed without considering control premiums / minority discounts connected with the ownership of interests by the companies directly involved in the operation.

3. *THE VALUATION METHODOLOGIES USED AND THE EXCHANGE RATIO*

The absorbing company, Olivetti S.p.A., operates mainly in the telecommunications sector through its subsidiary Telecom Italia S.p.A.

Table of Contents

The latter, together with its subsidiaries, is the technological and market leader in all the segments of wireline and mobile telephony. It also constitutes Olivetti s principal asset.

The company being absorbed is Telecom Italia S.p.A., referred to above.

For the reasons stated, the valuation of Telecom Italia is the critical aspect of the procedure serving to determine the exchange ratio in the merger in question.

From the methodological point of view, this means that the methods adopted in the autonomous valuation of Telecom Italia must also be adopted for the purposes of valuing Olivetti s investment in Telecom Italia.

Moreover, where available information permits, in keeping with the general principle set forth above, the values of Olivetti s main investee companies must also be estimated with consistent methods, possibly analogous to those adopted in valuing Telecom Italia and its subsidiaries in the different segments.

For the purposes of determining the exchange ratios of ordinary and savings shares, the values per share of Telecom Italia ordinary and savings share, as will be reported below, were calculated in proportion to the ratio between the stock-market prices of the two classes of shares.

The values per share of Telecom Italia and Olivetti shares, calculated using both the principal methodology and the control methodology, were determined taking account of the dividend payment planned for June 2003. The values per share were also determined using the so-called fully-diluted method.

The utilization of analytical valuation methodologies as the principal methodologies appears consistent with the literature and practice regarding valuations for merger purposes.

In more detail, the methodologies adopted in valuing the business segments of Telecom Italia can be summarized as follows:

Business segment company	
Core Business Telecom Italia S.p.A. and other domestic wireline assets	Financial method (unlevered DCF)
Mobile Telephony	Financial method (unlevered DCF)
Seat (Internet and media)	Financial method for Directory segment (unlevered DCF) and market multiples for other segments
Information Technology	Market multiples
Companies operating in Latin America	Market values and mulitples
Other business segments	Market multiples and negotiated prices
Net financial position	Book value

Off balance sheet (Seat put and expected pension charges)	Net present value
Tax Asset	Net present value

The table above shows that the individual business segments of Telecom Italia were valued separately and autonomously.

The most important business segments within the Telecom group, as mentioned earlier, were valued using an unlevered financial method that is well known in the literature and widespread in practice. As mentioned, it was applied with an approach attaching particular importance to the prospects of financial investors.

Its use appears consistent with the purposes of the valuations in question.

In particular, the principal methodological approaches informing the application of the DCF method to the concept of fundamental value for the financial investor include the following:

(i) the forecasts of the financial flows within the horizon of Telecom Italia s business plan are those formulated by management and the essential data thereof are known to the financial markets;

(ii) the growth rates used for the purposes of the financial projections beyond the horizon of Telecom Italia s business plan and for the purposes of calculating the terminal value reflect growth prospects consistent with the market benchmarks. The terminal value calculated by the Advisor is therefore basically consistent with the multiples implicit in the current market prices of comparable companies;

H-4

Table of Contents

(iii) the weighted average cost of capital was calculated on the basis of financial structures of the companies broadly in line with the present ones (not targets) and taking into account risk premiums derived from the expected rate of return implied by the market prices on the valuation date.

As a consequence of this methodological approach, the value that was determined basically reflects reasoned expectations of a financial investment in the capital of Telecom Italia.

The tax variable considered in calculating the cash flows and the cost of capital is that determined on the basis of the tax rules in force today. The trends reflected in the recently approved reform (diminution of the corporate income tax rate, gradual abolition of the regional tax on productive activities and of the dual income tax, introduction of consolidation for tax purposes, etc.) were not taken into account. It has been noted that it is difficult to translate the effects of these trends into estimated values, given the great uncertainty surrounding the timing and manner of the application of the new tax system, for which the implementing measures envisaged by the enabling law have yet to be issued.

The business segments/companies of relatively minor importance were valued with market methods. These estimate the market value of the business considered on the basis of ratios between stockmarket prices of the shares and performance indicators per share of comparable companies and on the basis of prices established in specific transactions. For the reasons given above, in recent times these methods have been widely used and appear acceptable especially for the valuation of business segments/companies for which estimates of medium-term cash flows to refer to in constructing fundamental economic values are unavailable, precisely as in some of the cases considered by the Advisor.

For the purposes of the estimation, the net financial position was assumed to be equal to book value. This assumption presupposes broad equivalence between the contractual terms of the debt and current and expected market conditions.

Other assets and liabilities, marginal in terms of the overall valuation, were valued in accordance with conceptually appropriate criteria and in line with practice.

The overall valuation of Telecom Italia was also checked in the light of the findings of research carried out by the main investment banks in the last six months. This check corroborates the congruity of the result of the valuation and confirms the overall orientation of the valuations as reflecting the fundamental values for financial investors.

The valuation of Olivetti S.p.A. was performed on an analytical basis. In particular, the valuation of business segments/companies and surplus assets was performed with the methodologies summarized in the following table:

Business segment company	
Telecom Italia holding	In proportion to the value determined with the methods described earlier
Tecnost	Financial method (unlevered DCF) /Market multiples
Financial investments	Market values
Own shares	Implicit economic value of Olivetti
Net financial position	Book value
Tax Asset	Net present value

Central holding costs	Net present value

The table shows that the absorbing company s main assets, first and foremost the holding in the company being absorbed, were valued with the financial method, which is to be appreciated for the reasons already stated.

The other assets and liabilities were valued using methodologies consistent with standard practice.

In the light of the foregoing considerations, it is possible to conclude that the methodologies used for the valuation of the absorbing company are fully homogeneous with the methodologies used for the valuation of the company being absorbed.

In estimating the value of Olivetti, the tax variable was also considered in the same terms described earlier in connection with the valuation of the company being absorbed.

Furthermore, in the valuation of Olivetti account was taken of the estimated tax benefits (Tax Asset) arising from the writedown of the investment in Telecom Italia recorded in Olivetti s financial statements at 31 December 2002.

Table of Contents

For the purposes of the valuation, the net financial position was assumed to be equivalent to the book value at the reference date of the valuation, with account also taken of the dividends being distributed by Telecom Italia.

The treasury stock held by Olivetti (through Olivetti International S.A.) was valued on the basis of the overall value of Olivetti, determined as described above. This solution assumes that the value considered is equivalent to the market value of the shares in question. Such equivalence is not automatic. In any event, the result obtained following the described approach was verified by the Advisor using the prevailing valuation practice, which treats treasury stock as early retirement of capital.

* * *

The exchange ratio resulting from the application of the principal methodologies was checked, as mentioned, with the direct stockmarket price methodologies. To this end, the Advisor determined the average prices for periods of various duration and also selected an individual price before the announcement of the operation and then calculated the ratios.

As remarked above, ratios between the values of the shares of companies involved in a merger, as expressed by regulated financial markets, are particularly significant when, as in the case in question, both companies are listed, the floats are substantial and the average daily volumes traded are high. When such circumstances obtain, the prices established are important composite indicators for the assessment of the relative attractiveness in terms of profitability, risk, growth, liquidity, etc., of the financial investments being compared.

Under Italian law, moreover, examination of stock-market prices is an important aspect that cannot be ignored in the valuation process. For the purposes of determining the value of listed firms, Italian law often makes reference to the stock-market prices (for example, in the case of withdrawal of shareholders, in capital increases with the exclusion of the right of pre-emption, in complete-acquisition tender offers, and in the right of acquisition referred to in Article 111 of the Consolidated Law on Financial Intermediation).

In the case in question, the Advisor applied the direct stock-market price methodology referring to prices observed at different times and in different periods consistent, however, with the announcement of the operation (7 March, average of the preceding month, average of the preceding three months, average of the preceding six months, average of the preceding twelve months).

The exchange ratios expressed by the stock market for the different time horizons considered fall within a very small range around the exchange ratio obtained using the principal methodology.

As regards the determination of the exchange ratio, it is necessary to observe that the capital of Telecom Italia consists of both ordinary and non-convertible savings shares, whereas that of Olivetti consists exclusively of ordinary shares.

The value of the savings shares that will be issued by Olivetti for the purposes of the exchange was determined on the basis of the price differential found between Telecom Italia ordinary and savings shares.

The decision to differentiate the estimated values of the shares of different classes according to the differences between their market prices is fully consistent with standard practice in this field. However, even though in the case in question there were no objective elements permitting any other solution, some empirical analyses in the past have shown that the differentials between the prices of ordinary and savings shares tend to be larger for companies, such as Olivetti, where control is contestable. In such cases, in fact, the importance of the administrative rights exceeds that of the property rights. This principle, however, is not applicable objectively to the case in question in the absence of historical data regarding Olivetti (its effects can only be estimated on the basis of data regarding comparable companies). This circumstance was pointed out by the Advisor in describing the difficulties of making the valuation.

In conclusion, the analysis of the methodologies utilized and the overall conceptual approach adopted by the Advisor permit a positive opinion to be given concerning the appropriateness of the valuation criteria adopted for the purposes of the exchange and the logical and economic consistency of their application.

Milan, 14 April 2003.

Professor Angelo Provasoli

Table of Contents

Annex I

English Translation of Report of the Olivetti Board

to Shareholders dated April 15, 2003

I-1

Table of Contents

Report of the Board of Directors of Olivetti S.p.A.

on the plan for the merger of

Telecom Italia S.pA.

into

Olivetti S.p.A.

Milan, April 15, 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

I-2

Table of Contents

Except as provided below, any offer to purchase or sell securities described herein is not being made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States of America and any such offer will not be capable of acceptance by any such use, means, instrumentality or facility.

The information contained herein does not constitute an offer of securities for sale in the United States or offer to acquire securities in the United States.

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the Securities Act) and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court s judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

Report of the Board of Directors of Olivetti S.p.A.

of 15 April 2003

on the plan for the merger of

Telecom ltalia S.p.A.

into

Olivetti S.p.A.

pursuant to Article 2501-*quarter* of the Civil Code

and Article 70(2) of Consob Regulation 11971/1999

I-3

Table of Contents

CONTENTS

Table of Contents

Dear shareholders,

We submit for your consideration this report, which describes, from the legal and economic standpoints, the plan for the merger of Telecom Italia S.p.A. (**Telecom Italia** or the **Company to be Absorbed**) into Olivetti S.p.A. (**Olivetti** or the **Absorbing Company** ; once the merger becomes effective, Olivetti is also referred to as the **Company Resulting from the Merger**) and, in particular, the methods used to determine the exchange ratio of the shares of the companies concerned, pursuant to Article 2501-*quater* of the Civil Code and Article 70(2) of Consob Regulation 11971/1999 (the **Regulation on Issuers**).

1. ***Description of and reasons for the operation***

1.1 The operation

1.1.1 The operation submitted for your approval, of which the Boards of Directors of Olivetti and Telecom Italia approved the broad outline on 11 March 2003, will consist in the merger of Telecom Italia into Olivetti pursuant to Article 2501 et seq. of the Civil Code (the **Operation**). The Operation, since it involves companies with financial instruments listed on an Italian regulated market, is also subject to Legislative Decree 58/1998 and the Regulation on Issuers.

The proposed Operation will lead to the Company Resulting from the Merger being the universal successor to Telecom Italia, so that, from the date on which the merger becomes effective, it will assume all the assets and liabilities, rights and obligations of Telecom Italia, thus including, but not limited to, the title to all the related tangible and intangible assets, receivables and payables accrued and accruing, and, more generally, the entire patrimony of Telecom Italia. Provision is also made for the Company Resulting from the Merger to succeed to Telecom Italia in all the concessions, licences and administrative authorizations granted thereto, in the ways established by the law in force, including the amendment of its corporate purpose.

The balance sheets used for the purposes of the merger are those of the draft financial statements of Olivetti and Telecom Italia for the year ended 31 December 2002, in accordance with Article 2501-ter of the Civil Code.

The companies participating in the merger intend to complete the Operation as soon as possible and, specifically, to work for the merger to become effective in the first few days of August 2003.

1.1.2 Provision has been made for the Company Resulting from the Merger to adopt new bylaws, corresponding almost entirely to Telecom ltalia s bylaws with special reference to the governance rules, which will provide minority shareholders with analogous protection to that provided by Telecom Italia s bylaws and the latter s corporate purpose.

In particular, the change in Olivetti s corporate purpose, made necessary by the need derivable from the provisions of the licences and related fee schedules issued by the competent authorities pursuant to Presidential Decree 318/1997 for the Company Resulting from the Merger to have a purpose that expressly includes the regulated activities subject to administrative authorization currently performed by Telecom Italia will trigger the right of withdrawal from the company, under Article 2437 of the Civil Code, in favour of Olivetti shareholders contrary to the adoption of the resolution providing for such change.

The change in the corporate purpose is also necessary in order to eliminate the reference in Olivetti s present bylaws to the prevalent nature of the activity of holding company, which is incompatible with the activity performed by Telecom Italia, as expressly stated in its present bylaws.

The relative majority shareholder of Olivetti, Olimpia S.p.A., has announced that it will not exercise its right of withdrawal.

In order to meet the needs deriving from the settlement of withdrawals, Olivetti will draw on lines of credit provided by a pool of banks and amounting to Euro 9,000,000,000.

Provision has also been made for the Company Resulting from the Merger to adopt the name Telecom Italia. This meets the need to make the name of the Company Resulting from the Merger consistent with the new organizational structure and the nature of the activities it will acquire and perform at the end of the Operation, although the intention is to continue to capitalize on the historic name of Olivetti together with the other Group marks.

Table of Contents

Lastly, it is proposed that the registered office of the Company Resulting from the Merger be transferred to Milan, at the address of Telecom Italia s present registered office. Ivrea will continue to be the strategic headquarters for the manufacturing activity of the Olivetti Group centered around Olivetti Tecnost and for the latter s activity in connection with the Tiberius Project.

For a more detailed discussion of the changes to the bylaws and the right of withdrawal made necessary by the Operation, see Sections 9 and 10.

1.1.3 Since the Operation will involve Olivetti s absorption of a subsidiary, it will result in the cancellation of Olivetti s holding in Telecom Italia at the time the merger becomes effective and the assignment to the holders of Telecom Italia ordinary and savings shares other than Olivetti of ordinary and savings shares issued by the Company Resulting from the Merger and to the holders of Olivetti shares of newly-issued ordinary shares of the Company Resulting from the Merger on the basis of assignment ratios corresponding to the exchange ratio. This assignment will be made by redistributing Olivetti s capital at the end of the Operation (see most notably Section 4).

In particular, in order to comply with the exchange ratio for the Telecom Italia savings shares, provision has been made for the Company Resulting from the Merger to issue savings shares to be assigned to the holders of Telecom Italia savings shares. It is proposed that application be made to Borsa Italiana S.p.A. for the listing of these savings shares on the MTA electronic share market. The effectiveness of the merger will be subject to such listing.

1.1.4 As mentioned earlier, as a consequence of the merger, Olivetti will cancel all the Telecom Italia shares it holds at the time the merger takes place. For the purposes of the financial statements for the fiscal year, the difference between the carrying value of the cancelled Telecom Italia shares and the corresponding share of the shareholders equity will be positive and will therefore give rise to a cancellation deficit. This deficit, whose size will also depend on the level of acceptances of the tender offer (discussed in Subsection 1.1.8), will be allocated to Telecom Italia s assets (in particular its holding of TIM shares) and any remaining difference will be entered under goodwill . In view of the procedure for assigning the shares of the Company Resulting from the Merger (see Section 4), it is reasonable to expect that an exchange surplus will emerge.

In Olivetti s consolidated financial statements the consolidation difference that arose with the acquisition of Telecom Italia in 1999 will be increased by the difference between the carrying value of any Telecom Italia shares acquired in the tender offer and the corresponding share of the shareholders equity.

1.1.5 The savings shares issued by the Company Resulting from the Merger for the holders of Telecom Italia savings shares will have identical economic rights to those of the Telecom Italia savings shares, including the possibility of satisfying the preferential rights provided for in the bylaws by distributing reserves (the addition of which to the Telecom Italia bylaws, with immediate effect, will be proposed to the shareholders meeting called to approve the merger plan).

The maintenance of the preferential rights to which each Telecom Italia savings share is entitled by law will be accompanied by an improvement in the preferential position of each savings shareholder, since he/she will be assigned, for each such share held, more than one savings share of the Company Resulting from the Merger (on the basis of the assignment ratio by means of which the exchange will be implemented; on this point see Section 4).

Since each of the newly-issued savings shares of the Company Resulting from the Merger will have a par value equal to the present par value of the Telecom Italia savings shares (Euro 0.55) and will give the same percentage preferential right calculated with reference to its par value, at the time of the exchange each holder of Telecom Italia savings shares will receive, as a consequence of the assignment ratio, a larger amount of the nominal capital of the Company Resulting from the Merger than the amount previously held and will therefore be entitled to a larger preferred dividend in absolute terms.

This advantage, together with the above-mentioned possibility of satisfying the preferential rights by distributing reserves, improves the position of the holders of savings shares compared with that prevailing before the Operation.

1.1.6 On 13 March 2003 Olivetti published a notice in the *Gazzetta Ufficiale* regarding the rights of holders of Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds to exercise the right of conversion pursuant to Article 2503-*bis*, second paragraph, of the Civil Code.

Table of Contents

The time limit for the *de jure* exercise of the conversion right expired on 13 April 2003. The holders of bonds convertible into Olivetti shares can, however, exercise the conversion right in accordance with the rules of the above-mentioned bond issues after the expiration of the time limit established by Article 2503-*bis*, second paragraph, of the Civil Code, without prejudice to the periods of suspension provided for in such rules.

Lastly, it should be noted that as a consequence of the merger the ratio for the bond conversion into Olivetti shares and that for the exercise of the warrants will be adjusted to take account of the new par value of the shares of the Company Resulting from the Merger and in relation to the assignment ratio, as explained in more detail in Section 4. In particular, the adjustment will be made to reflect the new fractional number of shares of the Company Resulting from the Merger into which each bond and each warrant can be converted at the end of the merger in view of the assignment ratio on the basis of which the shares of the Company Resulting from the Merger will be assigned in exchange to the shareholders of Olivetti who have not exercised their right of withdrawal.

1.1.7 The Olivetti shareholders meeting called to adopt the merger Resolution will therefore be required to update the resolutions adopted to increase the capital for the exercise of the rights attaching to the Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004 warrants and the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds and for the exercise of stock options, with the consequent revision of the related rules. The same Olivetti shareholders meeting will also be called upon to approve increases in capital for the stock options issued by Telecom Italia that have not yet been exercised.

Naturally, the exact quantification of the shares obtainable by exercising the warrants and stock options and of those deriving from conversions will be possible only when, at the time the deed of merger is signed, the assignment ratio is established, as provided for in Section 4.

1.1.8 As part of the Operation and before its completion, provision has been made for a tender offer for some of Telecom ltalia s ordinary and savings shares. In addition to having an investment rationale, this is also intended to provide a way for Telecom Italia shareholders who do not wish to keep their entire holding in the Company Resulting from the Merger to liquidate part of it, in a similar way to the Olivetti shareholders who exercise their *de jure* right of withdrawal. The tender offer will be made for an amount equal to that remaining, if any, from the Euro 9,000,000,000 made available by the pool of banks to finance the exercise of the right of withdrawal.

Consequently, assuming the availability of financial resources, as specified above, the tender offer will be made only at the end of the period allowed for the exercise of the right of withdrawal following the approval of the merger plan and the adoption of the new bylaws with the amended corporate purpose and no minimum threshold will be set for acceptances. The number of Telecom Italia shares tendered for will be established once the number of Olivetti shares for which the right of withdrawal has been exercised is known by dividing the amount remaining of the finance provided for withdrawals, if any, by the offer price per Telecom Italia ordinary and savings share (established in the manner described below), so that the offer will be for the same percentage of ordinary shares and savings shares (calculated in relation to the total number of shares of each class).

The offer price will be equal to the weighted average of the official prices recorded on the stock exchange between 12 March 2003 and the date of the shareholders meeting of the Absorbing Company that approves the merger plan, plus a 20% premium. In addition, the offer price will be between: (i) a maximum of Euro 8.40 and a minimum of Euro 7 per share for Telecom Italia ordinary shares and (ii) a maximum of Euro 5.65 and a minimum of Euro 4.70 per share for Telecom Italia savings shares.

Depending on the offer price established in the manner described above, and assuming that the full amount of Euro 9,000,000,000 is available owing to the failure of Olivetti shareholders to exercise their right of withdrawal, the tender offer will be for the minimum and maximum quantities of Telecom Italia ordinary and savings shares shown below:

(i) assuming that the offer price is equal to the maximum price specified above, the offer will be for about 16.1% of the ordinary shares and about 16.1% of the savings shares;

(ii) assuming that the offer price is equal to the minimum price specified above, the offer will be for about 19.4% of the ordinary shares and about 19.4% of the savings shares;

If, however, the acceptances of the tender offer fall short of the maximum quantity for one class of shares but exceed it for the other class, the amount not used to buy shares of the first class will be used to buy shares of the second class, and the maximum quantity of shares of the latter class will increase until all the funds available have been used, so that the largest number of shareholders wishing to accept the offer can be satisfied. In such case the percentages indicated in the subparagraphs (i) and (ii) will change.

Table of Contents

The tender offer will be made as soon as possible after the close of the period for Olivetti shareholders to exercise their right of withdrawal. Provision has also been made for the tender offer, if made, to become ineffective if the merger does not become effective by a given date, now tentatively envisaged to be 31 December 2003, without prejudice to the intention of the companies participating in the Operation to complete the merger as soon as possible and, specifically, in the first few days of August 2003.

The foregoing condition for the ineffectiveness of the tender offer is intended to ensure that it depend on substantially the same circumstances as the right of withdrawal of the Olivetti shareholders, which applies only if the merger is completed.

1.1.9 At the end of the Operation the ordinary shares of the Company Resulting from the Merger will continue to be listed on Borsa Italiana s MTA electronic share market. Nor will the Operation affect the listing of the Olivetti ordinary shares on the Frankfurt Stock Exchange. As mentioned earlier, the intention is for the savings shares also to be listed on the MTA market before the merger becomes effective and as a condition of its effectiveness. It is also intended that the ordinary and savings shares be listed on the New York Stock Exchange in the form of American Depositary Receipts (ADRs), thus maintaining the present situation with regard to Telecom Italia ordinary and savings shares.

1.2 The companies participating in the Operation

Olivetti is a holding company, of which the most important holding is its 54.9% interest in the ordinary share capital of Telecom Italia (about 39.5% of the total share capital). It also has holdings in other industrial sectors such as office products and services and in real estate, notably through its subsidiaries Olivetti Tecnost S.p.A. (information technology and communications products and services) and Olivetti Multiservice S.p.A. (services related to the real-estate sector).

The following tables show selected income, balance sheet and financial data for the Olivetti Group and for Olivetti, drawn from the consolidated financial statements for the 2002 fiscal year, Olivetti s draft financial statements for 2002 and its financial statements for 2001 and 2000, appropriately reclassified to conform with those of Telecom Italia.

Selected economic and financial data for the Olivetti Group and for Olivetti

OLIVETTI GROUP

	2002	2001	2000(*)	2000
		(in millions of euros)		
Sales of goods and services	31,408	32,016	28,374	30,116
Gross operating profit	14,033	13,707	12,272	13,173
Operating income	6,016	5,338	5,112	5,477
Consolidated net income (loss) before minority interest	(773)	(3,090)	(940)	(940)

Consolidated shareholders equity (parent company s interest)	11,640	12,729	13,856	13,856
Consolidated net financial debt:	33,339	38,362	35,728	37,524
medium and long-term	33,309	37,042	25,622	27,157
short-term	90	1,320	10,106	10,367

(*) Reconstructed by consolidating the Nortel lnversora group (Telecom Argentina) using the equity rather than the proportionate method.

OLIVETTI

	2002	2001	2000
	(in millions of euros)		
Net income (loss)	(6,240)	(871)	870
Shareholders equity	9,031	15,235	13,937
Net financial debt	15,195	16,322	17,991
medium and long-term	12,472	10,293	17,150
short-term	2,723	6,029	841

I-8

Table of Contents

1.2.1 Telecom Italia, together with the group of companies it heads, is one of the largest international groups operating in the sector of telecommunication services and, more in general, information and communication technology. Its companies, leaders in fixed and mobile communications, the Internet and multimedia, information technology and research offer integrated and innovative services in Italy and abroad. Its principal strength lies in its leadership in the Italian markets for fixed and mobile telecommunications and Internet services. The companies of the Group have created broadband, fixed and mobile networks providing innovative services, complex solutions for ICT, multimedia messaging, solutions for mobile business, products for e-government and online banking.

Following the changes in top management in 2001 and the significant overhaul of corporate growth strategies with the formulation of the Business Plan for 2002-2004, in 2002 an overall restructuring was launched. In particular, organizational restructuring led to the formation of a completely renewed, compact and stable management team. During 2002 the responsibilities of the Domestic Wireline and Information Technology business units were revised in depth and a new South American business unit was established.

At Group level the so-called professional families were upgraded and strengthened with the establishment of a functional link between distinctive competences in the individual Telecom Italia Group companies and the analogous functions in the parent company so as (i) to ensure greater organizational effectiveness and the verification of resources, and (ii) to foster intra-Group mobility. In addition, new procedures were introduced for the approval and monitoring of investments and acquisitions, with the centralization of governance responsibilities.

Important progress was made in financial strengthening and industrial restructuring, in line with the Business Plan, The results obtained with the gain in efficiency and the plan of disposals (which generated a net cash flow of Euro 4,771 million in 2002) were decisive in reducing the Group s debt from Euro 21,942 million at the end of 2001 to Euro 18,118 million at 31 December 2002. The proportion of debt with a maturity of more than one year rose from 64% at the end of 2001 to 75% at the end of 2002. The Group s structure was simplified, with the number of companies declining in 2002 from 714 to 416.

Turning to business developments, the focus in 2002 was placed on innovation by strengthening the company s leadership in the Italian market and its presence in international markets.

In the field of mobile telephony, TIM ranks first among European operators in terms of the number of GSM lines on a single network and is the leader in Italy. In October TIM launched Brazil s first GSM service, which reached more than 80 cities throughout the country.

The following tables show selected income, balance sheet and financial data for the Telecom Italia Group and for Telecom Italia, drawn from the consolidated financial statements for the 2002 fiscal year, the company s draft financial statements for 2002 and the financial statements for 2001 and 2000.

Selected economic and financial data for the Telecom Italia Group and for Telecom Italia

TELECOM ITALIA GROUP

	2002	**2001**	**2000(*)**	**2000**

		(in millions of euros)		
Sales of goods and services	30,400	30,818	27,169	28,911
Gross operating profit	13,964	13,619	12,217	13,118
Operating income	7,381	6,674	6,440	6,805
Consolidated net income (loss) before minority interest	(322)	(2,068)	2,028	2,028
Consolidated shareholders equity (parent company s interest)	9,049	13,522	18,821	18,821
Consolidated net financial debt:	18,118	21,942	17,233	19,029
medium/long-term	15,018	16,083	6,733	8,268
short-term	3,100	5,859	10,500	10,761
Consolidated free cash flow from operations(1)	8,610	5,990	4,453	4,763

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the proportionate method.

(1) Operating income + Depreciation and amortization Industrial investments Change in working capital.

I-9

Table of Contents

TELECOM ITALIA

	2002	2001	2000
	(in millions of euros)		
Sales of goods and services	17,055	17,309	17,463
Gross operating profit	7,549	7,571	7,556
Net income (loss)	4,045	3,983	3,595
Operating income	(1,645)	151	2,559
Shareholders equity	10,956	15,871	18,714
Net financial debt:	15,128	16,913	16,839
medium/long-term	11,848	10,371	3,188
short-term	3,280	6,542	13,651
Free cash flow from operations(1)	5,291	4,384	4,234

(1) Operating income + Depreciation and amortization Industrial investments Change in working capital.

1.3 The reasons for the Operation

One aspect of interest to shareholders is that the Operation will lead to the Company Resulting from the Merger being more contestable since, upon completion of the Operation, the holding of the present relative majority shareholder of Olivetti will be reduced (see Section 7), with a consequent increase in the security s liquidity and the reasons for the market to view it favourably, to the benefit of all the shareholders.

The proposed Operation will also bring a major simplification in the structure of the Group, in line with the expectations of the market and the objective of an overall improvement in Olivetti s financial position. Among other things, the integration of corporate functions will ensure faster decision-making in the context of an organizational structure comparable to that of the leading international operators.

The Operation is also intended to bring additional advantages by:

- optimizing financial and income flows within the Group through a more efficient management of Group debt and more efficient use of financial leverage. In fact the Operation will permit the whole financial debt to be allocated directly to a level closer to the operational activities that generate cash flow and eliminate the dependence of Olivetti on the dividend policy of the Company to be Absorbed. It is also likely that these effects will lead to an improvement in the creditworthiness of the Company Resulting from the Merger, which, in turn, could lead to a more favourable rating and a reduction in the cost of future debt;
-

allowing the Company Resulting from the Merger to optimize its financial structure and reduce the average cost of capital employed compared with that of Telecom Italia today. This effect should help to sustain the price of the shares of the Company Resulting from the Merger and therefore create value for the shareholders of Olivetti and Telecom Italia;

- improving the tax efficiency of the Company Resulting from the Merger under the current tax rules, through the complete and faster recovery, including the part currently not stated, of the tax benefits in connection with the value adjustments to equity interests decided at the time of the approval of Olivetti s draft financial statements for the 2002 fiscal year (**Tax Asset**).

1.4 The objectives for operations and the plans for achieving them

The companies participating in the merger were in agreement on the objectives for operations and the plans for their achievement by the Company Resulting from the Merger. Substantially, they coincide with those of Telecom Italia approved by its Board of Directors on 13 February 2003, which in turn confirm the guidelines and objectives of the Business Plan 2002-2004. With specific regard to Olivetti, it should be noted that Olivetti Tecnost is substantially neutral in terms of its impact on the operating income.

However, the Operation will result in a merger deficit (deriving from share cancellation), any portion of which not classified as a Telecom Italia asset (specifically among equity interests) will be amortized over a period of 20 years. The updated financial projections take account of this additional portion of amortization.

The same projections consider the financial charges associated with Olivetti s present debt, as well as the effect of the tax asset connected with the value adjustments made in Olivetti s and Telecom ltalia s draft financial statements for 2002.

In addition to the disposals already envisaged by the Business Plan (Telekom Austria, Operazioni Real Estate), the projections also include the receipts from the disposal of the company into which Seat Pagine Gialle is to be spun off.

Lastly, it is estimated that the cash flows from operations and disposals of the Company Resulting from the Merger will be able to sustain not only a reduction in debt but also a dividend distribution policy in line with that set out in Telecom Italia s Business Plan.

The following table summarizes the above considerations at consolidated level, from which the sustainability of the commitments entered into for the future appears evident.

Billions of euros	Olivetti 2002 consolidated financial statements	Consolidated objectives of the Company Resulting from the Merger (*) CAGR 2002-2005(***)
Sales of products and services	31.4	4 - 4.5%
Gross operating profit	14.0	5 - 5.5%
% of sales	44.6%	
Operating income	6.0	8 - 8.5%
% of sales	19.1%	
		Cumulative 2003-2005
Free Cash Flow	8.6	29
Net financial position	33.4(**)	34.3(****)

(*) Assuming zero withdrawals, fully diluted.
(**) The net financial position does not take account of the forward purchase commitments (December 2005) in respect of Aldermanbury Investment Limited (formerly Chase Equities Limited), equal to Euro 2,417 million.
(***) The scope of the consolidation is the same.
(****) At 31 December 2004.

2. *The values attributed to Olivetti and Telecom Italia for the purpose of determining the exchange ratio*

For the valuations needed to establish the exchange ratio, Olivetti s Board of Directors had recourse to the advice and assistance of a leading financial advisor, JPMorgan Chase Bank (**JPMorgan**).

The valuation methods applied by JPMorgan to establish the exchange ratio have been checked by Professor Angelo Provasoli, in his capacity as Olivetti s consultant, with a view to verifying their mutual consistency and appropriateness with respect to the purpose of the Operation.

Olivetti s Board of Directors taking into account the draft financial statements of the Absorbing Company and the Company to be Absorbed for the year ended 31 December 2002, approved by the two companies respective Boards of Directors as the reference statements of assets and liabilities, and of the proposed distribution of reserves by Telecom Italia up to a maximum of about Euro 1,333 million, and after careful analyzing, the valuations put forward by the financial advisor and the conclusions reached by Professor Angelo Provasoli and being in agreement with the valuation methods applied and described in Section 3 has identified the following ranges for the values of the shares of the companies participating in the merger for the purpose of establishing the exchange ratio:

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	8.1	8.6	9.1
Values per Telecom Italia savings share (euros)	5.4	5.8	6.1
Values per Olivetti ordinary share (euros)	1.13	1.26	1.39
Values per Olivetti savings share (euros)	0.76	0.84	0.93

It should be noted that the figures in the above tables, as in all the tables in Section 3, have been rounded, albeit without this materially affecting the results.

Table of Contents

3. ***The exchange ratio established and the methods used in determining it***

3.1 *Valuation methods used*

3.1.1 It needs to be premised that the ultimate aim of the valuation of the companies participating in a merger is to obtain values of the companies participating in the operation that can be meaningfully compared.

Consistently with this objective, and in accordance with the regular practice, a uniform yardstick must be adopted throughout the whole valuation process in order to defend the interests of the shareholders of the Absorbing Company and the Company to be Absorbed. This does not necessarily mean that identical valuation methods must be used for all the companies directly or indirectly involved in the merger, especially if they operate in different sectors, but rather that there must be the same approach to valuation.

Since, as mentioned earlier, the exclusive aim of the estimates is to establish significantly comparable values, the methods adopted in the context of valuations for merger purposes and the related results may differ from those used for valuations having a different purpose.

On the basis of these assumptions and as a consequence of the adoption of the redistribution method for the assignment of the shares of the Company Resulting from the Merger (as discussed in more detail in Section 4), it is first necessary to establish a natural exchange ratio between the shares of the two companies, corresponding to the exchange ratio that would have been applied if the merger had involved the issue of new shares for the purpose of the exchange. This natural exchange ratio will correspond to different assignment ratios, which will depend, as shown in Section 4, on a number of variables.

With this premise, the natural exchange ratio was established by applying valuation methods that are commonly used in Italy and abroad for operations of this kind and for businesses in this sector.

In particular, account was taken of the comparative valuation of the companies involved and priority given to the homogeneousness and comparability of the methods used with respect to the simple estimate of the economic capital of each company considered on its own.

In this perspective, the valuations were carried out considering the two companies as separate entities and therefore ignoring all the strategic, operational and financial synergies expected from the merger, as well as the question of control premiums/minority discounts associated with the possession of equity interests.

3.1.2 For the valuation of Telecom ltalia, the fundamental method it was decided to apply was that known as the Sum-of-the-Parts method, which it is standard market practice to use to estimate the value of a group operating in several sectors.

Under the Sum-of-the-Parts method the value of a company s economic capital is calculated as the sum of the values of its separate units, in the sense of economic entities that can be valued independently and suitably adjusted to take account of the company s financial position and minority interests, where material, and of other factors such as off-balance-sheet items and potential tax benefits.

As regards the single units, in view of the complexity and extensiveness of the structure of the Telecom Italia Group and of the many sectors in which it operates, it was decided advisable to value each of them using the methods deemed most appropriate to each situation. In particular, the valuation of the principal units was based primarily on the Discounted Cash Flow method, while the remaining assets, which are of limited importance in the overall valuation, were valued using stock market prices, for companies listed on a regulated market, and/or the method of market multiples, with use also made for testing and control purposes of balance sheet values and the values published in analysts research reports on such units, where available.

The Discounted Cash Flow method gives the value of a company as a whole. It is based on the assumption that the value of a company or an economic activity is equal to the present value of future cash flows. These flows can be determined analytically as follows:

+ Earnings before interest and tax (EBIT)

Imputed tax on EBIT

+ Depreciation and other non-cash allowances

Fixed investment

+/ Change in net working capital

I-12

Table of Contents

Under this method the value of the economic capital of a company or an economic activity is equal to the sum of (i) the discounted value of the expected cash flows and (ii) the terminal value of the company, less (iii) the net financial debt and minority interests, as given by the following formula:

$$W = \sum_{t=1}^{n} \left(\frac{FC_t}{(1 + WACC)^t} + \frac{VT}{(1 + WACC)^n} \right) DF_t$$

where:

W	=	Value of the economic capita
FC t	=	Annual cash flow expected in period t
VT	=	Terminal value
DF	=	Net financial debt and minority interests at time t =
n	=	Number of projection periods
WACC	=	Weighted average cost of capital

The terminal value is the value of the company or economic activity to be valued at the end of the period covered by the projections and is determined assuming that the duration of the business is unlimited.

The terminal value is determined using the perpetual growth method by applying the following formula:

$$VT = FC / (WACC - g)$$

where:

VT	=	Terminal value
FC	=	Normalized cash flow
g	=	Perpetual growth rate
WACC	=	Weighted average cost of capital

The terminal value obtained in this way is treated as if it were an additional cash flow and thus discounted using the weighted average cost of capital, which is the average of the costs of the different forms of financing used (equity capital and debt capital net of tax effects) weighted according to the financial structure of the company or economic activity.

$$WACC = Kd(1 \quad t)\frac{D}{D+E} + Ke\frac{E}{D+E}$$

where:

Kd = Cost of debt capital
Ke = Cost of equity capital
D = Debt capital
E = Equity capital
t = Tax rate

In particular, the cost of debt capital is the long-term interest rate applicable to companies or economic activities of similar riskiness net of the tax effect. The cost of equity capital, instead, reflects the rate of return expected by the investor with account taken of the relative risk, calculated using the Capital Asset Pricing Model, as shown below:

$$K_e = R_f + ß(R_m \quad R_f$$

where:

K_e = Cost of equity capital
R_f = Rate of return on risk-free investments
ß = Coefficient that measures the correlation between the rate of return expected on an investment and the rate of return expected on the reference equity market
R_m = Expected equity market rate of return
$(R_m$-$R_f)$ = Risk premium required by the equity market with respect to the rate of return on risk-free investments

3.1.3 The valuation of Olivetti was based, instead, using as fundamental method the Net Asset Value method (substantially equivalent in methodological terms to the Sum-of-the-Parts method), since it is standard market practice to use this method to value holding companies without a significant operating activity.

Table of Contents

According to the Net Asset Value method, the value of the economic capital of a company is the sum of the values of its holdings, in the sense of economic entities that can be valued independently, and suitably adjusted to take account of the company s financial position and minority interests, where material, and of other factors such as the centralized costs of the holding company, other assets, off-balance-sheet items and potential tax benefits.

3.1.4 The exchange ratio obtained by applying the above methods was tested by using the stock-market prices method, which, in the case in question, involves considering the ratio between the values of the shares of the companies participating in the merger expressed by the stock market.

This method is considered significant when making valuations for a merger when both the companies involved are listed. Its significance increases further when, as in the case in question, the average volumes traded are large; in such circumstances the prices formed in the market provide a baseline for the purposes of a comparison of the profitability, soundness, growth prospects and riskiness of the companies from the standpoint of investors and thus for the ratio between the values of the companies involved in the merger.

In applying this method it is necessary to strike a balance between the need to mitigate the volatility of daily share prices by considering a sufficiently long period and the need to use recent data that are indicative of the market values of the companies in question. In identifying the time horizon to consider it also necessary to take account of any major changes or significant events that have affected the companies.

Since both Telecom Italia and Olivetti are listed on Borsa Italiana s MTA electronic share market and are among the largest Italian companies in terms of market value, it was considered that the stock market prices of their securities constituted a reliable benchmark.

3.2 Application of the chosen valuation methods

This subsection contains a description of the manner in which the valuation methods discussed in Subsection 3.1 were applied to the companies participating in the merger in order to obtain the natural exchange ratio.

3.2.1 Telecom Italia

Telecom Italia was valued using the Sum-of-the-Parts fundamental method.

In applying this method, the valuation of the principal activities (the activities of Telecom Italia S.p.A., Telecom Italia Mobile and Seat Pagine Gialle-directory) was based primarily on the Discounted Cash Flow method, while the remaining units were valued using stock market prices, for companies listed on a regulated market, and/or the method of market multiples, with use also made for testing and control purposes of balance sheet values and the values published in analysts research reports on such companies, where available.

In the case of the units for which the Discounted Cash Flow method was used, the method was applied with a view to determining the fundamental value of the companies for financial investors and on the basis of the following assumptions and approaches:

- reference was made to the cash flows of the individual units as set out in the economic and financial plans drawn up by Telecom Italia;
- the growth rates used for the financial projections beyond the time horizon of Telecom Italia s business plan and for the calculation of the terminal value reflect growth prospects consistent with the relevant market benchmarks; the terminal value, determined on the basis of the flows estimated in the manner indicated, is substantially consistent with the multiples implicit in the current prices of comparable companies;
- the weighted average cost of capital (WACC) was calculated on the basis of a capital structure substantially in line with the present one.

In applying the Discounted Cash Flow method, reference was made, as mentioned earlier, to the cash flows from operations for the main activities based on the economic and financial plans drawn up by Telecom Italia s management. These are briefly described in what follows.

Fixed telephony

The economic and financial projections in this field were constructed starting from the market and economic and financial results achieved in 2002. For the years 2003-2005 they reflect the company s strategic operating and financial objectives within a market scenario that refers substantially to the Italian fixed telephony market.

Table of Contents

The projections were developed assuming little change in the regulatory framework, which is reflected in the movements expected in the prices for access, interconnection and leased lines. In particular, consideration was given to the introduction of the network cap for access and interconnection, while for leased lines the financial projections reflect a continuation of the present downward trend of prices in the period 2003-2005.

In a retail market characterized (i) by a decline in the value of voice traffic at an annual rate of 2.3%, as a result of small increases in volumes and falling prices, and (ii) by an in increase in sales in the Internet, data transmission and high value-added services segments, the Domestic Wireline business unit is expected to maintain the present level of revenues, with an average compound annual growth rate estimated at 0%-0.5% in the period 2002-2005.

With revenues performing as described above, the Gross operating margin is forecast to grow at an annual rate of 2%-2.5% until 2005, with an objective for the margin on sales of more than 49%. These results stem from the strategy of focusing on the core business, product innovation and a policy aimed at enhancing efficiency and lowering operating costs.

The high levels of profitability and of the generation of cash flow from operations will also benefit from capital spending on the order of Euro 6.2 billion in the period 2003-2005, of which about 80% will be on the development of innovative products and services.

The following table summarizes the financial objectives of the Domestic Wireline business unit, which consists principally of Telecom Italia s activity in the field of fixed telephony.

	2002 (billions of euros)	**CAGR 2002 2005 (%)**
Revenues	17.0	0%-0.5%
EBITDA	8.0	2%-2.5%
EBIT	4.7	4.5%- 5%
		Cumulative 2003-2005 (billions of euros)
Capex	2.5	6.2

Mobile telephony (TIM)

In this field consideration was given to market data and the results for the year 2002, together with economic and financial projections based on the TIM group s strategic objectives, with a distinction made between activities in Italy and abroad.

As regards the domestic market for mobile telephony, it is estimated that its value will have risen to 1.5% of GDP in 2005 and that the level of penetration will reach 100% in 2004. The level of profitability is expected to remain high in the European context.

The main source of the creation of value will be Value Added Services (VAS), which are expected to record a compound annual growth rate of around 30% in the period 2002-2005, with an objective for their contribution to Average Revenue Per User (ARPU) of 18%-22% in 2005, compared with 9% in 2002. Capital spending to sustain the growth of VAS in the domestic market is expected to increase from 28% of all capital spending on mobile telephony in 2003 to 35% in 2005.

Business abroad is expected to account for a rising proportion of mobile telephony revenues. In Brazil, which will be the main area of international expansion, it is estimated that the penetration of mobile telephony will rise from 19% in 2002 to 26% in 2005 and that over the same period the Group s market share will grow from 16% to 26%, with the objective of increasing users to 12.5 million, of which 9.9 million on the GSM network; this growth will be sustained by capital spending on the order of Euro 1.1 billion in the period 2003-2005.

The following table summarizes the results achieved in 2002 and the main economic and financial objectives for the period 2003-2005.

	2002 (billions of euros)	**CAGR 2002 2005 (%)**
Revenues	10.9	7%- 8%
EBITDA	5.0	8%- 9%
		Cumulative 2003-2005 (billions of euros)
Capex	1.7	5.6

I-15

Table of Contents

Seat Pagine Gialle

In this case consideration was again given to market data and the results for the year 2002; reference was also made to a macroeconomic scenario with moderate growth in GDP and advertising in the main target markets (Italy and the United Kingdom).

In particular, Seat Pagine Gialle s strategy focuses on the search for further efficiency gains and aggressive action to expand its business, in order to generate continuous and growing cash flows.

This growth in business will come from a strengthening of the Directories sector through the integration of the different platforms (phone, paper and the Internet) and the application of this model in foreign markets, starting with the United Kingdom.

As regards Internet business, a rapid growth in revenues is envisaged, at an annual rate of between 17% and 21% in the period 2002-2005.

The estimates underlying Seat Pagine Gialle s financial projections are summarized in the following table.

	2002 (billions of euros)	CAGR 2002 2005 (%)
Revenues	2.0	6%- 8%
EBITDA	0.6	11%-13%
EBIT	0.2	27%-29%
		Cumulative 2003-2005 (billions of euros)
Capex	0.1	0.3

Sum-of-the-Parts

In applying the Discounted Cash Flow method, in the context of the calculation of the Sum-of-the-Parts, for the rate of return expected on risk-free investments, recourse was made to the normal rate of return on risk-free investments in the Italian market, while the beta coefficient was calculated on the basis of the most appropriate market indicators in the light of the financial structure of the activity to be valued. The risk premium required by the market was deduced from the rate of return implicit in market prices.

To the sum of the values of the assets calculated in the manner described above was added the net financial position at 31 December 2002 (adjusted to take account of the effects of the proportional net debts and minority interests, where material) and the net value of other adjustments, including some off-balance-sheet items and tax benefits.

The table below shows the minimum, mean and maximum values of the Telecom Italia ordinary share obtained using the Sum-of-the-Parts method before the distribution of reserves planned for June 2003 and thus before the completion of the merger.

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	**8.3**	**8.8**	**9.3**

The results obtained using the Sum-of-the-Parts method were tested by analyzing the target prices identified by financial analysts. The research reports published by brokers and investment banks available at 7 March 2003, which gave a sample of 20 target prices for the Telecom ltalia ordinary share, showed a range of values from Euro 7.5 to Euro 12.0 per Telecom Italia ordinary share. The mean value was Euro 9.2 per Telecom Italia ordinary share and the mid-point of the range was Euro 9.8 per Telecom Italia ordinary share.

The table below shows the minimum, mean and maximum values of the Telecom Italia ordinary share obtained using the Sum-of-the-Parts method adjusted for the distribution of reserves planned for June 2003.

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	**8.1**	**8.6**	**9.1**

Table of Contents

The next table shows the minimum, mean and maximum values of the Telecom Italia savings share calculated on the basis of the average market discount of the last month before 7 March 2003, equal to about 33%, which is in line with the discount on the last day of trading of the Olivetti and Telecom Italia shares before the announcement of the merger (7 March 2003) and substantially in line with the average discount of the last 3, 6 and 12 months.

	Minimum	Mean	Maximum
Values per Telecom Italia savings share (euros)	**5.4**	**5.8**	**6.1**

3.2.2 Olivetti

As mentioned earlier, Olivetti was valued using the Net Asset Value method, which it is standard market practice to use to value holding companies without a significant operating activity.

The net asset value was calculated as the sum of the value of the company s equity investments and of its other assets, less its net financial liabilities and minority interests, where material, and with consideration also given to the negative net present value of the centralized costs of the holding company.

The company s principal equity investment is that in Telecom Italia, which has been valued as discussed in Subsection 3.2.1 with reference to the values obtained using the Sum-of-the-Parts method, adjusted for the effect of the distribution of reserves planned for June 2003.

In this respect it needs to be stressed that it was not considered appropriate to calculate the Net Asset Value on the basis of the current stock market value of Olivetti s holding in Telecom Italia since, in the context of a valuation for the purpose of establishing an exchange ratio, having deemed it correct to value Telecom Italia on the basis of a fundamental method (Sum-of-the-Parts), the valuation of the holding therein in the context of Olivetti s Net Asset Value had to be based on a fundamental method, so as to ensure the homogeneousness of the methods adopted and the overall reliability of the results. On the contrary, the calculation of Olivetti s Net Asset Value on the basis of stock market prices of Telecom Italia would have been marked not only by the non-homogeneousness of the methods adopted but also by high volatility owing to Olivetti s financial leverage, which would cause the valuation to be unreliable.

The other equity investments and assets were valued using the Discounted Cash Flow method (Olivetti Tecnost), the stock market price method for companies listed on regulated markets and/or the market multiples method, with use also made for testing and control purposes of balance sheet values and the values published in analysts research reports on such companies, where available.

The Olivetti treasury shares held both directly and indirectly through the subsidiary Olivetti International S.A. were valued at the final implicit value resulting from the calculation of Olivetti s Net Asset Value. This valuation method gives a result that is substantially equivalent to that obtained with the alternative method, which consists in determining the value of the Olivetti share by dividing the value of the company s economic capital (calculated without considering the holding of treasury shares) by the number of shares, excluding the treasury shares.

The calculation of the Net Asset Value also included the Tax Asset in connection with the adjustment of the value of Olivetti s equity investment in Telecom Italia proposed in Olivetti s draft financial statements for the 2002 fiscal year.

The value of the Tax Asset was calculated by discounting the amounts of the lower tax liabilities resulting from application of the tax deductions for which Olivetti would be eligible on a stand-alone basis, taking into account to that end the taxable income it is forecast to earn.

To the sum of the values of the assets and the Tax Asset, calculated as described above, was added the value of the net financial position at 31 December 2002, adjusted for the effect of Telecom Italia s distribution of reserves planned for June 2003 and to take account of the pro forma effect of the conversion of the Olivetti 1.5% 2001-2010 convertibile con premio al rimborso convertible bonds, consistently with the fully-diluted method, which assumes the conversion into ordinary shares (the price of such conversion, equal to Euro 1 per bond, is lower than the value of the economic capital per Olivetti ordinary share obtained using the Net Asset Value valuation method).

I-17

Table of Contents

The table below shows the minimum, mean and maximum values of the Olivetti ordinary share calculated using the fully-diluted method.

	Minimum	Mean	Maximum
Values per Olivetti ordinary share (euros)	**1.13**	**1.26**	**1.39**

The next table shows the minimum, mean and maximum values of the Olivetti ordinary share calculated assuming the same 33% discount as was assumed for the Telecom Italia savings share. The reference to the market discount of Telecom Italia savings shares with respect to the ordinary shares is the only objective and non-discretionary method which can be used in the absence of Olivetti savings shares.

	Minimum	Mean	Maximum
Values per Olivetti savings share (euros)	**0.76**	**0.84**	**0.93**

The discount applied reflects the average market discount of the Telecom Italia savings share with respect to the Telecom ltalia ordinary share in the last month before 7 March 2003, equal to about 33%, which is in line with the discount on the last day of trading of the Olivetti and Telecom ltalia shares before the announcement of the merger (7 March 2003) and substantially in line with the average discount of the last 3, 6 and 12 months.

Moreover, it appears unlikely that the discount of the savings shares of the Company Resulting from the Merger with respect to the ordinary shares will change significantly from that of the Telecom ltalia savings shares before the Operation. This view is based on consideration of effects of opposite sign: on the one hand, the increase in the overall dividend premium in absolute terms would suggest a reduction in the discount; on the other hand, the possibly greater rise in the price of the ordinary shares as a result of the increased contestability of the Company Resulting from the Merger would suggest an increase.

For the purposes of the valuation account was therefore taken both of the fact that, as an effect of the redistribution mechanism (described in Section 4), after the Operation the holders of Telecom Italia savings shares will have received a larger total number of savings shares of the Company Resulting from the Merger that, since they have the same par value and preferential rights as the Telecom ltalia savings shares, will entitle them to a larger overall dividend premium in absolute terms, and of the fact that the importance of the administrative rights might exceed that of the economic rights in the Company Resulting from the Merger as a consequence of its greater contestability.

Lastly, it needs to be stressed that in establishing the exchange ratio an analysis was made of the reasonably foreseeable effects of the possible exercise of the right of withdrawal by Olivetti shareholders. This led, also on the basis of the stock-market prices of the relevant period already closed, to the belief that the number of withdrawals would not make it necessary to change the exchange ratio, since it can reasonably be expected that the withdrawal price will be lower than the value attributed to the Olivetti shares for the purposes of the merger on the basis of the valuation methods used.

Lastly, account was taken in determining the exchange ratio of the eventuality of the exercise of financial instruments giving rise to the subscription of Olivetti and Telecom Italia shares (stock options, convertible bonds and warrants) exclusively to the extent that their exercise was reasonably likely in the light of related economic and financial convenience.

3.2.3 Difficulties encountered in making the valuations

In applying the valuation methods described above, consideration was given to the characteristics and limitations of each one of them in the light of the standard practice normally followed in Italy and abroad for the valuation of companies comparable with Olivetti and Telecom Italia.

In making the valuations the following main critical areas were encountered:

- the valuations were made assuming that the present tax system will remain in force in the future. However, the tax reform under way in Italy envisages a series of changes (including new rates, consolidation for tax purposes and the abolition of Dual Income Tax, etc.), whose effects are difficult to assess.

I-18

- the estimation of the value of the savings shares assigned by the Company Resulting from the Merger for the purpose of the exchange was based on the differential found between the stock market prices of Telecom Italia ordinary and savings shares. As explained in detail, the decision to differentiate the estimated values of the shares of different classes according to the differences between their market prices is consistent with standard practice in this field. However, even though in the case in question there were no objective elements permitting any other solution, some empirical analyses have shown that the differentials between the prices of ordinary and savings shares tend to be larger for companies, such as the Company Resulting from the Merger, where control is contestable. In such cases, in fact, the importance of the administrative rights exceeds that of the economic rights. This principle, however, is not applicable objectively to the case in question in the absence of historical data regarding Olivetti and it would only be possible to estimate its effects generically on the basis of data regarding comparable companies. Acting in the opposite direction to the foregoing, is the increase discussed earlier in the economic rights attached to the savings shares.

- the treasury shares held by Olivetti and the Olivetti shares held by the subsidiary Olivetti International S.A., which can be likened to treasury shares, were valued on the basis of the overall economic value of Olivetti itself. This approach assumes that the economic value is the same as the realizable value, i.e. the market value, of the shares in question, an assumption that has not always been true in practice. However, the valuation method adopted comes close to one of the technical solutions suggested by the literature and practice, which recommend treating treasury shares as early retirement of capital and accordingly setting their value equal to zero and calculating the value per share with reference to a smaller number of shares than the total issued, equal to those actually in circulation.

- at the present time it is not possible to make an accurate forecast of the outcome of the proposed disposal of the new company that will be created as a result of the spin-off of Seat Pagine Gialle. It is nonetheless considered, in view of the percentage of Telecom ltalia s overall value accounted for by its equity investment in Seat Pagine Gialle, that the disposal cannot produce effects requiring the exchange ratio to be changed.

- in view of the size of the holding in Telecom ltalia, a careful analysis was made, with the help of the Advisor, of the arguments put forward by some institutional investors regarding the application of the NAV method to Olivetti, as a holding company whose most important asset is the holding in Telecom Italia, with special reference to the appropriateness of valuing that holding on the basis of stock-market prices. Although recognizing the complexity of the question, it has been deemed appropriate, given the purpose of the valuation and the need, discussed in Subsection 3.2.2, to adopt uniform criteria for both the Companies, to value Olivetti using the same methods as those adopted to determine the value of Telecom Italia (Sum of the Parts).

3.2.4 Determination of the exchange ratio

The next table summarizes the range of the estimates of the exchange ratio calculated, with the methods and application criteria discussed in the preceding subsections, as the ratio of the estimated value of the Telecom ltalia ordinary share to the estimated value of the Olivetti share using the minimum and maximum values of the ranges reported earlier.

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	**6.6**	**6.9**	**7.2**
Olivetti Savings shares per Telecom Italia savings share	**6.6**	**6.9**	**7.2**

The Board of Directors, in the light of the indications provided by JP Morgan and after considering the results of the application of the above-mentioned valuation methods, reached a conclusion with regard to the ratio between the economic values of the two companies participating in the merger.

This conclusion was then compared with that reached by the Board of Directors of Telecom Italia, in the light of the indications provided by its own advisors, Lazard and Goldman Sachs.

At the end of the valuation process and the comparison between the results obtained by the two companies participating in the merger, the Board of Directors of Olivetti and the Board of Directors of Telecom Italia established that the natural exchange ratio on the basis of which to determine the assignment of the shares of the Company Resulting from the Merger was:

7 Olivetti shares assuming the current par value of Euro 1.00 each

for every

1 Telecom Italia share assuming the current par value of Euro 0.55 each

I-19

Table of Contents

The exchange ratio will be the same for both the Telecom Italia ordinary shares and for the Telecom Italia savings shares. As will be shown in Section 4, the natural exchange ratio will correspond to a different assignment ratio, made necessary by the decision to carry out the exchange through the redistribution of the capital of the Company Resulting from the Merger, which means that it will also be necessary to establish an assignment ratio for the Olivetti shares.

The above exchange ratio must be verified by the experts appointed under Article 2501-quinquies of the Civil Code, namely by the auditing firm Deloitte & Touche Italia S.p.A., appointed by the President of the lvrea Tribunal, for Olivetti, and by the auditing firm Reconta Ernst & Young, the external auditors, for Telecom ltalia, for the purpose of the issuance of the fairness opinion required by law.

3.2.5 Control methodologies

In order to test the accuracy of the exchange ratio obtained in the manner described above, a further test was made using the method based on stock market prices.

The method was applied considering the average exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) expressed by the market in different periods prior to the day on which Borsa Italiana S.p.A. suspended trading in the Olivetti and Telecom Italia securities in view of the forthcoming announcement of the Operation (the ratios given by the official prices recorded on 7 March 2003 and the weighted averages of the official prices in the preceding 1, 3, 6 and 12 months), adjusted for the effect of the distribution of reserves planned for June 2003, before the completion of the merger.

Account was not taken, instead, of the stock market prices of the Telecom Italia and Olivetti shares after the announcement of the Operation since they were influenced by the announcement and were therefore not deemed to be significant.

The following table shows the average exchange ratios obtained with reference to the different periods specified above.

	7 March	1 month	3 months	6 months	12 months
Olivetti ordinary shares per Telecom Italia ordinary share	**6.7**	**7.0**	**6.9**	**7.1**	**6.9**

The next table shows the minimum, mean and maximum values of the exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) given by the stock market in the periods considered above.

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	**6.7**	**6.9**	**7.1**

The above figures are consistent with the exchange ratio established using the main valuation method. It should be noted that the stock market price method cannot be used to test the exchange ratio for the savings shares owing to the non-existence of Olivetti savings shares. Nonetheless, in the light of the arguments put forward above regarding the hypothesis of a substantially unchanged discount for the savings shares of the Company Resulting from the Merger with respect to its ordinary shares compared with that recorded by Telecom Italia s savings shares, the consistency of the exchange ratio established using the main valuation method can also be confirmed for the savings share ratio.

4. ***Procedure for assigning the shares of the Company Resulting from the Merger***

In view of the interest in maintaining a flexible capital structure of a size suitable for corporate activities and with a view to limiting the effects of the Operation on the future remuneration of the shares, it was considered advisable to leave the nominal capital of Olivetti substantially unchanged at the conclusion of the Operation inasmuch as the absolute increase in the nominal capital by means of the issue of as many new shares as are necessary to satisfy the Exchange Ratio of all the Telecom Italia shares to be exchanged would lead, under current accounting rules, on the one hand, to an increase in the shareholders equity consisting of capital with a consequent significant (exchange) merger deficit subject to amortization, obviously to the detriment of the remuneration of shares in future years, and, on the other, to a capital structure characterized by the nearly total prevalence of items not available for distribution.

Considering the adequacy of Olivetti s share capital (in relation also to the overall size of the debt when this is measured against the cash generating capacity of the Company Resulting from the Merger, both in absolute terms and relative to the main European competitors), it was decided to carry out the share exchange primarily by redistributing Olivetti s capital and have recourse to the issue of new shares only insofar as this proved necessary to maintain the share capital at the level currently subscribed.

The redistribution technique, which has also been used on previous occasions in important mergers involving listed companies, consists in dividing the share capital of the absorbing company and hence the shares composing it (in an equal, larger or smaller number than that existing, depending on whether the intention is to hold the par value of each share unchanged, decrease it or increase it) among the shareholders of the absorbing company and those of the absorbed company, according to what was referred to above as the natural Exchange Ratio between the shares.

Obviously, the redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline. In the case in question, the share capital of Olivetti at the time the merger is implemented may vary from the current figure of Euro 8,845,537,520: (i) *increasing* as a consequence of the conversion of the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds, the exercise of the Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004 Olivetti warrants and the exercise of all the Olivetti stock options (**Conversions**) and (ii) *decreasing* as a consequence of withdrawals by Olivetti shareholders absent or contrary to the merger. The Absorbing Company s capital to be redistributed will therefore be the algebraic sum of the subscribed capital at the time the merger plan is approved and the subsequent variations up to the implementation of the merger.

Assuming the extreme cases of (i) the total exercise of Conversions and no withdrawals and (ii) no Conversions and the exercise of the right to withdraw by all the Olivetti minority shareholders except the relative majority shareholder Olimpia, Olivetti s share capital at the time the merger is completed can vary between a maximum of Euro 11,926,697,278 and a minimum of Euro 2,738,756,641.

Since it is assumed that the post-merger share capital must not be less than the current figure of Euro 8,845,537,520, in the event that the decreasing effect of withdrawals outweighs the increasing effect of Conversions so that the share capital at the time the merger is implemented is less than Euro 8,845,537,520, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the merger to bring the share capital up to the above-mentioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares. In this connection Olivetti International has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to close out the operation.

In the light of the method and principles described above, the share capital will be established and the share exchange carried out according to the following rules:

a) Olivetti will fix the nominal value of its shares in the amount resulting after Conversions on the one hand and withdrawals on the other at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1. Consequently, Olivetti s share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares.

b) The new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital at the time of the merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the natural exchange ratio specified above of 7 Olivetti ordinary or savings shares for every Telecom ltalia ordinary or savings share. In the redistribution only the Telecom Italia shares held by persons other than Olivetti and Telecom Italia itself will be exchanged with shares of the Company Resulting from the Merger. The number of shares of the Company to be Absorbed held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the tender offer that Olivetti may make after the shareholders meeting called to approve the merger and before the latter s completion.

More precisely, where:

- **No. OLI Euro 1** shares denotes the number of Euro 1 Olivetti shares resulting after Conversions and withdrawals;

- **No. OLI Euro 0.55** shares denotes the number of shares of the Company Resulting from the Merger with a par value of Euro 0.55 each actually to be redistributed following the operation referred to at point a);
- **No. T.I. shares** denotes the number of Telecom Italia shares held by minority shareholders that must be exchanged;

(1) *the holders of Olivetti ordinary shares* will be assigned, for every share held, a number of ordinary shares of the Company Resulting from the Merger equal to:

$$\frac{\textbf{No. OLI Euro 0.55 shares}}{\textbf{No. OLI Euro 1 shares + (No. T.l. shares x 7)}}$$

(2) *the holders of Telecom Italia ordinary and savings shares* will be assigned, for every ordinary or savings share held, a number of ordinary or savings shares of the Company Resulting from the Merger equal to:

seven times the number of shares assigned to Olivetti shareholders for every share

held by the latter

Assuming the extreme case in which all the Conversions were carried out, all the shares reserved for the Telecom ltalia stock-option plans were issued, no withdrawals occurred and none of the holders of Telecom Italia ordinary and savings shares accepted the tender offer, the redistribution would involve 21,684,904,141 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each and the Telecom Italia shares to be exchanged would total (taking account of Olivetti s holding in the capital of Telecom Italia and of the latter s holding of treasury shares at the date of this Report) 4,459,575,170. In such case, applying the formula above would give the following assignment ratios:

(i) 0.502620 new ordinary shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for every Olivetti ordinary share with a par value of Euro 1 held at the date at which the merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.518341 new ordinary or savings shares of the Company Resulting from the Merger for every Telecom Italia ordinary or savings share, respectively, held at the date at which the merger becomes effective by minority shareholders other than Olivetti and Telecom Italia itself.

In the light of the above, since the variables represented by Conversions, Telecom Italia stock options exercised, withdrawals and acceptances of the tender offer can only be quantified exactly at the time the merger is implemented, it is evident that the assignment ratio for the purposes of redistribution can be established precisely only at the time the merger becomes effective.

At all events, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will accurately reflect the natural exchange ratio (1/7), as calculated above.

c) As already indicated, if at the time the merger is implemented the Absorbing Company s share capital is less than the current figure of Euro 8,845,537,520 because the decreasing effect of withdrawals outweighs the increasing effect of Conversions, the redistribution of the share capital just described will be accompanied by the simultaneous issue of up to a maximum of 11,103,237,962 new ordinary and saving shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia s shareholders equity belonging to minority interests, with the possibility of an exchange deficit. These additional shares will be assigned to all the shareholders of both the Absorbing Company and the Company to be Absorbed in proportion to their respective shareholdings obtained by applying the assignment ratios indicated at Point b).

Thus, even if such an event occurs, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will accurately reflect the natural exchange ratio (1 to 7), as calculated above.

d) As part of the procedure for assigning the shares of the Company Resulting from the Merger, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to permit the rounding of the number of newly-issued shares owned down or up to nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions.

Table of Contents

In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly issued share of the Company Resulting from the Merger at the end of the Operation, maintenance of the position of shareholder will be ensured by Olivetti International S.A. making available to such persons, free of charge, one share of the Company Resulting from the Merger.

e) The newly issued shares to be utilized for the share exchange will be assigned to those entitled by the respective authorized intermediaries participating in Monte Titoli S.p.A. at the date the Operation becomes effective. It will be possible to exchange Olivetti and Telecom shares which have not been dematerialized only by delivering them to an authorized intermediary for dematerialized book-entry in the central securities system.

Olivetti will promptly publish notices in at least three newspapers with a national circulation, of which one must be a financial newspaper, announcing the amount of the capital of the Company Resulting from the Merger at the time thereof as a result of the quantification of the variables involved in the Operation (Conversions, the exercise of Telecom Italia stock options, withdrawals from Olivetti, acceptances of the tender offer), the exact assignment ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at Point c), if any, and the detailed instructions on how to carry out the share exchange and to trade or obtain fractional rights as provided for at Point d).

5. *Date on which the Operation becomes effective and dividend entitlement date*

In accordance with Article 2504-bis, second paragraph, of the Civil Code (and with standard market practice for companies with listed shares), the Operation will become effective starting on the date of the last filing of the deed of merger provided for in Article 2504 of the Civil Code, or on such later date as may be specified in that deed.

The newly issued shares of the Company Resulting from the Merger will have regular dividend rights.

In accordance with the combined effect of Articles 2504-bis, third paragraph, and 2501-bis, first paragraph, Point 6, of the Civil Code, the transactions of Telecom Italia will be recorded in the accounts of the Company Resulting from the Merger starting from 1 January of the year in which the Operation becomes effective and thus, according to the planned timetable, from 1 January 2003, for tax purposes as well, pursuant to Article 123(7) of Presidential Decree 917/1986.

Consequently, on the date the Operation becomes effective, the Company Resulting from the Merger will assume all Telecom Italia s assets, rights and obligations, including, but not limited to, all its fixed and movable, tangible and intangible assets, licences, authorizations, franchises, securities, current account assets and liabilities, loans, equity investments, insurance policies, labour contracts and every other contractual instrument.

6. *Tax effects of the Operation on Olivetti and Telecom Italia*

This section, after first indicating the main provisions of tax law governing mergers, considers the most important tax aspects of the Operation.

6.1 Tax neutrality

Pursuant to Article 123 of Presidential Decree 917/1986 (the Income Tax Code) and Article 27(1) of Law 724/1994, mergers are transactions that do not give rise to the realization or distribution of capital gains or losses in respect of the assets of the company being absorbed.

6.2 Merger differences

The Operation will make it necessary to include specific items in order to achieve accounting balance between the assets and liabilities sides following the unification of the patrimonies of the companies involved. As mentioned earlier, in fact, the merger will give rise to a cancellation deficit and it is reasonable to expect that an exchange surplus will emerge.

The cancellation deficit, as mentioned in Subsection 1.1.4, will be allocated to Telecom Italia s assets (In particular to its holding of TIM shares) and any difference will be included under goodwill.

Table of Contents

Under Article 6(1) of Legislative Decree 358/1997 such revaluations may also be recognized for tax purposes if the 19% tax in lieu of income tax is paid. Pursuant to paragraph 2 of the same article, revaluations in connection with merger deficits may be recognized for tax purposes, even in the absence of payment of the tax in lieu of income tax, if and to the extent that the equity investments cancelled led to the previous owners being taxed on the resulting capital gains, net of the related capital losses and write-downs.

6.3 Reserves with tax deferred

The reserves with tax deferred shown in the latest financial statements of the company being absorbed will be included in the income of the absorbing company if and to the extent that they are not reconstituted in its accounts.

This rule does not apply to reserves that are taxable only if they are distributed (e.g., revaluation reserves), which have to be reconstituted in the balance sheet of the absorbing company only if there is a merger surplus or an increase in capital that exceeds the total capital of the companies participating in the merger, net of the parts of the capital of each company they already held. In this case the reserves will be included in the income of the absorbing company in the event of a subsequent distribution of the surplus or reduction in capital because it is excessive.

The reserves already allocated to capital by the company being absorbed are considered to be transferred to the capital of the absorbing company and form part of its income in the event of a reduction in capital because it is excessive.

6.4 Registration tax

Applicable in the fixed amount of Euro 129.11.

6.5 Effects on the shareholders of the company being absorbed

The exchange of the shares held by the shareholders of the company being absorbed is immaterial for tax purposes since it does not involve them in the realization of their shares.

For tax purposes the cost of the cancelled shares is automatically transferred to the new shares received in the exchange.

7. Forecasts of the composition of major shareholders and of the control structure of the Company Resulting from the Merger

Since the Operation will lead to the entry of Telecom Italia s shareholders into the capital of the Company Resulting from the Merger and the extinction of Telecom Italia, the forecasts of the composition of major shareholders at the end of the Operation refer to the Company Resulting from the Merger.

On 15 April 2003 the shareholders of Olivetti listed in the table below were found, on the basis of the shareholders register and the notifications of major shareholdings pursuant to Article 120 of Legislative Decree 58/1998, to possess more than 2% of the company s capital:

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olimpia S.p.A.	2,524,127,813	28.54%
Caisse des Dépôts et Consignations*	389,200,000	4.40%
Assicurazioni Generali S.p.A.**	334,842,996	3.79%
Olivetti International S.A.***	211,931,328	2.40%
Mediobanca S.p.A.	200,000,000	2.26%

* Investment held via CDC Ixis Capital Market

** Investment held through subsidiaries

*** Subsidiary of Olivetti S.p.A. Under Article 2359-bis of the Civil Code, the voting rights of the shares held by Olivetti International S.A. may not be exercised.

Table of Contents

The following table shows the foreseeable composition of shareholders with holdings of more than 2% in the Company Resulting from the Merger on the assumption: (i) that there are no Conversions (apart from those deriving from applications received by 31 March 2003, which are not yet reflected in Olivetti s share capital filed with the Company Register but are considered in this analysis) and that no Telecom ltalia stock options have been exercised; (ii) that 25% of the shareholders other than Olimpia S.p.A. withdraw at a price taken to be equal to Euro 1 (which is in line with the average of the official prices recorded from 26 November 2002 up to today), giving a total outlay of about Euro 1,527 million; and (iii) that the tender offer is made at the average price between the minimum and maximum prices for the Telecom Italia ordinary and savings shares (i.e., Euro 7.7 per ordinary share and Euro 5.175 per savings share), giving a total outlay of about Euro 7,473 million, so that the tender offer covers about 14.6% of the ordinary and savings shares in the event of full acceptance.

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olimpia S.p.A.	1,336,092,044	13.65%
Caisse des Dépôts et Consignations*	206,014,537	2.10%

* Investment held via CDC Ixis Capital Market.

It is foreseeable that no single shareholder will have control of the Company Resulting from the Merger, which, as mentioned earlier, will be fully contestable.

8. *Effects of the Operation on shareholders agreements falling within the scope of Article 122 of Legislative Decree 58/1998*

The parties to the shareholders agreements falling within the scope of Article 122 of Legislative Decree 58/1998 that concern the companies participating in the merger have not sent any notification concerning the possible effects of the merger on such agreements.

9. *Amendments to the bylaws*

As mentioned earlier, it is intended the Company Resulting from the Merger adopt new bylaws, corresponding substantially to those of the current Telecom ltalia bylaws.

In particular, following the Operation the Company Resulting from the Merger will change its name to Telecom Italia S.p.A., with the consequent amendment of Article 1 of the bylaws and of the other articles in which the name of the company appears. It has been clarified that the Company Resulting from the Merger can continue to use its own corporate marks and those of Telecom Italia.

Article 2, regarding the registered office of the Company Resulting from the Merger, will be amended to make the registered office that of Telecom Italia at 2 Piazza Affari, Milan.

As specified earlier, upon completion of the Operation the Company Resulting from the Merger will adopt the corporate purpose of Telecom Italia, with the integral substitution of Article 3 of Olivetti s current bylaws.

Article 5 of the bylaws of the Company Resulting from the Merger, concerning the share capital, will undergo a series of amendments to take account, in particular, of the redistribution and the assignment of the shares issued for the purpose of the exchange, as set out in Section 4, and of the adjustments necessary, in the light of the new amount of the share capital following the merger, for the conversion of the convertible bonds and the exercise of the warrants issued by the Absorbing Company and for the stock-option plans approved by the Absorbing Company and the Company to be Absorbed. In more detail, Article 5 of the bylaws will be amended as follows:

a) a new maximum amount of Euro 492,726.30 will be established for the variable capital increase for the exercise of the options already assigned by the Absorbing Company under the Piano triennale di Stock Option 2002-2004 stock option plan, increase to be carried out by 15 December 2004, with an update of up to a maximum of 895,866 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above mentioned options on the basis of the exchange ratio for the shareholders of the Absorbing Company in the context of the merger, at the price of Euro 3.308 per option held;

b) a new maximum amount of Euro 10,743,649.40 will be established for the variable increase in capital for the exercise of the options already assigned by the Absorbing Company under the Piano triennale Stock Option febbraio 2002-Dicembre 2004 stock-option plan, increase to be carried out by 31 December 2004, with an update of up to a maximum of 19,533,908 shares of the Company Resulting from the Merger with a par value of Euro 0.55 to be offered to the holders of the above-mentioned options on the basis of the exchange ratio for the shareholders of the Absorbing Company in the context of the merger, at a price of Euro 2.515 per option held;

c) a new maximum amount of Euro 103,622,863.85 will be established for the increase in capital for the exercise of the Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004 warrants, increase to be carried out by 20 June 2004, with an update of up to a maximum of 188,405,207 shares of the Company Resulting from the Merger with a par value of Euro 0.55 to be offered to the holders of the above-mentioned warrants on the basis of the exchange ratio for the shareholders of the Absorbing Company in the context of the merger, at a price already fixed by the governing bodies of the Absorbing Company and included in the warrant rules;

d) a new maximum amount of Euro 180,568,488.10 will be established for the variable capital increase for the conversion of the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso convertible bonds already issued by the Absorbing Company, increase to be carried out by 1 January 2004, with an update of up to a maximum of 328,306,342 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for the shareholders of the Absorbing Company in the context of the merger.

e) a new maximum amount of Euro 892,681,820.80 will be established for the variable capital increase for the conversion of the Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds already issued by the Absorbing Company, increase to be carried out by 1 January 2010, with an update of up to a maximum of 1,623,057,856 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for the shareholders of the Absorbing Company in the context of the merger.

As mentioned earlier, the Company Resulting from the Merger will also have to take over Telecom Italia s stock-option plans and will therefore have to honour the stock options already assigned thereunder. To this end, Olivetti will approve corresponding increases in capital permitting the issue in relation to such stock options of a number of shares updated in accordance with the exchange ratio and the assignment ratio provided for in the merger plan, while the exercise price will remain unchanged.

In other words, the owner of Telecom Italia stock options will maintain the right to subscribe, at the price already fixed, not for the original number of Telecom Italia shares but the larger number of shares of the Company Resulting from the Merger established on the basis of the natural exchange ratio of 1 to 7.

Naturally, the exact quantification of the new quantities that can be subscribed will be possible only when, at the time the deed of merger is signed, the assignment ratio is established, as provided for in Section 4. At all events, the foregoing calculations will accurately reflect, with respect to the number of shares currently obtainable, the natural exchange ratio of 1 to 7.

More precisely, Olivetti will approve an increase in capital for up to a total maximum amount of Euro 261,956,575.10 by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following variable tranches:

a) a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the options already assigned by Telecom Italia under the Piano di Stock Option 1999 stock-option plan, to be implemented by 31 January 2005 by the issue of up to a maximum of 39,943,826 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 6.79 per option held;

b) a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the options already assigned by Telecom ltalia under the Piano di Stock Option 2000 stock-option plan, to be implemented by 30 July 2008 by the issue of up to a maximum of 97,130,710 shares of the Company Resulting from the Merger with a par value of Euro 0.55each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom ltalia shareholders in the context of the merger, at a price of Euro 13.815 per option held;

c) a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the options already assigned by Telecom Italia under the Piano di Stock Option 2001 stock-option plan, to be implemented by 30 April 2008 by the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 10.488 per option held;

d) a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the options already assigned by Telecom Italia under the Piano di Stock Option Top 2002 stockoption plan, to be implemented by 28 February 2010 by the issue of up to a maximum of 55,637,980 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 9.203 per option held;

e) a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the options already assigned by Telecom Italia in three distinct lots under the Piano di Stock Option 2002 stock-option plan, to be implemented for the three lots by 31 March 2008, 31 March 2009 and 31 March 2010 respectively by the issue of up to a maximum total of 130,555,934 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price for the three lots of Euro 9.665, Euro 7.952 and Euro 7.721 respectively per option held.

Article 6 will be reformulated and lay down the rules for the savings shares that will be issued by the Company Resulting from the Merger. These shares will entitle their holders to analogous preferential rights to those currently enjoyed by the holders of Telecom Italia savings shares. Provision will also be made, as announced, for the possibility for the preferred dividend established in the bylaws to be paid by means of the distribution of reserves (in accordance with the resolution that will be proposed to the Telecom Italia shareholders meeting called to approve the merger plan).

As regards corporate governance, the bylaws of the Company Resulting from the Merger will provide for the appointment of a Board of Directors with not less than 7 and not more than 23 members, appointed by means of a slate mechanism taken over in large part from Telecom Italia s current bylaws.

Lastly, it needs to be underscored that Article of Telecom Italia s bylaws contains clauses that give the Minister for the Economy and Finance some special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994, it should be noted that such powers include the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter such powers, which were introduced into Telecom Italia s bylaws under a Prime Ministerial Decree of 21 March 1997 in the light of the sector of the company s operations (telecommunications) and with a view to its privatization.

At the end of the meeting of its Board of Directors on 11 March 2003, Telecom ltalia requested the Minister for the Economy and Finance to indicate whether he intended to exercise the powers in question.

The Minister for the Economy and Finance subsequently informed Telecom Italia that he did not consider the conditions existed for the exercise of the power of veto with respect to the adoption by Telecom Italia s shareholders meeting of the merger resolution. By contrast, as regards the question of the presence in the bylaws of the clauses giving the special powers, the Minister for the Economy and Finance indicated that he considered it necessary to maintain the power of expressing a favourable opinion on the acquisition of major shareholdings in the company s capital and the power of veto as set out in the current bylaws of Telecom Italia.

The Minister for the Economy and Finance also stated that he had reached agreement with the Minister for Productive Activities on the indications regarding these questions.

With this premise, and pending the formalization of the measure best suited to the foregoing indications and any opinion the competent European Union authorities might express on the matter, the Minister for the Economy and Finance requested that the bylaws to be submitted to the shareholders meetings of the companies participating in the merger conform with the indications set out above.

Table of Contents

The amendments to the bylaws described above will come into force on the date that the Operation becomes effective, pursuant to Article 2504-*bis* of the Civil Code and the merger plan.

The amended text of the bylaws of the Company Resulting from the Merger, including the above-mentioned special powers, to be submitted to the shareholders meetings of Olivetti and Telecom Italia for their approval is annexed to this Report.

10. ***Considerations of the Board of Directors concerning the potential recourse to the right of withdrawal***

At the end of the Operation the Company Resulting from the Merger will adopt the corporate purpose of Telecom Italia. This innovation is necessary in order to reflect the major change in the business of Olivetti, which will be transformed from a holding company into an operational company with numerous administrative authorizations and franchises and operations in regulated markets, so that its corporate purpose must include the supply of the services for which such authorizations and franchises have been granted.

In particular, the adoption of the new corporate purpose for the Company Resulting from the Merger serves to permit it to maintain the licences currently held by Telecom Italia for the supply of telecommunications services to the public.

In fact Telecom Italia s activity consists essentially in the installation and operation of telecommunications equipment and in the supply of telecommunications services on the basis of individual licences and general authorizations issued under Presidential Decree 318/1997. Whereas the corporate purpose of Telecom ltalia laid down in its bylaws provides expressly for all the activities referred to above, the corporate purpose of Olivetti only mentions production and marketing in the field ... of telecommunications and services as a merely secondary activity (without further specification).

The change in the corporate purpose is also intended to allow the Company Resulting from the Merger to engage in other activities covered by Telecom Italia s bylaws, such as advertising and publishing, which are not envisaged in Olivetti s current bylaws.

The adoption of Telecom Italia s corporate purpose means that the bylaws of the Company Resulting from the Merger will contain the requirement that holding equity investments should not be its principal activity, as it was for Olivetti. This formal change entails a substantial change in the risk profile associated with the investment since, as a consequence of the Operation, the Company Resulting from the Merger will no longer have the characteristics established by the Minister of the Treasury in implementing Article 113 of Legislative Decree 385/1993 to define the concept of *engaging as the principal activity, without dealings with the public, in the acquisition of equity interests.*

Under Article 2437 of the Civil Code, the Olivetti shareholders who are contrary to the merger resolution and those who are absent may exercise the right of withdrawal.

The right of withdrawal may be exercised by shareholders entitled to do so by sending a registered letter that must reach Olivetti within 3 days of the date of the shareholders meeting that approved the merger if sent by shareholders who were present at the meeting and contrary to the resolution or within 15 days of the filing of the resolution with the Company Register if sent by shareholders who were not present at the meeting. The date on which letters are received by Olivetti will count and not the date on which they were sent; it is therefore up to the shareholders contrary to the resolution to ensure compliance with the above-mentioned time limit since Olivetti takes no responsibility for transmission or delivery delays due to causes beyond its control.

For the purposes of legitimizing the exercise of the right of withdrawal, shareholders must also send Olivetti an appropriate certification, issued by an authorized intermediary pursuant to the provisions governing dematerialized financial instruments deposited with a central securities depository, attesting in particular the ownership of the company s shares from the date of the merger resolution. As provided for by the regulations in force, when certifications are issued the shares will be blocked by the intermediary in question until they are redeemed.

Olivetti will inform shareholders in good time, as laid down by law, regarding the procedure and time limits for exercising the right of withdrawal.

Table of Contents

The amount due to Olivetti shareholders who exercise the right of withdrawal will be based on the price per share calculated as the mean of the official prices of the six months preceding the date of the merger resolution. For the purposes of the redemption, consideration will be given to the daily quotations of the Olivetti shares in the six calendar months preceding the date of the adoption of the merger resolution.

The Olivetti shareholders who exercise their right of withdrawal will be entitled to have their shares redeemed from the date on which the Operation becomes effective, with the consequent right to be paid interest at the legal rate from such date.

Accordingly, at the time the Operation becomes effective for civil law purposes and simultaneously with the exchange of shares for the Olivetti shareholders who did not exercise the right of withdrawal, Olivetti will redeem and cancel the shares of the shareholders who exercised the right of withdrawal, with the related payment expected to be made at the latest within 90 days of the date on which the Operation becomes effective.

The sums due to the shareholders who exercise the right of withdrawal will be taxable profit for any part exceeding the subscription or purchase price paid for the shares Olivetti cancels (Article 44(3) of the Income Tax Code).

In the event that shareholders who are natural persons but not entrepreneurs or qualified shareholders are assigned reserves other than capital reserves, even if they were previously classified as share capital, the intermediary participating in the Monte Titoli S.p.A. central securities depository (or foreign central securities depositories participating therein) is required to apply the 12.50% tax in lieu of income tax pursuant to Article 27-*ter*, paragraph 1, of Presidential Decree 600/1973.

If, instead, the above-mentioned reserves were used to redeem non-residents, the tax in lieu of income would be 27%, without prejudice to the rate reduction provided for in double taxation agreements.

In the event that shareholders who are natural persons are qualified shareholders or, not being qualified shareholders, elect not to be subject to the tax in lieu of income referred to above, the taxable profit must be indicated in their tax returns for an amount equal to the difference between that redeemed and the subscription or purchase price for the shares Olivetti cancels and will be subject to personal income tax (lrpef) or separate taxation. At all events, for the part of the taxable profit determined in this way corresponding to the reserves, other than capital reserves, attributable to shareholders in relation to the shares cancelled, a tax credit on the dividends will be recognized up to the amount of the taxes referred to in Articles 105(1)*(a)* and 105(1)*(b)* of the Income Tax Code .

Milan, 15 April 2003

On behalf of the Board of Directors of Olivetti S.p.A.

(in original signed by Olivetti s Legal Representative)

Table of Contents

PROPOSED RESOLUTION TO THE SHAREHOLDERS MEETING

The meeting of ordinary shareholders of Olivetti S.p.A. (the Absorbing Company),

- having seen the plan for the merger of Telecom Italia S.p.A. into Olivetti S.p.A., entered respectively in the Turin Company Register and the Milan Company Register on April 22, 2003 and on April 18, 2003 (the Merger Plan);
- having examined the Directors report on the merger operation (the Merger);
- having taken note of the balance sheets of the companies participating in the Merger, as shown in their draft financial statements for the year ended 31 December 2002;
- having taken note of the reports on the congruousness of the merger exchange ratio prepared by the auditing firms Deloitte & Touche Italia S.p.A. for Olivetti and Reconta Ernst & Young S.p.A. for Telecom Italia;
- having taken note of the timely filing of the documentation required under the applicable law;
- having taken note of the Board of Auditors attestation that the present share capital is fully paid up;

resolves

1. to approve the Merger Plan and consequently to proceed with the accounting and tax effects starting on I January of the year in which the Merger becomes effective in respect of third parties, as provided for in the Merger Plan with the merger of Telecom Italia S.p.A. into Olivetti S.p.A. on the basis of the following exchange ratio:

- 7 Olivetti ordinary shares with a par value of Euro 1 (one) for every Telecom Italia ordinary share with a par value of Euro 0.55 each;
- 7 Olivetti savings shares with a par value of Euro 1 (one) for every Telecom Italia savings share with a par value of Euro 0.55 each;

with the effectiveness of the whole operation subject (i) to the adoption by the shareholders meeting of Telecom ltalia of a like resolution and (ii) to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares to be issued;

2. to withdraw and cancel the Olivetti shares with a par value of Euro 1 each (net of those for which the right of withdrawal has been exercised) and simultaneously to issue new ordinary and savings shares with a par value of Euro 0.55 each and regular dividend entitlement, in the number resulting from their assignment to Olivetti shareholders and Telecom Italia shareholders other than Olivetti in accordance with the following criteria:

A. satisfaction of the exchange ratio between the economic values underlying the Olivetti and Telecom Italia shares by redistributing Olivetti s capital at the time of the implementation of the Merger, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal has been exercised, subsequent to the change in the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, and thus by applying the following assignment ratios:

- for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, assignment of x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of 7x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of 7x newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55 each);

where the number x is the ratio between

- the total number of shares of the Absorbing Company with a par value of Euro 0.55 each to be redistributed and

- the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the implementation of the Merger and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the implementation of the Merger;

B. assignment, if necessary, to all the holders of the Absorbing Company s ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new shares, of the same class as the shares already assigned under the redistribution, with a par value of Euro 0.55 each (and thus up to a total maximum amount of Euro 6,106,780,879.10) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520.05.

A service will be provided to shareholders to handle any fractions of shares, without prejudice to any rounding deriving from the aforesaid assignment operations;

3. to recalculate the remaining amount of the increase in capital already approved by the Extraordinary Shareholder s Meeting of 4 October 2000, for the part set aside for the exercise of the Warrant Azioni Olivetti ex Tecnost 1999-2004 warrants, up to a maximum amount of Euro 56,992,575.20, by means of the issue of up to a maximum of 103,622,864 ordinary shares with a par value of Euro 0.55 each.

A service will be provided to holders of the aforementioned warrants who exercise their subscription rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the warrants;

4. to increase the share capital as of the date on which the Merger becomes effective by reiterating, updating and, where necessary, renewing earlier resolutions to increase the share capital adopted by Olivetti s Shareholders Meeting and Board of Directors, insofar as they are still effective by the following divisible amounts to take account of the assignment ratio for Olivetti shareholders in the context of the Merger:

(i) up to a maximum of Euro 492,726.30, by means of the issue of up to a maximum of 895,866 ordinary shares with a par value of Euro 0.55 each for the exercise of the Piano triennale Stock Option 2002-2004 stock options, increase to be implemented by 15 December 2004;

(ii) up to a maximum of Euro 10,743,649.40, by means of the issue of up to a maximum of 19,533,908 ordinary shares with a par value of Euro 0.55 each for the exercise of the Piano triennale Stock Option febbraio 2002-dicembre 2004 stock options, increase to be implemented by 31 December 2004;

(iii) up to a maximum of Euro 180,568,488.10, by means of the issue of up to a maximum of 328,306,342 ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.;

(iv) up to a maximum of Euro 892,681,820.80, by means of the issue of up to a maximum of 1,623,057,856 ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the Olivetti 1,5% 2001 -2010 convertibile con premio al rimborso convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.

A service will be provided to holders of the aforementioned securities who exercise their subscription/conversion rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the stock options and/or the conversion of the convertible bonds;

5. to increase the share capital as of the date on which the Merger becomes effective for the outstanding stock option plans of Telecom Italia S.p.A., insofar as they are still effective, with account taken of the assignment ratio for Telecom Italia ordinary shareholders in the context of the Merger by up to a maximum of Euro 261,956,575.10, by means of the issue of up to a maximum of 476,284,682 ordinary shares with a par value of Euro 0.55 each, divided into the following divisible tranches:

   (i) a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the Piano di Stock Option 1999 stock options, increase to be implemented by 31 January 2005 by means of the issue of up to a maximum of 39,943,826 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.79 per option held;

   (ii) a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the Piano di Stock Option 2000 stock options, increase to be implemented by 30 July 2008 by means of the issue of up to a maximum of 97,130,710 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held;

(iii) a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the Piano di Stock Option 2001 stock options, increase to be implemented by 30 April 2008 by means of the issue of up to a maximum of 153,016,232 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held;

(iv) a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the Piano di Stock Option Top 2002 stock options, increase to be implemented by 28 February 2010 by means of the issue of up to a maximum of 55,637,980 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held;

(v) a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the Piano di Stock Option 2002 stock options, increase to be implemented by 31 March 2008 for the first lot, by 31 March 2009 for the second lot and by 31 March 2010 for the third lot by means of the issue of up to a maximum of 130,555,934 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

A service will be provided to holders of the aforementioned options who exercise their subscription rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the stock options.

6. to adopt as of the date on which the Merger becomes effective the bylaws annexed to the Merger Plan (the Bylaws of the Absorbing Company), to be understood as referred to here in their entirety, in the version consistent with the indications of the competent governmental authorities regarding the special powers of the Minister for the Economy and Finance under Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994;

7. to grant severally to the Legal Representatives the powers needed:

(a) to complete all the formalities required for the resolutions adopted to obtain all the necessary authorizations, with the right to approve and introduce into such resolutions, the Merger Plan and the Bylaws of the Absorbing Company annexed thereto any amendments, additions or deletions that may be requested or suggested by administrative authorities and/or following the exercise of the special powers referred to in Article 5 of the bylaws of Telecom ltalia S.p.A. or on the occasion of filings with the Company Register;

(b) to draw up and sign, *inter alia* by having ad hoc recourse to attorneys or agents, in conformity with the resolution of point 1, the public merger instrument and every other assessment, supplement and amendment that should prove necessary or desirable, defining every agreement, condition, clause, time limit and procedure thereof in conformity with and in implementation of the Merger Plan;

(c) to complete and amend at the signing of the merger instrument the numbers contained in Article 5 of the Bylaws of the Absorbing Company on the basis of the final assignment ratios obtained in accordance with the criteria set out in point 2;

(d) to make, as and when necessary, the changes to Article 5 of the Bylaws of the Absorbing Company consequent on the implementation of the increases in capital referred to in points 2, 3 and 4, and to that end to complete all the formalities and publish all the notices required by law;

(e) to establish the timetable and procedures for carrying out the redistribution and assignment operations referred to in point 2;

(f) to do *inter alia* by having ad hoc recourse to attorneys or agents whatever else may be necessary for and conducive to the complete implementation of the foregoing resolutions, authorizing entries, transcriptions, annotations, amendments and corrections in public registers and every other competent seat.

Table of Contents

Annex J

English Translation of Report of the Telecom Italia Board

to the Shareholders dated April 15, 2003

J-1

Table of Contents

BOARD OF DIRECTORS OF TELECOM ITALIA S.p.A.

MEETING OF 15 APRIL 2003

REPORT ON THE PLAN FOR THE MERGER OF

TELECOM ITALIA S.p.A. INTO OLIVETTI S.p.A.

Milan, 15 April 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

J-2

Table of Contents

Except as provided below, any offer to purchase or sell securities described herein is not being made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States of America and any such offer will not be capable of acceptance by any such use, means, instrumentality or facility.

The information contained herein does not constitute an offer of securities for sale in the United States or offer to acquire securities in the United States.

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the Securities Act) and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court s judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

Table of Contents

Contents

Table of Contents

REPORT OF THE BOARD OF DIRECTORS OF TELECOM ITALIA S.p.A. ON THE PLAN FOR THE MERGER OF TELECOM ITALIA S.p.A. INTO OLIVETTI S.p.A. PURSUANT TO ARTICLE 2501-*QUATER* OF THE CIVIL CODE AND ARTICLE 70(2) OF CONSOB REGULATION 11971/1999 ON ISSUERS, AS AMENDED, IMPLEMENTING LEGISLATIVE DECREE 58/1998 (THE CONSOLIDATED LAW).

Dear Shareholders,

In accordance with Article 2501 *quater* of the Civil Code and Article 70 of Consob Regulation 11971/1999 (the **Regulation**), we submit for your consideration and approval the plan (the **Merger Plan**) for the merger (the **Merger** or the **Operation**) of Telecom Italia S.p.A. (**Telecom Italia** or the **Company to be Absorbed**) into Olivetti S.p.A. (**Olivetti** or the **Absorbing Company** , or once the Merger becomes effective the Company Resulting from the Merger). The purpose of this report is to describe and justify the Merger Plan from the legal and economic standpoints, with particular regard to the exchange ratio.

1. ***Description of the Operation and the reasons therefor, with particular regard to the operating objectives of the companies participating in the merger and the programmes formulated for achieving them***

1.1. ***Description of the persons involved***

1.1.1. ***Telecom Italia S.p.A.***: Telecom Italia is a company limited by shares with registered office at 2 Piazza Affari, Milan and headquarters at 4 Corso d Italia, Rome, and a fully paid-up share capital of Euro 4,023,816,860.80 divided into 5,262,908,631 ordinary shares with a par value of Euro 0.55 each and 2,053,122,025 savings shares with a par value of Euro 0.55 each. The Company to be Absorbed is domiciled for tax purposes at its registered office, and its Milan Company Register Number and tax number is 00471850016.

1.1.2. ***Olivetti S.p.A.***: Olivetti is a company limited by shares with registered office at 77 Via Jervis, Ivrea, a fully paid-up share capital of Euro 8,845,537,520 divided into 8,845,537,520 ordinary shares with a par value of Euro 1 each. The Absorbing Company is domiciled for tax purposes at its registered office, and its lvrea Company Register number and tax number is 00488410010.

1.2. ***Description of the activities of Telecom Italia***

1.2.1. The Telecom Italia Group is one of the largest international groups operating in the sector of telecommunications services and, more in general, information and communication technology. Its companies, leaders in fixed and mobile communications, the Internet and media, information technology and research offer integrated and innovative services in Italy and abroad. Its principal strength is its leadership in the domestic market in fixed and mobile telecommunications and Internet services. The companies of the Group have created broadband, fixed and mobile networks providing innovative services, complex solutions for ICT, multimedia messaging, solutions for mobile business, products for e-government and online banking.

1.2.2. Following the changes in top management during 2001 and the significant overhaul of corporate growth strategies with the formulation of the Business Plan for 2002-2004 (the **Business Plan**), in 2002 an overall restructuring was launched. In particular, organizational restructuring led to the formation of a completely renewed, compact and stable management team. During 2002 the responsibilities of the Domestic Wireline and Information Technology business units were revised in depth and a new South America business unit was established.

1.2.3. At Group level the so-called professional families were upgraded and strengthened with the establishment of a functional link between distinctive competences in the individual Telecom Italia Group companies and the analogous functions in the parent company so as **(i)** to ensure greater organizational effectiveness and the verification of resources, and **(ii)** to foster intra-Group mobility. In addition, new procedures were introduced for the approval and monitoring of investments and acquisitions, with the centralization of governance responsibilities.

1.2.4. The objectives of financial strengthening and industrial restructuring were achieved in accordance with the Business Plan. The results obtained with the gain in efficiency and the plan of disposals (which generated a net cash flow of Euro 4,771 million in 2002) were decisive in reducing the Group s debt from Euro 21,942 million at the end of 2001 to Euro 18,118 million at 31 December 2002. The proportion of debt with a maturity of more than one year rose from 64% at the end of 2001 to 75% at the end of 2002. The Group s structure was simplified, with the number of companies declining from 714 to 416.

1.2.5. Turning to business developments, 2002 brought a strengthening of Telecom Italia s leadership in the Italian market, obtained thanks to effective marketing and the focus on innovation.

1.2.6. In the field of mobile telephony, TIM S.p.A. ranks first among European operators in terms of the number of GSM lines on a single network and is the leader in Italy. In October TIM S.p.A. launched Brazil s first GSM service, which reached more than 80 cities throughout the country.

1.2.7. The following tables show selected income, balance sheet and financial data for the Telecom Italia Group and for Telecom Italia, drawn from the consolidated financial accounts for the 2002 fiscal year, Telecom Italia s draft financial statements for 2002 and its financial statements for 2001 and 2000.

Selected economic and financial data for the Telecom Italia Group and Telecom Italia

TELECOM ITALIA GROUP

	2002	2001	2000(*)	2000
	(in millions of euros)			
Sales of goods and services	30,400	30,818	27,169	28,911
Gross operating margin	13,964	13,619	12,217	13,118
Operating result	7,381	6,674	6,440	6,805
Consolidated net income (loss) of the parent company	(322)	(2,068)	2,028	2,028
Consolidated shareholders equity of the parent company	9,049	13,522	18,821	18,821
Consolidated net financial debt:	18,118	21,942	17,233	19,029
T medium/long-term	15,018	16,083	6,733	8,268
T short-term	3,100	5,859	10,500	10,761
Consolidated free cash flow from operations(1)	8,610	5,990	4,453	4,763

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the proportionate method.
(1) Operating result + Depreciation and amortization Industrial investments Change in working capital.

TELECOM ITALIA

	2002	2001	2000
	(in millions of euro)		
Sales of goods and services	17,055	17,309	17,463
Gross operating margin	7,549	7,571	7,556

Operating result	4,045	3,983	3,595
Net income (loss)	(1,645)	151	2,559
Shareholders equity	10,956	15,871	18,714
Net financial debt:	15,128	16,913	16,839
T medium/long-term	11,848	10,371	3,188
T short-term	3,280	6,542	13,651
Free cash flow from operations(1)	5,291	4,584	4,234

(1) Operating result + Depreciation and amortization Industrial investments Change in working capital.

1.3. ***Description of Olivetti s activities***

1.3.1. Olivetti, in conformity with its current corporate purpose, is a company entered in the special section of the general register, kept by the Italian Foreign Exchange Office, of persons engaging principally in financial activities without dealings with the public pursuant to and for the effects of Articles 106 and 113 of Legislative Decree 385/1993.

1.3.2. Olivetti s principal equity interest is that held in Telecom Italia (54.9% of the ordinary capital) and, indirectly, in its subsidiaries. Olivetti is also present in business sectors such as office products and services and real estate, notably through its subsidiaries Olivetti Tecnost S.p.A. (information technology and communications products and services) and Olivetti Multiservice S.p.A. (services related to the real-estate sector).

Table of Contents

1.3.3. The following tables show selected income, balance sheet and financial data for the Olivetti Group and for Olivetti, drawn from the consolidated financial statements for the 2002 fiscal year, Olivetti s draft financial statements for 2002 and its financial statements for 2001 and 2002, appropriately reclassified to make them consistent with those of Telecom Italia.

Selected economic and financial data for the Olivetti Group and Olivetti

OLIVETTI GROUP

	2002	2001	2000(*)	2000
	(in millions of euros)			
Sales of goods and services	31,408	32,016	28,374	30,116
Gross operating margin	14,033	13,707	12,272	13,173
Operating result	6,016	5,338	5,112	5,477
Consolidated net income (loss) of the parent company	(773)	(3,090)	(940)	(940)
Consolidated shareholders equity of the parent company	11,640	12,729	13,856	13,856
Consolidated net financial debt	33,399	38,362	35,728	37,524
T medium and long-term	33,309	37,042	25,622	27,157
T short-term	90	1,320	10,106	10,367

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the proportionate method.

OLIVETTI

	2002	2001	2000
	(in millions of euros)		
Net income (loss)	(6,240)	(871)	870
Shareholders equity	9,031	15,235	13,937
Net financial debt	15,195	16,322	17,991
T medium and long-term	12,472	10,293	17,150
T short-term	2,723	6,029	841

1.4. ***Main legal aspects of the Operation***

1.4.1. The proposed Operation envisages the merger of Telecom Italia into Olivetti pursuant to and for the effects of Article 2501 *et seq.* of the Civil Code. The Operation was approved, as regards its objectives and principal characteristics, by the Boards of Directors of the interested companies in their meetings on 11 March 2003.

On 13 March 2003 Olivetti published the notice provided for by Article 2503-*bis*, second paragraph, of the Civil Code. The time limit for exercising of conversion rights de jure expired on 13 April 2003. However, it is appropriate to point out that the holders of bonds convertible into Olivetti shares will able to exercise conversion rights in accordance with rules of these bond issues even after the expiration of the time limit indicated in Article 2503-*bis*, second paragraph, of the Civil Code, without prejudice to the periods of suspension of such rights envisaged by the issue rules.

1.4.2. The Merger will take place on the basis of the draft financial statements for the fiscal year ended 31 December 2002 of Olivetti and Telecom Italia (jointly the **Companies Participating in the Merger**), which were also adopted by the Boards of Directors of the Companies Participating in the Merger as statements of assets and liabilities under Article 2501-*ter* of the Civil Code (for each the **Merger Statement of Assets and Liabilities**).

1.4.3. The Absorbing Company, as a consequence and at the conclusion of the Merger, will assume the name and corporate purpose of Telecom Italia. More in general, Olivetti will adopt new bylaws based on the current bylaws of Telecom Italia.

Table of Contents

Concerning the amendment of the corporate purpose, premised that the extension of the corporate purpose to the performance of services in the telecommunications sector would by itself legitimate the right of withdrawal, it was nonetheless considered appropriate to take over Telecom Italia s corporate purpose in its entirety, in order to permit the Absorbing Company to operate in all the sectors in which Telecom Italia is currently present, with particular regard to the activities that Telecom Italia is authorized to engage in pursuant to administrative measures.

In this regard, the fee schedules of the individual licences issued to Telecom Italia provide that the corporate purpose of the company must include activities in the telecommunications sector , which must refer to the provision of telecommunications services, as defined in Presidential Decree 318/1997, on the basis of which the licences were issued.

The inclusion of such activities in the corporate purpose of the licensee is among the elements evaluated for the grant of licences and, inasmuch as it responds to a specific prescription of the schedules accessory to such licences, must therefore be considered among the conditions for the preservation thereof by the successor Olivetti, whose corporate purpose does not currently provide for them.

As a consequence of the amendment of the corporate purpose within the context of the Merger, Olivetti shareholders who are absent or contrary to the resolutions approving the Operation will have the right to withdraw pursuant to and for the purposes of Article 2437 of the Civil Code (on the right to withdraw, see also Section 10 below).

The relative majority shareholder of Olivetti has already announced that it will not exercise its right of withdrawal.

1.4.4. In order to give the shareholders of Telecom Italia a possibility to disinvest within the context of the Operation, Olivetti has announced its intention of making a partial tender offer for ordinary and savings shares of Telecom Italia (the **Offer**).

The consideration offered will be fixed on the basis of the weighted average of the official stock-market prices of the ordinary and savings shares of Telecom Italia in the period between 12 March 2003 and the date of the shareholders meeting of the Absorbing Company called to approve the Merger Plan, plus a premium of 20%, but in no case will such consideration be **(i)** greater than Euro 8.40 per ordinary share and Euro 5.65 per savings share or **(ii)** lower than Euro 7 per ordinary share and Euro 4.70 per savings share.

The market has been informed that the number of shares to be tendered for will be decided after the time limit for exercising the right to withdraw under Article 2437 of the Civil Code has expired and, therefore, after the amount of the outlay to be incurred by Olivetti for the withdrawal rights actually exercised (**Withdrawals**) has been ascertained. The maximum total amount to be allocated to the Offer will be Euro 9 billion, less the repayment for Withdrawals.

The Offer will be for the same percentage of ordinary shares and savings shares. If the resources allocated to the Offer for each of the two classes of shares (ordinary and savings) are not completely used for that class, they will be used for the other class. If the acceptances of the Offer by the holders of ordinary shares and savings shares were to exceed the quantity tendered for, they will be prorated with respect to each class.

On the basis of what Olivetti has indicated, if there were no Withdrawals and the Offer therefore had a maximum overall value of Euro 9,000,000,000:

a) if made at the minimum price of Euro 7 per ordinary share and Euro 4.70 per savings share, the Offer would be for about 19.4% of the ordinary share capital and savings share capital respectively;

b) if made at the maximum price of Euro 8.40 per ordinary share and Euro 5.65 per savings share, the Offer would be for about 16.1% of the ordinary share capital and savings share capital respectively.

The Offer will take place as soon as possible following the expiration of the time limit for the exercise of Withdrawals and will close before the merger instrument is signed. The Offer will cease to be effective in the event of failure to complete the procedure for filing the merger instrument with the Company Register within a given date, now tentatively envisaged to be 31 December 2003, without prejudice to the intention of the Companies Participating in the Merger to complete the formalities for the Merger in the shortest time possible, and specifically, as indicated in Subsection 1.4.8 below, by early August. The Offer will be evaluated by the Board of Directors of Telecom Italia pursuant to and for the purposes of Article 39 of the Regulation once the offer document has been received.

Table of Contents

Since the Operation will result in Olivetti s absorbing a subsidiary, it will have as a consequence the cancellation of the equity interest held by Olivetti in Telecom Italia at the time the Merger becomes effective and the assignment to Telecom Italia ordinary or savings shareholders other than Olivetti of ordinary or savings shares and to Olivetti shareholders of ordinary shares issued by the Company Resulting from the Merger on the basis of the assignment ratios corresponding to the exchange ratio. This assignment will be made by Olivetti s capital at the completion of the Operation (see Section 4).

Olivetti will cancel all the Telecom Italia shares held at the time of the Merger. For the purposes of the annual financial statements, the difference between the carrying value of the cancelled Telecom Italia shares and the corresponding portion of shareholders equity will be positive and will thus give rise to a cancellation deficit . This deficit, whose size will also depend on the acceptances of the Offer, will be allocated to Telecom Italia assets (in particular, to the Tim shares held) and any difference recorded under the item goodwill . Considering the procedure for the assignment of the shares of the Company Resulting from the Merger by means of the redistribution technique, it is reasonable to expect that a share exchange surplus will emerge.

1.4.5. For the share exchange, Olivetti will assign holders of Telecom Italia savings shares new savings shares with features identical to those of the shareholders currently issued by Telecom Italia. Among other things, the bylaws of the Company Resulting from the Merger will contain an article identical in content to that of the bylaws of Telecom Italia, including the possibility of satisfying the preferential rights of the holders of savings shares by distributing reserves, whose introduction in the bylaws of the Company to be Absorbed will be proposed at the shareholders meeting called to approve the Merger Plan.

In the context of the Operation, and as an essential aspect thereof, the savings shares that will be issued by the Absorbing Company for the share exchange in favour of holders of Telecom Italia savings shares are to be listed on the stock exchange. The new Olivetti savings shares will have a par value of Euro 0.55 each, thus corresponding fully to the current savings shares of Telecom in this respect as well.

The Operation will therefore not give rise to any prejudice for the holders of savings shares. Consequently, lacking the preconditions referred to in Article 2376 of the Civil Code and Article 146 of the Consolidated Law, it will not be necessary to call the special meeting of such shareholders.

Considering that as a consequence of the share exchange and the specific manner in which it is to be carried out each holder of savings shares will be assigned a larger number of savings shares that that currently held, and that each of the new shares assigned by the Absorbing Company will have the same par value as a Telecom Italia savings share, there will be an increase in the total amount of dividends payable on a preferential basis to the holders of Telecom Italia savings shares at the date the Merger becomes effective.

This advantage in absolute terms, together with the above-mentioned possibility of satisfying the preferential right by distributing reserves, undoubtedly improves the position of the holders of Telecom Italia savings shares.

1.4.6. The Absorbing Company will succeed to all the legal relationships of Telecom Italia, including the concessions, licences and administrative authorizations granted thereto in accordance with the procedures established by the legislation in force. The Absorbing Company will also succeed to the relationships pertaining to Telecom Italia s bond issues and stock-option plans; to this end, the Absorbing Company will implement the capital increases for the purpose of such plans and will update the capital increases for the convertible bonds, stock-option plans and warrants issued by Olivetti with the necessary adjustments to take account of the new par value of the Olivetti shares and the assignment procedure described in Section 4.

1.4.7. At the end of the Merger, the (ordinary and savings) shares of the Company Resulting from the Merger will be listed on Borsa Italiana s MTA electronic share market. Furthermore, it is expected that (i) the Company Resulting from the Merger will also succeed to Telecom Italia in being listed on the NYSE in the form of American Depositary Receipts (ADRs), and (ii) the Merger will not have consequences for the listing on the Frankfurt Stock Exchange of the ordinary shares of the Company Resulting from the Merger.

1.4.8. It is the intention of the Companies Participating in the Merger to complete the Operation in the shortest possible time. The Merger is expected to become effective in early August 2003.

Table of Contents

1.5. ***Reasons for the Operation***

1.5.1. The Operation is framed in the reorganization drive aimed at creating value for Telecom Italia shareholders, launched in July 2001 and carried out through an industrial and financial restructuring with positive results despite the crisis in the stock markets and the telecommunications sector.

1.5.2. The strategic objective of creating value for Telecom Italia shareholders involved the identification of a multiplicity of actions and initiatives. In particular, industrial restructuring and refocusing on the core business, completed earlier than had been announced to the financial community from September 2001 onwards and in line with the Business Plan, and carried out in part through the disposal of a number of non-strategic assets (such as the equity interests in Auna, Telemaco Immobiliare, Bouygues Decaux Telecom, Mobilkom Austria, Telekom Austria, Telespazio, Sogei and Lottomatica) led to:

- an improvement in the operating result, with the consolidated operating result rising by 10.6% to Euro 7.4 billion in the 2002 fiscal year, and

- a reduction in consolidated total net debt from Euro 21.9 billion at 31 December 2001 to Euro 18.1 million at 31 December 2002.

Meanwhile, Olivetti carried out a series of transactions to refinance its debt, with an improvement in the debt s conditions of maturity.

The completion of the above-mentioned industrial restructuring activities of the Telecom Italia Group, together with the improvement in Olivetti s financial situation, now makes it possible to take the further step of simplifying the Olivetti-Telecom Group s corporate structure, in accordance with the market s expectations, by merging Telecom Italia into Olivetti.

1.5.3. As a consequence of the Operation, Telecom Italia shareholders will be able to benefit fully from the enhancement in value deriving from the execution of the Business Plan.

Currently, Telecom Italia is majority controlled by Olivetti and the latter has a major shareholder- Olimpia S.p.A. holding 28.54% of its share capital.

As a result of the Merger, Olivetti s controlling interest in Telecom Italia will be extinguished as a result of the cancellation of the shares, while Olimpia s interest in Olivetti will be diluted substantially.

Consequently, Telecom Italia shareholders, like Olivetti shareholders, will hold shares of a fully contestable company in which there will be no controlling shareholder. In this regard, it is to noted that the final size of Olimpia S.p.A. s holding in the Company Resulting from the Merger will depend on a series of factors such as the number of Conversions (as defined below), the number of Olivetti warrants and Telecom Italia stock options exercised, the number of Withdrawals and the number of acceptances of the Offer (see also what is indicated in Subsection 7.3).

This will result in a more liquid security and, on the basis of experience, an enhanced possibility of it being appreciated by the market, to the benefit of all the shareholders.

1.5.4. At the same time, the Merger will create scope to improve tax efficiency, in compliance with the legislation in force, *inter alia* through the full and more rapid recovery within the Company Resulting from the Merger of Olivetti s tax assets (see Subsection 2.2.3, Point E).

1.5.5. The Operation as a whole will also make it possible to attain a more efficient financial structure, involving an increase in debt capital, whose net cost is lower than the cost of equity capital.

In connection with this aspect, it needs to be stressed that the increase in overall debt following the Merger involves reaching a level of debt **(i)** in line with or better than that of other companies of comparable size operating in the sector in Europe, and **(ii)** consistent and compatible with Telecom Italia s set of activities and the prospective cash flows deriving from the execution of the Business Plan. According to the latter, debt is projected to decline with the utilization of the proceeds of the sales of other non-strategic assets. Furthermore, Telecom Italia will also benefit from the positive effects of unified debt management in terms of the lengthening of maturities and optimal correlation with corporate requirements.

1.5.6. Moreover, the Company Resulting from the Merger is expected to maintain a capacity to produce profits and adopt a dividend-distribution policy that will ensure Telecom Italia s current shareholders receive a total amount of dividends at least on a par with that currently received.

1.5.7. In conclusion, the Board of Directors considers the Merger an essential step so that the shareholders of Telecom Italia can reap, without constraints arising from control by another listed company such as Olivetti, all the benefits of a widely-held company operating in a strategic sector and with significant

Table of Contents

potential for value growth. The Business Plan and the clear direction adopted by the Board of Directors in terms of focusing on core business and constantly improving operational efficiency ensure a trajectory of value creation without dispersion of economic resources, assuming the macroeconomic environment remains unchanged.

1.6. ***Operating objectives and programmes to achieve them***

1.6.1. The Companies Participating in the Merger have agreed on the operating objectives and the programmes to achieve them on the part of the Company Resulting from the Merger. These objectives are basically the same as those of Telecom Italia, adopted by the Board of Directors on 13 February 2003, which in turn confirm the guidelines and objectives of the Business Plan. With specific regard to Olivetti, it should be noted that Olivetti Tecnost is basically neutral in terms of its impact on the operating result.

However, the Operation will result in a Merger deficit (deriving from share cancellation), any portion of which not classified as a Telecom Italia asset (specifically among equity interests) will be amortized over a period of 20 years. The updated financial projections take account of this additional portion of amortization.

1.6.2. The same projections consider the financial charges associated with Olivetti s present debt, as well as the effect of the tax asset connected with the value adjustments made in Olivetti s and Telecom Italia s draft financial statements for 2002. In addition to the disposals already envisaged by the Business Plan (Telekom Austria, Operazioni Real Estate), the projections also include the receipts from the disposal of the company into which Seat Pagine Gialle S.p.A. (**Seat Pagine Gialle**) is to be spun off.

1.6.3. Lastly, it is estimated that the cash flows from operations and disposals of the Company Resulting from the Merger will be able to sustain not only a reduction in debt but also a dividend distribution policy such as to ensure Telecom Italia s current shareholders a total dividend amount in line with that set out in the Business Plan, which expressly envisaged dividend policy remaining constant.

1.6.4. The following table summarizes the above considerations at consolidated level, from which the sustainability of the commitments entered into for the future appears evident.

Billions of euros	**Olivetti 2002 consolidated financial statements**	**Consolidated objectives of the Company Resulting from the Merger (*) CAGR 2002-2005*** **
Sales of products and services	31.4	4 - 4.5%
Gross operating margin % of sales	14.0 44.6%	5 - 5.5%
Operating result % of sales	6.0 19.1%	8 - 8.5%
		Cumulative 2003-2005
Free Cash Flow	8.6	29
Net financial position	33.4**	343****

(*) Assuming zero Withdrawals, fully diluted.
(**)

The net financial position does not take account of the forward purchase commitments (December 2005) in respect of Aldermanbury Investment Limited (formerly Chase Equities Limited), equal to Euro 2,417 million.

(***) The scope of the consolidation is the same.

(****) At 31 December 2004.

2. ***The values attributed to the Companies Participating in the Merger for the purpose of determining the Exchange Ratio***

2.1. ***Objective of the valuation***

2.1.1. The objective of the valuation in question is to establish the exchange ratio (**Exchange Ratio**) on the basis of which the participation in the Company Resulting from the Merger of the shareholders of Olivetti and Telecom Italia respectively will be determined.

The purpose of the valuation, therefore, is to value the two Companies Participating in the Merger in order to obtain significantly comparable values for the purpose of determining the Exchange Ratio with respect to the specific Operation in question, considering all the shareholders of the Companies Participating in the Merger as parties interested in the valuation and the Exchange Ratio.

To achieve this objective, the valuations for the purpose of determining the Exchange Ratio require the identification and application of valuation methods based on uniform criteria for the Companies Participating in the Merger.

Such valuations may therefore differ from other valuations made in different contexts or for different purposes, notably as regards the selection of the methods used.

2.1.2. The Board of Directors of Telecom Italia has reached its conclusions on the Exchange Ratio following a well-considered evaluation of the Companies Participating in the Merger, selecting from a multiplicity of valuation methods those generally considered most appropriate in the Merger in the light of the activities performed by the Absorbing Company and the Company to be Absorbed.

Furthermore, as suggested by theory and standard professional practice, the Board of Directors of Telecom Italia has compared the values attributed to the Companies Participating in the Merger on a going concern basis.

The baseline accounting situation for the valuations performed is that resulting from the Merger Statements of Assets and Liabilities.

2.1.3. For the purpose of determining the Exchange Ratio, the Board of Directors of the Company to be Absorbed was assisted by Lazard and Goldman Sachs as independent financial advisors (the **Advisors**).

It is to be noted that the Board of Directors of Olivetti was assisted by JP Morgan and by Professor Angelo Provasoli (who ascertained the consistency and appropriateness of the valuation methods adopted by JP Morgan for the Operation) as independent advisors.

2.1.4. The methods followed and the results obtained by the Board of Directors of Telecom Italia, with the support of the Advisors, are described in the following subsection.

2.2. ***Methods adopted and results obtained***

2.2.1. Introduction

A. The Board of Directors of Telecom Italia, with the assistance of the Advisors, selected the valuation methods to be applied in the case in question taking into account:

a) the specific objectives of the valuations in connection with the Operation;

b) the nature of the activities performed by each of the Companies Participating in the Merger.

B. *Concerning the first aspect*, in selecting the valuation principles and methods, reference was made, as is considered proper and appropriate in every kind of valuation, to the purpose of the exercise and to the significant factors allowing the value of the object of valuation to be calculated. Given the objective of obtaining comparable values for the determination of the Exchange Ratio, valuation methods based on uniform criteria were adopted for both the Companies Participating in the Merger.

In the case in question, the Exchange Ratio was established on the basis of a comparison of the values of the Companies Participating in the Merger.

As reported above, these values were determined on a going concern basis and can neither be considered to represent a separate valuation of the two Companies Participating in the Merger nor compared with any acquisition or disposal prices (which normally take account of majority premiums and minority discounts, if any). Nor do these values reflect strategic, operational and financial synergies expected from the Merger.

As indicated below, the Board of Directors utilized both the stock market price method and the sum-of-parts method for the valuation of both of the Companies Participating in the Merger. In particular, for the purpose of establishing the Exchange Ratio, values determined on the basis of uniform methods were compared: the ratio between stock-market prices on the one hand and the ratio between fundamental values (sum-of-parts) on the other. Consequently, in the circumstances it was considered that the Net Asset Value (NAV) method based on the current stock market value of the equity interest in Telecom Italia could not be adopted. In a valuation to establish the Exchange Ratio carried out on the basis of a fundamental method, the latter must also be applied to Olivetti s equity interest in Telecom Italia. On the contrary, the application to Olivetti of a NAV based on the current stock-market value of the equity interest in Telecom Italia would lead to highly volatile results, mainly owing to Olivetti s financial leverage. Besides, the application of this method would imply referring to market values for only one of the Companies Participating in the Merger, which the Board of Directors considered methodologically inadmissible.

Table of Contents

C. *With regard to the second aspect*, account was taken on the one hand of the various areas of the Telecom Italia Group s operations and, on the other, of the fact that the controlling interest in Telecom Italia held by Olivetti represents a significant component of the latter s balance sheet assets.

D. In the light of the above, the following methods were used to calculate the values of Olivetti and Telecom Italia, with equal level of significance for the purpose of the valuation procedure:

(i) stock-market prices (**Stock-Market Prices**) as the principal method. In this regard, it is noted that where companies interested in a merger have shares listed in regulated securities markets, theory and professional practice suggest that account should be taken of the results derivable from the stock-market prices of the respective shares, averaged over appropriate periods of time. In the case in question, the stock-market prices are considered to be particularly significant, taking account of the high capitalization and liquidity of Telecom Italia and Olivetti;

(ii) the sum-of-parts (**Sum-of-Parts**) method as a control. Under this method a company s value is calculated as the sum of the values of its separate units (taken as economic entities that can be valued independently) adjusted to take account of the company s financial position, minority interests and, where material, of other effects such as those of off-balance-sheet items and potential tax benefits.

In applying the valuation methods described, account was taken of the planned distribution of reserves by Telecom Italia of up to a maximum of Euro 1,333 million, whose proposal to the shareholders meeting called to consider the Merger Plan was approved by the Board of Directors on 11 March 2003. Since under the timetable of the Merger the share exchange is to take place after the payment of the dividend, the impact of the distribution of reserves on the values of the economic capital of the two Companies Participating in the Merger was taken into account in establishing the Exchange Ratio.

Finally, it should be stressed that in determining the Exchange Ratio an analysis was made of the reasonably foreseeable effects of the possible exercise of the right of withdrawal by Olivetti shareholders and it was considered that on the basis, *inter alia*, of the share prices in the significant period already elapsed the outcome of such Withdrawals will not be such as to render a change in the Exchange Ratio necessary; and this inasmuch as the withdrawal price can be reasonably expected to be lower than the value attributed to the shares of Olivetti for the purpose of the Merger under the valuation methods used.

E. The subsections that follow describe the methods and principles adopted in valuing the Companies Participating in the Merger both from the theoretical point of view and in terms of the main results.

2.2.2. Stock-market price method

A. The stock-market price method estimates the value of the capital on the basis of the stock-market prices recorded in a significant period concluding at a date close to that on which the estimation is performed. After the announcement of the Operation, the stock-market prices of Telecom Italia and Olivetti were influenced by the announcement. Hence, the prices following such announcement are not considered significant.

B. The stock-market price method is not applicable to Telecom Italia savings shares inasmuch as Olivetti savings shares do not exist today. For the savings shares, it was therefore assumed that the prices of the Olivetti savings shares would reflect a discount similar to that applied by the market to the Telecom Italia savings shares, as detailed in Subsection 2.2.4.

C.

On the basis of the market data at 7 March 2003 (the last day of trading of the securities before the date of the board meetings that announced the Operation), it is found that:

a) both of the Companies Participating in the Merger have a large market capitalization and a significant and widely-distributed float;

b) as can be seen from the following table: (i) the daily volume of trading in Telecom Italia and Olivetti ordinary shares is high (around 1% of the float on average); and (ii) during the twelve months preceding the announcement of the Operation:

- trades of Olivetti shares amounted to around 240% of the share capital (excluding the portion held by Olimpia S.p.A.), for a value of Euro 16.9 billion;

- trades of Telecom Italia ordinary shares amounted to around 289% of the share capital represented by that class of shares (excluding the shares held by Olivetti), for a value of around Euro 54 billion.

Telecom (ordinary shares)	Italia Average volume (000)	Cumulated volume (000)	Average % of capital traded(*)	Cumulated % of capital traded(*)
Prices				
7 March 2003	42,131.3	42,131.3	1.8%	1.8%
Last week	38,225.3	191,126.4	1.6%	8.1%
Last month	28,994.8	579,895.0	1.2%	24.5%
Last 3 months	31,411.6	1,884,693.5	1.3%	79.5%
Last 6 months	30,126.5	3,765,810.3	1.3%	158.8%
Last year	27,073.7	6,849,656.0	1.1%	288.8%

Olivetti	Average volume (000)	Cumulated volume (000)	Average % of capital traded(*)	Cumulated % of capital traded(*)
Prices				
7 March 2003	90,695.9	90,695.9	1.0%	1.0%
Last week	86,240.0	431,200.0	1.4%	6.8%
Last month	59,319.6	1,186,392.2	0.9%	18.8%
Last 3 months	61,400.2	3,684,009.3	1.0%	58.3%
Last six months	61,220.3	7,652,538.4	1.0%	121.2%
Last year	59,851.9	15,142,528.8	1.0%	240.6%

(*) On the total number of shares held by the market.

Source: Datastream

c) both the Companies constitute a significant portion of the total capitalization of the Mibtel and MIB3O stock indices. At 24 March 2003 (for the MIB3O index) and 1 April 2003 (for the Mibtel index), according to data provided by Borsa Italiana:

- Olivetti made up 1.9% of the Mibtel index and 2.4% of the MIB3O index; and

- Telecom Italia made up 8.4% of the Mibtel index and 9.5% of the MIB3O index;

d) Telecom Italia s and Olivetti s floats are significantly split up among Italian and foreign institutional investors and Italian retail investors, none of whom is in a position to influence the price of the securities.

D. In order to mitigate the short-term fluctuations typical of the financial markets, in line with best valuation practice the analysis of the share prices was extended to the average figures recorded by the market in sufficiently large intervals of time.

Accordingly, the following were performed, among others:

a) analysis of the simple averages over a time span extending up to the 12 preceding months;

b) analysis of the volume-weighted averages over a time span extending up to the 12 preceding months;

c) analysis of 1, 3, 6 and 12 month moving averages;

d) adjustment of the value of Telecom Italia shares to take account of the planned distribution of the dividend for 2002.

Table of Contents

E. From the analysis of the historical price movements, the 1, 3, 6 and 12-month averages were identified as those falling within a corridor of constant valuations, as can be seen from the following table.

Market prices	Stock-market value		Value for the purpose of the share exchange		Ratio
	TI( )	Oli( )	TI post-div( )	Oli( )	
Weighted averages					
7 March 2003	5.9	0.86	5.7	0.86	6.7
1 month	6.5	0.91	6.3	0.91	7.0
3 months	7.0	0.99	6.8	0.99	6.9
6 months	7.4	1.02	7.2	1.02	7.1
12 months	7.8	1.11	7.6	1.11	6.9
Arithmetic averages					
7 March 2003	5.9	0.86	5.7	0.86	6.7
1 month	6.6	0.91	6.4	0.91	7.0
3 months	7.0	0.99	6.9	0.99	7.0
6 months	7.4	1.01	7.2	1.01	7.1
12 months	7.9	1.11	7.7	1.11	6.9
Maximum and minimum prices					
Maximum price in the last 12 months	9.7	1.47	9.5	1.47	6.5
Minimum prices in the last 12 months	5.9	0.84	5.7	0.84	6.8

Source: Datastream

* Differences are due to rounding.

F. The results shown above are also confirmed when the time horizon of the analysis is extended to 18 months.

2.2.3. Sum-of-Parts method

A. Under the Sum-of-Parts method, the value of Telecom Italia and Olivetti is calculated as the sum of the values of the individual units of each company, taken as economic entities that can valued independently. Such sum is suitably adjusted to take account of the financial position and minority interests for each of the Companies Participating in the Merger and, where material, of other effects, including those of any off-balance-sheet items and potential tax benefits.

B. Given the significant incidence on Olivetti s balance sheet assets of its controlling interest in Telecom Italia, the valuation procedure concentrated mainly on estimating Telecom Italia s economic capital, which was also the key factor in determining that of Olivetti.

In view of the complexity of the corporate structure of the Group and the many areas in which it operates, the individual assets were valued using the methods, among those commonly employed for valuation purposes, deemed most appropriate to each specific situation. In particular, the principal assets, such as fixed and mobile telephony, were valued using the discounted cash flow (**DCF**) method.

The remaining assets and liabilities were valued on a case-by-case basis mainly with reference to their book or market value, in view of their limited importance in the overall valuation of Telecom Italia.

The DCF method was applied by discounting operating cash flows gross of any component of a financial nature (Free cash Flows or **FCF**). Under this method the value of a company is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital;
- net financial position and minority interests, which in the case in question were calculated with reference to 31 December 2002.

The DCF method was applied to determine the fundamental value for financial investors and reflects the following assumptions and approaches:

- the Weighted Average Cost of Capital (**WAAC**) was calculated on a capital structure in line with the current one;

Table of Contents

- the growth rates used for the financial projections beyond the horizon of Telecom Italia s Business Plan and for the calculation of the terminal value reflect growth prospects consistent with the relevant market benchmarks.

C. In applying the DCF method, reference was made to the cash flows from operations for the main activities based on the economic and financial plans drawn up by Telecom Italia s management. These are briefly described in what follows.

Fixed telephony

The economic and financial projections in this field were constructed starting from the market and economic and financial results achieved in 2002. For the years 2003-2005 they reflect the company s strategic operating and financial objectives within a market scenario that refers basically to the Italian fixed telephony market.

The projections were developed assuming little change in the regulatory framework, which is reflected in the movements expected in the prices for access, interconnection and rented lines. In particular, consideration was given to the introduction of the network cap for access and interconnection, while for rented lines the financial projections reflect a continuation of the present downward trend of prices in the period 2003-2005.

In a retail market characterized (i) by a decline **in the value of voice traffic** at an annual rate of 2.3%, as a result of **small increases in volumes** and **falling prices**, and (ii) in increase in sales in the Internet, data transmission and high value-added services segments, the Domestic Wireline business unit is expected to maintain the present level of revenues, with an average compound annual growth rate estimated at 0% - 0.5% in the period 2002-2005.

With revenues performing as described above, the EBITDA is forecast to grow at an annual rate of 2% - 2.5% until 2005, with an objective for the margin on sales of more than 49%. These results stem from the strategy of focusing on the core business, product innovation and a policy aimed at enhancing efficiency and lowering production costs.

The high levels of profitability and of the generation of cash flow from operations will also benefit from capital spending on the order of Euro 6.2 billion in the period 2003-2005, of which about 80% will be on the development of innovative products and services.

The following table summarizes the financial objectives of the Domestic Wireline business unit, which consists principally of Telecom Italia s activity in the field of fixed telephony.

	2002 (billions of euros)	**CAGR 2002 - 2005 (%)**
Revenues	17.0	0% - 0.5%
EBITDA	8.0	2% - 2.5%
Operating result	4.7	4.5% - 5%
		Cumulative 2003 - 2005

		(billions of euros)
Capital spending	2.5	6.2

Mobile telephony (TIM)

In this field consideration was given to market data and the results for the year 2002, together with economic and financial projections based on the TIM group s strategic objectives, with a distinction made between activities in Italy and abroad.

As regards the domestic market for mobile telephony, it is estimated that its value will have risen to 1.5% of GDP in 2005 and that the level of penetration will reach 100% in 2004. The level of profitability is expected to remain high in the European context.

The main source of the creation of value will be Value Added Services (VAS), which are expected to record a compound annual growth rate of around 30% in the period 2002-2005, with an objective for their contribution to Average Revenue Per User (ARPU) of 18%-22% in 2005, **compared with 9% in 2002**. Capital spending to sustain the growth of VAS in the domestic market is expected to increase from 28% of all capital spending on mobile telephony in 2003 to 35% in 2005.

Business abroad is expected to account for a rising proportion of mobile telephony revenues. In Brazil, which will be the main area of international expansion, it is estimated that the penetration of

Table of Contents

mobile telephony will rise from 19% in 2002 to 26% in 2005 and that over the same period the Group s market share will grow from 16% to 26%, with the objective of increasing users to 12.5 million, of which 9.9 million on the GSM network; this growth will be sustained by capital spending on the order of Euro 1.1 billion in the period 2003-2005.

The following table summarizes the results achieved in 2002 and the main economic and financial objectives for the period 2003- 2005.

	2002 (billions of euros)	CAGR 2002 - 2005 (%)
Revenues	10.9	7% - 8%
EBITDA	5.0	8% - 9%
		Cumulative 2003 - 2005 (billions of euros)
Capital spending	1.7	5.6

Seat Pagine Gialle

In this case consideration was again given to market data and the results for the year 2002; reference was also made to a macroeconomic scenario with moderate growth in GDP and advertising in the main target markets (Italy and the United Kingdom).

In particular, Seat Pagine Gialle s strategy focuses on the search for further efficiency gains and aggressive action to expand its business, in order to generate continuous and growing cash flows.

This growth in business will come from a strengthening of the Directories sector through the integration of the different platforms (phone, paper and the Internet) and the application of this model in foreign markets, starting with the United Kingdom.

As regards Internet business, a rapid growth in revenues is envisaged, at an annual rate of between 17% and 21% in the period 2002-2005.

The estimates underlying Seat Pagine Gialle s financial projections are summarized in the following table.

	2002 (billions of euros)	CAGR 2002 - 2005 (%)
Revenues	2.0	6% - 8%
EBITDA	0.6	11% - 13%
Operating result	0.2	27% - 29%
		Cumulative 2003 - 2005 (billions of euros)
Capital spending	0.1	0.3

D. The financial projections for the activities analyzed above provided the basis for the estimates of operating cash flows in the forecasting period considered and of the residual value at the end of that period (Terminal Value).

For the estimation of the Terminal Value, theory and professional practice proposes two alternatives:

- the value corresponding to the capitalization of the normalized operating cash flow (or the present value of the operating cash flows expected for the period subsequent to the time horizon of the explicit projection), which can be estimated as follows:

$$VT = \frac{FCFn}{(WACC-g)}$$

where:

VT	=	Terminal Value;
FCFn	=	Normalized operating cash flow;
g	=	Assumed perpetual growth rate;
WACC	=	Weighted Average Cost of Capital;

or,

- the value calculated on the basis of a multiple of EBITDA of the last year of the projection period considered.

J-17

Table of Contents

Since the cash flows in question will be used to remunerate all the persons contributing capital, in discounting it is necessary to use a rate representing the cost of all the financial resources utilized by the company. This rate is identified as the Weighted Average Cost of Capital (WACC) and is calculated with reference to a capital structure in line with that of the company to be valued, as follows:

$$WACC = Kd\,(1 \quad t)\,\frac{D}{D+E} + Ke\,\frac{E}{D+E}$$

where:

Kd	=	Cost of debt capital;
Ke	=	Cost of equity capital;
D	=	Debt capital;
E	=	Equity capital;
t	=	Tax rate.

In particular, the prevailing practice is to calculate the cost of equity capital on the basis of the Capital Asset Pricing Model (CAPM), defined by the following formula:

$$Ke = Rf + Beta \times (Rm \quad Rf)$$

where:

RI	=	rate of return on risk-free investments;
Beta	=	correlation coefficient between a share s effective rate of return and the overall market rate of return;
Rm	=	overall market rate of return;
(Rm-RI)	=	premium required by the market with respect to the rate of return on risk-free investments.

The principle underlying this method rests on the hypothesis that in a liquid and efficient market investors determine the required rate of return only considering the degree of systematic (or market) risk of the investment, expressed by the relation between the variation in the price of the specific share and the variation in the market (Beta). The specific risk of the investment (the share) is not considered, since it can be eliminated by the investor through appropriate diversification of investments.

E. In the light of the above, in the case in question reference was made to the operating cash flows for the individual units as shown by the economic and financial plans prepared by Telecom Italia. The Terminal Value was calculated using both a perpetual growth rate of the FCF and a multiple of EBITDA consistent with the results produced by comparable listed companies for the different sectors of reference.

The normal rate of return on riskless investments in the Italian market was used for the risk-free rate. Beta was calculated on the basis of the most appropriate market data, taking account of the financial structure of the activities being valued. The most recent valuation practice was followed for the risk premium required by the market.

For Olivetti, which has the structure of a holding company whose assets consist principally of the equity interest in Telecom Italia, the Sum-of-Parts method was applied by valuing such equity interest according to the procedures described earlier and valuing the remaining assets and liabilities principally at book or market value, in view of their limited importance in the overall valuation.

In the valuation of Telecom Italia and Olivetti account was also taken of the tax assets generated by value adjustments to the controlling interests held respectively by Telecom Italia in Seat Pagine Gialle and by Olivetti in Telecom Italia for the part that the Companies Participating in the Merger will effectively be able to use independently of the completion of the Operation on the basis of the taxable income they are forecast to make on their own.

From the sum of the values of the assets and the tax asset, calculated as described above, was subtracted the value of the net financial position at 31 December 2002, adjusted (i) for Telecom Italia, for the effect of the dividend to be distributed from reserves June 2003) and (ii) for Olivetti, for the pro forma effect of the conversion of the 1.5% 2001-2010 convertible bonds, consistently with the fully-diluted method, which assumes the conversion into ordinary shares.

F. With reference to the Sum-of-Parts method, with the assistance of the Advisors the Board of Directors of Telecom Italia has identified the following values per ordinary share:

SUM-OF-PARTS METHOD

	Telecom Italia	Olivetti	Ratio
Value per ordinary share (in euros)	8.8	1.27	6.9

The results obtained applying the Sum-of-Parts method confirm the relative values found with the stock-market price method.

2.2.4. Savings shares

For savings shares, inasmuch as shares of this class issued by Olivetti do not exist today, it was assumed, *inter alia* considering the preferential rights that Olivetti saving shares will have, that their prices reflected a discount similar to that applied by the market to Telecom Italia savings shares, and it was therefore considered appropriate to adopt the same Exchange Ratio as for ordinary shares.

It is a generally accepted principle, in fact, that other procedures for dividing the value of the capital between ordinary shares and savings shares would introduce discretionary elements into the valuation unsupported by any objective evidence.

Moreover, it appears unlikely that the discount of the savings shares of the Company Resulting from the Merger with respect to the ordinary shares will be significantly different from that of the Telecom Italia savings shares before the Operation. This view is based on consideration of effects of opposite sign: on the one hand, the increase in the overall dividend premium in absolute terms would suggest a reduction in the discount; on the other hand, the possibly greater rise in the price of the ordinary shares as a result of the Company Resulting from the Merger not being controlled anymore by another entity would suggest an increase.

2.2.5. Main problems

In performing the valuations to determine the Exchange Ratio, the Board of Directors of Telecom Italia encountered the following main problems:

(i) *Possible further asset sales during 2003*: at present it is not possible to foretell precisely the outcome of the planned disposal of the new company that will be created as a result of the spin-off of Seat Pagine Gialle. At all events, in view of the limited importance of the equity interest in Seat Pagine Gialle in the overall value of Telecom Italia, the disposal is not expected to require changes in the Exchange Ratio;

(ii) *taxation*: the valuation was made on the basis of current tax law and therefore did not take into account the tax reform now being prepared, whose effects are difficult to quantify today;

(iii) *valuation of savings shares*: no Olivetti savings shares exist today. To avoid introducing discretionary elements into the analysis unsupported by objective evidence, in the absence of historical data to which to refer for Olivetti, reference consideration was given only to the price differential between Telecom ordinary and savings shares.

The Board of Directors has also carefully considered, with the help of the Advisors, the arguments put forward by some institutional investors regarding the application of the NAV method to Olivetti, as a holding company whose most important asset is the holding in Telecom Italia. Although recognizing the complexity of the question, the Board of Directors has come to the conclusion that, given the purpose of the valuation and the need to adopt uniform criteria for both the Companies Participating in the Merger, it is correct to value Olivetti using the same methods as those adopted to determine the value of Telecom Italia (Stock-Market Prices and Sum of Parts).

3. *Conclusions*

3.1. *Determination of the Exchange Ratio*

3.1.1. In the light of the valuations made with the aid of their respective Advisors, the Boards of Directors of Telecom Italia and Olivetti have defined and agreed the relative values of the Companies Participating in the Merger for the purpose of determining the Exchange Ratio.

Table of Contents

3.1.2. The exchange ratios derived by applying the methods used by the Board of Directors of Telecom Italia are summarized below:

METHOD	EXCHANGE RATIO
Stock-market price method	
7 March 2003	6.7
Weighted averages:	
1 Month	7.0
3 Months	6.9
6 Months	7.1
12 Months	6.9
Sum-of-Parts method	6.9

3.1.3. These conclusions were compared with those reached by the Board of Directors of Olivetti with the assistance of its financial advisor, JP Morgan. At the end of the comparison, the Exchange Ratio indicated below was established.

3.2. ***Exchange Ratio***

3.2.1. On the basis of the valuations of the Companies Participating in the Merger described above, the following so-called natural Exchange Ratio was established , corresponding to the exchange ratio that would have been applied without redistribution but through the issue of new shares for the purpose of the exchange:

- 7 Olivetti shares (ordinary and savings respectively) with a par value of Euro 1 each for every Telecom Italia ordinary share or savings share with a par value of Euro 0.55 each.

3.2.2. No cash consideration is envisaged.

4. ***Procedure for assigning the shares of the Company Resulting from the Merger and the entitlement date of the shares***

4.1. ***Procedure for carrying out the share exchange***

4.1.1. In view of the interest in maintaining a flexible capital structure of a size suitable for corporate activities and with a view to limiting the effects of the Operation on the future remuneration of the shares, it was considered advisable to leave the nominal capital of Olivetti basically unchanged at the conclusion of the Operation inasmuch as the absolute increase in the nominal capital by means of the issue of as many new shares as would be needed to satisfy the Exchange Ratio of all the Telecom Italia shares to be exchanged would have led, under the accounting rules in force, on the one hand, to an increase in the shareholders equity consisting of capital with a consequent significant (exchange) merger deficit subject to amortization, obviously to the detriment of the remuneration of shares in future years, and, on the other, to a capital structure characterized by the nearly total prevalence of items not available for distribution.

4.1.2. Considering the adequacy of Olivetti s share capital (in relation also to the overall size of the debt when this is measured against the cash generating capacity of the Company Resulting from the Merger, both in absolute terms and relative to the main European competitors), it is proposed that the share exchange be carried out primarily by redistributing Olivetti s capital, with recourse to the issue of new shares only insofar as this proves necessary to maintain the share capital at the level currently subscribed.

4.1.3. The redistribution technique, which has also been used on previous occasions in important mergers involving listed companies, consists in dividing the share capital of the absorbing company and hence the shares composing it (in an equal, larger or smaller number than that existing, depending on whether the intention is to hold the par value of each share unchanged, decrease it or increase it) among the shareholders of the absorbing company and those of the absorbed company, according to what was referred to above as the natural Exchange Ratio between the shares.

Obviously, the redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline. In the case in question, the share capital of Olivetti at the time the Merger is implemented may vary from the current figure of Euro 8,845,537,520: (i) *increasing* as a consequence of the conversion of the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds, the exercise of the Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004 Olivetti warrants and the exercise of all the Olivetti stock options (**Conversions**) and (ii) *decreasing* as a consequence of Withdrawals. The Absorbing Company s capital

J-20

Table of Contents

to be redistributed will therefore be the algebraic sum of the subscribed capital at the time the Merger Plan is approved and the subsequent variations up to the implementation of the Merger.

4.1.4. Given the extreme cases of the total exercise of Conversions and no Withdrawals on the one hand and no Conversions and the exercise of the right to withdraw by all the Olivetti minority shareholders except Olimpia on the other, at the time the Merger is implemented, Olivetti s share capital can vary between a maximum of Euro 11,926,697,278 and a minimum of Euro 2,738,756,641.

Since it is assumed that the post-Merger share capital must not be less than the current figure of Euro 8,845,537,520, in the event that the decreasing effect of Withdrawals outweighs the increasing effect of Conversions so that the share capital at the time the Merger is implemented is less than such amount, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the Merger to bring the share capital up to the abovementioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares.

4.1.5. In the light of the method and principles described above, the share capital will be fixed and the share exchange carried out according to the following rules:

A. Olivetti will fix the nominal value of its shares in the amount resulting after Conversions on the one hand and Withdrawals on the other at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1. Consequently, Olivetti s share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares.

B. The new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital at the time of the Merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the natural Exchange Ratio specified above of 7 Olivetti ordinary or savings shares for every Telecom Italia ordinary or savings share. It should be noted in this respect that the Telecom Italia shares to be exchanged in the context of the redistribution with shares of the Company Resulting from the Merger with a new par value of Euro 0.55 each will naturally be the Telecom Italian shares held by persons other than Olivetti and Telecom Italia. The number of shares of the Company to be Absorbed held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the Offer that Olivetti may make after the shareholders meeting called to approve the Merger and before the latter s completion.

More precisely, where:

No. OLI Euro 1 shares denotes the number of Euro 1 Olivetti shares resulting after Conversions and Withdrawals;

No. OLI Euro 0.55 shares denotes the number of new shares of the Company Resulting from the Merger with a par value of Euro 0.55 each actually to be redistributed following the operation referred to at point A;

No. T.I. shares denotes the number of Telecom Italia shares held by minority shareholders that must be exchanged;

(1) *the holders of Olivetti ordinary shares* will be assigned, for every share held, a number of ordinary shares of the Company Resulting from the Merger equal to:

$$\frac{\textbf{No. OLI Euro 0.55 shares}}{\textbf{No. OLI Euro 1 shares + (No. T.I. shares X 7)}}$$

(2) *the holders of Telecom Italia ordinary and savings shares* will be assigned, for every ordinary or savings share held, a number of ordinary or savings shares of the Company Resulting from the Merger equal to:

seven times the number of shares assigned to Olivetti shareholders for

every share held by the latter

C. Assuming the extreme case in which all the Conversions were carried out, all the shares reserved for the Telecom Italia stockoption plans were issued, no Withdrawals occurred and none of the holders of Telecom Italia ordinary and savings shares accepted the Offer, the redistribution would involve 21,684,904,142 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each and the Telecom Italia shares to be exchanged would total 4,459,575,170 (taking account of Olivetti s holding in the capital of Telecom Italia and of the latter s holding of own shares at the date of this Report). In such case, applying the formula above would give the following assignment ratios:

(i) 0.502620 new ordinary shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for every Olivetti ordinary share with a par value of Euro 1 held at the date at which the Merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.518341 new ordinary or savings shares of the Company Resulting from the Merger for every Telecom Italia ordinary or savings share, respectively, held at the date at which the Merger becomes effective by minority shareholders other than Olivetti and Telecom Italia itself.

D. In the light of the above, since the variables represented by Conversions, the exercise of Telecom Italia stock options, Withdrawals and acceptances of the Offer can only be quantified exactly at the time the Merger is implemented, it is evident that the assignment ratio for the purpose of redistribution can be established precisely only at the time the Merger becomes effective.

E. At all events, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned Telecom Italia shareholders will exactly reflect the natural Exchange Ratio (1/7) determined above.

F. As already indicated, if at the time the Merger is implemented the Absorbing Company s share capital is less than the current figure of Euro 8,845,537,520 because the decreasing effect of Withdrawals outweighs the increasing effect of Conversions, the redistribution of the share capital just described will be accompanied by the simultaneous issue of up to a maximum of 11,103,237,962 new ordinary and saving shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia s shareholders equity belonging to minority interests. These additional shares will be assigned to all the shareholders of both the Absorbing Company and the Company to be Absorbed in proportion to their respective shareholdings obtained by applying the assignment ratios indicated at Point B.

G. Thus, even in the event of such an occurrence, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will exactly reflect the natural Exchange Ratio (1/7) determined above.

The foregoing is without prejudice to roundings made necessary by the exchange transactions. Olivetti International has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to close out the operation.

H. As part of the procedure for assigning the shares of the Company Resulting from the Merger, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to round the number of newly-issued shares owned down or up to nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions. In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued Olivetti share at the end of the Operation, maintenance of the position of shareholder in the Absorbing Company will be ensured by Olivetti International S.A. making available to such persons, free of charge, one share of the Company Resulting from the Merger.

I. The newly-issued shares to be utilized for the share exchange will be assigned to those entitled by the respective authorized intermediaries participating in Monte Titoli S.p.A. at the date the Operation becomes effective. It will be possible to exchange Olivetti and Telecom shares which have not been dematerialized only by delivering them to an authorized intermediary for dematerialized book-entry in the central securities system.

J. Special notices, published in at least three newspapers with a national circulation (of which one must be a financial newspaper), will promptly announce the amount of the capital of the Company Resulting from the Merger at the time of the Merger as a result of the quantification of the variables involved in the Operation (Conversions, the exercise of Telecom Italia stock options, Withdrawals,

Table of Contents

acceptances of the Offer), the exact assignment ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at Point F, if any, and the detailed instructions on how to carry out the share exchange and to trade or obtain fractional rights as provided for at Point H).

4.2. ***Date on which the Merger becomes effective***

4.2.1. Pursuant to Articles 2504-*bis*, last paragraph, and 2501-*bis*, first paragraph, point 5, of the Civil Code, the newly-issued shares of the Company Resulting from the Merger will have regular dividend rights.

4.2.2. Pursuant to Article 2504-*bis*, second paragraph, of the Civil Code, the effects of the Merger, except for those referred to in Article 2501-*bis*, points 5 and 6, of the Civil Code, will become effective starting on the date of the last filing of the merger instrument, or from such later date as may be specified in that instrument.

Consequently, on that date the Absorbing Company will assume all the assets, rights and obligations of the Company to be Absorbed, including, but not limited to, all the tangible and intangible assets, expropriation procedures, licences, authorizations, concessions, public service franchises, plant, machinery, equipment, motor vehicles and in general movable goods entered in public registers, patents, intellectual property, securities, current account assets and liabilities, loans, bond issues, equity investments, insurance policies, labour contracts and every other contractual instrument.

5. ***Date on which transactions are to be recorded in the Absorbing Company s accounts***

5.1.1. In accordance with the combined effects of Articles 2504-*bis*, last paragraph, and 2501-*bis*, point 6, of the Civil Code and Article 123(7) of Presidential Decree 917/1986, and in conformity with Point 6 of the Merger Plan, the transactions of the Absorbed Company will be recorded in the accounts of the Absorbing Company starting from 1 January of the year in which the Operation becomes effective and thus, according to the planned timetable, from 1 January 2003, for income tax purposes as well.

6. ***Tax effects of the Operation on the Absorbing Company s accounts***

6.1. ***Direct taxes: regime of the Companies Participating in the Merger***

6.1.1. For income tax purposes, pursuant to Article 123 of the Income Tax Code approved with Presidential Decree 917/1986 and to Article 27(1) of Law 724/1994, mergers are neutral and therefore do not constitute a realization or distribution of capital gains or losses in respect of the assets of the merged companies, including inventories and goodwill. In particular, with regard to the position of the Absorbing Company, it is to be noted that in principle merger differences are not included in income and are totally immaterial for tax purposes.

However, pursuant to Article 6(1) of Legislative Decree 358/1997 it is possible that the larger values stated in the accounts of the Absorbing Company as a consequence of the recording of cancellation or share exchange deficits may be recognized for tax purposes upon application thereto of the tax in lieu of income tax at the rate of 19%. Furthermore, pursuant to Article 6(2) of the same decree, such larger values stated in the accounts as a consequence of the recording of the cancellation deficit are considered to be recognized for tax purposes without any tax liability (that is, without application of the above-mentioned tax in lieu of income tax) if and to the extent that the equity interests cancelled have resulted in the previous holders paying tax on the capital gains, net of the related capital losses and writedown.

6.1.2. Pursuant to Article 123(4) of Presidential Decree 917/1986, Olivetti will reconstitute:

- the reserves with tax deferred in the latest financial statements of Telecom Italia;

- the reserves subject to tax if they are distributed (Article 123(4), second sentence) up to the amount of any share exchange surplus.

6.1.3. From the date on which the Merger becomes effective, Olivetti will succeed to Telecom Italia s obligations and rights relating to income tax. Since the Operation is to be retroactive to 1 January of the year in which the Operation becomes effective for accounting and tax purposes, there is no separate tax period between the closing date of the last fiscal year of the Company to be Absorbed and the date on which the Merger becomes effective.

6.2. ***Tax regime for the shareholders***

6.2.1. For the shareholders, the exchange of the shares held in the Company to be Absorbed does not constitute a sale of such securities since it simply involves replacing the securities of the Company to be Absorbed

Table of Contents

(which will be cancelled as a result of the Merger) with securities of the Absorbing Company. Consequently, the cost of the equity investment in the Company to be Absorbed will be transferred to the shares issued by the received Absorbing Company received in exchange.

6.3. ***Indirect tax regime***

6.3.1. For the purposes of indirect taxes, the Merger is a transaction excluded from the scope of V.A.T. pursuant to Article 2(3)(f) of Presidential Decree 633/1972, whereby transfers of assets in connection with corporate mergers are not considered sales material for V.A.T. purposes. Consequently, the merger instrument is subject to a registration fee of Euro 129.11 pursuant to Article 4(b) of the first part of the fee schedule annexed to Presidential Decree 131/1986.

7. ***Forecasts of the composition of the shareholders of the Company Resulting from the Merger***

7.1. ***Telecom Italia shareholders***

7.1.1. According to the company share register, supplemented by communications received and available information, at the date of this Report the following shareholders hold an interest of more than 2% in the capital represented by ordinary shares of the Company to be Absorbed:

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olivetti S.p.A.	2,891,656,682	54.94%

7.2. ***Olivetti shareholders***

7.2.1. According to the company share register, supplemented by communications received and available information, the following shareholders hold an interest of more than 2% of the capital represented by ordinary shares of the Absorbing Company:

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olivetti S.p.A.	2,524,127,813	28.54%
Caisse des Depots et Consignations	389,200,000	4.40%
Assicurazioni Generali S.p.A.	334,842,996	3.79%
Olivetti International S.A.	211,931,328	2.40%
Mediobanca S.p.A.	210,273,954	2.38%

* Investment held via CDC Ixis Capital Market.

** Investment held through subsidiaries.

*** Subsidiary of Olivetti S.pA. Under Article 2359-bis of the Civil Code, the voting rights of the shares held by Olivetti International S.A. may not be exercised.

7.3. ***Effects of the Merger on the composition of shareholders***

7.3.1. As already mentioned the shareholder structure of the Company Resulting from the Merger depends on the number of Conversions and Withdrawals and consequently on the sum devoted to the Offer and the number of acceptances thereof. The following table shows the foreseeable composition of shareholders with holdings of more than 2% in the Company Resulting from the Merger on the assumption: (i) that there are no Conversions (apart from those deriving from applications received by 31 March 2003, which are not yet reflected in Olivetti s share capital filed with the Company Register but are considered in this analysis) and that no Telecom Italia stock options have been exercised; (ii) that 25% of the shareholders other than Olimpia S.p.A. withdraw at a price taken to be equal to Euro 1 (which is in line with the average of the official prices recorded from 26 November 2002 up to today), giving a total outlay of about Euro 1,527 million; and (iii) that the Offer is made at prices between the minimum and maximum prices for the Telecom Italia ordinary and savings shares (i.e. Euro 7.7 per ordinary share and Euro 5.175 per savings share), giving a total outlay of Euro 7,473 million, so that the Offer covers about 14.6% of the ordinary and savings shares in the event of full acceptance.

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olimpia S.p.A.	1,336,092,044	13.65%
Caisse des Depots et Consignations	296,014,537	2.10%

* Investment held via CDC Ixis Capital Market.

Table of Contents

It is foreseeable that no single shareholder will have control of the Company Resulting from the Merger, which, as mentioned earlier, will be fully contestable.

8. ***Effects of the merger on shareholders agreements (Article 122 of Legislative Decree 58/1998) regarding the shares of the Companies Participating in the Merger***

The participants in the shareholders agreements falling within the scope of Article 122 of Legislative Decree 58/1998 for the Companies Participating in the Merger have not sent any notifications concerning possible effects of the Merger on such agreements.

9. ***Changes to bylaws***

9.1. ***Olivetti s bylaws and changes deriving from the Merger***

9.1.1. For the purpose of the Merger, Olivetti will amend its bylaws, basically adopting the current bylaws of Telecom Italia. In particular:

(i) Olivetti will change its name to Telecom Italia S.p.A. and adopt Telecom Italia s current corporate purpose in its entirety;

(ii) the article of the bylaws concerning the share capital with incorporate the changes concerning the number, par value and class of the shares into which the share capital of the Company Resulting from the Merger will be divided as a result of the Merger on the basis of the assignment procedure described in Section 4. In particular, account is taken of the change in the par value of the shares from Euro 1 to Euro 0.55 and the amount of the capital increases already approved by Olivetti for the purpose of the convertible bond issues, stock-option plans and warrants consequently adjusted, with account also taken of the Exchange Ratio and assignment procedure described in Section 4. Lastly, the amendments are included that are necessary to ensure the assumption by the Company Resulting from the Merger of the commitments under the stock-option plans of the Company to be Absorbed, for the part still applicable. Section 9.12 illustrates the provisions that will be included in the article of the bylaws concerning the share capital with reference to the capital increases for the stock-option plans of the Company to be Absorbed;

(iii) a specific article will concern the savings shares that will be assigned to the holders of Telecom Italia savings shares on the basis of the exchange ratio and assignment procedure described earlier. In accordance with Article 145 of the Consolidated Law, this article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof and describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Company Resulting from the Merger. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws will be proposed at the shareholders meeting called to consider the Merger Plan.

9.1.2. As regards the clauses of Telecom Italia s bylaws that give the Minister for the Economy and Finance some special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994, it should be noted that such powers include the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter such powers, which were introduced into Telecom Italia s bylaws under a Prime Ministerial Decree of 21 March 1997 in the light of the sector of the company s operations (telecommunications) and with a view to its privatization.

At the end of the meeting of its Board of Directors on 11 March 2003, Telecom Italia requested the Minister for the Economy and Finance to indicate whether he intended to exercise the powers in question.

The Minister for the Economy and Finance subsequently informed Telecom Italia that he did not consider the conditions existed for the exercise of the power of veto with respect to the adoption by Telecom Italia s shareholders meeting of the merger resolution. By contrast, as regards the question of the presence in the bylaws of the clauses giving the special powers, the Minister for the Economy and Finance indicated that he considered it necessary to maintain the power of expressing a favourable opinion on the acquisition of major shareholdings in the company s capital and the power of veto as set out in the current bylaws of Telecom Italia.

The Minister for the Economy and Finance also stated that he had reached agreement with the Minister for Productive Activities on the indications regarding these questions.

Table of Contents

With this premise, and pending the formalization of the measure best suited to the foregoing indications and any opinion the competent Community authorities might express on the matter, the Minister for the Economy and Finance requested that the bylaws to be submitted to the shareholders meetings of the Companies Participating in the Merger conform with the indications set out above.

9.1.3. The shareholders meeting of the Absorbing Company called to approve the Merger Plan will be required, in relation to what was just said, not only to update the resolutions adopted to increase the capital for the exercise of the rights attaching to the Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004 warrants and the Olivetti 1,5% 2001-2004 convertibile con premio al rimborso and Olivetti 1,5% 2001-2010 convertibile con premio al rimborso convertible bonds and for the exercise of the Olivetti stock options, but also to approve increases in capital for the stock options issued by Telecom Italia that have not yet been exercised.

To this end, the Company Resulting from the Merger will approve corresponding increases in capital permitting the issue in relation to such stock options of a number of shares updated in accordance with the Exchange Ratio and the assignment ratio provided for in the Merger Plan, while the exercise price of the option with respect to the total number of shares updated as indicated above will remain unchanged. In other words, the owner of Telecom Italia stock options will maintain the right to subscribe, at the price already fixed, not for the original number of Telecom Italia shares but the larger number established on the basis of the assignment ratio as defined in Section 4.

In this case as well it will only be possible to calculate the exact numbers of shares that can be subscribed when the final assignment ratio is established at the time of the merger.

More precisely, with reference to Telecom Italia s stock options, the Absorbing Company will approve an increase in capital divided into the following tranches, all of which will be variable up to a maximum amount:

1. a tranche for the exercise of the 8,471,500 options already assigned by the Company to be Absorbed under the Piano di Stock Option 1999 stock-option plan, to be implemented not later than 31 January 2005 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 6.79 for each option held;

2. a tranche for the exercise of the 20,600,000 options already assigned by the Company to be Absorbed under the Piano di Stock Option 2000 stock-option plan, to be implemented not later than 30 July 2008 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 13.815 for each option held;

3. a tranche for the exercise of the 32,452,500 options already assigned by the Company to be Absorbed under the Piano di Stock Option 2001 stock-option plan, to be implemented not later than 30 April 2008 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 10.488 for each option held;

4. a tranche for the exercise of the 11,800,000 options already assigned by the Company to be Absorbed under the Piano di Stock Option Top 2002 stock-option plan, to be implemented not later than 28 February 2010 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 9.203 for each option held;

5.

a tranche for the exercise of the 27,689,000 options already assigned by the Company to be Absorbed in three distinct lots under the Piano di Stock Option 2002 stock-option plan, to be implemented not later for the three lots than 31 March 2008, 31 March 2009 and 31 March 2010 respectively by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price for the three lots of Euro 9.665, Euro 7.952 and Euro 7.721 respectively for each option held.

Table of Contents

9.1.4. As mentioned earlier, the amendment of the Absorbing Company s corporate purpose is necessary in order to allow the Company Resulting from the Merger to continue all the activities currently performed by Telecom Italia, and particularly those performed on the basis of specific administrative measures.

In another respect, it is necessary to clarify that at the completion of the Merger the Company resulting from the Merger will be able to engage in other activities, such as *[...] publishing [and] advertising [...]* , which are not envisaged by Olivetti s current corporate purpose.

Again with a view to not prejudicing the succession by the Company Resulting from the Merger to the activities of Telecom Italia, and especially to those performed on the basis of specific administrative measures, it was considered advisable to include in the corporate purpose the provision that *the acquisition [...] of equity interests in other companies or enterprises engaged in activities falling within the scope of the corporate purpose or related, complementary or similar thereto [...]* may be performed *provided it is not the Company s principal activity* . Consequently, Olivetti will cease to be a holding company and will become a company operating principally in the sector of telecommunications services.

10. ***Evaluation of recourse to the right of withdrawal (Article 131 of Consolidated Law and Article 2437 of the Civil Code) for Telecom Italia shareholders***

10.1. ***Evaluation on the basis of Article 131 of the Consolidated Law***

10.1.1. The Absorbing Company is listed, *inter alia*, on Borsa Italiana s MTA electronic share market and will remain so at the completion of the Merger. Moreover, provision has been made for the Operation to be subject to the listing of the savings shares to be offered in exchange to holders of Telecom Italia savings shares at the date the Merger becomes effective.

Thus, there are no legal grounds for the exercise of the right of withdrawal provided for by Article 131 of the Consolidated Law.

10.2. ***Evaluation on the basis of Article 2437 of the Civil Code***

10.2.1. As explained earlier, as a result of the Merger Olivetti will change its corporate purpose by adopting the current corporate purpose of Telecom Italia.

10.2.2. Consequently, Telecom Italia shareholders will not be entitled to exercise the right of withdrawal provided for by Article 2437 of the Civil Code. By contrast, this right can be exercised by the Olivetti shareholders who are absent or contrary to the approval of the Merger Plan. More precisely, Olivetti shareholders who vote against the plan in the shareholders meeting will be able to exercise the right of withdrawal within 3 days of the date of the meeting, while those absent will be able to exercise it within 15 days of the date the resolution is filed with the Company Register. Withdrawal will be exercisable only by those who are Olivetti shareholders at the date on which the Olivetti shareholders meeting approves the Merger Plan.

* * * *

Milan, 15 April 2003

TELECOM ITALIA S.p.A.

For the Board of Directors

Table of Contents

PROPOSAL TO THE SHAREHOLDERS MEETING

The meeting of ordinary shareholders of Telecom Italia S.p.A.,

- having seen the plan for the merger of Telecom Italia S.p.A. into Olivetti S.p.A., entered respectively in the Turin Company Register and the Milan Company Register on April 18 and 22, 2003 (the Merger Plan);
- having examined the Directors report on the merger operation (the Merger);
- having taken note of the balance sheets of the companies participating in the Merger, as shown in their draft financial statements for the year ended 31 December 2002;
- having taken note of the reports on the congruousness of the merger exchange ratio prepared by the auditing firms Deloitte & Touche Italia S.p.A. for Olivetti and Reconta Ernst & Young S.p.A. for Telecom Italia;
- having taken note of the timely filing of the documentation required under the applicable law;

resolves

1. to approve the Merger Plan and consequently to proceed with the accounting and tax effects starting on 1 January of the year in which the Merger becomes effective in respect of third parties, as provided for in the Merger Plan with the merger of Telecom Italia S.p.A. into Olivetti S.p.A. (the Absorbing Company) on the basis of the following exchange ratio:

   - 7 Olivetti ordinary shares with a par value of Euro 1 (one) for every Telecom Italia ordinary share with a par value of Euro 0.55 each;
   - 7 Olivetti savings shares with a par value of Euro 1 (one) for every Telecom Italia savings share with a par value of Euro 0.55 each;

with the effectiveness of the whole operation subject (i) to the adoption by the shareholders meeting of Olivetti of a like resolution and (ii) to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares to be issued by the Absorbing Company, taking note that the Olivetti shares with a par value of Euro 1 each (net of those for which the right of withdrawal has been exercised) will be withdrawn and that new ordinary and savings shares will be issued with a par value of Euro 0.55 each and regular dividend entitlement, in the number resulting from their assignment to Olivetti shareholders and Telecom Italia shareholders other than Olivetti in accordance with the following criteria:

A. satisfaction of the exchange ratio between the economic values underlying the Olivetti and Telecom Italia shares by redistributing Olivetti s capital at the time of the implementation of the Merger, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal has been exercised, subsequent to the change in the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, and thus by applying the following assignment ratios:

- for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, assignment of x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of 7x newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of 7x newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55 each);

where the number x is the ratio between

T the total number of shares of the Absorbing Company with a par value of Euro 0.55 each to be redistributed and

T the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the implementation of the Merger and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the implementation of the Merger;

B. assignment, if necessary, to all the holders of the Absorbing Company s ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the abovementioned exchange ratio, of up to a maximum of 11,103,237,961 new shares, of the same class as the shares already assigned under the redistribution, with a par value of Euro 0.55 each (and thus up to a total maximum amount of Euro 6,106,780,879.10) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520.05.

A service will be provided to shareholders to handle any fractions of shares, without prejudice to any rounding deriving from the aforesaid assignment operations;

2. to grant severally to the Chairman, the Deputy Chairman and each of the Managing Directors the powers needed:

a) to complete all the formalities required for the resolutions adopted to obtain all the necessary authorizations, with the right to approve and introduce into such resolutions, the Merger Plan and the Bylaws of the Absorbing Company annexed thereto any amendments, additions or deletions that may be requested or suggested by administrative authorities and/or following the exercise of the special powers referred to in Article 5 of the bylaws of Telecom Italia S.p.A. or on the occasion of filings with the Company Register;

b) to draw up and sign, *inter alia* by having ad hoc recourse to attorneys or agents, in conformity with the resolution of point 1, the public merger instrument, defining every agreement, condition, clause, time limit and procedure thereof in conformity with and in implementation of the Merger Plan;

c) to do *inter alia* by having ad hoc recourse to attorneys or agents whatever else may be necessary for and conducive to the complete implementation of the foregoing resolutions, authorizing entries, transcriptions, annotations, amendments and corrections in public registers and every other competent seat.

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2002

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from N/A to N/A

Commission file number: 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Corso d Italia 41, 00198 Rome, Italy

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 10 Ordinary Shares of 0.55 par value each	The New York Stock Exchange
Ordinary Shares of 0.55 par value each (the Shares)	The New York Stock Exchange*
American Depositary Shares, each representing 10 Savings Shares of 0.55 par value each	The New York Stock Exchange
Savings Shares of 0.55 par value each (the Savings Shares)	The New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨ Not applicable ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Shares or Savings Shares, as the case may be, pursuant to the requirements of the Securities and Exchange Commission.

Table of Contents

TABLE OF CONTENTS

Table of Contents

ii

Table of Contents

Table of Contents

INTRODUCTION

Telecom Italia S.p.A. (the Company) is incorporated as a joint stock company under the laws of Italy.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in conformity with the Italian law governing consolidated financial statements interpreted and integrated by the accounting principles established or adopted by the Italian Accounting Profession (Italian GAAP), which, as described in Note 26 of Notes to the Consolidated Financial Statements, differ in certain material respects from generally accepted accounting principles in the United States (U.S. GAAP). Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements of the Telecom Italia Group (including the notes thereto) included herein.

Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements, including, but not limited to, the discussion of the changing dynamics of the marketplace, including liberalization of the telecommunications industry, the opening to competition of public voice telephone services, the Company s outlook for growth in the telecommunications industry both within and outside of Italy, including sources of increasing revenues to offset the impact of increasing competition and the Company s outlook regarding the impact of tariff rebalancing on the telecommunications industry. Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information Risk Factors , (ii) Item 4. Information on the Telecom Italia Group Business Significant Developments during 2002 Updated Business Plan , (iii) Item 4. Information on the Telecom Italia Group Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risk , including statements regarding the likely effect of matters discussed therein. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties, which are outside the Telecom Italia Group s control, that could significantly affect expected results and are based on certain key assumptions.

The following important factors could cause the Telecom Italia Group s 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 the core domestic fixed-line and wireless markets of the Telecom Italia Group;
- the ability of the Telecom Italia Group to introduce new services to stimulate increased usage of its fixed and wireless networks to offset declines in its fixed-line business due to the continuing impact of regulatory required price reductions, market share loss and pricing pressures generally;
- the ability of the Telecom Italia Group to achieve cost-reduction targets in the time frame established or to continue the process of rationalizing its non-core assets;
- the impact of regulatory decisions and changes in the regulatory environment;
- the impact and consequences of the Merger;

- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on the international business of the Telecom Italia Group focused on Latin America and on its foreign investments and capital expenditures;
- the continuing impact of rapid changes in technologies;
- the impact of political and economic developments in Italy and other countries in which the Telecom Italia Group operates;
- the impact of fluctuations in currency exchange and interest rates;
- Telecom Italia Group s ability to continue the implementation of its 2003-2005 Industrial Plan, including the rationalization of its corporate structure and the disposition of Telecom Italia Group s interests in various companies;
- the ability of the Telecom Italia Group to successfully achieve its debt reduction targets;
- Telecom Italia Group s ability to successfully roll out its UMTS networks and services and to realize the benefits of its investment in UMTS licenses and related capital expenditures;
- Telecom Italia Group s ability to successfully implement its internet strategy;

Table of Contents

- the ability of the Telecom Italia Group to achieve the expected return on the significant investments and capital expenditures it has made in Latin America;

- the amount and timing of any future impairment charges for Telecom Italia Group s 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. Telecom Italia Group undertakes 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. See the related cautionary statement under Item 5. Operating and Financial Review and Prospects .

Table of Contents

KEY DEFINITIONS

The following terms appearing in this Annual Report have the meanings set forth below.

Company	means Telecom Italia S.p.A.
Draghi Law	means Legislative Decree No. 58 of February 24, 1998 and the specific implementing regulations issued by CONSOB.
EU	means the European Union.
Finsiel	means Finsiel-Consulenza e Applicazioni Informatiche S.p.A., the Telecom Italia Group s principal subsidiary operating in Information Technology Market Business Unit.
Finsiel group	means Finsiel and its subsidiaries.
Framework Law	means Law No. 481 of November 14, 1995, which provides for, among other things, the definition of a transparent tariff system based on the price cap method.
Maccanico Law	means Law No. 249 of July 31, 1997, which established the formation of the National Regulatory Authority for regulating the communications industry and implemented the Framework Law.
Merger	means the merger of Telecom Italia into Olivetti, approved by the shareholders of Telecom Italia on May 24, 2003 and expected to be effective in the first half of August 2003.
National Regulatory Authority	means the independent body, responsible in Italy for the regulation of the telecommunications, radio and television broadcasting sector, established by the Maccanico Law.
New Telecom Italia	means the entity which will result from the Merger and New Telecom Italia Group means such entity together with its consolidated subsidiaries.
Olivetti	means Olivetti S.p.A., the holding company and controlling shareholder of Telecom Italia.
Savings Shares	means the savings shares, 0.55 par value each, of Telecom Italia.
SEAT	means Seat Pagine Gialle S.p.A.
Shares	means the ordinary shares, 0.55 par value each, of Telecom Italia.
Telecom Italia	means Telecom Italia S.p.A., the operating company for fixed telecommunications services and the holding company for various businesses, principally telecommunications.
Telecom Italia Group	means the Company and its consolidated subsidiaries.
Telecommunications Regulations	means the telecommunications regulations (approved by Presidential Decree No. 318 of September 19, 1997 which became effective on October 7, 1997, 15 days after its publication) adopted to implement a number of EU directives in the telecommunications sector.

TILab	means Telecom Italia Lab S.p.A. (formerly CSELT).
TIM	means Telecom Italia Mobile S.p.A., the Telecom Italia Group s subsidiary operating in the mobile telecommunications business.
TIM Demerger	means the demerger which separated mobile telecommunications services from the Company s predecessor company effective July 14, 1995.
Tin.it	means Telecom Italia Net S.p.A., the Telecom Italia Group s subsidiary providing Internet access which was combined with SEAT in November 2000.

Table of Contents

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

RISK FACTORS

Risk Factors Relating to the Business of the Telecom Italia Group

Continuing competition in a fully liberalized market may further reduce Telecom Italia Group s market share of domestic and international traffic and may cause further reductions in prices and margins.

Domestic competition exists in all of the principal telecommunications business areas in which the Telecom Italia Group operates, including, most significantly, fixed-line and mobile voice telecommunications services, which have been open to competition since 1998 for fixed-line services and since 1995 for mobile services. As a result, the Company and TIM face competition in Italy. This competition may increase due to the consolidation and globalization of the telecommunications industry in Europe and elsewhere. Consolidation is increasing rapidly and competition is expected to rise at all levels in the future. In addition, the use of the single European currency could further intensify competition by facilitating international operators entry into the Italian market and direct competition with Telecom Italia and with TIM in fixed and mobile telephony and in the local and long-distance markets. As of December 31, 2002, there were a number of significant competitors offering fixed-line services and two other operators (as a result of the merger of Blu with TIM) offering mobile services in the Italian domestic market; a third mobile competitor (H3G) has entered the market in 2003, offering 3G commercial services. Although the decline in Telecom Italia s market share slowed during 2002, continuing pressures on prices due to competition and further erosion in market shares could adversely affect Telecom Italia Group s results of operations. Additional changes in the regulatory regime, including carrier preselection, number portability and local loop unbundling could further increase competition for the services Telecom Italia Group provides which could also adversely affect its business.

Telecom Italia Group s business may be adversely affected if it is unable to continue the introduction of new services to stimulate increased usage of its fixed and wireless networks.

In order to maintain a positive trend in revenues despite increased competition and lower prices, Telecom Italia Group s strategy has been to introduce new services in both its fixed-line and wireless services to increase traffic on its networks and find alternative revenue sources. These services include non-voice services such as Internet, data traffic and value added services such as interactive mobile services that allow users to receive news or engage in simple banking transactions. TIM has also introduced multimedia messaging services (MMS) allowing users to send and to receive images, photos and files. Alternative revenue sources also include increased interconnection traffic from other operators using the Company s fixed-line network. In addition to the steps taken in recent years, the Telecom Italia Group continues to develop new products and services, such as new data services for business customers, broadband services, enhanced communication services and new voice packages, in order to attract and retain customers, particularly business customers, and to stimulate usage of its fixed and wireless telecommunications network. The Telecom Italia Group is also investing in new infrastructure and technologies to enable it to introduce new products and services. The Telecom Italia Group expects that these strategic initiatives will require substantial expenditures and commitment of human resources. The Telecom Italia Group may not be able to introduce commercially these new products and services, and even if it introduces them, they may not be successful.

The Telecom Italia Group s business will be adversely affected if it is unable to successfully implement its business plans, particularly in light of the Merger. Factors beyond the Telecom Italia Group s control may prevent the Telecom Italia Group from successfully implementing its strategy.

Following the change in control of the Company in late 2001, the Telecom Italia Group adopted its 2002-2004 Industrial Plan and established priorities for 2002. The main objectives were:

- Strengthen competitive capabilities;

5

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

Significant portions of the 2002-2004 Industrial Plan were completed during 2002, particularly the sale of non-core assets and debt reduction. The Telecom Italia Group also took steps to strengthen its competitive position in its core domestic market through the introduction of new products and tariff packages and confirmed to focus on lowering costs through the reduction of operating expenses and capital expenditures.

In connection with the proposed Merger, the Company has confirmed the objectives of the 2002-2004 Plan and stated that it has established certain targets, which include strict limits on capital expenditures and cost controls, together with further assets sales, to reduce the significantly higher levels of debt the Telecom Italia Group will have as a result of the Merger. See *New Telecom Italia s total net financial debt will increase if the Merger of Telecom Italia and Olivetti is successful* below.

Factors beyond the Telecom Italia Group s control that could affect the further implementation and completion of the 2002-2004 Plan and the Telecom Italia Group reaching its targets for the period 2003-2005 include:

- Telecom Italia Group s ability to manage costs;
- Telecom Italia Group s ability to attract and retain highly-skilled and qualified personnel;
- Telecom Italia Group s ability to divest additional non-core businesses and the adequacy of the returns of such divestitures;
- Telecom Italia Group s ability to leverage on its core skills with particular focus on Latin America mobile and international broadband operations;
- difficulties in developing and introducing new technologies, managing innovation and providing value-added services;
- the need to establish and maintain strategic relationships;
- declining prices for some of the Telecom Italia Group s services and increasing competition;
- the effect of adverse economic trends on the Telecom Italia Group s principal markets; and
- the effect of foreign exchange fluctuations on the Telecom Italia Group s results of operations.

Regulatory decisions and changes in the regulatory environment could adversely affect Telecom Italia Group s business.

Telecom Italia Group s fixed and mobile telecommunications operations, as well as its broadband services businesses, are subject to extensive regulatory requirements in Italy and its international operations and investments are subject to regulation in their host countries. In Italy, the Company is the only operator subject to universal service obligations, including the provision of fixed public voice telecommunications services in non-profitable areas, publication of telephone directories and provision of subscriber information services at affordable prices and provision of public payphones. In addition, the National Regulatory Authority has identified the Company as an operator having significant market power in all relevant markets. As a result, the Company is, or will be, subject to a number of regulatory constraints, including:

- a requirement to conduct its business in a transparent and non-discriminatory fashion;
- a requirement to have its prices for fixed-line telecommunications services approved by the National Regulatory Authority prior to implementation in accordance with a price cap mechanism which is currently being reviewed by the National Regulatory Authority; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-oriented prices. These services include allowing other operators to interconnect to the Company s network and transport traffic through the network and offering certain services relating to its local access network, or local loop, on an unbundled basis to other operators to enable these operators to access directly end users by leasing the necessary components from the Telecom Italia Group.

As a member of the European Economic Area, or EEA, Italy is additionally required to adapt its regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market as far as the directives are made relevant to the EEA Agreement. The EU regulators

Table of Contents

approved revised telecommunications regulation in March 2002. Implementation of such regulation through Italian law is expected by July 2003. The implementation of the revised telecommunications regulation and possible future decisions relating thereto may change the regulatory accounting system currently used by the Telecom Italia Group in a manner adverse to the Telecom Italia Group. Please see Item 4. Information on the Telecom Italia Group Regulation in this report for more information on the regulatory requirements to which the Telecom Italia Group is subject.

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

The Telecom Italia Group may not be able to achieve the expected return on the significant investments and capital expenditures it has made in Latin America due to the competitive environment in these markets. Returns from the sale of non-core international assets may be lower than expected.

In recent years the Telecom Italia Group pursued a significant strategic acquisition program in Latin America and Europe aimed at achieving a stronger competitive position and balancing the loss of market share in its domestic market. During the past 18 months the Telecom Italia Group has reconsidered this strategy. The Telecom Italia Group s strategy is now focused on:

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

As a result of this change in strategy, in 2002 the Telecom Italia Group divested certain of its most significant European assets such as BDT (Bouygues Decaux Telecom), Autel (Mobilkom Austria), 9Telecom group and Auna and is still seeking to divest certain international non-strategic assets. In addition, certain investments which were made during the 1999-2001 period have declined significantly in value resulting in significant write-downs and asset impairments. Due to the current market situation, the general economic conditions and the high level of competition, the actual returns from the announced divestment of non-strategic assets may be lower than the ones originally expected and further impairment charges and goodwill writedowns may be required.

Continuing rapid changes in technologies could increase competition or require the Telecom Italia Group to make substantial additional investments.

Many of the services the Telecom Italia Group offers are technology-intensive and the development of new technologies may render such services non-competitive. The Telecom Italia Group is already making and may have to make substantial additional investments in new technologies to remain competitive. The new technologies the Telecom Italia Group chooses may not prove to be commercially successful. In addition, the Telecom Italia Group may not receive the necessary licenses to provide services based on new technologies in Italy or abroad. As a result, the Telecom Italia Group could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base.

The value of the Telecom Italia Group s operations and investments may be adversely affected by political and economic developments in Italy or other countries.

The Telecom Italia Group s business is dependent on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect the Telecom Italia Group s business and results of operations. The Telecom Italia Group may also be adversely

Table of Contents

affected by political and economic developments in other countries where it has made significant investments in telecommunications operators. Some of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which the Telecom Italia Group has invested and impair the value of these investments. A significant risk of operating in emerging market countries is that foreign exchange restrictions could be established. This could effectively prevent the Telecom Italia Group from receiving profits from, or from selling its investments in, these countries.

Fluctuations in currency exchange and interest rates may adversely affect the Telecom Italia Group s results.

Because the Telecom Italia Group has made substantial international investments, primarily in U.S. dollars, and has significantly expanded its operations outside the euro zone, movements in the exchange rates of the euro against other currencies could have an adverse effect on the Telecom Italia Group s revenues and operating results. A rise in the value of the euro relative to other currencies in certain countries in which the Telecom Italia Group operates or has made investments would reduce the relative value of the revenues or assets of the Telecom Italia Group s operations in those countries and, therefore, may adversely affect the Telecom Italia Group s operating results or financial position. In addition, the Telecom Italia Group has raised, and may raise in an increasing proportion in the future, financing in currencies other than the euro, principally the U.S. dollar. Accordingly, the value of those liabilities will be affected by fluctuations of the currencies of the countries in which the TI Group operates against the currency in which the financing is denominated. The Telecom Italia Group generally enters into a number of forward currency transactions, swaps and options to manage foreign currency risk exposure with respect to its non-euro denominated liabilities. However, the Telecom Italia Group can give no assurances that it will be successful in managing foreign currency risk exposure, taking into consideration that appropriate foreign currency swaps and options may not be available as needed on the relevant financial markets.

In addition, total net financial debt at year end 2002 was 18,118 million. As a result of the Merger and on completion of the Merger, under Italian GAAP New Telecom Italia will have up to 43,576 million of pro forma net financial debt. The Telecom Italia Group generally enters into interest rate swaps and interest rate options to manage its exposure to floating interest rates. However, the Telecom Italia Group can give no assurance that fluctuations in interest rates will not adversely affect its results of operations.

The Telecom Italia Group may not be able to realize the benefits of its investment in UMTS licenses and related capital expenditures.

Through TIM and other subsidiaries, the Telecom Italia Group has acquired a third generation mobile telephone, or UMTS, license to commence operations of UMTS services in Italy and Greece. As of June 20, 2003, TIM has committed to pay 2,417 million (of which 2,300 million has already been paid) for its UMTS license in Italy and, through its international subsidiaries and affiliated companies, a further 145 million for UMTS licenses in Greece (of which approximately 101 million has already been paid). The size of the market for UMTS products and services is unknown and may fall short of the industry s expectations. The Telecom Italia Group cannot be certain that the demand for such services will justify the related costs. In some locations, the investments, although required under the licenses, may not be commercially desirable. In addition, the Telecom Italia Group has a number of significant competitors in each of its geographic markets.

The Telecom Italia Group will be rolling out the UMTS networks, together with its competitors, in compliance with the terms and conditions of their respective licenses. Given the substantial costs of upgrading Telecom Italia s existing networks to support UMTS and the uncertainty regarding the commercial adoption of UMTS, the Telecom Italia Group may not be able to recoup its investment according to its estimates, if at all. The Telecom Italia Group has entered into and intends to enter into arrangements with other operators to share the costs and infrastructure of its planned UMTS networks. However, the Telecom Italia Group cannot give any assurance that it will succeed in concluding the necessary agreements with other operators on satisfactory terms. Moreover, while network sharing is intended to reduce costs, the Telecom Italia Group cannot give any assurance that this will be the case or that it will be able to make such network sharing work commercially or technically.

Devaluations of telecom assets and write-downs could adversely affect the Telecom Italia Group s financial condition and results of operations.

Recent events in the market for telecom stocks and credit ratings of market participants, as well as the Telecom Italia Group s ongoing review and refinement of its business plan, has resulted and may result in substantial impairment write-downs of the Telecom Italia Group s assets at any time. Accounting standards relating to asset valuations and impairment may be refined to require the use of new criteria or methodology. Starting in fiscal year 2002, under U.S. GAAP, goodwill is tested for impairment pursuant to SFAS 142 Goodwill and Other Intangible Assets . In accordance with the provisions of SFAS 142, goodwill is no longer amortized, but is subject to annual impairment tests based on fair value. An interim assessment of goodwill may be necessary if an impairment indicator indicates that the fair value of a reporting unit may have decreased. Future changes in the fair value of the Telecom Italia Group s business units could adversely affect the Telecom Italia Group s U.S. GAAP results and financial conditions.

Growth in the traditional mobile telecommunications industry has slowed significantly during the past few years and our revenues may not grow as rapidly as in the past.

In recent years, the Telecom Italia Group s revenues have grown or remained stable in large part because of the rapid growth in the mobile communications business. This growth has been driven largely by the rapid expansion of the mobile telecommunications market in Italy. However, as a result of this growth, mobile phone use in the Italian market is approaching saturation levels.

Continued growth in the mobile telecommunications markets in which the Telecom Italia Group operates depends on a number of factors, many of which are outside the Telecom Italia Group s control. These factors include:

- the activities of TIM s competitors, including consolidation, tariff reductions and handset subsidies;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and the attractiveness of these to customers;
- customer usage habits;
- general economic conditions; and
- health risks or safety concerns associated with mobile telephones and transmission equipment.

If the mobile telecommunications markets in which TIM operates do not continue to expand, or TIM is unable to retain its existing customers or is unable to stimulate increases in customer usage, the Telecom Italia Group s financial condition and results of operations may be harmed.

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

Various reports have alleged that certain radio frequency emissions from wireless handsets and transmission equipment may be linked to various health concerns and may interfere with various electronic devices. The Telecom Italia Group cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future. The Telecom Italia Group s mobile communications business may be harmed as a result of these alleged health risks. For example, this could result in a lower number of customers, reduced usage per customer or potential consumer liability for the Telecom Italia Group. In addition, although Italian law already requires strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services.

The Telecom Italia Group may be adversely affected if it fails to successfully implement its Internet strategy.

The Telecom Italia Group s ability to develop successfully its Internet dial-up and broadband operations and its strategy to provide contents and services to consumers and small and medium-sized companies may be adversely affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users preferences;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for internet access and/or internet distribution; and
- Telecom Italia experiences any network interruptions or related problems with network infrastructure.

Any of the above factors may adversely affect the Telecom Italia Group s business and results of operations.

Table of Contents

You may not be able to assert claims against Arthur Andersen

The consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2000, appearing in our annual report on Form 20-F have been audited by PricewaterhouseCoopers S.p.A., independent auditors for 2000, whose report is based in part on the report of Arthur Andersen S.p.A., now called Deloitte & Touche Italia S.p.A..

We have not been able to obtain, after reasonable efforts, the written consent of Arthur Andersen S.p.A., as required by section 7 of the Securities Act for incorporation by reference of its reports on our consolidated financial statements for the year ended December 31, 2000. Rule 437a of the Securities Act, as amended, permits us to include these reports on the financial statements which will be incorporated by reference into our Registration Statement (File No. 333 - 127666) without the consent of Arthur Andersen S.p.A.. Because Arthur Andersen S.p.A. has not consented to the incorporation by reference of its reports therein, your ability to recover for claims against Arthur Andersen S.p.A. may be limited. In particular, you will not be able to recover against Arthur Andersen S.p.A., under Section 11 (a) (4) of the Securities Act for any untrue material fact contained in the financial statements audited by Arthur Andersen S.p.A. or any omission to state a material fact required to be stated therein.

Risk Factors Relating to the Merger

New Telecom Italia s total net financial debt will increase if the Merger of Telecom Italia and Olivetti is successful.

On April 15, 2003, the Boards of Directors of Olivetti and the Company approved a plan of Merger between Olivetti and Telecom Italia. On May 24 and May 26 the Ordinary and Extraordinary Meetings of the Company s Ordinary Shareholders and the Ordinary and Extraordinary Meetings of Olivetti s Ordinary Shareholders voted in favor of the Merger, respectively. The merged company will be called Telecom Italia. The Merger is expected to become effective in the first half of August 2003, subject to the satisfaction of certain conditions.

From the date on which the Merger becomes effective and as a consequence thereof, New Telecom Italia will assume the rights and obligations of the Telecom Italia Group, continuing its activity. In particular, New Telecom Italia will succeed to Telecom Italia s concessions, licenses and administrative authorizations subject to regulatory approvals, where required. In addition, it will be responsible for the additional businesses currently operated by Olivetti.

See Item 4. Information on the Telecom Italia Group Business Significant Development during 2002 Merger of Telecom Italia into Olivetti .

The debt of New Telecom Italia could be greater than the present total debt of Olivetti and Telecom Italia as a consequence of the Merger although the total amount will depend on the level of acceptances of Telecom Italia s shareholders of the partial cash tender offer for Shares and Savings Shares by Olivetti. Under Italian GAAP, total net financial debt (see Item 3. Key Information Selected Financial and Statistical Information Note 10) is expected to be up to approximately 43.6 billion on a pro forma basis following the Merger, a maximum increase of approximately 25 billion from the net financial debt of 18.1 billion at December 31, 2002 of the Telecom Italia Group, of which about 15 billion is existing Olivetti net financial debt and a further 9 billion relates to the maximum amount of funding for the withdrawal rights exercised by certain Olivetti shareholders and the tender offers to be made by Olivetti for a portion of the Telecom Italia Shares and Savings Shares. At December 31, 2002 net financial debt of the Olivetti group was 33.4 billion (including the net financial debt of the Telecom Italia Group).

Net financial debt is projected to decrease and the 9 billion of additional debt which may be incurred is expected to be retired by the end of 2004, partly by using the proceeds of the sale of other non-strategic assets. There can be no assurance that factors beyond New Telecom Italia s control, including but not limited to deterioration in general economic conditions, will not significantly affect New Telecom Italia s ability to reduce such debt. The Telecom Italia Group s business will be adversely affected if it is unable to successfully implement its business plans, particularly in light of the Merger. Factors beyond the New Telecom Italia Group s control may prevent the New Telecom Italia Group from successfully implementing its strategy.

Table of Contents

RATES OF EXCHANGE

Beginning with the fiscal year 2001, the Telecom Italia group has published its consolidated financial statements in euros. References to , euro and Euro are to the euro, the currency of 12 member states of the European Union, including Italy and references to lire , lira and Lit. are to Italian lire, the former Italian non-decimal denomination of the euro, and references to U.S. dollars , dollars , U.S.$ or $ are to U.S. dollars, the currency of the United States.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00 = U.S.$1.1843, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on June 16, 2003. These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

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

Exchange Rates

Effective January 1, 1999, the following 11 European Union member states adopted the euro as a common currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. They also established fixed conversion rates between their respective sovereign currencies and the euro. On January 1, 2001, Greece (together, with the 11 European Union member states referred to in the previous sentence, the Member States) joined the European Economic and Monetary Union. The exchange rate at which the lira was irrevocably fixed against the euro is Lit.1,936.27 = 1.00. On January 1, 2002, the Member States began issuing new euro-denominated bills and coins for use in cash transactions. As of March 1, 2002, the Member States withdrew the bills and coins denominated in their respective currencies from circulation, and they are no longer legal tender for any transactions.

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

At the extraordinary stockholders meeting held on May 3, 2001, Telecom Italia s share capital was converted from lire into euros by rounding up the par value of the shares, from Lit. 1,000 (approximately 0.52) to 0.55 partially through the cancellation of 112,998,070 Savings Shares held in treasury.

The following table sets forth, for the year 1998 certain information regarding the Noon Buying Rate for lira expressed in lira per U.S.$1.

Calendar Period	High	Low	Average(1)	At Period End
1998	1,828	1,1592	1,737	1,654

(1) Average of the rates for the last business day of each month in the relevant prices.

Table of Contents

The following table sets forth for the years 1999 to 2002 and for the beginning of 2003 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per 1.00.

Calendar Period	High	Low	Average(1)	At Period End
1999	1.1812	1.0016	1.0588	1.0070
2000	1.0335	0.8270	0.9207	0.9388
2001	0.9535	0.8425	0.8909	0.8901
2002	1.0485	0.8594	0.9495	1.0485
2003 (through June 16, 2003)	1.1870	1.0361	1.1201	1.1843
Monthly Amounts				
December 2002	1.0485	0.9927	1.0194	1.0485
January 2003	1.0861	1.0361	1.0622	1.0739
February 2003	1.0875	1.0708	1.0785	1.0779
March 2003	1.1062	1.0545	1.0797	1.0900
April 2003	1.0621	1.1180	1.0862	1.1180
May 2003	1.1853	1.1200	1.1556	1.1766
June 2003 (through June 16, 2003)	1.1870	1.1686	1.1759	1.1843

(1) Average of the rates for the last business day of each month in the relevant period except for 2003 for which the date used is June 16, 2003.

Beginning January 4, 1999, the Shares and Savings Shares commenced trading on *Mercato Telematico Azionario* (Telematico), managed by Borsa Italiana S.p.A. (Borsa Italiana) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Shares and the Savings Shares and the price of the American Depositary Shares (ADSs) and the Savings Share American Depositary Shares (Savings Share ADSs), on the New York Stock Exchange (NYSE). Cash dividends were paid by Telecom Italia in lire until 2001 and in euro starting from 2002. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Telecom Italia Shares and Telecom Italia Savings Shares. See Item 10. Additional Information Description of American Depositary Receipts .

On completion of the Merger, New Telecom Italia will become a successor registrant to the Company under the Securities Exchange Act of 1934, as amended (the 1934 Act) and, therefore, become subject to and continue to file periodic reports under the 1934 Act required for a foreign private issuer. New Telecom Italia intends to seek a listing of the New Telecom Italia ordinary shares and savings shares to be issued if the Merger is completed, on the NYSE where such ordinary shares and savings shares will trade in the form of ADSs.

Table of Contents

SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report. The selected financial data (other than the 2000 pro forma data) for each of the five years in the period ended December 31, 2002, are extracted or derived from the consolidated financial statements of the Telecom Italia group, which have been audited by the following independent auditors: Reconta Ernst & Young S.p.A. (only for the years ended December 31, 2001 and 2002), PricewaterhouseCoopers S.p.A. (only for the year ended December 31, 2000) and Arthur Andersen S.p.A. (now called Deloitte & Touche Italia S.p.A.) for all other periods. In accordance with Italian law, the financial statements of the parent company Telecom Italia have been approved by the shareholders of Telecom Italia at its Annual Meeting of Shareholders held on May 24, 2003. The Telecom Italia Group s Consolidated Financial Statements included herein have been approved by the Telecom Italia Board of Directors. Unless otherwise indicated, amounts presented are based on Italian GAAP.

	Year ended December 31,					
	1998(1)	1999(1)	2000(1)	2000 pro forma (1)(2)	2001(1)	2002(1)
	(millions of Euro, except per share and per ADS amounts)					
Statement of Operations Data in accordance with Italian GAAP:						
Operating revenues	25,052(3)	27,104	28,911	27,169	30,818	30,400
Other income	560	516	426	402	417	479
Total revenues	25,612(3)	27,620	29,337	27,571	31,235	30,879
Cost of materials	2,342	2,477	2,259	2,132	1,972	1,779
Salaries and social security contributions	4,992	4,977	5,025	4,745	4,666	4,540
Depreciation and amortization	5,412	5,339	5,647	5,209	6,275	5,877
Other external charges	9,065(3)	9,586	10,790	10,130	12,171	11,949
Changes in inventories	135	(130)	(277)	(255)	58	28
Capitalized internal construction costs	(1,078)	(1,062)	(912)	(831)	(581)	(675)
Total operating expenses	20,868(3)	21,187	22,532	21,130	24,561	23,498
Operating income	4,744(3)	6,433	6,805	6,441	6,674	7,381
Financial income	815	555	847	806	1,076	1,236
Financial expense	(868)	(1,466)	(2,470)	(2,261)	(5,031)	(3,399)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(178)*	*(565)*	*(1,025)*	*(1,011)*	*(1,616)*	*(465)*
Other income and expense, net	69(3)	(507)	(214)	(184)	(3,452)	(5,637)
Income (loss) before income taxes	4,760	5,015	4,968	4,802	(733)	(419)
Income taxes	(2,048)	(2,606)	(2,020)	(1,910)	(925)	716
Net income (loss) before minority interests	2,712	2,409	2,948	2,892	(1,658)	297

Minority interest	(734)	(672)	(920)	(864)	(410)	(619)
Net income (loss)	1,978	1,737	2,028	2,028	(2,068)	(322)
Net income (loss) per Share(4)	0.2634	0.2309	0.2741	0.2741	(0.2858)	(0.0474)
Net income (loss) per Share ADS(4)	2.6339	2.3086	2.7410	2.7410	(2.8581)	(0.4736)
Dividends per Share	0.1446	0.3114	0.3125	0.3125	0.3125	0.3125(5)
Dividends per Savings Share	0.1549	0.3218	0.3238	0.3238	0.3237	0.3235(5)
Amounts in accordance with U.S. GAAP:						
Total revenues	25,612(3)	27,620	27,938		31,017	30,830
Operating income (loss)	4,662(3)	6,153	(1,926)		2,272	4,850
Income (loss) before income taxes	4,419	4,774	7,058		(3,379)	1,357
Net income (loss)	1,526	1,505	3,522		(4,039)	828
Net income (loss) per Share Basic(6)	0.2026	0.1998	0.4731		(0.5553)	0.1103
Net income (loss) per Share Diluted(6)	0.2026	0.1997	0.4717		(0.5553)	0.1103
Net income (loss) per Share ADS Basic(6)	2.0255	1.9982	4.7307		(5.5531)	1.1031
Net income (loss) per Share ADS Diluted(6)	2.0255	1.9966	4.7173		(5.5531)	1.1031

Table of Contents

	Year ended December 31,					
	1998(1)	1999(1)	2000(1)	2000 pro forma (1)(2)	2001(1)	2002(1)
	(millions of Euro, except per share and per ADS amounts)					
Balance Sheet Data in accordance with Italian GAAP:						
Total current assets	12,186(7)	12,749	16,395	15,673	16,736	15,716
Total fixed assets, net	23,584	23,508	23,425	20,721	21,757	19,291
Intangible assets, net	1,884	2,737	16,037	15,571	16,197	13,052
Total assets	44,870(7)	46,058	65,515	61,985	62,670	52,786
Total short-term debt	4,824	4,969	15,136	14,745	9,114	5,089
Total current liabilities	16,865	17,448	27,482	26,510	21,945	17,616
Total long-term debt	5,598	5,166	8,268	6,733	16,083	15,018
Total liabilities	26,440(7)	26,270	39,986	37,293	43,361	39,959
Total stockholders equity before minority interest	16,346	17,045	18,821	18,821	13,522	9,049
Total stockholders equity	18,430	19,788	25,529	24,692	19,309	12,827
Amounts in accordance with U.S. GAAP:						
Total current assets	12,660	12,984	15,366		16,944	15,331
Total fixed assets, net	23,172	23,150	22,823		23,883	21,277
Intangible assets, net	5,292	5,894	24,084		22,506	18,384
Total assets	48,108	49,263	71,528		72,518	60,822
Total current liabilities	16,865	17,448	26,207		21,487	17,773
Total long-term debt	5,598	5,166	12,466		21,906	20,069
Total liabilities	26,908	26,908	44,848		52,332	46,129
Stockholders equity(8)	19,145	19,659	19,118		12,457	9,215
Financial Ratios in accordance with Italian GAAP:						
Gross operating margin (Gross operating profit/operating revenues)(%)(9)	47.2	45.1	45.4	45.0	44.2	45.9
Operating income/operating revenues (ROS) (%)	18.9	23.7	23.5	23.7	21.7	24.3
Return on equity (ROE) (%)	15.3	12.6	13.0	13.0	n.a.	n.a.
Return on investments (ROI) (%)	18.5	23.6	18.8	18.4	16.0	20.4
Net debt/Net invested capital (debt ratio) (%)(10)	30.7	29.1	42.7	41.1	53.2	58.6
Statistical Data:						
Subscriber fixed lines (thousands)(11)	25,986	26,502	27,153	27,153	27,353	27,142
ISDN equivalent lines (thousands)(12)	1,735	3,049	4,584	4,584	5,403	5,756
TIM lines in Italy (thousands)(13)	14,299	18,527	21,601	21,601	23,946	25,302
Subscriber fixed lines per full-time equivalent employee(14)	332	354	409	409	448	496
Page views Virgilio (millions)		505	2,218	2,218	3,945	5,267
Active Users (at year-end, thousands)		1,104	1,656	1,656	1,804	2,226

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

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

(3) Beginning in 1999 the Telecom Italia Group changed the way in which it accounted for revenues from telecommunications services, calculating such revenues gross of interconnection and service charges payable to other operators and service providers and accounting for such interconnection and service charges as an operating expense (other external charges). In prior fiscal years, revenues from

14

telecommunications services were accounted for net of interconnection and service charges. Due to this change, operating revenues from telecommunications services and other external charges increased by the same amount: 1,571 million in 1998. This accounting change had no impact on reported net income for 1998. In 1998, the item other external charges also takes into account additional expenses (10 million) included in other income and expense, net in the consolidated financial statements in Telecom Italia s 1998 Annual Report on Form 20-F.

(4) Net income per Share in 1998 is calculated on the basis of 7,421,251,726 Shares and Savings Shares outstanding. Net income per Share in 1999 is calculated on the basis of 7,426,157,226 Shares and Savings Shares outstanding. Net income per share in 2000 is calculated on the basis of 7,321,179,156 Shares and Savings Shares outstanding; Savings Shares are net of 104,978,070 shares of treasury stock acquired during 2000. Net loss per Share in 2001 is calculated on the basis of 7,314,655,506 Shares and Savings Shares outstanding. Net loss per Share in 2002 is calculated on the basis of 7,265,103,156 Shares and Savings Shares outstanding; Shares are net of 5,280,500 shares of treasury stock and Savings Shares are net of 45,647,000 shares of treasury stock acquired during 2002.

The calculations take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of Savings Shares above dividends paid on the Shares. Prior to 2000 the par value of the Savings Shares was Lit. 1,000 per share, while for 2001 and 2002, following the resolution of the extraordinary shareholders meeting held on May 3, 2001 regarding the re-denomination of Telecom Italia share capital into Euro, the calculations take into account the new par value per share of 0.55. Net income (loss) per Savings Share was 0.2737, 0.2412, 0.2844, (0.2748) and (0.0364) in each of 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively, and net income (loss) per Savings Share ADS was 2.7372, 2.4119, 2.8443, (2.7481) and (0.3636) in each of 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively.

As of December 31, 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, the number of Shares and Savings Shares outstanding was 7,421,251,726, 7,426,157,226, 7,426,157,226, 7,314,655,506 and 7,316,030,656, respectively. The increase in Shares and Savings Shares outstanding in 1999 is due to the issuance of 4,905,500 new Shares in connection with the Stock Option Plan. The decrease in Shares and Savings Shares outstanding in 2001 is due to the cancellation of 112,998,070 Savings Shares of treasury stock following the re-denomination of the share capital into Euro and the issuance of 1,496,350 new Shares in connection with the Stock Option Plan. The increase in Shares and Savings Shares outstanding in 2002 is due to the issuance of 1,375,150 new Shares in connection with the Stock Option Plan.

(5) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed corresponding to a dividend of 0.1357 per Share and a dividend of 0.1357 per Savings Share. Furthermore, the Shareholders Meeting held on May 24, 2003 approved the pay out of an additional dividend of 0.1768 per Share and 0.1878 per Savings Share, by drawing from the income and capital reserves. Telecom Italia s dividend coupons for the year ended December 31, 2002 were clipped on June 23, 2003, and such dividends for the year ended December 31, 2002 are payable from June 26, 2003.

(6) In accordance with U.S. GAAP, the Net income (loss) per Share has been calculated using the two class method, since the Company has both Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standards No. 128, Earnings per Share , Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential common shares and is adjusted for any changes to income that would result from the assumed conversion of those potential common shares. For the purpose of these calculations, the weighted average number of Shares and Savings Shares was 7,421,251,726 for the year ended December 31, 1998, 7,421,660,518 for the year ended December 31, 1999, 7,398,247,829 for the year ended December 31, 2000, 7,314,353,578 for the year ended December 31, 2001 and 7,297,953,685 for the year ended December 31, 2002. The calculations take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of Savings Shares above dividends paid on the Shares. Prior to 2001 the par value of the Savings Shares was Lit. 1,000 per share, while for 2001 and 2002, following the resolution of the extraordinary shareholders meeting held on May 3, 2001 regarding the re-denomination of Telecom Italia share capital into Euro, the calculations take into account the new par value per share of 0.55. In addition, in accordance with U.S. GAAP, net income (loss) per Savings Share Basic was 0.2129, 0.2101, 0.4834, (0.5443) and 0.1213 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively, and net income (loss) per Savings Share ADS Basic, was 2.1288, 2.1015, 4.8340, (5.4431) and 1.2131 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively.

(7) As a consequence of the introduction of the new Italian Accounting Principle for Income Taxes, beginning in 1999, deferred tax assets and liabilities are offset. Due to this change as of December 31, 1998 the

Table of Contents

amount of current assets was reduced by 114 million, while total assets and liabilities were reduced by the same amount of 379 million.

(8) Stockholders equity under U.S. GAAP is calculated after elimination of minority interest. See Note 26 of Notes to Consolidated Financial Statements included elsewhere herein.

(9) Gross Operating Profit was 11,821 million, 12,226 million, 13,118 million, 12,217 million, 13,619 million and 13,964 million in each of 1998, 1999, 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively. Because Gross Operating Profit includes certain financial statement items and excludes others it is considered a non-GAAP financial measure as defined in Regulation G of the 1934 Act. Telecom Italia believes that Gross Operating Profit provides the best indication of the Telecom Italia Group s operating performance and is meaningful information for investors. In addition the Telecom Italia Group also believes (although other telecommunication operators will calculate such information differently) that Gross Operating Profit permits an adequate comparison of the Telecom Italia Group s performance against its peer group. The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operation items included in calculating Gross Operating Profit.

	Year ended December 31,					
	1998	1999	2000	2000 pro forma	2001	2002
	(millions of Euro)					
Operating income	4,744	6,433	6,805	6,441	6,674	7,381
Depreciation and Amortization	5,412	5,339	5,647	5,209	6,275	5,877
Other external charges:						
• Provision for bad debts	364	363	477	394	439	542
• Write-downs of fixed assets and intangibles	950	73	48	48	16	57
• Provision for risk	178	80	119	108	189	109
• Other provisions and operating charges	654	380	382	353	382	436
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(481)	(442)	(360)	(336)	(356)	(438)
Gross Operating Profit	**11,821**	**12,226**	**13,118**	**12,217**	**13,619**	**13,964**

(10) For purposes of calculating the debt ratio, net financial debt is calculated as follows:

	As of December 31,					
	1998	1999	2000	2000 pro forma	2001	2002
	(millions of Euro)					
Short-term debt, including current portion of long-term debt	4,824	4,969	15,136	14,745	9,114	5,089
Long-term debt	5,598	5,165	8,268	6,733	16,083	15,018
Cash and cash equivalents:						
• Bank and postal accounts	(582)	(668)	(1,299)	(1,281)	(757)	(1,251)
• Cash and valuables on hand	(3)	(9)	(5)	(4)	(5)	(4)
• Receivables for sales of securities		(5)	(1)	(1)	(3)	(55)
Marketable debt securities	(1,252)	(1,265)	(2,020)	(1,869)	(1,935)	(278)
Financial accounts receivable (included under Receivables and Other current assets)	(523)	(144)	(1,110)	(1,110)	(805)	(683)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net	112	95	59	20	250	282

Net Financial Debt	**8,174**	**8,138**	**19,028**	**17,233**	**21,942**	**18,118**

(11) Data include multiple lines for ISDN and exclude internal lines.
(12) Data exclude internal lines.
(13) Data refer to TACS and GSM services lines, including holders of Prepaid Cards.
(14) Ratio is based on employees of Telecom Italia only.

Table of Contents

Dividends

Telecom Italia has normally paid annual cash dividends on its outstanding Shares and Savings Shares, although the determination of Telecom Italia s future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to the Company s earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time.

Telecom Italia s management has publicly stated that in relation to the Merger between Olivetti and Telecom Italia, New Telecom Italia s dividend policy is not expected to change. New Telecom Italia is expected to be able to distribute to the Company s present shareholders an overall dividend corresponding to the dividends presently paid to them.

The dividends per share and per savings share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividend paid in such years are shown below. Actual dividends paid are rounded to the nearest whole cent.

	Dividends on Shares			Dividends on Savings Shares		
Year ended December, 31	**Euros per Share**	**U.S. dollars per Share(2)**	**(millions of euros)**	**Euros per Share**	**U.S. dollars per Share(2)**	**(millions of euros)**
1998(1)	0.1446	0.15	759.94	0.1549	0.17	335.61
1999(1)	0.3099(3)	0.29	1,638.10	0.3218(3)	0.30	688.58
2000(1)	0.3125	0.27	1,643.93	0.3238	0.28	664.84
2001	0.3125(4)	0.28	1,644.19	0.3237(4)	0.29	662.33
2002	0.1357(5)	0.13	713.47	0.1357(5)	0.13	273.11

(1) Dividends for 1998, 1999 and 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit.1,936.27 = 1.

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

(3) The per share amount paid with respect to the fiscal year ended December 31, 1999 includes the distribution to all shareholders of the dividends payable on 26,046,820 Savings Shares held in treasury on the date the dividend was paid. A total of approximately 3.12 million was also distributed from the statutory reserve in order to round up such per share amounts.

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

(5) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed and paid corresponding to a dividend of 0.1357 per Share and a dividend of 0.1357 per Savings Share. Furthermore, the Shareholders Meeting held on May 24, 2003 approved an additional dividend of 0.1768 per Share and 0.1878 per Savings Share, payable from income and capital reserves. Pursuant to Italian Stock Exchange rules, dividends on the Shares and the Savings Shares are payable from the fourth business day after the third Friday of each month, and in any case, at least four business days after the Annual Meeting of Shareholders approving the dividends. Telecom Italia s additional dividend coupons for the year ended December 31, 2002 were clipped on June 23, 2003, and are payable from June 26, 2003.

Payment of annual dividends is subject to approval by the holders of ordinary shares at the annual general shareholders meeting, which must be convened within six months after the end of the financial year to which it relates. In addition, Article 21 of the Company s Bylaws gives the Board of Directors the power to approve the distribution of interim dividends . Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year s financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends are usually payable within 30 days of the general shareholders meeting at which they are approved. Dividends not collected within five years from the date they become payable will be forfeited in favour of the Company.

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

Table of Contents

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

Arrangements between Euroclear or Clearstream and Monte Titoli permit the shareholders to collect the dividends through Euroclear or Clearstream. Holders of American Depositary Receipts (ADRs) are entitled to receive payments in respect of dividends on the underlying Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement. If profits are not fully distributed, additional reserves are created.

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

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Shares or Savings Shares and resident shareholders holding Shares or Saving Shares in registered form provided that such resident shareholders have not exercised the option to receive dividends with the deduction of the withholding tax and to subsequently include such dividends in the annual income statement. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives.

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

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

BUSINESS

A glossary of selected telecommunications terms used in the following description of the Telecom Italia Group s business and elsewhere in this Annual Report can be found at the end of Item 4 of this Annual Report.

The legal and commercial name of the Company is Telecom Italia S.p.A. The Company is incorporated as a joint stock company under the laws of Italy. The duration of the Company extends until December 31, 2050.

On July 18, 1997, the Company s predecessor company was merged with and into STET Società Finanziaria Telefonica per Azioni (STET), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to Telecom Italia S.p.A. In November 1997, the Ministry of the Treasury of the Republic of Italy (the Treasury) completed the privatization of Telecom Italia selling substantially all of its stake in the Telecom Italia Group through a global offering, and a private sale to a stable group of shareholders. On May 21, 1999 Olivetti, through a tender offer, obtained control of the Telecom Italia Group when approximately 52.12% of Telecom Italia Shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia acquired a 28.7% stake in Olivetti which resulted in the replacement of the then Board of Directors. On December 9, 2002 the Treasury sold all its remaining stake in the Company s ordinary and savings share capital. More recently Hopa, the merchant bank led by Emilio Gnutti which participated in the 1999 take-over of Olivetti, gained a 16% stake in Olimpia, leading to a proportional reduction of the other shareholders. Please see Significant Developments during 2002 The Pirelli-Olimpia Transaction .

The registered offices of Telecom Italia is at Piazza degli Affari 2, 20123 Milan, Italy. The corporate headquarters and the principal executive offices of Telecom Italia are located at Corso d Italia 41, 00198 Rome, Italy, the telephone number is +39 06 3688 -1.

Table of Contents

Introduction

At the end of 2002, the Telecom Italia Group was one of the world s largest fixed telecommunications operators, with approximately 27.1 million subscriber fixed-lines installed (including ISDN equivalent lines). Through its subsidiary TIM, the Telecom Italia Group was also the largest mobile telecommunications operator in Italy and one of the largest in the world, with approximately 39.1 million mobile lines (which includes 31.5 million proportionate lines). The Telecom Italia Group also had 6.2 million mobile lines (2.2 million proportionate lines) through companies indirectly owned through Telecom Italia International. In Italy TIM is one of three operators with the right to provide GSM digital mobile telecommunications services and one of three operators with the right to provide DCS 1800 digital mobile telecommunications services (the fourth operator, Blu, was acquired in October 2002 and merged into TIM in December 2002). TIM is one of five entities which have acquired a UMTS license to provide third generation mobile services in Italy.

The Telecom Italia Group also provides leased lines and data communications services. Through SEAT, the Telecom Italia Group is a leading provider of Internet and directory publishing services, although Telecom Italia has recently agreed to sell the directory publishing business of SEAT. The sale is subject to the satisfaction of certain conditions. Please see Recent Developments SEAT Spin-off and Proposed Sale . Other activities of the Telecom Italia Group include the provision of IT software and services.

The Telecom Italia Group s international portfolio of subsidiaries and investments includes fixed and mobile telecommunications companies which operate mainly in Latin America and certain countries in Europe.

Significant Developments during 2002

The Pirelli-Olimpia Transaction.

The information contained herein on the Pirelli-Olimpia transaction has been taken from publicly available information filed by the parties involved therein with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

Share Ownership. On July 30, 2001, Pirelli S.p.A. (hereinafter Pirelli) and Edizione Holding S.p.A. (hereinafter Edizione) signed an agreement with Bell for the acquisition, through a company to be named, of Olivetti stock owned by Bell, representing about 23.3% of Olivetti s share capital. Edizione is the parent company of the Benetton group and is controlled by the Benetton family.

The agreement called for the acquisition of 1,552,662,120 ordinary shares and 68,409,125 warrants 2001-2002 on ordinary shares of Olivetti (hereinafter the Olivetti Investment), at a per unit price, respectively, equal to 4.175 and 1.0875, for a total price of 6,557 million, with a value date at August 31, 2001. The value date was to indicate that the price for the Olivetti Investment would be reduced if the payment was made before August 31, 2001 and increased if made after that date on the basis of the following formula: interest = total price x (1-month Euribor + 0.75%) x the number of days of early or delayed payment / 360.

The purchase transaction was subject to receipt of the necessary authorizations and in particular from the EU Commission. This authorization was received on September 20, 2001.

On August 3, 2001, Pirelli (80 percent) and Edizione Finance International S.p.A. (20 percent a wholly-owned company of Edizione), set up Olimpia, the company designated for the acquisition of the aforementioned Olivetti Investment.

On August 9, 2001, Kallithea S.p.A. (a subsidiary of Pirelli S.p.A.) sold 147,337,880 Olivetti ordinary shares (equal to about 2.02% of Olivetti s share capital) to Olimpia for a price per share of 4.193, for a total of approximately 618 million. Pirelli Finance Luxembourg S.A. (a subsidiary of Pirelli S.p.A.) and Edizione sold a total of 265,302,250 Olivetti ordinary shares (equal to about 3.64% of Olivetti s share capital) to Olimpia at a total price of approximately 576 million.

On September 19, 2001, an agreement was signed among the majority shareholders of Bell, Pirelli, Edizione and Olimpia which called for a commitment by the majority shareholders of Bell to ensure that the latter, at the same time payment was made by Olimpia for the purchase of the Olivetti Investment, subscribed to bonds issued by Olimpia itself, with the following features: 6-year bonds for an amount of approximately 1,033 million, repayable at maturity, unless the bonds are redeemed in advance by the bondholder, convertible into 263,500,000 Olivetti shares in a ratio of one share for every bond with a face value of 3.92, bearing an annual fixed rate of interest of 1.5%, payable in cash at maturity or at the date of early redemption.

Table of Contents

The agreement also called for the transfer of the Olivetti Investment in two tranches, the first for 552,000,000 Olivetti shares to be carried out on September 27, 2001 and the second for the remaining shares and warrants by October 12, 2001.

In execution of the above agreement, on September 27, 2001, 552,000,000 Olivetti shares were transferred from Bell to Olimpia (for an equivalent amount of 2,315 million), while on October 5, 2001, the remaining 1,000,662,120 Olivetti shares and 68,409,125 warrants were transferred from Bell to Olimpia (for an equivalent amount of 4,199 million and 74 million, respectively). On the same date, October 5, 2001, Bell subscribed to the Olimpia Bonds.

Under the agreements on July 30, 2001, Pirelli and Edizione agreed to purchase a further 54 million Olivetti shares, held originally by Banca di Roma S.p.A., for a price of 225 million, corresponding to a price per share of 4.175. Based on these understandings, on October 31, 2001, with the value date and delivery of the stock on November 2, 2001, Olimpia purchased these shares. This resulted in a holding of approximately 27.7% of the share capital of Olivetti.

On November 20, 2001, in order to hedge the risk on the value of the Olivetti shares to be delivered to the holders of the Olimpia Bonds, Olimpia entered into a forward purchase agreement with UniCredit Banca Mobiliare S.p.A. and Caboto IntesaBci S.p.A. (ex-Caboto Holding Sim S.p.A.), for 263,500,000 Olivetti shares at a price equal to the average purchase price of approximately 1.37 per Olivetti share plus a premium equal to approximately 32% of the average purchase price. Settlement can be made through the physical delivery of the shares against payment of the agreed price or payment of the differentials compared to the market price.

On November 23, 2001, after a capital increase voted by the Board of Directors of Olivetti on October 13, 2001, Olimpia, by exercising its option rights subscribed to 504,825,563 Olivetti shares (for a price of approximately 505 million) and 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption (for a price of approximately 505 million).

On December 19, 2002, Olimpia made a proposal to the holders of the Olimpia Bonds to retire them in exchange for either Olivetti shares (as provided under the existing terms of the Olimpia Bonds) or, alternatively, a combination of Olivetti shares and the aforementioned Olivetti 2001-2010 1.5% bonds convertible into Olivetti shares (Olivetti Bonds). On December 19, 2002, Hopa S.p.A. (Hopa) and two companies that Hopa has advised and that are controlled by it, Holinvest S.p.A. (Holinvest) and G.P.P. International S.A., accepted Olimpia s proposal for retirement of the total of 262,533,449 Olimpia Bonds held by them by delivery of a total of (i) 98,975,110 Olivetti shares (representing approximately 1.12% of the 8,845,313,805 Olivetti shares reported to be outstanding on December 31, 2002) effective in January 2003 and (ii) 163,558,339 Olivetti Bonds effective in June 2003.

Also on December 19, 2002, Pirelli, Edizione, UniCredito Italiano S.p.A. (Unicredito) and IntesaBci S.p.A. (IntesaBCI) (collectively, the Former Olimpia Shareholders), Olimpia and Hopa (collectively with the Former Shareholders and Olimpia, the Parties) executed a term sheet (the Hopa Term Sheet). Pursuant to the Hopa Term Sheet, the Parties agreed that, subject to certain terms and conditions, Holy S.r.l. (Holy), a wholly-owned subsidiary of Hopa, would be merged into Olimpia (the Holy Merger). As of the effective date of the Holy Merger, Holy shall own: (i) 163,558,339 million Olivetti Bonds and 99,941,661 Olivetti shares for a total book value of 476,935,000; (ii) a 19.999% equity stake in the capital stock of Holinvest, for a total book value of 385.4 million; (iii) net cash of 98.8 million, plus any dividends for the 98,975,110 Olivetti shares possibly distributed by Olivetti during the period between the date of the Hopa Term Sheet and the effective date of the Holy Merger.

Pursuant to the subsequent agreement signed by the Parties on February 21, 2003 (the Hopa Agreement), the Holy Merger took place on May 9, 2003. As a result of the Holy Merger and the net effect of the early redemption of Olimpia s 1.5% 2001-2007 bonds, Olimpia s holding in Olivetti increased to 2,252,094,364 shares, equal to a 28.55 stake in Olivetti s share capital of the same date. As of May 9, 2003, Olimpia also holds 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption and 68,409,125 Olivetti 2001-2002 warrants on ordinary shares.

As of the date of this Annual Report, the share capital of Olimpia is fully paid and is equal to 1,562,596,150, consisting of 1,562,596,150 shares of par value 1 each.

(1) Its current name is Banca Intesa S.p.A. .

Table of Contents

Following the Holy Merger, the share capital of Olimpia is held by Pirelli, Edizione, UCI, IntesaBci and Hopa in the following respective proportions: 50.4%, 16.8%, 8.4%, 8.4% and 16%.

As a result of the Merger, Olimpia s shareholding in New Telecom Italia will be diluted to between 9.94% and 13.27%, depending on certain assumptions, from its current holding in Olivetti of 28.55%. See Recent Developments.

Shareholders Agreements

There are shareholders agreements among Olimpia s shareholders.

In particular, shareholders agreements were entered into between Pirelli and Edizione on August 7, 2001, as amended on September 14, 2001 and February 13, 2002 (hereinafter the Agreements). Shareholders agreements were entered into also between Pirelli, IntesaBci and UniCredito on September 14, 2001 amended on September 26, 2001 and October 24, 2001 (hereinafter Agreements with the Banks).

The Agreements and the Agreements with the Banks have a duration of three years and can be renewed at each expiration date. The renewal period is three years for the Agreements and two years for the Agreements with the Banks.

The Agreements and the Agreements with the Banks deal with the nomination of the Board of Directors of Olimpia, Olivetti, Telecom Italia, TIM and SEAT. They identify the key issues on which the board resolutions of Olimpia, Olivetti, Telecom Italia, TIM and SEAT have to decide in accordance with the Agreements and the Agreements with the Banks. The Agreements and the Agreements with the Banks also discuss the rules for the resolution of disagreements among the contracting parties on key issues (the so-called deadlock situations). In addition, the Agreements and the Agreements with the Banks govern the consequences among the parties of any change in the structure of control of Pirelli (in the Agreements with the Banks) and of Edizione or of Pirelli (in the Agreements); and grant the parties the right to purchase or sell (puts and calls) Olimpia shares in the event of withdrawal from the agreements themselves.

The provisions relating to the nomination of the members of the Boards of Directors of Olivetti, Telecom Italia, TIM and SEAT are set forth below. In connection with the composition of the Boards of Directors of Olivetti, Telecom Italia, TIM and SEAT, the parties to the Shareholders Agreements have agreed to use their best efforts, within the limits established by law, in order to cause:

- the nomination by Edizione of one-fifth of the Boards of Directors, without taking into account the directors whose designation is reserved by law or applicable bylaws to the market or other parties;
- the nomination of one director by Intesa;
- the nomination of one director by Unicredito;

- the nomination of the vice-president of the Boards of Directors from among the directors nominated by Edizione; and
- in the event of the establishment of an Executive Committee, the election of one member of the Executive Committee from among the directors nominated by Edizione. See Item 6. Directors, Senior Management and Employees Directors .

CONSOB in its resolution dated October 30, 2001, which dealt with the matter of the authorization for the publication of the Olivetti prospectus for the offer of options on Olivetti ordinary shares and Olivetti 2001-2010 bonds, asked that the above prospectus indicate, based on CONSOB s evaluation, that de facto control of Olivetti is held by Olimpia and Olimpia is subject to the sole control of Pirelli. CONSOB explained the reasons why this supplementary information was requested in the communication published in the CONSOB Informa Newsletter dated November 5, 2001.

Pirelli did not agree with the reasons expressed by CONSOB and on December 6, 2001 filed a request to review the matter so that the questions surrounding the issue could be reexamined and the comments expressed about Olimpia s control over Olivetti could be revised. On January 8, 2002, under ruling No. RM/2001124, CONSOB gave its decision not agreeing with the request to review the matter of qualifying the holdings between Pirelli and Olimpia and between Olimpia and Olivetti.

Since the rulings were adverse, Olivetti, Pirelli and Olimpia filed an appeal with the TAR of Lazio to obtain their cancellation. The TAR of Lazio, in a ruling released on February 25, 2002, ruled favorably on the appeal, canceling the contested CONSOB rulings.

Table of Contents

The Hopa Agreement provides that, from the effective date of the Holy Merger, Hopa and the Former Olimpia Shareholders are bound by an agreement governing their relationship as shareholders of Olimpia (the Expanded Olimpia Shareholders Agreement).

Under the Expanded Olimpia Shareholders Agreement, Hopa has the right to appoint one Olimpia director and the Former Olimpia Shareholders must use their best efforts in order to cause a director designated by Hopa nominated to the Board of Directors of Olivetti, Telecom Italia, TIM and SEAT (with a corresponding reduction in the number of Pirelli nominees). See Item 6. Directors, Senior Management and Employees Directors .

Hopa does not have the right to veto any decision taken by the board of directors or shareholders of Olimpia. In the event of a disagreement between the former Olimpia Shareholders and Hopa with respect to the passage of a resolution by either the Extraordinary Shareholders Meeting or the Board of Directors of Olimpia concerning certain matters (including (i) the determination as to how Olimpia will vote its Olivetti shares at an Extraordinary Shareholders Meeting of Olivetti, (ii) the purchase or sale of securities exceeding a certain amount and (iii) failure of Olimpia to maintain a debt to equity ratio of 1:1), Hopa may cause the partial demerger of Olimpia, in which event Olimpia may cause the partial demerger of Holinvest S.p.A. (Holinvest), a company jointly owned by Hopa (80.001%) and Olimpia (19.999%). In the event of any such partial demerger transactions, Hopa would receive its proportional share of Olimpia s assets and liabilities (determined in accordance with the Hopa Agreement) and Olimpia will receive its proportional share of Holinvest s assets and liabilities (determined in accordance with the Hopa Agreement). Except under certain extraordinary circumstances (including the failure of Olimpia to hold at least 25% of Olivetti s share capital or to maintain a debt to equity ratio of 1:1 after a specified cure period), no such partial demerger transactions may not be implemented prior to the third anniversary of the Holy Merger.

Hopa is granted certain co-sale rights in the event Pirelli reduces its equity interest in Olimpia.

Hopa, Holy, Holinvest and Hopa controlling companies (the Hopa companies), the Former Olimpia Shareholders and their respective controlling and controlled companies agreed not to acquire any additional Olivetti Shares except (i) in the case of Pirelli, in connection with the exercise of certain existing call options and swap agreements referred to in the Hopa Term Sheet, (ii) in the case of Edizione, Unicredito and Intesa BCI, as currently permitted, respectively, under the Agreements and the Agreements with the Banks, and (iii) in the case of the Hopa companies, as permitted under the Expanded Olimpia Shareholders Agreement.

The Expanded Olimpia Shareholders Agreement will have a three-year term as from the Holy Merger, subject to extension by mutual agreement of the parties thereto. If the Expanded Olimpia Shareholders Agreement is not renewed, the partial demerger transactions will occur and Hopa will receive a premium of at least 0.35 per Olivetti share (or financial instrument).

The Holinvest Shareholders Agreement will have a three-year term, subject to automatic extension if and to the extent the Expanded Olimpia Shareholders Agreement is extended.

The Parties have not sent any notification concerning the possible effects of the Merger on the Agreements, the Agreements with the Banks and the Hopa Agreement.

Updated Business Plan.

On February 14, 2002, Telecom Italia announced its 2002-2004 Industrial Plan (the Industrial Plan) and established its priorities for 2002. The main objectives were to:

- Strengthen its competitive position;
- Improve cost efficiency; and
- Strengthen the Telecom Italia Group s financial structure.

The Telecom Italia Group has sought to strengthen its competitive position in its core domestic market through the introduction of new products and services in its main business areas:

- In *Domestic Wireline*, a new brand and a new range of services for broadband Internet (Alice) was launched, reaching, at the end of 2002, a customer base of 850,000 broadband accesses. New voice packages and innovative integrated solutions for business clients were also introduced;

Table of Contents

- In *Mobile*, a new offering of multimedia services (messaging and videostreaming) and voice portals was developed together with the launching of specialized packages for business; and

- In *Internet & Media*, the directories product range was renewed, a new broadband portal was launched and the programs list of La7 (the Internet and Media business unit television station) was redesigned.

At December 31, 2002, the Telecom Italia Group had achieved 80% of the 2002-2004 announced target of cost reductions of 2 billion through the reduction of both operating expenses and capital expenditures.

With respect to strengthening Telecom Italia Group s financial structure, consolidated net financial debt (see Note 10 to Selected Financial and Statistical Information) of 18.1 billion as of December 31, 2002, meant that the Telecom Italia Group had fully achieved its target of 18.3 billion established under the Industrial Plan notwithstanding payment of 1.7 billion of dividends paid in advance in December 2002. This level of net financial debt was reached in large part with proceeds from the asset disposal program totaling 5.2 billion from September 2001 to December 2002, which included in 2002 assets such as Auna, Telekom Austria, Mobilkom Austria, Bouygues Decaux Telecom, real estate assets sold in the context of the Tiglio Project (see below Description of Property Tiglio Project) and other smaller assets. As a result of the Merger, New Telecom Italia s level of indebtedness will increase significantly. See Item 3. Key Information Risk Factors Risk Factors Relating to the Merger New Telecom Italia s total net financial debt will increase if the Merger of Telecom Italia and Olivetti is successful and Item 8. Financial Information Condensed Consolidated Pro Forma Financial Data .

The Telecom Italia Group s Industrial Plan establishes certain financial targets which the Telecom Italia Group has confirmed also apply to the 2003-2005 period and take into account the Merger. These targets are focused on:

- Innovation;

- Leveraging its leadership in its core Italian domestic market;

- Launching new value added services; and

- Leveraging core capabilities to create new opportunities.

The financial targets (based on Italian GAAP) include:

	Objectives of New Telecom Italia on a consolidated basis CAGR(1) 2002-2005
Operating revenues	4 4.5%
Gross operating profit	5 5.5%
Operating income	8 8.5%
Net financial debt (**in billions)**	34.3(2)

(1) Compound average growth rate.
(2) At December 31, 2004.

Please see Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act 1995 at the beginning of this Annual Report for a discussion of factors which could cause New Telecom Italia s actual results to differ materially from the targets discussed above.

Reorganization.

During 2002, the process of reorganizing the Telecom Italia Group s corporate structure continued.

The following new Functions were introduced and remain in place: Latin America Operations and Foreign Holdings, office of the General Counsel and Brand Enrichment.

Some institutionalized meetings such as a Purchasing Committee, which coordinates the purchasing process of the Telecom Italia Group, and the Network Development Committee, which is mandated to optimize the integration of wireline and mobile networks by controlling innovation and technological development, were added to the existing committees formed last year. They included the Business Reviews Committees, which monitor result, plans and projects of each Business Unit monthly, the Investments Committee which approves the

Table of Contents

major investments of the Telecom Italia Group, and the International Steering Committee, which defines the guidelines of the management of all the foreign holdings of the Telecom Italia Group.

As part of the reorganization, the Business Units underwent some further changes in 2002 and, in early 2003 the Telecom Italia Group further reorganized certain of its Business Units. See Item 5. Operating and Financial Review and Prospects Results of Operations General .

Disposition and Acquisition of Certain Equity Investments

Dispositions.

Sale of Real Estate Assets. On June 20, 2003, the Telecom Italia Group announced that it reached an agreement with Lastra Holding B.V. a company within the Five Mounts Properties group (FMP), for the sale of certain Telecom Italia Group real estate assets. FMP is the real estate arm of BSG (the Beny Steinmetz Group), which is owned and managed by the Geneva based Beny Steinmetz family trusts and foundation.

The value of the agreement, which is expected to be finalized by the end of July 2003, is equal to approximately 355 million.

Disposal of TI logistics company arm. On 27 January, 2003, Telecom Italia announced a transaction with TNT Logistics Italia whereby TNT takes over the stocking and distribution of fixed-line telephony products for customers and Telecom Italia Network assistance and installation. Among other factors, the transaction includes the transfer to TNT Logistics of certain assets of Telecom Italia comprising 6 central warehouses, 100 outlying warehouses and over 4.5 million telephone sets and telephone installation articles annually. Devised to promote a company focus on core business, the agreement became operational on March 5, 2003, upon receipt of clearance from the Italian Competition Authority and completion of union consultation procedures.

Disposal of GLB Servicos Interativos. On January 15, 2003, Telecom Italia Finance disposed of its 28.57% stake held in GLB Servicos Interativos to TIM Brasil for a consideration of U.S.$ 15 million. At the end of January 2003, TIM Brasil sold such investment to the Globo broadcasting group. As a result of such transaction, the Telecom Italia Group realized a net gain of 4 million (see Note 25 of Telecom Italia s consolidated financial statements included elsewhere in this Annual Report).

Disposal of Telekom Srbija. On December 28, 2002, the Telecom Italia Group announced that it had agreed to sell to PTT Srbija its 29% holding in Telekom Srbija. The deal was finalized on February 20, 2003 and is expected to be completed by the end of June. PTT Srbija is to pay 195 million, of which 120 million is to be paid by June 2003, and the remainder to be settled in six half-yearly installments from January 2006. The shares disposed of shall be placed in escrow with an international bank until payment of the consideration is complete.

Sale of stake in IMMSI. On November 22, 2002, Telecom Italia disposed of its 45% stake in IMMSI to Omniapartecipazioni S.p.A. for consideration of 69 million.

Sale of Telekom Austria. In November 2002, Telecom Italia International N.V. sold 75 million Telekom Austria A.G. shares previously held by the Telecom Italia Group. The placement price was 7.45 per share generating gross proceeds of 559 million and a loss of 135 million. After this transaction, the Telecom Italia Group s stake in Telekom Austria decreased from 29.78% to 14.78%.

Sale of Telespazio. In November 2002, Telecom Italia finalized its agreement with Finmeccanica for the sale of Telespazio. The total impact on the Telecom Italia Group was to reduce net financial debt by 239 million and a net gain for the Telecom Italia Group of 36 million.

Project Tiglio. On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized. The transaction provided for the integration of certain of the real estate properties of the companies involved, as well as the entities that provide real estate services to the same companies or to their subsidiaries. Under the framework agreement the Telecom Italia Group transferred assets to Tiglio I and Tiglio II in various corporate forms. The market value of these assets was 1,360 million, of which 50 million was related to Seat Pagine Gialle and approximately 1,310 million to real estate from Telecom Italia. The transaction had a net impact on the consolidated statement of operations of approximately 150 million for the Telecom Italia Group.

Partial sale of Stream stake. On October 1, 2002, Telecom Italia signed an agreement with the News Corporation group, partner of Telecom Italia in Stream, and Vivendi Universal, current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single Italian pay-TV company on one platform. On April 30, 2003, following the approval by the competent authorities, the agreement with News Corporation announced in October 2002 was concluded. The new company arising from the integration between Stream and Tele+ has been named SKY ITALIA and Telecom Italia paid approximately 30 million for its stake in the transaction. The company is held by Telecom Italia (19.9%) and News Corporation (80.1%).

Table of Contents

Solpart Participações. On August 27, 2002, the Telecom Italia Group reached agreement with the other shareholders in Solpart Participações (which has indirect control of Brasil Telecom) to reduce its own stake in Solpart (from 37.29% to 19% of ordinary share capital) through a sale of 18.29% of the ordinary share capital to Timepart Participações and to Techold Participações. This reduction was carried out to overcome regulatory constraints which had prevented TIM´s local subsidiaries from commencing commercial operations of its GSM regulatory 1800 service. As soon as legally possible, the Telecom Italia Group intends to return to its previous investment position. To this extent option rights have been granted to all parties.

Sale of 9Telecom. On August 26, 2002, the Telecom Italia Group completed, with the Louis Dreyfus Communication Networks group (LDCom), the sale of the Telecom Italia Group s investment in 9Telecom and the concurrent purchase of approximately 7% of LDCom by the Telecom Italia Group. The net impact on the Telecom Italia Group s result was a loss of 267 million. LDCom is part of the Louis Dreyfus group, a leading French holding company with international operations in telecommunications, energy, oil, maritime and agricultural commodities trading.

Sale of Auna. On August 1, 2002, the Telecom Italia Group concluded the sale of Auna to Endesa, Union Fenosa and Banco Santander Central Hispano. The transfer of the entire interest held by the Telecom Italia Group (26.89%) resulted in proceeds of 1,998 million and contributed 1,033 million to the consolidated net result of the Telecom Italia Group.

Sale of Telemaco Immobiliare. On August 1, 2002, Telecom Italia sold its 40% interest in Telemaco Immobiliare to Mirtus, an indirect subsidiary of the American real estate fund Whitehall promoted by the Goldman Sachs group, for net proceeds of 192 million. The net gain realized by the Telecom Italia Group was 64 million.

Sale of Sogei. On July 31, 2002, Finsiel disposed of its 100% stake in Sogei to the Ministry of Economy and Finance, which reduced Telecom Italia Group s net financial debt by 176 million.

Sale of stake in Mobilkom Austria. On June 28, 2002, TIM International N.V. (TIM International), a subsidiary of TIM, disposed of its 25% stake in Mobilkom Austria group to Telekom Austria (a company 14.78% owned by Telecom Italia International as of December 31, 2002), generating proceeds of 756 million and resulting in a gain, which contributed 64 million to the consolidated net result of the Telecom Italia Group.

Sale of stake in Bouygues Decaux Telecom. In March 2002, the Telecom Italia Group disposed of its 19.61% stake held by TIM International in BDT (Bouygues Decaux Telecom), parent company of the French operator Bouygues Telecom, generating proceeds of 750 million which contributed 266 million to the consolidated net result of the Telecom Italia Group.

Sale of stake in Lottomatica S.p.A. In February 2002, Finsiel S.p.A. accepted the tender offer from Tyche S.p.A. (De Agostini group), for its 18.3% investment in Lottomatica S.p.A. Proceeds for Finsiel were 212 million resulting in a gain which contributed 73 million to the consolidated net result of the Telecom Italia Group.

Acquisitions.

Agreement for the acquisition of Megabeam. In March 2003, Telecom Italia signed an agreement to acquire 100% of the share capital of Megabeam Italia S.p.A., the first Italian wireless Internet service provider, for consideration of 11.5 million. Megabeam s acquisition falls under Telecom Italia s broadband strategy, in which wireless technology, such as Wi-Fi, occupies a fundamental role in solutions for families and businesses. Megabeam offers Wi-Fi networking services in private sites and is experimenting the same Wi-Fi service in public places, for example, in significant Italian airports and a hotel chain using Wireless-Lan which operates on the 2,400-2,483.5 frequency. The execution of the agreement is subject to the approval of the Italian Antitrust Authority.

Purchase of Blu S.p.A. On October 7, 2002, TIM concluded its agreement to purchase Blu S.p.A. (the fourth mobile operator) from its shareholders. Blu S.p.A. was merged with TIM S.p.A. becoming effective on December 23, 2002. The final purchase price was 84 million.

Acquisition of the assets of the Pagine Utili directories. On September 11, 2002, the Telecom Italia Group reached an agreement with Pagine Italia S.p.A. for the acquisition of the assets of the Pagine Utili directories, the business segment represented principally by the so-called pocket pages with about 60,000 advertisers. The transaction involves the payment of 214 million Seat Pagine Gialle ordinary shares held by the

Table of Contents

Telecom Italia Group, corresponding to 1.9% of the Seat Pagine Gialle ordinary share capital. The execution of this transaction is subject to the approval of the Italian Antitrust Authority. After the observations formulated by the Italian Antitrust Authority during the inquiry period, on January 16, 2003, Telecom Italia and Pagine Italia S.p.A. agreed to formally withdraw the announcement about the acquisition of the Pagine Utili business segment. The parties further agreed to extend the contract period in order to be able to renegotiate certain aspects of the transaction so that it can eventually be re-submitted to the Antitrust Authority.

Purchase of stakes in EPIClink. On August 2, 2002, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli (25.3%), IntesaBci (20%), E_voluzione (8%) and Camozzi Holding (2.4%). EPIClink specialized in outsourcing services in Information and Communication Technology (ITC) for small and medium-size businesses. After this transaction, EPIClink s shareholder base is as follows: Telecom Italia, 86%, Pirelli, 5%, IntesaBci, 5%, Camozzi, 2% and E_voluzione, 2%. Telecom Italia is committed to acquire the residual 14% stake for a total consideration of 10 million.

Purchase of stakes in Stet Hellas. In August 2002, TIM International purchased, from the Verizon Europe Holding II group, a 17.45% stake in the share capital of Stet Hellas for a price of 108 million. Together with its existing stake of 63.95%, TIM International now holds 81.40% of Stet Hellas share capital. The transaction, which in effect makes TIM International the only industrial partner and strategic shareholder in the company, falls within the framework of the Telecom Italia Group s strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

Investment in Webegg S.p.A. In June 2002, IT Telecom S.p.A. purchased the 50% investment in Webegg S.p.A. held by Olivetti for consideration of 57.5 million. As of December 31, 2002, Webegg S.p.A. is held by IT Telecom S.p.A. (69.8%) and Finsiel S.p.A. (30.2%). The Webegg group is an Internet Consulting company offering its own solutions as well as those deriving from partnerships with the world s leading Internet solutions companies.

Acquisition of Consodata shares. On February 12, 2003 Seat Pagine Gialle acquired 1,108,695 ordinary shares in the French subsidiary Consodata S.A. listed on the Paris Nouveau Marché stock exchange after the founding shareholders´ exercised their option to sell, which was extended to them under an agreement made with previous Seat Pagine Gialle management on July 31, 2000. This transaction, undertaken at an agreed consideration of 44 per share for a total of approximately 48.8 million resulted in Seat Pagine Gialle acquiring a further 8.17% of the company share capital and voting rights, thereby raising its stake in Consodata S.A. to 98.60%.

Lisit Informatica. On February 4, 2003, Telecom Italia, in a temporary association of companies with Finsiel and Lutech (Lucchini group), won the bid held by the Lombardy Regional Authority for the supply of the goods and services needed to disseminate and manage the Regional Services Card throughout the Lombardy Region. The total value of the bid won by the association led by Telecom Italia, scheduled to last until 2009, is approximately 350 million. Within the framework of the obligations undertaken, Telecom Italia and Finsiel acquired 35.2% of the share capital of LISIT, for a total of 54 million.

Early purchase of leased assets. On January 27, 2003, procedures were completed for the early purchase of 12 property units (approximately 300,000 square meters) from Teleleasing S.p.A. that are used by Telecom Italia S.p.A. and other Telecom Italia Group companies under financial leasing contracts. The deal involved a total financial payment of approximately 369 million for the entire Telecom Italia Group. Certain of these assets were recently agreed to be sold. See Dispositions above.

Other Developments

Nortel Inversora S.A. As per the decision of the Shareholders meeting of April 25, 2002, the Preferred A shares of Nortel Inversora S.A. have the right to vote (one vote per share), as a consequence of the default by Nortel Inversora in repaying the amortization plan related to those shares. Moreover, following Nortel Inversora first quarter 2002 results, Telecom Argentina Total Liabilities/Net Equity ratio exceeded 1.75, giving a voting right also to Preferred B shares, that was officially established during the Shareholders meeting of September 13, 2002. As a result Telecom Italia International and Telecom Italia voting rights have been respectively diluted from 17.5% to 11.86% and from 32.5% to 22.03%, respectively.

Table of Contents

Recent Developments

Merger of Telecom Italia into Olivetti

On March 11, 2003, the Boards of Directors of Telecom Italia and Olivetti met to discuss the proposed merger of Telecom Italia with Olivetti (the Merger), in which Olivetti would be the surviving company, changing its name to Telecom Italia S.p.A. upon the Merger becoming effective. At that time each of the Telecom Italia Board and Olivetti Board agreed that the proposed Merger transaction should be explored, and established a proposed exchange ratio of seven Olivetti Ordinary Shares for each Telecom Italia Ordinary Share and seven Olivetti Savings Shares for each Telecom Italia Savings Share. Telecom Italia was advised by Lazard & Co. S.r.l. and Goldman Sachs SIM S.p.A. and Olivetti by JPMorgan Chase Bank.

The Telecom Italia Board and the Olivetti Board reconvened on April 15, 2003 and in each case concluded to proceed with the Merger and fixed the exchange ratios as described above. As a result, the plan of merger was agreed upon and the shareholders meetings of both companies were convened and such shareholders meetings were held on May 26, 2003 and May 24, 2003, on second and first call, respectively. At such meetings each of the Olivetti Ordinary shareholders and the Telecom Italia Shareholders approved the Merger transaction. The effectiveness of the Merger is conditioned upon the savings shares of New Telecom Italia being accepted for listing on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

In addition to the Merger, the following transactions are also contemplated:

- Olivetti shareholders who either voted against the Merger or did not attend the shareholders meeting benefit from a withdrawal right of 0.9984 per share (which is the mean of the daily official prices of the Olivetti shares in the six months preceding the date the merger resolution was adopted on May 26, 2003). Olivetti shareholders were entitled to such a right by law due to the change in the corporate objectives of New Telecom Italia. As of June 12, 2003, the end of the withdrawal right period, Olivetti shareholders had exercised such right with respect to 10,958,057 Shares representing 0.12% of the outstanding Ordinary Shares. Olivetti shareholders will receive an aggregate payment of 10,940,525 when the Merger becomes effective.

- Voluntary cash tender offers by Olivetti for a portion of the outstanding Telecom Italia Shares and Savings Shares, to be made in connection with the Merger and before its completion (although the cash tender offer is not being made to Savings Shareholders in the United States). The tender offers for the Telecom Italia Shares and the Telecom Italia Savings Shares will commence on June 23, 2003, with Olivetti tendering for approximately 17.3% of the shares in the respective classes.

In connection with financing the withdrawal right and the cash tender offers, Olivetti has entered into a term loan facility pursuant to which it will borrow up to 9 billion (assuming that the tender offers are fully subscribed) with respect to the above transactions. Any such payments for withdrawal rights and for the cash tender offers will only be made at the time the Merger becomes effective. See Item 8. Financial Information Condensed Consolidated Pro Forma Financial Data . The total amount of the facilities is 15.5 billion, with the remaining 6.5 billion as a senior revolving credit facility available to refinance Telecom Italia s existing 7.5 billion facility providing for working capital and general corporate purposes for Telecom Italia and, following the Merger, New Telecom Italia.

The tender offer for the Savings Share is not being made, directly or indirectly, in or into the United States and is not capable of being accepted, directly or indirectly, in or from the United States.

The Merger is expected to become effective in the first half of August 2003, subject to certain conditions required under Italian law. As a result of Olivetti being the surviving company (and changing its name to Telecom Italia S.p.A.), New Telecom Italia will, on completion of the Merger, succeed to the 1934 Act registration of Telecom Italia and become subject to the foreign private issuer reporting requirements of the 1934 Act. It is the intention of New Telecom Italia to apply for a listing, and complete such listing, on the New York Stock Exchange by the time of the effectiveness of the Merger.

Reasons for the Merger.

- *Principal Business Rationales*

The purpose of the Merger is to merge the operations, assets and liabilities of Olivetti and Telecom Italia into a single company, a substantial majority of whose share capital and voting rights will be held by

Table of Contents

shareholders unaffiliated with Pirelli or Olimpia. The Telecom Italia Board believes that the Merger will produce a simplified, more transparent corporate, capital and financial and ownership structure, which will benefit the shareholders of both Telecom Italia and Olivetti. The principal benefits include the following:

- *Improved ownership structure: Majority ownership by shareholders unaffiliated with Pirelli or Olimpia.*

As a result of, and immediately after, the Merger, shareholders unaffiliated with Olivetti, Pirelli or Olimpia will see their proportionate ownership of New Telecom Italia s share capital increase substantially. Currently, Olivetti S.p.A. owns approximately 54.94% of the Telecom Italia Shares. The exact percentage of New Telecom Italia s share capital that shareholders unaffiliated with Pirelli or Olimpia will hold immediately after the Merger depends on a number of factors, such as:

- the number of Olivetti shares which may be issued upon conversion of Olivetti s outstanding convertible bonds or exercise of Olivetti s outstanding warrants (a portion of which are held by Olimpia and its affiliated entities);
- the number of Olivetti shares issued pursuant to the exercise of outstanding stock options held by officers of Olivetti (Telecom Italia has suspended the exercise of outstanding stock options until after the Merger becomes effective); and
- the number of Telecom Italia Shares and Savings Shares tendered in response to Olivetti s cash tender offer for a portion of Telecom Italia s Shares and Savings Shares.

As a result of the Merger it is expected that Olimpia will be the largest shareholder in New Telecom Italia. The exact percentage of Olimpia s interest in New Telecom Italia s share capital immediately after the Merger can not currently be determined and depends on the factors discussed above but is expected to be in a range of 9.94% to 13.27%.

The Telecom Italia Board believes that the expected new ownership structure will facilitate the markets valuation of New Telecom Italia based on New Telecom Italia s business, financial condition and prospects and eliminates any negative effect that Telecom Italia s current ownership structure may have on valuation. The Telecom Italia Board also believes that the absence of a controlling shareholder will produce a corresponding increase in the liquidity of the New Telecom Italia shares compared to the current liquidity of Telecom Italia Shares and that this has the potential to enhance market valuations of New Telecom Italia shares.

- *Improved corporate structure.*

The Merger will simplify and make more transparent the Telecom Italia Group s corporate structure. Instead of having Olivetti, an intermediate holding company with few operations of its own, between Olimpia and Olivetti s other shareholders on the one hand and Telecom Italia on the other, all of Olivetti s and Telecom Italia s respective operations will be combined in a single entity with a single Board of Directors and a single Board of Statutory Auditors. In New Telecom Italia, Olimpia, Olivetti s other shareholders and Telecom Italia s minority shareholders will have direct ownership interests. This, and the integration of Olivetti s and Telecom Italia s respective corporate support functions, is expected to simplify and improve the corporate governance, management and decision-making process of New Telecom Italia compared to the current situation.

- *Rationalized capital and financial structure.*

The Merger is intended to optimize financial and income flows within the New Telecom Italia Group through a more efficient management of the New Telecom Italia Group debt and more effective use of financial leverage. The Merger as a whole will also make it possible to attain a more efficient financial structure, with an increase in debt capital, which currently has a lower net cost than equity capital. It is also likely that these effects will lead to an improvement in the creditworthiness of New Telecom Italia, which, in turn, could lead to a more favorable rating and a reduction in the cost of future debt.

The Telecom Italia Board also believes that the Merger will produce a more unified approach to debt management (for example, with respect to extending maturities and co-ordinating with the needs of the businesses) than is currently the case for Olivetti and Telecom Italia on a stand-alone basis.

Table of Contents

SEAT Spin-off

On April 1, 2003, the Board of Directors of SEAT approved the proposed proportional spin-off of substantially all of the Directories, Directory Assistance and Business Information business segments of SEAT into a newly incorporated company which will assume the current name of SEAT (New SEAT). Effective as of the date of spin-off, the corporate name of SEAT will be Telecom Italia Media S.p.A. (hereinafter referred to as Telecom Italia Media). The spin-off plan was approved by the SEAT extraordinary shareholders meeting held on May 9, 2003.

The spin-off plan provides for a spin-off on a proportional basis. The allocation of the shares of, respectively, New SEAT and Telecom Italia Media, is based on the net assets of each company as of December 31, 2002. Consequently, for every 40 ordinary (or savings, as applicable) shares currently owned, the present shareholders of SEAT will receive:

- 11 new ordinary (or savings, as applicable) shares of Telecom Italia Media, and
- 29 new ordinary (or savings, as applicable) shares of New SEAT.

The shares of both companies will be listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana: the effectiveness of the spin-off is conditioned upon the shares of New SEAT being accepted for listing.

The spin-off plan contemplates the creation of two independent companies, each focused on its core businesses. It is SEAT management s view that SEAT operates in two broad market sectors that have increasingly developed separate and distinct characteristics in terms of strategy, operations and competitive landscape. The first sector is that of targeted advertising and telephone services, in which SEAT operates through its Directories, Directory Assistance and Business Information segments, providing answers to queries via printed, online and telephone products and services.

The second sector is that of traditional advertising and the Internet, in which SEAT operates through its Internet, TV and other business segments, primarily providing access and content services. In SEAT management s view, both sectors present interesting development prospects (including broadband access and digital TV).

The strategic objective of the spin-off plan is to allow SEAT s businesses in each of the two sectors to more rapidly respond to market developments and exploit market opportunities, with a more focused management and a resource allocation consistent with the development prospects of each business line.

The spin-off plan provides for the transfer to New SEAT of the following companies within the Directories, Directory Assistance and Business Information business segments of SEAT:

Directories:	Directories Italia Seat Pagine Gialle S.p.A. division, Annuari Italiani S.p.A., Euredit S.A., TDL group, Euro Directory S.A.

Directories Assistance:	Directories Assistance Seat Pagine Gialle division, Telegate group, Telegate Holding GmbH, IMR S.r.l.
Business Information:	Consodata S.A., Consodata group Ltd (including Netcreations Inc., Pan-Adress).

The other companies and business segments will remain in SEAT, which, as noted above, will be known as Telecom Italia Media.

For a further discussion of these businesses, please see Internet and Media.

The spin-off, subject to certain conditions of Italian law, is expected to become effective at the end of July 2003.

Potential Sale of Telecom Italia s stake in New SEAT

On June 10, 2003 Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT which will be received by the Telecom Italia Group after the spin-off transaction creating New SEAT (including the shares resulting from the expected exercise of the J.P.Morgan Chase put option). The parties agreed on a sale price of 0.598 per New SEAT ordinary share, representing an enterprise value of approximately 5.65 billion.

Table of Contents

The completion of the sale will be subject to the proportional spin-off becoming effective, the admission to listing of New SEAT, that is expected to occur by the beginning of August, and the approval of the relevant anti-trust authorities. Telecom Italia will receive approximately 3.03 billion for its stake. The buyers will also assume the estimated 708 million of debt of New SEAT at the closing.

The transaction will allow New Telecom Italia to reduce its net financial debt by approximately 3.74 billion.

See also Item 8. Financial Information Condensed Consolidated Pro Forma Financial Data .

Telecom Italia Hewlett-Packard deal.

On February 21, 2003, Telecom Italia and Hewlett-Packard agreed to a five-year management services and outsourcing agreement worth a total of 225 million. The agreement became effective on April 16, 2003 following receipt of clearance from the Italian Antitrust Authority and completion of labour union consultation procedures. Under the agreement, Hewlett-Packard will supply asset management, help desk, maintenance and workstation management services to the Telecom Italia Group, while IT Telecom will manage the Hewlett-Packard s Italian operational activities in the SAP environment and house the systems in its Data Centers. The agreement also contemplated the sale by IT Telecom of the Desktop Management Services business (100%-owned by Telecom Italia) to the new Hewlett-Packard s entity HP DCS (Hewlett-Packard Distributed Computing Services).

Restructuring of the Telecom Argentina group s debt obligations.

On February 12, 2003, Telecom Argentina STET-France Telecom S.A. (controlled by Nortel Inversora) (Telecom Argentina) and its subsidiaries, Telecom Personal S.A. and Publicom S.A. announced their intention to launch a cash tender offer for a portion of their financial debt obligations and to make partial interest payments on their financial debt obligations. Having obtained any necessary authorizations, the offer started on April 16, 2003 and represents the beginning of the process to restructure the Telecom Argentina group s debt obligations.

In June 2003, Telecom Argentina and its subsidiaries Telecom Personal S.A. and Publicom S.A., pursuant to a tender offer, repurchased U.S.$ 292 million principal amount of their financial debt obligations at a price of U.S.$ 160.6 million (55% of the face value).

Telecom Italia share buyback.

Under the buyback plan authorized by the Ordinary Telecom Italia Shareholders Meeting of November 7, 2001, the Company in March 2002 began to buy-back treasury shares on the market according to the terms and in the manner established by existing laws and the above shareholders resolution. During the period between January 1 and May 7, 2003, 8,662,500 savings shares were acquired at an average price of 4.73 per share, corresponding to an investment of 41 million, plus 915,000 ordinary shares at an average price of 6.83 per share, corresponding to a 6 million investment. The above authorization expired on May 7, 2003 and at such date, 54,309,500 savings shares had been acquired at an average price of 5.24 per share, corresponding to an investment of 285 million, plus 6,195,500 ordinary shares at an average price of 8.00 per share, corresponding to a 50 million investment. As a result of the merger of Telecom Italia with and into Olivetti, the Telecom Italia Ordinary and Savings Shares treasury stock will be cancelled.

Telecom Italia Group Results for the First Quarter Ended March 31, 2003.

For a discussion of first quarter results for 2003 see Item 5. Operating and Financial Review and Prospects Recent Developments Telecom Italia Group Results for the First Quarter Ended March 31, 2003 compared to March 31, 2002 .

30

Table of Contents

Overview of the Telecom Italia Group s Major Business Areas

The following is a chart of Telecom Italia Group s business units as of March 31, 2003:

(1) Mobile South America.
(2) Previously included in the International Operations Business Unit.

Table of Contents

The table below sets forth certain key data for each Business Unit.

		Domestic Wireline (1)	Mobile	South America (1)(2)	Internet and Media	IT Market (3)	IT Group (3)	Sub Total	Other activities and eliminations (4)	Consolidated Total
		(millions of Euro, except number of employees)								
Gross operating revenues	2002	17,022	10,867	1,409	1,991	912	1,215	33,416	(3,016)	30,400
	2001	17,168	10,250	1,534	1,957	1,198	1,198	33,305	(2,487)	30,818
	2000 (pro forma)(5)	17,419	9,418	312	263	1,135	1,332	29,879	(2,710)	27,169
	2000	17,419	9,418	2,100	263	1,135	1,332	31,667	(2,756)	28,911
Gross operating profit(6)	2002	7,965	5,039	450	593	104	140	14,291	(327)	13,964
	2001	7,750	4,760	527	444	166	188	13,835	(216)	13,619
	2000 (pro forma)(5)	7,403	4,447	172	(35)	136	203	12,326	(109)	12,217
	2000	7,403	4,447	1,073	(35)	136	203	13,227	(109)	13,118
Operating income	2002	4,700	3,358	146	232	61	(21)	8,476	(1,095)	7,381
	2001	4,361	3,136	187	31	123	22	7,860	(1,186)	6,674
	2000 (pro forma)(5)	3,904	2,988	99	(73)	105	(15)	7,008	(567)	6,441
	2000	3,904	2,988	473	(73)	105	(15)	7,382	(577)	6,805
Capital expenditures	2002	2,462	1,715	216	81	30	158	4,662	180	4,842
	2001	2,801	3,151	406	175	30	162	6,725	265	6,990
	2000 (pro forma)(5)	2,710	4,206	68	34	37	159	7,214	161	7,375
	2000	2,710	4,206	592	34	37	159	7,738	161	7,899
Number of employees at the year end	2002	53,682	18,702	5,461	7,715	4,493	7,327	97,380	4,333	101,713
	2001	57,895	16,721	5,746	9,264	6,441	6,844	102,911	7,045	109,956
	2000 (pro forma)(5)	62,366	15,257	1,087	7,515	7,400	6,385	100,010	7,161	107,171
	2000	62,366	15,257	8,585	7,515	7,400	6,385	107,508	7,161	114,669

(1) The data relating to 2001 and 2000 have been reclassified and presented consistent with the 2002 presentation.

(2) The data refer to Entel Chile Group, Entel Bolivia group, the company Telecom Italia America Latina and the business segment South America of Telecom Italia.

(3) In early 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group. Beginning January 1, 2002, Saritel S.p.A. was consolidated in the Information Technology Group Operating Activity instead of the Domestic Wireline Business Unit.

(4) The data presented include the operations of the Foreign Holdings Corporate Function and the Business Unit Satellite Services (the Telespazio group) which was disposed of during the 4th quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002.

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

(6) See Item 3. Key Information Selected Financial and Statistical Information Note 9 .

32

Table of Contents

The following table sets forth, for the periods indicated, certain selected statistical data for the Italian fixed-line, mobile and internet businesses.

	Year ended December 31,		
	2000	2001	2002
Subscription and Customers:			
Subscriber fixed-lines at period-end (thousands)(1)	27,153	27,353	27,142
Subscriber fixed-line growth(%)	2.5	0.7	(0.8)
Subscriber fixed-lines per full-time equivalent employee at period-end(2)	409	448	496
ISDN equivalent lines at period-end (thousands)(3)	4,584	5,403	5,756
TIM lines at period-end (thousands)	21,601	23,946	25,302
TIM lines growth per annum(%)	16.6	10.9	5.7
Average revenue per mobile line per month( )(4)	30.5	29.1	28.8
Cellular penetration at period-end (TIM lines per 100 inhabitants)(%)	37.5	41.6	43.9
Cellular market penetration at period-end (lines for the entire market per 100 inhabitants)(%)	73.3	89.0	95.0
Retail Traffic(5):			
Average minutes of use per fixed-line subscriber during period(6)	4,722	4,739	4,292
Of which:			
Local traffic during period (in average minutes)(7)	3,621	3,575	3,198
Long-distance traffic during period (domestic and international) (in average minutes)	1,101	1,163	1,094
Growth in international incoming and outgoing traffic in minutes(%)(8)	5.4	12.1	5.7
Total mobile outgoing traffic per month (millions of minutes)	1,569	1,795	1,960
Internet and Media:			
Directories (units)	474	477	477
Of which SEAT Pagine Gialle	304	304	304
Of which Thomson (TDL Infomedia Ltd.)	170	173	173
Page Views Virgilio (millions)	2,218	3,945	5,267
Active Users (at year-end, thousands)	1,656	1,804	2,226

(1) Data include multiple lines for ISDN and exclude internal lines.
(2) Ratio is based on employees of Telecom Italia only.
(3) Data exclude internal lines.
(4) Including Prepaid Customers revenues and excluding equipment sales and including non TIM customer traffic.
(5) Retail traffic consists of traffic from Telecom Italia customers for local calls, long distance national and international calls (including calls to mobile phones).
(6) Includes total fixed outgoing traffic (including international outgoing traffic and fixed outgoing traffic to the mobile networks).
(7) Including district and internet dial-up traffic.
(8) Data include incoming and outgoing wholesale traffic and retail outgoing traffic.

Table of Contents

Strategy

General

Telecom Italia Group s strategic priorities include:

- consolidating its leadership in the domestic wireline market by increasing customer loyalty through innovative offers and stimulating the market for value added and broadband services, with special reference to ADSL technology; in the mobile market, to increase traffic volumes and develop value added services in line with user expectations (MMS, community videotelephony), in part through the introduction of UMTS technology; and, in the Internet and Media sector, to continue the development of broadband services and portals;
- expanding the Telecom Italia Group s presence abroad in markets where it can capitalize on its marketing and technological know-how: in the mobile business, in Latin America and especially in Brazil and, in the wireline business, through the development of the pan-European broadband network;
- continuing to manage the Telecom Italia Group according to rigorous criteria of efficiency, relying on synergies deriving from the organizational model based on so-called professional families and service centers, cost control systems, and the careful selection of investment projects, aimed primarily at fostering innovation and growth.

Industrial investments will be directed towards reinforcing the following strategy:

- focus on innovation;
- continuing leadership in the domestic market; and
- development of value added services.

The industrial investments planned for the three years 2003-2005 will be between 14 billion and 16 billion, more or less in line with the forecast for the three years 2002-2004. The breakdown by sector of activity is shown in the table below.

	Approximate % of Industrial Investments
Domestic Wireline	45%
Mobile	40%

Internet and Media	2%
Other	13%

Domestic Wireline

The Telecom Italia Group s wireline strategy will be driven by defense of market share in voice traffic, strong emphasis on data/internet growth and broadband development, and focus on obtaining continuing efficiencies and levels of capital expenditures.

In particular, the Telecom Italia Group intends to:

- maintain its domestic leadership in its core business (voice services, internet access, data transmission services for businesses, national and international wholesale services);
- consolidate its operational capabilities with the objective of offering best in class service levels to its customers and leverage opportunities to retain its client base by enhancing customer loyalty (through billing, CRM and customer contact);
- concentrate on developing value added services, both for corporate and residential customers, to sustain revenue and margin levels, building, in particular, on the increasing penetration of internet and broadband services, but also on innovation in voice services and terminals, equipped with new facilities, similar to mobile phone functions;
- run efficient operations and continue its cost-cutting program (personnel, real estate, general and administrative, network); and
- maintain competitive services and focus investment on enhancing network evolution and innovation (optical transport, IP services, etc.).

There can be no assurance that these objectives and targets will actually be achieved.

Table of Contents

Mobile

TIM s strategy is focused on maintaining its leadership in the wireless market, in particular:

- defending its share of the voice and SMS market;
- developing a new GPRS and UMTS Mobile Data generation;
- developing GSM services in Brazil and acquire leadership in the GSM Latin American market; and
- completing the start-up phase of some subsidiaries.

The main strategic tools for the achievement of such objectives are:

- focus on the customer, to be achieved through caring, segmentation of the offer, focus on high spending clients and leadership on customer acquisition;
- premium positioning, guaranteed by the development of a consistent on-net community, by providing a high quality of service, by the maintenance of a price premium and by avoiding handsets subsidies;
- technological innovation and leadership, characteristics associated with the TIM brand, to be maintained through: GPRS/UMTS development, launching innovative value added services, maintenance of high standards of quality for the Network and IT services and the progressive migration from a TDMA network to a GSM network for some controlled companies;
- excellence in human resources, through recruitment, development and retention of key human resources, analysis and selection of methods for increasing flexibility of resources and the management of internal innovation process; and
- profitability and cash flow generation, through maintenance of high efficiency levels on its network, IT and back-office, investments and working capital control and a prudent capital allocation policy.

There can be no assurance that these objectives and targets will actually be achieved.

Table of Contents

The Organizational Structure

The following diagram highlights the organizational structure of the Telecom Italia Group as of June 16, 2003.

(1) Consortium company which carries out Internal Auditing activities in the Telecom Italia Group and Olivetti.
(2) Beginning April 1, 2003, the company Telecom Italia Lab, which was the Research & Development function, was merged by incorporation into Telecom Italia S.p.A. At the same time, this function took the name of Telecom Italia Lab.
(3) Latin America Operations coordinates the activities of the Telecom Italia Group in Latin America. Beginning February 2003, Latin America Operations report directly to the CEO Carlo Buora for wireline TLC and to the head of the Mobile Business Unit Mobile for Mobile TLC.
(4) As of June 16, 2003, Domestic Wireline took the name Wireline. At the same time, Giuseppe Sala was appointed General Manager directly reporting to the Telecom Italia CEO and Head of Wireline Riccardo Ruggiero. Beginning July 1, 2003, Luca Luciani is appointed Assistant of the Chairman.
(5) As of June 18, 2003 the new central function, International Affairs, was established which reports directly to the CEO Carlo Buora. On the same date the central Function Foreign Holdings merged into International Affairs and the International Steering Committee was disbanded. Head of International Affairs is Giampaolo Zambeletti.

Telecom Italia Group s organizational structure includes:

- Central Functions, which are responsible for the Telecom Italia Group s operations;
- Operational Activities, which are responsible for the synergies of Intra-Group activities and for the supply of common services; and
- Business Units, which are responsible for business development and managing operations for the external markets.

36

Table of Contents

BUSINESS UNITS

Domestic Wireline

The Domestic Wireline Business Unit accounted for gross operating revenues of 17,022 million in 2002, 17,168 million in 2001 and 17,419 million in 2000. The organizational structure of the Domestic Wireline Business Unit as of December 31, 2002 was as follows:

(1) On December 31, 2002 International Wholesale Services was moved to Telecom Italia Sparkle.

As a result of the 2002 Reorganization, Saritel (a company specializing in Internet operations and value added services for fixed and mobile telecommunications such as Internet hosting, e-business solutions, on-line services and vocal recognition software) was moved to the Information Technology Group Operating Activity and Intelcom San Marino S.p.A. is now included as part of the Domestic Wireline Business Unit.

Domestic Wireline operates on a national level as the consolidated market leader in wireline telephone and data service and call centers, for consumers and other operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and Latin America.

Subscribers. The table below sets forth, for the periods indicated, certain subscriber data of Domestic Wireline.

	As of December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
Subscriber fixed-lines at period-end (thousands)(1)	25,986	26,502	27,153	27,353	27,142
Subscriber fixed-line growth (%)(2)	1.1	2.0	2.5	0.7	(0.8)
Subscriber fixed-lines per full time equivalent employee at period-end(3)	332	354	409	448	496
ISDN equivalent lines at period-end (thousands)(4)	1,735	3,049	4,584	5,403	5,756

(1) Data include multiple lines for ISDN and exclude internal lines.
(2) For each of the years ended December 31, the percentage growth figure represents growth per annum over the prior year s end.
(3) Ratios are based on employees of Telecom Italia.
(4) Excluding internal lines.

At December 31, 2002, Domestic Wireline had approximately 27.1 million fixed subscriber lines, including approximately 18.9 million residential lines (including multiple lines for ISDN), approximately 8.0 million business lines (including multiple lines for ISDN), and approximately 230,000 public telephones lines (including ISDN equivalent lines). Italy has 48 subscriber lines per 100 inhabitants.

At December 31, 2002, Domestic Wireline had approximately 5.8 million ISDN equivalent lines. The number of subscribers is expected to continue increasing although marketing focus is on ADSL lines which

Table of Contents

provide greater speed on the Internet. This is evidenced by significant growth in broadband access: at December 31, 2002, Domestic Wireline had contracts for approximately 850,000 broadband points of access (390,000 at the end of 2001) with approximately 220,000 wholesale points of access (143,000 at the end of 2001) and 630,000 retail market points of access (247,000 at the end of 2001). The growth is attributable to the success of various tariff structures geared to the Mass Market, and to business customers. At the end of 2002 Domestic Wireline had contracts for 390,000 Mass Market and Soho broadband access and 240,000 business broadband access.

At December 31, 2002, 62% of the public telephones in service were equipped with phone card readers. The density of public telephones in Italy is among the highest in the world, with one public telephone per square kilometer and approximately 4.2 public telephones for every 1000 inhabitants. During 2002, ISDN technology was introduced to approximately 45% of public telephones in order to support the launch of innovative services (104,635 basic ISDN equivalent lines in public telephony architecture; unlike residential and business ISDN lines, each ISDN public telephone line is linked to only one phone).

Domestic Traffic

The table below sets forth, for the periods indicated, certain traffic data for Domestic Wireline.

	Year ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
Average minutes of use per fixed line subscriber during period(1)	4,259	4,298	4,722	4,739	4,292
of which:					
Local traffic during period (in average minutes)(2)	2,628	2,767	3,621	3,575	3,198
Long distance traffic during period (domestic and international) (in average minutes)	1,631	1,531	1,101	1,163	1,094

(1) Includes total fixed outgoing traffic (including international outgoing traffic and fixed outgoing traffic to mobile networks); excludes traffic for special services.
(2) Data for the years 1998 and 1999 include internet dial-up traffic and exclude district traffic which is accounted for in long distance traffic; data for the years 2000, 2001 and 2002 include district and internet dial-up traffic.

Domestic Fees and Tariffs. Since November 1, 1999, the Telecom Italia Group s traffic tariffs have been based on a per second billing system with an initial fixed charge (the call set up). The tariff per call set up varies depending on the kind of call: 0.0619 for local calls, 0.0787 for long distance calls (including calls to mobile) and 0.3098 for international calls. The tariff per second varies according to the kind of call, the time of day, the day of the week and, for long distance calls only, the distance. Since December 1997, the Telecom Italia Group has introduced tariff packages for residential and business customers which provide for discounts on national and international traffic tariffs and additional rental charges.

Traffic packages mainly consist of Teleconomy offers for Mass Market and Small office/home office (Soho) customers. Further customized offers are provided to business customers.

Teleconomy was launched as a brand in June 2000. The Teleconomy offers include tariff packages with targeted discounts and customized programs for residential and business customers. Teleconomy offers were revised in 2002 to further support retention efforts and to win back customers.

Penetration of Teleconomy offers and ADSL lines are key strategic priorities for Domestic Wireline.

New Teleconomy offers, which Domestic Wireline introduced in 2002, include:

- for Mass Market customers: Teleconomy Forfait (no payment for national calls, excluded calls to mobile, for an additional fee) and Teleconomy Zero (fixed price for any national calls, excluded calls to mobile, for an additional fee); and
- for Business customers: new offers as Teleconomy Professional (which provides a volume of no payment traffic minutes for an additional fee) and Teleconomy Zero Business (similar to Teleconomy Zero).

For Business customers Domestic Wireline has introduced specific offers for companies with high volumes of traffic, allowing companies to choose among a variety of price plans. In addition, Domestic Wireline has launched in two steps Ricomincio date , a standard offer for residential (February 2002) and business customers (second half 2002) which provide an amount of free national traffic minutes with no additional fees.

Table of Contents

Domestic Tariff Rebalancing. The Telecom Italia Group commenced rebalancing its tariffs in 1991 and made various adjustments until 1997. Since December 1998, the National Regulatory Authority has been responsible for tariff regulation. On July 28, 1999, the National Regulatory Authority introduced a price cap mechanism designed to promote productivity and efficiency for the Telecom Italia Group, as the incumbent operator in markets with a low level of competition. The price cap was applied until December 31, 2002 to a whole basket of public voice telephone services composed of activation fees, basic charges, long distance and international tariffs.

The table below sets forth, for the periods indicated, initial connection fees, bimonthly subscription fees and the average cost of a three-minute local call and a three-minute peak rate call for the four different domestic long distance regions (exclusive of value-added tax) and the percentage change since 1998.

	Year ended December 31,					Percentage change since
	1998(1)	1999(1)	2000(1)	2001(1)	2002	1998(2)
			( )			(%)
Connection fee	103.29	103.29	103.29	103.29	100.00	-3.2
Bimonthly subscription fee:(3)						
Residential subscribers	16.84	18.59	19.32	21.38	24.28	44.2
Business subscribers	26.24	27.27	27.27	29.23	30.40	15.9
Basic ISDN connection fee	103.29	103.29	103.29	103.29	100.00	-3.2
Basic ISDN bimonthly subscription fee:						
Residential subscribers	33.05	33.05	33.05	33.05	33.05	0.0
Business subscribers	51.65	51.65	51.65	51.65	54.74	6.0
Three minute local call:						
Standard	0.0930	0.0992	0.0992	0.0992	0.0992	6.7
Higher(4)	0.0930	0.0992	0.0992	0.0992	0.0992	6.7
Three minute call in the same District at higher rate(5)(6)		0.1312	0.1312	0.0992	0.0992	
Three minute domestic long distance call at higher rate(7)(8):						
Region 1	0.2231	0.2231	0.2231	0.2205	0.2205	-1.2
Region 2	0.3610	0.3610	0.3610	0.3522	0.3522	-2.4
Region 3	0.5903	0.4772	0.4065	0.3522	0.3522	-40.3
Region 4	0.5903	0.4772	0.4065	0.3522	0.3522	-40.3

(1) The fees and costs for 1998, 1999, 2000 and 2001 were in Lire. The lire amounts have been converted to euros at the irrevocably fixed exchange rate of Lit. 1,936.27 = 1.
(2) Data are not adjusted for inflation.
(3) In February 2001, the residential and business subscription fees increased to 20.45 and 27.89, respectively.
(4) For the year 1999, the introduction of per second billing resulted in an increase in the cost of a three minute call, while leaving unchanged the overall spending of the customers.
(5) Long distance calls within the same area code. This tariff was introduced in November 1999.
(6) In February 2001, district rates for three minute calls decreased by 24.4%.
(7) In February 2001, the week-end flat tariff (0.1431 for three minutes call) was introduced.
(8) Since July 2001, Region 3 charge (applied to calls over 30 Km) was combined with the former Region 2 charge (applied to calls between 15 and 30 km), with the result that current Region 2 tariffs apply to all long distance calls over 15 km.

International Traffic

The table below sets forth, for the periods indicated, information with respect to incoming and outgoing traffic, including direct dial and operator assisted calls and mobile traffic.

	Year ended December 31,				
	1998	1999	2000	2001	2002
Total outgoing traffic (millions of minutes)	2,339	2,390	2,706	3,015	3,405
Growth in outgoing traffic (%)(1)	5.89	2.18	13.2	11.4	13.0
Total incoming traffic (millions of minutes)	2,950	3,419	3,415	3,845	3,842
Growth in incoming traffic (%)(1)	12.64	15.90	-0.1	12.6	-0.1

(1) For each of the years ended December 31, the percentage growth figures represent growth per annum over the prior year s end.

Table of Contents

Growth in the volume of international traffic from 1998 to 2002 has resulted mainly from macroeconomic factors such as growth in foreign demand and import/export activities, immigrants and new subscribers. The decline in gross operating revenues from 2001 to 2002 has resulted mainly from the impact of continuing tariff reductions and increasing competition. International traffic is mostly concentrated in communications with Germany, France, Romania, United Kingdom, Switzerland, United States, Spain and Albania, which together accounted for approximately 52% of toll minutes of outgoing international traffic in 2002.

Incoming international traffic is divided into two general categories: traffic incoming on the fixed network and traffic incoming, or deemed to be incoming, on the mobile network. With respect to the mobile network, the distinction between incoming or deemed to be incoming is that incoming traffic is the one generated abroad and directed to the mobile network in Italy, while traffic which is deemed to be incoming is traffic generated in Italy through the use of international calling cards. Because of the use of international calling cards, by the use of ITFN, such traffic is deemed to be incoming from an international network although the call may be generated in Italy.

In 2002, the traffic directed to the fixed network increased by 11%, growth that was offset by a decrease in the traffic directed to the mobile network. The traffic directed to the mobile network decreased because the component of the traffic deemed to be incoming registered a 61% decline due to the introduction of a surcharge for calls directed to the mobile network with a consequent increase in the price of the international calling cards.

International Tariffs. International calls utilize the same per second billing as domestic calls, with the price per minute depending upon the country called and, beginning July 2002, for certain countries also on the type of connection (the price will vary depending on whether the destination number called is fixed or mobile). See Domestic Traffic Domestic Fees and Tariffs .

The table below sets forth, for the periods indicated, the average cost of a three-minute international call to a fixed line at standard rates (exclusive of value-added tax) for selected countries for outgoing traffic with destination to fixed line and the percentage change since 1998.

	As of December 31,					Percentage change since
	1998(1)	1999(1)(2)	2000(1)	2001(1)	2002(3)	1998(4)
			( )			(%)
Germany, France	1.43	1.03	0.88	0.88	0.71	-50.3
United Kingdom	1.15	1.03	0.88	0.88	0.71	-38.3
Spain	1.43	1.03	0.88	0.88	0.71	-50.3
Russia	2.09	2.09	1.65	1.65	1.50	-28.2
Canada and United States	1.42	1.03	0.88	0.88	0.71	-50.0
Australia	3.29	2.64	2.43	2.43	2.38	-27.7
Japan	3.29	2.64	2.43	2.43	2.38	-27.7
Brazil	4.29	3.29	3.05	3.05	2.74	-36.1
Chile	5.45	5.45	4.91	4.91	2.74	-49.7

(1) All amounts for 1998, 1999, 2000 and 2001 were converted to Euro at the fixed exchange rate of Lit. 1,936.27 = 1.
(2) Rates became effective on November 1, 1999.
(3) Since July 2002, price per minute of traffic into some countries is differentiated on the basis of the termination of the call (fixed network or mobile network).
(4) Data are not adjusted for inflation.

International Tariff Rebalancing. During the last three years there has been a meaningful reduction in the total cost for international traffic with overall international traffic tariffs falling by an average of 23%. In particular, the reduction in the international traffic tariffs to Western Europe, the USA and Canada was an average of 25% (approximately 70% of the international traffic is represented by the volume with these countries).

International Settlement Arrangements. The Telecom Italia Group derives revenues from foreign telecommunications operators for incoming calls which use the Telecom Italia Group s network. The Telecom Italia Group has bilateral settlement arrangements with other international telecommunications operators under the general auspices of the ITU. Because incoming and outgoing international traffic are relatively equal, the

Table of Contents

Telecom Italia Group s net payments on international accounting rates are negligible. This has the effect of limiting the Telecom Italia Group s exposure to changes in currency exchange rates. The exposure to changes in currency exchange rates has also been reduced due to the adoption of the euro.

Leased Lines

At the end of 2002 gross operating revenues from leased lines, from retail and wholesale customers, including international leased lines, was 1,400 million (approximately equal to the level of gross operating revenues in 2001). With revenues from international services of approximately 75 million relatively stable, there has otherwise been a significant change in the revenue mix, with revenues from business customers falling, and revenues from other local operators growing significantly.

Leased lines services consist of offering to 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. During 2002 leased lines continued growing in connections between the Telecom Italia Group s network and other telecommunication operators network, resulting in an increase in revenues from approximately 800 million in 2001 to approximately 870 million in 2002.

Revenues from business customers continued to decline in 2002 as business customers migrated towards broadband connections. As of December 31, 2002, there were approximately 320,000 (in points of entry of data network) lines leased to business customers (approximately 342,000 in 2001) and approximately 132,000 digital leased lines (152,000 in 2001).

During 2002 migration from low speed lines to high speed lines continued as customers favor the convenience of this kind of connection. Retail revenues for leased lines decreased from approximately 500 million in 2001 to approximately 440 million in 2002.

Interconnection with Other Operators

On February 6, 2003, the National Regulatory Authority approved, subject to certain technical and economic amendments, the 2002 Reference Offer (RO) originally submitted by the Telecom Italia Group in April 2002. The Telecom Italia Group s Reference Offer includes the conditions for FRIACO (Flat-Rate Internet Access Call Origination) service, partial circuits provisions, shared access and sub-loop unbundling, thus enabling a competitive development of internet access and broadband services.

The offer presents, in comparison with the 2001 RO, a simplification of the interconnection planning process, includes a significant improvement of SLAs (Service Level Agreement) as well as further overall price reductions. Moreover, new elements are included such as double local exchange, transit at the level of local exchange, partial circuit offer, including new data speed and distances (more than 5 km).

Economic conditions have been defined according to the principle of non discrimination, transparency, objectivity and cost orientation. The RO will be retroactively applied to January 1, 2002. Pursuant to the recent decision of the National Regulatory Authority issued in March 2003 to adopt a network cap system, starting with the 2003 RO the market will have greater visibility over the arrangements relating to interconnection services, allowing operators to rely on stable economic values in preparing their own business plans.

The Telecom Italia Group offers a comprehensive range of network access services which allow other telecommunications companies access to its fixed-telephony network, including:

- FRIACO: the Telecom Italia Group has been offering this service since 2001 but the 2002 RO provides for a 13% price reduction for local exchange, a 6.2% decrease at the metropolitan level and a 6.5% reduction for interconnection at the transit level.

- Partial circuits: represent partial circuits from customer premises to the Other Licensed Operators Point Of Presence (POP), as a segment of an end-to-end leased line. The National Regulatory Authority determined that economic conditions are to be set according to the price ceiling methodology that was established by the European Commission Recommendation C(1999) 3863 of November 24, 1999, and introduced the price ceiling into national legislation with Order 10/00/CIR. For speeds and distances of partial circuit different from those included in the Recommendation, the prices are based, according to national as well as European accounting requirements, on Telecom Italia s own costs, evaluated according to the fully allocated current costs model.

41

- Billing and bad debt service: the Telecom Italia Group also offers billing to Other Licensed Operators (OLOs) who decide not to bill the customers (*i.e.* customers that are connected to the network through indirect access service) accessing their non geographic services. The Telecom Italia Group, as required by the National Regulatory Agency, fixed the level of charge for the billing service at 2.9% calculated on the total revenues of each OLOs non geographic service. With respect to bad debt, the level of risk and insolvency is subject to negotiation between Telecom Italia and the other Licensed Operators.

The 2002 RO includes a detailed and complete Local Loop Unbundling (LLU) offer (physical LLU, sub loop unbundling and shared access) and the Telecom Italia Group has satisfied all National Regulatory Authority requests. To date, the Telecom Italia Group has equipped more than 90% of the sites requested by OLOs.

Economic conditions for LLU are lower than the one proposed in the 2001 RO (monthly rental of copper pair for POTS/ISDN decreased by 5.9%, for ADSL decreased by 11.5%, shared access decreased by 61.8% and sub loop unbundling decreased by 9.3%). With regard to implementation, on December 31, 2002 Italy had 131,000 fully unbundled lines compared with approximately 3,000 at the end of 2001.

Finally, law 59/02 of April 8, 2002 requires that Internet Service Providers have access to the RO of the notified operators with reference to internet traffic origination (both for metered and unmetered interconnection) and termination on 70x codes (dedicated in Italy to Internet access) and Partial Circuits. On June 26, 2002 the National Regulatory Authority issued an Order to define the criteria for ISPs to gain access to the RO economic conditions that the Telecom Italia Group has implemented on the 2003 RO issued on April 11, 2003.

Data Services

Data services consist primarily of data transmission and network services for business customers and residential customers. Revenues from data services are included primarily in fixed subscription and connection fees.

Domestic Wireline provides a broad range of data transmission and web application services supported by a wide spectrum of technological platforms ranging from traditional to advanced platforms based on broadband access (SDH and xDSL).

Domestic Wireline s strategy consists of large penetration of the Mass Market and SOHO segments with ADSL connections, supported by Alice and Smart . Domestic Wireline focuses on switching from traditional to innovative technologies to enlarge IP services and the applications market. This strategy has had a significant success with 850,000 broadband points of access sold to the retail and the wholesale market (390,000 at the end of 2001); of which 630,000 access have been sold to retail customers.

During 2002 Domestic Wireline introduced several innovative offers for the data transmission networks and Internet access, including:

- new solutions with fiber optic technologies for SMEs, mainly for IP services;
- revised solutions for security and for full outsourcing services for SMEs;

- new web services offers for secured storage for Internet Data Center; and
- customized solutions for e-learning applications.

Revenues from Data Services amounted to 916 million in 2002 and increased by 14.2% over 2001 (802 million in 2001). Revenues from Data equipment were substantially in line with 2001 figures (approximately 220 million in 2002). Growth in services revenues has been driven mainly by innovative data services increasing by more than 50% (387 million in 2002; 253 million in 2001); web services continued to increase strongly (30%) and amounted to 130 million in 2002.

Revenues from traditional Data Services decreased from 450 million in 2001 to 400 million in 2002 due to customer migration to broadband services.

Fixed Network

Since 1988, the Telecom Italia Group has installed high levels of fiberoptics, intelligent nodes, digital switching, satellite connections and high speed data transmission technology. The technologically advanced

Table of Contents

nature of its fixed network permits the Telecom Italia Group to offer a variety of advanced services such as toll free numbers, call waiting and call forwarding, VPNs, premium charges and charge splitting.

Domestic Network

Fixed Network. The Telecom Italia Group s domestic fixed network includes 66 transit switches and 628 main local switches. The long distance fixed network includes 3.7 million circuits, while the distribution fixed network includes 104 million kilometers of pairs over copper cable.

In 2002, the Telecom Italia Group set up interconnections with the networks of 5 additional operators, making a total of 65 operators at December 31, 2002. In the same period 19 operators have disconnected.

During the year 2002, the following contracts were also signed or renewed:

- 7 new interconnection agreements (adding to the 77 interconnection agreements previously agreed);
- 8 additional reverse agreements, terminating calls on the network of another operator, for a total of 64, since 1998;
- 6 agreements to supply high-speed access services using ADSL technology for a total of 29 since 2000;
- 11 carrier preselection contracts, 1 district carrier selection agreements, 7 number portability agreements;
- 7 contracts for the local loop unbundling service on the local network; and
- 18 contracts to supply Digital Data Circuits for a total of 83 from 1998.

Digitalization and ISDN. At December 31, 2002, 100% of the Telecom Italia Group s domestic telecommunications lines were connected to digital telecommunications exchanges. The digitalization of the long distance fixed network was completed in 1994 and the level of digitalization of the local fixed network has been 100% since 2000. Since the end of 1999, ISDN services have been accessible to substantially all of Italy. The Telecom Italia Group has one of the largest ISDN networks in Europe. ISDN allows subscribers to use their existing access lines for a number of purposes, including high speed data transmission, video-conferencing, high speed fax and faster Internet access. The Telecom Italia Group expects to continue to make investments in its fixed network to permit the expansion of ISDN and IN services.

SDH and ATM. The Telecom Italia Group introduced SDH advanced transmission technology into operation in the long distance fixed network in 1996 and introduced such technology into operation for its local fixed network during 1997. These transmission systems are operating on fiberoptics from 155 Mbit/s up to 2.5 Gbit/s. Moreover, in 2002 we started using transmission systems with speed up to 10 Gbit/s. Work on the development of the Arianna network which, by use of the latest generation of SDH technologies and the new optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for a new transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2002. The network will be used to transport flows with a high requirement for quality and availability, both in terms of incremental requirements and migration away from the current transit network. Arianna is based on a structure with SDH rings; since 2000, in order to reduce the number of fibers, DWDM systems have been used to multiply by a factor of 12 up to 40 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections. The network will be operated by the same system that is currently used for regional networks. The DWDM systems provide the natural link between current transport networks and the future optical OTN (Optical Transport Networks), multiplexing and exchange entirely within the optical domain, without any need for optical-electric conversion. In November 2002 Domestic Wireline introduced a new generation Optical Digital Cross Connect on Domestic Wireline transmission backbone in order to progress with the transition towards a new generation meshed ASTN (Automatically Switched Transport Network) optical backbone which will start during 2003. By using the ASTN approach it is possible to build a multiservice platform with a high level of integration with the IP network. First applications of Metro DWDM systems were developed in Rome and Milan metropolitan areas.

The evolution of the transport network towards the optical network will make it possible to increase the operational capacity of all types of traffic, from phone calls to Internet traffic.

ATM switching technology, introduced in 1996, allows the transfer of information combining data, video and other services over public and private networks both domestically and internationally. Telecom Italia ATM

(Atmosfera) and Frame Relay (Business Frame) networks are overall networks that work together as a multiservice network, using SDH transmission systems as physical layer. The ATM Network allows for the provision of ATM native services with access rates ranking from 2Mbit/s up to 155 Mbit/s. It also acts as a backbone for both the Frame Relay Access network (with access rates ranking from 64 kbit/s up to 2 Mbit/s), and for the DSL network, used for the provisioning of xDSL services (ADSL, HDSL and SDSL). The ATM/Frame Relay networks allows for access to IP and MPLS customers with access rate ranking from 64 kbit/s to 155 Mbit/s.

Network Quality and Productivity. Telecom Italia Group s investment in its domestic service network has enabled it to continue to reduce the average time required for the installation of new lines. The effectiveness rate of the fixed network is defined as the ratio of successful calls to the total number of call attempts, not including failures caused by the calling party s behavior, in a specified time period. A successful call is a call attempt to a valid number, properly dialed, where the called party s busy tone, ringing tone, or answer signal is recognized on the access line of the calling user.

To reduce costs and improve efficiency, the Telecom Italia Group undertook in 2001 and continued in 2002 an extensive program to reengineer its network operation and maintenance organization, which will permit a more effective use of human resources.

Beginning in 1999 operating systems were, in turn, developed with the aim of ensuring the offering of new services, optimizing operational activities and pursuing objectives of total quality. Procedures were developed for systems dedicated to supervising traffic for verifying levels, the immediate management of measurements and constant monitoring of the quality of the service provided. In systems that operate the flexible network for data transmission, features were activated which reduce activation and connection time, permit the timely recognition of customers who have experienced malfunctions in services and augment the availability of the connections themselves. Moreover, operating systems have been equipped with new features for marketing new services.

Broadband Network/ADSL. The Telecom Italia Group s broadband network is capable of supporting advanced telecommunications services and multimedia applications and, to this end, the Telecom Italia Group has installed significant levels of fiber optic cables in its fixed network. In 1998, the Telecom Italia Group began introducing ADSL systems over copper pairs to deliver interactive services (e.g., fast-Internet). ADSL allows the Telecom Italia Group to fulfill in the short-term, market driven needs to provide services like fast-Internet, multimedia, video conferencing and teleworking either for business or residential customers. Furthermore, ADSL together with other existing infrastructure and satellite services allows the Telecom Italia Group to focus the commercialization of its broadband network services on a market basis and to tailor investments to the growth of the market. With reference to access services using ADSL technology, in 1999, the technical and commercial trials with fast Internet access for residential and Soho customers, begun in Rome and Milan at the end of 1998, were concluded. In 2002, commercial services with access to ADSL technology for business customers and Internet Service Providers had been extended to 1,300 cities (approximately 700 at the end of 2001). The commercial services for business customers include the use of ADSL technology in urban areas to supply access to IP and ATM services of the Telecom Italia Group s data networks. The services for ISPs supply ATM access based on ADSL technology to the public, leaving the commercial interface with the final customer to the Service Provider. At the end of 2002, the local exchange areas covered by ADSL technology numbered 2,120; in 2003, 3,000 local exchange areas are expected to be served.

Fiberoptic Cables. At December 31, 2002, the Telecom Italia Group had installed approximately 3.6 million kilometers of optical fiber for access and transfers, of which approximately 0.99 million kilometers were installed on long distance fixed-lines. Fiberoptic cables significantly increase the capacity of the network and permit the Telecom Italia Group to provide new advanced services based on the simultaneous transmission of several kinds of signals, such as voice, data and video. To enable the offer of such services, the Telecom Italia Group is planning to introduce fiberoptics in its local access network.

In 2002, a project which started in the second half of 2000, consisting of the creation of an optical fiber ring between Milan and Palermo (T-Bone), was completed with the installation of about 6,000 kilometers of cable with 96 optical fibers on two backbones and the laying of two submarine links under the Strait of Messina.

Flexible Data Network. The Telecom Italia Group also operates a flexible network equipped with a centralized system that makes it possible to establish dedicated data links from a work station. At December 31, 2002, 600,000 direct digital line access points and 166,500 direct analog line access points had been installed.

Table of Contents

International Network

Since 1997, the Telecom Italia Group has rationalized its international fixed network and enhanced international transmission capacity.

The Telecom Italia Group owns capacity in a number of international cable links and its international network includes fiber optic cables to several countries. During 2002 major implementations in this traditional area were related to the upgrade of Catania (Italy) Malta submarine cable, for supporting international voice traffic and IP connectivity, and to the completion of the Palma (Spain) Algiers submarine link, for improving its capabilities to deliver traffic to Algeria.

On December 31, 2002, there were 9 exchanges utilized for voice services and digitalization of the international network exceeded 98%. In the aggregate, the Telecom Italia Group owns capacity on more than 360,000 kilometers of submarine cables.

In addition, the Telecom Italia Group has developed a new strategy building a number of proprietary networks in Europe, Latin America and in the Mediterranean area. These multiservice backbones are optical fiber rings with ring-topology protection that use the DWDM (Dense Wavelength Division Multiplexing) technology for transmission, while, for access and delivery, the POPs (Point of Presence) use multiservice platforms (voice, data and IP). These platforms complete the switching functions for voice and routing for data with packet/cell switching IP/ATM technology.

In 2002, three completely integrated multiservice backbones have been operating and supporting Telecom Italia s international services. In particular, the main activities included:

- *Pan European Backbone*. Fully activated cross-border services are available for wholesale customers: Managed Bandwidth, IP Connectivity, International Private Leased Circuit, Global Voice Services, .GRX (GPRS Roaming eXchange for Mobile Operator). The European fiber optic network (Pan European Backbone) 2 fiber pairs, 400 Gbit/s each is laid in the main industrialized European countries: Italy, France, U.K., Netherlands, Belgium, Germany, Switzerland and Austria with a total length of 9,100 km. (an extension of the Pan European Backbone to Madrid and Barcelona in Spain is planned for the second quarter of 2003).

- *Mediterranean Nautilus*. Mediterranean Nautilus Ltd., a company controlled by Telecom Italia, has built a new submarine optical ring, in a high-availability network configuration, with a total length of 7,000 km 6 fiber pairs, 64 lambda (10 Gbit/s each) per fiber pair. Such system will link the main markets of the Central-Eastern Mediterranean area: Italy, Greece, Turkey and Israel. Presently, the optical ring that links Catania, Athens, Chania-Crete, Haifa and Tel Aviv has been completed.

- *LAN (Latin American Nautilus)*. The final network configuration of Latin America Nautilus has been activated. The Latin American Nautilus is a new high capacity backbone, previously utilized in Latin America and now integrated with the transatlantic and European networks. The backbone is an optical fiber ring network both on earth and under sea, 30,000 km long, including the Miami-New York City link. The ring, having optical automatic traffic protection and a bandwidth up to 320 Gbits, links the most important cities of South America to Central and North America.

Furthermore, Telecom Italia of North America (TINA), a wholly owned subsidiary of Telecom Italia, has implemented two POPs in Newark (NJ) and Miami to offer Voice and IP/Data services. In order to improve the capabilities between such POPs, the Pan European Backbone and Latin American Nautilus, Telecom Italia together with TINA signed contracts to purchase capacity on the Flag Atlantic-1 transatlantic cable and

TINA on the Middle Atlantic Crossing submarine cable.

Mobile

The Mobile Business Unit accounted for gross operating revenues of 10,867 million in 2002, 10,250 million in 2001 and 9,418 million in 2000.

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

Table of Contents

As of December 31, 2002, the business unit was organized as follows:

In May 2002, the International Operations (IOP)   Operating Activity   was disbanded. As a result of this reorganization, all the companies based in Latin America are now coordinated by Latin America Operations (LAO). Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for wireline telecommunication and to Marco De Benedetti, the CEO of the Mobile Business Unit, for mobile telecommunication.

Among the large mobile telecommunications operators in Europe at the end of 2002 TIM has the largest number of lines in its domestic market (source: Mobile Communication magazine) and has been the fastest growing area of the Telecom Italia Group s business for the past several years. Line growth was 17% in 2000, 11% in 2001 and 6% in 2002. Gross operating revenues from TIM totaled 7,929 million, 8,357 million and 9,022 million (8,915 million net of Blu merger effect) in 2000, 2001 and 2002, respectively.

Holdings of International Operations

As a result of a corporate reorganization completed at the end of 2000, TIM acquired 100% of STET Mobile Holding (SMH), the international holding company of the Telecom Italia Group holding substantially all of the Telecom Italia Group s wireless investments outside of Italy. On December 28, 2001, SMH merged with TIM International, the holder of stakes in Digitel and Is TIM. TIM International is managed by TIM and the international results have been fully consolidated with TIM s results since January 1, 2001. In January 2001, TIM Brasil, a wholly owned subsidiary of TIM International, was formed to act as a sub holding company for the subsidiaries which acquired PCS licenses in Brazil (TIM Celular Centro Sul, TIM Sao Paulo and TIM Rio Norte). In November 2001, TIM International s stake in Bitel (the majority shareholder of Tele Nordeste Celular and Tele Celular Sul) was contributed to TIM Brasil. TIM Brasil currently owns 100% of Bitel s share capital. In December 2002 within the framework of the corporate reorganization process, TIM Sao Paulo was merged with TIM Celular Centro Sul and TIM Rio Norte and, in January 2003, changed its name to TIM Celular.

Corporacion Digitel and Maxitel, whose controlling stake was acquired at the end of 2000 have been fully consolidated with TIM s results since January 1, 2001.

At December 31, 2002, the overall number of TIM lines calculated on a proportionate basis, in Italy and internationally was approximately 31.5 million. There are approximately an additional 2.2 million equity mobile lines calculated on a proportionate basis that are part of the Telecom Italia Group.

The following tables list the countries in which TIM (through TIM International) currently has operations, the ownership interest in each operator and the number of lines for each operator. Beginning in May 2002, all the Latin America companies owned by TIM International are coordinated by Latin America Operations. The mobile operations in Austria, France and Spain were sold during 2002.

Table of Contents

Controlled Operations

Country	Operator	Percentage interest of TIM International	Total Wireless lines per operator at December 31, 2002
			(millions)
Europe			
Greece	STET Hellas	81.40(1)	2.5
Latin America(2)			
Brazil	Maxitel	100.00(3)	1.4
	Tele Nordeste Celular(*)	21.18	1.9
	Tele Celular Sul(*)	20.68	1.7
	TIM Celular (formerly TIM Sao Paulo)	100.00	0.3(4)
Perú	TIM Perú	100.00	0.4(5)
Venezuela	Digitel	66.56(6)	0.9

(*) Represents total of shares held; these entities are consolidated as the Group owns over 50% of the voting common stock.

Affiliated Companies

Country	Operator	Percentage interest of TIM International	Total Wireless lines per operator at December 31, 2002
			(millions)
Europe			
Czech Republic	Radiomobil	4.35	3.5
Turkey	Is TIM	49.00	1.2(7)

(1) In August 2002, TIM International acquired a 17.45% stake in STET Hellas from Verizon. As a consequence of this acquisition the stake owned by TIM International in STET Hellas increased from 63.95% to 81.40%.
(2) Pursuant to the 2002 Reorganization the activities of the Latin American companies are now coordinated by Latin America Operations.
(3) In February 2002, TIM Brasil acquired 10% of ordinary shares of Maxitel, corresponding to 3.33% of the total capital.
(4) Operations started October 18, 2002.
(5) Operations started January 25, 2001.
(6) In December 2002, TIM International increased its interest in Digitel, through a share capital acquisition, by 10%.
(7) Operations started March 21, 2001.

Services Italy. TIM offers both digital and analog mobile services. The GSM digital service, which commenced operations in April 1995, uses digital technology and is the standard throughout Europe. GSM generally provides higher quality transmission than analog service and may be used by customers to make and receive mobile calls throughout Europe and certain other countries. As of June 11, 2003, roaming agreements have been reached with 319 operators in over 180 countries, allowing customers to make and receive calls abroad. See Mobile Tariffs below.

The analog service is based on the TACS 900 standard and began operation in 1990. See Cellular Network.

The table below sets forth, for the periods indicated, geographic and population coverage data for TIM s TACS and GSM services.

	Year ended December 31,			
	1999	2000	2001	2002
	(%)			
TIM Italian geographic coverage				
TACS	83	83	83	83
GSM	89	92	94	94
TIM Italian population coverage				
TACS	98	98	98	98
GSM	99	100	100	100

Customers and Lines. The penetration of mobile telecommunications service in Italy is above the Western European average at approximately 95 lines per 100 inhabitants and growth rates have been substantially higher than the European average. This compares to a penetration rate of 73 and 89 lines per 100

Table of Contents

inhabitants at the end of 2000 and 2001, respectively. The increase is due to innovative services and an increase in customers with multiple lines and operators. TIM s customer base consists of TACS subscribers, customers holding TACS prepaid services, (TACS Prepaid Customers), GSM subscribers and customers holding GSM TIM Cards (GSM Prepaid Customers , and together with TACS Prepaid Customers, Prepaid Customers). In 2002, TIM added 48.5% of the net additional GSM lines, with 2.1 million net additions compared to 1.6 million for Vodafone Omnitel and the remaining 0.6 million attributable to Wind. At December 31, 2002, the number of lines for TIM s TACS and GSM mobile service was approximately 25.3 million (of which 24.3 million were GSM lines, consisting of 2.7 million GSM subscribers and 21.6 million GSM Prepaid Customers). As of March 31, 2003, TIM s customer base had increased to 25.7 million lines.

The table below sets forth, for the periods indicated, selected customer data for TIM s domestic business.

	Year ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
	(number of customers in thousands)				
Lines at period end(1)	14,299	18,527	21,601	23,946	25,302
TACS subscribers	1,563	832	495	304	180
TACS prepaid lines	2,001	2,344	1,950	1,430	815
GSM subscribers(2)	2,453	2,442	2,485	2,538	2,685
GSM TIM Prepaid Lines	8,282	12,909	16,671	19,674	21,622
	(in %)				
Customer growth	54.1	29.6	16.6	10.9	5.7
Churn(3)	16.8	12.7	15.7	15.6	18.0
TIM penetration(4)	25.1	32.5	37.5	41.6	43.9
Cellular market penetration(5)	35.9	53.1	73.3	89.0	95.0
	( )(6)				
Average revenue per line per month(7)	40.0	34.9	30.5	29.1	28.8

(1) Includes lines of TACS and GSM services, including Prepaid Customers.
(2) Commenced GSM services in April 1995.
(3) In 1998 net of internal migration between TACS and GSM networks; since 1999 data refers to total lines. The churn rate for any given period represents the number of TIM customers whose service was discontinued during that period due to a payment default or who voluntarily gave up a mobile telephony service during that period, expressed as a percentage of the average number of customers during that period.
(4) TIM customers per 100 inhabitants.
(5) Customers per 100 inhabitants for the entire market.
(6) The data for the years ended December 31, 1998, 1999 and 2000 was in lire and was translated into euros at the irrevocably-fixed rate of exchange of Lit. 1,936.27 = 1.
(7) Including Prepaid Card revenues and excluding equipment sales and, since 1999, including non TIM customer traffic revenues.

The significant growth in TIM s mobile lines since October 1996 has resulted almost entirely from the marketing success of the GSM TIM Card, a prepaid card which permits the customer to make outgoing calls up to the limit on the card for the 12 months following issuance of the card or the last recharge of the card and receive an unlimited number of calls for the 13 months following issuance of the card or the last recharge of the card. If a GSM TIM Card is not recharged within this 12-month period, the customer will not be able to make outgoing calls but for one additional month such customer will be able to receive incoming calls. The GSM TIM Card can be recharged at any time to permit additional outgoing calls. The GSM TIM Card offers several advantages, including elimination of bad debt charges and lower administration costs, as no statements are sent to customers. The TACS prepaid service, which was introduced in December 1997, functions the same way as the GSM TIM Card and has successfully reduced the decline in usage of the TACS network. Approximately 89% of TIM s lines at December 31, 2002 are prepaid.

UMTS License. The Italian government awarded five UMTS licenses in Italy in November 2000. TIM, together with Omnitel S.p.A. (now Vodafone Omnitel N.V.), WIND S.p.A., Andala S.p.A. (now H3G S.p.A.) and IPSE S.p.A., were awarded licenses to provide third-generation mobile services. TIM has committed to pay 2,417 million for its license, with approximately 117 million, 117 million and 2,066 million having been paid in November 2002, November 2001 and December 2000, respectively. The remaining 117 million will be paid in 2003. The licenses are valid for 20 years starting January 1, 2002. In 2001, TIM began an experimental UMTS service in its service center in Padoa, and a gradual roll-out of the UMTS network has begun. Transition toward third generation services will be gradual with a broad launch of the service expected in 2004.

Table of Contents

Traffic. The table below sets forth, for the periods indicated, selected traffic data for TIM s business.

	Year ended December 31,				
	1998	1999	2000	2001	2002
	(millions of minutes)				
Total outgoing traffic per month	839	1,219	1,569	1,795	1,960
Total incoming and outgoing traffic per month	1,473(1)	1,989(2)	2,479(3)	2,815(4)	3,036(5)
	(% of total)				
Of which:					
TACS(6)	33.3	19.5	10.3	5.4	3.0
GSM(6)	66.7	80.5	89.7	94.6	97.0

(1) Includes domestic mobile incoming and outgoing traffic (96.2% of total mobile traffic in 1998 compared to 96.9% in 1997), international traffic (2.3% in 1998 compared to 2.1% in 1997) and roaming traffic (1.5% in 1998 compared to 1.0% in 1997). These data include fixed outgoing traffic to the mobile network.
(2) Includes domestic mobile incoming and outgoing traffic (93.9% of total mobile traffic in 1999 compared to 96.2% in 1998), international traffic (3.2% in 1999 compared to 2.3% in 1998) and roaming traffic (2.9% in 1999 compared to 1.5% in 1998). These data include fixed outgoing traffic to the mobile network.
(3) Includes domestic mobile incoming and outgoing traffic (90.4% of total mobile traffic in 2000 compared to 93.9% in 1999), international traffic (2.9% in 2000 compared to 3.2% in 1999) and roaming traffic (6.7% in 2000 compared to 2.9% in 1999). These data include fixed outgoing traffic to the mobile network.
(4) Includes domestic mobile incoming and outgoing traffic (92.8% of total mobile traffic in 2001 compared to 90.4% in 2000), international traffic (2.7% in 2001 compared to 2.9% in 2000) and roaming traffic (4.5% in 2001 compared to 6.7% in 2000). These data include fixed outgoing traffic to the mobile network.
(5) Includes domestic mobile incoming and outgoing traffic (94.5% of total mobile traffic in 2002 compared to 92.8% in 2001), international traffic (2.3% in 2002, compared to 2.7% in 2001) and roaming traffic (3.2% in 2002 compared to 4.5% in 2001). These data include fixed outgoing traffic to the mobile network.
(6) Includes traffic from Prepaid Customers.

Mobile Tariffs. TIM s mobile customers (other than Prepaid Customers) are charged a one-time connection fee, a monthly basic charge and traffic fees for calls, as well as a monthly government tax. Prepaid Customers are charged an initial connection fee of 26 for the GSM TIM Card and TACS prepaid service and are required to pay a fee ranging from 5 to 1 to the dealer for each recharge, according to the cost of each recharge. No other connection or subscription fees or taxes are payable by Prepaid Customers. Mobile customers (including Prepaid Customers) must purchase their own mobile telephone handsets. TIM does not subsidize the cost of mobile telephone handsets to its customers and does not intend to do so in the foreseeable future. In 2002, approximately 76.8% of revenues from TIM mobile services (net of access charge) were derived from traffic charges, 5.7% from sales and rental of equipment, 8.4% from VAS and 9.1% were miscellaneous revenues (subscription and connection fees).

TIM offers its customers a variety of different pricing packages which are tailored to address different usage patterns. Such packages include offerings to TIM s GSM customers of free minutes packages which are available in various options. TIM also offers packages such as, TIM Menù, a dedicated TACS and GSM pre-paid card. The customer can choose a rate suited to his or her own needs, combining the various items on a menu. The objective is to simplify the service offer and at the same time make them more flexible.

TIM also offers innovative services, such as an offering called AutoRicarica. The AutoRicarica formula has proven to be particularly successful: according to this formula, TIM gives a bonus of 3.7 (VAT included) for each 100 minutes of calls received.

TIM also offers certain discount packages, which include TopTim, a discount plan for professionals that rewards both length of subscription and volume of traffic, and TimClub, a 15% discount on the three most frequently called wireless numbers (which is only available after the free bonus minutes have been used).

At the beginning of 2002, TIM launched the first exclusive service which allowed TIM customers to reverse billing charges to a rechargeable or contract TACS or GSM TIM mobile, or to Telecom Italia fixed network numbers.

In May 2002 TIM introduced the following new tariff plans: Unica and Unica10; customers can personalize their own tariff choosing between two options: SuperAutoricarica (self recharge from all numbers) and Trio, a special tariff for three TIM numbers or two TIM numbers and a Telecom Italia fixed network number.

GSM and TACs customers are charged on the basis of a per-seconds billing system paying for the actual duration of the call plus a call setup charge of 0.1 (which is not charged when free minutes are being used). At the end of 1997 TIM also introduced local tariffs. From time to time, TIM offers promotional packages to attract additional customers.

Value Added Services. TIM has been building its brand as a platform for content providers by entering into partnerships and developing business synergies. TIM has offered WAP since May 2000 and has over 200 partnerships and commercial agreements with primary content and service providers, such as SEAT-Tin.it, Yahoo!Europe, Sonera Zed, Caltanet, Kataweb, Sit.com and Excite. TIM also has agreements with leading Italian banks and financial institutions to provide on-line trading and mobile banking. In August 2000, TIM launched GPRS services in the areas of Rome and Milan and GPRS national coverage was completed in December 2000. The GPRS service has been available to corporate customers since the first quarter of 2001 and was extended to consumer segments starting May 2001. GPRS services represent the transition between the evolution of second (GSM) to third (UMTS) generation mobiles.

The introduction of GPRS allowed TIM to launch other initiatives. All GSM lines are able to handle GPRS traffic, which has become a fundamental service for the professional market. TIM was the first provider to market GPRS in Italy, consolidating its technological leadership in the domestic market.

TIM also introduced M-Services, which represents a combination of multimedia services on its GSM and GPRS networks. M-Services allows customers to use their mobile phones to send photographs and images accompanied by written or musical messages and to access a WAP page simply by pressing a button (WAP Push). TIM has been the first in Europe to introduce the PhotoMessage service, a major step towards multimedia message services. In June 2002 these services became available with the new MMS (Mobile Multimedia Services) and will be available on UMTS in the future.

Billing. TIM s customers (other than Prepaid Customers) are billed in a staggered bimonthly billing cycle. TIM endeavors to minimize bad debts by implementing a credit check on each customer at the time of sign-up and by requiring certain customers to post a security deposit. In addition, if payment is not received, the customer is notified accordingly and his or her ability to place outgoing calls is interrupted. If no payment is received, all services are terminated. The average rate of innovative payments (credit cards, Banco Posta) made by customers (other than Prepaid Customers) rose, in 2002, to 66% of the total payments.

Marketing and Distribution. TIM believes that its active marketing programs, extensive customer service and distribution network (primarily a nationwide network of independent dealers) and responsiveness to customer needs provide it with a significant competitive advantage. At December 31, 2002, there were 1,509 distribution partners, with 4,650 sales points (including 69 Telecom Italia Group outlets marketing TIM products and 24 shops directly owned by TIM). As of December 31, 2002, 4,143 TIM employees (about 40.4% of its total workforce) were involved in customer service activities.

Cellular Network. TIM s TACS network consists of 2,730 radio base stations and 60,291 radio channels. TIM has reduced the level of investment in its TACS network as the number of TACS customers has decreased. TIM s GSM network consists of 11,750 radio base stations and 629,600 radio channels (an increase of 7.4% over 2001). The Telecom Italia Group believes that as a result of TIM s enhancement of the GSM service and increased coverage, TIM s network is in line with the best European GSM networks.

Services International. TIM continued to consolidate its role as a global player during 2002. TIM International s presence is now primarily concentrated in Latin America and in the Mediterranean Basin. In December 2002 TIM had 13.8 million lines attributable to customers abroad, 6.2 million represented proportionate lines. 52.0% of TIM s international lines are European mobile lines while 48.0% are Latin American mobile lines. See Companies Controlled by TIM International .

In-Europe , TIM s pan-European tariff, introduced in 2001, combines the preferential roaming agreements among TIM, its foreign subsidiaries and other European partners, allowing TIM customers to roam in 30 countries using the same tariff. As part of its international roaming service, TIM offers its customers the possibility of making calls from abroad with a simplified rate plan. Subscribers are allowed to use the same rates twenty-four hours a day and prepaid customers to charge the cost directly to their remaining credit rather than to a credit card. See Companies Controlled by TIM International .

50

Table of Contents

On April 7, 2003, TIM signed a cooperation agreement with Telefonica Moviles and T-Mobile International to set up an alliance to provide their customers with a unified and superior offering of products and services in the countries where the three operators are present, thereby strengthening their ability to compete in cross-border markets. Initially the partners plan to develop, through roaming agreements, joint offers in voice, data and mobile internet, in order to gain new customers, both private users as well as multinational companies and corporate users interested in maintaining their level and quality of services, regardless of the country or the operator. The benefits to customers will include simplified tariff schemes and the capacity to access the same service offering on a global scale, as easily as at home. Additional services will include recharging a prepaid account abroad, sending photos via MMS, accessing Customer Care in the client s home language or the use of the same short code for SMS services. Another aim of the alliance would be to join forces to obtain synergies, economies of scale and greater sales potential, as well as equipment and handsets development, in order to meet the demand for new products and services. All these elements will lead to an improved service offering to customers.

TIM is focusing its efforts on becoming a technological and marketing partner for its affiliates. Examples of synergies implemented among TIM and affiliated companies are represented by the commercial launches of TIM Celular (formerly TIM Sao Paulo) in 2002 and TIM Perú in 2001. TIM s strategy for international development focuses on consolidation in countries where new markets have greater growth potential. Targeted countries include Brazil (for GSM services), Perú and Venezuela where TIM s affiliates have been awarded licenses and services have recently been started. These markets currently have low penetration rates and dense populations made up of young consumers who are more oriented toward value added services. See Companies Controlled by TIM International .

Companies Controlled by TIM International

Europe

Greece

The Telecom Italia Group s first international investment in Western Europe was the establishment of STET Hellas. STET Hellas was awarded one of two GSM licenses granted in Greece, in the 900 Mhz frequency band, and commenced commercial services in June 1993.

In July 2001, the company was awarded a UMTS license at the price of 145 million and a DCS 1800 license for 26 million. At December 31, 2002, STET Hellas had approximately 2.5 million lines. In 2002, operating revenues were 689 million against 523 million in 2001, gross operating profit was 255 million compared to 188 million in 2001 (a 35.6% increase) and operating income was 131 million against 89 million in 2001 (an increase of 47.2% compared to 2001).

STET Hellas was listed on NASDAQ and on the Amsterdam Stock Exchange in June 1998 through an initial public offering of American Depositary Shares on NASDAQ and of Dutch Depositary Receipts on the Amsterdam Stock Exchange. After completion of the initial public offering, the Telecom Italia Group s stake through TIM International was reduced from 74.8% to 58.14%. In February 2001, a stake of 1.14% was acquired by TIM International. In October 2001, TIM International subscribed to a capital increase to finance the acquisition of its new business, and its stake rose to 63.95%. In August 2002, TIM International acquired the 17.45% stake of Verizon, its original joint venture partner. Consequently, as of December 31, 2002, the TIM group s interest in STET Hellas was 81.40%.

Latin America

Brazil

In 2001, TIM Brasil (a wholly owned subsidiary of TIM International) was incorporated to act as a sub holding company for TIM Celular Centro Sul, TIM Sao Paulo and TIM Rio Norte. In November 2001, TIM International s stake in Bitel (the majority shareholder of Tele Nordeste Celular and Tele Celular Sul) was contributed to TIM Brasil. Consequently, TIM Brasil is actually the holding company for all the Brazilian subsidiaries.

Tele Nordeste Celular Participacoes group. A controlling interest in Tele Nordeste Celular, a supplier of mobile telephone services in the regions of Alagoas, Cearà, Paraiba, Pernambuco, Piaui and Rio Grande do Norte, was acquired in 1998. At the end of 2002, in a market with a penetration level of 12%, Tele Nordeste had more than 1.9 million lines (an increase of 9.6% compared to 2001), corresponding to a market share of approximately 59%.

Table of Contents

In 2002, Tele Nordeste Celular reported operating revenues of Brazilian reais 984 million (355 million), an increase of 12.3% in local currency compared to 2001; gross operating profit of Brazilian reais 523 million (189 million), an increase of 25.7% in local currency compared to 2001; and operating income of Brazilian reais 271 million (98 million), an increase of 26.0% in local currency compared to 2001.

Tele Celular Sul Participacoes group. A controlling interest in Tele Celular Sul Participaçoes, a mobile telephone operator in the states of Paranà, Santa Caterina and in the city of Pelotas, was acquired in 1998. In 2002, Tele Celular Sul had 1.7 million lines (an increase of 7.5% compared to 2001) representing an overall market share of 61%. In 2002, Tele Celular Sul reported operating revenues of Brazilian reais 1,010 million (364 million), an increase of 13.6% in local currency compared to 2001; gross operating profit of Brazilian reais 422 million (152 million), an increase of 12.2% in local currency compared to 2001; and operating income of Brazilian reais 192 million (69 million), an increase of 3.8% in local currency compared to 2001.

Maxitel. In November 2000, TIM, through Bitel Participaçoes, acquired from UGB Participaçoes S.A. and Vicunha S.A., respectively, 19.43% and 18.53% of the ordinary and preferred shares of Maxitel, the Brazilian mobile telephony operator licensee in the states of Minas Gerais, Sergipe and Bahia in which it already held a 58.7% interest (43.15% of ordinary share capital). The transaction involved a total investment of approximately U.S.$240 million.

In February 2002, TIM International, through its wholly owned subsidiary TIM Brasil S.A., acquired from the minority shareholders UGB Participaçoes S.A. and Vicunha S.A. the remaining 10% of Maxitel ordinary shares for the equivalent of 27 million by exercising a call option.

In 2002, Maxitel reported operating revenues of Brazilian reais 755 million (273 million), an increase of 29.7% in local currency compared to 2001, due to an increase in traffic; gross operating profit of Brazilian reais 293 million (106 million), an increase of 61.9% in local currency compared to 2001. Operating income was Brazilian reais 74 million (27 million).

TIM Celular. On February 13, 2001 TIM s subsidiaries TIM Sao Paulo and TIM Celular Centro Sul acquired PCS licenses in Brazil respectively in the regions of São Paulo and in the Districto Federal, in the middle/west and south region. On March 13, 2001, TIM Rio Norte acquired PCS licenses in the Northern and in the Rio de Janeiro and Espirito Santo states. On October 18, 2002, the three companies launched GSM services. In December 2002, within the framework of the corporate reorganization process, TIM Sao Paulo merged the other two companies and, in January 2003, changed its name to TIM Celular.

The company operates mobile network services using GSM technology in the north of Brazil, in the middle/west and south region and in the states of São Paulo, Rio de Janeiro and Espirito Santo and in the Districto Federal.

At the end of 2002, TIM Celular had 293 thousand lines. In 2002, TIM Celular reported operating revenues of Brazilian reais 108 million (39 million); a loss in gross operating profit of Brazilian reais 472 million (170 million) compared to a loss of Brazilian reais 33 million in 2001; and an operating loss of Brazilian reais 521 million (188 million) compared to a loss of Brazilian reais 34 million in 2001.

Perú

In March 2000, TIM Perù was awarded the third mobile PCS license in the country at a cost of US$180 million. The license has a duration of 20 years, is renewable, and provides for the supply of mobile telecommunications service on the 1900 MHZ frequency band. The license permits TIM Perú to request licenses for supplementary services, including basic and long distance telephone services. These licences were obtained in March 2001 and October 2001.

The Telecom Italia Group has elected to use GSM technology for its mobile services in Perú consistent with the development of a Latin American platform and GSM roaming worldwide.

In 2002, TIM Perú reported operating revenues of 308 million Nuevo Soles (93 million), a loss in gross operating profit of 95 million Nuevo Soles (29 million) and an operating loss of 201 million Nuevo Soles (61 million) against an operating loss of 238 million Nuevo Soles (76 million) in 2001.

Table of Contents

Venezuela

In December 2000, TIM acquired a 56.6% stake in Corporacion Digitel S.A., a Venezuelan mobile operator. The amount paid for this acquisition was approximately US$363 million (of which approximately US$107 million was in the form of a capital increase and the balance was in the form of a share purchase). In December 2002, TIM International acquired a further 10% of Corporacion Digitel s share capital for 32 million. Consequently, TIM group s interest in Digitel increased to 66.56%. Corporacion Digitel was awarded a 900 MHZ 20-year renewable GSM license in January 1998 and is operating in the Venezuelan Central Region, which, including Caracas and other major cities, is the most important economic region of Venezuela, with 60% of the national GDP.

In 2002, Corporacion Digitel changed its network architecture with the choice of Nokia as a main supplier, updated its technologies for prepaid services and launched GPRS and MMS services. At the end of 2002 Corporacion Digitel s market share was 15%.

In 2002, Corporacion Digitel reported: operating revenues of 260 billion Bolivares (177 million), an increase of 50.2% in local currency against operating revenues of 173 billion Bolivares in 2001; gross operating profit of 51 billion Bolivares (35 million) compared to 10 billion Bolivares in 2001; and an operating loss of 30 billion Bolivares (20 million), an increase in loss of 40.1% compared to 2001.

As a consequence of the recent devaluation of the Venezuelan currency against the U.S.$, Corporacion Digitel s 2002 operating loss was equal to approximately 120% of its share capital. According to Venezuelan law, this situation would cause the winding-up of the company unless the General Shareholders Meeting, while approving the financial statements, provides for a replenishment of the losses. Under Venezuelan law losses can be offset through direct contributions by shareholders, without increasing the company s share capital. Any shareholder not contributing pro-rata to the replenishment of losses could lose its investment in Corporacion Digitel.

In order to avoid participating in the loss replenishment, as well as to avoid losing their investment, some minority shareholders have initiated legal actions against Corporacion Digitel and TIM International, including the request for issuance of cautionary injunctions aimed at preventing the approval and/or the implementation of the replenishment of losses.

Most of the aforesaid legal actions have been rejected by the competent courts, so that on June 6, 2003, Corporacion Digitel s annual Shareholders Meeting finally approved with the contrary vote of the minority shareholders present at the Meeting the 2002 financial statements and a loss replenishment in an amount suitable to bring Corporacion Digitel out of the situation envisaged in the Venezuelan Civil Code as to losses and necessary remedies. TIM International contributed to such replenishment with a financial credit it had towards the same Corporacion Digitel, of U.S.$45 million.

Other investments held by TIM International

Czech Republic

The Telecom Italia Group holds a 7.16% interest in C-Mobil B.V., a company which owns a 60.76% interest in Radiomobil, a mobile telecommunications operator, which in March 1996 won a GSM license in the Czech Republic. As of December 31, 2002, the penetration rate in the Czech Republic had reached almost 85% and Radiomobil had approximately 3.5 million customers. Radiomobil had operating revenues of 705 million and net income of 88 million in 2002.

Turkey

In line with its expansion strategy in the Mediterranean Basin, in April 2000, the Telecom Italia Group was awarded a mobile GSM 1800 license in Turkey. This license was acquired, at a price of US$ 2,525 million, through a special consortium (49% owned by Telecom Italia and 51% by Is Bank, the leading private bank in Turkey, in compliance with restrictions imposed by local laws about foreign investments). The second license was awarded to the fixed network operator (Turk Telekom) at the same time, according to the terms of the bid.

Table of Contents

In September 2000, the Telecom Italia Group and Is Bank formed Is TIM, that, under the brand name Aria , launched GSM services in March 21, 2001. According to the agreements with Is bank, TIM was responsible for the technical and commercial operation of Is TIM. In December 2000, 49% of Is TIM was transferred to TIM International B.V. (now TIM International N.V.)

At the end of 2002, Is TIM had a customer base of approximately 1.2 million lines and it reported operating revenues of 141,276 billion Turkish lire (83 million) and an operating loss of 715,735 billion Turkish lire (420 million). These results are due to the consequence of the difficulties faced by Is TIM in developing its mobile business, because of the Turkish regulatory scenario. In fact beginning with the award of the license, some measures which should have fostered effective competition and permitted a new entrant to compete against incumbent operators (roaming arrangements in particular), did not effectively take place. These measures are essential in the light of international experience to foster competition and pursuant to applicable legislation in Turkey. Is TIM and its shareholders made repeated and formal efforts to have the situation rectified but was de facto prevented from entering the Turkish mobile telephony market, thereby infringing the terms and conditions of the tender.

From a financial standpoint, at the end of 2002 Telecom Italia, in conjunction with TIM, concluded that the competitive conditions which would permit TIM to earn a return of investment did not exist. Facing this situation Telecom Italia and TIM have completely written off their investment in Is TIM. The investment held in Is TIM was written down (extraordinary loss of 1,491 million) and a provision was added to the reserve for risk and charges related to Is TIM (850 million) against the guarantees provided by the Telecom Italia Group to financial institutions and suppliers as creditors of Is TIM and the loans to Is TIM by the Telecom Italia Group.

On May 13, 2003 TIM International signed a Term Sheet with Turk Telekom (the fixed line operator) outlining a set of guidelines for the integration of Is TIM and Aycell (the 4th Turkish mobile operator wholly owned by Turk Telekom). The agreement aims at obtaining significant operating and financial synergies through the combination of the two companies. Both the two telecoms operators, TIM and Turk Telekom will hold 40% of the shares of the new entity respectively; the remaining 20% will be held by Is Bank. The closing of the operation is expected by the end of June 2003.

Other Countries

During 2002 TIM disposed of its mobile investments in Austria, France and Spain. In Austria, TIM International sold its 25% stake in Mobilkom Austria to Telekom Austria. The sale was completed on June 28, 2002. In France, Telecom Italia sold its 19.61% stake in BDT, the company controlling 55% of French mobile company Bouygues Telecom, to Bouygues S.A. The sale was completed in March 2002. In Spain, TIM International sold its 3.81% stake in Auna. See Significant Developments during 2002 Disposition and Acquisition of Certain Equity Investments .

South America

All the activities conducted by the Latin American subsidiaries (whether controlled by Telecom Italia International or by TIM International) are currently coordinated by Latin America Operations (LAO) and are developed in accordance with the Telecom Italia Group s overall strategic plan. LAO reports to the International Steering Committee, composed of the Chairman and CEO. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Domestic Wireline and Mobile Business Units. Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for Wireline telecommunication, and to Marco De Benedetti for Mobile telecommunication.

Table of Contents

As of December 31, 2002, LAO was organized as follows:

A description of the companies providing mobile services (TIM Brasil group, TIM Perù and Corporacion Digitel) is provided under Mobile Companies Controlled by TIM International Latin America .

International Strategy in Latin America

The Telecom Italia Group s international strategy in Latin America has the following objectives:

- consolidate the Telecom Italia Group s presence in mobile and in the fixed-mobile integrated business;
- maximize return on investments and focus on sustainable growth;
- invest in high-growth market segments, such as wireless, data and broadband, through the creation of a common GSM platform and through the launch of VAS services based on state-of-the-art technologies that provide synergies to the Telecom Italia Group;
- enhance the value of shareholdings, maximizing efficiency and cash cost control particularly on legacy services;
- strengthen its role of strategic partner in the current operations by increasing the transfer of the Telecom Italia Group s technological expertise and marketing know-how; and
- divest investments in the existing Latin American portfolio where the Telecom Italia Group does not have control, in non-core businesses or divest minority participations in non-strategic geographical markets.

Significant Developments During 2002

During 2002 the Telecom Italia Group, through its wholly owned subsidiary Telecom Italia International N.V. (the primary vehicle by which the Telecom Italia Group holds its international wireline and integrated mobile/fixed-line investments), continued pursuing its targets, supporting the growth of its majority owned subsidiaries and focusing on rationalization of other investments.

The following key transactions were finalized during 2002:

- Telecom Italia Group sold part of its stake in Solpart Participacoes S.A. (indirect parent company of Brasil Telecom) to other shareholders reducing the Telecom Italia Group s stake in ordinary share capital from 37.29% to 19.0%. As a result, the regulatory restrictions preventing the TIM group from launching a mobile telephone service based on GSM technology throughout Brazil were removed. Within the framework of this transaction, both parties have an option which can be exercised in the event certain conditions are met that will restore the previous shareholder positions; and

- the Telecom Italia Group, as a result of the Nortel Inversora Shareholders Meeting on April 25 and September 13, 2002 which gave voting rights in the shareholders meeting to the preferred shareholders and the right to appoint their own representative on the Board of Directors, has reduced its voting percentage in the shareholders meeting to 33.89%. The percentage holding of ordinary share capital has remained unchanged at 50%, as well as the economic rights thereto.

Table of Contents

Finally, as part of the plan to restructure debt, on February 12, 2003, Telecom Argentina and its subsidiaries Telecom Personal S.A. and Publicom S.A. announced the intention to launch an offer for a portion of its financial debt for cash and to effect a partial payment of the interest due. Having obtained any necessary authorizations, the offer started on April 16, 2003 and represents the beginning of the process for restructuring the Telecom Argentina group s debt obligations.

In June 2003, Telecom Argentina and its subsidiaries Telecom Personal S.A. and Publicom S.A., pursuant to a tender offer, repurchased U.S.$292 million principal amount of their financial debt obligations at a price of U.S.$160.6 million (55% of the face value).

Latin America Companies Controlled by Telecom Italia International

Chile

Telecom Italia International has a 54.76% stake in Entel Chile. Entel Chile is the largest long distance international telecommunications operator in Chile and the second largest national telecommunications operator. Through its mobile and two PCS licenses, Entel Chile is the largest wireless telecommunications operator with nationwide coverage with almost 2.3 million subscribers at the end of 2002 (a 18% increase compared to 2001).

Despite weaker demand and the strong Chilean Peso s volatility, the Entel Chile group reported consolidated operating revenues of approximately 1,223 million in 2002 (an increase of 12.3% in local currency compared to 2001), gross operating profit of 381 million in 2002 (an increase of 17% in local currency compared to 2001) and an operating income of 151 million in 2002 (an increase of 37.5% in local currency compared to 2001, due to the increase of wireless operations). Entel Chile has been fully consolidated with Telecom Italia since the first quarter of 2001.

In 2002, the Company focused its efforts on reducing costs and capital expenditures levels, implying lowered funding requirements and increased its cash generation, and on growing to profitable mobile business (the wireless subsidiary has improved its Return on Sales (ROS) level from 18% in 2001 to 25% in 2002).

During 2002 Entel Chile launched a WLL (Wireless Local Loop) business in the Chilean broadband market and long distance operations in Perù and Venezuela. At the end of August, Entel Chile reduced staff levels (468 employees of both staff and outsourced workers were laid off) which has affected the 2002 results with a provision of approximately 10 million.

In September 2002, Entel Chile group restructured its debt through the refinancing of a US$ 300 million syndicated loan at a rate of Libor + 0.875%, which is lower than the 1.25% implicit spread of the older loan. The loan has a 5 year term with a 3 year grace period.

Bolivia

Telecom Italia International holds indirectly a 50% stake in Entel Bolivia, the Bolivian national long distance and international telephony operator, which it acquired in 1995. Entel Bolivia is a leader in the mobile market and owns a license to provide CATV services. Local regulations established that until November 2001, when liberalization of the market began, long distance telecommunication services would be provided by Entel Bolivia under a monopoly system. In 2001 complete deregulation of the telecommunication market took place, carrier selection was introduced and local access, previously in the exclusive hands of cooperatives, was liberalized.

Due to the increasing competition in the wireline segment (6 long-distance operators), together with the strong impact attributable to the volatility of the Bolivian currency, operating revenues were approximately 186 million in 2002, a decrease of 4.5% in local currency compared to 2001. Mobile growth partially compensated for a decline in wireline revenues. The competition resulted in lower profitability and gross operating profit was 72 million in 2002 (down 10.3% in local currency compared to 2001), while operating income was 2 million in 2002 (a decrease of 83.5% in local currency compared to 2001).

As of December 31, 2002, Entel Bolivia had 462,000 mobile customers, up 26% compared to the end of 2001, reaching a market share of 52% (45% in 2001). Subscriber fixed-lines were 50,000 at December 31, 2002, a 6% decrease compared to the end of 2001. Internet clients were approximately 15,000 as of December 31, 2002 (an increase of 23% compared to the end of 2001).

Table of Contents

Latin America Affiliated Companies

Nortel Inversora

The current interest of 50% the Telecom Italia Group holds in the Nortel ordinary share capital is the result of an initial share of 32.5% acquired in 1990 for approximately U.S.$33 million and an additional share of 17.5% acquired in August 1999 for approximately U.S.$265 million. Nortel currently owns 54.74% of Telecom Argentina, which until October 1999 operated the telecommunications network in the northern part of Argentina (including Buenos Aires) among others, fixed-line and mobile telecommunications operations, international services, data transmission services, value-added services and directories publishing. Since October 1999, the Argentinean market has been progressively liberalized, and as a consequence Telecom Argentina has expanded its operations to the entire national territory. In June 1999, Telecom Argentina also expanded its mobile telecommunications services, by acquiring new licenses in the PCS technology, for a total amount of U.S.$327 million.

At the end of 2002, Telecom Argentina had accumulated 3.3 million fixed-line network subscribers corresponding to a 45% market share. Its subsidiary Telecom Personal (including Nucleo) which is a leading company in the wireless segment, accumulated more than 2.7 million mobile customers (80% with prepaid cards), with a market share of 33% in Argentina. In the Internet sector, there were approximately 177,000 subscribers (147,000 access clients and 30,000 Broad Band clients with a market share of 19%).

As a result of the financial crisis in Argentina, Telecom Argentina has seen a decline in the number of fixed lines and a migration from postpaid lines to prepaid lines in the mobile segment. There has also been a strong traffic fall in both mobile and fixed telephony. The situation can largely be attributed to the economic crisis the country is presently undergoing.

Argentina s economy is in its fourth straight year of recession. In January 2002, the Argentine government removed the peg of the Argentine peso to the U.S.$, resulting in a significant devaluation of the peso against the U.S.$ and against other major currencies. The Argentine government has also defaulted on the payment of its debt obligations. Whether companies doing business in Argentina will default on their obligations depends upon their own financial condition, and, in the case of U.S.$ obligations, continued access to the foreign exchange markets. The default by the Argentine government and its decision to devalue the currency have resulted in considerable uncertainty about the government s political stability, its management of the economy and the current exchange rate regime. Economic activity declined 10.9% in 2002. The GDP per capita decreased from U.S.$7,458 to U.S.$ 2,700.

In February 2002, Telecom Argentina hired Morgan Stanley as financial advisor in order to explore the possibility of restructuring and consequently reducing its debt. The Company declared its financial default on April 2, 2002, and in 2002 has not made payments on its debt since then. In 2002, payment of interest was also frozen starting from June 24, 2002. Currently Telecom Argentina is working on the restructuring of the debt. In 2002, Telecom Argentina continued to implement a cost and investment optimization process in order to improve cash flow. The use of this strategy is expected to go on in future years.

In 2002, the Telecom Argentina group recorded consolidated operating revenues of Argentine Pesos 3,983 million (1,127 million). The gross operating profit was Argentine Pesos 2,417 million (684 million) and the operating income was Argentine Pesos 2 million (1 million).

On April 22 and April 24, 2002 the Board of Telecom Internet and Telecom Argentina approved the merger of Telecom Internet with Telecom Argentina.

Table of Contents

Internet and Media

The Internet and Media Business Unit consists of the SEAT group. As of December 31, 2002 the Business Unit was organized as follows:

The Telecom Italia Group operates in the Internet and publishing services sector through Seat Pagine Gialle S.p.A. Telecom Italia acquired control of Seat Pagine Gialle S.p.A. in 2000 pursuant to the SEAT/TIN.IT transaction. As of December 31, 2002 Telecom Italia holds, directly and indirectly, approximately 55% of Seat s ordinary share capital.

Through the combination of SEAT and Tin.it in 2000 and a number of key acquisitions in 2000 and 2001 (Telegate, Consodata, Netcreations, Holding Media e Comunicazione, the former Cecchi Gori Communications), SEAT has evolved into a leading multiplatform directory and business information provider, targeting small and medium-sized enterprises.

SEAT Spin-off

On April 11, 2003, the Board of Directors of SEAT approved the proposed proportional spin-off of substantially all of the Directories, Directory Assistance and Business Information business segments into a newly incorporated company (New SEAT). The spin-off plan was unanimously approved by SEAT s Board of Directors on April 11, 2003, and was approved by the SEAT extraordinary shareholders meeting held on May 9, 2003.

The spin-off plan contemplates the creation of two independent companies, each focused on its core businesses. It is SEAT s management s view that SEAT operates in two broad market sectors that have increasingly developed separate and distinct characteristics in terms of strategy, operations and competitive landscape. The first sector is that of targeted advertising and telephone services, in which SEAT operates through its Directories, Directory Assistance and Business Information segments, providing answers to queries via printed, online and telephone products and services.

The second sector is that of traditional advertising and the Internet, in which SEAT operates through its Internet, TV and other business segments, primarily providing access and content services. Both sectors present interesting development prospects (including broadband access and digital TV).

The strategic objective of the spin-off plan is to allow SEAT s businesses in each of the two sectors to more rapidly respond to market developments and exploit market opportunities, with a more focused management and a resource allocation consistent with the development prospects of each business line.

The spin-off plan provides for the transfer to New SEAT of the following companies within the Directories, Directory Assistance and Business Information business segments of SEAT:

Directories:	Directory Italia Seat Pagine Gialle S.p.A. division, Annuari Italiani S.p.A., Euredit S.A., TDL group, Euro Directory S.A.
Directories Assistance:	Directories Assistance Seat Pagine Gialle division, Telegate group, Telegate Holding GmbH, IMR S.r.l.
Business Information:	Consodata S.A, Consodata group Ltd (including Netcreations Inc., Pan-Adress).

SEAT s other companies and business segments will remain in SEAT, which, as noted above, will be known as Telecom Italia Media.

58

Table of Contents

Effective as of the date of the Spin-off, the beneficiary company will be called SEAT Pagine Gialle S.p.A. The spin-off, subject to certain conditions of Italian law, is expected to become effective at the end of July 2003.

Potential Sale of Telecom Italia s stake in New SEAT

On effectiveness of the spin-off, Telecom Italia will retain its current interest in the share capital of New SEAT and Telecom Italia Media.

On June 10, 2003 Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT which will be received by the Telecom Italia Group after completion of the spin-off transaction creating New SEAT (including the shares resulting from the expected early exercise of the J.P.Morgan Chase put option). The parties agreed on a sale price of 0.598 per New SEAT ordinary share, representing an enterprise value of approximately 5.65 billion.

The completion of the sale will be subject to the proportional spin-off becoming effective, the admission to listing of New SEAT, that is expected to occur by the beginning of August, and the approval of the relevant anti-trust authorities. Telecom Italia will receive approximately 3.03 billion for its stake. The buyers will also assume the estimated 708 million of debt of New SEAT at the closing.

The transaction will allow New Telecom Italia to reduce its net financial debt by approximately 3.74 billion.

See also Item 8. Financial Information Condensed Consolidated Pro Forma Financial Data .

Business

The Internet and Media Business Unit is responsible for the whole chain of value in the media sector, satisfying the public s need for information and entertainment, and the communication requirements of the business sector, through the production of traditional products on paper, and innovative products through the media of Internet, the telephone and television.

The Telecom Italia Group is a leader in the field of telephone publishing and is the second largest telephone publishing group in the United Kingdom. Furthermore, in Italy, SEAT Pagine Gialle is the top company in the marketing of services and products for the office and is present in the television sector with La7 and MTV Italia.

SEAT s business activities are currently organized in six business segments:

- directories;
- directory assistance;
- Internet;
- office products & services;
- business information; and
- television and other.

In the Internet sector, SEAT Pagine Gialle promotes the development of all internet services for residential customers and for small and medium-size companies: access, portals and web services. In Directory Assistance, the group handles the 89.24.24 Pronto Pagine Gialle 24-hours service in Italy.

Directories and Directory Assistance

SEAT s principal revenue generating activity is the sale of advertising in the telephone directory products that it publishes. SEAT s principal publishing products are business-to-business Yellow Page directories (*PagineGialle® Lavoro*), business-to-consumer Yellow Page directories (*PagineGialle® Casa*) and the White Pages (*PagineBianche®*).

SEAT also publishes business-to-business Yellow Page directories with regional coverage (*Pagine Gialle Professional*) and national subscriber-only business-to-business directories, segmented by industry (*Annuario* SEAT PG), provides an operator-assisted talking Yellow Pages directory service accessible 24 hours a day, 365 days a year (*Pronto Pagine Gialle*) and publishes city maps and information about local public services (*Tutto Città*) to be inserted into certain editions of the Yellow Pages.

SEAT also provides on-line directory Yellow Pages service (*PagineGialle.it*) and White Pages service (*PagineBianche.it*).

In October 2002, SEAT launched a new edition of PagineBianche® that replaces the traditional directories and contains the telephone numbers of the other operators customers.

SEAT also participates in the European telephone directory advertising and services market through shareholdings in:

- TDL Infomedia, which is the second largest directories publisher in the United Kingdom, through Thomson Local Directories;
- EURÉDIT, a French company, which publishes and distributes Europages; and
- Telegate, the second largest operator of directory assistance services and vocal portal services in Germany, with operations in Italy, Spain and the United States became part of the directory assistance business unit.

Internet

SEAT offers a full range of Internet services, consisting of:

- Internet access services;
- portal services;
- on-line advertising services; and
- web services.

Internet Access Services. Through Tin.it, SEAT provides Internet access services to residential, SOHO and SME Internet users. The small office/home office, or SOHO, market consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home. The small- and medium-sized enterprise, or SME, market consists of businesses having between 3 and 50 employees.

Tin.it offers two principal access subscription plans:

- free access (tin.it Free); and
- premium access (dial-up, ISDN and ADSL access).

At December 31, 2002, Tin.it s subscriber base amounted to approximately 6.6 million registered users and 2.2 million active users (defined as users who connect to the Internet at least once every 45 days).

Million users	2002	2001
Registered users	6.6	5.0
Active users	2.2	1.8

During 2002, SEAT re-launched its Tin.it brand and completely reviewed the range of products, introducing, in particular, an ADSL connection based on usage. This innovation marked an increase in the customer base (Alice, ADSL of Telecom Italia, +Tin.it).

Portal Services. SEAT provides portal services through Matrix, which operates the Virgilio portal.

Virgilio is a leading Italian portal, with approximately 5.3 billion web page views in 2002 and approximately 3.9 billion web page views for 2001, that caters to the Italian speaking community on the Internet. Management believes that *Virgilio*, which has been on-line since July 1996, is one of the most complete Italian portals. It contains a search engine and a websites index, and it centralizes services in various interest areas such as stock quotes, weather forecasts, TV guides, games, chats advertisements and shopping. In order to simplify the use of information, *Virgilio* offers personalized, interactive services that correspond to the requirements of individual customers.

Table of Contents

In 2002, SEAT launched the pay version (Virgilio Più) on its Virgilio portal with services and exclusives contents for customers. The continued innovation of products is one of the most important basis for future evolution of Virgilio and it represented the primary focus for investment during 2002.

In particular, SEAT revised the range of text products proposed by the Virgilio portal. In detail, PG Net product, launched in July 2002, generated a more effective use of its search engine by offering outgoing priority and listing on the results of searches. In only a few months, almost 33 thousand on-line customers (22% of total clients) subscribed to this new product.

On-line Advertising Services. Matrix s division *Active Advertising* is a leading on-line advertising agency in Italy and has arrangements with approximately 20 Italian websites to provide advertising services.

Web Services. SEAT provides web services through Tin.It and Matrix s division Matrix Communication.

Tin.It provides different packages, which enable SME and SOHO customers to establish a presence on the Internet or provide e-commerce services. In particular, Tin.It s Easy and Village packages provide SME and SOHO customers with solutions to build an Internet site, to advertise the site with a pre-assembled banner advertising campaign and to establish and manage e-commerce capabilities on the Internet.

Matrix Communication provides a wide range of web services, including communication consultancy, website construction and maintenance, housing and hosting services and technical assistance.

Office Products & Services and Business Information.

Through SEAT s control of Gruppo Buffetti S.p.A. (Buffetti), SEAT is a leading distributor of office products and business solutions in Italy. Through certain controlled companies (Consodata and Databank) it also offers direct marketing and database services.

During 2002, SEAT repositioned towards products with greater added value, with the introduction of print on demand and the digital signature and the development of software and the ADSL subscription plan.

Television and other.

- SEAT provides television services through Holding Media e Comunicazione S.p.A. which holds the broadcasting licenses for La7 and MTV Italia.

La7 is providing news information on a 24-hour basis, and is currently interacting with the Internet Services business segment in order to provide on-line news information through the use of video-streaming technology. La7 started broadcasting under the new format on March 18, 2002.

MTV Italia is a television channel providing music programs on a 24-hour basis. The brand MTV is a well known brand in the music industry and in the television network business. MTV Italia started broadcasting its programs on May 1, 2001.

In 2002, the main activities were:

- repositioning of the television broadcasting channel La7 with new programming and programs starting March 2002, and significant development of MTV Italia;
- consolidation of geographical coverage and the percentage of the population served by the signal distribution network ;
- agreement with Cairo Communication to collect advertising business with a guaranteed minimum on channel La7 with effect from 2003; and
- collaboration with the Virgilio portal for news.

- Through Giallo Professional Publishing, SEAT has interests in companies publishing specialized information in the hotel, restaurant and entertainment industry, in electronics, information technology and audiovisual communication and in ceramics, architecture and urban design sectors.

Information Technology Market

The Information Technology Market (ITM) Business Unit was created in early 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services Business Unit by type of customer. The ITM Business Unit includes the Finsiel group and is responsible for the information technology activities of the Telecom Italia Group for local and central government entities, as well as for banks, insurance companies, manufacturers and service companies. This Business Unit is also the supplier of system integration and IT consulting to the Italian government and local government authorities. As of December 31, 2002, ITM was organized as follows:

In order to reflect the new strategic guidelines, the Business Unit s internal structure has been subdivided in accordance with the following functions and provides services in the field of IT and related activities, including the design, management and maintenance of software and information products and services for each-area:

Main Subsidiaries

Finsiel S.p.A.

Finsiel is held 77.92% by the Company, 14.38% by the Bank of Italy and 7.70% by other shareholders.

Finsiel provides services in the field of information technology and related activities, including services for local and central government entities. In addition, Finsiel provides management consulting and services related to company automation. Finsiel is the leading Italian firm in the systems integration and information technology consulting market, and one of the largest European companies of this type. Finsiel is the principal supplier of systems integration and information technology consulting to the Italian government and local government authorities, typically under long term exclusive arrangements.

During 2002, Finsiel increasingly focused new offerings of customized web-based solutions.

Banksiel S.p.A.

Banksiel, held 55.5% by Finsiel, is part of the Finsiel group s Finance sector operations. Italy s top banking industry IT player, in 2002, gained one of the first important customers in the insurance field, the Cattolica Assicurazioni group.

Insiel S.p.A.

Insiel, held 52% by Finsiel S.p.A., provides services in the field of information technology and related activities for local government entities. During 2002, Insiel acquired new contracts in government and healthcare.

62

Table of Contents

Tele Sistemi Ferroviari S.p.A. (TSF)

TSF, held 61% by Finsiel, is the ICT partner for the Ferrovie dello Stato group companies, for which it designs and develops both systems for passenger and freight transport, management and administration systems. TSF also offers e-ticketing and electronic fleet monitoring systems to local transport companies.

Information Technology Group

The Information Technology Group (ITG) Operating Activity is responsible for the information technology activities of the Telecom Italia Group and covers the entire range of information services. It is oriented towards increasing efficiency and quality of service activities directed at all the Business Units of the Telecom Italia Group.

The Operating Activity was established in early 2002, completing a plan to integrate various companies.

As of December 31, 2002, IT Telecom S.p.A., the main company of the ITG Operating Activity, was organized as follows:

In June 2002, Telecom Italia contributed its shares in Netsiel S.p.A. (68.65%), Telesoft S.p.A. (60%), Sodalia S.p.A. (100%) and Netikos S.p.A. (25%) to IT Telecom S.p.A. (a wholly owned subsidiary of the Company). IT Telecom also purchased the remaining stake of Netsiel S.p.A. (31.35%), Telesoft S.p.A. (40%) and Netikos S.p.A. (75%) from Finsiel S.p.A., through a capital contribution received from the Company.

On June 27, 2002, IT Telecom S.p.A. (100% owned by Telecom Italia) bought Olivetti s 50% stake in Webegg S.p.A. The price paid by IT Telecom was 57.5 million and was agreed on the basis of independent evaluations carried out by KPMG Corporate Finance for Telecom Italia and IT Telecom and by UBM for Olivetti. Following this operation, Webegg is owned by IT Telecom (69.8%) and Finsiel (30.2%).

In December 2002, Netsiel, Saritel, Sodalia and Telesoft, 100% owned by IT Telecom S.p.A., were merged into IT Telecom. The merger was carried out to obtain more efficiency and effectiveness in the information technology services rendered to the Telecom Italia Group and to focus consistently on innovation, services and products.

As of December 31, 2002, the Information Technology Group Operating Activity also included the Netikos group, the Webegg group and the TILAB group (100% owned by the Company) and was organized as follows:

The Netikos group was created by the Company to meet the increasing needs of Internet and wireless services solutions, as one-stop-shop partner to different corporations and institutions.

The Webegg group is focused on spreading the use of internet by commercial entities. It is mainly a supplier of CRM systems and a software factory for several different customers, such as banks and insurance companies.

TILab was established in March 2001 to combine the Telecom Italia Group s venture capital and innovation activities, the *Centro Studi e Laboratori Telecomunicazioni S.p.A.* (or CSELT) research laboratories in Turin and the Future Centre in Venice and the Consumer Lab in Rome. The Technology Observatory in San Francisco collaborates, on an exclusive basis, with TILab. Telecom Italia Lab was formed to enhance the Telecom Italia Group s competitive position, promoting and managing innovation and by identifying and developing business opportunities. Telecom Italia Lab s strongest assets are its rich and consolidated R&D activities, its ability to

Table of Contents

promote corporate venture capital activities in emerging technology and to identify internal research areas through the development of new ideas.

Pursuant to the 2002 Reorganization, the venture capital activities of TILab became part of a separate venture capital central function and TILab became part of the Information Technology Group.

The Group spent 269 million, 138 million and 121 million on research and development in 2000, 2001 and 2002 respectively. The Group also receives grants from research and development national and international programs.

The purposes of the Group s research and development activities are mainly the development of innovative services and applications, to meet the increasing demand from the market. Some R&D activities are also devoted to support the manufacturing sector outside the Group.

Development of innovative services is pursued through both the introduction in the network infrastructure of new platforms and systems that enable the provision of a wide range of services, and the use of state-of-the-art information and communications technologies for the development of highly innovative applications, tested on selected customers sites. Such activities are mainly carried out by TILab, the corporate research center of the Group. TILab performs both strategic research and research specifically requested by Group Companies.

The following main operations and developments that occurred in 2002 were:

- acquisition of the minority associates share of Loquendo;
- the development of an Interactive TV service;
- the support of the evolution on the XDSL services; and
- restructuring of the partnership with SVP FUND, realized through the departure of the USA Ramius Capital group and reduction of the Capital Committed.

The management activity, focused in the field of research and development with collaborative projects together with Pirelli Lab, has involved:

- the study of enabling techniques in the mobile and fixed sectors;
- the definition of network design, planning and management tools;
- the definition and testing of local access techniques;

- the development of solutions, products and architectures suitable for silicon integration;
- the development of modular products, obtained as software and capable of being turned into firmware for specific solutions or for hardware components; and
- the implementation of the interactive TV service.

In 2002, TILab s basic research involved different sectors within both fixed and mobile telecommunications, with reference to services, infrastructures and technology.

For Internet and mobile applications, it was oriented towards integrated application and technological solutions for the multimedia offering, to the definition of content access modes and management of broadband customers, to the implementation and assessment of advanced solutions for the user environment (terminals, home wiring, application platforms).

Activities in the field of switching and networking were aimed at developing IP networks, developing Content Delivery Network architectures for an efficient distribution of multimedia contents and defining IPv6 introduction strategies, also assessing their impact on networks and services. Particular attention was also devoted to Wireless LAN and to the corporate solutions for the PABXless Company. Within this context, new telephony solutions were also developed, using innovative solutions for packet network telephony.

Within the mobile network field, techniques for the efficient management of radio resources were developed, along with tools for assessing Quality of Service in different network and traffic situations. Research in the network intelligence field, which, though it does have implications on the fixed network as well, is currently more closely linked with the evolution of the mobile network, was oriented to the study and definition of the set of functionalities and architectures that constitute the enabling middleware for the new services.

Table of Contents

Research on network infrastructures involved the urban and transport network, experimenting with new optical network architectures with automatic switching, as well as the access network, proposing innovative solutions based on copper and fiber optics connections. New operational and strategic planning tools were also developed for fixed networks, to allow the operator to carry out technical/economic evaluations of the various network development options.

As a result of the new policy within the Telecom Italia Group to exploit intellectual property, the research activities described above led, in 2002, to the filing of 45 patent applications, up about 13% over the previous year.

Other Telecom Italia Group Activities

Real Estate and General Services

The Real Estate and General Services Function provided an interface for the various corporate Functions/Business Units to satisfy the needs of the real estate and general services area. In particular, the activities performed by the Real Estate and General Services Function concerned planning of sites and locations of the Telecom Italia Group, the design and construction of civil works, the maintenance of the properties and technological plant, in addition to providing real estate and general services.

This Function operated through the internal structures of Telecom Italia mainly for the activities conducted on behalf of the Telecom Italia Business Units/Functions and through the subsidiary Emsa Servizi S.p.A., which, for the most part, geared its activities towards the other companies in the Telecom Italia Group.

In February 2003, the Real Estate and General Services Operating Activity was disbanded; its activities and resources were reassigned to other corporate functions of the Telecom Italia Group.

Foreign Holdings Corporate Function

In May 2002, the companies and business segments of the Telecom Italia Group which formerly reported to the International Operations (IOP) Operating Activity were transferred to Domestic Wireline and the Foreign Holdings Corporate Function, while all the companies based in Latin America are now coordinated by Latin America Operations (LAO).

The corporate function Foreign Holdings, operating under the corporate control structure, is responsible for the companies Telecom Italia International, 9Telecom group, the BBNed group, the Telekom Austria group, Telekom Srbija, Etec S.A., Netco Redes and the residual segment of the former IOP.

Foreign Holdings Corporate Function reports to the CEO, Mr. Carlo Buora, in order to strengthen the relationship with other Central Functions and, in particular, with Mergers & Acquisitions with whom Foreign Holdings Corporate Function will evaluate opportunities to reorganize or restructure participations held by Telecom Italia operating in the fixed and integrated fixed-mobile telecommunication business.

During the course of 2002 the Telecom Italia Group, through the wholly owned company Telecom Italia International N.V., continued to pursue its targets under the Business Plan, focusing on reorganizing and rationalizing its international presence. The principal corporate transactions which took place in 2002 were the following:

- on August 1, 2002, the Telecom Italia Group finalized the sale of the investment in Auna and Multimedia Cable to Endesa, Union Fenosa and Banco Santander Central Hispano;

- on August 26, 2002, the French group 9Telecom was sold to LDCom with the simultaneous purchase on the part of Telecom Italia International of a 7.22% stake in LDCom. At December 31, 2002, the stake was reduced to 6.99% after the company effected a reserved capital increase in November;

- Telecom Italia International, following the agreement reached in June with OIAG, in the month of November, sold 75,000,000 Telekom Austria shares at a price of euro 7.45 per share, reducing its investment from 29.78% to 14.78%. Under such agreement, the sale of the remaining part of the shares held by the Telecom Italia Group can be initiated as from January 1, 2004;

- on December 28, 2002, the Telecom Italia Group announced that it had reached an agreement for the sale of its 29% stake in Telekom Srbija to PTT Srbija (the local state owned partner). The agreement for the sale was finalized on February 20, 2003 and the closing is scheduled to take place by the end of

Table of Contents

June. PTT will pay 195 million, 120 million of which will be paid by June 2003. The remaining amount will be paid in six semi-annual installments beginning January 2006. The shares disposed of shall be placed in escrow with an international bank until payment of the consideration is complete.

The Netherlands

BBNed, established in July 2000, is 97.56% owned by Telecom Italia International. BBNed is an alternative carrier in the Netherlands, providing broadband local access to ISPs and business clients. Its commercial operations are based on unbundled local loop and co-locations services acquired from the local incumbent operator. During 2002 the company finalized the roll out of a nationwide DSL network with 300 points of presence, and experienced a large growth in its portfolio and revenues. As of December 31, 2002 BBNed had 15,800 ADSL lines and 11.7 million of revenues, compared to 462 lines and 0.6 million revenues in 2001. In 2002 BBNed had a gross operating loss and an operating loss of 14.9 million and 21.7 million, respectively.

Cuba

Telecom Italia International has a 29.29% interest in Empresa Nacional de Telecomunicaciones de Cuba S.A. (ETEC S.A.), the exclusive operator for national and international wire telecommunications services in Cuba. In order to fulfill the long term objectives related to its license, ETEC S.A. increased the number of lines from 555,000 in 2001 to 646,000 in 2002 (an increase of 16%), while the digitalization rate rose to 76% from 69% reached in 2001. Further development of telecomunication infrastructure includes the near completed fiber optic national backbone, and capacity doubling of the ATM/Frame Relay Network. In 2002, ETEC S.A. focused on Internet and data transmission commercial development, achieving a 35% growth compared to revenues of 2001 (from approximately U.S.$10 million in 2001 to U.S.$13.4 million in 2002). In 2002, total operating revenues were U.S.$294 million compared with U.S.$281 million in 2001, an increase of 4.6%. Gross Operating profit increased from U.S.$185 million in 2001 to U.S.$202 million in 2002 (an increase of 9.2%) and operating income was U.S.$139 million compared with U.S.$137 million in 2001 (an increase of 1.5%). Net income was U.S.$132 million in 2002 compared to U.S.$137 million in 2001 (a decrease of 3.6%).

Telespazio

The Satellite Services Business Unit (consisting of the Telespazio group, which was sold in November 2002, and Telecom Italia s Satellite Telecommunications business segment) was responsible for developing satellite communication systems for phone and data, radio and television broadcasting and earth-observation.

Telespazio (a wholly owned subsidiary of Telecom Italia) designed, developed and managed satellite telecommunications systems for a variety of commercial uses and managed such systems for the Telecom Italia Group, including the public network utilized by Telecom Italia.

Other Subsidiaries

Telecom Italia Finance S.A.

Under the reorganization of the Telecom Italia Group companies in Luxembourg, in October 2002, Sogerim S.A. was absorbed by its sole shareholder Softe S.A., and Huit II was absorbed by its sole shareholder TI Media S.A. On December 16, 2002, Softe S.A. incorporated TI Media S.A. and the new company was merged with TI WEB S.A., which, on the same date, changed its name to Telecom Italia Finance. All the rights and obligations of the merged companies are vested in Telecom Italia Finance.

Following the merger, TI Finance, a subsidiary of Telecom Italia, took over responsibility of the international treasury function operating in support of the financial needs of the foreign companies of the Telecom Italia Group, a task previously carried out by Softe.

The company ended the year 2002 with a loss of 85 million, due principally to write-downs of 80 million. The write-downs specifically refer to a 24 million mark-to-market adjustment of third-party bonds in the portfolio, a 56 million mark-to-market adjustment of investments and the adjustment of the investment in GLB Serviços Interativos S.A. (Globo.com) to the sale price.

Table of Contents

Saiat S.p.A.

The company, held 100% by Telecom Italia, carried out support services for the Telecom Italia Group, in the financial area and in investment management.

In 2002, in particular, the company continued to provide services under the program for the securitization of the Telecom Italia Group trade accounts receivable. Under the Tiglio Project, the company sold its interest (99.42%) in TELIMM to MSMC Immobiliare and, as part of the reorganization of the Luxembourg companies of the Telecom Italia Group, sold its stakes in Softe (0.01%) and Sogerim (0.05%).

T.I. Learning Services S.p.A.

The company operates in the training sector with the aim of achieving a leadership position in the market of learning and knowledge management. Due to the technologies at its disposal and the experience gained in this field, the company is able to design complex and customized training systems that can be used by large numbers of people. Its product range includes more than 1,000 courses for continuous training, particularly on topics associated with ICT and Business Management.

At December 31, 2002, the conferral of the Training business segment of the Telecom Italia Group was completed, concluding the project to rationalize the companies of the Telecom Italia Group operating in the field of traditional and web-based training approved by the Board of Directors of Telecom Italia on December 18, 2001.

Other Investments

Multimedia Services

Stream, a wholly owned subsidiary of Telecom Italia, was formed in 1993 with the objective of establishing and promoting a wide range of multimedia services and applications for the Italian and other international markets.

On May 29, 1999, Telecom Italia, News Corporation, Cecchi Gori group and SDS (an Italian company that sells broadcast rights for the exploitation of Italian football games) signed an agreement to develop the second digital TV platform, pursuant to a memorandum of understanding signed by the parties on April 27, 1999. Following such agreement, on June 7, 1999 Telecom Italia sold 65% of Stream s shares to News Corporation, Cecchi Gori group and SDS for a total of 67 million. On May 16, 1999, SDS and Stream signed an agreement for the cable broadcast by Stream of sports events for the 1999-2000, 2000-2001 and 2001-2002 seasons. Stream has an option to renew the agreement for an additional three-year term. Stream will pay SDS an annual fee of 124 million.

On April 18, 2000, Telecom Italia and News Corp agreed to acquire the stakes owned by Cecchi Gori and SDS in Stream. Through the above mentioned transaction Telecom Italia and News Corp increased their respective stakes in Stream to 50%. The total cost to Telecom Italia and News Corp was approximately 196 million.

In 2000, Stream acquired broadcasting rights, for new television channels and programs and for Italian and European soccer championships. Interactive and Internet applications were developed and in December 2000 an e-mail service via the television set was launched.

Stream s main activities in 2001 were:

- enhancing its offer packages by including the Calcio channel and three new theme-oriented channels (MT Channel, Stream Verde and Fox News);
- the acquisition of the broadcasting rights for all the football matches of the UEFA Champions League for seasons 2001-2002 and 2002-2003, and the rights of Bologna Calcio starting from the season 2001-2002; and
- creation of the single decoder a machine which allows the customer to purchase the subscription to both Stream and Stream s main competitor, Telepiu without installing two separate decoders.

On October 1, 2002, Telecom Italia signed an agreement with the News Corporation group (News), partner of Telecom Italia in Stream, and Vivendi Universal (Vivendi), current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single Italian pay-TV company on one platform.

Table of Contents

On April 30, 2003, following the approval by the competent authorities, the agreement with News Corporation announced in October 2002 was concluded. The new company arising from the integration between Stream and Tele+ has been named SKY ITALIA and Telecom Italia paid approximately 30 million for its share in the transaction. The company is held by Telecom Italia (19.9%) and News Corporation (80.1%).

Competition

Domestic Fixed-line and International Telecommunications Services

Pursuant to the Telecommunications Regulations, fixed-line public voice telephony services and the operation of the fixed-line network for the provision of such services was liberalized effective January 1, 1998. Until January 1, 1998, the Telecom Italia Group was the sole provider of fixed-line public voice telephony services, which consist of local, long distance and international telecommunications services, in Italy. In addition to fixed-line public voice telephony services, over the last five years there has been increasing liberalization of all other business areas in which the Telecom Italia Group operates. The operation of telecommunications infrastructure for the provision of all telecommunications services other than fixed-line public voice telephony services was opened to competition by the Telecommunications Regulations and the Maccanico Law during 1997. As a result of the complete liberalization of the market for telecommunications services, the Telecom Italia Group has faced increasingly significant competition since 1998 in the Italian domestic market, including competition from foreign telecommunications operators, particularly with respect to medium-sized and large business customers.

On December 31, 2002, the number of licenses for the provision of both fixed voice telephony service and building public telecommunications networks granted by the Ministry of Communications and the National Regulatory Authority was approximately 163. See Regulation .

The Telecom Italia Group faces increasing competition in international and domestic telecommunications services from, among others Albacom and Wind, TISCALI and Tele2. International telecommunications services and long distance domestic services as well as mobile telecommunications services are the areas of its business which are attracting substantial competition, based mainly on pricing.

Since the beginning of 2001 there has been increased competitive pressure with respect to local calls.

Although increased competition (including the need to adjust tariffs in response to competition) has affected the Telecom Italia Group s operations, management believes that it will be able to increase traffic and revenue from domestic telecommunications services as a result of (i) the introduction and continued growth of new telecommunications services (in particular, non-voice services), capitalizing on the Telecom Italia Group s advanced fixed network, (ii) growth in traffic due to increased Internet and data usage, (iii) increased interconnect traffic as a result of the growth of other mobile telecommunications operators and alternative telecommunications operators in Italy, (iv) continued growth of the Telecom Italia Group s mobile telecommunications businesses, (v) continued focus on customer service quality and marketing initiatives, and (vi) growth of the Italian economy. The Telecom Italia Group expects its revenue mix to continue to change for domestic fixed telecommunications due to regulatory and competitive reasons, and the new business opportunities driven by data and Internet services and broadband access. On voice services, the Telecom Italia Group will seek to implement a strategy based on greater efficiency for its internal structure and competitive offerings in its services portfolio aimed at reducing market share losses.

The legal framework for regulation in the telecommunications sector in Italy was completely transformed, as a consequence of the adoption of the Maccanico Law (effective August 1, 1997), the Presidential Decree No 318/97 (the Telecommunications Act) (effective September 22,

1997) and a series of Orders issued by the National Regulatory Authority (see Regulation) which have been important to the Telecom Italia Group as it has faced increasing competition. To date the regulatory environment has been characterized by an intensive implementation process in order to complete liberalization. The trend continued in 2002 as additional steps were taken regarding tariff rebalancing, interconnection charges and the further signing of contracts to permit the unbundling of the local loop. See Regulation .

Although management has taken steps over the last several years in response to increased competition, as management expected it has lost fixed-line telephony services market share, in particular, with respect to domestic fixed long distance traffic (including fixed to mobile traffic) and outgoing fixed-line international traffic. In 2001, revenues from fixed-line telecommunications services were primarily affected by increased competition due to the development of carrier selection operators. Any decline in market share is expected to be offset in part by increased interconnection revenues as new competitors utilize Telecom Italia s domestic fixed-line network. Telecom Italia maintained its subscriber lines volume in 2002, as the unbundling of the local loop did not have a significant impact in this year.

With respect to domestic fixed traffic, as a result of increasing competition and to limit market share losses, in particular for long distance traffic, Telecom Italia introduced a number of innovative tariff and loyalty packages, (such as Teleconomy and Ricomincio da te). About 24% of Telecom Italia Group s customer base has subscribed to a loyalty package.

The Telecom Italia Group s overall strategy is to focus on pricing, customer service and loyalty, and new offers to achieve customer retention in order to stop or slow further losses in market share. For the year ended December 2002, Telecom Italia was able to maintain its market share on total traffic volumes compared to December 2001.

In the domestic wireline telecommunications services market, the Telecom Italia Group is also continuing to pursue the new opportunities offered by the Internet (about 850,000 broadband access lines at the end of 2002) and data services that have offset, in part, the continuing decline in voice revenues.

The Telecom Italia Group believes it is in the best position to capture the potential benefits to be derived from E-value. The Telecom Italia Group intends to develop broadband networks in order to offer customers more bandwidth and convergent services.

Mobile Telecommunications Services

The Italian Mobile Market. The mobile telephone market continued to grow in Italy in 2002, but at a slower pace (7% in 2002 compared to 21% in 2001 and 40% in 2000). By December 31, 2002, the number of cellular phone lines reached 54.8 million, corresponding to a penetration rate of around 95% of the population.

After several year of strong growth, the demand growth curve has reached its inflexion point and the remaining potential market will be smaller than the one already acquired. In addition, the increasing saturation means that new customers to be acquired are likely to result in lower revenues per customer as has been the case in recent years. Competition for mobile telecommunications services remained strong in 2002. Consequently TIM s strategy has been focused on strengthening its leadership through innovative offers, CRM actions, quality performance, reinforcement of the core voice business and marketing VAS.

By the end of 2002, TIM was the leading Italian operator with a market share of 46.1%. Vodafone Omnitel had 34.6%, while Wind obtained 15.7%. The remainder (3.6%) was held by Blu, the fourth operator that was acquired by TIM, with its customers transferred to Wind.

The Regulatory Framework

In a scenario of increasing liberalization, the decisions taken by the National Regulatory Authority have greater impact. The most significant measures taken by the National Regulatory Authority were the designation of TIM and Omnitel as providers with considerable market strength in terms of cellular service, interconnection, the definition of new pricing scheduled for fixed-to-mobile communications, and the introduction of mobile number portability.

TIM s role in the New Economy. The opportunities offered by new technologies will accelerate the Information and Communication Technology (ICT) convergence process, linking the two currently fastest growing businesses: mobile communications and the Internet. TIM s strategic choice with respect to this convergence is the open model. TIM will not focus on Internet content but, rather, it will create alliances with the best content producers in order to provide its customers with the most innovative and the widest range of opportunities, while guaranteeing customers transaction security through TIM s authentication center. This is the context in which the strategic partnership with SEAT and agreement with YAHOO Europe in May 2000 operates.

Traditional Business and Value Added Services. The development of new advanced services will necessarily lead to changes in TIM s revenue structure. Value Added Services have and will continue to account for a rising proportion of revenues compared to those generated by voice traffic. TIM s growth will be increasingly dependent on its ability to develop data traffic and innovative services.

Table of Contents

Technological development in data transmission (GPRS, UMTS) and platforms (MMS) will generate new business models based on the capability of offering information, entertainment and advertising through mobile phones and of executing an increasing number of complete commercial and banking transactions.

This means the mobile economy will play a fundamental role in the new economy as a whole, and it is one of the segments with the highest potential growth rates and profitability.

TIM will seek out commercial synergies with web-oriented companies in the market, which will increasingly demand mobile services (information and media, on-line banking and trading, geographic positioning information system). A further objective will be the consummation of partnerships with prime content and service providers to develop m-commerce.

70

Table of Contents

REGULATION

Overview

The legal framework for the regulation of the telecommunications sector in Italy has been extensively revised in recent years. This revision includes the liberalization of all telecommunications services including the provision of fixed-line public voice telephony services and the operation of networks to support the provision of such services, which were opened to competition as of January 1, 1998. Most importantly, the legal framework for regulation of the telecommunications sector in Italy has been completely transformed through the formation of the National Regulatory Authority in accordance with the Maccanico Law, which implemented the Framework Law, and the adoption of the Telecommunications Regulations by the Italian Government pursuant to Law No. 650 of December 23, 1996 (Law 650) and Law No. 189 of July 1, 1997 (Law 189) to implement a number of EU directives in the telecommunications sector, the general objective of which was to create a framework for a fully competitive telecommunications market. Effective August 1, 1997, the former Ministry of Posts and Telecommunications changed its name to the Ministry of Communications pursuant to the Maccanico Law. The Telecommunications Regulations (Presidential Decree no. 318 of September 19, 1997) became effective on October 7, 1997, and have been implemented by specific regulations. The Framework Law in general aimed at:

- ensuring the improvement of competition and efficiency in the telecommunications sector;
- establishing adequate quality standards;
- ensuring access to telecommunications services in a homogeneous manner throughout Italy;
- defining a clear and transparent tariff system based on the price cap method which, pursuant to the Maccanico Law, applied to the Telecom Italia Group s fixed public voice telephony services for up to two years starting on August 1, 1997. The National Regulatory Authority applied the price cap to Telecom Italia fixed public voice telephony from August 1, 1999 to December 31, 2002; and
- protecting consumers and users interests.

The Telecommunications Regulations completed the liberalization of the provision of all telecommunications services and the operation of all telecommunications networks in Italy, effective from October 7, 1997, except for the provision of fixed public voice telephony services and the operation of telecommunications networks to support provision of such services, which were liberalized as of January 1, 1998. Restrictions on other operators providing telecommunications services, other than fixed-line public voice telephony services and the operation of telecommunications networks, had been lifted by several previous measures, including the National Telecommunications Plan referred to in a Ministerial Decree of April 6, 1990 (the NT Plan), Law Decree No. 55 of February 11, 1997 (satellite communications) and Law Decree No. 103 of March 17, 1995 (Decree 103) and its implementing decrees and regulations (data communications, voice telecommunications for closed user groups and Value Added Services).

The Telecommunications Regulations contain provisions concerning:

- the granting of general authorizations or individual licenses to provide telecommunications services;

- universal service obligations and the mechanism for funding the net cost of such obligations;
- access deficit contributions;
- special obligations imposed on operators having significant market power, including the determination of interconnection charges using principles of cost orientation;
- numbering, carrier selection and number portability;
- rights of way; and
- the essential requirements that must be complied with in the provision of services and when interconnecting with public telecommunications networks.

The National Regulatory Authority has established detailed regulations governing the telecommunications sector and has monitored their application, while the Ministry of Communications retained the responsibility for defining telecommunications policy in Italy. See The Telecommunications Regulations and Implementing Regulations .

The activities of Telecom Italia and TIM were subject to the terms and conditions of their public operating concessions (the Public Concessions) which were the basis under which telecommunication services were

Table of Contents

provided by Telecom Italia and TIM prior to adoption of the Telecommunications Regulations. The Public Concessions were expected to be made consistent with the new regulatory framework by January 1, 1999, as required by the Telecommunications Regulations but the National Regulatory Authority only started the procedures to achieve such amendments at the end of December 1999. See Public Concessions .

Since January 2001 Telecom Italia has been operating pursuant to a license (Order 820/00/Cons). See The Telecommunications Regulations and Implementing Regulations Authorizations and Licensing .

Other significant telecommunications measures include Ministry of Communications decrees, Presidential decrees and other regulations as well as orders of the National Regulatory Authority issued since its formation.

A new regulatory framework will be introduced in Italy by the incorporation of recently adopted EC Directives, the Framework directive together with three others on Access , Authorization and Universal Service (the Data Protection directive will be implemented separately). The new rules will be included in the national regulatory framework by July 24, 2003. In this connection, Law No. 166 of August 1, 2002 gave the Government a mandate to implement the new directives, and to adopt a code of legal and regulatory measures in the field of telecommunications. Furthermore, the European Commission published Recommendations on important product and services markets in electronic communications, as well as Guidelines for market analysis and the evaluation of significant market power.

The National Regulatory Authority and the Maccanico Law

The National Regulatory Authority consists of a President that has been appointed by the Italian Government through a Presidential decree, a Committee for Infrastructures and Networks, a Committee for Products and Services and the Council. Each of the Committees members is selected by the Italian Parliament (four by the Senate and four by the Chamber of Deputies) and appointed through a Presidential decree. Each of the Committees and the Council is responsible for establishing regulations for their specific areas.

The Committee for Infrastructures and Networks is responsible for, among other things, allocating radio frequencies relating to telecommunications services; defining objective and transparent criteria for establishing tariffs for interconnection and network access; regulating relationships among telecommunications companies; settling disputes regarding interconnection; and defining the scope of the universal service obligation and the operators subject to it, together with criteria for calculating and sharing its costs.

The Committee for Products and Services is responsible for, among other things, regulating product quality and conformity with EU directives governing the relationship between companies controlling fixed or mobile telecommunications networks and telecommunications service providers.

The Council is responsible for adopting regulations establishing criteria for issuing licenses for the telecommunications sector and for TV and radio activities (including cable and satellite broadcasting).

The Framework Law provides that the National Regulatory Authority shall cooperate with the Italian Government and the Parliament, advising and assisting them in several areas:

- preparation of regulations in the telecommunications field;
- preparation of drafts for renewal of and amendments to concessions, authorizations, and program contracts (*contratti di programma*), which are usually multi-year agreements between the relevant Ministry and the concession holders concerning quality of service and tariffs;
- supervision of the procedures and requirements for adopting general authorizations and issuing individual licenses, with reference to matters such as network access and interconnection conditions;
- establishment of the criteria to be followed by operators in determining tariffs;
- monitoring operators to ensure their compliance with such tariff criteria;
- issuance of directives aimed at ensuring accounting separation between different activities carried out by the same operator;
- monitoring of the performance of services to ensure compliance with contracts and qualitative levels of service;
- issuance of directives regarding quality of services;

Table of Contents

- examination of complaints filed by users and customers in relation to quality of services and the level of tariffs;
- control of steps taken by operators to ensure equal treatment of their customers and verifying periodically the quality of the service provided; and
- control of operators compliance with the general principles issued by the Italian Government and the National Regulatory Authority in relation to public services.

The National Regulatory Authority has been operational since June 1998.

The National Regulatory Authority has investigative powers, as well as the authority to impose sanctions on operators who do not comply with their directives and resolutions. In addition, the National Regulatory Authority is entitled to propose to the Ministry of Communications the revocation and/or suspension of general authorizations and individual licenses in the event of repeated violations by the holder. The Maccanico Law also permits the National Regulatory Authority to limit access to networks for security reasons.

The Telecommunications Regulations and Implementing Regulations

The principal provisions contained in the Telecommunications Regulations, which affect the provision of telecommunications services by the Telecom Italia Group and its competitors in Italy relate to:

- authorizations and licensing;
- universal service obligations;
- obligations imposed on operators having significant market power, in particular with respect to interconnection agreements and accounting policies;
- numbering (carrier selection, preselection, and number portability);
- rights of way;
- alignment of Public Concession to the new regulatory framework;
- assignment of UMTS licenses; and
- introduction of new broadband services (ADSL and XDSL).

Authorizations and Licensing

The Ministry of Communications has the power to grant individual authorizations and licenses.

The Telecommunications Regulations distinguish between a regime of general authorizations, under which operators meeting pre-established conditions determined by the Ministry of Communications may provide telecommunications services or operate telecommunications networks within the scope of such authorizations without individual licenses for the provision of telecommunications services and the operation of telecommunications networks. Operators are required to obtain individual licenses from the Ministry of Communications to provide telecommunications services or operate telecommunications networks not covered by a general authorization. An individual license is required for:

- provision of fixed public voice telephony services;
- mobile and personal communications services;
- creation and operation of public telecommunications networks;
- when specific obligations are to be imposed or limited resources such as frequency bandwidths have to be allocated.

The number of individual licenses can be restricted only to the extent required to ensure the efficient use of radio frequencies or until sufficient additional numbers are made available. The procedures for granting such licenses must be based on objective, non-discriminatory criteria. Mobile and personal communications licenses will be required to permit the provision of services using different technologies and cannot include unjustified technical restrictions.

Table of Contents

The Ministry of Communications Decree of November 25, 1997, concerning the issue of individual licenses and general authorizations in the telecommunications sector, pursuant to the Telecommunications Regulations (License Decree) imposes specific obligations on operators in accordance with the scope of their individual licenses. Moreover, on dominant operators, and thus on the companies of the Telecom Italia Group, additional obligations are imposed such as:

- non-discriminatory and cost-oriented interconnection offering;
- publication of a standard list of interconnection tariffs;
- offering of special accesses to the network (i.e., access at network termination points other than the standard ones);
- accounting separation between the interconnection offering and other activities carried out by the operator;
- carrier selection and number portability (see also Special Status of Operators Having Significant Market Power and Numbering); and
- carrier selection should be considered both as easy access and equal access .

The Ministry of Communications issued, on February 5, 1998, a decree regarding fees to be paid by authorized and licensed operators, specifying the fees the latter will have to pay to refund the relevant administrative costs incurred by the National Regulatory Authority and the fees for the assignment of frequencies and numbering resources.

Telecom Italia (but not TIM) has been operating under a license regime since January 2001.

Presidential Decree No. 211 of August 1, 2002 changed the period of individual licenses in the TLC sector from 15 to 20 years (with an extension also for those already issued).

Universal Service Obligations

Under the Telecommunications Regulations, the universal service obligations include the provision of fixed-line public voice telephony service, publication of telephone directories and provision of subscriber information services, public payphones, free emergency call services and special services for disabled or disadvantaged people. To date Telecom Italia is the only operator subject to the universal service obligations, although similar obligations could be imposed on other operators. In such an event such other operators will be required to provide all or part of the services included in the universal service obligations on all or part of the national territory, under reasonable and non-discriminatory conditions. The net costs for the provision of the universal service is calculated on a long run forward-looking incremental cost basis. The telecommunications operators providing fixed-line public voice telephony service or mobile and personal communications services are required, under certain circumstances, to contribute to such costs.

In compliance with Ministry Communication Decree of March 10, 1998, Telecom Italia submits yearly (by March 31 of each year) to the National Regulatory Authority the evaluation of its net cost of the universal service. The National Regulatory Authority determines if the net cost represents an unfair burden on Telecom Italia and, in that case, appoints an independent Advisor to audit the cost evaluation. Before July 1 of each year, the National Regulatory Authority determines the final evaluation of the net cost, taking into account any indirect benefits, and informs the Ministry of Communications of the amounts due from each operator called to contribute.

By July 15 of each year, the Ministry of Communications publishes the amount due by the operators obliged to finance universal service, which has to be paid by August 15th . Telecom Italia, as the operator required to provide the universal service, receives payment from the Ministry of Communications on September 15 of the same year.

In accordance with the Telecommunication Regulations, Telecom Italia submitted the net cost of providing universal service for the first time for the year 1998. The National Regulatory Authority concluded that for 1998 the costs of such service were not an unfair burden for Telecom Italia. The National Regulatory Authority appointed an independent Advisor to audit the 1999 net costs submitted by Telecom Italia. On August 1, 2000, the National Regulatory Authority recognized a net cost for the provision of the universal service in the year 1999 of 62.4 million. The operators obliged to contribute to finance such net cost were: (a) Telecom Italia (57.1%); (b) TIM (28.1%); (c) Omnitel (13.8%), and (d) Infostrada (1%).

Table of Contents

With Order 8/00/CIR Telecom Italia was requested to provide an assessment on the net cost foreseen for the year 2001, together with information regarding areas and customers estimated as not profitable, in order to allow the National Regulatory Authority to launch a public consultation aimed at determining the guidelines for the provision of the universal service on a competitive basis. On January 31, 2001, pursuant to the same Order, Telecom Italia filed its evaluation for the year 2001. On July 12, 2001, the National Regulatory Authority opened a public consultation in order to assess the possibility of using a bidding procedure for the assignment to operators, other than Telecom Italia, of all or part of the obligations relating to the universal service. The outcome of the consultation was published on January 17, 2002. No decision has been taken by the National Regulatory Authority.

In connection with the net cost for the year 2000 submitted by Telecom Italia, the National Regulatory Authority recognized a net cost of 58.9 million, of which Telecom Italia contributes 48.3%. Other Operators obliged to contribute to finance such net cost are: TIM (31.4%); Omnitel (18.9%), and Infostrada (1.4%).

Regarding the net cost of 1999 and 2000, reimbursements have not yet been paid to Telecom Italia by the other operators, as some of them have filed a claim in the Administrative Court.

With respect to 1999, on January 27, 2002 the Administrative Court issued a decision in favor of the Other Local Operators, based only on procedural matters. Consequently, the procedure for the evaluation of the net cost for 1999 was re-opened by the National Regulatory Authority. With Order 5/03/CIR the National Regulatory Authority issued a final decision confirming its Order 8/00/CIR.

Decision from the Court on costs of 2000 is still pending.

In December 2001, the National Regulatory Authority published rules designed to grant to low income and to disabled customers certain reductions of the monthly rental fee for voice telephony services.

In 2002, Telecom Italia was confirmed as the operator with the obligation to supply the Universal Service under the conditions laid down in the regulations.

The National Regulatory Authority approved the net cost sustained by Telecom Italia to provide the Universal Service in 2001 of 40.52 million, to which Telecom Italia itself is to contribute 42.68% (euro 17.29 million), the remaining cost being funded by Other Local Operators (OLOs) (TIM, Vodafone, WIND, Infostrada).

Special Status of Operators Having Significant Market Power

Under the Telecommunications Regulations, telecommunications operators operating fixed-line or mobile networks, or offering fixed public voice telephony services, leased lines or international circuits, are subject to special obligations with respect to interconnection and accounting policies if they have Significant Market Power (SMP). An operator is presumed to have Significant Market Power if its share of the relevant market is greater than 25%, although the National Regulatory Authority may determine that an operator having a market share greater than 25%

does not have Significant Market Power, in view of the operator s ability to influence market conditions and its access to financial resources, or that an operator with a market share lower than 25% does have such power.

Starting from July 2003, with the introduction of the new European Framework, criteria for the identification of Significant Market Power will change: the European Commission, with its Recommendation C(2003)497, identifies 18 separate markets; the National Regulatory Authority will have to carry out a separate Market Analysis in each market, in order to identify:

- the level of competition in each market;
- the need to indicate one or more operator as having Significant Market Power;
- the appropriate remedies, i.e. the rules to apply, if the case, to grant a correct competition.

In April 1998, Telecom Italia was identified as an operator having Significant Market Power in the markets of fixed telecommunications networks, fixed-line public voice telephony services, leased lines and interconnection services. Telecom Italia is the sole operator identified as having Significant Market Power for the

Table of Contents

above-mentioned markets. In April 1998, TIM was identified as having Significant Market Power in the market of mobile telecommunications services. See EU Telecommunications Law The 1999 Review .

With order 197/99 the National Regulatory Authority in September 1999 also determined that TIM and Omnitel had Significant Market Power for mobile telecommunications services and for domestic interconnections. The National Regulatory Authority reviews and evaluates Significant Market Power operators every year. In 2001, the National Regulatory Authority started a market analysis to identify the operators with Significant Market Power in the year 2000. In addition, on August 7, 2002, the National Regulatory Authority started a procedure to identify telecommunications organizations with Significant Market Power for 2001.

The Antitrust Authority concluded its inquiry with the aim of identifying the operators with Significant Market Power in the Internet access market (Resolution No. 219/02/CONS sent to Telecom on July 31, 2002) and the SMP 2000 inquiry (Resolution No. 350/02/CONS).

Significant Market Power Internet

In its approval of the measure granting equal status to Internet Service Providers (ISP) and OLOs (Law No. 59/2002), Parliament ruled that, within two months of the law coming into effect (by June 26, 2002), the National Regulatory Authority would update the list of operators with Significant Market Power in the Internet access market.

In Resolution No. 132/02/CONS of April 24, 2002, the National Regulatory Authority commenced the inquiry by conducting a public consultation with the aim of Updating the list of operators with significant market power on the Internet access market [..] which concluded with Resolution No. 219/02/CONS. This resolution identified Telecom Italia and Wind as operators with Significant Market Power in the market of calls terminating on the Internet using dial-up technology, and also identified Telecom Italia alone in the final market of switched Internet access services from the fixed network. The Resolution, which became effective immediately, referred to Presidential Decree No. 318/97 for the remedies (publication of interconnection price lists, separate accounting, cost orientation, etc.) which the two operators are bound to respect.

Significant Market Power 2000

In Resolution No. 350/02/CONS the National Regulatory Authority confirmed for the year 2000 that the following operators have Significant Market Power:

1) Telecom Italia in the markets of public fixed telephone networks and services, leased line systems, and the national interconnection market;

2) TIM in the markets of public mobile and national interconnection communications systems (termination);

3) Vodafone Omnitel in the markets of public mobile and national interconnection communications systems (termination).

As far as the named operators are concerned, this special status automatically imposed a series of extra legal obligations over and above those which all telecommunications operators are normally expected to fulfill: cost orientation of interconnection prices (and also of retail/leased lines for Telecom Italia), transparency, non-discrimination, and, only for Telecom Italia, separate accounting.

Telecom Italia was designated as an operator with Significant Market Power in the interconnection market, despite having reduced its market share in 2000 to approximately 11% (based on revenues).

Significant Market Power 2001

An inquiry was begun by the National Regulatory Authority on August 7, 2002. An official decision was taken on May 7, 2003, but the text has not been published yet. From a press release by the National Regulatory Authority, we understand that the decision will confirm Telecom Italia as having SMP in the market of fixed network services, as well as TIM and Vodafone Omnitel in the mobile market.

The National Regulatory Authority intends to carry out the market analyses, under the new European regulatory framework by December 2003. In order to do this, the National Regulatory Authority intends to separate the most important markets according to current laws (Presidential Decree No. 318/97 and Law No. 59/02) into the 18 markets identified by the recommendation of the European Commission, and to entrust a large part of the above-mentioned analyses to external consultants.

The National Regulatory Authority will adopt the resolutions designating the operators with Significant Market Power for years 2003 onwards, and establish suitable regulatory measures for 2004.

Finally, on March 20, 2002 the National Regulatory Authority began an inquiry into Enel/Wind to verify whether, according to Article 9, sub-section 2 of Presidential Decree No. 318/97, it is necessary to adopt separate accounting directives with regard to Wind, and to impose restrictions ex ante regarding the use of infrastructures associated with special and exclusive rights, including access to information about the users of electricity.

Interconnection. Telecommunications operators providing fixed-line public voice telephony services, mobile telecommunications services or leased line systems and having Significant Market Power are required to negotiate and enter into interconnection agreements at the request of other operators wishing to provide telecommunications services, to apply non- discriminatory terms and to communicate copies of their interconnection agreements to the National Regulatory Authority. Public fixed network operators and leased line service providers having Significant Market Power are required to publish a Reference Interconnection Offer (RIO). As required by EU Directive 96/19, Telecom Italia published its first RIO on July 1, 1997. Such list was subject to approval by the National Regulatory Authority. The Ministry of Communications Decree of April 23, 1998, published on June 10, 1998, pertaining to the interconnection agreements (Interconnection Agreements Decree) also provides specific implementing rules to be applied to interconnection agreements to be executed by telecommunications operators having a significant market power and providing fixed public voice telephony services, mobile telecommunications services or leased lines systems. Such rules deal with, among other things, nondiscriminatory and transparent practices, economic offering conditions (based on actual costs, including a reasonable return on investments), accounting separation and the content of the RIO to be published by the above mentioned operators, except those operating mobile networks. The economic conditions included in the RIO must range between the minimum and maximum thresholds fixed by the Recommendation of the European Commission C(98)50, with interconnection tariffs exceeding the maximum thresholds requiring justification by the concerned operators.

On July 15, 1999, Telecom Italia submitted a new cost based RIO. Prices proposed were consistent with the thresholds fixed by the Recommendation of European Commission 98/511/CE (Best Practice 1999). With Order 1/00/CIR of February 2000 the National Regulatory Authority established some modifications to be introduced in Telecom Italia s RIO 1999, including the retroactive effect from January 1, 1999 for interconnection prices. In the same Order the National Regulatory Authority fixed terms and a deadline for publication of the Reference Interconnection Offer 2000 As a result, on April 3, 2000, Telecom Italia published the RIO 2000, which was evaluated by National Regulatory Authority in Order 10/00/CIR published on November 2, 2000.

Consequently, on April 9, 2001, Telecom Italia published a revised RIO for the year 2000, consistent with the new order, which increased the number of interconnection services (i.e., access to non-geographical numbers for dial-up Internet) and defines service level agreements.

In Resolution 13/01/CIR Telecom Italia was authorized not to insert the economic conditions for the routing of international traffic of other operators towards the United States, Canada, Switzerland, Norway and the member states of the European Community.

On September 7, 2001 Telecom Italia published the RIO 2001 for interconnection and unbundling of the local loop services. In the RIO 2001 there was a change from historical to current cost accounting methodology for interconnection traffic services, whereas local loop unbundling services are to be evaluated at historical costs. The RIO was evaluated in the Order 4/02/CIR of March 1, 2002.

In compliance with the rules laid down in Resolution No. 4/02/CIR, Telecom Italia re-published on April 3, 2002 the Reference Offer for 2001 which contains technic