Offering Memorandum **Confidential**

TELECOM ITALIA CAPITAL

$1,000,000,000 Series A 4% Guaranteed Senior Notes due 2008
Issue price: 99.953%

$2,000,000,000 Series B 5.25% Guaranteed Senior Notes due 2013
Issue price: 99.742%

$1,000,000,000 Series C 6.375% Guaranteed Senior Notes due 2033
Issue price: 99.558%

Guaranteed on a senior, unsecured basis by Telecom Italia S.p.A.

Interest payable on May 15 and November 15

The Series A notes will mature on November 15, 2008, the Series B notes will mature on November 15, 2013 and the Series C notes will mature on November 15, 2033. Interest on the notes of each series will accrue from October 29, 2003, and the first interest payment date will be May 15, 2004.

Telecom Italia Capital, a *société anonyme* ("**TI Capital**"), and Telecom Italia S.p.A. ("**Telecom Italia**") may redeem some or all of the notes at any time after May 15, 2005. The redemption prices are described under "Description of Notes and Guarantees — Redemption at TI Capital's Option". The notes may also be redeemed at 100% of their principal amount in whole but not in part upon the occurrence of certain tax events described in this offering memorandum. The notes will rank equally with all our existing and future senior debt and rank senior to all our existing and future subordinated debt. The notes will be fully, unconditionally and irrevocably guaranteed by Telecom Italia.

See "Risk Factors" beginning on page 23 for a discussion of certain risks that you should consider in connection with an investment in the notes.

The notes have not been and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. state securities laws and may not be offered or sold in the United States or to U.S. persons unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. We are offering the notes within the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). We are offering these notes outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). For a description of restrictions on transfers of the notes, see "Plan of Distribution" and "Transfer Restrictions".

TI Capital and Telecom Italia have agreed to file an exchange offer registration statement pursuant to a registration rights agreement. Such exchange offer is required to be completed within one year from the settlement date of the notes. See "Exchange Offer and Registration Rights".

Application has been made to list the notes on the Luxembourg Stock Exchange.

We expect that the notes will be ready for delivery in book-entry form only through The Depository Trust Company ("**DTC**") and its participants including Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* Luxembourg ("**Clearstream**"), on or about October 29, 2003.

Joint book-runners

Banc of America Securities LLC **Citigroup** **Credit Suisse First Boston**

JPMorgan **Lehman Brothers** **Merrill Lynch & Co.** **Morgan Stanley**

October 22, 2003

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In this offering memorandum, references to the "issuer" and "TI Capital" refer to "Telecom Italia Capital". References to "Telecom Italia", "we", "us", "our" and "Telecom Italia Group" refer to Telecom Italia and its consolidated subsidiaries (including TI Capital) except where otherwise noted. References to the "guarantor" refer to Telecom Italia. References to "Old Telecom Italia" and "Old Telecom Italia Group" and "New Telecom Italia" and "New Telecom Italia Group" refer to Telecom Italia and its consolidated subsidiaries as they existed immediately prior to, and immediately after, respectively, the effective date of the merger between Olivetti S.p.A. ("**Olivetti**") and Old Telecom Italia described herein. "Initial Purchasers" refers to the firms listed on the cover of this offering memorandum.

This offering memorandum is a confidential document that we are providing only to prospective purchasers of the notes. You should read this offering memorandum before making a decision whether to purchase any notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum and are solely responsible for its contents. You are responsible for making your own examination of TI Capital and Telecom Italia and your own assessment of the merits and risks of investing in the notes. You may contact us if you need any additional information. By purchasing any notes, you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request any additional information that you need from us; and
- the Initial Purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

We are not providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the notes.

Effective from the date of commencement of discussions concerning this offering, you and each of your employees, representatives, or other agents may disclose to any and all persons, without limitation of any kind, the U.S. Federal tax treatment and tax structure of this offering and all materials of any kind, including opinions or other tax analyses, that we have provided to you relating to such tax treatment and tax structure.

The notes offered hereby have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The notes are being sold within the United States only to qualified institutional buyers, as defined in, and in reliance on Rule 144A. The notes are also being offered outside the United States in reliance on Regulation S.

We are relying on exemptions from registration under the Securities Act for offers and sales of securities that do not involve a public offering in the United States. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements set forth under the heading "Transfer Restrictions" in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time. The notes are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state securities law pursuant to a registration statement or an exemption from registration. The notes have not been recommended by any U.S. federal or state securities authorities, nor have any such authorities determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense in the United States.

The distribution of this offering memorandum and the offering or sale of the notes in certain jurisdictions is restricted by law. This offering memorandum may not be used for, or in connection with, and does not constitute, any offer to sell, or solicitation of an offer to buy the notes to anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this document may come are required by Telecom Italia, TI Capital and the Initial Purchasers to inform themselves about, and to observe, such restrictions. Neither Telecom Italia nor TI Capital or the Initial Purchasers accept any responsibility for any violation by any person, whether or not it is a prospective purchaser of the notes, of any such restrictions.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase any notes. We and the Initial Purchasers are not responsible for your compliance with these legal requirements.

No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of the information contained herein or in the documents incorporated by reference herein, and such information is not and may not be relied upon as a promise or representation by the Initial Purchasers.

The information set out in the sections of this offering memorandum describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, and Clearstream in each case as currently in effect. The information in the sections concerning these clearing systems has been obtained from sources that we believe to be reliable, but we and the Initial Purchasers take no responsibility for the accuracy of such information. If you wish to use the facilities of any of the clearing systems you should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. Telecom Italia, TI Capital and the Initial Purchasers will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records to such book-entry interests. See "Description of Notes and Guarantees" and "Book Entry Settlement and Clearance".

We reserve the right to withdraw this offering of notes at any time and we and the Initial Purchasers reserve the right to reject any commitment to subscribe for the notes, in whole or in part. The Initial Purchasers also reserve the right to allot to you less than the full amount of notes sought by you.

Certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Such transactions may include purchases of the notes to stabilize their market price, purchases of the notes to cover all or some of an over-allotment or a short position maintained by the Initial Purchasers, and the imposition of penalty bids. Such activities, if commenced, may be discontinued at any time. For a description of these activities, see "Plan of Distribution".

REVIEW BY THE U.S. SECURITIES AND EXCHANGE COMMISSION

TI Capital and Telecom Italia have agreed to file a registration statement with the Securities and Exchange Commission (the "**SEC**") with respect to a registered exchange offer for the notes. See "Exchange Offer and Registration Rights". In the course of the review by the SEC of the registration statement (including the documents incorporated by reference therein), Telecom Italia may be required to make changes to its historical financial statements and other information. Accordingly, comments by the SEC on the registration statement, or on the documents incorporated by reference therein, may require modification or reformulation of Telecom Italia's financial statements and other information presented, or incorporated by reference, in this offering memorandum.

NOTICE TO INVESTORS

You understand that it is the intention of TI Capital that the notes will be offered and sold to investors, and trade in the secondary market between investors, and will be held by investors who are resident in countries listed in the Decree of the Ministry of Finance of Italy of September 4, 1996 as amended, with the exception of the countries which are also listed in the Decree of the Ministry of Finance of Italy of January 23, 2002, as amended. A copy of the decrees can be obtained from the website of the Ministry of Finance of Italy at www.finanze.it. If Art. 41 of Decree Law 30 September 2003, n.269 is confirmed and converted into ordinary law, the exclusion of the countries listed in the Decree of the Ministry of Finance of Italy of January 23, 2002 will expire on January 1, 2004. See "Transfer Restrictions—Other restrictions". You also understand that, to the extent that Telecom Italia will become the obligor under the notes due to substitution or otherwise (see "Description of Notes and Guarantees—Mergers and Similar Events") and Telecom Italia will be required to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors resident in the countries identified in the above Decrees as having a "privileged tax regime" or to investors resident in countries other than those identified in the above Decrees as having a "privileged tax regime" (including investors resident in the United States) who do not furnish the required certifications under applicable Italian tax requirements. See "Description of Notes and Guarantees—Payment of Additional Amounts".

NOTICE TO INVESTORS IN ITALY

The notes will not be offered, sold or delivered in Italy and copies of this offering memorandum or any materials relating to the notes may not be distributed in Italy. If Italian investors holding the notes were to participate in the exchange offer (see "Exchange Offer and Registration Rights") there may be adverse tax consequences including the application of a 20% surtax. Italian investors holding the notes will be responsible for such adverse tax consequences and no additional amounts will be paid in connection therewith by TI Capital or Telecom Italia.

NOTICE TO INVESTORS IN LUXEMBOURG

The notes may not be offered or sold to the public in or from Luxembourg and this offering memorandum and other offering material relating to the notes will not be distributed or made available to the public in or from Luxembourg, except for the notes in respect of which the requirements of Luxembourg law concerning a public offering of securities in Luxembourg have been fulfilled. A listing on the Luxembourg Stock Exchange of the notes does not necessarily imply that a public offering of the notes in Luxembourg has been authorized.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under chapter 421-b of the New Hampshire Uniform Securities Act ("RSA 421-B"), with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

The notes have not been offered or sold and, prior to the expiry of a period of six months from the issue date of such notes, will not be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995.

NOTICE TO INVESTORS IN THE NETHERLANDS

The notes may only be offered in the Netherlands to persons who trade or invest in securities in the conduct of their profession or business, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises which regularly, or as ancillary activity, invest in securities.

SPECIAL NOTICE TO INVESTORS IN FRANCE

Neither this offering memorandum nor any other offering material relating to the notes has been submitted to the clearance procedures of the *Commission des opérations de bourse* (COB) in France.

The notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France. Neither this offering memorandum nor any other offering material relating to the notes has been or will be (i) released, issued, distributed or caused to be released, issued or distributed to the public in the Republic of France or (ii) used in connection with any offer for subscription or sale of the notes to the public in the Republic of France. Such offers, sales and distributions will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in and in accordance with Article L.411-2 of the French *Code monétaire et financier* and French Decree no. 98-880 dated October 1, 1998.

Such notes may be resold only in compliance with Articles L. 411-1 Seq, L. 412-1 and L. 621-8 of the *Code monétaire et financier*. Where an issue of notes is implemented as an exception to the rules relating to an *appel public à l'épargne* in France (public offer rules) by way of an offer to a restricted circle of over one hundred investors, such investors must provide certification as to their personal relationship of a professional or familial nature with a member of the management of Telecom Italia Capital. Investors in France and persons who come into possession of offering materials are required to inform themselves about and observe any such restrictions.

NOTICE TO INVESTORS IN GERMANY

No action has been or will be taken in the Federal Republic of Germany that would permit a public offering of the notes, or distribution of a prospectus or any other offering material relating to the notes. In particular, no sales prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of December 13, 1990, as amended, (the "German Sales Prospectus Act") has been or will be published within the Federal Republic of Germany, nor has this offering memorandum been filed with or approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) for publication within the Federal Republic of Germany. Accordingly, any offer or sale of notes or any distribution of offering material within the Federal Republic of Germany may violate the provisions of the German Sales Prospectus Act.

NOTICE TO INVESTORS IN JAPAN

The notes have not been and will not be registered under the Securities and Exchange law of Japan. No person may offer or sell, directly or indirectly, any securities in Japan or to, for the account of, any resident thereof or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account of, any resistent thereof, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

NOTICE TO INVESTORS IN BELGIUM

The notes will not be offered publicly, directly or indirectly, in Belgium at the time of the offering. The offer of notes has not been notified to, and the offering documents (including this offering memorandum) have not been approved by, the Belgium Banking and Finance Commission. The notes may only be sold in Belgium to professional investors as defined in article 3 of the Royal Decree of July 7, 1999 on public nature of financial transactions, acting for their own account, and this offering memorandum may not be delivered or passed on to any other investors.

NOTICE TO INVESTORS IN SPAIN

The notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market law (*Ley 24/1988 de 28 de julio, del Mercado de Valores* as amended by Law 37/1998 of November 16) and Royal Decree 291/1992 on Issues and Public Offering of Securities (*Real Decreto* 291/1992 *de* 27 *de marzo, sobre emisiones y ofertas públicas de venta de valores*), as amended or restated by Royal Decree 2590/1998 of December 7 ("R.D. 291/92"), and further subsequent legislation.

This offering memorandum is neither verified nor registered in the administrative registries of the Spanish Securities Exchange Commission (*Comisión Nacional del Mercado del Valores*), and therefore a public offer for subscription of the notes will not be carried out in Spain. Notwithstanding that and in accordance with article 7 of R.D. 291/92, a private placement of the notes addressed exclusively to institutional investors (as defined in Article 7.1 (a) of R.D. 291/92) may be carried out.

WHERE YOU CAN FIND MORE INFORMATION

Telecom Italia

Telecom Italia is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), applicable to foreign private issuers 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.

On completion of the merger between Olivetti and Old Telecom Italia on August 4, 2003, Olivetti changed its name to Telecom Italia S.p.A. and succeeded to the Exchange Act information requirements of Old Telecom Italia. All annual reports on Form 20-F and reports on Form 6-K filed or furnished with the SEC prior to August 4, 2003, were so filed or furnished by Old Telecom Italia. 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 under Telecom Italia's American Depositary Receipt arrangements in the United States at (781) 575-4328.

TI Capital

TI Capital is a directly and indirectly wholly-owned subsidiary of Telecom Italia, organized under the laws of Luxembourg. TI Capital does not, and will not, file separate reports with the SEC.

TI Capital will issue the notes described herein pursuant to an indenture as supplemented by a first supplemental indenture. The indenture, the first supplemental indenture and their associated documents contain the full legal text of the matters described in "Description of Notes and Guarantees". You may request, orally or in writing a copy of the indenture as supplemented by a first supplemental indenture, at no cost by contacting Telecom Italia at Corso d'Italia 41, 00198 Rome, Italy, tel: +39 06 3688-1 (Corporate Development and Investor Relations).

Incorporation by reference

We are incorporating by reference information into this offering memorandum, which means that we may disclose important information to you by referring you to other documents filed or furnished separately with the SEC. This offering memorandum incorporates by reference the Old 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), which Old Telecom Italia filed with the SEC on June 26, 2003. The Telecom Italia Annual Report contains important information about Old Telecom Italia and its finances.

The Telecom Italia Annual Report incorporated by reference in this offering memorandum is considered part of this offering memorandum. The information in this offering memorandum, to the extent applicable, automatically updates and supersedes the information in the Telecom Italia Annual Report.

ENFORCEABILITY OF CIVIL LIABILITIES UNDER THE UNITED STATES SECURITIES LAWS

Telecom Italia is a joint stock company (*Società per Azioni*) organized under the laws of the Republic of Italy, and TI Capital is a company with limited liability (*société anonyme*) for an unlimited duration, established under the laws of Luxembourg. None of the members of the Board of Directors of TI Capital and the Board of Directors of Telecom Italia are residents of the United States. All or a substantial portion of the assets of these non-U.S. residents and of TI Capital and Telecom Italia are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon the non-U.S. resident directors or upon TI Capital or Telecom Italia or it may be difficult to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. securities laws against TI Capital or Telecom Italia in Luxembourg or Italy, as applicable. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in Italy and in Luxembourg. Enforceability in Italy of final judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the federal securities laws of the United States is subject, among other things, to the absence of a conflicting judgment by an Italian court or of an action pending in Italy among the same parties and arising from the same facts and circumstances, and to the Italian courts' determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant, and that enforcement would not violate Italian public policy. In general, the enforceability in Italy of final judgments of U.S. courts would not require retrial in Italy, subject to the decision of the competent court of appeal ascertaining the existence of the above mentioned requirements and subject to challenge by the other party. In original actions brought before Italian courts, there is doubt as to the enforceability of liabilities based on the U.S. federal securities laws. The United States and Luxembourg do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a result, a civil judgment by a U.S. court is enforceable in Luxembourg subject to applicable exequatur proceedings.

CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain forward-looking statements, which reflect Telecom Italia 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:

- 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 Telecom Italia;

- the ability of Telecom Italia 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 pressure generally;

- the ability of Telecom Italia 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 of Olivetti and Old Telecom Italia;

- the impact of the slowdown in Latin American economies and the slow recovery of economies generally on the international business of Telecom Italia 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 Telecom Italia operates;

- the impact of fluctuations in currency exchange and interest rates;

- Telecom Italia's ability to continue the implementation of its 2002-2004 Industrial Plan and to reach its targets for the period 2003-2005, including the rationalization of its corporate structure and the disposition of Telecom Italia Group's interests in various companies;

- the ability of Telecom Italia to successfully achieve its debt reduction targets;

- Telecom Italia'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's ability to successfully implement its internet strategy;

- the ability of Telecom Italia 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'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 Telecom Italia will achieve its projected results.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information contained in this offering memorandum and incorporated by reference herein is prepared using Italian GAAP. Note 26 of the Notes to the audited consolidated financial statements of Olivetti included in this offering memorandum and Note 26 of the Notes to the audited consolidated financial statements of Old Telecom Italia in the Telecom Italia Annual Report incorporated by reference herein describe the material differences between Italian GAAP and U.S. GAAP as they relate to Olivetti and Telecom Italia, respectively. No U.S. GAAP financial statements have been prepared for New Telecom Italia.

The currency used by each of Olivetti and Old 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,” “US$” or “$” are to U.S. dollars. For the purpose of this offering memorandum, “billion” means a thousand million. On October 17, 2003, the Noon Buying Rate (as defined below) was euro 1 = US$1.1630. 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”).

SUMMARY

This summary highlights selected information from this offering memorandum and the documents we have referred you to in "Where You Can Find More Information". 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". You will find a glossary of selected telecommunications terms included in the Telecom Italia Annual Report incorporated by reference herein, which may assist your understanding of the principal businesses conducted by Telecom Italia.

THE COMPANIES

Telecom Italia Group

As of June 30, 2003, 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 41.3 million mobile lines (which includes 33.2 million lines in which we have an economic interest or proportionate lines). The Telecom Italia Group also had 5.8 million mobile lines (2.0 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, internet services and IT software and services. Following the merger between Old Telecom Italia and Olivetti effective August 4, 2003, as a result of which Olivetti changed its name to Telecom Italia S.p.A., New Telecom Italia operates in the IT office products, specialized application for service automation in banking retail, gaming and public authorities services and specialized automation systems sectors through the Olivetti Tecnost group ("**Olivetti Tecnost**"). For a description of the merger between Old Telecom Italia and Olivetti see "—Merger with Olivetti" and "Description of Telecom Italia—Merger with Olivetti".

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 "Description of Telecom Italia" herein and "Item 4. Information on the Telecom Italia Group" of the Telecom Italia Annual Report incorporated by reference herein.

TI Capital

TI Capital is a limited liability company (*société anonyme*) organized under the laws of Luxembourg, incorporated on September 27, 2000 and is a directly and indirectly wholly-owned subsidiary of Telecom Italia. TI Capital is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under B-77.970. TI Capital's Articles of Incorporation were published in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No. C-755* on October 13, 2000. TI Capital's Articles of Incorporation were amended for the last time on December 20, 2002 and the modifications were published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No C-184* on February 26, 2003.

TI Capital's registered office and postal address is 12-14 Boulevard Grande-Duchesse Charlotte, L-1330, Luxembourg and its telephone number is + 352-456060-1.

Merger with Olivetti

In May 2003, the shareholders of Olivetti and of Old Telecom Italia approved the merger (the "**Merger**") of Old Telecom Italia with and into Olivetti with Olivetti as the surviving company. The Merger was part of a strategic plan pursued by Olivetti, as majority owner of Old Telecom Italia with the aim of focusing on core businesses, improving the corporate structure and reducing debt. Prior to the Merger, Olivetti had a 54.94% controlling interest in Old Telecom Italia and Old Telecom Italia was Olivetti's largest subsidiary (representing approximately 96.8% of its revenues in 2002).

The Merger became effective on August 4, 2003 at which time Olivetti as the surviving company changed its name to "Telecom Italia S.p.A.", succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. New Telecom Italia has completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia's Ordinary Shares and Savings Shares are also listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana. Telecom Italia's ordinary shares are also listed on the Frankfurt Stock Exchange.

In addition to the Merger, the following transactions occurred:

- Olivetti shareholders who either voted against the Merger or did not attend the shareholders' meeting benefited from a withdrawal right of €0.9984 per share (which was the arithmetic mean of the daily official share price of the Olivetti shares in the six months preceding the date the Merger resolution was adopted; such date was 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. Olivetti shareholders exercised such right with respect to 10,958,057 shares representing 0.12% of the Olivetti ordinary shares at that time outstanding. Olivetti shareholders received an aggregate payment of €10,940,524 when the Merger became effective.

- Voluntary cash tender offers (the "tender offers") by Olivetti for a portion of the outstanding Old Telecom Italia Ordinary Shares and Savings Shares were made in connection with the Merger (although the cash tender offer was not made to savings shareholders in the United States). Olivetti acquired approximately 9.73% and 11.83% of the Old Telecom Italia ordinary shares and savings shares, respectively, through the cash tender offers. Aggregate consideration paid was €5,274 million.

- In connection with financing the withdrawal right and the cash tender offers, Olivetti entered into a term loan pursuant to which it borrowed €5,274 million with respect to the above transactions. See "Unaudited Pro Forma Condensed Consolidated Financial Data". New Telecom Italia also entered into a €6.5 billion senior revolving credit facility available to refinance Telecom Italia's existing debt (including Old Telecom Italia's €7.5 billion facility which was cancelled), for working capital and general corporate purposes for Telecom Italia. In connection with each of these facilities, J.P. Morgan plc acted as one of the mandated lead arrangers and J.P. Morgan Europe Limited acted as agent. JPMorgan Securities Inc., an affiliate of these entities, is an Initial Purchaser. Affiliates of Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse First Boston (Europe) Limited, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated are participants in the syndicate for the term loan and are Initial Purchasers.

SEAT Spin-off and Sale

On May 9, 2003, the Seat Pagine Gialle S.p.A. ("**SEAT**") extraordinary shareholders' meeting 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 assumed the name of Seat Pagine Gialle S.p.A. ("**New SEAT**") when the spin-off became effective as of August 1, 2003. On the same date, the corporate name of old SEAT became "Telecom Italia Media S.p.A." ("**Telecom Italia Media**"). The shares of both companies are listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

For a further description of these businesses and of the reasons for the spin-off, please see "Description of Telecom Italia — SEAT Spin-off and Sale" and "Unaudited Pro Forma Condensed Consolidated Financial Data".

Sale of Telecom Italia's stake in New SEAT

On June 10, 2003, Old Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira ("**Silver S.p.A.**") entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT which, at the time of the agreement, the Old Telecom Italia group was expected to receive after the spin-off transaction creating New SEAT (including the shares resulting from the exercise of the J.P.Morgan Chase put option for which Telecom Italia paid €2,255 million). The parties agreed on a sale price of €0.598 per New SEAT ordinary share, representing an enterprise value of approximately €5.65 billion and a price for Telecom Italia's stake of €3.033 billion. The sale was completed on August 8, 2003. Taking into consideration New SEAT's net financial indebtedness (estimated, as of the sale of Telecom Italia's stake, at approximately €700 million), the transaction allowed the Telecom Italia Group to reduce its net financial consolidated debt by approximately €3.7 billion.

The agreements relating to the sale of Telecom Italia's stake in New SEAT include Telecom Italia's undertaking to provide, on an ongoing basis, Telecom Italia Media with the funds necessary to meet Telecom Italia Media's obligations in existence as of the date of the SEAT spin-off. The undertaking provides for Telecom Italia Media to have funds sufficient to meet the obligations it undertook until the spin-off effective date and that New SEAT be indemnified from potential liabilities vis-à-vis any creditors of Telecom Italia Media deriving from New SEAT's statutory joint liability for such obligations.

THE OFFERING

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this document entitled "Description of Notes and Guarantees".

Issuer	TI Capital
Guarantor	Telecom Italia
Securities	$1,000,000,000 Series A 4% Guaranteed Senior Notes due 2008 (the "**Series A notes**"), $2,000,000,000 Series B 5.25% Guaranteed Senior Notes due 2013 (the "**Series B notes**") and $1,000,000,000 Series C 6.375% Guaranteed Senior Notes due 2033 (the "**Series C notes**" and, together with the Series A notes and the Series B notes, the "**notes**").
Guaranty	Telecom Italia has irrevocably and unconditionally guaranteed the full and punctual payment of principal, interest, additional amounts and all other amounts, if any, that may become due and payable in respect of the notes. If TI Capital fails to punctually pay any such amount, Telecom Italia will immediately pay the same.
Issue price	99.953% of the principal amount for the Series A notes, 99.742% of the principal amount for the Series B notes and 99.558% of the principal amount for the Series C notes.
Maturities	November 15, 2008 for the Series A notes, November 15, 2013 for the Series B notes and November 15, 2033 for the Series C notes.
Interest rate	The Series A notes will bear interest at a rate of 4% per annum, the Series B notes will bear interest at a rate of 5.25% per annum and the Series C notes will bear interest at a rate of 6.375% per annum. The notes will bear interest from October 29, 2004 based upon a 360-day year consisting of twelve 30-day months.
Interest payment date	May 15 and November 15.
Regular record dates	May 1 and November 1.
Settlement Date	October 29, 2003.
Use of proceeds	The net proceeds of this offering are intended to be used to repay a portion of Telecom Italia's bank debt incurred in connection with the payment to Olivetti shareholders exercising withdrawal rights in connection with the Merger and the tender offers made by Olivetti prior to completion of the Merger. See "Pro Forma Liquidity and Capital Resources". A portion of the proceeds will also be used to repay other long and short term debt and for general corporate purposes. Affiliates of J.P. Morgan Securities Inc., Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse First Boston (Europe) Limited, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated, who are also Initial Purchasers, will have certain bank loans they made to Telecom Italia repaid with a portion of the net proceeds of this offering. See "Use of Proceeds".
Ranking	The notes are unsecured by assets or property. The notes will rank equally in right of payment with all other senior unsecured indebtedness of TI Capital from time to time outstanding. The guarantee will rank equally in right of payment with all of Telecom Italia's senior unsecured indebtedness.
Payment of additional amounts	TI Capital, as issuer and Telecom Italia, as guarantor will pay additional amounts in respect of any payments of interest or principal so that the amount you receive after

Luxembourg or Italian withholding tax will equal the amount that you would have received if no withholding of tax had been applicable, subject to some exceptions as described under "Description of Notes and Guarantees—Payment of Additional Amounts".

Optional redemption

Beginning on May 15, 2005, the notes will be redeemable in whole or in part at TI Capital's option at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the applicable notes, or
- as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus:

  20 basis points for the Series A notes,
  25 basis points for the Series B notes,
  30 basis points for the Series C notes,

plus accrued interest thereon to the date of redemption.

See: "Description of Notes and Guarantees—Redemption at TI Capital's Option".

Tax redemption

If, due to changes in Italian or Luxembourg laws relating to withholding taxes applicable to payments of principal or interest, or in connection with certain merger or similar transactions of Telecom Italia or TI Capital, TI Capital, as issuer, or Telecom Italia, as guarantor (or its respective successors), is obligated to pay additional amounts on the notes, TI Capital may redeem the outstanding notes in whole, but not in part, at any time at a price equal to 100% of their principal amount plus accrued interest to the redemption date.

Form and denomination

Delivery of the notes is expected to be made on or about October 29, 2003 as described below.

The notes will be issued only in fully registered form in denominations of $1,000, and integral multiples thereof, unless otherwise specified by us.

Notes sold to qualified institutional buyers pursuant to Rule 144A will be evidenced by a separate note in global form called a Rule 144A global note, which will be deposited with a custodian for and registered in the name of a nominee of DTC.

Notes sold outside the United States in reliance on Regulation S will be evidenced by a separate note in global form called a Regulation S global note, which will be deposited with a custodian for, and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream.

You may hold a beneficial interest in the global notes through DTC, directly as a participant in DTC or indirectly through financial institutions that are DTC participants. Both Euroclear and Clearstream are DTC participants. As an owner of a beneficial interest in the global notes, you will generally not be entitled to have your notes registered in your name, will not be entitled to receive certificates in your name evidencing the notes and will not be considered the holder of any notes under the indenture for the Global Notes.

Mergers and Assumptions

Each of TI Capital and Telecom Italia is generally permitted to consolidate or merge with another company. TI Capital will be permitted to merge with an Italian company and either Telecom Italia or any Italian subsidiary of Telecom Italia will be permitted to assume the obligations of TI Capital subject to the delivery of certain legal opinions. To the extent that an Italian company, including Telecom Italia or any Italian subsidiary of Telecom Italia, will become the obligor under the notes and that such Italian company will be required to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors (including investors resident in the United States) who do not furnish the required certifications under applicable Italian tax requirements.

Exchange offer and registration rights

TI Capital and Telecom Italia will enter into a registration rights agreement pursuant to which TI Capital and Telecom Italia will agree to consummate an exchange offer for the notes no later than 365 days after the issue date of the notes.

In the exchange offer, TI Capital and Telecom Italia will offer qualified holders of the notes the opportunity to exchange the notes issued in this offering, which will be subject to restrictions on transfer, for notes that generally will be freely transferable. If we have not consummated the exchange offer within 365 days of the closing of this offering then, in addition to the interest otherwise payable on the notes, additional interest will accrue and be payable on the notes at a rate of 0.50% per annum until that requirement is satisfied. The exchange notes will be identical in all material respects to the notes, except that additional interest as described in the preceding sentence will not be payable in respect of the exchange notes, the exchange notes will not be entitled to registration rights or subject to restrictions on transfer and the non-call period for any optional call applicable to the exchange notes could be extended.

Application will be made, if necessary, to list the exchange notes on the Luxembourg Stock Exchange following completion of the exchange offer.

For more details, see "Exchange Offer and Registration Rights".

Luxembourg listing

TI Capital has applied to list the notes on the Luxembourg Stock Exchange in accordance with the rules and regulations of the Luxembourg Stock Exchange. Listing is not expected to be completed prior to the settlement date of the notes.

Transfer restrictions

The notes have not been registered under the Securities Act and are subject to restrictions on transfer. Italian investors should also note that under certain circumstances Italian withholding taxes could apply. See "Transfer Restrictions".

Trustee, principal paying agent and registrar

JPMorgan Chase Bank

Governing law

New York. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of 20 August 1995, as amended, are excluded.

Ratings

Telecom Italia's long-term rating is Baa2 according to Moody's, BBB+ according to Standard and Poors and A- according to Fitch. All ratings have stable outlook.

Risk factors

Prospective purchasers of the notes should consider carefully all of the information set forth in this offering memorandum and, in particular, the information set forth under "Risk Factors" and "Transfer Restrictions" before making an investment in the notes.

Selling restrictions

There are restrictions on persons that can be sold notes, and on the distribution of this offering memorandum, as described in "Plan of Distribution".

Further Issues

TI Capital may issue as many distinct series of notes under the Indenture as it wishes. TI Capital may, subject to certain conditions, without the consent of any holder of the notes, "reopen" the notes and issue additional notes having the same ranking, maturity and other terms (except for the issue date and issue price) as the notes offered pursuant to this offering memorandum. Any further issue will be considered to be part of the notes offered hereby, will be fungible therewith after any applicable restricted period and will rank equally and ratably with the notes offered hereby.

SUMMARY SELECTED FINANCIAL INFORMATION

The Merger of Old Telecom Italia with and into Olivetti became effective on August 4, 2003. Olivetti was the surviving company in the Merger (and changed its name to Telecom Italia S.p.A.), and succeeded to the business of Old Telecom Italia.

As a result of the Merger, the selected financial data set forth below are financial data of Olivetti, not Old Telecom Italia, and are presented on the following basis:

- New Telecom Italia's selected financial data for the six months ended June 30, 2003 and as of June 30, 2003 have been extracted or derived from the unaudited consolidated financial statements of New Telecom Italia for the six-month period ended June 30, 2003 and as of June 30, 2003 and have been prepared (after consultation with CONSOB) as if the Merger had been effective as of January 1, 2003 and give effect to the withdrawal rights exercised by Olivetti shareholders in connection with the Merger and the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offers which were completed in connection with the Merger. The six-month period ended June 30, 2002 has not been adjusted but provides a reasonable comparison as Olivetti fully consolidated Old Telecom Italia.

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

- 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.

You should read the financial information described below in conjunction with the unaudited pro forma condensed consolidated financial information included in this offering memorandum (see "Unaudited Pro Forma Condensed Consolidated Financial Data") and Olivetti's audited consolidated financial statements and notes thereto and "Operating and Financial Review and Prospects" appearing herein. You should also review the audited consolidated financial statements and notes thereto of Old Telecom Italia and "Item 5. Operating and Financial Review and Prospects" included in the Telecom Italia Annual Report incorporated by reference herein. The consolidated operating revenues of Old Telecom Italia represented 96.0%, 95.8%, 96.3% and 96.8% of Olivetti's consolidated operating revenues in 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively.

Telecom Italia—Selected Financial Data

	Year ended December 31,				Six months ended June 30,	
	2000(1)	2000 pro forma (1) (2)	2001	2002	2002	2003
					(Unaudited)	(Unaudited)
			(in millions of Euro)			
Statement of Operations Data in accordance with Italian GAAP:						
Operating revenues	30,116	28,374	32,016	31,408	15,543	15,149
Other income	483	459	476	504	274	170
Total revenues	30,599	28,833	32,492	31,912	15,817	15,319
Cost of materials	3,058	2,931	2,640	2,315	1,097	956
Salaries and social security contributions	5,245	4,965	4,919	4,737	2,449	2,229
Depreciation and amortization (3)	6,946	6,509	7,612	7,227	3,561	3,357
Other external charges	11,136	10,476	12,687	12,188	5,979	5,882
Changes in inventories	(318)	(296)	92	62	(9)	(56)
Capitalized internal construction costs	(912)	(831)	(583)	(675)	(247)	(330)
Total operating expenses (3)	25,155	23,754	27,367	25,854	12,830	12,038
Operating income (3)	5,444	5,079	5,125	6,058	2,987	3,281
Financial income	1,202	1,162	1,446	1,569	675	453
Financial expense (3)	(3,857)	(3,648)	(6,559)	(4,647)	(2,465)	(1,726)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(1,025)*	*(1,011)*	*(1,618)*	*(467)*	*(316)*	*(113)*
Other income and (expense), net	135	165	(3,109)	(5,496)	238	(704)
Income (loss) before income taxes and minority interests	2,924	2,758	(3,097)	(2,516)	1,435	1,304
Income taxes	(1,923)	(1,813)	(579)	2,210	(846)	288
Net income (loss) before minority interests	1,001	945	(3,676)	(306)	589	1,592
Minority interest	(1,941)	(1,885)	586	(467)	(1,100)	(536)
Net income (loss)	(940)	(940)	(3,090)	(773)	(511)	1,056
Statement of Operations Data in accordance with U.S. GAAP:						
Total revenues			32,274	31,864		
Operating income			469	4,285		
Income (loss) before income taxes and minority interests			(6,056)	(100)		
Net income (loss)			(4,006)	1,956		

Telecom Italia—Selected Financial Data

	As of December 31,				As of June 30,
	2000(1)	2000 pro forma (1) (2)	2001	2002	2003
					(Unaudited)
	(in millions of Euro, except percentages and statistical data)				
Balance Sheet Data in accordance with Italian GAAP:					
Total current assets (3)	21,097	20,359	23,417	22,597	26,205
Fixed assets, net	23,776	21,072	22,097	19,449	18,737
Intangible assets, net (3)	39,528	39,062	39,045	34,412	38,177
Total assets	95,360	91,832	94,227	83,384	89,101
Short-term debt	16,927	16,536	9,072	6,827	7,347
Total current liabilities	30,179	29,207	22,984	20,385	21,057
Long-term debt	27,485	25,950	37,747	33,804	33,868
Total liabilities	63,994	61,304	67,874	62,760	63,700
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger					5,285
Total stockholders' equity before minority interest	13,856	13,856	12,729	11,640	16,018
Total stockholders' equity	31,366	30,528	26,353	20,624	20,116
Balance Sheet Data in accordance with U.S. GAAP:					
Total current assets			22,786	21,599	
Fixed assets, net			24,331	21,503	
Intangible assets, net			45,880	41,170	
Total assets			103,588	92,911	
Total current liabilities			22,725	18,599	
Long-term debt			43,117	38,375	
Total liabilities			76,436	68,314	
Stockholders' equity (4)			13,612	15,224	
Financial Ratios in accordance with Italian GAAP:					
Gross operating margin (Gross operating profit/operating revenues)(%) (5)	43.6	43.1	42.8	44.6	45.7
Operating income/operating revenues (ROS) (%)	18.0	17.9	16.8	19.3	21.7
Net debt/Net invested capital (debt ratio) (%) (6)	54.5	53.9	59.3	61.8	65.1
Ratio of Earnings to fixed charges (7)	2.5	2.6	0.7	0.3	1.8
Financial Ratios in accordance with U.S. GAAP:					
Ratio of Earnings to fixed charges (7)			0.1	1.0	
Statistical Data:					
Subscriber fixed lines (thousands) (8)	27,153	27,153	27,353	27,142	27,079
ISDN equivalent lines (thousands) (9)	4,584	4,584	5,403	5,756	6,000
TIM lines in Italy (thousands) (10)	21,601	21,601	23,946	25,302	25,610
Page views Virgilio (millions)	2,218	2,218	3,945	5,267	3,605
Active Users (at period-end, thousands)	1,656	1,656	1,804	2,226	2,360
Group's employees (at period-end)	120,973	113,475	116,020	106,620	102,541
Group's employees (average number)	131,266	123,994	113,974	107,079	99,091
Operating revenues/Group's employees (average number) (thousands)	216.2	242.9	280.9	293.3	152.9

(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. Under U.S. GAAP, the Nortel Inversora group is accounted for using the equity method.

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

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

(4) Stockholders' equity under U.S. GAAP is calculated after elimination of minority interest. See Note 26 of the Notes to Olivetti's audited consolidated financial statements included herein.

(5) Gross Operating Profit was €13,117 million, €12,216 million, €13,704 million, €14,015 million in each of 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively and €6,847 million and €6,921 million in each of the six months ended June 30, 2002 and 2003, 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,				Six months ended June 30,	
	2000	2000 pro forma (1) (2)	2001	2002	2002	2003
	(millions of Euro)					
Operating income	5,444	5,079	5,125	6,058	2,987	3,281
Depreciation and amortization	6,946	6,509	7,612	7,227	3,561	3,357
Other external charges:						
• Provision for bad debts	495	412	448	546	233	200
• Write-downs of fixed assets and intangibles	48	48	17	58	2	2
• Provision for risk	154	143	389	114	85	61
• Other provisions and operating charges	417	388	431	466	237	171
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(387)	(363)	(318)	(454)	(258)	(151)
Gross Operating Profit	**13,117**	**12,216**	**13,704**	**14,015**	**6,847**	**6,921**

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

	As of December 31,				As of June 30,
	2000	2000 pro forma (1) (2)	2001	2002	2003
	(millions of Euro)				
Short-term debt, including current portion of long-term debt	16,927	16,536	9,072	6,827	7,347
Long-term debt	27,485	25,950	37,747	33,804	33,868
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	—	—	—	—	5,285
Cash and cash equivalents:					
• Bank and postal accounts	(2,763)	(2,745)	(3,626)	(4,363)	(5,940)
• Cash and valuables on hand	(8)	(7)	(76)	(7)	(17)
• Receivables for sales of securities	(1)	(1)	(4)	(56)	(69)
Marketable debt securities	(2,909)	(2,759)	(3,616)	(1,927)	(2,296)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(1,210)	(1,210)	(894)	(994)	(738)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(328)	(328)	(705)	(512)	(404)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	331	292	464	627	408
Net Financial Debt	**37,524**	**35,728**	**38,362**	**33,399**	**37,444**

(7) For purposes of calculating the ratio of "earnings to fixed charges":

– "earnings" is calculated by adding:

- pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries;

- "fixed charges" (as defined below);

- amortization of capitalized interest and issue debt discounts or premiums;
- dividends from equity investees; and
- equity in losses of equity investees;

and then subtracting:

- capitalized interest for the applicable period; and
- equity in earnings of equity investees.

– "fixed charges" is calculated by adding:

- interest costs (both expensed and capitalized);
- issue costs and any original issue debt discounts or premiums; and
- an estimate of the interest within rental expense for operating leases.

The term "equity investees" means investments that Telecom Italia accounts for using the equity method of accounting.

(8) Data include multiple lines for ISDN and exclude internal lines.
(9) Data exclude internal lines.
(10) Data refer to TACS and GSM services lines, including holders of Prepaid Cards.

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 between Old Telecom Italia and Olivetti as well as the impact of the spin-off and sale of New SEAT.

The following unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 was prepared on the basis that the Merger and the related transactions (withdrawal rights and tender offers) occurred on January 1, 2002. It should be noted that, as agreed with CONSOB, the tender offers and the withdrawal rights, whose completion occurred after June 30, 2003, and the Merger, which was effective on August 4, 2003, have already been reflected in the historical condensed consolidated financial statements as of and for the six months ended June 30, 2003.

The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2003 and for the year ended December 31, 2002 and the unaudited pro forma condensed consolidated balance sheet as of June 30, 2003 also give effect to the spin-off of New SEAT and the sale of Telecom Italia's stake in New SEAT, as if such transactions had occurred, respectively, on January 1, 2003 and January 1, 2002, for statements of operations purposes and as of June 30, 2003 for balance sheet purposes.

The pro forma information is intended to reflect the impact the Merger, the withdrawal rights, tender offers and the disposal of New SEAT will have on the consolidated financial statements of Olivetti and New Telecom Italia. The notes to the unaudited pro forma condensed consolidated financial statements describe the adjustments made to the Olivetti and New Telecom Italia consolidated financial statements to illustrate the pro forma effect of the Merger and the disposal of New SEAT. The unaudited pro forma condensed consolidated financial information is prepared in accordance with Italian GAAP.

The unaudited pro forma condensed consolidated financial information was prepared to illustrate the effects of:

- the disposal of New SEAT;
- the incurrence of additional interest expense due to the borrowing of €5,285 million used to finance the withdrawal rights of Olivetti shareholders and the tender offers in the statements of operations for the year ended December 31, 2002 and the six months ended June 30, 2003 only; the borrowing is already reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003; and
- the merger between Old Telecom Italia and Olivetti for the year ended December 31, 2002 only, since it is already reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003 and in the unaudited historical condensed consolidated statement of operations for the six months then ended

on the historical operating results of Olivetti for the year ended December 31, 2002 and on the historical operating results and financial position of New Telecom Italia as of and for the six months ended June 30, 2003.

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 offering memorandum. 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 disposal of New SEAT been effective on the dates assumed.

You should also read this section in conjunction with the "Operating and Financial Review and Prospects –Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002" and the Olivetti Group's Audited Consolidated Financial Statements and Notes thereto included elsewhere in this offering memorandum and the unaudited pro forma condensed consolidated financial data contained in the Telecom Italia Annual Report incorporated by reference herein.

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

		Pro forma Adjustments				
		Disposal of New SEAT(2)				
	Olivetti with Old Telecom Italia Condensed Consolidated Historical Year Ended December 31, 2002 (1)	Net assets disposed of (*)	Cash received and early exercise of put option	Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia Pro forma Year Ended December 31, 2002 (1+2+3+4)
	(millions of Euro)					
Total revenues	31,912	(1,428)				30,484
Cost of materials	(2,315)	81				(2,234)
Salaries and social security contributions	(4,737)	244				(4,493)
Depreciation and amortization	(7,227)	523	(10)		(14)	(6,728)
Other operating expenses, net	(11,575)	547				(11,028)
Total operating expenses	(25,854)	1,395	(10)		(14)	(24,483)
Operating income / (loss)	6,058	(33)	(10)		(14)	6,001
Financial income and (expense), net	(3,078)	97	181	(298)		(3,098)
Other income (expense), net.	(5,496)	1,106	1,411			(2,979)
Income (loss) before income taxes	(2,516)	1,170	1,582	(298)	(14)	(76)
Income tax benefit (expense)	2,210	(652)	(572)	107	(1,143)	(50)
Minority interest	(467)	172			(152)	(447)
Net income (loss)	(773)	690	1,010	(191)	(1,309)	(573)

(*) After elimination of intragroup transactions and consolidation adjustments.

Italian GAAP Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2003

	New Telecom Italia Unaudited Condensed Consolidated Historical Six Months Ended June 30, 2003 (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)	New Telecom Italia Pro forma Six Months Ended June 30, 2003 (1+2+3+4)
	(millions of Euro)					
Total revenues	15,319	(540)				14,779
Cost of materials	(956)	28				(928)
Salaries and social security contributions	(2,229)	105				(2,124)
Depreciation and amortization	(3,357)	184	(5)			(3,178)
Other operating expenses, net	(5,496)	200				(5,296)
Total operating expenses	(12,038)	517	(5)			(11,526)
Operating income / (loss)	3,281	(23)	(5)			3,253
Financial income and (expense), net	(1,273)	22	223	(108)		(1,136)
Other income (expense), net.	(704)	203				(501)
Income (loss) before income taxes	1,304	202	218	(108)		1,616
Income tax benefit (expense)	288	(64)	(76)	37	(1,286)	(1,101)
Minority interest	(536)	32				(504)
Net income (loss)	1,056	170	142	(71)	(1,286)	11

(*) As reported above, the tender offers, the withdrawal rights and the Merger were already reflected in the unaudited historical condensed consolidated financial statements as of and for the six months ended June 30, 2003. Accordingly, the historical results of New Telecom Italia for the six-months ended June 30, 2003 include the results of both Olivetti and Old Telecom Italia.

(**) After elimination of intragroup transactions and consolidation adjustments.

Italian GAAP Unaudited Pro Forma Condensed Consolidated Balance Sheet As of June 30, 2003

		Pro forma Adjustments				
		Disposal of New SEAT(2)				
	New Telecom Italia Unaudited Condensed Consolidated Historical As of June 30, 2003 (1) (*)	Net assets disposed of (**)	Cash received and early exercise of put option	Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia Pro Forma As of June 30, 2003 (1+2+3+4)
	(millions of Euro)					
Assets:						
Current assets	26,205	(1,000)	(215)			24,990
Fixed assets, net	18,737	(47)				18,690
Goodwill Old Telecom Italia	25,499					25,499
Other intangible assets, net	12,678	(475)	(2,637)			9,566
Other long-term assets	5,982	(21)				5,961
Total assets	89,101	(1,543)	(2,852)			84,706
Liabilities and stockholders' equity:						
Current liabilities	21,057	(1,062)	(677)			19,318
Long-term debt	33,868	(108)				33,760
Reserves and other liabilities	8,775	(96)	(2,279)			6,400
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	5,285					5,285
Total liabilities	68,985	(1,266)	(2,956)			64,763
Minority interest	4,098	(133)	(47)			3,918
Stockholders' equity	16,018	(144)	151			16,025
Total liabilities and stockholders' equity	89,101	(1,543)	(2,852)			84,706

(*) As reported above, the tender offers, the withdrawal rights and the Merger were already reflected in the unaudited historical condensed consolidated financial statements as of and for the six months ended June 30, 2003. Accordingly, the historical results of New Telecom Italia for the six-months ended June 30, 2003 include the results of both Olivetti and Old Telecom Italia.

(**) After elimination of intragroup transactions and consolidation adjustments.

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information

Under Italian GAAP, the Merger of Old Telecom Italia and Olivetti has been accounted for on a book value basis which means that the Merger has not changed the consolidated financial statements of New Telecom Italia except for the inclusion in net income and stockholders' equity of the minority interest of Old Telecom Italia prior to the Merger. The following unaudited pro forma condensed consolidated financial information has been prepared and presented on the basis of pro forma principles generally accepted for Italian GAAP. They do not comply with the pro forma requirements of the SEC.

Under U.S. GAAP, the combination of Old Telecom Italia and Olivetti is accounted for under the purchase method of accounting for business combinations, with Olivetti treated as the acquiror. See Item 8 of the Telecom Italia Annual Report "Unaudited Pro Forma Condensed Consolidated Financial Data" for the U.S. GAAP treatment of the Merger incorporated by reference herein.

The preliminary announcement of the Merger of the two companies was made on March 12, 2003. On April 15, 2003, each of the Old 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 seven Olivetti savings shares (with a par value of €1 each) for each Old Telecom Italia savings share (with a par value of €0.55 each) and seven Olivetti ordinary shares (with a par value of €1 each) for each Old 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 Old Telecom Italia and May 26, 2003 for Olivetti. The Merger was completed on August 4, 2003 and it has already been reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003 and in the unaudited historical condensed consolidated statement of operations for the six months then ended.

Under Italian GAAP, 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, which consolidates Old Telecom Italia, has been derived from the Olivetti Italian GAAP consolidated financial statements included elsewhere herein, and the New Telecom Italia unaudited historical condensed consolidated statement of operations for the six months ended June 30, 2003 and balance sheet as of June 30, 2003 have been derived from the "Operating and Financial Review and Prospects—Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002" which is included elsewhere in this offering memorandum.

2. Adjustments in this column are to give effect to the disposal of New SEAT and the subsequent gross proceeds of €3,033 million, including the New SEAT ordinary shares arising from the early exercise (for €2,255 million) of the SEAT put option. These adjustments are derived from the carved-out Italian GAAP financial statements of the businesses of New SEAT. The disposal of these businesses occurred in two phases:

- Phase one was a spin-off to the existing shareholders, including Old Telecom Italia, of shares in New SEAT. This entity was listed on the Italian stock exchange on August 4, 2003.

- Phase two involved the sale by New Telecom Italia on August 8, 2003 of the shares it held in New SEAT including, as described above, those arising from the early exercise of the SEAT put option. Pursuant to requirements of Italian Law, the purchasers of the New SEAT shares from New Telecom Italia made a tender offer on the same terms to the remaining New SEAT shareholders. The "Net assets disposed of" column reflects the associated revenues, expenses, assets and liabilities associated with the disposal of the New SEAT business.

These adjustments also include the pro forma effects arising from the SEAT put option reflected in the historical condensed consolidated statements of operations for the year ended December 31, 2002 and the six months ended June 30, 2003. The pro forma adjustments include the reversal in "Other income (expense), net" of the €975 million provision taken to impair the goodwill related to New SEAT at December 31, 2002 under "Net assets disposed of" and €1,411 million which was recorded at December 31, 2002 to recognize the loss on the obligation under the SEAT put option (recorded in 2002 under "Cash received and early exercise of put option"). In addition, they include the reduction of financial expense due to the income earned on the net cash proceeds (after repayment of short-term debt utilized to exercise the SEAT put option) from the disposal of New SEAT at an interest rate of 4.1%.

The condensed consolidated balance sheet as of June 30, 2003 also include the loss on the disposal of New SEAT of approximately €195 million.

3. This column gives pro forma effect to the increase in financial expense due to the additional borrowing of €5,285 million incurred to finance the Olivetti withdrawal right and the tender offers, of €8.010 per Old Telecom Italia ordinary share and €4.820 per Old Telecom Italia savings share. These amounts have already been reflected in the unaudited condensed consolidated balance sheet as of June 30, 2003. The interest expense was calculated using an estimated interest rate of 4.1% on the financing.

4. This column, with respect to the 2002 statement of operations, gives pro forma effect to the completion of the Merger, including the amortization of goodwill that arose from the tender offers, the lower amortization due to the revision of the residual useful life of the Old Telecom Italia goodwill and the reduction in the minority interest outstanding of Old Telecom Italia from the Merger. Under Italian GAAP, the Merger was accounted for on a book value basis. The difference between the purchase cost of the shares in the tender offers and the corresponding portion of net equity of Old Telecom Italia, has been entirely allocated to goodwill in the consolidated financial statements of New Telecom Italia. Such goodwill, which is amortized over 20 years, was determined as follows:

	(millions of Euro)
Cash paid to existing Old Telecom Italia shareholders	5,274
Corresponding portion of net equity of Old Telecom Italia	(723)
Difference, allocated to goodwill	4,551

RISK FACTORS

An investment in the notes 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 incorporated by reference herein before deciding whether an investment in the notes is suitable for you.

Risk Factors Relating to the Merger

Our ability to achieve our strategic objectives may be influenced by a number of factors

This offering memorandum contains operating objectives for Telecom Italia, which are consistent with those of Old Telecom Italia as approved by the Old Telecom Italia Board on February 13, 2003. These objectives confirm the guidelines and objectives of the Telecom Italia Group's Industrial Plan for the years 2002-2004 (the "**Industrial Plan**"). For a description of the Industrial Plan, please see "Item 4. Information on the Telecom Italia Group—Business—Significant Developments during 2002—Updated Business Plan" of the Telecom Italia Annual Report incorporated by reference herein.

Factors beyond our control that could affect the further implementation and completion of the Industrial Plan and reaching our targets for the period 2003-2005 include:

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

Furthermore, the achievement of the objectives may also be subject to other factors beyond our control, including economic and market developments. No assurances can be given that we will actually achieve the objectives identified by management in the ways and according to the timetable envisaged.

Our total net financial debt increased after the Merger

Under Italian GAAP, our total net financial debt was approximately €37.4 billion as of June 30, 2003. This amount takes into account the Merger, including the indebtedness incurred to finance the withdrawal rights and the tender offers. The amount represents an increase of approximately €4.0 billion fromthe net financial debt of €33.4 billion at December 31, 2002 of the Olivetti group, of which €5.3 billion relates to the funding for the withdrawal rights exercised by certain Olivetti shareholders and the tender offers made by Olivetti in connection with the Merger.

After giving effect to certain disposals and the SEAT transaction, both of which occurred after June 30, 2003, net financial indebtedness decreased to €35.6 billion compared to €35.8 billion as of December 31, 2002, inclusive of the J.P. Morgan Chase put/call options. By the end of 2004, Telecom Italia Group expects to reduce its net financial debt by a further €5.0 billion to approximately €30.6 billion, Telecom Italia expects to achieve this through cash flow generation and the possible sale of other non-strategic assets. There can be no assurance that factors beyond our control, including but not limited to deterioration in general economic conditions, will not significantly affect our ability to reduce such debt. Our business will be adversely affected if we are unable to successfully implement our Industrial Plan, particularly in light of the Merger. Factors beyond our control may prevent us from successfully implementing our strategy.

Risk Factors Relating to the Business of Old Telecom Italia

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

Risk Factors Relating to the Offering

Servicing our debt obligations requires a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to pay the principal of and interest on the notes, our credit facilities and other debt securities depends, among other things, upon our future financial performance and our ability to refinance indebtedness, if necessary. Our business may not generate sufficient cash flow to satisfy our debt service obligations, and we may not be able to obtain funding sufficient to do so. If this occurs, we may need to reduce or delay capital expenditures or other business opportunities. In addition, we may need to refinance our debt, obtain additional financing or sell assets to raise cash, which we may not be able to do on commercially reasonable terms, if at all.

A downgrade in our credit ratings could limit our ability to market securities, increase our borrowing costs and/or hurt our relationships with creditors.

Our credit ratings, which are intended to measure our ability to meet our debt obligations, are an important factor in determining our cost of borrowing funds. The interest rates of our borrowings are largely dependent on our credit ratings. On August 12, 2003, New Telecom Italia's long-term rating was assessed by Moody's at Baa2 with a stable outlook. In March 2003, Standard & Poor's reaffirmed its BBB+ rating for the merged entity with a stable outlook and Fitch Ibca assessed the long-term rating for the merged entity at A- with stable outlook. A downgrade of our credit ratings would likely increase our cost of borrowing and adversely affect our results of operations. See "Pro Forma Liquidity and Capital Resources—Revolving Credit Facility" for more information on New Telecom Italia's credit ratings.

A downgrade of our credit ratings could also limit our ability to raise capital or our subsidiaries' ability to conduct their businesses. A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

The notes are effectively subordinated to our secured debt

The notes are not secured by any of our assets. Therefore, in the event of our bankruptcy, liquidation or reorganization, holders of our secured debt will have claims with respect to the assets securing their debt that have priority over your claims as holders of notes. To the extent that the value of the secured assets is insufficient to repay our secured debt, holders of the secured debt would be entitled to share in any of our remaining assets equally with you and any other senior unsecured lenders.

An active trading market for the notes may not develop

TI Capital cannot assure you regarding the future development of a market for the notes or the ability of holders of the notes to sell their notes or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, Telecom Italia's operating results and the market for similar securities. Pursuant to the registration rights agreement, TI Capital and Telecom Italia have agreed to file a registration statement with respect to an offer to exchange the notes offered by this offering memorandum for registered notes with substantially identical terms to the notes offered by this offering memorandum and to use their reasonable best efforts to cause the registration statement to become effective. However, there can be no assurance that the SEC will declare any such registration statement effective. See "Exchange Offer and Registration Rights". The Initial Purchasers have advised us that they currently intend to make a market in the notes as permitted by applicable laws and regulations; however, the Initial Purchasers are not obligated to do so, and any such market-making activities with respect to the notes may be discontinued at any time without notice. Therefore, there can be no assurance as to the liquidity of any trading market for the notes or that an active public market for the notes will develop. See "Plan of Distribution".

USE OF PROCEEDS

The net proceeds of this offering are intended to be used to repay a portion of Telecom Italia's bank debt incurred in connection with the payment to Olivetti shareholders exercising withdrawal rights in connection with the Merger and the tender offers made by Olivetti prior to completion of the Merger. See "Pro Forma Liquidity and Capital Resources". A portion of the proceeds will also be used to repay other long and short term debt and for general corporate purposes. The amount of the net proceeds is expected to be US$3,968.7 million which, at the exchange rate of October 22, 2003 of euro 1 = US$1.1694, corresponds to approximately €3,394 million. Affiliates of J.P. Morgan Securities Inc., one of the Initial Purchasers, were the lead arranger and the agent for the bank facilities utilized in connection with the Merger. Such affiliates of J.P. Morgan Securities Inc., together with affiliates of Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse First Boston (Europe) Limited, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated, who are also Initial Purchasers, will have certain bank loans they have made to Telecom Italia repaid with a portion of the net proceeds of this offering.

CAPITALIZATION

Telecom Italia Group

The following table provides as of June 30, 2003 on an actual basis and in accordance with Italian GAAP the cash and cash equivalents, the short-term debt and the capitalization of the Telecom Italia Group, including the borrowings made to finance the withdrawal rights and tender offers in connection with the Merger of €5,285 million, of which €1,485 million is included in total short-term debt and €3,800 million is included in long-term debt.

The table also sets forth our "as adjusted" cash and cash equivalents, short-term debt and capitalization which give effect to the following transactions:

- *Cash and cash equivalents*: a net decrease of €1,790 million due to: (i) the repayment of €1,485 million of the term loan included in short-term debt that was used to finance the withdrawals rights and the tender offers in connection with the Merger, (ii) the inclusion of a portion of the proceeds arising from the disposal of New SEAT of €101 million, (iii) the use of €2,000 million as partial repayment of the term loan incurred in connection with the payment to Olivetti shareholders exercising withdrawal rights in connection with the Merger and the tender offers made by Olivetti prior to completion of the Merger, and (iv) part of the proceeds arising from the issuance of the notes of €1,594 million.

- *Short-term debt*: a net reduction of €2,162 million after giving effect to: (i) the utilization of €2,932 million of the total €3,033 million of proceeds arising from the disposal of New SEAT to repay short-term debt, (ii) the increase of short-term debt of €2,255 million to provide funds to satisfy obligations to J.P. Morgan Chase arising from the early exercise of the put/call option for shares of Seat Pagine Gialle and (iii) the reduction of €1,485 million due to the repayment of part of the term loan described above.

- *Capitalization*: the issuance of the notes of approximately €3,421 million and a reduction of €3,800 million in other long-term debt after giving effect to the use of part of the proceeds of €1,800 million and the use of cash and cash equivalents to repay in October 2003 the term loan incurred in connection with the payment to Olivetti shareholders exercising withdrawal rights in connection with the Merger and the tender offers made by Olivetti prior to completion of the Merger.

You should read the table together with: (i) "Operating and Financial Review and Prospects—Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002" and (ii) "Unaudited Pro Forma Condensed Consolidated Financial Data", in each case included elsewhere herein.

	As of June 30, 2003	As Adjusted(1)
	(Unaudited)	
	(millions of Euro)	
Cash and cash equivalents	6,026	4,236
Total short-term debt	8,832	6,670
Long-term debt:		
Payable to banks	1,572	1,572
Payable to other financial institutions	569	569
Debenture loans	25,970	25,970
Convertible debentures	5,677	5,677
Notes	—	3,421(2)
Other long-term debt	3,880(3)	80
Total long-term debt (a)	37,668	37,289
Stockholders' equity:		
Share capital(4)	8,846	8,846
Additional paid-in capital	65	65
Reserves, retained earnings and profit of the period	7,107	7,107
Total stockholders' equity before minority interest	16,018	16,018
Minority interest	4,098	4,098
Total stockholders' equity (b)	20,116	20,116
Total capitalization (a+b)	57,784	57,405

(1) The column "as adjusted" does not give effect to the deconsolidation of New SEAT as of June 30, 2003. Based on the pro forma data at the same date the related effects would have been as follows: (i) the transfer to the acquiror of New SEAT of cash and cash equivalents for approximately €50 million, (ii) the assumption by the acquiror of New SEAT of outstanding short-term debt of approximately €637 million, and long-term debt of approximately €108 million, and (iii) the reduction of total stockholders' equity, including minority interest, of €173 million.

(2) The U.S.$4 billion amount has been translated into Euro using the U.S. dollar/Euro exchange rate of U.S.$1.1694 = Euro 1.00.

(3) Includes €3,800 million related to the borrowings made to finance the withdrawal rights and tender offers in connection with the Merger, of which €2,000 million was repaid in October 2003 and €1,800 million is expected to be repaid with the proceeds of this offering.

(4) 10,287,061,839 ordinary shares, each ordinary share of 0.55 euro nominal value, and 5,795,921,069 savings shares, each savings share of 0.55 euro nominal value as of June 30, 2003.

Telecom Italia Capital

The following table provides the cash and cash equivalents, the short-term debt and the capitalization of Telecom Italia Capital in accordance with Luxembourg GAAP:

- on an actual basis as of June 30, 2003, and
- as adjusted to give effect to the issuance of the notes.

	As of June 30, 2003	As Adjusted
	(Unaudited) (thousands of Euro)	
Cash and cash equivalents	2,520	3,396,312
Total short-term debt	—	—
Notes	—	3,420,558 (1)
Total long-term debt (a)	—	3,420,558
Stockholders' equity:		
Share capital, 100,000 shares, nominal value €23.36 per share	2,336	2,336
Additional paid-in capital	—	—
Reserves, retained earnings and loss of the period	266	266
Total stockholders' equity (b)	2,602	2,602
Total capitalization (a+b)	2,602	3,423,160

(1) The U.S.$4 billion amount has been translated into Euro using the U.S. dollar/Euro exchange rate of U.S.$1.1694 = Euro 1.00.

Except as disclosed in this offering memorandum (including the documents incorporated by reference herein), there has not been any material change in the capitalization of Telecom Italia Group or Telecom Italia Capital since June 30, 2003.

DESCRIPTION OF TELECOM ITALIA CAPITAL

TI Capital was incorporated for an unlimited duration in the Grand-Duchy of Luxembourg as a *société anonyme* on September 27, 2000 and is a directly and indirectly wholly-owned subsidiary of Telecom Italia. TI Capital is a finance vehicle of the Telecom Italia Group whose principal purpose is raising funds for the Telecom Italia Group. TI Capital is registered with the *Registre du Commerce et des Sociétés* of Luxembourg under B-77.970. TI Capital's Articles of Incorporation were published in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg*, *Recueil des Sociétés et Associations No C-755* on October 13, 2000. TI Capital's Articles of Incorporation were amended for the last time on December 20, 2002 and the modifications were published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations No C-184* on February 26, 2003.

TI Capital's registered office and postal address is 12-14 Boulevard Grande-Duchesse Charlotte, L-1330, Luxembourg and its telephone number is +352-456060-1.

Capitalization

See "Capitalization—Telecom Italia Capital".

Business

The corporate object of TI Capital, as set out in Article 3 of its Articles of Incorporation, is to finance the companies of the Telecom Italia Group.

Board of Directors

The Directors of TI Capital are:

- Francesco Tanzi, resident in Milan, Italy;
- Adriano Trapletti, resident in Luxembourg;
- Stefania Saini, resident in Luxembourg;
- Alex Bolis, resident in Rome, Italy; and
- Jacques Loesch, resident in Luxembourg.

The remuneration of the Directors shall from time to time be determined by the shareholders of TI Capital in a general meeting. No Director has an interest in the share capital of TI Capital.

Financial Information

Since its incorporation, TI Capital has incurred losses as a result of the normal costs of activity and the payment of fees in connection with the filing of its SEC registration statement.

The statutory financial statements of TI Capital have been audited by the following independent auditors: Ernst & Young (for the years ended December 31, 2001 and 2002), and PricewaterhouseCoopers (for the year ended December 31, 2000).

Since its incorporation, TI Capital has not traded and has not paid any dividends nor made any distributions. TI Capital will enter into a number of contracts in connection with the issue of the notes including for the purpose of providing administrative, secretarial, legal, audit and tax services to it.

Financial Year

The financial year of TI Capital is the calendar year.

No Material Adverse Change

Since the date of TI Capital's incorporation, there has been no material adverse change, or any development reasonably likely to involve any adverse change, in the condition (financial or otherwise) of TI Capital, save as otherwise described herein.

DESCRIPTION OF TELECOM ITALIA

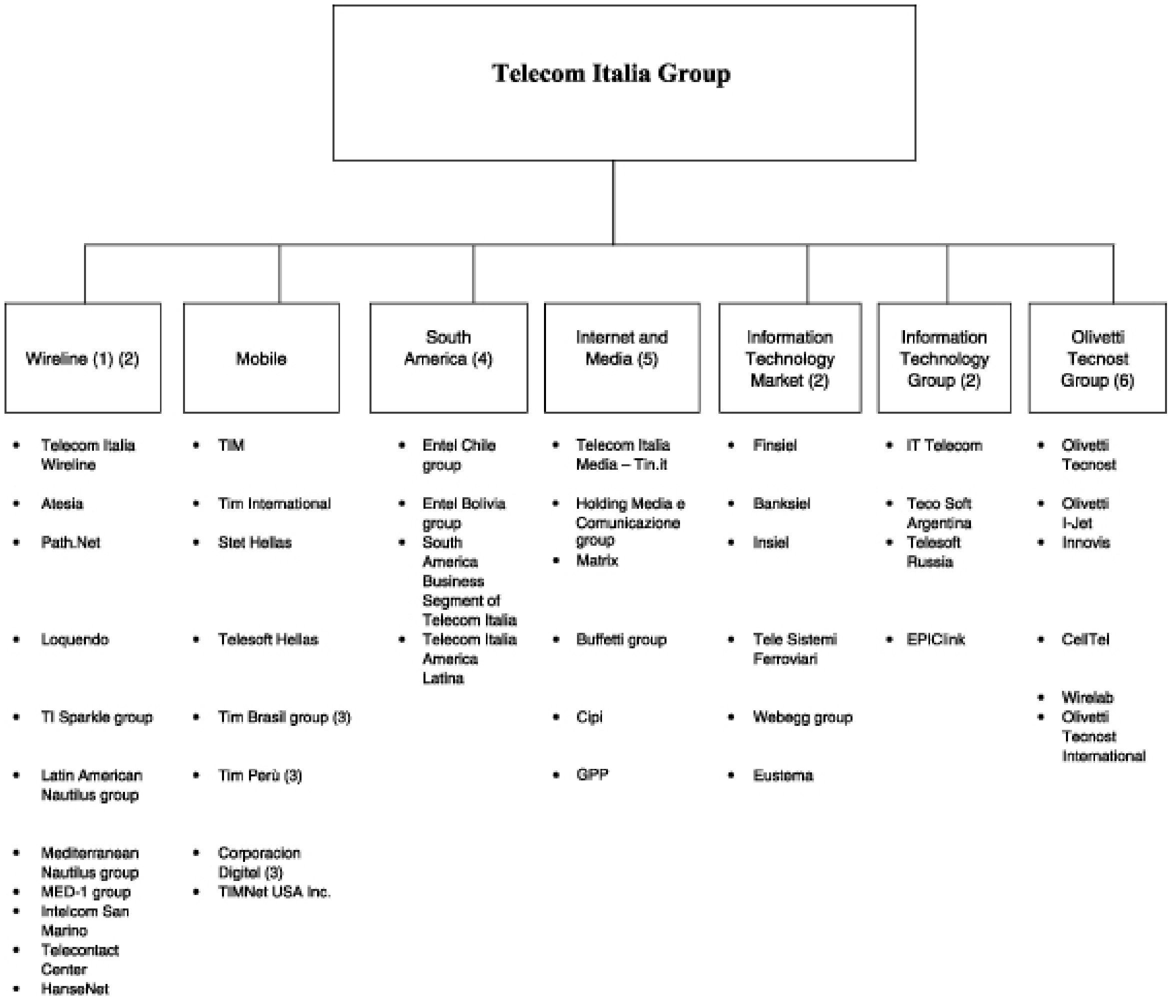
The information in this section includes certain recent developments which occurred after the periods covered by the Telecom Italia Annual Report incorporated by reference herein. Unless indicated, statistical, operational and other information discussed in this section refers to the periods covered by the Telecom Italia Annual Report incorporated by reference herein. For a discussion of the unaudited results of the New Telecom Italia Group for the first half of 2003 see "Operating and Financial Review and Prospects".

For a glossary of certain telecommunications terms used in the following description of the Telecom Italia Group's businesses and elsewhere in this offering memorandum, see "Item 4. Information on the Telecom Italia Group—Glossary of Selected Telecommunications Terms" of the Telecom Italia Annual Report incorporated by reference herein.

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, 2100. The registered office of Telecom Italia is at Piazza degli Affari 2, 20123 Milan, Italy. The telephone number of the registered office is +39 02 8595-1. The headquarters and secondary office of Telecom Italia are located at Corso d'Italia 41, 00198 Rome, Italy. The telephone number of the headquarters and secondary office is +39 06 3688-1.

Overview of the Telecom Italia Group's Major Business Areas

The following is a chart of the Telecom Italia Group's business units as of September 30, 2003:



(1) As of June 16, 2003, Domestic Wireline changed its name to Wireline.
(2) Since January 1, 2003, the groups NETikos, Webegg and TILab, as well as the companies Loquendo and Eustema are no longer part of the IT Group Operating Activity. As a result of this reorganization, the groups NETikos and Webegg and the company Eustema were transferred to the IT Market Business Unit, the company Loquendo has been transferred to the Wireline Business Unit and the TILab group is included in Other Activities. On July 23, 2003, IT Telecom and My Qube announced the closing of the sale of NETikos.
(3) Mobile South America.
(4) Previously included in the International Operations Business Unit.
(5) Reflects the SEAT spin-off and Telecom Italia's sale of its interest in New SEAT. See "Summary—SEAT Spin-off and Sale" above.
(6) The Olivetti-Tecnost Business Unit operates principally in office inkjet products and digital printing systems, specialist banking and trade industry applications, gaming and lottery management information systems, silicon technology development and manufacturing (inkjet heads and MEMS), document management services and mobile phone repair.

Overview

On July 18, 1997, Old Telecom Italia'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 completed the privatization of Telecom Italia selling substantially all of its stake in the Old 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 Old Telecom Italia Group when approximately 52.12% of Old Telecom Italia ordinary shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia S.p.A. ("**Olimpia**") acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia. Please see "Item 4. Information on the Telecom Italia Group—Significant Developments during 2002—The Pirelli-Olimpia Transaction" of the Telecom Italia Annual Report incorporated by reference herein. On December 9, 2002 the Ministry of the Treasury sold its remaining stake in Old Telecom Italia ordinary and savings share capital. On August 4, 2003, Old Telecom Italia merged with and into Olivetti with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A". Please see "—Merger with Olivetti". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Pirelli S.p.A. ("**Pirelli**"), Olimpia's largest shareholder, or Olimpia increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Olimpia is currently the largest shareholder of Telecom Italia. After the merger Olimpia had 7.40% of Telecom Italia's total share capital and 11.57% of Telecom Italia's ordinary share capital. On October 15, 2003, Olimpia announced that it had acquired an additional 266.3 million Ordinary Shares of Telecom Italia representing approximately 2.6% of Telecom Italia's ordinary share capital. After such acquisition, Olimpia holds approximately 14.16% of Telecom Italia's ordinary share capital.

As of June 30, 2003, 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 41.3 million mobile lines (which includes 33.2 million lines in which we have an economic interest or proportionate lines). The Telecom Italia Group also had 5.8 million mobile lines (2.0 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, internet services and IT software and services. Following the Merger with Olivetti, Telecom Italia also operates in the office products, IT office products and specialized application for service automation in banking retail, gaming and public authorities services and specialized automation systems sector through Olivetti Tecnost. For a description of the Merger with Olivetti see "—Merger with Olivetti".

For a description of significant developments during 2002, dispositions and acquisitions and other developments, see "Item 4. Information on the Telecom Italia Group—Significant Developments during 2002", "Item 4. Information on the Telecom Italia Group—Disposition and Acquisition of Certain Equity Investments" and "—Other Developments", respectively, of the Telecom Italia Annual Report incorporated by reference herein.

Merger with Olivetti

In May 2003, the shareholders of Olivetti and of Old Telecom Italia approved the Merger of Old Telecom Italia with and into Olivetti with Olivetti as the surviving company. The Merger was part of a strategic plan pursued by Olivetti, as majority owner of Old Telecom Italia with the aim of focusing on core businesses, improving the corporate structure and reducing debt. Prior to the Merger and the cash tender offers described below, Olivetti had a 54.94% controlling interest in Old Telecom Italia and Old Telecom Italia was Olivetti's largest subsidiary (representing approximately 96.8% of its operating revenues in 2002).

The Merger became effective on August 4, 2003 at which time Olivetti as the surviving company changed its name to "Telecom Italia S.p.A.", succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. New Telecom Italia has completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia's Ordinary Shares and Savings Shares are also listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana. Telecom Italia's Ordinary Shares are also listed on the Frankfurt Stock Exchange.

In addition to the Merger, the following transactions occurred:

- Olivetti shareholders who either voted against the Merger or did not attend the shareholders' meeting benefited from a withdrawal right of €0.9984 per share (which was the arithmetic mean of the daily official share price of the Olivetti shares in the six months preceding the date the Merger resolution was adopted; such date was May 26, 2003). Olivetti shareholders were entitled to such a right by law due to the change in the corporate objectives of Olivetti which, following the completion of the Merger, changed its name to "Telecom Italia S.p.A.". Olivetti shareholders exercised such right with respect to 10,958,057 shares representing 0.12% of the outstanding ordinary shares. Olivetti shareholders received an aggregate payment of €10,940,524 when the Merger became effective.

- Voluntary cash tender offers by Olivetti for a portion of the outstanding Old Telecom Italia ordinary shares and savings shares were made in connection with the Merger (although the cash tender offer was not made to savings shareholders in the United States). Olivetti tendered for 908,873,776 (17.3%) of Old Telecom Italia ordinary shares (including those represented by ADSs) and 354,560,274 (17.3%) of the Old Telecom Italia savings shares. Olivetti acquired approximately 9.73% and 11.83% of the Old Telecom Italia ordinary shares and savings shares, respectively, through the cash tender offers. Aggregate consideration paid was €5,274 million.

In connection with financing the withdrawal right and the cash tender offers, Olivetti entered into a Term Loan Facility with a syndicate of banks pursuant to which it borrowed €5,274 million with respect to the above transactions. See "Unaudited Pro Forma Condensed Consolidated Financial Data". Olivetti also entered into a €6.5 billion Revolving Credit Facility to refinance Old Telecom Italia's €7.5 billion facility which was cancelled providing for working capital and general corporate purposes for Telecom Italia.

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 2001 an important aspect of the strategic plan intended to create value and protect the interest of all shareholders has been the simplification of the Olivetti—TI Group corporate structure. Among the main business rationales for the Merger were:

- improving the Olivetti-Old 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-Old Telecom Italia corporate structure so that all of Olivetti's and Old Telecom Italia's respective operations will be combined in a single entity with a single Board of Directors;

- rationalizing the Olivetti-Old 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 Old Telecom Italia.

As a result of, and immediately after, the Merger, the proportionate ownership of Telecom Italia's ordinary share capital by shareholders unaffiliated with Olimpia or its principal shareholder Pirelli increased substantially from 45.06% to 88.43% of Telecom Italia's outstanding Ordinary Shares. Olimpia is Telecom Italia's largest shareholder. Olimpia owned 11.57% of Telecom Italia's ordinary share capital immediately following the Merger. On October 15, 2003, Olimpia announced that it had acquired an additional 266.3 million Ordinary Shares of Telecom Italia representing approximately 2.6% of Telecom Italia's ordinary share capital. After such acquisition, Olimpia holds approximately 14.16% of Telecom Italia's ordinary share capital. For more detailed information on the Merger, please see "—Merger with Olivetti" and "Unaudited Pro Forma Condensed Consolidated Financial Data".

SEAT Spin-off and 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 New SEAT, a newly incorporated company which assumed the current name of "Seat Pagine Gialle S.p.A.". Effective as of August 1, 2003, the date of the spin-off, the corporate name of the remaining part of SEAT became "Telecom Italia Media S.p.A.". The spin-off plan was approved by the SEAT extraordinary shareholders' meeting held on May 9, 2003.

The shares of both companies are listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

The spin-off created two independent companies, each focused on its core businesses. It was SEAT management's view that SEAT operated in two broad market sectors that had 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 operated 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 operated 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 was 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 provided 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 remain in SEAT, which, as noted above, changed its name to Telecom Italia Media.

Sale of Telecom Italia's stake in New SEAT

On June 10, 2003, Old Telecom Italia and a consortium of investors formed by BC Partners, CVC Capital Partners, Investitori Associati and Permira ("**Silver S.p.A.**") entered into a sale and purchase agreement for the sale of approximately 61.5% of the share capital of New SEAT which, at the time of the agreement, the Telecom Italia Group was expected to receive after the spin-off transaction creating New SEAT (including the shares resulting from the exercise of the J.P. Morgan Chase put option for which Telecom Italia paid €2,255 million). The parties agreed on a sale price of €0.598 per New SEAT ordinary share, representing an enterprise value of approximately €5.65 billion and a price for Telecom Italia's stake of €3.033 billion. The sale was completed on August 8, 2003. Taking into consideration New SEAT net financial indebtedness (estimated, as of the sale of Telecom Italia's stake, at approximately €700 million), the transaction allowed Telecom Italia to reduce its net financial consolidated debt by approximately €3.7 billion.

The agreements relating to the sale of Telecom Italia's stake in New SEAT include Telecom Italia's undertaking to provide, on an ongoing basis, Telecom Italia Media with the funds necessary to service Telecom Italia Media's debt and other obligations in existence as of the date of SEAT spin-off. The undertaking provides for Telecom Italia Media to have funds sufficient to meet such obligations and that New Seat be indemnified from potential liabilities vis-à-vis any creditors of Telecom Italia Media deriving from New Seat's statutory joint liability for such obligations.

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

Recent Developments

Sale of real estate assets

On July 21, 2003, Telecom Italia announced the closing of the sale of certain real estate assets to Lastra Holding B.V., a company within the Five Mounts Properties Group (FMP). The value of the transaction was approximately €355 million and allowed Telecom Italia to reduce its consolidated financial debt by approximately the same amount.

Interconnection Price List

On July 25, 2003, the National Regulatory Agency approved the interconnection price list for 2003 proposed by Telecom Italia in April 2003. The list reduces the interconnection prices in line with that required by the network cap system. It also established for two types of unbundling services (disaggregated access services), "voice only" and "voice+data", for the proposed monthly subscription charge of €8.30 per month.

Acquisition of HanseNet Telekommunikation GmbH

On July 29, 2003, Telecom Italia entered into an agreement with e.Biscom for the acquisition of 100% of the shares of the German local broadband operator, HanseNet Telekommunikation GmbH ("**HanseNet**"). HanseNet provides broadband access and value-added services through its high-speed network based on the IP protocol. Telecom Italia has agreed to pay e.Biscom, HanseNet's controlling shareholder, approximately €243 million which will cover both the outstanding shares and the debts owed to shareholders. On September 25, 2003, Telecom Italia announced the closing of the acquisition of HanseNet. HanseNet is included within the Telecom Italia Wireline Business Unit.

The acquisition forms part of the plan for the Wireline Business Unit to expand its offer of broadband services in selected European cities. Investments in activities forming part of this plan, including the acquisition of HanseNet, are expected to amount to approximately €500 to €600 million in the 2003 to 2005 period. This amount is included in the Telecom Italia Group's three-year investment budget of €14 to €16 billion announced in February 2003.

Acquisition of the assets of the Pagine Utili directories

On July 31, 2003, Telecom Italia and Pagine Italia agreed not to execute the agreements reached in September 2002 regarding the purchase by Telecom Italia of the assets of the Pagine Utili directories. The agreement not to proceed with this transaction was a result of the SEAT spin-off and sale described below. Telecom Italia has agreed to pay €55 million to Pagine Italia.

Cooperation agreement with Orange, Telefónica Móviles and T-Mobile International

On August 1, 2003, TIM signed a cooperation agreement with Orange S.A., Telefónica Móviles and T-Mobile International to set up an alliance to provide their customers with unified and enhanced offerings of products and services.

The new alliance will initially focus on the European territories of its members and reach over 170 million existing customers, across 15 countries. As the collaboration evolves, it will expand to encompass its members' global operations. See "Business Units—Mobile—Services—International".

Sale of interest in Telekom Srbija

On July 7, 2003, the sale of Telecom Italia Group's 29% interest in Telekom Srbija became effective. See "Business Units—Other Telecom Italia Group Activities—Foreign Holdings Corporate Functions".

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 €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.

As a consequence of the conditions laid down by the Italian Regulatory Authority in its ruling dated August 7, 2003, Telecom Italia rescinded its preliminary agreement to acquire Megabeam. Telecom Italia, expects, however, to continue working with Megabeam, with which it has had a commercial agreement for 19 hot spot locations. Since it first began service trials, Telecom Italia has sought to develop a public service based on Wi-Fi technology (WI-FI Area). The company considers Wi-Fi to be a key plank of its strategy for extending broadband infrastructure, services and applications.

Regulatory developments

On September 16, 2003, the Italian Parliament adopted the new code for "electronic communications networks and services" (the "**Code**"). The Code implements four European Directives adopted by the European Union in March 2002: the Framework, Authorization, Access and Universal Service Directives (the "**Directives**") (another directive, the "Personal Data Directive" has already been implemented).

The Code implemented the Directives without substantial changes or departures from the text adopted at European Union level. For a detailed description of the Directives, please see "Item 4. Information on the Telecom Italia Group—Regulation—EU Telecommunications Law and Regulation – the 1999 Review" of the Telecom Italia Annual Report incorporated by reference herein.

In implementing the Directives, the Code expressly abolished the former legal framework for regulation of the telecommunications sector in Italy mainly represented by the Presidential Decree no. 318 of September 19, 1997, which was effective since October 7, 1997.

The main characteristics of the Directives are as follows:

- Redefinition of the concept of "significant market power" and of the threshold for imposing obligations on certain operators, with the introduction of the obligation of the National Regulatory Authority to implement periodical market analysis before taking any decision related to the definition of remedies to be imposed on the operators;

- The introduction of the term "electronic communication services and networks" (a broader term which now encompasses the term "telecommunications");

- "electronic communication services and networks" can now be provided pursuant to a "general authorization";

- more flexibility by national regulatory agencies to select which access and interconnection obligations to impose on operators notified as having "significant market power" in a relevant market; and

- redefinition of certain sections relating to retail price regulation and extension of number portability to mobile operators.

Moreover, the Directives (and other EU-related regulatory interpretations and recommendations) as implemented by the Code provide for guidelines on market analysis and calculation of "significant market power" and identifies those 18 markets at retail and wholesale level where such analyses shall be conducted by the National Regulatory Authority before imposing any obligations upon the significant market power operators. See "Item 4. Information on the Telecom Italia Group—Regulation—EU Telecommunications Law and Regulation—Guidelines on Market Analysis" and "Item 4. Information on the Telecom Italia Group—Recommendation on relevant markets" of the Telecom Italia Annual Report incorporated by reference herein. According to the Code, the Italian National Regulatory Authority will have to conduct a new evaluation of the operators having "significant market power" and propose applicable remedies by mid-January 2004. Within the authority allowed by EU law, the Code also provides for the following:

- allows the trading of the rights of use of frequencies among operators, offering the same type of services;

- excludes from the category of universal service (and its related obligations), the provision of directory information services;

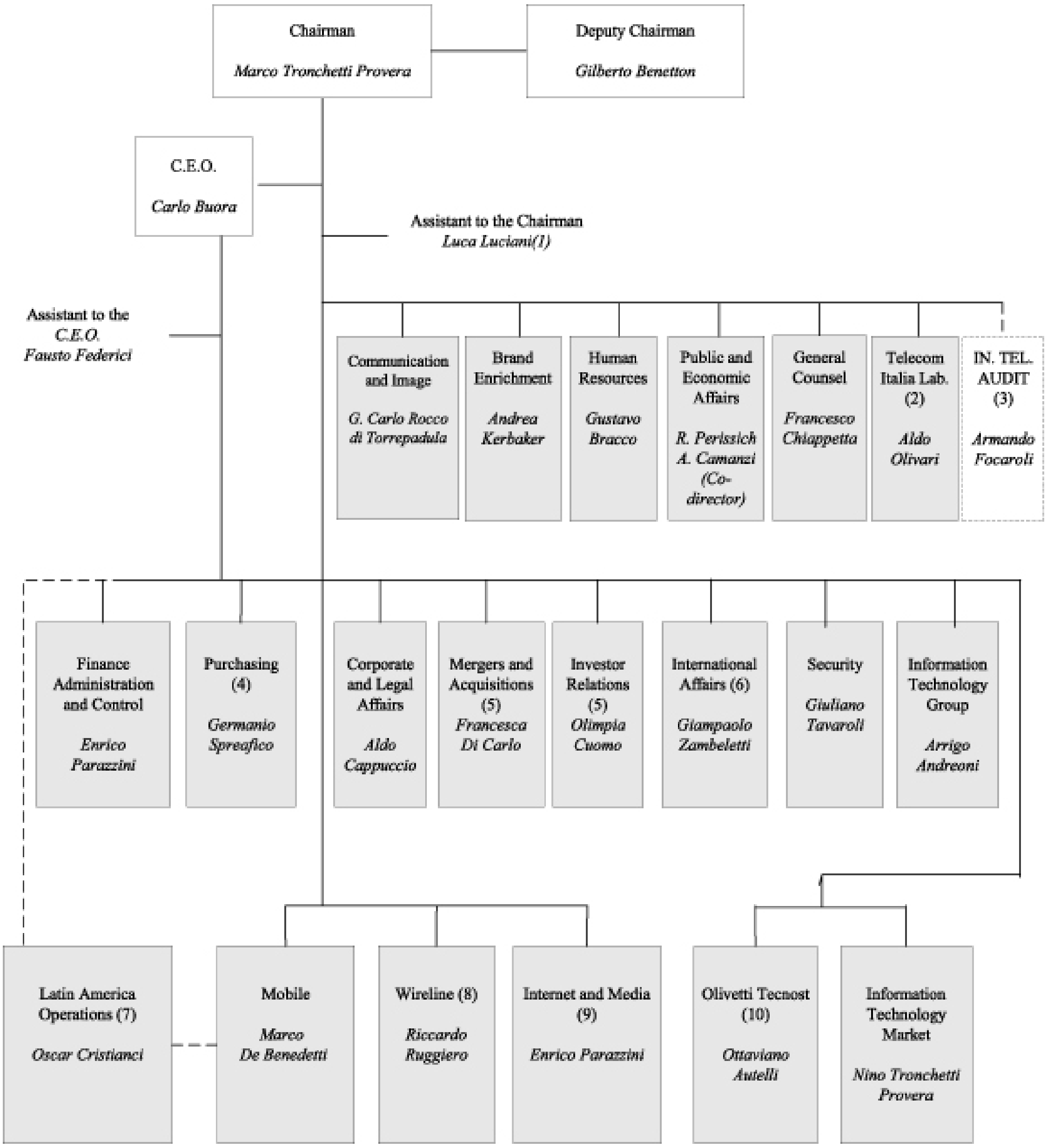
- provides for specific and more defined rules aimed at reducing the burden of current legislation and local regulations which regulates the installation of networks;

- redefines the assignment of roles and responsibilities among the Italian Ministry of Communications and the National Regulatory Authority mainly by assigning to the Ministry of Communications the task of supervising the authorization process and compliance with the universal service obligations and to the National Regulatory Authority the task of conducting market analyses and proposing remedies; and

- introduces a new definition of and specific references to "broadband services", encouraging their development also at regional level.

The Organizational Structure

The following diagram highlights the organizational structure of the Telecom Italia Group as of September 30, 2003.



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(1) Starting from July 1, 2003, Luca Luciani was appointed Assistant to the Chairman.

(2) Beginning April 1, 2003, the company Telecom Italia Lab, which was the Research & Development function, was merged by incorporation into Old Telecom Italia. At the same time, the Research & Development function took the name of Telecom Italia Lab. Starting from August 1, 2003, Aldo Olivari was appointed CEO of Telecom Italia Lab. Telecom Italia Lab reports directly to the Chairman.

(3) Consortium company which carries out the Group's Internal Auditing activities.

(4) As of February 2003, the Real Estate and General Services function was disbanded. Its operating activities were transferred to the Central Function Purchasing.

(5) Starting from October 3, 2003, the new Central Function Corporate Development and Investor Relations was established, under the responsibility of Francesca Di Carlo, directly reporting to the CEO Carlo Buora. Mergers and Acquisitions and Investor Relations were transferred into the new Central Function.

(6) As of June 18, 2003, the new Central Function – International Affairs was established. This Central Function reports directly to the CEO Carlo Buora. On the same date the Central Function – Foreign Holdings was merged into International Affairs and the International Steering Committee was disbanded.

(7) 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 communication and to the head of the Mobile Business Unit, Marco De Benedetti for mobile communication.

(8) As of June 16, 2003, Domestic Wireline changed its name to Wireline. At the same time, Giuseppe Sala was appointed General Manager directly reporting to the Telecom Italia CEO and Head of Wireline Riccardo Ruggiero.

(9) As of August 1, 2003, Enrico Parazzini, CFO of Telecom Italia, was also appointed CEO of the Internet and Media Business Unit. Telecom Italia Media manages the TV, Internet and office products & services business. On August 8, 2003, Telecom Italia sold to a consortium of investors its stake in New SEAT. See "—SEAT Spin-off and Sale" above.

(10) In connection with the Merger, Ottaviano Autelli was appointed Head of the Olivetti-Tecnost Business Unit; he reports directly to the CEO Carlo Buora. The Olivetti-Tecnost Business Unit operates principally in digital printing systems and office inkjet products, specialist banking and trade industry applications, gaming and lottery management information systems, silicon technology development and manufacturing (inkjet heads and MEMS), document management services and mobile phone repair.

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.

The table below sets forth certain key data for each Business Unit of Telecom Italia.

		Wireline (*)(1)	Mobile	South America (1) (2)	Internet and Media(3)	IT Market (4)	IT Group (4)	Olivetti Tecnost	Subtotal	Other activities and eliminations (5)	Consolidated Total
		(millions of Euro, except number of employees)									
Gross operating revenues	2002	17,022	10,867	1,409	1,991	912	1,215	914	34,330	(2,922)	31,408
	2001	17,168	10,250	1,534	1,957	1,198	1,198	1,097	34,402	(2,386)	32,016
	2000 (pro forma) (6)	17,419	9,418	312	263	1,135	1,332	1,130	31,009	(2,635)	28,374
	2000	17,419	9,418	2,100	263	1,135	1,332	1,130	32,797	(2,681)	30,116
Gross operating profit	2002	7,965	5,039	450	593	104	140	59	14,350	(335)	14,015
	2001	7,750	4,760	527	444	166	188	57	13,892	(188)	13,704
	2000 (pro forma) (6)	7,403	4,447	172	(35)	136	203	60	12,386	(170)	12,216
	2000	7,403	4,447	1,073	(35)	136	203	60	13,287	(170)	13,117
Operating income	2002	4,700	3,358	146	232	61	(21)	4	8,480	(2,422)	6,058
	2001	4,361	3,136	187	31	123	22	4	7,864	(2,739)	5,125
	2000 (pro forma) (6)	3,904	2,988	99	(73)	105	(15)	(10)	6,998	(1,919)	5,079
	2000	3,904	2,988	473	(73)	105	(15)	(10)	7,372	(1,928)	5,444
Capital expenditures	2002	2,462	1,715	216	81	30	158	26	4,688	213	4,901
	2001	2,801	3,151	406	175	30	162	42	6,767	464	7,231
	2000 (pro forma) (6)	2,710	4,206	68	34	37	159	51	7,265	296	7,561
	2000	2,710	4,206	592	34	37	159	51	7,789	296	8,085
Number of employees at the year end	2002	53,682	18,702	5,461	7,715	4,493	7,327	4,527	101,907	4,713	106,620
	2001	57,895	16,721	5,746	9,264	6,441	6,844	4,896	107,807	8,213	116,020
	2000 (pro forma) (6)	62,366	15,257	1,087	7,515	7,400	6,385	5,370	105,380	8,095	113,475
	2000	62,366	15,257	8,585	7,515	7,400	6,385	5,370	112,878	8,095	120,973

(*) As of June 16, 2003, Domestic Wireline changed its name to Wireline.

(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) Does not give effect to the spin-off and sale of New SEAT. See "Unaudited Pro Forma Condensed Consolidated Financial Information".

(4) 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 Wireline Business Unit.

(5) 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 fourth quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002.

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

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:			
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.

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 consistent 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
Wireline	45%
Mobile	40%
Internet and Media	2%
Other	13%

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);

- expand the wireline broadband offer throughout Europe (facility based operators providing broadband and VAS);

- 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, customer relations management 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.

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 (in Italy and Greece);
- 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:

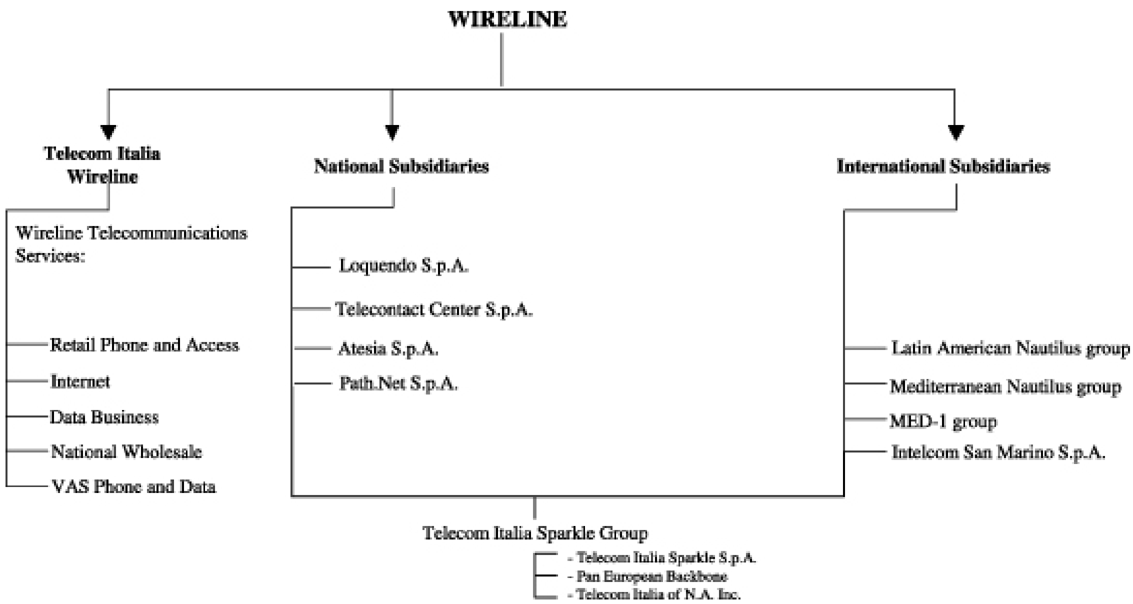
- focus on the customer, to be achieved through focusing on high spending clients, caring, segmentation of the offer and defence/increase of market share;
- technological innovation and leadership, characteristics associated with the TIM brand, to be maintained through: GPRS/UMTS development, launching 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;
- maintenance of high profitability levels in the core business;
- enhancing of plug and play strategy;
- rationalization and integration of the financial structures and investments of TIM's subsidiaries within the TIM group; and
- strengthening of TIM's global position through partnerships and alliances.

There can be no assurance that these objectives and targets will actually be achieved.

BUSINESS UNITS

Wireline

The Wireline Business Unit (which, until June 16, 2003 was called Domestic Wireline) 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 Wireline Business Unit as of June 30, 2003 was as follows:



As a result of the 2002 Reorganization (described in the Telecom Italia Annual Report incorporated by reference herein), 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 Wireline Business Unit. Since January 1, 2003, Loquendo was transferred from IT Group Operating Activity to the Wireline Business Unit.

During the first half of 2003, Wireline acquired a minority stake in LISIT S.p.A., following the bid that was awarded, jointly with Finsiel S.p.A., for the Health Care Information System and the Regional Service Card of the Lombardy Region.

The Wireline Business Unit is leveraging its resources and assets by launching broadband services in France. For this purpose, Telecom Italia France, as of October 2, 2003, a wholly owned subsidiary of Telecom Italia, is rolling out services in four major metropolitan areas: Paris, Marseilles, Nice and Lyon. The Telecom Italia France strategy is oriented towards unbundling of the local loop and leveraging a proprietary IP protocol-based network infrastructure. Telecom Italia France already has a 1,900 km fibre optic network in France. The network is designed to carry next generation IP protocol-based services.

In September 2003, Telecom Italia acquired HanseNet, a German local provider of broadband access and value-added services. HanseNet is part of the Wireline Business Unit. See: “Recent Developments—Acquisition of HanseNet Telekommunikation GmbH”.

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, 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 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, 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, 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 provide greater speed on the internet. This is evidenced by significant growth in broadband access: at December 31, 2002, Wireline had contracts for approximately 850,000 broadband access points (390,000 at the end of 2001) with approximately 220,000 points provided to OLOs and ISPs under wholesale contracts (143,000 at the end of 2001) and 630,000 access points provided to Telecom Italia's retail market (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 Wireline had contracts for 390,000 mass market and small office/home office 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 Wireline.

	Year ended December 31,				
	1998	1999	2000	2001	2002
Average minutes of use per fixed line subscriber during period(1) of which:	4,259	4,298	4,722	4,739	4,292
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, Wireline's traffic tariffs have been based on a per second billing system with an initial fixed charge (the "call set up").

The standard traffic tariffs vary depending on the kind of call (local calls, long-distance calls, calls to mobile, international calls) and, for calls to mobile, on the kind of customers (residential/business). Moreover, the tariff per second varies according to the time of day and the day of the week.

Wireline introduced in 2002 the standard offer “Ricomincio da Te”. The offer was subsequently renamed “Hellò Gratis”. The offer provides for an amount of free national calls. The offer was introduced in two steps: starting on February 1, 2002, residential customers could benefit from up to 60 minutes of free local calls for each two month period; and starting on July 1, 2002, residential and business customers could benefit from up to 30 minutes of free national long-distance calls and up to 60 minutes of free local calls, respectively, for each two month period.

Since December 1997, the Telecom Italia Group has introduced tariff packages for residential and business customers which provide for discounts on standard 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 be more appealing towards retail clients.

Penetration of Teleconomy offers is a key strategic priority. Other new Teleconomy offers (sometimes marketed under the marketing name “Hello”), which Wireline introduced in 2002 and 2003, include:

- for mass market customers: Teleconomy Forfait (no payment for national calls - excluding calls to mobile and calls to VAS) and Teleconomy Zero (fixed price for any national calls - excluding calls to mobile and calls to VAS); 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 Wireline introduced specific offers for companies with high volumes of traffic, allowing companies to choose among a variety of price plans.

Domestic Tariff Rebalancing. Wireline commenced rebalancing its tariffs in 1995 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 in order to achieve tariffs rebalancing and to promote productivity and efficiency for Wireline in a market context which had been assessed as still having 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, monthly fees, domestic and international standard tariffs; other subcaps were also in force.

On July 23, 2003, the National Regulatory Agency introduced a new price cap mechanism also referred to as “safeguard cap”, which is intended to control the maximum prices Telecom Italia may charge for voice services for the four year period 2003-2006. Such price caps cover:

- basic subscriber charges and other access charges – Retail Price Index (“RPI”) + 0%, as well as a sub-price cap for residential subscription charges of RPI–RPI

- local and out-of-district calls with a cap equal to RPI-RPI

- fixed to mobile traffic with a cap equal to RPI-6%.

The basket of public voice telephone services includes one-off fees, monthly fees, domestic and fixed to mobile standard tariffs.

The table below sets forth, for the periods indicated, connection one-off fees, bimonthly subscription fees and the average cost of a three-minute peak rate local and long-distance call (exclusive of value-added tax) and the percentage change since 1999.

	Year ended December 31,				1st October 2003	Percentage change since 1999(2)
	1999(1)	2000(1)	2001(1)	2002		
			(€)			(%)
Connection fee:						
Residential subscribers	103.29	103.29	103.29	100.00	100.00	-3.2
Business subscribers	103.29	103.29	103.29	100.00	200.00	93.6
Bimonthly subscription fee:(3)						
Residential subscribers	18.59	19.32	21.38	24.28	24.28	30.6
Business subscribers	27.27	27.27	29.23	30.40	33.00	21.0
Basic ISDN connection fee:						
Residential subscribers	103.29	103.29	103.29	100.00	100.00	-3.2
Business subscribers	103.29	103.29	103.29	100.00	100.00	-3.2
Basic ISDN bimonthly subscription fee:						
Residential subscribers	33.06	33.06	33.06	33.06	33.06	0.0
Business subscribers	51.65	51.65	51.65	54.74	55.00	6.5
Three minute local call at higher rate:						
Standard	0.0992	0.0992	0.0992	0.0992	0.0992	0.0
Three minute call in the same Area Code at higher rate (4)(5)	0.1312	0.1312	0.0992	0.0992	0.0992	-24.4
Three minute domestic long-distance call at higher rate(6)(7)(8):						
Region 1	0.2231	0.2231	0.2205	0.2205	0.3329	49.2
Region 2	0.3610	0.3610	0.3522	0.3522	0.3329	-7.8
Region 3	0.4772	0.4065	0.3522	0.3522	0.3329	-30.2

(1) The fees and costs for 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) Long-distance calls within the same area code. This tariff was introduced in November 1999.

(5) In February 2001, district rates for three minute calls decreased by 24.4%.

(6) The domestic long-distance charge applies to calls between two different area codes, and, before September 15, 2003, depended on distance of the call:

Region 1 charge applied to calls within 15 kilometers

Region 2 charge applied to calls between 15 and 30 kilometers.

Region 3 charge applied to calls over 30 kilometers.

(7) In February 2001, the week-end flat tariff (€0.1431 for three minutes call) was introduced.

(8) Since July 2001, Region 3 charge was combined with the former Region 2 charge.

Since September 15, 2003, Region 1 has been combined with Region 2, with the result that current long distance tariffs apply to all calls between two different area codes for any distance. The result is a lower average price, because Region 1 accounted for a very small percentage of calls.

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.

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 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 traffic 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.

International Tariffs. International calls are priced with the same per second billing system as domestic calls, with the price per minute depending upon the country called and, since July 2002, for certain countries also on this type of connection (the price will vary depending on whether the destination number called is fixed or mobile).

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 and the percentage change since 1999.

	As of December 31,					Percentage
	1999(1)(2)	2000(1)	2001(1)	2002(3)	1st October 2003	change since 1999(4)
			(€)			(%)
Germany, France, United Kingdom and Spain	1.03	0.88	0.88	0.71	0.71	-31.0
Russia	2.09	1.65	1.65	1.50	1.50	-28.0
Canada and United States	1.03	0.88	0.88	0.71	0.71	-31.0
Australia and Japan	2.64	2.43	2.43	2.38	2.38	-9.7
Brazil	3.29	3.05	3.05	2.74	2.74	-16.8
Chile	5.45	4.91	4.91	2.74	2.74	-49.8

(1) All amounts for 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 three years ended 2002 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 United States 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 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

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.

At the end of 2002, gross operating revenues from leased lines, from retail and wholesale customers (OLOs and ISPs), including international leased lines, was €1,400 million (approximately equal to the level of gross operating revenues in 2001). However there has been a significant change in the revenue mix, with revenues from retail customers falling, and revenues from other domestic operators growing steadily. As of December 31, 2002, there were approximately 132,000 digital leased lines provided to the market (152,000 in 2001).

Volume decline in 2002 is due to the migration of business customers, according to the needs of specific applications, towards broadband connections and to the migration from low speed lines to high speed lines. During 2002, revenues from retail leased lines decreased from approximately €500 million in 2001 to approximately €440 million in 2002, while wholesale leased lines growing resulted in an increase in revenues from approximately €800 million in 2001 to approximately €870 million in 2002.

Interconnection with Other Operators

On July 25, 2003, the National Regulatory Authority approved, subject to certain technical and economic amendments, the 2003 Reference Offer ("**RO**") originally submitted by the Telecom Italia Group in April 2003. Subsequently, Telecom Italia published a new version of the 2003 RO on September 19, 2003. The 2003 RO includes also 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 2003 RO differs significantly from the previous offer with respect to the pricing methodology of interconnection services for voice traffic. According to order 3/03/CIR of the National Regulatory Authority most interconnection prices for voice traffic have been defined on the basis of a network cap mechanism.

The network cap mechanism establishes fixed percentages of price reduction for a number of baskets, each of them substantially related to a specific interconnection level. As a result of this network cap mechanism, the market will have greater visibility over the arrangements relating to interconnection services, allowing the operators to rely on stable economic values in preparing their own business plans.

Moreover, the 2003 RO presents a significant improvement for SLAs (Service Level Agreement) and introduces an additional interconnection access service at 34 Mbit/s.

Additional aspects related to interconnection prices include:

- FRIACO: Friaco services have been included in the network cap baskets, according to the related interconnection levels. The 2003 RO provides a price reduction, with respect to the 2002 RO, of 5.6% for local exchange level and of 3.6% for the metropolitan and transit level.

- Partial circuits (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 decided that economic conditions were 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 determined in accordance with the network cap mechanism.

With respect to access to the copper network, the 2003 RO includes a detailed and complete Local Loop Unbundling ("**LLU**") offer (physical LLU, sub-loop unbundling and shared access).

The 2003 RO has defined a general purpose LLU tariff (valid both for copper pairs to be used by OLOs to provide POTS/ISDN services and for pairs to be used to provide ADSL services). The economic conditions for LLU are much lower than those in the 2002 RO (monthly rental of copper pair to be used for POTS/ISDN decreased by 23%, and that of copper pair to be used for ADSL decreased by 25%).

In terms of interconnection agreements the situation is the following: in 2002, the Telecom Italia Group set up interconnections agreements with five additional operators, for a total of 65 interconnected operators at December 31, 2002. In the same period 19 operators disconnected.

During the year 2002, the following contracts were also signed or renewed:

- seven new interconnection agreements (to be added to the 77 interconnection agreements previously agreed);
- eight additional "reverse" interconnection agreements, for calls terminating on the network of another operator (for a total of 64 since 1996);
- eleven carrier preselection contracts, one district carrier selection agreement, seven number portability agreements; and
- seven contracts for the local loop unbundling service on the local network.

At July 1, 2003, 309,000 full LLU lines have been activated, of which 154,000 are DSL lines. The number of LLU lines has increased since January 1, 2003 by about 135%.

Telecom Italia has also signed additional contracts with other Operators, as:

- eighteen contracts to supply digital leased lines for a total of 83 from 1998;
- six agreements to supply high-speed ADSL wholesale access services, for a total of 29 since 2000.

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.

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).

Wireline's strategy consists of large penetration of the mass market and SOHO segments with "Alice" and "Smart" offers based on ADSL/ATM connectivity. Wireline focuses on moving from traditional to innovative technologies in order to enlarge IP services and the applications market. This strategy has had a significant success with 850,000 broadband access points sold to the retail and the wholesale market (390,000 at the end of 2001); of which 630,000 have been sold to retail customers.

During 2002, Wireline introduced several innovative offers for the data transmission networks and internet access, including:

- new solutions with fiber-optic technologies for small and medium enterprises (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 data 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 fiber optics, intelligent nodes, digital switching, satellite connections and high speed data transmission technology. The technologically advanced 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 five additional operators, making a total of 65 operators at December 31, 2002. In the same period 19 operators disconnected.

During the year 2002, the following contracts were also signed or renewed:

- seven new interconnection agreements (adding to the 77 interconnection agreements previously agreed);
- eight additional "reverse" agreements, terminating calls on the network of another operator, for a total of 64, since 1998;
- six agreements to supply high-speed access services using ADSL technology for a total of 29 since 2000;
- eleven carrier preselection contracts, one district carrier selection agreements, seven number portability agreements;
- seven contracts for the local loop unbundling service on the local network; and
- eighteen 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 fiber-optics from 155 Mbit/s up to 2.5 Gbit/s. Moreover, in 2002, Telecom Italia began 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, Wireline introduced a new generation Optical Digital Cross Connect on its wireline transmission backbone in order to progress with the transition towards a new generation meshed ASTN (Automatically Switched Transport Network) optical backbone which started 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 2 Mbit/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 has permitted 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, began 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, with more than 3,000 local exchange areas served in 2003.

Fiber-optic 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. Fiber-optic 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.

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 workstation. At December 31, 2002, 600,000 "direct digital line" access points and 166,500 "direct analog line" access points had been installed.

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 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 nine 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, the United Kingdom, Netherlands, Belgium, Germany, Switzerland and Austria with a total length of 9,100 kilometers. An extension of the Pan European Backbone to Madrid and Barcelona in Spain became effective during the first six months 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 kilometers - 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 American 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 kilometers 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.

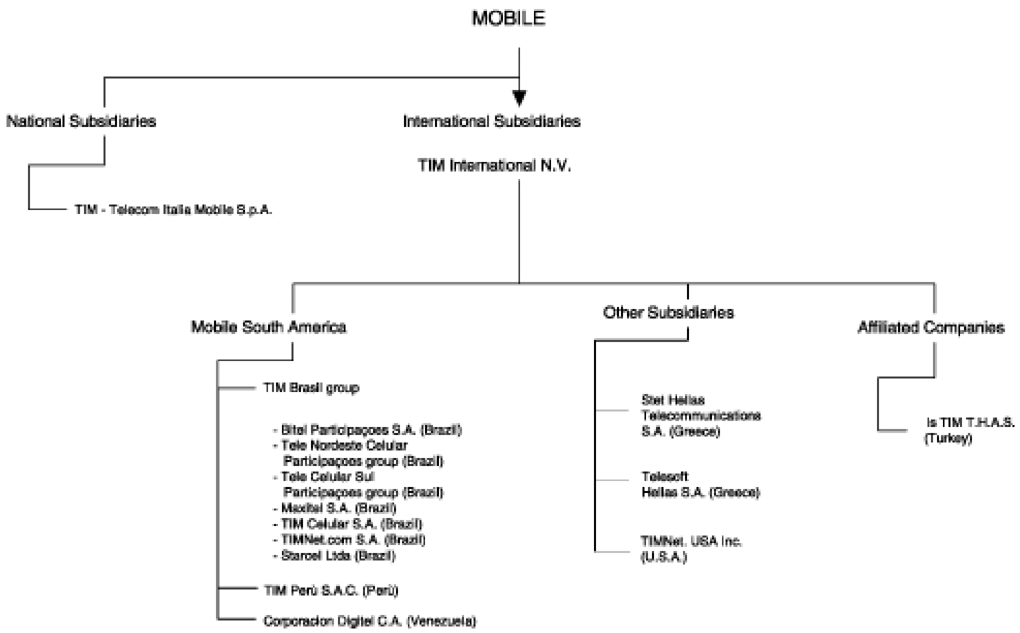
Furthermore, Telecom Italia of North America (TINA), a wholly-owned subsidiary of Telecom Italia, has implemented two POPs in Newark (NJ) and Miami to offer Voice and IP/Data services. In order to improve the capabilities between such POPs, the Pan European Backbone and Latin American Nautilus, Telecom 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.

As of June 30, 2003, 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 many 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 São 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 São 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.

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 São 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 the 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 October 1, 2003, roaming agreements had been reached with 336 operators in 184 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 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 June 30, 2003, TIM's customer base had increased to 25.6 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 refer 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 were in lire and were 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 were 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 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 Padua, 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 when handsets are more readily available. However, even without the UMTS network, TIM has launched certain services that will become available on UMTS. Such services include news broadcasts and sport clips.

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 Telecom Italia Media, 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 representing 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 24 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".

On August 1, 2003, TIM signed a cooperation agreement with Orange S.A., Telefónica Móviles and T-Mobile International to set up an alliance to provide their customers with an unified and enhanced offering of products and services.

The new alliance will initially span the European territories of its members and reach over 170 million existing customers, across 15 countries. As the collaboration evolves, it will expand to encompass its members' global operations. 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. Within the framework of the cooperation agreement, on August 1, 2003 the parties entered into a further agreement. The cooperation will focus initially on the European home markets of the parties.

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 São 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 São 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 Participaçoes 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%.

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 Participaçoes 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 US$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 São 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 São 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 (€16 million) in 2001.

* * *

During 2002, the Telecom Italia Group sold part of its stake in Solpart Participaçoes 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.

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 licenses 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.

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% as of December 31, 2002. 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 (€255 million) in 2001; gross operating profit of 51 billion Bolivares (€35 million) compared to 10 billion Bolivares (€15 million) 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 US dollar, 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 US$45 million.

At the expiration date of the period granted by the Shareholders Meeting to pay the pro rata share of the replenishment of losses, the minority shareholders who had initiated the legal actions against Corporacion Digitel did not comply with their obligations to restore the capital.

During July and August 2003, upon request of some minority shareholders, several Courts in Venezuela granted cautionary injunctions restraining Corporacion Digitel from concluding the replenishment process.

All the Venezuelan Courts' rulings have been appealed by Corporacion Digitel with the aim of lifting any judicial measures prohibiting completion of the replenishment process and coming to a final favourable judgement on the merits.

In addition to the aforesaid Venezuelan actions, on May/June 2003, TIM and Venconsul filed against each other, respectively, a Request for Arbitration and a Counterclaim with the International Chamber of Commerce (ICC) alleging breaches of the Shareholders Agreement.

Other investments held by TIM International

Czech Republic

The Telecom Italia Group holds a 7.16% interest in C-Mobil B.V., a company that 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 Group and 51% by Is Bank, the leading private bank in Turkey, in compliance with restrictions imposed by local laws about foreign investments). The second GSM 1800 license was awarded to the fixed network operator (Turk Telekom) at the same time, according to the terms of the bid.

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 (as a third mobile operator). According to the agreements with Is Bank, TIM was responsible for the technical and commercial operation of Is TIM. In December 2000, Telecom Italia's stake in 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, due to the Turkish regulatory environment. 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 (national 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 effectively competing in 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 12, 2003, TIM International signed a Term Sheet with Turk Telekom (the fixed line operator) and Is Bank outlining a set of guidelines for the merger 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. 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 to occur within the next few months.

On August 1, 2003, Law no. 4971 was approved. Such law allows for the merger between Aycell and Aria.

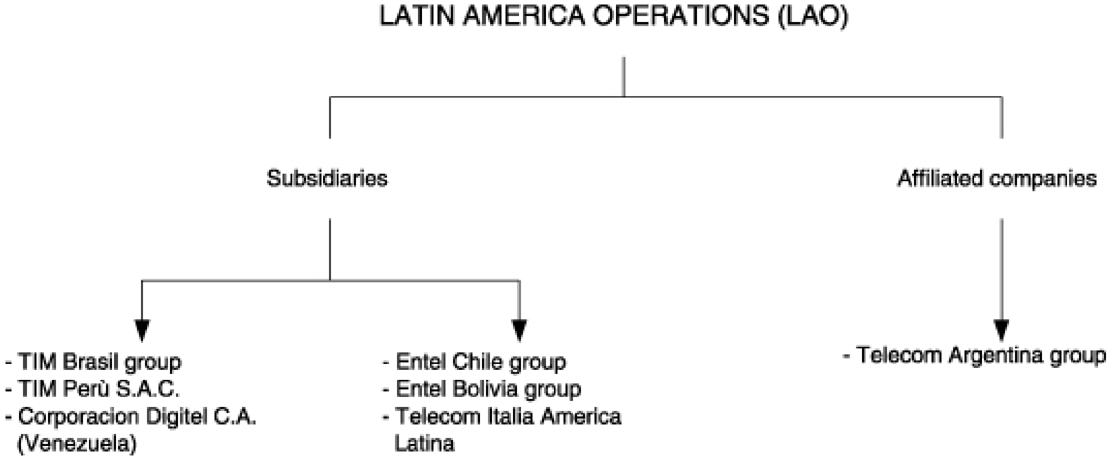
Other Countries

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 "Item 4. Information on the Telecom Italia Group—Business—Disposition and Acquisition of Certain Equity Investments" of the Telecom Italia Annual Report incorporated by reference herein.

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. Since February 2003, Latin America Operations reports directly to the CEO Carlo Buora for Wireline telecommunication, and to Marco De Benedetti for Mobile telecommunication.

As of June 30, 2003, LAO was organized as follows:



In January, 2003, the Telecom Italia Group disposed of its stake (28.57%) in GLB Servicos Interativos (Globocom) to TVGlobo LTDA.

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.

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 (an 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 five year term with a three 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 (six 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).

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 US$33 million and an additional share of 17.5% acquired in August 1999 for approximately US$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), fixed-line and mobile telecommunications operations, international services, data transmission services, value-added services and directories publishing. Since October 1999, the Argentine 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 US$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 broadband 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 US dollar, resulting in a significant devaluation of the peso against the US dollar 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 US dollar 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 US$7,458 to US$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 has not made payments on its debt since then. Payment of interest was also frozen starting on June 24, 2002. 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.

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.

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 represented the beginning of the process for restructuring the Telecom Argentina group's debt obligations. In June 2003, on completion of this offer, Telecom Argentina and its subsidiaries Telecom Personal S.A. and Publicom S.A., pursuant to a tender offer, repurchased US$292 million principal amount of their financial debt obligations at a price of US$160.6 million (55% of the face value). Telecom Argentina continues to be in discussions with its creditors on the restructuring of its remaining outstanding debt.

In September 2003, in relation to the agreements undertaken between France Télécom's stake in Nortel Inversora, the Telecom Italia Group has entered into an agreement with the Werthein Group with a view to protecting its investment in Argentina.

Prior to the sale, the France Télécom Group and the Telecom Italia Group will contribute their interests in Nortel Inversora to a new, equally owned company (Sofora Telecomunicaciones S.A.).

The France Télécom Group will then, subject to authorization from the local authorities, sell 48% of Sofora to the Werthein Group, together with a call option on the remaining 2% (which may be exercised from January 31, 2008 to December 31, 2013). The Telecom Italia Group has agreed to purchase call options on the Werthein Group's interest in Sofora. The price of these call options (which are exercisable from December 31, 2008 to December 31, 2013) is US$60 million.

Internet and Media

On May 9, 2003, the SEAT extraordinary shareholders' meeting approved the proposed proportional spin-off of substantially all of the Directories, Directory Assistance and Business Information business segments of SEAT into New SEAT. The spin-off became effective on August 1, 2003. On the same date, the corporate name of old SEAT became "Telecom Italia Media S.p.A.". The shares of both companies are listed on the automated screen-based trading system (Mercato Telematico Azionario) of Borsa Italiana.

For a further description of these businesses and of the reasons for the spin-off, please see "Description of Telecom Italia — SEAT Spin-off and Sale" and "Unaudited Pro Forma Condensed Consolidated Financial Data".

For a description of the Directories, Directories Assistance and Business Information businesses of New SEAT, please refer to "Item 4. Information on the Telecom Italia Group—Business Units—Internet and Media" of the Telecom Italia Annual Report incorporated by reference herein.

Following the spin-off and sale of New SEAT, Telecom Italia's Internet and Media business unit consists of Telecom Italia Media which comprises, principally, the Tin.it, Virgilio, La7 and MTV Italia brands.

Internet Services

Internet Access Services

Through Tin.it, Telecom Italia Media provides Internet access services to residential, SOHO and SME or Small and Medium-Sized Enterprises Internet users. The 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 SME market consists of businesses having between three 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, the Tin.it brand was relaunched and its range of products completely reviewed, 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

Telecom Italia Media 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.

In 2002, the pay version (Virgilio Più) was launched on the Virgilio portal with services and exclusive contents for customers. The continued innovation of products is one of the most important base for future evolution of Virgilio and it represented the primary focus for investment during 2002.

In particular, the range of text products proposed by the Virgilio portal was revised. 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

Telecom Italia Media 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 and Services and Business Information

Through Telecom Italia Media's control of Gruppo Buffetti S.p.A ("Buffetti"), Telecom Italia Media 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, the offering was 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

Telecom Italia Media 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.

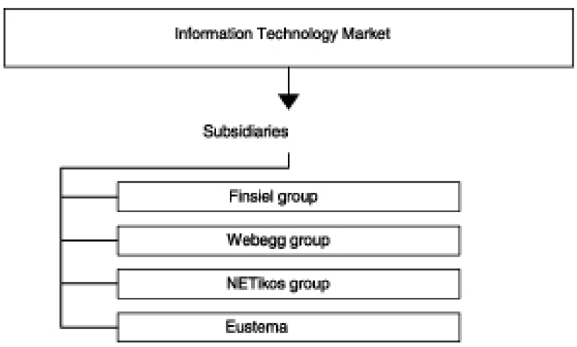
In 2002, the main activities were:

- 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.

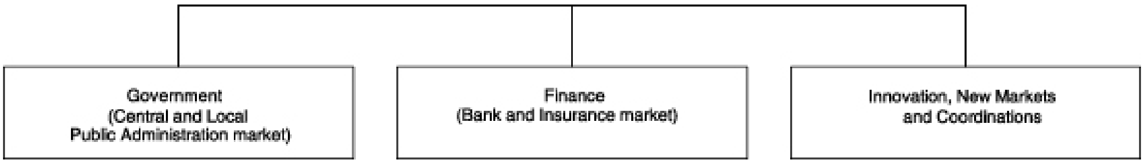
Through GPP, Telecom Italia Media has interests in companies publishing specialized information in the hotel, restaurant and entertainment industry, in electronics, information technology and audiovisual communication and in ceramics, architecture and urban design sectors.

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 a supplier of system integration and IT consulting to the Italian government and local government authorities. As of June 30, 2003, the ITM Business Unit was organized as follows:



In order to reflect the new strategic guidelines, the ITM 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:



As of January 1, 2003, the NETikos group, the Webegg group and the company Eustema were transferred from IT Group Operating Activity to IT Market Business Unit. On July 23, 2003, IT Telecom and My Qube announced the closing of the sale of NETikos. The parties agreed on a sale price of €2 million.

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 health care.

Tele Sistemi Ferroviari S.p.A. (TSF)

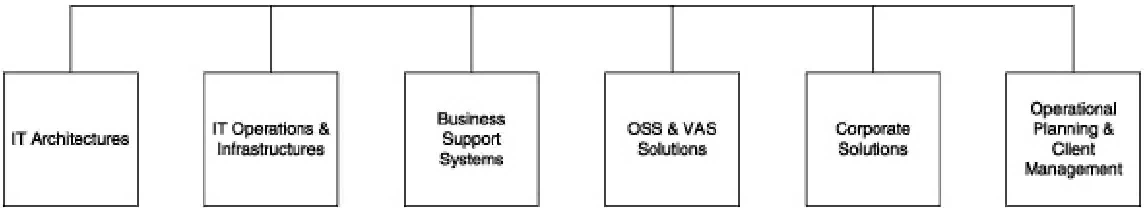
TSF, held 61% by Finsiel, is the ICT partner for the Ferrovie dello Stato group companies, for which it designs and develops both systems for passenger and freight transport, management and administration systems. TSF also offers e-ticketing and electronic fleet monitoring systems to local transport 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 June 30, 2003, the Operating Activity was organized as follows:



The new operating activity is organized into six product divisions:

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

- **IT Operations and Infrastructures** – design and management of the IT infrastructures required for the functioning of Group systems and applications and the delivery of investment-based services for the market; the running of IT systems and solutions;

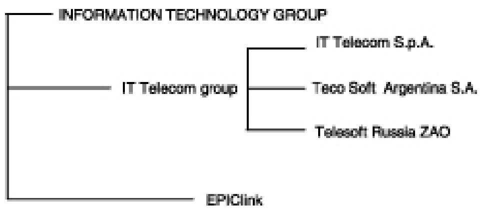
- **Business Support Systems** – design and development for the business segment of the IT systems, solutions and applications for the Business Units of the Group;

- **OSS & VAS Solutions** – design, develop and maintain, for the network segment, of the IT systems, solutions and applications for the Business Units of the Group; development and system integration of high-tech IT solutions with high added value, supplying technological support to the Business Units of the Group in the development of innovative services;

- **Corporate Solutions** – design and development of the IT systems, solutions and applications required for supervising the transversal processes of the Business Units; and

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

As of June 30, 2003, the Information Technology Group Operating Activity includes the following companies:



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. ("**IT Telecom**") (a wholly-owned subsidiary of Telecom Italia). 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 Telecom Italia.

On June 27, 2002, IT Telecom S.p.A. bought Olivetti's 50% stake in Webegg S.p.A. ("**Webegg**"). 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, wholly owned by IT Telecom, 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. On January 1, 2003, the new operating activity IT Telecom S.p.A. became operational.

In February 2003, Telecom Italia and Hewlett-Packard ("**HP**") reached an agreement in the area of Management Services and Outsourcing with a total value of €225 million. Under the terms of this agreement, HP will supply asset management, help desk, maintenance and workstation management, while IT Telecom will manage HP Italia's operational activities in the SAP environment, housing the systems in its Data Centers. On April 16, 2003, the agreement became operational and, on the same date, the contract was finalized for the sale of IT Telecom's Desktop Management services business segment to HP DCS (Distributed Computing Services).

For a description of the activities carried out by the IT Group Operating Activity since December 31, 2002, please refer to "Item 4. Information on the Telecom Italia Group—Business Units—Information Technology Group" of the Telecom Italia Annual Report incorporated by reference herein.

On July 31, 2003, IT Telecom transferred to Shared Services Center – former Pirelli Informatica S.p.A., a software company owned by Pirelli – the product division "Corporate Solutions" (which comprises approximately 270 employees) in exchange for a 45% stake in the capital stock.

Olivetti Tecnost Business Unit

Olivetti Tecnost and its subsidiaries (the "Olivetti Tecnost group") are active in office products (Office Products Division) and specialized application for service automation in banking, retail, gaming and public authorities (Systems Division). 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 Telecom Italia 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 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 business-specific measures: consolidation and expansion of the specialized IT systems sector (vertical business) and a re-launch of 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 Systems 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;

- re-organizing and strengthening the dealer channel; and

- restructuring manufacturing operations in the inkjet business.

The re-organization of Olivetti Tecnost Group's industrial operations involved a review of production capacity and the transfer of all inkjet 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 inkjet business, through a re-conversion of the Scarmagno site, where new industrial operations will be set up, and the location of all inkjet 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) with the intent to achieve synergies with the Telecom Italia Group; and

- all inkjet 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 with the trade unions 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.

Other Telecom Italia Group Activities

The following are the principal other activities of the Group. For a complete description of such activities see "Item 4. Information on the Telecom Italia Group—Business Units—Other Telecom Italia Group Activities" of the Telecom Italia Annual Report incorporated by reference herein.

Real Estate and General Services

Until it was disbanded in February 2003, 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 (Currently "International Affairs")

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 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, Etec S.A., Netco Redes and the residual segment of the former IOP.

As of June 18, 2003, the new central function, International Affairs, was established and reports directly to the CEO Carlo Buora. On the same date the central function Foreign Holdings was merged into International Affairs.

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 2002-2005 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 €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 took place on July 7, 2003. PTT Srbija has agreed to pay €195 million, €120 million of which was paid in the first six month of 2003. The remaining amount will be paid in installments. The shares disposed of were placed in escrow with an international bank until completion of payment of the consideration;

- on June 12, 2003, the Telecom Italia Group entered into an agreement with BBK for the sale of part of its investment in Euskaltel, corresponding to 7.75% of Euskaltel's total share capital, for a consideration of €34 million. The closing of the transaction took place on October 10, 2003; and

- on April 30, 2003, the Telecom Italia Group signed a non-binding Memorandum of Understanding (MOU) with the Ministry of Information Technology and Communication of the Republic of Cuba (MIC) with the goal to establish in Cuba an integrated TLC operator acting both in the wireline and in the mobile sector. According to the MOU, Etec S.A. will be merged with the two existing Cuban mobile operators C-Com and Cubacel in order to create the integrated TLC operator which will maintain the name of Etec S.A. in which the Telecom Italia Group will have a stake of 27%.

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 ADSL lines and €0.6 million of 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 telecommunication 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 US$10 million in 2001 to US$13.4 million in 2002). In 2002, total operating revenues were US$294 million compared with US$281 million in 2001, an increase of 4.6%. Gross Operating Profit increased from US$185 million in 2001 to US$202 million in 2002 (an increase of 9.2%) and operating income was US$139 million compared with US$137 million in 2001 (an increase of 1.5%). Net income was US$132 million in 2002 compared to US$137 million in 2001 (a decrease of 3.6%).

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 "Item 4. Information on the Telecom Italia Group—Regulation" of the Telecom Italia Annual Report incorporated by reference herein.

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:

- the introduction and continued growth of new telecommunications services (in particular, non-voice services), capitalizing on the Telecom Italia Group's advanced fixed network,
- growth in traffic due to increased internet and data usage,
- increased interconnect traffic as a result of the growth of other mobile telecommunications operators and alternative telecommunications operators in Italy,
- continued growth of the Telecom Italia Group's mobile telecommunications businesses,
- continued focus on customer service quality and marketing initiatives, and
- 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 "Item 4. Information on the Telecom Italia Group—Regulation" of the Telecom Italia Annual Report incorporated by reference herein) 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 and 2003, as additional steps were taken regarding tariff rebalancing, interconnection charges and the further signing of contracts to permit the unbundling of the local loop. The regulatory environment has been further changed due to the implementation of the Code. See "Description of Telecom Italia—Overview—Recent Developments—Regulatory developments" and "Item 4. Information on the Telecom Italia Group—Regulation" of the Telecom Italia Annual Report incorporated by reference herein.

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. In 2003, the number of subscriber lines fell slightly due to an increase in the number of unbundled lines.

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.

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 years 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.

At June 30, 2003, TIM was the leading Italian operator with a market share of 47.1%. Vodafone Omnitel had 36.0%, while Wind obtained 16.7% and H3G(3) had 0.2%.

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 TI Media 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.

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.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 was prepared on the basis that the Merger and the related transactions (withdrawal rights and tender offers) occurred on January 1, 2002. It should be noted that, as agreed with CONSOB, the tender offers and the withdrawal rights, whose completion occurred after June 30, 2003, and the Merger, which was effective on August 4, 2003, have already been reflected in the historical condensed consolidated financial statements as of and for the six months ended June 30, 2003.

The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2003 and for the year ended December 31, 2002 and the unaudited pro forma condensed consolidated balance sheet as of June 30, 2003 also give effect to the spin-off of New SEAT and the sale of Telecom Italia's stake in New SEAT, as if such transactions had occurred, respectively, on January 1, 2003 and January 1, 2002, for statements of operations purposes and as of June 30, 2003 for balance sheet purposes.

The pro forma information is intended to reflect the impact the Merger, the withdrawal rights, tender offers and the disposal of New SEAT will have on the financial statements of Olivetti and New Telecom Italia. The presentation includes more detailed discussions below regarding the adjustments made to illustrate these effects. The unaudited pro forma condensed consolidated financial data for the year ended December 31, 2002 were prepared by combining certain historical amounts of Old Telecom Italia and Olivetti, while for the unaudited pro forma condensed consolidated financial data as of and for the six months ended June 30, 2003 the historical amounts of New Telecom Italia have been utilized. The notes to the unaudited pro forma condensed consolidated financial data describe the adjustments made to illustrate the pro forma effects of the Merger and the disposal of New SEAT.

You should also read this section in conjunction with the "Operating and Financial Review and Prospects—Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002" and the Olivetti Group's Audited Consolidated Financial Statements and Notes thereto included elsewhere in this offering memorandum and the unaudited pro forma condensed consolidated financial data 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 disposal of New SEAT;

ii) the incurrence of additional interest expense due to the borrowing of €5,285 million used to finance the withdrawal rights of Olivetti shareholders and the tender offers in the statements of operations for the year ended December 31, 2002 and the six months ended June 30, 2003 only; the borrowing is already reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003; and

iii) the merger between Old Telecom Italia and Olivetti for the year ended December 31, 2002 only, since it is already reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003 and in the unaudited historical condensed consolidated statement of operations for the six months then ended

on the historical operating results of Olivetti for the year ended December 31, 2002 and on the historical operating results and financial position of New Telecom Italia as of and for the six months ended June 30, 2003.

The unaudited pro forma condensed consolidated financial information is presented in accordance with Italian GAAP which differs in certain significant respects from U.S. GAAP. Note 26 of the Notes to the audited consolidated financial statements of Olivetti included in this offering memorandum 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" and Note 26 of the Notes to the audited consolidated financial statements of Old Telecom Italia in the Telecom Italia Annual Report incorporated by reference herein describes the material differences between Italian GAAP and U.S. GAAP as they relate to Olivetti and Old Telecom Italia, respectively.

The unaudited pro forma condensed consolidated financial information includes the following:

- For the year ended December 31, 2002, the historical condensed consolidated statement of operations of Olivetti, with Telecom Italia consolidated, and as of and for the six months ended June 30, 2003, the historical condensed consolidated balance sheet and statement of operations of New Telecom Italia; all financial data are on an Italian GAAP basis.
- The disposal of New SEAT. The pro forma gives effect to the deconsolidation of the revenues, expenses, assets and liabilities of the disposed entity and to the gross proceeds of €3,033 million to the Olivetti Group and New Telecom Italia Group deriving from the above mentioned disposal. The gross proceeds also include amounts attributable to the disposal of the New SEAT ordinary shares acquired by Old Telecom Italia through the early exercise of the SEAT put option. In

addition, the pro forma unaudited condensed consolidated statements of operations give effect to the reduction of financial expense due to the income earned on the net cash proceeds (after repayment of short-term debt utilized to exercise the SEAT put option) from the disposal of New SEAT at an interest rate of 4.1%.

- The cost of borrowing €5,285 million in additional debt to finance the withdrawal rights of the Olivetti shareholders and the tender offers is included in the pro forma statements of operations at an interest rate of 4.1% with consideration given to the tranches in which it was incurred.

- The financing costs incurred in obtaining the line of credit to pay for the Olivetti withdrawal right and the purchase of Old Telecom Italia ordinary shares and Old Telecom Italia savings shares in the tender offers of €97 million. This amount has been capitalized and amortized over the life of the debt.

- The reversal of the tax effects of €1,078 million in 2002 and €1,286 million in the first half of 2003, related to the write-down of Olivetti's investment in Old Telecom Italia, included in Olivetti's and New Telecom Italia's statement of operations, since the write-down was made only for tax purposes and in view of the fact that it would not have been made on the assumption that the Merger was already effective, respectively, on January 1, 2002 and January 1, 2003. In addition, the pro forma unaudited condensed consolidated financial information includes the tax effects of the pro forma adjustments.

- The reversal in "Other income (expense) net" of the €975 million provision taken to impair the goodwill related to New SEAT at December 31, 2002 under "Net assets disposed of" and €1,411 million which was recorded at December 31, 2002 to recognize the loss on the obligation under the SEAT put option (recorded in 2002 under "Cash received and early exercise of put option").

- The elimination, as a result of the Merger, of the minority interest for the year 2002 of Old Telecom Italia consolidated by Olivetti.

The unaudited historical condensed consolidated statement of operations for the six months ended June 30, 2003, includes certain costs incurred in connection with the Merger for advisory services, legal opinions, valuations, etc., amounting to €110 million and other costs incurred in connection with the disposal of New SEAT amounting to €57 million.

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 Olivetti or New Telecom Italia had the Merger and the disposal of New SEAT in fact occurred on the dates referred to above nor of the results of operations or the financial position of New Telecom Italia for any future period.

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

	Olivetti with Old Telecom Italia Condensed Consolidated Historical Year Ended 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)	New Telecom Italia Pro forma Year Ended December 31, 2002 (1+2+3+4)
	(millions of Euro)					
Total revenues	31,912	(1,428)				30,484
Cost of materials	(2,315)	81				(2,234)
Salaries and social security contributions	(4,737)	244				(4,493)
Depreciation and amortization	(7,227)	523	(10)		(14)	(6,728)
Other operating expenses, net	(11,575)	547				(11,028)
Total operating expenses	(25,854)	1,395	(10)		(14)	(24,483)
Operating income / (loss)	6,058	(33)	(10)		(14)	6,001
Financial income and (expense), net	(3,078)	97	181	(298)		(3,098)
Other income (expense), net.	(5,496)	1,106	1,411			(2,979)
Income (loss) before income taxes	(2,516)	1,170	1,582	(298)	(14)	(76)
Income tax benefit (expense)	2,210	(652)	(572)	107	(1,143)	(50)
Minority interest	(467)	172			(152)	(447)
Net income (loss)	(773)	690	1,010	(191)	(1,309)	(573)

(*) After elimination of intragroup transactions and consolidation adjustments.

Italian GAAP Unaudited Pro Forma Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2003

		Pro forma Adjustments				
		Disposal of New SEAT(2)				
	New Telecom Italia Unaudited Condensed Consolidated Historical Six Months Ended June 30, 2003 (1) (*)	Net assets disposed of (**)	Cash received and early exercise of put option	Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia Pro forma Six Months Ended June 30, 2003 (1+2+3+4)
	(millions of Euro)					
Total revenues	15,319	(540)				14,779
Cost of materials	(956)	28				(928)
Salaries and social security contributions	(2,229)	105				(2,124)
Depreciation and amortization	(3,357)	184	(5)			(3,178)
Other operating expenses, net	(5,496)	200				(5,296)
Total operating expenses	(12,038)	517	(5)			(11,526)
Operating income / (loss)	3,281	(23)	(5)			3,253
Financial income and (expense), net	(1,273)	22	223	(108)		(1,136)
Other income (expense), net.	(704)	203				(501)
Income (loss) before income taxes	1,304	202	218	(108)		1,616
Income tax benefit (expense)	288	(64)	(76)	37	(1,286)	(1,101)
Minority interest	(536)	32				(504)
Net income (loss)	1,056	170	142	(71)	(1,286)	11

(*) As reported above, the tender offers, the withdrawal rights and the Merger were already reflected in the unaudited historical condensed consolidated financial statements as of and for the six months ended June 30, 2003. Accordingly, the historical results of New Telecom Italia for the six-months ended June 30, 2003 include the results of both Olivetti and Old Telecom Italia.

(**) After elimination of intragroup transactions and consolidation adjustments.

Italian GAAP Unaudited Pro Forma Condensed Consolidated Balance Sheet As of June 30, 2003

	New Telecom Italia Unaudited Condensed Consolidated Historical As of June 30, 2003 (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	Effect of additional borrowing (3)	Effect of Merger (4)	New Telecom Italia Pro Forma As of June 30, 2003 (1+2+3+4)
	(millions of Euro)					
Assets:						
Current assets	26,205	(1,000)	(215)			24,990
Fixed assets, net	18,737	(47)				18,690
Goodwill Old Telecom Italia	25,499					25,499
Other intangible assets, net	12,678	(475)	(2,637)			9,566
Other long-term assets	5,982	(21)				5,961
Total assets	89,101	(1,543)	(2,852)			84,706
Liabilities and stockholders' equity:						
Current liabilities	21,057	(1,062)	(677)			19,318
Long-term debt	33,868	(108)				33,760
Reserves and other liabilities	8,775	(96)	(2,279)			6,400
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	5,285					5,285
Total liabilities	68,985	(1,266)	(2,956)			64,763
Minority interest	4,098	(133)	(47)			3,918
Stockholders' equity	16,018	(144)	151			16,025
Total liabilities and stockholders' equity	89,101	(1,543)	(2,852)			84,706

(*) As reported above, the tender offers, the withdrawal rights and the Merger were already reflected in the unaudited historical condensed consolidated financial statements as of and for the six months ended June 30, 2003. Accordingly, the historical results of New Telecom Italia for the six-months ended June 30, 2003 include the results of both Olivetti and Old Telecom Italia.

(**) After elimination of intragroup transactions and consolidation adjustments.

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Data

Under Italian GAAP, the combination of Old Telecom Italia and Olivetti has been accounted for on a book value basis which means that the Merger has not changed the consolidated financial statements of New Telecom Italia except for the inclusion in net income and stockholders' equity of the minority interest of Old Telecom Italia prior to the Merger. The following unaudited pro forma condensed consolidated financial information has been prepared and presented on the basis of pro forma principles generally accepted for Italian GAAP. They do not comply with the pro forma requirements of the SEC.

Under U.S. GAAP, the combination of Old Telecom Italia and Olivetti is accounted for under the purchase method of accounting for business combinations, with Olivetti treated as the acquiror. See Item 8 of the Telecom Italia Annual Report "Unaudited Pro Forma Condensed Consolidated Financial Data" for the U.S. GAAP treatment of the Merger incorporated by reference herein.

The preliminary announcement of the Merger was made on March 12, 2003. On April 15, 2003, each of the Old 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 seven Olivetti savings shares (with a par value of €1 each) for each Old Telecom Italia savings share (with a par value of €0.55 each) and seven Olivetti ordinary shares (with a par value of €1 each) for each Old 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 Old Telecom Italia and May 26, 2003 for Olivetti. The Merger was completed as of August 4, 2003 and it has already been reflected in the unaudited historical condensed consolidated balance sheet as of June 30, 2003 and in the unaudited historical condensed consolidated statement of operations for the six months then ended.

Under Italian GAAP, 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, which consolidates Old Telecom Italia, has been derived from the Olivetti Italian GAAP consolidated financial statements included elsewhere herein, and the New Telecom Italia unaudited historical condensed consolidated statement of operations for the six months ended June 30, 2003 and balance sheet dated as of June 30, 2003, has been derived from the "Operating and Financial Review and Prospects—Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002" which is included elsewhere in this offering memorandum.

2. Adjustments in this column are to give effect to the disposal of New SEAT and the subsequent gross proceeds of €3,033 million, including the New SEAT ordinary shares arising from the early exercise (for €2,255 million) of the SEAT put option. These adjustments are derived from the carved-out Italian GAAP financial statements of the businesses related to New SEAT. The disposal of these businesses occurred in two phases:

- Phase one was a spin-off to the existing shareholders, including Old Telecom Italia, of shares in New SEAT. This entity was listed on the Italian stock exchange on August 4, 2003.
- Phase two involved the sale by New Telecom Italia on August 8, 2003 of the shares it held in New SEAT including, as described above, those arising from the early exercise of the SEAT put option. Pursuant to requirements of Italian law, the purchasers of the New SEAT shares from New Telecom Italia made a tender offer on the same terms to the remaining New SEAT shareholders. The "Net assets disposed of" column reflects the associated revenues, expenses, assets and liabilities associated with the disposal of the New SEAT business.

These adjustments also include the pro forma effects arising from the SEAT put option reflected in the historical condensed consolidated statements of operations for the year ended December 31, 2002 and the six months ended June 30, 2003. The pro forma adjustments include the reversal in "Other income (expense), net" of the €975 million provision taken to impair the goodwill related to New SEAT at December 31, 2002 under "Net assets disposed of" and €1,411 million which was recorded at December 31, 2002 to recognize the loss on the obligation under the SEAT put option (recorded in 2002 under "Cash received and early exercise of put option"). In addition, they include the reduction of financial expense due to the income earned on the net cash proceeds (after repayment of short-term debt utilized to exercise the SEAT put option) from the disposal of New SEAT at an interest rate of 4.1%.

The condensed consolidated balance sheet as of June 30, 2003 also includes the loss on the disposal of New SEAT of approximately €195 million.

3. This column gives pro forma effect to the increase in financial expense due to the additional borrowing of €5,285 million incurred to finance the Olivetti withdrawal right and the tender offers of €8.010 per Old Telecom Italia ordinary share and €4.820 per Old Telecom Italia savings share. These amounts have already been reflected in the unaudited condensed consolidated balance sheet as of June 30, 2003. The interest expense was calculated using an estimated interest rate of 4.1% on the financing.

4. This column, with respect to the 2002 statement of operations, gives pro forma effect to the completion of the Merger, including the amortization of goodwill that arose from the tender offers, the lower amortization due to the revision of the residual useful life of the Old Telecom Italia goodwill and the reduction in the minority interest outstanding of Old Telecom Italia from the Merger. Under Italian GAAP, the Merger was accounted for on a book value basis. The difference between the purchase cost of the shares in the tender offers and the corresponding portion of net equity of Old Telecom Italia, has been entirely allocated to goodwill in the consolidated financial statements of New Telecom Italia. Such goodwill, which is amortized over 20 years, was determined as follows:

	(millions of Euro)
Cash paid to existing Old Telecom Italia shareholders	5,274
Corresponding portion of net equity of Old Telecom Italia	(723)
Difference, allocated to goodwill	4,551

PRO FORMA LIQUIDITY AND CAPITAL RESOURCES

The discussion which follows is based on the unaudited pro forma condensed consolidated balance sheet as of June 30, 2003 which is prepared in accordance with Italian GAAP and the total amount of indebtedness after the completion of the Merger and the disposal of New SEAT, as if such transactions had occurred on that date.

As of December 31, 2002, there were significant differences between Italian GAAP and U.S. GAAP with respect to total historical long-term debt of Olivetti which consolidated Old Telecom Italia. The primary differences between Italian GAAP and U.S. GAAP long-term debt were related to the U.S. GAAP treatment of the SEAT Put/Call arrangements and the sale by Old Telecom Italia of real estate to IM.SER as well as the Tiglio Projects carried out by Olivetti and Old Telecom Italia. For a discussion of these transactions, see Note 28 (d) and (i) of Notes to the audited consolidated financial statements of Olivetti included 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. See also "Item 8 – Financial Information – Pro Forma Liquidity and Capital Resources" of the Telecom Italia Annual Report incorporated by reference herein.

At June 30, 2003, historical and pro forma long and short-term debt of New Telecom Italia under Italian GAAP included €5,274 million (€3,800 million under long-term debt and €1,474 million under short-term debt) which was borrowed, under the term loan, to finance the tender offers as well as €11 million of short-term debt incurred to finance the withdrawal rights. Part of such indebtedness, amounting to €1,485 million, was repaid in in August 2003, while of the remaining €3,800 million, with an original maturity within June 2005, €2,000 million was repaid in October 2003, and the remaining €1,800 million is expected to be repaid with the proceeds of this offering.

As a result of the inclusion in the historical balance sheet as of June 30, 2003, under Italian GAAP, of the financial debt incurred to finance the withdrawal rights and the tender offers, New Telecom Italia's outstanding long-term debt on an historical consolidated basis at that date was €37,668 million while on a pro forma basis, giving effect to the disposal of New SEAT, was €37,560 million.

Short-term debt on an historical consolidated basis at June 30, 2003 was €7,347 million, including current portion of long-term debt but excluding €1,485 million of the term loan used to finance the withdrawal rights and the tender offers in connection with the Merger which was repaid in early August. As of June 30, 2003, the New Telecom Italia short-term debt on a pro forma consolidated basis was lower by €1,314 million than that on an historical consolidated basis, as a result of the following: (i) the utilization of €2,932 million, which was part of the proceeds arising from the disposal of New SEAT (€3,033 million), for repayment of short-term debt, (ii) the assumption by the acquiror of New SEAT of outstanding short-term debt of approximately €637 million and (iii) the increase of short-term debt of €2,255 million to provide funds to satisfy obligations to J.P. Morgan Chase arising from the early exercise of the put/call option on SEAT shares.

Financial expenses, net on an historical basis amounted to €3,078 million and €1,273 million, respectively, in 2002 and in the first half of 2003, while on a pro forma basis they amounted to €3,098 million and €1,136 million, respectively, in 2002 and in the first half of 2003.

As of June 30, 2003, the amount of unutilized short-term bank facilities (committed and uncommitted) on a pro forma basis was €8,183 million. Approximately 98% of these facilities were denominated in euro and had varying interest rates.

In addition, at June 30, 2003, the New Telecom Italia Group had pro forma cash and cash equivalent in excess of €6,077 million (€6,026 million on an historical basis), excluding the repayment of €1,485 million of the term loan used to finance the withdrawals rights and the tender offers in connection with the Merger included in short-term debt.

The following table aggregates New Telecom Italia Group's Italian GAAP pro forma contractual obligations and commitments as of June 30, 2003 with expected repayment terms in the future. The pro forma amounts payable as of June 30, 2003 are reported below.

	With maturity by						
	June 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007	June 30, 2008	After June 30, 2008	Total
	(millions of Euro)						
Historical long-term debt (including current portion)	4,377	7,252	7,463	3,462	1,344	14,347	38,245
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	(*) 1,485	(**) 3,800	—	—	—	—	5,285
Total historical long-term debt	5,862	11,052	7,463	3,462	1,344	14,347	43,530
Pro forma disposal of New SEAT	—	(108)	—	—	—	—	(108)
Pro forma long-term debt (including current portion)	5,862	10,944	7,463	3,462	1,344	14,347	43,422
Rental obligations to IM.SER 60, TIGLIO I and TIGLIO II	229	229	229	229	229	2,958	4,103
Operating lease	8	8	8	8	8	10	50
Total	6,099	11,181	7,700	3,699	1,581	17,315	47,575

(*) Repaid in early August 2003 through cash and cash equivalents.

(**) Of which €2,000 million was repaid in October 2003 and €1,800 million is expected to be repaid with the proceeds of the offering.

The table above does not include pro forma short-term financial debt of €1,656 million (excluding current portion of long-term debt) outstanding at June 30, 2003 and does not give effect to the use of proceeds of the notes as described under "Use of Proceeds".

As of June 30, 2003, on an Italian GAAP pro forma basis, approximately 96% 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 June 30, 2003, approximately 39% of the long-term debt is carried at a floating rate.

Pro forma Italian GAAP long-term debt of €5,862 million, €23,213 million and €14,347 million is scheduled to become due by June 30, 2004, in the period between June 30, 2004 and June 30, 2008 and beyond June 30, 2008, respectively.

As of June 30, 2003, long-term debt included medium term notes issued by Olivetti and its subsidiaries for a total amount of €16,460 million. For each note issued, the original rate and any credit protection step-ups are described below.

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 €64 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? % coupon + 0.45% step-up maturing in July 2004;

Olivetti Finance N.V. - €200 million

- Note (2002-2005) with a floating rate annual 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. - €1,750 million

- Note (2003-2008) with a fixed annual 5.875% coupon maturing in January 2008;

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

- Note (1999-2009) with a fixed annual 6? % 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. - yen 20 billion equivalent to €146 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);

Olivetti Finance N.V. - €250 million

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

Olivetti Finance N.V. - €850 million

- Note (2003-2013) with a fixed annual 6.875% coupon maturing in January 2013; and

Olivetti Finance N.V. - €800 million

- Note (2003-2033) with a fixed annual 7.75% coupon maturing in January 2033.

All the above Olivetti Finance N.V. notes were issued under the Euro Medium Term Note 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.

As of June 30, 2003, long-term debt also includes convertible bonds issued by Olivetti and its subsidiaries for a total amount of €5,430 million, detailed as follows:

- Olivetti Finance N.V.: 2000-2005 bond for €765 million exchangeable for New 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 New Telecom Italia 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 €1,331million. The yield on maturity is 3.25% per annum;

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

- Olivetti S.p.A.: 2001-2010 bond for €2,404 million convertible into New Telecom Italia 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 €2,846million. The yield on maturity is 3.5% per annum.

In addition, as of June 30, 2003, long-term debt included notes issued by Old 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, Old Telecom Italia established a US$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 US$12 billion. Since January, 2001, the Old 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 €536million, becoming €1,964 million, due to the buy-back of the notes by Sogerim, a wholly owned finance subsidiary that was merged in 2002 into Telecom Italia Finance; the notes were subsequently cancelled);
- €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**"), €5,274 million of which was used to fund the cash consideration payable upon completion of the tender offers for a portion of Old Telecom Italia ordinary shares and Old Telecom Italia saving shares, and
- a €6.5 billion senior revolving credit facility (the "**Revolving Credit Facility**") which was 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 Old Telecom Italia's existing €7.5 billion facility) and for general corporate purposes.

The drawn cost under the Facilities is subject to a ratings grid; the repayment and cancellation of the 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). J.P. Morgan plc and J.P. Morgan Europe Limited are affiliates of JPMorgan Securities Inc., one of the Initial Purchasers. In addition affiliates of Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse First Boston (Europe) Limited, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated are participants in the syndicate for the term loan and are Initial Purchasers.

Pursuant to the Term Loan Facility, €5,274 million was drawn to finance the tender offers made by Olivetti for a portion of the Old Telecom Italia ordinary and savings shares.

The Term Loan Facility is divided into three tranches but borrowings were made only under tranches B and C. Under the terms and conditions of the Term Loan Facility the borrower could only use funds for the purposes described above.

Advances under the Term Loan Facility 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.

The margin varied depending on which tranche the borrower utilizes. The agreement includes customary representations and warranties.

Revolving Credit Facility

On August 7, 2003 New Telecom Italia entered into a €6.5 billion multicurrency Revolving Credit 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).

The Revolving Credit Facility is divided into two tranches aggregating €6.5 billion. Under the terms and conditions of the Revolving Credit Facility New Telecom Italia 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 its then existing €7.5 billion facility) and for general corporate purposes of the New Telecom Italia Group.

Advances made under the Revolving Credit Facility bear interest at EURIBOR or LIBOR, as applicable, plus a margin that depends 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.

As of June 30, 2003, 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 180.4% on a pro forma basis compared with 186.1% on a historical basis.

Credit ratings

On August 12, 2003, New Telecom Italia's long-term rating was lowered by Moody's from Baa1 to Baa2 with a stable outlook. In March 2003 Standard & Poor's long-term rating for New Telecom Italia was confirmed at BBB+, with a stable outlook and Fitch Ibca assessed the long-term rating for New Telecom Italia at A- with stable outlook. The current ratings by Moody's, Standard & Poor's and Fitch Ibca are investment grade. A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal of any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

SELECTED FINANCIAL INFORMATION

The Merger of Old Telecom Italia with and into Olivetti became effective on August 4, 2003. Olivetti was the surviving company in the Merger (and changed its name to Telecom Italia S.p.A.), and succeeded to the business of Old Telecom Italia.

As a result of the Merger, the selected financial data set forth below are financial data of Olivetti, not Old Telecom Italia, and are presented on the following basis:

- New Telecom Italia's selected financial data for the six months ended June 30, 2003 and as of June 30, 2003 have been extracted or derived from the unaudited consolidated financial statements of New Telecom Italia for the six-month period ended June 30, 2003 and as of June 30, 2003 and have been prepared (after consultation with CONSOB) as if the Merger had been effective as of January 1, 2003 and give effect to the withdrawal rights exercised by Olivetti shareholders in connection with the Merger and the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offers which were completed in connection with the Merger. The six-month period ended June 30, 2002 has not been adjusted but provides a reasonable comparison as Olivetti fully consolidated Old Telecom Italia.

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

- 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.

You should read the financial information reported below in conjunction with the unaudited pro forma condensed consolidated financial information included in the offering memorandum (see "Unaudited Pro Forma Condensed Consolidated Financial Data") and Olivetti's audited consolidated financial statements and notes thereto and "Operating and Financial Review and Prospects" appearing herein. You should also review the audited consolidated financial statements and notes thereto of Old Telecom Italia and "Item 5. Operating and Financial Review and Prospects" included in the Telecom Italia Annual Report incorporated by reference herein. The consolidated operating revenues of Old Telecom Italia represented 96.0%, 95.8%, 96.3% and 96.8% of Olivetti's consolidated operating revenues in 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively.

Telecom Italia — Selected Financial Data

	Year ended December 31,				Six months ended June 30,	
	2000(1)	2000 pro forma (1) (2)	2001	2002	2002	2003
					(Unaudited)	(Unaudited)
	(in millions of Euro)					
Statement of Operations Data in accordance with Italian GAAP:						
Operating revenues	30,116	28,374	32,016	31,408	15,543	15,149
Other income	483	459	476	504	274	170
Total revenues	30,599	28,833	32,492	31,912	15,817	15,319
Cost of materials	3,058	2,931	2,640	2,315	1,097	956
Salaries and social security contributions	5,245	4,965	4,919	4,737	2,449	2,229
Depreciation and amortization (3)	6,946	6,509	7,612	7,227	3,561	3,357
Other external charges	11,136	10,476	12,687	12,188	5,979	5,882
Changes in inventories	(318)	(296)	92	62	(9)	(56)
Capitalized internal construction costs	(912)	(831)	(583)	(675)	(247)	(330)
Total operating expenses (3)	25,155	23,754	27,367	25,854	12,830	12,038
Operating income (3)	5,444	5,079	5,125	6,058	2,987	3,281
Financial income	1,202	1,162	1,446	1,569	675	453
Financial expense (3)	(3,857)	(3,648)	(6,559)	(4,647)	(2,465)	(1,726)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(1,025)*	*(1,011)*	*(1,618)*	*(467)*	*(316)*	*(113)*
Other income and (expense), net	135	165	(3,109)	(5,496)	238	(704)
Income (loss) before income taxes and minority interests	2,924	2,758	(3,097)	(2,516)	1,435	1,304
Income taxes	(1,923)	(1,813)	(579)	2,210	(846)	288
Net income (loss) before minority interests	1,001	945	(3,676)	(306)	589	1,592
Minority interest	(1,941)	(1,885)	586	(467)	(1,100)	(536)
Net income (loss)	(940)	(940)	(3,090)	(773)	(511)	1,056
Statement of Operations Data in accordance with U.S. GAAP:						
Total revenues			32,274	31,864		
Operating income			469	4,285		
Income (loss) before income taxes and minority interests			(6,056)	(100)		
Net income (loss)			(4,006)	1,956		

	As of December 31,				As of June 30,
	2000(1)	2000 pro forma (1) (2)	2001	2002	2003
					(Unaudited)
	(in millions of Euro, except percentages and statistical data)				
Balance Sheet Data in accordance with Italian GAAP:					
Total current assets (3)	21,097	20,359	23,417	22,597	26,205
Fixed assets, net	23,776	21,072	22,097	19,449	18,737
Intangible assets, net (3)	39,528	39,062	39,045	34,412	38,177
Total assets	95,360	91,832	94,227	83,384	89,101
Short-term debt	16,927	16,536	9,072	6,827	7,347
Total current liabilities	30,179	29,207	22,984	20,385	21,057
Long-term debt	27,485	25,950	37,747	33,804	33,868
Total liabilities	63,994	61,304	67,874	62,760	63,700
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger					5,285
Total stockholders' equity before minority interest	13,856	13,856	12,729	11,640	16,018
Total stockholders' equity	31,366	30,528	26,353	20,624	20,116
Balance Sheet Data in accordance with U.S. GAAP:					
Total current assets			22,786	21,599	
Fixed assets, net			24,331	21,503	
Intangible assets, net			45,880	41,170	
Total assets			103,588	92,911	
Total current liabilities			22,725	18,599	
Long-term debt			43,117	38,375	
Total liabilities			76,436	68,314	
Stockholders' equity (4)			13,612	15,224	
Financial Ratios in accordance with Italian GAAP:					
Gross operating margin (Gross operating profit/operating revenues)(%) (5)	43.6	43.1	42.8	44.6	45.7
Operating income/operating revenues (ROS) (%)	18.0	17.9	16.8	19.3	21.7
Net debt/Net invested capital (debt ratio) (%) (6)	54.5	53.9	59.3	61.8	65.1
Ratio of Earnings to fixed charges (7)	2.5	2.6	0.7	0.3	1.8
Financial Ratios in accordance with U.S. GAAP:					
Ratio of Earnings to fixed charges (7)			0.1	1.0	
Statistical Data:					
Subscriber fixed lines (thousands) (8)	27,153	27,153	27,353	27,142	27,079
ISDN equivalent lines (thousands) (9)	4,584	4,584	5,403	5,756	6,000
TIM lines in Italy (thousands) (10)	21,601	21,601	23,946	25,302	25,610
Page views Virgilio (millions)	2,218	2,218	3,945	5,267	3,605
Active Users (at period-end, thousands)	1,656	1,656	1,804	2,226	2,360
Group's employees (at period-end)	120,973	113,475	116,020	106,620	102,541
Group's employees (average number)	131,266	123,994	113,974	107,079	99,091
Operating revenues/Group's employees (average number) (thousands)	216.2	242.9	280.9	293.3	152.9

(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. Under U.S. GAAP, the Nortel Inversora group is accounted for using the equity method.

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

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

(4) Stockholders' equity under U.S. GAAP is calculated after elimination of minority interest. See Note 26 of the Notes to Olivetti's audited consolidated financial statements included herein.

(5) Gross Operating Profit was €13,117 million, €12,216 million, €13,704 million, €14,015 million in each of 2000 (historical), 2000 (pro forma), 2001 and 2002, respectively and €6,847 million and €6,921 million in each of the six months ended June 30, 2002 and 2003, 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,				Six months ended June 30,	
	2000	2000 pro forma (1) (2)	2001	2002	2002	2003
	(millions of Euro)					
Operating income	5,444	5,079	5,125	6,058	2,987	3,281
Depreciation and amortization	6,946	6,509	7,612	7,227	3,561	3,357
Other external charges:						
• Provision for bad debts	495	412	448	546	233	200
• Write-downs of fixed assets and intangibles	48	48	17	58	2	2
• Provision for risk	154	143	389	114	85	61
• Other provisions and operating charges	417	388	431	466	237	171
Other income (excluding operating grants, reimbursements for personnel costs and costs of external services rendered)	(387)	(363)	(318)	(454)	(258)	(151)
Gross Operating Profit	**13,117**	**12,216**	**13,704**	**14,015**	**6,847**	**6,921**

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

	As of December 31,				As of June 30,
	2000	2000 pro forma (1) (2)	2001	2002	2003
	(millions of Euro)				
Short-term debt, including current portion of long-term debt	16,927	16,536	9,072	6,827	7,347
Long-term debt	27,485	25,950	37,747	33,804	33,868
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	—	—	—	—	5,285
Cash and cash equivalents:					
• Bank and postal accounts	(2,763)	(2,745)	(3,626)	(4,363)	(5,940)
• Cash and valuables on hand	(8)	(7)	(76)	(7)	(17)
• Receivables for sales of securities	(1)	(1)	(4)	(56)	(69)
Marketable debt securities	(2,909)	(2,759)	(3,616)	(1,927)	(2,296)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(1,210)	(1,210)	(894)	(994)	(738)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(328)	(328)	(705)	(512)	(404)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	331	292	464	627	408
Net Financial Debt	**37,524**	**35,728**	**38,362**	**33,399**	**37,444**

(7) For purposes of calculating the ratio of "earnings to fixed charges":

– "earnings" is calculated by adding:

- pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries;
- "fixed charges" (as defined below);
- amortization of capitalized interest and issue debt discounts or premiums;

- dividends from equity investees; and
- equity in losses of equity investees;

and then subtracting:

- capitalized interest for the applicable period; and
- equity in earnings of equity investees.

– "fixed charges" is calculated by adding:

- interest costs (both expensed and capitalized);
- issue costs and any original issue debt discounts or premiums; and
- an estimate of the interest within rental expense for operating leases.

The term "equity investees" means investments that Telecom Italia accounts for using the equity method of accounting.

(8) Data include multiple lines for ISDN and exclude internal lines.
(9) Data exclude internal lines.
(10) Data refer to TACS and GSM services lines, including holders of Prepaid Cards.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Telecom Italia Group Results for the Six Months Ended June 30, 2003 compared to June 30, 2002

First half of 2003 results take into account the effects of the Merger of Old Telecom Italia with and into its parent Olivetti (whose name was changed to Telecom Italia), which became effective on August 4, 2003. The Merger is given accounting and fiscal effect from January 1, 2003 for purposes of Italian GAAP. The six month results ended June 30, 2003 also reflect the financial impacts of the following transactions connected with the Merger:

- the withdrawal rights exercised by Olivetti shareholders, and
- the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offers.

The six-month period ended June 30, 2002 has not been adjusted but provides a reasonable comparison as Olivetti fully consolidated Old Telecom Italia.

In order to give the reader a better understanding of the impact of the Merger and the related transactions (withdrawal rights and tender offer) on the Telecom Italia Group consolidated financial statements as of and for the six months ended June 30, 2003, the tables below report on a stand alone basis the main statement of operations and balance sheet items under Italian GAAP of the two merged companies as well as the effects on these items due to the Merger and the related transactions:

Summary statement of operations in accordance with Italian GAAP

	Old Telecom Italia Group before the Merger Six months ended June 30,		Olivetti Group before the Merger Six months ended June 30,		Merger, Withdrawal Rights and Tender Offer effects	Telecom Italia Group after the Merger Six months ended June 30,	
	2003	2002	2003	2002		2003	2002
			(a)		(b)	(a+b)	
Operating revenues	14,817	14,989	**15,149**	15,543		**15,149**	15,543
Operating income	3,950	3,662	**3,282**	2,987	**(1)**(1)	**3,281**	2,987
Net income (loss) before income taxes and minority interest	2,510	2,477	**1,462**	1,435	**(158)**(2)	**1,304**	1,435
Income taxes	(1,056)	(1,085)	**(1,051)**	(846)	**1,339** (3)	**288**	(846)
Minority interest	532	622	**1,117**	1,100	**(581)**(4)	**536**	1,100
Net income (loss)	922	770	**(706)**	(511)	**1,762**	**1,056**	(511)

(1) This adjustment reflects the balance of €114 million relating to the amortization of the additional goodwill in Old Telecom Italia arising from the tender offer (such goodwill is amortized over 20 years) and the consequent revision of the residual useful life of the original Old Telecom Italia goodwill (from 16.5 to 20years) which gave rise to a positive adjustment (lower amortization charge) of €113 million.

(2) The decrease of Net income (loss) before income taxes and minority interest is the result of the abovementioned increase in amortization of Old Telecom Italia goodwill (€1 million), the increase in financial expense due to the bank fees on the line of credit obtained for the payment of withdrawals by Olivetti shareholders and acceptances of the tender offer by Telecom Italia shareholders (€47 million) as well as the costs connected with the Merger (included in Other income and expense, net) for, among others things, advisory services, legal opinions, valuations and bank charges (€110 million).

(3) The improvement in income taxes is mainly due to the additional deferred tax assets of €1,286 million that became recoverable as a result of the Merger. Such deferred tax assets arise from the write-down of the Old Telecom Italia investment made in 2002 by Olivetti only for fiscal purposes.

(4) The lower level of net income attributable to minority interests is principally related to the effect arising from the acquisition by Olivetti of third-party stakes in Old Telecom Italia, as a result of the Merger and the tender offers.

Balance sheet items in accordance with Italian GAAP

	Old Telecom Italia Group before the Merger		Olivetti Group before the Merger		Merger, Withdrawal Rights and Tender Offer effects	Telecom Italia Group after the Merger	
	As of June 30, 2003	As of December 31, 2002	As of June 30, 2003	As of December 31, 2002		As of June 30, 2003	As of December 31, 2002
			(a)		(b)	(a+b)	
Total assets	50,997	52,786	**83,546**	83,384	**5,555** (1)	**89,101**	83,384
Total liabilities	38,221	39,959	**63,543**	62,760	**157** (2)	**63,700**	62,760
Financial debt incurred to finance the withdrawal rights and the tender offers	—	—	**—**	—	**5,285** (3)	**5,285**	—
Total stockholders' equity before minority interest	8,624	9,049	**10,922**	11,640	**5,096** (4)	**16,018**	11,640
Minority interest	4,152	3,778	**9,081**	8,984	**(4,983)**(4)	**4,098**	8,984
Total stockholders' equity	12,776	12,827	**20,003**	20,624	**113**	**20,116**	20,624
Total liabilities and stockholders' equity	50,997	52,786	**83,546**	83,384	**5,555**	**89,101**	83,384

(1) The increase of total assets is principally due to:

- additional Old Telecom Italia goodwill (€4,551 million) arising from the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offers;
- additional deferred tax assets (€1,286 million) that became recoverable as a result of the Merger.

(2) The increase in total liabilities is due to the debts incurred for the Merger and the related transactions (withdrawals rights and tender offers; please see note (ii) to the statement of operations data for further details).

(3) The increase in financial debt of €5,285 million relates to the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offers representing €5,274 million and an additional €11 million for the payment of withdrawals rights exercised by Olivetti shareholders.

(4) The decrease in minority interest mainly reflects the effects arising from the acquisition by Olivetti of third-party stakes in Old Telecom Italia, as a result of the Merger and the tender offers, with the reclassification of the corresponding amount of net equity acquired from Minority interest to Total stockholders' equity before minority interest.

The information reported in this section should be read in conjunction with Olivetti's audited consolidated financial statements and notes thereto and the unaudited pro forma condensed consolidated financial information (see "Unaudited Pro Forma Condensed Consolidated Financial Data") included in this offering memorandum.

The summary historical consolidated financial data for the Telecom Italia Group as of, and for the six months ended, June 30, 2003, have been derived from the unaudited interim consolidated financial statements which, in our opinion, reflect all adjustments (consisting, except for those described above, only of normal recurring adjustments) necessary for a fair presentation of our results of operations for the unaudited interim periods. Results for the six months ended June 30, 2003 are not necessarily indicative of results that may be expected for the entire year. The unaudited interim consolidated financial statements have been prepared in accordance with Italian GAAP, which differ in certain material respects from U.S. GAAP. For a discussion of the principal differences between Italian GAAP and U.S. GAAP as they relate to Olivetti, see Note 26 to the Olivetti audited consolidated financial statements included elsewhere in this offering memorandum.

	Six months ended June 30, 2002	2003
	(Unaudited) (millions of Euro)	
Statement of Operations Data in accordance with Italian GAAP:		
Operating revenues	15,543	15,149
Other income	274	170
Total revenues	15,817	15,319
Cost of materials	1,097	956
Salaries and social security contributions	2,449	2,229
Depreciation and amortization	3,561	3,357
Other external charges	5,979	5,882
Changes in inventories	(9)	(56)
Capitalized internal construction costs	(247)	(330)
Total operating expenses	12,830	12,038
Operating income	2,987	3,281
Financial income	675	453
Financial expense	(2,465)	(1,726)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(316)*	*(113)*
Other income and expense, net	238	(704)
Income before income taxes and minority interests	1,435	1,304
Income taxes	(846)	288
Net income before minority interests	589	1,592
Minority interest	(1,100)	(536)
Net income	(511)	1,056

	As of December 31, 2002	As of June 30, 2003
		(Unaudited)
	(millions of Euro)	
Balance Sheet Data in accordance with Italian GAAP:		
Total current assets	22,552	26,205
Fixed assets, net	19,449	18,737
Intangible assets, net	34,561	38,177
Total assets	83,384	89,101
Short-term debt	6,827	7,347
Total current liabilities	20,385	21,057
Long-term debt	33,804	33,868
Total liabilities	62,760	63,700
Financial debt incurred to finance the withdrawal rights and the tender offers in connection with the Merger	—	5,285
Total shareholders' equity before minority interest	11,640	16,018
Total stockholders' equity	20,624	20,116

The following table sets forth operating revenues, Gross Operating Profit and operating income by Business Unit.

	Operating Revenues		Gross Operating Profit		Operating Income	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003	2002	2003
	(Unaudited) (millions of Euro)					
Wireline (1) (2)	8,406	8,552	3,901	3,982	2,396	2,441
Mobile	5,185	5,534	2,488	2,624	1,684	1,826
South America (3)	731	564	246	190	85	61
Internet and Media	871	863	209	246	19	80
IT Market (2)	572	358	59	30	42	9
IT Group (2)	408	465	46	24	(7)	(41)
Olivetti-Tecnost	486	332	42	17	9	(3)
Other activities and elimination (2) (4)	(1,116)	(1,519)	(144)	(192)	(1,241)	(1,092)
Total	15,543	15,149	6,847	6,921	2,987	3,281

(1) As of June 16, 2003, Domestic Wireline took the name Wireline.

(2) Since January 1, 2003, the groups NETikos, Webegg and TILab, as well as the companies Loquendo and Eustema are no longer part of the IT Group Operating Activity. As a result of this reorganization, the groups NETikos and Webegg and the company Eustema were transferred to the IT Market Business Unit, the company Loquendo has been moved to the Wireline Business Unit and TILab group is included in Other Activities. The data relating to the first half ended June 30, 2002 have been reclassified and presented consistent with the first half ended June 30, 2003 presentation.

(3) 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.

(4) The data presented include the operations of the International Affairs Corporate Function, TILab, the former Business Unit Satellite Services (the Telespazio group) which was disposed of during the fourth quarter of 2002 and consolidated in the statement of operations only for the first nine months of 2002, the group 9Telecom, which was disposed of during the third quarter of 2002 and consolidated in the statement of operations only for the first six months of 2002, as well as financial companies, centralized Group services and Corporate staff functions.

Telecom Italia Group Consolidated Results

For the six months ended June 30, 2003, the consolidated net income after minority interests was €1,056 million (€1,592 million before minority interests) compared to a loss of €511 million (net income €589 million before minority interests) for the six months ended June 30, 2002. The consolidated net loss after minority interests in the first half of 2002 would have been reduced to a loss of €32 million if the parent company's share of the minority's share of the results taken on through the Merger of €479 million had been applied in 2002.

The significant increase in consolidated net income after minority interests (€1,567 million) was due to:

- the increase in operating income (€294 million),
- the improvements in financial income and expense, net (€517 million), and income taxes (€1,134million) mainly due to the deferred tax assets of €1,286 million that became recoverable as a result of the Merger, and
- the lower level of net income attributable to minority interests (€564 million), the la rgest part of which was related to the effect arising from the acquisition by Olivetti of third-party stakes in Old Telecom Italia, as a result of the Merger.

These improvements were partially offset by the decline in other income and expense, net (€942 million) principally due to the first half of 2002 benefiting from gains on the sale of equity investments in contrast with the provisions made to cover costs relating to the disposal of New SEAT as well as costs connected to the Merger made during the first half of 2003.

The Telecom Italia Group's consolidated operating revenues for the six months ended June 30, 2003 were €15,149 million, a decrease of €394 million or 2.5% compared to the same period in 2002. Excluding the negative impact of exchange rate fluctuations primarily due to the weakness of certain South American currencies against the Euro (€627 million) and changes to the consolidation area (€544 million), organic growth reached 5.4% (an increase of €777 million). In particular, 9Telecom group and Sogei S.p.A. (consolidated for the first six months of 2002) as well as the Telespazio group (consolidated until September 30, 2002) left the scope of consolidation. Organic growth of operating revenues (revenues based on constant currency and excluding the effects of consolidation changes) reflected:

- the significant increase in the revenues of the Mobile Business Unit as a consequence of the positive performance of voice traffic and the development of value-added services (VAS);
- the increase in the revenues of the Wireline Business Unit primarily due to the growth in income from basic subscription charges and from sales. These increases more than compensated for the slight decline in overall traffic which decreased in the retail segment and increased in the wholesale area; and
- the decline in revenues of the Olivetti-Tecnost Business Unit.

As of June 30, 2003, Telecom Italia had 27.1 million domestic subscriber fixed lines, including ISDN equivalent lines (substantially in line with domestic subscriber fixed lines as of December 31, 2002) and TIM in Italy had 25.6 million domestic mobile lines (compared to 25.3 million as of December 31, 2002).

Telecom Italia's consolidated Gross Operating Profit as calculated below ("Gross Operating Profit") was €6,921 million in the six months period ended June 30, 2003 compared to €6,847 million for the six months ended June 30, 2002. Excluding the negative effects of exchange rate fluctuations due to the factors described above (€123 million) and changes to the consolidation area (€33 million), organic growth was 3.4% (an increase of €230 million).

The following table reconciles operating income to the calculation of Gross Operating Profit by showing the Statement of Operations items included in calculating Gross Operating Profit:

	Six months ended June 30,	
	2002	**2003**
	(Unaudited) (millions of Euro)	
Operating income	2,987	3,281
Depreciation and amortization	3,561	3,357
Other external charges:		
• Provision for bad debts	233	200
• Write-downs of fixed assets and intangibles	2	2
• Provision for risk	85	61
• Other provisions and operating charges	237	171
Other income (excluding operating grants, reimbursements for personal costs and costs of external services rendered)	(258)	(151)
Gross Operating Profit	**6,847**	**6,921**

Telecom Italia believes that Gross Operating Profit (as calculated above) 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.

Gross operating margin (Gross Operating Profit as a percentage of operating revenues) was 45.7% for the six months ended June 30, 2003, compared to 44.1% for the six months ended June 30, 2002.

Telecom Italia's consolidated operating income (total revenues less total operating expenses, including depreciation and amortization and other charges) amounted to €3,281 million for the six months ended June 30, 2003 compared to €2,987 million for the six months ended June 30, 2002 an increase of 9.8%. Excluding the negative effects of exchange rate fluctuations and changes to the consolidation area, organic growth was 8.4%. The increase in operating income was due to the improvement of Gross Operating Profit as well as the decrease in depreciation and amortization. The decrease in depreciation and amortization was due to the reduction in:

- the amortization of goodwill (a decrease of €96 million, from €1,078 million in the six months ended June 30, 2002 to €982 million for the six months ended June 30, 2003) principally as a result of the write-down of the Seat Pagine Gialle goodwill recorded in 2002 (resulting in a reduction of €86 million in amortization compared to the prior year), as well as the revision of the residual useful life of the Old Telecom Italia goodwill (from 16.5 years to 20 years) which gave rise to a positive adjustment (lower amortization charge) of €113 million; such effects were partially offset by the higher amortization of goodwill (€114 million) arising from the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in the tender offer connected to the Merger; and

- the depreciation and amortization of fixed and other intangible assets, a decrease of €108 million (from €2,483 million in the six months ended June 30, 2002 to €2,375 million for the six months ended June 30, 2003), of which approximately €40 million was due to a refinement for certain intangible assets in the methodology of calculating the related amortization in the first year of their useful life.

As a percentage of operating revenues, operating income increased from 19.2% in the first half of 2002 to 21.7% in the first half of 2003.

Financial income and financial expense, net, showed an improvement of €517 million, from a negative balance of €1,790 million in the first half of 2002 to a negative balance of €1,273 million in the first half of 2003, mainly as a result of the following:

- a decrease in interest expense due to lower average borrowings outstanding during the first half of 2003 as well as the improvement of the exchange rate which positively impacted some Latin American companies, partially offset by the provision related to the early exercise of the SEAT put/call options with JP Morgan (€143 million) and the bank commissions on the line of credit obtained for the payment of withdrawals by Olivetti shareholders and acceptances of the tender offer by Telecom Italia shareholders (€47 million); and

- the improvement in net write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies (from €316 million in the first six months of 2002 to €113 million in the first half of 2003).

Other income and expense, net was a loss of €704 million in the first half of 2003 compared to income of €238 million in the first half of 2002, a decrease of €942 million. Such decrease was due principally to the first half of 2002 benefiting from gains on the sale of equity investments of €860 million, mainly as a result of the disposals of Bouygues Decaux Telecom, Lottomatica and Mobilkom Austria. Furthermore, other income and expense, net in the first half of 2003 included €110 million of costs connected to the Merger for, among other things, advisory services, legal opinions, valuations and bank charges etc., €252 million of costs and provisions concerning the Seat Pagine Gialle spin-off and the subsequent sale of New SEAT as well as €55 million relating to the provision for the Pagine Italia transaction as a consequence of the withdrawal from the acquisition of the Pagine Utili business segment.

The Telecom Italia Group's net financial debt (see the definition of net financial debt below) of €37,444 million represented an increase from December 31, 2002 of €4,045 million, mainly as a result of:

- the anticipated financial impacts of the withdrawal rights exercised by Olivetti shareholders in connection with the Merger and the purchase by Olivetti of Old Telecom Italia ordinary and savings shares in a tender offer (€5,285 million);

- dividend payments (€1,049 million); and

- capital expenditures (€1,723 million) and financial investments (€468 million, including goodwill other than that arising from the tender offers connected to the Merger).

Such outflows were only partially offset by the cash flow from operating activities and the proceeds arising from the disposal of non-strategic equity investments (mainly represented by the instalments relating to the disposal of Telekom Srbija totalling €120 million).

Net financial debt was determined as follows:

	As of December 31, 2002	As of June 30, 2003
		(Unaudited)
	(millions of Euro)	
Short-term debt, including current portion of long-term debt	6,827	7,347
Long-term debt	33,804	33,868
Financial debt due to the withdrawal rights and the tender offer in connection with the Merger	—	5,285
Cash and cash equivalents:		
• Bank and postal accounts	(4,363)	(5,940)
• Cash and valuables on hand	(7)	(17)
• Receivables for sales of securities	(56)	(69)
Marketable debt securities	(1,927)	(2,296)
Financial accounts receivable (included under "Receivables" and "Other Current Assets")	(994)	(738)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (long-term)	(512)	(404)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net (short-term)	627	408
Net Financial Debt	**33,399**	**37,444**

The portion of gross financial debt due beyond 12 months (excluding the debt due to the tender offers in connection with the Merger and the positive adjustment relating to the financial prepaid expense/deferred income, net and accrued financial income/expense, net) decreased from 83% at December 31, 2002 to 82% at June 30, 2003. In January 2003, a multi-tranche benchmark bond was issued, under Olivetti's "Euro Medium Term Note" program, by Olivetti Finance N.V. in the principal amount of €3,400 million. The bond was divided into three tranches with maturities of five years (€1,750 million), 10 years (€850 million) and 30 years (€800 million).

The securitization program, begun in June 2001 by Old Telecom Italia, also continued for trade accounts receivable generated by the services rendered to residential customers. The securitization and factoring transactions led to an improvement in consolidated net financial debt as of June 30, 2003 of €896 million (€1,046 million as of December 31, 2002).

Taking into account the sale of the 61.5% share capital of New SEAT resulting after the SEAT spin-off transaction (including the shares which resulted from the early exercise of the J.P. Morgan Chase put/call options), and the sale of a number of real estate assets to Lastra (for which the completion date occurred after June 30, 2003), net financial debt was reduced from €35,816 million to €35,644 million as of December 31, 2002, taking into account short-term borrowings incurred to satisfy obligations under the J.P. Morgan Chase put/call options.

By the end of 2004, the Telecom Italia Group expects to reduce its net financial debt by a further €5 billion to approximately €30.6 billion. Telecom Italia expects to achieve this through cash flow generation and the possible sale of some additional non-core assets. See " Risk Factors—Risk Factors Relating to the Merger".

As of June 30, 2003, the Telecom Italia Group had 102,541 employees, a decrease of 4,079 units compared to December 31, 2002. The fall is primarily due to the changes to the area of consolidation (a decrease of 3,081 units), in connection with the disposal of a Mexican company (a reduction of 1,266 units), the sale of Tess, an Old Telecom Italia wholly-owned subsidiary operating in the information systems for payroll services (a reduction of 404 units), the spin-off of the facility business segment of Olivetti Multiservices (a reduction of 208 units), the sale of the Logistic business segment of Wireline (a decrease of 337 units) and the sale by IT Telecom of the Desktop Management Services business (a decrease of 582 units).

Business Units

The following discussion relates to the Telecom Italia Group's principal Business Units as they were organized in the first half of 2003. In particular, in early 2003, the Telecom Italia Group further reorganized certain of its Business Units. Starting from January 1, 2003, the groups NETikos, Webegg and TILab, as well as the companies Loquendo and Eustema are no longer part of the Information Technology Group Operating Activity. As a result of this reorganization:

- the groups NETikos and Webegg and the company Eustema are included in the Information Technology Market Business Unit;
- Loquendo is included in Wireline Business Unit; and

- TILab group is included in Other Activities.

Wireline

In the six months ended June 30, 2003, Wireline gross operating revenues amounted to €8,552 million, an increase of 1.7% compared to €8,406 million in the six months ended June 30, 2002. The growth was driven by the core telephony market, where flat voice line contracts exceeded 5.5 million and call traffic market share remained steady during the first half of 2003 compared to year end 2002. Broadband and innovative data service markets continued to register significant growth. Broadband accesses numbered 1,375,000 as of June 30, 2003, a growth of 525,000 accesses that doubled the rate recorded during the second half of 2002. Significant growth was posted in business customer data services. Innovative data services recorded a 46% increase compared to the first half of 2002. This more than offset the drop in traditional data services and leased lines. VAS service revenue posted growth of 37% compared to the first half of 2002.

In particular, the increase in gross operating revenues was due to an improvement in revenues from basic subscription charges (€137 million) and sales (€81 million), that more than offset the slight decrease in traffic (€57 million, of which €26 million related to wholesale traffic) and activation fees (a decrease of €35 million). Other revenues increased by €31 million.

In particular:

- The growth in revenues from basic subscription charges was mainly generated from retail customers, an increase of €75 million, and a significant increase from ADSL (an increase of €61 million compared to €27 million during the first quarter of 2003). The growth in basic subscription charges from value added services ("VAS") and data services remained stable (an increase of €5 million) whereas wholesale subscription charges declined by €5 million in 2003 compared to the first six months of 2002.

- Compared to the same period in 2002, retail traffic declined by €31 million or 1.0% but continued to generate sustained growth in revenues from VAS traffic (an increase of €144 million) and also from data and ADSL traffic (an increase of €38 million) largely offsetting the decline in revenues from voice and on-line dial-up traffic (a decline of €213 million). In particular, the reduction in revenues from voice and on-line dial-up traffic continues to be affected by a combination of different factors, including:

  - Wireline's marketing strategy of giving preference to flat rate plans, which, in terms of economic results, lowers the average yield on traffic and increases revenues from basic subscription charges; and

  - rate adjustments lowering average prices and revising access charges.

- Revenues from national and international wholesale traffic decreased by €26 million or 2.7%. Although international traffic grew by 15% including retail traffic as a result of higher volumes, these increases only partly offset the reduction in national traffic due to the reduction of interconnection charges for 2002 and 2003 and lower transit traffic to mobile networks.

Gross operating profit increased by 2.1% (from €3,901 million in the six months ended June 30, 2002 to €3,982 million in the six months ended June 30, 2003) and operating income improved by 1.9% (from €2,396 million in the first six months of 2002 to €2,441 million in the first six months ended June 30, 2003). These increases were due to the abovementioned increase in revenues as well as the effects arising from the actions taken to achieve improvement in efficiency (cost savings and careful selection of capital expenditures).

Gross operating margin increased from 46.4% in the six months ended June 30, 2002 to 46.6%, while operating income as a percentage of operating revenues remained stable at 28.5%.

As of June 30, 2003, the Wireline Business Unit had 52,582 employees, a reduction of 1,275 units compared to December 31, 2002 (of which 337 units was relating to the sale of the Logistic business segment).

Mobile (TIM group)

TIM group gross operating revenues were €5,534 million for the six months ended June 30, 2003, a 6.7% increase over gross operating revenues for the same period in 2002 (€5,185 million). This increase was primarily due to the positive performance of the domestic business and the improvements in STET Hellas (the Greek mobile operator) where revenues increased from €304 million in the first half of 2002 to €379 million in the first half of 2003. Excluding the negative effects of exchange rate fluctuations in Latin America subsidiaries where the local currencies weakened significantly against the Euro, the revenue growth in the first half of 2003 would have reached 15.3% compared to the same period in 2002.

Gross operating profit increased by 5.5% from €2,488 million for the six months ended June 30, 2002 to €2,624 million for the six months ended June 30, 2003. Such increase was due to the positive performance of the existing activities (Italy, Greece and Brazilian companies operating the TDMA technology), which more than offset the start-up costs for the launch of the GSM service in Brazil and the negative impact of exchange rate fluctuations in the Latin America area. Excluding the negative effects of exchange rate fluctuations, the growth in gross operating profit would have reached 7.8%.

The Gross Operating Margin declined slightly from 48.0% for the first six months of 2002 to 47.4% for the first six months of 2003.

TIM group operating income for the six months ended June 30, 2003 increased by 8.4% to €1,826 million compared to the first six months of 2002 (€1,684 million).

As of June 30, 2003, the TIM group had 41.3 million wireless lines, not including Telecom Italia Group wireless lines, an increase of 5.7% compared to December 31, 2002 (39.1 million). The TIM group lines include the lines of Aria—Is TIM (the Turkish mobile operator) and the lines of Radiomobil.

The Mobile Business Unit's employees numbered 18,963 as of June 30, 2003, an increase of 261 compared to December 31, 2002.

For TIM, the Mobile Business Unit's parent company, operating revenues for the six months ended June 30, 2003 were €4,499 million, an increase of 7.4% over the six months ended June 30, 2002. This growth was mainly due to the increase in traffic revenues (+5.3%, from €3,283 million in the first half of 2002 to €3,457 million) and VAS revenues, which in the first half of 2003 amounted to €471 million (an increase of 41.4% with respect to the same period of 2002). In the first half of 2003 the ratio of operating revenues from VAS to total service revenues was 10.9% compared to 8.3% in the first half of 2002.

TIM gross operating profit for the six months ended June 30, 2003 was €2,388 million, a 9.4% increase compared to the first six months of 2002, while Gross Operating Margin increased to 53.1% from 52.1% in the first half of 2002.

TIM operating income for the first six months of 2003 was €1,824 million, a 13.1% increase compared to the six months ended June 30, 2002. Such increase benefited also from lower amortization expense relating to the UMTS license as a result of the issuance of the Presidential Decree No. 211 of August 1, 2002 which changed the period of individual licenses in the TLC sector from 15 to 20 years.

South America

The following information relates to the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia.

Gross operating revenues for the first six months of 2003 decreased by 22.8% from €731 million for the first six months of 2002 to €564 million. The decrease in gross operating revenues was mainly due to exchange rate fluctuations which had a negative impact of €192 million (€164 million for Chilean Peso, €25 million for the Bolivian and €3 million for the Brasilian Real). In local currency terms, revenues of the Entel Chile group increased by 2.9% and Entel Bolivia increased by 1.3%.

Gross operating profit was €190 million in the first six months of 2003 compared with €246 million for the first six months of 2002, a decrease of 22.8%. Excluding the negative effects of exchange rate fluctuations (€63 million), organic growth was 2.8%. Gross operating margin was 33.7% in the first six months of 2003 (substantially in line with the same period of 2002).

Operating income decreased by €24 million or 28.2% from €85 million in the first half of 2002 compared to €61 million in the first half of 2003. Excluding the negative impact of the exchange rate fluctuations (€21 million), the decrease would have been 3.5%, principally due to the suspension of the contribution of the management fee under the terms of the contract with Telecom Argentina, due to Telecom Argentina's financial difficulties.

As of June 30, 2003, South America had 5,317 employees, with a decrease of 144 units compared to the end of 2002.

* * *

In order to give an overall view of Latin America Operations (LAO), the following table sets forth, for the periods indicated, certain financial and other data for all the companies operating in South America (including also those operating under the Mobile Business Unit), providing both wireline and mobile phone services.

South America	Six months ended June 30,	
	2002	**2003**
	(millions of Euro, except employees)	
Gross operating revenues	1,437	1,237
Gross Operating Profit	440	295
Operating income (Loss)	71	(19)
Number of employees at period-end (1)	11,907	12,768

(1) As of December 31, 2002 the employees numbered 12,511.

Internet and Media

The following discussion does not give effect to the spin-of of New SEAT, the creation of Telecom Italia Media and the subsequent sale by Telecom Italia of New SEAT. All of these transactions occurred after the end of the six month period ended June 30, 2003. As a result, the operating results for this Business Unit for periods after June 30, 2003 will be significantly different than that discussed here. See the tables set forth below.

For the six months ended June 30, 2003, SEAT's consolidated operating revenues were €863 million compared to €871 million for the six months ended June 30, 2002, a decrease of 0.9%. This decrease was mainly due to the divestments carried out since June 30, 2002 (Datahouse and other activities of Buffetti group). Excluding the negative effects of exchange rate fluctuations and changes to the consolidation area, organic growth reached 5.2%.

Gross Operating Profit increased by 17.7%, from €209 million in the first half of 2002 to €246 million in the first half of 2003, principally due to improvements in the areas of Internet and Television. In particular, gross operating profit of the Internet Business Area increased from €1 million in the first half of 2002 to €21 million in the first half of 2003: operating revenues were €118 million for the six months ended June 30, 2003, with an improvement of 79%, due also to the new accounting procedure applied to dialup Internet traffic revenues introduced in 2003. The television Business Area reduced gross operating loss from €24 million in the first half of 2002 to €17 million in the first half of 2003 principally due to the improvement in operating revenues (+22% compared to the first half of 2002).

For the six months ended June 30, 2003, operating income was €80 million compared to €19 million in the same period of 2002.

As of June 30, 2003, SEAT group had 7,505 employees, with a decrease of 210 units compared to the end of 2002.

On August 1, 2003, the proportional partial demerger of Seat Pagine Gialle became effective. As a result, Seat Pagine Gialle (the company whose activities were demerged) changed its name to Telecom Italia Media, while the new company to which were transferred the demerged activities (Directories, Directory Assistance and Business Information) took the name of Seat Pagine Gialle (the new Seat Pagine Gialle). See "Description of Telecom Italia—Overview—SEAT Spin-off and Sale" above for additional details.

The tables below set forth the pro forma data of the Telecom Italia Media group and the New Seat Pagine Gialle group which would have resulted if the demerger had been effective as of January 1 of each of the corresponding periods.

Telecom Italia Media group	Pro forma Six months ended June 30,	
	2002	**2003**
	(millions of Euro, except employees)	
Gross operating revenues	292	300
Gross Operating Profit (Loss)	(18)	4
Operating income (Loss)	(76)	(48)
Number of employees at period-end (1)	2,436	2,156

(1) As of December 31, 2002 the employees numbered 2,265.

New Seat Pagine Gialle group	Pro forma Six months ended June 30, 2002	2003
	(millions of Euro, except employees)	
Gross operating revenues	587	572
Gross Operating Profit	226	240
Operating income	94	126
Number of employees at period-end (1)	5,864	5,349

(1) As of December 31, 2002 the employees numbered 5,450.

On August 8, 2003, the Telecom Italia Group finalized the sale of its 61.5% stake in the New Seat Pagine Gialle group to the consortium made up of BC Partners, CVC Capital Partner, Permira and Investitori Associati. See "Description of Telecom Italia — Overview—SEAT Spin-off and Sale".

Information Technology Market

As a result of a reorganization, since January 1, 2003, the groups NETikos and Webegg and the company Eustema were transferred to the IT Market Business Unit and are no longer part of the IT Group Operating Activity. Furthermore, the companies Sogei (consolidated for the six months of 2002) and Consiel (consolidated for the first eight months of 2002) were disposed of. The data relating to the six months ended June 30, 2002 has been reclassified and presented consistent with the six months ended June 30, 2003 presentation.

Gross operating revenues were €358 million for the first half of 2003 compared to €375 million for the first half of 2002, a decrease of €17 million on a comparable consolidation basis (excluding data relating to Sogei and Consiel and including the Webegg group, the NETikos group and Eustema). Such decrease was mainly attributable to the reduction in the revenues of Finsiel (resulting from lower volumes and prices in the areas of Government and Enterprise) and Webegg group, as well as, to a lesser extent, of Banksiel and Eis. This reduction was partially offset by an increase of the activities of Eustema and Tele Sistemi Ferroviari, and the positive contribution made by Agrisian.

Gross operating profit decreased from €38 million (on a comparable consolidation basis) in the first half of 2002 to €30 million in the first half of 2003 and operating income decreased from €21 million (on a comparable consolidation basis) in the first half of 2002 to €9 million in the first half of 2003. These decreases were due to the above-mentioned price reductions with regard to the main customers and were principally attributable to Finsiel.

As of June 30, 2003, Information Technology Market had 5,457 employees, with a decrease of 49 units compared to the end of 2002.

Information Technology Group

Since January 1, 2003, the groups NETikos, Webegg and TILab, as well as the companies Loquendo and Eustema are no longer part of the IT Group Operating Activity. Starting from January 1, 2003, the IT Group Operating Activity also includes EPIClink. The data relating to the six months ended June 30, 2002 has been reclassified and presented consistent with the six months ended June 30, 2003 presentation.

Gross operating revenues were €465 million for the first half of 2003 compared to €408 million for the first half of 2002, an increase of €57 million. This increase was principally due to higher volumes of work on business systems, operational systems and institutional projects, as well as the conclusion of some projects which were still in progress at December 31, 2002, namely projects for the Wireline Business Unit of Telecom Italia on Broadband, UNICA TD and Order Manager.

The Gross Operating Profit (€24 million in the first half of 2003 compared to €46 million in the first half of 2002), and the operating loss (€41 million in the first half of 2003 compared to €7 million in the first half of 2002) reflect the fall in prices which took place in the second half of 2002. Furthermore, operating loss was impacted by the increase in depreciation as a result of higher investments in infrastructure activities, principally made in the second half of 2002.

As of June 30, 2003, Information Technology Group had 4,443 employees, with a decrease of 596 units compared to the end of 2002.

Olivetti-Tecnost

The Olivetti-Tecnost Business Unit operates principally in digital printing systems and office inkjet products, specialist banking and trade industry applications, gaming and lottery management information systems, silicon technology development and manufacturing (inkjet heads and MEMS), document management services and mobile phone repair. Business is focused primarily in Europe, Asia, South America and Mexico. The business unit also had a presence in the consumer sector of the North American market through the subsidiary Royal Consumer Information Product Inc..

Gross operating revenues were €332 million for the first half of 2003 compared to €486 million for the first half of 2002, a decrease of €154 million or 31.7%. This decrease was principally attributable to the Office business area, as a result of the management decision to reduce the sales of lower profitability products and of the temporary decrease of sales in China.

Gross operating profit (€17 million in the first half of 2003 compared to €42 million in the first half of 2002) and operating income (a loss of €3 million in the first half of 2003 compared to an income of €9 million in the first half of 2002) reflected the fall in gross operating revenues.

As of June 30, 2003, Olivetti-Tecnost Business Unit had 3,036 employees, with a decrease of 1,491 units compared to the end of 2002, principally as a result of the disposal of a Mexican company (a reduction of 1,266 units).

Olivetti Consolidated Results

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 offering memorandum. 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 consolidated results of Olivetti's businesses other than the businesses of the Old Telecom Italia Group, which fully consolidated the results of Old Telecom Italia. The Old Telecom Italia Group represented over 96.8% of the Olivetti Group's total operating revenues and 85.2% of the Olivetti Group's total assets (excluding goodwill related to Old Telecom Italia) in 2002. The following discussion also relates to the Olivetti/Tecnost business unit. For a complete discussion of the operating and financial review and prospects of the Old Telecom Italia Group see "Item 5. Operating and Financial Review and Prospects" of the Telecom Italia Annual Report incorporated by reference herein.

General

Following the acquisition of Old Telecom Italia in 1999, the results of operations of the Old Telecom Italia Group's operations have been included in the consolidated financial statements of Olivetti. As of December 31, 2002, the Old Telecom Italia Group businesses represented approximately 96.8% of the Olivetti Group consolidated operating revenues.

During 2002, the Olivetti Group pursued the targets set forth in its 2002-2004 Industrial Plan (which encompassed Old 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 envisaged 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 Old 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 Old Telecom Italia ordinary shares, maturing on March 19, 2004.

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.

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 Old 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.

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 (historical), 2000 (pro forma), 2001 and 2002, during which the Old Telecom Italia Group represented over 96.0%, 95.8%, 96.3% and 96.8% of operating 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 business units of Old Telecom Italia Group. For a full discussion of the results of operations of the Old Telecom Italia Group for each of the years ended December 31, 2000, 2001 and 2002, see "Item 5. Operating and Financial Review and Prospects" of 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 income	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 (3)	6,946	6,509	7,612	7,227
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 (3)	25,155	23,754	27,367	25,854
Operating income (3)	5,444	5,079	5,125	6,058
Financial income	1,202	1,162	1,446	1,569
Financial expense (3)	(3,857)	(3,648)	(6,559)	(4,647)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(1,025)*	*(1,011)*	*(1,618)*	*(467)*
Other income and (expenses), 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)

(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.

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

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

Operating Revenues

2002 compared to 2001

Olivetti Group's 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 €1,008 million compared to €1,198 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 Old Telecom Italia Group in the second part of the year.

2001 compared to 2000 pro forma

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 Old Telecom Italia Group (primarily in mobile services). Old Telecom Italia operating revenues amounted to €30,818 million and accounted for 96.3% of total operating revenues. Excluding the Old Telecom Italia Group, operating revenues in 2001 were €1,198 million compared to €1,205 million in 2000, a 0.6% decrease.

Operating Income

2002 compared to 2001

Operating income for the year 2002 amounted to €6,058 million compared to €5,125 million for the year 2001. The 18.2% 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 €2,315 million (a decrease from €2,640 million in 2001), other external charges amounting to €12,188 million (a decrease from €12,687 million in 2001) and depreciation and amortization charges which totaled €7,227 million (compared to €7,612 million in 2001).

Excluding the Old Telecom Italia Group, operating income in 2002 reflected a loss of €1,323 million compared to a loss of €1,549 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 Old Telecom Italia Group in the second half of the year.

2001 compared to 2000 pro forma

Operating income in 2001 was €5,125 million, compared to €5,079 million in 2000. The 0.9% increase for the year 2001 was primarily due to the growth in operating revenues.

Excluding the Old Telecom Italia Group, operating income in 2001 reflected a loss of €1,549 million compared to a loss of €1,362 million in 2000. The €1 87 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’s 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 put option on SEAT shares), a 94.9% increase compared to €4,354 million in 2001; and
- write-downs and other net financial charges of €3,036 million, a 40.2% decrease compared to €5,080million in 2001 which reflects income from equity investments of €57 million (compared to €221 million in income from 2001), financial charges of €2,307 million (compared to charges of €3,105million in 2001) and write-downs on financial assets of €786 million (compared to write-downs of €2,196 million in 2001).

The Old Telecom Italia Group loss before income taxes and minority interests in 2002 amounted to €419 million (€733 million in 2001).

2001 compared to 2000 pro forma

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 Old 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 Old Telecom Italia Group loss before income taxes and minority interests in 2001 was €733 million compared to an income of €4,802 million in 2000.

Net loss

2002 compared to 2001

The Olivetti Group net loss for 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 Old 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).

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 pro forma

The Olivetti Group net loss for 2001 was €3,090 million, a 228.7% increase compared to a net loss of €940 million in 2000. Excluding amortization of goodwill on the acquisition of Old Telecom Italia, the Olivetti Group net loss amounted to €1,791 million (compared to net earnings of €379 million in 2000).

Olivetti Tecnost Results of Operations for the Three Years Ended December 31, 2000, 2001 and 2002

Business Unit Financial Data

The following table sets forth for the periods indicated certain financial and other data for Olivetti-Tecnost.

	Years ended December 31,		
	2000	2001	2002
Olivetti-Tecnost	(million of Euro, except employees)		
Gross operating revenues	1,130	1,097	914
Gross operating profit	60	57	59
Operating Income	(10)	4	4
Number of employees at year end	5,370	4,896	4,527

2002 compared to 2001

Gross operating revenues for the Olivetti-Tecnost Business Unit in 2002 amounted to €914 million (including €906 million from customers outside the Olivetti Group), a decrease of 16.7% from gross operating revenues of €1,097 million in 2001 (down 12.7% net of the exchange rate effect). Gross 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 gross 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%).

Gross Operating Profit increased by 3.5% to €59 million (with a gross margin of 6.5%), while operating income remained stable at €4 million.

2001 compared to 2000

In 2001, the Olivetti Tecnost Business Unit recorded gross operating revenues of €1,097 million (of which €1,076 million with third-party customers outside the Olivetti Group), a 2.9% decrease from year 2000 (€1,130 million in 2000). Digital product deliveries revenues increased by 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 29% compared to the year before (2001 revenues amounted to €295 million).

Gross Operating Profit decreased by 5% to €57 million (with a gross margin of 5.2%), while operating income increased from a loss of €10 million in 2000 to an income of €4 million in 2001 mainly as a result of reduction in operating costs.

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 Old Telecom Italia Group, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources" of the Telecom Italia Annual Report incorporated by reference herein. For a discussion of the impact the Merger has had on the financial statements of Olivetti and New Telecom Italia (including the impact of the assumption of Olivetti's debt together with the incurrence of additional debt of €5,285 million that was used to finance the required withdrawal right of Olivetti shareholders (€11 million) and the tender offers (€5,274 million) see "Pro Forma Liquidity and Capital Resources".

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 expansion.

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

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 (€2,516 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 compared to 2001 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 Old 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 Old 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 New Telecom Italia's financial indebtedness, see "Pro Forma Liquidity and Capital Resources".

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 was 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. €5,274 million was borrowed under the term loan to finance the tender offers. See "Capitalization". Olivetti also received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Old Telecom Italia would 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 Old Telecom Italia, to refinance existing debt (including Old Telecom Italia's €7.5 billion facility which was cancelled) and for general corporate purposes.

Legal Proceedings

For a description of material legal proceedings involving Old 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.

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 Court in Rome verdict became final after an appeal made by the Public Prosecutor was rejected by the Rome Court of Appeal. A Judge in Rome also acquitted all the former Olivetti managers as far as alleged corruption was concerned. This decision has been appealed by the Public Prosecutor. The appeal is pending.

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 computer 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 €129.1million, 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 spun-off 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 approximately €212 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 alledging violations sanctioned under criminal law. 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.

Significant Recent Developments-Legal Proceedings

Acquisition of Cecchi Gori Communications

Reference is made to the proceedings described in “Item 8. Financial Information—Legal Proceedings – Acquisition of Cecchi Gori Communications” of the Telecom Italia Annual Report incorporated by reference herein. The Proceedings described therein relate to activities that were not transferred to New SEAT and remain the responsibility of Telecom Italia Media.

In July 2003, the Cecchi Gori Group appealed the rejection by the Civil Court of Rome of its request to declare null and void the resolution taken by Cecchi Gori Communications’ shareholders’ meeting on August 11, 2000 which modified the company’s bylaws, with specific reference to the shareholders’ meeting’s quorum and the board’s quorum.

In August 2003, the Cecchi Gori Group and other parties brought an action against Telecom Italia Media for compensation of extra-contractual damages, in relation to the acquisition of Cecchi Gori Communications S.p.A., for an amount of €387 million in addition to interest, revaluation and additional damages.

In September 2003, the panel of arbitration issued a decision in favor of Telecom Italia Media in the arbitration proceedings commenced by the Cecchi Gori group in August 2001. The panel decided that the actions undertaken by SEAT in underwriting 100% of the (reconstituted) capital of Cecchi Gori Communications and, consequently, acquiring the control of the company were legitimate.

SEAT – De Agostini Arbitration

The proceedings described in “Item 8. Financial Information—Legal Proceedings – SEAT – De Agostini Arbitration” of the Telecom Italia Annual Report incorporated by reference herein, relate to activities that were not transferred to New SEAT and remain the responsibility of Telecom Italia Media.

Fastweb

Reference is made to the proceedings described in “Item 8. Financial Information—Legal Proceedings – Fastweb” of the Telecom Italia Annual Report incorporated by reference herein. In October 2003 Fastweb and Telecom Italia settled their dispute regarding the July 2001 “Contract for access and utilization of civil infrastructures”. An agreement was reached regarding the amounts already due to Telecom Italia and the criteria to be applied in order to calculate future consideration in case of further utilization by Fastweb of Telecom Italia’s infrastructures. Because of the settlement the litigation appertaining to the proceedings has been terminated.

Universal service

Reference is made to “Item 8. Financial Information—Legal Proceedings – Universal service” of the Telecom Italia Annual Report incorporated by reference herein.

The Consiglio di Stato ruled in partial favor of Vodafone Omnitel’s appeal against the decision of the TAR of Lazio which had accepted only the procedural issues raised by Vodafone Omnitel. The reasons for the ruling of the Consiglio di Stato are not yet available.

Pursuant to the aforementioned TAR of Lazio ruling, the National Regulatory Authority issued a new resolution with the same content of the one declared invalid. Vodafone Omnitel challenged this resolution before the TAR of Lazio.

Fee Concerning Article 20, Section 2 of Law No. 448 of December 23, 1998

Reference is made to “Item 8. Financial Information—Legal Proceedings – Fee Concerning Article 20, Section 2 of Law No. 448 of December 23, 1998” of the Telecom Italia Annual Report incorporated by reference herein.

In September 2003, the European Court of Justice (before which the Consiglio di Stato had preliminarily brought the case) declared the request of a license fee as set forth by the Ministerial Decree of March 21, 2000 non compatible with EU regulations relating to telecommunications.

Antitrust Authority Investigation

Reference is made to "Item 8. Financial Information—Legal Proceedings – Antitrust Authority Investigation" of the Telecom Italia Annual Report incorporated by reference herein.

On June 13, 2003, the Italian Antitrust Authority initiated a proceeding against Telecom Italia, claiming that Telecom Italia abused its dominant position in relation to certain commercial practices relating to the business market segment including both private business and public administration.

On September 25, 2003, Telecom Italia challenged such proceeding in the TAR of Lazio, alleging that, because the proceeding was brought in connection with the public administration, the proceeding exceeded the Agency's sphere of competence.

Dispute with the National Regulatory Agency

On October 1, 2003 Telecom Italia challenged the National Regulatory Agency resolution 13/03/DGC/TLC before the TAR of Lazio. The National Regulatory Agency alleged that Telecom Italia made an offer to CONSIP S.p.A. inconsistent with its individual license in breach of art. 7, paragraph 1, of Presidential Decree n. 318/1997 regulating the economic conditions of offers.

Vodafone Omnitel Arbitration

In July 2003, Telecom Italia commenced an arbitration proceeding against Vodafone Omnitel, claiming damages for a total of approximately €38.8 million. Telecom Italia challenged Vodafone Omnitel's decision to bar its clients from accessing one of Telecom Italia's information services from August 2002 to mid April 2003.

Vodafone Omnitel claimed that its behavior was lawful and presented a counterclaim for damages for a sum not lower than €38.7 million.

Information request by the European Commission

On October 8, 2003, the European Commission requested Telecom Italia to provide information regarding the "Alice" commercial offer and the bundled offer of broadband internet access and multimedia contents. This initiative was triggered by complaints of certain competitors of Telecom Italia, which alleged Telecom Italia abused its dominant position in the broadband internet access market segment.

Corporation Digitel S.A.

For a description of proceedings involving Corporation Digitel S.A. see "Description of Telecom Italia — Mobile — Companies Controlled by TIM International – Latin America – Venezuela".

RELATED PARTY TRANSACTIONS

The Telecom Italia Group enters into transactions with affiliates, and various related parties. The following related party transactions relate to transactions between Telecom Italia and its subsidiaries and the Telecom Italia 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 Telecom Italia Group are excluded as they are eliminated on consolidation. All such transactions are within the Telecom Italia Group's normal operations and were conducted on an arm's length basis in accordance with specific regulatory provisions. Moreover, there are no atypical or unusual operations.

The following related party transactions are reflected in the statement of operations for the periods ended June 30, 2002 and 2003, respectively:

Items	**Related party transactions in the period ended June 30,**			
	2002		**2003**	
	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 and affiliates***
Operating revenues	€244 million	Includes revenues from Brasil Telecom (€60 million), Teleleasing (€83 million), Stream - now Sky Italia (€25 million), AUNA Group (€18 million), Telecom Argentina (€16 million)	€108 million	Includes revenues from Teleleasing (€71 million), Sky Italia (€8 million), Telecom Argentina (€6 million), Telekom Srbija (€4 million)
Cost of materials and other external charges	€255 million	Includes principally costs for rentals paid to IM.SER (€95 million) and Telemaco Immobiliare (€37 million); TLC service costs from Etec S.A. Cuba (€31 million)	€175 million	Includes mainly: rent payable to Tiglio I (€41 million) and Tiglio II (€11 million); TLC service costs from Etec S.A. Cuba (€53 million); maintenance and assistance contracts from Italtel (€13 million) and Siemens Informatica (€20 million)
Other income, net	€7 million	Includes principally recoveries of pay-roll costs for personnel moved temporarily to certain subsidiaries	€2 million	Includes principally recoveries of pay-roll costs for personnel moved temporarily to certain subsidiaries
Financial income and expense, net	Negative for €9 million	Includes interest income accrued on loans made to certain group companies (€5 million) and interest payable to Teleleasing accrued on financial lease contracts (€14 million)	Negative for €6 million	Includes interest income accrued on loans made to certain subsidiaries and affiliates (€12 million); interest payable to Teleleasing for lease contracts (€10 million); interest payable to Sky Italia (€7 million) and others (€1 million)

The following related party transactions are reflected on the balance sheet as of December 31, 2002 and June 30, 2003:

Items	Related party transactions as of			
	December 31, 2002		June 30, 2003	
	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 and affiliates*
Loans in long-term investments	€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)	€457 million	Refers mainly to medium/long-term loans made to Is TIM (€305 million), Tiglio I (€71 million), Telegono (€24 million) and Tiglio II (€30 million)
Trade accounts receivables and other current assets	€222 million	Comprises mainly receivables from Stream – now Sky Italia (€71 million), Telekom Srbija (€21 million, net of provision), Teleleasing (€38 million) and Consorzio Telcal (€14 million)	€135 million	Comprises mainly receivables from Sky Italia (€63 million, net of provision for €55 million), Telekom Srbija (€23 million) and Teleleasing (€39 million)
Trade accounts payable and other current liabilities	€405 million	Refers to payables for supply contracts connected with operating and investment activities. Includes: payables to the Italtel group (€150 million), Siemens Informatica (€40 million), Teleleasing (€17 million) and advances from Consorzio Telcal (€103 million)	€285 million	Refers to payables for supply contracts connected with operating and investment activities. Includes: payables to the Italtel group (€95 million), Siemens Informatica (€31 million), Etec S.A. Cuba (€18 million) and advances from Consorzio Telcal (€103 million)
Long-term and short-term debt	€406 million	Refers mainly to payables for finance leases to Teleleasing (€393 million)	€51 million	Refers mainly to payables for finance leases to Teleleasing (€31 million)
Short-term financial receivables	€35 million	Comprises short-term loans made to TMI group companies – now TI Sparkle (€14 million) and Golden Lines (€10 million, net of provisions)	€30 million	Comprises short-term loans made to TI Sparkle (€19 million)
Long-term and short-term contracts	€110 million	Refers mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan	€110 million	Refers mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan
Guarantees and collateral	€935 million	Comprises sureties provided on behalf of Is TIM (€537 million), Consorzio Csia (€85 million), Stream – now Sky Italia (€72 million) and Tiglio I (€27 million) as well as collateral on behalf of Is TIM (€110 million)	€902 million	Comprises sureties provided on behalf of Is TIM (€573 million), Consorzio Csia (€85 million), Sky Italia (€30 million) as well as collateral on behalf of Is TIM (€115 million)
Capital expenditures	€441 million	Mainly consists of acquisitions of telephone exchanges from the Italtel group (€406 million) and computer projects from Siemens Informatica (€19 million)	€134 million	Mainly consists of acquisitions of telephone exchanges from the Italtel group (€124 million) and computer projects from Siemens Informatica (€7 million)

Moreover, related party transactions as of June 30, 2003 include:

Items	In the aggregate	Nature of the transaction
Purchases and sales commitments	€23 million	Refers to commitments with Teleleasing under operating leases

In the first half of 2003, the buildings leased from Teleleasing under financial leasing contracts, recorded in the consolidated fixed assets as of December 31, 2002, were purchased.

Pirelli group and Edizione Holding group

In the first half of 2003, the related party transactions also include transaction between the Telecom Italia Group and the Pirelli group and the Edizione Holding group. These transactions include:

Items	In the aggregate	Nature of the transaction
Operating revenues	€21 million	Mainly refers to information services to Pirelli group (€18 million), telephone services to Pirelli group (€2 million) and to Edizione Holding group (€1 million)
Cost of materials and other external charges	€24 million	Principally refers to R & D expenditures, information and tax consulting expenses and the supply of services in the IPR field by Pirelli group (€23 million) and commissions paid to Edizione Holding group (€1 million) for prepaid telephone cards
Trade accounts receivables and other current assets	€11 million	Mainly refers to the above-mentioned telephone services to Pirelli group (€10 million) and to Edizione Holding group (€1 million)
Trade accounts payable and other current liabilities	€33 million	Mainly refers to the supply contracts connected with operating services and investment activities to Pirelli group
Capital expenditures	€16 million	Mainly refers to purchases of telecommunications cables (€13 million) and leasehold improvements (€3 million) from Pirelli group
Disposal of business segments	€4 million	Gain on the transfer of facility business segments from Olivetti to Pirelli Real Estate

In addition, in the first half of 2003, TIM and Telecom Italia sold to Autogrill S.p.A. (Edizione Holding group) telephone cards for resale to the public for an equivalent amount of €10 million.

In addition, Telecom Italia has a commitment to acquire a further 5% interest in EPIClink from Pirelli S.p.A. for a total of €3 million.

On July 28, 2003, according to the SSC (Shared Service Center) project, IT Telecom contributed its business segment "Corporate Solution" to Pirelli Informatica's share capital. Pirelli Informatica changed its name to SCC, a consortium with limited liability, held by Pirelli S.p.A. (50%), IT Telecom S.p.A. (45%) and Olivetti Tecnost S.p.A. (5%).

On July 21, 2003, the spin-off of Tiglio I and Tiglio II in Ortensia was concluded. Such transaction, that became effective on July 25, 2003, calls for the transfer (through a spin-off) of the building plots owned by Tiglio I and Tiglio II to a vehicle, Ortensia S.r.l., to which Marzotto already contributed a business segment inclusive of its building plots.

For additional information on related party transactions, see "Item 7. Major Shareholders and Related-Party Transactions" of the Telecom Italia Annual Report incorporated by reference herein and Note 28(w) to the audited financial statements of Olivetti included in this offering memorandum.

MANAGEMENT

Directors, Executive Officers and Statutory Auditors of Telecom Italia

Olivetti's directors, recognizing that New Telecom Italia would be inherently different from Olivetti prior to the Merger, determined that it would be appropriate that the direction of the New Telecom Italia remain entrusted essentially to the directors of Old Telecom Italia. Accordingly, the members of the Olivetti Board of Directors declared that, upon effectiveness of the Merger, they considered their mandate as directors of Olivetti to be essentially completed. At the April 15, 2003 meeting of the Olivetti Board of Directors, the members of the Olivetti Board of Directors tendered their resignation with effect from the date of effectiveness of the Merger, August 4, 2003 (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 Telecom Italia Board prior to the Merger and, on August 4, 2003, became the Board of Directors of Telecom Italia. The new Board was appointed with the absolute majority of the shareholders who attended the meeting, consistent with the procedure in place for appointing Olivetti's Board of Directors before the Merger. The names, ages and positions of the present members of the Telecom Italia Board of Directors are:

Name	Age	Position
Marco Tronchetti Provera	55	Director, Chairman
Gilberto Benetton	62	Director, Vice Chairman
Carlo Buora	57	Managing Director
Riccardo Ruggiero	43	Managing Director
Umberto Colombo	75	Director
Giovanni Consorte (1)	55	Director
Francesco Denozza	57	Director
Luigi Fausti	74	Director
Guido Ferrarini	53	Director
Natalino Irti	67	Director
Gianni Mion	60	Director
Pietro Modiano	51	Director
Massimo Moratti	58	Director
Carlo Alessandro Puri Negri	51	Director
Pier Francesco Saviotti	61	Director

(1) Mr. Consorte is the only Director of Telecom Italia who was not a Director of Old Telecom Italia. In Old Telecom Italia Mr. Ulissi was on the Board of Directors in lieu of Mr. Consorte. Mr Ulissi was elected to the Board pursuant to the special powers of the Italian Government relating to Old Telecom Italia. Such powers were modified in connection with the Merger. See: "Item 6. Directors, Senior Management and Employees—Special Powers of the State" and "Item 7. Major Shareholders and Related-Party Transactions—Continuing Relationship with the Treasury" of the Telecom Italia Annual Report incorporated by reference in this offering memorandum.

The term of the Telecom Italia Board of Directors will expire in 2004 after the approval of the 2003 financial statements. The Board of Directors of Telecom Italia that will be elected in 2004 will be elected under the voto di lista system. For information regarding the Board of Directors of Old Telecom Italia prior and board practices, please see "Item 6. Directors, Senior Management and Employees—Directors" of the Telecom Italia Annual Report incorporated by reference herein.

Pursuant to certain agreements and shareholders' arrangements among Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa, the Olimpia shareholders, they have agreed upon certain rights in connection with the election of Telecom Italia directors. See "Item 6. Directors, Senior Management and Employees—Impact of Certain Shareholders' Agreements over the Nomination of Telecom Italia's Group's Company Boards" of the Telecom Italia Annual Report incorporated by reference herein. The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

Executive Officers of Telecom Italia

As of October 15, 2003, the executive officers of Telecom Italia and their respective ages, positions and year of appointment as executive officers were as follows:

Name	Age	Position	Appointed
Marco Tronchetti Provera	55	Executive Chairman	2003
Carlo Orazio Buora	57	Managing Director	2003
Riccardo Ruggiero	43	Managing Director and General Manager of Telecom Italia (2002); Head of Wireline Business Unit	2003
Giuseppe Sala	45	General Manager of Telecom Italia	2003
Central Function:			
Gustavo Emanuele Bracco	55	Head of Human Resources	2001
Enrico Parazzini	59	Head of Finance, Administration and Control	2001
Arrigo Andreoni	59	Head of Information Technology Group and Managing Director of IT Telecom	2001
Francesco Chiappetta	43	General Counsel	2003
Germanio Spreafico	51	Head of Purchasing	2001
Business Units:			
Enrico Parazzini	59	Head of Internet and Media Business Unit	2003
Marco De Benedetti	41	Head of Mobile Business Unit and Managing Director of TIM	1999
Giuseppe Nino Tronchetti Provera	35	Head of Information Technology Market Business Unit and Managing Director of Finsiel	2002
Ottaviano Autelli	65	Head of Olivetti Tecnost Business Unit	2003

Board of Statutory Auditors of Telecom Italia

At the shareholders' meeting of May 26, 2003, the Olivetti shareholders elected a new Board of Statutory Auditors.

As a result of the Merger, the Board of Statutory Auditors of Olivetti, as elected on May 26, 2003, became the Board of Statutory Auditors of New Telecom Italia. The following are the members of the New Telecom Italia 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.

For more information regarding the Statutory Auditors, please see "Item 6. Directors, Senior Management and Employees—Board of Statutory Auditors" of the Telecom Italia Annual Report incorporated by reference herein.

Outside Auditors

The consolidated financial statements of Telecom Italia are required to be audited by independent auditors appointed at the shareholders' meeting. Both the Olivetti Group's consolidated financial statements and Old Telecom Italia's financial statements have been audited by Reconta Ernst & Young S.p.A. ("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.

Biographical Data

The following are the selected biographical data of the Directors and Executive Officers of New Telecom Italia who were not among the Directors and Executive Officers of Old Telecom Italia. For the selected biographical data of the Directors and Executive Officers of Old Telecom Italia, please see "Item 6. Directors, Senior Management and Employees—Biographical Data" of the Annual Report incorporated by reference in this offering document.

Director

Giovanni Consorte: Giovani Consorte was born in Chieti on April 16, 1948. He is Chairman and Chief Executive Officer of Unipol S.p.A. and FINSOE, Unipol Merchant and Finec Holding; Deputy Chairman and Chief Executive Officer of Unipol Banca and Noricum Vita; Chairman of Meieaurora; Deputy Chairman of Hopa; Director of Carisbo, Snia, Euresa Holding, Fondazione Europea Ramazzini. Member of the Board of Directors of A.N.I.A., of the Management and Executive Board of Legal Nazionale Cooperative e Mutue, of the Scientific Committee of Nomisma; Member of the General Council of Assonime.

Executive Officer

Ottaviano Autelli: Ottaviano Autelli was born in Castelnuovo Scrivia (AL) on June 27, 1938. He is the head of the Olivetti-Tecnost Business Unit.

Corporate Governance

For a description of Old Telecom Italia's corporate governance codes and practices, please see "Item 6. Directors, Senior Management and Employees—Corporate Governance" of the Telecom Italia Annual Report incorporated by reference herein.

New bylaws have been adopted in connection with the Merger. The new bylaws are substantially similar to the bylaws of Old Telecom Italia. Furthermore, the "Code of Self Discipline" has been replaced by a new "Self-Regulatory Code" approved by the Telecom Italia Board of Directors on August 4, 2003. See "—The Self Regulatory Code" below.

The other corporate governance instruments underwent minor changes, aimed at either taking into consideration the new bylaws and Self-Regulatory Code, or updating the existing procedures.

As far as the internal committees of the Board of Directors are concerned:

- Luigi Fausti replaced Roberto Ulissi as a member of the Internal Control and Corporate Governance Committee, of which Guido Ferrarini was appointed chairman. All members of the committee are considered independent by Telecom Italia and are non-executive directors;

- the entire composition of the Remuneration Committee was confirmed.

The Board of Directors of New Telecom Italia resolved that, for the purposes of U.S. securities laws and New York Stock Exchange listing requirements (and relevant exemptions thereto), which are expected to become applicable to Telecom Italia, the Board of Statutory Auditors will act as audit committee.

In addition, an ad hoc procedure has been established in order to govern the engagement of outside auditors by the companies of the Telecom Italia Group. The procedure has been established with a view to safeguarding the auditors' independence and enhancing the role of Telecom Italia's Board of Statutory Auditors in this respect, in accordance with both U.S. and Italian standards. The procedure, which is subject to annual review, provides for a pre-approval policy, which allows, in advance, certain audit and audit-related services, while granting the audit committee (the Board of Statutory Auditor) full and timely disclosure of each service so conferred.

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 responsibility see Note 28(w) to the audited financial statements of Olivetti included in this offering memorandum.

The Self Regulatory Code

The Self-Regulatory Code applies to Telecom Italia and supplements the applicable rules relating to the Board of Directors. The code provides rules and procedures designed to ensure that the conduct of Telecom Italia and of the companies of the Telecom Italia Group comply with the Telecom Italia Code of Ethics (see "Item 6. Directors, Senior Management and Employees—Corporate Governance" of the Telecom Italia Annual Report incorporated by reference herein) and with the self-regulatory principles of Borsa Italiana.

Among others, the Self-Regulatory Code describes:

- the powers of the Board of Directors,
- the composition of the Board of Directors and, according to Telecom Italia, the characteristics of independent director,
- the responsibilities of the Chairman of the Board of Directors,
- the Remuneration Committee of the Board of Directors,
- Telecom Italia's internal controls and procedures,
- the Internal Control and Corporate Governance Committee of the Board of Directors, and
- the management of related party transactions.

Powers of the Board of Directors

The Board of Directors has the general power of guidance and control in respect of Telecom Italia and the companies of the Telecom Italia Group. In particular the Board of Directors:

- examines and approves the strategic, operational and financial plans of Telecom Italia and of the Telecom Italia Group;
- analyzes and approves the annual budget of Telecom Italia and of the Telecom Italia Group;
- examines and approves the transactions —including investments and divestitures — that, owing to their nature, strategic importance, size or consequence commitments, will have a major impact on Telecom Italia's business;
- verifies the adequacy of the overall organizational and administrative structure of Telecom Italia and of the Telecom Italia Group;
- prepares and adopts the corporate governance rules for Telecom Italia and establishes the guidelines for the governance of the Telecom Italia Group;
- constitutes the supervisory body responsible for the oversight of the organizational procedures adopted pursuant to Decree 231/2001; the inadequacy of such procedures may entail the liability of Telecom Italia for certain crimes committed by its employees or agents;
- assigns and revokes the delegated powers of directors and of the Executive Committee, specifying the limits thereto, the manner of exercising them and the frequency (normally at least quarterly) with which the delegated bodies must report to the Board of Directors on the activity performed in the exercise of the delegated powers;
- establishes the duties and powers of the General Managers;
- makes the nominations for the positions of Chairman and Managing Director of the subsidiaries of strategic importance, except for the subsidiaries of listed subsidiaries;
- determines, after examining the proposals of the Remuneration Committee and consulting the Board of Auditors, the remuneration of the Managing Directors and of the directors with special tasks and, where the shareholders' meeting has not already done so, the allocation of the total compensation payable to individual directors and to members of the committees;

- supervises the general performance of operations, with special reference to conflicts of interest, taking into particular account the information received from the Managing Directors, the Executive Committee and the Internal Control and Corporate Governance Committee (described below), and periodically compares the achieved results with the planned results; and

- evaluates and approves the periodic financial reports required by applicable laws and regulations.

Composition of the Board of Directors and Characteristics of Independent Directors according to Telecom Italia

The Board of Directors of Telecom Italia consists of executive directors and non-executive directors. The executive directors are the Chief Executive Officers, the Chairman, where (as it is currently) the Chairman has executive powers, and the directors performing managing function.

According to Telecom Italia, Members of the Board of Directors are considered independent directors where such directors:

- do not entertain, directly or indirectly, nor have recently entertained business relationships which are able to influence their autonomous judgment with Telecom Italia, its subsidiaries, the executive directors or the shareholder or group of shareholders controlling Telecom Italia;

- neither own, directly or indirectly, a quantity of shares enabling them to control or exercise a significant influence over Telecom Italia nor participate in shareholders' agreements relating to the control of Telecom Italia or having clauses concerning the composition of the Board of Directors or its decisions; and

- are not close relatives of executive directors of Telecom Italia or of persons in the situations referred to above.

On the basis of the information provided by the directors, the Board of Directors evaluates on a yearly basis which directors satisfy the independence requirements. The Board of Directors considers the last three financial years for employment relationships and executive directorships and the last financial year for other economic relationships.

Responsibilities of the Chairman of the Board of Directors

The responsibilities of the Chairman of the Board of Directors include the responsibility to:

- call the meetings of the Board of Directors, set the agenda and preside over the discussions and the casting of votes;

- ensure that there is an adequate flow of information between the management and the Board of Directors;

- arrange for the Board of Directors to be regularly informed of the most important developments that have occurred; and

- exercise, as a matter of urgency and without prejudice to the limitations imposed by law, the powers in matters for which the Board of Directors is competent.

Remuneration Committee of the Board of Directors

The Remuneration Committee of the Board of Directors is a committee of non-executive directors, of whom at least one is a director elected by minority shareholders in accordance with the slate system set forth in Telecom Italia's bylaws. The Remuneration Committee submits proposals to the Board of Directors for the remuneration of the Managing Directors and the directors with special tasks. Normally a part of the total remuneration of these directors is to be related to the economic results of Telecom Italia and of the Telecom Italia Group.

The Remuneration Committee also submits proposals for establishing the criteria for the remuneration of Telecom Italia's top management and for the determination of stock-option plans or plans for the assignment of shares.

Telecom Italia's Internal Controls and Procedures

The Self Regulatory Code requires the Board of Directors to establish guidelines for the internal control system and to check its proper functioning.

Pursuant to the Self Regulatory Code, the internal control system should be characterized by, among others, the following general principles:

- the operational powers shall be assigned taking into account the nature, size and risks of the individual categories of operations; the scope of the powers shall be related to the tasks that are delegated;

- the organizational structures shall avoid overlapping functions and the concentration in a single person of activities that are critical or involve a high degree of risk;

- operational controls shall entail the production of adequate documentation; and

- the internal control system shall be subject to continuous supervision by the Board of Directors with a view to periodic evaluations and continuous upgrading.

Internal Control and Corporate Governance Committee of the Board of Directors

Pursuant to the Self Regulatory Code, the Board of Directors should establish an Internal Control and Corporate Governance Committee to provide advice and make proposals. The Internal Control and Corporate Governance Committee consists of non-executive directors, of whom at least one chosen from the directors elected by minority shareholders in accordance with the slate system set forth by Telecom Italia's bylaws. The chairman of the Board of Auditors or another member thereof nominated by its chairman shall take part in the work of the Internal Control and Corporate Governance Committee. Joint meetings of the Internal Control and Corporate Governance Committee and the Board of Auditors are allowed, whenever deemed appropriate.

The Internal Control and Corporate Governance Committee is expected to:

- assist the Board of Directors in verifying the proper functioning of the internal controls and procedures;

- assess the working plan of the persons in charge of internal controls and procedures and receive their periodic reports related thereto;

- assess, together with the management and the external auditors, the appropriateness of the accounting standards adopted and their uniformity;

- assess the proposals put forward by auditing firms to obtain audit engagement, their working plans and the results thereof as set out in the external auditors' report; and

- report to the Board of Directors on its activity and the adequacy of the internal controls and procedures system at least once every half year, at the time the annual and semiannual accounts are approved.

The Internal Control and Corporate Governance Committee shall also supervise compliance with and the periodic updating of the internal rules of corporate governance.

Related Party Transactions

Pursuant to the Self Regulatory Code, the activities of Telecom Italia are based on principles of fairness and transparency. Transactions with related parties, including intragroup transactions, have to comply with criteria of substantial and procedural fairness, in accordance with the rules of conduct for their execution established in advance by the Board of Directors and adequately disclosed to the market (see "Item 6. Directors, Senior Management and Employees—Corporate Governance – Principles governing transactions with related parties" of the Telecom Italia Annual Report incorporated by reference herein).

DESCRIPTION OF NOTES AND GUARANTEES

The following is a summary of the main terms of the notes issued by TI Capital and guaranteed by Telecom Italia. The notes are governed by a document called the indenture, dated October 29, 2003 as supplemented by the first supplemental indenture also dated October 29, 2003. Herein we refer to the indenture as supplemented by the first supplemental indenture as the "indenture". The indenture is a contract entered into among TI Capital, as Issuer, Telecom Italia, as Guarantor and JPMorgan Chase Bank as trustee (the "**Trustee**").

This summary does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the indenture, including the definitions of certain terms used in the indenture. Wherever particular provisions or defined terms of the indenture are referred to, these provisions or defined terms are incorporated in this offering memorandum by reference. We urge you to read the indenture because it, and not this description, defines your rights as a holder of notes. The indenture is available for inspection at the office of the Trustee.

The notes will be issued as separate series only in the form of fully registered global securities. Global securities will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The notes will be issued in three series referred to herein as "Series A", "Series B" and "Series C".

- The Series A notes will be issued in an aggregate principal amount of $1,000,000,000. The Series A notes will bear interest at 4% per annumand will mature on November 15, 2008.
- The Series B notes will be issued in an aggregate principal amount of $2,000,000,000. The Series B notes will bear interest at 5.25% per annum and will mature on November 15, 2013.
- The Series C notes will be issued in an aggregate principal amount of $1,000,000,000. The Series C notes will bear interest at 6.375% per annum and will mature on November 15, 2033.

Interest on the notes will be payable semiannually in arrears on May 15 and November 15 of each year, commencing on May 15, 2004. Interest on the notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The notes will pay interest to the person in whose name the global security is registered at the close of business on the record date relating thereto, which will be the preceding May 1 or November 1, as the case may be. The notes are issuable in denominations of $1,000 and any integral multiple thereof.

The Notes

The notes will be unsecured and unsubordinated and will rank equally with TI Capital's existing and future senior debt and rank senior to all TI Capital's future subordinated debt.

If any interest payment date or maturity date or date of redemption for the notes falls on a day that is not a Business Day (as described below), the related payment of principal or interest will be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such interest payment date or maturity date, as the case may be.

"**Business Day**" means any day other than a Saturday or Sunday or a day on which banking institutions in The City of New York, New York are generally authorized or obliged by law, regulations or executive order to close.

Guarantees

Telecom Italia will unconditionally and irrevocably guarantee the due and punctual payment of the principal of, premium, if any, and interest on the notes issued by TI Capital, including any additional amounts which may be payable by TI Capital in respect of its notes, as described under "—Payment of Additional Amounts". Telecom Italia guarantees the payment of such amounts when such amounts become due and payable, whether at the stated maturity of the debt securities, by declaration or acceleration, call for redemption or otherwise.

The guarantees of Telecom Italia for the notes issued by TI Capital will be unsecured obligations of Telecom Italia and each will rank equally in right of payment with other unsecured and unsubordinated indebtedness of Telecom Italia. Telecom Italia has provided a restriction on liens for the benefit of the notes as provided under "—Restrictive Covenants—Restrictions on Liens". In connection with other debt issuances, Telecom Italia (including debt issued by Olivetti) has provided different restrictions on liens that in some cases could be viewed as more restrictive. Consequently it is possible that, under certain limited circumstances, other debt of Telecom Italia could be secured when the notes offered hereby are not secured.

Further issues of same series

TI Capital may, subject to certain conditions, without the consent of the holders, "reopen" any series of notes and increase the principal amount of such series having the same ranking, the same interest rate, maturity and CUSIP numbers as notes of that series being offered in this offering memorandum and other terms as the issued series (a "**Further Issue**"). Purchasers of notes after the date of any Further Issue will not be able to differentiate between notes sold as part of the Further Issue and previously issued notes. TI Capital may not issue additional notes of any issued series if an event of default has occurred with respect to such series. See "— Events of Default" for a description of the events of default.

Legal Ownership

Book-Entry System

Upon issuance, the notes will be represented by one or more global notes (each a "**Global Note**"). Each Global Note will be deposited with, or on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC. Except under the circumstances described below, Global Notes will not be exchangeable at the option of the holder for certificated notes and Global Notes will not otherwise be issuable in definite form.

Upon issuance of the Global Notes, DTC will credit the respective principal amounts of the notes represented by the Global Notes to the accounts of institutions that have accounts with DTC or its nominee ("participants"), including Euroclear and Clearstream. The accounts to be credited shall be designated by the Initial Purchasers. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interest in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to participants' interests) or by participants or persons that hold through participants. Such beneficial interest shall be in denominations of $1,000 or integral multiples thereof.

So long as DTC, or its nominee, is the registered owner or holder of the Global Notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Global Notes for all purposes under the indenture.

Except as set forth below, owners of beneficial interests in the Global Notes:

- will not be entitled to have the notes represented by the Global Notes registered in their names,
- will not receive or be entitled to receive physical delivery of notes in definitive form registered in their names, and
- will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders thereof under the indenture.

Accordingly, each person owning a beneficial interest in the Global Notes must rely on the procedures of DTC, and indirectly Euroclear and Clearstream, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture.

Principal and interest payments on Global Notes registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner or holder of the Global Note. None of TI Capital, Telecom Italia, the Trustee, or any paying agent for such Global Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

TI Capital expects that DTC, upon receipt of any payments of principal or interest in respect of the Global Notes, will credit the accounts of the related participants (including Euroclear and Clearstream), with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of DTC. Payments by participants to owners of beneficial interest in the Global Notes held through such participants will be the responsibility of the participants, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name".

Unless and until it is exchanged in whole or in part for notes in definitive form in accordance with the terms of the indenture, a Global Note may not be transferred except as a whole by the depositary to a nominee of the depositary or by a nominee of DTC to DTC or another nominee of DTC.

Beneficial interests in the Global Notes will trade in DTC's Same-Day Funds Settlement System, and secondary market trading activity in such interests will, therefore, settle in same-day funds.

Definitive Notes

Global Notes shall be exchangeable for definitive notes registered in the names of persons other than DTC or its nominee for such Global Notes only if:

- DTC has notified TI Capital and Telecom Italia that it is unwilling or unable to continue as depositary,
- DTC has ceased to be a clearing agency registered under the Exchange Act, or
- there shall have occurred and be continuing an Event of Default (as defined in the indenture) with respect to the notes.

Any Global Note that is exchangeable for definitive notes pursuant to the preceding sentence shall be exchangeable for notes issuable in denominations of $1,000 and integral multiples thereof and registered in such names as DTC shall direct. Subject to the foregoing, a Global Note shall not be exchangeable, except for a Global Note of like denomination to be registered in the name of DTC or its nominee. Bearer notes will not be issued.

In the remainder of this description "you" means direct holders and not street name or other indirect holders of debt securities.

Additional Mechanics

Payment and Paying Agents

TI Capital will pay interest, principal and any other money due on the notes in registered form at the corporate trust office of the trustee in New York City. That office is currently located at 450 West 33rd Street, 15th Floor, New York, NY 10001. If you ever hold definitive notes you will make arrangements to have your payments picked up at or wired from that office or such other paying agency as we may establish.

TI Capital may also arrange for additional payment offices, and may cancel or change these offices, including its use of the Trustee's corporate trust office. These offices are called paying agents. TI Capital may also choose to act as its own paying agent. TI Capital must notify you of changes in the paying agents for the notes.

Holders buying and selling debt securities in registered form must work out between them how to compensate for the fact that TI Capital will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sales price of the debt securities to pro rate interest fairly between buyer and seller. This pro rated interest amount is called accrued interest.

Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.

Notices

TI Capital and the trustee will send notices only to direct holders, using their addresses as listed in the trustee's records. Such notices will be mailed to holders of registered securities.

Regardless of who acts as paying agent, all money that TI Capital pays to a paying agent that remains unclaimed at the end of five years after the amount is due to direct holders will be repaid to TI Capital. After that five-year period, you may look only to TI Capital, or its successor, for payment and not to the trustee, any other paying agent or anyone else.

Mergers and Similar Events

Each of TI Capital and Telecom Italia is generally permitted to consolidate or merge with another company or firm. Each of TI Capital and Telecom Italia is also permitted to sell or lease substantially all of its assets to another company or to buy or lease substantially all of the assets of another company. However, neither TI Capital nor Telecom Italia may take any of these actions unless all the following conditions are met:

- Where TI Capital and Telecom Italia merges out of existence or sells or leases all or substantially all of its assets, the other company must assume its obligations, including, in the case of Telecom Italia, the obligations arising from Telecom Italia's guarantee, on the debt securities either by law or contractual arrangements. The other company's assumption of these obligations must include the obligation to pay the additional amounts described under "—Payment of Additional Amounts". If the other company is organized under the laws of a country other than Luxembourg or Italy in the case of, respectively, TI Capital and Telecom Italia, it must indemnify you against any governmental charge or other cost resulting from the transaction; provided that, subject to the delivery of the opinions described below, TI Capital will be permitted to merge with an Italian company.

- The merger, sale or lease of all or substantially all of its assets or other transaction must not cause a default on the notes, and Telecom Italia and TI Capital must not already be in default. For purposes of this no-default test, a default would include an event of default that has occurred and not been cured, as described under "—Events of Default". A default for this purpose would also include any event that would be an event of default if the requirements for giving Telecom Italia or TI Capital default notice of their default having to exis t for a specific period of time were disregarded.

Subject to the delivery of the opinions described below, Telecom Italia or one or more of its Italian subsidiaries will be permitted to assume the obligations of TI Capital on the notes for the payment of the principal of and interest on the notes and any other payments on the notes, including any additional amounts described under "—Payment of Additional Amounts". Upon assuming the obligations of TI Capital, Telecom Italia or any such subsidiary may exercise every right and power of TI Capital under the indenture.

Telecom Italia or one of its Italian subsidiaries may only become the obligor under the notes by assumption or merger if TI Capital (or any successor) delivers to the trustee a legal opinion, reasonably satisfactory to the Trustee, of nationally recognized external Italian and U.S. law firms to the effect that the provisions of the indenture and Trust Indenture Act of 1939 are not in conflict with mandatory provisions of Italian law applicable to holders of notes of Italian companies.

It is possible that an assumption, merger or other similar transaction may cause the holders of the notes to be treated for U.S. federal income tax purposes as though they had exchanged the notes for new notes. This could result in the recognition of taxable gain or loss for U.S. federal income tax purposes and possibly other adverse tax consequences.

Modification and Waiver

There are three types of changes TI Capital, or its successors, can make to the indenture and the notes.

Changes Requiring Your Approval

First, there are changes that cannot be made to the notes without the specific approval of each holder of notes. The following is the list of those changes:

- change the stated maturity of the principal on the notes;

- change the interest on the notes;

- reduce the principal amount due on the notes;

- change any obligation of TI Capital to pay additional amounts described under "—Payment of Additional Amounts";

- reduce the amount of principal payable upon acceleration of the maturity of a note following a default;

- change the place or currency of payment of a note;

- impair your right to sue for payment;

- reduce the percentage of holders of notes whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of notes whose consent is needed to waive compliance with various provisions of the indenture or to waive various defaults;
- modify any other aspect of the provisions dealing with modification and waiver of the indenture; and
- change the obligations of Telecom Italia as Guarantor with respect to payment of principal, premium, if any, and interest payments.

Changes Requiring a Majority Vote

The second type of change to the indenture and the notes is the kind that requires a vote in favor by holders of notes owning a majority of the outstanding principal amount of the particular series affected. Most changes fall into this category, except for clarifying changes and other changes that would not adversely affect holders of the notes in any material respect. The same vote would be required for TI Capital to obtain a waiver of all or part of the covenants described in this section, or a waiver of a past default. However, TI Capital cannot obtain a waiver of a payment default or any other aspect of the indenture or the notes listed in the first category described under "—Changes Requiring Your Approval" unless TI Capital obtains your individual consent to the waiver.

Changes Not Requiring Approval

The third type of change does not require any vote by holders of the notes. This type is limited to clarifications and other changes that would not adversely affect holders of the notes in any material respect.

Further Details Concerning Voting

Notes will not be considered outstanding, and therefore not eligible to vote, if TI Capital has deposited or set aside in trust for you money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described under "Discharge and Defeasance".

TI Capital will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding notes that are entitled to vote or take other action under the indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If TI Capital or the trustee set a record date for a vote or other action to be taken by holders of a particular series of the notes, that vote or action may be taken only by persons who are holders of outstanding notes of that series on the record date and must be taken within 180 days following the record date or another period that TI Capital may specify (or as the trustee may specify if it set the record date). TI Capital may shorten or lengthen (but not beyond 180 days) this period from time to time.

Street name and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if TI Capital seeks to change the terms of the Indenture or request a waiver.

Redemption at TI Capital's Option

Beginning on May 15, 2005, the notes will be redeemable in whole or in part at TI Capital's (or TI Capital successor's) option at any time at a redemption price equal to the greater of:

- 100% of the principal amount of the applicable notes; or
- as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 20 basis points for the Series A notes, 25 basis points for the Series B notes and 30 basis points for the Series C notes,

plus accrued interest thereon to the date of redemption.

The definition of certain terms used in the paragraph above are listed below.

Adjusted treasury rate means, with respect to any redemption date:

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the comparable treasury issue (if no maturity is within three months before or after the remaining life (as defined below), yields for the two published maturities most closely corresponding to the comparable treasury issue will be determined and the treasury rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

- if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the comparable treasury issue, calculated using a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

The treasury rate will be calculated on the third Business Day preceding the date fixed for redemption.

Comparable treasury issue means the U.S. Treasury security selected by the quotation agent as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable treasury price means, with respect to any redemption date, (1) the average of five reference treasury dealer quotations for such redemption date, after excluding the highest and lowest reference treasury dealer quotations, or (2) if the quotation agent obtains fewer than four such reference treasury dealer quotations, the average of all such quotations.

Quotation agent means either Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc. or such other agent as appointed by TI Capital or Telecom Italia, or, if these firms are unwilling or unable to select the comparable treasury issue, an independent investment banking institution of national standing appointed by TI Capital or Telecom Italia.

Reference treasury dealer means:

- each of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc., or their affiliates which are primary US Government securities dealers, or their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “primary treasury dealer”), TI Capital will substitute such reference treasury dealer with another primary treasury dealer; and

- any other primary treasury dealer selected by the quotation agent after consultation with TI Capital or Telecom Italia.

Reference treasury dealer quotations means with respect to each reference treasury dealer and any redemption date, the average, as determined by the quotation agent, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the quotation agent by such reference treasury dealer at 3:30 p.m. (New York City time) on the third Business Day preceding such redemption date.

Remaining scheduled payments means, with respect to each note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that, if that redemption date is not an interest payment date with respect to such notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that redemption date.

If less than all of a series of notes is to be redeemed at any time, selection of notes for redemption will be made by the Trustee on a pro rata basis, by lot or by such method as the Trustee deems fair and appropriate; provided that notes with a principal amount of $1,000 will not be redeemed in part.

TI Capital will give DTC a notice of redemption at least 30 but not more than 60 days before the redemption date. If any notes are to be redeemed in part only, the notice of redemption that relates to such notes will state the portion of the principal amount thereof to be redeemed. A new note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original note.

Unless TI Capital defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

Optional Tax Redemption

Other than as described above under "—Redemption at TI Capital's Option," TI Capital will have the option to redeem the debt securities in the two situations described below. The redemption price for the notes will be equal to the principal amount of the notes being redeemed plus accrued interest and any additional amounts due on the date fixed for redemption. Furthermore, TI Capital must give you between 30 and 60 days' notice before redeeming the notes.

- The first situation is where, as a result of a change in, execution of or amendment to any laws, regulations or treaties or the official application or interpretation of any laws, regulations or treaties, either:

  – TI Capital or Telecom Italia (or its successor) would be required to pay additional amounts as described below under "Payments of Additional Amounts", or

  – Telecom Italia or any of its subsidiaries would have to deduct or withhold tax on any payment to TI Capital (or its successor) to enable TI Capital (or its successor) to make a payment of principal or interest on a debt security.

  This applies only in the case of changes, executions, amendments, applications or interpretations that occur on or after the date hereof and in the jurisdiction where TI Capital (Luxembourg) or Telecom Italia (Italy) is incorporated. If TI Capital or Telecom Italia is succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which the successor entity is organized, and the applicable date will be the date the entity became a successor.

  TI Capital would not have the option to redeem if TI Capital or Telecom Italia could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to TI Capital or Telecom Italia.

- The second situation is where a person into which TI Capital or Telecom Italia is merged or to whom it has conveyed, transferred or leased all or substantially all of its property is required to pay additional amounts. TI Capital would have the option to redeem the debt securities even if TI Capital or Telecom Italia is required to pay additional amounts immediately after the merger, conveyance, transfer or lease. Neither Telecom Italia nor TI Capital is required to use reasonable measures to avoid the obligation to pay additional amounts in this situation. However, TI Capital will not have the option to redeem if the sole purpose of such a merger would be to permit TI Capital to redeem the debt securities.

The election of TI Capital to redeem shall be evidenced by a board resolution or in another manner specified in the indenture. In case of any redemption TI Capital shall, at least 60 days prior to the redemption date (unless a shorter notice will be reasonably satisfactory to the Trustee), notify the Trustee of the redemption date and of the principal amount of notes to be redeemed.

Payment of Additional Amounts

Luxembourg or Italy may require TI Capital, as issuer, or Telecom Italia, as guarantor, to withhold amounts from payments of principal or interest on the notes or any amounts to be paid under the guarantees, as the case may be, for taxes or any other governmental charges. If Luxembourg or Italy requires a withholding of this type, TI Capital or Telecom Italia, as the case may be, may be required to pay you additional amounts so that the net amount you receive will be the amount specified in the note to which you are entitled.

TI Capital or Telecom Italia, as the case may be, will not have to pay additional amounts in respect of taxes or other governmental charges that are required to be deducted or withheld by any paying agent from a payment on a note, if such payment can be made without such deduction or withholding by any other paying agent, or in respect of taxes or other governmental charges that would not have been imposed but for:

- the existence of any present or former connection between you and Luxembourg or Italy, as the case may be, other than the mere holding of the note and the receipt of payments thereon;

- the application of the European Directive 2003/48/EC of June 3, 2003, on the taxation of income from savings, as well as any measure adopted according or pursuant to such directive;

- a failure to comply with any certification, documentation, information or other reporting requirements concerning your nationality, residence, identity or connection with Luxembourg or Italy, as the case may be, if such compliance is required as a precondition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that you are not resident in Luxembourg or Italy or are not an individual resident of a member state of the European Union);

- a change in law that becomes effective more than 30 days after a payment on the debt security becomes due and payable or on which payment thereof is duly provided for, whichever occurs later; or

- any tax or other governmental charge imposed on non residents in Italy as provided under Italian laws and regulations relating to states or territories deemed to have a "priviliged tax regime" for Italian tax law purposes.

These provisions will also apply to any taxes or governmental charges imposed by any jurisdiction in which a successor to TI Capital or Telecom Italia is organized.

For additional information, see section 803 of the indenture.

Restrictive Covenants

Restrictions on Liens

Some of TI Capital's and Telecom Italia's property may be subject to a mortgage or other legal mechanism that gives their lenders preferential rights in that property over other lenders, including you and the other direct holders of the notes, or over their general creditors if they fail to pay them back. These preferential rights are called liens. Each of TI Capital and Telecom Italia promises that it will not create or permit to subsist any encumbrance to secure capital market indebtedness, which is described further below, on the whole or any part of its present or future revenues or assets, other than permitted encumbrances.

As used here, encumbrance means:

- any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof; and

- any arrangement providing a creditor with prior right to an asset, or its proceeds of sale, over other creditors in a liquidation.

As used here, permitted encumbrance means:

- any encumbrance existing on the date of issuance of the notes;

- any encumbrance over or affecting any asset acquired by TI Capital or Telecom Italia after the date hereof and subject to which such asset is acquired, if:

  - such encumbrance was not created in contemplation of the acquisition of such asset by TI Capital or Telecom Italia;

  - the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by TI Capital or Telecom Italia;

  - any encumbrance over or affecting any asset of any company which becomes an obligor after the date hereof, where such encumbrance is created prior to the date on which such company becomes an obligor, if:

    - such encumbrance was not created in contemplation of that company becoming an obligor; and

    - the amount thereby secured has not been increased in contemplation of, or since the date of, that company becoming an obligor;

  - any netting or set-off arrangement entered into by any member of the Telecom Italia group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;

  - any title transfer or retention of title arrangement entered into by any member of the Telecom Italia group in the normal course of its trading activities on the counterparty's standard or usual terms;

  - encumbrances created in substitution of any encumbrance permitted under the first two sub-bullet points above over the same or substituted assets. This only applies if: (a) the principal amount secured by the substitute encumbrance does not exceed the principal amount outstanding and secured by the initial encumbrance; and (b) in the case of substituted assets, if the market value of the substituted assets at the time of the substitution does not exceed the market value of the assets replaced;

- encumbrances created to secure:

  - loans provided, supported or subsidized by a governmental agency, national or multinational investment guarantee agency , export credit agency or a lending organization established by the United Nations, the European Union or other international treaty organization, including, without limitation the European Investment Bank, the European Bank for Reconstruction and Development and the International Finance Corporation;

  - project finance indebtedness (as described below);

  this will, however, only apply if the encumbrance is created on an asset of the project being financed by such loans (and/or on the shares in, and/or shareholder loans made to, the company conducting such project) or, as the case may be, such project finance indebtedness and remains confined to that asset (and/or shares and/or shareholder loans);

- encumbrances arising out of the refinancing of any capital markets indebtedness secured by any encumbrance permitted by the preceding sub-paragraphs. This sub-paragraph will, however, only apply if the amount of such capital markets indebtedness is not increased and is not secured by an encumbrance over any additional assets;

- any encumbrance arising by operation of law;

- any encumbrance created in connection with convertible bonds or notes where the encumbrance is created over the assets into which the convertible bonds or notes may be converted and secures only the obligation of the issuer to effect the conversion of the bonds or notes into such assets;

- any encumbrance created in the ordinary course of business to secure capital market indebtedness under hedging transactions entered into for the purpose of managing risks arising under funded debt obligations such as credit support annexes and agreements;

- any encumbrance over or affecting any asset of Telecom Italia to secure capital markets indebtedness under a permitted leasing transaction (as described below); provided that the aggregate capital markets indebtedness secured by all such encumbrances does not exceed €1 billion;

- any encumbrance created on short-term receivables used in any asset-backed financing;

- any encumbrance on real estate assets of Telecom Italia, any subsidiary or any person to which such real estate assets may be contributed by Telecom Italia or any subsidiary in connection with the issuance of any indebtedness, whether such indebtedness is secured or unsecured by such real estate assets or any other assets of such person to which real estate assets have been contributed by Telecom Italia or any subsidiary; and

- any other encumbrance securing capital market indebtedness of an aggregate amount not exceeding 10% of the total net worth of Telecom Italia (as disclosed in the most recent audited consolidated balance sheet of Telecom Italia).

As used here, capital markets indebtedness means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which are listed or traded on a stock exchange or other recognized securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by Telecom Italia or TI Capital, the expressions "assets" and "obligations for the payment of borrowed money" as used in this definition do not include assets and obligations of Telecom Italia or TI Capital which, pursuant to the requirements of law and accounting principles generally accepted in Italy or Luxembourg, as the case may be, currently need not, and are not, reflected in the balance sheet of Telecom Italia or TI Capital, as the case may be.

As used here, permitted leasing transaction means one or more transactions or a series of transactions as a result of which Telecom Italia disposes of or otherwise transfers (including, without limitation, by way of sale of title or grant of a leasehold or other access, utilization and/or possessory interest(s)) its rights to possess, use and/or exploit all or a portion of a particular asset or particular assets owned, used and/or operated by Telecom Italia (or its rights and/or interests in respect thereof) to one or more other persons in circumstances where Telecom Italia or an affiliate shall have the right to obtain or retain possession, use and/or otherwise exploit the asset or assets (or rights and/or interests therein) so disposed of or otherwise transferred.

As used here project finance Indebtedness means any indebtedness incurred by a debtor to finance the ownership, acquisition, construction, development and/or operation of an asset in respect of which the person or persons to whom such indebtedness is, or may be, owed have no recourse whatsoever for the repayment of or payment of any sum relating to such indebtedness other than:

- recourse to such debtor for amounts limited to the cash flow from such asset; and/or

- recourse to such debtor generally, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation, representation or warranty (not being a payment obligation, representation or warranty or an obligation, representation or warranty to procure payment by another or an obligation, representation or warranty to comply or to procure compliance by another with any financial ratios or other test of financial condition) by the person against whom such recourse is available; and/or

- if such debtor has been established specifically for the purpose of constructing, developing, owning and/or operating the relevant asset and such debtor owns no other significant assets and carries on no other business, recourse to all of the assets and undertaking of such debtor and the shares in the capital of such debtor and shareholder loans made to such debtor.

Discharge and Defeasance

TI Capital or Telecom Italia can be legally released from any payment or other obligation on the notes except for various obligations described below if in addition to other actions, put in place the following arrangements for you to be repaid:

- TI Capital or Telecom Italia deposits in trust for your benefit and the benefit of all other direct holders of the notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, premium, if any, principal and any other payments on the notes on their various due dates.

- TI Capital or Telecom Italia delivers to the trustee a legal opinion of their counsel confirming that there has been a change in U.S. federal income tax law, and under then current U.S. federal income tax law TI Capital or Telecom Italia may make the above deposit without causing you to be taxed on the notes any differently than if TI Capital or Telecom Italia did not make the deposit and just repaid the notes itself. TI Capital or Telecom Italia would not have to deliver this opinion if TI Capital or Telecom Italia received from, or there has been published by, the U.S. Internal Revenue Service a ruling that states the same conclusion.

- If the notes are listed on the Luxembourg Stock Exchange or another exchange, TI Capital or Telecom Italia must deliver to the trustee a legal opinion of their counsel confirming that the deposit, defeasance and discharge will not cause the notes to be delisted from such exchange.

However, even if TI Capital or Telecom Italia takes these actions, a number of TI Capital's or Telecom Italia's obligations relating to the notes will remain. These include the following obligations:

- to register the transfer and exchange of notes,

- to replace mutilated, destroyed, lost or stolen notes,

- to maintain paying agencies, and

- to hold money for payment in trust.

Ranking

The notes are not secured by any of Telecom Italia's or TI Capital's property or assets. Accordingly, your ownership of the notes means you are one of Telecom Italia's or TI Capital's senior unsecured creditors. The debt securities are not subordinated to any of Telecom Italia's or TI Capital's other debt obligations and therefore they rank equally with all Telecom Italia's and TI Capital's other senior unsecured and unsubordinated indebtedness.

Events of Default

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

An "event of default" with respect to the notes is defined in the indenture:

- The failure by TI Capital or Telecom Italia to pay principal on a note within 10 days from the relevant due date or the failure to pay interest on a note within 30 days from the relevant due date;

- The failure by TI Capital to perform any other obligation under the notes or the failure by Telecom Italia to perform any obligation under its guarantee and such failure continues for more than 60 days after the trustee has received notice of it from the affected holder of the notes;

- Any of TI Capital's or Telecom Italia's capital market indebtedness (as defined above in "—Restrictive Covenants—Restrictions on Liens") in excess of €100 million (or the equivalent thereof in other currencies) has to be repaid prematurely due to a default under its terms;

- The failure by TI Capital or Telecom Italia to fulfill any payment obligation exceeding €100 million or its equivalent under any capital market indebtedness (as defined above in "—Restrictive Covenants—Restriction on Liens") of TI Capital or Telecom Italia, or under any guarantee provided for any such capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) of others, and this failure remains uncured for 30 days;

- Any security or guarantee relating to capital market indebtedness in excess of €100 million (or the equivalent thereof in other currencies) provided by TI Capital or Telecom Italia is enforced by the lenders and such enforcement is not contested in good faith by TI Capital or Telecom Italia or TI Capital or Telecom Italia publicly announce their inability to meet their financial obligations;

- A court opens insolvency or equivalent proceedings against TI Capital or Telecom Italia which are not resolved within six months, unless such proceedings are frivolous or vexatious and contested in good faith and appropriately and do not result in court orders; or TI Capital or Telecom Italia apply for such insolvency or equivalent proceedings;

- TI Capital or Telecom Italia approves a resolution pursuant to which it goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by TI Capital or Telecom Italia, in connection with the notes; or

- Telecom Italia's guarantee relating to the notes ceases to be valid or legally binding for any reason.

If an event of default has occurred and has not been cured, the trustee or the holders of 25% in principal amount of the outstanding notes of the affected series may declare the entire principal amount of all the notes of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of at least a majority in principal amount of the notes of the affected series.

Except in cases of default, where the Trustee has some special duties, the Trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the Trustee reasonable protection from expenses and liability. This protection is called an indemnity. If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding notes of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in performing another action under the indenture.

Before you bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes, the following must occur:

- You must give the trustee written notice that an event of default has occurred and remains uncured.

- The holders of 25% in principal amount of all outstanding notes of the relevant series must make a written request that the trustee take action because of the default, and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

- The trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.

Each of TI Capital and Telecom Italia will furnish to the trustee every year, within 120 days after the end of Telecom Italia's fiscal year, a written statement from its designated officers certifying that, to their knowledge, it is in compliance with the indenture and the notes, or else specifying any default.

Street name and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and to make or cancel a declaration of acceleration.

Regarding the Trustee

Telecom Italia and several of its subsidiaries maintain banking relations with the Trustee in the ordinary course of their business.

If an event of default occurs, or a default, that would become an event of default if the requirements for giving you a default notice or any specific grace period of time were disregarded occurs, the Trustee may be considered to have a conflicting interest with respect to the debt securities for purposes of the Trust Indenture Act of 1939. In that case, the Trustee may be required to resign as Trustee under the applicable indenture, TI Capital and Telecom Italia would be required to appoint a successor Trustee.

Global Clearance and Settlement

The Clearing systems

The information in this section concerning DTC, Clearstream and Euroclear, and DTC and their book-entry systems has been obtained from sources that TI Capital and Telecom Italia believe to be reliable. Neither TI Capital nor Telecom Italia make any representation or warranty with respect to this information, other than that it has been accurately extracted and/or summarized from those sources.

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include the Initial Purchasers, the U.S. depositaries, the fiscal agent, securities brokers and dealers, banks, trust companies and clearing corporations and may in the future include certain other organizations. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Transfers of ownership or other interests in Global Bonds in DTC may be made only through DTC participants.

Clearstream, Luxembourg

Clearstream (formerly Cedelbank) is incorporated under the laws of Luxembourg as a bank.

Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream interfaces with domestic markets in several countries. As a bank, Clearstream is subject to regulation by the *Commission de Surveillance du Secteur Financier*. Clearstream participants are financial institutions around the world, including the Initial Purchasers, other securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash.

Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (which we refer to in this offering memorandum as the **"Euroclear Operator"**) under a contract with Euro-Clear Clearance Systems, S.C. a Belgian cooperative corporation (which we refer to in this offering memorandum as the **"Cooperative"**). All operations are conducted by the Euroclear Operator and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), the Initial Purchasers, other securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Because the Euroclear Operator is a Belgian banking corporation, Euroclear is regulated and examined by the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (which we refer to in this offering memorandum as the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Clearing Numbers

The clearing numbers of the notes are set forth below:

Note	Common Codes	CUSIP Numbers	ISIN Numbers
Series A notes distributed pursuant to Rule 144A	017953281	87927VAB4	US87927VAB45
Series A notes distributed pursuant to Regulation S	017953354	T92762AB8	UST92762AB80
Series B notes distributed pursuant to Rule 144A	017953150	87927VAA6	US87927VAA61
Series B notes distributed pursuant to Regulation S	017953168	T92762AA0	UST92762AA08
Series C notes distributed pursuant to Rule 144A	017953427	87927VAC2	US87927VAC28
Series C notes distributed pursuant to Regulation S	017953435	T92762AC6	UST92762AC63

BOOK ENTRY SETTLEMENT AND CLEARANCE

The Global Notes

The notes will be issued in the form of several Global Notes. The Global Notes are registered notes in global form, without interest coupons. The notes will be issued as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by Rule 144A Global Notes; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by a Regulation S Global Notes.

Upon issuance, each of the Global Notes will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC ("**DTC participants**") or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC's custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the Initial Purchasers; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Regulation S Global Notes will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests. During the Distribution Compliance Period described below, beneficial interests in the Regulation S Global Notes may be:

- held only through Euroclear or Clearstream, Luxembourg; and
- transferred only to non-U.S. persons under Regulation S or qualified institutional buyers under Rule 144A.

Investors may hold their interests in the Regulation S Global Notes directly through Euroclear or Clearstream if they are participants in those systems, or indirectly through organizations that are participants in those systems. After the Distribution Compliance Period (described below) ends, investors may also hold their interests in the Regulation S Global Notes through organizations other than Euroclear or Clearstream that are DTC participants. Each of Euroclear and Clearstream will appoint a DTC participant to act as its depositary for the interests in each Regulation S Global Note that is held within DTC for the account of each settlement system on behalf of its participants.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described above under "Description of Notes and Guarantees—Legal Ownership—Book-Entry System".

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer Restrictions".

Exchanges Among the Global Notes

The Distribution Compliance Period will begin on the closing date and end 40 days after the closing date.

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the Distribution Compliance Period, and to which Global Note the transfer is being made, the Trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

TRANSFER RESTRICTIONS

The notes are subject to restrictions on transfer as summarized below. By purchasing notes, you will be deemed to have made the following acknowledgements, representations to and agreements with TI Capital, Telecom Italia and the Initial Purchasers:

You acknowledge that:

- the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth below.

You represent that you are not an affiliate (as defined in Rule 144) of ours, that you are not acting on Telecom Italia's and TI Capital's behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A) and are purchasing notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the notes to you in reliance on Rule 144A; or

- you are not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing notes in an offshore transaction in accordance with Regulation S.

You acknowledge that TI Capital, Telecom Italia, the Initial Purchasers or any person representing TI Capital, Telecom Italia or the Initial Purchasers has not made any representation to you with respect to TI Capital and Telecom Italia or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum and the document incorporated by reference herein in making your investment decision with respect to the notes. You agree that you have had access to such financial and other information concerning us and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from TI Capital and Telecom Italia.

You represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of the notes by its acceptance of the notes will agree, that until the end of the Resale Restriction Period (as defined below), the notes may be offered, sold or otherwise transferred only:

- to TI Capital and Telecom Italia;

- under a registration statement that has been declared effective under the Securities Act;

- for so long as the notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

- through offers and sales that occur outside the United States within the meaning of Regulation S; or

- under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control.

You also acknowledge that:

- the above restrictions on resale will apply:
  - in the case of the Rule 144A notes, from the closing date until the date that is two years after the later of the closing date and the last date that we or any of our affiliates was the owner of the notes (the "Rule 144A Resale Restriction Period") and, subject to certain exceptions, will not apply after the Rule 144A Resale Restriction Period ends;
  - in the case of the Regulation S notes, from the closing date until the date that is 40 days after the closing date (the "Regulation S Resale Restriction Period" and, together with the Rule 144A Resale Restriction Period, the "Resale Restriction Period"), and will not apply after the Regulation S Resale Restriction Period ends;
- each note will contain a legend substantially to the following effect:

  THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS [*IN THE CASE OF RULE 144A NOTES:* TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY),] [*IN THE CASE OF REGULATION S NOTES:* 40 DAYS AFTER THE ORIGINAL ISSUE DATE HEREOF] ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

You acknowledge that TI Capital and Telecom Italia, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify TI Capital and Telecom Italia and the Initial Purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Other restrictions

You understand that it is the intention of TI Capital that the notes will be offered and sold to investors, and trade in the secondary market between investors, and will be held by investors who are, resident in countries or territories listed in the Decree of the Ministry of Finance of Italy of September 4, 1996 as amended, with the exception of the countries or territories which are also listed in the Decree of the Ministry of Finance of Italy of January 23, 2002, as amended. A copy of the decrees can be obtained from the website of the Ministry of Finance of Italy at www.finanze.it. If Art. 41 of Decree Law 30 September 2003, n.269 is confirmed and converted into ordinary law, the exclusion of the countries listed in the Decree of the Ministry of Finance of Italy of January 23, 2002 will expire on January 1, 2004. You also understand that, to the extent that Telecom Italia becomes the obligor under the notes due to substitution or otherwise (see "Description of Notes and Guarantees—Mergers and Similar Events") and Telecom Italia was obligated to withhold on any payments made on the notes, there would be no obligation to gross up such payments to investors not resident in the countries identified in the above Decrees. See "Description of Notes and Guarantees—Payment of Additional Amounts".

The following is the current list of countries or territories where, if the notes were held by residents of such countries or territories, and Telecom Italia were to become the obligor on the notes, Telecom Italia would have no obligation to gross up payments in the event of a withholding on any payments on the notes: Andorra, Anguilla, Aruba, the Bahamas, Barbados, Barbuda, Belize, Bermuda, the British Virgin Islands, Brunei, the Cayman Islands, the Channel Islands, Cyprus, Djibouti, French Polynesia, Gibraltar, Grenada, Guatemala, Hong Kong, the Isle of Man, Kiribati, Lebanon, Liberia, Liechtenstein, Macau, Malaysia, the Maldives, the Marshall Islands, Montserrat, Nauru, the Netherlands Antilles, Nevis, New Caledonia, Niue, the Philippines, Oman, the Solomon Islands, St. Kitts, St. Lucia, St. Vincent and the Grenadines, the Seychelles, Singapore, Tonga, the Turks and Caicos Islands, Tuvalu, Vanuatu and Samoa.

The following is the current list of countries or territories where, if the notes were held by residents of such countries or territories and Telecom Italia were to become the obligor on the notes, Telecom Italia may have no obligation to gross up payments in the event of a withholding on any payments on the notes: Angola, Antigua, Bahrain, Costa Rica, Dominica, Ecuador, Jamaica, Kenya, Korea (Rep.), Kuwait, Malta, Mauritius, Monaco, Panama, Puerto Rico, Switzerland, United Arab Emirates and Uruguay. The countries and territories listed in this paragraph are either considered (under Italian tax law) as having a privileged tax regime subject to activity specific exemptions or are not considered (under Italian tax law) as having a privileged tax regime but are deemed to be tax havens with regard to certain activities.

You also understand the notes will not be offered, sold or delivered in Italy. Italian investors may suffer adverse tax consequences from holding the notes and in connection therewith there is no obligation for either TI Capital or Telecom Italia to gross up any payment on the notes made to Italian investors.

EXCHANGE OFFER AND REGISTRATION RIGHTS

In connection with the issuance of the notes, TI Capital and Telecom Italia will enter into a registration rights agreement (the "Registration Rights Agreement") with Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc., as the representatives of the Initial Purchasers. The following summary of selected provisions of the Registration Rights Agreement is not complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement. Copies of the Registration Rights Agreement are available from TI Capital and Telecom Italia upon request.

Under the Registration Rights Agreement, TI Capital and Telecom Italia will agree to consummate the exchange offer no later than 365 days after the issue date.

The exchange notes will be identical in all material respects to the notes, except that:

- additional interest, as described below, will not be payable in respect of the exchange notes;
- the exchange notes will not be entitled to registration rights under the Registration Rights Agreement;
- interest on the exchange notes will accrue from the last day on which interest was paid on the notes;
- the non-call period for any optional call could be extended; and
- except for the restrictions described under "Transfer Restrictions—Other restrictions", the exchange notes will not be subject to the restrictions on transfer described above under "Transfer Restrictions."

Upon becoming effective, the exchange offer registration statement will permit the holders of the notes, except as described below, the opportunity to exchange their notes for the exchange notes. Under existing interpretations of the SEC set forth in no-action letters to third parties, the exchange notes would in general be freely transferable (other than by holders who are broker-dealers or by any holder who is an affiliate of ours) after the exchange offer without further registration under the Securities Act. Under those existing SEC interpretations, each holder of notes participating in the exchange offer will be required to represent to TI Capital and to Telecom Italia, among other things, that, at the time of the consummation of the exchange offer:

- any exchange notes received by that holder will be acquired in the ordinary course of business;
- that holder has no arrangement or understanding with any person to participate in the distribution of the notes or the exchange notes within the meaning of the Securities Act;
- the holder is not an "affiliate" (as defined in Rule 405 of the Securities Act) of Telecom Italia;
- that holder is not engaged in, and does not intend to engage in, the distribution of the exchange notes within the meaning of the Securities Act;
- if that holder is a broker-dealer, it will receive exchange notes in exchange for notes that were acquired for its own account as a result of market-making activities or other trading activities and it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such exchange notes; and
- if that holder is a broker-dealer, it did not purchase the notes being tendered in the exchange offer directly from TI Capital or Telecom Italia for resale pursuant to Rule 144A or any other available exemption from registration under the Securities Act.

Any holder that is not able to make these representations or certain similar representations will not be entitled to participate in the exchange offer or to exchange its notes for exchange notes.

The exchange notes, if issued, will be issued under the indenture. The notes and, if issued, the exchange notes, will constitute a single series of debt securities under the indenture. This means that, in circumstances where the indenture provides for holders of debt securities of any series to vote or take any other action as a single class, holders of the notes who do not exchange their notes for exchange notes and holders of exchange notes will vote or take that action as a single class. The exchange notes will represent the same underlying indebtedness as the notes for which they are exchanged.

Although TI Capital and Telecom Italia intend to file the exchange offer registration statement, there can be no assurance that the exchange offer registration statement, will be filed or, if filed that it will become effective. The Registration Rights Agreement provides that if TI Capital and Telecom Italia have not consummated the exchange offer within 365 days from the issue date, then, in addition to the interest otherwise payable on the notes, additional interest will accrue and be payable on the notes at a rate of 0.50% per annum until that requirement is satisfied.

Any amounts of additional interest due will be payable in cash and will be payable on the same dates on which interest is otherwise payable on the notes and to the same persons who are entitled to receive those payments of interest on the notes. The amount of additional interest payable for any period will be determined by multiplying the additional interest rate (as described above) by the principal amount of the notes and then multiplying that product by a fraction, the numerator of which is the number of days that the additional interest rate was applicable during that period (determined on the basis of a 360-day year comprising twelve 30-day months), and the denominator of which is 360.

If TI Capital and Telecom Italia effect the exchange offer, TI Capital and Telecom Italia will be entitled to close that offer as long as they have accepted all notes validly tendered and not withdrawn in accordance with the terms of the exchange offer. Notes not tendered in the exchange offer will bear interest at the same rate in effect at the time of original issuance of the notes and, after consummation of the exchange offer, will not be entitled to additional interest or further registration rights.

TAX CONSIDERATIONS

Luxembourg Tax Considerations

The following is a general description of the material Luxembourg tax consequences of purchasing, owning and disposing of the notes. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or deposit the notes. It does, in particular, not address the situation of any companies taking advantage of a special income tax treatment in Luxembourg, such as holding companies regulated under the Law of July 31, 1929 or undertakings for collective investments. Prospective purchasers of the notes should consult their own tax advisors as to the applicable tax consequences of the ownership of the notes, based on their particular circumstances. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect on the date of this Offering Memorandum and is subject to any amendments in law later introduced, whether or not on a retroactive basis.

Tax Residency

A holder of the notes will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the notes, or the execution, performance, delivery and/or enforcement of the notes.

Taxation of the holders of the notes

Withholding tax

Under Luxembourg tax law currently in effect, there is no withholding tax for Luxembourg residents and non-residents on payments of interest (including accrued but unpaid interest), nor is any Luxembourg withholding tax payable on payments received upon redemption, repayment of the principal or upon an exchange of the notes.

Luxembourg non-resident

Holders of the notes who are non-residents of Luxembourg and who do not hold the notes through a permanent establishment in Luxembourg are not liable to any Luxembourg income tax, whether they receive payments of interest (including accrued but unpaid interest), or payments upon redemption, repayment of principal or exchange of the notes, or realize capital gains on the sale of any notes.

Taxation of Luxembourg residents - General

Holders of the notes who are resident of Luxembourg or who have a permanent establishment in Luxembourg with which the holding of the notes is connected, must, for income tax purposes include any interest received in their taxable income. These holders will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Luxembourg resident individual holders of the notes are not subject to taxation on capital gains upon the transfer of the notes, unless the transfer of the notes precedes the acquisition of the notes or the notes are disposed of within six months of the date of acquisition of these notes. Upon a redemption or exchange of the notes, individual Luxembourg resident holders must however include the portion of the redemption or exchange price corresponding to accrued but unpaid interest in their taxable income.

Luxembourg resident companies

Luxembourg resident companies (société de capitaux) holders of the notes or foreign entities of the same type which have a permanent establishment in Luxembourg with which the holding of the notes is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the notes sold, redeemed or exchanged.

EU savings directive

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, Member States will be required from 1 January 2005 to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the holders of the notes as a consequence of the issuance of the notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the notes.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes.

Luxembourg net wealth tax will not be levied on a holder of the notes, unless (i) such holder is a Luxembourg resident or (ii) such notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No gift, estate or inheritance taxes is levied on the transfer of the notes upon death of a holder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Italian Tax Considerations

The following is a summary of certain Italian tax consequences of the receipt of interest on the notes and capital gains upon disposal thereof by non Italian investors, along with a summary of the Italian tax treatment of payments possibly made by the Guarantor under the notes.

This summary is based upon Italian tax law and practice as in effect on the date of the offering memorandum and is subject to change, potentially with retroactive effect.

The Italian Council of Ministers has approved Decree Law no. 269 of 30 September 2003 providing, among other things, for some modifications in the taxation of financial income. The Decree Law is effective as of October 2, 2003 unless differently specified in the text of the law. However, it should be converted into law by the Italian Parliament within 60 days, otherwise it would lose its effects retroactively. It is possible that the Decree be amended by the Parliament in the course of the conversion.

Prospective investors in the debt securities should consult their own advisors regarding the Italian or other tax consequences of the purchase, ownership and disposition of the debt securities in their particular circumstances, including the effect of any state, local or foreign tax laws.

Interest on Debt Securities

Interest payable on debt securities issued by TI Capital to a beneficial owner who is not resident in Italy and is not acting through an Italian permanent establishment is not subject to Italian taxes. To the extent that debt securities are deposited by a non-resident holder in an account with an Italian withholding agent, interest payable to a non-resident beneficial owner is subject to the substitute tax at rates up to 27%, according to the same rules applicable to Italian resident holders, unless the holder produces a declaration of non-residence in Italy. In addition, any element of the proceeds of sale of debt securities by a non-resident holder which represents accrued, and express or implied, interest in respect of such debt securities will be subject to Italian substitute tax if the debt securities are sold through an Italian withholding agent, unless such holder produces a declaration of non-residence and has provided details of the period during which he was the beneficial owner of the debt securities and the interest derived therefrom.

Payments under the Guarantees by Telecom Italia

There is no authority directly on point regarding the Italian tax regime of payments made by Telecom Italia under the guarantees. Accordingly, there can be no assurance that the Italian revenue authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian court would not sustain such an alternative treatment.

Payments to non-resident holders made by Telecom Italia under the guarantees, which represent interest payable on the debt securities, are subject to the Italian tax regime described above under “Interest on Debt Securities—Non-resident holders”.

Capital Gains on Debt Securities

Capital gains realized by non-residents from the sale of debt securities issued by TI Capital are in principle not subject to tax in Italy. However, a 12.5% substitute tax may apply to the extent the bonds are located in the Italian territory unless:

- the debt securities are listed on a regulated market; or
- the debt securities are not listed on a regulated market, but the following requirements are satisfied:
  - the holder is resident of a country which allows an adequate exchange of information with Italy or, in the case of institutional investors not subject to tax, they are established in such country, provided in each case that the country is not deemed to have a "privileged tax regime" (the list of the States or territories having a "privileged tax regime" was approved by the Decree of the Ministry of Economy and Finance dated April 24, 1992); under Decree Law no. 269 of 30 September 2003, effective January 1, 2004, if the holder is resident in a country that allows an adequate exchange of information, it is entitled to the exemption, even if resident in a country that has a "privileged tax regime";
  - the relevant Italian withholding agent, if any, receives a self-declaration from the holder of the debt securities which states that the holder is a resident of that country. The self-declaration, which must be in conformity with the model approved by the Ministry of Economy and Finance (approved in Decree of the Ministry of Economy and Finance of December 12, 2001, published in the Ordinary Supplement No. 287 to the Official Journal No. 301 of December 29, 2001), is valid until revoked by the investor and does not have to be filed if an equivalent self-declaration (including Form 116/IMP) has been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company;
  - the holder is resident in a country that has entered into a double taxation convention with Italy that provides for the exclusive right to tax such gains in the holder's country of residence.

United States Federal Income Tax Considerations

General

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes by U.S. Holders (as defined below), and by Non-U.S. Holders (as defined below) to the extent described under "—Backup Withholding and Information Reporting for Non-U.S. Holders" who purchase the notes in this offering at their "issue price", which will be equal to the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold. This summary addresses only U.S. federal income tax considerations for U.S. Holders that will hold the notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the notes. In particular, this summary does not address tax considerations applicable to U.S. Holders that may be subject to special tax rules including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in securities or currencies; (iv) tax-exempt entities; (v) persons that will hold notes as part of a "hedging" or "conversion" transaction or as a position in a "straddle" or as part of a "synthetic security" or other integrated transaction for U.S. federal income tax purposes; (vi) persons that have a "functional currency" other than the U.S. dollar; (vii) regulated investment companies; and (viii) persons that hold the notes through partnerships or other pass-through entities. Further, this summary does not address alternative minimum tax consequences.

This summary is based on the Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect on the date of this offering memorandum. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

U.S. Holders should consult their own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of notes. U.S. Holders should also review the discussion under "—Luxembourg Tax Considerations" and "—Italian Tax Considerations" for a discussion of the Luxembourg and Italian tax consequences to a U.S. Holder of the ownership of notes.

For purposes of this summary a "U.S. Holder" is a beneficial owner of notes that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source and regardless of whether it is effectively connected with the conduct of a business in the United States.

Effective from the date of commencement of discussions concerning this offering, you and each of your employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind, including opinions and other tax analyses that we have provided to you relating to such U.S. federal income tax treatment and tax structure.

Payments of Interest

Interest (including any additional amounts) paid on a note will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Interest will be treated as foreign source income for purposes of calculating a U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for the foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, the interest on a note should generally constitute "passive income," or in the case of certain U.S. Holders, "financial services income," which may be relevant for certain U.S. Holders.

Disposition of a Note

Upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. Holder generally will recognize U.S. source capital gain or loss equal to the difference between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which will be treated as interest income as described above) and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note will generally equal the cost of the note to such holder.

Exchange of Notes

An exchange of notes for exchange notes as described under "Exchange Offer and Registration Rights" will not be treated as a taxable exchange for U.S. federal income tax purposes. Accordingly, U.S. Holders who exchange their notes for exchange notes will not recognize income, gain or loss for U.S. federal income tax purposes. A U.S. Holder's tax basis in the exchange notes will be equal to its adjusted basis in the notes and its holding period for the exchange notes will include the period during which it held the notes.

Backup Withholding and Information Reporting

Information returns may be filed with the Internal Revenue Service in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. A U.S. Holder may be subject to U.S. backup withholding tax on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holders U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Backup Withholding and Information Reporting for Non-U.S. Holders

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a note that is, for U.S. federal income tax purposes:

- an individual who is classified as a nonresident;
- a foreign corporation; or
- a foreign estate or trust.

"Non-U.S. Holder" does not include a holder who is (i) an individual present in the United States for 183 days or more in the taxable year of disposition or (ii) subject to U.S. federal tax on a net income basis on income earned from the notes. Such holders are urged to consult their own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of a note.

In general, U.S. information reporting and backup withholding will not apply to payments made by TI Capital or Telecom Italia on notes held through a non-U.S. bank or other non-U.S. financial institution that is a participant in Euroclear, Clearstream or the Depositary Trust Company. In certain situations, however, information reporting and backup withholding may apply to these payments if a Non-U.S. Holder does not comply with applicable certification procedures to establish that it is not a U.S. person. Payments of sale proceeds made within the United States or through certain U.S.-related financial institutions may be subject to information reporting and backup withholding unless the Non-U.S. Holder complies with applicable certification procedures to establish that it is not a U.S. person.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the purchase agreement, dated October 22, 2003, between Telecom Italia, TI Capital and the Initial Purchasers named below, we have agreed to sell to each of the Initial Purchasers, and each of the Initial Purchasers has severally agreed to purchase, the principal amount of notes set forth opposite the name of such Initial Purchaser below.

	Principal amount		
Initial Purchaser	Series A notes	Series B notes	Series C notes
Banc of America Securities LLC	$ 142,858,000	$ 285,715,000	$ 142,858,000
Citigroup Global Markets Inc.	142,857,000	285,715,000	142,857,000
Credit Suisse First Boston (Europe) Limited	142,857,000	285,714,000	142,857,000
J.P. Morgan Securities Inc.	142,857,000	285,714,000	142,857,000
Lehman Brothers Inc.	142,857,000	285,714,000	142,857,000
Merrill Lynch International	142,857,000	285,714,000	142,857,000
Morgan Stanley & Co. Incorporated	142,857,000	285,714,000	142,857,000
Total	$ 1,000,000,000	$ 2,000,000,000	$ 1,000,000,000

The Initial Purchasers have agreed to purchase:

- the Series A notes at their issue price of 99.953% of the principal amount, plus accrued interest from October 29, 2003, less commissions of 0.350% of the principal amount;

- the Series B notes at their issue price of 99.742% of the principal amount, plus accrued interest from October 29, 2003, less commissions of 0.450% of the principal amount; and

- the Series C notes at their issue price of 99.558% of the principal amount, plus accrued interest from October 29, 2003, less commissions of 0.875% of the principal amount.

The obligations of the Initial Purchasers under the purchase agreement, including their agreement to purchase notes from us, are several and not joint. In the purchase agreement, the Initial Purchasers have agreed, subject to the terms and conditions set forth in the purchase agreement, to purchase all of the notes if any of the notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated. The Initial Purchasers propose initially to offer the notes at the initial offering prices set forth on the cover page of this offering memorandum. After the initial offering, the price to investors, concessions and discounts may be changed.

TI Capital and Telecom Italia have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to certain conditions contained in the purchase agreement, including the receipt by the Initial Purchasers of officer's certificates and legal opinions, being satisfied. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. The Initial Purchasers will not offer or sell the notes except:

- to persons they reasonably believe to be qualified institutional buyers pursuant to Rule 144A, or

- pursuant to offers and sales to non-U.S. persons that occur outside the United States pursuant to Regulation S.

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions".

The notes are a new issue of securities with no established trading market. We do not intend to apply for quotation of the notes on any automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the notes after completion of this offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. A liquid or active public trading market for the notes may not develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

In connection with the offering of the notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. The Initial Purchasers are not required to engage in any of these activities. If the Initial Purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

It is expected that delivery of the notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of pricing of the notes (such settlement cycle being herein referred to as "T+5"). Trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of pricing or the next business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade certificates on the date of pricing or the next business day should consult their own advisors.

The Initial Purchasers and/or their affiliates have provided investment banking, commercial banking and financial advisory services to Telecom Italia or its affiliates in the past, for which they have received customary compensation and expense reimbursement, and may do so again in the future. An affiliate of J.P.Morgan Securities Inc. acted as financial advisor to Olivetti in connection with the Merger. In addition, J.P. Morgan plc acted as one of the mandated lead arrangers, and J.P. Morgan Europe Limited acted as agent, in connection with each of Telecom Italia's Term Loan Facility and Revolving Credit Facility. Affiliates of Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse First Boston (Europe) Limited, Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated are also lenders under such facilities and such affiliates, together with an affiliate of J.P. Morgan Securities, Inc., will have certain of the loans made under the Term Loan Facility repaid with a portion of the net proceeds of the offering.

The Initial Purchasers expect to make offers and sales both inside and outside of the United States through their selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the U.S. Securities and Exchange Commission. The Initial Purchasers are expected to make offers and sales in the United States through their selling agent in the United States.

Certain Initial Purchasers will make the notes available for distribution on the Internet through a proprietary website and/or a third-party system operated by Market Axess Inc., an Internet-based communications technology provider. Market Axess Inc. is providing the system as a conduit for communications between such Initial Purchasers and their customers and is not a party to any transaction. Market Axess Inc., a registered broker-dealer, will receive compensation from such Initial Purchasers based on transactions such Initial Purchasers conduct through the system. Such Initial Purchasers will market the notes available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels. Market Axess Inc. requires each user of its system to provide certification of its status as a qualified institutional buyer.

Selling Restrictions

No Initial Purchaser is authorized to make any representation or use any information in connection with the issue, offering and sale of the notes other than as contained in this offering memorandum, or such other information relating to TI Capital, Telecom Italia and the notes which we have authorized to be used or is otherwise publicly available.

General. No action has been or will be taken by TI Capital, Telecom Italia or by or on behalf of any Initial Purchaser which would permit a public offering of any of the notes or distribution of an offering memorandum or other offering material in any jurisdiction where there are requirements for such purpose to be complied with. Accordingly, notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction except under an exemption that would result in compliance with any applicable laws and regulations. Each Initial Purchaser has represented and agreed that it will only offer, sell or deliver any notes or distribute copies of this offering memorandum or any other document relating to the notes in the countries listed in the Decree of the Ministry of Finance of Italy of September 4, 1996, as amended, with the exception of the countries which are also listed in the Decree of the Ministry of Finance of Italy of January 23, 2002, as amended. A copy of the decrees can be obtained from the website of the Ministry of Finance of Italy at www.finanze.it

The notes offered pursuant to this offering memorandum have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and may not be offered or sold in the United States or to U.S. persons unless registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available. The notes are being offered and sold pursuant to this offering memorandum within the United States only to qualified institutional buyers, in reliance on Rule 144A under the Securities Act, and outside the United States to non-U.S. persons in reliance on Regulation S. Each Initial Purchaser will to the best of its knowledge comply with all relevant laws, regulations and directives in each jurisdiction in which it offers, sells, or delivers notes or has in its possession or distributes this offering memorandum or any amendment or supplement thereto or any other offering material.

Luxembourg. Each Initial Purchaser has represented, warranted and agreed that no public offerings or sales of notes or any distribution of the Offering Memorandum or any other offering material relating to the notes will be made to the public in or from Luxembourg, except for the notes in respect of which the requirements of Luxembourg law concerning a public offering of securities in Luxembourg have been fulfilled. A listing on the Luxembourg Stock Exchange of the notes does not necessarily imply that a public offering in Luxembourg has been authorized.

Italy. No application has been made to obtain an authorization from CONSOB for a public offering of the Notes and each Initial Purchaser represents, warrants and agrees that it has not offered or sold, and will not offer or sell, any notes in Italy and will not distribute copies of this offering memorandum or any other document relating to the notes in Italy.

United States of America. Each Initial Purchaser acknowledges that the notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.

Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

- Such Initial Purchaser has offered and sold the notes, and will offer and sell the notes, (A) as part of their distribution at any time and (B) otherwise until 40 days after the later of the commencement of the offering of the notes and the Closing Date, only in accordance with Regulation S ("Regulation S") or Rule 144A under the Securities Act.

- None of such Initial Purchaser or any of its affiliates or any other person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the notes, and all such persons have complied and will comply with the offering restrictions requirement of Regulation S.

- At or prior to the confirmation of sale of any notes sold in reliance on Regulation S, such Initial Purchaser will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

  "The notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the notes and the date of original issuance of the notes, except in either case in accordance with Regulation S or Rule 144A or any other available exemption from registration under the Securities Act. Terms used above have the meanings given to them by Regulation S".

Such Initial Purchaser has not and will not enter into any contractual arrangement with any distributor with respect to the distribution of the notes, except with its affiliates or with the prior written consent of Telecom Italia or TI Capital.

United Kingdom. Each Initial Purchaser has represented and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such notes, will not offer or sell any such notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the ESMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to TI Capital or Telecom Italia; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such notes in, from or otherwise involving the United Kingdom.

Japan. Each Initial Purchaser represents, agrees and undertakes not to offer, sell, directly or indirectly, any notes in Japan or to, for the account of, any resident thereof or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account of, any resistent thereof, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

Federal Republic of Germany. Each Initial Purchaser has represented, agreed and undertaken in the purchase agreement (i) that it has not offered, sold or delivered and will not offer, sell or deliver any notes within the Federal Republic of Germany otherwise than in accordance with the German Sales Prospectus Act, and (ii) that it will distribute in the Federal Republic of Germany any offering material relating to the notes only under circumstances that will result in compliance with the applicable rules and regulations of the Federal Republic of Germany.

Netherlands. Each Initial Purchaser represents and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any notes other than to persons who trade or invest in securities in the conduct of their profession or business, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and treasury departments and finance companies which regularly, or as an ancillary activity, invest in securities.

France. Each Initial Purchaser has represented and agreed that (a) it has not offered or sold and will not offer or sell, directly or indirectly, any notes to the public in France and (b) it has not released, issued, distributed or caused to be released, issued or distributed and will not release, issue, distribute or cause to be released, issued or distributed in France this offering memorandum or any other offering material relating to the notes and has not used and will not use such material in connection with any offer for subscription or sale of the notes to the public in France. In France, such offers, sales, releases, issuances and distributions will have been and shall only be made to (i) qualified investors (*investisseurs qualifiés*) and/or (ii) a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in and in accordance with Article L. 411-2 of the French *Code monétaire et financier* and *décret* no. 98-880 dated October 1, 1998.

Such notes may be resold only in compliance with Articles L. 411-1 Seq, L. 412-1 and L. 621-8 of the *Code monétaire et financier*. Where an issue of notes is implemented as an exception to the rules relating to an *appel public à l'épargne* in France (public offer rules) by way of an offer to a restricted circle of over one hundred investors, such investors must provide certification as to their personal relationship of a professional or family nature with a member of the management of Telecom Italia and TI Capital. Investors in France and persons into whose possession offering material comes must inform themselves about and observe any such restrictions.

Belgium. Each Initial Purchaser represents, agrees and undertakes not to offer publicly, directly or indirectly, any notes in Belgium at the time of the offering. The offer of notes has not been notified to, and the offering documents (including this offering memorandum) have not been approved by, the Belgium Banking and Finance Commission. The notes may only be sold in Belgium to professional investors as defined in article 3 of the Royal Decree of July 7, 1999 on public nature of financial transactions, acting for their own account, and this offering memorandum may not be delivered or passed on to any other investors.

Spain. Each Initial Purchaser represents, agrees and undertakes not to offer or sell in Spain any notes except in accordance with the requirements of the Spanish Securities Market Law (Ley 24/1988 de 28 de julio, del Mercado de Valores as amended by Law 37/1998 of November 16) and Royal Decree 291/1992 on Issues and Public Offering of Securities (Real Decreto 291/1992 de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores), as amended or restated by Royal Decree 2590/1998 of December 7 ("R.D. 291/92"), and further subsequent legislation.

This offering memorandum is neither verified nor registered in the administrative registries of the Spanish Securities Exchange Commission (Comisión Nacional del Mercado del Valores), and therefore a public offer for subscription of the notes will not be carried out in Spain. Notwithstanding that and in accordance with article 7 of R.D. 291/92, a private placement of the notes addressed exclusively to institutional investors (as defined in Article 7.1 (a) of R.D. 291/92) may be carried out.

LEGAL MATTERS

The validity of the notes and the guarantees under New York law and certain matters of United States law relating to the notes offered through this offering memorandum will be passed upon for Telecom Italia and TI Capital by Davis Polk & Wardwell. Certain matters of Italian law will be passed upon for Telecom Italia by Gianni, Origoni, Grippo & Partners. Certain matters of Italian tax law will be passed upon for Telecom Italia by Maisto e Associati Associazione Professionale. Certain matters of Luxembourg law will be passed upon for Telecom Italia and TI Capital by Linklaters Loesch.

The validity of the notes and the guarantees offered hereby under New York law will be passed upon for the Initial Purchasers by Sullivan & Cromwell LLP. Certain matters of Italian law will be passed upon for the Initial Purchasers by Chiomenti Studio Legale.

INDEPENDENT ACCOUNTANTS

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 and the Old Telecom Italia consolidated financial statements at December 31, 2001 and 2002 and for each of the two years in the period ended December 31, 2002 set forth in the Telecom Italia Annual Report incorporated by reference herein.

GENERAL INFORMATION

Application has been made to list the notes on the Luxembourg Stock Exchange in accordance with the rules of the Luxembourg Stock Exchange. In connection with such listing application, the legal notice relating to the issuance of the notes and the constitutional documents of TI Capital and Telecom Italia have been deposited with the Register of Commerce and Companies in Luxembourg, where such documents may be examined and copies thereof may be obtained upon request. Additionally, copies of Telecom Italia's Articles of Association and all reports prepared and filed are available at the office of BNP Paribas Luxembourg, the paying agent in Luxembourg.

TI Capital is registered at the Register of Commerce and Companies in Luxembourg under number B-77970. TI Capital does not publish interim financial statements.

So long as the notes remain outstanding and listed on the Luxembourg Stock Exchange, copies (and English translations for documents not in English) of the following items as well as of any additional items listed in "Where You Can Find More Information" will be available free of charge from our listing agent at its offices at BNP Paribas, 10A Boulevard Royal, L-2093, Luxembourg.

During the same period, the indenture will be available for inspection at the office of BNP Paribas Luxembourg, the paying agent in Luxembourg at 10A Boulevard Royal, L-2093 Luxembourg. Pursuant to Italian laws and regulations, Telecom Italia publishes its unaudited financial information on a quarterly basis.

Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issuance of the notes nor, so far as we are aware, is any such litigation or arbitration pending or threatened. Except as disclosed in this offering memorandum (including the documents incorporated by reference herein), there has not been any material adverse change in the financial position or prospects of TI Capital or Telecom Italia.

According to Chapter VI, Article 3, Point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the notes of each class shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

OLIVETTI CONSOLIDATED FINANCIAL STATEMENTS

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

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 13)	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 14)	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

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 interests	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

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 savings 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

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 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.

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 December31, 2002), generating proceeds of €756 million and realizing a gain, which contributed €25million 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 longterm 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 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.

- 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.

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 December31, 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 provis ion 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.

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.

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.

Foreign currency transactions

Monetary as sets 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.

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.

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.

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

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.

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 18months (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 €1,046 (€848 million as of December 31, 2001), of which €826 million was due to the securitization Program.

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.

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.

An analysis of movements in fixed assets for each of the years is as follows:

	As of December 31,	
	2001	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	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	As of December 31, 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

Note 9—Intangible assets

	As of December 31, 2001	As of December 31, 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 €549million, 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 (€1,544million, 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.

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)
Write-downs	(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

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	As of December 31, 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 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.

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	As of December 31, 2002
	(millions of euro)	
Up to 2.5%	5,179	4,779
From 2.5% to 5%	25,753	15,941
From 5% to 7.5%	13,795	17,370
From 7.5% to 10%	727	738
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.

Financial debt consists of the following:

	As of December 31, 2001	As of December 31, 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 December31, 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 (€284million) 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);

- 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 €2,500million, 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? % 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 21months 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? % 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;
- 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.

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.

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)

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 €569million 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;

- 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).

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

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. (2002-2005)	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.).

Note 19—Other revenues

	Year ended December 31, 2001	Year ended December 31, 2002
	(millions of euro)	
Operating grants	26	20
Gain on disposal of fixed intangible and tangible asset	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 (€106million in 2002 and €112 million in 2001).

Note 20—Other external charges

	Year ended December 31, 2001	Year ended December 31, 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).

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;
- 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 (€241million 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: €103million 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 write-down 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 write-down of goodwill relating to companies accounted for by the equity method (GLB Serviços Interativos, Solpart Participacoes, Telekom Austria and the Nortel Inversora group); and

- €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 res idual 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 (€316million). 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 €389million;

- 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" (€74million);
- 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)

The provision for income taxes consisted of the following in the years ended December 31, 2001 and 2002:

	Year ended December 31, 2001	Year ended December 31, 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 TelecomItalia 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.

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.

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.

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:

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:

- 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*"),

- 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,

- 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,

- a detailed allocation of the purchase price of a company is required under U.S. GAAP for intangible assets other than goodwill,

- 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,

- 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,

- 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 million 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.

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%.

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 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 €6,537million 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 shareprice 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 €1,942million 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 IM.SER, 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 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 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.

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.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Significant differences and the effect of the above on consolidated net loss and stockholders' equity are set out below:

	Years ended December 31, 2001	Years ended December 31, 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
U.S. GAAP income (loss) before reconciliation effects of income taxes, minority interest and cumulative effect of accounting changes	(6,029)	1,643
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**

Earnings Per Ordinary Share Amounts in Accordance with U.S. GAAP (*)

	Years ended December 31, 2001	Years ended December 31, 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.

	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**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	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	(1,144)	(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

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

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 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 recognizes, 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 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 Liabilities*. 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 Benefits and 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 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:

	(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

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. 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.

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 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.

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

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.

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 121 of €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 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.

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.

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 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:

	Options Outstanding			Options Exercisable	
Range of Grant Prices	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	—	—

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 or 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.

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 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)	(4,006)	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 (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 Operating Activity 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:

	Domestic Wireline (1)(3)	Mobile	South America (1)(2)	Internet and Media	IT Market (3)	IT Group (3)	Olivetti Tecnost Group	Other Activities (4)	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	—	32,016
-Intersegment(5)	1,948	287	3	77	63	1,042	21	1,143	(4,584)	—
	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	57	(153)	(33)	13,706
Operating income	4,361	3,136	187	31	123	22	4	(2,381)	(391)	5,092
Depreciation and amortization	3,196	1,469	253	320	32	157	53	568	1,597	7,645
Investments in fixed assets	1,949	1,547	351	82	19	111	42	236	(20)	4,317
Identifiable assets	20,230	17,036	3,242	4,072	1,418	1,422	990	90,285	(44,468)	94,227
2002										
Operating revenues										
-Third parties	15,091	10,595	1,369	1,900	876	111	906	560	—	31,408
-Intersegment(5)	1,931	272	40	91	36	1,104	8	913	(4,395)	—
	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	59	(304)	(13)	14,033
Operating income	4,700	3,358	146	232	61	(21)	4	(2,102)	(362)	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	14,211	2,571	3,852	1,221	1,704	772	84,591	(44,924)	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 Operating Activity 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

(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

(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: In the aggregate	2001: Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies	2002: In the aggregate	2002: Main transactions with unconsolidated subsidiaries, affiliates, parent companies, subsidiaries and affiliates of the parent companies
Operating revenues	€954 million	• Astrolink (€296 million) • Brasil Telecom (€120 million) • Nortel Inversora group (€119 million) • Teleleasing (€82 million) • Auna group (€63 million) • Stream (€55 million) • Lottomatica (€123 million)	€306 million	• Teleleasing (€105 million) • Brasil Telecom (€48 million) • Stream (€42 million) • Auna group (€18 million) • Telecom Argentina (€18 million) • Telekom Srbija (€17 million)
Cost of materials and other external charges	€596 million	• Refers mainly to rent payable to IM.SER (€199 million) and Telemaco Immobiliare (€77 million) • TLC service costs from Etec S.A. Cuba (€79 million)	€475 million	• Refers mainly to rent payable to IM.SER (€153 million) and Telemaco Immobiliare (€37 million) • TLC service costs from Etec S.A. Cuba (€77 million) • Maintenance and assistance contracts from Italtel (€40 million) and Siemens Informatica (€24 million)
Other income, net	€25 million	• Mainly relates to cost recoveries for personnel on loan to some foreign unconsolidated subsidiaries and affiliated companies	€9 million	• 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	• Refers to accrued interest income on loans made to certain foreign unconsolidated subsidiaries and affiliated companies (€22 million) • Interest expense payable to Teleleasing (€30 million) for financial leasing transactions	Expense for €9 million	• Includes accrued interest income on loans made to certain subsidiaries and affiliates (€14 million) • Interest expense payable to Teleleasing for financial leasing transactions (€23 million)

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

	Related party transactions in the year ended December 31,			
	2001		2002	
Items	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 Inversora group (€21 million net of provision) and Teleleasing (€18 million) and Lottomatica (€42 million)	€222 million	Comprises mainly receivables from Stream (€71 million), Telekom Srbija (€21 million net of provision), Teleleasing (€38 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)
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 fom 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 million)	€110 million	They refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan
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)

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).

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 (€0.6million).
- *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.

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

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 4.015% 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 agreeme nt, 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:

- €9 billion term loan facility that will fund the cash out to Olivetti's withdrawing shareholders and, the tender offers; and
- €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.

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