TELECOM ITALIA S P A
Form 6-K
May 23, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF MAY 2003

TELECOM ITALIA S.p.A.
(Translation of registrant's name into English)

CORSO D'ITALIA 41
ROME, ITALY 00198
(Address of principal executive offices)

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

FORM 20-F [X]   FORM 40-F [ ]

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

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

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

YES [ ]   NO [X]

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

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

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

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

Cautionary Statement for Purposes of the "Safe Harbor" Provision of the United States Private Securities Litigation Reform Act of 1995.

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

The following important factors could cause the Telecom Italia Group's actual results to differ materially from those projected or implied in any forward-looking statements:

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

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

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

- the impact of regulatory decisions and changes in the regulatory environment;

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

- the continuing impact of rapid changes in technologies;

- the impact of political and economic developments in Italy and other countries in which the Telecom Italia Group operates;

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

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

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

- the amount and timing of any future impairment charges for Telecom Italia's licences, goodwill or other assets; and

- the impact of litigation or decreased mobile communications usage arising from actual or perceived health risks or other problems relating to mobile handsets or transmission masts.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. Accordingly, there can be no assurance that the group will achieve its projected results.

ITEM I

[Graphic Appears Here]
olivetti [logo] TELECOM ITALIA [logo]

Information Document
pursuant to Article 70(4) of
Consob Regulation 11971/1999, as amended,
concerning

THE MERGER BY INCORPORATION

OF

TELECOM ITALIA S.p.A.

INTO

OLIVETTI S.p.A.

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

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

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange Act of 1934 (the "Securities Exchange Act").

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

Olivetti will be considered a successor registrant with respect to the registration of Telecom Italia's ordinary and savings shares under the Securities Exchange Act and will consequently be subject to the requirements applicable to a reporting foreign private issuer under the Securities Exchange Act.

Application will be made to the New York Stock Exchange for the ordinary and savings shares of Olivetti to be listed in the form of American Depositary Recipts (ADRs) from the date the Merger becomes effective.

* * *

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, were prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases

Introduction

This information document ("Information Document") has been prepared and published jointly by Olivetti S.p.A. ("Olivetti", which, once the merger that is the subject of this | Information Document becomes effective, is also referred to as the "Company Resulting from the Merger") and Telecom Italia S.p.A. ("Telecom Italia") in accordance with Article 70(4) of Consob Regulation 11971/1999 as amended (the "Consob Regulation") in connection with the merger of Telecom Italia into Olivetti (the "Merger") to provide shareholders and the market with adequate and detailed information on the merger between Olivetti and Telecom Italia.

The Merger, approved by the Boards of Directors of Olivetti and Telecom Italia on 15 April 2003, comprises the merger of Telecom Italia, a subsidiary of Olivetti, into Olivetti pursuant to Article 2501 et seq. of the Civil Code. Since the Merger involves companies with financial instruments listed on an Italian regulated market, it is also subject to Legislative Decree 58/1998 (the "Consolidated Law") and the Consob Regulation.

Overview of the Merger

From the legal standpoint, the Merger will lead to the Company Resulting from the Merger being the universal successor to Telecom Italia, so that, from the date on which the merger becomes effective, the Company Resulting from the Merger will assume all the assets and liabilities, rights and obligations of Telecom Italia, thus including, but not limited to, the title to all the related tangible and intangible fixed assets, receivables and payables accrued and accruing, and, more generally, the entirety of Telecom Italia without any exclusions or limitations whatsoever.

For the purposes of the Merger reference has been made, pursuant to Article 2501-ter of the Civil Code, to the balance sheets in the draft financial statements of Olivetti and Telecom Italia for the year ended 31 December 2002.

The Boards of Directors of Olivetti and Telecom Italia, assisted by their respective financial advisors -- JP Morgan Chase Bank ("JP Morgan") for Olivetti; Lazard & Co. S.r.l. ("Lazard") and Goldman Sachs SIM S.p.A. ("Goldman Sachs") for Telecom Italia -- and in view of the outcome of the discussions concerning the determination of the exchange ratio have established, taking into account the analyses of their respective advisors, the exchange ratio at 7 Olivetti ordinary (savings) shares with a par value of Euro 1 each for every Telecom Italia ordinary (savings) share with a par value of Euro 0.55 each. The manner of determining the exchange ratio is described in Section 2.1.

Since the Merger will involve the merger into Olivetti of a subsidiary, it will result in the cancellation of Olivetti's interest in Telecom Italia when the merger becomes effective and the assignment to the holders of Telecom Italia ordinary and savings shares other than Olivetti of ordinary and savings shares issued by the Company Resulting from the Merger and the assignment to the holders of Olivetti shares of ordinary shares newly issued by the Company Resulting from the Merger on the basis of assignment ratios determined at the time of the signing of the merger instrument and corresponding to the exchange ratio. For the most part the assignment will be carried out by redistributing the share capital of the Company Resulting from the Merger and having recourse to the issue of new shares only insofar as this is necessary to keep the share capital of the Company Resulting from the Merger at the level of Olivetti's share capital as attested on 15 April 2003.

For more details, see Section 2.1.2(c).

In order to give effect to the exchange ratio for Telecom Italia savings shares, provision has been made for the Company Resulting from the Merger to issue savings shares to be assigned to the holders of Telecom Italia savings shares. Application will be made to Borsa Italiana S.p.A. ("Borsa Italiana") for these new savings shares to be listed on its electronic share market ("MTA"). The effectiveness of the Merger will be subject to such listing.

The Merger will be submitted for approval by the shareholders' meetings of Olivetti and Telecom Italia called respectively on 24, 25 and 26 May 2003 and 24 and 25 May 2003. It is the intention of the companies participating in the Merger to complete it as soon as possible, and specifically to render the Merger effective in the first half of August 2003.

The Company Resulting from the Merger will adopt new bylaws that will be almost the same as those of Telecom Italia, especially as regards the rules of corporate governance -- so that minority shareholders will enjoy basically the same protection as that provided by Telecom Italia's bylaws -- and the corporate purpose. In particular, the change in Olivetti's corporate purpose will result in Olivetti shareholders who are absent from the meeting or vote against the resolution approving such change having the right to withdraw from the company in accordance with Article 2437 of the Civil Code.

For a description of the bylaw changes in consequence of the Merger, see Section 2.1.2(f).

In order to meet the needs deriving from the settlement of possible withdrawals, Olivetti will draw on lines of credit provided by a group of banks amounting to Euro 9,000,000,000.

At the end of the Merger the ordinary shares of the Company Resulting from the Merger will continue to be listed on MTA. Nor will the Merger affect the listing of the Olivetti ordinary shares on the Frankfurt Stock Exchange; it is not intended to apply for the savings shares issued by the Company Resulting from the Merger to be listed on that exchange. Application will be made to the New York Stock Exchange for the ordinary and savings shares to be listed in the form of American Depositary Receipts (ADRs) from the date the Merger becomes effective, thus maintaining the existing situation with regard to Telecom Italia's ordinary and savings shares. As mentioned earlier, application will also be made for the savings shares to be listed on MTA.

The Tender Offer

As part of the Merger and before its completion, provision has been made for Olivetti to make a voluntary partial tender offer (the "Tender Offer") for Telecom Italia ordinary and savings shares. In addition to having an investment rationale, the Tender Offer is also intended to provide a way for Telecom Italia shareholders who do not wish to keep their holding in the Company Resulting from the Merger to liquidate part of it, in a similar way to the possibility Olivetti shareholders will have to exercise their de jure right of withdrawal. The Tender Offer will be made only at the end of the period allowed for Olivetti shareholders to exercise their right of withdrawal following the approval of the merger plan and the adoption of the new bylaws with the amended corporate purpose and no minimum threshold will be set for acceptances. The entire amount of the Euro 9,000,000,000 credit not used to finance Olivetti shareholders' exercise of their right of withdrawal will be allocated to the Tender Offer. See also Section 2.1.

This Information Document is available to the public at Olivetti's registered office at 77 Via Jervis, Ivrea, at Telecom Italia's registered office at 2 Piazza degli Affari, Milan, and its headquarters at 41 Corso d'Italia, Rome, and at Borsa Italiana's registered office at 6 Piazza degli Affari, Milan. It has also been posted on the websites of Olivetti and Telecom Italia, at respectively www.olivetti.it and www.telecomitalia.it.

Summary of data and indicators per share for Oivetti and Telecom Italia for the 2002 fiscal year (on a consolidated basis)

	Telecom Italia Group	Olivetti Group	
(in millions of euros)	2002 fiscal year (historical)	2002 fiscal year (historical)	200 (p
Income statement data			
Sales and service revenues	30,400	31,408	
Gross operating profit	13,964	14,023	
Operating income	7,381	6,016	
Net income (loss), before minority interest	297	(306)	
Net income (loss)	(322)	(773)	
(in millions of euros)			
Balance sheet and financial data			
Invested capital, net	30,941	54,022	
Shareholders' equity (1):	12,823	20,623	
of which:			
Parent Company interest	9,049	11,639	
Minority interest (1)	3,774	8,984	
Net financial debt	18,118	33,399	
Cash flow (2)	6,174	6,963	
(in euros)			
Per-share indicators (*)			
Net income (loss) on ordinary operations, after minority interest per share(3):			
Ordinary	0.1709	(0.1458) (4)	
		(0.0802) (5)	
Savings	0.1819		
Net income (loss), after minority interest per share			
Ordinary	(0.0474)	(0.0896) (4)	
		(0.0493) (5)	
Savings	(0.0364)		
Cash flow per share	0.8498	0.8068 (4)	
		0.4437 (5)	
Shareholders' equity, after minority interest per share	1.2455	1.3485 (4)	

		0.7417	(5)
(*) Number of shares considered:			
Ordinary	5,257,628,131	8,630,811,002	(4)
		15,692,383,640	(5)
net of treasury stock (ordinary shares)	5,280,500	214,628,828	(4)
		390,234,232	(5)
Savings	2,007,475,025		
net of treasury stock (savings shares)	45,647,000		

1. Net of "Receivables from shareholders for capital contributions", equal to Euro 4 million.

2. Net income (loss) before minority interest plus depreciation and amortization.

3. Net income (loss) on ordinary operations, after minority interest, calculated on the basis of the result for ordinary operations net of the related taxes with reference to the number of ordinary and savings shares outstanding at the end of the year. In making the calculation for the Telecom Italia Group and the Olivetti Group (pro forma column), account was taken of the bylaw requiring the dividend per share for savings shares to be higher than that for ordinary shares by 2% of the share's par value (Euro 0.0110).

4. Historical number of shares.

5. Pro forma number of shares taking account of the change in the par value from Euro 1.00 to Euro 0.55.

(o) The assumptions made in preparing the pro forma column are described in Section 5.

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1. Risk factors

The principal factors of risk or significant uncertainty regarding the Merger covered by this Information Document and the activity of the Company Resulting from the Merger are indicated below.

Activity of the Company Resulting from the Merger

From the date on which the Merger becomes effective and as a consequence thereof, the Company Resulting from the Merger will assume the rights and obligations of Telecom Italia, continuing the latter's activity. In particular, the Company Resulting from the Merger will succeed to Telecom Italia in all the concessions, licences and administrative authorizations granted thereto, in the ways established by the law in force, obtaining the assent of the competent authorities where required. The activity of the Company Resulting from the Merger will coincide substantially with that previously performed by Telecom Italia and the Company Resulting from the Merger will adopt the same corporate purpose as Telecom Italia. The bylaws of the Company Resulting from the Merger will be amended to incorporate Telecom Italia's current bylaws; among other things, these permit the provision of telecommunications services and require that the principal activity not be that of a holding company, which up to now, by contrast, has been the principal activity of Olivetti. In addition to these changes, there will be a substantial change in the risk profile associated with investment in Olivetti since, as a consequence of the Merger, the Company Resulting from the Merger will no longer have the characteristics established by the Ministry of the Treasury in implementing Article 113 of Legislative Decree 385/1993 to define the concept of "engaging as the principal activity, without dealings with the public, in the acquisition of equity interests".

As a consequence of the change of corporate purpose the Olivetti shareholders who vote against the merger resolution and those who are absent from the meeting may exercise the right of withdrawal under Article 2437 of the Civil Code. In this regard, see Section 2.1.2(d).

Development of the strategic guidelines

This Information Document contains some operating objectives for the Company Resulting from the Merger, agreed by the companies participating in the Merger and basically coinciding with those of Telecom Italia approved by its Board of Directors on 13 February 2003.

The above-mentioned objectives confirm the guidelines and objectives of the Telecom Italia Group's business plan for the three years 2002-2004 ("Business Plan").

The Business Plan's main guidelines concerning industrial restructuring are: (i) enhancing the position of leadership in the domestic market in the core business of fixed and mobile telephony; (ii) upgrading the portfolio of products and services; (iii) a new focus on international activities; and (iv) improvement of operating efficiency, with a stringent cost control policy.

Operations in 2002 confirmed the ability of the Telecom Italia Group to pursue these goals. In particular, the efficiency objectives envisaged for the period 2002-2004 have already been partly achieved and the plan of disposals carried out so far has had a positive impact on the level of debt.

Action to strengthen the Telecom Italia Group's ability to innovate, launch high value-added services and supply innovative core business services rapidly in all the countries in which it operates is continuing in the current year and will be continued in the coming years.

The achievement of the objectives of the Company Resulting from the Merger could be influenced by the following factors:

- the ability of the Company Resulting from the Merger to manage costs;
- the ability of the Company Resulting from the Merger to attract and retain highly qualified personnel;
- the ability of the Company Resulting from the Merger to dispose of non-core assets;
- the ability of the Company Resulting from the Merger to provide telecommunications services following alliances concluded with partners such as other operators or information technology providers;

- the general economic conditions of the principal markets in which the Company Resulting from the Merger does business;

- the effects of interest rate and exchange rate fluctuations;

- the entry of new competitors in the completely liberalized telecommunications market and their impact on the Company Resulting from the Merger's market share of domestic and international traffic.

Furthermore, the achievement of the objectives may also be subject to factors beyond the control of the Company Resulting from the Merger, including economic and market developments. Nor is there any guarantee that the Company Resulting from the Merger will actually achieve the objectives identified by management in the ways and according to the timetable envisaged.

Debt

The Merger described in this Information Document will cause the debt of the Company Resulting from the Merger to be greater than the present total debt of Olivetti and Telecom Italia, since this will be temporarily increased by the transactions related to the Merger (withdrawals and the Tender Offer). It is the opinion of Olivetti and Telecom Italia that the level of debt in question is consistent and compatible with the range of activities of the Company Resulting from the Merger and with the prospective cash flows deriving from the implementation of the strategic guidelines, and that the Merger permits the Company Resulting from the Merger to benefit from the positive effects of unified debt management, including the lengthening of maturities and optimal correlation with corporate requirements (on this point, see also Section 2.2).

Debt is projected to decrease over a span of between 18 and 24 months from the effectiveness of the Merger, partly by using the proceeds of the sale of other non-strategic assets for this purpose. However, there is no guarantee that factors now unforeseeable, including, but not limited to, the deterioration of the general situation of the economy, will not significantly affect the reduction of debt on the part of the Company Resulting from the Merger.

Sale of non-strategic assets

The continuation, completion, full or partial non-implementation or delayed execution of the programme of disposals of equity interests in companies that operate in sectors considered non-strategic could cause results to diverge from the objectives set. Furthermore, in the case of non-disposal or delayed disposal of such assets, the assets and liabilities, financial position and profits and losses of the companies earmarked for sale could have negative effects on the profitability, assets and liabilities and financial position of the Company Resulting from the Merger.

Investments in Europe and Latin America

In the past few years Telecom Italia has pursued a programme of strategic acquisitions in Latin America and in Europe, with the aim of establishing a more competitive position and balancing the diminution of its domestic market share. Recently, Telecom Italia has re-examined this strategy and sought to cut back its investments in non-strategic areas. Various factors, including, but not limited to, current market conditions and the general situation of the economy, could give rise to difficulties in the implementation of this plan by the Company Resulting from the Merger.

Changes in the legislative, regulatory and tariff framework - Effects of the liberalization of the telecommunications sector

The activities currently performed by Telecom Italia, which at the end of the Merger will be undertaken by the Company Resulting from the Merger, and by TIM, a subsidiary of Telecom Italia, are performed in the context of the legislative and regulatory framework in force in the European Union and Italy. The regulation of the telecommunications sector is subject to continuous evolution, on the basis of technological innovation and market developments. Consequently, changes in legislation, government policy or the interpretation of the current rules regarding operators and the telecommunications market could have a significant influence on the operations of the Company Resulting from the Merger and TIM. The Italian telecommunications sector has now been fully liberalized for more than five years (since 1 January 1998). Consequently, Telecom Italia has been faced with open competition in some sectors (for example, supply of some telecommunications services) since 1990 and has accordingly changed its own market approach to take account of the activities of competitors that have gradually extended their services to sectors in which Telecom Italia once had exclusive rights (before 1 January 1998 Telecom Italia had the exclusive right to provide public fixed telephony services and operate telecommunications networks supplying such services.) The entry of new operators following the liberalization of the sector has affected revenues from the supply of fixed telephony services and could affect future revenues therefrom for the Company Resulting from the Merger.

It should be noted that the current legislative framework, consisting of Presidential Decree 318/1997, Law 249/1997 and the related implementing measures, may shortly undergo a wholesale revision in connection with the transposition into Italian law of the Community directives referred to in the so-called "99 Review" aimed at creating a new regulatory framework for the electronic networks and communications sector based on the transposition into Italian law of a number of EU directives adopted in 2002 (the Framework Directive, the Access Directive, the Authorizations Directive, the Universal Service Directive and the Directive on Privacy and Electronic Communications) and set to come into force on 25 July 2003. The new framework is intended to bring harmonized regulation throughout the European Union, reduce entry barriers where they exist and foster competition to the benefit of consumers.

Effects of consolidation and globalization of the telecommunications industry on competitive positioning

The consolidation and globalization of the telecommunications industry in Europe and elsewhere may lead to a further increase in competition in the Italian market. Consolidation is increasing rapidly and competition is expected to rise at all levels in the future. The use of the single European currency could further intensify competition by facilitating international operators' entry into the Italian market and

direct competition with the Company Resulting from the Merger and with TIM in fixed and mobile telephony and in the local and long-distance markets.

Technological evolution and development of services in the telecommunications sector

The telecommunications industry is subject to rapid, significant changes in both technology and services. The Company Resulting from the Merger and its subsidiaries will have to contend with heightened competition arising from the technologies and services that may be introduced in the future. The telephone networks of the Company Resulting from the Merger and TIM will require an adequate capacity to adapt to meet both customer demand and continual technological change. They will also have to permit the provision of innovative services and/or traditional services using new technologies.

In order to face a possible reduction in revenues as a result of greater competition and the steady reduction in tariffs, the plan is for the group headed by the Company Resulting from the Merger to introduce new value-added services in both fixed and mobile telecommunications, so as to augment its own networks' traffic and develop new business opportunities. The success of these initiatives may depend on factors beyond the control of the Company Resulting from the Merger, and the revenues of the Company Resulting from the Merger could be affected by the failure of alternative services to develop in the fixed and mobile telecommunications mobile sector.

Golden Share

As regards the clauses of Telecom Italia's bylaws concerning the special powers attributed to the Minister for the Economy and Finance (the so-called Golden Share), the Minister for the Economy and Finance has informed Telecom Italia that he considered the conditions did not exist for exercising his veto right in the event of the adoption by Telecom Italia's shareholders' meeting of the resolution approving the Merger. As for the amendments to the bylaws connected with the Merger, the Minister for the Economy and Finance has informed Telecom Italia that he considered it necessary to maintain in the bylaws of the Company Resulting from the Merger the power of assenting to the acquisition of major shareholdings in the company's capital and the power of veto as set out in the current bylaws of Telecom Italia, but that he considered it was not necessary to maintain in such bylaws the power attributed to the Minister for the Economy and Finance in the current Telecom Italia bylaws of assenting to significant shareholders' agreements and that of appointing a member of the Board of Directors and a member of the Board of Auditors. The Minister for the Economy and Finance has indicated that the findings referred to above were issued in agreement with the Minister for Productive Activities.

Pending the formalization of the measure best suited to the findings and any opinion the competent Community authorities might express on the matter, the Minister for the Economy and Finance requested that the bylaws to be submitted to the shareholders' meetings of the companies participating in the Merger conform with the indications provided.

Accordingly, the extraordinary shareholders' meetings of Olivetti and Telecom Italia called to approve the Merger are invited to approve a clause in the bylaws of the Company Resulting from the Merger providing for the special powers referred to in Telecom Italia's current bylaws in accordance with the findings of the Minister for the Economy and Finance. The bylaws that will be adopted by the Company Resulting from the Merger provide, in Article 22, for the special powers as specified above (see Annex III).

Investor initiatives

According to media reports, Liverpool Limited Partnership ("Liverpool") has announced that on 13 May 2003 it had filed an application with the Court of Milan for a restraining order suspending the voting rights of Olimpia in Olivetti and those of Olivetti in Telecom Italia before the extraordinary shareholders' meetings convened by the two companies. The grounds for the petition are the alleged overstepping of the threshold triggering the mandatory tender offer requirement and hence, according to Liverpool, the suspension of the voting rights in question in the absence of compliance with the related requirements.

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2. Information regarding the Merger

2.1 Summary description of the procedures and time limits for the Merger

General aspects of the Merger

The Merger described in this Information Document, which will be submitted for approval by the shareholders' meetings of Olivetti and Telecom Italia, will consist of the Merger of Telecom Italia into Olivetti under Article 2501 et seq. of the Civil Code. Since the Merger involves companies with financial instruments listed on an Italian regulated market, it is also subject to the Consolidated Law and the Con-sob Regulation.

The Merger will lead to the Company Resulting from the Merger being the universal successor to Telecom Italia, so that, from the date on which the Merger becomes effective, the Company Resulting from the Merger will assume all the assets and liabilities, rights and obligations of Telecom Italia, thus including, but not limited to, the title to all the related tangible and intangible fixed assets, receivables and payables accrued and accruing, and, more generally, the entirety of Telecom Italia.

The Company Resulting from the Merger will assume the name "Telecom Italia S.p.A." and will succeed to all the legal relationships of Telecom Italia, including the concessions, licences and administrative authorizations granted thereto in accordance with the procedures established by the legislation in force, including the amendment of its corporate purpose.

The change in Olivetti's corporate purpose -- made necessary by the need, pursuant to the provisions of the licences and related fee schedules issued by the competent authorities in accordance with Presidential Decree 318/1997, for the Company Resulting from the Merger to have a purpose that expressly includes the regulated activities subject to administrative authorization currently performed by Telecom Italia -- will result in Olivetti shareholders who are absent from the meeting or vote against the resolution approving such change having the right to withdraw from the company in accordance with Article 2437 of the Civil Code (see Section 2.1.2(d)). In order to meet the needs deriving from the settlement of possible withdrawals, Olivetti will draw on lines of credit provided by a group of banks amounting to Euro 9,000,000,000.

Since the Merger will involve the Merger into Olivetti of a subsidiary, it will result in the cancellation of Olivetti's interest in Telecom Italia when the Merger becomes effective and the assignment to the holders of Telecom Italia ordinary and savings shares, other than Olivetti, of ordinary and savings shares issued by the Company Resulting from the Merger and the assignment to the holders of Olivetti shares of ordinary shares newly issued by the Company Resulting from the Merger on the basis of assignment ratios corresponding to the exchange ratio. For the most part the assignment will be carried out by redistributing the share capital of Olivetti and having recourse to the issue of additional shares only insofar as this is necessary to keep the share capital of the Company Resulting from the Merger at the level of Olivetti's share capital as attested on 15 April 2003. For more details, see Section 2.1.2(c).

As mentioned earlier, as a consequence of the Merger, Olivetti will cancel all the Telecom Italia shares it holds at the time the Merger takes place. For the purposes of the company's financial statements, the difference between the carrying value of the cancelled Telecom Italia shares and the corresponding portion of the shareholders' equity will be positive and will therefore give rise to a cancellation deficit. This deficit, whose size will also depend on the level of acceptances of the Tender Offer, will be allocated to Telecom Italia's assets (in particular its holding of TIM shares) and any remaining difference will be

entered under "goodwill". In view of the procedure for assigning the shares of the Company Resulting from the Merger, it is reasonable to expect that an exchange surplus will emerge. In Olivetti's consolidated financial statements the consolidation difference that arose with the acquisition of Telecom Italia in 1999 will be increased by the difference between the carrying value of any Telecom Italia shares acquired in the Tender Offer and the corresponding portion of the shareholders' equity.

It is the intention of the companies participating in the merger to complete the Merger as soon as possible, and specifically to render the Merger effective in the first half of August 2003.

At the end of the Merger the ordinary shares of the Company Resulting from the Merger will continue to be listed on MTA. Application will be made for the savings shares also to be listed on MTA before the Merger becomes effective and as a condition of its effectiveness. The Merger will not affect the listing of the Olivetti ordinary shares on the Frankfurt Stock Exchange. Application will also be made to the New York Stock Exchange for the ordinary and savings shares to be listed in the form of American Depositary Receipts (ADRs) from the date the Merger becomes effective.

The development of the Merger

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

On 7 January 2003 a feasibility study was begun with the objective of drawing up a plan for the combination of the two companies. In this connection Olivetti retained JP Morgan and Telecom Italia retained Lazard to act as financial advisors in evaluating and drawing up plans for the combination and, if it was decided to go ahead with the project, in determining the exchange ratio for the eventual merger. Subsequently, Telecom Italia retained Goldman Sachs to act as a financial advisor as well.

On 21 February 2003 members of the managements of the two companies and their respective financial and legal advisors began to discuss an operational plan for the combination, to be submitted to the Boards of Directors of Olivetti and Telecom Italia. Work on this plan and, in particular, on the valuations serving to determine the exchange ratio continued intensively from the above-mentioned date to early March 2003. In the same period, in view of the financial resources that would be needed under the plan that was emerging in order to pay for withdrawals by Olivetti shareholders and to finance a possible tender offer for Telecom Italia ordinary and savings shares, Olivetti began to negotiate a contract for a loan facility of Euro 9,000,000,000, which was signed on 24 April 2003 (for more details, see below).

The final proposal regarding the structure of the Merger and the exchange ratio for the Merger, as developed by the managements of the two companies and their respective advisors, was submitted on 11 March 2003 to the Boards of Directors of Olivetti and Telecom Italia. In their meetings the Boards: (i) agreed that the conditions had been created for the shortening of the control chain (i.e. a stable ratio between the Olivetti and Telecom Italia share prices and the achievement of certain targets announced in the 2002-2004 Business Plan); (ii) examined and approved the broad outline of the Merger; (iii) approved the exchange ratio for the Merger of Telecom Italia into Olivetti; and (iv) resolved to set in motion the activities necessary for the finalization of the plan to be submitted to their respective shareholders' meetings. They also agreed to wait for one month before approving the Merger Plan, to

give holders of Olivetti convertible bonds the possibility to exercise their conversion rights, as provided for in Article 2503-bis of the Civil Code.

In reaching its decisions on 11 March 2003, Telecom Italia's Board of Directors examined the financial analyses and the valuations prepared by Goldman Sachs and Lazard for the purposes of the Merger and the fairness opinions submitted by each advisor regarding the proposed exchange ratio (Annexes XI and XIV). On the same date Olivetti's Board of Directors examined the financial analyses and the valuations prepared by JP Morgan for the purposes of the Merger and the fairness opinion submitted by that advisor regarding the proposed exchange ratio (Annex VIII). Olivetti's Board of Directors also took note of the preliminary report issued by Professor Angelo Provasoli, who had been retained by the company for this purpose, on his verification of the consistency and appropriateness for the purposes of the Merger of the valuation methods used by JP Morgan to analyze the exchange ratio for the Merger between Olivetti and Telecom Italia. The report put forward by Professor Provasoli on 11 March 2003 was basically the same as the final report he submitted to Olivetti on 14 April 2003 (Annex XVI).

On 15 April 2003 the Boards of Directors of Olivetti and Telecom Italia approved the plan for the Merger of Telecom Italia into Olivetti (Annex III).

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

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

Specifically, the Boards of Directors of Olivetti and Telecom Italia, in view of the outcome of the discussions concerning the determination of the exchange ratio and with account also taken of the analyses of their respective financial advisors (JP Morgan for Olivetti, Goldman Sachs and Lazard for Telecom Italia), established that the "natural" exchange ratio for the assignment of the shares of the Company Resulting from the Merger was equal to 7 Olivetti ordinary (savings) shares with a par value of Euro 1 each for every Telecom Italia ordinary (savings) share with a par value of Euro 0.55 each.

In reaching its decisions in the meeting held on 15 April 2003, Olivetti's Board of Directors took note that JP Morgan had written a letter (Annex X) confirming the conclusions it had submitted on 11 March 2003 regarding the fairness of the exchange ratio. In reaching its decisions in the meeting held on the same date, Telecom Italia's Board of Directors examined the letter from Lazard (Annex XIII) confirming the conclusions of the fairness opinion it had submitted on 11 March 2003 (Annex XI) and the fairness opinion submitted by Goldman Sachs on 15 April 2003 (Annex XIV). For more details on the establishment of the exchange ratio and the fairness opinions and confirmation letters sent to the Boards of Directors of Olivetti and Telecom Italia, see Sections 2.1.2(a) and 2.1.2(b).

On 15 April 2003 the Boards of Directors of Olivetti and Telecom Italia also convened the extraordinary meetings of their respective shareholders: that of Olivetti on 24, 25 and 26 May 2003 on the first, second and third call, and that of Telecom Italia on 24 and 25 May 2003 on the first and second call. In order to obtain a report on the exchange ratios, Olivetti applied for the appointment of an expert pursuant to Article 2501-quinquies of the Civil Code and Article 158 of the Consolidated Law to the President of the Ivrea Tribunal, who appointed the auditing firm Deloitte & Touche Italia S.p.A. For Telecom Italia, the report on the exchange ratios required by law was issued by the auditing firm Reconta Ernst & Young S.p.A., its external auditors. The experts issued their respective reports on 22 April 2003 (Annexes VI e VII). On 24 April 2003, in order to pay for withdrawals, and with the amount remaining, the Tender Offer, Olivetti entered into a contract, governed by English law, for a loan of Euro 9,000,000,000 with a group of Italian and foreign banks. J.P. Morgan plc, a company indirectly controlled by JP Morgan Chase Bank (-Olivetti's financial advisor for the Merger), acted as Global Coordinator. The loan will be disbursed in three tranches with maturities of, respectively, 12, 18 and 24 months (the maturities of the first two tranches can be extended by 6 months and that of the third tranche by 12 months).

Savings shares

In order to give effect to the exchange ratio for Telecom Italia savings shares, provision has been made for the Company Resulting from the Merger to issue savings shares to be assigned to the holders of Telecom Italia savings shares. Application will be made for these new savings shares to be listed on MTA. The effectiveness of the Merger will be subject to such listing.

The savings shares issued by the Company Resulting from the Merger for the holders of Telecom Italia savings shares will have identical property rights to those of the Telecom Italia savings shares, including the possibility of satisfying the preferential rights provided for in the bylaws by distributing reserves (the addition of which to Telecom Italia's bylaws, with immediate effect, has been proposed to the shareholders' meeting called to approve the merger plan).

The maintenance of the preferential rights to which each savings share is entitled by law will be accompanied by an improvement in the preferential position of the Telecom Italia savings shareholders, since they will be assigned, for each such share held, more than one savings share of the Company Resulting from the Merger on the basis of the assignment ratio by means of which the exchange will be implemented. For more details on the mechanism for assigning the shares of the Company Resulting from the Merger, see Section 2.1.2(c).

Specifically, since each of the newly-issued savings shares of the Company Resulting from the Merger will have a par value equal to the present par value of the Telecom Italia savings shares (Euro 0.55) and will give the same percentage preferential right calculated with reference to its par value, at the time of the exchange each holder of Telecom Italia savings shares will receive, as a consequence of the assignment ratio, a larger amount of the nominal capital of the Company Resulting from the Merger than the amount previously held and will therefore be entitled to a larger preferred dividend in absolute terms. The Merger will therefore not prejudice the holders of savings shares in any way. Consequently, lacking the preconditions referred to in Article 2376 of the Civil Code and Article 146 of the Consolidated Law, the Board of Directors of Telecom Italia determined that the conditions did not exist for calling the special meeting of such shareholders. At the request of savings shareholders, a special meeting thereof has been convened on 9, 10 and 11 June 2003, among other things to examine the resolutions adopted by

the Telecom Italia extraordinary shareholders' meeting convened, on the first call, on 24 May 2003 and to approve, under Articles 146.1b) and 146.1e) of the Consolidated Law, any resolutions that prejudice the rights of the category.

Olivetti Convertible bonds and warrants

On 11 March 2003 the Board of Directors of Olivetti approved the publication of a notice in the Gazzetta Ufficiale della Repubblica Italiana (the Official Gazette of the Italian Republic) regarding the rights of holders of "Olivetti 1.5% 2001-2004 convertible bonds with repayment premium" and "Olivetti 1.5% 2001-2010 convertible bonds with repayment premium" convertible bonds to exercise the right of conversion pursuant to and for the purposes of Article 2503-bis, second paragraph, of the Civil Code. The notice appeared on 13 March 2003 and provided for such bondholders to have the right to apply for conversion for a period of one month from the date of publication thereof (i.e. from 13 March 2003 until at least 13 April 2003).

The above-mentioned right does not affect the terms of the issues in question, which will therefore continue to apply in full. Accordingly, from the day following the meeting of the Olivetti Board of Directors that approved the calling of the shareholders' meeting (i.e. from 16 April 2003) until the day such meeting is actually held (i.e. 24, 25 or 26 May 2003 as the case may be) the convertible bonds of the above-mentioned issues may not be presented for conversion owing to the period of suspension of convertibility established in the related terms.

The holders of the above-mentioned Olivetti convertible bonds will again be able, however, to exercise the conversion right in accordance with the terms thereof after the date of the shareholders' meeting, without prejudice to the periods of suspension provided for in the terms.

As a consequence of the Merger the ratio for the conversion of the convertible bonds into Olivetti shares and that for the exercise of the "Warrants for Olivetti ex Tecnost ordinary shares 1999-2004" will be adjusted, in accordance with the related terms, to take account of the new par value of the shares of the Company Resulting from the Merger and in relation to the assignment ratio, as explained in more detail in Section 2.1.2(c). In particular, the adjustment will be made to reflect the new fractional number of shares of the Company Resulting from the Merger into which each bond and each warrant can be converted at the end of the merger in view of the assignment ratio on the basis of which the shares of the Company Resulting from the Merger will be assigned, at the time of the exchange, to the shareholders of Olivetti who do not withdraw.

The Tender Offer

As part of the Merger and before its completion, Olivetti will make a voluntary partial tender offer for Telecom Italia ordinary and savings shares.

Olivetti intends to make available the proposed cash tender for a portion of the Telecom Italia ordinary shares described herein in the United States, pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange Act, on the same terms and conditions as the Tender Offer in Italy. The proposed cash tender offer for a portion of the Telecom Italia saving shares described herein is not being made and will not be made, directly or indirectly, in or into the United States and will not be capable of acceptance, directly or indirectly, in or from the United States or by the use of the mails of, or

by any means or instrumentality (including, without limitation, by mail, telephonically or electronically by way of Internet or otherwise) of intestate or foreign commerce, or any facility of any securities exchange, of the United States.

The Tender Offer will be made for the amount, if any, not used to pay for withdrawals of the Euro 9,000,000,000 made available by the group of banks under the loan agreement referred to above. Consequently, the Tender Offer will be made only at the end of the period allowed for the exercise of the right of withdrawal following the approval of the merger plan and the adoption of the new bylaws with the amended corporate purpose and no minimum threshold will be set for acceptances. The number of Telecom Italia shares tendered for will be established -- once the number of Olivetti shares for which the right of withdrawal has been exercised is known -- by dividing the amount remaining of the Euro 9,000,000,000 provided for the exercise by Olivetti shareholders of their right of withdrawal by the offer price per Telecom Italia ordinary and savings share (established in the manner described below), so that the offer will be for the same percentage of ordinary shares and savings shares (calculated in relation to the total number of shares of each class).

The offer price will be equal to the weighted average of the official prices recorded on the stock exchange between 12 March 2003 and the date of the Olivetti shareholders' meeting that approves the merger plan, plus a 20% premium. At all events, the offer price will be between: (i) a maximum of Euro 8.40 and a minimum of Euro 7 per share for Telecom Italia ordinary shares and (ii) a maximum of Euro 5.65 and a minimum of Euro 4.70 per share for Telecom Italia savings shares.

Depending on the offer price established in the manner described above, and assuming that the full amount of Euro 9,000,000,000 is available, the Tender Offer will be for the minimum and maximum quantities of Telecom Italia ordinary and savings shares shown below:

(i) assuming that the offer price is equal to the maximum price specified above, the offer will be for about 16.1% of the ordinary shares and about 16.1% of the savings shares;

(ii) assuming that the offer price is equal to the minimum price specified above, the offer will be for about 19.4% of the ordinary shares and about 19.4% of the savings shares; If, however, the acceptances of the Tender Offer fall short of the maximum quantity for one class of shares but exceed it for the other class, the amount not used to buy shares of the first class will be used to buy shares of the second class, and the maximum quantity of shares of the latter class will increase until all the funds available have been used, so that the largest number of shareholders wishing to accept the offer can be satisfied. In such case the percentages indicated in subparagraphs (i) and (ii) will change. Following the attestation of Olivetti's share capital on 3 April 2003, applications were received for the conversion of 27,630 "Olivetti 1.5% 2001-2004 convertible bonds with repayment premium" and 5,597,674 "Olivetti 1.5% 2001-2010 convertible bonds with repayment premium". No applications were received for the exercise of "Warrant for Olivetti ex Tecnost ordinary shares 1999-2004". Consequently there are convertible bonds and warrants in circulation giving the right to acquire 3,045,204,454 Olivetti shares with a par value of Euro 1.00 each. In addition, there are 30,330,000 stock options outstanding, which, if exercised, would authorize the issue of an equal number of shares. Considering that under the terms of the above-mentioned financial instruments the related conversion/exercise rights are suspended until the date of the Olivetti shareholders' meeting called to approve the Merger, so that the shares to be issued for the convertible bonds and warrants still in circulation cannot give rise to the exercise of the right of withdrawal, and considering also that the shareholder Olimpia S.p.A. has announced it will not

exercise its right of withdrawal, the amount available for the Tender Offer -- assuming that the withdrawal price is approximately Euro 1.00 -- will be approximately Euro 3,000,000,000, out of the original total financing of Euro 9,000,000,000 (insofar as the amount of the financing was calculated taking account of all the outstanding instruments bearing conversion or option rights that could give rise to the issue of shares by Olivetti under resolutions already adopted by the company and not yet expired). The offer document will establish that the transfer of ownership of the shares for which acceptances are received in the Tender Offer will become immediately effective at the close of the offer period or when the acceptances have been prorated. However, the offer document will also establish that such transfer of the shares to Olivetti will be ineffective if the Merger does not become effective by 31 December 2003, without prejudice to the intention of the companies participating in the Merger to complete it as soon as possible and, specifically, in accordance with the time limit referred to in Article 2503 of the Civil Code, in the first half of August 2003.

Until the payment date, which will be fixed for a date immediately following the date on which the Merger becomes effective, the Telecom Italia ordinary and savings shares will be held in an escrow account in the name of Olivetti but on behalf of the shareholders accepting of the Tender Offer. If the merger does not become effective by 31 December 2003, the ownership of the shares for which acceptances have been received in the Tender Offer will revert to the shareholders accepting the offer and the shares in question will be released from the escrow account and made available to them.

The above condition for the ineffectiveness of the Tender Offer is intended to ensure that it depend on basically the same circumstances as the Olivetti shareholders' right of withdrawal, which applies only if the Merger is completed.

The Tender Offer will be evaluated by the Board of Directors of Telecom Italia pursuant to and for the purposes of Article 39 of the Consob Regulation.

2.1.1 Description of the companies involved in the Merger

2.1.1(a) Olivetti

Name

The company's full name is "Ing. C. Olivetti & C. Societa per Azioni". The company is free to use its full name or one of the following abbreviated versions: "Ing. C. Olivetti & C., S.p.A." and "Olivetti S.p.A.".

Registered office

Ivrea (Turin), 77 Via Jervis.

Identity data

Olivetti is entered in the Turin Company Register. Its registration, tax and VAT number is 00488410010.

Share capital

Olivetti's subscribed and fully paid up share capital as attested on 15 April 2003 (the date on which the Board of Directors approved the merger plan) was equal to Euro 8,845,537,520, divided into

8,845,537,520 ordinary shares with a par value of Euro 1 each. Olivetti's subscribed and fully paid up share capital as attested on 13 May 2003 was equal to Euro 8,845,677,947, divided into 8,845,677,947 ordinary shares with a par value of Euro 1 each. The company does not have any other class of shares outstanding and there are no unpaid share instalments.

Olivetti's approved share capital (comprising both the subscribed and paid-up share capital and that which can be issued on the basis of resolutions already adopted by Olivetti's Board of Directors for the conversion of convertible bonds and the exercise of warrants and stock options) is equal to Euro 11,926,697,278. There are no undertakings to increase the share capital or mandates given to the directors authorizing them to approve further increases in capital.

Olivetti's holding of treasury stock amounts to 2,697,500 shares.

For information on the composition of Olivetti's shareholders, see Section 2.1.3.

Corporate purpose

The company's corporate purpose is to engage, directly and/or indirectly, in research, design, production and marketing in the fields of office equipment and products, automation, electronic data processing, telecommunications, information services and in activities related to the development of information technology and other industrial, commercial, financial and service activities. To achieve these objectives, the company may undertake any transaction involving real and personal property and any financial transaction, including the acquisition of equity holdings in undertakings, companies and entities, the financing and technical coordination of the same, and provide guarantees and real security in favour of third parties.

Governing bodies

Olivetti's Board of Directors, appointed by the ordinary shareholder's meeting of 13 October 2001 (apart from Gian Carlo Rocco di Torrepadula and Paola Pierri, co-opted by the Board of Directors on respectively 5 September 2002 and 7 November 2002), is as follows: (1)

Name	Place and date of birth	Position
Antonio Tesone*	Ancona - 20 July 1923	Chairman
Marco Tronchetti Provera	Milan - 18 January 1948	Deputy Chairma
Gilberto Benetton	Treviso - 19 June 1941	Deputy Chairma
Carlo Buora	Milan - 26 May 1946	Managing Direc
Lorenzo Caprio*	Milan - 19 November 1957	Director
Giorgio Cirla*	Lanzo d'Intelvi (Como) - 29 February 1940	Director
Pier Luigi Fabrizi*	Siena - 23 April 1948	Director
Cesare Geronzi*	Marino (Rome) - 15 February 1935	Director
Gianni Mion	Vo (Padua) - 6 September 1943	Director
Giampietro Nattino	Rome - 9 June 1935	Director
Paola Pierri	Turin - 25 March 1960	Director
Alberto Pirelli	Milan - 1 July 1954	Director
Gian Carlo Rocco di Torrepadula	Rome - 17 January 1943	Director
Carlo Alessandro Puri Negri	Genoa - 11 July 1952	Director
Alberto Varisco	Nova Milanese (Milan) - 20 October 1940	Director

* Independent director.

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(1) Dario Trevisan, formerly a member of the Board of Directors, resigned from the position of director with effect from the day following the Board meeting that approved the merger plan, i.e. from 16 April 2003.

All the members of Olivetti's Board of Directors are domiciled for the purposes of the position at the company's registered office at 77 via Jervis, Ivrea.

Olivetti's directors, recognizing that the post-Merger corporate reality will be inherently different from that of Olivetti as it is now, considered it appropriate that the direction of the Company Resulting from the Merger should remain entrusted essentially to the directors of Telecom Italia. Accordingly, deeming that their mandate had essentially come to an end, they resigned with effect (except in the case of Dario Trevisan, as indicated above) from the date on which the Merger will become effective and proposed that the meeting of Olivetti's shareholders (in addition to amending the part of Article 13 of the bylaws regarding the duration of the Board of Directors) should appoint a Board of Directors of the Company Resulting from the Merger, with effect from the date the Merger becomes effective and until the approval of the annual accounts for 2003, almost exactly reproducing that of Telecom Italia (bearing in mind that the Minister for the Economy and Finance had declared he did not consider it necessary for the bylaws of the Company Resulting from the Merger to maintain the power currently attributed to the Minister by Telecom Italia's bylaws to appoint a director).

As of 1 January 2003 Olivetti has not had a General Manager; previously the position was held by Corra-do Ariaudo. The company does not have an Executive Committee. On 13 October 2001 Olivetti's Board established a remuneration committee and an internal control committee and approved the rules for their functioning.

Olivetti's Board of Auditors, appointed by the shareholders' meeting of 4 July 2000 and due to terminate its mandate with the approval of the annual accounts for 2002, is as follows:

Name	Place and date of birth	Position
Angelo Fornasari	Milan - 14 March 1936	Chairman
Vittorio Bennani	Modena - 7 May 1938	Auditor
Franco Caramanti	Mantua - 17 January 1943	Auditor
Sergio Lodi	Milan - 19 March 1933	Alternate
Massimo Nuti	La Spezia - 22 December 1963	Alternate

All the members of Olivetti's Board of Auditors are domiciled for the purposes of the position at the company's registered office at 77 via Jervis, Ivrea.

The meeting of Olivetti's shareholders called on 24, 25 and 26 May 2003 will be asked to approve, with immediate effect, a new text of Article 20 of the bylaws regarding the appointment of the Board of Auditors. One effect of this amendment will be to increase the number of auditors from 3 to at least 5, so as to allow minority shareholders to elect at least two auditors and an alternate. The Chairman will be elected by majority vote by the auditors on the Board.

Since the mandate of the Board of Auditors is due to expire, the meeting of Olivetti's shareholders will be invited to appoint a new Board of Auditors to raise the number of members thereof in accordance with Article 20 of the bylaws, amended as above (to 5 or 7 auditors and 2 alternates).

Telecom Italia shares held directly or indirectly by members of the Board of Directors, the Board of Auditors and the General Manager of Olivetti

The table below shows the Telecom Italia shares held directly or indirectly by members of the Board of Directors, the Board of Auditors and the General Manager of Olivetti at 31 December 2002.(2)

	No. of shares held at 31.12.2001(*)	Class of share	Type of possession	Direct/ Indirect	No. of shares bought	N s s
Board of Directors						
Chairman						
TESONE Antonio	0	-	-	-	0	
Deputy Chairman and CEO						
TRONCHETTI PROVERA Marco	0	-	-		0	
Deputy Chairman						
BENETTON Gilberto	0	-	-		0	
Managing Director						
BUORA Carlo	0	-	-		0	
Directors						
CAPRIO Lorenzo	0	-	-		0	

CIRLA Giorgio	0	-	-		0
FABRIZI Pier Luigi	0	-	-		0
GERONZI Cesare	0	Ordinary	Full ownership	Direct	3,980
	4,950	Savings	Full ownership	Direct	7,250
MION Gianni	0	-	-	-	0
NATTINO Giampietro	0	-	-	-	0
PIERRI Paola	0	-	-	-	0
PIRELLI Alberto	550	Ordinary	Full ownership (***)	Direct	0
PURI NEGRI Carlo Alessandro	0	-	-	-	0
ROCCO di TORREPADULA Giancarlo	0	-	-	-	0
TREVISAN Dario	0	-	-	-	0
VARISCO Alberto		-	-	-	0
Previous directors (****)					
BONDI Enrico	0	-	-		0
MODIANO Pietro	0	-	-		0
Board of Auditors					
Chairman					
FORNASARI Angelo	0	-	-		0
Auditors					
BENNANI Vittorio	0	-	-		0
CARAMANTI Franco	20,000	Savings	Full ownership (***)	indirect	0
General Manager					
ARIAUDO Corrado	50,000	Ordinary	Full ownership	Direct	0
	200,000	Savings		Direct	0

(*) Or at the date appointed if in 2002.
(**) Or at date of termination of the appointment.
(***) Transactions carried out by a portfolio management company under an autonomous management mandate.
(****) At 31 December 2002.

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(2) Corrado Ariaudo resigned from the position of General Manager of Olivetti with effect from 31 December 2002. Dario Trevisan resigned from the position of director of Olivetti with effect from 16 April 2003.

Activities

Olivetti, in accordance with its current corporate purpose, is entered in the special section of the general register kept by the Italian Foreign Exchange Office (UIC) of persons who engage "principally" in financial activities "without dealings with the public" pursuant to and for the purposes of Articles 106 and 113 of Legislative Decree 385/1993.

Olivetti is a holding company. Its most important equity interest is that in Telecom Italia (about 54.9% of the ordinary share capital and about 39.5% of the total share capital), the parent company of the group of the same name. Olivetti is also present in business sectors such as office products and services and real estate, notably through its subsidiaries Olivetti Tecnost S.p.A. (information technology and communications products and services) and Olivetti Multiservices S.p.A. (real estate and related services).

Olivetti Tecnost S.p.A.

The Olivetti Tecnost Group provides office products and solutions (Divisione Office), specialized applications for the banking industry and the retail trade, and information systems for lotteries and other forms of gaming (Divisione Vertical).

The Group operates in all the main regional markets abroad (where it generates 68% of its total revenues) and, although it is focused primarily on Europe (29%), Asia (12%) and Latin America (15%), is also present in North America (11%) via its subsidiary Royal Consumer Information Product Inc. and other countries (1%).

In 2002 the revenues of the Olivetti Tecnost Group amounted to Euro 914 million (of which Euro 906 million was generated by customers outside the Olivetti Group), a reduction of 16.7% compared with 2001 (12.7% excluding exchange differences). The breakdown was as follows: Euro 588 million of revenues from hardware; Euro 154 million of revenues from accessories; Euro 73 million of revenues from services and Euro 99 million of other revenues.

The contraction in revenues in 2002 was primarily attributable to the office products division and to a lesser extent to the vertical applications division. Revenues in the banking and retail sector remained basically unchanged, confirming the importance of the Group's specialist products in the world market. In June 2002 a reorganization plan was presented, the primary objective of which is to return the Group to profitability through a series of interventions tailored to the individual business areas.

Olivetti Multiservices S.p.A.

This company, a wholly-owned subsidiary of Olivetti operating in the real-estate sector, saw a far-reaching change in its activity in 2002 following the transfer on 1 September 2002 of 23 properties and 10 building areas as part of the "Tiglio" project, aimed at enhancing the value of the real-estate owned by the Pirelli, Olivetti and Telecom Italia Groups. On 4 April 2003 Olivetti and Pirelli & C. Real Estate agreed the terms of the integration of their facility management businesses, headed by Olivetti Multiservices S.p.A. and Pirelli & C. RE Facility Management.

2.1.1(b) Telecom Italia

Name

Telecom Italia S.p.A.

Registered office

Milan, 2 Piazza degli Affari (Headquarters: Rome, 41 Corso d'Italia).

Identity data

Telecom Italia is entered in the Milan Company Register. Its registration, tax and VAT number is 00471850016.

Share capital

On 15 April 2003 (the date on which the Board of Directors approved the merger plan) Telecom Italia's fully paid-up share capital amounted to Euro 4,023,816,860.80, divided into 7,316,030,656 shares with a par value of Euro 0.55 each, comprising 5,262,908,631 ordinary shares and 2,053,122,025 savings shares. On 13 May 2003 Telecom Italia's fully paid-up share capital amounted to

Euro 4,023,833,058.30 divided into 7,316,060,106 shares with a par value of Euro 0.55 each, comprising 5,262,938,081 ordinary shares and 2,053,122,025 savings shares. There are no unpaid share instalments.

Under the plan to buy back the company's shares approved by Telecom Italia's ordinary shareholders' meeting on 7 November 2001, by 7 May 2003, the expiration date of the authorization, 54,309,500 savings shares had been bought at an average price of Euro 5.24 per share, for a total consideration of about Euro 285 million, and 6,195,500 ordinary shares at an average price of Euro 8.00 per share, for a total consideration of about Euro 50 million.

For information on the composition of Telecom Italia's shareholders, see Section 2.1.3.

Corporate purpose

The company's purpose comprises:

- the installation and operation, using any technique, method or system, of fixed and mobile equipment and plant, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a free-market environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;

- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;

- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;

- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

Activities reserved to persons entered in a professional register, activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993, and those which are otherwise prohibited by applicable legislation are expressly excluded.

Governing bodies

Telecom Italia's Board of Directors, appointed by the ordinary shareholder's meeting of 7 November 2001 (apart from Pietro Modiano and Riccardo Ruggiero, co-opted by the Board of Directors on respectively 25 July 2002 and 5 September 2002 and appointed by the shareholders' meeting of 12 December 2002) until the approval of the annual accounts for 2003, is as follows:

Name	Place and date of birth	Position
Marco Tronchetti Provera	Milan - 18 January 1948	Chairman
Gilberto Benetton	Treviso - 19 June 1941	Deputy Chairman
Carlo Buora	Milan - 26 May 1946	Managing Director
Riccardo Ruggiero	Naples - 26 August 1960	Managing Director
Umberto Colombo*	Livorno - 20 December 1927	Director
Francesco Denozza*	Turin - 5 October 1946	Director
Luigi Fausti*	Ancona - 9 March 1929	Director
Guido Ferrarini*	Genoa - 8 August 1950	Director
Natalino Irti*	Avezzano (AQ) - 5 April 1936	Director
Gianni Mion	Vo (Padua) - 6 September 1943	Director
Pietro Modiano	Milan - 3 November 1951	Director
Massimo Moratti	Boscochiesanuova (VR) - 16 May 1945	Director
Carlo Alessandro Puri Negri	Genoa - 11 July 1952	Director
Pier Francesco Saviotti	Alessandria - 16 June 1942	Director
Roberto Ulissi*	Rome - 20 August 1962	Director

* Independent director.

All the members of Telecom Italia's Board of Directors are domiciled for the purposes of the position at the company's registered office at 2 Piazza degli Affari, Milan.

Telecom Italia's Board of Auditors, appointed by the shareholders' meeting of 3 July 2000 and due to terminate its mandate with the approval of the annual accounts for 2002, is as follows:

Name	Place and date of birth	Position
Paolo Germani	Rome - 21 November 1939	Chairman
Mario Boidi	Turin - 1 March 1930	Auditor
Paolo Golia	Verona - 29 July 1944	Auditor
Fabrizio Quarta	Campi Salentina (LE) - 20 September 1961	Auditor
Gianfranco Zanda	Udine - 4 April 1941	Auditor
Enrico Bignami	Milan - 7 May 1957	Alternate
Leonida Liuni	Forenza (PZ) - 27 November 1929	Alternate

All the auditors are domiciled for the purposes of the position at the company's registered office at 2 Piazza degli Affari, Milan.

Since the mandate of the Board of Auditors is due to expire, the meeting of Telecom Italia's shareholders called on 24 and 25 May 2003 will be invited to appoint a new Board of Auditors in the manner laid down in Article 17 of the company's current bylaws.

At 31 December 2002 no member of Telecom Italia's Board of Directors or Board of Auditors or the General Manager owned, directly or indirectly, any Telecom Italia shares.

Activities

Telecom Italia, together with the group it heads, is one of the largest international operators in the sector of telecommunications services and, more in general, information and communication technology. Its companies, leaders in fixed and mobile communications, the Internet and media, information technology and research offer integrated and innovative services in Italy and abroad. Its principal strength is its leadership in the domestic market in fixed and mobile telecommunications and Internet services. The companies of the Group have created broadband, fixed and mobile networks providing innovative services, complex solutions for ICT, multimedia messaging, solutions for mobile business, products for e-government and online banking. The Telecom Italia Group is the leading wireline operator in Italy, with some 27.1 million lines installed, and one of the largest in the world. Through Telecom Italia's subsidiary TIM, the Group is also the leading mobile telephony operator in Italy and one of the major players in the world, with more than 39.1 million lines attributable to TIM and its affiliates abroad at the end of 2002.

The contributions of the individual Business Units / Operating Activities to the main economic and operating indicators in 2002 are shown in the following chart.

[GRAPHIC OMITTED -- Table below represents the graphic]

	Service Revenues	Gross operating margin	Operatng income	Industrial Investment	Employees(*)
Domestic Wireline	51.0%	55.8%	55.5%	59.9%	52.8%
Mobile	32.5%	35.3%	39.6%	36.8%	18.4%
South America	4.2%	3.1%	1.7%	4.6%	5.4%
Internet and Media	6.0%	4.1%	2.7%	1.7%	7.6%
IT Market	2.7%	0.7%	0.7%	0.6%	4.4%
IT Group	3.6%	1.0%	(0.2)%	3.4%	7.2%

(*) The other activities of the Telecom Italia Group employ 4.2% of the employees.

(1) The data refer to the Entel Chile and Entel Bolivia groups, the company Telecom Italia America Latina and the South America business segment of Telecom Italia.

Group strategy

With the entry of new management in July 2001 Telecom Italia's strategy was substantially revised and in September 2001 a new business plan was announced. The aim of the new strategy was to enhance the value of the existing activities and strengthen the financial structure in order to sustain growth. The management undertook to reduce debt and rationalize the investments abroad and set the objectives of bringing net financial debt down to Euro 18.3 billion by the end of 2002 and disposing of approximately Euro 5 billion of assets by September 2003. These objectives were achieved in full, in terms of both amounts and deadlines: by the end of 2002 net financial debt had been reduced to Euro 18.1 billion and asset sales of Euro 5.2 billion had been made.

The key objective indicated by the management for the coming years will continue to be the creation of value by putting to good use the Group's assets and distinctive skills and by strengthening the financial structure in order to sustain growth.

The priorities for operations established by the management are as follows:

(i) to consolidate the 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; in the Internet & Media sector, to continue the development of broadband services and portals;

(ii) to expand the Group's presence abroad in markets in which it can capitalize on its marketing and technological know-how: in mobile business, in Latin America and especially Brazil; in wireline business, through the development of the pan-European broadband network; (iii) to continue to manage the Group according to rigorous criteria of efficiency, thanks to the synergies deriving from the organizational model based on so-called "professional families" and service centres, expenditure control systems, and the careful selection of investment projects, aimed primarily at fostering innovation and growth.

The Group will also further develop initiatives in relation to the concept of sustainability, which is now an integral aspect of the plans drawn up by the companies belonging to the Group.

Industrial investments will be directed towards reinforcing the following strategy:

- focus on innovation
- leadership in the domestic market;
- development of value added services.

The industrial investments planned for the three years 2003-05 will be between Euro 14 billion and Euro 16 billion, more or less in line with the forecast for the three years 2002-04. The breakdown by sector of activity is shown in the table below.

Domestic Wireline	45% circa
Mobile	40% circa
Internet and Media	2% circa
Other	13% circa

About two thirds of all industrial investments will be for innovation and expansion.

Sales of assets

The effect of asset sales in 2001 and 2002 on the Telecom Italia Group's net financial debt is summarized in the chart below.

[Graphic Omitted]

2.1.2 The Merger

2.1.2 (a) The values attributed to Olivetti and Telecom Italia on the basis of various analyses

In carrying out the valuations serving to determine the exchange ratio, the Board of Directors of Olivetti was assisted by JP Morgan as financial advisor, while the Board of Directors of Telecom Italia was assisted by Lazard and Goldman Sachs as financial advisors. The valuation methodologies applied by JP Morgan in connection with its fairness opinion on the exchange ratio have been verified by Professor Angelo Provasoli, advisor to Olivetti, with a view to ascertaining their consistency and appropriateness with respect to the aims of the Merger.

For details on the values attributed by the Boards of Directors of Olivetti and Telecom Italia to the companies participating in the Merger, see their respective reports on the Merger, which were approved on 15 April 2003 and are attached to this Information Document (Annexes I and II).

As mentioned earlier, in view of the outcome of the discussions concerning the determination of the exchange ratio and with account also taken of the analyses of their respective financial advisors, the Boards of Directors of Olivetti and Telecom Italia have determined and agreed the values of the companies participating in the Merger for the purpose of fixing the exchange ratio and established that the "natural" exchange ratio on the basis of which the shares of the Company Resulting from the Merger will be assigned is equal to respectively 7 Olivetti ordinary (savings) shares with a par value of Euro 1 each for respectively every Telecom Italia ordinary (savings) share with a par value of Euro 0.55 each. For the valuation criteria and methods adopted to determine the exchange ratio, see Section 2.1.2(b).

On 22 April 2003 the auditing firms appointed as experts to report on the exchange ratio in accordance with Article 2501-quinquies of the Civil Code, Deloitte & Touche Italia S.p.A., for Olivetti, and Reconta Ernst & Young, for Telecom Italia, issued their reports (Annexes VI and VII).

2.1.2 (b) Valuation criteria and methods applied in determining the exchange ratio

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

In the valuation procedure followed, Olivetti's Board of Directors was in agreement with both the methodologies adopted and the conclusions reached by its financial advisor, JP Morgan. Similarly, Telecom Italia's Board of Directors was in agreement with both the methods adopted and the conclusions reached by its financial advisors, Goldman Sachs and Lazard.

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

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

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

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	6.6	6.9	7.2
Olivetti savings shares per Telecom Italia savings share	6.6	6.9	7.2

In order to verify the accuracy of the exchange ratio obtained in the manner described above, Olivetti's Board of Directors made a check using the stock market prices method. The following table shows the minimum, mean and maximum values of the average exchange ratio (number of Olivetti ordinary shares per Telecom Italia ordinary share) expressed by the stock market for the different periods analyzed preceding 7 March 2003 (inclusive).

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	6.7	6.9	7.1

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

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

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

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

For further details regarding the valuation criteria and methodologies used by the Boards of Directors of Olivetti and Telecom Italia in determining the exchange ratio, reference should be made to their respective merger reports (Annexes I and II).

The summary descriptions of the analyses designed and carried out by the financial advisors (JP Morgan for Olivetti and Lazard and Goldman Sachs for Telecom Italia) and their respective fairness opinions and confirmation letters are attached to this Information Document (Annexes VIII-XV).

The conclusions reached by Professor Angelo Provasoli, advisor to Olivetti, with regard to the valuation methodologies applied by JP Morgan in connection with its fairness opinion on the exchange ratio are also attached (Annex XVI).

2.1.2 (c) Procedure for assigning the shares of the Company Resulting from the Merger and start of dividend entitlement

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

It was therefore decided to carry out the share exchange primarily by redistributing Olivetti's capital and to have recourse to the issue of additional shares only insofar as this proved necessary to maintain the share capital at the level attested at the time the merger plan was approved.

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

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

In the case in question, the share capital of Olivetti at the time the Merger is implemented may vary from that attested on 15 April 2003 of Euro 8,845,537,520: (i) increasing as a consequence of the conversion of the "Olivetti 1.5% 2001-2004 convertible bonds with repayment premium" and "Olivetti 1.5% 2001-2010 convertible bonds with repayment premium", the exercise of the "Warrants for Olivetti ex Tecnost ordinary shares 1999-2004" and the exercise of Olivetti stock options ("Conversions") and (ii) decreasing as a consequence of withdrawals by Olivetti shareholders who are absent from the meeting or vote against the Merger. Olivetti's capital "to be "redistributed" will therefore be the algebraic sum of the subscribed capital at the time the Merger plan is approved and the subsequent variations up to the implementation of the Merger.

Assuming the extreme cases of (i) the total exercise of Conversions and no withdrawals and (ii) no Conversions and the exercise of the right to withdraw by all the Olivetti minority shareholders except for Olimpia, Olivetti's share capital at the time the Merger is completed can vary between a maximum of Euro 11,926,697,278 and a minimum of Euro 2,738,756,641.

Since it is assumed that the share capital of the Company Resulting from the Merger must not be less than Euro 8,845,537,520 (the amount of Olivetti's share capital as attested on 15 April 2003, the date the Merger plan was approved by the Board of Directors), in the event that the decreasing effect of withdrawals outweighs the increasing effect of Conversions so that the share capital at the time the Merger is implemented is less than Euro 8,845,537,520, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the Merger to bring the share capital up to the above-mentioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares. In this latter connection Olivetti International S.A. has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to complete the Merger.

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

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

b) The new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital at the time of the Merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment

ratios reflecting, with reference to the actual number of shares to be redistributed, the "natural" exchange ratio specified above of 7 Olivetti ordinary or savings shares for every Telecom Italia ordinary or savings share. In the redistribution only the Telecom Italia shares held by persons other than Olivetti and Telecom Italia itself will be exchanged with shares of the Company Resulting from the Merger. The number of shares of Telecom Italia held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the Tender Offer that Olivetti may make after the shareholders' meeting called to approve the Merger and before the latter's completion.

More precisely, where:

- No. OLI Euro 1 shares denotes the number of Euro 1 Olivetti shares resulting after Conversions and withdrawals;

- No. OLI Euro 0.55 shares denotes the number of shares of the Company Resulting from the Merger with a par value of Euro 0.55 each actually to be redistributed following the operation referred to at point a);

- No. T.I. shares denotes the number of Telecom Italia shares held by minority shareholders that must be exchanged;

(1) the holders of Olivetti ordinary shares will be assigned, for every share

held, a number of ordinary shares of the Company Resulting from the Merger equal to:

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

(2) the holders of Telecom Italia ordinary and savings shares will respectively be assigned, for every ordinary or savings share held, a number of ordinary or savings shares of the Company Resulting from the Merger equal to:

seven times the number of shares assigned to Olivetti shareholders for every share held by the latter

Assuming the extreme case in which all the Conversions were carried out, all the shares reserved for the Telecom Italia stock-option plans were issued, no withdrawals occurred and none of the holders of Telecom Italia ordinary and savings shares accepted the Tender Offer, the redistribution would involve 21,684,904,141 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each and the Telecom Italia shares to be exchanged would total (taking account of Olivetti's holding in the capital of Telecom Italia and of the latter's holding of treasury stock at 15 April 2003) 4,459,575,170. In such case, applying the formula above would give the following assignment ratios:

(i) 0.502620 new ordinary shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for every Olivetti ordinary share with a par value of Euro 1 held at the date at which the merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.518341 new ordinary or savings shares of the Company Resulting from the Merger for every Telecom Italia ordinary or savings share, respectively, held at the date at which the merger becomes effective by minority shareholders other than Olivetti other than Olivetti and Telecom Italia itself.

In light of the above, since the variables represented by Conversions, Telecom Italia stock options exercised, withdrawals and acceptances of the Tender Offer can only be quantified exactly at the time the Merger is implemented, it is evident that the assignment ratio for the purposes of redistribution can be established precisely only when the Merger is implemented.

In any event, at the end of the Merger the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will be exactly the same as the "natural" exchange ratio (1 to 7), as calculated above.

c) As already indicated, if at the time the Merger is implemented Olivetti's share capital is less than the current figure of Euro 8,845,537,520 because the decreasing effect of withdrawals outweighs the increasing effect of Conversions, the redistribution of the share capital just described will be accompanied by the simultaneous issue of up to a maximum of 11,103,237,962 new ordinary and saving shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia's shareholders' equity belonging to minority interests, with the possibility of an exchange deficit. These additional shares will be assigned to all the shareholders of both Olivetti and Telecom Italia in proportion to their respective shareholdings obtained by applying the assignment ratios indicated at Point b).

Thus, even if such an event occurs, at the end of the Merger the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will be exactly the same as the "natural" exchange ratio (1 to 7), as calculated above.

d) As part of the procedure for assigning the shares of the Company Resulting from the Merger, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to permit the rounding of the number of newly-issued shares owned down or up to nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions. In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued share of the Company Resulting from the Merger at the end of the Merger, maintenance of the position of shareholder will be ensured by Olivetti International S.A. making available to such persons, free of charge, one share of the Company Resulting from the Merger.

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

Once the merger instrument has been signed and filed, Olivetti will promptly publish notices in at least three newspapers with a national circulation, of which one must be a financial newspaper, announcing the amount of the capital of the Company Resulting from the Merger as a result of the quantification of

the variables involved in the Merger (Conversions, the exercise of Telecom Italia stock options, withdrawals from Olivetti, acceptances of the Tender Offer), the exact assignment ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at Point c), if any, and the detailed instructions on how to carry out the share exchange, trade and obtain fractional rights as provided for at Point d).

2.1.2 (d) Right of withdrawal for Olivetti shareholders

Upon completion of the Merger the Company Resulting from the Merger will have the same corporate purpose as Telecom Italia, with the integral substitution of Olivetti's current corporate purpose.

Concerning the amendment of the corporate purpose, without prejudice to the fact that the latter's extension to include the provision of services in the telecommunications sector would by itself legitimate the right of withdrawal, it was nonetheless considered desirable to take over Telecom Italia's corporate purpose en bloc, in order to permit the Company Resulting from the Merger to operate in all the sectors in which Telecom Italia is currently present, with particular regard to the activities that Telecom Italia is authorized to engage in pursuant to administrative measures. In fact Telecom Italia's activity consists primarily in the installation and operation of telecommunications equipment and in the supply of telecommunications services on the basis of individual licences and general authorizations issued under Presidential Decree

318/1997. Whereas the corporate purpose of Telecom Italia laid down in its bylaws provides expressly for all the activities referred to above, the corporate purpose of Olivetti only mentions "production and marketing in the field ... of telecommunications" and "services" as a merely secondary activity (without further specification).

The change in the corporate purpose is also intended to allow the Company Resulting from the Merger to engage in other activities covered by Telecom Italia's bylaws, such as advertising and publishing, which are not envisaged in Olivetti's current bylaws.

The adoption of Telecom Italia's corporate purpose means that the bylaws of the Company Resulting from the Merger will contain the requirement that holding equity investments should not be its principal activity, as it was for Olivetti. In addition to this formal change, there will also be a substantial change in the risk profile associated with investment in Olivetti since, as a consequence of the Merger, the Company Resulting from the Merger will no longer have the characteristics established by the Ministry of the Treasury in implementing Article 113 of Legislative Decree 385/1993 to define the concept of "engaging as the principal activity, without dealings with the public, in the acquisition of equity interests".

Under Article 2437 of the Civil Code, the Olivetti shareholders who vote against the merger resolution and those who are absent from the meeting may exercise the right of withdrawal.

The right of withdrawal may be exercised by shareholders entitled to do so by sending a registered letter that must reach Olivetti within 3 days of the date of the shareholders' meeting that approved the Merger if sent by shareholders who were present at the meeting and voted against the resolution or within 15 days of the filing of the resolution with the Company Register if sent by shareholders who were not present at the meeting. The date on which letters are received by Olivetti will count and not the date on which they were sent; it is therefore up to the shareholders wishing to withdraw to ensure compliance with the above-mentioned time limit since Olivetti takes no responsibility for transmission or delivery delays due to causes beyond its control.

For the purpose of legitimizing the exercise of the right of withdrawal, shareholders must also send Olivetti an appropriate certification, issued by an authorized intermediary pursuant to the provisions governing dematerialized financial instruments deposited with a central securities depository, attesting in particular the ownership of the company's shares from the date of the merger resolution. To this end shareholders will be considered to be eligible who, having acquired Olivetti shares on the stock exchange, also took delivery of them in the related settlement before the start of the shareholders' meeting. For the purpose of establishing entitlement to the right of withdrawal, Olivetti shareholders must be such on the date of the shareholders' meeting and remain such until the right is exercised. As provided for by the regulations in force, when certifications are issued the shares will be frozen by the intermediary in question until they are redeemed.

Olimpia S.p.A. has announced that it will not exercise its right of withdrawal.

The amount due to Olivetti shareholders who exercise the right of withdrawal will be based on the price per share calculated as the mean of the daily official prices in the six months preceding the date the merger resolution is adopted and will be announced in the shareholders' meeting called to approve the Merger. Olivetti will inform shareholders in good time, as laid down by law, regarding the procedure and time limits for exercising the right of withdrawal by publishing appropriate notices in at least three newspapers with a national circulation, of which one must be a financial newspaper.

The Olivetti shareholders who exercise their right of withdrawal will be entitled to have their shares redeemed from the date on which the Merger becomes effective, with the consequent right to be paid interest at the legal rate from such date.

Accordingly, at the time the Merger becomes effective for civil law purposes and simultaneously with the exchange of shares for the Olivetti shareholders who did not exercise the right of withdrawal, Olivetti will redeem and cancel the shares of the shareholders who exercised the right of withdrawal, with the related payment planned at the latest within 90 days of the date on which the Merger becomes effective.

The sums due to the shareholders who exercise the right of withdrawal will be taxable profit for any part exceeding the subscription or purchase price paid for the shares Olivetti cancels (Article 44(3) of the Italian "Income Tax Code").

In the event that shareholders who are natural persons but not entrepreneurs or qualified shareholders are assigned reserves other than capital reserves, even if they were previously classified as share capital, the intermediary participating in the Monte Titoli S.p.A. central securities depository (or foreign central securities depositories participating therein) is required to apply the 12.50% tax in lieu of income tax pursuant to Article 27-ter, paragraph 1, of Presidential Decree 600/1973.

If, instead, the above-mentioned reserves were used to redeem non-residents, the tax in lieu of income would be 27%, without prejudice to the rate reduction provided for in double taxation agreements.

In the event that shareholders who are natural persons are qualified shareholders or, not being qualified shareholders, elect not to be subject to the tax in lieu of income referred to above, the taxable profit must be indicated in their tax returns for an amount equal to the difference between the withdrawal consideration and the subscription or purchase price for the shares Olivetti cancels and will be subject to personal income tax (Irpef) or separate taxation. At all events, for the part of the taxable profit determined in this way corresponding to the reserves, other than capital reserves, attributable to shareholders in relation to the shares cancelled, a tax credit on the dividends will be recognized up to the amount of the taxes referred to in Articles 105(1)(a) and 105(1)(b) of the Italian "Income Tax Code".

2.1.2 (e) Right of withdrawal for Telecom Italia shareholders

Olivetti's ordinary shares are listed on MTA (and the Frankfurt Stock Exchange).

The absorbing company will continue to list the ordinary shares on MTA upon completion of the Merger. Moreover, provision has been made for the Merger to be subject to the listing on MTA of the savings shares to be assigned in exchange to holders of Telecom Italia savings shares at the date the Merger becomes effective.

Thus, there are no legal grounds for Telecom Italia shareholders to exercise the right of withdrawal referred to in Article 131 of the Consolidated Law.

As noted above, the Company Resulting from the Merger will have the same corporate purpose as Telecom Italia has today. Consequently, the shareholders of Telecom Italia will not have the right to exercise the right of withdrawal referred to in Article 2437 of the Civil Code.

2.1.2 (f) Bylaw amendments

It is intended that the Company Resulting from the Merger should adopt new bylaws that will be largely the same as the current bylaws of Telecom Italia. The amended bylaws will come into force on the date that the Merger becomes effective, pursuant to Article 2504-bis of the Civil Code and the merger plan, to which a copy of the new bylaws is attached (see Annex III).

Name of the company

Upon completion of the Merger the Company Resulting from the Merger will change its name to "Telecom Italia S.p.A.", with the consequent amendment of Article 1 of the bylaws and of the other articles in which the name of the company appears. The change meets the need to make the name of the Company Resulting from the Merger consistent with the new organizational structure and the nature of the activities it will acquire and perform at the end of the Merger, although the intention is to continue to capitalize on the historic name of "Olivetti", by itself or together with the other Group marks. The Company Resulting from the Merger will be able to go on using its own corporate marks as well as those of Telecom Italia.

Registered office

Article 2 of the bylaws, concerning the registered office, will be amended to make Telecom Italia's present registered office at 2 Piazza degli Affari, Milan, the registered office of the Company Resulting from the Merger. The Company Resulting from the Merger will have its headquarters at 41 Corso d'Italia, Rome. Ivrea will continue to be the strategic headquarters for the activities of the Olivetti Group headed by Olivetti Tecnost.

Corporate purpose

Upon completion of the Merger, the Company Resulting from the Merger will have taken over Telecom Italia's current corporate purpose en bloc, with the integral substitution of Article 3 of Olivetti's current bylaws. For more details, see Section 2.1.2(d).

Share capital

Article 5 of the bylaws of the Company Resulting from the Merger, concerning the share capital, will incorporate a series of amendments to take account, in particular, of the redistribution and the assignment of the shares issued for the purpose of the exchange and of the adjustments necessary, in the light of the new amount of the share capital following the merger, for the conversion of the convertible bonds and the exercise of the warrants issued by Olivetti and for the stock-option plans approved by Olivetti and Telecom Italia. In more detail, Article 5 of the bylaws will be amended as follows:

a) a new maximum amount of Euro 492,726.30 will be established for the variable capital increase for the exercise of the options already assigned by Olivetti under the "Three-year Stock Option Plan 2002-2004" the increase to be carried out by 15 December 2004, with an update of up to a maximum of 895,866 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Olivetti shareholders in the context of the Merger, at a price of Euro 3.308 per option held;

b) a new maximum amount of Euro 10,743,649.40 will be established for the variable increase in capital for the exercise of the options already assigned by Olivetti under the "Three-year Stock Option Plan Feb-ruary 2002 December 2004", the increase to be carried out by 31 December 2004, with an update of up to a maximum of 19,533,908 shares of the Company Resulting from the Merger with a par value of Euro 0.55 to be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Olivetti shareholders in the context of the Merger, at a price of Euro 2.515 per option held;

c) a new maximum amount of Euro 103,622,863.85 will be established for the increase in capital for the exercise of the "Warrants for Olivetti ex Tecnost ordinary shares 1999-2004", the increase to be carried out by 20 June 2004, with an update of up to a maximum of 188,405,207 shares of the Company Resulting from the Merger with a par value of Euro 0.55 to be offered to the holders of the above-mentioned warrants on the basis of the exchange ratio for Olivetti shareholders in the context of the Merger, at a price already fixed by the governing bodies of Olivetti and included in the warrant terms;

d) a new maximum amount of Euro 180,568,488.10 will be established for the variable capital increase for the conversion of the "Olivetti 1.5% 2001-2004 convertible bonds with repayment premium" already issued by Olivetti, the increase to be carried out by 1 January 2004, with an update of up to a maximum of 328,306,342 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for Olivetti shareholders in the context of the Merger;

e) a new maximum amount of Euro 892,681,820.80 will be established for the variable capital increase for the conversion of the "Olivetti 1.5% 2001-2010 convertible bonds with repayment premium" already issued by Olivetti, the increase to be carried out by 1 January 2010, with an update of up to a maximum of 1,623,057,856 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for Olivetti shareholders in the context of the Merger.

The Company Resulting from the Merger will also have to take over Telecom Italia's stock-option plans and will therefore have to honour the stock options already assigned thereunder. To this end, Olivetti will approve corresponding increases in capital permitting the issue in relation to such stock options of a number of shares updated in accordance with the exchange ratio and the assignment ratio provided for in the merger plan, while the exercise price will remain unchanged. In other words, the owner of Telecom Italia stock options will maintain the right to subscribe, at the price already fixed, not for the original number of Telecom Italia shares but the larger number of shares of the Company Resulting from the Merger established on the basis of the assignment ratio. Naturally, the exact quantification of the new quantities that can be subscribed will be possible only when, at the time the merger instrument is signed, the assignment ratio is established. At all events, the ratio of the shares obtainable on the basis of the foregoing calculations to the number of shares currently obtainable will be exactly the same as the "natural" exchange ratio (1 to 7).

Specifically, Olivetti will approve an increase in capital of up to a maximum amount of Euro 261,956,575.10 in total by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following variable tranches:

a) a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the options already assigned by Telecom Italia under the "Stock Option Plan 1999", to be implemented by 31 January 2005 by the issue of up to a maximum of 39,943,826 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the Merger, at a price of Euro 6.79 per option held;

b) a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the options already assigned by Telecom Italia under the "Stock Option Plan 2000", to be implemented by 30 July 2008 by the issue of up to a maximum of 97,130,710 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the Merger, at a price of Euro 13.815 per option held;

c) a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the options already assigned by Telecom Italia under the "Stock Option Plan 2001", to be implemented by 30 April 2008 by the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the Merger, at a price of Euro 10.488 per option held;

d) a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the options already assigned by Telecom Italia under the "Stock Option Plan Top 2002", to be implemented by 28 February 2010 by the issue of up to a maximum of 55,637,980 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the Merger, at a price of Euro 9.203 per option held;

e) a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the options already assigned by Telecom Italia in three distinct lots under the "Stock Option Plan 2002", to be implemented for the three lots by respectively 31 March 2008, 31 March 2009 and 31 March 2010 by the issue of up to a maximum total of 130,555,934 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the Merger, at a price for the three lots of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

Other amendments to the bylaws

The bylaws that will be adopted by the Company Resulting from the Merger will include an article (Article 6) with the provisions applicable to the savings shares that will be issued by the Company Resulting from the Merger. In accordance with Article 145 of the Consolidated Law, the new version of the article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof, and will describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Company Resulting from the Merger. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws, with immediate effect, will be proposed at the shareholders' meeting called to approve the Merger.

As regards corporate governance, the bylaws of the Company Resulting from the Merger will provide for a Board of Directors with not less than 7 and not more than 23 members, appointed by means of a slate mechanism taken over in large part from Telecom Italia's current bylaws (see the text of the bylaws attached to the merger plan; Annex III).

Lastly, it should be noted that Article 5 of Telecom Italia's current bylaws contains clauses that give the Minister for the Economy and Finance certain special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994. These powers, which include the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter the powers themselves, were introduced into Telecom Italia's bylaws under a Decree of the Prime Minister dated 21 March 1997 in the light of the sector of the company's operations (telecommunications) and with a view to its privatization.

Following the meeting of its Board of Directors on 11 March 2003, Telecom Italia requested that the Minister for the Economy and Finance indicate whether he intended to exercise the powers in question. The Minister for the Economy and Finance has informed Telecom Italia that he is of the view that the conditions do not exist for the exercise of his veto power in the event of the adoption by Telecom Italia's shareholders' meeting of the merger resolution. As regards the question of the presence in the bylaws of the Company Resulting from the Merger of the clauses giving the special powers, the Minister for the Economy and Finance has indicated that he considers it necessary to maintain the power of assenting to the acquisition of major shareholdings in the company's capital and the power of veto as set out in the current bylaws of Telecom Italia. The Minister for the Economy and Finance also stated that he had reached agreement with the Minister for Productive Activities on the decisions regarding these questions.

The bylaws of the Company Resulting from the Merger submitted to the shareholders' meetings of the companies participating in the merger for their approval contain the special powers specified above.

2.1.2 (g) Date from which Telecom Italia's transactions will be recorded, for tax purposes as well, in the accounts of Olivetti

In accordance with Article 2504-bis, second paragraph, of the Civil Code, the Merger will become effective on the date of the last filing of the merger instrument provided for in Article 2504 of the Civil Code, or on such later date as may be specified in that instrument.

The newly-issued shares of the Company Resulting from the Merger will have regular dividend rights. In accordance with the combined effect of Articles 2504-bis, third paragraph, and 2501-bis, first paragraph, point 6, of the Civil Code, the transactions of Telecom Italia will be recorded in the accounts of the Company Resulting from the Merger starting from 1 January of the year in which the merger becomes effective and thus, according to the planned timetable, from 1 January 2003, for tax purposes as well, in accordance with Article 123(7) of Presidential Decree 917/1986 (the "Income Tax Code"). Consequently, on the date the Merger becomes effective, the Company Resulting from the Merger will assume all Telecom Italia's assets, rights and obligations, including, but not limited to, all its tangible and intangible fixed assets, movable and immovable property, licences, authorizations, franchises, securities, current account assets and liabilities, loans, equity investments, insurance policies, labour contracts and every other contractual instrument.

2.1.2 (h) Tax effects of the Merger on Olivetti and Telecom Italia under Italian law

Tax neutrality

Pursuant to Article 123 of the Income Tax Code and Article 27(1) of Law 724/1994, mergers are transactions that do not give rise to the realization or distribution of capital gains or losses in respect of the assets of the company being absorbed.

Merger differences

The Merger will make it necessary to include specific items in order to achieve accounting balance between the assets and liabilities following the unification of the patrimonies of the companies involved in the Merger. As mentioned earlier, in fact, the Merger will give rise to a cancellation deficit and it is reasonable to expect that an exchange surplus will emerge.

An exchange surplus does not constitute taxable income for the absorbing company.

On the other hand, the cancellation deficit will be allocated to Telecom Italia's assets (in particular to its holding of TIM shares, stated at cost) and any difference will be included under "goodwill".

Under Article 6(1) of Legislative Decree 358/1997 such revaluations may also be recognized for tax purposes if the 19% tax in lieu of income tax is paid. Pursuant to paragraph 2 of the same article, revaluations in connection with merger deficits may be recognized for tax purposes, even in the absence of payment of the tax in lieu of income tax, if and to the extent that the equity investments cancelled led to the previous owners being taxed on the resulting capital gains, net of the related capital losses and writedowns.

Reserves with tax deferred

The reserves with tax deferred shown in the latest financial statements of the company being absorbed will be included in the income of the absorbing company if and to the extent that they are not reconstituted in its accounts.

This rule does not apply to reserves that are taxable only if they are distributed (e.g. revaluation reserves), which have to be reconstituted in the balance sheet of the absorbing company only if there is a merger surplus or an increase in capital that exceeds the total capital of the companies participating in the merger, net of the parts of the capital of each company they already held. In this case the reserves will be included in the income of the absorbing company in the event of a subsequent distribution of the surplus or reduction in capital because it is surplus to requirements.

The reserves already allocated to capital by the company being absorbed are considered to be transferred to the capital of the absorbing company and form part of its income in the event of a reduction in capital because it is surplus to requirements.

Effects on the shareholders of the company being absorbed

The exchange of the shares of the company being absorbed for shares of the absorbing company is not material for tax purposes since for the shareholders it does not constitute the realization of the cancelled shares.

The cost of the cancelled shares for tax purposes is automatically transferred to the new shares received in the exchange.

2.1.3 Forecasts of the composition of major shareholders and of the control structure of the absorbing company following the Merger

On 15 April 2003 the shareholders of Olivetti listed in the table below were found, on the basis of the shareholders' register and the notifications of major shareholdings pursuant to Article 120 of the Consolidated Law, to possess more than 2% of the company's capital:

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olimpia S.p.A. *	2,524,127,813	28.54%
Caisse des Depots et Consignations **	389,200,000	4.40%
Assicurazioni Generali S.p.A. ***	334,842,996	3.79%
Olivetti International S.A. ****	211,931,328	2.40%
Mediobanca S.p.A.	210,723,954	2.38%

* The number of Olivetti ordinary shares held by Olimpia S.p.A. has increased to 2,525,094,364 as the net effect of the early redemption, with the consideration in the form of Olivetti ordinary shares, of Olimpia 1.5% 2001-2007 bonds and the subsequent merger of Holy s.r.l. into Olimpia S.p.A., which became effective on 9 May 2003. The number of Olivetti ordinary shares held by Olimpia S.p.A. on 9 May 2003 corresponds to an interest of 28.55% on the basis of the Olivetti share capital attested on the same day, equal to Euro 8,845,677,947 (divided into 8,845,677,947 ordinary shares with a par value of Euro 1.00 each).

** Investment held via CDC Ixis Capital Market

*** Investment held through subsidiaries

**** Subsidiary of Olivetti S.p.A. Under Article 2359-bis of the Civil Code, the voting rights of the shares held by Olivetti International S.A. may not be exercised. The number of Olivetti ordinary shares held by Olivetti International S.A. is unchanged.

The capital of Olimpia S.p.A. is held as follows: 50.40% by Pirelli S.p.A., 16.80% by Edizione Finance International S.A., 16% by Hopa S.p.A., 8.40% by Unicredito Italiano S.p.A. and the remaining 8.40% by Banca Intesa S.p.A. (formerly IntesaBCI S.p.A.).

On 15 April 2003 the shareholders of Telecom Italia shown in the table below were found, on the basis of the shareholders' register and the notifications of major shareholdings pursuant to Article 120 of the Consolidated Law, to possess more than 2% of the company's capital:

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olivetti S.p.A.	2,891,656,682	54.94%

Since the Merger will lead to the entry of Telecom Italia's shareholders into the capital of the Company Resulting from the Merger and the consequent absorption of Telecom Italia, the forecasts of the composition of major shareholders at the end of the Merger refer to the Company Resulting from the Merger. The shareholder composition of the Company Resulting from the Merger upon completion of the Merger will be influenced by a series of variables and, in particular, by the number of Conversions, the exercise of Telecom Italia stock options, the number of withdrawals by Olivetti shareholders, and the level of acceptances of the Tender Offer.

The table below shows the foreseeable composition of shareholders with holdings of more than 2% of the ordinary share capital of the Company Resulting from the Merger, assuming withdrawal and Tender Offer prices calculated on the basis of the average prices that could be estimated on 9 May 2003. The withdrawal price for Olivetti shareholders was estimated as the arithmetic mean of the official prices of the Olivetti share between 26 November 2002 and 23 May 2003, with the official price recorded on 9 May 2003 considered as unchanged until 23 May 2003. The Tender Offer prices for Telecom Italia shareholders were estimated as the weighted averages of the official stock exchange prices in the period between 12 March 2003 and 26 May 2003, the day of the third call of the Olivetti shareholders' meeting, with the official price and the volume recorded on 9 May 2003 considered as unchanged until 26 May 2003, plus a premium of 20%. Specifically, it is assumed: (i) that there are no Conversions (apart from those deriving from applications received by 15 April 2003) and that no Telecom Italia stock options are exercised; (ii) that withdrawals involve 5% or 25% of the shares held by shareholders other than Olimpia S.p.A. and that the price is equal to Euro 0.9996, giving a total outlay of about Euro 305 million and Euro 1,527 million, respectively; and (iii) that the Tender Offer is made at a price of Euro 7.958 per Telecom Italia ordinary share and Euro 4.812 per savings share, giving a total outlay of about Euro 8,695 million and about Euro 7,473 million, respectively, so that the Tender Offer is made for, respectively, about 16.8% or 14.4% of the ordinary shares and savings shares in the event of full acceptance.

Shareholders	% of ordinary share capital assuming 5% withdrawals	% of ordinary share capital assuming 25% withdrawals
Olimpia S.p.A. *	13.35%	13.60%
Caisse des Depots et Consignations **	2.06%	2.10%

* Using the number of Olivetti ordinary shares held by Olimpia on 9 May 2003, equal to 2,525,094,364, the percent held by Olimpia in the cases of 5% and 25% withdrawals remains unchanged at 13.35% and 13.60%, respectively.

** Investment held via CDC Ixis Capital Market

In any event, it is foreseeable that no single shareholder will have control of the Company Resulting from the Merger, which will be fully contestable.

2.1.4 Effects of the Merger on shareholders' agreements falling within the scope of Article 122 of the Consolidated Law involving the shares of the companies participating in the Merger

On 22 September 2002 notices were published in the Italian press with extracts from the following share-holders' agreements:

- between Pirelli S.p.A. and Edizione Holding S.p.A.
- Edizione Finance International S.A., concluded on 7 August 2001 and subsequently amended;
- among Pirelli S.p.A., Unicredito Italiano S.p.A. and IntesaBCI S.p.A., concluded on 14 September 2001 and subsequently amended.

On 1 March 2003 the content of the preliminary agreement concluded on 21 February 2003 among Pi-relli S.p.A., Edizione Finance International S.A. / Edizione Holding S.p.A., Banca Intesa S.p.A., Unicredito Italiano S.p.A., Olimpia S.p.A. and Hopa S.p.A. was also published. One of the purposes of the agreement was to allow Hopa S.p.A. to become a shareholder of Olimpia S.p.A.

Extracts of the above-mentioned shareholders' agreements are attached to this Information Document (Annex XVII).

The parties to the shareholders' agreements falling within the scope of Article 122 of the Consolidated Law that concern the companies participating in the Merger have not sent any notification concerning the possible effects of the Merger on such agreements.

2.2 Aims of the Merger

The Merger is part of the reorganization aimed at creating value for Telecom Italia shareholders, launched in July 2001 and carried out through an industrial and financial restructuring with positive results despite the crisis in the stock markets and the telecommunications sector.

The strategic objective of creating value for Telecom Italia shareholders involved the identification of a series of actions and initiatives. In particular, industrial restructuring and refocusing on the core business -- completed earlier than had been announced to the financial community, in September 2001, and in line with Telecom Italia's Business Plan -- also involved the disposal of a number of non-strategic assets (such as the equity interests in Auna, Telemaco Immobiliare, Bouygues Decaux Telecom, Mobilkom Aus-tria, Telekom Austria, Telespazio, Sogei and Lottomatica) and enabled the Telecom Italia Group to:

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

o reduce total consolidated net debt from Euro 21.9 billion at 31 December 2001 to Euro 18.1 billion at 31 December 2002.

In addition, Olivetti refinanced some of its borrowings in order to improve the maturity profile of its debt.

The completion of the above-mentioned restructuring of the activities of the Telecom Italia Group, together with the improvement in Olivetti's financial situation, now makes it possible to take the further step of simplifying the Olivetti-Telecom Group's corporate structure, in accordance with the market's expectations, by merging Telecom Italia into Olivetti. As a consequence of the Merger, the shareholders of the companies participating in the Merger will be able to benefit fully from the increase in value deriving from the implementation of the Business Plan.

Currently, Telecom Italia is majority controlled by Olivetti and the latter has a major shareholder - Olimpia S.p.A. - with a 28.55% interest in its share capital. The Merger will lead to the Company Resulting from the Merger being significantly more contestable since, upon completion of the Merger, the holding of the present relative majority shareholder of Olivetti will be reduced, with a consequent increase in the security's liquidity and in the reasons for the market to view it favourably, to the benefit of all the shareholders. Naturally, the size of Olimpia S.p.A.'s holding in the Company Resulting from the Merger will depend on a series of factors such as the number of Conversions (as defined in Section 2.1.2(c)), the number of Telecom Italia stock options exercised, the number of withdrawals by Olivetti shareholders and the number of acceptances of the Tender Offer (see Section 2.1.3).

The Merger will also bring a major simplification in the structure of the Group. Among other things, the integration of corporate functions will ensure faster decision-making in the context of an organizational structure comparable to that of the leading international operators.

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

It needs to be stressed that the increase in overall debt following the Merger will result in the debt reaching a level (i) in line with or better than that of other companies of comparable size operating in the sector in Europe, and (ii) consistent and compatible with Telecom Italia's range of activities and the prospective cash flows deriving from the implementation of the Business Plan. Debt is projected to decline in the 18-24 months from the completion of the Merger through the utilization of the proceeds of the sales of other non-strategic assets. Furthermore, the Company Resulting from the Merger will also benefit from the positive effects of unified debt management in terms of the lengthening of maturities and optimal correlation with corporate requirements.

At the same time, the Merger is intended to improve the tax efficiency of the Company Resulting from the Merger under the current tax rules, through the faster and more complete recovery of the potential tax benefits arising from the value adjustments to equity interests decided at the time of the approval of Olivetti's draft financial statements for 2002.

Moreover, despite the increase in debt, which will only be temporary as explained above, the Company Resulting from the Merger is expected to continue to generate profits and to adopt a dividend-distribution policy that will ensure Telecom Italia's present shareholders receive a total amount of dividends at least on a par with the current level.

2.2.1 Aims of the Merger with special reference to operating objectives

The companies participating in the Merger have agreed on the operating objectives for the Company Resulting from the Merger. They are basically the same as those of Telecom Italia, adopted by the Board of Directors on 13 February 2003, which in turn confirm the guidelines and objectives of the Business Plan for 2002-04. With specific regard to Olivetti, it should be noted that Olivetti Tecnost is basically neutral in terms of its impact on the operating result.

However, the Merger will result in a merger deficit (deriving from the share cancellations), any portion of which not assigned to Telecom Italia assets (specifically equity interests) will be amortized over a period of 20 years. The updated objectives take account of this additional portion of amortization.

The updated objectives also consider the financial charges associated with Olivetti's present debt and the effect of the tax asset connected with the value adjustments made in Olivetti's and Telecom Italia's draft financial statements for 2002. In addition to the proceeds of the disposals already envisaged by the Business Plan (Telekom Austria, Operazioni Real Estate), the targets include those from the disposal of the company into which the Business Directories, Directory Assistance and Business Information business segments of Seat Pagine Gialle S.p.A. are to be spun off.

The following table summarizes the above considerations on a consolidated basis and clearly shows the sustainability of the commitments entered into for the future.

Billions of euros	Olivetti 2002 consolidated financial statements	Objectives of the Company Re from the Merger on a conso basis (*) CAGR (o) 2002-200
Sales and service revenues	31.4	4
Gross operating profit	14.0	5
% of sales	44.6%	
Operating income	6.0	8
% of sales	19.1%	
		Cumulative 20
Free cash flow	8.6	
Net financial position(**)	33.4	34.3

(*) Assuming zero withdrawals, fully diluted.
(**) The net financial position does not take account of the commitment to purchase Seat shares (in December 2005) from Aldermanbury Investment Limited (formerly Chase Equities Limited), equal to Euro 2,417 million.
(***) The scope of the consolidation is the same.
(****) At 31 December 2004.
(o) Compound average growth rate.

2.2.2 Plans drawn up by the companies participating in the Merger with special reference to the outlook for operations and to restructurings and/or reorganizations

Following the Merger the Company Resulting from the Merger will continue to implement the strategies pursued to date by Olivetti and Telecom Italia in line with the Business Plan, above all with the aim of creating value by putting to good use the Group's assets and distinctive skills and by strengthening the financial structure in order to sustain growth (for more details, see Section 2.1.1(b)).

2.3 Documents made available to the public and the places in which they can be consulted

This Information Document and the documents referred to in Article 2501-sexies, first paragraph, points 1) and 3), and Article 70(1) of the Consob Regulation have been made available to the public. They can be consulted by anyone who applies at the registered office of Olivetti (77 Via Jervis, Ivrea), at the registered office of Telecom Italia (2 Piazza degli Affari, Milan) and its headquarters (41 Corso d'Italia, Rome), and at the registered office of Borsa Italiana S.p.A. (6 Piazza degli Affari, Milan). They have also been posted on the Internet at www.olivetti.it and www.telecomitalia.it.

3. Significant effects of the Merger

3.1 Significant effects of the Merger on the key factors that influence and characterize the activity of the companies participating in the Merger and the type of business engaged in

At the end of the Merger the Company Resulting from the Merger will adopt Telecom Italia's current corporate purpose. Among other things, this innovation is necessary in order for it to take over the licences currently held by Telecom Italia for the supply of public telecommunications services.

Upon completion of the Merger there will also have been a major change in the business of the absorbing company, Olivetti, which will be transformed from a holding company into an operating company with numerous licences and administrative authorizations and operations in regulated markets, so that its corporate purpose must include the supply of the services for which such authorizations and franchises have been granted.

For the shareholders of Telecom Italia, the Merger will not bring any changes in the sectors of activity in which they have invested since, as explained earlier, the Company Resulting from the Merger will continue to perform the activities currently performed by Telecom Italia without interruption.

3.2 Implications of the Merger for the strategies concerning business and financial dealings between Group companies or the centralized supply of services

The Merger will not lead to significant changes in the business and financial dealings between companies belonging to the group headed by the Company Resulting from the Merger or in the centralized supply of services.

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4. Economic and financial performance of the Telecom Italia Group

4.1 Comparison of the reclassified consolidated income statements and balance sheets of the Telecom Italia Group for 2002 and 2001 and accompanying notes

Form and content

The layouts of the reclassified income statements and balance sheets shown below are consistent with those used by Telecom Italia in the report on operations submitted with the consolidated annual accounts to discuss the Group's economic performance and financial position.

Scope of the consolidation

The consolidation includes the Italian and foreign companies in which the Telecom Italia holds a majority of voting rights, and all other companies in which it exercises a dominant influence. As permitted by law, subsidiaries that are not material either individually or taken together are excluded from the consolidation.

The companies in which Telecom Italia holds between 20% and 50% of the voting capital (including jointly controlled companies) and companies in which it exercises a significant influence have normally been accounted for using the equity method.

The changes in the scope of the consolidation during 2002 did not materially affect the economic and financial data with respect to 31 December 2001. Among the most important changes it is worth noting the exit of the 9Telecom and Telespazio groups, together with Sogei S.p.A. and Consiel S.p.A., and the entry of the Webegg group and Blu S.p.A.

4.1.1 Reclassified Telecom Italia Group income statements for 2002 and 2001 and accompanying notes

In 2002 the Telecom Italia Group recorded a consolidated net loss of Euro 322 million (net income of Euro 297 million before minority interest). In 2001 the Group had recorded a consolidated net loss of Euro 2,068 million (a net loss of Euro 1,658 million before minority interest).

The result before tax in 2002 was a loss of Euro 419 million, an improvement of Euro 314 million compared with the previous year owing:

- to the significant improvement in operating income (+Euro 707 million);
- to the increase in net investment and financial income (expense) (+Euro 1,792 million);
- to the deterioration in net extraordinary income (expense) (-Euro 2,185 million), which was primarily due to the increase in provisions and writedowns in respect of equity investments and goodwill (Euro 6,237 million in 2002, as against Euro 2,984 million in 2001), which was only partially offset by the larger capital gains on disposals of equity investments, business segments, fixed assets and intangibles (Euro 2,413 million in 2002, as against Euro 392 million in 2001).

Reclassified consolidated income statements of the Telecom Italia Group for 2002 and 2001

(in millions of euros)	2002	2001
A. Sales and service revenues	30,400	30,818
Changes in inventories of work in progress, semi-finished and finished goods	2	-
Changes in inventory of contract work in process	(42)	(115)
Increases in capitalized internal construction costs	675	581
Operating grants	19	24
B. Standard production value	31,054	31,308
Raw materials and outside services (*)	(12,558)	(13,042)
C. Value added	18,496	18,266
Labour costs (*)	(4,532)	(4,647)
D. Gross operating profit	13,964	13,619)
Depreciation and amortization	(5,877)	(6,275)
Of which: goodwill	(844)	(1,022)
Other valuation adjustments	(599)	(455)
Provisions to reserves for risks and charges	(153)	(278)
Net other income (expense)	46	63
E. Operating income	7,381	6,674
Net investment and financial income	(2,163)	(3,955)
Of which: value adjustments	(682)	(1,956)
F. Income before extraordinary items and taxes	5,218	2,719
Net extraordinary income (expense)	(5,637)	(3,452)
G. Income before taxes	(419)	(733)
Income taxes	716	(925)
H. Net income (loss) before minority interest	297	(1,658)
Minority interest	(619)	(410)
I. Net income (loss)	(322)	(2,068)

(*) Reduced by related cost recoveries.

Notes to the reclassified consolidated income statements for 2002 and 2001

Sales and service revenues amounted to Euro 30,400 million, down by 1.4% on 2001. Excluding the effects of exchange rate movements (Euro 763 million) and of changes in the scope of the consolidation (Euro 755 million), there was growth of 3.8%. The most important changes in the scope of the consolidation were the exit of the 9Telecom group and of Sogei S.p.A. (included for the first six months of 2002) and that of the Telespazio group (from 1 October 2002).

Revenues benefited from the positive contribution of the Mobile business unit and the increase in those generated by the Internet & Media business unit. On the other hand there was a decline in the contribution of the Domestic Wireline business unit, which saw traffic revenues decline by 6% (Euro 533 million), despite a 2.4% rise in minutes, since this was accompanied by an 8.3% reduction in the average return on retail and wholesale traffic. The downturn was offset in part by the rise in basic charges and activation fees.

Gross operating profit amounted to Euro 13,964 million, up by 2.4% (Euro 345 million) on 2001. As a ratio to revenues, it rose from 44.2% to 45.9%. Excluding the effects of exchange rate movements (Euro

186 million) and of changes in the scope of the consolidation (Euro 120 million), there was growth of 4.9% (Euro 651 million).

More specifically, the ratio to revenues for the Domestic Wireline business unit rose from 45.1% to 46.8%, while that of the Mobile business unit remained above 46%.

In more detail, the gross operating profit in 2002 was affected by:

- Raw materials and outside services, which decreased by 3.7% to Euro 12,558 million, primarily as a result of actions taken to raise efficiency. As a ratio to revenues, this item declined from 42.3% to 41.3%.

- Labour costs, which decreased by 2.5% (Euro 115 million) to Euro 4.532 million; apart from the effect of change in the scope of the consolidation, the decrease reflected the reduction in the staff of the Parent Company, Telecom Italia, from 61,081 at 31 December 2001 to 54,705 at 31 December 2002. At 14.9% the ratio of this item to revenues was in line with the result for the previous year.

At 31 December 2002 the staff of the Telecom Italia Group numbered 101,713, compared with 109,956 at 31 December 2001. Of the total reduction turnover accounted for 5,360 (the balance of 12,567 terminations and 7,207 hirings) and the changes in the scope of the consolidation for 2,883.

The most important changes in staff numbers due to those in the scope of the consolidation were the exit of the 9Telecom group (-1,003), the disposal of the Telespazio group (-1,168) and the exit of Sogei and Consiel (-1,538 in total) and the entry of Blu (+618) and the Webegg group (+719).

Operating income amounted to Euro 7.381 million, an increase of 10.6% (Euro 707 million). As a ratio to revenues, it improved from 21.7% to 24.3%. Excluding the effects of exchange rate movements and of changes in the scope of the consolidation, the increase was 9.9%.

The increase in absolute terms benefit both from the rise in gross operating income and from the fall in depreciation and amortization.

In particular:

- Depreciation and amortization fell by Euro 398 million, from Euro 6.275 million to Euro 5.877 million, as detailed below:

(in millions of euros)	2002 (a)	2001 (b)	Change (a - b)
Fixed assets	3,783	4,034	(251)
Intangibles	2,094	2,241	(147)
of which: goodwill	844	1,022	(178)
Total depreciation and amortization	5,877	6,275	(398)

The reduction of Euro 178 million in the amortization of goodwill was mostly due to the writedowns made in 2001.

The ratio of depreciation and amortization to revenues declined from 20.4% to 19.3%.

o Other valuation adjustments increased by Euro 144 million, from Euro 455 million to Euro 599 million. They were mainly in respect of receivables from customers and served to bring these into line with their estimated realizable value. The main contributions to this item came from Telecom Italia (Euro 356 million), Gruppo Seat Pagine Gialle (Euro 57 million), TIM (Euro 51 million) and Gruppo Entel Chile (Euro 40 million).

o Provisions to reserves for risks and charges decreased by Euro 125 million, from Euro 278 to Euro 153 million, partly owing to the Euro 54 million provision made in 2001 for the closure of the Astrolink supply contract.

o Net other income declined from Euro 63 million to Euro 46 million and comprised the amounts charged by TLC companies to customers in respect of arrears (Euro 106 million, as against Euro 112 million), the portions of capital grants that became available (Euro 65 million, as against Euro 73 million), indirect taxes and duties (Euro 115 million, as against Euro 120 million), costs in connection with the management of receivables (Euro 60 million, as against Euro 37 million) and the net capital losses on disposals of fixed assets and intangibles (Euro 30 million, as against Euro 17 million).

Net investment and financial income, comprising:

(in millions of euros)	2002 (a)	2001 (b)	Change (a - b)
Net investment income	18	154	(136)
Net financial expense	(1,499)	(2,153)	654
Value adjustments to financial assets	(682)	(1,956)	1,274
Total	(2,163)	(3,955)	1,792

In more detail:

o net investment income refers essentially to dividends received from investee companies; the reduction was due to the lower net gains realized on the listed stocks classified in current assets.

o of the total reduction in net financial expense, Euro 569 million can be ascribed to the provision that was set aside in 2001 for the commitment to purchase Seat Pagine Gialle shares; in 2002, instead, the allocation was recorded in extraordinary expense. The remaining improvement in net financial expense (Euro 85 million) benefited from the Group's lower average debt during the period and lower interest rates and fees, the effects of which were partly offset by adverse exchange rate movements for some South American countries, particularly Venezuela and Brazil.

o value adjustments to financial assets amounted to Euro 682 million and referred to:

- amortization of goodwill arising at the time of the purchase of the investments in companies accounted for using the equity method amounting to Euro 80 million (Euro 316 million in 2001). The reduction was due to the writeoffs of goodwill taken in the 2001 financial statements;

- writedowns of securities and investments included in current assets of Euro 176 million (Euro 291 million in 2001) and of long-term securities of Euro 40 million (Euro 49 million in 2001), with a total reduction of Euro 124 million compared with 2001;

- the Group's share of the equity in the earnings and losses of the unconsolidated companies accounted for using the equity method, which produced a loss of Euro 386 million (Euro 1,300 million in 2001). This refers to the losses of Stream of Euro 246 million (Euro 241 million in 2001), Aria -IS Tim Turchia of Euro 171 million (Euro 334 million in 2001) and a positive balance for the other unconsolidated companies of Euro 31 million.

Moreover, in 2001, this item had included the negative results of the investments in the Nortel Inversora group (Euro 238 million) and the Auna group (Euro 203 million) and Telespazio's writedown of Astrolink

(Euro 259 million) following the interruption of the project. The investment in Nortel Inversora, the carrying value of which was prudently written off in the consolidated financial statements for 2001, remained unchanged.

Net extraordinary income (expense), as detailed below:

(in millions of euros)	2002 (a)	2001 (b)	Change (a - b)
Extraordinary income:			
capital gains on disposals of equity investments, business segments, fixed assets and intangibles	2,413	392	2,021
other extraordinary income	401	460	(59)
	2,814	852	1,962
Extraordinary expense:			
writedowns and provisions in respect of equity investments and goodwill	(6,237)	(2,984)	(3,253)
expenses and provisions for staff cutbacks and layoffs	(494)	(380)	(114)
expenses charges under Law 58/1992 and related social security contribution payable to INPS	(229)	(232)	3
other extraordinary expense	(1,491)	(708)	(783)
	(8,451)	(4,304)	(4,147)
Total	(5,637)	(3,452)	(2,185)

Extraordinary income amounted to Euro 2,814 million and comprised:

- o Euro 2,413 million of gains on disposals of equity investments, business segments, fixed assets and intangibles, as detailed below:

  - the sale of the entire 26.89% interest held by the Telecom Italia Group in Auna, realizing a gross gain of Euro 1,245 million, which contributed

  - net of selling expenses

  - Euro 1,033 million to the consolidated net result of the Telecom Italia Group;

  - the sale of the entire 19.61% interest held by the Mobile business unit in Bouygues Decaux Telecom (BDT), realizing a gross gain of Euro 484 million, which contributed Euro 266 million to the consolidated net result of the Telecom Italia Group;

  - the acceptance of the tender offer for Lottomatica shares by the Information Technology Market business unit (Finsiel group), realizing a gross gain of Euro 133 million (Euro 93 million net of income taxes), which contributed Euro 73 million to the consolidated net result of the Telecom Italia Group;

  - the sale to Telekom Austria (a company in which Telecom Italia International had a 14.78% interest at 31 December 2002) of the entire 25% interest held by the Mobile business unit in the Mobilkom Austria group, realizing a gross gain of Euro 115 million, which contributed 64 million to the consolidated net result of the Telecom Italia Group;

  - the sale of the entire 40% interest held in Telemaco Immobiliare, realizing a gross gain of Euro 110 million, which contributed Euro 64 million to the consolidated net result of the Telecom Italia Group;

  - the sale of the entire 100% interest held in Telespazio, realizing a gross gain of Euro 70 million, which contributed Euro 36 million to the consolidated net result of the Telecom Italia Group;

  - the sale of the entire 100% interest held in Emsa and Telimm, and of properties and business segments in connection with the Tiglio project, realizing a total gross gain of Euro 234 million, which contributed Euro 150 million to the consolidated net result of the Telecom Italia Group;

  - the disposal of other equity investments, fixed assets, intangibles and business segments for a total of Euro 22 million.

- o Euro 401 million of other extraordinary income, comprising:

  - prior period income of Euro 131 million arising from the recovery of accrued pre-amortization interest on costs for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 - following the close of litigation with a ruling in Telecom Italia's favor;

  - the release of Euro 77 million, primarily to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to News Corporation and Vivendi Universal/Canal+, following the termination of the agreement;

- other income of Euro 193 million.

Extraordinary expense amounted to Euro 8,451 million and comprised:

o writedowns for permanent impairments in value and other provisions relating to investments totaling Euro 6,237 million (Euro 2,984 million in 2001), as detailed below:

  - the writedown of goodwill in respect of Seat Pagine Gialle (Euro 1,544 million) and the provision to the reserve for charges to cover the commitment to purchase Seat Pagine Gialle shares (Euro 1,942 million). The writedown and the provision were made on the basis of market value (average market price of ordinary shares for the last six months of 2002) within the framework of Telecom Italia Group's decision to consider the "Directories" business of Seat Pagine Gialle as no longer being of strategic interest. In 2001, with regard to the purchase commitment only, a provision of Euro 569 million had been set aside and included in net investment and financial income (expense);

  - the writeoff of the investment in Aria - IS Tim Turchia (Euro 1,491 million) and the provision to the reserves for risks and charges to cover the Group's exposure with the same affiliated company (Euro 850 million). The provision is commensurate with the guarantees provided by the Group to the international financial institutions that are creditors of Aria - Is Tim and the loan granted directly by the Group;

  - the writedown of other equity investments (Euro 46 million) and goodwill (Euro 321 million, of which Blu accounted for Euro 103 million, Netco Redes for Euro 96 million, Digitel Venezuela for Euro 75 million and other smaller subsidiaries for Euro 47 million);

  - the provision relating to the purchase of an additional stake in Consodata by Seat Pagine Gialle (Euro 43 million).

The writedowns in 2001 had referred to the goodwill relating to consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and some companies in the Seat Pagine Gialle group) and companies valued using the equity method (Globo.com, Solpart Participacoes, Telekom Austria and Nortel Inversora group), as well as other provisions related to investments.

o expenses and provisions totaling Euro 494 million for employee cutbacks and layoffs (of which Euro 379 million borne by Telecom Italia S.p.A.);

o expenses amounting to Euro 155 million under Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT) and Euro 74 million for the extraordinary contribution to INPS

to meet the higher financial requirements deriving from the rules of that fund after its incorporation in the general "Employee Pension Fund";

o other extraordinary expense amounting to Euro 1,491 million, as detailed below:

  - the expense incurred in connection with the disposal of the equity investment in the 9Telecom group (Euro 316 million);

- the loss of deriving from the sale in November 2002 of 75 million shares (15% of the capital) of Tele-kom Austria AG (Euro 135 million);
- expenses in connection with corporate events at investee companies (Euro 235 million);
- provisions to reserves (Euro 194 million, of which Euro 135 million in respect of guarantees provided on the occasion of disposals of equity investments and business segments;
- writedowns of fixed assets and intangibles, mainly with reference to the mobile phone companies in Brazil (Euro 190 million);
- losses on disposals of fixed assets, intangibles and long-term investments (Euro 38 million);
- other prior-period expense of Euro 383 million.

Income taxes had a positive effect on the result of Euro 716 million, a decrease of Euro 1,641 million compared with 2001. This was due to the loss for the year that was principally caused by the above-mentioned investment writedowns, which contributed to the increase in deferred tax assets, as well as the utilization of tax loss carryforwards deriving from the merger of Blu into TIM.

4.1.2 Reclassified consolidated balance sheets of the Telecom Italia Group at 31 December 2002 and 2001 and accompanying notes

Reclassified consolidated balance sheets of the Telecom Italia Group at 31 December 2002 and 2001

(in millions of euros)		At 31.12.2002	At 31.
A.	INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		
	Intangible assets	13,052	
	Fixed assets	19,291	
	Long-term investments:		
	equity investments and advances on future capital contributions	2,286	
	other	957	
		35,586	
B.	WORKING CAPITAL		
	Inventories	411	
	Trade accounts receivable	8,201	
	Other assets	6,154	
	Trade accounts payable	(5,966)	
	Reserves for risks and charges	(5,214)	
	Other liabilities	(6,926)	
		(3,340)	
C. = A.+B.	INVESTED CAPITAL, net of operating liabilities	32,246	

D.	RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	(1,305)
E. = C.+D.	INVESTED CAPITAL, net of operating liabilities and the reserve for employee termination indemnities	30,941
	Financed by:	
F.	SHAREHOLDERS' EQUITY (*)	
	Parent Company interest	9,049
	Minority interest	3,774
		12,823
G.	MEDIUM/LONG-TERM DEBT	15,018
H.	NET SHORT-TERM BORROWINGS	
	Short-term borrowings	5,089
	Liquid assets and short-term financial assets	(2,271)
	Financial accrued expense (income) and deferred expense (income), net	282
		3,100
G.+H.		18,118
I. = F.+ G.+H. TOTAL		30,941

(*) Net of "Receivables from shareholders for capital contribution".

Notes to the reclassified balance sheets of the Telecom Italia Group at 31 December 2002 and 2001

Intangible assets, fixed assets and long-term investments amounted to Euro 35,586 million, a decrease of Euro 9,432 million compared with the end of 2001.

In more detail:

- fixed assets decreased from Euro 21,757 million to Euro 19,291 million 2002 and intangibles fell from Euro 16,197 million to Euro 13,052 million. The reduction was due to the excess of the charge for depreciation and amortization over investments, to the fall in exchange rates compared with the end of 2001, to the contributions of business segments in connection with the "Tiglio" project, and to the writedowns of goodwill in respect of consolidated companies recorded in extraordinary expense;

- long-term investments decreased from Euro 7,064 million to Euro 3,243 million. The reduction was mainly due to disposals of investments and writedowns for permanent impairments in value.

Investments totaled Euro 6,919 million (Euro 11,257 million in 2001) and were divided as follows:

(in millions of euros)	2002 (a)	2001 (b)	Change (a-b)
Industrial investments	4,842	6,990	(2,148)
Goodwill	369	1,174	(805)
Financial investments	1,708	3,093	(1,385)

Total investments	6,919	11,257	(4,338)

The reduction of Euro 4,338 million in investments was mainly due to:

o industrial investments:

- the reduction of Euro 1,436 million in investment by the Mobile business unit following the acquisition in 2001 of mobile phone licenses in Brazil and Greece (about Euro 1,080 million);

- lower investments by the Domestic Wireline business unit (-Euro 339 million), by other companies in South America (-Euro 190 million) and by the Seat group (-Euro 94 million), which reflected the policy of carefully selecting investment projects to be implemented;

o goodwill: whereas in 2001 this had concerned the acquisition of Entel Chile (Euro 731 million), Holding Media e Comunicazione (Euro 66 million), NetCreations (Euro 93 million) and the increase in the investment in Stet Hellas (Euro 31 million), in 2002 it referred mainly to the increases in the investments in Stet Hellas (Euro 66 million) and Digitel Venezuela (Euro 27 million), the acquisition of Epiclink (Euro 49 million), Netesi (Euro 14 million) and Blu (Euro 103 million), and the increase in the investment in the Webegg group (Euro 24 million);

o financial investments: the capital injections made in 2001 in Aria - IS Tim Turchia (Euro 1,906 million) and Auna (Euro 276 million) were followed in 2002 by transactions involving the share capital of Stream (Euro 234 million) and Auna (Euro 193 million, repaid on August 1, 2002), the investment in the share capital of Tiglio I (Euro 197 million), the purchase of LDCom within the framework of the 9Telecom deal (Euro 172 million), the disbursement of loans to subsidiaries and affiliated companies (Euro 351 million),

the buy-back of treasury stock (Euro 287 million), and acquisitions of other investments and share capital increases for a total of Euro 274 million.

Working capital showed a negative balance that increased by Euro 922 million, from Euro 2,418 million to Euro 3,340 million.

Shareholders' equity amounted to Euro 12,823 million, compared with Euro 19,308 million at 31 December 2001. Telecom Italia's interest was Euro 9,049 million (Euro 13,522 million at 31 December 2001) and the minority interest was Euro 3,774 million (Euro 5,786 million at 31 December 2001). The reduction of Euro 6,485 million can be detailed as follows:

(in millions of euros)	2002	2001
At beginning of year	19,308	24,690
Net income (loss) of the Parent company and minority interest	297	(1,658)
Dividends to minority interests paid by:	(3,247)	(3,097)
Telecom Italia S.p.A.	(2,306)	(2,309)
TIM S.p.A.	(895)	(743)
Other Group companies	(46)	(45)
Extraordinary distribution of reserves to minority interests:	(1,698)	-
Telecom Italia S.p.A.	(987)	-

TIM S.p.A.	(711)	-
Cancellation of Telecom Italia S.p.A. treasury stock	-	(711)
Change in scope of the consolidation	(95)	358
Translation adjustments and other changes	(1,742)	(274)
At end of year	12,823	19,308

Translation adjustments and other changes mainly reflected the deterioration in the exchange rates of certain South American countries, including Brazil, Chile and Bolivia.

Net financial debt amounted to Euro 18,118 million, a decrease of Euro 3,824 million compared with the end of 2001, after paying dividends and distributing reserves for a total of Euro 4,945 million.

Indebtedness at 31 December 2002 benefited from the investment disposals made during the year for a total of Euro 4,771 million, net of the related expenses, mainly in connection with the sale of Auna (Euro 1,998 million), Bouygues Decaux Telecom (Euro 750 million), Mobilkom Austria (Euro 756 million), Lotto-matica (Euro 212 million), Sogei (Euro 176 million), Telemaco Immobiliare (Euro 192 million), Immsi (Euro 69 million), Tiglio (euro 328 million), Telekom Austria (Euro 559 million), Telespazio (Euro 239 million), 9Telecom (Euro 529 million) and other minor companies (Euro 21 million).

Transactions involving the securitization and factoring of trade accounts receivable were also carried out and led to an improvement in net debt of Euro 1,038 million (Euro 848 million in 2001).

The following chart summarizes the major items which had an impact on the change in net debt in 2002.

[Graphic omitted]

Net financial debt at 31.12.2001 from operations	21,942
Industrial Investments	4,842
Investments of goodwill	369
Financial investments	1,708
Payment of dividends and reserves	4,945
Payment present value reduction in strike price of JPM put option on SEAT	500
Cash flow Disposals	10,390
Other	5,698
Net financial debt at 31.12.2002	18,118

4.1.3 Telecom Italia Group consolidated statements of cash flows in 2002 and 2001 and net financial position at 31 December 2002 and 2001

Consolidated statements of cash flows in 2002 and 2001

(in millions of euros)				2002
A.	NET DEBT, AT BEGINNING OF YEAR			(21,942)
B.	CHANGE IN SCOPE OF THE CONSOLIDATION			-
C.	CASH FLOWS - OPERATING ACTIVITIES			
	Net income (loss)			297
	Depreciation and amortization			5,877
	(Gains) losses on sales of intangibles, fixed assets and long-term investments			(2,210)
	Writedowns of intangibles, fixed assets and long-term investments			4,384
	Change in working capital (*)			896
	Net change in reserve for employee termination indemnities			(45)
	Foreign exchange gains (losses) and other changes			691
				9,890
D.	CASH FLOWS - INVESTING ACTIVITIES			
	Long-term investments:			(6,919)
	intangible assets:			
	- goodwill		(369)	
	- other investments		(1,584)	
	fixed assets		(3,258)	
	long-term investments		(1,708)	
	Proceeds from the sale, or redemption value, of intangibles, fixed assets and long-term investments			5,698
				(1,221)
E.	CASH FLOWS - FINANCING ACTIVITIES			
	Capital contributions			58
	Capital grants			42
				100
F.	DIVIDENDS			(4,945)
G.=B.+C.+D.+E.+F.	CHANGE IN NET DEBT			3,824
H.=A.+G.	NET DEBT, AT END OF YEAR			(18,118)

(*) The difference with respect to the reclassified balance sheets is due to the movements in capital grants and the use of the reserves for risks and charges.

The change in net debt was due to the following:

(in millions of euros)	2002
Increases (decreases) in medium/long-term debt	(1,065)
Increases (decreases) in short-term borrowings	(2,759)
Total	(3,824)

Cash flow (net income (loss), Parent Company and Minority interest + plus depreciation and amortization) amounted to Euro 6,174 million (Euro 4,617 million in 2001).

Free cash flow from operations (operating income + depreciation and amortization - industrial investments +/- change in operating working capital) amounted to Euro 8,610 million (Euro 5,990 million in 2001).

Net debt, equal to Euro 18,118 million (Euro 21,942 million at 31 December 2001), comprised:

(in millions of euros)	At 31.12.2002	At 31.12.2001
Medium/long-term debt	15,018	16,083
Net short-term borrowings:		
Short-term borrowings	5,089	9,114
Bank and postal accounts	(1,251)	(757)
Cash and valuables on hand	(4)	(5)
Short-term financial assets	(683)	(805)
Other working capital securities	(278)	(1,935)
Receivables for sales of securities	(55)	(3)
Financial accrued expense/income and deferred income/prepaid expense, net	282	250
	3,100	5,859
Total net debt	18,118	21,942

The portion of debt due beyond one year rose from 64% at 31 December 2001 to 75% at 31 December 2002. If the current portion due next year (Euro 2,677 million) is also considered as medium/long-term, the percentage rises to 88% (70% in 2001). The increase is the result of the issue of fixed-rate notes for Euro 2,500 million by Telecom Italia S.p.A. on 1 February 2002, divided into two tranches of Euro 1,250 million each, expiring, respectively on 1 February 2007 and 1 February 2012. This issue falls under the "Global Note Program".

The table below shows the composition of the gross financial debt.

	At 31.12.2002						At 31.12.2001	
(in millions of euros)	Euro	%	Non-euro	%	Total	%	Total	%
Medium/long-term debt	13,684	76	1,334	63	15,018	75	16,083	64
Short-term borrowings	4,320	24	769	37	5,089	25	9,114	36
Total	18,004	100	2,103	100	20,107	100	25,197	100

4.2 The external auditor's report on the consolidated financial statements for 2001 and 2002

The comparative data shown in the tables of Section 4.1 have been taken from the Telecom Italia Group's consolidated financial statements for the years ended 31 December 2001 and 2002. These were audited by Reconta Ernst & Young

S.p.A., which issued an unqualified opinion for both years.

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5. Pro forma income statements and balance sheets of the absorbing company

Premise

This section contains the pro forma post-merger reclassified financial statements of Olivetti S.p.A. ("Olivetti") on a consolidated and a stand alone basis for the year ended 31 December 2002. The pro forma financial statements give retroactive effect to the merger of Telecom Italia S.p.A. ("Telecom Italia") into Olivetti, as described in the merger plan approved by the two companies' Boards of Directors on 15 April 2003 (see Section 2).

It was considered desirable to show the pro forma company financial statements as supplementary ino in addition to the pro forma consolidated financial statements in view of the very substantial effects of the Merger on the assets and liabilities and revenues and expenses of the Company Resulting from the Merger. The pro forma post-Merger reclassified company and consolidated financial statements were prepared by making appropriate pro forma adjustments to the financial statements of the two companies participating in the Merger for the year ended 31 December 2002. These financial statements were audited by Reconta Ernst & Young S.p.A., which issued its audit reports on 18 April 2003. They are included with the financial statements of Olivetti and Telecom Italia attached to this Information Document.

The following tables show the pro forma reclassified balance sheets (which among other things indicate the effects of the pro forma adjustments on the net financial position) and income statements for the year ended 31 December 2002 are shown below.

The pro forma statements use the presentations adopted by Telecom Italia for its reclassified historical balance sheets and income statements. Since Olivetti used different presentations, its amounts were first reclassified in accordance with the presentations used by Telecom Italia.

The pro forma figures have been obtained on the basis of:

i. the amounts in Olivetti's historical financial statements;

ii. the amounts in Telecom Italia's historical financial statements;

iii. pro forma adjustments reflecting the plan for the Merger of Telecom Italia into Olivetti and the related transactions envisaged in carrying out the Merger.

In accordance with Consob Communication No. DEM/1052803 of 5 July 2001, the effects of the Merger have been shown retroactively in the pro forma balance sheets as if the Merger had taken place on 31 December 2002 and in the pro forma income statements as if it had taken place on 1 January 2002. The pro forma adjustments made to Olivetti's reclassified historical financial statements and the assumptions upon which they are based are described in detail in Sections 5.1.1, 5.1.2 and 5.3.1.

Information on the accounting policies adopted by Olivetti and Telecom Italia in preparing their historical financial statements can be found in the notes to their financial statements for the year ended 31 December 2002 attached to this Information Document.

In order to interpret the pro forma amounts correctly, it is necessary to bear the following in mind:

i) since the figures are prepared based on assumptions, if the Merger had taken place at the dates referred to for the purpose of preparing the pro forma financial statements instead of the date at which it will actually take place, the historical figures would not necessarily have coincided with the pro forma figures;

ii) the pro forma figures do not reflect forecast data since they are drawn up to represent only the effects of the merger that can be identified and measured objectively, without considering the potential impact of changes in management policies and operational decisions made as a consequence of the Merger.

Moreover, in view of the difference between the aims of pro forma and historical financial statements and the fact that the effects of the Merger are calculated differently for the balance sheet and the income statement, the two pro forma documents need to be examined separately, without attempting to establish accounting relationships between them.

5.1 Pro forma consolidated balance sheet at 31 December 2002 and income statement for the year ended 31.12.2002

Olivetti Group - pro-forma consolidated balance sheet at 31 December 2002

(in millions of euros)	Olivetti Group before Merger	Reclassifications/ cancellation of equity investments		Con Bond
Assets				
Intangible assets:				
Goodwill Telecom	21,351		250	
other intangible	13,210			
Fixed assets	19,449			
Long-term investments				
Equity investments and advances on future capital contributions	2,576	299	(299)	
Others	1,424			
	58,010	299	(49)	
Working capital				
Inventories	584			
Trade accounts receivable	8,418			
Other assets	7,984			
Trade accounts payable	(6,168)			
Reserves for risks & charges	(5,826)			
Other liabilities	(7,616)			

	(2,624)		
Invested Capital net of operating liabilities	55,386	299	(49)
Reserve for employee termination indemnity	(1,364)		
Invested capital, net of operating liabilities & the reserve for empl. term. indemn.	54,022	299	(49)
Financed by:			
Shareholders' equity			
Parent Company interest	11,639		
Minority interest	8,984		(49)
	20,623		(49)
Medium/long-term debt	33,804		
Net short-term borrowings			
Short-term borrowings	6,827		
Liquid assets & short-term financial assets	(7,394)	299	
Financial accrued expenses (income) & deferred expenses (income), net	162		
	(405)	299	
Total financial indebtedness	33,399	299	
Total	54,022	299	(49)

Withdrawals

Withdrawals	Tender Offer & cancellation of equity investments		Cancellation of treasury stock and distribution of reserves to third parties	Merger effects: Reduction of minority interest on cancellation of treasury stock	Merger effects: Exchange of T.I. shares held by minority shareholders	fin
		7,518				
	8,695	(8,695)				
			(334)			
	8,695	(1,177)	(334)			

					90
	8,695	(1,177)	(334)		90
	8,695	(1,177)	(334)		90
(305)			(133)	28	3,001
		(1,177)	(994)	(28)	(3,001)
(305)		(1,177)	(1,128)		
305	8,695				
			794		
					90
			794		90
305	8,695		794		90
	8,695	(1,177)	(334)		90

Olivetti Group - pro-forma consolidated income statement for the year ended 31 December 2002

(in millions of euros)	Olivetti Group before Merger	Cancellation of Telecom Italia investment write-down
Sales and service revenues	31,408	
Changes in inventories of work in progress, semi-finished and finished goods	(8)	
Changes in inventory of contract work in process	(42)	
Increases in capitalized internal construction costs	675	
Operating grants	20	
Standard production value	32,053	
Raw materials and outside services	(13,303)	
Value added	18,750	

Labor cost	(4,727)	
Gross operating profit	14,023	
Depreciation & amortization	(7,269)	
of which goodwill	(2,142)	
Other valuation adjustments	(605)	
Provisions to reserves for risks & charges	(171)	
Net other income	38	
Operating income	6,016	
Net investments and financial income (expense)	(3,036)	
of which value adjustments	(786)	
Income before extraordinary items and taxes	2,980	
Net extraordinary income (expenses)	(5,496)	
Income before taxes	(2,516)	
Income taxes	2,210	(1,078)
Net income (loss) before minority interest	(306)	(1,078)
Minority interest	(467)	
Net income (loss)	(773)	(1,078)

Cost of financing		Cancellation of tax credit on T.I. dividends	Amortization of consolidation goodwill	Accrued cost of financing	Minority interests	Tax effect on pro-forma accounts
Withdrawals	Tender Offer					
			(163)			
			(163)			

			(163)			
(13)	(356)			(69)		
(13)	(356)		(163)	(69)		
(13)	(356)		(163)	(69)		
		(703)				796
(13)	(356)	(703)	(163)	(69)		796
					(152)	
(13)	(356)	(703)	(163)	(69)	(152)	796

5.1.1 Description of the pro forma adjustments to the historical consolidated amounts at 31 December 2002 and for the year ended 31 December 2002

Pro forma adjustments to the historical consolidated balance sheet at 31 December 2002

1. The column "Reclassifications/cancellation of equity investments" refers to the investment in Telecom Italia that was included under working capital and not consolidated at 31 December 2002 but which, as explained in the reports of the Boards of Directors of Olivetti and Telecom Italia is involved in the Merger.

2. The column "Conversion of bond issues" refers to conversions carried out between 31 December 2002 and 15 April 2003 of Olivetti 1.5% 2001-2004 and Olivetti 1.5% 2001-2010 convertible bonds.

3. The column "Withdrawals" refers to the effect thereof on the assumption that 5% of Olivetti's shareholders, other than Olimpia and not considering treasury stock, exercise their right of withdrawal at a price of Euro 0.9996 per share, calculated as described below.

4. The column "Tender offer and cancellation of equity investments" refers to the outlay, financed by the line of credit remaining after the payment of withdrawals, for the purchase of Telecom Italia ordinary and savings shares at a price of respectively Euro 7.958 and Euro 4.812 per share, calculated as described below.

5. The column "Cancellation of treasury stock and distribution of reserves to third parties" refers to the cancellation by Telecom Italia of its ordinary and savings share treasury stock and the distribution of dividends to minority interests drawing on prior-year profits and reserves.

6. "Merger effects" show the reduction of the minority interest in the shareholders' equity following the cancellation of Telecom Italia's treasury

stock and the exchange of the Telecom Italia shares held by the remaining minority shareholders.

7. The column "Cost of financing" shows the expense incurred in having the line of credit available.

Pro forma adjustments to the historical income statement for 2002

1. The column "Cancellation of the Telecom Italia investment writedown" shows the cancellation of the tax effect of the writedown of the investment in Telecom Italia included in Olivetti's income statement, since it was made only for tax purposes and in view of the fact that the writedown would not have been made on the assumption that the Merger was effective from 1 January 2002.

2. The columns "Cost of financing" (withdrawals and tender offer) shows the financial expense deriving from the use of the line of credit on the assumption that it was drawn down at the beginning of the year.

3. The column "Cancellation of tax credit on Telecom Italia dividends" records the elimination of the tax credit on the dividends received from Telecom Italia and shown in the income statement for the year.

4. The column "Amortization of consolidation goodwill" shows the amortization of the additional goodwill arising from the partial tender offer for Telecom Italia shares (Euro 7,518 million) and that arising from the reclassification of some Telecom Italia shares included in working capital as a long-term investment (Euro 250 million), for a total of Euro 388 million. The amortization charge was calculated with reference to a 20-year period. At the same time the remaining useful life of the existing goodwill was revised, which gave rise to a positive adjustment (lower amortization charge) of Euro 225 million.

5. The "Accrued cost of financing" is the part attributable to the year of the total expense incurred in having the line of credit available.

6. The "Tax effects on the pro forma accounts" refer to the tax liability incurred in 2002 by the Company Resulting from the Merger on the pro forma adjustments.

5.1.2 Assumptions made for the preparation of the pro forma data

Consideration was given to the Olivetti 1.5% 2001-2004 and Olivetti 1.5% 2001-2010 convertible bonds that had been converted by 15 April 2003, the last date for the conversion of Olivetti convertible bonds under the terms governing the issues.

The recent performance of the Olivetti share price, which is now higher than the value obtained from the calculation of the withdrawal price, means that the exercise of the right is not profitable. It was therefore prudentially assumed that withdrawals by Olivetti shareholders (other than Olimpia S.p.A. and not considering treasury stock) would amount to 5% of the share capital following the conversion of the Olivetti 1.5% 2001-2004 and Olivetti 1.5% 2001-2010 convertible bonds referred to above, at a price of Euro 0.9996 per share, obtained on the basis of the average of the official prices of the Olivetti share from 26 November 2002 to 9 May 2003, with the last official price kept unchanged from 9 May 2003 to 23 May 2003.

As regards the financing of the withdrawals by Olivetti shareholders, account was taken of the line of credit of Euro 9,000 million granted for that purpose and the related cost included in the pro forma income statement at an interest rate of 4.1% with consideration given to the three tranches in which it will be disbursed.

The whole of the portion of the financing referred to in the previous paragraph remaining after payment of the withdrawals, equal to Euro 8,695 million, was allocated to the voluntary partial Tender Offer for Telecom Italia ordinary and savings shares in equal percentages of the total ordinary and savings share capital. The tender offer prices assumed were Euro 7.958 per ordinary share and Euro 4.812 per savings share. These prices were obtained as the weighted average, augmented by 20%, of the official stock exchange prices of the Olivetti share from 12 March 2003 to 26 May 2003, the day of the third call of Olivetti's extraordinary shareholders' meeting, with the last official price available kept unchanged from 9 May 2003 to the day of the meeting, augmented by 20%.

As a consequence of the Tender Offer, Olivetti's in the total share capital of Telecom Italia after the Tender Offer and before the Merger rises from 39.53% to 56.79%.

The Tender Offer for Telecom Italia shares results in consolidation goodwill of Euro 7,518 million. The pro forma income statement contains an amortization charge corresponding to one twentieth of that amount.

Account was taken of the Telecom Italia dividend drawing on prior-year profits and reserves that will be submitted for approval to the shareholders' meeting called to approve the merger plan.

Provision was made for the company to be absorbed to cancel its ordinary and savings share treasury stock deriving from buybacks.

On the basis of an independent appraisal, Euro 22,950 million of the total cancellation deficit of Euro 25,792 million that emerged in the post-Merger balance sheet was allocated to the equity investment in TIM.

By means of the redistribution mechanism, used to account for the Merger in the company financial statements, the pre-Merger value of Olivetti's share capital was kept unchanged at Euro 8,845 million. To permit the total participation in the Merger of the Telecom Italia shares held by Olivetti, those classified by the latter as trading securities were reclassified as long-term investments.

The expense incurred in obtaining the line of credit to pay for withdrawals and, for the portion remaining, for the purchase of shares in the Tender Offer amounted to Euro 90 million and was included in full in the pro forma balance sheet, while only the amount accruing in the first year was included in the pro forma income statement.

The costs that will be incurred in 2003 in connection with the successful outcome of the Merger for advisory services, legal opinions, valuations, etc., estimated to amount at most to Euro 110 million, were not considered among the pro forma amounts since they are non-recurring items.

5.1.3 Main effects on the income statements and balance sheets of changing the percentage of withdrawals assumed in preparing the pro forma data

The main effects on the income statements and balance sheets of changing the figure of 5% assumed for withdrawals in preparing the pro forma data and confirming acceptances of the Tender Offer utilizing all the portion of the Euro 9 billion line of credit not required to pay for the withdrawals (Euro

8,695 million) are shown in the table below.

Olivetti Group (in millions of euros)	Pro-forma	Absolute value 0%	25%	max % (1
Telecom Italia Goodwill	29,119	29,383	28,064	24,12
Shareholders' equity after minority interest	14,236	14,500	13,181	9,24
Result for the year after minority interest (2)	(2,511)	(2,524)	(2,458)	(2,26

(1) On the assumption of complete withdrawal apart from the shares held by Olimpia and treasury stock.
(2) The changes in the result are due to those in the amortization of the consolidation goodwill with the size of the Tender Offer for Telecom Italia shares.

5.2 Historical and pro forma amounts and per-share indicators

(in millions of euros)	Olivetti Group 2002 (historical)	2002 (pro forma)
Income statement data		
Sales and service revenues	31,408	31,408
Gross operating profit	14,023	14,023
Operating income	6,016	5,853
Net income (loss), before minority interest	(306)	(1,892)
Net income (loss), after minority interest	(773)	(2,511)
Balance sheet and financial data		
Invested capital, net	54,022	61,546
Shareholders' equity (1):	20,623	17,970
of which:		
Parent Company interest	11,639	14,236
Minority interest (1)	8,984	3,734
Net financial debt	33,399	43,576
Cash flow (2)	6,963	5,540
(in euros)		
Per-share indicators (*)		
Net income (loss) on ordinary operations, after minority interest per share (3):		
Ordinary	(0.1458) (4) (0.0802) (5)	(0.0653)
Savings		(0.0543)
Net income (loss), after minority interest per share:		
Ordinary	(0.0896) (4)	(0.1614)

	(0.0493)	(5)	
Savings			(0.1504)
Cash flow per share	0.8068	(4)	0.3469
	0.4437	(5)	
Shareholders' equity, before minority interest per share	1.3485	(4)	0.8914
	0.7417	(5)	
(*) Number of shares considered:			
Ordinary	8,630,811,002	(4)	9,923,320,999
	15,692,383,640	(5)	
net of treasury stock (ordinary shares)	214,628,828	(4)	112,108,258
	390,234,232	(5)	
Savings			6,047,366,234

(1) Net of "Receivables from shareholders for capital contributions", equal to Euro 4 million.

(2) Net income (loss) for the year, before minority interest plus depreciation and amortization.

(3) Net income (Loss) for the year on ordinary operations after minority interest, calculated on the basis of the result for operations net of the related taxes with reference to the number of ordinary and savings shares outstanding at the end of the year. In making the calculation, account was taken of the bylaw requiring the dividend per share for savings shares to be higher than that for ordinary shares by 2% of the share's par value (Euro 0.0110).

(4) Historical number of shares.

(5) Pro forma number of shares taking account of the change in the par value from Euro 1.00 to Euro 0.55.

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5.3 Pro forma balance sheet at 31 December 2002 and income statement for the year ended 31.12.2002 of the Company Resulting from the Merger

As mentioned in the premise, the pro forma company financial statements for 2002 are shown as supplementary information in view of the size of the effects of the Merger on the balance sheet and income statement of the Company Resulting from the Merger.

Olivetti S.p.A. - pro-forma balance sheet at 31 December 2002

(in million of euros)	Olivetti spa before Merger	Reclassification	C bo
Assets			
Intangible assets:			
Deficit from share cancellation			
goodwill			
other	179		
Fixed assets	1		

Long-term investments			
Equity investments and advances on future capital contributions:			
Telecom Italia	22,090	299	
other investments	798		
Other	56		
	23,124	299	
Working capital			
Inventories			
Trade accounts receivable	6		
Other assets	1,756		
Trade accounts payable	(25)		
Reserve for risks & charges	(336)		
Other liabilities	(296)		
	1,105		
Invested capital, net of operating liabilities	24,229	299	
Reserve for employee termination indemnity	(3)		
Invested capital, net of operating liabilities & res. for empl. term. indemn.	24,226	299	
Financed by:			
Shareholders' equity			
Share capital paid-in	8,845		
Reserves & retained earnings	6,426		
Net income (loss)	(6,240)		
	9,031		
Medium/long-term debt	11,882		
Net-short term borrowings			
Short-term borrowings	3,298		
Liquid assets & short-term financial assets	(1,078)	299	
Financial accrued expenses (income) and deferred expenses (income), net	1,093		
	3,313	299	
Total financial indebtedness	15,195	299	
Total	24,226	299	

		Merger effects				
Dividend payment from TI s.p.a.	Olivetti spa before Merger	Incorporation of TI s.p.a.	Treasury s. & distr. of reserves	Cancellation TI shares	Allocation of deficit	Capi incr. excha

				25,792	(25,792)	
					2,842	
	179	1,287				
	1	12,678				
	31,084			(31,084)		
	798	15,010			22,950	
	56	588	(334)			
	32,118	29,563	(334)	(5,292)		
		70				
	6	4,292				
	1,756	3,468				
	(25)	(2,958)				
	(336)	(3,145)				
	(296)	(4,238)				
	1,105	(2,511)				
	33,223	27,052	(334)	(5,292)		
	(3)	(968)				
	33,220	26,084	(334)	(5,292)		
	8,545					
511	6,937					3,
	(6,240)					
511	9,243					4,
	20,875	11,848				
	3,298	5,451	1,305			
(511)	(1,290)	(2,698)				
	1,094	527				
(511)	3,102	3,280	1,305			
(511)	23,977	15,128	1,305			
	33,220	15,128	1,305			4,

Olivetti S.p.A. - pro-forma income statement for the year ended 31 December 2002

(in millions of euros)	Olivetti spa before Merger	Cancellation of Telecom Italia investment write-down	Telecom Italia spa
Sales and service revenues			17,055
Changes in inventory of contract work in process			
Increases in capitalized internal construction costs			11

Operating grants			
Standard production value			17,066
Raw materials and outside services	(17)		(6,966)
Value added	(17)		10,100
Labor cost	(14)		(2,551)
Gross operating profit	(31)		7,549
Depr. & amortiz.	(72)		(3,020)
Other valuation adjustments			(357)
Prov. to reserves for risks & charges			(44)
Net other income			(83)
Operating income	(103)		4,045
Net investment and financial income (expense)	(7,193)	8,051	377
of which value adjustments	(8,400)	8,051	(654)
Income before extraordinary items and taxes	(7,296)	8,051	4,422
Net extraordinary income (expense)	164		(6,093)
Income before taxes	(7,132)	8,051	(1,671)
Income taxes	892	(1,078)	26
Net income/Loss	(6,240)	6,973	(1,645)

Cost of financing					
Withdrawals	T/O Telecom shares	Cancellation of dividend from TI	Amort. of unallocated ancellation deficit	Accrued cost of financing	Tax eff on pro-f acco

				(142)		
				(142)		
(13)	(356)	(1,952)			(69)	
(13)	(356)	(1,952)		(142)	(69)	
(13)	(356)	(1,952)		(142)	(69)	
(13)	(356)	(1,952)		(142)	(69)	

5.3.1 Description of the pro forma adjustments to the historical company amounts at 31 December 2002 and for the year ended 31 December 2002

The pro forma company financial statements for 2002, which are shown in view of the size of the effects of the Merger on the balance sheet and income statement of the Company Resulting from the Merger, basically consider, in the columns showing the adjustment to the historical amounts to produce the pro forma amounts the adjustments described above for the pro forma consolidated amounts.

Apart from the above-mentioned adjustments, the balance sheet takes account of the "merger transactions" regarding the elimination of the equity investment in Telecom Italia as a consequence of the inclusion of its assets and liabilities, with a specific item showing the cancellation deficit. This was subsequently allocated almost entirely to the investment in TIM (Euro 22,950 million), with the remainder of Euro 2,842 million allocated to goodwill.

In addition, the column "Reconstitution of capital and exchange difference" shows the reconstitution of the share capital (Euro 300 million) in the context of the redistribution aimed at keeping Olivetti's share capital unchanged compared with the pre-merger value of Euro 8,845 million and an exchange surplus of Euro 3.726 million.

The column "Receipt of dividends from Telecom Italia" shows the portion accruing to Olivetti (Euro 511 million) of the total dividend of Euro 1,305 million to be approved by the shareholders' meeting called to approve the merger plan.

The pro forma income statement also considers, in a separate column, the succession to Telecom Italia's revenues and expenses.

In particular, the pro forma income statement of the Company Resulting from the Merger shows net income for the year before extraordinary items and taxes of Euro 2,645 million, after cancelling the writedown of the investment in Telecom Italia of Euro 8,051 million included in Olivetti's financial statements for 2002, since it was made only for tax purposes and in view of the fact that the writedown ceases to exist on the assumption that the Merger was effective from 1 January 2002.

5.3.2 Main effects on the income statements and balance sheets of changing the percentage of withdrawals assumed in preparing the pro forma data

Company Resulting from the Merger (in millions of euros)	Pro-forma	Absolute value 0%	25%	max % (1
Goodwill (cancellation deficit)	2,842	3,091	1,842	
Goodwill (exchange deficit)	-	-	-	1,02
Other equity investments (2)	38,758	38,758	38,758	36,87
Shareholders' equity	13,268	13,517	12,268	9,56
Result for the year (3)	(2,648)	(2,661)	(2,598)	(2,55

(1) On the assumption of complete withdrawal apart from the shares held by Olimpia and treasury stock.

(2) The change is due to the amount allocated to the investment in TIM being smaller than the maximum possible of Euro 22,950 million. (3) The changes in the result are due to those in the amortization of goodwill (cancellation/exchange deficit) with the size of the Tender Offer for Telecom Italia shares.

5.4 Report of the auditing firm on its examination of the pro forma figures

The report drawn up by the auditing firm Reconta Ernst & Young S.p.A. on its examination of the post-merger reclassified pro forma figures on a consolidated and a solo basis, carried out in accordance with the methods recommended by Consob in Recommendation No. DEM/1061609 of 9 August 2001 on the verification of pro forma data, is attached to this Information Document (Annex XVIII).

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6. Outlook for the absorbing company and for the group it heads

6.1 General indications regarding business since the close of the 2002 fiscal year

On 5 May 2003, the Boards of Directors of Olivetti and Telecom Italia approved their respective results for the first quarter of 2003. General indications regarding the business of Olivetti and Telecom Italia since the close of the 2002 fiscal year can therefore be found in the two companies' respective quarterly reports, which are attached to this Information Document (Annexes XIX and XX).

6.2 Information permitting a reasonable forecast of the results for the current year

In 2003 the operational profitability of the Telecom Italia Group is expected to remain substantially stable and net financial debt is expected to be further reduced.

Upon completion of the Merger to which this Information Document refers, to be submitted to the shareholders' meetings of Olivetti and Telecom Italia for their approval, Olivetti's results for 2003 will include the financial results of Telecom Italia from 1 January 2003 onwards.

In contrast with the previous years, in which Olivetti's results depended on the dividends for the year, which, together with the related tax credits, had to offset the company's financial and operating expenses, the results for 2003 will include the entire net income that Telecom Italia succeeds in generating, after meeting the financial expenses arising from the company's debt, which will show a temporary increase as a consequence of the transactions related to the Merger (withdrawals and the Tender Offer), the operating expenses for the year and the costs incurred in carrying out the Merger. The temporary increase in debt, covered by the financing put in place for the Merger, is expected to be reduced, partly by using the proceeds of the sale of other non-strategic assets for this purpose.

When consideration is also given to the additional tax benefits deriving from the Merger, it is likely that the net result of the Company Resulting from the Merger will be positive. This will permit a dividend policy whereby Telecom Italia's present shareholders will receive a total dividend at least in line with what they receive today.

The consolidated operating result of the Group headed by the Company Resulting from the Merger in 2003, before amortization of the Merger goodwill, is also expected to be positive in view of Telecom Italia's continued operational profitability.

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Annexes

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Annex I.
Report drawn up by the directors of Olivetti S.p.A.
pursuant to Article 2501-quater of the Civil Code

Report of the Board of Directors of Olivetti S.p.A.
on the plan for the merger of
Telecom Italia S.p.A.
into
Olivetti S.p.A.

Milan, April 15, 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

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

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

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the US. Securities Act of 1933 (the "Securities Act'y and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States.

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States.Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the US. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a US. court's judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

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Report of the Board of Directors of Olivetti S.p.A.
of 15 April 2003
on the plan for the merger of
Telecom Italia S.p.A.
into
Olivetti S.p.A.
pursuant to Article 2501-quater of the Civil Code
and Article 70(2) of Consob Regulation 11971/1999

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Dear shareholders,

We submit for your consideration this report, which describes, from the legal and economic standpoints, the plan for the merger of Telecom Italia S.p.A. ("Telecom Italia" or the "Company to be Absorbed") into Olivetti S.p.A. ("Olivetti" or the "Absorbing Company"; once the merger becomes effective, Olivetti is also referred to as the "Company Resulting from the Merger") and, in particular, the methods used to determine the exchange ratio of the shares of the companies concerned, pursuant to Article 2501-quater of the Civil Code and Article 70(2) of Consob Regulation 11971/1999 (the "Regulation on Issuers").

1. Description of and reasons for the operation

1.1 The operation

1.1.1 The operation submitted for your approval, of which the Boards of Directors of Olivetti and Telecom Italia approved the broad outline on 11 March 2003, will consist in the merger of Telecom Italia into Olivetti pursuant to Article 2501 et seq. of the Civil Code (the "Operation"). The Operation, since it involves companies with financial instruments listed on an Italian regulated market, is also subject to Legislative Decree 58/1998 and the Regulation on Issuers.

The proposed Operation will lead to the Company Resulting from the

Merger being the universal successor to Telecom Italia, so that, from the date on which the merger becomes effective, it will assume all the assets and liabilities, rights and obligations of Telecom Italia, thus including, but not limited to, the title to all the related tangible and intangible assets, receivables and payables accrued and accruing, and, more generally, the entire patrimony of Telecom Italia. Provision is also made for the Company Resulting from the Merger to succeed to Telecom Italia in all the concessions, licences and administrative authorizations granted thereto, in the ways established by the law in force, including the amendment of its corporate purpose.

The balance sheets used for the purposes of the merger are those of the draft financial statements of Olivetti and Telecom Italia for the year ended 31 December 2002, in accordance with Article of the Civil Code.

The companies participating in the merger intend to complete the Operation as soon as possible and, specifically, to work for the merger to become effective in the first few days of August 2003.

1.1.2 Provision has been made for the Company Resulting from the Merger to adopt new bylaws, corresponding almost entirely to Telecom Italia's bylaws - with special reference to the governance rules, which will provide minority shareholders with

analogous protection to that provided by Telecom Italia's bylaws - and the latter's corporate purpose.

In particular, the change in Olivetti's corporate purpose, made necessary by the need - derivable from the provisions of the licences and related fee schedules issued by the competent authorities pursuant to Presidential Decree 31 8/1997 - for the Company Resulting from the Merger to have a purpose that expressly includes the regulated activities subject to administrative authorization currently performed by Telecom Italia will trigger the right of withdrawal from the company, under Article 2437 of the Civil Code, in favour of Olivetti shareholders contrary to the adoption of the resolution providing for such change.

The change in the corporate purpose is also necessary in order to eliminate the reference in Olivetti's present bylaws to the prevalent nature of the activity of holding company, which is incompatible with the activity performed by Telecom Italia, as expressly stated in its present bylaws.

The relative majority shareholder of Olivetti, Olimpia S.p.A., has announced that it will not exercise its right of withdrawal.

In order to meet the needs deriving from the settlement of withdrawals, Olivetti will draw on lines of credit provided by a pool of banks and amounting to Euro 9,000,000,000.

Provision has also been made for the Company Resulting from the Merger to adopt the name Telecom Italia. This meets the need to make the name of the Company Resulting from the Merger consistent with the new organizational structure and the nature of the activities it will acquire and perform at the end of the Operation, although the intention is to continue to capitalize on the historic name of "Olivetti" together with the other Group marks.

Lastly, it is proposed that the registered office of the Company Resulting from the Merger be transferred to Milan, at the address of Telecom Italia's present registered office. Ivrea will continue to be the strategic headquarters for the manufacturing activity of the Olivetti Group centered around Olivetti Tecnost and for the latter's activity in connection with the Tiberius Project.

For a more detailed discussion of the changes to the bylaws and the right of withdrawal made necessary by the Operation, see Sections 9 and 10.

1.1.3 Since the Operation will involve Olivetti's absorption of a subsidiary, it will result in the cancellation of Olivetti's holding in Telecom Italia at the time the merger becomes effective and the assignment to the holders of Telecom Italia ordinary and savings shares other than Olivetti of ordinary and savings shares issued by the Company Resulting from the Merger and to the holders of Olivetti shares of newly-

issued ordinary shares of the Company Resulting from the Merger on the basis of assignment ratios corresponding to the exchange ratio. This assignment will be made by redistributing Olivetti's capital at the end of the Operation (see most notably Section 4).

In particular, in order to comply with the exchange ratio for the Telecom Italia savings shares, provision has been made for the Company Resulting from the Merger to issue savings shares to be assigned to the holders of Telecom Italia savings shares. It is proposed that application be made to Borsa Italiana S.p.A. for the listing of these savings shares on the MTA electronic share market. The effectiveness of the merger will be subject to such listing.

1.1.4 As mentioned earlier, as a consequence of the merger, Olivetti will cancel all the Telecom Italia shares it holds at the time the merger takes place. For the purposes of the financial statements for the fiscal year, the difference between the carrying value of the cancelled Telecom Italia shares and the corresponding share of the shareholders' equity will be positive and will therefore give rise to a cancellation deficit. This deficit, whose size will also depend on the level of acceptances of the tender offer (discussed in Subsection 1.1.8), will be allocated to Telecom Italia's assets (in particular its holding of TIM shares) and any remaining difference will be entered under "goodwill". In view of the procedure for assigning the shares of the Company Resulting from the Merger (see Section 4), it is reasonable to expect that an exchange surplus will emerge.

In Olivetti's consolidated financial statements the consolidation difference that arose with the acquisition of Telecom Italia in 1999 will be increased by the difference between the carrying value of any Telecom Italia shares acquired in the tender offer and the corresponding share of the shareholders' equity.

1.1.5 The savings shares issued by the Company Resulting from the Merger for the holders of Telecom Italia savings shares will have identical economic rights to those of the Telecom Italia savings shares, including the possibility of satisfying the preferential rights provided for in the bylaws by distributing reserves (the addition of which to the Telecom Italia bylaws, with immediate effect, will be proposed to the shareholders' meeting called to approve the merger plan).

The maintenance of the preferential rights to which each Telecom Italia savings share is entitled by law will be accompanied by an improvement in the preferential position of each savings shareholder, since he/she will be assigned, for each such share held, more than one savings share of the Company Resulting from the Merger (on the basis of the assignment ratio by means of which the exchange will be implemented; on this point see Section 4).

Since each of the newly-issued savings shares of the Company Resulting from the Merger will have a par value equal to the present par value of the Telecom Italia

savings shares (Euro 0.55) and will give the same percentage preferential right calculated with reference to its par value, at the time of the exchange each holder of Telecom Italia savings shares will receive, as a consequence of the assignment ratio, a larger amount of the nominal capital of the Company Resulting from the Merger than the amount previously held and will therefore be entitled to a larger preferred dividend in absolute terms.

This advantage, together with the above-mentioned possibility of satisfying the preferential rights by distributing reserves, improves the position of the holders of savings shares compared with that prevailing before the Operation.

1.1.6 On 13 March 2003 Olivetti published a notice in the Gazzetta Ufficiale regarding the rights of holders of "Olivetti 1,5% 2001-2004 convertibile con premio a1 rimborso" and "Olivetti 13% 2001-2010 convertibile con premio al rimborso" convertible bonds to exercise the right of conversion pursuant to Article 2503-bis, second paragraph, of the Civil Code.

The time limit for the de jure exercise of the conversion right expired on 13 April 2003. The holders of bonds convertible into Olivetti shares can, however, exercise the conversion right in accordance with the rules of the above-mentioned bond issues after the expiration of the time limit established by Article 2503-bis, second paragraph, of the Civil Code, without prejudice to the periods of suspension provided for in such rules.

Lastly, it should be noted that as a consequence of the merger the ratio for the bond conversion into Olivetti shares and that for the exercise of the warrants will be adjusted to take account of the new par value of the shares of the Company Resulting from the Merger and in relation to the assignment ratio, as explained in more detail in Section 4. In particular, the adjustment will be made to reflect the new fractional number of shares of the Company Resulting from the Merger into which each bond and each warrant can be converted at the end of the merger in view of the assignment ratio on the basis of which the shares of the Company Resulting from the Merger will be assigned in exchange to the shareholders of Olivetti who have not exercised their right of withdrawal.

1.7.7 The Olivetti shareholders' meeting called to adopt the merger Resolution will therefore be required to update the resolutions adopted to increase the capital for the exercise of the rights attaching to the "Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004" warrants and the "Olivetti 13% 2001-2004 convertibile con premio al rimborso" and "Olivetti 1,5% 2001-2010 convertibile con premio al rimborso" convertible bonds and for the exercise of stock options, with the consequent revision of the related rules. The same Olivetti shareholders' meeting will also be called upon to approve increases in capital for the stock options issued by Telecom Italia that have not yet been exercised.

Naturally, the exact quantification of the shares obtainable by exercising the warrants and stock options and of those deriving from conversions will be possible only when, at the time the deed of merger is signed, the assignment ratio is established, as provided for in Section 4.

1.1.8 As part of the Operation and before its completion, provision has been made for a tender offer for some of Telecom Italia's ordinary and savings shares. In addition to having an investment rationale, this is also intended to provide a way for Telecom Italia shareholders who do not wish to keep their entire holding in the Company Resulting from the Merger to liquidate part of it, in a similar way to the Olivetti shareholders who exercise their dejure right of withdrawal. The tender offer will be made for an amount equal to that remaining, if any, from the Euro 9,000,000,000 made available by the pool of banks to finance the exercise of the right of withdrawal.

Consequently, assuming the availability of financial resources, as specified above, the tender offer will be made only at the end of the period allowed for the exercise of the right of withdrawal following the approval of the merger plan and the adoption of the new bylaws with the amended corporate purpose and no minimum threshold will be set for acceptances. The number of Telecom Italia shares tendered for will be established - once the number of Olivetti shares for which the right of withdrawal has been exercised is known - by dividing the amount remaining of the finance provided for withdrawals, if any, by the offer price per Telecom Italia ordinary and savings share (established in the manner described below), so that the offer will be for the same percentage of ordinary shares and savings shares (calculated in relation to the total number of shares of each class).

The offer price will be equal to the weighted average of the official prices recorded on the stock exchange between 12 March 2003 and the date of the shareholders' meeting of the Absorbing Company that approves the merger plan, plus a 20% premium. In addition, the offer price will be between: (i) a maximum of Euro 8.40 and a minimum of

Euro 7 per share for Telecom Italia ordinary shares and (ii) a maximum of Euro 5.65 and a minimum of Euro 4.70 per share for Telecom Italia savings shares.

Depending on the offer price established in the manner described above, and assuming that the full amount of Euro 9,000,000,000 is available owing to the failure of Olivetti shareholders to exercise their right of withdrawal, the tender offer will be for the minimum and maximum quantities of Telecom Italia ordinary and savings shares shown below:

(i) assuming that the offer price is equal to the maximum price specified above, the offer will be for about 16.1% of the ordinary shares and about 16.1% of the savings shares;

(ii) assuming that the offer price is equal to the minimum price specified above, the offer will be for about 19.4% of the ordinary shares and about 19.4% of the savings shares;

If, however, the acceptances of the tender offer fall short of the maximum quantity for one class of shares but exceed it for the other class, the amount not used to buy shares of the first class will be used to buy shares of the second class, and the maximum quantity of shares of the latter class will increase until all the funds available have been used, so that the largest number of shareholders wishing to accept the offer can be satisfied. In such case the percentages indicated in the subparagraphs (i) and (ii) will change.

The tender offer will be made as soon as possible after the close of the period for Olivetti shareholders to exercise their right of withdrawal. Provision has also been made for the tender offer, if made, to become ineffective if the merger does not become effective by a given date, now tentatively envisaged to be 31 December 2003, without prejudice to the intention of the companies participating in the Operation to complete the merger as soon as possible and, specifically, in the first few days of August 2003.

The foregoing condition for the ineffectiveness of the tender offer is intended to ensure that it depend on substantially the same circumstances as the right of withdrawal of the Olivetti shareholders, which applies only if the merger is completed.

1.1.9 At the end of the Operation the ordinary shares of the Company Resulting from the Merger will continue to be listed on Borsa Italiana's MTA electronic share market. Nor will the Operation affect the listing of the Olivetti ordinary shares on the Frankfurt Stock Exchange. As mentioned earlier, the intention is for the savings shares also to be listed on the MTA market before the merger becomes effective and as a condition of its effectiveness. It is also intended that the ordinary and savings shares be listed on the New York Stock Exchange in the form of American Depositary Receipts (ADRs), thus maintaining the present situation with regard to Telecom Italia ordinary and savings shares.

1.2 The companies participating in the Operation

1.2.7 Olivetti is a holding company, of which the most important holding is its 54.9% interest in the ordinary share capital of Telecom Italia (about 39.5% of the total share capital). It also has holdings in other industrial sectors such as office products and services and in real estate, notably through its subsidiaries Olivetti Tecnost

S.p.A. (information technology and communications products and services) and Olivetti Multiservice S.p.A. (services related to the real-estate sector).

The following tables show selected income, balance sheet and financial data for the Olivetti Group and for Olivetti, drawn from the consolidated financial statements for the 2002 fiscal year, Olivetti's draft financial statements for 2002 and its financial statements for 2001 and 2000, appropriately reclassified to conform with those of Telecom Italia.

Selected economic and financial data for the Olivetti Group and for Olivetti

OLIVETTI GROUP

(in millions of euros)	2002	2001	2000(*)	2000
Sales of goods and services	31,408	32,016	28,374	30,116
Gross operating profit	14,033	13,707	12,272	13,173
Operating income	6,016	5,338	5,112	5,477
Consolidated net income (loss) before minority interest	(773)	(3,090)	(940)	(940)
Consolidated shareholders' equity (parent company's interest)	11,640	12,729	13,856	13,856
Consolidated net financial debt:	33,399	38,362	35,728	37,524
- medium and long-term	33,309	37,042	25,622	27,157
- short-term	90	1,320	10,106	10,367

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the proportionate method.

OLIVETTI

(in millions of euros)	2002	2001	2000
Net income (loss)	(6,240)	(871)	870
Shareholders' equity	9,031	15,235	13,937
Net financial debt	15,195	16,322	17,991

- medium and long-term	12,472	10,293	17,150
- short-term	2,723	6,029	841

1.2.2 Telecom Italia, together with the group of companies it heads, is one of the largest international groups operating in the sector of telecommunication services and,

more in general, information and communication technology. Its companies, leaders in fixed and mobile communications, the Internet and multimedia, information technology and research offer integrated and innovative services in Italy and abroad. Its principal strength lies in its leadership in the Italian markets for fixed and mobile telecommunications and Internet services. The companies of the Group have created broadband, fixed and mobile networks providing innovative services, complex solutions for ICT, multimedia messaging, solutions for mobile business, products for e-government and online banking.

Following the changes in top management in 2001 and the significant overhaul of corporate growth strategies with the formulation of the Business Plan for 2002- 2004, in 2002 an overall restructuring was launched. In particular, organizational restructuring led to the formation of a completely renewed, compact and stable management team. During 2002 the responsibilities of the Domestic Wireline and Information Technology business units were revised in depth and a new South American business unit was established.

At Group level the so-called "professional families" were upgraded and strengthened with the establishment of a functional link between distinctive competences in the individual Telecom Italia Group companies and the analogous functions in the parent company so as (i) to ensure greater organizational effectiveness and the verification of resources, and (ii) to foster intra-Group mobility. In addition, new procedures were introduced for the approval and monitoring of investments and acquisitions, with the centralization of governance responsibilities.

Important progress was made in financial strengthening and industrial restructuring, in line with the Business Plan. The results obtained with the gain in efficiency and the plan of disposals (which generated a net cash flow of Euro4,771 million in 2002) were decisive in reducing the Group's debt from Euro 21,942 million at the end of 2001 to Euro 18,118 million at 31 December 2002. The proportion of debt with a maturity of more than one year rose from 64% at the end of 2001 to 75% at the end of 2002. The Group's structure was simplified, with the number of companies declining in 2002 from 714 to 416.

Turning to business developments, the focus in 2002 was placed on innovation by strengthening the company's leadership in the Italian market and its presence in international markets.

In the field of mobile telephony, TIM ranks first among European operators in terms of the number of GSM lines on a single network and is the leader in Italy. In October TIM launched Brazil's first GSM service, which reached more than 80 cities throughout the country.

The following tables show selected income, balance sheet and financial data for the Telecom Italia Group and for Telecom Italia, drawn from the consolidated financial statements for the 2002 fiscal year, the company's draft financial statements for 2002 and the financial statements for 2001 and 2000.

Selected economic and financial data for the Telecom Italia Group and for Telecom Italia

TELECOM ITALIA GROUP

(in millions of euros)	2002	2001	2000(*)	2000
Sales of goods and services	30,400	30,818	27,169	28,911
Gross operating profit	13,964	13,619	12,217	13,118
Operating income	7,381	6,674	6,440	6,805
Consolidated net income (loss) before minority interest	(322)	(2,068)	2,028	2,028
Consolidated shareholders' equity (parent company's interest)	9,049	13,522	18,821	18,821
Consolidated net financial debt:	18,118	21,942	17,233	19,029
- medium/long-term	15,018	16,083	6,733	8,268
- short-term	3,100	5,859	10,500	10,761
Consolidated free cash flow from operations1	8,610	5,990	4,453	4,763

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the proportionate method.

1 Operating income + Depreciation and amortization - Industrial investments - Change in working capital.

TELECOM ITALIA

(in millions of euros)	2002	2001	2000
Sales of goods and services	17,055	17,309	17,463
Gross operating profit	7,549	7,571	7,556
Operating income	4,045	3,983	3,595
Net income (loss)	(1,645)	151	2,559
Shareholders' equity	10,956	15,871	18,714
Net financial debt:	15,128	16,913	16,839
- medium/long-term	11,848	10,371	3,188
- short-term	3,280	6,542	13,651
Free cash flow from operations	5,291	4,384	4,234

1 Operating income + Depreciation and amortization - Industrial investments - Change in working capital.

1.3 The reasons for the Operation

One aspect of interest to shareholders is that the Operation will lead to the Company Resulting from the Merger being more contestable since, upon completion of the Operation, the holding of the present relative majority shareholder of Olivetti will be reduced (see Section 7), with a consequent increase in the security's liquidity and the reasons for the market to view it favourably, to the benefit of all the shareholders.

The proposed Operation will also bring a major simplification in the structure of the Group, in line with the expectations of the market and the objective of an overall improvement in Olivetti's financial position. Among other things, the integration of corporate functions will ensure faster decision-making in the context of an organizational structure comparable to that of the leading international operators.

The Operation is also intended to bring additional advantages by:

- optimizing financial and income flows within the Group through a more efficient management of Group debt and more efficient use of financial leverage. In fact the Operation will permit the whole financial debt to be allocated directly to a level closer to the operational activities that generate cash flow and eliminate the dependence of Olivetti on the dividend policy of the Company to be Absorbed. It is also likely that these effects will lead to an improvement in the creditworthiness of the Company Resulting from the Merger, which, in turn, could lead to a more favourable rating and a reduction in the cost of future debt;

- allowing the Company Resulting from the Merger to optimize its financial structure and reduce the average cost of capital employed compared with that of Telecom Italia today. This effect should help to sustain the price of the shares of the Company Resulting from the Merger and therefore create value for the shareholders of Olivetti and Telecom Italia;

- improving the tax efficiency of the Company Resulting from the Merger under the current tax rules, through the complete and faster recovery, including the part currently not stated, of the tax benefits in connection with the value adjustments to equity interests decided at the time of the approval of Olivetti's draft financial statements for the 2002 fiscal year ("Tax Asset").

1.4 The objectives for operations and the plans for achieving them

The companies participating in the merger were in agreement on the objectives for operations and the plans for their achievement by the Company Resulting from the Merger. Substantially, they coincide with those of Telecom Italia approved by its Board of Directors on 13 February 2003, which in turn confirm the guidelines and objectives of the Business Plan 2002-2004. With specific regard to Olivetti, it should be noted that Olivetti Tecnost is substantially neutral in terms of its impact on the operating income.

However, the Operation will result in a merger deficit (deriving from share cancellation), any portion of which not classified as a Telecom Italia asset (specifically among equity interests) will be amortized over a period of 20 years. The updated financial projections take account of this additional portion of amortization.

The same projections consider the financial charges associated with Olivetti's present debt, as well as the effect of the tax asset connected with the value adjustments made in Olivetti's and Telecom Italia's draft financial statements for 2002.

In addition to the disposals already envisaged by the Business Plan (Telekom Austria, Operazioni Real Estate), the projections also include the receipts from the disposal of the company into which Seat Pagine Gialle is to be spun off.

Lastly, it is estimated that the cash flows from operations and disposals of the Company Resulting from the Merger will be able to sustain not only a reduction in debt but also a dividend distribution policy in line with that set out in Telecom Italia's Business Plan.

The following table summarizes the above considerations at consolidated level, from which the sustainability of the commitments entered into for the future appears evident.

Billions of euros	Olivetti 2002 consolidated financial statements	Consolidated objectives of the Company Resulting from the Merger (*) CAGR 2002-2005 ***
Sales of products and services	31.4	4 - 4.5%
Gross operating profit	14.0	5 -5.5%
% of sales	44.6%	
Operating income	6.0	8 -8.5%
% of sales	19.1%	
		Cumulative 2003-2005
Free Cash Flow	8.6	29
Net financial position	33.4**	34.3****

(*) Assuming zero withdrawals, fully diluted.
(**) The net financial position does not take account of the forward purchase commitments (December 2005) in respect of Aldermanbury Investment Limited (formerly Chase Equities Limited), equal to Euro 2,417 million. (***) The scope of the consolidation is the same.
(****) At 31 December 2004.

2. The values attributed to Olivetti and Telecom Italia for the purpose of determining the exchange ratio

For the valuations needed to establish the exchange ratio, Olivetti's Board of Directors had recourse to the advice and assistance of a leading financial advisor, JPMorgan Chase Bank ("JPMorgan").

The valuation methods applied by JPMorgan to establish the exchange ratio have been checked by Professor Angelo Provasoli, in his capacity as Olivetti's consultant, with a view to verifying their mutual consistency and appropriateness with respect to the purpose of the Operation.

Olivetti's Board of Directors - taking into account the draft financial statements of the Absorbing Company and the Company to be Absorbed for the year ended 31 December 2002, approved by the two companies' respective Boards of Directors as the reference statements of assets and liabilities, and of the proposed distribution of reserves by Telecom Italia up to a maximum of about Euro 1,333 million, and after careful analyzing the valuations put forward by the financial advisor and the conclusions reached by Professor Angelo Provasoli and being in agreement with the valuation methods applied and described in Section 3 - has identified the following ranges for the values of the shares of the companies participating in the merger for the purpose of establishing the exchange ratio:

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	8.1	8.6	9.1

	Minimum	Mean	Maximum
Values per Telecom Italia savings share (euros)	5.4	5.8	6.1

	Minimum	Mean	Maximum
Values per Olivetti ordinary share (euros)	1.13	1.26	1.39

	Minimum	Mean	Maximum
Values per Olivetti savings share (euros)	0.76	0.84	0.93

It should be noted that the figures in the above tables, as in all the tables in Section 3, have been rounded, albeit without this materially affecting the results.

3. The exchange ratio established and the methods used in determining it

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3.1 Valuation methods used

3.1.1 It needs to be premised that the ultimate aim of the valuation of the companies participating in a merger is to obtain values of the companies participating in the operation that can be meaningfully compared.

Consistently with this objective, and in accordance with the regular practice, a uniform yardstick must be adopted throughout the whole valuation process in order to defend the interests of the shareholders of the Absorbing Company and the Company to be Absorbed. This does not necessarily mean that identical valuation methods must be used for all the companies directly or indirectly involved in the merger, especially if they operate in different sectors, but rather that there must be the same approach to valuation.

Since, as mentioned earlier, the exclusive aim of the estimates is to establish significantly comparable values, the methods adopted in the context of valuations for merger purposes and the related results may differ from those used for valuations having a different purpose.

On the basis of these assumptions and as a consequence of the adoption of the redistribution method for the assignment of the shares of the Company Resulting from the Merger (as discussed in more detail in Section 4), it is first necessary to establish a "natural" exchange ratio between the shares of the two companies, corresponding to the exchange ratio that would have been applied if the merger had involved the issue of new shares for the purpose of the exchange. This "natural" exchange ratio will correspond to different assignment ratios, which will depend, as shown in Section 4, on a number of variables.

With this premise, the "natural" exchange ratio was established by applying valuation methods that are commonly used in Italy and abroad for operations of this kind and for businesses in this sector.

In particular, account was taken of the comparative valuation of the companies involved and priority given to the homogeneousness and comparability of the methods used with respect to the simple estimate of the economic capital of each company considered on its own.

In this perspective, the valuations were carried out considering the two companies as separate entities and therefore ignoring all the strategic, operational and financial synergies expected from the merger, as well as the question of control premiums/minority discounts associated with the possession of equity interests.

3.1.2 For the valuation of Telecom Italia, the fundamental method it was decided to apply was that known as the Sum-of-the-Parts method, which it is standard market practice to use to estimate the value of a group operating in several sectors.

Under the Sum-of-the-Parts method the value of a company's economic capital is calculated as the sum of the values of its separate units, in the sense of economic entities that can be valued independently and suitably adjusted to take account of the company's financial position and minority interests, where material, and of other factors such as off-balance-sheet items and potential tax benefits.

As regards the single units, in view of the complexity and extensiveness of the structure of the Telecom Italia Group and of the many sectors in which it operates, it was decided advisable to value each of them using the methods deemed most appropriate to each situation. In particular, the valuation of the principal units was based primarily on the Discounted Cash Flow method, while the remaining assets, which are of limited importance in the overall valuation, were valued using stock market prices, for companies listed on a regulated market, and/or the method of market multiples, with use also made for testing and control purposes of balance sheet values and the values published in analysts' research reports on such units, where available.

The Discounted Cash Flow method gives the value of a company as a whole. It is based on the assumption that the value of a company or an economic activity is equal to the present value of future cash flows. These flows can be determined analytically as follows:

\+ Earnings before interest and tax (EBIT)
\- Imputed tax on EBIT Depreciation and other non-cash allowances - Fixed investment +/- Change in net working capital

Under this method the value of the economic capital of a company or an economic activity is equal to the sum of (i) the discounted value of the expected cash flows and (ii) the terminal value of the company, less (iii) the net financial debt and minority interests, as given by the following formula:

$$W = \sum_{t=1}^{n} \frac{FC_t}{(1 + WACC)^t} + \frac{VT}{(1 + WACC)^n} - DF_{t0}$$

where:

W = Value of the economic capital W - FC t = Annual cash flow expected in period t VT = Terminal value DF = Net financial debt and minority interests at time t=O n = Number of projection periods WACC = Weighted average cost of capital

The terminal value is the value of the company or economic activity to be valued at the end of the period covered by the projections and is determined assuming that the duration of the business is unlimited. The terminal value is determined using the perpetual growth method by applying the following formula:

$$VT = FC / (WACC - G)$$

where:

VT = Terminal value FC = Normalized cash flow g = Perpetual growth rate
WACC = Weighted average cost of capital

The terminal value obtained in this way is treated as if it were an additional cash flow and thus discounted using the weighted average cost of capital, which is the average of the costs of the different forms of financing used (equity capital and debt capital net of tax effects) weighted according to the financial structure of the company or economic activity.

$$WACC = Kd\,(1-t)\,\frac{D}{D+E} + Ke\,\frac{E}{D+E}$$

where:

Kd = Cost of debt capital
Ke = Cost of equity capital
D = Debt capital
E = Equity capital
t = Tax rate

In particular, the cost of debt capital is the long-term interest rate applicable to companies or economic activities of similar riskiness net of the tax effect. The cost of equity capital, instead, reflects the rate of return expected by the investor with account taken of the relative risk, calculated using the Capital Asset Pricing Model, as shown below:

$$Ke = Rf + B\,(Rm-Rf)$$

where:

Ke = Cost of equity capital
Rf = Rate of return on risk-free investments

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B = Coefficient that measures the correlation between the rate of return expected on an investment and the rate of return expected on the reference equity market
R m = Expected equity market rate of return (Rm- Rf) = Risk premium required by the equity market with respect to the rate of return on risk-free investments

3.1.3 The valuation of Olivetti was based, instead, using as fundamental method the Net Asset Value method (substantially equivalent in methodological terms to the Sum-of-the-Parts method), since it is standard market practice to use this method to value holding companies without a significant operating activity.

According to the Net Asset Value method, the value of the economic capital of a company is the sum of the values of its holdings, in the sense of economic entities that can be valued independently, and suitably adjusted to take account of the company's financial position and minority interests, where material, and of other factors such as the centralized costs of the holding company, other assets, off-balance-sheet items and potential tax benefits.

3.1.4 The exchange ratio obtained by applying the above methods was tested by using the stock-market prices method, which, in the case in question, involves considering the ratio between the values of the shares of the companies participating in the merger expressed by the stock market.

This method is considered significant when making valuations for a merger when both the companies involved are listed. Its significance increases further when, as in the case in question, the average volumes traded are large; in such circumstances the prices formed in the market provide a baseline for the purposes of a comparison of the profitability, soundness, growth prospects and riskiness of the companies from the standpoint of investors and thus for the ratio between the values of the companies involved in the merger.

In applying this method it is necessary to strike a balance between the need to mitigate the volatility of daily share prices by considering a sufficiently long period and the need to use recent data that are indicative of the market values of the companies in question. In identifying the time horizon to consider it also necessary to take account of any major changes or significant events that have affected the companies.

Since both Telecom Italia and Olivetti are listed on Borsa Italiana's MTA electronic share market and are among the largest Italian companies in terms of market value, it was considered that the stock market prices of their securities constituted a reliable benchmark.

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3.2 Application of the chosen valuation methods

This subsection contains a description of the manner in which the valuation methods discussed in Subsection 3.1 were applied to the companies participating in the merger in order to obtain the "natural" exchange ratio.

3.2.1 Telecom Italia

Telecom Italia was valued using the Sum-of-the-Parts fundamental method.

In applying this method, the valuation of the principal activities (the activities of Telecom Italia S.p.A., Telecom Italia Mobile and Seat Pagine Gialle-directory) was based primarily on the Discounted Cash Flow method, while the remaining units were valued using stock market prices, for companies listed on a regulated market, and/or the method of market multiples, with use also made for testing and control purposes of balance sheet values and the values published in analysts' research reports on such companies, where available.

In the case of the units for which the Discounted Cash Flow method was used, the method was applied with a view to determining the fundamental value of the companies for financial investors and on the basis of the following assumptions and approaches:

- reference was made to the cash flows of the individual units as set out in the economic and financial plans drawn up by Telecom Italia;

- the growth rates used for the financial projections beyond the time horizon of Telecom Italia's business plan and for the calculation of the terminal value reflect growth prospects consistent with the relevant market benchmarks; the terminal value, determined on the basis of the flows estimated in the manner indicated, is substantially consistent with the multiples implicit in the current prices of comparable companies;

- the weighted average cost of capital (WACC) was calculated on the basis of a capital structure substantially in line with the present one.

In applying the Discounted Cash Flow method, reference was made, as mentioned earlier, to the cash flows from operations for the main activities based on the economic and financial plans drawn up by Telecom Italia's management. These are briefly described in what follows.

Fixed telephony

The economic and financial projections in this field were constructed starting from the market and economic and financial results achieved in 2002. For the years 2003-2005 they

reflect the company's strategic operating and financial objectives within a market scenario that refers substantially to the Italian fixed telephony market.

The projections were developed assuming little change in the regulatory framework, which is reflected in the movements expected in the prices for access, interconnection and leased lines. In particular, consideration was given to the introduction of the network cap for access and interconnection, while for leased lines the financial projections reflect a continuation of the present downward trend of prices in the period 2003-2005.

In a retail market characterized (i) by a decline in the value of voice traffic at an annual rate of 2.3%, as a result of small increases in volumes and falling prices, and (ii) by an in increase in sales in the Internet, data transmission and high value-added services segments, the "Domestic Wireline" business unit is expected to maintain the present level of revenues, with an average compound annual growth rate estimated at 0% - 0.5% in the period 2002-2005.

With revenues performing as described above, the Gross operating margin is forecast to grow at an annual rate of 2% - 2.5% until 2005, with an objective for the margin on sales of more than 49%. These results stem from the strategy of focusing on the core business, product innovation and a policy aimed at enhancing efficiency and lowering operating costs.

The high levels of profitability and of the generation of cash flow from operations will benefit from capital spending on the order of Euro 6.2 billion in the period 2003-2005, of which about 80% will be on the development of innovative products and services.

The following table summarizes the financial objectives of the "Domestic Wireline" business unit, which consists principally of Telecom Italia's activity in the field of fixed telephony.

	2002 (billions of euros)	CAGR 2002 -2005 (%)
Revenues	17.0	0%- 0.5%
EBITDA	8.0	2% - 2.5%

EBIT	4.7	4.5% - 5%
		Cumulative 2003 -2005 (billions of euros)
Capex	2.5	6.2

Mobile telephony (TIM)

In this field consideration was given to market data and the results for the year 2002, together with economic and financial projections based on the TIM group's strategic objectives, with a distinction made between activities in Italy and abroad.

As regards the domestic market for mobile telephony, it is estimated that its value will have risen to 1.5% of GDP in 2005 and that the level of penetration will reach 100% in 2004. The level of profitability is expected to remain high in the European context.

The main source of the creation of value will be Value Added Services (VAS), which are expected to record a compound annual growth rate of around 30% in the period 2002-2005, with an objective for their contribution to Average Revenue Per User (ARPU) of 18%-22% in 2005, compared with 9% in 2002. Capital spending to sustain the growth of VAS in the domestic market is expected to increase from 28% of all capital spending on mobile telephony in 2003 to 35% in 2005.

Business abroad is expected to account for a rising proportion of mobile telephony revenues. In Brazil, which will be the main area of international expansion, it is estimated that the penetration of mobile telephony will rise from 19% in 2002 to 26% in 2005 and that over the same period the Group's market share will grow from 16% to 26%, with the objective of increasing users to 12.5 million, of which 9.9 million on the GSM network; this growth will be sustained by capital spending on the order of Euro 1.1 billion in the period 2003-2005.

The following table summarizes the results achieved in 2002 and the main economic and financial objectives for the period 2003-2005.

	2002 (billions of euros)	CAGR 2002 -2005 (%)
Revenues	10.9	7% - 8%
EBITDA	5.0	8% - 9%
		Cumulative 2003 -2005 (billions of euros)
Capex	1.7	5.6

Seat Pagine Gialle

In this case consideration was again given to market data and the results for the year 2002; reference was also made to a macroeconomic scenario with moderate growth in GDP and advertising in the main target markets (Italy and the United Kingdom).

In particular, Seat Pagine Gialle's strategy focuses on the search for further efficiency gains and aggressive action to expand its business, in order to generate continuous and growing cash flows.

This growth in business will come from a strengthening of the Directories sector through the integration of the different platforms (phone, paper and the Internet) and the application of this model in foreign markets, starting with the United Kingdom.

As regards Internet business, a rapid growth in revenues is envisaged, at an annual rate of between 17% and 21 % in the period 2002-2005.

The estimates underlying Seat Pagine Gialle's financial projections are summarized in the following table.

	2002 (billions of euros)	CAGR 2002 -2005 (%)
Revenues	2.0	6% - 8%
EBITDA	0.6	11% - 13%
EBIT	0.2	27% - 29%
		Cumulative 2003 -2005 (billions of euros)
Capex	0.1	0.3

Sum of the Parts

In applying the Discounted Cash Flow method, in the context of the calculation of the Sum of the Parts, for the rate of return expected on risk-free investments, recourse was made to the "normal" rate of return on risk-free investments in the Italian market, while the beta coefficient was calculated on the basis of the most appropriate market indicators in the light of the financial structure of the activity to be valued. The risk premium required by the market was deduced from the rate of return implicit in market prices.

To the sum of the values of the assets calculated in the manner described above was added the net financial position at 31 December 2002 (adjusted to take account of the effects of the proportional net debts and minority interests, where material) and the net value of other adjustments, including some off-balance-sheet items and tax benefits.

The table below shows the minimum, mean and maximum values of the Telecom Italia ordinary share obtained using the Sum-of-the-Parts method before the distribution of reserves planned for June 2003 and thus before the completion of the merger.

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	8.3	8.8	9.3

The results obtained using the Sum-of-the-Parts method were tested by analyzing the target prices identified by financial analysts. The research reports published by brokers and investment banks available at 7 March 2003, which gave a sample of 20 target prices for the Telecom Italia ordinary share, showed a range of values from Euro 7.5 to Euro 12.0 per Telecom Italia ordinary share. The mean value was Euro 9.2 per Telecom Italia ordinary share and the mid point of the range was Euro 9.8 per Telecom Italia ordinary share.

The table below shows the minimum, mean and maximum values of the Telecom Italia ordinary share obtained using the Sum-of-the-Parts method adjusted for the distribution of reserves planned for June 2003.

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (euros)	8.1	8.6	9.1

The next table shows the minimum, mean and maximum values of the Telecom Italia savings share calculated on the basis of the average market discount of the last month before 7 March 2003, equal to about 33%, which is in line with the discount on the last day of trading of the Olivetti and Telecom Italia shares before the announcement of the merger (7 March 2003) and substantially in line with the average discount of the last 3, 6 and 12 months.

	Minimum	Mean	Maximum
Values per Telecom Italia savings share (euros)	5.4	5.8	6.1

3.2.2 Olivetti

As mentioned earlier, Olivetti was valued using the Net Asset Value method, which it is standard market practice to use to value holding companies without a significant operating activity.

The net asset value was calculated as the sum of the value of the company's equity investments and of its other assets, less its net financial liabilities and minority interests,

where material, and with consideration also given to the negative net present value of the centralized costs of the holding company.

The company's principal equity investment is that in Telecom Italia, which has been valued as discussed in Subsection 3.2.1 with reference to the values obtained using the Sum-of-the-Parts method, adjusted for the effect of the distribution of reserves planned for June 2003.

In this respect it needs to be stressed that it was not considered appropriate to calculate the Net Asset Value on the basis of the current stock market value of Olivetti's holding in Telecom Italia since, in the context of a valuation for the purpose of establishing an exchange ratio, having deemed it correct to value Telecom Italia on the basis of a fundamental method (Sum of the Parts), the valuation of the holding therein in the context of Olivetti's Net Asset Value had to be based on a fundamental method, so as to ensure the homogeneousness of the methods adopted and the overall reliability of the results. On the contrary, the calculation of Olivetti's Net Asset Value on the basis of stock-market prices of Telecom Italia would have been marked not only by the non-homogeneousness of the methods adopted but also by high volatility owing to Olivetti's financial leverage, which would cause the valuation to be unreliable.

The other equity investments and assets were valued using the Discounted Cash Flow method (Olivetti Tecnost), the stock market price method for companies listed on regulated markets and/or the market multiples method, with use also made for testing and control purposes of balance sheet values and the values published in analysts' research reports on such companies, where available.

The Olivetti treasury shares held both directly and indirectly through the subsidiary Olivetti International S.A. were valued at the final implicit value resulting from the calculation of Olivetti's Net Asset Value. This valuation method gives a result that is substantially equivalent to that obtained with the alternative method, which consists in determining the value of the Olivetti share by dividing the value of the company's economic capital (calculated without considering the holding of treasury shares) by the number of shares, excluding the treasury shares.

The calculation of the Net Asset Value also included the Tax Asset in connection with the adjustment of the value of Olivetti's equity investment in Telecom Italia proposed in Olivetti's draft financial statements for the 2002 fiscal year.

The value of the Tax Asset was calculated by discounting the amounts of the lower tax liabilities resulting from application of the tax deductions for which Olivetti would be eligible

on a stand-alone basis, taking into account to that end the taxable income it is forecast to earn.

To the sum of the values of the assets and the Tax Asset, calculated as described above, was added the value of the net financial position at 31 December 2002, adjusted for the effect of Telecom Italia's distribution of reserves planned for June 2003 and to take account of the pro forma effect of the conversion of the "Olivetti 1.5% 2001-2010 convertibile con premio al rimborso" convertible bonds, consistently with the fully-diluted method, which assumes the conversion into ordinary shares (the price of such conversion, equal to Euro 1 per bond, is lower than the value of the economic capital per Olivetti ordinary share obtained using the Net Asset Value valuation method).

The table below shows the minimum, mean and maximum values of the Olivetti ordinary share calculated using the fully-diluted method.

	Minimum	Mean	Maximum
Values per Olivetti ordinary share (euros)	1.13	1.26	1.39

The next table shows the minimum, mean and maximum values of the Olivetti ordinary share calculated assuming the same 33% discount as was assumed for the Telecom Italia savings share. The reference to the market discount of Telecom Italia savings shares with respect to the ordinary shares is the only objective and non-discretionary method which can be used in the absence of Olivetti savings shares.

	Minimum	Mean	Maximum
Values per Olivetti savings share (euros)	0.76	0.84	0.93

The discount applied reflects the average market discount of the Telecom Italia savings share with respect to the Telecom Italia ordinary share in the last month before 7 March 2003, equal to about 33%, which is in line with the discount on the last day of trading of the Olivetti and Telecom Italia shares before the announcement of the merger (7 March 2003) and substantially in line with the average discount of the last 3, 6 and 12 months.

Moreover, it appears unlikely that the discount of the savings shares of the Company Resulting from the Merger with respect to the ordinary shares will change significantly from that of the Telecom Italia savings shares before the Operation. This view is based on consideration of effects of opposite sign: on the one hand, the increase in the overall dividend premium in absolute terms would suggest a reduction in the discount; on the other

hand, the possibly greater rise in the price of the ordinary shares as a result of the increased contestability of the Company Resulting from the Merger would suggest an increase.

For the purposes of the valuation account was therefore taken both of the fact that, as an effect of the redistribution mechanism (described in Section 4), after the Operation the holders of Telecom Italia savings shares will have received a larger total number of savings shares of the Company Resulting from the Merger that, since they have the same par value and preferential rights as the Telecom Italia savings shares, will entitle them to a larger overall dividend premium in absolute terms, and of the fact that the importance of the administrative rights might exceed that of the economic rights in the Company Resulting from the Merger as a consequence of its greater contestability.

Lastly, it needs to be stressed that in establishing the exchange ratio an analysis was made of the reasonably foreseeable effects of the possible exercise of the right of withdrawal by Olivetti shareholders. This led, also on the basis of the stock market prices of the relevant period already closed, to the belief that the number of withdrawals would not make it necessary to change the exchange ratio, since it can reasonably be expected that the withdrawal price will be lower than the value attributed to the Olivetti shares for the purposes of the merger on the basis of the valuation methods used.

Lastly, account was taken in determining the exchange ratio of the eventuality of the exercise of financial instruments giving rise to the subscription of Olivetti and Telecom Italia shares (stock options, convertible bonds and warrants) exclusively to the extent that their exercise was reasonably likely in the light of related economic and financial convenience.

3.2.3 Difficulties encountered in making the valuations

In applying the valuation methods described above, consideration was given to the characteristics and limitations of each one of them in the light of the standard practice normally followed in Italy and abroad for the valuation of companies comparable with Olivetti and Telecom Italia.

In making the valuations the following main critical areas were encountered:

- the valuations were made assuming that the present tax system will remain in force in the future. However, the tax reform under way in Italy envisages a series of changes (including new rates, consolidation for tax purposes and the abolition of Dual Income Tax, etc.), whose effects are difficult to assess.

- the estimation of the value of the savings shares assigned by the Company Resulting from the Merger for the purpose of the exchange was based on the differential found between the stock-market prices of Telecom Italia ordinary and savings shares. As explained in detail, the decision to differentiate the estimated values of the shares of different classes according to the differences between their market prices is consistent with standard practice in this field. However, even though in the case in question there were no objective elements permitting any other solution, some empirical analyses have shown that the differentials between the prices of ordinary and savings shares tend to be larger for companies, such as the Company Resulting from the Merger, where control is contestable. In such cases, in fact, the importance of the administrative rights exceeds that of the economic rights. This principle, however, is not applicable objectively to the case in question in the absence of historical data regarding Olivetti and it would only be possible to estimate its effects generically on the basis of data regarding comparable companies. Acting in the opposite direction to the foregoing, is the increase discussed earlier in the economic rights attached to the savings shares.

- the treasury shares held by Olivetti and the Olivetti shares held by the subsidiary Olivetti International S.A., which can be likened to treasury shares, were valued on the basis of the overall economic value of Olivetti itself. This approach assumes that the economic value is the same as the realizable value, i.e. the market value, of the shares in question, an assumption that has not always been true in practice. However, the valuation method adopted comes close to one of the technical solutions suggested by the literature and practice, which recommend treating treasury shares as early retirement of capital and accordingly setting their value equal to zero and calculating the value per share with reference to a smaller number of shares than the total issued, equal to those actually in circulation.

- at the present time it is not possible to make an accurate forecast of the outcome of the proposed disposal of the new company that will be created as a result of the spin-off of Seat Pagine Gialle. It is nonetheless considered, in view of the percentage of Telecom Italia's overall value accounted for by its equity investment in Seat Pagine Gialle, that the disposal cannot produce effects requiring the exchange ratio to be changed.

- in view of the size of the holding in Telecom Italia, a careful analysis was made, with the help of the Advisor, of the arguments put forward by some institutional investors regarding the application of the NAV method to Olivetti, as a holding company whose most important asset is the holding in Telecom Italia, with special reference to the appropriateness of valuing that holding on the basis of stock-market prices. Although recognizing the complexity of the question, it has been deemed appropriate, given the purpose of the valuation and the need, discussed in Subsection 3.2.2, to adopt uniform criteria for both the Companies, to value Olivetti using the same methods as those adopted to determine the value of Telecom Italia (Sum of the Parts).

3.2.4 Determination of the exchange ratio

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The next table summarizes the range of the estimates of the exchange ratio calculated, with the methods and application criteria discussed in the preceding subsections, as the ratio of the estimated value of the Telecom Italia ordinary share to the estimated value of the Olivetti share using the minimum and maximum values of the ranges reported earlier.

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	6.6	6.9	7.2
Olivetti savings shares per Telecom Italia savings share	6.6	6.9	7.2

The Board of Directors, in the light of the indications provided by JPMorgan and after considering the results of the application of the above-mentioned valuation methods, reached a conclusion with regard to the ratio between the economic values of the two companies participating in the merger.

This conclusion was then compared with that reached by the Board of Directors of Telecom Italia, in the light of the indications provided by its own advisors, Lazard and Goldman Sachs.

At the end of the valuation process and the comparison between the results obtained by the two companies participating in the merger, the Board of Directors of Olivetti and the Board of Directors of Telecom Italia established that the "natural" exchange ratio on the basis of which to determine the assignment of the shares of the Company Resulting from the Merger was:

7 Olivetti shares assuming the current par value of Euro 1.OO each for
every
1 Telecom Italia share assuming the current par value of Euro 0.55 each

The exchange ratio will be the same for both the Telecom Italia ordinary shares and for the Telecom Italia savings shares. As will be shown in Section 4, the "natural" exchange ratio will correspond to a different assignment ratio, made necessary by the decision to carry out the exchange through the redistribution of the capital of the Company Resulting from the Merger, which means that it will also be necessary to establish an assignment ratio for the Olivetti shares.

The above exchange ratio must be verified by the experts appointed under Article 2501- quinquies of the Civil Code, namely by the auditing firm Deloitte & Touche Italia S.p.A., appointed by the President of the Ivrea Tribunal, for Olivetti, and by the auditing firm Reconta Ernst & Young, the external auditors, for Telecom Italia, for the purpose of the issuance of the fairness opinion required by law.

3.2.5 Control methodologies

In order to test the accuracy of the exchange ratio obtained in the manner described above, a further test was made using the method based on stock market prices.

Olivetti ordinary shares per Telecom Italia ordinary share The method was applied considering the average exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) expressed by the market in different periods prior to the day on which Borsa Italiana S.p.A. suspended trading in the Olivetti and Telecom Italia securities in view of the forthcoming announcement of the Operation (the ratios given by the official prices recorded on 7 March 2003 and the weighted averages of the official prices in the preceding 1, 3, 6 and 12 months), adjusted for the effect of the distribution of reserves planned for June 2003, before the completion of the merger.

Account was not taken, instead, of the stock market prices of the Telecom Italia and Olivetti shares after the announcement of the Operation since they were influenced by the announcement and were therefore not deemed to be significant.

The following table shows the average exchange ratios obtained with reference to the different periods specified above.

	7 March	1 month	3 months	6 months	12 months
Olivetti ordinary shares per Telecom Italia ordinary share	6.7	7.0	6.9	7.1	6.9

The next table shows the minimum, mean and maximum values of the exchange ratio (Olivetti ordinary shares per Telecom Italia ordinary share) given by the stock market in the periods considered above.

	Minimum	Mean	Maximum
Olivetti ordinary shares per Telecom Italia ordinary share	6.7	6.9	7.1

The above figures are consistent with the exchange ratio established using the main valuation method. It should be noted that the stock market price method cannot be used to test the exchange ratio for the savings shares owing to the non-existence of Olivetti savings shares. Nonetheless, in the light of the arguments put forward above regarding the hypothesis of a substantially unchanged discount for the savings shares of the Company Resulting from the Merger with respect to its ordinary shares compared with that recorded by Telecom Italia's savings shares, the consistency of the exchange ratio established using the main valuation method can also be confirmed for the savings share ratio.

4. Procedure for assigning the shares of the Company Resulting from the Merger

In view of the interest in maintaining a flexible capital structure of a size suitable for corporate activities and with a view to limiting the effects of the Operation on the future remuneration of the shares, it was considered advisable to leave the nominal capital of Olivetti substantially unchanged at the conclusion of the Operation inasmuch as the absolute increase in the nominal capital by means of the issue of as many new shares as are necessary to satisfy the Exchange Ratio of all the Telecom Italia shares to be exchanged would lead, under current accounting rules, on the one hand, to an increase in the shareholders' equity consisting of capital with a consequent significant (exchange) merger deficit subject to amortization, obviously to the detriment of the remuneration of shares in future years, and, on the other, to a capital structure characterized by the nearly total prevalence of items not available for distribution.

Considering the adequacy of Olivetti's share capital (in relation also to the overall size of the debt when this is measured against the cash generating capacity of the Company Resulting from the Merger, both in absolute terms and relative to the main European competitors), it was decided to carry out the share exchange primarily by redistributing Olivetti's capital and have recourse to the issue of new shares only insofar as this proved necessary to maintain the share capital at the level currently subscribed.

The redistribution technique, which has also been used on previous occasions in important mergers involving listed companies, consists in dividing the share capital of the absorbing company and hence the shares composing it (in an equal, larger or smaller number than that existing, depending on whether the intention is to hold the par value of each share unchanged, decrease it or increase it) among the shareholders of the absorbing company and those of the absorbed company, according to what was referred to above as the "natural" Exchange Ratio between the shares.

Obviously, the redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline. In the case in question, the share capital of Olivetti at the time the merger is implemented may vary from the current figure of Euro 8,845,537,520: (i) increasinq as a consequence of the conversion of the "Olivetti 13% 2001-2004 convertibile con premio al rimborso" and "Olivetti 1,5% 2001-2010 convertibile con premio al rimborso" convertible bonds, the exercise of the "Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004" Olivetti warrants and the exercise of all the Olivetti stock options ("Conversions") and (ii) decreasing as a consequence of withdrawals by Olivetti shareholders absent or contrary to the merger. The Absorbing Company's capital "to be "redistributed" will therefore be the algebraic sum of the subscribed capital at the time the merger plan is approved and the subsequent variations up to the implementation of the merger.

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Assuming the extreme cases of (i) the total exercise of Conversions and no withdrawals and (ii) no Conversions and the exercise of the right to withdraw by all the Olivetti minority shareholders except the relative majority shareholder Olimpia, Olivetti's share capital at the time the merger is completed can vary between a maximum of Euro 11,926,697,278 and a minimum of Euro 2,738,756,641.

Since it is assumed that the post-merger share capital must not be less than the current figure of Euro 8,845,537,520, in the event that the decreasing effect of withdrawals outweighs the increasing effect of Conversions so that the share capital at the time the merger is implemented is less than Euro 8,845,537,520, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the merger to bring the share capital up to the above-mentioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares. In this connection Olivetti International has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to close out the operation.

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

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

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b) The new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital at the time of the merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the "natural" exchange ratio specified above of 7 Olivetti ordinary or savings shares for every Telecom Italia ordinary or savings share. In the redistribution only the Telecom Italia shares held by persons other than Olivetti and Telecom Italia itself will be exchanged with shares of the Company Resulting from the Merger. The number of shares of the Company to be Absorbed held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the tender offer that Olivetti may make after the shareholders' meeting called to approve the merger and before the latter's completion.

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More precisely, where:

- No. OLI Euro 1 shares denotes the number of Euro 1 Olivetti shares resulting after Conversions and withdrawals;

- No. OLI Euro 0.55 shares denotes the number of shares of the Company Resulting from the Merger with a par value of Euro 0.55 each actually to be redistributed following the operation referred to at point a);

- No. T.I. shares denotes the number of Telecom Italia shares held by minority shareholders that must be exchanged;

(1) the holders of Olivetti ordinary shares will be assigned, for every share held, a number of ordinary shares of the Company Resulting from the Merger equal to:

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

(2) the holders of Telecom Italia ordinary and savings shares will be assigned, for every ordinary or savings share held, a number of ordinary or savings shares of the Company Resulting from the Merger equal to:

seven times the number of shares assigned
to Olivetti shareholders for every share
held by the latter

Assuming the extreme case in which all the Conversions were carried out, all the shares reserved for the Telecom Italia stock-option plans were issued, no withdrawals occurred and none of the holders of Telecom Italia ordinary and savings shares accepted the tender offer, the redistribution would involve 21,684,904,141 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each and the Telecom Italia shares to be exchanged would total (taking account of Olivetti's holding in the capital of Telecom Italia and of the latter's holding of treasury shares at the date of this Report) 4,459,575,170. In such case, applying the formula above would give the following assignment ratios:

(i) 0.502620 new ordinary shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for every Olivetti ordinary share with a par value

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of Euro 1 held at the date at which the merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.518341 new ordinary or savings shares of the Company Resulting from the Merger for every Telecom Italia ordinary or savings share, respectively, held at the date at which the merger becomes effective by minority shareholders other than Olivetti other than Olivetti and Telecom Italia itself.

In the light of the above, since the variables represented by Conversions, Telecom Italia stock options exercised, withdrawals and acceptances of the tender offer can only be quantified exactly at the time the merger is implemented, it is evident that the assignment ratio for the purposes of redistribution can be established precisely only at the time the merger becomes effective.

At all events, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will accurately reflect the "natural" exchange ratio (1/7), as calculated above.

c) As already indicated, if at the time the merger is implemented the Absorbing Company's share capital is less than the current figure of Euro 8,845,537,520 because the decreasing effect of withdrawals outweighs the increasing effect of Conversions, the redistribution of the share capital just described will be accompanied by the simultaneous issue of up to a maximum of 11,103,237,962 new ordinary and saving shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia's shareholders' equity belonging to minority interests, with the possibility of an exchange deficit. These additional shares will be assigned to all the shareholders of both the Absorbing Company and the Company to be Absorbed in proportion to their respective shareholdings obtained by applying the assignment ratios indicated at Point b).

Thus, even if such an event occurs, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will accurately reflect the "natural" exchange ratio (1 to 7), as calculated above.

d) As part of the procedure for assigning the shares of the Company Resulting from the Merger, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to permit the rounding of the

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number of newly-issued shares owned down or up to nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions.

In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued share of the Company Resulting from the Merger at the end of the Operation, maintenance of the position of shareholder will be ensured by Olivetti International S.A. making available to such persons, free of charge, one share of the Company Resulting from the Merger.

e) The newly-issued shares to be utilized for the share exchange will be assigned to those entitled by the respective authorized intermediaries participating in Monte Titoli S.p.A. at the date the Operation becomes effective. It will be possible to exchange Olivetti and Telecom shares which have not been dematerialized only by delivering them to an authorized intermediary for dematerialized book-entry in the central securities system.

Olivetti will promptly publish notices in at least three newspapers with a national circulation, of which one must be a financial newspaper, announcing the amount of the capital of the Company Resulting from the Merger at the time thereof as a result of the quantification of the variables involved in the Operation (Conversions, the exercise of Telecom Italia stock options, withdrawals from Olivetti, acceptances of the tender offer), the exact assignment ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at Point c), if any, and the detailed instructions on how to carry out the share exchange and to trade or obtain fractional rights as provided for at Point d).

5. Date on which the Operation becomes effective and dividend entitlement date

In accordance with Article 2504-bis, second paragraph, of the Civil Code (and with standard market practice for companies with listed shares), the Operation will become effective starting on the date of the last filing of the deed of merger provided for in Article 2504 of the Civil Code, or on such later date as may be specified in that deed.

The newly-issued shares of the Company Resulting from the Merger will have regular dividend rights.

In accordance with the combined effect of Articles 2504-bis, third paragraph, and 2501-bis, first paragraph, point 6, of the Civil Code, the transactions of Telecom Italia will be recorded

in the accounts of the Company Resulting from the Merger starting from 1 January of the year in which the Operation becomes effective and thus, according to the planned timetable, from 1 January 2003, for tax purposes as well, pursuant to Article 123(7) of Presidential Decree 917/1986.

Consequently, on the date the Operation becomes effective, the Company Resulting from the Merger will assume all Telecom Italia's assets, rights and obligations, including, but not limited to, all its fixed and movable, tangible and intangible assets, licences, authorizations, franchises, securities, current account assets and liabilities, loans, equity investments, insurance policies, labour contracts and every other contractual instrument.

6. Tax effects of the Operation on Olivetti and Telecom Italia

This section, after first indicating the main provisions of tax law governing mergers, considers the most important tax aspects of the Operation.

6.1 Tax neutrality

Pursuant to Article 123 of Presidential Decree 917/1986 (the "Income Tax Code") and Article 27(1) of Law 724/1994, mergers are transactions that do not give rise to the realization or distribution of capital gains or losses in respect of the assets of the company being absorbed.

6.2 Merger differences

The Operation will make it necessary to include specific items in order to achieve accounting balance between the assets and liabilities sides following the unification of the patrimonies of the companies involved. As mentioned earlier, in fact, the merger will give rise to a cancellation deficit and it is reasonable to expect that an exchange surplus will emerge.

The cancellation deficit, as mentioned in Subsection 1.1.4, will be allocated to Telecom Italia's assets (In particular to its holding of TIM shares) and any difference will be included under "goodwill".

Under Article 6(1) of Legislative Decree 358/1997 such revaluations may also be recognized for tax purposes if the 19% tax in lieu of income tax is paid. Pursuant to paragraph 2 of the same article, revaluations in connection with merger deficits may be recognized for tax purposes, even in the absence of payment of the tax in lieu of income tax, if and to the extent that the equity investments cancelled led to the previous owners being taxed on the resulting capital gains, net of the related capital losses and writedowns.

6.3 Reserves with tax deferred

The reserves with tax deferred shown in the latest financial statements of the company being absorbed will be included in the income of the absorbing company if and to the extent that they are not reconstituted in its accounts.

This rule does not apply to reserves that are taxable only if they are distributed (e.9. revaluation reserves), which have to be reconstituted in the balance sheet of the absorbing company only if there is a merger surplus or an increase in capital that exceeds the total capital of the companies participating in the merger, net of the parts of the capital of each company they already held. In this case the reserves will be included in the income of the absorbing company in the event of a subsequent distribution of the surplus or reduction in capital because it is excessive.

The reserves already allocated to capital by the company being absorbed are considered to be transferred to the capital of the absorbing company and form part of its income in the event of a reduction in capital because it is excessive.

6.4 Registration tax

Applicable in the fixed amount of Euro 129.11.

6.5 Effects on the shareholders of the company being absorbed

The exchange of the shares held by the shareholders of the company being absorbed is immaterial for tax purposes since it does not involve them in the realization of their shares.

For tax purposes the cost of the cancelled shares is automatically transferred to the new shares received in the exchange.

7. Forecasts of the composition of major shareholders and of the control

structure of the Company Resulting from the Merger

Since the Operation will lead to the entry of Telecom Italia's shareholders into the capital of the Company Resulting from the Merger and the extinction of Telecom Italia, the forecasts of the composition of major shareholders at the end of the Operation refer to the Company Resulting from the Merger.

On 15 April 2003 the shareholders of Olivetti listed in the table below were found, on the basis of the shareholders' register and the notifications of major shareholdings pursuant to Article 120 of Legislative Decree 58/1998, to possess more than 2% of the company's capital:

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olimpia S.p.A.	2,524,127,813	28.54%
Caisse des Depots et Consignations*	389,200,000	4.40%
Assicurazioni Generali S.p.A.**	334,842,996	3.79%
Olivetti International S.A.***	211,931,328	2.40%
Mediobanca S.p.A.	200,000,000	2.26%

* Investment held via CDC lxis Capital Market ** Investment held through subsidiaries
*** Subsidiary of Olivetti S.p.A. Under Article 2359-bis of the Civil Code, the voting rights of the shares held by Olivetti International S.A. may not be exercised.

The following table shows the foreseeable composition of shareholders with holdings of more than 2% in the Company Resulting from the Merger on the assumption: (i) that there are no Conversions (apart from those deriving from applications received by 31 March 2003, which are not yet reflected in Olivetti's share capital filed with the Company Register but are considered in this analysis) and that no Telecom Italia stock options have been exercised; (ii) that 25% of the shareholders other than Olimpia S.p.A. withdraw at a price taken to be equal to Euro 1 (which is in line with the average of the official prices recorded from 26 November 2002 up to today), giving a total outlay of about Euro 1,527 million; and (iii) that the tender offer is made at the average price between the minimum and maximum prices for the Telecom Italia ordinary and savings shares (i.e. Euro 7.7 per ordinary share and Euro 5.175 per savings share), giving a total outlay of about Euro 7,473 million, so that the tender offer covers about 14.6% of the ordinary and savings shares in the event of full acceptance.

Shareholders	Number of ordinary shares held	% of ordinary share capital
Olimpia S.p.A.	1,336,092,044	13.65%
Caisse des DepBts et Consignations*	206,014,537	2.10%

* Investment held via CDC Ixis Capital Market

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It is foreseeable that no single shareholder will have control of the Company Resulting from the Merger, which, as mentioned earlier, will be fully contestable.

8. Effects of the Operation on shareholders' aqreements falling within the scope of Article 122 of Leqislative Decree 58/1998

The parties to the shareholders' agreements falling within the scope of Article 122 of Legislative Decree 58/1998 that concern the companies participating in the merger have not sent any notification concerning the possible effects of the merger on such agreements.

9. Amendments to the bylaws

As mentioned earlier, it is intended the Company Resulting from the Merger adopt new bylaws, corresponding substantially to those of the current Telecom Italia bylaws.

In particular, following the Operation the Company Resulting from the Merger will change its name to "Telecom Italia S.p.A.", with the consequent amendment of Article 1 of the bylaws and of the other articles in which the name of the company appears. It has been clarified that the Company Resulting from the Merger can continue to use its own corporate marks and those of Telecom Italia.

Article 2, regarding the registered office of the Company Resulting from the Merger, will be amended to make the registered office that of Telecom Italia at 2 Piazza Affari, Milan.

As specified earlier, upon completion of the Operation the Company Resulting from the Merger will adopt the corporate purpose of Telecom Italia, with the integral substitution of Article 3 of Olivetti's current bylaws.

Article 5 of the bylaws of the Company Resulting from the Merger, concerning the share capital, will undergo a series of amendments to take account, in particular, of the redistribution and the assignment of the shares issued for the purpose of the exchange, as set out in Section 4, and of the adjustments necessary, in the light of the new amount of the share capital following the merger, for the conversion of the convertible bonds and the exercise of the warrants issued by the Absorbing Company and for the stock-option plans approved by the Absorbing Company and the Company to be Absorbed. In more detail, Article 5 of the bylaws will be amended as follows:

a) a new maximum amount of Euro492,726.30 will be established for the variable capital increase for the exercise of the options already assigned by the Absorbing Company under the "Piano triennale di Stock Option 2002-2004" stock-option plan, increase to be carried out by 15 December 2004, with an update of up to a maximum of 895,866 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above- mentioned options on the basis of the exchange ratio for the shareholders of the

Absorbing Company in the context of the merger, at the price of Euro 3.308 per option held;

b) a new maximum amount of Euro 10,743,649.40 will be established for the variable increase in capital for the exercise of the options already assigned by the Absorbing Company under the "Piano triennale Stock Option febbraio 2002-December 2004" stock-option plan, increase to be carried out by 31 December 2004, with an update of up to a maximum of 19,533,908 shares of the Company Resulting from the Merger with a par value of Euro

0.55 to be offered to the holders of the above- mentioned options on the basis of the exchange ratio for the shareholders of the Absorbing Company in the context of the merger, at a price of Euro 2.515 per option held;

c) a new maximum amount of Euro 103,622,863.85 will be established for the increase in capital for the exercise of the "Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004" warrants, increase to be carried out by 20 June 2004, with an update of up to a maximum of 188,405,207 shares of the Company Resulting from the Merger with a par value of Euro 0.55 to be offered to the holders of the above- mentioned warrants on the basis of the exchange ratio for the shareholders of the Absorbing Company in the context of the merger, at a price already fixed by the governing bodies of the Absorbing Company and included in the warrant rules;

d) a new maximum amount of Euro 180,568,488.1 0 will be established for the variable capital increase for the conversion of the "Olivetti 13% 2001 -2004 convertibile con premio al rimborso" convertible bonds already issued by the Absorbing Company, increase to be carried out by 1 January 2004, with an update of up to a maximum of 328,306,342 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for the shareholders of the Absorbing Company in the context of the merger.

e) a new maximum amount of Euro 892,681,820.80 will be established for the variable capital increase for the conversion of the "Olivetti 13% 2001-2010 convertibile con premio al rimborso" convertible bonds already issued by the Absorbing Company, increase to be carried out by 1 January 2010, with an update of up to a maximum of 1,623,057,856 shares of the Company Resulting from the Merger with a par value of Euro0.55 each, reserved for the holders of the above-mentioned bonds at a conversion ratio equal to the exchange ratio for the shareholders of the Absorbing Company in the context of the merger.

As mentioned earlier, the Company Resulting from the Merger will also have to take over Telecom Italia's stock-option plans and will therefore have to honour the stock options already assigned thereunder. To this end, Olivetti will approve corresponding increases in capital permitting the issue in relation to such stock options of a number of shares updated

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in accordance with the exchange ratio and the assignment ratio provided for in the merger plan, while the exercise price will remain unchanged.

In other words, the owner of Telecom Italia stock options will maintain the right to subscribe, at the price already fixed, not for the original number of Telecom Italia shares but the larger number of shares of the Company Resulting from the Merger established on the basis of the "natural" exchange ratio of 1 to 7.

Naturally, the exact quantification of the new quantities that can be subscribed will be possible only when, at the time the deed of merger is signed, the assignment ratio is established, as provided for in Section 4. At all events, the foregoing calculations will accurately reflect, with respect to the number of shares currently obtainable, the "natural" exchange ratio of 1 to 7.

More precisely, Olivetti will approve an increase in capital for up to a total maximum amount of Euro 261,956,575.10 by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following variable tranches:

a) a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the options already assigned by Telecom Italia under the "Piano di Stock Option 1999" stock-option plan, to be implemented by 31 January 2005 by the issue of up to a maximum of 39,943,826 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 6.79 per option held;

b) a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the options already assigned by Telecom Italia under the "Piano di Stock Option 2000" stock-option plan, to be implemented by 30 July 2008 by the issue of up to a maximum of 97,130,710 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 13.815 per option held;

c) a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the options already assigned by Telecom Italia under the "Piano di Stock Option 2001" stock-option plan, to be implemented by 30 April 2008 by the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 10.488 per option held;

d) a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the options already assigned by Telecom Italia under the "Piano di Stock Option Top 2002" stock- option plan, to be implemented by 28 February 2010 by the issue of up to a maximum

of 55,637,980 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price of Euro 9.203 per option held;

e) a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the options already assigned by Telecom Italia in three distinct lots under the "Piano di Stock Option 2002" stock-option plan, to be implemented for the three lots by 31 March 2008, 31 March 2009 and 31 March 2010 respectively by the issue of up to a maximum total of 130,555,934 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each, which will be offered to the holders of the above-mentioned options on the basis of the exchange ratio for Telecom Italia shareholders in the context of the merger, at a price for the three lots of Euro 9.665, Euro 7.952 and Euro 7.721 respectively per option held.

Article 6 will be reformulated and lay down the rules for the savings shares that will be issued by the Company Resulting from the Merger. These shares will entitle their holders to analogous preferential rights to those currently enjoyed by the holders of Telecom Italia savings shares. Provision will also be made, as announced, for the possibility for the preferred dividend established in the bylaws to be paid by means of the distribution of reserves (in accordance with the resolution that will be proposed to the Telecom Italia shareholders' meeting called to approve the merger plan).

As regards corporate governance, the bylaws of the Company Resulting from the Merger will provide for the appointment of a Board of Directors with not less than 7 and not more than 23 members, appointed by means of a slate mechanism taken over in large part from Telecom Italia's current bylaws.

Lastly, it needs to be underscored that Article of Telecom Italia's bylaws contains clauses that give the Minister for the Economy and Finance some special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994, it should be noted that such powers include the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter such powers, which were introduced into Telecom Italia's bylaws under a Prime Ministerial Decree of 21 March 1997 in the light of the sector of the company's operations (telecommunications) and with a view to its privatization.

At the end of the meeting of its Board of Directors on 11 March 2003, Telecom Italia requested the Minister for the Economy and Finance to indicate whether he intended to exercise the powers in question.

The Minister for the Economy and Finance subsequently informed Telecom Italia that he did not consider the conditions existed for the exercise of the power of veto with respect to the adoption by Telecom Italia's shareholders' meeting of the merger resolution. By contrast, as regards the question of the presence in the bylaws of the clauses giving the

special powers, the Minister for the Economy and Finance indicated that he considered it necessary to maintain the power of expressing a favourable opinion on the acquisition of major shareholdings in the company's capital and the power of veto as set out in the current bylaws of Telecom Italia.

The Minister for the Economy and Finance also stated that he had reached agreement with the Minister for Productive Activities on the indications regarding these questions. With this premise, and pending the formalization of the measure best suited to the foregoing indications and any opinion the competent European Union authorities might express on the matter, the Minister for the Economy and Finance requested that the bylaws to be submitted to the shareholders' meetings of the companies participating in the merger conform with the indications set out above.

The amendments to the bylaws described above will come into force on the date that the Operation becomes effective, pursuant to Article 2504-bis of the Civil Code and the merger plan.

The amended text of the bylaws of the Company Resulting from the Merger, including the above-mentioned special powers, to be submitted to the shareholders' meetings of Olivetti

and Telecom Italia for their approval is annexed to this Report.

10. Considerations of the Board of Directors concerning the potential recourse to the right of withdrawal At the end of the Operation the Company Resulting from the Merger will adopt the corporate purpose of Telecom Italia. This

innovation is necessary in order to reflect the major change in the business of Olivetti, which will be transformed from a holding company into an operational company with numerous administrative authorizations and franchises and operations in regulated markets, so that its corporate purpose must include the supply of the services for which such authorizations and franchises have been granted.

In particular, the adoption of the new corporate purpose for the Company Resulting from the Merger serves to permit it to maintain the licences currently held by Telecom Italia for the supply of telecommunications services to the public. In fact Telecom Italia's activity consists essentially in the installation and operation of telecommunications equipment and in the supply of telecommunications services on the basis of individual licences and general authorizations issued under Presidential Decree 318/1997. Whereas the corporate purpose of Telecom Italia laid down in its bylaws provides expressly for all the activities referred to above, the corporate purpose of Olivetti only mentions "production and marketing in the field . . . of telecommunications" and "services" as a merely secondary activity (without further specification).

The change in the corporate purpose is also intended to allow the Company Resulting from the Merger to engage in other activities covered by Telecom Italia's bylaws, such as advertising and publishing, which are not envisaged in Olivetti's current bylaws.

The adoption of Telecom Italia's corporate purpose means that the bylaws of the Company Resulting from the Merger will contain the requirement that holding equity investments should not be its principal activity, as it was for Olivetti. This formal change entails a substantial change in the risk profile associated with the investment since, as a consequence of the Operation, the Company Resulting from the Merger will no longer have the characteristics established by the Minister of the Treasury in implementing Article 113 of Legislative Decree 38W 993 to define the concept of "engaging as the principal activity, without dealings with the public, in the acquisition of equity interests".

Under Article 2437 of the Civil Code, the Olivetti shareholders who are contrary to the merger resolution and those who are absent may exercise the right of withdrawal.

The right of withdrawal may be exercised by shareholders entitled to do so by sending a registered letter that must reach Olivetti within 3 days of the date of the shareholders' meeting that approved the merger if sent by shareholders who were present at the meeting and contrary to the resolution or within 15 days of the filing of the resolution with the Company Register if sent by shareholders who were not present at the meeting. The date on which letters are received by Olivetti will count and not the date on which they were sent; it is therefore up to the shareholders contrary to the resolution to ensure compliance with the above-mentioned time limit since Olivetti takes no responsibility for transmission or delivery delays due to causes beyond its control.

For the purposes of legitimizing the exercise of the right of withdrawal, shareholders must also send Olivetti an appropriate certification, issued by an authorized intermediary pursuant to the provisions governing dematerialized financial instruments deposited with a central securities depository, attesting in particular the ownership of the company's shares from the date of the merger resolution. As provided for by the regulations in force, when certifications are issued the shares will be blocked by the intermediary in question until they are redeemed.

Olivetti will inform shareholders in good time, as laid down by law, regarding the procedure and time limits for exercising the right of withdrawal.

The amount due to Olivetti shareholders who exercise the right of withdrawal will be based on the price per share calculated as the mean of the official prices of the six months preceding the date of the merger resolution. For the purposes of the redemption, consideration will be given to the daily quotations of the Olivetti shares in the six calendar months preceding the date of the adoption of the merger resolution.

The Olivetti shareholders who exercise their right of withdrawal will be entitled to have their shares redeemed from the date on which the Operation becomes effective, with the consequent right to be paid interest at the legal rate from such date.

Accordingly, at the time the Operation becomes effective for civil law purposes and simultaneously with the exchange of shares for the Olivetti shareholders who did not exercise the right of withdrawal, Olivetti will redeem and cancel the shares of the shareholders who exercised the right of withdrawal, with the related payment expected to be made at the latest within 90 days of the date on which the Operation becomes effective.

The sums due to the shareholders who exercise the right of withdrawal will be taxable profit for any part exceeding the subscription or purchase price paid for the shares Olivetti cancels (Article 44(3) of the "Income Tax Code").

In the event that shareholders who are natural persons but not entrepreneurs or qualified shareholders are assigned reserves other than capital reserves, even if they were previously classified as share capital, the intermediary participating in the Monte Titoli S.p.A. central securities depository (or foreign central securities depositories participating therein) is required to apply the 12.50% tax in lieu of income tax pursuant to Article 27-ter, paragraph 1, of Presidential Decree 600/1973.

If, instead, the above-mentioned reserves were used to redeem non-residents, the tax in lieu of income would be 27%, without prejudice to the rate reduction provided for in double taxation agreements.

In the event that shareholders who are natural persons are qualified shareholders or, not being qualified shareholders, elect not to be subject to the tax in lieu of income referred to above, the taxable profit must be indicated in their tax returns for an amount equal to the difference between that redeemed and the subscription or purchase price for the shares Olivetti cancels and will be subject to personal income tax (Irpef) or separate taxation. At all events, for the part of the taxable profit determined in this way corresponding to the reserves, other than capital reserves, attributable to shareholders in relation to the shares cancelled, a tax credit on the dividends will be recognized up to the amount of the taxes referred to in Articles 105(1)(a) and 105(1)(6) of the "Income Tax Code".

Milan, 15 April 2003
On behalf of the Board of Directors of Olivetti S.p.A.

(in original signed by Olivetti's Legal Representative)

PROPOSED RESOLUTION TO THE SHAREHOLDERS' MEETING
The meeting of ordinary shareholders of Olivetti S.p.A. (the Absorbing Company),

- having seen the plan for the merger of Telecom Italia S.p.A. into Olivetti S.p.A., entered respectively in the Turin Company Register and the Milan Company Register on April 22,2003 and on April 18, 2003 (the Merger Plan);

- having examined the Directors' report on the merger operation (the Merger);

- having taken note of the balance sheets of the companies participating in the Merger, as shown in their draft financial statements for the year ended 31 December 2002;

- having taken note of the reports on the congruousness of the merger exchange ratio prepared by the auditing firms Deloitte & Touche Italia S.p.A. for Olivetti and Reconta Ernst & Young S.p.A. for Telecom Italia;

- having taken note of the timely filing of the documentation required under the applicable law;

- having taken note of the Board of Auditors' attestation that the present share capital is fully paid up;

resolves

1. to approve the Merger Plan and consequently to proceed - with the accounting and tax effects starting on 1 January of the year in which the Merger becomes effective in respect of third parties, as provided for in the Merger Plan - with the merger of Telecom Italia S.p.A. into Olivetti S.p.A. on the basis of the following exchange ratio:

   - 7 Olivetti ordinary shares with a par value of Euro 1 (one) for every Telecom Italia ordinary share with a par value of Euro 0.55 each;

   - 7 Olivetti savings shares with a par value of Euro 1 (one) for every Telecom Italia savings share

   with a par value of Euro 0.55 each; with the effectiveness of the whole operation subject (i) to the adoption by the shareholders' meeting of Telecom Italia of a like resolution and (ii) to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares to be issued;

2. to withdraw and cancel the Olivetti shares with a par value of Euro 1 each (net of those for which the right of withdrawal has been exercised) and simultaneously to issue new ordinary and savings shares with a par value of Euro 0.55 each and regular dividend entitlement, in the number resulting from their assignment to Olivetti shareholders and Telecom Italia shareholders other than Olivetti in accordance with the following criteria:

   A. satisfaction of the exchange ratio between the economic values underlying the Olivetti and Telecom Italia shares by redistributing Olivetti's capital at the time of the implementation of the Merger, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal has been exercised, subsequent to the change in the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, and thus by applying the following assignment ratios:

- o for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, assignment of "x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);
- o for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);
- o for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55 each);

where the number "x" is the ratio between

X the total number of shares of the Absorbing Company with a par value of Euro 0.55 each to be redistributed and

X the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the implementation of the Merger and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the implementation of the Merger;

B. assignment, if necessary, to all the holders of the Absorbing Company's ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new shares, of the same class as the shares already assigned under the redistribution, with a par value of Euro 0.55 each (and thus up to a total maximum amount of Euro6,106,780,879.10) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520.05.

A service will be provided to shareholders to handle any fractions of shares, without prejudice to any rounding deriving from the aforesaid assignment operations;

3. to recalculate the remaining amount of the increase in capital already approved by the Extraordinary Shareholder's Meeting of 4 October 2000, for the part set aside for the exercise of the "Warrant Azioni Olivetti ex Tecnost 1999-2004" warrants, up to a maximum amount of Euro 56,992,575.20, by means of the issue of up to a maximum of 103,622,864 ordinary shares with a par value of Euro 0.55 each.

   A service will be provided to holders of the aforementioned warrants who exercise their subscription rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the warrants;

4. to increase the share capital as of the date on which the Merger becomes effective - by reiterating, updating and, where necessary, renewing earlier resolutions to increase the share capital adopted by Olivetti's Shareholders' Meeting and Board of Directors, insofar as they are still effective - by the following divisible amounts to take account of the assignment ratio for Olivetti shareholders in the context of the Merger:

   (i) up to a maximum of Euro 492,726.30, by means of the issue of up to a maximum of 895,866 ordinary shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option 2002-2004" stock options, increase to be implemented by 15 December 2004;

(ii) up to a maximum of Euro 10,743,649.40, by means of the issue of up to a maximum of 19,533,908 ordinary shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option febbraio 2002-dicembre 2004" stock options, increase to be implemented by 31 December 2004;

(iii) up to a maximum of Euro 180,568,488.10, by means of the issue of up to a maximum of 328,306,342 ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 15% 2001- 2004 convertibile con premio al rimborso" convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.;

(iv) up to a maximum of Euro 892,681,820.80, by means of the issue of up to a maximum of 1,623,057,856 ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1,5% 2001-20010 convertibile con premio al rimborso" convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.

A service will be provided to holders of the aforementioned securities who exercise their subscription/conversion rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the stock options and/or the conversion of the convertible bonds;

5. to increase the share capital as of the date on which the Merger becomes effective - for the outstanding stock option plans of Telecom Italia S.p.A., insofar as they are still effective, with account taken of the assignment ratio for Telecom Italia ordinary shareholders in the context of the Merger - by up to a maximum of Euro 261,956,575.1 0, by means of the issue of up to a maximum of 476,284,682 ordinary shares with a par value of Euro 0.55 each, divided into the following divisible tranches:

(i) a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the "Piano di Stock Option 1999" stock options, increase to be implemented by 31 January 2005 by means of the issue of up to a maximum of 39,943,826 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.79 per option held;

(ii) a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the "Piano di Stock Option 2000" stock options, increase to be implemented by 30 July 2008 by means of the issue of up to a maximum of 97,130,710 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.81 5 per option held;

(iii) a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the "Piano di Stock Option 2001" stock options, increase to be implemented by 30 April 2008 by means of the issue of up to a maximum of 153,016,232 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held;

(iv) a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the "Piano di Stock Option Top 2002" stock options, increase to be implemented by 28 February 2010 by means of the issue of up to a maximum of 55,637,980 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held;

(v) a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the "Piano di Stock Option 2002" stock options, increase to be implemented by 31 March 2008 for the first lot, by 31 March 2009 for the second lot and by 31 March 2010 for the third lot by means of the issue of up to a maximum of 130,555,934 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

A service will be provided to holders of the aforementioned options who exercise their subscription rights to handle any fractions of shares, without prejudice to any rounding deriving from the exercise of the stock options.

6. to adopt as of the date on which the Merger becomes effective the bylaws annexed to the Merger Plan (the Bylaws of the Absorbing Company), to be understood as referred to here in their entirety, in the version consistent with the indications of the competent governmental authorities regarding the special powers of the Minister for the Economy and Finance under Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994;

7. to grant severally to the Legal Representatives the powers needed:

(a) to complete all the formalities required for the resolutions adopted to obtain all the necessary authorizations, with the right to approve and introduce into such resolutions, the Merger Plan and the Bylaws of the Absorbing Company annexed thereto any amendments, additions or deletions that may be requested or suggested by administrative authorities and/or following the exercise of the special powers referred to in Article 5 of the bylaws of Telecom Italia S.p.A. or on the occasion of filings with the Company Register;

(b) to draw up and sign, inter alia by having ad hoc recourse to attorneys or agents, in conformity with the resolution of point 1, the public merger instrument and every other assessment, supplement and amendment that should prove necessary or desirable, defining every agreement, condition, clause, time limit and procedure thereof in conformity with and in implementation of the Merger Plan; 49

(c) to complete and amend at the signing of the merger instrument the numbers contained in Article 5 of the Bylaws of the Absorbing Company on the basis of the final assignment ratios obtained in accordance with the criteria set out in point 2;

(d) to make, as and when necessary, the changes to Article 5 of the Bylaws of the Absorbing Company consequent on the implementation of the increases in capital referred to in points 2, 3 and 4, and to that end to complete all the formalities and publish all the notices required by law;

(e) to establish the timetable and procedures for carrying out the redistribution and assignment operations referred to in point 2;

(f) to do - inter alia by having ad hoc recourse to attorneys or agents - whatever else may be necessary for and conducive to the complete implementation of the foregoing resolutions, authorizing entries, transcriptions, annotations, amendments and corrections in public registers and every other competent seat.

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Annex II.
Report drawn up by the directors of Telecom Italia S.p.A.
pursuant to Article 2501--quater of the Civil Code

BOARD OF DIRECTORS OF TELECOM ITALIA S.p.A.
MEETING OF 15 APRIL 2003

REPORT ON THE PLAN FOR THE MERGER OF TELECOM ITALIA S.p.A. INTO OLIVETTI S.p.A.

Milan, 15 April 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

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

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

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States.

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

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REPORT OF THE BOARD OF DIRECTORS OF TELECOM ITALIA S.p.A. ON THE PLAN FOR THE MERGER OF TELECOM ITALIA S.p.A. INTO OLIVETTI S.p.A. PURSUANT TO ARTICLE 2501-QUATER OF THE CIVIL CODE AND ARTICLE 70(2) OF CONSOB REGULATION 11971/1999 ON ISSUERS, AS AMENDED, IMPLEMENTING LEGISLATIVE DECREE 58/1998 (THE "CONSOLIDATED LAW").

Dear Shareholders,

In accordance with Article 2501 quater of the Civil Code and Article 70 of Consob Regulation 11971/1999 (the "Regulation"), we submit for your consideration and approval the plan (the "Merger Plan") for the merger (the "Merger" or the "Operation") of Telecom Italia S.p.A. ("Telecom Italia" or the "Company to be Absorbed") into Olivetti S.p.A. ("Olivetti" or the "Absorbing Company", or -- once the Merger becomes effective -- the "Company Resulting from the Merger"). The purpose of this report is to describe and justify the Merger Plan from the legal and economic standpoints, with particular regard to the exchange ratio.

1. <u>Description of the Operation and the reasons therefor, with particular regard to the operating objectives of the companies participating in the merger and the programmes formulated for achieving them</u>

1.1 <u>Description of the persons involved</u>

1.1.1 Telecom Italia S.p.A.: Telecom Italia is a company limited by shares with registered office at 2 Piazza Affari, Milan and headquarters at 4 Corso d'Italia, Rome, and a fully paid-up share capital of Euro 4,023,816,860.80 divided into 5,262,908,631 ordinary shares with a par value of Euro 0.55 each and 2,053,122,025 savings shares with a par value of Euro 0.55 each. The Company to be Absorbed is domiciled for tax purposes at its registered office, and its Milan Company Register Number and tax number is 00471850016.

1.1.2 Olivetti S.p.A.: Olivetti is a company limited by shares with registered office at 77 Via Jervis, Ivrea, a fully paid-up share capital of Euro 8,845,537,520 divided into 8,845,537,520 ordinary shares with a par value of Euro 1 each. The Absorbing Company is domiciled for tax purposes at its registered office, and its Ivrea

Company Register number and tax number is 00488410010.

1.2 Description of the activities of Telecom Italia

1.2.1 The Telecom Italia Group is one of the largest international groups operating in the sector of telecommunications services and, more in general, information and communication technology. Its companies, leaders in fixed and mobile communications, the Internet and media, information technology and research offer integrated and innovative services in Italy and abroad. Its principal strength is its leadership in the domestic market in fixed and mobile telecommunications and Internet services. The companies of the Group have created broadband, fixed and mobile networks providing innovative services, complex solutions for ICT, multimedia messaging, solutions for mobile business, products for e-government and online banking.

1.2.2 Following the changes in top management during 2001 and the significant overhaul of corporate growth strategies with the formulation of the Business Plan for 2002-2004 (the "Business Plan"), in 2002 an overall restructuring was launched. In particular, organizational restructuring led to the formation of a completely renewed, compact and stable management team. During 2002 the responsibilities of the "Domestic Wireline" and "Information Technology" business units were revised in depth and a new "South America" business unit was established.

1.2.3 At Group level the so-called "professional families" were upgraded and strengthened with the establishment of a functional link between distinctive competences in the individual Telecom Italia Group companies and the analogous functions in the parent company so as (i) to ensure greater organizational effectiveness and the verification of resources, and (ii) to foster intra-Group mobility. In addition, new procedures were introduced for the approval and monitoring of investments and acquisitions, with the centralization of governance responsibilities.

1.2.4 The objectives of financial strengthening and industrial restructuring were achieved in accordance with the Business Plan. The results obtained with the gain in efficiency and the plan of disposals (which generated a net cash flow of Euro 4,771 million in 2002) were decisive in reducing the Group's debt from Euro 21,942 million at the end of 2001 to Euro 18,118 million at 31 December 2002. The proportion of debt with a maturity of more than one year rose from 64% at the end of 2001 to 75% at the end of 2002. The Group's structure was simplified, with the number of companies declining from 714 to 416.

1.2.5 Turning to business developments, 2002 brought a strengthening of Telecom Italia's leadership in the Italian market, obtained thanks to effective marketing and the focus on innovation.

1.2.6 In the field of mobile telephony, TIM S.p.A. ranks first among European operators in terms of the number of GSM lines on a single network and is the leader in Italy. In October TIM S.p.A. launched Brazil's first GSM service, which reached more than 80 cities throughout the country.

1.2.7 The following tables show selected income, balance sheet and financial data for the Telecom Italia Group and for Telecom Italia, drawn from the consolidated financial accounts for the 2002 fiscal year, Telecom Italia's draft financial statements for 2002 and its financial statements for 2001 and 2000.

Selected economic and financial data for the Telecom Italia Group and Telecom Italia

TELECOM ITALIA GROUP

(in millions of euros)

	2002	2001	2000(*)
Sales of goods and services	30,400	30,818	27,169
Gross operating margin	13,964	13,619	12,217
Operating result	7,381	6,674	6,440
Consolidated net income (loss) of the parent company	(322)	(2,068)	2,028
Consolidated shareholders equity of the parent company	9,049	13,522	18,821
Consolidated net financial debt:	18,118	21,942	17,233
o medium/long-term	15,018	16,083	6,733
o short-term	3,100	5,859	10,500
Consolidated free cash flow from operations(1)	8,610	5,990	4,453

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equit
the proportionate method.

(1) Operating result + Depreciation and amortization - Industrial investments -- Change in workin

TELECOM ITALIA

(in millions of euros)

	2002	2001	2000
Sales of goods and services	17,055	17,309	17,463
Gross operating margin	7,549	7,571	7,556
Operating result	4,045	3,983	3,595
Net income (loss)	(1,645)	151	2,559
Shareholders equity	10,956	15,871	18,714
Net financial debt:	15,128	16,913	16,839
o medium/long-term	11,848	10,371	3,188
o short-term	3,280	6,542	13,651
Free cash flow from operations(1)	5,291	4,384	4,234

(1) Operating result + Depreciation and amortization -- Industrial investments -- Change in worki

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1.3 Description of Olivetti's activities

1.3.1 Olivetti, in conformity with its current corporate purpose, is a company entered in the special section of the general register, kept by the Italian Foreign Exchange Office, of persons engaging "principally" in financial activities "without dealings with the public" pursuant to and for the effects of Articles 106 and 113 of Legislative Decree 385/1993.

1.3.2 Olivetti's principal equity interest is that held in Telecom Italia (54.9% of the ordinary capital) and, indirectly, in its subsidiaries. Olivetti is also present in business sectors such as office products and services and real estate, notably through its subsidiaries Olivetti Tecnost S.p.A. (information technology and communications products and services) and Olivetti Multiservice S.p.A. (services related to the real-estate sector).

1.3.3 The following tables show selected income, balance sheet and financial data for the Olivetti Group and for Olivetti, drawn from the consolidated financial statements for the 2002 fiscal year, Olivetti's draft financial statements for 2002 and its financial statements for 2001 and 2002, appropriately reclassified to make them consistent with those of Telecom Italia.

Selected economic and financial data for the Olivetti Group and Olivetti

OLIVETTI GROUP

(in millions of euros)

	2002	2001	2000(*)
Sales of goods and services..................................	31,408	32,016	28,374
Gross operating margin.......................................	14,033	13,707	12,272
Consolidated net income (loss) of the parent company........	(773)	(3,090)	(940)
Consolidated shareholders' equity of the parent company.....	11,640	12,729	13,856
Consolidated net financial debt..............................	33,399	38,362	35,728
o medium and long-term..................................	33,309	37,042	25,622
o short-term..	90	1,320	10,106

(*) Reconstructed by consolidating the Nortel Inversora group (Telecom Argentina) using the equity rather than the 2002 2001 2000(*) 2000 Operating result 6,016 5,338 5,112 5,477 proportionate method.

OLIVETTI

(in millions of euros)

	2002	2001	2000
Net income (loss)...	(6,240)	(871)	870
Shareholders' equity...	9,031	15,235	13,937
Net financial debt...	15,195	16,322	17,991
o medium and long-term..................................	12,472	10,293	17,150
o short-term..	2,723	6,029	841

1.4 Main legal aspects of the Operation

1.4.1 The proposed Operation envisages the merger of Telecom Italia into Olivetti pursuant to and for the effects of Article 2501 et seq. of the Civil Code. The Operation was approved, as regards its objectives and principal characteristics, by the Boards of Directors of the interested companies in their meetings on 11 March 2003.

On 13 March 2003 Olivetti published the notice provided for by Article 2503-bis, second paragraph, of the Civil Code. The time limit for exercising of conversion rights de jure expired on 13 April 2003. However, it is appropriate to point out that the holders of bonds convertible into Olivetti shares will able to exercise conversion rights in accordance with rules of these bond issues even after the expiration of the time limit indicated in Article 2503-bis, second paragraph, of the Civil Code, without prejudice to the periods of suspension of such rights envisaged by the issue rules.

1.4.2 The Merger will take place on the basis of the draft financial statements for the fiscal year ended 31 December 2002 of Olivetti and Telecom Italia (jointly the "Companies Participating in the Merger"), which were also adopted by the Boards of Directors of the Companies Participating in the Merger as statements of assets and liabilities under Article 2501-ter of the Civil Code (for each the "Merger Statement of Assets and Liabilities").

1.4.3 The Absorbing Company, as a consequence and at the conclusion of the Merger, will assume the name and corporate purpose of Telecom Italia. More in general, Olivetti will adopt new bylaws based on the current bylaws of Telecom Italia.

Concerning the amendment of the corporate purpose, premised that the extension of the corporate purpose to the performance of services in the telecommunications sector would by itself legitimate the right of withdrawal, it was nonetheless considered appropriate to take over Telecom Italia's corporate purpose in its entirety, in order to permit the Absorbing Company to operate in all the sectors in which Telecom Italia is currently present, with particular regard to the activities that Telecom Italia is authorized to engage in pursuant to administrative measures.

In this regard, the fee schedules of the individual licences issued to Telecom Italia provide that "the corporate purpose of the company must include activities in the telecommunications sector", which must refer to the provision of telecommunications services, as defined in Presidential Decree 318/1997, on the basis of which the licences were issued.

The inclusion of such activities in the corporate purpose of the licensee is among the elements evaluated for the grant of licences and, inasmuch as it responds to a specific prescription of the schedules accessory to such licences, must therefore be considered among the conditions for the preservation thereof by the successor Olivetti, whose corporate purpose does not currently provide for them.

As a consequence of the amendment of the corporate purpose within the context of the Merger, Olivetti shareholders who are absent or contrary to the resolutions approving the Operation will have the right to withdraw pursuant to and for the purposes of Article 2437 of the Civil Code (on the right to withdraw, see also Section 10 below).

The relative majority shareholder of Olivetti has already announced that it will not exercise its right of withdrawal.

1.4.4 In order to give the shareholders of Telecom Italia a possibility to disinvest within the context of the Operation, Olivetti has announced its intention of making a partial tender offer for ordinary and savings shares of Telecom Italia (the "Offer").

The consideration offered will be fixed on the basis of the weighted average of the official stock-market prices of the ordinary and savings shares of Telecom Italia in the period between 12 March 2003 and the date of the shareholders' meeting of the Absorbing Company called to approve the Merger Plan, plus a premium of 20%, but in no case will such consideration be (i) greater than Euro 8.40 per ordinary share and Euro 5.65 per savings share or (ii) lower than Euro 7 per ordinary share and Euro 4.70 per savings share.

The market has been informed that the number of shares to be tendered for will be decided after the time limit for exercising the right to withdraw under Article 2437 of the Civil Code has expired and, therefore, after the amount of the outlay to be incurred by Olivetti for the withdrawal rights actually exercised ("Withdrawals") has been ascertained. The maximum total amount to be allocated to the Offer will be Euro 9 billion, less the repayment for Withdrawals.

The Offer will be for the same percentage of ordinary shares and savings shares. If the resources allocated to the Offer for each of the two classes of shares (ordinary and savings) are not completely used for that class, they will be used for the other class. If the acceptances of the Offer by the holders of ordinary shares and savings shares were to exceed the quantity tendered for, they will be prorated with respect to each class.

On the basis of what Olivetti has indicated, if there were no Withdrawals and the Offer therefore had a maximum overall value of Euro 9,000,000,000:

(a) if made at the minimum price of Euro 7 per ordinary share and Euro 4.70 per savings share, the Offer would be for about 19.4% of the ordinary share capital and savings share capital respectively;

(b) if made at the maximum price of Euro 8.40 per ordinary share and Euro 5.65 per savings share, the Offer would be for about 16.1% of the ordinary share capital and savings share capital respectively.

The Offer will take place as soon as possible following the expiration of the time limit for the exercise of Withdrawals and will close before the merger instrument is signed. The Offer will cease to be effective in the event of failure to complete the procedure for filing the merger instrument with the Company Register within a given date, now tentatively envisaged to be 31 December 2003, without prejudice to the intention of the Companies Participating in the Merger to complete the formalities for the Merger in the shortest time possible, and specifically, as indicated in Subsection 1.4.8 below, by early August. The Offer will be evaluated by the Board of Directors of Telecom Italia pursuant to and for the purposes of Article 39 of the Regulation once the offer document has been received.

Since the Operation will result in Olivetti's absorbing a subsidiary, it will have as a consequence the cancellation of the equity interest held by Olivetti in Telecom Italia at the time the Merger becomes effective and the assignment to Telecom Italia ordinary or savings shareholders other than Olivetti of ordinary or savings shares and to Olivetti shareholders of ordinary shares issued by the Company Resulting from the Merger on the basis of the assignment ratios corresponding to the exchange ratio. This assignment will be made by Olivetti's capital at the completion of the Operation (see Section 4).

Olivetti will cancel all the Telecom Italia shares held at the time of the Merger. For the purposes of the annual financial statements, the difference between the carrying value of the cancelled Telecom Italia shares and the corresponding portion of shareholders' equity will be positive and will thus give rise to a "cancellation deficit". This deficit, whose size will also depend on the acceptances of the Offer, will be allocated to Telecom Italia assets (in particular, to the Tim shares held) and any difference recorded under the item "goodwill". Considering the procedure for the assignment of the shares of the Company Resulting from the Merger by means of the redistribution technique, it is reasonable to expect that a share exchange surplus will emerge.

1.4.5 For the share exchange, Olivetti will assign holders of Telecom Italia savings shares new savings shares with features identical to those of the shareholders currently issued by Telecom Italia. Among other things, the bylaws of the Company Resulting from the Merger will contain an article identical in content to that of the bylaws of Telecom Italia, including the possibility of satisfying the preferential rights of the holders of savings shares by distributing reserves, whose introduction in the bylaws of the Company to be Absorbed will be proposed at the shareholders' meeting called to approve the Merger Plan.

In the context of the Operation, and as an essential aspect thereof, the savings shares that will be issued by the Absorbing Company for the share exchange in favour of holders of Telecom Italia savings shares are to be listed on the stock exchange. The new Olivetti savings shares will have a par value of Euro 0.55 each, thus corresponding fully to the current savings shares of Telecom in this respect as well.

The Operation will therefore not give rise to any prejudice for the holders of savings shares. Consequently, lacking the preconditions referred to in Article 2376 of the Civil Code and Article 146 of the Consolidated Law, it will not be necessary to call the special meeting of such shareholders.

Considering that as a consequence of the share exchange and the specific manner in which it is to be carried out each holder of savings shares will be assigned a larger number of savings shares that that currently held, and that each of the new shares assigned by the

Absorbing Company will have the same par value as a Telecom Italia savings share, there will be an increase in the total amount of dividends payable on a preferential basis to the holders of Telecom Italia savings shares at the date the Merger becomes effective.

This advantage in absolute terms, together with the above-mentioned possibility of satisfying the preferential right by distributing reserves, undoubtedly improves the position of the holders of Telecom Italia savings shares.

1.4.6 The Absorbing Company will succeed to all the legal relationships of Telecom Italia, including the concessions, licences and administrative authorizations granted thereto in accordance with the procedures established by the legislation in force. The Absorbing Company will also succeed to the relationships pertaining to Telecom Italia's bond issues and stock-option plans; to this end, the Absorbing Company will implement the capital increases for the purpose of such plans and will update the capital increases for the convertible bonds, stock-option plans and warrants issued by Olivetti with the necessary adjustments to take

account of the new par value of the Olivetti shares and the assignment procedure described in Section 4.

1.4.7 At the end of the Merger, the (ordinary and savings) shares of the Company Resulting from the Merger will be listed on Borsa Italiana's MTA electronic share market. Furthermore, it is expected that (1) the Company Resulting from the Merger will also succeed to Telecom Italia in being listed on the NYSE in the form of American Depositary Receipts (ADRs), and (ii) the Merger will not have consequences for the listing on the Frankfurt Stock Exchange of the ordinary shares of the Company Resulting from the Merger.

1.4.8 It is the intention of the Companies Participating in the Merger to complete the Operation in the shortest possible time. The Merger is expected to become effective in early August 2003.

1.5 Reasons for the Operation

1.5.1 The Operation is framed in the reorganization drive aimed at creating value for Telecom Italia shareholders, launched in July 2001 and carried out through an industrial and financial restructuring with positive results despite the crisis in the stock markets and the telecommunications sector.

1.5.2 The strategic objective of creating value for Telecom Italia shareholders involved the identification of a multiplicity of actions and initiatives. In particular, industrial restructuring and refocusing on the core business, completed earlier than had been announced to the financial community from September 2001 onwards and in line with the Business Plan, and carried out in part through the disposal of a number of non-strategic assets (such as the equity interests in Auna, Telemaco Immobiliare, Bouygues Decaux Telecom, Mobilkom Austria, Telekom Austria, Telespazio, Sogei and Lottomatica) led to:

- an improvement in the operating result, with the consolidated operating result rising by 10.6% to Euro 7.4 billion in the 2002 fiscal year, and

. a reduction in consolidated total net debt from Euro 21.9 billion at 31 December 2001 to Euro 18.1 million at 31 December 2002.

Meanwhile, Olivetti carried out a series of transactions to refinance its debt, with an improvement in the debt's conditions of maturity.

The completion of the above-mentioned industrial restructuring activities of the Telecom Italia Group, together with the improvement in Olivetti's financial situation, now makes it possible to take the further step of simplifying the Olivetti-Telecom Group's corporate structure, in accordance with the market's expectations, by merging Telecom Italia into Olivetti.

1.5.3 As a consequence of the Operation, Telecom Italia shareholders will be able to benefit fully from the enhancement in value deriving from the execution of the Business Plan.

Currently, Telecom Italia is majority controlled by Olivetti and the latter has a major shareholder- Olimpia S.p.A. - holding 28.54% of its share capital.

As a result of the Merger, Olivetti's controlling interest in Telecom Italia will be extinguished as a result of the cancellation of the shares, while Olimpia's interest in Olivetti will be diluted substantially.

Consequently, Telecom Italia shareholders, like Olivetti shareholders, will hold shares of a fully contestable company in which there will be no controlling shareholder. In this regard, it is to noted that the final size of Olimpia S.p.A.'s holding in the Company Resulting from the Merger will depend on a series of factors such as the number of Conversions (as defined below), the number of Olivetti warrants and Telecom Italia stock options exercised, the number of Withdrawals and the number of acceptances of the Offer (see also what is indicated in Subsection 7.3).

This will result in a more liquid security and, on the basis of experience, an enhanced possibility of it being appreciated by the market, to the benefit of all the shareholders.

1.5.4 At the same time, the Merger will create scope to improve tax efficiency, in compliance with the legislation in force, inter alia through the full and more rapid recovery within the Company Resulting from the Merger of Olivetti's tax assets (see Subsection 2.2.3, Point E).

1.5.5 The Operation as a whole will also make it possible to attain a more efficient financial structure, involving an increase in debt capital, whose net cost is lower than the cost of equity capital.

In connection with this aspect, it needs to be stressed that the increase in overall debt following the Merger involves reaching a level of debt (i) in line with or better than that of other companies of comparable size operating in the sector in Europe, and (ii) consistent and compatible with Telecom Italia's set of activities and the prospective cash flows deriving from the execution of the Business Plan. According to the latter, debt is projected to decline with the utilization of the proceeds of the sales of other non-strategic assets. Furthermore, Telecom Italia will also benefit from the positive effects of unified debt management in terms of the lengthening of maturities and optimal correlation with corporate requirements.

1.5.6 Moreover, the Company Resulting from the Merger is expected to maintain a capacity to produce profits and adopt a dividend-distribution policy that will ensure Telecom Italia's current shareholders receive a total amount of dividends at least on a par with that currently received.

1.5.7 In conclusion, the Board of Directors considers the Merger an essential step so that the shareholders of Telecom Italia can reap, without constraints arising from control by another listed company such as Olivetti, all the benefits of a widely-held company operating in a strategic sector and with significant potential for value growth. The Business Plan and the clear direction adopted by the Board of Directors in terms of focusing on core business and constantly improving operational efficiency ensure a trajectory of value creation without dispersion of economic resources, assuming the macroeconomic environment remains unchanged.

1.6 Operating objectives and programmes to achieve them

1.6.1 The Companies Participating in the Merger have agreed on the operating objectives and the programmes to achieve them on the part of the Company Resulting from the Merger. These objectives are basically the same as those of Telecom Italia, adopted by the Board of Directors on 13 February 2003, which in turn confirm the guidelines and objectives of the Business Plan. With specific regard to Olivetti, it should be noted that Olivetti Tecnost is basically neutral in terms of its impact on the operating result.

However, the Operation will result in a Merger deficit (deriving from share cancellation), any portion of which not classified as a Telecom Italia asset (specifically among equity interests) will be amortized over a period of 20 years. The updated financial projections take account of this additional portion of amortization.

1.6.2 The same projections consider the financial charges associated with Olivetti's present debt, as well as the effect of the tax asset connected with the value adjustments made in Olivetti's and Telecom Italia's draft

financial statements for 2002. In addition to the disposals already envisaged by the Business Plan (Telekom Austria, Operazioni Real Estate), the projections also include the receipts from the disposal of the company into which Seat Pagine Gialle S.p.A. ("Seat Pagine Gialle") is to be spun off.

1.6.3 Lastly, it is estimated that the cash flows from operations and disposals of the Company Resulting from the Merger will be able to sustain not only a reduction in debt but also a dividend distribution policy such as to ensure Telecom Italia's current shareholders a total dividend amount in line with that set out in the Business Plan, which expressly envisaged dividend policy remaining constant.

1.6.4 The following table summarizes the above considerations at consolidated level, from which the sustainability of the commitments entered into for the future appears evident.

Billions of euros	Olivetti 2002 consolidated financial statements	Consolidated objectives of the Company Resulting from the Merger (*) CAGR 2002-2005 ***
Sales of products and services........	31.4	4 - 4.5%
Gross operating margin................	14.0	5 - 5.5%
% of sales............................	44.6%	
Operating result......................	6.0	8 - 8.5%
% of sales............................	19.1%	
		Cumulative 2003-2005
Free Cash Flow........................	8.6	29
Net financial position................	33.4**	34.3****

(*) Assuming zero Withdrawals, fully diluted.
(**) The net financial position does not take account of the forward purchase commitments (December 2005) in respect of Aldermanbury Investment Limited (formerly Chase Equities Limited), equal to Euro 2,417 million.
(***) The scope of the consolidation is the same.
(****) At 31 December 2004.

2. The values attributed to the Companies Participating in the Merger for the purpose of determining the Exchange Ratio

2.1 Objective of the valuation

2.1.1 The objective of the valuation in question is to establish the exchange ratio ("Exchange Ratio") on the basis of which the participation in the

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Company Resulting from the Merger of the shareholders of Olivetti and Telecom Italia respectively will be determined.

The purpose of the valuation, therefore, is to value the two Companies Participating in the Merger in order to obtain significantly comparable values for the purpose of determining the Exchange Ratio with respect to the specific Operation in question, considering all the shareholders of the Companies Participating in the Merger as parties interested in the valuation and the Exchange Ratio.

To achieve this objective, the valuations for the purpose of determining the Exchange Ratio require the identification and application of valuation methods based on uniform criteria for the Companies Participating in the Merger.

Such valuations may therefore differ from other valuations made in different contexts or for different purposes, notably as regards the selection of the methods used.

2.1.2 The Board of Directors of Telecom Italia has reached its conclusions on the Exchange Ratio following a well-considered evaluation of the Companies Participating in the Merger, selecting from a multiplicity of valuation methods those generally considered most appropriate in the Merger in the light of the activities performed by the Absorbing Company and the Company to be Absorbed.

Furthermore, as suggested by theory and standard professional practice, the Board of Directors of Telecom Italia has compared the values attributed to the Companies Participating in the Merger on a going-concern basis.

The baseline accounting situation for the valuations performed is that resulting from the Merger Statements of Assets and Liabilities.

2.1.3 For the purpose of determining the Exchange Ratio, the Board of Directors of the Company to be Absorbed was assisted by Lazard and Goldman Sachs as independent financial advisors (the "Advisors").

It is to be noted that the Board of Directors of Olivetti was assisted by JPMorgan and by Professor Angel0 Provasoli (who ascertained the consistency and appropriateness of the valuation methods adopted by JP Morgan for the Operation) as independent advisors.

2.1.4 The methods followed and the results obtained by the Board of Directors of Telecom Italia, with the support of the Advisors, are described in the following subsection.

2.2 Methods adopted and results obtained

2.2.1 Introduction

A. The Board of Directors of Telecom Italia, with the assistance of the Advisors, selected the valuation methods to be applied in the case in question taking into account:

   a) the specific objectives of the valuations in connection with the Operation;

   b) the nature of the activities performed by each of the Companies Participating in the Merger.

B. Concerning the first aspect, in selecting the valuation principles and methods, reference was made, as is considered proper and appropriate in every kind of valuation, to the purpose of the exercise and to the significant factors allowing the value of the object of valuation to be calculated. Given the objective of obtaining comparable values for the determination of the Exchange Ratio, valuation methods based on uniform criteria were adopted for both the Companies Participating in the Merger.

In the case in question, the Exchange Ratio was established on the basis of a comparison of the values of the Companies Participating in the Merger.

As reported above, these values were determined on a going-concern basis and can neither be considered to represent a separate valuation of the two Companies Participating in the Merger nor compared with any acquisition or disposal prices (which normally take account of majority premiums and minority discounts, if any). Nor do these values reflect strategic, operational and financial synergies expected from the Merger.

As indicated below, the Board of Directors utilized both the stock-market price method and the sum-of-parts method for the valuation of both of the Companies Participating in the Merger. In particular, for the purpose of establishing the Exchange Ratio, values determined on the basis of uniform methods were compared: the ratio between stock-market prices on the one hand and the ratio between fundamental values (sum-of-parts) on the

other. Consequently, in the circumstances it was considered that the Net Asset Value (NAV) method based on the current stock-market value of the equity interest in Telecom Italia could not be adopted. In a valuation to establish the Exchange Ratio carried out on the basis of a fundamental method, the latter must also be applied to Olivetti's equity interest in Telecom Italia. On the contrary, the application to Olivetti of a NAV based on the current stock-market value of the equity interest in Telecom Italia would lead to highly volatile results, mainly owing to Olivetti's financial leverage. Besides, the application of this method would imply referring to market values for only one of the Companies Participating in the Merger, which the Board of Directors considered methodologically inadmissible.

C. With regard to the second aspect, account was taken on the one hand of the various areas of the Telecom Italia Group's operations and, on the other, of the fact that the controlling interest in Telecom Italia held by Olivetti represents a significant component of the latter's balance sheet assets.

D. In the light of the above, the following methods were used to calculate the values of Olivetti and Telecom Italia, with equal level of significance for the purpose of the valuation procedure:

(i) stock-market prices ("Stock-Market Prices") as the principal method. In this regard, it is noted that where companies interested in a merger have shares listed in regulated securities markets, theory and professional practice suggest that account should be taken of the results derivable from the stock-market prices of the respective shares, averaged over appropriate periods of time. In the case in question, the stock-market prices are considered to be particularly significant, taking account of the high capitalization and liquidity of Telecom Italia and Olivetti;

(ii) the sum-of-parts ("Sum-of-Parts") method as a control.

Under this method a company's value is calculated as the sum of the values of its separate units (taken as economic entities that can be valued independently) adjusted to take account of the company's financial position, minority interests and, where material, of other effects such as those of off-balance-sheet items and potential tax benefits.

In applying the valuation methods described, account was taken of the planned distribution of reserves by Telecom Italia of up to a maximum of Euro 1,333 million, whose proposal to the

shareholders' meeting called to consider the Merger Plan was approved by the Board of Directors on 11 March 2003. Since under the timetable of the Merger the share exchange is to take place after the payment of the dividend, the impact of the distribution of reserves on the values of the economic capital of the two Companies Participating in the Merger was taken into account in establishing the Exchange Ratio.

Finally, it should be stressed that in determining the Exchange Ratio an analysis was made of the reasonably foreseeable effects of the possible exercise of the right of withdrawal by Olivetti shareholders and it was considered that on the basis, inter alia, of the share prices in the significant period already elapsed the outcome of such Withdrawals will not be such as to render a change in the Exchange Ratio necessary; and this inasmuch as the withdrawal price can be reasonably expected to be lower than the value attributed to the shares of Olivetti for the purpose of the Merger under the valuation methods used.

E. The subsections that follow describe the methods and principles adopted in valuing the Companies Participating in the Merger both from the theoretical point of view and in terms of the main results.

2.2.2 Stock-market price method

A. The stock-market price method estimates the value of the capital on the basis of the stock-market prices recorded in a significant period concluding at a date close to that on which the estimation is performed. After the announcement of the Operation, the stock-market prices of Telecom Italia and Olivetti were influenced by the announcement. Hence, the prices following such announcement are not considered significant.

B. The stock-market price method is not applicable to Telecom Italia savings shares inasmuch as Olivetti savings shares do not exist today. For the savings shares, it was therefore assumed that the prices of the Olivetti savings shares would reflect a discount similar to that applied by the market to the Telecom Italia savings shares, as detailed in Subsection 2.2.4.

C. On the basis of the market data at 7 March 2003 (the last day of trading of the securities before the date of the board meetings that announced the Operation), it is found that:

a) both of the Companies Participating in the Merger have a large market capitalization and a significant and widely-distributed float;

b) as can be seen from the following table: (i) the daily volume of trading in Telecom Italia and Olivetti ordinary shares is high (around 1% of the float on average); and (ii) during the twelve months preceding the announcement of the Operation:

- trades of Olivetti shares amounted to around 240% of the share capital (excluding the portion held by Olimpia S.p.A.), for a value of Euro 16.9 billion;

- trades of Telecom Italia ordinary shares amounted to around 289% of the share capital represented by that class of shares (excluding the shares held by Olivetti), for a value of around Euro 54 billion.

Telecom Italia (ordinary shares)	Average volume ('000)	Cumulated volume ('000)	Average % of capital traded (*)	Cumulated $ capital trad
Prices				
7 March 2003	42,131.3	42,131.3	1.8%	1.8%
Last week	38,225.3	191,126.4	1.6%	8.1%
Last month	28,994.8	579,895.0	1.2%	24.5%
Last 3 months	31,411.6	1,884,693.5	1.3%	79.5%
Last 6 months	30,126.5	3,765,810.3	1.3%	158.8%
Last year	27,073.7	6,849,656.0	1.1%	288.8%

Olivetti	Average volume ('000)	Cumulated volume ('000)	Average % of capital traded (*)	Cumulated $ capital trad
Prices				
7 March 2003	90,695.9	90,695.9	1.0%	1.0%
Last week	86,240.0	431,200.0	1.4%	6.8%
Last month	59,319.6	1,186,392.2	0.9%	18.8%
Last 3 months	61,400.2	3,684,009.3	1.0%	58.3%
Last 6 months	61,220.3	7,652,538.4	1.0%	121.2%
Last year	59,851.9	15,142,528.8	1.0%	240.6%

(*) On the total number of shares held by the market.

Source: Datastream

c) both the Companies constitute a significant portion of the total capitalization of the Mibtel and MIB30 stock indices. At 24 March 2003 (for the MIB30 index) and 1 April 2003 (for the Mibtel index), according to data provided by Borsa Italiana:

- Olivetti made up 1.9% of the Mibtel index and 2.4% of the MIB30 index; and

- Telecom Italia made up 8.4% of the Mibtel index and 9.5% of the MIB30 index;

d) Telecom Italia's and Olivetti's floats are significantly split up among Italian and foreign institutional investors and Italian retail investors, none of whom is in a position to influence the price of the securities.

D. In order to mitigate the short-term fluctuations typical of the financial markets, in line with best valuation practice the analysis of the share prices was extended to the average figures recorded by the market in sufficiently large intervals of time.

Accordingly, the following were performed, among others:

a) analysis of the simple averages over a time span extending up to the 12 preceding months;

b) analysis of the volume-weighted averages over a time span extending up to the 12 preceding months;

c) analysis of 1,3,6 and 12 month moving averages;

d) adjustment of the value of Telecom Italia shares to take account of the planned distribution of the dividend for 2002.

E. From the analysis of the historical price movements, the 1,3,6 and 12-month averages were identified as those falling within a corridor of constant valuations, as can be seen from the following table.

Market prices	Stock-market value		Value for the purpose of the share exchange	
	TI (euro)	Oli (euro)	TI post-div (euro)	Oli (eur
Weighted averages				
7 March 2003	5.9	0.86	5.7	0.86
1 month	6.5	0.91	6.3	0.91
3 months	7.0	0.99	6.8	0.99
6 months	7.4	1.02	7.2	1.02
12 months	7.8	1.11	7.6	1.11
Arithmetic averages				
7 March 2003	5.9	0.86	5.7	0.86
1 month	6.6	0.91	6.4	0.91
3 months	7.0	0.99	6.9	0.99

6 months	7.4	1.01	7.2	1.01
12 months	7.9	1.11	7.7	1.11
Maximum and minimum prices				
Maximum price in the last 12 months	9.7	1.47	9.5	1.47
Minimum prices in the last 12 months	5.9	0.84	5.7	0.84

Source: Datastream

* Differences are due to rounding.

F. The results shown above are also confirmed when the time horizon of the analysis is extended to 18 months.

2.2.3 Sum-of-Parts method

A. Under the Sum-of-Parts method, the value of Telecom Italia and Olivetti is calculated as the sum of the values of the individual units of each company, taken as economic entities that can valued independently. Such sum is suitably adjusted to take account of the financial position and minority interests for each of the Companies Participating in the Merger and, where material, of other effects, including those of any off-balance-sheet items and potential tax benefits.

B. Given the significant incidence on Olivetti's balance sheet assets of its controlling interest in Telecom Italia, the valuation procedure concentrated mainly on estimating Telecom Italia's economic capital, which was also the key factor in determining that of Olivetti.

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In view of the complexity of the corporate structure of the Group and the many areas in which it operates, the individual assets were valued using the methods, among those commonly employed for valuation purposes, deemed most appropriate to each specific situation. In particular, the principal assets, such as fixed and mobile telephony, were valued using the discounted cash flow (IIDCFI) method.

The remaining assets and liabilities were valued on a case-by-case basis mainly with reference to their book or market value, in view of their limited importance in the overall valuation of Telecom Italia.

The DCF method was applied by discounting operating cash flows gross of any component of a financial nature (Free cash Flows or ("FCF"). Under this method the value of a company is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital;

- net financial position and minority interests, which in the case in question were calculated with reference to 31 December 2002.

The DCF method was applied to determine the fundamental value for financial investors and reflects the following assumptions and approaches:

- the Weighted Average Cost of Capital ("WAAC") was calculated on a capital structure in line with the current one;

- the growth rates used for the financial projections beyond the horizon of Telecom Italia's Business Plan and for the calculation of the terminal value reflect growth prospects consistent with the relevant market benchmarks.

C. In applying the DCF method, reference was made to the cash flows from operations for the main activities based on the economic and financial plans drawn up by Telecom Italia's management. These are briefly described in what follows.

Fixed telephony

The economic and financial projections in this field were constructed starting from the market and economic and financial results achieved in 2002. For the years 2003-2005 they reflect the company's strategic operating and financial objectives within a market scenario that refers basically to the Italian fixed telephony market.

The projections were developed assuming little change in the regulatory framework, which is reflected in the movements expected in the prices for access, interconnection and rented lines. In particular, consideration was given to the introduction of the network cap for access and interconnection, while for rented lines the financial projections reflect a continuation of the present downward trend of prices in the period 2003-2005.

In a retail market characterized (i) by a decline in the value of voice traffic at an annual rate of 2.3%, as a result of small increases in volumes and falling prices, and (ii) in increase in sales in the Internet, data transmission and high value-added services segments, the "Domestic Wireline" business unit is expected to maintain the present level of revenues, with an average compound annual growth rate estimated at 0% - 0.5% in the period 2002-2005.

With revenues performing as described above, the EBITDA is forecast to grow at an annual rate of 2% - 2.5% until 2005, with an objective for the margin on sales of more than 49%. These results stem from the strategy of focusing on the core business, product innovation and a policy aimed at enhancing efficiency and lowering production costs.

The high levels of profitability and of the generation of cash flow from operations will also benefit from capital spending on the order of Euro 6.2 billion in the period 2003-2005, of which about 80% will be on the development of innovative products and services.

The following table summarizes the financial objectives of the "Domestic Wireline" business unit, which consists principally of Telecom Italia's activity in the field of fixed telephony.

	2002 (billions of euros)	CAGR 2002 - 2005 (%)
Revenues	17.0	0% - 0.5%
EBITDA	8.0	2% - 2.5%
Operating result	4.7	4.5% - 5%
		Cumulative 2003 - 2005 (billions of euros)
Capital spending	2.5	6.2

Mobile telephony (TIM)

In this field consideration was given to market data and the results for the year 2002, together with economic and financial projections based on the TIM group's strategic objectives, with a distinction made between activities in Italy and abroad.

As regards the domestic market for mobile telephony, it is estimated that its value will have risen to 1.5% of GDP in 2005 and that the level of penetration will reach 100% in 2004. The level of profitability is expected to remain high in the European context.

The main source of the creation of value will be Value Added Services (VAS), which are expected to record a compound annual growth rate of around 30% in the period 2002-2005, with an objective for their contribution to Average Revenue Per User (ARPU) of 18%-22% in 2005, compared with 9% in 2002. Capital spending to sustain the growth of VAS in the domestic market is expected to increase from 28% of all capital spending on mobile telephony in 2003 to 35% in 2005.

Business abroad is expected to account for a rising proportion of mobile telephony revenues. In Brazil, which will be the main area of international expansion, it is estimated that the penetration of mobile telephony will rise from 19% in 2002 to 26% in 2005 and that over the same period the Group's market share will grow from 16% to 26%, with the objective of increasing users to 12.5 million, of which 9.9 million on the GSM network; this growth will be sustained by capital spending on the order of Euro 1.1 billion in the period 2003-2005.

The following table summarizes the results achieved in 2002 and the main economic and financial objectives for the period 2003-2005.

	2002 (billions of euros)	CAGR 2002 - 2005 (%)

Revenues	10.9	7% - 8%
EBITDA	5.0	8% - 9%
		Cumulative 2003 - 2005 (billions of euros)
Capital spending	1.7	5.6

Seat Pagine Gialle

In this case consideration was again given to market data and the results for the year 2002; reference was also made to a macro-economic scenario with moderate growth in GDP and advertising in the main target markets (Italy and the United Kingdom).

In particular, Seat Pagine Gialle's strategy focuses on the search for further efficiency gains and aggressive action to expand its business, in order to generate continuous and growing cash flows.

This growth in business will come from a strengthening of the Directories sector through the integration of the different platforms (phone, paper and the Internet) and the application of this model in foreign markets, starting with the United Kingdom.

As regards Internet business, a rapid growth in revenues is envisaged, at an annual rate of between 17% and 21% in the period 2002-2005.

The estimates underlying Seat Pagine Gialle's financial projections are summarized in the following table.

	2002 (billions of euros)	CAGR 2002 - 2005 (%)
Revenues	2.0	6% - 8%
EBITDA	0.6	11% - 13%
Operating result	0.2	27% - 29%
		Cumulative 2003 - 2005 (billions of euros)
Capital spending	0.1	0.3

D. The financial projections for the activities analyzed above provided the basis for the estimates of operating cash flows in the forecasting period considered and of the residual value at the end of that period ("Terminal Value").

For the estimation of the Terminal Value, theory and professional practice proposes two alternatives:

- the value corresponding to the capitalization of the normalized operating cash flow (or the present value of the operating cash flows expected for the period subsequent to the time horizon of the explicit projection), which can be estimated as follows:

$$VT = \frac{FCFn}{(WACC-g)}$$

where:

VT = Terminal Value;
FCFn = Normalized operating cash flow;
g = Assumed perpetual growth rate;
WACC = Weighted Average Cost of Capital;

or,

- the value calculated on the basis of a multiple of EBITDA of the last year of the projection period considered.

Since the cash flows in question will be used to remunerate all the persons contributing capital, in discounting it is necessary to use a rate representing the cost of all the financial resources utilized by the company. This rate is identified as the Weighted Average Cost of Capital (WACC) and is calculated with reference to a capital structure in line with that of the company to be valued, as follows:

$$WACC = Kd\,(1-t)\frac{D}{D+E} + Ke\,\frac{E}{D+E}$$

where:

Kd = Cost of debt capital;
Ke = Cost of equity capital;
D = Debt capital;

E = Equity capital;
t = Tax rate.

In particular, the prevailing practice is to calculate the cost of equity capital on the basis of the Capital Asset Pricing Model (CAPM), defined by the following formula:

$$Ke = Rf + Beta \times (Rm - Rf)$$

where:

Rf = rate of return on risk-free investments;
Beta = correlation coefficient between a share's effective rate of return and the overall market rate of return;
Rm = overall market rate of return;
(Rm - Rf) = premium required by the market with respect to the rate of return on risk-free investments.

The principle underlying this method rests on the hypothesis that in a liquid and efficient market investors determine the required rate of return only considering the degree of systematic (or market) risk of the investment, expressed by the relation between the variation in the price of the specific share and the variation in the market (Beta). The specific risk of the investment (the share) is not considered, since it can be eliminated by the investor through appropriate diversification of investments.

E. In the light of the above, in the case in question reference was made to the operating cash flows for the individual units as shown by the economic and financial plans prepared by Telecom Italia. The Terminal Value was calculated using both a perpetual growth rate of the FCF and a multiple of EBITDA consistent with the results produced by comparable listed companies for the different sectors of reference.

The "normal" rate of return on riskless investments in the Italian market was used for the risk-free rate. Beta was calculated on the basis of the most appropriate market data, taking account of the financial structure of the activities being valued. The most recent valuation practice was followed for the risk premium required by the market.

For Olivetti, which has the structure of a holding company whose assets consist principally of the equity interest in Telecom Italia, the Sum-of-Parts method was applied by valuing such equity interest according to the procedures described earlier and valuing

the remaining assets and liabilities principally at book or market value, in view of their limited importance in the overall valuation.

In the valuation of Telecom Italia and Olivetti account was also taken of the tax assets generated by value adjustments to the controlling interests held respectively by Telecom Italia in Seat Pagine Gialle and by Olivetti in Telecom Italia for the part that the Companies Participating in the Merger will effectively be able to use - independently of the completion of the Operation - on the basis of the taxable income they are forecast to make on their own.

From the sum of the values of the assets and the tax asset, calculated as described above, was subtracted the value of the net financial position at 31 December 2002, adjusted (i) for Telecom Italia, for the effect of the dividend to be distributed from reserves (June 2003) and (ii) for Olivetti, for the pro forma effect of the conversion of the 1.5 % 2001-2010 convertible bonds, consistently with the fully-diluted method, which assumes the conversion into ordinary shares.

F. With reference to the Sum-of-Parts method, with the assistance of the Advisors the Board of Directors of Telecom Italia has identified the following values per ordinary share:

SUM-OF-PARTS METHOD

	Telecom Italia	Olivetti	Ratio
Value per ordinary share (in	8.8	1.27	6.9

euros)

The results obtained applying the Sum-of-Parts method confirm the relative values found with the stock-market price method.

2.2.4 Savings shares

For savings shares, inasmuch as shares of this class issued by Olivetti do not exist today, it was assumed, inter alia considering the preferential rights that Olivetti saving shares will have, that their prices reflected a discount similar to that applied by the market to Telecom Italia savings shares, and it was therefore considered appropriate to adopt the same Exchange Ratio as for ordinary shares.

It is a generally accepted principle, in fact, that other procedures for dividing the value of the capital between ordinary shares and savings

shares would introduce discretionary elements into the valuation unsupported by any objective evidence.

Moreover, it appears unlikely that the discount of the savings shares of the Company Resulting from the Merger with respect to the ordinary shares will be significantly different from that of the Telecom Italia savings shares before the Operation. This view is based on consideration of effects of opposite sign: on the one hand, the increase in the overall dividend premium in absolute terms would suggest a reduction in the discount; on the other hand, the possibly greater rise in the price of the ordinary shares as a result of the Company Resulting from the Merger not being controlled anymore by another entity would suggest an increase.

2.2.5 Main problems

In performing the valuations to determine the Exchange Ratio, the Board of Directors of Telecom Italia encountered the following main problems:

(i) Possible further asset sales during 2003: at present it is not possible to foretell precisely the outcome of the planned disposal of the new company that will be created as a result of the spin-off of Seat Pagine Gialle. At all events, in view of the limited importance of the equity interest in Seat Pagine Gialle in the overall value of Telecom Italia, the disposal is not expected to require changes in the Exchange Ratio;

(ii) taxation: the valuation was made on the basis of current tax law and therefore did not take into account the tax reform now being prepared, whose effects are difficult to quantify today;

(iii) valuation of savings shares: no Olivetti savings shares exist today. To avoid introducing discretionary elements into the analysis unsupported by objective evidence, in the absence of historical data to which to refer for Olivetti, reference consideration was given only to the price differential between Telecom ordinary and savings shares.

The Board of Directors has also carefully considered, with the help of the Advisors, the arguments put forward by some institutional investors regarding the application of the NAV method to Olivetti, as a holding company whose most important asset is the holding in Telecom Italia. Although recognizing the complexity of the question, the Board of Directors has come to the conclusion that, given the purpose of the valuation and the need to adopt uniform criteria for both the Companies Participating in the Merger, it is correct to value Olivetti using the same

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methods as those adopted to determine the value of Telecom Italia (Stock-Market Prices and Sum of Parts).

3. Conclusions

3.1 Determination of the Exchange Ratio

3.1.1 In the light of the valuations made with the aid of their respective Advisors, the Boards of Directors of Telecom Italia and Olivetti have defined and agreed the relative values of the Companies Participating in the Merger for the purpose of determining the Exchange Ratio.

3.1.2 The exchange ratios derived by applying the methods used by the Board of Directors of Telecom Italia are summarized below:

METHOD	EXCHANGE RATIO
Stock-market price method	
- 7 March 2003	6.7
Weighted averages:	
- 1 Month	7.0
- 3 Months	6.9
- 6 Months	7.1
- 12 Months	6.9
Sum-of-Parts method	6.9

3.1.3 These conclusions were compared with those reached by the Board of Directors of Olivetti with the assistance of its financial advisor, JPMorgan. At the end of the comparison, the Exchange Ratio indicated below was established.

3.2 Exchange Ratio

3.2.1 On the basis of the valuations of the Companies Participating in the Merger described above, the following so-called "natural" Exchange Ratio was established, corresponding to the exchange ratio that would have been applied without redistribution but through the issue of new shares for the purpose of the exchange:

- 7 Olivetti shares (ordinary and savings respectively) with a par value of Euro 1 each for every Telecom Italia ordinary share or savings share with a par value of Euro 0.55 each.

3.2.2 No cash consideration is envisaged.

4. Procedure for assigning the shares of the Company Resulting from the Merger and the entitlement date of the shares

4.1 Procedure for carrying out the share exchange

4.1.1 In view of the interest in maintaining a flexible capital structure of a size suitable for corporate activities and with a view to limiting the effects of the Operation on the future remuneration of the shares, it was considered advisable to leave the nominal capital of Olivetti basically unchanged at the conclusion of the Operation inasmuch as the absolute increase in the nominal capital by means of the issue of as many new shares as would be needed to satisfy the Exchange Ratio of all the Telecom Italia shares to be exchanged would have led, under the accounting rules in force, on the one hand, to an increase in the shareholders' equity consisting of capital with a consequent significant (exchange) merger deficit subject to amortization, obviously to the detriment of the remuneration of shares in future years, and, on the other, to a capital structure characterized by the nearly total prevalance of items not available for distribution.

4.1.2 Considering the adequacy of Olivetti's share capital (in relation also to the overall size of the debt when this is measured against the cash generating capacity of the Company Resulting from the Merger, both in absolute terms and relative to the main European competitors), it is proposed that the share exchange be carried out primarily by redistributing Olivetti's capital, with recourse to the issue of new shares only insofar as this proves necessary to maintain the share capital at the level currently subscribed.

4.1.3 The redistribution technique, which has also been used on previous occasions in important mergers involving listed companies, consists in dividing the share capital of the absorbing company and hence the shares composing it (in an equal, larger or smaller number than that existing, depending on whether the intention is to hold the par value of each share unchanged, decrease it or increase it) among the shareholders of the absorbing company and those of the absorbed company, according to what was referred to above as the "natural" Exchange Ratio between the shares.

Obviously, the redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline. In the case in question, the share capital of Olivetti at the time the Merger is implemented may vary from the current figure of Euro 8,845,537,520: (i) increasing as a consequence of the conversion of the "Olivetti 1,5%

2001-2004 convertibile con premio a1 rimborso" and "Olivetti 15% 2001-2010 convertibile con premio a1 rimborso" convertible bonds, the exercise of the "Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004" Olivetti warrants and the exercise of all the Olivetti stock options ("Conversions") and (ii) decreasing as a consequence of Withdrawals. The Absorbing Company's capital "to be "redistributed" will therefore be the algebraic sum of the subscribed capital at the time the Merger Plan is approved and the subsequent variations up to the implementation of the Merger.

4.1.4 Given the extreme cases of the total exercise of Conversions and no Withdrawals on the one hand and no Conversions and the exercise of the right to withdraw by all the Olivetti minority shareholders except Olimpia on the other, at the time the Merger is implemented, Olivetti's share capital can vary between a maximum of Euro 11,926,697,278 and a minimum of Euro 2,738,756,641.

Since it is assumed that the post-Merger share capital must not be less than the current figure of Euro 8,845,537,520, in the event that the decreasing effect of Withdrawals outweighs the increasing effect of Conversions so that the share capital at the time the Merger is implemented is less than such amount, the redistribution of the share capital will be accompanied by a simultaneous capital increase for the purpose of the Merger to bring the share capital up to the above-mentioned minimum figure, apart from roundings serving to eliminate any resulting fractions of shares.

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

A) Olivetti will fix the nominal value of its shares - in the amount resulting after Conversions on the one hand and Withdrawals on the other - at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1. Consequently, Olivetti's share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares.

B) The new ordinary and savings shares with a par value of Euro 0.55 each making up the share capital at the time of the Merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the "natural" Exchange Ratio specified above of 7 Olivetti ordinary or savings shares for every Telecom Italia

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ordinary or savings share. It should be noted in this respect that the Telecom Italia shares to be exchanged in the context of the redistribution with shares of the Company Resulting from the Merger with a new par value of Euro 0.55 each will naturally be the Telecom Italian shares held by persons other than Olivetti and Telecom Italia. The number of shares of the Company to be Absorbed held by minority shareholders and actually to be exchanged will therefore vary, depending on the outcome of the Offer that Olivetti may make after the shareholders' meeting called to approve the Merger and before the latter's completion.

More precisely, where:

No. OLI Euro 1 shares denotes the number of Euro 1 Olivetti shares resulting after Conversions and Withdrawals;

No. OLI Euro 0.55 shares denotes the number of new shares of the Company Resulting from the Merger with a par value of Euro 0.55 each actually to be redistributed following the operation referred to at point A;

No. T.I. shares denotes the number of Telecom Italia shares held by minority shareholders that must be exchanged;

(1) the holders of Olivetti ordinary shares will be assigned, for every share held, a number of ordinary shares of the Company Resulting from the Merger equal to:

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

(2) the holders of Telecom Italia ordinary and savings shares will be assigned, for every ordinary or savings share held, a number of ordinary or savings shares of the Company Resulting from the Merger equal to:

seven times the number of shares assigned to Olivetti shareholders for every share held by the latter

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C) Assuming the extreme case in which all the Conversions were carried out, all the shares reserved for the Telecom Italia stock-option plans were issued, no Withdrawals occurred and none of the holders of Telecom Italia ordinary and savings shares accepted the Offer, the redistribution would involve 21,684,904,142 shares of the Company Resulting from the Merger with a par value of Euro 0.55 each and the Telecom Italia shares to be exchanged would total 4,459,575,170 (taking account of Olivetti's holding in the capital of Telecom Italia and of the latter's holding of own shares at the date of this Report). In such case, applying the formula above would give the following assignment ratios:

(i) 0.502620 new ordinary shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for every Olivetti ordinary share with a par value of Euro l held at the date at which the Merger becomes effective and for which the right of withdrawal has not been exercised;

(ii) 3.518341 new ordinary or savings shares of the Company Resulting from the Merger for every Telecom Italia ordinary or savings share, respectively, held at the date at which the Merger becomes effective by minority shareholders other than Olivetti and Telecom Italia itself.

D) In the light of the above, since the variables represented by Conversions, the exercise of Telecom Italia stock options, Withdrawals and acceptances of the Offer can only be quantified exactly at the time the Merger is implemented, it is evident that the assignment ratio for the purpose of redistribution can be established precisely only at the time the Merger becomes effective.

E) At all events, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned Telecom Italia shareholders will exactly reflect the "natural" Exchange Ratio (1/7) determined above.

F) As already indicated, if at the time the Merger is implemented the Absorbing Company's share capital is less than the current figure of Euro 8,845,537,520 because the decreasing effect of Withdrawals outweighs the increasing effect of Conversions, the redistribution of the share capital just described will be accompanied by the

simultaneous issue of up to a maximum of 11,103,237,962 new ordinary and saving shares of the Company Resulting from the Merger with a par value of Euro 0.55 each for the purpose of the share exchange, against the transfer to capital of the portion of Telecom Italia's shareholders' equity belonging to minority interests. These additional shares will be assigned to all the shareholders of both the Absorbing Company and the Company to be Absorbed in proportion to their respective shareholdings obtained by applying the assignment ratios indicated at Point B).

G) Thus, even in the event of such an occurrence, at the end of the Operation the ratio between the shares assigned to Olivetti shareholders and those assigned to Telecom Italia shareholders will exactly reflect the "natural" Exchange Ratio (1/7) determined above.

The foregoing is without prejudice to roundings made necessary by the exchange transactions. Olivetti International has announced that it stands ready to renounce such number of shares or fractions of shares as will be necessary to close out the operation.

H) As part of the procedure for assigning the shares of the Company Resulting from the Merger, a service will be provided to the minority shareholders of both Olivetti and Telecom Italia, through authorized intermediaries, to round the number of newly-issued shares owned down or up to nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions. In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued Olivetti share at the end of the Operation, maintenance of the position of shareholder in the Absorbing Company will be ensured by Olivetti International S.A. making available to such persons, free of charge, one share of the Company Resulting from the Merger.

I) The newly-issued shares to be utilized for the share exchange will be assigned to those entitled by the respective authorized intermediaries participating in Monte Titoli S.p.A. at the date the Operation becomes effective. It will be possible to exchange Olivetti and Telecom shares which have not been dematerialized only by delivering them to an authorized intermediary for dematerialized book-entry in the central securities system.

J) Special notices, published in at least three newspapers with a national circulation (of which one must be a financial newspaper), will promptly announce the amount of the capital of the Company Resulting from the Merger at the time of the Merger as a result of the quantification of the variables involved in the Operation (Conversions, the exercise of Telecom Italia stock options, Withdrawals, acceptances of the Offer), the exact assignment ratio in the overall and final measure resulting from the outcome of the supplementary assignment described at Point F, if any, and the detailed instructions on how to carry out the share exchange and to trade or obtain fractional rights as provided for at Point H).

4.2 Date on which the Merger becomes effective

4.2.1 Pursuant to Articles 2504-bis, last paragraph, and 2501-bis, first paragraph, point 5, of the Civil Code, the newly-issued shares of the Company Resulting from the Merger will have regular dividend rights.

4.2.2 Pursuant to Article 2504-bis, second paragraph, of the Civil Code, the effects of the Merger, except for those referred to in Article 2501-bis, points 5 and 6, of the Civil Code, will become effective starting on the date of the last filing of the merger instrument, or from such later date as may be specified in that instrument.

Consequently, on that date the Absorbing Company will assume all the assets, rights and obligations of the Company to be Absorbed, including, but not limited to, all the tangible and intangible assets, expropriation procedures, licences, authorizations, concessions, public service franchises, plant, machinery, equipment, motor vehicles and in general movable goods entered in public registers, patents, intellectual property, securities, current account assets and liabilities, loans, bond issues, equity investments, insurance policies, labour contracts and every other contractual instrument.

5. Date on which transactions are to be recorded in the Absorbing Company's accounts

5.1.1 In accordance with the combined effects of Articles 2504-bis, last paragraph, and 2501-bis, point 6, of the Civil Code and Article 123(7) of Presidential Decree 917/1986, and in conformity with Point 6 of the Merger Plan, the transactions of the Absorbed Company will be recorded in the accounts of the Absorbing Company starting from 1 January of the year in which the Operation becomes effective and thus, according to the planned timetable, from 1 January 2003, for income tax purposes as well.

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6. Tax effects of the Operation on the Absorbing Company's accounts

6.1 Direct taxes: regime of the Companies Participating in the Merger

6.1.1 For income tax purposes, pursuant to Article 123 of the Income Tax Code approved with Presidential Decree 917/1986 and to Article 27(1) of Law 724/1994, mergers are neutral and therefore do not constitute a realization or distribution of capital gains or losses in respect of the assets of the merged companies, including inventories and goodwill. In particular, with regard to the position of the Absorbing Company, it is to be noted that in principle merger differences are not included in income and are totally immaterial for tax purposes.

However, pursuant to Article 6(1) of Legislative Decree 358/1997 it is possible that the larger values stated in the accounts of the Absorbing Company as a consequence of the recording of cancellation or share exchange deficits may be recognized for tax purposes upon application thereto of the tax in lieu of income tax at the rate of 19%. Furthermore, pursuant to Article 6(2) of the same decree, such larger values stated in the accounts as a consequence of the recording of the cancellation deficit are considered to be recognized for tax purposes without any tax liability (that is, without application of the above-mentioned tax in lieu of income tax) if and to the extent that the equity interests cancelled have resulted in the previous holders paying tax on the capital gains, net of the related capital losses and writedown.

6.1.2 Pursuant to Article 123(4) of Presidential Decree 917/1986, Olivetti will reconstitute:

- the reserves with tax deferred in the latest financial statements of Telecom Italia;
- the reserves subject to tax if they are distributed (Article 123(4), second sentence) up to the amount of any share exchange surplus.

6.1.3 From the date on which the Merger becomes effective, Olivetti will succeed to Telecom Italia's obligations and rights relating to income tax. Since the Operation is to be retroactive to 1 January of the year in which the Operation becomes effective for accounting and tax purposes, there is no separate tax period between the closing date of the last fiscal year of the Company to be Absorbed and the date on which the Merger becomes effective.

6.2. Tax regime for the shareholders

6.2.1 For the shareholders, the exchange of the shares held in the Company to be Absorbed does not constitute a sale of such securities since it simply involves replacing the securities of the Company to be Absorbed (which will be cancelled as a result of the Merger) with securities of the Absorbing Company. Consequently, the cost of the equity investment in the Company to be Absorbed will be transferred to the shares issued by the received Absorbing Company received in exchange.

6.3. Indirect tax regime

6.3.1 For the purposes of indirect taxes, the Merger is a transaction excluded from the scope of V.A.T. pursuant to Article 2(3)(f) of Presidential Decree 633/1972, whereby transfers of assets in connection with corporate mergers are not considered sales material for V.A.T. purposes. Consequently, the merger instrument is subject to a registration fee of Euro 129.11 pursuant to Article 4(b) of the first part of the fee schedule annexed to Presidential Decree 131/1986.

7. Forecasts of the composition of the shareholders of the Company Resulting from the Merger

7.1 Telecom Italia shareholders

7.1.1 According to the company share register, supplemented by communications received and available information, at the date of this Report the following shareholders hold an interest of more than 2% in the capital represented by ordinary shares of the Company to be Absorbed:

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olivetti S.p.A.	2,891,656,682	54.94%

7.2 Olivetti shareholders

7.2.1 According to the company share register, supplemented by communications received and available information, the following shareholders hold an interest of than 2% of the capital represented by ordinary shares of the Absorbing Company:

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olimpia S.p.A.	2,524,127,813	28.54%
Caisse des Depots et Consimations	389,200,000	4.40%
Assicurazioni Generali S.p.A.	334,842,996	3.79%
Olivetti International S.A.	211,931,328	2.40%
Mediobanca S.p.A.	210,723,954	2.38%

* Investment held via CDC Ixis Capital Market.

** Investment held through subsidiaries.

*** Subsidiary of Olivetti S.p.A. Under Article 23594-bi5 of the Civil Code, the voting rights of the shares held by Olivetti International S.A. may not be exercised.

7.3 Effects of the Merger on the composition of shareholders

7.3.1 As already mentioned the shareholder structure of the Company Resulting from the Merger depends on the number of Conversions and Withdrawals and consequently on the sum devoted to the Offer and the number of acceptances thereof. The following table shows the foreseeable composition of shareholders with holdings of more than 2%

in the Company Resulting from the Merger on the assumption: (i) that there are no Conversions (apart from those deriving from applications received by 31 March 2003, which are not yet reflected in Olivetti's share capital filed with the Company Register but are considered in this analysis) and that no Telecom Italia stock options have been exercised; (ii) that 25% of the shareholders other than Olimpia S.p.A. withdraw at a price taken to be equal to Euro 1 (which is in line with the average of the official prices recorded from 26 November 2002 up to today), giving a total outlay of about Euro 1,527 million; and (iii) that the Offer is made at prices between the minimum and maximum prices for the Telecom Italia ordinary and savings shares (i.e. Euro 7.7 per ordinary share and Euro 5.175 per savings share), giving a total outlay of Euro 7,473 million, so that the Offer covers about 14.6% of the ordinary and savings shares in the event of full acceptance.

	NUMBER OF ORDINARY SHARES HELD	% OF ORDINARY SHARE CAPITAL
Olimpia S.p.A.	1,336,092,044	13.65%
Caisse des Depots et Consimations	296,014,537	2.10%

* Investment held via CDC Ixis Capital Market.

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It is foreseeable that no single shareholder will have control of the Company Resulting from the Merger, which, as mentioned earlier, will be fully contestable.

8. Effects of the merger on shareholders agreements (Article 122 of Legislative Decree 58/1998) regarding the shares of the Companies Participating in the Merger

The participants in the shareholders agreements falling within the scope of Article 122 of Legislative Decree 58/1998 for the Companies Participating in the Merger have not sent any notifications concerning possible effects of the Merger on such agreements.

9. Changes to bylaws

9.1 Olivetti's bylaws and changes deriving from the Merger

9.1.1 For the purpose of the Merger, Olivetti will amend its bylaws, basically adopting the current bylaws of Telecom Italia. In particular:

(i) Olivetti will change its name to "Telecom Italia S.p.A." and adopt Telecom Italia's current corporate purpose in its entirety;

(ii) the article of the bylaws concerning the share capital will incorporate the changes concerning the number, par value and class of the shares into which the share capital of the Company Resulting from the Merger will be divided as a result of the Merger on the basis of the assignment procedure described in Section 4. In particular, account is taken of the change in the par value of the shares from Euro 1 to Euro 0.55 and the amount of the capital increases already approved by Olivetti for the purpose of the convertible bond issues, stock-option plans and warrants consequently adjusted, with account also taken of the Exchange Ratio and assignment procedure described in Section 4. Lastly, the amendments are included that are necessary to ensure the assumption by the Company Resulting from the Merger of the commitments under the stock-option plans of the Company to be Absorbed, for the part still applicable. Section 9.12 illustrates the provisions that will be included in the article of the bylaws concerning the share capital with reference to the capital increases for the stock-option plans of the Company to be Absorbed;

(iii) a specific article will concern the savings shares that will be assigned to the holders of Telecom Italia savings shares on the basis of the exchange ratio and assignment procedure described

earlier. In accordance with Article 145 of the Consolidated Law, this article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof and describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Company Resulting from the Merger. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws will be proposed at the shareholders' meeting called to consider the Merger Plan.

9.1.2 As regards the clauses of Telecom Italia's bylaws that give the Minister for the Economy and Finance some special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994, it should be noted that such powers include the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter such powers, which were introduced into Telecom Italia's bylaws under a Prime Ministerial Decree of 21 March 1997 in the light of the sector of the company's operations (telecommunications) and with a view to its privatization.

At the end of the meeting of its Board of Directors on 11 March 2003, Telecom Italia requested the Minister for the Economy and Finance to indicate whether he intended to exercise the powers in question.

The Minister for the Economy and Finance subsequently informed Telecom Italia that he did not consider the conditions existed for the exercise of the power of veto with respect to the adoption by Telecom Italia's shareholders' meeting of the merger resolution. By contrast, as regards the question of the presence in the bylaws of the clauses giving the special powers, the Minister for the Economy and Finance indicated that he considered it necessary to maintain the power of expressing a favourable opinion on the acquisition of major shareholdings in the company's capital and the power of veto as set out in the current bylaws of Telecom Italia.

The Minister for the Economy and Finance also stated that he had reached agreement with the Minister for Productive Activities on the indications regarding these questions.

With this premise, and pending the formalization of the measure best suited to the foregoing indications and any opinion the competent Community authorities might express on the matter, the Minister for the

Economy and Finance requested that the bylaws to be submitted to the shareholders' meetings of the Companies Participating in the Merger conform with the indications set out above.

9.1.3 The shareholders' meeting of the Absorbing Company called to approve the Merger Plan will be required, in relation to what was just said, not only to update the resolutions adopted to increase the capital for the exercise of the rights attaching to the "Warrant azioni ordinarie Olivetti ex Tecnost 1999-2004" warrants and the "Olivetti 1,5% 2001-2004 convertibile con premio al rimborso" and "Olivetti 1,5% 2001-2010 convertibile con premio al rimborso" convertible bonds and for the exercise of the Olivetti stock options, but also to approve increases in capital for the stock options issued by Telecom Italia that have not yet been exercised.

To this end, the Company Resulting from the Merger will approve corresponding increases in capital permitting the issue in relation to such stock options of a number of shares updated in accordance with the Exchange Ratio and the assignment ratio provided for in the Merger Plan, while the exercise price of the option with respect to the total number of shares updated as indicated above will remain unchanged. In other words, the owner of Telecom Italia stock options will maintain the right to subscribe, at the price already fixed, not for the original number of Telecom Italia shares but the larger number established on the basis of the assignment ratio as defined in Section 4.

In this case as well it will only be possible to calculate the exact numbers of shares that can be subscribed when the final assignment ratio is established at the time of the merger.

More precisely, with reference to Telecom Italia's stock options, the Absorbing Company will approve an increase in capital divided into the following tranches, all of which will be variable up to a maximum amount:

1. a tranche for the exercise of the 8,471,500 options already assigned by the Company to be Absorbed under the "Piano di Stock Option 1999" stock-option plan, to be implemented not later than 31 January 2005 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 6.79 for each option held;

2. a tranche for the exercise of the 20,600,000 options already assigned by the Company to be Absorbed under the "Piano di

Stock Option 2000" stock-option plan, to be implemented not later than 30 July 2008 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 13.815 for each option held;

3. a tranche for the exercise of the 32,452,500 options already assigned by the Company to be Absorbed under the "Piano di Stock Option 2001" stock-option plan, to be implemented not later than 30 April 2008 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 10.488 for each option held;

4. a tranche for the exercise of the 11,800,000 options already assigned by the Company to be Absorbed under the "Piano di Stock Option Top 2002" stock-option plan, to be implemented not later than 28 February 2010 by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price of Euro 9.203 for each option held;

5. a tranche for the exercise of the 27,689,000 options already assigned by the Company to be Absorbed in three distinct lots under the "Piano di Stock Option 2002" stock-option plan, to be implemented not later for the three lots than 31 March 2008, 31 March 2009 and 31 March 2010 respectively by the issue of ordinary shares with a par value of Euro 0.55 each, which will be reserved for the holders of the above-mentioned options on the basis of the assignment ratio envisaged for the shareholders of the Company to be Absorbed in the Merger, at a price for the three lots of Euro 9.665, Euro 7.952 and Euro 7.721 respectively for each option held.

9.1.4 As mentioned earlier, the amendment of the Absorbing Company's corporate purpose is necessary in order to allow the Company Resulting from the Merger to continue all the activities currently performed by Telecom Italia, and particularly those performed on the basis of specific administrative measures.

In another respect, it is necessary to clarify that at the completion of the Merger the Company resulting from the Merger will be able to engage in

other activities, such as "[. . .] publishing [and] advertising [. . .]", which are not envisaged by Olivetti's current corporate purpose.

Again with a view to not prejudicing the succession by the Company Resulting from the Merger to the activities of Telecom Italia, and especially to those performed on the basis of specific administrative measures, it was considered advisable to include in the corporate purpose the provision that "the acquisition [. . .] of equity interests in other companies or enterprises engaged in activities falling within the scope of the corporate purpose or related, complementary or similar thereto I...]" may be performed "provided it is not the Company's principal activity". Consequently, Olivetti will cease to be a holding company and will become a company operating principally in the sector of telecommunications services.

10. Evaluation of recourse to the right of withdrawal (Article 131 of Consolidated Law and Article 2437 of the Civil Code) for Telecom Italia shareholders

10.1 Evaluation on the basis of Article 131 of the Consolidated Law

10.1.1 The Absorbing Company is listed, inter alia, on Borsa Italiana's MTA electronic share market and will remain so at the completion of the Merger. Moreover, provision has been made for the Operation to be subject to the listing of the savings shares to be offered in exchange to holders of Telecom Italia savings shares at the date the Merger becomes effective.

Thus, there are no legal grounds for the exercise of the right of withdrawal provided for by Article 131 of the Consolidated Law.

10.2 Evaluation on the basis of Article 2437 of the Civil Code

10.2.1 As explained earlier, as a result of the Merger Olivetti will change its corporate purpose by adopting the current corporate purpose of Telecom Italia.

10.2.2 Consequently, Telecom Italia shareholders will not be entitled to exercise the right of withdrawal provided for by Article 2437 of the Civil Code. By contrast, this right can be exercised by the Olivetti shareholders who are absent or contrary to the approval of the Merger Plan. More precisely, Olivetti shareholders who vote against the plan in the shareholders' meeting will be able to exercise the right of withdrawal within 3 days of the date of the meeting, while those absent will be able

to exercise it within 15 days of the date the resolution is filed with the Company Register. Withdrawal will be exercisable only by those who are Olivetti shareholders at the date on which the Olivetti shareholders' meeting approves the Merger Plan.

* * * * *

Milan, 15 April 2003

TELECOM ITALIA S.p.A.

For the Board of Directors

PROPOSAL TO THE SHAREHOLDERS' MEETING

The meeting of ordinary shareholders of Telecom Italia S.p.A.,

.. having seen the plan for the merger of Telecom Italia S.p.A. into Olivetti S.p.A., entered respectively in the Turin Company Register and the Milan Company Register on April 18 and 22,2003 (the Merger Plan);

.. having examined the Directors' report on the merger operation (the Merger);

.. having taken note of the balance sheets of the companies participating in the Merger, as shown in their draft financial statements for the year ended 31 December 2002;

.. having taken note of the reports on the congruousness of the merger exchange ratio prepared by the auditing firms Deloitte & Touche Italia S.p.A. for Olivetti and Reconta Ernst & Young S.p.A. for Telecom Italia;

.. having taken note of the timely filing of the documentation required under the applicable law;

resolves

1. to approve the Merger Plan and consequently to proceed - with the accounting and tax effects starting on 1 January of the year in which the Merger becomes effective in respect of third parties, as provided for in the Merger Plan - with the merger of Telecom Italia S.p.A. into Olivetti S.p.A. (the Absorbing Company) on the basis of the following exchange ratio:

   . Olivetti ordinary shares with a par value of Euro 1 (one) for every Telecom Italia ordinary share with a par value of Euro 0.55 each;

   . Olivetti savings shares with a par value of Euro 1 (one) for every Telecom Italia savings share with a par value of Euro 0.55 each;

   with the effectiveness of the whole operation subject (i) to the adoption by the shareholders' meeting of Olivetti of a like resolution and (ii) to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares to be issued by the Absorbing Company, taking note that the Olivetti shares with a par value of Euro 1 each (net of those for which the right of withdrawal has been exercised) will be withdrawn and that new ordinary and savings shares will be issued with a par value of Euro 0.55 each and regular dividend entitlement, in the number resulting from their assignment to Olivetti shareholders and Telecom Italia shareholders other than Olivetti in accordance with the following criteria:

   A. satisfaction of the exchange ratio between the economic values underlying the Olivetti and Telecom Italia shares by redistributing Olivetti's capital at the time of the implementation of the Merger, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal has been exercised, subsequent to the change in the par

   value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, and thus by applying the following assignment ratios:

      . for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, assignment of "x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);

- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55 each);

where the number "x" is the ratio between

- o the total number of shares of the Absorbing Company with a par value of Euro 0.55 each to be redistributed and

- o the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the implementation of the Merger and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the implementation of the Merger;

B. assignment, if necessary, to all the holders of the Absorbing Company's ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new shares, of the same class as the shares already assigned under the redistribution, with a par value of Euro 0.55 each (and thus up to a total maximum amount of Euro 6,106,780,879.10) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520.05.

A service will be provided to shareholders to handle any fractions of shares, without prejudice to any rounding deriving from the aforesaid assignment operations;

2. to grant severally to the Chairman, the Deputy Chairman and each of the Managing Directors the powers needed:

(a) to complete all the formalities required for the resolutions adopted to obtain all the necessary authorizations, with the right to approve and introduce into such resolutions, the Merger Plan and the Bylaws of the Absorbing Company annexed thereto any amendments, additions or deletions that may be requested or suggested by administrative authorities and/ or following the exercise of the special powers referred to in Article 5 of the bylaws of Telecom Italia S.p.A. or on the occasion of filings with the Company Register;

(b) to draw up and sign, inter alia by having ad hoc recourse to attorneys or agents, in conformity with the resolution of point 1, the public merger instrument, defining every agreement, condition, clause, time limit and procedure thereof in conformity with and in implementation of the Merger Plan;

(c) to do - inter alia by having ad hoc recourse to attorneys or agents - whatever else may be necessary for and conducive to the complete implementation of the foregoing resolutions, authorizing entries, transcriptions, annotations, amendments and corrections in public registers and every other competent seat.

Annex III.
Merger plan referred to in Article 2501-bis of the Civil Code
with attached a copy of the bylaws of the
Company Resulting from the Merger

PLAN FOR THE MERGER
OF TELECOM ITALIA S.P.A.
INTO OLIVETTI S.P.A.
(under Article 2501-bis of the Civil Code)

Milan, April 15, 2003

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

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

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

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States

***

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries.

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

PLAN FOR THE MERGER
OF TELECOM ITALIA S.P.A.
INTO OLIVETTI S.P.A.
(under Article 2501-bis of the Civil Code)

1. Companies participating in the Merger

Absorbing Company

OLIVETTI S.P.A.

Olivetti S.p.A. ("Olivetti" or the "Absorbing Company"), with registered office at 77 Via Jervis, Ivrea, fully paid-up share capital of Euro 8,845,537,520 divided into 8,845,537,520 ordinary shares with a par value of Euro 1 each, tax code and registration number in the Turin Company Register: 00488410010.

Company to be Absorbed

TELECOM ITALIA S.P.A.

Telecom Italia S.p.A. ("Telecom Italia" or the "Company to be Absorbed"), with registered office at 2 Piazza degli Affari, Milan, and headquarters and secondary office at 41 Corso d'Italia, Rome, fully paid-up share capital of Euro 4,023,816,860.80 divided into 5,262,908,631 ordinary shares with a par value of Euro 0.55 each and 2,053,122,025 savings shares with a par value of

Euro 0.55 each, tax code and registration number in the Milan Company Register: 00471850016.

2. Bylaws of the Absorbing Company and amendments thereto deriving from the Merger

As a consequence of the Merger, Olivetti will basically adopt the current bylaws of Telecom Italia.

In particular:

(i) the Absorbing Company will change its name to "Telecom Italia S.p.A.";

(ii) the Absorbing Company will take over the corporate purpose of Telecom Italia in its entirety, so as to be able to continue to perform the activities that Telecom Italia is authorized to perform under administrative measures. The amendment to the corporate purpose will give the right of withdrawal to

Olivetti shareholders who are absent or contrary to the Merger, pursuant to Article 2437 of the Civil Code;

(iii) the bylaws of the Absorbing Company will be amended to take account of the changes that will be made to the number and par value (which will be fixed at Euro 0.55) of the ordinary and savings shares at the end of the Merger and hence following the application of the share exchange ratio and assignment procedure described in Sections 3 and 4. As a further consequence of the Merger the bylaws will also be amended to take account of (a) the updating of the amount of the increases in capital already approved by Olivetti for the purposes of the "Piano triennale di Stock Option 2002-2004" stock-option plan, the "Piano triennale di Stock Option febbraio 2002-dicembre 2004" stock-option plan, the "Warrant Azioni Olivetti ex Tecnost 1999-2004" warrants, and the convertible bond issues "Prestito Olivetti 1,5% 2001-2004 convertibile con premio al rimborso" and "Prestito Olivetti 1,5% 2001-2010 convertibile con premio al rimborso", and (b) the increases in capital that the Olivetti shareholders' meeting will be called to approve for the purposes of the stock-option plans of the Company to be Absorbed (Piano 1999, Piano 2000, Piano 2001, Piano Top 2002 and Piano 2002), for the part still applicable;

(iv) the bylaws of the Absorbing Company will contain an article concerning the savings shares that will be assigned in exchange to the holders of Telecom Italia savings shares on the basis of the exchange ratio and assignment procedure described in Sections 3 and 4. In accordance with Article 145 of Legislative Decree 58/1998, this article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof and describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Absorbing Company. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws will be proposed at the shareholders' meeting called to consider the Merger Plan;

(v) the Minister for the Economy and Finance has notified Telecom Italia that he does not consider there are grounds for vetoing the adoption of the merger resolution by the Telecom Italia shareholders. With regard to the inclusion in the bylaws of the clauses providing for special powers, the Minister for the Economy and Finance has communicated that he considers it necessary to maintain the power of approval of the acquisition of major equity interests in the company and the veto powers, in the text currently contained in the Telecom Italia bylaws. The Minister for the Economy and Finance has also communicated that he has reached the agreement on these decisions with the Minister for Productive Activities. This premised, pending the formalization of the measure most appropriate to these decisions and the opinion, if any,

that the competent European Union authorities may see fit to express on the matter, the Minister for the Economy and Finance has requested that the bylaws to be submitted to the shareholders meetings of the Companies Participating in the Merger contain the provisions specified above.

(vi) It is also pointed out the shareholders' meeting of the Absorbing Company called to approve the Merger Plan will also be requested to grant a delegation under Article 2443 of the Civil Code to increase the share capital following the Merger by means of the issue of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for a maximum of Euro 48,644,750), to be offered for subscription to employees of the Absorbing Company or its subsidiaries, with the exclusion of the right of pre-emption under the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998.

(vii) Lastly, it is pointed out that the shareholders' meeting of the Absorbing Company called to approved the Merger Plan will first be requested to approve the replacement of Article 20 (Board of Auditors) and the amendment of Article 13 (Board of Directors) of Olivetti's bylaws.

The complete text of the Absorbing Company's bylaws incorporating all the amendments deriving from the Merger, including what is provided for at points (v) and (vi), is annexed to this Merger Plan. The numbers contained in such bylaws will be specified in the merger instrument, on the basis of the principles and methods described in Sections 3 and 4.

3. Exchange ratio

The draft financial statements for the year ended 31 December 2002 of Olivetti and Telecom Italia were taken as showing their assets and liabilities in accordance with and for the purposes of Article 2501-ter of the Civil Code.

The exchange ratio has been fixed as follows:

- 7 Olivetti ordinary shares with a par value of Euro 1 (one) each for every Telecom Italia ordinary share with a par value of Euro 0.55;
- 7 Olivetti savings shares with a par value of Euro 1 (one) each for every Telecom Italia savings share with a par value of Euro 0.55;

No cash consideration is envisaged.

4. Procedure for assigning the shares of the Absorbing Company

The exchange ratio between the economic values underlying the shares will be satisfied principally by redistributing Olivetti's capital at the time of the Merger's implementation, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal referred to in Section 2(ii) has been exercised. This redistribution, subsequent to the change of the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, will be made to the shareholders of Olivetti and the shareholders of Telecom Italia other than Olivetti at the time of the implementation of the Merger on the basis of the exchange ratio specified above and will thus give rise to the following assignment ratios:

- for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, "x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, "7x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, "7x" newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

where "x" is the ratio between

/ the total number of shares of the Absorbing Company with a par value of Euro 0.55 to be redistributed

/ the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the Merger's implementation and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the Merger's implementation.

Moreover, if the capital to be redistributed is less than Euro 8,845,537,520, the redistribution will be accompanied by the assignment to all the holders of the Absorbing Company's ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new ordinary or savings shares with a par value of Euro 0.55 each (and hence up to a total maximum of Euro 6,106,780,879.1) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55), without prejudice to any rounding deriving from the exchange operations.

A service will be provided to the shareholders of both Olivetti and Telecom Italia through authorized intermediaries to handle any fractions of shares, at market prices and at no cost in terms of expenses, stamp duty or commissions, which will permit the number of newly-issued shares due to be rounded down or up to the nearest whole number.

In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued Olivetti share at the end of the Operation, maintenance of the position of shareholder can be ensured by the assignment free of charge to such persons of one share of the Absorbing Company made available by Olivetti International S.A.

The ordinary and savings shares assigned in exchange as specified above will be listed in the same way as the Olivetti ordinary shares currently outstanding.

Upon completion of the assignment procedure described above, the share capital of the Absorbing Company will be fixed in an amount between a minimum of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55) corresponding to Olivetti's paid-up share capital and certified as per Article 2444 of the Civil Code at the date of this Merger Plan, and a maximum of Euro 11,926,697,278 (more precisely: Euro 11,926,697,277.55, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55) corresponding to the Absorbing Company's share capital assuming that the conversion and subscription rights attaching respectively to the bonds and to the warrants and stock options issued by Olivetti are exercised in full, without prejudice to any rounding deriving from the exchange operations.

5. Date from which the ordinary and savings shares assigned in exchange will be entitled to a share of profits

The ordinary and savings shares issued by the Absorbing Company in exchange for the shares of the Company to be Absorbed that are cancelled as a result of the Merger will have regular dividend rights.

6. Date of effectiveness of the Merger. Recording of Telecom Italia transactions in the accounts of Olivetti. Start of the tax effects of the Merger

In accordance with Article 2504-bis of the Civil Code, the effects of the Merger shall start on the date of the last filing of the merger instrument, or from such later date as may be specified in that instrument.

The effectiveness of the Merger is subject to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares assigned by the Absorbing Company for the purpose of the exchange.

With reference to point 6 of Article 2501-bis of the Civil Code, the transactions carried out by the Company to be Absorbed will be recorded in the accounts of the Absorbing Company from 1 January of the year in which the Merger will become effective in respect of third parties. The tax effects of the Merger will also start on that date.

7. Treatment reserved to particular categories of shareholders or holders of securities other than shares. Special advantages for directors

No special treatment is envisaged in connection with the Merger for any categories of shareholders or for holders of financial instruments other than the shares of the Absorbing Company or the shares of the Company to be Absorbed, although:

a) the number of shares obtainable by exercising warrants (Olivetti) and stock options (Olivetti and Telecom Italia) and the conversion ratios for the convertible bonds issued by Olivetti will be adjusted to take account of the exchange ratio and assignment procedure described in Sections 3 and 4, with ensuing amendment to all the respective rules;

b) the savings shares issued by the Absorbing Company in exchange for the savings shares of the Company to be Absorbed will have the same rights and features as the latter, as specified in Section 2(iv).

The Absorbing Company will assume the bonds already issued by Telecom Italia and adopt the rules thereof.

No special advantages are envisaged in favour of the directors of the Companies Participating in the Merger.

All numerical and other changes, additions and updates to this Merger Plan or the bylaws of the Absorbing Company annexed hereto shall be made that may be required by the administrative authorities, inter alia with reference to the powers referred to in Section 2(v), or on the occasion of filing with the Company Register or in connection with and/or attendant upon the operations envisaged in this Plan.

Milan, 15 April 2003.

TELECOM ITALIA S.p.A. OLIVETTI S.p.A.

(in original signed by the respective Legal Representatives)

Annexes:
Bylaws of the Absorbing Company after the Merger

Annexed to the plan for the merger
of Telecom Italia S.p.A. into Olivetti S.p.A.

POST-MERGER BYLAWS OF THE ABSORBING COMPANY

NAME - REGISTERED OFFICE - PURPOSE AND DURATION OF THE COMPANY

Article 1
The name of the Company shall be "TELECOM ITALIA S.p.A."

Article 2
The registered office of the Company shall be at 2 Piazza degli Affari, Milan, and the headquarters and secondary office at 41 Corso d'Italia, Rome.

Article 3
The Company's purpose shall be:

o the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a freemarket environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;

- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;

- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;

- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

Activities reserved to persons entered in a professional register, activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993, and those which are otherwise prohibited by applicable legislation shall be expressly excluded.

Article 4
The duration of the Company shall be until 31 December 2100.

9

SHARE CAPITAL - SHARES - BONDS

Article 5
The share capital shall be Euro [-],divided into [-] ordinary shares with a par value of Euro 0.55 each and [-] savings shares with a par value of Euro 0.55 each.

The Extraordinary Shareholders' Meeting of 4 October 2000 approved the increase, in one or more steps, of the share capital by up to a maximum amount now remaining, partly as a consequence of the resolution adopted by the Extraordinary Shareholders' Meeting of [-], of Euro 56,992,575.20, which is reserved exclusively for the exercise of the Warrant Tecnost 1999-2004 (now Warrant Azioni Olivetti ex Tecnost 1999-2004) warrants, by means of the issue of up to a maximum of 103,622,864 ordinary shares with a par value of Euro 0.55 each.

The Shareholders' Meeting of [-], reiterating, updating and, where necessary, renewing earlier resolutions of the Shareholders' Meeting and the Board of Directors resolved to increase the share capital by the following divisible amounts:

1. up to a maximum of Euro 492,726.30, by means of the issue of up to a maximum of 895,866 shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option 2002-2004" stock options, increase to be implemented by 15 December 2004;

2. up to a maximum of Euro 10,743,649.40, by means of the issue of up to a

maximum of 19,533,908 shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option febbraio 2002-dicembre 2004" stock options, increase to be implemented by 31 December 2004;

3. up to a maximum of Euro 180,568,488.10, by means of the issue of up to a maximum of 328,306,342 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1,5% 2001-2004 convertibile con premio al rimborso" convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.;

4. up to a maximum of Euro 892,681,820.80, by means of the issue of up to a maximum of 1,623,057,856 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1,5% 2001-2010 convertibile con premio al rimborso" convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.

The Shareholders' Meeting of [-] also resolved to increase the share capital by up to a maximum of Euro 261,956,575.10, by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following divisible tranches:

1. a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the "Piano di Stock Option 1999" stock options, increase to be implemented by 31 January 2005 by means of the issue of up to a maximum of 39,943,826 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.79 per option held;

2. a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the "Piano di Stock Option 2000" stock options, increase to be implemented by 30 July 2008 by means of the issue of up to a maximum of 97,130,710 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held;

3. a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the "Piano di Stock Option 2001" stock options, increase to be implemented by 30 April 2008 by means of the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held;

4. a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the "Piano di Stock Option Top 2002" stock options, increase to be implemented by 28 February 2010 by means of the

issue of up to a maximum of 55,637,980 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held;

5. a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the "Piano di Stock Option 2002" stock options, increase to be implemented by 31 March 2008 for the first lot, by 31 March 2009 for the second lot and by 31 March 2010 for the third lot by means of the issue of up to a maximum of 130,555,934 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different

options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

The Extraordinary Shareholders' Meeting of 8 May 2002 authorized the directors, under Article 2420-ter of the Civil Code, to issue, in one or more steps, for up to a maximum of five years from the date of the resolution referred to above, bonds, in euros or other currencies, possibly convertible into the shares of other companies, with or without warrants giving the right to acquire shares of other companies, up to a maximum amount of Euro 9 billion, within the limits permitted from time to time by law, and to establish the procedures, time limits, conditions and related rules of such issues.

The Shareholders' Meeting of [-] authorized the Board of Directors, under Article 2443 of the Civil Code and for a period of up to a maximum of five years from [-], to increase the share capital in one or more steps by means of the issue for cash of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for up to a maximum of Euro [-]), to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries, with the exclusion of the right of pre-emption pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998. The Board of Directors' resolutions shall establish a time limit for the subscription of the shares and provide that, in the event of the increase approved not being subscribed for within the time limit established from time to time for the purpose, the share capital be increased by an amount equal to the subscriptions collected by such time limit.

Article 6
The savings shares shall have the preferential rights set forth in this Article.

The net profit shown in the duly approved annual accounts, less the amount allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.

The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.

When the dividend paid on savings share in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years.

In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph.

A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares.

Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value.

If the Company's ordinary or savings shares are delisted, holders of saving shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an Extraordinary Shareholders' Meeting called ad hoc within two months of the delisting.

Article 7
The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa.

Vis-a-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders' Register.

Article 8
The Company may issue bonds and shall establish the terms and conditions of their placement.

BOARD OF DIRECTORS

Article 9
The Company shall be managed by a Board of Directors consisting of not less than seven and not more than twenty-three members. The Shareholders' Meeting shall establish the number of members of the Board, which shall remain unchanged until the Meeting establishes a different number.

The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs or by the outgoing Board of Directors, on which the candidates shall be listed by serial number.

When the Board of Directors presents its own slate, it shall be filed at the registered office of the Company and published in at least one Italian daily newspaper with national circulation, at least twenty days prior to the date set for the Shareholders' Meeting on the first call.

The slates presented by the shareholders shall be filed at the registered office of the Company and published at the expense of the shareholders in the manner indicated in the preceding paragraph at least ten days prior to the date set for the Shareholders' Meeting on the first call.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting may submit slates. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the Company, at least five days prior to the date set for the Shareholders' Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Together with each slate, and within the respective time limits specified above, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication, where appropriate, of the grounds for their qualifying as independent.

Each person entitled to vote may vote for only one slate.

The Board of Directors shall be elected as specified below:

a) four fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number;

b) the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided first by one, then by two, then by three and then by four, up to the

number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected.

If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.

In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed.

Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board has been reconstituted by persons appointed by the Shareholders' Meeting.

Article 10

The Board of Directors shall elect a Chairman from among its member -- if the Shareholders' Meeting has not already done so -- and may also appoint a Deputy Chairman; both may be re-elected.

In the absence or disability to act of the Chairman, the Deputy Chairman, if one has been appointed, shall take his/her place or, if the Deputy Chairman is absent, the most senior director by age.

The Board of Directors may elect a Secretary who need not be a director.

Extracts from the register of the minutes of meetings of the Board of Directors signed by the Chairman or by two directors and countersigned by the Secretary shall be conclusive evidence.

Article 11

The Chairman or whoever takes his/her place shall call meetings of the Board of Directors at the Company's registered office or elsewhere, indicating the time and place, whenever he/she deems this appropriate in the interests of the Company or receives a written request to do so from at least one third of the directors holding office or from the members of the Board of Auditors.

In general, meetings shall be called at least five days prior to the date thereof, except in urgent cases, when it may be given by telegram, fax or e-mail with at least twenty-four hours' notice.

Notice shall be given to the Board of Auditors within the same time limits.

Meetings of the Board of Directors may be held -- if the Chairman or the person acting in his/her place deems it necessary -- by video-conference or audio-conference, provided that all those taking part can be identified by the Chairman and all the other participants, that they are able to follow the debate and intervene in real time in relation to the matters under discussion, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the Board meeting shall be considered to have taken place where the Chairman is located, where the Secretary to the meeting must also be.

Article 12

The Board of Directors shall have the broadest possible powers of ordinary and extraordinary administration of the Company, since all matters not expressly reserved to the General Shareholders' Meeting by law or these bylaws are within its jurisdiction.

The Board of Directors, through the Chairman or other directors delegated for the purpose, shall report to the Board of Auditors on the activities carried out and the transactions of greatest economic, financial or asset-related significance concluded by the Company or its subsidiaries; in particular, transactions involving a potential conflict of interest must be reported on. The report shall be made in good time, and at least once in each quarter, on the occasion of the meetings of the Board of Directors and the Executive Committee or in a written memorandum addressed to the Chairman of the Board of Auditors.

In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated for the purpose of any corporate transactions that might affect the price of the shares of that class.

Article 13

To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may:

- create an Executive Committee, establishing its powers and the number of members;

- delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer;

- appoint one or more General Managers, establishing their powers and duties;

- appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time.

Article 14
The company signature and the legal representation of the Company vis-a-vis third parties and in legal proceedings shall pertain to the Chairman and, in his absence or disability to act, the Deputy Chairman, if one is appointed; they shall also pertain to the directors with delegated powers.

Article 15
The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders' Meeting shall also decide the annual compensation payable to the Board. Once fixed, this compensation shall remain unchanged until the Meeting establishes a different amount.

BOARD OF AUDITORS

Article 16
The Board of Auditors shall consist of five or seven auditors. The Shareholders' Meeting shall establish the exact number, which shall remain unchanged until the Meeting establishes a different number. The Meeting shall also appoint two alternates.

The Board of Auditors shall elect a Chairman from among its members by majority vote. In the absence or disability to act of the Chairman, he/she shall be replaced by the most senior auditor by age.

Without prejudice to the situations of incompatibility established by law, persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets may not be appointed auditors and shall forfeit the post if they are elected. TELECOM ITALIA S.p.A. and its subsidiaries shall not be included when computing the above limit.

For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.

The appointment of the Board of Auditors shall be based on the slates presented by shareholders who individually or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the Company, at least five days prior to the date set for the Shareholders' Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

The slates must be filed at the registered office of the Company and published at the expense of the shareholders who present them in at least one Italian daily newspaper with national circulation, at least ten days prior to the date set for the Shareholders' Meeting on the first call.

Together with each slate, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and these bylaws. Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data.

The slates shall be divided into two sections: one for candidates to the position of auditor and the other for candidates to the position of alternate. The first candidate in each section must be selected from among persons entered in the register of auditors who have worked on statutory audits for a period of not less than three years.

Each person entitled to vote may vote for only one slate.

The Board of Auditors shall be elected as specified below:

a) from the slate that obtains the majority of the votes cast by the shareholders (the Majority Slate) one alternate and all the auditors not chosen from the other slates (the Minority Slates) shall be chosen in the order in which they are listed on the slate;

b) from the Minority Slates two auditors shall be chosen. One alternate shall be chosen from the Minority Slate that obtains the largest number of votes.

   For the appointment of the auditors from the Minority Lists, the votes obtained by the various slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate auditors on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking and those who have obtained the highest quotients shall be elected.

   If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the slate that obtains the simple majority of the votes shall prevail.

In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

In the event of the substitution of an auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority List or the Minority Lists shall take his/her place. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be made by the Shareholders' Meeting on the basis of the majorities required by law.

After notifying the Chairman of the Board of Directors, the Board of Auditors, or at least two auditors, may call, as provided for by law, a meeting of the shareholders, the Board of Directors or the Executive Committee.

Meetings of the Board of Auditors -- if the Chairman deems it necessary -- may be validly held by video-conference or by audio-conference, provided all those taking part can be identified by the Chairman and by all the other participants, that they are able to follow the debate and intervene in real time in dealing with the matters being discussed, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the meeting of the Board of Auditors shall be considered to have taken place where the Chairman is located.

SHAREHOLDERS' MEETING

Article 17
An Ordinary Shareholders' Meeting shall be called to approve the annual accounts every year within six months of the end of the fiscal year. Ordinary and Extraordinary Shareholders' Meetings may be held in a place other than the Registered Office, provided it is in Italy.

An Extraordinary Shareholders' Meeting shall be called whenever it is deemed advisable by the Board of Directors and when it is required by law.

Article 18
Every shareholder entitled to attend may be represented at the Shareholders' Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law.

In order to facilitate the collection of proxies among employee shareholders of the Company and its subsidiaries who belong to shareholder associations satisfying the requirements established by law, special areas shall be made available in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided and proxy forms collected.

Article 19
The Chairman of the Board of Directors or whoever takes his/her place or, in the absence thereof, the person appointed by those present, shall chair the Shareholders' Meeting and set the rules for the proceedings.

The Secretary shall be appointed by the Meeting, which may select a person who is not a shareholder.

The proceedings of shareholders' meetings shall be governed by law, these bylaws and the Meeting Rules approved by the Ordinary Shareholders' Meeting.

Article 20
Resolutions may be adopted by a show of hands. The Chairman shall establish the procedures for recording votes and may choose two or more tellers from among the persons present.

Each shareholder may exercise his/her right to vote by mail, in accordance with the applicable law.

FISCAL YEAR - DIVIDENDS

Article 21
The fiscal year shall end on 31 December of each year.

From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

The remainder shall be used to pay the dividend determined by the Shareholders' Meeting, and for such other purposes as the Meeting deems most appropriate or necessary.

During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.

SPECIAL POWERS

Article 22
Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

a) approval, to be granted expressly upon the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote at the Ordinary Shareholders' Meeting. Approval must be granted within sixty days of the date of the communication that the Board of Directors must send at the time of the application for entry in the Shareholders' Register. Until approval has been granted and after expiration of the time limit without any action, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding. If approval is refused or the time limit expires without action, the transferee must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares representing the major holding pursuant to the procedures established in Article 2359-ter of the Civil Code;

b) veto of any resolution to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in subparagraphs a) and b).

In accordance with the provisions of the Prime Ministerial Decree issued on 21 March 1997 pursuant to Law 474/1994 and the Treasury Minister Decree issued pursuant to the same law on 21 March 1997, this article shall remain in the bylaws for three years and in any case until the liberalization of the telecommunications industry has reached a sufficiently advanced stage and the industry regulatory authority has become firmly established; the decision that these conditions have been met shall be adopted in an instrument issued in the form indicated in the above-mentioned Prime Ministerial Decree.

Annex IV.
Balance sheet of Olivetti S.p.A. at 31 December 2002
pursuant to Article 2501-ter of the Civil Code

Olivetti S.p.A.

2002 Annual Report

Olivetti [logo]

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Olivetti S.p.A. - Registered Office: Via Jervis 77, Ivrea, Italy
Share Capital 8,845,522,868 Euros fully paid -
Registered on the Turin Companies Register no. 00488410010

Board of Directors

Chairman
ANTONIO TESONE

Deputy Chairman and Chief Executive Officer
MARCO TRONCHETTI PROVERA

Deputy Chairman
GILBERTO BENETTON

Chief Executive Officer
CARLO BUORA

Directors
LORENZO CAPRIO
GIORGIO CIRLA
PIER LUIGI FABRIZI
CESARE GERONZI
GIANNI MION
GIAMPIETRO NATTINO
PAOLA PIERRI (*)
ALBERTO PIRELLI

CARLO ALESSANDRO PURI NEGRI
GIAN CARLO ROCCO DI TORREPADULA (**)
DARIO TREVISAN
ALBERTO VARISCO

Secretary to the Board
PIERA ROSIELLO

Board of Statutory Auditors

Chairman
ANGELO FORNASARI

Standing Auditors
VITTORIO BENNANI
FRANCO CARAMANTI

Alternate Auditors
SERGIO LODI
MASSIMO NUTI

Chief Operating Officer
CORRADO ARIAUDO (***)

Independent Auditors
Reconta Ernst & Young S.p.A.

POWERS DELEGATED TO THE COMPANY OFFICERS
Powers delegated to the company officers are illustrated in the section on Corporate Governance in the Directors' Report on Operations.

(*) co-opted by the Board of Directors on 7 November 2002
(**) co-opted by the Board of Directors on 5 September 2002
(***) resigned with effect from 31 December 2002

Evolution of the Olivetti Group in 2002

2002 opened with the presentation by the Olivetti/Telecom Italia Group of the 2002-2004 Strategic Plan, which was approved by the Board of Directors on 13 February 2002.

The guidelines for the three-year period 2002-2004 are a stronger focus on core businesses, development of market leadership positions through a customer-oriented strategy, enhancement of the products and services portfolio by leveraging Group assets and investing in technological innovation, competencies and skills.

Financial strategy goals through 2004 are strong cash generation and a sharp reduction in debt, while maintaining the Telecom Italia dividend policy and without penalising investments. Investments for the three years will amount to approximately 16 billion euros, and be divided between wireline and mobile network services, with specific attention to innovation: X-DSL, data services, fibre and, a top priority, development of broadband services for the wireline network; GPRS, UMTS, VAS on the mobile network.

During 2002 the Group pursued the targets set in the 2002-2004 industrial plan, in part by continuing the disposals programme introduced in the last quarter of 2001 to strengthen the focus on core businesses and improve the Group's financial position. This programme, which also envisages a select number of acquisitions, enabled the Group to reach the target set by the Plan of disposals for 5 billion euros a year earlier than expected:

- in February Olivetti and Finsiel accepted the public tender offer on Lottomatica launched by Tyche S.p.A. (De Agostini Group) on 23 November 2001 and tendered a combined stake of 34% of share capital to raise proceeds totalling 391 million euros; Tim International sold its equity investment in BDT (19.61%), the parent company of French operator Bouygues Telecom, raising proceeds of 750 million euros;

- in July Finsiel closed the sale of Sogei to the Fiscal Policies Department of the Ministry of the Economy and Finance, which had an impact of 176 million euros on the Telecom Italia Group's net financial indebtedness;

- August saw the closing of the sale of the Telecom Italia Group's equity investment in AUNA to Endesa, Union Fenosa and Banco Santander Central Hispano, which had originally been scheduled for December. The transaction raised proceeds of 1,998 million euros for the Telecom Italia Group and contributed 1,033 million euros to the Telecom Italia Group's consolidated net earnings. Also in August, the Telecom Italia Group closed the sale of Telemaco Immobiliare to Mirtus, a company indirectly held by the US property fund Whitehall, promoted by the Goldman Sachs Group, generating proceeds of 192 million euros and a net capital gain of 64 million euros; additionally, Telecom Italia signed an agreement with Finmeccanica for the sale of Telespazio (which was subsequently executed in November), with a positive impact on Telecom Italia Group debt of 239 million euros and a consolidated net capital gain of 36 million euros;

- in October, Telecom Italia reached an agreement with News Corporation to create a single Italian pay-TV company (a single platform) through the merger of Stream and Tele+; also in October TIM closed the preliminary contract signed on 7 August with the shareholders of Blu S.p.A. for the purchase of 100% of Blu, which was subsequently merged in TIM S.p.A. with effect from 23 December 2002. The final price was 83 million euros;

- in November Telecom Italia International N.V. organised a placement of 75 million shares of Telekom Austria AG stock (representing 15% of capital). As a result of this operation, the Telecom Italia Group's

stake in Telekom Austria decreased from 29.78% to 14.78%. Also in November, Telecom Italia sold its equity investment in IMMSI to the "Omniapartecipazioni" company for 68 million euros;

- in December Telecom Italia signed an agreement with Accenture for the sale of 100% of TE.SS - Tele Pay Roll Services, which handles payroll operations for the Telecom Italia Group. The selling price was approximately 10 million euros.

Also in December Telecom Italia accepted an offer from PTT Serbia for the purchase of 29% of Telekom Srbija for 195 million euros, equivalent to the book value in Telecom Italia International, and spun off the "International Wholesale Services" business unit to the Telecom Italia Sparkle company (ex TMI - Telemedia International Italia), to which it also transferred its equity investments in PAN European Backbone and Telecom Italia of North America.

A key event in the disposals programme in 2002 was "Project Tiglio", a frame agreement between the Pirelli and Olivetti-Telecom Italia Groups for the integration and enhancement of the real-estate assets and property services providers of the companies involved in the project. Under the agreement, buildings, land and personnel involved in asset management were transferred by Olivetti, Telecom Italia and Seat Pagine Gialle to two newly established companies and subsequently to a closed-end real estate fund. As envisaged by Project Tiglio, the Olivetti-Telecom Italia Group spun off real-estate operations and assets for an overall value of 1,585 million euros to Tiglio I and Tiglio II, two property companies controlled by The Morgan Stanley Real Estate Funds. The Olivetti Group retains an overall minority share in the two companies.

The operation brought Olivetti S.p.A. a gross capital gain of approximately 72 million euros and a net cash inflow of 165 million euros on an aggregate transferred-asset value of 225 million euros. The positive financial impact for the Telecom Italia Group was 328 million euros, against an aggregate transferred- asset value of 1,360 million euros.

Additionally, the Olivetti Multiservices and Telecom Italia real-estate business units were spun off to the Pirelli & C. Real Estate Group, an operation involving the transfer of approximately 170 people to the Pirelli Group. The overall price was 18 million euros: 15 million euros relating to Telecom Italia and 3 million euros relating to Olivetti Multiservices.

2002 was also a year of intense financial activity, mainly for the purpose of re-financing existing debt by extending overall maturity. A key event was the issue by Telecom Italia in the first half of a 2.5 billion euro dual-tranche fixed rate bond (maturing in five and ten years), as part of the Group's "Global Note Programme".

An important operation at Olivetti was the placement of a 1.5 billion euro multi-tranche benchmark bond, divided into a 5-year tranche for 1,000 million euros and a 10-year tranche for 500 million euros by the subsidiary Olivetti Finance. This company also decided to call in 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 operations are part of the Olivetti Group's re-financing and debt-maturity extension plan.

Financial operations intensified in the second half of the year. In July and August, Olivetti Finance N.V. launched and successfully placed a 385 million euro bond exchangeable for Telecom Italia ordinary shares, maturing on 19 March 2004. The bonds have a per-share conversion price of 9.30 euros, and correspond to 41,400,000 Telecom Italia ordinary shares (0.79% of capital).

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

- 400 million euros, raising the "Olivetti Finance N.V. floating-rate 2002-2006" bond to 1,000 million euros;

- 650 million euros, raising the "Olivetti Finance N.V. 6.5% 2002-2007" bond to 1,650 million euros;

- 500 million euros, raising the "Olivetti Finance N.V. 7.25% 2002-2012" bond to 1,000 million euros.

These operations raised the average life of Olivetti 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 euros; the issue was extinguished as a result;

- "Olivetti Finance NV 1% 2000-2005" notes exchangeable for Telecom Italia ordinary shares for 1,235 million euros, reducing the loan to 765 million euros;

- "Olivetti Finance NV 5,375% 1999-2004" notes for 750 million euros, reducing the loan to 4,200 million euros.

During 2002, as authorised by the Shareholders' Meeting of 7 November 2001, Telecom Italia S.p.A. commenced a share buy-back on the market for a total outlay of 287 million euros, of which 247 million euros for savings shares.

In December, the Telecom Italia and TIM Shareholders' Meetings approved early pay-out of part of the 2002 dividend from reserves, for a maximum amount of 1 billion euros and 1.6 billion euros respectively, for a dividend to Telecom Italia and TIM shareholders of 0.1357 euros and 0.1865 euros, respectively, per each ordinary and savings share. Payment took place on 19 December.

In 2002 all the Olivetti/Telecom Italia Group companies extended their Corporate Governance codes, well ahead of legal and regulatory requirements and recommendations.

In July a series of principles governing dealings with related parties (directors, statutory auditors, infragroup operations) was approved to guarantee correct and transparent procedures and conduct and at the same time ensure the full joint responsibility of all members of the Board of Directors with regard to resolutions adopted by the Board. The companies also adopted a Code of Conduct with regard to insider dealing drawn up in compliance with the recent directives of Borsa Italiana (Italian Stock Exchange), which requires regular disclosure of transactions on Olivetti and subsidiary securities by parties with access to price-sensitive information. The new Code, which took effect on 1 December 2002, is particularly flexible in identifying parties subject to the disclosure requirement and extends this requirement to security transactions by the controlling companies. It also brings down the quantitative thresholds regulating quarterly disclosure of transactions. Furthermore, the Code envisages a stringent system of penalties, which, in the most serious cases, provides for termination for just cause of Directors and Statutory Auditors.

Group activities

The Olivetti Group's main activities are in the telecommunications sector, through Telecom Italia S.p.A. (owned 54.9% by Olivetti S.p.A.) and its subsidiaries (Telecom Italia Group).

Olivetti is also active in other industrial sectors, such as office and Internet products and services and facility management services.

Financial highlights by business sector for financial 2002 are set out below.

(in millions of euros)	Olivetti S.p.A.	Finance companies	Telecom Italia Group	Olivetti Tecnost Group	Olivetti Multi-services
Total net revenues			30,400	914	119
Result before interest and taxes (EBIT) and non recurring income and charges	(1,419)	(11)	7,415	14)	15
EBIT	(1,323)	(50)	1,850	(63)	20
Net result for the year for consolidation purposes	(548)	(135)	(97)	(87)	11
Net result for consolidation purposes before amortisation of goodwill on Telecom Italia acquisitions	745	(135)	(97)	(87)	11
Shareholders' equity:					
total	9,031	374	12,336	61	49
Group	9,031	374	3,345	63	49
Net financial indebtedness (resources)	15,195	(27)	18,118	60	54
Employees (in units)	70	8	101,713	4,527	302

(*) consolidated in Telecom Italia from 30 June 2002

The Telecom Italia Group

In 2002 the Telecom Italia Group was principally active in the wireline telephony and mobile telephony sectors through, respectively, the Domestic Wireline Business Unit of Telecom Italia S.p.A. and the subsidiary TIM S.p.A. The Telecom Italia Group was also active in the Internet and Media sector through the Seat Pagine Gialle Group, in the information technology sector through the Market IT and Group IT Business Units, and in Other Activities, which mainly comprise the "Real Estate and General Services" Division, the Central Overseas Companies Function and the Telespazio Group (sold in November 2002). The International Operations Division (IOP) was dismantled in May 2002 and the relevant companies and Telecom Italia business units were re-organised, without changes to the corporate control structure, under the Domestic Wireline Business Unit (Intelcom San Marino and Golden Lines) and the Central Overseas Companies Function (9Telecom Group, BBNed Group, AUNA Group, Telekom Austria Group, Telekom Srbija, Etec S.A., and the residual branch of the ex IOP unit); all the companies in the Latin American area were re-organised under Latin America Operations (LAO).

Telecom Italia Group financial highlights by business units

(in millions of euros)		Domestic Wireline	Mobile	South America	Internet and Media	Market IT	Group IT
Revenues from sales and services	2002	17,022	10,867	1,409	1,991	912	1,215
	2001	17,168	10,250	1,534	1,957	1,198	1,198
Gross operating margin	2002	7,965	5,039	450	593	104	140
	2001	7,750	4,760	527	444	166	188
Operating result	2002	4,700	3,358	146	232	61	(21)
	2001	4,361	3,136	187	31	123	22
Capital investments: capital expenditure	2002	2,462	1,715	216	81	30	158
	2001	2,801	3,151	406	175	30	162
goodwill	2002	-	196	-	40	-	28
	2001	-	31	-	203	1	6
Personnel at year end (in units)	2002	53,682	18,702	5,461	7,715	4,493	7,327
	2001	57,895	16,721	5,746	9,264	6,441	6,844

Domestic Wireline

Revenues from sales and services decreased by 0.9% from the previous year (a decrease of 146 million euros), which was significantly smaller than the reduction reported in 2001 (-1.4% compared with 2000). The decrease in traffic revenues (down 533 million euros) and slowdowns in other items (sales and other revenues) were largely offset by the increase in standing charges and contributions (up 539 million euros). Specifically, the reduction in the average traffic yield (-8.3%) was offset in part by the rise in minutes (up 2.4%) as a result of the following:

o the success of commercial offers (mainly Teleconomy and Alice) offering lower call rates to boost customer retention, against a standing charge;

o changes to rates on 1 July 2001 and 1 February 2002, which cut the prices of domestic and international calls and increased standing charges;

o competitive conditions;

o the substantial increase in traffic carried on behalf of other operators.

The gross operating margin showed a significant increase from 2001 (up 2.8%), which was amplified by the operating result (up 7.8%), thanks to the action taken as from 2001 to contain costs and improve the efficiency of invested capital.

Capital expenditure decreased by 12.1% from 2001 due to careful selection of investments that ensure a combination of efficiency and technological growth.

Mobile

Revenues from sales and services in 2002 amounted to 10,867 million euros with an increase of 617 million euros (up 6% from 2001), despite the impact of currency devaluation in Brazil and Venezuela. Excluding the exchange rate effect, the revenue increase compared with 2001 was 11.9%. Revenue growth arose mainly in Italy (up 6.7%).

The Tim Brazil Group reported revenues of 39 million euros on the GSM service introduced in the fourth quarter of 2002.

The gross operating margin for 2002 rose by 279 million euros to 5,039 million euros (up 5.9% from 2001), giving a return on revenues of 46.4% (as in 2001). Excluding the exchange rate effect, gross operating margin growth against the previous year was 8.6%, due largely to positive performance at TIM S.p.A. (up 304 million euros) and Stet Hellas (up 67 million euros) and the improvement in the albeit still negative margin at TIM Peru (up 26 million euros).

The operating result for 2002 was 3,358 million euros, an increase of 222 million euros (up 7.1% from 2001), giving a return on revenues of 30.9% (30.6% in 2001). The operating result improvement was largely attributable to the positive results posted by TIM S.p.A. (up 213 million euros) and Stet Hellas (up 42 million euros), which offset the downturn in the operating result of the TIM Brasil Group (45 million euros) after start-up charges.

Since the 2002 book values of TIM S.p.A. include the full-year financial and business results of the former Blu S.p.A., the effects of transactions prior to the acquisition date were eliminated from the TIM S.p.A. income statement during consolidation. TIM S.p.A. financial statements were also re-stated to exclude tax postings relating to amortisation of the UMTS licence.

Capital expenditure for 2002 amounted to 1,715 million euros, with a decrease of 1,436 million euros compared with 2001, when the business unit invested heavily in telecommunications licences and in the start-up and development of international investee companies.

South America

Revenues from sales and services amounted to 1,409 million euros, a reduction of 8.1% (down 125 million euros in absolute value) compared with 2001; the decrease was largely due to the exchange rate effect, which had an overall negative impact of 212 million euros (182 million euros for the Chilean Peso and 29 million euros for the Boliviano). Excluding this effect, consolidated revenues rose by 5.7%, reflecting growth at the Entel Chile Group (up 12.3% in local currency) offset by the effects of market deregulation in Bolivia (the Entel Bolivia Group reported a revenue reduction of approximately 4.5% stated in local currency) and the suspension as from 1 April 2002 of the management fee agreement with Telecom Argentina.

The above trends affected earnings performance. Specifically, the gross operating margin decreased by 77 million euros (down 14.6%) from 2001, of which approximately 65 million euros was due largely to the exchange rate effect. Excluding this effect, the gross operating margin decreased by 2.3% against

2001, reflecting the suspension of the management fee from Telecom Argentina and the loss of profitability in Bolivia, set against a recovery in Chile, which increased profitability in the mobile business. The gross operating margin ratio to revenues was 31.9% in 2002 (against 34.4% in 2001).

The operating result confirmed the trends reported for the gross operating margin; the operating result ratio to revenues was 10.4% in 2002 (against 12.2% in 2001).

Capital expenditure decreased by 46.8% compared with 2001.

Internet and Media

Consolidated revenues for 2002 totalled 1,991 million euros, rising by 1.7% from 2001. The strongest contribution to growth came from telephone publishing, where revenues rose by 3.4%.

Gross operating margin grew by 33.6% to 593 million euros (a return on revenues of 29.8%), while the operating result rose from 31 million euros in 2001 to 232 million euros in 2002. These results - achieved despite the persisting crisis on the advertising market - were achieved as a result of management action to rationalise operations, contain costs and focus on selected initiatives. Significant efficiency gains were achieved in 2002 in the Internet, Directories and Directory Assistance areas (which together account for 73% of aggregate revenues). For the first time, all activities reported a positive gross operating margin (with the sole exception of Television, although the area successfully reduced its losses from 2001).

The unit's more efficient capital allocation policy generated a 53.7% reduction in capital expenditure (from 175 million euros in 2001 to 81 million euros in 2002).

Market IT

Revenues from sales and services decreased by 48 million euros from the previous year on a consistent comparable basis, largely as a result of lower revenues at Finsiel, Consiel and Banksiel due to lower sales volumes and the general price reduction on sales to large accounts, offset by higher revenues at Intersiel and Insiel due to increased activity with core clients and acquisition of new clients on the Local Government market.

The gross operating margin and the operating result decreased due to the price reductions on a number of contracts renewed during the year and to new contracts with lower fees, which were only partly offset by cost reductions and improved efficiency. The decrease was largely due to lower profit margins at Finsiel, Consiel, and on outsourcing activities at Tele Sistemi Ferroviari for the companies in the Italian State Railways Group.

Capital expenditure was substantially unchanged from the previous year.

Group IT

Consolidated revenues were largely stable, despite the effect of price reductions.

The gross operating margin and the operating margin reflected these reductions and decreased compared with 2001.

Capital expenditure was largely in line with 2001; 2002 investments in goodwill refer to purchase of a controlling stake in Webegg.

Real Estate and General Services (Other Activities)

In 2002 revenues from sales and services totalled 846 million euros, a decrease of 107 million euros from the previous year. This was largely due to the reduction in revenues from the other Telecom Italia Business Units and Functions as a result of space-re-organisation policies and the alignment of prices with improved market conditions. Operating costs decreased by 51 million euros from 2001, thanks to reduced spending on materials and external services and a reduction in payroll costs following a significant reduction in the headcount during the year; these effects offset in part the downturn in revenues, thus mitigating the decrease in the gross operating margin compared with the previous year.

The operating result, after depreciation and amortisation charges, provisions to the reserve for risks and charges and sundry charges (mainly taxes on own property), was negative, at 92 million euros (loss of 65 million euros in 2001).

Other sectors directly controlled by Olivetti S.p.A.

Products, IT services and specialised systems: Olivetti Tecnost

The Olivetti Tecnost Group is active in office products and solutions (Office Products, Olivetti Advalia) and specialised applications for banking, retail and gaming automation (Vertical Division).

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

In June, Olivetti Tecnost presented an industrial plan to the Trade Unions (fully illustrated in the 2002 Half-Year Report) which aims to return the Group to profitability through a series of business-specific measures.

The uncertain business climate existing before the presentation of the industrial plan had a negative impact on the year's results: revenues for the Olivetti Tecnost Group for financial 2002 amounted to 914 million euros (including 906 million euros from customers outside the Olivetti Group), a decrease of 16.7% from 2001(down 12.7% net of the exchange rate effect). Revenues comprised 588 million euros for hardware products, 154 million euros for supplies, 73 million euros for services and 99 million euros of other revenues.

In the Office sector covered by Olivetti Advalia, third-party revenues fell sharply (down 19%) due to the decision to curtail operations on the PC market and to the expected slowdown in fiscal cash register sales following the changeover to the euro.

With regard to other products, the ink-jet fax and MFP businesses (products and supplies) were stable and the copier business (products and supplies) expanded, with a marked shift in the product mix towards digital copiers and medium/high-end products.

In the first half of 2002 Olivetti Tecnost was awarded a contract by Consip, a company owned by the Italian Ministry of the Economy which draws up conventions with equipment and service suppliers for the public authorities, to supply 3000 digital photocopiers on a rental basis.

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

2002 third-party revenues in the Vertical Division decreased from the previous year (down 11.6%), largely as a result of the second-half slowdown in sales to China at the Industrial Partnership division.

Gaming revenues, on a comparable basis, decreased compared with 2001 (down 5.7%) with a shift in the hardware/services mix towards hardware, reflecting the impact of the new contract to supply Lottomatica with M370 terminals and specialised printers.

As part of the diversification strategy, new initiatives were developed in the gaming sector, especially overseas, which open up excellent prospects for 2003: in Tunisia (contract with the Sport Commission to supply a turnkey solution for automation of the local football pools system), Peru (football pools automation, with supply of 1,500 terminals, of which 150 were delivered in 2002), India and China (with the launch of the new M380 family, which is expected to bring good results).

Revenues in the banking and retail sector were stable, confirming the importance of Tecnost Sistemi's products as the reference offer on the world market (PR2, PR2 Enhanced, PR4 for retail); the increase in revenues in Europe was offset by a decrease in China, where the PR2 E printer nevertheless continues to maintain an 80% market share.

In the special products sector, revenues more than doubled in 2002, mainly as a result of the supply of TP Label automatic weighing and franking machines to the Italian Post Office.

In the shop automation sector, the new Net Shop initiative proceeded. Net Shop offers services for SMBs in the retail business.

* * *

After taxes and minority interests, the Olivetti Tecnost Group posted a net loss after adjustments for Olivetti consolidation purposes of 87.1 million euros for financial 2002 (a loss of 54.7 million euros in 2001), after taking a net non-recurring charge of 76.5 million euros relating to the corporate restructuring, implementation of which is essential to ensure a return to profitability in the future.

Net financial indebtedness at 31 December 2002 was 60.4 million euros compared with 133.9 million euros at 31 December 2001, a decrease of 73.5 million euros which was largely due to the decrease in working capital (mainly receivables and inventories).

At 31 December 2002 the Olivetti Tecnost Group had 4,527 employees (4,896 at 31 December 2001), of whom 2,371 in Italy and 2,156 abroad.

On 7 January 2003 the Group closed the contract drawn up in the second half of 2002 with SMT Vertronic, a Mexican company in the SMT Group, for the sale of industrial assets held by the subsidiary Olivetti Tecnost de Mexico, which is active in office automation products.

The agreement provided for the sale of the Tlaxcala facility in Mexico and recruitment by SMT Vertronic of the workers in the plant (1,266 at 31 December 2002). SMT will introduce new industrial operations into the Mexican plant in addition to those currently performed, which Olivetti Tecnost will continue to use.

Facility Management: Olivetti Multiservices

During 2002 Olivetti Multiservices made sweeping changes in its operations. As part of Project Tiglio (approved by the Olivetti S.p.A. Board of Directors on 26 March 2002) for the enhancement of the real estate assets of the Pirelli, Olivetti and Telecom Italia groups, on 1 September 2002 the partial split-up of Olivetti Multiservices S.p.A. (as approved by the company Board of Directors on 21 June 2002) took effect, through the transfer at book value of the company's real estate assets, specifically 23 buildings and 10 development areas, to OMS2 s.r.l. (a wholly owned subsidiary of Olivetti S.p.A. which was sold to Tiglio I in October). The share capital of Olivetti Multiservices S.p.A. was reduced accordingly.

Aggregate revenues for 2002 were 119.3 million euros, of which 75.8 million euros from third parties and 43.5 million euros from the captive market.

Net income for Olivetti consolidation purposes totalled 10.8 million euros (1.7 million euros in 2001) arising in part from non-recurring income (5.8 million euros) as a result of asset sales.

At 31 December 2002 the company had 302 employees, compared with 353 at the end of 2001. The reduction of 51 heads was due to implementation of Project Tiglio.

Human resources

At 31 December 2002 the employees of the Olivetti Group companies included in the consolidation numbered 106,620, a net decrease of 9,400 heads from 31 December 2001 (116,020 heads).

(employees)	31.12.2002		31.12.2001	Changes
Olivetti S.p.A	70		89	(19)
Finance companies	8		8	-
Telecom Italia Group	101,713		109,956	(8,243)
Olivetti Tecnost Group	4,527	(***)	4,896	(369)
Olivetti Multiservices (*)	302		353	(51)
Webegg Group (**)	-		718	(718)

Total	106,620	116,020	(9,400)

(*) property management and services
(**) the Webegg Group is consolidated in Telecom Italia Group from 30 June 2002
(***) including 1,266 units transferred on 7 January 2003 to SMT Vertronic

The headcount at the Telecom Italia Group at 31 December 2002 was 101,713, with a decrease of 8,243 heads from 2001. This reflected the changes in the consolidation area, which generated a net decrease of 2,883 heads, and the net decrease arising from staff turnover (5,360 heads). Specifically, the main changes in the consolidation area were: the exit of the 9Telecom Group (-1,003 heads), the sale of the Telespazio Group (-1,168 heads), the exit of Sogei and Consiel (an overall reduction of 1,538 heads) and other minor companies (-711 heads), the entry of Blu (+ 618 heads), the Webegg Group (+ 719 heads), Netesi and Epiclink (an overall increase of 168 heads) and other minor companies (+ 32 heads).

With regard to staff turnover, the year saw 12,567 full departures (including 5,413 at Telecom Italia S.p.A.) and 7,207 new hirings.

The headcount at the Olivetti Tecnost Group decreased by 369 heads, reflecting a net decrease of 73 heads in Italy (136 departures and 64 new hirings) and a net decrease of 296 heads abroad: 1,898 departures (including 1,752 in Mexico) and 1,657 new hirings (1,542 in Mexico).

The headcount at Olivetti Multiservices decreased by 51 heads, mainly as a result of the spin-off of the Property and Project units to Pirelli Real Estate (47 heads) under Project Tiglio.

The average number of employees in the Olivetti Group in 2002 was 107,079, of which 101,789 with the Telecom Italia Group.

* * *

On 27 May a frame agreement was signed with the Telecom Italia Trade Unions to ensure the correct sizing of the workforce in relation to the 2002 - 2004 Industrial Plan. Accordingly, on 30 July a union agreement was signed to place 3,803 Telecom Italia S.p.A. employees on mobility schemes. Similar agreements were reached during the rest of the year for other Group companies, affecting a total of approximately 380 resources.

Also in connection with the frame agreement, accords were drawn up for the recruitment of 350 young people in Telecontact Center and 110 young people in the Telecom Italia Domestic Wireline Business Unit.

On 12 December procedures for the transfer of Blu S.p.A. staff to TIM were completed.

On 25 June 2002, Olivetti Tecnost completed negotiations with the Trade Unions with regard to the Group Industrial Recovery Plan. The Plan includes special professional skills re-training programmes for approximately 300 employees involved in the Group's industrial re-organisation.

Financial review

The Group

The Olivetti Group posted a net loss after taxes of 773 million euros for financial 2002 (3,090 million euros in 2001); before amortisation of consolidation goodwill relating to Telecom Italia, it had a positive net result of 520 million euros (a loss of 1,791 million euros in 2001).

The 2,317 million euros improvement in the net result was largely due to lower losses at Telecom Italia for 575 million euros and at the Parent Company Olivetti S.p.A. for 1,681 million euros, the latter improvement arising chiefly as the result of lower net financial charges for 158 million euros, net income from non recurring items of 449 million euros and the writedown of the Telecom Italia equity investment posted in the statutory accounts purely for tax purposes; this writedown generated an overall benefit on consolidated income of 1,078 million euros, including deferred tax assets of 609 million euros whose recovery is reasonably certain.

Group net financial indebtedness at 31 December 2002 totalled 33,399 million euros (18,118 million euros for the Telecom Italia Group), a decrease of 4,963 million euros against 31 December 2001 (38,362 million euros).

Olivetti Group total shareholders' equity at 31 December 2002 was 20,624 million euros (26,353 million euros at 31 December 2001); excluding minority interests, shareholders' equity attributable to the Parent Company was 11,640 million euros (12,729 million euros at 31 December 2001).

A significant factor in the decrease of 5,729 million euros in total shareholders' equity was the Telecom Italia Group dividend payout of 3,649 million euros to minority shareholders.

Aggregate capital investments amounted to 7,024 million euros - relating in the main to the Telecom Italia Group (6,921 million euros) - subdivided as follows: 3,291 million euros for tangible assets (3,258 million euros for the Telecom Italia Group), 1,956 million euros for intangible assets (1,930 million euros for the Telecom Italia Group) and 1,777 million euros for financial assets (1,708 million euros for the Telecom Italia Group).

Group business performance

2002 business performance is reflected in the reclassified statement of income set out below, which also includes data for 2001. The statement classifies income components by nature, with separate disclosure of non-recurring income and expense items.

(in millions of euros)	Year 2002	%	Year 2001
Net revenues	31,408	100.0	32,016
Operating costs:			
Labour	(4,727)	(15.1)	(4,877)
Materials and services	(12,668)	(40.3)	(13,458)
Grants	20	0.1	26
Depreciation of tangible assets	(3,807)	(12.1)	(4,080)

Amortisation of intangible assets:			
Consolidation goodwill	(2,142)	(6.8)	(2,278)
Other	(1,320)	(4.2)	(1,283)
Provisions for writedowns and risks	(776)	(2.5)	(758)
Other income (charges), net	28	0.1	30
Result before interest and taxes (EBIT) and non recurring income and charges	6,016)	19.2	5,338
Non recurring income:			
Gains on disposals and other non-recurring income (*)	2,990	9.5	999
Non recurring charges:			
Losses on disposals and other non-recurring charges (*)	(8,486)	(27.0)	(4,354)
EBIT	520	1.7	1,983
Income from equity investments, net	57	0.1	221
Financial charges, net	(2,307)	(7.3)	(3,105)
Value adjustments to financial assets	(786)	(2.5)	(2,196)
Result before taxes	(2,516)	(8.0)	(3,097)
Taxes	2,210)	7.0	(579)
Result after taxes before minority interest	(306)	(1.0)	(3,676)
Minority interests	(467)	(1.5)	586
Net result for the year	(773)	(2.5)	(3,090)

(*) the amounts concerning the Telecom Italia Group have been classified as extraordinary items in the consolidated accounts of this latter.

Group revenues amounted to 31,408 million euros, compared with 32,016 million euros in 2001, a decrease of 1.9% (up 3.1% on a comparable basis and net of the exchange-rate effect).

Revenues at the Telecom Italia Group, which accounted for 96.8% of the total, increased by 3.8% excluding the exchange rate effect and the changes in the consolidation area.

The revenue increase at the Telecom Italia Group reflected the positive performance of the Mobile Business Unit and revenue growth at the Internet and Media Business Unit, offset by a lower contribution from the Domestic Wireline Business Unit, where, despite a 2.4% increase in minutes, traffic revenues fell by 8.3% due to the lower average traffic yield.

Olivetti Group - Third party revenues

			Changes	
(in millions of euros)	Year 2002	Year 2001	absolute	%

TELECOM ITALIA GROUP	30,400.4	30,817.6	(417.2)	(1.4)
OLIVETTI TECNOST GROUP	906.1	1,075.7	(169.6)	(15.8)
OLIVETTI MULTISERVICES	75.8	68.2	7.6	11.1
WEBEGG GROUP (*)	25.6	54.2	(28.6)	(52.8)
Total Group	31,407.9	32,015.7	(607.8)	(1.9)

(*) Consolidated in Telecom Italia Group from 30 June 2002

Operating costs and other net charges amounted to 25,392 million euros (22,985 million euros for the Telecom Italia Group), a reduction of 1,286 million euros on 2001 (26,678 million euros, of which 24,074 million euros for the Telecom Italia Group). As a percentage of revenues, excluding amortisation of consolidation goodwill, the heading decreased by 2.2 percentage points (74.0% in 2002 compared with 76.2% in 2001).

Labour costs at 4,727 million euros decreased by 150 million euros from 2001 (down 3.1%) and the ratio to revenues, despite the reduction in revenues from the previous year, also decreased slightly (from 15.2% in 2001 to 15.1% in 2002).

The decrease was due to the change in the consolidation area and also to the reduction in labour costs at Telecom Italia S.p.A. following the introduction of mobility schemes.

Costs of materials and services decreased by 790 million euros (down 5.9%), largely due to continuing action to improve efficiency, the impact of which was partly offset by higher costs, especially at the Brazilian companies being started up by the Mobile Business Unit.

The ratio of material and service costs to revenues was 40.3%, compared with 42.1% in 2001.

Depreciation and amortisation charges amounted to 7,269 million euros (7,641 million euros in 2001), comprising 3,462 million euros for amortisation of intangible assets (including 2,142 million euros relating to goodwill on the acquisition of equity investments in subsidiary companies) and 3,807 million euros for depreciation of tangible assets. The 136 million euros reduction in goodwill amortisation charges was mainly due to the goodwill writedowns applied in 2001. The ratio of this heading to revenues was 23.1%, down from 23.8% in 2001.

Provisions for writedowns and risks amounted overall to 776 million euros (758 million euros in 2001) as follows:

o 752 million euros for the Telecom Italia Group (733 million euros in 2001) including:

  - 599 million euros for writedowns on trade receivables (specifically, 339 million euros at Telecom Italia, 57 million euros at the Seat Pagine Gialle Group, 40 million euros at the Entel Chile Group and 51 million euros at TIM);

  - 153 million euros of provisions for risks and charges;

o 24 million euros for provisions and writedowns at other Olivetti Group companies (25 million euros in 2001).

EBIT before non-recurring income and charges for 2002 was therefore positive, at 6,016 million euros, with an improvement of 678 million euros (up 12.7%) from the previous year (5,338 million euros).

Non-recurring income amounted to 2,990 million euros (999 million euros in 2001). It consisted of 2,553 million euros of capital gains from the year's disposals (465 million euros in 2001) and 437 million euros of sundry income (534 million euros in 2001).

Capital gains from disposals totalled 2,553 million euros, of which 2,413 million euros at the Telecom Italia Group, as follows:

o 1,245 million euros from the sale of the entire 26.89% shareholding in AUNA;

o 484 million euros from the sale of the 19.61% shareholding in Bouygues Decaux Telecom (BDT);

o 234 million euros from the sale of the entire 100% shareholding in EMSA and Telimm as well as of real estate and activities as part of Project Tiglio;

o 133 million euros from the acceptance by the Finsiel Group of the public tender offer on Lottomatica;

o 115 million euros from the sale to Telekom Austria (in which Telecom Italia indirectly holds 14.78%) of the entire 25% shareholding owned by the Mobile Business Unit in Mobilkom Austria;

o 110 million euros from the sale of the entire 40% shareholding in Telemaco Immobiliare;

o 70 million euros from the sale of 100% of Telespazio;

o 22 million euros from other minor sales.

The 140 million euros of capital gains posted by the other Group companies included:

o 107 million euros from the acceptance by Olivetti S.p.A. and Olivetti International S.A. of the public tender offer on Lottomatica;

o 26 million euros from the sale of the entire shareholding in OMS2, as part of Project Tiglio;

o 7 million euros from other disposals.

Other non-recurring income totalling 437 million euros included 401 million euros at the Telecom Italia Group, as follows:

o 131 million euros from recovery of pre-amortisation interest in respect of integration charges pursuant to Law no. 58/1992 paid on a conditional basis to the Italian National Insurance Board (INPS) until 1999, after the dispute was resolved in favour of Telecom Italia;

o 270 million euros of other income, including 77 million euros from use of reserves (essentially use of part of the reserve for risks and charges provided in 2001 by Telecom Italia S.p.A. to cover charges relating to the agreement for the sale of Stream to News Corp. and Vivendi Universal/Canal+, when the sale did not take place), 9 million euros of contributions and 184 million euros of sundry income.

The 36 million euros of other non-recurring income posted by the other Group companies included 21 million euros from the reversal of redundant reserves provided in previous years.

Non-recurring charges amounted overall to 8,486 million euros (4,354 million euros in 2001) and included 8,375 million euros for the Telecom Italia Group (3,947 million euros in 2001), as follows:

- 6,237 million euros of equity investment writedowns to reflect enduring impairments of value (2,984 million euros in 2001), as follows:
  - writedown of goodwill and the call option on Seat Pagine Gialle shares for a total of 3,486 million euros; such items were written down to market value (based on the average ordinary share price for the last six months of 2002), following the Telecom Italia Group's decision to view the Seat Pagine Gialle Directories operation as a non-core business. In 2001, with regard to the call option, a provision of 569 million euros was posted under financial charges;
  - writedown of goodwill relating to consolidated companies for a total of 225 million euros, Blu (103 million euros), Digitel Venezuela (75 million euros), other subsidiaries (47 million euros);
  - the equity investment in Aria - Is Tim Turchia (2,341 million euros): the investment was written off in full (1,491 million euros) and a provision was made to the reserve for risks and charges to cover Group exposure to this associated company (850 million euros). The provision was commensurate to the guarantees provided by the Group in favour of international financial institutes that had granted loans to Aria - Is Tim and to the loan granted directly by the Group;
  - writedown of goodwill on Netco Redes (96 million euros) and other companies (46 million euros) and a provision to align the purchase price by Seat Pagine Gialle of an additional stake in Consodata to the value of the company as determined by an appraisal (43 million euros).

The 2,984 million euros writedown on equity investments applied in 2001 referred to goodwill writedowns on consolidated companies (9Telecom Group, Entel Bolivia, Entel Chile Group, Maxitel Group, Tele Celular Sul Group, Tele Nordeste Celular Group, Tim Brasil, Med1 Group and some companies in the Seat Group) and on companies valued with the equity method (GLB Servicos Interativos, Solpart Participacoes, Telekom Austria, Nortel Inversora Group) and to other provisions relating to equity investments.

- 316 million euros of charges incurred following the sale of the equity investment in the 9Telecom Group. Specifically, considering the loss recorded prior to the sale, the French 9Telecom Group generated an overall charge to Telecom Italia Group income for the first nine months of 2002 of 389 million euros (267 million euros after taxes);
- 135 million euros of capital losses on the sale of 75 million shares (representing 15% of capital) of Telekom Austria A.G. in November 2002. Following the sale, the Telecom Italia Group's stake in Telekom Austria A.G. decreased to 14.78%;
- 494 million euros of charges and provisions relating to personnel retirements and mobility schemes (including a 379 million euros charge at Telecom Italia);
- 235 million euros of charges relating to non-recurring operations on equity investments;
- 79 million euros of financial charges on the amount payable to the Italian National Insurance Board (INPS) for re-absorption of the ex Telephone

Sector Employees Pension Fund (FPT) and 74 million euros for an extraordinary contribution to INPS to cover increased financial requirements following the integration of the FPT with the Employees Pension Fund;

- 190 million euros of writedowns on fixed assets relating in the main to mobile telephone companies in Brazil and 38 million euros for capital losses on fixed-asset disposals;
- 194 million euros of provisions, including 135 million euros for guarantees provided on the sale of equity investments and company businesses and 59 million euros for other provisions;
- 383 million euros of other sundry charges.

Non-recurring charges for the other Group companies amounted to 111 million euros (407 million euros in 2001) and included 62 million euros of capital losses on the sale of the Seat Pagine Gialle equity investment, 32 million euros of provisions relating to risks on equity investments, 4 million euros of charges relating to the public tender offer on Lottomatica and 13 million euros for miscellaneous charges.

The Group therefore posted positive consolidated EBIT of 520 million euros, compared with 1,983 million euros in 2001.

Net income from equity investments amounted to 57 million euros (221 million euros in 2001) and included 18 million euros for the Telecom Italia Group (154 million euros in 2001), 35 million euros for Olivetti S.p.A. from dividends on non-consolidated equity investments and 4 million euros for other Olivetti Group companies.

Interest expense and other financial charges, net, amounted to 2,307 million euros (3,105 million euros in 2001), of which 1,499 million euros related to the Telecom Italia Group (2,153 million euros in 2001) and 808 million euros to the other Group companies (952 million euros in 2001).

Net financial charges at the Telecom Italia Group decreased by 654 million euros (down 30.4%), for 85 million euros as a result of the decrease in net financial indebtedness, offset in part by exchange rate trends, (which had a negative impact on debt at a number of South American companies), and as a result of the provision for the call option on Seat Pagine Gialle shares (569 million euros in 2001) which in 2002 was classified under non-recurring charges.

Net financial charges for the other companies decreased by 144 million euros as a result of lower financial exposure and debt re-financing at less costly conditions.

Value adjustments to financial assets generated an overall charge of 786 million euros, including 682 million euros for the Telecom Italia Group as follows:

- 80 million euros for amortisation of goodwill arising on the purchase of equity investments in companies valued with the equity method, a reduction of 236 million euros compared with 2001, due to goodwill writedowns posted in 2001;
- the Group's share of income and losses of companies valued with the equity method, with a negative balance of 386 million euros (-1,300 million euros in 2001); this reflected losses at Stream for a total of 246 million euros (241 million euros in 2001), at Aria Is Tim (Turkey) for 171 million euros (334 million euros in 2001), and a positive balance of 31 million euros on

the results of the other investee companies;

o a writedown of 176 million euros on securities and equity investments held as current assets (291 million euros in 2001) and of 40 million euros on securities held as fixed assets (49 million euros in 2001).

In 2001, this heading also reflected the results of the equity investments in the Nortel Inversora Group (238 million euros), the AUNA Group (203 million euros) and the Astrolink writedown (259 million euros) taken by Telespazio upon termination of the project. In 2002 the equity investment in Nortel Inversora was unchanged from the consolidated book value at 31 December 2001, when it was prudently written down to zero. The consolidated book value of the AUNA Group and Astrolink at 31 December 2001 was maintained until the sale of these investments, respectively, on 1 August 2002 and 30 November 2002. Value adjustments at the other Group companies totalled 104 million euros, including 69 million euros relating to 41.4 million Telecom Italia shares held as current assets and valued at market prices at 31 December 2002.

Under the heading income taxes the Group posted income of 2,210 million euros for financial 2002 (a charge of 579 million euros in 2001). This referred to the Parent Company Olivetti S.p.A. for 1,603 million euros (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 euros, including deferred tax assets of 609 million euros) and to the Telecom Italia Group for 688 million euros (also largely as a result of deferred tax assets), offset by tax charges posted by the other Group companies for an overall amount of 81 million euros.

Income attributable to minority interests reflected a loss of 467 million euros (income of 586 million euros in 2001) and included 472 million euros of income attributable to Telecom Italia Group minority shareholders.

The Group net result for financial 2002 reflected a loss of 773 million euros (a loss of 3,090 million euros in 2001); excluding amortisation of goodwill on the acquisition of Telecom Italia, the Group had net income of 520 million euros (a loss of 1,791 million euros in 2001).

Analysis of the Group balance sheet

The condensed reclassified balance sheet of the Group at 31 December 2002 is set out below:

(in millions of euros)	31.12.2002	%	31.12.2001	%	Change
Short-term assets:					
Financial resources	7,894	9.4	8,641	9.2	(74
Operating assets	14,981	18.0	15,250	16.2	(26
Total short-term assets	22,875	27.4	23,891	25.4	(1,01
Medium/long-term assets:					
Financial assets	495	0.6	705	0.7	(21

Intangible fixed assets	34,561	41.4	39,220	41.6	(4,65
Tangible fixed assets	19,449	23.3	22,097	23.5	(2,64
Other assets	6,004	7.3	8,314	8.8	(2,31
Total medium/long-term assets	60,509	72.6	70,336	74.6	(9,82
Total assets	83,384	100.0	94,227	100.0	(10,84
Short-term liabilities:					
Short-term debt	7,984	9.6	9,961	10.6	(1,97
Operating liabilities	18,396	22.1	17,010	18.0	1,38
Total short-term liabilities	26,380	31.7	26,971	28.6	(59
Medium/long-term liabilities:					
Medium/long-term debt	33,804	40.5	37,747	40.1	(3,94
Other medium/long-term liabilities	2,576	3.1	3,156	3.3	(58
Total medium/long-term liabilities	36,380	43.6	40,903	43.4	(4,52
Total liabilities	62,760	75.3	67,874	72.0	(5,11
Total shareholders' equity	20,624	24.7	26,353	28.0	(5,72
Total liabilities and shareholders' equity	83,384	100.0	94,227	100.0	(10,84

Short-term assets at 31 December 2002 totalled 22,875 million euros compared with 23,891 million euros at 31 December 2001.

Specifically, the net decrease of 269 million euros in short-term operating assets arose from a decrease of 107 million euros at the Telecom Italia Group (largely due to the reduction in trade receivables) and from a decrease of 162 million euros at the other companies, mainly the Tecnost Group, also chiefly as a result of a reduction in trade receivables.

Medium/long-term assets amounted to 60,509 million euros with a net decrease of 9,827 million euros from 70,336 million euros at 31 December 2001.

Specifically, medium/long-term financial assets at 31 December 2002 were 495 million euros and comprised 465 million euros for the prepayment of redemption premiums on the Olivetti 1.5% 2001-2004 and Olivetti 1.5% 2001-2010 bonds issued by the Parent Company in 2001 and on the Olivetti Finance

1% 2000-2005 bond exchangeable for Telecom Italia shares issued in 2000, for residual amounts not accruing in 2002.

The decrease of 210 million euros arose mainly from the portion of the prepayment on the above redemption premiums accrued in the year 2002 and from write off of the prepayment on the redemption premium on Olivetti Finance N.V. 1% 2000-2005 notes, which were bought back and subsequently cancelled.

Intangible fixed assets amounted to 34,561 million euros compared with 39,220 million euros at the end of 2001, a decrease of 4,659 million euros, which arose mainly from the amortisation charge of 3,462 million euros and goodwill writedowns of 1,903 million euros (including 1,544 million euros for the Seat equity investment), from other decreases of 1,250 million euros offset by additions totalling 1,956 million euros.

Tangible fixed assets decreased by 2,648 million euros of which 2,466 million euros for the Telecom Italia Group.

Other medium/long-term assets decreased by 2,310 million euros, reflecting a decrease of 3,001 million euros for the Telecom Italia Group (mainly for equity investment disposals and writedowns), offset in part by an addition of 691 million euros at the other Group companies, including 609 million euros of deferred tax assets at Olivetti S.p.A. as a result of the writedown of the Telecom Italia equity investment purely for tax purposes.

Short-term liabilities at 31 December 2002 amounted to 26,380 million euros, down by 591 million euros from 26,971 million euros at 31 December 2001.

Specifically, short-term debt (7,984 million euros at 31 December 2002) decreased by 1,977 million euros, reflecting a decrease for the Telecom Italia Group of 3,338 million euros offset by an increase of 1,361 million euros for the other Group companies.

Short-term operating liabilities increased by 1,386 million euros, reflecting a rise of 1,782 million euros at the Telecom Italia Group offset by a decrease of 396 million euros for the other companies (the latter consisting mainly of payment of previously provided charges of 125 million euros relating to Olivetti Finance financing operations and use of the Olivetti S.p.A. reserve for risks and charges for 167 million euros).

Medium/long-term liabilities amounted to 36,380 million euros with a decrease of 4,523 million euros from 40,903 million euros at 31 December 2001.

Specifically, medium/long-term debt amounted to 33,804 million euros (including 15,018 million euros for the Telecom Italia Group) with a decrease of 3,943 million euros including 1,065 million euros for the Telecom Italia Group.

Debt for the other Group companies decreased by 2,878 million euros, mainly as a result of operations to restructure debt and improve the maturity profile.

Medium/long-term non-financial liabilities decreased by 580 million euros, of which 338 million euros for companies outside the Telecom Italia Group.

Capital invested at 31 December 2002 and related funding is illustrated in the table below:

(in millions of euros)	31 12 2002	%	31 12 2001	%
Short-term operating assets	14,981	26.5	15,250	22.5
Short-term operating liabilities	(18,396)	(32 5)	(17,010)	(25.1)
Operating working capital	(3,415)	(6.0)	(1,760)	(2.6)
Intangible fixed assets	34,561	61.0	39,220	57.8
Tangible fixed assets	19,449	34.4	22,097	32.6
Other assets	6,004	10.6	8,314	12.2
Capital invested (A)	56,599	100.0	67,871	100.0

Medium/long-term non financial liabilities	2,576	4.5	3,156	4.6
Minority interests	8,984	15.9	13,624	20.1
Group shareholders' equity	11,640	20.6	12,729	18.8
Total non financial sources (B)	23,200	41.0	29,509	43.5
Net financial indebtedness (A-B)	33,399	59.0	38,362	56.5

Capital invested (56,599 million euros) decreased by 11,272 million euros from the end of 2001. Of the total, 41% was funded by non-financial sources, mainly total shareholders' equity (20,624 million euros, a decrease of 5,729 million euros from 26,353 million euros at 31 December 2001 as analysed earlier in this Report). Net financial indebtedness funded the remaining 59% (56.5% at 31 December 2001).

Olivetti Group net financial indebtedness at 31 December 2002 amounted to 33,399 million euros, a decrease of 4,963 million euros from 38,362 million euros at 31 December 2001.

	31.12.2002			
(in millions of euros)	Telecom Italia Group	Other companies	Total (a)	Teleco Itali Group
Current portions of medium/long-term debt	2,677	773	3,450	1,66
Other payables to banks and other lenders	2,412	965	3,377	6,83
Financial payables to Olivetti Group companies				
Interest accruals and deferrals	441	716	1,157	36
Liquid funds	(1,588)	(4,765)	(6,353)	(2,70
Financial receivables	(683)	(328)	(1,011)	(80
Financial receivables from Olivetti Group companies			-	
Interest accruals and prepayments	(159)	(371)	(530)	(11
Total short-term net financial indebtedness (resources) (A)	3,100	(3,010)	90	5,85
Bonds and other medium/long-term debt	15,018	18,786	33,804	16,08
Other medium/long-term financial assets		(495)	(495)	
Total medium/long-term net financial indebtedness(B)	15,018	18,291	33,309	16,08
Total net financial indebtedness (A+B)	18,118	15,281	33,399	21,94

(*) after intercompany balances elimination entries

(in millions of euros)	Year 2002

Telecom Italia Group	
Capital expenditure	4,842
Goodwill	369
Financial investments	1,708
Payment of dividends:	
to Olivetti S p A	1,296
to third parties	3,649
Payment to JP Morgan for strike price reduction	500
Operating cash flows	(10,390)
Disposals	(5,698)
Others	(100)
Financial surplus of the Telecom Italia Group	(3,824)
Other companies	
Disposals	(592)
Dividend proceeds from Telecom Italia S p A	(1,296)
Financial charges and other disbursements, net	749
Financial surplus of other companies	(1,139)
Total net financial surplus	(4,963)

Disposals for the Telecom Italia Group (5,698 million euros) reflected 2002 disposals, net of related charges, for an overall 4,771 million euros. They consisted mainly of the sale of AUNA (1,998 million euros), Bouygues Decaux Telecom (750 million euros), Mobilkom Austria (756 million euros), Lottomatica (212 million euros), Sogei (176 million euros), Telemaco Immobiliare (192 million euros), Immsi (69 million euros), Tiglio (328 million euros), Telekom Austria (559 million euros), Telespazio (239 million euros), 9Telecom (529 million euros) and other minor sales (21 million euros).

Disposals for the other companies in the Olivetti Group reflected 2002 equity investment sales, mainly the sale of Lottomatica (179 million euros), Seat (131 million euros), Tiglio (223 million euros) and Webegg (57 million euros).

* * *

The main financial operations transacted by the Olivetti Group in 2002 are described below.

Telecom Italia Group

- Bond issue

In February, a 2.5 billion euro bond was issued, divided into two fixed-rate tranches of 1.25 billion euros each, maturing on 1 February 2007 and 1 February 2012. The issue is part of the "Global Note Programme" for the restructuring of Group debt; the overall amount of the programme was raised from 10 to 12 billion dollars following a resolution adopted by the Board of Directors on 18 December 2001.

- Closure of the revised agreements for put/call options on Seat Pagine

Gialle S.p.A. shares

On 25 February, Telecom Italia and the JPMorgan Chase Group signed the final agreements relating to the re-negotiation of the put and call options on, respectively, approximately 711 million and approximately 661 million Seat Pagine Gialle shares. The preliminary agreements were originally stipulated on 4 December 2000.

Specifically, the option exercise price was reduced from 4.2 euros to 3.4 euros per share; in return, Telecom Italia would pay JPMorgan Chase an amount of approximately 569 million euros on the original expiry date in December 2005; alternatively it may make early payment of this amount after discounting back.

The revised agreements also eliminate early exercise of the options for both parties. The options therefore expire on 6 December 2005. Telecom Italia retains early exercise rights on a portion of its call options - approximately half of the overall amount - in blocks, as from December 2004.

The revised agreements achieve the aim of deferring exercise of the JPMorgan Chase put until the final expiry in December 2005, thus allowing Telecom Italia to avoid the possible impact of a single large outlay in 2003.

The economic effects of the reduction in the option exercise price were reflected in the 2001 financial statements.

o Equity investment acquisitions and disposals

Sale of Lottomatica

In February 2002 the Market IT Business Unit (Finsiel group) accepted the public tender offer on Lottomatica, raising proceeds of 212 million euros and a capital gain of 73 million euros for the Telecom Italia Group consolidated net result.

Sale of BDT - Bouygues Decaux Telecom

In March 2002 the Telecom Italia Group sold the TIM International equity investment in BDT (19.61%), which controls the French operator Bouygues Telecom, raising proceeds of 750 million euros and a capital gain of 266 million euros for the Telecom Italia Group consolidated net result.

Sale of Mobilkom Austria

On 28 June 2002, TIM International N.V. sold its entire stake (25%) in Mobilkom Austria to Telekom Austria (in which Telecom Italia International held a 14.78% stake at 31.12.2002), raising proceeds of 756 million euros and a capital gain of 64 million euros for the Telecom Italia Group consolidated net result

Sale of Sogei

On 31 July 2002 Finsiel closed the sale of Sogei to the Fiscal Policies Department of the Ministry of the Economy and Finance, with an impact of 176 million euros on Telecom Italia Group net financial indebtedness.

Sale of AUNA

On 1 August 2002 the Telecom Italia Group sold its equity investment in AUNA to Endesa, Union Fenosa and Banco Santander Central Hispano. The sale was originally planned for December. The transaction raised proceeds of 1,998 million euros for the Telecom Italia Group and a capital gain of 1,033 million euros for the Telecom Italia Group consolidated net result.

Sale of Telemaco Immobiliare

On 1 August 2002 Telemaco Immobiliare was sold to Mirtus, a company indirectly controlled by the US Whitehall real estate fund promoted by the Goldman Sachs Group, raising proceeds of 192 million euros and a net capital gain of 64 million euros for the Telecom Italia Group.

Purchase of EPIClink

On 2 August 2002, having received approval from the Antitrust Authority, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of 60.2 million euros. The equity was sold by Edisontel S.p.A.(30.3%), Pirelli S.p.A. (25.3%; Pirelli is a Telecom Italia related party through the Chairman and Chief Executive Officer Carlo Buora), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). As a result of this transaction, EPIClink ownership is as follows: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2%, E_voluzione 2%. Telecom Italia also committed to acquire the residual stake (14%) for an overall price of 10 million euros.

Sale of 9Telecom

On 26 August, the Telecom Italia Group closed the sale of the equity investment in 9Telecom and the simultaneous purchase of 7% of LDCom. The transactions had a net negative impact of 267 million euros on Telecom Italia Group income.

Sale of a portion of Solpart Participacoes

On 27 August the Telecom Italia Group reached an agreement with its partners in Solpart (which indirectly controls Brasil Telecom) to reduce its ordinary shareholding from 37.29% to 19% through the sale of 18.29% of ordinary share capital to Timepart Participacoes and Techold Participacoes. The transaction removed the regulatory obstacles blocking the start-up of a GSM 1800 commercial offer by the local TIM subsidiaries. Options have been agreed by both parties, to be exercised under certain conditions, that would restore the situation quo ante.

Purchase of an additional stake in Stet Hellas

In August, TIM International NV, a TIM subsidiary, acquired from the Verizon Europe Holding II group a 17.45% stake in Stet Hellas, in which it already held 63.95%, for a price of 108 million euros. The operation makes TIM International NV the sole industrial shareholder and the reference shareholder of Stet Hellas, and is part of the Group strategy to rationalise its international portfolio by consolidating its position in the Mediterranean.

Purchase of an additional stake in Netesi

In August, after receiving approval from the Antitrust Authority, the Telecom Italia Group purchased a 69.10% shareholding in Netesi, of which it already held 17.98%, for a price of 11 million euros.

Purchase of Pagine Utili

On 11 September 2002 Telecom Italia reached an agreement with Pagine Italia S.p.A. for the purchase of the Pagine Utili directories business, which has approximately 60,000 subscribers.

Telecom Italia will pay Pagine Italia a consideration of 214 million Seat ordinary shares held by the Telecom Italia Group, representing 1.9% of Seat ordinary share capital.

Closing is subject to approval by the AGCM Authority (the Italian Antitrust Authorities). Following the observations in the report of the AGCM, on 16 January 2003 Telecom Italia and Pagine Italia S.p.A. agreed to withdraw the notice of acquisition of the Pagine Utili business unit.

They also agreed to extend the term of the contract in order to re-formulate the purchase with a view to possible re-presentation to the Authority.

The contract provides in any case for an exclusive consideration to Pagine Italia S.p.A., of 6.6% of the total number of Seat Pagine Gialle shares to be paid in the event of closure.

Procedures for the merger of the Pagine Utili unit with Seat Pagine Gialle will be drawn up once the transaction has closed.

Telecom Italia - News Corporation agreement

On 1 October, Telecom Italia signed contracts with the News Corporation Group ("News"), its partner in Stream, and with Vivendi Universal ("Vivendi"), currently the controlling shareholder of Telepiu, for the acquisition of Telepiu by Stream and the subsequent creation of a single pay TV platform in Italy. Under the agreements, Telecom Italia will hold 19.9% of the single platform and News Corporation will hold the remaining 80.1%.

At closing, Telecom Italia will pay 31.84 million euros for 19.9% of Telepiu and will waive the receivables from Stream at the end of 2002 due to the Group companies, for approximately 147 million euros (the full amount was provided in 2001). By the same token, News Corporation will waive receivables due to Stream for a similar amount.

The contract is subject to approval by the European Antitrust Authority which will issue a ruling by the end of April 2003.

Sale of the equity investment in Consiel

On 3 October 2002 the sale - between Finsiel and World Investment Partners S.A. - of the shares representing the entire share capital of Consiel was completed with the endorsement of the shares in favour of the purchaser.

The total amount paid by World Investment Partners S.A. was equal to 1 million euros.

Purchase of 100% of Blu S.p.A.

On 7 October TIM closed the preliminary contract signed on 7 August for the purchase of 100% of Blu S.p.A., which was subsequently merged with TIM S.p.A. The operation had previously been approved by the Competition & Market Authority, after the favourable ruling issued by the Communications Authority. The merger deed was drawn up on 18 December 2002, when the final sale price of 83 million euros was set. The merger took effect on 23 December 2002.

Project Tiglio

On 29 October the frame agreement drawn up by the Pirelli, Olivetti-Telecom Italia and The Morgan Stanley Real Estate Funds groups closed, with the merger of the parties' respective real estate assets and property management services providers.

Under the agreement, the assets of Tiglio I and Tiglio II will be enhanced in 2003 through a market operation implemented as part of a strategy for the development of the real-estate market, opening up important opportunities for the Telecom Italia Group to optimise the value of its current shareholdings in the two vehicles.

Specifically, through a series of transactions, the Telecom Italia Group transferred assets totalling 1,360 million euros to Tiglio I and Tiglio II. Of these assets, 50 million euros related to Seat Pagine Gialle, approximately 840 million euros related to property spun off to Emsa Immobiliare as a result of the nonproportional split-up of IM.SER, and 470 million euros related to other assets. The operation generated gross income of 229 million euros for Telecom Italia S.p.A. and 234 million euros for the Telecom Italia Group (with an impact of 150 million euros on the Telecom Italia Group net result).

The Pirelli Group companies involved in the operation are Pirelli S.p.A. (a related party of Telecom Italia through the Chairman and the Chief Executive Officer Carlo Buora) and Pirelli & C. Real Estate S.p.A. (a related party of Telecom Italia through the Chairman, the Chief Executive Officer Carlo Buora and the Director Carlo Alessandro Puri Negri).

Sale of Telespazio

In November Telecom Italia and Finmeccanica closed the agreement of 2 August 2002 for the sale of Telespazio. The transaction generated a positive impact of 239 million euros on Telecom Italia Group financial indebtedness, and a net capital gain of 36 million euros for Telecom Italia Group income.

Sale of the Viasat equity investment

On 18 November 2002, Seat Pagine Gialle S.p.A. and Finsatel sold their respective shareholdings of 33.54% and 16.46% in Viasat S.p.A. to Exe Fin S.p.A., for an aggregate amount of approximately 2.5 million euros; the transaction also eliminated the equity investment indirectly held in Viasat Assistance S.p.A.

Sale of Telekom Austria

In November Telecom Italia International N.V. organised placement of 75 million Telekom Austria AG shares (representing 15% of capital). The placement price was fixed at 7.45 per share. The operation raised gross proceeds of 559 million euros, with a loss of 135 million euros on the Telecom Italia Group's consolidated net result.

The operation reduced the Telecom Italia Group's equity investment in Telekom Austria from 29.78% to 14.78%.

Sale of the equity investment in Informatica Trentina

On 21 November, Finsiel disposed of its equity investment (40.41%) in

Informatica Trentina in favour of DeDa Srl, a company controlled by Deltadator S.p.A. (Sequenza Group) for an amount equal to approximately 8.7 million euros, with a capital gain recorded in the Telecom Italia consolidated financial statements of 4 million euros.

Sale of IMMSI

On 22 November Telecom Italia sold its equity investment in IMMSI to the "Omniapartecipazioni" company. The selling price was 69 million euros, with a positive impact of 41 million euros for Telecom Italia S.p.A..

Sale of Fintech

On 20 December 2002, Telecom Italia Lab sold its shareholding in Fintech S.p.A. (50% of share capital) to the Belgian company Euroqube S.A., for an amount of 4.75 million euros, of which approximately half was settled at closing; the outstanding consideration will be paid over the following 12 months.

Sale of Tele Pay Roll Services

On 20 December Telecom Italia signed an agreement with Accenture for the sale of 100% of TE.SS - Tele Pay Roll Services, which handles payroll services for the Telecom Italia Group. The selling price is approximately 10 million euros. The transaction, part of the Telecom Italia Group plan to dispose of non-core operations, closed on 28 February 2003, when title to the capital stock was transferred.

Purchase of an equity investment in Mediocredito Centrale S.p.A.

On 27 December 2002 in execution of an agreement signed in July, the purchase of a 3% stake in Mediocredito Centrale S.p.A. was finalised at a price of 36 million euros

Sale of Telekom Srbija

On 28 December 2002 the Telecom Italia Group announced an agreement for the sale to PTT Serbia of its 29% shareholding in Telekom Srbija. On 20 February 2003 the contract was signed and closing is expected to take place by the end of May.

PTT will pay a consideration of 195 million euros: 120 million euros are to be paid in four monthly amounts as from February 2003 and the remaining sum in 6 six-monthly amounts as from January 2006. The shares involved in the transaction will be deposited with an international bank until payment of the consideration has been completed.

Project Ortensia

On 24 December 2002 Telecom Italia and the other shareholders of Tiglio I (MSMC Italy Holding BV, Olivetti, Seat Pagine Gialle and Pirelli) and Tiglio II (POPOY Holding B.V.) drew up a binding agreement with the Marzotto company - which became effective on 4 March 2003 - for the formation of a jointly owned vehicle to hold the land assets of Tiglio I e Tiglio II and the land assets owned directly and indirectly by Marzotto. The agreement provides for the transaction to be executed during 2003 through the spin-off from Tiglio I and Tiglio II of land assets and other related assets and liabilities to a company to which, under the agreement, Marzotto transferred its land assets at the end of December 2002. Based on the asset valuations currently available, on completion of the spin-offs, Telecom Italia will hold a share of approximately 28% of the company (at Group level, Seat Pagine Gialle will own a 1% share).

o Telecom Italia share buy-back

In connection with the share buy-back authorised by the Telecom Italia Shareholders' Meeting of 7 November which began in March 2002, during the year Telecom Italia purchased 45,647,000 savings shares and 5,280,500 ordinary shares, for a total outlay of 287 million euros.

Other companies in the Olivetti Group

o In January 2002, Olivetti accepted the public tender offer for 100% of Lottomatica shares made by the De Agostini Group on 23 November 2001, at a price of 6.55 euros per share, after an improved bid. Olivetti tendered its equity in Lottomatica, which amounted overall to 27,451,550 shares representing 15.6% of the company's subscribed capital (of which 14.04% directly owned by Olivetti S.p.A. and 1.56% owned by the subsidiary Olivetti International S.A.).

  Also considering Finsiel S.p.A.'s 18.3% equity investment in Lottomatica, the overall cash inflow for the Olivetti-Telecom Italia Group was 391 million euros, with an aggregate capital gain of 367 million euros recorded in the statutory accounts of the companies.

o On 27 June 2002 the Telecom Italia and Olivetti Boards of Directors approved the acquisition by IT Telecom S.p.A. (100% Telecom Italia) of Olivetti S.p.A.'s 50% equity investment in Webegg S.p.A. The transaction price of 57.5 million euros was determined on the basis of assessments performed by KPMG Corporate Finance for Telecom Italia and UBM for Olivetti.

  The operation will allow Webegg's specific knowhow to be integrated with that of the Telecom Italia Group Information Technology division, with a view to forming competence centres providing services for the Group itself and on the open market.

* * *

o On 29 January 2002 (with settlement date 12 February 2002), through a private placement with a select group of institutional investors, Olivetti International Finance N.V. re-opened the bond maturing in July 2009 for an additional amount of 250 million euros. As a result, total notes outstanding amount to 2,350 million euros.

o On 14 March 2002, through a private placement, Olivetti Finance N.V. issued a 500 million euro floating-rate bond, guaranteed by Olivetti S.p.A. The bond pays a quarterly coupon linked to 3-month Euribor + 130 basis points. The term is 3 years, which may be extended at the bondholders' option for subsequent 21-month periods up to a maximum overall term of 10 years.

o In April, the subsidiary Olivetti Finance N.V. successfully issued a multi-tranche bond. The operation raised proceeds totalling 1.5 billion euros, subdivided into two tranches maturing in 5 and 10 years. The terms of the issue are as follows:

first tranche	
amount:	1,000 million euros
issue date:	24 April 2002
maturity:	24 April 2007
coupon:	6.50% per annum

second tranche	
amount:	500 million euros
issue date:	24 April 2002
maturity:	24 April 2012
coupon:	7.25% per annum

- On 22 April 2002, through a private placement, Olivetti Finance N.V. issued a 20 billion yen bond with a fixed 3.55% six-monthly coupon maturing in May 2032 (callable annually by the issuer after the 10th year).

- With a private placement, Olivetti Finance N.V. issued a bond for 300 million euros on 29 May and for an additional 300 million euros on 17 June. The bond bears a floating-rate quarterly coupon with a spread of 1.25%, and matures on 3 January 2006.

- On 24 June 2002, all outstanding notes of the "Olivetti Finance N.V. floating-rate 1999-2004" bond were early redeemed (as allowed by the bond regulation and in execution of the resolution adopted by the company's Board of Directors), for an amount corresponding to the nominal value of the notes (5,150 million euros), plus interest accrued to date.

- In the second half of 2002, Olivetti Finance N.V. launched additional euro bonds:

  1) a zero-coupon bond (with settlement date 20 September 2002) exchangeable for Telecom Italia ordinary shares for approximately 385 million euros (350 million euros issued on 29 July, followed on 27 August by exercise of the greenshoe option for a further amount of approximately 35 million euros by Lehman Brothers as global co-ordinator), maturing in March 2004; the bond is exchangeable for 41,400,000 Telecom Italia ordinary shares (at a price of 9.30 euros per share) representing approximately 0.79% of ordinary share capital;

  2) a bond placed privately on 7 August as part of the Euro Medium Term Note (EMTN) Programme for 200 million euros and bearing a floating-rate coupon of 1.45% over EONIA, maturing in February 2005;

  3) a bond placed privately on 9 August as part of the EMTN Programme for 250 million euros, with an annual 7.77% coupon, maturing in August 2032.

  4) the re-opening on 3 October of three bonds under the EMTN Programme, to re-finance and extend the repayment profile of existing debt.

     The overall gross proceeds of 1,550 million euros were as follows:

     - 400 million euros on the "Olivetti Finance N.V. floating-rate

2002-2006" bond for an original amount of 600 million euros, increased to 1,000 million euros;

- 650 million euros on the "Olivetti Finance N.V. 6.5% 2002-2007" bond for an original amount of 1,000 million euros, increased to 1,650 million euros;

- 500 million euros on the "Olivetti Finance N.V. 7.25% 2002-2012" bond for an original 500 million euros, increased to 1,000 million euros.

Additionally, the above issues maturing in 2006 and 2007 were increased through private placements for 100 million euros each, thus raising the overall amounts to 1,100 million euros and 1,750 million euros respectively.

o On 18 December 2002 a debt-transfer operation took place by which Olivetti Finance N.V. (Netherlands) replaced Olivetti International Finance N.V. (Dutch Antilles) as the issuer of all the bonds already issued by the Antillean company under the EMTN Programme guaranteed by Olivetti S.p.A., as follows: the 4,950 million euro bond denominated "Euro Medium Term Note Programme 5.375% due 2004" and the 2,350 million euros bond denominated "Euro Medium Term Note Programme 6.125% due 2009".

o On 23 December 2002 the following bonds were extinguished:

  - "Olivetti S.p.A. EONIA Linked notes 2001-2003" for a value of 400 million euros;

  - "Olivetti Finance N.V. 1% 2000-2005", exchangeable for Telecom Italia ordinary shares, for a nominal value of 1,235 million euros. As a result, the residual nominal loan amount decreased to 765 million euros;

  - "Olivetti Finance N.V. 5.375% 1999-2004" (originally issued by Olivetti International Finance N.V. for a nominal value of 750 million euros). As a result, the residual nominal loan amount decreased to 4,200 million euros.

* * *

All bonds issued by Olivetti Finance N.V. and Olivetti International Finance N.V. are guaranteed by the Parent Company Olivetti S.p.A..

Information by sector (CONSOB communication no. 98084143)

A) Information by business sector

The consolidated statement of income showing the results of the operating companies adjusted for consolidation purposes and the consolidated reclassified balance sheet showing the balances of these companies adjusted for consolidation purposes are set out on the following pages. The results and balances for consolidation purposes differ from those disclosed in the companies' respective statutory financial statements at 31 December 2002. The main consolidation adjustments are the elimination of intercompany gains and depreciation charges on assets transferred within the Group, the reversal of tax-related entries made largely in respect of depreciation, the valuation of equity investments (equity investments in subsidiary companies, by definition, appear in the consolidated accounts as the appropriate portion of the company's net equity used for consolidation purposes) and other adjustments made to align the results of the individual companies with the accounting policies adopted by the Group.

Olivetti Group - Income Statement for the year 2002

(in millions of euros)	Olivetti S.p.A.	F co
Third party revenues		
Revenues from Olivetti Group companies		
TOTAL NET REVENUES		
Operating costs:		
Labour	(13.8)	
Materials and services	(18.0)	
Grants		
Depreciation of tangible assets	(0.9)	
Amortisation of intangible assets:		
Consolidation goodwill	(1,309.2)	
Others	(76.8)	
Value adjustments and provision for risks and charges		
Other income (costs), net		
Result before interest and taxes (EBIT) and non recurring income and charges	(1,418.7)	(
Non recurring income	157.4	
Non recurring charges	(61.7)	(
EBIT	(1,323.0)	(
Income from equity investments	34.8	
Financial income and charges, net	(771.7)	(
Value adjustments to financial assets	(90.5)	(
Result before taxes	(2,150.4)	(1
Taxes	1,602.6	
Result after taxes before minority interests	(547.8)	(1
Minority interests		
Net result for the year for consolidation purposes	(547.8)	(1

(*) consolidated in Telecom Italia Group from 30 June 2002

Olivetti

Tecnost Group		Olivetti Multiservices		Webegg Group		Consolidation adjustments
906.1		75.8		25.6		
7.9		43.5		19.5		(70.9)
914.0	100.0	119.3	100.0	45.1	100.0	(70.9)
(145.3)	(15.9)	(16.4)	(13.7)	(19.0)	(42.1)	
(704.9)	(77.1)	(70.6)	(59.2)	(20.6)	(45.7)	70.9
1.0	0.1					
(13.4)	(1.5)	(8.7)	(7.3)	(0.6)	(1.3)	
(0.1)	(0.0)			(0.9)	(2.0)	(0.6)
(11.2)	(1.2)	(0.2)	(0.2)	(0.7)	(1.6)	
(15.5)	(1.7)	(3.9)	(3.3)	(0.2)	(0.4)	
(10.7)	(1.2)	(4.6)	(3.9)			
13.9	1.5	14.9	12.5	3.1	6.9	(0.6)
5.6	0.6	5.8	4.9	0.1	0.2	6.0
(82.1)	(9.0)	(0.7)	(0.6)	(0.4)	(0.9)	77.6
(62.6)	(6.8)	20.0	16.8	2.8	6.2	83.0
(17.4)	(1.9)	(2.3)	(1.9)	0.3	0.7	50.7
(0.2)	(0.0)			(0.7)	(1.6)	0.6
(80.2)	(8.8)	17.7	14.8	2.4	5.3	134.3
(11.0)	(1.2)	(6.9)	(5.8)	(2.9)	(6.4)	(51.7)
(91.2)	(10.0)	10.8	9.1	(0.5)	(1.1)	82.6
4.1	0.4			0.2	0.4	0.8
(87.1)	(9.5)	10.8	9.1	(0.3)	(0.7)	83.4

Olivetti Group - Balance Sheet as of 31 december 2002 by company

(in millions of euros)	Olivetti S.p.A.	Finance companies	Telecom Italia Group
Assets			
Short-term assets	2,221	7,498	16,033
Medium/long-term assets:			
Intangible	179	22	12,918
Tangible	1	19,291	
Other	23,975	9,200	4,620
TOTAL ASSETS	26,376	16,720	52,862

Liabilities			
Short-term liabilities	4,449	1,853	23,021
Medium/long-term liabilities	12,896	14,493	17,505
TOTAL LIABILITIES	17,345	16,346	40,526
TOTAL SHAREHOLDERS' EQUITY	9,031	374	12,336
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	26,376	16,720	52,862

Olivetti Tecnost Group	Olivetti Multiservices	Consolidation adjustments	Total Group
646	106	(3,629)	22,875
31	1	21,410	34,561
66	89	2	19,449
18	8	(31,322)	6,499
761	204	(13,539)	83,384
587	127	(3,657)	26,380
113	28	(8,655)	36,380
700	155	(12,312)	62,760
61	49	(1,227)	20,624
761	204	(13,539)	83,384

Olivetti Group - Analysis of capital invested as of 31 december 2002 by company

(in millions of euros)	Olivetti S.p.A.	Finance companies	Telecom Italia Group
Inventories			411
Third party trade receivables, net	1		8,084
Other assets	1,152	51	5,108
Short-term operating assets	1,153	51	13,603
Third party trade payables	9		5,687
Other liabilities	649	201	11,804
Short-term operating liabilities	658	201	17,491

Operating working capital	495	(150)	(3,888)
Medium/long-term assets:			
Intangible	179	22	12,918
Tangible	1		19,291
Other	23,554	475	4,620
A) CAPITAL INVESTED	24,229	347	32,941
Medium/long-term non-financial liabilities	3		2,487
Total shareholders' equity	9,031	374	12,336
B) TOTAL NON FINANCIAL SOURCES	9,034	374	14,823
C) NET FINANCIAL INDEBTEDNESS (RESOURCES) (A-B)	15,195	(27)	18,118

Olivetti Tecnost Group	Olivetti Multiservices	Consolidation adjustments	Total Group
150	23		584
192	27		8,304
98	35	(351)	6,093
440	85	(351)	14,981
168	41	(9)	5,896
186	29	(369)	12,500
354	70	(378)	18,396
86	15	27	(3,415)
31	1	21,410	34,561
66	89	2	19,449
18	5	(22,668)	6,004
201	110	(1,229)	56,599
80	7	(1)	2,576
61	49	(1,227)	20,624
141	56	(1,228)	23,200
60	54	(1)	33,399

B) Other information

A geographical breakdown of revenues from sales and services is set out below:

(in millions of euros)	Year 2002	Year 2001	Changes absolute	%
Italy	25,029.5	24,895.3	134.2	0.5
Other European countries	2,454.6	2,494.8	(40.2)	(1.6)
Total Europe	27,484.1	27,390.1	94.0	0.3
North America	452.1	1,088.0	(635.9)	(58.4)
Central and South America	2,776.5	2,759.2	17.3	0.6
Australia, Africa and Asia	695.2	778.4	(83.2)	(10.7)
Total Group	31,407.9	32,015.7	(607.8)	(1.9)

Intercompany transactions between different business sectors or geographical areas are conducted at market prices and are eliminated during consolidation.

Quarterly results of the Olivetti Group

	Year 2002					Year 200		
(in millions of euros)	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	1st quarter	2nd quarter	3r qua
Revenues from sales and services	7,533	8,010	7,660	8,205	31,408	7,409	7,925	7
Result before interest and taxes (EBIT) and non recurring income and charges	1,391	1,602	1,701	1,322	6,016	1,393	1,295	
% EBIT before non recurring items on Revenues	18.5%	20.0%	22.2%	16.1%	19.2%	18.8%	16.3%	
EBIT	2,041	1,161	941	(3,623)	520	1,482	1,372	
% EBIT on Revenues	27.1%	14.5%	12.3%	-44.2%	1.7%	20.0%	17.3%	
Net result	(187)	(324)	(349)	87	(773)	(479)	(608)	(
Net result before amortisation of goodwill on Telecom Italia acquisitions	136	(1)	(25)	410	520	(154)	(284)	

Research & Development

In 2002 most of the Telecom Italia Group's R&D operations were conducted by TILAB, in some cases in co-operation with Pirelli Lab. R&D staff totalled 1,081 heads.

Activities consisted of study and testing in the wireline and mobile telecommunications areas and in the Internet area.

Research on Internet and mobile applications focused on testing of integrated technological and application solutions for the multimedia offer, development of access solutions and solutions for management of broadband users, development and assessment of advanced solutions for user environments (terminals, domestic cabling, application platforms).

Switching and networking research focused on IP networks with the development of Content Delivery Networks. Other special areas of interest were Wireless LANs and innovative telephony solutions on packet-switching networks.

In the area of network infrastructures, work was concerned with the metropolitan and transportation network, new automatic switching fibre networks, and the access network, where innovative solutions based on copper and fibre links are being developed.

During 2002, 45 patents were filed, an increase of 13% from 2001.

Total R&D expenditure for the year amounted to approximately 109 million euros. Subsidies and low-interest loans for R&D expenses collected during the year or due to be collected by TILAB amounted to approximately 12 million euros.

The Parent Company

In 2002, the Parent Company Olivetti S.p.A. operated purely as a holding, mainly in the wireline and mobile telecommunications sector, through its equity investment in the Telecom Italia Group, and, through controlling equity investments, in other industries, including office and Internet products and services (Olivetti Tecnost S.p.A.), and real-estate services (Olivetti Multiservices S.p.A.).

The Company closed financial 2002 with a net loss of 6,240 million euros (a net loss of 871 million euros in 2001) after equity investment writedowns of 8,400 million euros (175 million euros in 2001), including a writedown of 8,051 million euros on Telecom Italia S.p.A. shares made exclusively for tax purposes.

Capital investments for 2002 totalled 225 million euros and referred to equity investments. This compared with 584 million euros in 2001, of which 430 million euros for equity investments and 153 million euros for intangible assets and 1 million for tangible assets.

At 31 December 2002 shareholders' equity totalled 9,031 million euros, a decrease of 6,204 million euros against 15,235 million euros at 31 December 2001. The decrease arose as a result of the loss of 6,240 million euros posted for 2002, offset by share capital increases for 36 million euros following the conversion of bonds and exercise of warrants, net of use of restricted reserves tied to bond conversion/warrant exercise.

Net financial indebtedness at the end of 2002 totalled 15,195 million euros, a decrease of 1,127 million euros from the end of 2001 (16,322 million euros), which arose largely as a result of collection of dividends and equity investment disposals set against outlays mainly for financial charges.

Business performance for 2002 is reflected in the income statement set out below, reclassified in compliance with the Consob model for industrial holding companies pursuant to communication no. 94001437 of 23 February 1994:

(in millions of euros)	Year 2002	Year 2001	Changes
Financial income and charges			
1. Income from equity investments	1,979	85	1,894
2. Other financial income	41	37	4
3. Interest and other financial charges	(813)	(966)	153
Total financial income and charges	1,207)	(844)	2,051
Value adjustments to financial assets			
4. Revaluations on equity investments	-	-	-
5. Write-downs on equity investments	(8,400)	(175)	(8,225)
Total value adjustments to financial assets	(8,400)	(175)	(8,225)
6. Other income from operations	14	15	(1)
Other costs from operations			
7. Non-financial services received	(26)	(49)	23
8. Leases and rentals	(2)	(3)	1
9. Payroll	(14)	(13)	(1)
10. Depreciation, amortisation and write-downs	(72)	(64)	(8)
11. Provisions for risks	-	(192)	192
12. Other operational expenses	(3)	(3)	-
Total other costs from operations	(117)	(324)	207
Result from ordinary operations	(7,296)	(1,328)	(5,968)
Extraordinary income and charges			
13. Income	240	23	217
14. Charges	(76)	(16)	(60)
Extraordinary income	164	7	157
Result before taxation	(7,132)	(1,321)	(5,811)
15. Taxation	892	450	442
Net income (loss) for the year	(6,240)	(871)	(5,369)

The year's ordinary operations closed with a loss of 7,296 million euros compared with a loss of 1,328 million euros in 2001.

This result arose as follows:

- 2,020 million euros of financial income (122 million euros in 2001) including:
  - 1,979 million euros of dividends and related tax credits (85 million euros in 2001), of which 1,952 million euros from Telecom Italia (73 million euros in 2001, recorded as accrued), 14 million euros from Olivetti Multiservices, 7 million euros from Olivetti Finanziaria Industriale S.p.A., 4 million euros from Mediobanca and 2 million euros from other investee companies;

- 41 million euros of other financial income (37 million euros in 2001) including:
    * 3 million euros from securities and reverse repurchase agreements classified under current assets (largely investments in government securities);
    * 7 million euros of interest income from subsidiary companies (on borrowings and interest-bearing current accounts);
    * 4 million euros of interest income on bank current accounts;
    * 10 million euros of interest income on receivables from tax authorities ceded without recourse in previous years;
    * 11 million euros for exchange rate gains;
    * 6 million euros of income on swaps;

o 813 million euros of interest expense and other financial charges (966 million euros in 2001), including:
- 607 million euros to subsidiaries (814 million euros in 2001) in respect of borrowings and interest-bearing current accounts (of which 498 million euros to Olivetti Finance N.V. and 107 million euros to Olivetti Holding B.V.), with a decrease of 207 million euros from 2001;
- 149 million euros on bond loans (62 million euros in 2001);
- 3 million euros on medium/long-term borrowings (28 million euros in 2001);
- 5 million euros for exchange rate losses (19 million euros in 2001);
- 24 million euros from use of bank credit lines (29 million euros in 2001);
- 14 million euros of swap charges;
- 11 million euros on other financial operations (14 million euros in 2001);

o 8,400 million euros for writedowns of equity investments in subsidiary companies (175 million euros in 2001), including:
- 8,051 million euros relating to Telecom Italia S.p.A. shares held as financial fixed assets, which were written down to the average market share price for the last six months in order to be eligible for tax benefits;
- 69 million euros relating to Telecom Italia S.p.A. shares held as current assets, which were written down to market share prices at 30 December 2002;
- 182 million euros relating to the equity investment in Olivetti Finance;
- 98 million euros for writedowns and provisions on other equity investments.

o 14 million euros of other income from operations (15 million euros in 2001) consisting mainly of cost recoveries;

o 117 million euros in other costs of operations (324 million euros in 2001), including:
- 26 million euros for non-financial services (49 million euros in 2001);
- 72 million euros for depreciation and amortisation (63 million euros in 2001); this included 71 million euros in respect of intangible assets (62 million euros in 2001), of which 70 million euros for charges relating to share-capital increases and bonds subscribed in 2001;
- 14 million euros for payroll costs (13 million euros in 2001);
- 5 million euros in other costs of operations (6 million euros in 2001).

Extraordinary operations generated net income of 164 million euros, compared with net income of 7 million euros in 2001.

Extraordinary income amounted to 240 million euros, as follows:

- approximately 158 million euros from the sale of the Lottomatica equity investment;

- 72 million euros from the sale of the OMS2 equity investment;
- 9 million euros from the sale of the Webegg equity investment to the Telecom Italia Group;
- 1 million euros of other income.

Extraordinary charges amounted to 76 million euros (16 million euros in 2001), as follows:

- 71 million euros on the sale of Seat Pagine Gialle shares;
- 4 million euros on the sale of the Lottomatica equity investment;
- 1 million euros of other costs.

The heading Taxation reflects income of 892 million euros arising mainly from deferred tax assets (609 million euros) whose recovery is reasonably certain, booked as a result of the writedown of the Telecom Italia equity investment, and from the reversal of the reserve for deferred taxes provided in 2001, which became redundant (283 million euros).

The balance sheet of Olivetti S.p.A. at 31 December 2002 is laid out below:

(in millions of euros)	31.12.2002	%	31.12.2001	%	Changes
Short-term assets					
Financial resources	1,068	4.0	314	0.9	754
Operating assets	1,153	4.4	761	2.3	392
Total short-term assets	2,221	8.4	1,075	3.2	1,146
Medium/long-term assets					
Financial receivables and marketable securities	16	0.1	-	-	16
Medium/long-term interest accruals and prepayments	405	1.5	495	1.5	(90)
Equity investments	22,888	86.8	31,409	94.3	(8,521)
Other assets	846	3.2	316	1.0	530
Total medium/long-term assets	24,155	91.6	32,220	96.8	(8,065)
TOTAL ASSETS	26,376	100.0	33,295	100.0	(6,919)
Short-term liabilities					
Short-term debt	3,791	14.4	6,343	19.1	(2,552)
Operating liabilities	658	2.5	580	1.7	78
Total short-term liabilities	4,449	16.9	6,923	20.8	(2,474)
Medium/long-term liabilities					
Medium/long-term debt	12,893	48.9	10,788	32.4	2,105

Other liabilities	3	-	349	1.0	(346)
Total medium/long-term liabilities	12,896	48.9	11,137	33.4	1,759
TOTAL LIABILITIES	17,345	65.8	18,060	54.2	(715)
SHAREHOLDERS' EQUITY	9,031	34.2	15,235	45.8	(6,204)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	26,376	100.0	33,295	100.0	(6,919)

Short-term assets at 31 December 2002 amounted to 2,221 million euros, an increase of 1,146 million euros from 1,075 million euros at 31 December 2001; this comprised an increase of 392 million euros in

operating assets and an increase of 754 million euros in financial resources (mainly cash of 379 million euros, financial assets and financial receivables due from third parties for 271 million euros and financial receivables due from subsidiary companies for 104 million euros).

Medium/long-term assets at 31 December 2002 amounted to 24,155 million euros, reflecting a net decrease of 8,065 million euros compared with 32,220 million euros at 31 December 2001, of which 8,521 million euros referred to equity investments; the decrease arose from the writedown of Telecom Italia shares to average market value in the second half of 2002 in order to be eligible for tax benefits (8,051 million euros) and from the sale of the Webegg, OMS2 and Seat Pagine Gialle equity investments.

Medium/long-term interest accruals and prepayments decreased by 90 million euros, mainly for the accrued portion of the redemption premium on the "Olivetti 1.5% 2001-2004" and "Olivetti 1.5% 2001-2010" bonds.

Other medium/long-term non-financial assets increased by 530 million euros (mainly reflecting deferred tax assets).

Short-term liabilities at 31 December 2002 amounted to 4,449 million euros, with a decrease of 2,474 million euros compared with 6,923 million euros at 31 December 2001.

This reflected a decrease of 2,552 million euros in debt offset in part by an increase of 78 million euros in operating liabilities. Specifically, the decrease of 2,552 million euros in debt arose mainly from a reduction of 2,890 million euros in amounts due to subsidiaries (including 1,905 million euros on interest-bearing current accounts) offset by an increase of 392 million euros in amounts due to banks and other lenders.

Medium/long-term liabilities at 31 December 2002 amounted to 12,896 million euros, an increase of 1,759 million euros from 11,137 million euros at 31 December 2001; this reflected an increase of 2,105 million euros in debt offset by a decrease of 346 million euros in other liabilities.

Specifically, the 2,105 million euros increase in medium/long-term debt consisted of an increase of 3,496 million euros in bonds, offset in part by a decrease of 1,559 million euros in amounts due to subsidiaries and a decrease of 52 million euros in amounts due to banks.

The table set out below analyses capital invested at 31 December 2002 and relating funding:

(in millions of euros)	31.12.2002	%	31.12.2001	%	C
Short-term operating assets	1,153	4.7	761	2.4	
Short-term operating liabilities	(658)	(2.7)	(580)	(1.8)	
Operating working capital	495	2.0	181	0.6	
Long-term assets	23,734	98.0	31,725	99.4	
Capital invested (A)	24,229	100.0	31,906	100.0	
Medium/long-term non financial liabilities	3	-	349	1.1	
Shareholders' equity	9,031	37.3	15,235	47.7	
Total non financial sources (B)	9,034	37.3	15,584	48.8	
Net financial indebtedness (A-B)	15,195	62.7	16,322	51.2	

Capital invested was financed by debt for 62.7% (51.2% at the end of 2001) and by shareholders' equity for 37.3% (47.7% at the end of 2001).

Specifically, shareholders' equity decreased by 6,204 million euros during 2002 as follows:

o a decrease of 6,240 million euros for the loss for 2002;

o share-capital increases of 36 million euros (net of 25 million euros arising from free issues effected through use of reserves following the re-denomination of share capital in euros) as a result of conversion of bonds and exercise of warrants.

At 31 December 2002 the Company had net financial indebtedness of 15,195 million euros (16,322 million euros at 31 December 2001), as follows:

(in millions of euros)	31.12.2002	31.12.2001	Changes
Short-term financial resources			
Liquid funds	(519)	(140)	(379)
Financial assets and receivables from third parties	(365)	(94)	(271)
Receivables from subsidiary companies	(184)	(80)	(104)
Total short-term financial resources	(1,068)	(314)	(754)
Short-term debt			

Current portions of medium/long-term debt	54	90	(36)
Bonds	-	16	(16)
Bank borrowings and amounts due to other lenders	697	307	390
Amounts due to subsidiary companies	3,040	5,930	(2,890)
Total short-term debt	3,791	6,343	(2,552)
Total short-term net financial indebtedness (A)	2,723	6,029	(3,306)
Medium/long-term financial assets:			
Amounts due for medium/long-term borrowings	(16)	-	(16)
Medium/long-term interest accruals and prepayments	(405)	(495)	90
Total medium/long-term financial assets	(421)	(495)	74
Medium/long-term debt			
Bonds	8,084 (*)	4,588	3,496)
Amounts due to subsidiary companies	3,744	5,302	(1,558)
Amounts due to banks and other lenders	55	98	(43)
Medium/long-term accrued interest expenses	1,010	800	210
Total medium/long-term debt	12,893	10,788	2,105
Total medium/long-term net financial indebtedness (B)	12,472	10,293	2,179
Total net financial indebtedness (A+B)	15,195	16,322	(1,127)

(*) including 3,900 million euros subscribed by Olivetti Finance N.V.

The table set out below analyses the financial surplus generated in 2002:

(in millions of euros)	Year 2002
Dividends collection from Telecom Italia	(1,296)
Disposals	(577)
Tax credits assignments	(405)
Share capital increases	(36)
Costs for bond issues and borrowings	65
Settlement with Verizon (ex Bell Atlantic)	67
Cash disbursements for equity investments, loss coverages, capital restorations and other	137
Financial charges and other net disbursements	918
Total net financial surplus	(1,127)

Dealings with related parties

Olivetti S.p.A.'s financial and commercial dealings with subsidiaries are conducted at normal market conditions and consist mainly of the provision of services, centralised treasury operations and, pursuant to its role as a holding company, coordination of the activities of the subsidiaries.

(in millions of euros)	Subsidiary companies	Associated companies
Dividend income (excluding tax credit)	1,263	-
Other financial income	7	-
Financial charges	607	-
Other revenues	12	-
Purchase of goods and services	4	-
Trade and other receivables	305	-
Financial receivables	183	16
Trade and other payables	6	-
Financial payables	10,261	-

Employee Stock Option Plans

1999-2001 Plan

During 1999, a "Three-Year 1999-2001" Stock Option Plan" for the benefit of approximately one hundred managers of Olivetti S.p.A. and its subsidiaries was approved as a tool to provide incentives and boost management loyalty. Authorised by a Directors' resolution of 9 June 1999 and supplemented with a subsequent resolution of 29 November 1999, the plan provided for a maximum of 48 million warrants, nontransferable inter vivos, to be assigned free of charge to the beneficiaries. Each warrant gave an option on one Olivetti ordinary share at an overall price (par value plus share premium) of 2,320 Italian lire (equivalent to 1.198 euros), for a maximum nominal share-capital increase of 48 billion Italian lire (approximately 24.8 million euros). This increase, resolved by the above-mentioned Board meetings in execution of the proxy pursuant to art. 2443 of the Italian Civil Code (granted by the Extraordinary Shareholders' Meeting of 7 April 1999) complied with the limits set by art. 134, par 2, of Legislative Decree 58/1998.

The warrants assigned could be exercised at pre-specified times during the three-year period and could be accumulated until the end of the plan (January 2002). The first tranche was exercised in December 1999 and the second and third tranches in 2001 and in January 2002 respectively. The evolution of the plan in 2001 and 2002 is illustrated in the table set out below:

	Year 2002				
	Number of shares	Average exercise price (euros)	Market price (euros)	Number of shares	Av exe (
Rights existing at 1st January	8,038,315	-	1.43	26,255,000	
New rights assigned				-	
Rights exercised in the year	(5,654,982)	1.000	1.38	(18,216,685)	1.1
Rights expired in 2002	(2,383,333)		2.36	-	
Rights existing at 31 December	-			8,038,315	

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(1) Annual average share prices (Source: Bloomberg)
(2) Exercise price equivalent to 1 euro (as adjusted following the share capital increase in November 2001) for no. 5,654,982 rights, relating to year 2002
(3) Exercise price equivalent to 1.198 euro for 12,171,682 rights and 1,040 euros (as adjusted following the share capital increase in March 2001) for 6,045,003 rights, relating to year 2001

* * *

2002-2004 Plans

On 24 February 2000 the Board of Directors approved a three-year stock option Plan from 1 January 2002 to 31 December 2004, assigning 29,500,000 warrants free of charge to approximately one hundred managers of the Company and its subsidiaries The warrants entitled the beneficiaries to subscribe to an equal number of Olivetti ordinary shares at a price of 3.308 euros per share (after adjustment for the share-capital increases of 2001), corresponding to the fair value of Olivetti ordinary shares at the date of the Board meeting.

The warrants were to be exercised in three tranches between 1 November and 15 December of 2002, 2003 and 2004, and could be accumulated until the end of the plan.

The relevant Directors' resolution, like that of the previous 1999-2001 plan, executed the proxy pursuant to art. 2443 of the Italian Civil Code granted by the Extraordinary Shareholders' Meeting of 7 April 1999. The Company did not implement any operations that could encourage subscription of shares by its employees, pursuant to art. 2358 of the Italian Civil Code.

Subsequently, on 9 February 2001, after reversing its previous resolution of 24 February 2000 as untimely and no longer appropriate for the purpose for which it had been intended, the Board of Directors approved a share-capital increase for a total of 29 million euros through the issue of 29 million shares at a price of 2.515 euros per share (after adjustment for the share-capital increases of 2001). The capital increase services a stock option plan for managers of the Company and its subsidiaries for the three years 2002-2004; with regard to stock options already assigned to managers on the payroll as of 24 February 2000 who have since left the Group (1,330,000 options), the original terms and conditions apply.

The Company has not implemented any operations that could encourage subscription of shares by its employees, pursuant to art. 2358 of the Italian Civil Code.

At 31 December 2002, all the stock options assigned in connection with the two Directors' resolutions illustrated above (30,330,000 rights, of which 1,330,000 to be exercised at a unit price of 3.308 euros and 29,000,000 to be exercised at a unit price of 2.515 euros) were still unexercised. They entitled the beneficiaries to subscribe 30,330,000 Olivetti shares (the share market price at 31 December 2002 was 0.969 euros).

Shares in Olivetti S.p.A. and its subsidiaries held by Directors, Statutory Auditors and Chief Operating Officer of Olivetti S.p.A. (CONSOB Regulation no. 11971/1999 and subsequent amendments)

In compliance with CONSOB Regulation no. 11971/1999 and subsequent amendments, shares issued by Olivetti S.p.A. and its subsidiaries that are owned by Company Directors, Statutory Auditors and Chief Operating Officer are detailed below.

	(1) Investee company	(2) Shares held at 31.12.2001 (or at date of appointment, if during the year 2002)	Type shar
Board of Directors			
Chairman			
TESONE Antonio	Olivetti S.p.A.	224	ordi
	Telecom Italia Mobile S.p.A.	625	ordi
Deputy Chairman and Chief Executive Officer			
TRONCHETTI PROVERA Marco	-	0	
Deputy Chairman			
BENETTON Gilberto	-	0	
Chief Executive Officer			
BUORA Carlo	-	0	
Directors			
CAPRIO Lorenzo	-	0	
CIRLA Giorgio	-	0	
FABRIZI Pier Luigi	-	0	
GERONZI Cesare	Olivetti S.p.A.	15,250	ordi
	Telecom Italia S.p.A.	0	ordi
	Telecom Italia S.p.A.	4,950	sav
	Telecom Italia Mobile S.p.A.	5,000	ordi
	Seat Pagine Gialle S.p.A.	23,000	ordi
MION Gianni	-	0	
NATTINO Giampietro	-	0	
PIERRI Paola	-	0	
PIRELLI Alberto	Telecom Italia S.p.A.	550	ordi
	Telecom Italia Mobile S.p.A.	750	ordi
	Seat Pagine Gialle S.p.A.	3,000	ordi
PURI NEGRI Carlo Alessandro	-	0	
ROCCO di TORREPADULA Giancarlo	-	0	
TREVISAN Dario	Olivetti S.p.A. (*)	6,961	ordi
	Seat Pagine Gialle S.p.A.	1,000	ordi
VARISCO Alberto	Seat Pagine Gialle S.p.A.	5,000	ordi
Former Directors			
BONDI Enrico	-	0	
MODIANO Pietro	-	0	

Board of Statutory Auditors			
Chairman			
FORNASARI Angelo	-	0	
Regular Auditors			
BENNANI Vittorio	-	0	
CARAMANTI Franco	Telecom Italia S.p.A.	20,000	sav
Chief Operating Officer			
ARIAUDO Corrado	Olivetti S.p.A.	0	ordi
	Telecom Italia S.p.A.	50,000	ordi
	Telecom Italia S.p.A.	200,000	sav
	Telecom Italia Mobile S.p.A.	25,000	ordi

	(5) Number of shares purchased	(6) Number of shares sold	(7) Shares held at 31.12.2002 (or at date of resignation)
Board of Directors			
Chairman	0	0	224
TESONE Antonio	0	0	625
Deputy Chairman and Chief Executive Officer	0	0	0
TRONCHETTI PROVERA Marco			
Deputy Chairman	0	0	0
BENETTON Gilberto			
Chief Executive Officer	0	0	0
BUORA Carlo			
Directors	0	0	0
CAPRIO Lorenzo	0	0	0
CIRLA Giorgio	0	0	0
FABRIZI Pier Luigi	59,475	74,725	0
GERONZI Cesare	3,980	2,180	1,800
	7,250	6,600	5,600
	4,900	2,900	7,000
	13,000	36,000	0
	0	0	0
MION Gianni	0	0	0
NATTINO Giampietro	0	0	0
PIERRI Paola	0	0	550
PIRELLI Alberto			
	0	0	750
	0	0	3,000
	0	0	0
PURI NEGRI Carlo Alessandro	0	0	0
ROCCO di TORREPADULA Giancarlo	0	0	6,961
TREVISAN Dario	0	0	1,000
VARISCO Alberto	0	0	5,000

Former Directors			
BONDI Enrico	0	0	0
MODIANO Pietro	0	0	0
Board of Statutory Auditors			
Chairman			
FORNASARI Angelo	0	0	0
Regular Auditors			
BENNANI Vittorio	0	0	0
CARAMANTI Franco	0	0	20,000
Chief Operating Officer	533,332(***)	233,332	300,000
ARIAUDO Corrado	0	0	50,000
	0	0	200,000
	0	0	25,000

(*) The number of shares owned at 31 December 2001 is adjusted with respect to data contained in the Annual Report 2001

(**) Operations carried out by separate company-managed asset portfolio

(***) Through exercise of stock options

Other information

At 31 December 2002 Olivetti S.p.A. treasury stock comprised 2,697,500 ordinary shares with a par value of 1 euro per share, arising from the conversion of an equal number of savings shares following approval by the Extraordinary Shareholders' Meeting of 4 July 2000 of the compulsory conversion of preferred and savings shares into ordinary shares. The shares, which are stated in the accounts at a unit carrying value of 0.852 euros, also arise from shareholder-approved purchases of stock from employees of the Company and its subsidiaries as a result of fulfilment of the conditions of the relative share offer regulations requiring that the shares be sold back to the Company.

The Shareholders' Meeting of 4 October 2000 authorised the Board of Directors, pursuant to art. 2357 ter, par 1, to dispose of all the above-mentioned treasury shares by 31 December 2002 through the distribution, in one or more operations, of non-compulsory purchase options to former employees of the Company and its subsidiaries who continue to provide services for the Group.

Equity investment writedowns pursuant to current tax laws

The Telecom Italia equity investment writedown (8,051.1 million euros), pursuant to art. 2426 par 2 of the Italian Civil Code, was recorded in the Company's Statutory Financial Statements in compliance with tax laws in order to obtain tax benefits for which the Company would not otherwise be eligible; the writedown reduced carrying value by an amount equivalent to the difference between the book value and the arithmetic mean value of daily share prices in the second half of the year, as envisaged under art. 66, par 1 bis of Presidential Decree no. 917/1986.

Had this writedown not been applied, Olivetti S.p.A. would have posted positive result before taxes for financial 2002 of 919 million euros, reflecting an improvement equal to the writedown amount; its result, net of the taxation that would otherwise have been applied, would have been positive (733.1 million euros), reflecting an improvement of 6,973.1 million euros, which would also have been reflected in shareholders' equity at 31 December 2002.

Following the above equity investment writedown, the consolidated result reflected the combined benefit of the lower tax payable by Olivetti S.p.A. and the deferred tax assets posted by Olivetti S.p.A., for a total of 1,078 million euros; had the writedown not been applied, the Olivetti Group consolidated net result and shareholders' equity would have been worse by a similar amount.

Since the above differences arose, as illustrated above, from the writedown of equity investments applied pursuant to art. 2426 par 2 of the Italian Civil Code, they will be retained unchanged in future financial statements, as will the related tax benefits.

Annual report on the company's system of Corporate Governance

The Company's system of corporate governance has been gradually enhanced to ensure maximum transparency and efficient management. It takes the Voluntary Code of Conduct drawn up by Borsa Italiana as its frame of reference.

Composition and duties of the Board of Directors

The 16-member Board of Directors acting in 2002 was elected by the ordinary Shareholders' Meeting of 13 October 2001; later, two Directors were co-opted to replace outgoing Directors who resigned. The table below showing the composition of the Board of Directors specifies for each Director the position held, the expiry of his or her mandate and important positions held other than in the Company.

Name	Office	Date of appointment	Expiry date
Antonio Tesone	Chairman	13 October 2001	2003 Annual Report approval
Marco Tronchetti Provera	Deputy Chairman and Chief Executive Officer	13 October 2001	2003 Annual Report approval

Gilberto Benetton	Deputy Chairman	13 October 2001	2003 Annual Report approval

Name	Office	Date of appointment	Expiry date
Enrico Bondi	Chief Executive Officer	13 October 2001	5 September 2002 (resignations)
Carlo Buora	Chief Executive Officer	13 October 2001	2003 Annual Report approval

Lorenzo Caprio	Director	13 October 2001	2003 Annual Report approval
Giorgio Cirla	Director	13 October 2001	2003 Annual Report approval
Pier Luigi Fabrizi	Director	13 October 2001	2003 Annual Report approval
Cesare Geronzi	Director	13 October 2001	2003 Annual Report approval

Name	Office	Date of appointment	Expiry date

Gianni Mion	Director	13 October 2001	2003 Annual Report approval
Pietro Modiano	Director	13 October 2001	7 November 2002 (resignations)
Giampietro Nattino	Director	13 October 2001	2003 Annual Report approval
Paola Pierri	Director	Coopted on 7 November 2002	First Shareholders Meeting of the yea 2003
Alberto Pirelli	Director	13 October 2001	2003 Annual Report approval
Carlo Alessandro Puri Negri	Director	13 October 2001	2003 Annual Report approval
Gian Carlo Rocco di	Director	Coopted on 5	First Shareholders

Torrepadula		September 2002	Meeting of the yea 2003

Name	Office	Date of appointment	Expiry date
Dario Trevisan	Director	13 October 2001	2003 Annual Report approval
Alberto Varisco	Director	13 October 2001	2003 Annual Report approval

The powers attributed to the Company officers by the Board of Directors are as follows:

Chairman Antonio Tesone - legal representation and signature on the Company's behalf. No management powers were attributed to the Chairman.

Deputy Chairmen - Deputy Chairman Marco Tronchetti Provera was granted the same powers as the Chairman. Deputy Chairman Gilberto Benetton was granted the same powers as the Chairman and the Deputy Chairman Tronchetti Provera, to be exercised in the absence of the Chairman or of the other Deputy Chairman.

In his capacity as Chief Executive Officer, Marco Tronchetti Provera may carry out all Company business with the following restrictions: power to issue, with a single signature, personal guarantees up to 50 million euros for Group companies and up to 20 million euros for third parties; power to invest, dispose of and acquire controlling and associated interests and to dispose of companies or businesses thereof in any manner, for amounts no greater than 250 million euros;

Chief Executive Officer Carlo Buora: management powers regarding ordinary Company business.

The Board of Directors, in accordance with the bylaws, has the widest powers for the ordinary and extraordinary administration of the Company, since it is empowered to carry out any business which is not expressly the domain of the shareholders, whether by law or under the bylaws.

Even in the absence of a specific bylaw, but as accepted practice, the following are the exclusive domain of the Board :

- examination and approval of the industrial, financial and strategic planning of the Company, as well as the corporate structure of its Group;
- granting and withdrawal of powers to the Chief Executive Officers and the definition of any limits and operating procedures;
- determination, after examining the proposals of the specific Committee and the opinion of the Board of Statutory Auditors, of the remuneration of the Chief Executive Officers and those Directors with specific mandates;
- supervision of operations in general, with a particular focus on any situations involving conflicts of interest, taking into account the information received from the Chief Executive Officers and the Internal Control Committee and regularly comparing results achieved with those forecast;
- examination and approval of any transactions of financial significance, particularly with related parties;
- verification of the suitability of the general administrative and organisational structure of the Company and of the Group as set up by the Chief Executive Officers;
- reporting to the Shareholders' Meetings.

In accordance with point 2.1 of the Voluntary Code of Conduct, the Deputy Chairman and Chief Executive Officer Marco Tronchetti Provera and the Chief Executive Officer Carlo Buora are deemed to be executive Directors, in that they have operational/managerial powers further to the granting of the above-mentioned powers.

Point 3.1 of the Voluntary Code of Conduct establishes that "independent Directors" are those who: a) do not carry out business, directly, indirectly or on behalf of third parties, nor have recently carried out such business with the Company, its subsidiaries, its executive Directors, the shareholder or group of shareholders who control the Company, such as would affect their independence of judgement; b) do not own, directly or indirectly or on behalf of third parties, equity interests of a size to enable them to exercise control or significant influence over the Company, nor are party to private shareholder agreements regarding the control of the Company; c) are not closely related to the Company executive Directors or to parties as in points a) and b) above.

In light of the above definition, 6 of the remaining 14 Directors (the Chairman Antonio Tesone and the Directors Lorenzo Caprio, Giorgio Cirla, PierLuigi

Fabrizi, Cesare Geronzi and Dario Trevisan) qualify as "independent".

The Chairman, as part of the functions attributed to him by the bylaws, supervises the activities of the Board, ensuring that the statutory and legal regulations in force are properly applied, using the powers granted to him by law and the Articles of Association, chairs and supervises the Company's Shareholders' Meetings.

The Board of Directors held nine meetings in 2002; the overall attendance was more than 76% (76.39). The Board has also already met twice in 2003. The Company has approved the calendar of corporate events for 2003, which has been announced to the market, on the basis of which at least six Board meetings are envisaged.

In applying article 19 of the Bylaws, those Directors with powers granted pursuant to article 2381 of the Italian Civil Code report at least quarterly to the Board of Directors and the Board of Statutory Auditors (also pursuant to article 150 of Legislative Decree 58/1998) on their activities, on extraordinary transactions as well as on those where there could be a potential conflict of interest, following a specific Procedure illustrated later in this report.

Appointment and remuneration of the Directors

The list vote mechanism is not envisaged when electing Directors.

The Board of Directors did not deem it necessary to establish an internal committee to propose Directors for election.

At the aforementioned Shareholders' Meeting held on 13 October 2001, all shareholders, upon entering the hall, were provided with a printed document containing the names of the proposed candidates and a detailed curriculum vitae for each one.

The same meeting, pursuant to article 2389, par 1, of the Italian Civil Code, voted to grant the Board of Directors overall annual emoluments of 826,331.04 euros, to be divided equally among the Directors, which will be computed before the net profit in the financial statements.

On 13 October 2001, the Board of Directors formed a Remuneration Committee (expanding the duties of the already existing Emoluments Committee) and provided that part of its duties is to formulate proposals to the Board for the remuneration of the Chief Executive Officers and those Directors with specific mandates, to formulate proposals, at the request of the Chief Executive Officers, for determining the criteria used for the remuneration of the top management of the Company, and to conduct preliminary examinations of stock option proposals. As regards composition, the Board voted that the Committee comprise at least three Directors, who elect the Chairman and, even if not one of them, a Secretary, with the members of the Board of Statutory Auditors as well as the Chief Executive Officers being entitled to attend the meetings.

The Committee meets whenever the Chairman deems it appropriate or upon the request of another member or Chief Executive Officer.

The Board also voted that notice of the meetings of the Committee as well as the validity of the meetings and the decisions thereof shall be governed by the same regulations stated in the Bylaws regarding Board meetings of the Company.

The Board elected to the Committee Lorenzo Caprio, Pietro Modiano and Antonio Tesone, all non-executive and independent Directors.

At the meeting held on 13 November 2001, the Committee elected the Chairman (Antonio Tesone) and the Secretary (Piera Rosiello). It also formulated proposals regarding the emoluments for those Directors with specific mandates, as per article 2839, par 2, of the Italian Civil Code, expressing the opinion that, since the Company is a pure holding company (which therefore reflects the results of the operating subsidiaries), it was not appropriate to envisage a variable element in the emoluments, only a fixed one. The Committee's proposals were approved by the Board of Directors (in the meeting held on 13 November), which therefore voted to grant those Directors with specific mandates the emoluments which are stated next to each name in the Report on Operations.

On 7 November 2002, the Director Paola Pierri was elected to the Committee to replace Pietro Modiano who resigned.

No stock options are envisaged for Directors in service.

Internal control system

1) For a number of years, the Company has had an internal control function, one of whose duties is to ensure, with regard to Olivetti itself and also to its unlisted subsidiaries, the adequacy of the corporate regulations regarding processes as well as the reliability and correctness of the accounts and compliance with relevant laws and regulations.

In 2002, the Board of Directors adopted a proposal by the Internal Control Committee to designate the consortium In.Tel.Audit, originally formed by the subsidiaries Telecom Italia, TIM and Seat Pagine Gialle, and in which Olivetti had in the meantime become a member, as the Head of Internal Control (pursuant to article 9.4 of the Voluntary Code of Conduct) for the purpose of verifying the adequacy and efficiency of the current internal control system.

With reference to Legislative Decree 231/2001 (Administrative liability of bodies for offences committed by its collaborators), the consortium will also, on behalf of all its member companies, identify and assess areas of operation that are at risk and draw up an appropriate "dispensing organisational model" that takes account of the particular characteristics of each member company.

The Board deems the Company's internal control system as a whole to be adequate.

2) The Board of Directors has set up, within its ambit, an "Internal Control Committee", establishing that:

a) as regards consultative and proposing duties vis-a-vis the Board of Directors, the Committee should in particular:

- evaluate the adequacy of the internal control system;
- evaluate the work schedule prepared by the internal control officers and receive regular reports from them;

- evaluate the proposals of the external auditors for their audit services as well as the work schedule for the audit and the results stated in the Audit Report and in the Suggestions Report;

- report to the Board at least once every six months, when the annual accounts and the half-year report are approved, regarding the activities carried out and the adequacy of the internal control system;

- carry out any further duties which it may be assigned by the Board of Directors, particularly regarding relations with the external auditors;

b) as regards composition, that:

- the Committee comprise non-executive directors, who shall elect a Chairman and, even if not one of them, a Secretary;

- the Board of Statutory Auditors, the Chief Executive Officers as well as, if invited, the head of the Internal Auditing Department and one or more Chief Operating Officers may attend the meetings;

c) as regards activities, that:

- the Committee meet at least twice a year, before the Board meetings for the approval of the Annual Report and the Half-Year Report, or whenever the Chairman deems it appropriate or upon the request of another member or Chief Executive Officer;

- notice of the meetings as well as the validity of the meetings and the decisions thereof shall be governed by the same regulations stated in the Bylaws regarding meetings of the Company Board of Directors.

The Company is updating the duties attributed to the Internal Control Committee and its composition in line with the new provisions of the revised July 2002 edition of the Code of Voluntary Conduct.

In 2002 the Internal Control Committee met six times; as of the date of approval of this Report, it has already held two meetings in 2003.

The members of the Internal Control Committee are: Antonio Tesone (Chairman), Lorenzo Caprio and Alberto Varisco.

The Committee evaluated the suitability of Olivetti's membership of the consortium In.Tel.Audit Scrl; during the year. It also conducted a detailed examination of the specific characteristics of the "Head of Internal Control", as a result of which, as already mentioned in heading 1) above, it drew up a proposal for the consortium to be designated to this duty; it established a continuous flow of information with the Independent Auditors, also with regard to the audit plan drawn up by them; it examined the half-year report and the quarterly reports for financial 2002.

With regard to corporate governance, the Committee analysed the Code and the Procedures that the Company intended to adopt (see the specific sections in this Report) and expressed a positive opinion thereof.

Dealings with related parties

In order to ensure proper conduct and management transparency, at its meeting of 25 July 2002, the Board of Directors approved a set of "Principles of Conduct" to be observed in the execution of operations, including infragroup operations, with "related parties" (as defined by International Accounting Standard - IAS - 24).

At the same meeting, the Board also adopted a special Procedure ("Procedure for compliance with the requirements of article 150, par 1. of Legislative Decree no. 58 of 1998"), to be observed by all Directors and Statutory Auditors, in order to guarantee complete and effective information flows pursuant to the

above-mentioned article 150, to article 19 of the Bylaws and to CONSOB recommendations concerning corporate governance. The Procedure is designed to ensure that activities performed, operations of particular importance, non-typical or unusual operations and operations transacted with related parties are fully transparent in substance and at procedural level, and makes the entire Board responsible for the resolutions adopted in connection with such operations.

The Procedure was amended at the Board meeting of 13 February 2003 to take account of the notion of "related parties" adopted by CONSOB with effect from 1 January 2003 and is now consistent with the pronouncements of CONSOB where CONSOB adopts definitions of a more stringent nature; it remains unchanged where the original text drawn up by the Company is more stringent.

The Principles and the Procedure may be consulted on the Company web site, www.olivetti.it, under the heading "Investor Relations", sub-heading "Corporate Governance", and will be sent in hard copy to any person who may request a copy.

Code of Conduct with regard to Insider Dealing

On 7 November 2002, the Company implemented the relevant regulations issued by Borsa Italiana and adopted a "Code of Conduct with regard to Insider Dealing", which governs disclosure to the Company and to the market of transactions on Group listed securities executed by so-called "relevant persons".

The Code adopts a more rigorous approach than the regulations drawn up by the Market Authority with regard to insider dealing, compared with which it presents a number of significant differences (including: reduction of the quantitative thresholds for market disclosure of transactions on a quarterly basis or at the time of the transaction; indication of periods during which Relevant Persons may not transact operations on Group securities; extension of disclosure requirements to cover financial instruments issued by controlling companies as well as by subsidiary companies; considerable flexibility in the identification of Relevant Persons in order to take account of contingencies in which additional parties may have access to company strategy).

The Code took effect earlier than the term established by Borsa Italiana (1 December 2002 instead of 1 January 2003) and also comprises a particularly severe system of penalties. The document may be consulted on the Company web site, www.olivetti.it, under the heading "Investor Relations", sub-heading "Corporate Governance", and will be sent in hard copy to any person who may request a copy.

Treatment of confidential information

Management of confidential information is supervised directly by the Chairman or by the Deputy Chairman and Chief Executive Officer.

With regard to communication of price-sensitive information to the public, the Company recently approved a special Procedure, which specifies, among other things, the measures to be taken in the event of rumours or requests for information from the market control and supervisory bodies and the conduct to be observed to ensure non-selective use of company information during meetings with the shareholders, with the financial community and with the Press.

Investor relations (in particular relations with institutional investors)

The company has a special unit (investor.relations@olivetti.com) which is responsible for relations with shareholders and institutional investors.

The Board of Directors has not deemed - and in the present circumstances does not deem - it necessary to adopt rules for Shareholders' Meetings since it believes that the powers assigned to the Chairman of the Board of Directors in this respect are amply sufficient for the normal business of Shareholders' Meetings.

Statutory Auditors

In accordance with article 20 of the Company Bylaws, the election (or integration following substitution or forfeiture) of the Board of Statutory Auditors occurs by means of a list vote. Those shareholders who alone or together own voting shares equivalent to at least 5% of the corresponding share capital may present one (and only one) list.

Each candidate may be presented in one list only, pain of ineligibility; candidates who are Statutory Auditors in another five listed companies (excluding Olivetti S.p.A.'s controlling or subsidiary companies) or who do not possess the necessary requirements of character and professional background may not be listed.

The lists (together with, pain of inadmissibility, the acceptances of the individual candidates, the statements declaring absence of reasons of ineligibility and incompatibility and the statements declaring existence of the conditions required by law and the bylaws) must be presented at the Company's registered offices at least five days prior to the date of the first calling of the Shareholders' Meeting.

Legal proceedings

Olivetti S.p.A.

The legal proceedings involving the Parent Company are described below:

1. Currently under preliminary examination by magistrates in Rome are the criminal charges of corruption and peculation brought by the Rome State Prosecutor against former representatives and former employees of Olivetti (and of the Italian Post Office) regarding products and services provided by Olivetti to the Post Office in the early 1990s; the Rome magistrates acquitted all the Olivetti people involved in the investigation of the charge of peculation, since the fact did not amount to a crime. The State Prosecutor lodged an appeal against the sentence. Recently the Rome magistrates fully acquitted all the former Olivetti managers involved in the investigation of charges of corruption

2. With regard to the dispute in the Rome courts between Olivetti and Poste Italiane S.p.A. for non-payment by Poste Italiane S.p.A. of products and/or technical assistance, sentences passed to date are in favour of Olivetti and have been appealed by Poste Italiane S.p.A..

3. In relation to the disposal of the personal computers business in April 1997, lawsuits have been brought before the Ivrea courts against Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A. (which had merged Sy.F.A. S.p.A., which had in turn merged Olivetti Personal Computers S.p.A) by:
a) Centenary Corporation and Centenary International, for damages (250 billion Italian lire equivalent to 129.1 million euros claimed but lacking evidence) which the plaintiffs allege they suffered as a consequence of the acquisition of the Olivetti Group's personal computers business (through acquisition of the specific business unit, which was spun off to OP Computers S.p.A., established for that purpose);

b) ex-employees of OP Computers S.p.A., to ascertain that the contracts relating to the aforementioned disposal of the personal computers business are null and void, to obtain reinstatement as employees of Olivetti, with payment of salary differences and damages (calculated at 310 billion Italian lire, 160.1 million euros, and lacking evidence);

c) the receiver of OP Computers S.p.A. (which is in bankruptcy proceedings), to ascertain that the contract of sale of the personal computers business by Olivetti Personal Computers to OP Computers is either null and void, or to be annulled or revoked, claiming damages (again, lacking evidence and calculated at 158 billion Italian lire, 81.6 million euros).

d) a group of ex-employees of OP Computers S.p.A., who have filed a complaint against former legal representatives of the company; the Ivrea State Prosecutor has opened an investigation into the former legal representatives.

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.

4. Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A., on their part, have taken legal action in the Milan courts against Piedmont International S.A. (a Centenary Group company) for the recovery of 100 billion Italian lire (51.6 million euros) due by the latter or for a greater amount to be proven in court.

Disputes regarding Telecom Italia shareholder resolutions

Still pending is the claim for damages of 18.9 million euros brought against Olivetti, Telecom Italia and the Chairman and Deputy Chairman pro-tempore, alleging non-fulfilment of the undertakings in the "Offer document" concerning the public tender and exchange offer made by Olivetti and Tecnost on Telecom Italia in 1999, and of the resolutions carried by the Shareholders' Meeting of 14 January 2000 regarding purchases of own savings shares.

Universal service

In January 2002 the Regional Administrative Court of Lazio accepted Omnitel's appeal for the annulment of the Telecommunications Authority' decision regarding the "applicability of the mechanism for the division of the net costs of the universal service for 1999", which had also been contested by Infostrada. Specifically, the court upheld the complaint alleging defects in the administrative procedure, but did not accept the appeal against the merits of the decision, which will in any case have to be renewed.

In the meantime, Infostrada and Omnitel have not paid their respective portions (set at 9 million euros overall), thereby preventing the Ministry of Communications from transferring the amount globally assessed in favour of Telecom Italia for costs sustained in 1999 for the universal service (27 million euros).

* * *

In early 2002 Telecom Italia was served with notice of Omnitel's appeal to the Regional Administrative Court of Lazio and Wind's extraordinary appeal to the Head of State for the annulment of the resolution setting out regulations for the "Universal Service: applicability of the mechanism for the division and assessment of the net costs for 2000". In addition to suspension of the resolution, Omnitel also requested prior referral to the European Court of Justice to ascertain whether community directives have been correctly interpreted.

Data transmission and Internet access services using X-DSL technology

Following the opening of an investigation into the supply by Telecom Italia of direct baseband circuits and the offer to its business customers of broadband Internet access and data transmission services based on X-DSL technology without a corresponding wholesale offer to competitors, in April 2001 the Competition and Market Authority imposed a fine of 59 million euros on Telecom Italia. In November 2001, the Regional Administrative Court of Lazio reduced the fine to 29 million euros, which was paid in January on a conditional basis, given Telecom Italia's intention of lodging an appeal with the Administrative Supreme Court. This appeal, for the annulment of the entire fine, on the grounds of a general lack of logic and defects in motivation and investigation, was subsequently filed.

Meanwhile, Albacom, Infostrada, AIIP, Unidata, Data Service and other operators filed claims for damages before the civil courts, alleging abuse of a dominant position by Telecom Italia in connection with the practices challenged by the Competition and Market Authority.

In January 2003, the Rome Court of Appeal sentenced Telecom Italia to pay damages totalling approximately 2 million euros to Albacom, Wind (formerly

Infostrada), Cable & Wireless (formerly Unidata) and Data Service. Similar claims for damages presented by other operators are still pending.

Galactica dispute

In May 2001, a dispute arose between Telecom Italia and the Internet Service Provider Galactica S.p.A. (currently being wound up) for the non-renewal of an agreement regarding an experimental Internet access service at a flat rate. Claiming that failure to renew was unlawful, Galactica sued Telecom Italia for damages and filed an injunction against Telecom Italia interrupting the service.

In February 2002, Galactica filed another writ of summons for damages relating to alleged anti-competitive practices of Telecom Italia.

In May 2002 the investigating magistrate unified the two lawsuits.

On 16 October 2002, the Servinternet S.p.A. company (formerly Galactica S.p.A.), which is being wound up, filed a third writ of summons on Telecom Italia in the Milan courts. This third suit has been unified with the other two being investigated by the same judge.

Alleged anti-competitive strategies of Telecom Italia

Following the complaint filed by 27 competing operators alleging anti-competitive market strategies by Telecom Italia, the Telecommunications Authority issued decision no. 179/01/CONS charging the Company with a series of breaches and commenced sanction proceedings with specific resolutions.

A counter-action against the decision and the subsequent resolutions has been filed with the Regional Administrative Court of Lazio.

In the meantime the Authority ordered Telecom Italia to pay two administrative fines for a total of approximately 150,000 euros; the Company has filed an appeal against the orders with the Regional Administrative Court of Lazio.

Seat Pagine Gialle/De Agostini

Arbitration is underway on the dispute referred by De Agostini against Seat Pagine Gialle, Finanziaria Web, Matrix and the Buffetti Group for alleged breaches of the agreement signed in 2000, which among other things regulates the acquisition of shareholdings in Finanziaria Web (which controls Matrix) by Seat and De Agostini. Claiming that the conditions required under the agreement had occurred, De Agostini is requesting the transfer to Seat of its Finanziaria Web shares for a price of 700 million euros, with payment beginning as from 30 June 2003.

Seat Pagine Gialle/Cecchi Gori

On 13 June 2002 the Rome courts dismissed the applications filed by Cecchi Gori Group Media Holding and Fin.Ma.Vi. to ascertain the nullity of the financial statements and related balance sheet as at 31 December 2000 of Cecchi Gori Communications - CGC (now Holding Media Communications) and to declare null the resolutions carried by the company's Shareholders' Meeting on 27 April 2001. Cecchi

Gori Group Media Holding and Fin.Ma.Vi have appealed the dismissal and re-presented the applications filed in the first instance.

Still pending are: i) a ruling on the annulment of the contract pledging CGC shares to guarantee fulfil-ment of the undertakings set out in the contract under which Seat Pagine Gialle acquired control of CGC on 7 August 2000; ii) a ruling on the annulment of the resolution adopted by the extraordinary Shareholders' Meeting of CGC, to modify the quorums for resolutions adopted by the Board of Directors and the Shareholders' Meeting. Cecchi Gori Group Media Holding and Fin.Ma.Vi. have also begun arbitration proceedings on both matters.

FastWeb

On 11 July 2001, Telecom Italia and FastWeb drew up a "Contract for access to and use of civil infrastructures" in compliance with the Competition & Market Authority ruling requiring Telecom Italia to make its civil infrastructures available to competitors for the supply of interactive and multimedia services, on non-discriminatory conditions and at cost-oriented prices.

On 29 August 2002, Fastweb filed a writ of summons against Telecom Italia requesting the determination and declaration of the exact consideration due for access to and use of such infrastructures in order to clarify interpretation of the clause regulating the price determination procedures.

With a counter-summons, Telecom Italia has requested payment of a consideration of approximately 46 million euros for the services pursuant to the contract.

Contribution as per art. 20, par 2 of Law no. 448 of 23.12.1998

Before the Regional Administrative Court of Lazio, Telecom Italia, TIM, Wind and Omnitel challenged the Ministerial Decree of 21 March 2000, implementing Law no. 448 of 23 December 1998, which, from 1 January 1999, introduced a new contribution to replace the concession fee. Infostrada and Albacom have presented extraordinary appeals to the Head of State against the same Decree.

With regard to the extraordinary appeals to the Head of State, the Administrative Supreme Court has raised the preliminary issue before the European Court of Justice of whether the contribution was compatible with EU directives concerning telecommunications.

Stet Hellas

In 1996 Mobitel, a company in the Greek Interamerican Group (now Demco Reinsurance) and at that time the sole agent of Stet Hellas, initiated arbitration proceeding to ascertain its right to receive fees not only on outgoing traffic generated by the subscribers it introduced, but also on incoming traffic and on traffic generated by late-paying customers. It also claimed payment of relevant damages and of damages relating to resolution of the sole agency by Stet Hellas.

Stet Hellas and Telecom Italia (which replaced Stet International, the former guarantor of Stet Hellas and as such party to the agreements signed at the time) filed a counter-claim for damages suffered as the result of non-acquisition of market share due to breach of contract by Mobitel.

An initial partial award (October 2000) was made in favour of Mobitel's claim for recognition of fees on incoming traffic; in November 2001 the arbitration panel asserted its competence regarding quantification of damages as well as the existence of a due amount. The parties notified their final compensation claims, which are approximately 140 million euros by Mobitel and approximately 890 million euros by Stet Hellas and Telecom Italia.

Nortel Inversora

In August 2001, a minority shareholder applied for a writ of summons for Nortel to appear before the Buenos Aires courts for a conciliation attempt (which proved unsuccessful), alleging irregularities in the shareholders' resolution approving the financial statements for the year closed on 31 December 2000.

The same shareholder had previously contested the shareholders' resolution approving the financial statements for the year closed on 30 September 2000. In September 2001 the Buenos Aires courts therefore issued a precautionary ruling suspending the effectiveness of the above-mentioned shareholders' resolutions.

In August 2002, at the request of the same shareholder, two additional but unsuccessful conciliation hearings were held with regard to alleged irregularities in the resolutions carried by the Nortel ordinary and special Shareholders' Meetings of 25 April 2002, which, among other things, approved the Nortel financial statements for financial 2001.

On 3 March 2003 a settlement was reached under which the minority shareholder has undertaken to desist from continuation of the suits filed against Nortel and its representatives and to not file other similar suits against Nortel and/or its representatives. The agreement is due to be submitted to the Buenos Aires courts for approval.

Brasil Telecom

Still pending are two lawsuits filed by Brasil Telecom in 2001 before the Rio de Janeiro civil courts (Brazil), respectively against Telecom Italia and Telecom Italia International and against two directors of Brasil Telecom appointed by Telecom Italia International. The plaintiff claims compensation for damages suffered as a result of the acquisition of CRT and non-participation in the SMP tender.

Chase Manhattan Bank dispute

On 5 April 2002, the US District Court judge for the District of Delaware dismissed Telecom Italia (on the grounds that it was no longer a direct shareholder of Iridium LLC) from the action initiated in June 2000 by Chase Manhattan Bank (now JP Morgan Chase Bank) with regard to the 800 million US dollar loan granted in 1998 to Iridium Operating LLC (a subsidiary of Iridium LLC).

Chase has appealed against the judge's ruling and has also summoned Iridium Italia S.p.A, in which Telecom Italia has a 30% shareholding (the remaining equity is equally owned by TIM and Telespazio) and which is a direct shareholder of Iridium LLC.

TIM PCS companies in Brazil

Following the dismissal of applications filed by local operators Telesp Celular and BCP for the precautionary suspension of the transfer of approximately 18.3% of the equity of Solpart from Telecom Italia International to Techold and Timepart, and of related administrative measures, BCP took out a suit against Anatel in the Brazilian Federal Court requesting that the assignment of PCS frequencies to TIM's Brazilian subsidiaries be annulled.

Bancomext/Etec S.A. dispute

On 12 August the Turin civil court issued a cautionary attachment on all the assets of Etec S.A. (a Cuban investee company of Telecom Italia) and Telan (the majority shareholder of Etec S.A., which is controlled by the Cuban government), including receivables due from third parties, up to an amount of 33 million euros.

This followed a complaint filed by Banco Nacional de Comercio Exterior ("Bancomext") that Etec S.A. and Telan had failed to comply with repayment and guarantee obligations - for a value to date of approximately 300 million US dollars - stipulated in a financing contract drawn up by Etec S.A., Telan, Bancuba (Cuba's central bank) and Bancomext. The attachment was subsequently notified to Telecom Italia, TIM, Intesa BCI and Deutsche Telekom, who have received a garnishment in respect of all payments to Etec S.A., up to an amount of 33 million euros.

TIM has already presented a negative third-party debtor declaration, pursuant to article 547 of the Italian code of civil procedure.

On 6 February 2002 Telecom Italia presented its positive third-party debtor declaration, pursuant to article 547 of the Italian code of civil procedure.

Teleque Communications S.p.A.

On 6 November 2002, Teleque Communications S.p.A., which offers prepaid solutions for international telephone services, served a summons on Telecom Italia before the Rome Court of Appeal alleging anticompetitive practices and claiming damages of 65 million euros. Teleque Communications alleges that Telecom Italia obtained a competitive advantage by imposing additional costs on supply of its interconnection services, whereas Telecom Italia did not charge such costs to its end clients for prepaid international services.

Request of refund for Ministry of Defence charges for 900 band frequency release

With formal decrees issued in 2001, the Italian Ministries of Defence and of Communications quantified charges for the release of the band frequencies in question and debited such charges largely to TIM as the licensee of the TACS service. The band frequency release, however, was intended to broaden GSM frequencies, which were to be shared out among all operators.

The ministerial quantifications are deemed illegitimate since they are based on an incorrect interpretation of Ministerial Decree 113/98 governing these matters. An application for their annulment has therefore been filed with the Regional Administrative Court of Lazio.

Dispute with INPS

In compliance with Law no. 58/1992, Telecom Italia is required to provide full national insurance coverage for all persons employed as at 20 February 1992 by STET S.p.A., SIP S.p.A., Italcable S.p.A. and Telespazio S.p.A., as well as persons transferred from the Public Administration to IRITEL, including periods previously worked in other companies, through the "Fondo Previdenza Telefonici" (Telephone Sector Employees Pension Fund), which merged into the "Assicurazione generale obbligatoria" (compulsory general insurance scheme) on 1 January 2000. The contributions due are calculated by INPS (Italian National Insurance Board) and must be paid in 15 annual instalments.

The amount of the liability regarding the payments due is uncertain, in that Telecom Italia and INPS disagree on the method of calculating such amounts.

However, 595 million euros of outstanding amounts due to INPS relating to ex-IRITEL employees are included in the Telecom Italia Group financial statements at 31 December 2002.

Concerning the application and interpretation of the regulation, there is an ongoing dispute with INPS regarding both the starting date for the calculation of interest due, as per the aforementioned Law no. 58/1992, for the deferred payment of the amount, as well as the exclusion from the provisions of Law 58/1992 of all those employees (except for ex-IRITEL personnel) who had already requested full insurance coverage prior to 20 February 1992.

Telecom Italia has undertaken to pay on a conditional basis the amounts claimed by INPS according to its calculations, subject to adjustment in the event that the courts' final ruling should uphold the company's position.

According to Telecom Italia's estimates, the principal amount payable (excluding, as stated above, the portion relating to ex-employees of IRITEL) could vary, depending on the opposing interpretations and on evaluations which take account of all the employees involved, between 964 million euros and 1,289 billion euros approximately, of which an amount of 409 million euros has already been paid.

In compliance with accepted accounting principles, a provision for an amount in line with the minimum estimated liability has been stated in the consolidated financial statements of the Olivetti Group at 31 December 2002, as a component of the goodwill arising on the acquisition of Telecom Italia.

Following an agreement between INPS and Telecom Italia, pre-amortisation interest (including interest relating to ex-IRITEL employees) was paid by Telecom Italia - on a conditional basis - in fifteen equal annual deferred instalments, inclusive of interest at 5% per annum, up to the end of 1999, for a total amount of 110 million euros, net of adjustment interest and some refunds paid by INPS.

The dispute was settled in the first half of 2002 with Supreme Court sentence no. 3398/2002 which found in favour of Telecom Italia, in conformity with the previous sentence no. 4242/2000 (following which payment of the above interest and the deferred interest relating thereto was suspended as from June 2000). A receivable of 131 million euros (including interest calculated at the conventional annual rate of 5%) therefore arose for the Telecom Italia Group, which has been fully offset on payment of the usual instalments.

Events subsequent to the end of the financial year

Telecom Italia Group

Sale of Globo.com

On 15 January Telecom Italia Finance sold its 28.57% shareholding in Brazilian company GLB Servicos Interativos ("Globo.com") to TIM Brasil, for 15 million dollars. At the end of January, TIM Brasil in turn sold the shareholding to the Globo television group. The sale generated a net capital gain of 4 million euros for the Telecom Italia Group.

Renewal of first tranche of 2001 securitisation programme

On 22 January, the TI Securitisation Vehicle company renewed the first 100 million euro tranche of the asset-backed securities issued on 29 January 2001. The operation, which is part of the Telecom Italia telephone bill securitisation programme, is described in full in the Telecom Italia S.p.A. Explanatory Notes.

Early purchase of leased buildings

On 27 January procedures were completed for the early purchase from Teleleasing S.p.A. of 12 buildings (for approximately 300,000 m2) used by Telecom Italia S.p.A. and other Group companies on a financial leasing basis. The operation generated a total financial outlay for the Telecom Italia Group of approximately 369 million euros.

Sale of Telecom Italia logistics business

On 27 January, Telecom Italia announced an agreement for the sale to TNT Logistics Italia of Telecom Italia customer wireline telephony product warehousing and distribution operations and network assistance and installation operations. The Telecom Italia business being sold to TNT Logistics includes 6 central warehouses and 100 advanced warehouses, which handle more than 4.5 million items annually (handsets and telephone parts). The agreement, designed to strengthen Telecom Italia's focus on its core business, became operational on 5 March 2003 following approval by the Antitrust Authority and completion of consultations with the trade unions.

LISIT Informatica

On 4 February 2003, as part of a temporary grouping of companies with Finsiel and Lutech (Lucchini Group), Telecom Italia was awarded a tender organised by the Regional Authority of Lombardy (through its subsidiary Lombardia Informatica S.p.A.) to supply goods and services for region-wide introduction and management of the "Regional Services Card".

The aggregate value of the contract awarded to the grouping led by Telecom Italia, over the term of the agreement, which expires in 2009, is approximately 350 million euros.

As required under the terms of the contract, Telecom Italia and Finsiel have purchased 35.2% of the share capital of LISIT, for a total outlay of 54 million euros.

Consodata stock purchase

On 12 February, Seat Pagine Gialle purchased 1,108,695 shares of ordinary stock of the French subsidiary Consodata S.A. - which is listed on the Nouveau Marche of the Paris Stock Exchange - after the founding partners exercised their put option as envisaged by the agreement signed by the previous management of Seat PG on 31 July 2000. As a result of the purchase, for an agreed price of 44 euros per share and a total value of approximately 48.8 million euros, Seat PG acquired a further 8.17% of the capital and voting rights in Consodata S.A., thereby increasing its stake to 98.60%.

Bond reserved for employees

On 13 February 2003, the Telecom Italia Board of Directors adopted a resolution to reduce the bond reserved for employees from 1 billion euros to 400 million euros, by revoking the issue resolution for the part that had not yet been implemented.

Sale of Telekom Srbija

On 28 December 2002, the Telecom Italia Group announced an agreement for the sale of its 29% shareholding in Telekom Srbija to PTT Srbija. The agreement was finalised on 20 February 2003 and closing is expected to take place in June.

PTT Srbija will pay Telecom Italia 195 million euros, of which 120 million euros in four monthly instalments starting from February 2003, and the remaining amount in six half-yearly instalments beginning in January 2006. The stock involved in the transaction will be deposited with an international bank until payment is complete.

Telecom Italia - Hewlett-Packard agreement

On 21 February, Telecom Italia and Hewlett-Packard signed a five-year management services and out-sourcing agreement worth 225 million euros. Under the agreement, HP is to provide asset management, help desk, maintenance and management services for 90,000 Telecom Italia workstations, leveraging the skills of approximately 600 specialists from IT Telecom, who will join a new HP unit specialised in the delivery of these services. IT Telecom will host the systems and manage HP operations for SAP environments.

The agreement is designed to help Telecom Italia strengthen its focus on its core business and achieve cost savings in distributed environment management. It will become operational once consultations with the unions have been completed and approval has been received from the Italian Antitrust authorities.

Approval of the 2002 interconnection price list by the Communication Authority

On 27 February 2003 the Infrastructures & Networks Commission of the Communication Authority approved the 2002 Reference Offer, now being notified, which Telecom Italia is to apply to competitors for use of its network as regards traffic interconnection services, the "billing and insolvency risk for Telecom Italia subscriber access to non-geographical numbers of other operators" service, unbundled access services. 2002 income takes account of the impact of this price list.

Megabeam acquisition agreement

In March 2003 Telecom Italia signed an agreement to purchase 100% of the share capital of Megabeam Italia S.p.A., Italy's first wireless Internet service provider, for an outlay of 11.5 million euros.

The acquisition is part of Telecom Italia's broadband strategy, where Wi-Fi wireless technology plays a key role in both residential and business solutions, since it enhances the functionality and flexibility of the company's innovative wireline access offer.

Megabeam provides Wi-Fi networking services to private locations and is currently running Wi-Fi service trials in public locations - major Italian airports and a leading hotel chain - through Wireless-LANs on the 2,400-2,483.5

bandwidth.

The execution of the agreement is subject to the approval of the Antitrust Authority.

Telecom Italia share buy-back

In connection with the share buy-back authorised by the Telecom Italia Shareholders' Meeting of 7 November 2001, from 1 January through 11 March 2003 Telecom Italia purchased 8,662,500 own savings shares for an average per-share price of 4.73 euros and a total outlay of 41 million euros, and 915,000 ordinary shares for an average per-share price of 6.83 euros and a total outlay of 6 million euros.

Therefore, until 11 March 2003 Telecom Italia purchased overall 54,309,500 own savings share for an average per-share price of 5.24 euros and a total outlay of 285 million euros, and 6,195,500 own ordinary shares for an average per-share price of 8 euros and a total outlay of 50 million euros.

Bond buy-back and subsequent cancellation

On 11 March 2003, the Telecom Italia Board of Directors carried a resolution for the buy-back, at the market price, and subsequent cancellation of a portion of the bonds subscribed by the subsidiary Telecom Italia Finance, up to a maximum amount of 2 billion euros. The purpose of the operation is to restore the balance between shareholders' equity and bond loans and finance bills, in connection with the proposal to distribute reserves up to a maximum of 1,333 million euros.

Other companies in the Olivetti Group

o On 10 January 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 re-finance debt and extend average maturity and does not imply any change in net financial indebtedness.

As a result of solid investor demand, for approximately 4 billion euros, which reflected strong market interest, the bond amount was set at 3 billion euros to be divided into three tranches, for five, ten and thirty years. The 30-year eurobond, a novelty in the corporate sector, is the first public euro-denominated bond with such long maturity.

The terms of the bond are as follows:

first tranche	
amount:	1,750 million euros
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 euros

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 euros
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 mid-swap rate

The issue is part of Olivetti's Euro Medium Term Note (EMTN) programme.

- On 28 January 2003, in response to the large number of applications and strong market interest, the thirty-year "Olivetti Finance N.V. 7.75% 2003-2033" bond issued on 24 January and guaranteed by Olivetti S.p.A. was re-opened. The bond is part of the operations to re-finance debt and extend average maturity and does not imply any change in net financial indebtedness.

The size of the operation was set at 400 million euros, bringing the total issue amount to 800 million euros; this made the bond eligible for inclusion in the top market indices and significantly improved liquidity to the benefit of investors.

The coupon and term are the same as the original loan and the issue price was set at 102.142% corresponding to an effective yield at maturity of + 287 basis points over the mid-swap rate.

The issue is part of Olivetti's Euro Medium Term Note (EMTN) programme.

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Telecom Italia / Olivetti merger project

On 11 March 2003, the Boards of Directors of Olivetti and Telecom Italia adopted a project to simplify the Group's corporate structure by merging the two companies. Specifically, the project envisages the merger of Telecom Italia into Olivetti and is a key step in the industrial and financial restructuring process launched in July 2001 to create shareholder value.

Operating outlook for 2003

Assuming that the dividend payout policy of the subsidiary Telecom Italia continues, Olivetti S.p.A. expects to post a positive full-year net result for financial 2003, before accounting for the impact of any extraordinary operations.

Group earnings, before amortisation of goodwill on the acquisition of Telecom Italia, will depend on the results reported by the Telecom Italia Group, which expects profitability to be substantially unchanged from financial 2002.

Proposal for the coverage of the parent company loss for 2002

The 2002 financial statements of the Parent Company Olivetti S.p.A. show a net loss of 6,239,962,549 euros and shareholders' equity at 31 December 2002 of 9,031,365,025 euros, as follows:

(in euros)		31.12.2002
I.	Share capital	8,845,239,632
I bis.	Share capital increase to be filed with the Companies Register	200,198
II.	Additional paid-in capital	3,765,365,301
II bis.	Additional paid-in capital in respect of capital increases to be filed with the Companies Register	126,941
III.	Revaluation reserves	1,128,827
IV.	Legal reserve	920,809,760
V.	Reserve for treasury stock	2,298,156
VII.	Other reserves	2,036,088,939
VIII.	Retained earnings and accumulated losses	(299,930,180)
	Total Share Capital and Reserves	15,271,327,574
IX.	Net loss for the year	(6,239,962,549)
Total		9,031,365,025

The Board of Directors proposes that the 2002 net loss of 6,239,962,549 euros be covered as follows:

- 1,888,261,068 euros through use of the Extraordinary Reserve (included under the heading Other reserves);
- 10,217,010 euros through use of Non-taxable reserves (including under the heading Other reserves), specifically:
  - 8,741,403 euros from the Reserve for research grants (law no. 346/1988)
  - 685,713 euros from the Reserve for technological innovation grants (law no. 46/1982)
  - 695,110 euros from the Reserve for capital investment grants (law no. 64/1986)
  - 94,784 euros from the Reserve for VAT deductions on capital investments;
- 18,598,579 euros through use of reserves previously tied to conversion of bonds and exercise of warrants, which have become available upon expiry of the relevant rights (included under the heading Other reserves), specifically:
  - 927,188 euros from the Reserve tied to conversion of Olivetti floating-rate 1998-2002 bonds

- 163,110 euros from the Reserve tied to exercise of Olivetti 1998-2002 ordinary share warrants
- 3,886,872 euros from the Reserve tied to exercise of Olivetti 1999-2001 subscription rights (warrants or options) reserved for managers of the Parent Company and its subsidiaries;
- 13,621,409 euros from the Reserve tied to exercise of Olivetti 2002-2004 subscription rights (warrants or options) reserved for managers of the Parent Company and its subsidiaries.

o 1,128,827 euros through use of the Revaluation reserves;

o 920,809,760 euros through use of the Legal reserve;

o 126,941 euros through use of the Additional paid-in capital reserve in respect of share capital increases to be filed with the Companies Register;

o 3,400,820,364 euros through partial use of the Additional paid-in capital reserve, which will therefore reflect a residual balance of 364,544,937 euros.

Additionally, the Board of Directors proposes that the Accumulated losses of 299,930,180 euros be covered through partial use of the Additional paid-in capital reserve, which will therefore reflect a residual balance of 64,614,757 euros.

The Board of Directors

Statutory Financial Statements of Olivetti S.p.A.
at 31 December 2002

Balance Sheet
Income Statement
Explanatory Notes

Olivetti S.p.A.
Balance Sheet (in euros)

ASSETS	31.12.2002	31.12.2001
A) AMOUNTS DUE FROM SHAREHOLDERS	-	-
B) FIXED ASSETS		
I. Intangible fixed assets		
1) Start-up and expansion costs	50,496,231	81,096,623
3) Industrial patents and intellectual property rights	-	1,033
7) Other assets	128,872,804	168,624,950
Total intangible fixed assets	179,369,035	249,722,606
II. Tangible fixed assets		
2) Plant and machinery	277,269	1,104,221
3) Industrial and commercial equipment	-	4,648
4) Other assets	767,173	1,065,708
5) Assets under construction and advance payments	33,343	33,343
Total tangible assets	1,077,785	2,207,920
III. Financial fixed assets		

1) Equity investments in:		
subsidiary companies	22,693,511,448	31,261,276,711
associated companies	44,935,728	295,528
other	149,090,191	147,732,059
	22,887,537,367	31,409,304,298
2) Receivables		
Due within 12 months from		
subsidiary companies	-	18,201
associated companies	-	61,397
others	9,024,236	13,510,565
	9,024,236	13,590,163
Due after 12 months from		
subsidiary companies	-	-
associated companies	15,879,855	95,535
others	54,181,142	61,328,465
	70,060,997	61,424,000
3) Other securities	-	-
4) Treasury stock	2,298,155	2,298,156
Total financial fixed assets	22,968,920,755	31,486,616,617
Total fixed assets (B)	23,149,367,575	31,738,547,143

	31.12.2002	31.12.2001
C) CURRENT ASSETS		
I. Inventories	-	-
II. Receivables		
Due within 12 months from		
1) Customers	997,697	1,222,062
2) Subsidiary companies		
- trade and other receivables	313,397,251	55,936,486
- interest bearing current accounts	183,724,426	79,528,229
3) Associated companies		
- trade and other receivables	53,456	45,627
- interest bearing current accounts	89,429	85,576
4) Others		
- miscellaneous	832,835,762	693,755,383
- interest bearing current accounts	2,789,317	6,882,372
	1,333,887,338	837,455,735
Due after 12 months from		
1) Others	609,000,000	-
Total receivables	1,942,887,338	837,455,735
III. Financial assets not held as fixed assets		
4) Other equity investments	2,755,510	7,236,210
6) Other securities		

- miscellaneous	346,871,904	67,361,517
- receivables for securities held under reverse repurchase agreements	961,066	911,312
Total financial assets not held as fixed assets	350,588,480	75,509,039
IV. Liquid funds		
1) Bank and post office deposits	518,639,674	140,359,133
3) Cash	3,431	6,391
Total liquid funds	518,643,105	140,365,524
Total current assets (C)	2,812,118,923	1,053,330,298
D) ACCRUED INCOME AND PREPAID EXPENSES		
2) Other accrued income and prepaid expenses subsidiary and associated	-	1,515
companies third parties	414,077,727	502,988,663
Total accrued income and prepaid expenses (D)	414,077,727	502,990,178
TOTAL ASSETS	26,375,564,225	33,294,867,619

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2002	31.12.2001
A) SHAREHOLDERS' EQUITY		
I. Share capital	8,845,239,632	8,783,701,564
I bis. Share capital increases to be filed with the Companies Register (article 2444 of the Civil Code)	200,198	839,593
I ter. Share capital increase payments relating to shares to be issued	-	26,954
II. Additional paid-in capital	3,765,365,301	3,765,113,918
II bis. Additional paid-in capital in respect of share capital increases to be filed with the Companies Register and of shares to be issued	126,941	10,442
III. Revaluation reserves	1,128,827	1,128,827
IV. Legal reserve	920,809,760	920,809,760
V. Reserve for treasury stock	2,298,156	2,298,156
VII. Other reserves	2,036,088,939	2,061,056,125
VIII. Retained earnings and accumulated losses	(299,930,180)	571,549,306
IX. Net income (loss) for the year	(6,239,962,549)	(871,479,486)
Total shareholders' equity (A)	9,031,365,025	15,235,055,159
B) RESERVES FOR RISKS AND CHARGES		
2) a) Reserves for taxation	-	-
b) Reserves for deferred		

taxation	-	344,437,178
3) Other provisions	336,309,681	429,507,304
Total reserves for risks and charges (B)	336,309,681	773,944,482
C) RESERVE FOR EMPLOYEE SEVERANCE INDEMNITIES	2,587,158	3,857,916

	31.12.2002	31.12.2001
D) PAYABLES		
Due within 12 months		
1) Bonds	-	-
2) Convertible bonds	-	15,675,896
3) Due to banks	670,458,552	357,134,963
4) Due to other lenders	2,842,623	6,375,644
5) Advances	3,772,422	3,772,422
6) Due to suppliers	8,989,315	24,717,419
8) Due to subsidiary companies		
- trade and other payables	13,143,430	22,312,200
- interest bearing current accounts	2,617,061,850	4,522,110,267
9) Due to associated companies		
- trade and other payables	586,256	1,107
11) Due to tax authorities	282,587,074	31,172,199
12) Due to social security authorities	373,603	699,126
13) Other payables		
- miscellaneous	17,685,785	66,957,695
	3,617,500,910	5,050,928,938
Due after 12 months		
1) Bonds		
subscribed by third parties	-	400,000,000
subscribed by subsidiary companies	3,900,000,000	-
2) Convertible bonds	4,184,127,509	4,188,416,003
3) Due to banks	20,270,104	71,798,098
4) Due to other lenders	34,489,703	25,372,174
5) Due to subsidiary companies	3,743,567,709	5,302,415,417
	11,882,455,025	9,988,001,692
Total payables (D)	15,499,955,935	15,038,930,630
E) ACCRUED EXPENSES AND DEFERRED INCOME		
2) Other accrued expenses and deferred income		
Group companies	1,434,016,225	2,208,669,229
third parties	71,330,201	34,410,203
Total accrued expenses and deferred income (E)	1,505,346,426	2,243,079,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	26,375,564,225	33,294,867,619

MEMORANDUM ACCOUNTS	31.12.2002	31.12.2001
Personal guarantees, net of counter-securities received	15,097,017,500	17,319,460,000
Commitments	7,960,000	10,990,000

Other accounts	3,810,000	3,810,000
TOTAL MEMORANDUM ACCOUNTS	15,108,787,500	17,334,260,000

Olivetti S.p.A.
Income Statement (in euros)

	Year 2002	Year 2001
A) VALUE OF PRODUCTION		
1) Revenues from sales and services		-
2) Changes in inventories of work in progress, semifinished and finished products		-
3) Changes in contract work in progress		-
4) Capitalized production		-
5) Other revenues and income:		
- other	13,598,043	15,209,057
Total value of production (A)	13,598,043	15,209,057
B) COSTS OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods for resale	232,022	179,687
7) Services received	26,361,228	49,093,106
8) Leases and rentals	2,383,471	2,532,780
9) Personnel		
a) Wages and salaries	4,898,745	8,040,416
b) Social security charges	1,409,992	2,108,684
c) Termination indemnities	24,045	1,050,599
d) Employee pension and similar obligation charges	-	-
e) Other costs	7,424,646	1,900,561
	13,757,428	13,100,260
10) Amortisation, depreciation and write-downs		
a) Amortisation of intangible fixed assets	70,525,404	61,688,982
b) Depreciation of tangible fixed assets	1,194,871	1,262,719
c) Other amounts written down on fixed assets	-	-
d) Write-down of receivables classified as current assets and of liquid funds	-	1,523,624
	71,720,275	64,475,325
11) Changes in inventories of raw, ancillary and consumable materials and goods for resale	-	-
12) Provisions for risks	-	191,808,785
13) Other provisions	-	-
14) Other operational expenses	2,730,313	3,045,755
Total costs of production (B)	117,184,737	324,235,698

DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION

(A-B)	(103,586,694)	(309,026,641)

	Year 2002	Year 2001
C) FINANCIAL INCOME AND EXPENSES		
15) Income from equity investments		
- subsidiary companies	1,973,535,014	73,555,112
- associated companies	-	8,261,552
- other companies	5,818,495	3,591,809
	1,979,353,509	85,408,473
16) Other financial income		
a) income from receivables classified as fixed assets from		
- subsidiary companies	402	1,134
- associated companies	1,355	9,683
- others	1,418	4,002
	3,175	14,819
b) income from securities held as fixed assets	-	-
c) income from securities held as current assets	3,063,050	4,202,788
d) other income from		
- subsidiary companies	7,468,984	3,991,770
- associated companies	151,716	4,516
- others	30,709,474	29,120,917
	38,330,174	33,117,203
	41,396,399	37,334,810
17) Interest and other financial charges		
a) subsidiary companies	(607,163,943)	(814,204,575)
b) associated companies	-	-
c) others	(205,925,868)	(152,423,847)
	(813,089,811)	(966,628,422)
Total financial income and expenses (C)	1,207,660,097	(843,885,139)
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations	-	-
19) Writedowns		
a) on equity investments	(8,400,396,263)	(175,226,612)
Total value adjustments to financial assets (D)	(8,400,396,263)	(175,226,612)
E) EXTRAORDINARY INCOME AND CHARGES		
20) Income		
- Gains from disposals	238,849,887	1,045,574
- Other income	1,447,518	22,622,268
	240,297,405	23,667,842
21) Charges		
- Losses from disposals	(70,547,485)	(512)
- Taxes for previous years	(1,213,055)	-

- Other charges	(4,274,051)	(16,459,071)
	(76,034,591)	(16,459,583)
Total extraordinary income and charges (E)	164,262,814	7,208,259
RESULT BEFORE TAXATION (A-B+C+D+E)	(7,132,060,046)	(1,320,930,133)
22) Income taxes for the year	892,097,497	449,450,647
23) NET RESULT FOR THE YEAR	(6,239,962,549)	(871,479,486)

Explanatory Notes

Form and content of the financial statements

The financial statements for the year closed at 31 December 2002 have been prepared and presented in accordance with the Italian Civil Code interpreted by the accounting principles established by the Italian Accounting Profession ("Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri"). They comprise the Balance Sheet (prepared in accordance with the formats specified in articles 2424 and 2424 bis of the Italian Civil Code), the Income Statement (prepared in accordance with the formats specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Explanatory Notes.

The Explanatory Notes are provided to illustrate, analyse and supplement the data reported in the financial statements with the information required by article 2427 of the Italian Civil Code, by other provisions of Legislative Decree no. 127/1991, or by other laws; they also provide additional information, even where not required by specific legislation, if deemed necessary to present a true and fair view.

The Explanatory Notes also include information relating to holding companies requested by the Italian Securities and Investment Board (CONSOB) in communication no. 94001437 of 23 February 1994.

Accounting policies in the valuation of financial statement items, in value adjustments and in translation of values not originally denominated in euros

The most significant accounting policies adopted for the financial statements for the year to 31 December 2002, in compliance with article 2426 of the Italian Civil Code, are as follows:

1) Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost including related accessory charges, and are amortised over their residual useful life.

Start-up and expansion costs and purchased goodwill are amortised over five and ten years respectively. Intangible fixed assets are written down to reflect any other than temporary impairment in value; their book value is reinstated in subsequent years if the reasons for such writedowns no longer apply.

2) Tangible fixed assets and depreciation

Tangible fixed assets are stated at purchase or construction cost, which includes financial charges incurred over the period of construction of the asset, if this period is of significant duration, up to the time the asset enters service. Assets are written down to reflect any other than temporary impairment in value; the original value is reinstated in subsequent periods if the reasons for such writedowns no longer exist. Ordinary depreciation is provided on a straight-line basis using rates that reflect the residual useful life of the assets concerned.

The Company also provides accelerated depreciation for some categories of assets in order to obtain the benefits deriving from deferred taxation, as allowed by current tax legislation.

Ordinary maintenance costs are charged in full to income; costs incurred that extend the useful life of assets are capitalised as part of the said assets and depreciated over the remaining useful life thereof.

3) Equity investments and securities held as financial fixed assets

Equity investments held as fixed assets are stated at purchase cost (LIFO method with annual layers), written down to reflect any other than temporary impairment in value; their original value is reinstated in subsequent years if the reasons for such writedowns no longer apply.

Securities held as fixed assets are valued at purchase cost (LIFO method with annual layers), adjusted on an accrual basis for the difference between such cost and the redemption value, written down to reflect any other than temporary impairment in value; their original value is reinstated in subsequent years if the reasons for such writedowns no longer apply.

4) Accounts receivable and payable

Accounts receivable are stated at estimated realisable value and classified under financial fixed assets or current assets. Accounts payable are stated at face value.

5) Equity investments and securities not held as financial fixed assets

Securities and equity investments in listed companies held as current assets are valued at the lower of cost and market value, the latter being determined on the basis of the stock market prices at the end of December; if the reasons for writedowns no longer apply, the original value is reinstated in subsequent years to the extent that it does not exceed the original cost.

Securities purchased through reverse repurchase agreements with an obligation of resale on maturity are classified as financial assets not held as fixed assets and stated at purchase cost.

Income and charges relating to such transactions are calculated taking into account both the difference between the spot and forward prices and the income generated by such assets over the duration of the operation and are recorded on an accrual basis.

6) Accruals, prepayments and deferrals

Costs and income common to two or more financial years are recorded under this heading to reflect the accrual accounting principle.

7) Reserves for risks and charges

Specific reserves are provided to cover known or likely losses or liabilities of a given nature, the extent or timing of which are uncertain at the end of the year; the provisions reflect, therefore, the best estimate based on the information available.

8) Employee severance indemnities

This provision is formed in accordance with current legislation and labour contracts and reflects the liability accrued to all employees at the balance-sheet date.

9) Revenues

Revenues from services are credited to income at the time the services are provided.

10) Research and development

Interest-relief grants on financial charges accruing on research loans are accounted on an accrual basis and credited directly to income for the year against financial charges.

11) Exchange rate differences arising on transactions in foreign currency and translation criteria for foreign currency items

Receivables and payables denominated in non-EMU currencies are originally translated into euros by adopting the accounting rates at the date of the respective transactions. Exchange rate differences arising at the time of collection of receivables or settlement of payables in non-EMU currencies are credited or charged to income.

Gains or losses on payables and receivables arising from application of the exchange rates in force in December are credited or charged to income for the year.

Total exchange rate differences are illustrated in the specific comment on financial income and charges.

12) Forward currency transactions

As regards forward purchase or sale transactions of foreign currency at pre-arranged exchange rates in respect of specific receivables and payables expressed in foreign currency, i.e., in respect of a net exposure in foreign currency, the difference between the exchange rate at the transaction date and the prearranged forward exchange rate is charged to income for the duration of the said transaction; furthermore, gains or losses arising from differences between the spot exchange rate at the transaction date and the spot exchange rate at the balance-sheet date are credited or charged to income, if gains or losses in respect of the foreign-currency assets and liabilities to which the transactions refer are also credited or charged to income.

Gains or losses arising from other forward purchases or sales of foreign currency at pre-arranged exchange rates, determined by reference to the comparable forward rates at the balance-sheet date, are credited or charged to income.

13) Forward interest rate transactions

Interest rate differentials to be paid or received on interest rate swaps and similar transactions accruing at the balance-sheet date are posted to income on an accrual basis under financial income and charges. Considerations for options acquired or sold in connection with forward interest rate transactions are posted to income over the duration of the options.

14) Dividends

Dividend income and the relative tax credit from subsidiary companies are entered on accrual, that is, in the year such income is formed; dividends from other equity investments are recorded on collection.

15) Capital gains from contributions in kind

Capital gains from corporate demergers and subsequent contributions are classified as extraordinary income.

16) Value adjustments and provisions charged exclusively for tax purposes

Value adjustments and provisions charged exclusively for tax purposes, comprising accelerated depreciation as allowed under specific tax laws and writedowns on equity investments, are
carried in the respective income headings.

17) Income taxes

Current tax liabilities are provided, where applicable, as amounts due to tax authorities, based on a reasonable estimate of taxation for the year. In addition, in accordance with the tax liability method, deferred taxes or prepaid taxes are recognised on all temporary differences between the book values of assets and liabilities and their corresponding tax values, applying tax rates expected in the periods in which the temporary differences will be reversed.

The benefit of tax-loss carryforwards is recognised when a reasonable certainty exists that future taxable income will be available against which such carryforwards can be utilised, in accordance with current legislation.

18) Grouping of financial statement headings

The financial statements at 31 December 2002 do not include any groupings of headings.

20) Exceptions allowed under paragraph 4, article 2423 of the Italian Civil Code.

No exceptions were applied in the attached financial statements pursuant to paragraph 4, art. 2423 of the Italian Civil Code.

Comments on assets

B) Fixed assets

I. Intangible fixed assets

Net intangible fixed assets at 31 December 2002 amounted to 179.4 million euros (249.7 million euros at 31 December 2001).

	Net value at 31.12.2001	New costs	Amortisation charges
1) Start-up and expansion costs	81,096,623	-	(30,600,392)
3) Industrial patents and intellectual property rights	1,033	-	(1,033)
7) Other			
Extraordinary maintenance and leasehold improvements	3,197,051	171,833	(1,006,708)
Costs relating to the issue of bonds	85,100,888	-	(17,385,222)
Costs relating to borrowings, sustained by Tecnost S.p.A. (merged into Olivetti in 2000)	80,327,011	-	(21,532,049)
	168,624,950	171,833	(39,923,979)
Total	249,722,606	171,833	(70,525,404)

Start-up and expansion costs at 31 December 2002 amounted to 50.5 million euros and included guarantee commissions connected with share capital increases. These costs are amortised over five years.

Extraordinary maintenance and leasehold improvements included expenses incurred for the renovation of the building provided on a free loan basis, as a contribution in kind, to the "Associazione Interaction Design Institute" of Ivrea; these costs are amortised over the term of contracts. Net value at 31 December 2002 was 2.4 million euros.

Costs relating to the issue of bonds and to borrowings amounted to 126.5 million euros at 31 December 2002 and referred to bonds issued in previous years including bonds issued by Tecnost S.p.A. (merged with Olivetti in 2000).

II. Tangible fixed assets
Breakdown of tangible fixed assets:

	Cost	Accumulated depreciation	Net book value at 31.12.2002
1) Land and buildings	-	-	
2) Plant and machinery			
General plant	27,889	(13,943)	13,946
Electronic plant	5,328,678	(5,093,525)	235,153
Machinery and specific plant	6,196,874	(6,168,704)	28,170
	11,553,441	(11,276,172)	277,269
3) Industrial and commercial equipment	10,267,336	(10,267,336)	-
4) Other asset			
Vehicles	214,498	(214,498)	-
Furniture and fittings	3,059,026	(2,291,853)	767,173

	3,273,524	(2,506,351)	767,173
5) Assets under construction and advance payments			
Assets under construction	33,343	-	33,343
Total	25,127,644	(24,049,859)	1,077,785

The gross value of tangible fixed assets changed as follows during 2002:

	Cost at 31.12.2001	Additions
1) Land and buildings	-	-
2) Plant and machinery		
General plant	27,889	-
Electronic plant	5,318,056	79,188
Machinery and specific plant	6,191,818	5,319
	11,537,763	84,507
3) Industrial and commercial equipment	10,267,336	-
4) Other assets		
Vehicles	340,349	-
Furniture and fittings	3,178,555	73,551
	3,518,904	73,551
5) Assets under construction and advance payments		
Assets under construction	33,343	-
Total	25,357,346	158,058

Changes in accumulated depreciation for 2002 were as follows:

Accumulated ordinary depreciation	Accumulated depreciatio at 31.12.2001	Provision for the year
1) Land and buildings	-	-
2) Plant and machinery		
General plant	4,182	2,789
Electronic plant	2,590,665	453,087
Machinery and specific plant	5,559,316	9,043
	8,154,163	464,919

3) Industrial and commercial equipment	6,913,294	3,099
4) Other assets		
Vehicles	228,491	-
Furniture and fittings	1,700,092	147,375
	1,928,583	147,375
Total accumulated ordinary depreciation	16,996,040	615,393
Accumulated accelerated depreciation		
1) Land and buildings	-	-
2) Plant and machinery		
General plant	4,183	2,789
Electronic plant	1,682,153	420,209
Machinery and specific plant	593,043	7,565
	2,279,379	430,563
3) Industrial and commercial equipment	3,349,394	1,549
4) Other assets		
Vehicles	111,858	-
Furniture and fittings	412,755	147,366
	524,613	147,366
Total accumulated accelerated depreciation	6,153,386	579,478
Total accumulated depreciation	23,149,426	1,194,871

Ordinary depreciation was provided at rates deemed to reflect the residual useful life of the tangible fixed assets in question.

The rates applied, reduced by 50% for assets acquired during the year, were as follows:

Plant and machinery	10% - 20%
Industrial and commercial equipment	20% - 40%
Other assets:	
Electronic office machines	20%
Office furniture and fittings	12%
Motor vehicles	25%

At 31 December 2002 fixed assets were depreciated by 95.71%, compared with 91.29% at the end of 2001.

Accelerated depreciation for the year and previous years, charged in accordance with current tax laws, was classified as a deduction of the relevant asset items.

III. Financial fixed assets

Equity investments

Equity investments at 31 December 2002 totalled 22,887.5 million euros, a decrease of 8,521.8 million euros from 31 December 2001, as analysed below:

	Net book value
As of 31 December 2001	31,409,304,298
Acquisitions, capital subscriptions, replenishment of losses and other disbursements	224,595,924
Disposals	(405,281,584)
Write-downs	(8,341,081,271)
	(8,521,766,931)
As of 31 December 2002	22,887,537,367

Changes were as follows:

- acquisitions of shares or quotas in the following companies for 67.3 million euros:
  - 7.5 million euros Thema S.p.A.
  - 14.9 million euros Mediobanca S.p.A.
  - 44.6 million euros Tiglio I S.r.l.
  - 0.3 million euros In.Tel. Audit S.c.r.l.

- share capital increases and other disbursements for 20.6 million euros relating to:
  - 20.0 million euros Olivetti Multiservices S.p.A.
  - 0.5 million euros Eurofly Services S.p.A.
  - 0.1 million euros OMS 2 S.r.l.

- replenishment of losses and capital increase for 136.7 million euros relating to Olivetti Finance N.V.;

- disposals of equity investments in the following companies for 405.3 million euros:
  - 150.2 million euros OMS 2 S.r.l.
  - 192.0 million euros SEAT Pagine Gialle S.p.A.
  - 49.1 million euros Webegg S.p.A.
  - 14.0 million euros Tredicimarzo S.r.l.

- writedowns totalling 8,341.1 million euros on the following equity investments:
  - 106.4 million euros Olivetti Tecnost S.p.A.
  - 183.6 million euros Olivetti Finance N.V.
  - 8,051.1 million euros Telecom Italia S.p.A.

During the year the OMS 2 s.r.l. company was formed and the real-estate assets of Multiservices S.p.A. were transferred to the new company under Project Tiglio. OMS 2 s.r.l. was subsequently sold to Tiglio I generating a capital gain of 71.9 million euros.

The equity investment in Telecom Italia S.p.A. during the year 2002 was written down by approximately 8,051 million euros, in compliance with current tax regulations, for tax benefit purposes only.

Likewise, during 1999 the same investment in Telecom Italia and that in Olivetti International were written down by 2,166 million euros. The Company collected, during 2002, from Telecom Italia S.p.A. dividends amounting to approximately 832 million euros (392 million of which in December) deriving from the distribution of income reserves formed prior to the acquisition of Telecom Italia. Such dividends were credited to income and not considered as a reduction of the equity investment.

Subsequently, as a result of the afore-mentioned writedowns, the higher equity investment would be considered reduced from 10,217 million euros to 9,385 million euros as the writedown applied in 1999, in compliance with tax regulations, can be considered partially reduced by the amount of the dividends themselves.

If all the above-mentioned operations would have not been effected, the net shareholders' equity at 31 December 2002 would have shown an increase of approximately 8,217 million euros (net of the relevant tax effect equal to about 1,168 million euros) and the financial years' net result would have shown an improvement of approximately 6,300 million euros (net of the relevant tax effect equal to about 919 million euros).

The breakdown of the opening balances for equity investments classified as financial fixed assets was as follows:

	Shares/quotas at 31.12.2001	Original cost	Re Losses and write-downs
Subsidiary companies			
Finsiel S.p.A	18,320	429,486	
Global Gaming Investments S.p.A in winding-up	1,300,000	1,396,896	(96,896)
Olivetti International S.A	3,999,998	442,739,664	(778,241,328)
Olivetti Multiservices S.p.A	33,131,900	176,156,192	(9,174,314)
Olivetti Finance N.V	46,905,660	46,905,655	-
Olivetti Finanziaria Industriale S.p.A	35,000,000	78,939,697	(27,556,568)
Olivetti Tecnost S.p.A	273,000,000	538,912,186	(266,801,172)
Seat P.G. S.p.A	159,614,304	192,016,008	
Telecom Italia S.p.A	2,850,255,432	32,206,376,093	(2,065,827,596)
Webegg S.p.A	6,621,432	49,049,050	-
Total subsidiary companies		33,732,920,927	(3,147,697,874)
Associated companies			
IN.VA. S.p.A	400,000	206,583	(44,817)
Consorzio per il Distretto Tecnologico del Canavese	225	117,752	-
		324,335	(44,817)
Other			
Total associated companies			

Other investments			
Consortium S.r.l	12,768,512	19,527,217	
Eurofly Service S.p.A	387,915	482,006	(1,064,845)
Fin - Priv. S.r.l	22,877	15,375,273	-
Mediobanca S.p.A	12,837,000	98,255,610	
Tredicimarzo	1	14,001,000	
		147,641,106	(1,064,845)
Other			
Total other			
Total			

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The changes in equity investments during 2002 are analysed below:

Equity investments	Book value at 31.12.2001 Shares/quotas	Amounts	Acquisitions, Shares/qu
Subsidiary companies			
Italian listed companies			
Telecom Italia S.p.A	2,850,255,432	30,140,548,497	
Seat P.G. S.p.A	159,614,304	192,016,008	
Foreign unlisted companies			
Olivetti International, S.A	3,999,998	420,926,457	
Olivetti Finance N.V	46,905,660	46,905,655	
Italian unlisted companies			
Olivetti Multiservices S.p.A	33,131,900	166,981,878	
OMS2 S.r.l			
Finsiel S.p.A	18,320	429,486	
Olivetti Tecnost S.p.A	273,000,000	208,011,014	
Webegg S.p.A	6,621,432	49,049,050	
Olivetti Finanziaria Industriale S.p.A	35,000,000	35,108,667	
Global Gaming Investments S.p.A. in winding-up	1,300,000	1,300,000	
Thema S.p.A			1,30
In.Tel.Audit.Scrl			25
Total subsidiary companies		31,261,276,712	
Associated companies			
Italian unlisted companies			
IN.VA., S.p.A	400,000	161,766	
OCN Trading S.r.l. (in winding-up)	32,000	516	
Consorzio per il Distretto Tecnologico del Canavese	225	117,752	
EO consorzio (in winding-up)	6	15,493	
Tiglio I S.r.l			45
Total associated companies		295,527	

Other investments			
Consortium S.r.l	12,768,912	19,527,217	
Eurofly Service, S.p.A	387,915	204,861	95
Fin - Priv. S.r.l	2,857	15,375,273	
Mediobanca S.p.A	12,837,000	98,255,610	1,28
Tredicimarzo S.r.l	1	14,001,000	
Societa diverse		368,098	
Total other investments		147,732,059	
Total		31,409,304,298	

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Disposals, demergers and reclassifications Shares/quotas	Amounts	Writedowns and value restorations	Book value at 31.12.2002 Shares/quotas
		(8,051,068,899)	2,850,255,432
159,614,304	(192,016,008)		
			3,999,998
		(183,620,458)	46,905,660
2,131,900	(150,100,010)		31,000,000
	(115,000)		
			18,320
		(106,391,914)	273,000,000
6,621,432	(49,049,050)		
			35,000,000
			1,300,000
			1,300,000
			250,000
	(391,280,068)	(8,341,081,271)	
			400,000
			32,000
			225
			6
			456,964
			12,768,912
			1,342,783
			2,857
			14,118,350
1	(14,001,000)		
	(516)		
	(14,001,516)		
	(405,281,584)	(8,341,081,271)	

(amounts in euros)	Share capital par value	Shareholders' equity	Net income (loss)	Shares/quotas owned	% owne
Subsidiary companies					
Italian listed companies					
Telecom Italia S.p.A.	4,023,816,861	10,955,270,523	(1,645,375,512)	2,850,255,432	38.9
Foreign unlisted companies					
Olivetti International S.A	500,000,000	373,933,790	(64,510,649)	3,999,998	100.00
Olivetti Finance N.V	46,905,660	(24,542,346)	(71,448,006)	46,905,660	100.00
Italian unlisted companies					
Finsiel S.p.A.	59,982,385	206,170,000	37,110,000	18,320	1.5
In.Tel.Audit Scrl	2,750,000	2,750,000	-	250,000	9.09
Global Gaming Investments S.p.A. in winding-up	1,300,000	977,833	(41,661)	1,300,000	100.0
Olivetti Multiservices S.p.A.	31,000,000	42,024,680	9,202,848	31,000,000	100.0
Olivetti Finanziaria Industriale S.p.A.	35,000,000	1,662,422	36,992,084	35,000,000	100.0
Olivetti Tecnost S.p.A.	273,000,000	160,654,511	(132,708,904)	273,000,000	100.0
Thema S.p.A.	1,300,000	7,673,513	671,029	1,300,000	100.0
Total subsidiary companies					
Associated companies					
Italian unlisted companies					
IN:VA S.p.A.	520,000	935,773	238,401	400,000	40.0
OCN Trading S.r.l.. (in winding-up) (***)	80,000,000	30,948	(650)	32,000	40.00
Tiglio I S.r.l.	5,255,704	497,444,772	(7,288,762)	456,964	8.8
Cons. Distret. Tecn. Canavese	472,558	368,673	(452,846)	225	24.59
Other companies					
Total associated companies					
Other investments					
Consortium S.r.l.	561,600,000	664,414,186	37,193,625	12,768,912	2.2
Fin - Priv. S.r.l.	20,000	98,155,330	2,778,391	2,857	14.2
Mediobanca S.p.A.	389,262,457	3,695,702,984	117,646,087	14,118,350	1.8
Other investments					
Total other investments					
TOTAL EQUITY INVESTMENTS					

(*) Pro-quota net equity, after distribution of dividends
(**) 39.52% (54.94% of the voting rights) taking account of the shares classified as current assets.
(o) Controlled indirectly through Telecom Italia S.p.A.
(***) The share capital is denominated in Italian Lira

A comparison of the book values of equity investments in subsidiary companies and the corresponding portions of shareholders' equity adjusted for consolidation purposes shows aggregate equity investment book value to be

18,845.3 million euros higher than aggregate shareholders' equity portions:

(in millions of euros)	Book value of equity investments (a)	Portio as ad soli attr
Equity investments the book values of which are lower than the pro-quota net equity of the relevant subsidiaries, as adjusted for consolidation purposes:		
Olivetti Multiservices S.p.A.	36.9	
Olivetti Finanziaria Industriale S.p.A.	35.1	
Thema S.p.A.	7.5	
	79.5	
Equity investments the book values of which are higher than the pro-quota net equity of the relevant subsidiaries, as adjusted for consolidation purposes:		
Telecom Italia S.p.A.	22,089.5	
Olivetti International S.A.	420.9	
Olivetti Finance N.V.	-	
Olivetti Tecnost S.p.A.	101.6	
Global Gaming Investments S.p.A. (in winding-up)	1.3	
	22,613.3	
	22,692.8	

The difference between the book value of the Telecom Italia S.p.A. equity investment and the corresponding portion of shareholders' equity adjusted for consolidation purposes (18,744.1 million euros) is 6,363.7 million euros lower than the difference in 2001. This is due to the writedown of 8,051.1 million euros applied purely for fiscal purposes pursuant to article 2426 par 2 of the Italian Civil Code, offset by the effect of the dividends distributed during the year.

The liabilities arising from the risk of uncollectibility of the higher amount of the other investments (110.7 million euros) are included in the reserve for risks and charges.

Receivables

This heading includes both short-term and medium/long-term financial receivables:

	31.12.2002	31.12.2
Amounts due within 12 months		
Current portions of subsidized loans relating to:		
Subsidiary companies	-	18,
Associated companies	-	61,

Other companies	-	64,
Getronics Solutions Italia S.p.A.	974,880	3,620,
Interest relief grants Law 346/1988	8,049,356	9,826,
Total amounts due within 12 months	9,024,236	13,590,
Amounts due after 12 months		
Portions of subsidized loans relating to subsidiary companies		
Olivetti I-Jet S.p.A.	-	18,
less: current portions	-	(18,
Total amounts due from subsidiary companies after 12 months	-	
Associated companies		
Tiglio I S.r.l.	15,784,320	
Istituto RTM S.p.A.	95,535	95,
Baltea S.r.l.	-	61,
less: current portions	-	(61,
Total amounts due from associated companies after 12 months	15,879,855	95,
Portions of subsidized loans relating to other parties		
o Nortel Italia S.p.A.	-	64,
o Consorzio per il Distretto Tecnologico del Canavese	226,760	358,
less: current portions	-	(64,
Due from tax authorities for advancess on severance indemnities	877,182	989,
Due from Allen Bradley	56,294	56,
Restricted deposit in favour of Getronics (ex Wang Lab.)	40,544,599	46,487,
Cash guarantee deposits	12,476,307	13,436,
Total amounts due from others after 12 months	54,181,142	61,328,
Total amounts due after 12 months	70,060,997	61,424,

The 4.6 million euros decrease in receivables due within 12 months from third parties compared with 31 December 2001 (13.6 million euros) was largely due to collection of receivables from Getronics Solutions Italia S.p.A. (2.6 million euros) and receivables for grants pursuant to Law 346/1998 (1.8 million euros).

Amounts due after 12 months totalled 70.1 million euros (61.4 million euros at 31 December 2001) and related in the main to a long-term loan granted to Tiglio I S.r.l. (15.8 million euros) due in December 2009 and an interest-bearing restricted deposit (40.5 million dollars at 31 December 2002), established with a leading bank to guarantee cover for any residual liabilities, in favour of Getronics (formerly Wang Laboratories).

A currency hedging contract was arranged on the deposit through a forward sale of dollars against euros. It totalled 40.5 million euros at 31 December 2002.

Treasury stock

At 31 December 2002 the Parent Company held 2,697,500 own ordinary shares (formerly savings shares converted into ordinary shares in 2000), including shares acquired from employees, for a par value, following the re-denomination of share capital in euros, of 2.7 million euros, and recorded at cost at 2.3 million euros; a special restricted reserve is carried under shareholders' equity for the same amount.

C) Current assets

II. Receivables

Receivables due within 12 months

	31.12.2002
Due from third parties	
Customers	2,351,995
Trade notes receivables	58,876
	2,410,871
less: allowance for doubtful accounts	(1,413,174)
	997,697
Due from subsidiary companies	
For supplies and other	5,711,280
Due from Telecom Italia S.p.A.. for VAT	213,916,627
Due from Olivetti Group for VAT	3,663,006
Due from Tim and Seat PG for assignments of receivables due from tax authorities	81,364,338
Due from Olivetti Finance N.V.	-
Telecom Italia dividends as accrued	-
Multiservices dividends as accrued	8,742,000
	313,397,251
Interest bearing current accounts:	
- Financing to Olivetti Tecnost S.p.A.	150,000,000
- Financing to Olivetti Multiservices S.p.A.	-
- Alladium S.p.A.	192,521
- Olivetti Multiservices S.p.A.	10,216,089
- Est S.p.A.	867,841
- Olivetti Finance N.V.	-
- Domustech S.p.A.	1,105,029
- GotoWeb S.p.A.	1,071,966
- Olivetti Tecnost S.p.A.	10,653,136
- Tecnost Sistemi S.p.A.	4,900,492
- OliWeb S.p.A.	-
- Tiemme Sistemi S.p.A.	4,717,352
- Other subsidiary companies	-
	183,724,426
	497,121,677
Due from associated companies	
for supplies and other	53,456
interest bearing current accounts	89,429
	142,885

Due from others	
Withholdings and amounts due from tax authorities	753,276,839
VAT and other amounts due from public authorities	11,114,579
Due from employees	176,517
Prepaid taxes	4,917,465
Due from Getronics	1,606,157
Amounts due from insurance companies	119,854
Receivables acquired from TechnoProduzioni S.p.A.	1,262,471
Due from Ixtant (settlement of grants accrued by Modinform)	-
Receivables acquired from Getronics S.p.A.. and O.i.S Group	60,979,538
Other	29,466,411
less: allowance for doubtful accounts	(30,084,069)
	832,835,762
Loans and interest bearing current accounts	2,789,317
	835,625,079
Total receivables due within 12 months	1,333,887,338
Summary of receivables due within 12 months	
Total receivables for suppliers and others	
Third parties	833,833,459
Group	313,450,707
	1,147,284,166
Total financial receivables	
Third parties	2,789,317
Group	183,813,855
	186,603,172
Total	1,333,887,338

Receivables due within 12 months amounted to 1,333.9 million euros, a net increase of 496.4 million euros compared with 31 December 2001.

The change arose largely as a result of an increase in receivables due from subsidiaries (81.4 million euros) in respect of ceded tax credits, an increase in financial receivables due from subsidiaries (104.2 million euros) and an increase in amounts due from tax authorities (205.2 million euros) mainly in connection with tax credits on dividends.

With the participation of Telecom Italia S.p.A. to the Group VAT system in 2002, Olivetti S.p.A. also had a receivable of 213.9 million euros due from Telecom Italia S.p.A. for VAT payables.

These higher receivables were offset by decreases in amounts due from accrued dividends (37.7 million euros), related tax credits (21.2 million euros) and amounts due from insurance companies (18.2 million euros).

Receivables due after 12 months

The balance on this heading at 31 December 2002 was 609 million euros and referred entirely to prepaid taxes arising largely from the allocation on five years of the tax benefit on the Telecom Italia S.p.A. investment writedown (8,051.1 million euros).

III. Financial assets not held as fixed assets

Other equity investments

These assets amounted to 2.7 million euros at 31 December 2002, and referred to equity investments acquiring for trading purposes in:

- Biesse S.p.A. 0.6 million euros;
- Datalogic S.p.A. 2.1 million euros;

The decrease of 4.5 million euros compared with 31 December 2001 was largely due to the sale of the equity investment in Lottomatica S.p.A. (3.3 million euros).

Miscellaneous securities

	31.12.2002	31.12.2001	Changes	Market value
Treasury Certificates (C.C.T.)	31,559,665	46,716,156	(15,156,491)	31,488,810
Long Term Treasury Bonds (B.T.P.)	15,981,202	19,612,447	(3,631,245)	16,779,455
Corporate Bonds	--	1,032,914	(1,032,914)	--
Shares	299,331,037	--	299,331,037	299,331,037
Total	346,871,904	67,361,517	279,510,387	347,599,302

The amount of 299.3 million euros of shares refers to no. 41,401,250 Telecom Italia ordinary shares purchased during the year 2002 from Olivetti Finance N.V. and valued at euro 7,23 per share, corresponding to the stock price on the last day of trading in December.

Receivables for securities held under reverse repurchase agreements

This heading reflects the purchase cost of securities acquired under agreements to resell the securities at a pre-arranged date and price.

Income and charges relating to these transactions are computed in respect of the difference between the agreed spot and forward prices and recognised on an accrual basis, under other financial income or charges.

	31.12.2002	31.12.2001	Changes
Treasury Certificates (C.C.T.)	961,066	--	961,066
Long Term Treasury Bonds (B.T.P.)	--	911,312	(911,312)
Total	961,066	911,312	49,754

D) Accrued income and prepaid expenses

	31.12.2002	31.12.2001	Changes

Accrued income			
Due within 12 months			
Interest income			
from third parties	3,019,953	1,898,916	1,121,037
from associated companies	--	1,169	(1,169)
from subsidiary companies	--	346	(346)
Interest relief grants	2,491,939	3,807,848	(1,315,909)
Total accrued income within 12 months	5,511,892	5,708,279	(196,387)
Due after 12 months			
from third parties	--	11,449,758	(11,449,758)
Total accrued income	5,511,892	17,158,037	(11,646,145)
Prepaid expenses			
Due within 12 months			
Financial charges to third parties	-	-	-
Insurance premiums and other costs to:			
third parties	3,329,179	2,259,725	1,069,454
subsidiary companies	-	-	-
Total prepaid expenses due within 12 months	3,329,179	2,259,725	1,069,454
Due after 12 months			
Financial charges from third parties	405,236,656	483,572,416	(78,335,760)
Total prepaid expenses	408,565,835	485,832,141	(77,266,306)
Total	414,077,727	502,990,178	(88,912,451)

Prepaid expenses in respect of financial charges (405.2 million euros) consist mainly of future-year portions of the redemption premium on the convertible bonds issued in 2001.

Comments on liabilities and shareholders' equity

A) Shareholders' equity

I. Share capital

The share capital of Olivetti S.p.A. at 31 December 2002, fully subscribed, paid-up and filed with the Companies Register, was represented by 8,845,239,632 ordinary shares with a par value of 1 euro each (8,783,701,564 ordinary shares at 31 December 2001) for an aggregate value of 8,845,239,632 euros (8,783,701,564 euros at 31 December 2001).

The following operations determined the net increase of 61,538,068 euros during 2002:

- share capital increases subscribed by 31 December 2001 for an aggregate amount of 839,593 euros through the issuance of 839,593 ordinary shares filed with the Companies Register in 2002, in accordance with article 2444 of the Italian Civil Code, as follows:

  - share capital increase of 780,895 euros par value through the issuance of 780,895 ordinary shares, following conversion of a similar number of "Olivetti floating rate 1998-2002" bonds;

- share capital increase of 52,575 euros par value through the issuance of 52,575 ordinary shares following exercise of a similar number of "Olivetti 1998-2002 ordinary share warrants";

- share capital increase of 6,123 euros par value through the issuance of 6,123 ordinary shares, following exercise of 12,246 "Olivetti 2001-2002 share warrants";

o share capital increases for 26,954 euros par value through the issuance of 26,954 ordinary shares following exercise in December 2001 of 21,033 "Olivetti 1998-2002 ordinary share warrants" and 11,842 "Olivetti 2001-2002 share warrants" in respect of which the corresponding shares had not yet been issued at 31 December 2001;

o share capital increases for 28,797,733 euros par value through the issuance of 28,797,733 ordinary shares following conversion of a similar number of "Olivetti floating-rate 1998-2002" bonds with a par value of 1,000 Italian each (equivalent to 0.5165 euro), after utilisation of 13,924,945 euros from the "Reserve tied to conversion of Olivetti floating rate 1998-2002 bonds" formed following re-denomination of share capital in euros;

o share capital increases for 22,831,828 euros par value through the issuance of 22,831,828 ordinary shares following exercise of a similar number of "Olivetti 1998-2002 ordinary share warrants"; the shares were issued:

- for 11,791,655 euros against payment of 0.5165 euros (equivalent to 1,000 Italian lire) per share;

- for 11,040,173 euros on a free basis through use of the "Reserve tied to exercise of Olivetti 1998-2002 ordinary share warrants" formed following re-denomination of share capital in euros;

o share capital increases for 134,430 euros par value (in addition to a share premium of 215,088 euros) through the issuance of 134,430 ordinary shares following conversion of a similar number of "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium";

o share capital increases for an aggregate amount of 5,654,982 euros par value through the issuance at par of 5,654,982 ordinary shares reserved for managers of the Parent Company and its subsidiaries following exercise of a similar number of "Olivetti 1999-2001 share warrants";

o share capital increases for 2,688 euros par value (in addition to a share premium of 8,114 euros) through the issuance of 2,688 ordinary shares following exercise of 2,400 "Olivetti ex Tecnost 1999-2004 warrants" on an exchange basis of 1.12 Olivetti shares per warrant; the issuance was effected:

- for 620 euros against payment;

- for 2,068 euros on a free basis through use of the "Reserve tied to exercise of ex Tecnost 1999-2004 warrants" formed following re-denomination of Tecnost S.p.A. share capital in euros;

o share capital increases for 20,460 euros par value (in addition to a share premium of 17,739 euros) through the issuance of 20,460 ordinary shares following exercise of 40,920 "Olivetti 2001-2002 ordinary share warrants";

o share capital increases for 3,229,400 euros par value through the issuance at par of 3,229,400 ordinary shares following conversion of a similar number of "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium".

Future potential changes in share capital

The following were still outstanding at 31 December 2002:

- 137,355,625 "Olivetti ex Tecnost 1999-2004 warrants" for subscription of 153,838,300 Olivetti ordinary shares (at a rate of 1.12 Olivetti shares for each warrant exercised) at the originally planned price per share of 2.80 euros with a 15% annual increment, for the period between 20 August 1999 and the execution date of the respective applications; the price therefore ranges (following adjustment in respect of the share capital increases executed in 2001) from 3.780 euros in the case of warrants exercised in January 2003 to 4.626 euros in relation to warrants that will be exercised in June 2004.

Consequently, should all warrants outstanding at 31 December 2002 be exercised, the aggregate value of the share capital increase, including the share premium, would vary from a minimum of 581,508,774 euros (January 2003) to a maximum of 711,655,976 euros (June 2004), with an additional amount of 118,369,170 euros from utilisation of pre-established free share capital increase reserves;

- 487,409,258 "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium" net of 2,618 bonds for which applications for conversion into shares had been received at 31 December 2002, thus reducing the value of outstanding bonds with counter-item represented by a payable due to future shareholders (the corresponding shares were issued on 15 January 2003). A total of 487,409,258 Olivetti ordinary shares could still be issued in respect of the outstanding bonds, for an aggregate par value of 487,409,258 euros (plus a share premium of 779,854,813 euros);

- 2,409,663,062 "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium" net of 14,210 bonds for which applications for conversion into shares had been received at 31 December 2002, thus reducing the value of outstanding bonds with counter-item represented by a payable due to future shareholders (the corresponding shares were issued on 15 January 2003). A total of 2,409,663,062 Olivetti shares could still be issued at par in respect of the outstanding bonds for an aggregate par value of 2,409,663,062 euros.

The Board of Directors' meeting of 24 February 2000 implemented the proxy granted pursuant to art. 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of 7 April 1999 to carry a resolution for a Three-Year Stock Option Plan from 1 January 2002 to 31 December 2004, assigning to approximately one hundred managers of the Parent Company and its subsidiaries 29,500,000 free war-

rants for subscription of an equal number of Olivetti ordinary shares at a price of 3.308 euros per share (after adjustment for the share capital increases of 2001) corresponding to the fair value of Olivetti ordinary shares at the date of the Board of Directors' meeting.

The stock options were to have been exercised in three groups in the period between 2 November and 15 December of 2002, 2003 and 2004 and could be accumulated until the end of the Plan. Subsequently, the Board of Directors' meeting of 9 February 2001 passed a resolution to reverse the previous resolution of 24 February 2000 and to raise share capital by an aggregate amount of 29 million euros through issue of 29 million shares at a subscription price of 2.515 euros per share (after adjustment for the share capital increases of 2001). The shares are reserved for managers of the Parent Company and its subsidiaries and service the warrants to be assigned to such managers under the "February 2002 - December 2004 Three-Year Stock Option Plan", with no changes to terms and conditions applying to stock options already assigned to managers on the payroll as of 24 February 2000 who had since left the Group's employ (a total of 1,330,000 rights).

Proxies assigned to Directors

The Extraordinary Shareholders' Meeting held on 7 April 1999 granted the following powers to the Directors, pursuant to arts. 2443 and 2420 ter of the Italian Civil Code, for a period of five years as from the date of the resolution:

a) to increase share capital in one or more tranches, for a maximum par value of 5 thousand billion Italian lire (2,582.3 million euros), on a free and/or payment basis, with or without share premium, through the issuance of ordinary shares and/or shares serviced with various rights, with the same characteristics as the outstanding shares, to be assigned or offered to parties with entitlement thereto, giving the Directors the right to establish, case by case, the categories of the shares, the issue price thereof, the dividend due date, the appropriation of share capital increase to service the conversion of bonds including bonds issued by third parties, both in Italy and abroad, and/or warrants, as well as the right to appropriate the increase or the increases (within the time limits set forth in art. 134 of Legislative Decree no. 58/1998), also via options, warrants, or similar rights, to employees of the Company, its controlling company and its subsidiary companies;

b) to issue bonds, in one or more tranches, and/or bonds convertible into ordinary shares and/or serviced with various rights, with the same characteristics as the outstanding bonds, with or without warrants, also issued in foreign currency, to be offered with pre-emptive rights to parties with entitlement thereto, for a maximum amount of 8 thousand billion Italian lire (4,131.7 million euros), within the limits permitted under law, on a case-by-case basis, with the consequent share capital increase to service the conversion of bonds and/or exercise of warrants, establishing the procedures, terms, conditions and regulations thereof.

On 13 October 2001, the Extraordinary Shareholders' Meeting resolved to grant proxies authorising the Directors, in accordance with article 2443 of the Italian Civil Code, to raise share capital on one or more occasions over a five-year period from the date of the resolution, by a maximum of 7 billion euros (par value) through the issuance of shares to be assigned or offered with pre-emptive rights to entitled parties and to issue bonds and/or convertible bonds - in accordance with article 2420 ter of the Italian Civil Code - up to a maximum of 10 billion euros (par value), on one or more occasions over a five-year period from the date of the resolution. These proxies are additional to existing proxies for remaining sums.

The Shareholders' Meeting of 8 May 2002 upheld the Board of Directors' proposal of 13 October 2001 and passed a resolution to revoke the non-utilised portions of the proxies pursuant to articles 2443 and 2420 ter granted with the resolutions carried by the Shareholders' Meetings of 7 April 1999 and 13

October 2001 (amounting respectively to a maximum of 6,740 million euros and 10,051 million euros). Therefore any future operation on capital or any operation that may have an effect on capital (to be executed directly or through a request for new proxies, by means of issuance of shares, convertible bonds or bonds with warrants, warrants, options or other similar rights to the Company shares) will be submitted for Shareholder approval on a case-by-case basis.

The Shareholders' Meeting of 8 May 2002 also passed a resolution empowering the Directors, pursuant to article 2420 ter of the Italian Civil Code, to issue bonds in euros or foreign currency, in one or more instances, over a maximum period of five years as from the date of the resolution, for a maximum aggregate amount of 9 billion euros, within the limits permitted under law on a case-by-case basis, and to establish the procedures, terms, conditions and regulations thereof. These bonds might be convertible into the shares of other companies, and might or might not bear warrants for the purchase of shares of other companies.

I bis. Share capital increases to be filed with the Companies Register pursuant to art. 2444 of the Italian Civil Code

The balance on this heading amounted to 200,198 euros at 31 December 2002 (839,593 euros at 31 December 2001). It reflects the par value of the shares issued by the Company in respect of share capital increases effected in 2002, which had not been filed with the Companies Register by the end of the year (141,134 shares from the exercise of 282,268 "Olivetti 2001-2002 ordinary share warrants", 2,861 shares from the conversion of a similar number of "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium" and 56,203 shares from the conversion of a similar number of "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium").

I ter. Share capital increase payments relating to shares to be issued

At 31 December 2002 the balance on this heading was zero, compared with 26,954 euros at 31 December 2001.

II. Additional paid-in capital

This reserve amounted to 3,765,365,301 euros at 31 December 2002 compared with 3,765,113,918 euros at 31 December 2001, a net increase of 251,383 euros which reflected the following movements:

- 10,442 euros relating to 12,044 shares (issued at 1.867 euros per share) arising from the exercise in December 2001 of a similar number of "Olivetti 2001-2002 share warrants", for which the relevant shares were issued in 2001 and registered in 2002 (6,123 shares) or issued and registered in January 2002 (5,921 shares);

- 215,088 euros relating to 134,430 shares issued following conversion of a similar number of bonds (with a par value of 2.60 euros per bond) of the series "Olivetti 1.5% 2001-2004 convertible with redemption premium";

- 17,739 euros relating to 20,460 shares issued (at a price of 1.867 euros per share) following exercise of 40,920 "Olivetti 2001-2002 share warrants";

- 8,114 euros relating to 2,688 shares issued following exercise of 2,400 "Olivetti ex Tecnost 1999-2004 warrants" at a price of 3.249 euros per share.

II bis. Additional paid-in capital in respect of share capital increases to be filed with the Companies Register and of shares to be issued

This reserve amounted to 126,941 euros at 31 December 2002 (10,442 euros at 31 December 2001) and comprised 122,363 euros for 141,134 shares arising from the exercise (at a price of 1.867 euros per share) of 282,268 "Olivetti 2001-2002 share warrants" and 4,578 euros for 2,861 shares arising from the conversion of a similar number of bonds with a par value of 2.60 euros per bond from the series "Olivetti 1.5% 2001-2004 with redemption premium".

III. Revaluation reserves

This heading refers to the Revaluation reserve previously stated in the books of the merged company Tecnost S.p.A. and re-formed in the books of Olivetti S.p.A. following the merger with effect from 31 December 2000; at 31 December 2002 it amounted to 1,128,827 euros, unchanged from 31 December 2001.

IV. Legal reserve

This reserve amounted to 920,809,760 euros at 31 December 2002 (unchanged from 31 December 2001).

V. Reserve for treasury stock

This reserve of 2,298,156 euros reflects the value of 2,697,500 shares issued and held by the Company and carried in the balance sheet under the appropriate financial fixed assets heading, in accordance with art. 2357 ter of the Italian Civil Code: it cannot be distributed while own shares continue to be held.

VII. Other reserves

At 31 December 2002 these reserves reflected an aggregate amount of 2,036,088,939 euros compared with 2,061,056,125 euros at 31 December 2001, a total net decrease of 24,967,186 euros.

a) Extraordinary reserve

At 31 December 2002 this reserve amounted to 1,888,261,068 euros (unchanged from 31 December 2001).

b) Restricted reserve tied to exercise of Olivetti ex Tecnost 1999-2004 warrants

This reserve is irrevocably tied to exercise of "Olivetti ex Tecnost 1999-2004 warrants". At 31 December 2001 it amounted to 118,369,170 euros compared with 118,371,238 euros at 31 December 2001; the decrease of 2,068 euros was due to the exercise of 2,400 warrants during the year. The reserve was

formed following the free share capital increase at Tecnost S.p.A. and the simultaneous re-denomination of share capital in euros; at the moment of exercise of the warrants, the unit amount of 1,436.27 Italian lire (equal to the difference between the unit counter-value of 1 euro, namely 1,936.27 Italian lire, and the pre-existing par value of 500 Italian lire per share) will be transferred to share capital in the form of a free share capital increase, as well as to take account of the joint exchange ratio of 1.12 Olivetti shares for each ex-Tecnost warrant following the merger of Tecnost S.p.A. into and with Olivetti S.p.A..

c) Restricted reserves tied to conversion of Olivetti bonds and exercise of

Olivetti warrants

These reserves (formed following the re-denomination of Olivetti share capital in euros) amounted to an aggregate 19,241,691 euros at 31 December 2002 compared with 44,206,809 euros at 31 December 2001. The decrease of 24,965,118 euros reflects:

- for 13,924,945 euros, use of the "Reserve for conversion of Olivetti floating rate 1998-2002 bonds" (which decreased from 14,852,133 euros to 927,188 euros) following conversion of 28,797,733 bonds;

- for 11,040,173 euros, use of the "Reserve for exercise of Olivetti 1998-2002 ordinary share warrants" (which decreased from 11,203,283 euros to 163,110 euros) following exercise of 22,831,828 warrants. At 31 December 2002 the heading also included the "Reserve for exercise of Olivetti 2002-2004 subscription rights (warrants or options) reserved for managers of the Parent Company and its subsidiaries" for 14,264,521 euros, unchanged from 31 December 2001, (and for 643,112 euros still restricted as tied to the exercise of no. 1,330,000 warrants still outstanding) and the "Reserve for exercise of Olivetti 1999-2001 subscription rights (warrants or options) reserved for managers of Parent Company and its subsidiaries" for 3,886,872 euros, also unchanged from 31 December 2001.

After closure of the conversion period for Olivetti 1998-2002 floating rate bonds and the exercise periods for Olivetti 1998-2002 share warrants, Olivetti 1999-2001 subscription rights, and no. 28,170,000 Olivetti 2002-2004 subscription rights (stock options) at 31 December 2002 the corresponding reserves reflected an aggregate balance of 18,598,579 euros and were no longer restricted.

d) Non-taxable reserves

These reserves, amounting overall to 10,217,010 euros (unchanged from 31 December 2002), were originally carried by Tecnost S.p.A. They were re-formed in the Olivetti balance sheet following the merger of Tecnost into and with Olivetti; the breakdown of these reserves is as follows:

- Reserve pertaining to research grants (Law no. 346/1988) for 8,741,403 euros

- Reserve pertaining to Technological Innovation grants (Law no. 46/1982) for 685,713 euros

- Reserve pertaining to capital investment grants (Law no. 64/1986) for 695,110 euros

- Reserve pertaining to VAT deductions on capital investments for 94,784 euros.

Taxes are not provided for these reserves since operations that would make them liable for taxation are not planned at the present time.

VIII. Retained earnings (accumulated losses)

At 31 December 2002 this heading reflected accumulated losses totalling 299,930,180 euros (retained earnings of 571,549,306 euros at 31 December 2001). The difference arose after the loss of 871,479,486 euros posted in 2001 was carried forward with the approval of the Shareholders' Meeting of 8 May 2002.

B) Reserves for risks and charges

2.a) Reserves for taxation

The following years are still subject to adjustment or to assessment by the tax authorities: the financial years from 1997 onwards as regards income taxes; the financial years from 1998 onwards as regards value added tax.

In 1999 the Parent Company underwent a general tax inspection conducted by the Regional Corps of the Turin Tax Police, with specific reference to the years 1994, 1995 and 1996. At the end of the inspection, the tax authorities were notified of hypothetical administrative anomalies regarding both value added tax and (predominantly) income tax. The objections regarding income tax were resolved as a result of the tax settlement agreed on 23 July 2001.

On 15 December 2000 adjustment notices were received regarding value added tax for 1994 and 1995 as a consequence of the findings of the Tax Police's report. The Company promptly presented a well-argued appeal, which was substantially accepted by the Provincial Tax Commission.

In 1994, 1995 and 1996 the Company received assessment notices relating to the income tax returns from 1988 to 1992.

With regard to the assessment relating to 1988, the authorities objected, in view of the consequent tax regime, to the treatment of lease-back contracts as financial leasing contracts. The assessments relating to 1991 and 1992 stemmed from the findings of the Regional Corps of the Trieste Tax Police with regard to usufruct on share contracts entered into by the Company in previous years, while the assessments for 1989 and 1990 concerned both matters.

With regard to usufruct on share contracts, the authorities, in separate assessments, questioned the legitimacy of the deduction of tax credits and withholdings relating to dividends collected from resident companies by the Company as usufructuary. It also alleged the joint responsibility of the Company for the failure to apply to such dividends the higher withholdings tax due on payment of share income to non-residents.

Well-argued appeals have been made against all these assessments.

The objections raised with regard to lease-back contracts have been resolved in favour of the Company and the tax authorities have not proceeded with the matter.

All the objections raised by the authorities regarding usufruct on shares for 1989, 1991 and 1992, as well as that relating to the alleged non-deductibility of tax credits and withholdings on dividends for 1990, have been rejected by the first and second degree tax commissions. Only the appeal lodged by the Company against the 1990 assessment alleging joint responsibility for lower tax withholdings has been rejected by both the provincial and regional tax commissions.

The tax authorities have submitted appeals to the Supreme Court as regards all the decisions in favour of the Company concerning the objections to usufruct on shares and the Company has lodged counter-appeals. With regard to the adverse ruling of the regional tax commission regarding the assessment of tax withholdings for 1990, the Company has lodged an appeal to the Supreme Court and the tax authorities have submitted a counter-appeal.

The Company's tax advisors believe that the dispute regarding usufruct on shares will be settled in favour of the Company since the objections raised on both matters lack any juridical basis, and the Supreme Court has already issued favourable jurisprudence in this area.

2.b) Reserve for deferred taxation

The entire reserve for deferred taxation (344.4 million euros at 31 December 2001) was reversed to income in relation to taxable result for the year and the reduction in the taxable temporary differences for which the reserve was formed in 2000; these differences were more than offset by the deductible temporary differences that arose in the year, as described in the note on prepaid tax receivables.

3) Other provisions

Other provisions at 31 December 2002 amounted to 336.3 million euros (429.5 million euros at 31 December 2001), following increases of 121.8 million euros and uses totalling 215.0 million euros.

The heading includes 23.4 million euros for deferred social security charges arising as a result of reductions in the workforce pursuant to Law 223/1991, 71.5 million euros for charges relating to commitments and possible future risks associated with the sale of OliMan Holding B.V., 222.1 million euros for risks and charges relating to investee companies and 19.3 million euros for charges relating to guarantees given in connection with the sale of subsidiary companies.

C) Reserve for employee severance indemnities

	31.12.2002	31.12.2001	C
Beginning balance	3,857,916	4,126,520	(2
Provision for the year	24,045	1,050,599	(1,0
Additional indemnities	7,424,646	1,900,561	5,5
	7,448,691	2,951,160	4,4
Indemnities paid	(8,191,475)	(2,832,851)	(5,3
Advances to employees	(17,815)	(47,529)	
Contributions paid to the National Insurance Board (INPS)	(8,700)	(11,544)	
Net transfers between Olivetti S.p.A. and Italian subsidiaries	(413,707)	(185,006)	(2
Other uses	(87,752)	(142,834)	
	(8,719,449)	(3,219,764)	(5,4
Ending balance	2,587,158	3,857,916	(1,2

D) Payables

Payables due within 12 months

	31.12.2002
Financial payables	
2) Olivetti 1998-2002 floating rate convertible bond	-
3) Due to banks	
Bank overdrafts	618,930,558
Ordinary loans	-
Current portion of loans for research activities	26,527,994
Current portion of ordinary loans	25,000,000
	670,458,552
4) Due to other lenders	
Savings deposits of employees	63,752
Other debt	-
Current portion of loans from the Tecnological Innov. Fund (FIT)	2,778,871
	2,842,623
8) Due to subsidiary companies	
Borrowings	
Olivetti Finance N.V.	368,636,730
Current portion of medium/long term loans:	
o Olivetti Finance N.V.	-
o Olivetti Holding B.V.	2,147,000,000
	2,515,636,730
Interest bearing current accounts	
Olivetti Multiservices S.p.A.	-
Jetech S.p.A.	76,804
Alladium S.p.A.	-
Olivetti Finanziaria Industriale S.p.A.	3,641,942
Antex F&A S.p.A.. (ex Olivetti Servizi Amministrativi)	-
TechnoProduzioni S.p.A.	34,254,683
Olivetti I-Jet S.p.A.	18,904,896
Tecnost Sistemi S.p.A.	42,404,916
TeleAp S.p.A.	147,719
OliWeb S.p.A.	882,843
Global Gaming Investments S.p.A.	965,013
Other subsidiary companies	146,304
	101,425,120
	2,617,061,850
Total financial payables	3,290,363,025
Non financial payables	
5) Advances	3,772,422
6) Suppliers	8,989,315
8) Subsidiary companies	
for supplies	8,980,575
other	4,162,855
	13,143,430
9) Due to associated companies	
for supplies	-
other	586,256
	586,256
11) Due to tax authorities	282,587,074

12) Due to soocial security authorities	373,603
13) Other payables	
Invoices to be received for costs on 2001 capital increases	5,955,602
Wages, salaries and social contributions	5,659,003
Other	6,071,180
	17,685,785
Total non financial payables	327,137,885
Total payables due within 12 months	3,617,500,910

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Payables due within 12 months amounted to 3,617.5 million euros at 31 December 2002 (5,050.9 million euros at 31 December 2001).

The change of 1,433.4 million euros arose largely from the decrease in the current portion due on borrowings from foreign subsidiary companies (1,908.2 million euros) set against the increase in amounts due to banks (352.1 million euros) and in non-financial payables (177.6 million euros). Payment of the current portion of the borrowing from Olivetti Holding B.V. amounting to 2,147 million euros was extended to 30 June 2003.

Payables due after 12 months

1) Bonds

Amounts due to third parties:

	31.12.2002	31.12.2001	
Olivetti S.p.A. EONIA linked notes 2001-2003 bond	-	400,000,000	(400,

The "Olivetti S.p.A. EONIA linked notes 2001-2003" bond for a par value of 400 million euros was cancelled in full as part of the debt re-financing and maturity profile improvement plan.

Amounts due to subsidiary companies:

	31.12.2002	31.12.2001
Olivetti 2002-2012 fixed rate bond issued on 26 June 2002	2,500,000,000	-
Olivetti 2002-2012 fixed rate bond issued on 23 December 2002	1,400,000,000	-
Total	3,900,000,000	-

2) Convertible bonds

	31.12.2002	31.
Olivetti 1,5% 2001-2004 convertible bond with premium upon redemption		
par value	1,267,627,834	1,267,
less: conversions into ordinary shares	(363,763)	
premium upon redemption	64,346,474	64,
	1,331,610,545	1,331,
Olivetti 1,5% 2001-2010 convertible bond with premium upon redemption		
par value	2,412,962,875	2,412,
less: conversions into ordinary shares	(3,299,813)	
premium upon redemption	442,853,902	443,
	2,852,516,964	2,856,
Total	4,184,127,509	4,188,

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The premiums on the 2001-2004 and 2001-2010 bonds, determined on the basis of 5.07759% and 18.37825% redemption increments respectively, were recorded under financial charges and deferred for amounts accruing to future years.

3) Amounts due to banks

	31.12.2002	31.12.2001	
Ordinary loans	25,000,000	90,189,979	
Loans for research	46,798,098	71,957,868	
less: current portion	(51,527,994)	(90,349,749)	
Total	20,270,104	71,798,098	

4) Amounts due to other lenders

	31.12.2002	31.12.2001	
Loans from the Tecnological Innovation Fund (FIT)	13,137,832	18,900,009	
Other lenders	24,130,742	12,234,341	
less: current portions	(2,778,871)	(5,762,176)	
Total	34,489,703	25,372,174	

5) Amounts due to subsidiary companies

	31.12.2002	31.12.2001	
Amounts due to subsidiary companies			
Olivetti Finance N.V.	3,743,567,709	5,302,415,417	(1,
	3,743,567,709	5,302,415,417	(1,
Total amounts due after 12 months	11,882,455,025	9,988,001,692	1,

With regard to amounts due to Olivetti Finance N.V., two 20 billion yen loans have been arranged at a six-monthly floating rate, expiring respectively in 2029 (referring to a capital of 174.2 million euros) and 2032 (referring to a capital of 171.5 million euros).

On both loans, cross currency and interest rate swaps have been arranged to nullify yen/euro exchange and interest risks. The hedging structure is applicable as long as Olivetti S.p.A. is in bonis.

* * *

At 31 December 2002 financial payables secured by guarantees on assets owned by the Company amounted to 20.9 million euros; these guarantees, for 22.7 million euros (34.5 million euros at 31 December 2001), consisted of pledges on securities and were provided in connection with research loans granted by San Paolo IMI.

The breakdown of medium/long-term debt, including portions due within 12 months, was as follows:

(in millions of euros)

Amounts due to subsidiary companies:
Loan from Olivetti Holding B.V., floating rate 4.74361% at 31.12.2002, extended to 30 June 2003
Loan from Olivetti Finance N.V., repaid on 26 June 2002
Loan from Olivetti Finance N.V., floating rate 8.03475% at 31.12.2002, repayable on 30 June 2004
Loan from Olivetti Finance N.V., floating rate 5.86237% al 31.12.2002, repayable on 30 June 2007
Loan from Olivetti Finance N.V., floating rate 4.131178% at 31.12.2002, repayable on 3 November 2005
Loan from Olivetti Finance N.V. - yen 20 billion - floating rate 1.140978% at 31.12.2002, repayab on 29 October 2029
Loan from Olivetti Finance N.V. - yen 20 billion - floating rate 0.07813% at 31.12.2002, repayabl on 14 May 2032
Bond issued on 26/6/2002, repayable on 26/6/2012, fixed rate 7.375%, subscribed by Olivetti Finance N.V.
Bond issued on 23/12/2002 repayable on 23/12/2012, fixed rate 6.625%, subscribed by Olivetti Finance N.V.
Amounts due to third parties:
"Olivetti 1998-2002" floating rate bond, convertible into ordinary shares, repaid in full on 30 September 2002.
"EONIA Linked Notes due 2003", EONIA rate plus 0.92%, cancelled on 23/12 2002
"Olivetti 1,5% 2001-2004 convertible bond with premium upon redemption", repayable in full on 1st January 2004
Premium upon redemption "Olivetti 1,5% 2001-2004": 5.07759% of bond par value, payable upon redemption on 1st January 2004

"Olivetti 1,5% 2001-2010 convertible bond with premium upon redemption", repayable in full on 1st January 2010
Premium upon redemption "Olivetti 1.5% 2001-2010": 18.37825% of bond par value, payable upon bond redemption on 1st January 2010
IMI loans for research pursuant Law 346/1988, average interest rate 12.4742% (gross of interest relief grants) at 31 December 2002, repayable by 2004
Subsidized loans for technological innovation, average interst rate 4.0994% at 31 December 2002, repayable by 2012
Other loans, average interest 3.638% at 31 December 2002, repayable by 2003
Other lenders

Total

of which:
Portions expiring within 12 months
Portions expiring after 12 months

Payables due after 12 months were as follows:

(in millions of euros)	al 31.12.2002	al 31.12.2001
within 2 years	4,556.2	465.7
within 5 years	3,080.5	6,487.7
after 5 years	4,245.8	3,034.6
Total	11,882.5	9,988.0

At 31 December 2002 the Company had unused overdraft facilities on current accounts of 129.5 million euros (315.4 million euros at 31 December 2001) and other unused standby lines of credit for 61 million euros (46.7 million euros at 31 December 2001).

Analysis of the financial position

	31.12.2002	31.12.2001	Changes
Financial liabilities:			
Due within 12 months	3,791,075,585	6,343,665,953	(2,552,590,368)
Due after 12 months	12,892,671,729	10,788,241,009	2,104,430,720
Total financial liabilities (A)	16,683,747,314	17,131,906,962	(448,159,648)
Medium/long-term financial assets	421,020,975	495,022,174	(74,001,199)
Financial current assets	1,062,103,484	308,724,693	753,378,791
Accrued interest income	5,511,892	5,708,279	(196,387)
Total financial resources (B)	1,488,636,351	809,455,146	679,181,205
Net financial indebtedness (A-B)	15,195,110,963	16,322,451,816	(1,127,340,853)

Net financial indebtedness at 31 December 2002 amounted to 15,195.1 million euros, a decrease of 1,127.3 million euros compared with 31 December 2001.

The change (reflecting an increase in medium/long-term debt of 2,178.4 million euros and a decrease in short-term debt of 3,305.8 million euros) was largely due to collection of dividends, disposal of equity investments, assignment of receivables due from tax authorities to Group companies, net of costs incurred mainly for financial charges.

E) Accrued expenses and deferred income

	31.12.2002	31.12.2001
Accrued expenses		
Due within 12 months		
Interest expenses and charges on loans payable to:		
Subsidiary companies		
Olivetti Holding B.V.	305,673,260	201,394,399
Olivetti Finance N.V.	117,020,093	1,206,694,659
Third parties	70,339,122	34,280,125
Insurance premiums and other		
Third parties	216,731	98,517
Total accrued expenses within 12 months	493,249,206	1,442,467,700
Due after 12 months		
Interest expenses on loans payable to:		
Subsidiary companies		
Olivetti Finance N.V.	1,010,216,704	800,239,317
Total accrued expenses after 12 months	1,010,216,704	800,239,317
Total accrued expenses	1,503,465,910	2,242,707,017
Deferred income		
Due within 12 months		
Third parties	774,348	31,561
Subsidiary companies	1,106,168	340,854
Total deferred income within 12 months	1,880,516	372,415
Total accrued expenses and deferred income	1,505,346,426	2,243,079,432

Memorandum accounts

A) Personal guarantees given and counter-securities received

At 31 December 2002 suretyships and other personal securities given directly or indirectly through banks and insurance companies totalled 15,387 million euros (17,634.5 million euros at 31 December 2001), as follows:

(in millions of euros)	al 31.12.2002
To third party holders of securities issued by subsidiary companies	15,032
To banks and finance companies for credit lines and financings given to subsidiary and associated companies	14
Counter-securities given to third parties for guarantees given on behalf of:	
subsidiary companies	72
associated and unconsolidated subsidiary companies	3
third parties	32
	15,153
Other personal guarantees given	234
Total personal guarantees given	15,387

The decrease of 2,104 in guarantees to third-party holders of securities issued by subsidiary companies refers in particular to guarantees given in respect of bond loans issued by Olivetti International Finance N.V. and Olivetti Finance N.V.

Counter-securities given to third parties for guarantees given on behalf of subsidiary companies included 52.8 million euros in favour of Telecom Italia.

Other personal guarantees, amounting to 234 million euros at 31 December 2002, referred to:

- suretyships for 3.6 million euros to guarantee fulfilment of trade supplies by Getronics S.p.A.;

- guarantees of 228.1 million euros given to the Italian State Railways in the interest of Wind S.p.A. (ex Infostrada S.p.A.);

- other guarantees for 2.3 million euros.

In respect of the above guarantees, at 31 December 2002 the Company had counter-securities totalling 290 million euros (315 million euros at 31 December 2001), including 213 million euros from Mannesmann A.G., in respect of guarantees given to the Italian State Railways, and 52.8 million euros from Telecom Italia.

B) Guarantees on company assets

Guarantees on Company assets relating to financial operations are analysed under financial payables.

C) Commitments

At 31 December 2002 contractual commitments totalled 8 million euros overall (11 million euros at 31 December 2001), down by 3 million euros.

On the same date, the heading also included a letter of indemnity in favour of Olivetti Finanziaria Industriale S.p.A. in respect of potential risks from on-going disputes.

D) Other memorandum accounts

Other memorandum accounts at 31 December 2002 amounted to 3.8 million euros relating to third-party assets held as guarantee deposits (unchanged from 31 December 2001).

Comments on the income statement

A) Value of production

5) Other revenues and income

Other revenues amounted to 13.6 million euros (15.2 million euros in 2001). They referred to services supplied and to the recovery of costs in relation to subsidiary companies.

B) Costs of production

7) Services

The amount of 26.4 million euros (49.1 million euros in 2001) consisted largely of costs incurred for services and consultancy.

9) Personnel

Payroll costs in 2002 were 13.8 million euros (13.1 million euros in 2001). The increase of 0.7 million euros arose from higher costs for retirement incentives (7.4 million euros) offset in part by the decrease in costs as a result of the reduction in the average number of employees, from 107 heads in 2001 to 78 heads in 2002 (22 managers, 12 supervisors, 44 office staff).

At 31 December 2002 there were 70 employees (89 at 31 December 2001).

10) Amortisation, depreciation and writedowns

Amortisation of intangible fixed assets - The charge for the year amounted to 70.5 million euros, of which 30.6 million euros for amortisation of costs incurred for share capital increases and 38.9 million euros for amortisation of costs relating to issuance of bond loans.

Depreciation of tangible fixed assets - Depreciation for the year (1.2 million euros) was determined on a straight-line basis by adopting rates that reflect the residual useful life of the assets.

As illustrated in the note on tangible fixed assets, accelerated depreciation was also provided, as allowed under tax laws:

(in millions of euros)	Year 2002	Year 2001	Changes
Ordinary depreciation	0.6	0.7	(0.1)
Accelerated depreciation	0.6	0.6	-
Total depreciation	1.2	1.3	(0.1)

Writedowns of receivables classified as current assets - No provision for doubtful accounts was deemed necessary in 2002; the 2001 provision was 1.5 million euros.

14) Other operational expenses

Other operational expenses amounted to 2.7 million euros in 2002 (3 million euros in 2001) and largely comprised duties and taxes other than income taxes of 0.7 million euros and contributions to public and private institutions of 0.8 million euros.

C) Financial income and charges

15) Income from equity investments

	Year 2002	Year 2001
Dividends from subsidiary companies		
Telecom Italia S.p.A.:		
accrued in the year	-	46,459,164
collected in the year	1,249,581,359	-
Finsiel S.p.A.	540,171	606,482
Olivetti Finanziaria Industriale S.p.A.	4,198,879	-
Olivetti Multiservices S.p.A., accrued in the year	8,742,000	-
	1,263,062,409	47,065,646
Tax credit		
on accrued dividends	705,555,230	356,187
on dividends collected	4,917,375	26,133,279
	1,973,535,014	73,555,112
Dividends from associated companies		
Lottomatica S.p.A.	-	5,204,783
	-	5,204,783
Tax credit	-	3,056,769
	-	8,261,552
Other dividends		
Fin - Priv. S.r.l.	-	273,915
Mediobanca S.p.A.	2,432,896	1,988,927
Tredicimarzo S.r.l.	782,910	-
Eurofly Service	496,531	-
Datalogic	11,500	-
	3,723,837	2,262,842
Tax credits	2,094,658	1,328,967
	5,818,495	3,591,809
Total	1,979,353,509	85,408,473

16) Other financial income

	Year 2002
Income from	
Receivables classified as financial fixed assets for subsidized loans pertaining to	
subsidiary companies	402
associated companies	1,355
third parties	1,418
Other from associated companies	-
Securities held as current assets	
fixed income	1,636,953
floating income	1,385,779
Receivables for securities held under reverse repurchase agreements	40,318
Other receivables from:	
subsidiary companies	
Olivetti Tecnost S.p.A.	5,933,457
Olivetti I-Jet S.p.A.	158,127
Olivetti Multiservices S.p.A.	540,861
other subsidiary companies	836,539
associated companies	151,716
others	154,354
Bank current accounts	3,590,102
Gains from exchange rate fluctuations	11,325,899
Gains from swaps	6,142,461
Other	9,496,658
Total	41,396,399

17) Interest expense and other financial charges

	Year 2002	
Interest payable to subsidiary companies		
Olivetti Tecnost S.p.A.	311,248	
Olivetti Finanziaria Industriale S.p.A.	481,740	
TechnoProduzioni S.p.A.	-	
Olivetti Holding B.V.	107,315,195	8
Tecnost Sistemi S.p.A.	-	
Olivetti Finance N.V.	497,774,288	72
other subsidiary companies	1,281,472	
Interest payable to third parties		
Bonds	148,952,776	6
Medium/long-term loans	3,468,402	2
Bank current accounts	23,834,480	2
Interest rate swaps	14,206,634	
Losses on exchange rate fluctuations	5,400,706	1
Interest, commissions and charges on other finance operations	10,062,870	1
Total	813,089,811	96

Financial charges totalled 813.1 million euros, a decrease of 153.5 million euros compared with 2001. The reduction reflected lower charges on borrowings from Olivetti Finance N.V. (224.6 million euros), due to

the fact that interest rates on new borrowings were lower than those on loans discharged during the year, set against higher charges for bonds issued in 2001 which had only a partial impact on 2001 income.

D) Value adjustments to financial assets

19) Writedowns

The writedown of 8,400.4 million euros (175.2 million euros in 2001) referred mainly to the fixed-asset equity investment in Telecom Italia S.p.A., which was written down by 8,051.1 million euros, and to Olivetti Finance N.V., which was written down by 182.5 million euros.

The heading also includes a writedown of 69.3 million euros on Telecom Italia S.p.A. shares acquired by Olivetti Finance N.V. during the year and classified as current assets, to reflect the difference between the purchase price and stock market value at 31 December 2002.

E) Extraordinary income and charges

20) Extraordinary income

	Year 2002	Year 2001	Changes
Gains on disposals			
Equity investments			
subsidiary companies	80,328,447	1,032,155	79,296,292
associated companies	-	10,106	(10,106)
other companies	158,468,340	-	158,468,340
Tangible fixed assets	53,100	3,313	49,787
	238,849,887	1,045,574	237,804,313
Other income	1,447,518	22,622,268	(21,174,750)
Total	240,297,405	23,667,842	216,629,563

Gains on disposals of equity investments in subsidiaries (80.3 million euros) include 71.8 million euros arising from the sale of OMS2 and 8.5 million euros arising from the sale of Webegg to Telecom Italia S.p.A. Other income (1.4 million euros) included collection of amounts in excess of the price paid for the repurchase of receivables by Wang Global S.p.A., now Getronics S.p.A. (0.5 million euros), the portion of the sale price of equity investments disposed of in previous years that related to the collection of research grants (0.5 million euros) and other items (0.4 million euros).

21) Extraordinary charges

Extraordinary charges amounted to 76.0 million euros (16.5 million euros in 2001) and referred to a capital loss of 70.5 million euros on the sale of Seat Pagine Gialle shares, and a charge of 3.6 million euros for costs incurred on the sale of the equity investment in Lottomatica.

22) Income taxes for the year

The overall tax benefit of 892.1 million euros arose from deferred tax assets of 609 million euros and reversal of the previously provided reserve for deferred taxes of 344.4 million euros, set against current income tax for 2002 of 61.3 million euros.

The table below illustrates the difference between effective corporate income tax (IRPEG) for the year and the theoretical tax computed with the tax rates applicable for 2002; no provisions were made with regard to the local tax on production activities (IRAP), since both the theoretical and the effective taxable amounts were negative.

Reconciliation between theoretical taxes and effective taxes reported in the income statement

IRPEG

(in millions of euros)	Result for the year	Temporary differences	Tax c Curren
Result before taxes	(7,132.0)		
Theoretical income tax charge (benefit)			(1,355.
Temporary differences taxable in the following years	(19.3)	19.3	(3.
Temporary differences deductible in the following years	6,574.2	(6,574.2)	1,249.
Reversal of temporary differences arisen in prior years	715.6	834.9	135.
Permanent differences	184.3	-	35.
Increase (decrease) of taxable income	7,454.8	(5,720.0)	1,416.
Taxable income (tax loss)	322.8	(5,720.0)	
less: Reserve for deferred taxation as of 31 December 2001			
Total income tax charge (benefit) for the year 2002			61.

The temporary differences deductible in subsequent years arose largely from the equity investment writedowns applied during the year as a result of compulsory allocation of the allowance over five years pursuant to Legislative Decree 209/2002.

The temporary differences from previous years related mainly to the capital gains recorded in 1999 (4,155.8 million euros, of which 2,493.5 million euros already taxed in previous years) on the sale of 31.5% of the equity investment in OliMan Holding B.V., taxation of which was allocated over five annual instalments.

The year's taxable income of 322.8 million euros generated a current tax charge of 61.3 million euros (19% tax rate).

The deferred tax credit of 609 million euros was determined by calculating taxes on temporary differences that will be reversed in respect of future expected taxable income (2,880 million euros) and taking account of DIT benefits.

Other information

Remunerations to Parent Company Directors, Statutory Auditors and Chief Operating Officer

In compliance with CONSOB resolution no. 11971/1999, details are provided below of the remunerations payable in 2002 by the Parent Company and also by subsidiary companies, on whatever basis and in whatever form, to Directors, Statutory Auditors and the Chief Operating Officer.

Name (A)	Office (B)	Office period (C)	Office expiry (D)
TESONE Antonio	Chairman	1/1-31/12/2002	2003 Annual Report a
	Director	1/1-31/12/2002	2003 Annual Report a
	Chairman of Internal Control and Remuneration Committees	1/1-31/12/2002	2003 Annual Report a
TRONCHETTI PROVERA Marco	Deputy Chairman and Chief Executive Officer	1/1-31/12/2002	2003 Annual Report a
	Director	1/1-31/12/2002	2003 Annual Report a
BENETTON Gilberto	Deputy Chairman and Director	1/1-31/12/2002	2003 Annual Report a
BONDI Enrico	Chief Executive Officer	1/1-5/9/2002	5 September 2002
	Director	1/1-5/9/2002	5 September 2002
BUORA Carlo	Chief Executive Officer	1/1-31/12/2002	2003 Annual Report a
	Director	1/1-31/12/2002	2003 Annual Report a
CAPRIO Lorenzo	Director	1/1-31/12/2002	2003 Annual Report a
	Member of Internal Control and Remuneration Committees	1/1-31/12/2002	2003 Annual Report a
CIRLA Giorgio	Director	1/1-31/12/2002	2003 Annual Report a
FABRIZI Pier Luigi	Director	1/1-31/12/2002	2003 Annual Report a
GERONZI Cesare	Director	1/1-31/12/2002	2003 Annual Report a
MION Gianni	Director	1/1-31/12/2002	2003 Annual Report a
MODIANO Pietro	Director	1/1-7/11/2002	7 November 2002
	Member of	1/1-7/11/2002	7 November 2002

	Remuneration Committee		
NATTINO Giampietro	Director	1/1-31/12/2002	2003 Annual Report a
PIERRI Paola	Director Member of Remuneration Committee	7/11-31/12/2002 7/11-31/12/2002	1st 2003 Shareholder 1st 2003 Shareholder
PIRELLI Alberto	Director	1/1-31/12/2002	2003 Annual Report a
PURI NEGRI Carlo Alessandro	Director	1/1-31/12/2002	2003 Annual Report a
ROCCO di TORREPADULA Giancarlo	Director	5/9-31/12/2002	1st 2003 Shareholder
TREVISAN Dario	Director	1/1-31/12/2002	2003 Annual Report a
VARISCO Alberto	Director Member of Internal Control Committee	1/1-31/12/2002 1/1-31/12/2002	2003 Annual Report a 2003 Annual Report a
Total Directors			
FORNASARI Angelo	Chairman of Board of Statutory Auditors	1/1-31/12/2002	2002 Annual Report a
BENNANI Vittorio	Statutory Auditor	1/1-31/12/2002	2002 Annual Report a
CARAMANTI Franco	Statutory Auditor	1/1-31/12/2002	2002 Annual Report a
Total Statutory Auditors			
ARIAUDO Corrado	Chief Operating Officer	1/1-31/12/2002	
TOTAL EMOLUMENTS			

Gross remunerations for the year 2002 (in euros)

Name (A)	(E) Emoluments for the office in the company drawing up the F/S (i.e. Olivetti S.p.A.)	(F) Non-cash benefits	(G) Bonuses and other incentives	(H) Other emolu Amount	Comp
TESONE Antonio	774,685 51,646 51,646				
TRONCHETTI PROVERA Marco	516,457 51,646			1,755,953(1)	Teleco
BENETTON Gilberto	51,646			103,291 12,911	Teleco Seat P

BONDI Enrico	350,908 35,091	4,711		2,055,910(2) 117,689(3)	Teleco
BUORA Carlo	516,457 51,646			2,065,828(1) 80,000	Teleco Teleco
CAPRIO Lorenzo	51,646 51,646				
CIRLA Giorgio	51,646				
FABRIZI Pier Luigi	51,646				
GERONZI Cesare	51,646				
MION Gianni	51,646(*)			103,291 80,000 103,292	Teleco Teleco Seat P
MODIANO Pietro	44,005(*) 22,002(*)				
NATTINO Giampietro	51,646				
PIERRI Paola	7,641(*) 3,820(*)				
PIRELLI Alberto	51,646				
PURI NEGRI Carlo Alessandro	51,646				
ROCCO di TORREPADULA Giancarlo	16,555			271,443	Teleco
TREVISAN Dario	51,646				
VARISCO Alberto	51,646(*) 25,823(*)				
Total Directors	3,139,775	4,711	0	6,749,609	
FORNASARI Angelo	124,000			32,260 4,388	Tecnos Alladi
BENNANI Vittorio	82,633			6,869 11,931 11,950	Alladi Techno Olivet
CARAMANTI Franco	83,833			43,571	Seat P
Total Statutory Auditors	290,466	0	0	110,969	
ARIAUDO Corrado		10,000	154,937	4,161,350(4)	
TOTAL EMOLUMENTS	3,430,241	14,711	154,937,00	11,021,928	

(1) Amount including the gross remuneration ex art. 2389 para 1 and 2 of the Italian Civil Code

(2) Amount including the gross remuneration ex art. 2389 para 1 and 2 of the Italian Civil Code, as well as bonuses and other incentives (for an amount equal to euros 650,000)

(3) Emoluments for the office of Chairman in companies controlled by Telecom Italia S.p.A. not collected but transferred to Telecom Italia.

(4) Remuneration as employee, accrued compensations and severance indemnity, as well as indemnity for the early waiver to corporate offices and stock options.

(*) Olivetti emoluments are transferred to the employing company

As requested by the Consob resolution no. 11971/1999 and subsequent amendments details are provided below of stock options assigned to the Chief Operating Officer

		Options owned at the beginning of the year			Options assigned during the year		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)
First Name and Surname	Office	Number of options	Average exercise price	Average expiry	Number of options	Average exercise price	Average expiry
Corrado ARIAUDO	Chief Operating Officer	533,332	1.00	-	-	-	-
Corrado ARIAUDO	Chief Operating Officer	2,500,000	2.515	-	-	-	-

		Options expired during the year	Options owned at the end of the year		
(A)	(B)	(10)	(11)=1+4-7-10	(12)	(13)
First Name and Surname	Office	Number of options	Number of options	Average exercise price	Average expiry
Corrado ARIAUDO	Chief O ing Officer	-	-	-	-
Corrado ARIAUDO	Chief O ing Officer	-	2,500,000	2.515	-

Tax regime in the event of distribution of reserves

- Additional paid-in capital reserve (3,765,365,301 euros). This is a capital reserve and therefore, in the event of distribution, does not contribute to the formation of shareholders' taxable income.

- Revaluation reserve (1,128,827 euros).
  In the event of distribution, this reserve contributes to the formation of Company and shareholders' taxable income.

- Reserve for treasury stock (2,298,156 euros).
  Should this reserve be made available and distributed, it would contribute to the formation of shareholders' taxable income. The shareholders would attract tax credits within the limits of the taxes paid by the Company pursuant to article 105, par 1, subheads a and b of the Income Tax Consolidated Text.

- Extraordinary reserve (1,888,261,068 euros).
  In the event of distribution, this reserve contributes to the formation of shareholders' taxable income. The shareholders would attract tax credits within the limits of the taxes paid by the Company pursuant to article 105, par 1, subheads a and b of the Income Tax Consolidated Text.

- Non-taxable reserves.

  These comprise:
  - a reserve for research grants (Law 346/1988) for 8,741,403 euros;
  - a reserve for Technology Innovation grants (Law 46/1982) for 685,713 euros;
  - a reserve for capital investment grants (Law 64/1986) for 695,110 euros;
  - a reserve for VAT deductions on capital investments for 94,784 euros.

In the event of distribution, these reserves would contribute to the formation of Company and shareholders' taxable income; should they be used for purposes other than replenishment of losses for the year, they would be treated as contributing to the formation of the Company's taxable income.

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Exhibits

Statement of Changes in Shareholders' Equity
Reclassified Income Statement
Statement of Changes in Financial Position

Olivetti S.p.A.

Statement of Changes in Shareholders' Equity

(in euros)	Share capital	Share capital increases (I bis through I quater of Shareholders' Equity)	Additi paid-in cap
Balance as of 31 December 2000	4,914,694,381	1,999,862,926	3,196,212
Appropriation of net income 2000 as resolved by the Shareholders' Meeting held on 14 June 2001			
Payment of dividends			
Conversion of no. 360,695 Olivetti f.r. 1998-2002 convertible bonds	360,695	(360,695)	
Exercise of "Olivetti common shares 1998-2002 warrants"	37,012	(37,012)	
Exercise of "Olivetti common shares 1998-2002 warrants"	26,127	(26,127)	
Merger of Tecnost S.p.A:			
Share capital increase through the issue of no. 1,999,439,092 shares in exchange for no.1,785,213,475 shares owned by third parties	1,999,439,092	(1,999,439,092)	
Conversion of no. 7,213,223 Olivetti f.r. 1998-2002 convertible bonds	3,725,319		
Use of reserve for free capital increase following the conversion of no. 7,213,223 Olivetti f.r. 1998-2002 convertible bonds	3,487,904		
Exercise of "Olivetti common shares 1998-2002 warrants"	2,009,582		
Use of the reserve for free share capital increase following the exercise of "Olivetti common shares 1998-2002 warrants"	1,881,511		
Exercise of "Olivetti ex Tecnost common shares 1999-2004 warrants"	1,685		20
Usse of the reserve for free share capital increase following the exercise of "Olivetti ex Tecnost common shares 1999-2004 warrants"	5,623		
Share capital increase resolved by the Board of Directors' Meeting held on 9 June 1999 (stock-options) in execution of the powers conferred by the Extraordinary Shareholders' Meeting held on 7 April 1999	9,408,133		11,488
Use of the reserve for free share capital increase following the exercise of Stock Options	8,808,552		
Share capital increase in March 2001 (no. 348,249,405 shares)	348,249,405		557,199
Share capital increase in November 2001 (no.1,491,373,698 shares)	1,491,373,698		
Exercise of "Olivetti common shares 2001-2002 warrants"	192,845		192
Conversion of no. 780,895 Olivetti 1998-2002 f.r. convertible bonds		403,299	
Use of the reserve for free share capital increase following the conversion of no.780,895 Olivetti 1998-2002 f. r. convertible bonds (I bis)		377,596	
Exercise of "Olivetti common shares 1998-2002 warrants" (I bis)		27,153	

Use of the reserve for free share capital increase following the exercise of "Olivetti common shares 1998-2002 warrants"		25,422	
Exercise of "Olivetti common shares 2001-2002 warrants" (I bis)		6,123	
Exercise of "Olivetti common shares 1998-2002 warrants" (I ter)		10,863	
Use of the reserve for free share capital increase following the exercise of "Olivetti common shares 1998 -2002 warrants"		10,170	
Exercise of "Olivetti common shares 2001-2002 warrants" (I ter)		5,921	
Net result of the year			
Balance as of 31 December 2001	8,783,701,564	866,547	3,765,113

		Other reserves				
Legal reserve	Reserve for treasury stock	Extraordinary reserve	Other	Retained earnings (accumulated losses)	Net result for the year	Tot
877,318,758	2,298,156	1,888,261,068	187,391,835	-	869,820,034	13,936,9
43,491,002				571,549,306	(615,040,308)	
					(254,779,726)	(254,7
						3,7
			(3,487,904)			
						2,0
			(1,881,511)			
			(5,623)			
						20,8
			(8,808,552)			
						905,4
						1,491,3
						3
						4

			(377,596)			
			(25,422)			
			(10,170)			
					(871,479,486)	(871,4
920,809,760	2,298,156	1,888,261,068	172,795,057	571,549,306	(871,479,486)	15,235,0

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(in euros)	Share capital	Share capital increases (I bis and I ter of Share-holders' Equity)	Additional paid-in capital	Ad capit share c to b Compa sha
Balance as of 31 December 2001	8,783,701,564	866,547	3,765,113,918	
Year 2001 loss coverage				
Conversion of no. 780,895 Olivetti 1998-2002 f.r. convertible bonds	780,895	(780,895)		
Exercise of "Olivetti common shares 1998-2002 warrants"	52,575	(52,575)		
Exercise of "Olivetti common shares 2001-2002 warrants"	6,123	(6,123)	5,309	
Exercise of "Olivetti common shares 1998-2002 warrants"	21,033	(21,033)		
Exercise of "Olivetti common shares 2001-2002 warrants"	5,921	(5,921)	5,133	
Conversion of no. 28,797,733 Olivetti 1998-2002 f.r. convertible bonds	14,872,788			
Use of the reserve for free share capital increase following the conversion of no. 28,797,733 Olivetti 1998-2002 f.r. convertible bonds	13,924,945			
Conversion of no. 134,430 Olivetti 1,5% 2001-2004 convertible bonds	134,430		215,088	
Exercice of no. 40,920 "Olivetti common shares 2001-2002 warrants"	20,460		17,739	
Share capital increase resolved by the Board of Directors' Meeting held on 9 June 1999 (Stock Options) in execution of the powers conferred by the Extraordinary Shareholders' Meeting held on 7 April 1999	5,654,982			
Exercise of no. 22,831,828 "Olivetti common shares 1998-2002 warrants"	11,791,655			

Use of the reserve for free share capital increase following the exercise of "Olivetti common shares 1998 -2002 warrants"	11,040,173			
Exercise of no. 2,400 "Olivetti ex Tecnost common shares 1999 -2004 warrants"	620		8,114	
Use of the reserve for share capital increase following the exercise of "Olivetti ex Tecnost common shares 1999 -2004 warrants"	2,068			
Conversion of no. 3,229,400 Olivetti 1,5% 2001-2010 convertible bonds	3,229,400			
Conversion of no. 2,861 Olivetti 1,5% 2001-2004 convertible bonds		2,861		
Exercise of no. 282,268 "Olivetti common shares 2001-2002 warrants"		141,134		
Conversion of no. 56,203 Olivetti 1,5% 2001-2010 convertible bonds		56,203		
Net result of the year				
Balance as of 31 December 2002	8,845,239,632	200,198	3,765,365,301	

Legal reserve	Reserve for treasury stock	Other reserves: Extraordinary reserve	Other reserves: Other	Retained earnings (accumulated losses)
920,809,760	2,298,156	1,888,261,068	172,795,057	571,549,306
				(871,479,486)
			(13,924,945)	
			(11,040,173)	
			(2,068)	

920,809,760	2,298,156	1,888,261,068	147,827,871	(299,930,180)

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Olivetti S.p.A.

Reclassified Income Statement

(in euros)	Year 2002	Year 2001	
Financial income and charges			
1. Income from equity investments in			
Subsidiary companies	1,973,535,014	73,555,112	1,8
Other companies	5,818,495	11,853,361	
Total income from equity investments	1,979,353,509	85,408,473	1,8
2. Other financial income from			
Receivables classified as fixed assets	3,175	14,819	
Securities classified as current assets	3,063,050	4,202,788	
Other income:			
Interest income from subsidiary companies	7,468,984	3,991,770	
Interest income from associated companies	151,716	4,516	
Interest and other financial income	30,709,474	29,120,917	
Total other financial income	41,396,399	37,334,810	
3. Interest and other financial charges payable to:			
Subsidiary companies	(607,163,943)	(814,204,575)	2
Others	(205,925,868)	(152,423,847)	(
Total interest and other financial charges	(813,089,811)	(966,628,422)	1
Total financial income and charges (1+2+3)	1,207,660,097	(843,885,139)	2,0
Value adjustments to financial assets			
4. Revaluation of equity investments	--	--	
5. Write-down of equity investments	(8,400,396,263)	(175,226,612)	(8,2
Total value adjustments to financial assets (4+5)	(8,400,396,263)	(175,226,612)	(8,2
6. Other income from operations	13,598,043	15,209,057	
Other costs from operations			
7. Non-financial services	(26,361,228)	(49,093,106)	
8. Leases and rentals	(2,383,471)	(2,532,780)	
9. Personnel	(13,757,428)	(13,100,260)	
10. Amortisation, depreciation and write-downs	(71,720,275)	(64,475,325)	
11. Provision for risk and charges	--	(191,808,785)	1
12. Miscellaneous operational expenses	(2,962,335)	(3,225,442)	

Total other costs from operations	(117,184,737)	(324,235,698)	2
Result from ordinary operations	(7,296,322,860)	(1,328,138,392)	(5,9
Extraordinary income and charges			
13. Income	240,297,405	23,667,842	2
14. Charges	(76,034,591)	(16,459,583)	(
Extraordinary income	164,262,814	7,208,259	1
Result before taxation	(7,132,060,046)	(1,320,930,133)	(5,8
15. Income taxes for the year	892,097,497	449,450,647	4
NET INCOME (LOSS) FOR THE YEAR	(6,239,962,549)	(871,479,486)	(5,3

Olivetti S.p.A.

Statement of Changes in Financial Position

(in millions of euros)	Year 2002	Year 2001
A. Net financial resources (indebtedness) at the beginning of the year	(16,322.5)	(17,990.9)
B. Cash-flow provided (used) by operating activities		
Net income (loss) for the year	(6,240.0)	(871.5)
Amortization and depreciation	71.7	63.0
Net gains from disposal of fixed assets	(9.7)	(1.0)
Writedown of fixed assets	8,341.1	64.2
Change in operating working capital	(1,268.1)	810.3
Net change in reserve for severance indemnities	(1.3)	(0.3)
	893.7	64.7
C. Cash-flow provided (used) by investing activities		
Capital investments:		
Intangible assets	(0.2)	(153.1)
Tangible assets	(0.1)	(1.4)
Financial assets	(224.6)	(438.7)
Other	7.1	-
Proceeds from the disposal of fixed assets	415.2	27.4
	197.4	(565.8)
D. Cash-flow provided (used) by financing activities		
Capital increases	36.3	2,424.3
Distribution of dividends	-	(254.8)
	36.3	2,169.5

E. Net cash-flow provided (used) in the year (B+C+D)	1,127.4	1,668.4
F. Net financial resources (indebtedness) at the end of the year (A+E)	(15,195.1)	(16,322.5)

The Board of Directors

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Consolidated Financial Statements of the Olivetti Group
at 31 December 2002

Balance Sheet
Income Statement
Explanatory Notes

Olivetti Group

Consolidated Balance Sheet (in millions of euros)

ASSETS	31.12.2002	31.12.2001
A) AMOUNTS DUE FROM SHAREHOLDERS	3	1
B) FIXED ASSETS		
I. Intangible fixed assets		
1) Start-up and expansion costs	83	126
2) Industrial patents and intellectual property rights	1,269	1,291
3) Concessions, licenses, trademarks and similar rights	3,995	4,452
4) Goodwill	17	50
5) Assets in process of formation and advance payments	832	874
6) Other assets	488	590
7) Consolidation differences	27,877	31,837
Total intangible fixed assets	34,561	39,220
II. Tangible fixed assets		
1) Land and buildings	2,245	3,137
2) Plant and machinery	14,958	16,695
3) Industrial and commercial equipment	60	83
4) Other assets	691	746
5) Assets under construction and advance payments	1,495	1,436
Total tangible assets	19,449	22,097
III. Financial fixed assets		
1) Equity investments in		
subsidiary companies	19	19
associated companies	2,101	4,651
other companies	456	387

advances on future capital contributions		1,659
2) Financial receivables		
Due within 12 months from		
others	16	82
Due after 12 months from		
subsidiary company	16	
others	14	
3) Other receivables		
Due within 12 months from		
subsidiary companies	5	2
associated companies	2	
verso altri	55	80
Due after 12 months from		
associated companies	433	117
others	232	273
4) Other securities		
Guarantee deposits	1	1
Other	303	86
5) Treasury stock	393	393
Total financial fixed assets	4,046	7,750
Total financial fixed assets (B)	58,056	69,067

ASSETS	31.12.2002
C) CURRENT ASSETS	
I. Inventories	
1) Raw, ancillary and consumable materials	30
2) Work-in progress and semi-finished products	27
3) Contract work-in progress	179
4) Finished products and goods for resale	346
5) Advances to suppliers	2
Total inventories	584
II. Receivables	
Due within 12 months from	
customers	8,119
subsidiary companies	41
associated companies	214
others	6,295
Due after 12 months from	
customers	1
others	2,065
Total receivables	16,735
III.Financial assets not held as fixed assets	
Equity investments	173
Securities	1,927
Receivables for securities held under reverse repurchase agreements	56
Total financial assets not held as fixed assets	2,156
IV. Liquid funds	
Bank and post office deposits	4,363

	Cash	7
	Total liquid funds	4,370
Total current assets (C)		23,845
D)	ACCRUED INCOME AND PREPAID EXPENSES	
	1) Discounts on bond issues and deferred charges on loans	150
	2) Other accrued income and prepaid expenses	1,330
Total accrued income and prepaid expenses (D)		1,480
TOTAL ASSETS		83,384

LIABILITIES AND SHAREHOLDERS' EQUITY		31.12.2002
A) SHAREHOLDERS' EQUITY		
I.	Share capital	8,845
I bis.	Share capital increases to be filed with the Companies Register, pursuant article 2444 of the Italian Civil Code	
I ter.	Share capital increase payments relating to shares to be issued	
II.	Additional paid-in capital	3,765
II bis.	Additional paid-in capital in respect of share capital increases to be filed with the Companies Register and of shares to be issued	
III.	Revaluation reserves	1
IV.	Legal reserve	921
V.	Reserve for treasury stock	2
VI.	Other Parent Company reserves	2,036
VII.	Reserve for Parent Company shares held by subsidiary companies	391
VIII.	Sundry reserves, retained earnings and accumulated losses	(3,548
IX.	Group income (loss) for the year	(773
Group shareholders' equity		11,640
X.	Minority interests	8,984
Total shareholders' equity (A)		20,624
B) RESERVES FOR RISKS AND CHARGES		
1)	Employee pensions and similar obligations	47
2)	Taxation	384
3)	Other provisions	5,395
Total reserves for risks and charges (B)		5,826
C) RESERVE FOR EMPLOYEE SEVERANCE INDEMNITIES		1,364

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2002	31.12.2001

D) PAYABLES		
Due within 12 months		
1) Bonds	813	180
2) Convertible bonds		16
3) Due to banks	3,926	7,412
4) Due to other lenders	1,104	412
5) Advances	270	399
6) Due to suppliers	5,657	6,351
7) Notes payable	241	
8) Due to subsidiary companies	16	27
9) Due to associated companies	625	421
10) Due to tax authorities	898	937
11) Due to social security authorities	257	284
12) Other payables	4,511	4,770
Due after 12 months		
1) Bonds	23,591	22,871
2) Convertible bonds	7,401	8,956
3) Due to banks	1,850	3,453
4) Due to other lenders	866	1,413
5) Due to suppliers	13	156
6) Notes payable		220
7) Due to associated companies	24	474
8) Due to tax authorities	29	82
9) Due to social security authorities	1,102	1,236
10) Other payables	49	181
Total payables (D)	53,243	60,251
E) ACCRUED EXPENSES AND DEFERRED INCOME		
Premiums on loan issues	37	
Other accrued expenses and deferred income	2,290	2,051
Total accrued expenses and deferred income (E)	2,327	2,051
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	83,384	94,227

MEMORANDUM ACCOUNTS	31.12.2002	31.12.2001
Personal guarantees given, net of counter-securities received	1,227	1,538
Guarantees on Group companies assets	111	163
Commitments	3,124	5,431
Other accounts	93	295
TOTAL MEMORANDUM ACCOUNTS	4,555	7,427

Olivetti Group

Consolidated Income Statement (in millions of euros)

	Year 2002	Year
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	31,408	32

2) Changes in inventories of work-in progress, semi-finished and finished products	(8)	
3) Changes in contract work-in progress	(42)	
4) Capitalised production	675	
5) Other revenues and income		
grants	20	
other	484	
Total value of production (A)	32,537	32
B) COSTS OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods for resale	2,315	2
7) Services received	9,407	9
8) Leases and rentals	1,166	1
9) Personnel		
a) Wages and salaries	3,410	3
b) Social security charges	1,008	1
c) Employee severance indemnities	218	
d) Other	101	
	4,737	4
10) Amortisation, depreciation and writedowns		
a) Amortisation of intangible fixed assets	3,462	3
b) Depreciation of tangible fixed assets	3,807	4
c) Other writedowns of fixed assets	58	
d) Writedowns of receivables classified as current assets and of liquid funds	546	
	7,873	8
11) Changes in inventories of raw, ancillary and consumable materials and goods for resale	12	
12) Provisions for risks	114	
13) Other provisions	58	
14) Other operational expenses	839	
Total costs of production (B)	26,521	27
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)	6,016	5

	Year 2002	Year 2001
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments in		
Subsidiary companies	46	9
Associated companies		8
Others	11	204
	57	221
16) Other financial income		
a) From receivables classified as fixed assets due from		
subsidiary companies		
associated companies	1	6

others	16	16
b) From securities held as fixed assets	4	3
c) From securities held as current assets	234	295
d) Other interest and financial income from		
subsidiary companies	1	1
associated companies	12	17
others	1,244	887
	1,512	1,225
17) Interest and other financial charges	(3,819)	(4,330)
Total financial income and charges (C)	(2,250)	(2,884)
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations of		
equity investments	121	168
securities held as current assets		30
	121	198
19) Writedowns of		
equity investments	(759)	(2,157)
financial fixed assets	(40)	(49)
securities held as current assets	(108)	(188)
	(907)	(2,394)
Total value adjustments to financial assets (D)	(786)	(2,196)
E) EXTRAORDINARY INCOME AND CHARGES		
20) Income		
gains on disposals	2,553	465
other income	437	531
	2,990	996
21) Charges		
losses on disposals	(236)	(48)
prior years taxation	(8)	(5)
other charges	(8,242)	(4,052)
	(8,486)	(4,105)
Total extraordinary income and charges (E)	(5,496)	(3,109)
RESULT BEFORE TAXATION AND MINORITY INTERESTS (A-B+C+D+E)	(2,516)	(3,097)
22) Income taxes for the year	2,210	(579)
RESULT AFTER TAXATION BEFORE MINORITY INTERESTS	(306)	(3,676)
23) Result after taxation attributable to minority shareholders	(467)	586
24) GROUP NET RESULT FOR THE YEAR	(773)	(3,090)

Explanatory Notes

Basis of presentation

The consolidated financial statements for the year ended 31 December 2002 have been prepared in accordance with Legislative Decree no. 127 of 9 April 1991. They comprise the Consolidated Balance Sheet (prepared in accordance with the formats specified in articles 2424 and 2424 bis of the Italian Civil Code with suitable adaptations), the Consolidated Income Statement (prepared in accordance with the formats specified in articles 2425 and 2425 bis of the Italian Civil Code with suitable adaptations) and these Explanatory Notes.

The Explanatory Notes are provided to illustrate, analyse and, in some cases, supplement the data reported in the financial statements. They include the information required by article 38 of Legislative Decree no. 127/1991 and by other provisions contained therein, as well as by provisions issued by the Italian Securities and Investments Board (CONSOB); they also provide additional information, even where not required by specific legislation, if deemed necessary to present a true and fair view.

The financial statements used for consolidation purposes are those at 31 December 2002 approved by the Shareholders' Meetings of the individual companies or prepared by the respective Boards of Directors for such approval, adjusted, where necessary, to eliminate entries recorded solely for fiscal purposes and to align the statements with the accounting policies adopted by the Group. Such accounting policies are consistent with legislation governing consolidated financial statements, interpreted by the accounting principles established by the Italian Accounting Profession.

Consolidation area

The consolidated financial statements at 31 December 2002 were prepared using the financial statements of the Parent Company Olivetti S.p.A. and those of the Groups and companies it controls directly and indirectly (that is to say, in which, at 31 December 2002, the Parent Company directly or indirectly held the majority of voting rights at ordinary Shareholders' Meetings, or sufficient votes to exercise a dominant influence), with the exception of a number of minor subsidiary companies and of companies sold since 31 December 2002. Specifically, Telecom Italia S.p.A. and its subsidiary companies (hereinafter referred to as the Telecom Italia Group), which contributed approximately 97% of consolidated revenues, were included through line-by-line consolidation of the consolidated financial statements of the Telecom Italia Group (approved by the Board of Directors and audited by Reconta Ernst & Young S.p.A.), after the necessary consolidation adjustments.

The complete list of investee companies is contained in the Exhibit to these Explanatory Notes ("List of companies included in the consolidated financial statements at 31 December 2002 and of equity investments, pursuant to articles 38 and 39 of Legislative Decree no. 127/1991").

The main changes in the Telecom Italia Group consolidation area compared with 31 December 2001 are as follows:

a) inclusion in the consolidation area:
   - for Domestic Wireline: Mediterranean Nautilus Telekomunikasyon Hizmetleri Ticaret Anonim Sirketi, Latin American Nautilus Saint Croix, Latin American Nautilus Colombia Limitada and Latin American Nautilus Bolivia;

- for Mobile: Timnet Usa, Starcel, Blu;
- for Market IT: Agrisian;
- for Group IT: Teco Soft Argentina;
- for "Others": EMSA Servizi Immobiliari, IN.TEL.AUDIT; Epiclink, Netesi.

b) exclusion from the consolidation area:
- for Domestic Wireline: Euro Datacom, TMI Italy-Canada and TMI do Brasil;
- for Mobile: Autel;
- for Internet and Media: Data House Group and some companies in the Internet Business Area;
- for Market IT: Consiel, Sogei;
- for Group IT: Teco Soft Espana;
- for "Others": the Telespazio Group, Emsa, Immsi, Telimm, Trainet, the 9Telecom Group, Indian Telecommunication Holding, Telecom Italia de Espana and Telecom Italia GmbH.

Telecom Italia S.p.A. spun off the International Wholesale Services business to Telecom Italia Sparkle S.p.A. (ex TMI Telemedia International Italia S.p.A.) and the Training business to Telecom Italia Learning Services S.p.A.

Consolidation principles

The most significant consolidation principles adopted for the consolidated financial statements at 31 December 2002 are as follows:

a) the assets and liabilities of the companies consolidated on a line-by-line basis are stated by eliminating the book value of each consolidated equity investment against the related portion of shareholders' equity.

b) unrealised gains and losses deriving from operations between Group companies are eliminated, as are all receivables, payables, dividends and transactions between companies in the consolidation area.

c) goodwill (or consolidation difference), defined as the difference between the purchase price of subsidiary companies and their current value at the time of acquisition, if positive, is classified under the asset heading "Consolidation differences", which represents the future earnings capacity of the company, and amortised over the period in which such goodwill is expected to provide benefit; if negative, it is classified under the equity reserve "Consolidation reserve". The income statements of subsidiaries acquired during the year are consolidated for the full year; pre-acquisition results not accruing to the Group are reversed under a specific income statement heading.

   Consolidation differences relating to equity investments in associated companies, if positive, are included in the investment cost and amortised over the period in which they are expected to provide benefit.

d) minority shareholders' interests in the equity and net result for the year of the consolidated subsidiaries are disclosed separately under specific headings of consolidated shareholders' equity and consolidated income respectively.

e) capital gains and losses arising from the sale of shares in Group companies to third parties are recorded under income. In the event of a share capital increase at a Group company subscribed by a minority shareholder only, any capital gains or losses arising as the difference between the value of the Group's share of equity before and after the various operations are recorded under income.

f) provisions and value adjustments recorded by consolidated companies to obtain tax benefits allowed under current legislation are eliminated from the consolidated financial statements, taking due account of any related tax effects.

Translation into euro of financial statements denominated in foreign currency

The financial statements of foreign subsidiary companies resident in non-European Monetary Union (EMU) countries are translated into euro by applying the year-end exchange rates to balance sheet headings and the average exchange rates for the year to income statement headings. Any differences arising in respect of the rates at the end of the previous financial year are reported separately under a specific consolidated shareholders' equity heading "Sundry reserves, retained earnings and accumulated losses".

The exchange rates used for currencies of non-EMU countries are set out below:

	Exchanges rates Euro/Local Currency			
				avera the ye
	31.12.2002	31.12.2001	average for the year 2002	Telecom Italia Group
European currencies				
Danish krone	7.42880	7.43650	7.43053	-
Norwegian krone	7.27560	7.95150	7.50888	-
Swedish krone	9.15280	9.30120	9.16143	-
Hungarian forint	236.290	245.180	242.959	256.624
Swiss franc	1.45240	1.48290	1.46701	-
British pound	0.65050	0.60850	0.62879	0.62187
Roumanian leu	35,134.6	27,817.2	35,134.6	27,817.2
Russian rublo	33.4790	26.8524	29.6715	26.1487
Polish zloty	4.02099	3.49530	3.85693	3.67004
Non-European currencies				
Venezuelan bolivar	1,471.33	672.432	1,471.33	679.55
Bolivian	7.85843	6.00473	6.77947	5.89386
Australian dollar	1.8556	1.72800	1.74053	-
Canadian dollar	1.65500	1.40770	1.48607	-
Hong Kong dollar	8.17810	6.87230	7.37650	6.98554
Singapore dollar	1.81990	1.63060	1.69391	-
US dollar	1.04870	0.88130	0.94540	0.89564

Japanese yen	124.3900	115.330	118.03372	-
Argentine peso	3.53412	1.49821	3.01204	0.89564
Chilean peso	755.064	577.066	651.816	567.384
Colombian peso	2,993.51	2,019.22	2,369.77248	-
Mexican peso	10.85405	8.05711	9.13752	-
South African rand	9.00940	10.43020	9.90602	-
Brazilian real	3.70537	2.08224	2.77091	2.10294
Peruvian sol	3.67150	3.03343	3.32488	-

The financial statements of companies operating in highly inflationary economies have been adjusted in accordance with inflation accounting procedures by restating historical book values on the basis of indices that reflect the real change in the purchasing power of local currencies. In order to avoid distortions to results, the year-end exchange rates have been used to translate the income statements of these companies, rather than the average rates for the year. The following companies adopt inflation accounting procedures: Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), IS Tim Telekomunikasyon Hitzmetleri A.S. (Turkey), TECO Soft Argentina and Olivetti Argentina S.A.C.e.l..

Accounting policies

The accounting policies adopted for the preparation of the consolidated financial statements comply with those established by law and are consistent with those adopted in the previous financial year. The accounting policies adopted for the various headings are illustrated below.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost including related accessory charges, and are amortised over their residual useful life; intangible fixed assets are written down to reflect any other than temporary impairment in value; their book value is reinstated in subsequent years if the reasons for such writedowns no longer apply.

Start-up and expansion costs are amortised over five years.

Industrial patents and intellectual property rights are amortised in respect of their expected useful life, over five years (for industrial patents) or predominantly over three years (software), as from the year in which they enter service.

Concessions, licences, trademarks and similar rights are amortised in respect of their expected useful life (licences are amortised over the term of the relevant contracts).

Purchased goodwill relating to the acquisition of businesses or business units is capitalised and generally amortised over five years.

Assets in process of formation and advance payments refer to costs sustained for current software development projects. Due to their nature and value, these projects are of high economic and management importance and offer significant prospects of future revenues or containment of costs.

The heading Other includes leasehold improvements (generally amortised over the term of the relevant leases), rights of way acquired by Telecom Italia to ensure extension of its transmission capacity over non-Italian territory (amortised over the residual life of the contracts with the foreign operators who own the facilities to which the rights refer).

Tangible fixed assets

Tangible fixed assets are recorded at purchase or construction cost restated in accordance with specific monetary revaluation laws and amortised over their residual useful lives.

Assets are written down to reflect any other than temporary impairment in value; the original value is reinstated in subsequent periods if the reasons for such writedowns no longer exist.

Depreciation rates applied are as follows:

Buildings	3 - 7%
Telecommunication plant and systems	3 - 33%
Plant and machinery	20 - 33%
Industrial and commercial plant	15 - 25%
Other assets	6 - 33%

Tangible fixed assets under construction are stated at the direct costs incurred.

Ordinary maintenance costs are charged in full to income.

Equity investments

Long-standing equity investments are classified as financial fixed assets; equity investments acquired for subsequent sale are classified as financial assets not held as fixed assets.

Equity investments classified as financial fixed assets in unconsolidated companies in which at least 20% of voting rights are held are valued with the equity method. Other equity investments classified as financial fixed assets in unconsolidated companies are recorded at cost written down to the corresponding portion of shareholders' equity resulting from the latest financial statements of the investee company in order to reflect other than temporary impairments in value. Losses in value in excess of the corresponding book values are recorded under reserves for risks and charges. In any case the book value of such equity investments is determined on the basis of reasonable expectations of utility and recovery in future financial periods, if lower.

Equity investments purchased for trading purposes and consequently classified under current assets, in consolidated or unconsolidated listed companies, are stated at the lower of purchase cost and realisable value based on year-end stock market prices.

Writedowns of equity investments (both those held as financial fixed assets and those held as current assets) are eliminated in subsequent years if the reasons for such writedowns no longer exist.

Other securities (other than equity investments)

Securities to be held until maturity are classified as financial fixed assets; marketable securities are classified as financial assets not held as fixed assets.

Securities held as fixed assets are stated at purchase cost adjusted on an accrual basis to reflect the difference between purchase cost and redemption value, and written down to reflect any other than temporary impairment in value.

Securities held as current assets are recorded at the lower of purchase cost, adjusted on an accrual basis to reflect the issue spread, and presumed realisable value based on market trends.

Writedowns of securities are eliminated in subsequent years if the reasons for such writedowns no longer exist.

Securities purchased through reverse repurchase agreements with an obligation of re-sale on maturity are classified as financial assets not held as fixed assets and stated at purchase cost. The differences between the spot and forward prices are charged or credited to income on an accrual basis, with a counter-item under accrued income/expenses.

Inventories

Inventories are valued at the lower of purchase or production cost and market value.

The chief methods used to determine cost are as follows:

- raw materials and finished products: LIFO based on annual layers for the Telecom Italia Group and weighted average for the Olivetti Tecnost Group;
- goods: weighted average;
- work-in-progress and semi-finished products: production cost;
- short-term contract work-in-progress: industrial cost;

- long-term contract work-in-progress: percentage of completion method, based on the agreed considerations, also taking account of presumed losses until completion and other possible related risks.

  Raw materials, finished products and goods in excess of foreseeable production requirements, slow-moving items or items subject to obsolescence are written down to presumed realisable value.

Accounts receivable and payable

Accounts receivable are stated at estimated realisable value and classified under financial fixed assets or current assets.

Accounts payable are stated at face value.

Foreign currency receivables and payables are stated on the basis of year-end exchange rates; any translation gains or losses arising in respect of the original exchange rates are recorded under "financial income" and "financial charges" respectively.

Receivables due to the consolidated subsidiary TIM from almost all its dealers are transferred to a factoring company (without recourse, within the agreed limits). As each receivable falls due, the factoring company pays TIM the relative face value, minus amounts due to dealers for services rendered. TIM has not provided guarantees in respect of this operation.

Telephone Companies Employees Social Security Fund

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 euros and 1,289 million euros (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 has been recorded in the Olivetti Group's consolidated financial statements for the purposes of determining consolidation goodwill.

Accruals, prepayments and deferrals

Accruals, prepayments and deferrals are determined to reflect the correct apportionment of costs and revenues applicable to two or more financial periods.

Reserves for risks and charges

Taxation: reserves are provided to cover presumed tax liabilities (including any surcharges and arrears interest) in respect of open or disputed positions, and also to cover deferred taxes.

In addition, deferred and prepaid taxes are recognised for temporary differences between the book value and the tax value of the assets and liabilities of the individual consolidated companies, and also for consolidation adjustments.

In accordance with prudent accounting principles, prepaid tax assets are not recognised unless there is a reasonable certainty that future taxable income will be available in the years in which the temporary differences will be reversed.

Prepaid and deferred taxes are recorded in the consolidated financial balance sheet under, respectively, the current assets heading "receivables due from others" and the "reserve for taxation" as a counter-item to "income taxes for the year".

The tax benefit of tax loss carry-forwards is recognised to the extent that there is a reasonable expectation of realising the said benefit.

Deferred taxes on equity reserves not subject to taxation of consolidated companies or companies valued with the equity method are recognised when such reserves are distributed or utilised and are thus liable for taxation.

Other provisions: these amounts are provided largely to cover likely known charges whose timing and extent are however uncertain at year-end. The provisions reflect best estimates based on the commitments undertaken and the information available.

Employee severance indemnities

This provision is formed in accordance with current legislation and labour contracts and reflects the liability accrued to all employees of the consolidated companies at the balance-sheet date. Receivables arising as a result of advance tax payments on employee severance indemnities pursuant to Law no. 662 of 23 December 1996 and subsequent amendments are shown under the financial fixed assets heading "other receivables". These receivables are re-valued in compliance with the provisions of the said law.

Grants

Grants related to income (directly credited to the income statement) and grants related to assets are recognised in the period in which the documents confirming payment are filed, or in the period in which the related costs are sustained in cases when payment is based on established procedures.

Specifically, grants related to assets are recognised on an accrual basis: they are classified as deferred income and subsequently credited to income as the assets to which they refer are amortised.

Revenues

Revenues are recognised as they arise, as follows:

a) telecommunications services: in the year the services are provided; since 1999, traffic revenues have been stated gross of amounts due to third-party operators;

b) IT operations, innovative network services and other operations: to the extent that the relevant services are provided during the year;

c) manufacturing and installation operations: on delivery of goods in the case of supplies or on completion of work in the case of services, consistently with contractual commitments;

d) office products: on delivery.

Leased assets

Assets held under finance lease contracts are classified under fixed assets and depreciated beginning from the contract date at the rates applied to proprietary assets of a similar nature. A financial payable is recorded for an equivalent amount and gradually written down as payment is made. Financial charges and amortisation charges provided in respect of leased asset values are charged to income on an accrual basis. Capital gains realised on the sale of assets to leasing companies that are immediately leased back through finance lease contracts are deferred in financial statements and credited to consolidated income over the lease term.

Dividends

Dividend income from subsidiaries is recorded on accrual (i.e., in the year in which the corresponding income is earned) and eliminated during consolidation. Deferred taxes are provided in respect of such income.

In line with accrual accounting procedures, tax credits arising on collection of dividends are also classified as deferred tax assets in the year the dividends accrue, with a balance-sheet counter-item under the heading "Prepaid taxes" in other receivables.

Dividends from non-subsidiary companies and related tax credits are recorded in the year in which such dividends are declared, which generally coincides with the year of collection.

Memorandum accounts

Guarantees given - referring in the main to suretyships - are stated for an amount reflecting the value of securities, net of counter-securities received.

Purchase and sale commitments reflect year-end contractual amounts which have not been included in the normal "operating cycle" and portions not yet executed.

Derivative instruments

Financial derivative contracts are used by the Group to hedge exposure to interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction are recognized in the statement of income.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and 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 stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and 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 realised.

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 illustrated in these notes, in the section "Hedging instruments and other derivatives".

Exceptions allowed under article 2423, paragraph 4, of the Italian Civil Code

No exceptions pursuant to article 2423, par 4, of the Italian Civil Code have been made in the financial statements as at 31 December 2002.

Changes in the application of accounting policies

No changes have been adopted in accounting or evaluation policies for financial statement items in 2002.

Comments on consolidated assets

B) Fixed assets

I. Intangible fixed assets

Net intangible fixed assets at 31 December 2002 amounted to 34,561 million euros (39,220 million euros at 31 December 2001).

(in millions of euros)	Net book value at 31.12.2001	Increases	Amortisatio
Start-up and expansion costs	126	14	(
Industrial patents and intellectual property rights	1,291	581	(1,0
Concessions, licenses, trademarks and similar rights	4,452	117	(1
Goodwill	50	3	
Assets in process of formation and advance payments	874	817	
Other	590	78	(1
Consolidation differences	31,837	346	(2,1
Total	39,220	1,956	(3,4

Start-up and expansion costs comprised costs relating to share capital increases.

Industrial patents and intellectual property rights essentially related to application software owned or licensed indefinitely, largely attributable to the Telecom Italia Group.

Concessions, licences, trademarks and similar rights amounted to 3,995 million euros, a decrease of 457 million euros caused mainly by exchange rate changes in South American countries (-650 million euros). They referred chiefly to the residual cost of UMTS and PCS licences.

Assets in process of formation and advance payments amounted to 832 million euros and reflected costs sustained by Telecom Italia for current software development projects.

The heading Other reflected a balance of 488 million euros, including:

a) 222 million euros for leasehold improvements;

b) 42 million euros for bank fees and commissions in respect of the public tender offer on Telecom Italia;

c) 148 million euros for bond issuance expenses.

Consolidation differences (or consolidation goodwill) at 31 December 2002 amounted to 27,877 million euros (31,837 million euros at 31 December 2001) and included:

- 20,692 million euros for the acquisition of 52.12% of the ordinary share capital of Telecom Italia, net of amortisation totalling 4,446 million euros.

Aggregate consolidation goodwill was originally stated at 25,534 million euros (justified by stock market prices, availability of the majority of voting rights and earnings expectations as a result of implementation of the Industrial Business Plan drawn up at the time of the public tender offer), to be amortised over 20 years beginning from the second half of 1999;

- 659 million euros for Telecom Italia shares purchased since the public tender offer, net of amortisation of 102 million euros;

- 6,509 million euros for the acquisition by the Telecom Italia Group of the equity investment in Seat Pagine Gialle and other companies.

  The balance on the heading decreased by 3,960 million euros from 2001 as a result of writedowns of 1,903 million euros generated by the Telecom Italia Group, current amortisation charges totalling 2,142 million euros and the impact of Latin American currency devaluation on goodwill denominated in such currencies.

II. Tangible fixed assets

At 31 December 2002 net tangible fixed assets amounted to 19,449 million euros (22,097 million euros at 31 December 2001) and comprised:

	Gross value	Accumulated depreciation	Net book value at 31.12.2002	Net book value at 31.12.2001

(in millions of euros)	at 31.12.2002	at 31.12.2002	(a)	(b)
Land and buildings	3,712	1,467	2,245	3,137
Plant and machinery	56,801	41,843	14,958	16,695
Equipment	1,043	983	60	83
Other assets	2,101	1,410	691	746
Assets under construction	1,495	0	1,495	1,436
Total	65,152	45,703	19,449	22,097

Changes in tangible fixed assets during 2002 were as follows:

(in millions of euros)	
Net book value as of 31 December 2001	22,097
Additions	3,291
Depreciation charges	(3,807)
Changes in the consolidation area	(313)
Disposals	(541)
Translation differences and other changes	(1,278)
Net book value as of 31 December 2002	19,449

Additions totalled 3,291 million euros, of which 3,258 million euros for the Telecom Italia Group and 33 million euros for the other Group companies.

Additions at the Telecom Italia Group were as follows:

(in millions of euros)	Year 2002
Domestic Wireline	1,828
Mobile	1,075
South America	201
Internet and Media	28
Market IT	12
Group IT	85
Sundry operations and consolidation adjustments	29
Total	3,258

Additions for the other Group companies totalled 33 million euros and related to the Olivetti Tecnost Group for 26 million euros and the Olivetti Multiservices Group for 7 million euros.

Depreciation was provided at rates deemed to reflect the residual useful life of the assets concerned and related to the period of utilisation as regards additions for the period.

III. Financial fixed assets

Financial fixed assets at 31 December 2002 amounted overall to 4,046 million euros compared with 7,750 million euros at 31 December 2001, as follows:

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Equity investments	2,576	5,057	(2,481)
Advances on future capital contributions	-	1,659	(1,659)
Financial receivables	46	82	(36)
Other receivables due from:			
subsidiary companies	5	2	3
associated companies	435	117	318
other companies	287	353	(66)
Other securities	304	87	217
Treasury stock	393	393	-
Total	4,046	7,750	(3,704)

Equity investments

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Change (a-b
Equity investments in unconsolidated subsidiary companies	19	19	
Equity investments in associated companies	2,101	4,651	(2,55
Equity investments in other companies	456	387	6
Total	2,576	5,057	(2,48

Equity investments in associated companies (2,101 million euros as of 31 December 2002) comprised:

(in millions of euros)	Net book value as of 31.12.2002	Net book value as of 31.12.2001	Changes
Telekom Austria	708	1,460	(752)
GLB Servicos Interativos	13	24	(11)
Solpart Participacoes	142	238	(96)
Mobilkom Austria	-	544	(544)
AUNA	-	690	(690)
Etec S.A.	467	551	(84)
Telekom Srbija	187	195	(8)
IS TIM	-	81	(81)

B.D.T.	-	158	(158)
IM.SER	12	141	(129)
Netco Redes	22	125	(103)
Telemaco immobiliare	-	91	(91)
Tiglio I	242	-	242
Tiglio II	74	-	74
Mirror International Holding	94	94	-
Italtel Holding	43	65	(22)
Stream	19	32	(13)
Other	78	162	(84)
Total	2,101	4,651	(2,550)

The aggregate value of these equity investments includes the residual amount to be amortised (504 million euros at 31 December 2002 and 1,688 million euros at 31 December 2001) of the positive consolidation difference arising at the time of acquisition between the purchase cost and the value of the corresponding net equity portion of the investee companies. The consolidation difference mainly referred to Telekom Austria (315 million euros) and Etec S.A. (100 million euros).

Other receivables

Other receivables classified as financial fixed assets (but not included in the net financial position) amounted to 727 million euros at 31 December 2002 (of which 62 million euros short-term and 665 million euros medium/long-term). They included 94 million euros for receivables, including revaluations, arising from advance tax payments on employee severance indemnities, 435 million euros due from associated companies, mainly for borrowings granted by the Telecom Italia Group to its foreign investee companies, and 85 million euros for loans to personnel.

At 31 December 2001 other receivables amounted to 472 million euros, of which 82 million euros short-term and 390 million euros medium/long-term.

Other securities

The balance on this heading at 31 December 2002 totalled 304 million euros (87 million euros at 31 December 2001).

Treasury shares held by the Parent Company and by its subsidiary Olivetti International S.A.

At 31 December 2002 Olivetti S.p.A. and Olivetti International S.A. held a total of 214,628,828 Parent Company ordinary shares, carried at a book value of 393 million euros. Treasury shares held by the Parent Company Olivetti S.p.A. (2,697,500) are carried at 2 million euros and arose partly from purchases authorised by the Shareholders' Meeting of stock held by employees of the Parent Company and its subsidiaries. The shares held by Olivetti International S.A. (211,931,328) were obtained in joint exchange for Tecnost S.p.A. shares following the upstream merger of Tecnost into Olivetti and are carried at an aggregate value of 391 million euros, the original book value of the Tecnost shares.

C) Current assets

I. Inventories

Net inventories at 31 December 2002 amounted to 584 million euros (861million euros at 31 December 2001):

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Raw, ancillary and consumable materials	30	42	(12)
Work-in progress and semifinished products	27	29	(2)
Total manufacturing inventories	57	71	(14)
Finished products and goods for resale:			
in respect of group core business	323	409	(86)
property for sale	23	27	(4)
	346	436	(90)
Contract work-in progress	179	352	(173)
Advance payments	2	2	-
Total	584	861	(277)

Long-term contract work-in-progress reflected considerations due under contractual terms, according to the percentage of completion method.

Property for sale comprised land and buildings already owned by the Olivetti Group, as well as residential real estate whose construction or restructuring had not been completed by the contractors at 31 December 2002.

II. Receivables

Accounts receivable not held as fixed assets amounted to 16,735 million euros at 31 December 2002 (14,488 million euros at 31 December 2001).

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Receivables due within 12 months	14,669	13,760	909
Receivables due after 12 months	2,066	728	1,338
Total	16,735	14,488	2,247

Receivables due within 12 months

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Financial receivables:			
Interest-bearing current accounts and loans			
subsidiary companies	23	7	16
associated companies	12	206	(194)
third parties	960	599	361
	995	812	183
Non financial receivables due from:			
subsidiary companies	18	25	(7)
associated companies	202	363	(161)
trade customers	8,967	9,081	(114)
others	5,374	4,354	1,020
	14,561	13,823	738
less: allowance for doubtful accounts	(887)	(875)	(12)
Totale	14,669	13,760	909

Trade receivables before allowances for bad debts amounted to 8,967 million euros and referred in the main to amounts due for telecommunications services and supplies of office products. They related to Telecom Italia (3,753 million euros), TIM (1,404 million euros) and the Seat Pagine Gialle Group (894 million euros). They also included 1,107 million euros for amounts due from other telecommunications services providers.

Receivables were written down to estimated realisable value. Such writedowns mainly concerned amounts due to the Group's telecommunications companies.

During 2002, Telecom Italia S.p.A. transacted securitisation operations which generated a decrease of 849 million euros in trade receivables at 31 December 2002, of which 757 million euros were not yet due, and a decrease of 826 million euros in net financial indebtedness.

Factoring operations totalling 3,969 million euros were also arranged, of which 3,843 million euros relating to the Telecom Italia Group and 126 million euros to other Group companies; ceded receivables not yet due at 31 December 2002 amounted to 585 million euros.

Other short-term non-financial receivables amounted to 5,374 million euros (4,354 million euros at 31 December 2001), as follows:

(in millions of euros)	31.12.2002	31.12.20
Subsidies and grants due from the State and other public bodies	59	
Amounts collected from customers, currently being credited	98	2

Amounts due from tax authorities	2,092	2,2
Prepaid taxes	2,151	9
Amounts due from employees	95	
Sundry amounts due (from the State and other public bodies)	879	8
Total	5,374	4,3

Receivables due after 12 months

Receivables due after 12 months amounted to 2,066 million euros at 31 December 2002 (728 million euros at 31 December 2001), as follows:

o 2,039 million euros for prepaid taxes (704 million euros at 31 December 2001), of which 210 million euros for the entry in the Olivetti consolidated financial statements only of the Telephone Companies Employee Social Security Fund payable (which the Telecom Italia Group accounts for on a cash basis);

o 27 million euros for other receivables (24 million euros in 2001).

III. Financial assets not held as fixed assets

These assets totalled 2,156 million euros at 31 December 2002 (4,013 million euros at 31 December 2001).

(in millions of euros)	31.12.2002 (a)	31.12.20 (
Equity investments in subsidiary companies	169	2
Equity investments in associated companies	-	1
Other equity investments	4	
Securities	1,927	3,6
Receivables for securities held under reverse repurchase agreements	56	
Total	2,156	4,0

Equity investments available for future divestments are classified under current assets and carried at the lower of purchase cost and estimated realisable value based on December stock market prices.

At 31 December 2002, equity investments in subsidiary companies amounted to 169 million euros and related primarily to shares held by companies in the Telecom Italia Group. The reduction was largely due to the Telecom Italia writedown on TIM shares.

Equity investments acquired for trading purposes relating to listed companies, including companies consolidated on a line-by-line basis, are classified as Securities and carried at the lower of purchase cost and estimated realisable value based on year-end stock market prices.

Securities amounted overall to 1,927 million euros at 31 December 2002 and were held in the main by Group finance companies in connection with trading activities; they included 278 million euros for securities held by the Telecom Italia Group and 1,649 million euros for securities held by other Olivetti Group companies, in particular bonds (517 million euros), own bonds (649 million euros) and other securities (483 million euros).

IV. Liquid funds

At 31 December 2002 liquid funds amounted to 4,370 million euros (3,702 million euros at 31 December 2001), including 1,255 million euros for the Telecom Italia Group. They consisted mainly of cash held in bank current accounts.

D) Accrued income and prepaid expenses

Accrued income and prepaid expenses amounted to 1,480 million euros at 31 December 2002 (2,095 million euros at 31 December 2001).

(in milions of euros)	31.12.2002 (a)	31.12.2001 (b)	Chang (a-
Accrued income:			
interest income			
within 12 months	358	366	
after 12 months		12	(
other	9	100	(
Total accrued income	367	478	(1
Prepaid expenses:			
interest charges			
within 12 months	22	59	(
after 12 months	465	693	(2
other	476	734	(2
Discounts on bond issues and other similar charges on loans	150	131	
Total prepaid expenses and discounts	1,113	1,617	(5
Total	1,480	2,095	(6

Prepaid expenses in respect of financial charges due after 12 months amounted to 465 million euros at 31 December 2002 and consisted of the redemption premium on the Olivetti 1.5% 2001-2004 and Olivetti 1.5% 2001-2010 bonds issued by the Parent Company in 2001 and on the 2000-2005 1% Bond exchangeable for Telecom Italia shares issued by Olivetti Finance N.V., for the portions not accruing in 2002.

Comments on liabilities and shareholders' equity

A) Shareholders' equity

I. Share capital

The share capital of Olivetti S.p.A. at 31 December 2002, fully subscribed, paid-up and filed with the Companies Register, was represented by 8,845,239,632 ordinary shares with a par value of 1 euro each (8,783,701,564 ordinary shares at 31 December 2001) for an aggregate value of 8,845,239,632 euros (8,783,701,564 euros at 31 December 2001).

The following operations determined the net increase of 61,538,068 euros during 2002:

o share capital increases subscribed by 31 December 2001 for an aggregate amount of 839,593 euros, filed with the Companies Register in January 2002, as follows:

- 780,895 euros following conversion of 780,895 "Olivetti floating rate 1998-2002" bonds;

- 52,575 euros following exercise of 52,575 "Olivetti 1998-2002 ordinary share warrants";

- 6,123 euros following exercise of 12,246 "Olivetti 2001-2002 share warrants";

o share capital increases for an aggregate 26,954 euros following exercise in December 2001 of 21,033 "Olivetti 1998-2002 ordinary share warrants" and 11,842 "Olivetti 2001-2002 share warrants" in respect of which the corresponding shares were issued and filed with the Companies Register in 2002;

o share capital increases for an aggregate 32,161,563 euros following the conversion of bonds, comprising:

- 28,797,733 euros following conversion of 28,797,733 "Olivetti floating rate 1998-2002" bonds with a par value of 1,000 Italian lire each (equivalent to 0.5165 euro), after utilisation of 13,924,945 euros from the "Reserve tied to conversion of Olivetti floating rate 1998-2002 bonds" formed following re-denomination of share capital in euros;

- 134,430 euros following conversion of 134,430 "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium" (in addition to a share premium of 215,088 euros);

- 3,229,400 euros following conversion of 3,229,400 "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium";

o share capital increases for an aggregate 28,509,958 euros following exercise of warrants, comprising:

- 22,831,828 euros par value following exercise of "Olivetti 1998-2002 ordinary share warrants"; this increase consisted of 11,791,655 euros against payment of 0.5165 euros (equivalent to 1,000 Italian lire) per share and 11,040,173 euros on a free basis (through use of the "Reserve tied to exercise of Olivetti 1998-2002 ordinary share warrants" formed following the re-denomination of share capital in euros);

- 5,654,982 euros par value following exercise of a similar number of "Olivetti 1999-2001 share warrants" assigned to Parent Company and subsidiary managers;

- 2,688 euros par value (in addition to a share premium of 8,114 euros) following exercise of 2,400 "Olivetti ex Tecnost 1999-2004 warrants" on an exchange basis of 1.12 Olivetti shares per warrant; the issue was effected for 620 euros against payment and for 2,068 euros on a free basis through use of the "Reserve tied to exercise of ex Tecnost 1999-2004 warrants" formed following the re-denomination of Tecnost S.p.A. share capital in euros;

- share capital increase for 20,460 euros par value (in addition to a share premium of 17,739 euros) following exercise of 40,920 "Olivetti 2001-2002 ordinary share warrants".

Future potential changes in share capital and proxies assigned to Directors

The following were still outstanding at 31 December 2002:

- 137,355,625 "Olivetti ex Tecnost 1999-2004 warrants" with a floating exercise price. Exercise of these warrants would determine an aggregate share capital increase including the share premium varying from a minimum of 581.5 million euros (January 2003) to a maximum of 711.7 million euros (June 2004), as well as 118.4 euros from utilisation of pre-established free share capital increase reserves;

- 487,409,258 "Olivetti 1.5% 2001-2004 convertible bonds with redemption premium" which would generate a share capital increase for an aggregate par value of 487.4 million euros (in addition to a share premium of 779.9 million euros);

- 2,409,663,062 "Olivetti 1.5% 2001-2010 convertible bonds with redemption premium" in respect of which a similar number of Olivetti ordinary shares could still be issued at 31 December 2002 for an aggregate par value of 2,409.7 million euros.

The Board of Directors' meeting of 24 February 2000 implemented the proxy granted pursuant to art. 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of 7 April 1999 to carry a resolution for a Three-Year Stock Option Plan from 1 January 2002 to 31 December 2004, assigning to approximately one hundred managers of the Parent Company and its subsidiaries 29,500,000 free warrants for subscription of an equal number of Olivetti ordinary shares at a price of 3.308 euros per share (after adjustment for the share capital increases of 2001) corresponding to the normal value of Olivetti ordinary shares at the date of the Board of Directors' meeting.

The warrants were to have been exercised in three groups in the period between 1 November and 15 December of 2002, 2003 and 2004 and could be accumulated until the end of the Plan.

Subsequently, the Board of Directors' meeting of 9 February 2001 passed a resolution to revoke the previous resolution of 24 February 2000 and to raise share capital by an aggregate amount of 29 million euros through issue of 29 million shares at a subscription price of 2.515 euros per share (after adjustment for the share capital increases of 2001). The shares are reserved for managers of the Parent Company and its subsidiaries and service the warrants to be assigned to such managers under the "February 2002 - December 2004 Three-Year Stock Option Plan", with no changes to terms and conditions applying to stock options (a total of 1,330,000) already assigned to managers on the payroll as of 24 February 2000 who had since left the Group's employ.

The Shareholders' Meeting of 8 May 2002 upheld the Board of Directors' proposal of 13 October 2001 and passed a resolution to revoke the non-utilised portions of the proxies pursuant to articles 2443 and 2420 ter granted with the resolutions carried by the Shareholders' Meetings of 7 April 1999 and 13 October 2001 (amounting respectively to a maximum of 6,740 million euros and 10,051 million euros). Therefore any future operation on capital or any operation that may have an effect on capital (to be executed directly or through a request for new proxies, by means of issuance of shares, convertible bonds or bonds with warrants, warrants, options or other similar rights to the

Company shares) will be submitted for Shareholder approval on a case-by-case basis.

The Shareholders' Meeting of 8 May 2002 also passed a resolution empowering the Directors, pursuant to article 2420 ter of the Italian Civil Code, to issue bonds in euros or foreign currency, in one or more

instances, over a maximum period of five years as from the date of the resolution, for a maximum aggregate amount of 9 billion euros, within the limits permitted under law on a case-by-case basis, and to establish the procedures, terms, conditions and regulations thereof.

I bis. Share capital increases to be filed with the Companies Register pursuant to art. 2444 of the Italian Civil Code

The balance on this heading amounted to 200,198 euros at 31 December 2002 (839,593 euros at 31 December 2001). It reflects the par value of the shares issued by Olivetti S.p.A. in respect of share capital increases effected in 2002, which had not been filed with the Companies Register by the end of the year.

I ter. Share capital increase payments relating to shares to be issued

At 31 December 2002 the balance on this Parent Company heading was zero (26,954 euros at 31 December 2001).

II. Additional paid-in capital

This Parent Company reserve amounted to 3,765,365,301 euros at 31 December 2002 compared with 3,765,113,918 euros at 31 December 2001, a net increase of 251,383 euros which reflected the following movements:

- 10,442 euros relating to 12,044 shares (issued at 1.867 euros per share) arising from the exercise in December 2001 of a similar number of "Olivetti 2001-2002 share warrants" for which the relevant shares were issued in 2001 and registered in 2002 (6,123 shares) or issued and registered in January 2002 (5,921 shares);

- 215,088 euros relating to 134,430 shares issued following conversion of a similar number of bonds (with a par value of 2.60 euros per bond) of the series "Olivetti 1.5% 2001-2004 convertible with redemption premium";

- 17,739 euros relating to 20,460 shares issued (at a price of 1.867 euros per share) following exercise of 40,920 "Olivetti 2001-2002 share warrants";

o 8,114 euros relating to 2,688 shares issued following exercise of 2,400 "Olivetti ex Tecnost 1999-2004 warrants" at a price of 3.249 euros per share.

II bis. Additional paid-in capital in respect of share increases to be filed with the Companies Register and of shares to be issued

This Parent Company reserve (which is not shown in the Consolidated Balance Sheet given the immaterial amount involved) amounted to 126,941 euros at 31 December 2002 (10,442 euros at 31 December 2001).

III. Revaluation reserves

This Parent Company reserve of 1,128,827 euros (unchanged from 31 December 2001) consists of the revaluation reserve originally stated in the books of the merged company Tecnost S.p.A. and re-formed in the books of Olivetti S.p.A..

IV. Legal reserve

This Parent Company reserve amounted to 920,809,760 euros at 31 December 2002 (unchanged from 31 December 2001).

V. Reserve for treasury stock

This Parent Company reserve of 2,298,156 euros reflects the value of 2,697,500 shares issued and held by Olivetti S.p.A. and carried in the balance sheet under the appropriate financial fixed assets heading.

VII. Other reserves

a) Other Parent Company reserves

At 31 December 2002 these reserves reflected an aggregate amount of 2,036,088,939 euros compared with 2,061,056,125 euros at 31 December 2001, a total net decrease of 24,967,186 euros.

1) Extraordinary reserve

At 31 December 2002 this reserve amounted to 1,888,261,068 euros (unchanged from 31 December 2001).

2) Restricted reserve tied to exercise of Olivetti ex Tecnost 1999-2004 warrants

This reserve was formed following the free share capital increase at Tecnost S.p.A. and the simultaneous re-denomination of share capital in euros. It is irrevocably tied to exercise of "Olivetti ex Tecnost 1999-2004 warrants". At 31 December 2002 it amounted to 118,369,170 euros, down by 2,068 euros from 31 December 2001 due to exercise of 2,400 warrants during the year.

3) Restricted reserves tied to conversion of Olivetti bonds and exercise of Olivetti warrants

These reserves (formed following the re-denomination of Olivetti share capital in euros) amounted to an aggregate 19,241,691 euros at 31 December 2002 compared with 44,206,809 euros at 31 December 2001. The decrease of 24,965,118 euros reflects:

- for 13,924,945 euros, use of the "Reserve for conversion of Olivetti floating rate 1998-2002 bonds" (which decreased from 14,852,133 euros to 927,188 euros) following conversion of 28,797,733 bonds;

- for 11,040,173 euros, use of the "Reserve for exercise of Olivetti 1998-2002 ordinary share warrants" (which decreased from 11,203,283 euros to 163,110 euros) following exercise of 22,831,828 warrants.

At 31 December 2002 the heading also included the "Reserve for exercise of Olivetti 2002-2004 subscription rights (warrants or options) reserved for managers of the Parent Company and its subsidiaries" for 14,264,521 euros, unchanged from 31 December 2001, (and for 643,112 euros still restricted as tied to the exercise of no.1,330,000 warrants still outstanding), and the "Reserve for exercise of Olivetti 1999-2001 subscription rights (warrants or options) reserved for managers of Parent Company and its subsidiaries" for 3,886,872 euros, also unchanged from 31 December 2001.

After closure of the conversion period for Olivetti 1998-2002 floating rate bonds and the exercise period for Olivetti 1998-2002 share warrants, Olivetti 1999-2001 subscription rights and no. 28,170,000 Olivetti 2002-2004 subscription rights (stock options), at 31 December 2002 the corresponding reserves, which reflected an aggregate balance of 18,598,579 euros, were no longer restricted.

4) Non-taxable reserves

These reserves, amounting overall to 10,217,010 euros (unchanged from 31 December 2002), were originally carried by Tecnost S.p.A. They were re-formed in the Olivetti balance sheet following the merger of Tecnost into and with Olivetti. Taxes are not provided for these reserves since operations that would make them liable for taxation are not planned at the present time.

b) Reserve for Parent Company shares held by subsidiary companies

This reserve amounted to 391 million euros at 31 December 2002 (unchanged from 31 December 2001) in respect of 211,931,328 Olivetti shares held by the subsidiary Olivetti International S.A., and received in exchange for Tecnost S.p.A. shares following the merger of Tecnost into and with Olivetti.

VIII. Sundry reserves, retained earnings and accumulated losses

At 31 December 2002 this heading reflected a negative balance of 3,548 euros (a negative balance of 107 million euros at 31 December 2001). It included sundry reserves, retained earnings/accumulated losses, exchange rate differences from the translation of financial statements denominated in foreign currency and other net equity headings relating to subsidiaries that were not eliminated during consolidation.

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Total Group shareholders' equity

At 31 December 2002 consolidated shareholders' equity pertaining to the Group amounted to 11,640 million euros (12,729 million euros at 31 December 2001).

The reconciliation of the consolidated net result pertaining to the Group and the Parent Company net result for 2002 is set out below:

(in millions of euros)

Net result shown in the Olivetti S.p.A. statutory financial statements as of 31 December 2002
Elimination of dividend income from subsidiary companies

Elimination of the writedown of Telecom Italia equity investment recorded by the Parent Company f tax purposes only	
Amortization of consolidation goodwill on the acquisition of Telecom Italia shares	
Results of subsidiary companies as adjusted for consolidation purposes and other changes	
Net result shown in the consolidated financial statements of the Olivetti Group as of 31 December 2002	

The reconciliation of consolidated shareholders' equity pertaining to the Group and Parent Company shareholders' equity at 31 December 2002 is set out below:

(in millions of euros)

Amount shown in the Olivetti S.p.A. statutory financial statements as of 31 December 2002	
Lower carrying value in Olivetti S.p.A. statutory accounts of Telecom Italia equity investment	
Higher carrying value in Olivetti S.p.A. statutory accounts of other equity investments with respect to the relevant shareholders' equity portions (as adjusted for consolidation purposes)	
Other differences	
Amount shown in the consolidated financial statements of the Olivetti Group as of 31 December 200	

X. Minority interests

Minority interests at 31 December 2002 and 2001 were as follows:

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Chang (a-
Reserves	8,517	14,210	(5,6
Result of the year	467	(586)	1,0
Total	8,984	13,624	(4,6

Total shareholders' equity

Total shareholders' equity at 31 December 2002 and 2001 (Group shareholders' equity and minority interests) amounted to 20,624 million euros and 26,353 million euros respectively, and comprised:

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Chang (a-
Capital and reserves			
Group	12,413	15,819	(3,4

minority interests	8,517	14,210	(5,6
	20,930	30,029	(9,0
Net result of the year			
Group	(773)	(3,090)	2,3
minority interests	467	(586)	1,0
	(306)	(3,676)	3,3
Total	20,624	26,353	(5,7

B) Reserves for risks and charges

Reserves for risks and charges at 31 December 2002 and 2001 amounted to 5,826 million euros and 4,158 million euros respectively and comprised:

1) Employee pensions and similar obligations

This reserve includes liabilities accruing to the employees of a number of Group companies operating abroad. At 31 December 2002 it amounted to 47 million euros, compared to 66 million euros at 31 December 2001.

2) Taxation

This reserve includes the provision for tax risks and the provision for deferred taxes.

The reserve for tax risks is provided in relation to potential charges on open or disputed tax positions. At 31 December 2002 it amounted to 344 million euros (378 million euros at 31 December 2001), of which 198 million euros relating to the Telecom Italia Group (154 million euros at 31 December 2001), 103 million euros to Olivetti Finance N.V. (202 million euros at 31 December 2001) and 43 million euros to other Olivetti Group companies.

The tax position of the Parent Company Olivetti S.p.A. is illustrated in the Explanatory Notes to the Olivetti S.p.A. Financial Statements.

Deferred taxes and prepaid taxes are calculated on temporary differences between the tax values of assets and liabilities and the corresponding book values carried in the Group companies' balance sheets used for consolidation purposes, as well as on consolidation adjustments, based on local tax rates in each country.

Deferred taxes and prepaid taxes are set off only when permitted under tax laws and for each financial year in which temporary differences are expected to be reversed.

Deferred tax liabilities which are not set off against prepaid taxes are included in the Reserve for deferred taxes, while prepaid taxes which are not set off against deferred taxes are classified under the current assets heading Other receivables.

The balance on deferred and/or prepaid taxes at 31 December 2002 reflected a net tax asset of 4,150 million euros, compared with a net tax asset of 1,314 million euros at 31 December 2001, and comprised:

(in millions of euros)	31.12.2002	31.12.2001	Chang
Reserves for deferred taxes	40	381	(3
Prepaid tax assets	(4,190)	(1,695)	(2,4
Net tax liability (asset)	(4,150)	(1,314)	(2,8

Prepaid tax assets referred to the Telecom Italia Group for 3,546 million euros and to Olivetti S.p.A. for 624 million euros.

As of 31 December 2002 Olivetti Group companies had tax losses brought forward, not utilised to post deferred tax assets, representing an aggregate amount of approximately 3,200 million euros.

3) Other provisions

At 31 December 2002 these reserves amounted to an overall total of 5,395 million euros (3,333 million euros at 31 December 2001). They included reserves provided by Telecom Italia Group companies for 4,950 million euros, as follows:

o provisions of 293 million euros for risks relating to investee companies, consisting largely of extraordinary charges relating to the new strategic guidelines;

o a provision of 1,942 million euros relating to forward purchase commitments on Seat Pagine Gialle shares, for the estimated unrecoverable amount of the original strike price: following re-negotiation of the strike price on 25 February 2002, the entire 2001 provision of 569 million euros was re-classified under payables due to other lenders; in November the payable was early repaid to JP Morgan Chase with a consideration of 500 million euros, equivalent to the present value of the payable;

o a provision of 43 million euros at Seat Pagine Gialle, for charges relating to the exercise of put options by the founder shareholders of Consodata S.A.;

o provisions of 850 million euros at TIM, to cover guarantees given by the Group in favour of Is Tim bank creditors and the loan granted directly by the Group;

o provisions for contractual and sundry risks totalling 946 million euros, mainly at Telecom Italia; these included current and prior-year provisions relating to the spin-off of the "Grandi Immobili" business and the disposals of Italtel, Telespazio and the satellite consortia; the amounts reversed to income related almost entirely to the termination of the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+ (59 million euros);

o provisions of 299 million euros for restructuring charges, including 194 million euros at Telecom Italia;

o provisions of 453 million euros for technological upgrades and charges relating to Tim's regulatory position;

o provisions of 124 million euros at Telecom Italia Finance (ex Sogerim) for financial charges on the bond loan.

The other reserves of 445 million euros for the other Olivetti Group companies included provisions of 201 million euros for contractual risks arising from the disposal of equity investments.

C) Reserve for employee severance indemnities

This heading reflects accrued severance liabilities pursuant to current legislation and employment contracts in the countries in which the consolidated companies operate.

The movements on the reserve during 2002 were as follows:

(in millions of euros)

Balance as of 31 December 2001	1,414
Indemnity accrued	216
Indemnities paid in the year	(168)
Other changes, net	(98)
Balance as of 31 December 2002	1,364

D) Payables

Payables at 31 December 2002 totalled 53,243 million euros (60,251 million euros at 31 December 2001), of which 40,631 million euros were financial payables (46,819 million euros at 31 December 2001) and 12,612 million euros were trade and other payables (13,432 million euros at 31 December 2001).

Financial payables

	31.12.2002			
(in millions of euros)	short-term	long-term	total	short-t
Bonds				
Telecom Italia Group	113	10,511	10,624	
Olivetti S.p.A				
Finance companies controlled by Olivetti	700	13,080	13,780	
Total	813	23,591	24,404	
Convertible bonds				
Telecom Italia Group		1,964	1,964	
Olivetti S.p.A		4,184	4,184	
Finance companies controlled by Olivetti		1,253	1,253	
Total		7,401	7,401	
Due to banks				
Telecom Italia Group	3,225	1,803	5,028	6,
Other companies	701	47	748	

Total	3,926	1,850	5,776	7,
Due to other lenders				
Telecom Italia Group	775	644	1,419	
Other companies	329	222	551	
Total	1,104	866	1,970	1,
Due to suppliers				
Telecom Italia Group	8	13	21	
Other companies				
Total	8	13	21	
Notes payable				
Telecom Italia Group	241		241	
Other companies				
Total	241		241	
Due to subsidiary companies				
Telecom Italia Group	8		8	
Other companies				
Total	8		8	
Due to associated companies				
Telecom Italia Group	374	24	398	
Other companies				
Total	374	24	398	
Due to tax authorities				
Telecom Italia Group	18	14	32	
Other companies	8		8	
Total	26	14	40	
Other payables				
Telecom Italia Group	327	45	372	
Other companies				
Total	327	45	372	
Total				
Telecom Italia Group	5,089	15,018	20,107	9,
Other companies	1,738	18,786	20,524	
Consolidation adjustments				(
Total	6,827	33,804	40,631	9,

The Olivetti Group's main debt components are illustrated below:

Telecom Italia Group

Bonds amounted to 10,624 million euros, an increase of 2,441 million euros compared with 31 December 2001. They were as follows:

o an international bond issued by the subsidiary company Sogerim (merged with Telecom Italia Finance) for a total of 6,000 million euros. The issue was subdivided into three tranches: one, floating rate notes for 1,000 million euros maturing 20 April 2004; two, fixed rate bonds for 3,000 million euros maturing 20 April 2006; three, fixed rate bonds for 2,000 million euros maturing 20 April 2011;

o floating rate notes for a total of 1,500 million euros issued by Telecom Italia (the first issue in the Global Medium Term Note Programme with Telecom Italia as issuer). The bond matures on 21 June 2005, and is callable at par by the issuer as from the end of second year and with each subsequent coupon;

o bonds maturing in 2003 issued by Brazil's Tele Nordeste Celular and Tele Celular Sul for an aggregate amount of 108 million euros;

o bonds maturing between 2007 and 2023 issued by Entel Chile for an aggregate amount of 208 million euros;

o bonds issued by the TDL Infomedia Ltd. Group, maturing between 2009 and 2010, for an aggregate amount of 116 million euros.

o a 2,500 million euro fixed rate bond issued by Telecom Italia on 1 February 2002 and subdivided into two 1,250 million euro tranches maturing on 1 February 2007 and 1 February 2012 respectively. The issue is part of the "Global Note Programme";

o a 2002 - 2022 bond reserved for current and retired employees of Italian companies controlled directly and indirectly by Telecom Italia, for 192 million euros.

Convertible bonds refer to a bond issued in March 2001 by Sogerim (merged with Telecom Italia Finance) for 2,500 million euros, exchangeable into TIM or Seat Pagine Gialle shares, with the issuer having the right to make a cash settlement. The bond matures after five years, with early redemption rights for investors as from the end of the third year. The bond was reduced by 536 million euros due to the bond buy-back by Telecom Italia Finance, which subsequently cancelled the notes.

Amounts due to banks amounted to 5,028 million euros and were collateralised by mortgages for 25 million euros and pledges for 229 million euros; the decrease in respect of 31 December 2001 was 5,207 million euros.

Amounts due to other lenders totalled 1,419 million euros, a decrease of 744 million euros from 31 December 2001. They include amounts due at Seat Pagine Gialle for a loan granted by Seat Pagine Gialle Finance s.r.l., a corporate securitisation vehicle wholly owned by third parties, which operates pursuant to law no. 130/99 (780 million euros), amounts due at Telecom Italia for short-term loans granted by T.I. Securitisation Vehicle s.r.l. for surplus liquidity generated in connection with the securitisation operation (165 million euros), and loans granted to Telecom Italia by the Cassa Depositi e Prestiti (284 million euros).

Amounts due to associated companies amounted to 398 million euros, and included 393 million euros for amounts due to Teleleasing in respect of finance lease contracts.

Amounts due to tax authorities totalled 32 million euros and referred to the agreements with the tax authorities regarding the notices of assessment served on Telecom Italia in 2001.

Amounts due in respect of notes payable totalled 241 million euros. They comprised investment certificates of 221 million euros maturing in June 2003 issued by Seat Pagine Gialle as part of the securitisation operation with Seat Pagine Gialle Finance s.r.l. and short-term finance bills for 20 million euros issued by Telecom Italia.

Other payables amounted to 372 million euros. They included 181 million euros at Telecom Italia (including 176 million euros for security lending operations) and 161 million euros at the TIM Group for residual amounts due to the Ministry of Communications for acquisition of the UMTS licence in Italy and Greece.

Other companies

Bonds amounted overall to 13,780 million euros. For each one, the original rate and any credit protection step-ups are disclosed separately below. All hedging operations are analysed in the section "Hedging instruments and other derivatives".

o Olivetti International N.V. - 700 million euros

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

o Olivetti International N.V. - 1,500 million euros

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

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

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

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

  - bond (1999-2004) with a fixed annual 5 3/8% coupon + 0.45% step-up maturing in July 2004;

o Olivetti Finance N.V. - 200 million euros

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

o Olivetti Finance N.V. - 500 million euros

  - bond (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;

o Olivetti Finance N.V. - 1,100 million euros

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

o Olivetti Finance N.V. - 1,750 million euros

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

o Olivetti Finance N.V. (originally Olivetti International Finance N.V.) -

2,350 million euros

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

o Olivetti Finance N.V. - 1,000 million euros

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

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

- 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);

o Olivetti Finance N.V. - 250 million euros

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

All the above Olivetti Finance N.V. bonds were issued under the Euro Medium Term Note programme (EMTN).

Convertible bonds amounted overall to 5,437 million euros, as follows:

o Olivetti Finance N.V.: 2000-2005 bond for 765 million euros 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 euros per bond) maturing in November 2005. The loan determined an aggregate payable of 868 million euros. The yield on maturity is 3.5% per annum and the exchange will be one Telecom Italia share for each bond;

o Olivetti S.p.A.: 2001-2004 bond for 1,267 million euros 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 euros per bond) maturing in January 2004. The loan determined an aggregate payable of 1,331 million euros. The yield on maturity is 3.25% per annum and the conversion rate is one Olivetti share for each bond.

o Olivetti Finance N.V.: 2002-2004 zero-coupon bond for 385 million euros maturing in March 2004. The loan is convertible into 41,400,000 Telecom Italia ordinary shares (at an exercise price of 9.30 euros per share);

o Olivetti S.p.A.: 2001-2010 bond for 2,410 million euros convertible into Olivetti S.p.A. 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. The loan determined an aggregate payable of 2,853 million euros. The yield on maturity is 3.5% per annum and the conversion rate is one Olivetti share for each bond.

Amounts due to banks amounted to an aggregate 748 million euros (630 million euros at 31 December 2001). The main items were as follows:

o Olivetti S.p.A.:

- IMI research loans pursuant to law no. 346/1988, for 47 million euros, average rate of 12.4742% at 31 December 2002 before interest-relief grants, to be repaid by the end of 2004 (27 million euros falling due by 31.12.2003);

- other loans totalling 644 million euros, average rate of 3.886% at 31.12.2002, to be repaid by the end of 2003.

o Olivetti Tecnost Group:

- loans totalling 40 million euros (13 million euros falling due by 31.12.2003); - other short-term payables for 17 million euros.

Amounts due to other lenders amounted to an aggregate 551 million euros, as follows:

o Olivetti S.p.A.: subsidised loans for technological innovation (FIT) totalling 13 million euros (3 million euros falling due by 31.12.2003), average rate of 4.0994% at 31.12.2002, to be repaid by 2012;

o other loans for 32 million euros;

o other companies:

- a financing contract for 174 million euros due 29.10.2029 granted to Olivetti International Finance N.V. by a Japanese investor; the borrowing previously took the form of a bond loan; this 20 billion yen loan bears a fixed 5% coupon + 0.45% step-up in relation to a notional capital of 185.6 million US dollars;

- other loans totalling 31 million euros (5 million euros falling due by 31.12.2003);

- short-term payables due to other lenders for 301 million euros.

* * *

Financial payables totalling 40,631 million euros may be analysed by currency as follows:

(in millions of euros)	31.12.2002	31.12.2001
EMU currencies	35,465	42,502
Other currencies	5,166	4,317
Total	40,631	46,819

At 31 December 2002 financial payables due after five years amounted to 12,703 million euros, as follows:

(in millions of euros)	31.12.2002	31.12.2001
Bonds	12,408	8,804
Amounts due to banks	4	350
Amounts due to other lenders	291	597
Total	12,703	9,751

Overall net financial indebtedness at 31 December 2002 amounted to 33,399 million euros (38,362 million euros at 31 December 2001) as shown in the table below:

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Debt			
short-term	6,827	9,072	(2,245)
medium/long-term	33,804	37,747	(3,943)
Interest accruals and deferrals	1,157	889	268
Total gross financial indebtedness (A)	41,788	47,708	(5,920)
Financial fixed assets:			
financial receivables due within 12 months	16	82	(66)
financial receivables due after 12 months	30		30
Current assets:			
financing and interest bearing current accounts	995	812	183
financial assets not held as fixed assets	1,983	3,620	(1,637)
liquid funds	4,370	3,702	668
Interest accruals and prepayments			
due within 12 months	530	425	105
due after 12 months	465	705	(240)
Total financial resources (B)	8,389	9,346	(957)
Net financial indebtedness (A-B)	33,399	38,362	(4,963)

At 31 December 2002 financial payables were secured by guarantees on Group assets for a total of 283 million euros.

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Trade and other payables

		31.12.2002			31.12
(in millions of euros)	short-term	long-term	total	short-term	lo
Advances					
Telecom Italia Group	263		263	388	
Other companies	7		7	11	
Total	270		270	399	
Due to suppliers					
Telecom Italia Group	5,442		5,442	6,058	
Other companies	207		207	280	
Total	5,649		5,649	6,338	

Due to subsidiary companies				
Telecom Italia Group	8		8	8
Other companies				
Total	8		8	8
Due to associated companies				
Telecom Italia Group	247		247	349
Other companies	4		4	5
Total	251		251	354
Due to tax authorities				
Telecom Italia Group	558	7	565	822
Other companies	314	8	322	97
Total	872	15	887	919
Due to social security authorities				
Telecom Italia Group	248	1,102	1,350	271
Other companies	9		9	13
Total	257	1,102	1,359	284
Other payables				
Telecom Italia Group	4,140	4	4,144	3,727
Other companies	44		44	108
Total	4,184	4	4,188	3,835
Total				
Telecom Italia Group	10,906	1,113	12,019	11,623
Other companies	585	8	593	514
Total	11,491	1,121	12,612	12,137

Amounts due to suppliers totalled 5,649 million euros and included 513 million euros due to other telecommunications services providers.

Amounts due to tax authorities totalled 887 million euros (969 million euros at 31 December 2001) and included current income taxes, indirect duties and taxes and withholdings to be paid.

The current tax payable of 244 million euros reflects a reasonable estimate of the current income tax liabilities of Group companies computed with reference to local tax regulations; the payable for other

taxes at 31 December 2002 refers in the main to tax withholdings applied by Group companies in their capacity as withholding agents.

The tax position of Olivetti S.p.A. is illustrated in the Explanatory Notes to the Parent Company financial statements.

Amounts due to social security authorities totalled 1,359 million euros and referred to contributions accrued and due to social security authorities; the heading includes 595 million euros in respect of the residual Telecom Italia payable due to the INPS in connection with the estimated re-absorption charge for former ASST personnel, pursuant to law no. 58/1992.

The heading also includes the payable of 568 million euros to the former

Telephone Companies Employee Social Security Fund (FPT) for Telecom Italia Group employees, which was incorporated under compulsory national insurance on 1 January 2001. The amount was recorded in the Olivetti Group consolidated financial statements at the time of determination of consolidation goodwill on the acquisition of the Telecom Italia Group.

Other payables amounted to 4,188 million euros and included:

o 1,604 million euros for customer-related items: subscriber payments for conversations, prepaid rentals and prepaid traffic charges;

o 1,394 million euros for contributions regarding operation of telecommunications services;

o 720 million euros for payables relating to staff management;

o 470 million euros for other items of a miscellaneous and recurring nature.

***

Payables due after 12 months, excluding the Telephone Companies Employee Social Security Fund payable of 568 million euros, totalled 34,357 million euros, falling due as follows:

(in millions of euros)	from 2 to 5 years	after 5 years	Total
Debt			
Telecom Italia Group	10,693	4,325	15,018
Other companies	10,408	8,378	18,786
Trade and other payables			
Telecom Italia Group	296	249	545
Other companies	8		8
Total	21,405	12,952	34,357

E) Accrued expenses and deferred income

Accrued expenses and deferred income at 31 December 2002 totalled 2,327 million euros (2,051 million euros at 31 December 2001):

(in millions of euros)	31.12.2002 (a)	31.12.2001 (b)	Changes (a-b)
Accrued expenses:			
interest charges	1,110	875	235
other	58	92	(34)
Total accrued expenses	1,168	967	201
Deferred income:			
grants related to assets	325	349	(24)
other	787	721	66

premiums on loans	37		37
interest income	10	14	(4)
Total deferred income	1,159	1,084	75
Total	2,327	2,051	276

Hedging instruments and other derivatives

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 Group companies.

At 31 December 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 euros, comprising hedging contracts for 537 million euros on financial operations transacted by Olivetti International S.A. and exchange-risk hedges for 165 million euros arranged by Olivetti Finance N.V. (on the 20 billion yen 2002/2032 bond issued by Olivetti Finance N.V.).

The Olivetti Group enters into Interest Rate Swaps (IRS), Currency and Interest Rate Swaps (CIRS) and other hedging agreements to mitigate the possible effects of interest rate fluctuations. At 31 December 2002, the Group companies had short- and long-term forward contracts covering financial liabilities based on a total notional capital amount for the equivalent of 16,735 million euros (5,881 million euros relating to Telecom Italia Group companies and 10,854 million euros relating to other Olivetti Group companies), as illustrated below:

(in millions of euros)

Telecom Italia Group
Interest Rate Swaps (IRS) and Interest Rate Options (IRO)
Cross Currency and Interest Rate Swaps

Total

Other 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.

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.

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.

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.

IRS contracts, expiring May 2032 carried out by Olivetti Finance N.V. on bonds of Yen 20 billion issued by Olivetti Finance N.V.

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. , origina
  issued by Olivetti International Finance N.V. (1999-2009)
  expiring July 2004 on the bonds of euro 4,200 million issued by Olivetti Finance N.V., original
  issued by Olivetti International Finance N.V. (1999-2004)
  expiring March 2005 on the bonds of euro 500 million issued by Olivetti International Finance N
  (2002-2005)
  expiring January 2006 on the bonds of euro 1,100 million issued by Olivetti Finance N.V. (2002-
  expiring April 2007 on the bonds of euro 1,750 million issued by Olivetti Finance N.V. (2002-20
  expiring April 2012 on the bonds of euro 1.000 million issued by Olivetti Finance N.V. (2002-20

Total

Total hedging contracts

Telecom Italia Group

The Telecom Italia Group used 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 (CIRS) and currency forwards to convert currency loans - mainly in dollars and euros - into the accounting currencies of the various Group companies.

IRSs and IROs respectively involve or may involve the exchange, with the counterparts, of interest flows calculated on the reference notional value at the agreed fixed or floating rates, at the specified maturity dates. The notional value does not represent the amount exchanged and therefore does not constitute a measure of exposure to credit risk, such exposure being limited instead to the amount of interest or interest differentials to be received at the interest date.

The same also applies to CIRSs, which involve the exchange of the principal, in the respective currencies of denomination, at maturity and eventually for cash, in addition to the settlement of periodic interest flows. Counterparts to derivative contracts are selected from among the top rated banks and financial institutions and are continually monitored in order to minimise the risk of default.

Other companies

The main hedging agreements with regard to the medium/long-term debt positions of the other companies in the Olivetti group are analysed below.

With regard to the 1986/2046 100 million Swiss franc 5.625% fixed rate bond (69 million euros) expiring in June 2046 issued by Olivetti International N.V., Olivetti International S.A. has arranged an IRS for the full amount and maturity, to convert the annual fixed rate into a six-monthly floating rate in Swiss francs.

With regard to the 1999/2009 1,500 million euro 5%+0.15% step-up fixed rate bond maturing in February 2009 issued by Olivetti International N.V., Olivetti International S.A. and Olivetti Finance N.V. have arranged the following hedging contracts for the full amount and maturity:

o IRS for 500 million euros to convert the annual fixed rate into a quarterly floating rate with a protection structure applicable until the 1-year swap rates exceed the 5-year swap rates and simultaneous floor sale at 2.50%;

o IRS for 500 million euros to convert the annual fixed rate into a quarterly 4.30% fixed rate (if 3-month Euribor remains under 5.80%), or into a quarterly floating rate less 0.50% (if 3-month Euribor exceeds 5.80%), and simultaneous cap sale for 500 million euros at the USD six-monthly rate of 7.10%;

o IRS for 250 million euros to convert the annual fixed rate into a fixed 4.15% rate (if 6-month Euribor fixed in arrears remains under 6.65%) or into a six-monthly floating rate fixed in arrears (if 6-month Euribor exceeds 6.65%), with a protection structure applicable until the USD 5-year swap rates exceed the GBP 5-year swap rates with a 1% increment;

o IRS for 250 million euros to convert the annual fixed rate into a six-monthly floating rate fixed in arrears, with a protection structure applicable until the USD 5-year swap rates exceed the GBP 5-year swap rates with a 1% increment.

With regard to the 1998/2003 700 million euros annual 5.875%+0.15% step-up fixed-rate bond maturing in May 2003 issued by Olivetti International N.V., Olivetti International S.A. has arranged IRS for a similar amount and maturity to convert the annual fixed rate into a rate linked to the six-monthly and two-year rates in Swiss francs, fixed in arrears.

With regard to the fixed-rate 20 billion yen borrowing expiring in October 2029 received by Olivetti International Finance N.V., Olivetti S.p.A. has arranged a CIRS for the full amount and similar expiration, to convert the rate into an annual 5.525% fixed rate until 2004 and subsequently into an annual 6.08% fixed rate (or into a floating rate, as the counterpart prefers) until maturity (on a principal of 174.2 million euros). The interest rate and currency risk hedging structure is applicable as long as Olivetti S.p.A. is in bonis.

With regard to the 2002/2032 bond for 20 billion yen (equivalent to 161 million euros) with a 3.55% fixed-rate coupon maturing in May 2032 issued by Olivetti Finance N.V., Olivetti Finance N.V. has arranged an IRS with similar maturity to convert the annual fixed rate into a 1.68% fixed rate until 2012 and subsequently into a six-monthly floating rate until maturity. The interest-rate and currency risk hedging structure is applicable as long as Olivetti S.p.A. is in bonis.

With regard to the Olivetti Finance N.V. 1999/2009 bond for 2,350 million euros with an annual 6.125%+0.45% step-up fixed rate (originally issued by Olivetti International Finance N.V.), Olivetti Finance N.V. has arranged IRS for the full amount and similar maturity to convert the annual fixed rate as follows:

a) into a 3.55% fixed rate until January 2003 and subsequently into a floating rate linked to the US six-monthly rates fixed in arrears for 1,000 million euros with the following additional hedges:

o cap purchase at 5.17%

o cap sale at 6.44%

o floor sale at 1.50% until July 2003 and subsequently at 3.25% until maturity;

b) into a 4.1475% fixed rate until January 2003 and subsequently into a floating rate linked to six-monthly Euribor fixed in arrears for 750 million euros with the following additional hedges:

o cap purchase at 5.50%

o cap sale at 7.125% on the USD 6-month rate fixed in arrears as from July 2005

o floor sale at 2.375% as from July 2003;

c) into a six-monthly 5.55% fixed rate for 250 million euros until 30 January 2003, subsequently into a 5.5745% fixed rate if 6-month Euribor remains below 7%, or into a six-monthly floating rate if 6-month Euribor exceeds 7%, with a protection structure application until the 1-year swap rates exceed the 5-year swap rates;

d) into a six-monthly 5.0025% fixed rate for 350 million euros until 30 January 2003 and subsequently into a 5.12% fixed rate until July 2003, into a floating rate linked to quarterly Euribor fixed in arrears until July 2004 and subsequently until maturity into a floating rate linked to quarterly USD Libor and Euribor, whichever is the higher.

With regard to the Olivetti Finance N.V. 1999/2004 bond for 4,200 million euros with an annual 5.375%+0.45% step-up fixed rate (originally issued by Olivetti International Finance N.V.) maturing in

July 2004, Olivetti Finance N.V. has arranged the following hedges with similar maturity for a total of 4,000 million euros:

a) for 500 million euros, conversion of the annual fixed rate into a six-monthly fixed rate of 4.1829% until January 2003 and subsequently of 4.63% until maturity;

b) for 1,000 million euros, conversion of the annual fixed rate into 12-month Euribor fixed in arrears (of which 500 million euros already fixed at 5.375% until July 2003) with a floor sale for a similar amount at 3.15% fixed in arrears (to be applied if at fixing 12-month Euribor is below 2.65%);

c) conversion of the annual fixed rate until January 2003 into a six-monthly fixed rate of 4.83% for 500 million euros and of 4.4675% for a further 1000 million euros, with conversion of the annual fixed rate into a six-monthly floating rate fixed in arrears;

d) for 500 million euros, conversion of the annual fixed rate (4.8 % until January 2003) into quarterly Euribor fixed in arrears with floor sale at 3.25% for 450 million euros (applicable if at fixing 3-month Euribor is below 2.75%);

e) for 500 million euros, conversion of the annual fixed rate into a six-monthly floating rate linked to the CHF 2-year swap rate with six-monthly fixing in arrears.

With regard to the 2002/2005 bond for 500 million euros with a quarterly floating rate maturing in March 2005 issued by Olivetti Finance N.V., Olivetti Finance N.V. has arranged IRS with similar maturity to convert the floating rate into an average quarterly fixed rate of 4.0865%.

With regard to the 2002/2006 bond for 1,100 million euros with a quarterly floating rate maturing in January 2006 issued by Olivetti Finance N.V., Olivetti Finance N.V. has arranged IRS for 800 million euros with similar maturity to convert the floating rate as follows:

a) into a quarterly floating rate for 200 million euros linked to the quarterly USD or euro rate, whichever is the higher, with a protection structure applicable until the CHF quarterly rates are below the USD rates;

b) into a six-monthly floating rate fixed in arrears for 600 million euros with the following additional hedges:

o floor sale at 3% (to be activated if at fixing six-monthly Euribor is below 2.50%)

o cap sale at 5%

o digital cap purchase to be activated if the six-monthly rate fixed in arrears exceeds 4%.

With regard to the 2002/2007 bond for 1,750 million euros with a 6.50% fixed rate maturing in April 2007 issued by Olivetti Finance N.V., Olivetti Finance N.V. has arranged IRS for 250 million euros with similar maturity to convert the annual fixed rate as follows: for 250 million euros into a six-monthly fixed rate of 5.75% until April 2003, 5.774% until April 2005, with a protection structure applicable as long as the 30-year euro swap rate exceeds the 5-year swap rate.

With regard to the 2002/2012 bond for 1,000 million euros with a 7.25% fixed rate maturing in April 2012 issued by Olivetti Finance N.V., Olivetti Finance N.V. has arranged IRS contracts with similar maturity and with the following protection structure applicable as long as the 10-year euro swap rate exceeds the two-year swap rate, to convert the annual fixed rate as follows:

- for 250 million euros, into a quarterly 5.85% fixed rate unless Euribor fixed in advance exceeds 6% or into a quarterly floating rate;

- for 100 million euros, into a quarterly 5.61% fixed rate unless the USD Libor rate exceeds 7% or into a quarterly floating rate tied to USD Libor.

* * *

The following operations have also been arranged to hedge securities or other portfolio assets:

o IRS and CIRS arranged by Telecom Italia Finance and TIM Celular on financial assets for 150 million euros;

o treasury hedging contracts for a notional capital of 1,433 million euros;

o IRS arranged by Olivetti International S.A. and Olivetti Finance N.V. on securities for a nominal value of, respectively, 50 million euros and 300 million euros;

o contracts arranged by Olivetti S.p.A. to hedge the currency risk on the restricted deposit denominated in USD, for 41 million euros.

Memorandum accounts

A. Personal guarantees given and counter-securities received

At 31 December 2002 personal guarantees given directly or indirectly through banks and insurance companies amounted to 1,823 million euros (2,344 million euros at 31 December 2001), of which 965 million euros in respect of unconsolidated subsidiaries and associated companies (1,656 million euros at 31 December 2001).

Personal guarantees given at 31 December 2002 were as follows:

o guarantees given by the Telecom Italia Group in the interest of unconsolidated subsidiaries and associated companies (957 million euros), consolidated subsidiaries (5 million euros), and third parties (529 million euros) in respect of medium/long-term financial operations, supply contracts and telephony licences abroad, for a total of 1,491 million euros;

o suretyships and counter-securities given by other companies in the Olivetti Group in the interest of unconsolidated subsidiaries and associated companies (8 million euros), consolidated subsidiaries (69 million euros) and third parties (32 million euros), for a total of 109 million euros;

o 213 million euros for guarantees given by Olivetti S.p.A. to the Italian State Railways in the interest of Wind S.p.A. (formerly Infostrada S.p.A.);

o 1 million euros for guarantees given by Olivetti S.p.A. with regard to fulfilment of trade supplies by Getronics S.p.A. (formerly Wang Global S.p.A.);
o 9 million euros for other guarantees.

At 31 December 2002, the Olivetti Group had counter-securities in respect of the above guarantees for an amount totalling 596 million euros (806 million euros at 31 December 2001), as follows:

o counter-securities from third parties for 378 million euros relating to guarantees given by Telecom Italia S.p.A.;

o counter-securities from Mannesmann AG for 213 million euros relating to the guarantees given by Olivetti S.p.A. to the Italian State Railways;

o counter-securities from Getronics for 1 million euros.

B. Guarantees on Group assets

These guarantees related to pledges and mortgages set up on Telecom Italia Group assets in respect of non-financial operations for an amount totalling 111 million euros at 31 December 2002 (163 million euros at 31 December 2001). They included pledges on IS Tim shares given by TIM International to guarantee fulfilment of obligations stipulated in IS Tim's supply contracts with Ericsson and Siemens. Guarantees on Group assets securing financial operations are analysed in the section on financial payables.

C. Commitments

At 31 December 2002 the Olivetti Group had contractual commitments for an aggregate amount of 3,124 million euros (5,431 million euros at 31 December 2001), of which 3,077 million euros for the Telecom Italia Group and 47 million euros for the other companies.

Telecom Italia Group commitments amounted to 3,077 million euros (5,369 million euros at 31 December 2001) as follows:

o a commitment of 2,417 million euros for the Telecom Italia put option on Seat Pagine Gialle shares, which was updated following the re-negotiation on 25 February 2002 of the put and call options agreed with JP Morgan Chase on Seat Pagine Gialle shares; the revised agreement reduced the original strike price (from 4.2 euros to 3.4 euros per share). To guarantee fulfilment of the put on Seat Pagine Gialle shares, Telecom Italia Finance provided a Direct Participation Letter of Credit, in favour of JP Morgan Chase Equity Limited, for 1,940 million euros.

Additionally, the 2002 year-end valuation of the call option on Seat Pagine Gialle shares generated a provision of 1,942 million euros to the reserve for risks and charges, for the estimated non-recoverable strike price following the decision to view the Seat P.G. Directories operations as a non-core business;

o 195 million euros for the Group commitment on the sale of the equity investment in Telekom Srbija to PTT Serbia;

o 55 million euros for the Seat Pagine Gialle commitment to purchase 9,122,733 Seat Pagine Gialle shares from shareholder-managers of TDL Infomedia Ltd. and the residual 0.27% of TDL Infomedia Ltd.;

o 34 million euros for leases of which 17 million towards Teleleasing;

o 20 million euros for the TIM commitment to purchase Blu core network assets from Wind;

o 10 million euros for the Telecom Italia S.p.A. commitment to purchase the residual 14% shareholding in Epiclink from Pirelli and the other shareholders;

o 10 million euros for the commitment to sell Tess to Accenture;

o 7 million euros for the commitment on the sale of Siteba to the other shareholders;

o 329 million euros for other commitments.

The commitments of the other Olivetti Group companies amounted to an aggregate 47 million euros (62 million euros at 31 December 2001), as follows:

o 35 million euros for leases;

o 6 million euros for trade receivables guaranteed by Olivetti S.p.A. in respect of the sale of the O.i.S. group to GFI Informatique S.A.;

o 6 million euros for other commitments.

D. Other memorandum accounts

At 31 December 2002, other memorandum accounts totalled 93 million euros (295 million euros at 31 December 2001), of which 88 million euros for the Telecom Italia Group (287 million euros at 31 December 2001). They related to third-party assets deposited with consolidated companies, mainly in the IT sector.

The reduction of 199 million euros at the Telecom Italia Group arose as a result of the deconsolidation of Sogei and the Telespazio group.

E. Other information

At 31 December 2002 the aggregate value of Telecom Italia commitments for rentals on buildings payable to IMSER 60, Tiglio I and Tiglio II under the terms of 21-year contracts was 3,818 million euros. The amount accruing to each year is 209 million euros.

TIM is drawing up a purchase and sale commitment with H3G, regarding the transfer of certain equipment and property lease contracts as a result of the new valuation of the Blu business sold to H3G.

Comments on the consolidated income statement

A) Value of production

1) Net revenues from sales and services

Net revenues from the sale of products and supply of services in 2002 amounted to 31.408 million euros compared with 32,016 million euros in 2001, a decrease of 608 million euros, or -1.9%. The revenue breakdown by business sector is set out in the table below:

	Year 2002		Year 2001		Cha
(in millions of euros)	(a)	%	(b)	%	(a-b)
Telecom Italia Group Business Units					
Domestic Wireline	17,022	54,2	17,168	53,6	(146)
Mobile	10,867	34,6	10,250	32,0	617
South America	1,409	4,5	1,534	4,8	(125)
Internet and Media	1,991	6,3	1,957	6,1	34
Market IT	912	2,9	1,198	3,8	(286)
Group IT	1,215	3,9	1,198	3,7	17
Other operations and consolidation adjustments	(3,016)	(9,6)	(2,487)	(7,8)	(529)
Total Telecom Italia Group	30,400	96,8	30,818	96,3	(418)
Other Olivetti Group activities					
Information Technology	932	3,0	1,130	3,5	(198)
Property management and services	76	0,2	68	0,2	8
Total Olivetti Group	31,408	100,0	32,016	100,0	(608)

4) Capitalised production

Capitalised production amounted to 675 million euros, and related entirely to the Telecom Italia Group.

5) Other revenues and income

Other revenues and income for 2002 amounted to 504 million euros (476 million euros in 2001) and included:

- 20 million euros in grants relating to costs for research, development and technological innovation;

- 65 million euros for the portion of capitalised grants credited to income as accrued, relating entirely to the Telecom Italia Group;

- 106 million euros for charges to customers for late bill payments;

- 313 million euros of other income from ordinary operations, arising mainly from indemnities and refunds, recovery of expenses and sundry income.

B) Costs of production

6) Purchases of raw, ancillary and consumable materials and goods for resale

In 2002 this heading totalled 2,315 million euros (1,779 million euros for the Telecom Italia Group) compared with 2,640 million euros in 2001 (1,972 million euros for the Telecom Italia Group) and included costs for the supply of materials relating to the Group's core businesses.

7) Costs of services

These costs amounted to 9,407 million euros in 2002 compared to 9,782 million euros in 2001. The decrease of 375 million euros related to the Telecom Italia Group for 323 million euros and to the other Group companies for 52 million euros.

8) Leases and rentals

This heading included rentals for buildings and other asset lease and hire charges. In 2002 it amounted to 1,166 million euros, compared to 1,096 million euros in 2001. The increase of 70 million euros reflected higher costs of 76 million euros at the Telecom Italia Group.

9) Personnel

Payroll costs in 2002 amounted to 4,737 million euros (4,919 million euros in 2001) and included 4,540 million euros for the Telecom Italia Group, of which 3,373 million euros relating to the companies that provide telecommunications services.

In 2002 the aggregate average number of staff employed by the Olivetti Group was 107,079 equivalent units, compared with 113,974 equivalent units in 2001.

In terms of geographical distribution, in 2002 the average number of employees was 87,737 heads in Italy (93,610 in 2001) and 19,342 heads abroad (20,364 in 2001).

The staff breakdown by category in Italy (different categories apply in other countries) was as follows:

(employees)	Year 2002	Year 2001
ITALY		
Managers	2,058	2,214
Supervisors	5,271	5,031
White collars	71,608	76,092
Blue collars	8,800	10,273
Total average in Italy	87,737	93,610
Average abroad	19,342	20,364
TOTAL AVERAGE	107,079	113,974

10) Amortisation, depreciation and writedowns

Depreciation and amortisation charges in 2002 totalled 7,269 million euros and included 3,462 million euros relating to intangible fixed assets and 3,807 million euros relating to tangible fixed assets.

Charges in 2001 amounted to 7,645 million euros and included 3,565 million euros relating to intangible fixed assets and 4,080 million euros relating to tangible fixed assets.

Amortisation of intangible fixed assets (3,462 million euros) included 1,293 million euros in respect of consolidation goodwill on the acquisition of Telecom Italia (1,299 million euros in 2001) and 2,056 million euros for amortisation charges at the Telecom Italia Group.

Writedowns in 2002 amounted to 604 million euros and included 58 million euros relating to fixed assets and 546 million euros relating to receivables classified under current assets. Writedowns in 2001 totalled 465 million euros.

12-13) Provisions for risks and Other provisions

Provisions for risks and Other provisions amounted overall to 172 million euros in 2002 (486 million euros in 2001). They included 153 million euros of provisions for Telecom Italia Group contractual risks and risks relating to legal disputes and 19 million euros of provisions at other Olivetti Group companies, mainly in respect of risks on equity investments.

14) Other operational expenses

Other operational expenses amounted to 839 million euros (858 million euros in 2001) and included:

Year 2002 Year 2001 Changes

(in millions of euros)	(a)	(b)	(a-b)
Duties for communications activities	431	524	(93)
Losses on disposal of intangible and tangible fixed assets	36	29	7
Taxes (other than on income) and duties accrued in the year, including ICI (local tax on real estate)	123	125	(2)
Other charges	249	180	69
Total	839	858	(19)

C) Financial income and charges

15) Income from equity investments

Income from equity investments amounted to 57 million euros (221 million euros in 2001) and included:

(in millions of euros)	Year 2002 (a)	Year 2001 (b)	Changes (a-b)
Dividends and tax credits	51	30	21
Other income from equity investments	6	191	(185)
Total	57	221	(164)

16) Other financial income

Other financial income amounted to 1,512 million euros in 2002 (1,225 million euros in 2001) and included:

(in millions of euros)	Year 2002 (a)	Year 2001 (b)	Changes (a-b)
Interest income and gains on fixed income securities	125	295	(170)
Interest income and commissions from:			
unconsolidated subsidiary companies	1	1	-
associated companies	13	23	(10)
banks	185	197	(12)
customers	2	2	-
Exchange rate gains	508	257	251
Other	678	450	228
Total	1,512	1,225	287

17) Interest expense and other financial charges

Interest expense and other financial charges amounted to 3,819 million euros (4,330 million euros in 2001), of which 2,717 million euros for the Telecom Italia Group (3,075 million euros in 2001). The heading comprised:

(in millions of euros)	Year 2002 (a)	Year 2001 (b)	Changes (a-b)
Interest and other charges on bonds	1,751	1,501	250
Exchange rate losses	905	392	513
Banks and other	1,163	2,437	(1,274)
Total	3,819	4,330	(511)

D) Value adjustments to financial assets

18) Revaluations

Revaluations amounted to 121 million euros, reflecting upward adjustments on unconsolidated equity investments valued with the equity method.

The heading amounted to 198 million euros in 2001

19) Writedowns

This heading totalled 907 million euros (2,394 million euros in 2001), reflecting writedowns for other than temporary impairments of value on equity investments valued at cost, downward adjustments of equity investments valued with the equity method and writedowns of securities to reflect other than temporary impairments of value (on securities classified under fixed assets) and to reflect market value

(on securities held as current assets). It also included amortisation of goodwill arising on the acquisition of equity investments valued with the equity method.

Writedowns arose as follows:

- amortisation of goodwill arising on the acquisition of equity investments valued with the equity method for 80 million euros (316 million euros in 2001), a reduction of 236 million euros compared with 2001, as a result of the goodwill writedowns applied in 2001;

- writedowns for 259 million euros on securities and equity investments held as current assets (509 million euros in 2001) and for 40 million euros on securities held as fixed assets (49 million euros in 2001), with an overall reduction of 123 million euros compared with 2001;

- the Group's share of losses at investee companies valued with the equity method, for 528 million euros (1,569 million euros in 2001); specifically, Stream for 246 million euros (241 million euros in 2001), Is Tim (Turkey) for 171 million euros (334 million euros in 2001).

The heading was not affected by the results of the equity investments in Astrolink, Nortel Inversora (Telecom Argentina) and the AUNA Group, which had a negative impact of 700 million euros in 2001. No change was made in the Nortel Inversora equity investment which, in accordance with prudent accounting policies, was written off in the consolidated balance sheet at 31 December 2001. The consolidated book values of the AUNA Group and the Astrolink company at 31 December 2001 were retained until the equity investments were sold, on 1 August 2002 and 30 November 2002 respectively, as a result of the sale of the

Telespazio Group.

(in millions of euros)	Year 2002 (a)	Year 2001 (b)
Equity investments	759	2,157
Financial fixed assets other than equity investments	40	49
Securities classified as current assets other than equity investments	108	188
Total	907	2,394

E) Extraordinary income and charges

20) Extraordinary income

Extraordinary income, at 2,990 million euros (996 million euros in 2001), included 2,553 million euros of capital gains from disposals during the year (465 million euros in 2001) and 437 million euros from sundry and other income (531 million euros in 2001).

Capital gains from disposals amounted to 2,553 million euros, of which 2,413 million euros at the Telecom Italia Group, including:

o 1,245 million euros from the sale of the full 26.89% shareholding in AUNA;

o 484 million euros from the sale of the 19.61% shareholding in Bouygues Decaux Telecom (BDT);

o 234 million euros from the sale of the full 100% shareholding in EMSA, Telimm as well as of real estate and activities as part of Project Tiglio;

o 133 million euros from the acceptance by the Finsiel Group of the public tender offer on Lottomatica;

o 115 million euros from the sale to Telekom Austria (in which Telecom Italia indirectly holds 14.78%) of the entire 25% shareholding in Mobilkom Austria;

o 110 million euros from the sale of the entire 40% shareholding in Telemaco Immobiliare;

o 70 million euros from the sale of 100% of Telespazio;

o 22 million euros from other minor sales.

The capital gains totalling 140 million euros posted by the other Group companies included:

o 107 million euros from the acceptance by Olivetti S.p.A. and Olivetti International S.A. of the public tender offer on Lottomatica;

o 26 million euros from the sale of the entire shareholding in OMS2, as part of Project Tiglio;

- 7 million euros from other disposals.

Other extraordinary income totalling 437 million euros included 401 million euros at the Telecom Italia Group, as follows:

- 131 million euros from recovery of pre-amortisation interest in respect of integration charges pursuant to Law no. 58/1992 paid on a conditional basis to the Italian National Insurance Board (INPS) until 1999, after the dispute was resolved in favour of Telecom Italia;

- 270 million euros of other income, including 77 million euros from use of reserves (essentially use of part of the reserve for risks and charges provided in 2001 by Telecom Italia S.p.A. to cover charges relating to the agreement for the sale of Stream to News Corp. and Vivendi Universal/Canal+, when the sale did not take place), 9 million euros of contributions and 184 million euros of sundry income.

The 36 million euros of other extraordinary income posted by the other Group companies included 21 million euros from use of surplus reserves provided in previous years.

21) Extraordinary charges

Extraordinary charges amounted overall to 8,486 million euros (4,105 million euros in 2001) and included 8,375 million euros for the Telecom Italia Group (3,947 million euros in 2001), as follows:

- 6,237 million euros of equity investment writedowns to reflect other than temporary impairments of value (2,984 million euros in 2001), as follows:

  - writedown of goodwill and the call option on Seat Pagine Gialle shares for a total of 3,486 million euros; goodwill was written down to market value (based on the average ordinary share price for the last six months of 2002), following the Telecom Italia Group's decision to view the Seat Pagine Gialle Directories operation as a non-core business. In 2001, with regard to the call option, a provision of 569 million euros was posted under financial charges;

  - writedown of goodwill relating to consolidated companies for a total of 225 million euros, Blu (103 million euros), Digitel Venezuela (75 million euros), other subsidiaries (47 million euros);

  - the equity investment in Aria

  - Is Tim (2,341 million euros): the investment was written off in full (1,491 million euros) and a provision was made to the reserve for risks and charges to cover Group exposure to this associated company (850 million euros). The provision was commensurate to the guarantees provided by the Group in favour of international financial institutes that had granted loans to Aria

  - Is Tim and to the loan granted directly by the Group;

  - writedown of goodwill on Netco Redes (96 million euros) and other companies (46 million euros) and a provision to align the purchase by Seat Pagine Gialle of an additional stake in Consodata with the value of the company as determined by an appraisal (43 million euros).

The 2,984 million euros equity investment writedown applied in 2001 referred to goodwill writedowns on consolidated companies (9Telecom Group, Entel Bolivia, Entel Chile Group, Maxitel, Tele Celular Sul Group, Tele Nordeste Celular Group, Tim Brasil, Med1 Group and other companies in the Seat Group) and on companies valued with the equity method (GLB Servicos Interativos, Solpart Participacoes, Telekom Austria, Nortel Inversora Group) and to other provisions relating to equity investments.

- 316 million euros of provisions relating to the sale of the equity investment in the 9Telecom Group. Specifically, considering the loss recorded prior to the sale, the French 9Telecom Group generated an overall charge to Telecom Italia Group income for the first nine months of 2002 of 389 million euros (267 million euros after taxes);

- 135 million euros of capital losses on the sale of 75 million shares (representing 15% of capital) of Telekom Austria A.G. in November 2002. Following the sale, the Telecom Italia Group's stake in Telekom Austria A.G. decreased to 14.78%;

- 494 million euros of charges and provisions relating to personnel retirements and mobility schemes (including a 379 million euros charge at Telecom Italia);

- 235 million euros of charges relating to extraordinary operations on equity investments;

- 79 million euros of financial charges on the amount payable to the Italian National Insurance Board (INPS) for re-absorption of the ex Telephone Companies Employees Pension Fund (FPT) and 74 million euros for an extraordinary contribution to INPS to cover increased financial requirements following the integration of the FPT with the Employees Pension Fund;

- 190 million euros of writedowns on fixed assets relating in the main to mobile telephone companies in Brazil (142 million euros) and 38 million euros for capital losses on fixed-asset disposals;

- 194 million euros of provisions to reserves, including 135 million euros for guarantees provided on the sale of equity investments and company units and 59 million euros for other provisions;

- 383 million euros of other sundry charges.

Extraordinary charges for the other Group companies amounted to 111 million euros (158 million euros in 2001) and included 62 million euros of capital losses on the sale of the Seat Pagine Gialle equity investment, 32 million euros of provisions relating to risks on equity investments, 4 million euros of charges relating to the public tender offer on Lottomatica and 13 million euros for miscellaneous charges.

22) Income taxes for the year

Income taxes for financial 2002 reflected a benefit of 2,210 million euros compared with a tax charge of 579 million euros in 2001.

(in millions of euros)	Year 2002	Year 2001
Current taxes	1,585	1,291
Deferred (prepaid) taxes, net	(3,795)	(712)
Total	(2,210)	579)

Net prepaid taxes arose mainly from deferred tax assets and use of deferred tax reserves (provided in previous years) as a result of the writedown of Olivetti and Telecom Italia Group equity investments for 964 million euros and 2,167 million euros, respectively, as well as from the Olivetti tax credit on dividends collected from Telecom Italia for 700 million euros.

Loss per share

The primary loss per share for fiscal 2002 determined in compliance with International Financial Reporting Standard (IFRS) no. 33, is set below:

Year 2002	Net loss (in millions of euros)	
Loss for the year, wholly attributable to outstanding shares	(773)	
Average number of outstanding ordinary shares		8,60
Primary loss per share		

Other information

1) Transactions with related parties

The operations transacted by consolidated companies of the Olivetti Group with related companies and entities are all normal operations and are conducted according to market conditions or in compliance with specific laws; no non-typical or unusual operation has been effected.

The main operations with unconsolidated subsidiaries and with associated companies are detailed below:

Main income and financial items for the year 2002 (in millions of euros)	Telecom Italia Group: unconsolidated subsidiary and associated companies	Telecom Italia Group: subsidiary and associated companies of the controlling company	Other Olivetti Group companies	
Revenues from sales	299	3	4	They (euro Brasi (euro milli milli milli

Consumption of materials and services	445	24	6	They renta milli milli Etecs maint Italt Infor
Other income, net	9	-		They payro tempo
Financial charges, net	9	-		They loans (euro to Te lease
Receivables under financial fixed assets	440	-	16	They Is Ti (euro milli milli
Financial receivables	35	-		They Group Golde allow
Financial payables	406	-		They Telel contr
Trade receivables and other	219	2	1	They from Srbij allow milli milli
Trade payables and other	386	15	4	They inves Italt Sieme Telel advan milli
Contract work-in progress	110	-		They progr Telca
Guarantees given	930	-	5	They of Is Csia milli given milli
Purchase and sale commitments	17	-		They

				relat
Capital investments	441	-		They telep (euro Infor
Disposal of equity investments	690	-		25% o of Au
Transfers of businesses	219	-	26	They real milli "asse (euro

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Operations with related parties other than Group companies include those transacted in 2002 by the Telecom Italia Group with the Pirelli Group and Edizione Holding Group.

(in millions of euros)	Year 2002	
Revenues from sales	26	They refer principally to phone servic (euro 8 million) and to the Edizione H well as to IT services rendered to the
Consumption of materials and external services	23	They refer principally to capital expe sector
Trade receivables and other	3	They refer principally to phone servic
Trade payables and other	9	They refer principally to supplies lin
Capital investments	32	They refer principally to purchases of
Equity investments acquisition and purchase commitments	21	Acquisition by Telecom Italia S.p.A. o Pirelli S.p.A. (euro 18 million) and c remaining 5% (euro 3 million)
Business acquisitions	3	Acquisition by Epiclink S.p.A. of a bu
Business disposals	19	Gain from transfer of non facility bus Telecom Italia Group and of Property a Multiservices

We also point out that in the year 2002 TIM sold telephone cards to Autogrill S.p.A. (Edizioni Holding Group) for the subsequent sale to the public for a total amount of euro 20 million.

2) Remunerations to Parent Company Directors and Statutory Auditors

Remunerations for 2002 due to Parent Company Directors and Statutory Auditors in respect of services provided to companies included in the consolidation area totalled 5,877,304 euros and 375,268 euros respectively.

3) Exhibits

The following exhibits are attached to provide the fullest and clearest description of the consolidated financial position at 31 December 2002 and of the consolidated result for financial 2002:

a) statement of changes in consolidated financial position;

b) statement of changes in Group consolidated shareholders' equity;

c) reclassified consolidated statement of income;

d) list of companies included in the consolidated financial statements at 31 December 2002 and of equity investments, pursuant to articles 38 and 39 of Legislative Decree no. 127/1991.

Olivetti Group

Statement of Changes in Consolidated Financial Position

(in millions of euros)	Year 2002
A. Net financial resources (indebtedness) at the beginning of the year	(38,362)
B. Cash flow provided (used) by operating activities	
Net result for the year (including minority interests)	(306)
Amortization and depreciation	7,269
(Gains) or losses from disposal of fixed assets	(2,243)
Writedowns of fixed assets, net	4,387
Net change in operating working capital	(382)
Net change in reserve for severance indemnities	(50)
Changes in the consolidation area, exchange differences and other changes	(2,734)
	5,941
C. Cash flow provided (used) by investing activities	
Fixed assets:	
intangible	(1,956)
tangible	(3,291)
financial	(1,777)
Proceeds from disposal, or reimbursement value, of fixed assets	5,968
	(1,056)
D. Cash flow provided (used) by financing activities	
Capital increases	36
Grants related to assets	42
	78
E. Distribution of dividends	-

F. Net cash flow provided (used) in the year (B+C+D+E)	4,963
G. Net financial resources (indebtedness) at the end of the year (A+F)	(33,399)

Olivetti Group

Statement of Changes in the Group Consolidated Shareholders' Equity

(in millions of euros)	Share capital	Sha incre file Companie
Balance as of 31 December 2000	4,915	
Appropriation of 2000 net result		
Dividend distribution		
Share capital increases:		
In exchange for Tecnost shares owned by third parties	1,999	
Conversion of "Olivetti 1998-2002 bonds"	8	
Exercise of "Olivetti common shares 1998-2002 warrants"	4	
Resolution of the Board of Directors on 9 June 1999 in execution of the powers granted by Extraordinary Shareholders' Meeting on 7 April 1999	17	
Rights issue in March 2001 (no. 348,249,405 shares subscribed)	349	
Rights issue in November 2001 (no.1,491,698 shares subscribed)	1,492	
Cancellation of Telecom Italia savings shares		
Other changes		
Net result of the year 2001		
Balance as of 31 December 2001	8,784	
Appropriation of 2001 net result		
Share capital increases:		
Conversion of "Olivetti 1998-2002 bonds"	30	
Exercise of "Olivetti common shares 1998-2002 warrant"	23	
Resolution of the Board of Directors on 9 June 1999 in execution of the powers granted by Extraordinary Shareholders' Meeting on 7 April 1999	5	
Conversion of Olivetti 2001-2010 bonds	3	
Other changes		
Net result of the year 2002		
Balance as of 31 December 2002	8,845	

Revaluation reserves	Legal reserve	Reserve for treasury stock	Other Parent Company reserves	Reserve for Parent Company shares held by subsidiary companies	Sundry reserves, retained earnings and accumulated loss	ne of
1	877	2	2,075	391	1,340	
	44				(984)	
					(255)	
			(4)			
			(2)			
			(8)			
					(277)	
					69	
1	921	2	2,061	391	(107)	
					(3,090)	
			(14)			
			(11)			
					(351)	
1	921	2	2,036	391	(3,548)	

Olivetti Group
Reclassified Consolidated Income Statement

(in millions of euros)	Year 2002
Net revenues	31,408

Operating costs:	
Labour	(4,727)
Materials and services	(12,668)
Grants	20
Depreciation of tangible assets	(3,807)
Amortisation of intangible assets:	
Consolidation goodwill	(2,142)
Other	(1,320)
Provisions for writedowns and risks	(776)
Other income (costs) net	28
Result before interest and taxes (EBIT) and non recurring income and charges	6,016
Non recurring income:	
Gains on disposals and other non-recurring income (*)	2,990
Non recurring costs:	
Losses on disposals and other non-recurring charges (*)	(8,486)
EBIT	520
Income from equity investments, net	57
Financial charges, net	(2,307)
Value adjustments to financial assets	(786)
Result before taxes and minority interests	(2,516)
Taxes	2,210
Result after taxes before minority interests	(306)
Minority interests	(467)
Net result for the year	(773)

(*) The amounts concerning the Telecom Italia Group have been classified as extraordinary items in the consolidated accounts of this latter.

List of Companies included in the consolidated financial statements at 31 December 2002 and of equity investments, pursuant to articles 38 and 39 of Italian Legislative Decree no. 127/1991

Investees as of 31 December, 2002				Direct inve	
Company name	Registered office	Currency	Share capital	% of ownership	Com
COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS					
Parent company					

	Olivetti S.p.A.	Italy	Eur	8,845,239,632		
	Finance companies					
	Global Gaming Investments S.p.A.	Italy	Eur	1,300,000	100.00	Olivet
	Olivetti Finance N.V.	Netherlands	Eur	46,905,660	100.00	Olivet
	Olivetti Finanziaria Industriale S.p.A.	Italy	Eur	35,000,000	100.00	Olivet
	Olivetti Holding B.V.	Netherlands	Eur	15,882,770	100.00	Olivet
	Olivetti International S.A.	Luxembourg	Eur	500,000,000	100.00	Olivet
	Olivetti International (Service) S.A.	Switzerland	Fsv	50,000	100.00	Olivet
	Olivetti International Finance N.V.	Neth. Antilles	Eur	3,000,000	100.00	Olivet
	Olivetti International N.V.	Neth. Antilles	Eur	3,000,000	100.00	Olivet
	Olivetti Rap S.A.	Spain	Eur	63,613,800	90.00	Olivet
					10.00	Olivet
	Olivetti Systems & Services UK Ltd.	Great Britain	Lgs	47,180,759	100.00	Olivet
	Olivetti Telemedia Investments B.V.	Netherlands	Eur	24,957,920	100.00	Olivet
	Telecom Italia Group					
(*)	Telecom Italia S.p.A.	Italy	Eur	4,023,816,861	38.96	(o)Oli
(**)	Finsiel S.p.A. - Consulenza e Applicazioni Informatiche	Italy	Eur	59,982,385	1.58	Olivet
(**)	In.Tel.Audit - Societa Consort. di Rev. Interna Gruppo Telecom A R.L.	Italy	Eur	2,750,000	9.09	Olivet
	Olivetti Tecnost Group					
	Alladium S.p.A.	Italy	Eur	1,500,000	100.00	Olivet
	Aprimatic Doors S.L.	Spain	Eur	50,000	0.02	Aprima
					99.98	Aprima
	Aprimatic France S.A.S.	France	Eur	38,200	100.00	Aprima
	Aprimatic S.p.A.	Italy	Eur	6,240,000	100.00	Domust
	Consorzio Mael	Italy	Eur	52,000	60.00	Tecnos
					40.00	Tiemme
	Diaspron do Brasil S.A.	Brazil	Real	5,135,417	100.00	Olivet
	Domustech S.p.A.	Italy	Eur	8,333,333	93.87	Olivet
	Gotoweb S.p.A.	Italy	Eur	3,719,764	80.00	Olivet
	Innovis S.p.A.	Italy	Eur	1,000,000	80.00	Olivet
	Jetech S.p.A.	Italy	Eur	100,000	100.00	Olivet
	Multidata S/A Eletronica Industria e Comercio	Brazil	Real	5,583,350	100.00	Olivet
	Olivetti Argentina S.A.C.e.I.	Argentina	Psa	7,590,000	100.00	Olivet
	Olivetti Chile S.A.	Chile	Pcl	2,341,370,200	100.00	Olivet
	Olivetti Colombiana S.A.	Columbia	Pcs	6,245,014,700	0.11	Olivet
					9.46	Olivet
					90.43	Olivet
	Olivetti da Amazonia Ind. e Com.	Brazil	Real	361,000	99.72	Olivet
					0.28	Olivet
	Olivetti de Puerto Rico, Inc.	Puerto rico	USA $	1,000	100.00	Olivet
	Olivetti de Venezuela C.A.	Venezuela	Bol	150,000,000	100.00	Olivet
	Olivetti do Brasil S.A.	Brazil	Real	111,660,625	3.36	Olivet
					96.65	Olivet
	Olivetti I-Jet S.p.A.	Italy	Eur	25,000,000	100.00	Olivet

Company name	Registered office	Currency	Share capital	% of ownership	Com
Investees as of 31 December, 2002				Direct inve	
Olivetti Lexikon Benelux S.A.	Belgium	Eur	1,932,592	100.00	Olivet
Olivetti Lexikon Nordic Ab	Sweden	Ks	10,100,000	100.00	Olivet
Olivetti Mexicana S.A.	Mexico	Psm	153,538,636	100.00	Olivet
Olivetti Peruana S.A.	Peru	Sol	4,654,920	100.00	Olivet
Olivetti Servicios y Soluciones Integrales S.A. de C.V.	Mexico	Psm	7,025,226	100.00	Olivet
Olivetti Sistema e Servicos Limitadas	Brazil	Real	410,000	0.02	Olivet
				99.98	Olivet
Olivetti Tecnost (H.K.) Ltd.	China Pop. Rep.	HK $	100,000	99.00	Olivet
				1.00	Olivet
Olivetti Tecnost Africa (Pty) Ltd.	South Africa	Rand	601	100.00	Olivet
Olivetti Tecnost Austria Ges.M.B.H	Austria	Eur	36,336	100.00	Olivet
Olivetti Tecnost de Mexico S.A. De C.V.	Mexico	Psm	193,243,310	100.00	Olivet
Olivetti Tecnost Deutschland Gmbh	Germany	Eur	25,600,000	100.00	Olivet
Olivetti Tecnost Espana S.A.	Spain	Eur	1,229,309	99.99	Olivet
Olivetti Tecnost France S.A.S.	France	Eur	2,200,000	100.00	Olivet
Olivetti Tecnost International B.V.	Netherlands	Eur	5,027,142	100.00	Olivet
Olivetti Tecnost Nederland B.V.	Netherlands	Eur	18,151	100.00	Olivet
Olivetti Tecnost Portugal, S.A.	Portugal	Eur	275,000	99.99	Olivet
Olivetti Tecnost S.p.A.	Italy	Eur	273,000,000	100.00	Olivet
Olivetti Tecnost Uk Ltd.	Great Britain	Lgs	6,295,712	100.00	Olivet
Oliweb S.P.A	Italy	Eur	1,000,000	100.00	Olivet
Royal Consumer Information Products, Inc.	USA	USA $	1,176	100.00	Olivet
Technoproduzioni S.p.A.	Italy	Eur	25,000,000	100.00	Tecnos
Tecnost Sistemi S.p.A.	Italy	Eur	145,000,000	100.00	Olivet
Tiemme Sistemi S.R.L.	Italy	Eur	1,040,000	100.00	Techno
Tiesse S.C.P.A.	Italy	Eur	103,292	42.00	Tecnos
				19.00	Tiemme
Property management and services companies					
E.S.T. - Erogazione Servizi e Tecnologie - S.p.A.	Italy	Eur	1,600,995	100.00	Olivet
Emmegiesse S.p.A.	Italy	Eur	250,000	51.00	E.S.T. Tecnol
O&B Costruzioni Generali S.R.L.	Italy	Eur	100,000	50.10	Olivet
Olivetti Multiservices S.p.A.	Italy	Eur	31,000,000	100.00	Olivet
Olivetti Systems Technology Corporation	Japan	Yen	100,000,000	100.00	Olivet
Oms Holding B.V.	Netherlands	Eur	20,000	100.00	Olivet
Ruf Gestion S.A.S.	France	Eur	266,300	100.00	Oms Ho
Other companies					
Thema S.p.A.	Italy	Eur	1,300,000	100.00	Olivet

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY MET

Company name	Registered office	Currency	Share capital	% of ownership	Com
Subsidiary Companies					
P.I.T. S.C.R.L.	Italy	Eur	25,823	100.00	E.S.T. Tecnol
Associated Companies					
(**) Localport S.p.A.	Italy	Eur	922,365	37.67	Olivet

	Investees as of 31 December, 2002				Direct inve
Company name	Registered office	Currency	Share capital	% of ownership	Com
OTHER EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES					
Subsidiary Companies					
Ensambladora Tlaxcalteca S.A.	Mexico	Psm	2,000	0.02	Olivet
				99.98	Olivet
Top Service S.p.A.	Italy	Eur	1,051,350	50.55	Olivet
Associated Companies					
Baltea S.r.l.	Italy	Eur	2,220,000	49.00	Olivet
In.Va. S.p.A.	Italy	Eur	520,000	40.00	Olivet
International Information Services	Russia	Rub	1,000,000	50.00	Olivet
Istituto R.T.M. S.p.A.	Italy	Eur	2,107,320	31.46	Olivet
Oli Gulf Fzco	Dubai	Dir	500,000	40.00	Olivet
Olitecno S.A. de C.V.	Mexico	Psm	1,000,000	50.00	Olivet
Parco Dora Baltea S.p.A.	Italy	Eur	300,000	33.33	Olivet
(**) Tiglio I S.r.l.	Italy	Eur	5,255,704	8.85	Olivet
Yminds S.A.	Switzerland	Fsv	100,000	27.20	Olivet
				11.40	Olivet
Associated Consortia					
Consorzio per il Distretto Tecnologico del Canavese	Italy	Eur	472,558	24.59	Olivet
EQUITY INVESTMENTS IN OTHER COMPANIES					
Azienda Esercizio Gas S.C.R.L.	Italy	Eur	901,558	0.24	Olivet
Bemar Serveis Ofimatics S.L.	Spain	Eur	12,000	15.00	Olivet
Bioindustry Park del Canavese S.p.A.	Italy	Eur	5,651,891	0.90	Olivet
Cirsa Business Corporation S.A.	Spain	Eur	24,077,424	4.98	Olivet
Cisi Campania S.p.A.	Italy	Eur	2,580,000	8.00	E.S.T. - S.p.
Consortium S.R.L.	Italy	Eur	561,600,000	2.27	Olivet
Docunet Inc.	USA	USA $	15,851,731	0.60	Olivet
Eurofly Service S.p.A.	Italy	Eur	4,275,000	16.33	Olivet
Fin.Priv., S.R.L.	Italy	Eur	20,000	14.29	Olivet
Flextel S.p.A.	Italy	Eur	2,150,829	13.42	Olivet
Funivie del Piccolo S. Bernardo S.p.A.	Italy	Eur	7,789,469	N.S.	Olivet
IPV Ltd	Great Britain	Lgs	265,837	12.54	Olivet
Istud Istituto Studi Direzionali S.p.A.	Italy	Eur	1,136,212	0.68	Olivet
Leisure Link Holdings Ltd	Great Britain	Lgs	7,809,618	1.20	Olivet
Mediapolis S.p.A.	Italy	Eur	3,517,615	10.00	Olivet
Mediobanca S.p.A.	Italy	Eur	389,262,458	1.81	Olivet
Monterosa S.P.A	Italy	Eur	19,156,858	0.11	Olivet
Nomisma S.p.A.	Italy	Eur	5,345,328	0.07	Olivet
Penta Service S.p.A.	Italy	Eur	516,000	5.00	Olivet
Piedmont International S.A.	Luxembourg	USA $	9,192,500	11.92	Olivet
Pila S.p.A.	Italy	Eur	7,060,000	0.10	Olivet
Retail Network Services B.V.	Netherlands	Eur	15,129,484	13.65	Tecnos
Revisione S.R.L.	Italy	Eur	31,200	5.00	Olivet

S.A.G.I.T., S.p.A.	Italy	Eur	1,150,930	0.14	Olivet
S.F.C. - Sistemi Formativi Confindustria - S.C.P.A.	Italy	Eur	236,022	0.22	E.S.T. Tecn

Investees as of 31 December, 2002				Direct inve	
Company name	Registered office	Currency	Share capital	% of ownership	Com
System Union Group Plc.	Great Britain	Lgs	4,880,000	0.09	Olivet
X/Open Inc.	Great Britain	Lgs	11	9.09	Olivet
Consortia					
Consorzio Ingegneria Partenopea S.C.R.L.	Italy	Eur	67,145	7.69	E.S.T. - S.
Corep - Consorzio per la Ricerca e l'Educazione Permanente	Italy	Eur	707,763	7.69	Olivet

Notes:- This statement does not include companies in winding-up, dormant companies and those companies intended to be disposed of to third parties.

- Percentages of ownership do not consider securities classified as current assets (in particular the share of 0.57% of Telecom Italia S.p.A. owned by Olivetti S.p.A.).

(*) Equity investments held by Telecom Italia S.p.A. are listed in the following pages, as shown in the Exhibits of Telecom Italia itself's Annual Report.

(**) Equity investments held also by Telecom Italia Group companies.

(o) Companies whose share percentage computed on voting rights is different from that computed on ownership.

In the following pages subsidiary and associated companies of the Telecom Italia Group are listed with format of the Exhibit to the "2002 Annual Report" of the Telecom Italia Group itself.

Telecom Italia Group

List of subsidiary and associated companies
(Exhibit to the Telecom Italia Group Consolidated Financial Statements
as of 31 December 2002)

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LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (type of business)	Hea
Domestic Wireline	
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (Telemarketing)	Rom (It
INTELCOM SAN MARINo S.p.A (TELECOMMUNICATIONS SERVICES IN San Marino)	Rep
LATIN AMERICAN NAUTILUS S.A. (holding company)	Lux
- LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	Bue (Ar
- LATIN AMERICAN NAUTILUS BOLIVIA SrL (installation and maintenance of submarine cable systems)	La (Bo
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	Rio (Br
- LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	San (Ch
- LATIN AMERICAN NAUTILUS COLOMBIA S.A. (installation and maintenance of submarine cable systems)	Bog (Co

- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dub (Ir
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	Pan
- LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	Lim (Pe
- LATIN AMERICAN NAUTILUS ST. CROIX LLC (installation and maintenance of submarine cable systems)	St. (US
- LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	Flo (US
- - LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Flo (US
- LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	Car (Ve
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Tel (Is
- MED 1 IC-1 (1999) Ltd (installation and maintenance of submarine cable IC1)	Tel (Is
- MED-1 (NETHERLANDS) B.V. (holding company)	Ams (Ho
- - MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rom (It
MEDITERRANEAN NAUTILUS S.A. (holding company)	Lux
- ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rom (It
- MEDITERRANEAN NAUTILUS Ltd. (installation and maintenance of submarine cable systems)	Dub (Ir
- - MEDITERRANEAN NAUTILUS B.V. (holding company)	Ams (Ho
- - - MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	Ath (Gr
- - - MEDITERRANEAN NAUTILUS ISRAEL Ltd (installation and maintenance of submarine cable systems)	Tel (Is
- - - MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance of submarine cable systems)	Rom (It
- - - MEDITERRANEAN NAUTILUS Inc. (telecommunications activities)	Del (US
- - - MEDITERRANEAN NAUTILUS TELEKOMUNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications activities))	Ist (Tu

Name (type of business)	Share cap
Domestic Wireline	
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (Telemarketing)	
INTELCOM SAN MARINo S.p.A (TELECOMMUNICATIONS SERVICES IN San Marino)	
LATIN AMERICAN NAUTILUS S.A. (holding company)	
- LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS BOLIVIA SrL (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS COLOMBIA S.A. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS ST. CROIX LLC (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	
- - LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	
- LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	

- MED 1 IC-1 (1999) Ltd
  (installation and maintenance of submarine cable IC1)

- MED-1 (NETHERLANDS) B.V.
  (holding company)

  - MED-1 ITALY S.r.l.
    (installation and maintenance submarine cable systems in Italian seas)

MEDITERRANEAN NAUTILUS S.A.
(holding company)

- ELETTRA TLC S.p.A.
  (installation and maintenance of submarine cable systems)

- MEDITERRANEAN NAUTILUS Ltd.
  (installation and maintenance of submarine cable systems)

  - MEDITERRANEAN NAUTILUS B.V.
    (holding company)

    - MEDITERRANEAN NAUTILUS GREECE S.A.
      (installation and maintenance of submarine cable systems)

    - MEDITERRANEAN NAUTILUS ISRAEL Ltd
      (installation and maintenance of submarine cable systems)

    - MEDITERRANEAN NAUTILUS ITALY S.p.A.
      (installation and maintenance of submarine cable systems)

    - MEDITERRANEAN NAUTILUS Inc.
      (telecommunications activities)

    - MEDITERRANEAN NAUTILUS TELEKOMUNIKASYON HIZMETLERI TICARET ANONIM SIRKETI
      (telecommunications activities))

Name (type of business)	% of voting rights
Domestic Wireline	
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (Telemarketing)	
INTELCOM SAN MARINo S.p.A (TELECOMMUNICATIONS SERVICES IN San Marino)	
LATIN AMERICAN NAUTILUS S.A. (holding company)	

- LATIN AMERICAN NAUTILUS ARGENTINA S.A.
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS BOLIVIA SrL
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS BRASIL Ltda
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS CHILE S.A.
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS COLOMBIA S.A.
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS Ltd
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS PANAMA S.A.
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS PERU' S.A.
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS ST. CROIX LLC
  (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS USA Inc.
  (installation and maintenance of submarine cable systems)
  - LATIN AMERICAN NAUTILUS SERVICE Inc.
    (installation and maintenance of submarine cable systems)
- LATIN AMERICAN NAUTILUS VENEZUELA C.A.
  (installation and maintenance of submarine cable systems)

MED-1 SUBMARINE CABLES Ltd
(construction and maintenance of submarine cable Lev)

- MED 1 IC-1 (1999) Ltd
  (installation and maintenance of submarine cable IC1)
- MED-1 (NETHERLANDS) B.V.
  (holding company)
  - MED-1 ITALY S.r.l.
    (installation and maintenance submarine cable systems in Italian seas)

MEDITERRANEAN NAUTILUS S.A.
(holding company)

- ELETTRA TLC S.p.A.
  (installation and maintenance of submarine cable systems)
- MEDITERRANEAN NAUTILUS Ltd.
  (installation and maintenance of submarine cable systems)
  - MEDITERRANEAN NAUTILUS B.V.
    (holding company)

- MEDITERRANEAN NAUTILUS GREECE S.A.
  (installation and maintenance of submarine cable systems)
- MEDITERRANEAN NAUTILUS ISRAEL Ltd
  (installation and maintenance of submarine cable systems)
- MEDITERRANEAN NAUTILUS ITALY S.p.A.
  (installation and maintenance of submarine cable systems)
- MEDITERRANEAN NAUTILUS Inc.
  (telecommunications activities)
- MEDITERRANEAN NAUTILUS TELEKOMUNIKASYON HIZMETLERI TICARET ANONIM SIRKETI
  (telecommunications activities))

Name (type of business)	Hea
PATH.NET S.p.A. (networking systems and telecommunications)	Rom (It
TELECONTACT CENTER S.p.A. (telemarketing)	Nap (It
TELECOM ITALIA SPARKLE S.p.A. (former TMI) (public and private telecommunication services)	Rom (It
- TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Ams (Ho
- TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	New (US
- TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	Mad (Sp
- TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	Bru (Be
- TI FRANCE S.A.R.L. (telecommunications services)	Par (Fr
- TI GERMANY GmbH (telecommunications services)	Fra (Ge
- TI SWITZERLAND GmbH (telecommunications services)	Zur (Sw
- TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	Vie (Au

- TI UNITED KINGDOM Ltd (telecommunications services)	Lon (UK
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Lux
- - TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	Lon (UK
- - - TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New (US

Mobile

TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Tur (It
- TIM INTERNATIONAL N.V. (holding company)	Ams (Ho
- - STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony services)	Ath (Gr
- - TIM BRASIL S.A. (holding company)	Sao (Br
- - - BITEL PARTICIPACOES S.A. (holding company)	Rio (Br
- - - - TELE CELULAR SUL PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Cur (Br
- - - - - TELEPAR CELULAR S.A. (mobile telephony operator)	Cur (Br
- - - - - - CTMR CELULAR S.A. (mobile telephony operator)	Pel (Br
- - - - - - TELESC CELULAR S.A. (mobile telephony operator)	Flo (Br
- - - - - TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Rec (Br
- - - - - - TELASA CELULAR S.A. (mobile telephony operator)	Rec (Br
- - - - - - TELECEARA' CELULAR S.A. (mobile telephony operator)	For (Br
- - - - - - TELEPISA CELULAR S.A. (mobile telephony operator)	Ter (Br
- - - - - - TELERN CELULAR S.A. (mobile telephony operator)	Nat (Br
- - - - - - TELPA CELULAR S.A. (mobile telephony operator)	Joa (Br

- TELPE CELULAR S.A. (mobile telephony operator)	Rec (Br
- STARCEL Ltda (call center services)	Sao (Br
- TIM CELULAR S.A. (former PORTALE SAO PAULO S.A.) (mobile telephony operator)	Sao (Br

Name (type of business)	Share capit
PATH.NET S.p.A. (networking systems and telecommunications)	
TELECONTACT CENTER S.p.A. (telemarketing)	
TELECOM ITALIA SPARKLE S.p.A. (former TMI) (public and private telecommunication services)	
- TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	
- TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	
- TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	
- TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	
- TI FRANCE S.A.R.L. (telecommunications services)	
- TI GERMANY GmbH (telecommunications services)	
- TI SWITZERLAND GmbH (telecommunications services)	
- TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	
- TI UNITED KINGDOM Ltd (telecommunications services)	
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	
- - TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	
- - - TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	

Mobile

TELECOM ITALIA MOBILE S.p.A.
(mobile telecommunications)

- TIM INTERNATIONAL N.V.
  (holding company)
  - STET HELLAS TELECOMMUNICATIONS S.A.
    (mobile telephony services)
  - TIM BRASIL S.A. 4
    (holding company)
    - BITEL PARTICIPACOES S.A.
      (holding company)
      - TELE CELULAR SUL PARTICIPACOES S.A.
        (holding company for operating companies providing mobile network services)
        - TELEPAR CELULAR S.A.
          (mobile telephony operator)
          - CTMR CELULAR S.A.
            (mobile telephony operator)
          - TELESC CELULAR S.A.
            (mobile telephony operator)
        - TELE NORDESTE CELULAR PARTICIPACOES S.A.
          (holding company for operating companies providing mobile network services)
          - TELASA CELULAR S.A.
            (mobile telephony operator)
          - TELECEARA' CELULAR S.A.
            (mobile telephony operator)
          - TELEPISA CELULAR S.A.
            (mobile telephony operator)
          - TELERN CELULAR S.A.
            (mobile telephony operator)
          - TELPA CELULAR S.A.
            (mobile telephony operator)
          - TELPE CELULAR S.A.
            (mobile telephony operator)
      - STARCEL Ltda
        (call center services)
      - TIM CELULAR S.A. (former PORTALE SAO PAULO S.A.)
        (mobile telephony operator)

Name (type of business)	% of voting rights
PATH.NET S.p.A. (networking systems and telecommunications)	
TELECONTACT CENTER S.p.A. (telemarketing)	
TELECOM ITALIA SPARKLE S.p.A. (former TMI) (public and private telecommunication services)	
- TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	
- TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	
- TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	
- TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	
- TI FRANCE S.A.R.L. (telecommunications services)	
- TI GERMANY GmbH (telecommunications services)	
- TI SWITZERLAND GmbH (telecommunications services)	
- TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	
- TI UNITED KINGDOM Ltd (telecommunications services)	
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	
- - TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	
- - - TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	
Mobile	
TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	55.68 0.17
- TIM INTERNATIONAL N.V. (holding company)	
- - STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony services)	

- TIM BRASIL S.A. (holding company)	
- BITEL PARTICIPACOES S.A. (holding company)	
- TELE CELULAR SUL PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	52.06
- TELEPAR CELULAR S.A. (mobile telephony operator)	90.19
- CTMR CELULAR S.A. (mobile telephony operator)	
- TELESC CELULAR S.A. (mobile telephony operator)	
- TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	52.32
- TELASA CELULAR S.A. (mobile telephony operator)	97.31
- TELECEARA' CELULAR S.A. (mobile telephony operator)	86.00
- TELEPISA CELULAR S.A. (mobile telephony operator)	97.59
- TELERN CELULAR S.A. (mobile telephony operator)	92.87
- TELPA CELULAR S.A. (mobile telephony operator)	94.87
- TELPE CELULAR S.A. (mobile telephony operator)	95.16
- STARCEL Ltda (call center services)	
- TIM CELULAR S.A. (former PORTALE SAO PAULO S.A.) (mobile telephony operator)	

Name (type of business)	Hea
- MAXITEL S.A. (mobile telephony operator)	Bel (Br

- TIMNET.COM S.A. (Internet services)	Rio (Br
- TIMNET USA Inc. (mobile services)	New (US
- TIM PERU' S.A.C. (mobile telephony operator)	Lim (Pe
- CORPORACION DIGITEL C.A. (telecommunications services)	Car (Ve
South America	
ENTEL CHILE S.A. (telecommunications services)	San (Ch
- AMERICATEL CENTROAMERICA S.A. (holding company)	Gua (Gu
- AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San (El
- AMERICATEL GUATEMALA S.A. (telecommunications services)	Gua (Gu
- AMERICATEL HONDURAS S.A. (telecommunications services)	Teg (Ho
- ENTEL CALL CENTER S.A. (telecommunications services)	San (Ch
- ENTEL INTERNATIONAL B.V.I. Corp. (holding company)	Tor (Br
- AMERICATEL CORP. USA (telecommunications services)	Flo (US
- ENTEL USA HOLDING Inc. (holding company)	Flo (US
- AMERICASKY Corporation (telecommunications services)	Flo (US
- ENTEL INVERSIONES S.A. (holding company)	San (Ch
- AMERICATEL PERU' S.A. (telecommunications services)	Lim (Pe
- ENTEL INVESTMENTS Inc. (holding company)	Tor (Br
- ENTEL SERVICIOS TELEFONICOS S.A. (telecommunications services)	San (Ch
- ENTEL TELEFONIA LOCAL S.A.	San

(local telecommunications services)	(Ch
- CHILE WIRELESS S.A. (holding company)	San (Ch
- ENTEL TELEFONIA PERSONAL S.A. (holding company)	San (Ch
- EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda (telecommunications services)	San (Ch
- ENTEL PCS TELECOMUNICACIONES S.A. (mobile telecommunications services)	San (Ch
- ENTEL TELEFONIA MOVIL S.A. (mobile telecommunications services)	San (Ch
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	San (Ch
- ENTEL VENEZUELA C.A. (former ORBITEL VENEZUELA C.A.) (telecommunications services)	Car (Ve
- RED DE TRANSACCIONES ELECTRONICAS S.A. (telecommunications services)	San (Ch
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	San (Ch
ENTEL Empresa Nacional de Telecomunicaciones S.A. (telecommunications services)	La (Bo
- DATACOM S.A. (data transmission services)	La (Bo
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications promotional services)	Sao (Br

Name (type of business)	Share cap
- MAXITEL S.A. (mobile telephony operator)	
- TIMNET.COM S.A. (Internet services)	
- TIMNET USA Inc. (mobile services)	
- TIM PERU' S.A.C. (mobile telephony operator)	

- CORPORACION DIGITEL C.A.
  (telecommunications services)

South America

ENTEL CHILE S.A.
(telecommunications services)

- AMERICATEL CENTROAMERICA S.A.
  (holding company)
  - AMERICATEL EL SALVADOR S.A. DE C.V.
    (telecommunications services)
  - AMERICATEL GUATEMALA S.A.
    (telecommunications services)
  - AMERICATEL HONDURAS S.A.
    (telecommunications services)
- ENTEL CALL CENTER S.A.
  (telecommunications services)
- ENTEL INTERNATIONAL B.V.I. Corp.
  (holding company)
  - AMERICATEL CORP. USA
    (telecommunications services)
  - ENTEL USA HOLDING Inc.
    (holding company)
    - AMERICASKY Corporation
      (telecommunications services)
- ENTEL INVERSIONES S.A.
  (holding company)
  - AMERICATEL PERU' S.A.
    (telecommunications services)
- ENTEL INVESTMENTS Inc.
  (holding company)
- ENTEL SERVICIOS TELEFONICOS S.A.
  (telecommunications services)
- ENTEL TELEFONIA LOCAL S.A.
  (local telecommunications services)
  - CHILE WIRELESS S.A.
    (holding company)
- ENTEL TELEFONIA PERSONAL S.A.
  (holding company)
  - EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda
    (telecommunications services)
  - ENTEL PCS TELECOMUNICACIONES S.A.
    (mobile telecommunications services)

- ENTEL TELEFONIA MOVIL S.A. (mobile telecommunications services)	
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	
- ENTEL VENEZUELA C.A. (former ORBITEL VENEZUELA C.A.) (telecommunications services)	
- RED DE TRANSACCIONES ELECTRONICAS S.A. (telecommunications services)	
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	
ENTEL Empresa Nacional de Telecomunicaciones S.A. (telecommunications services)	
- DATACOM S.A. (data transmission services)	
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications promotional services)	

Name (type of business)	% of voting rights
- MAXITEL S.A. (mobile telephony operator)	43.15 46.85 10.00
- TIMNET.COM S.A. (Internet services)	
- TIMNET USA Inc. (mobile services)	
- TIM PERU' S.A.C. (mobile telephony operator)	
- CORPORACION DIGITEL C.A. (telecommunications services)	
South America	
ENTEL CHILE S.A. (telecommunications services)	
- AMERICATEL CENTROAMERICA S.A. (holding company)	
- AMERICATEL EL SALVADOR S.A. DE C.V.	

(telecommunications services)

- AMERICATEL GUATEMALA S.A.
  (telecommunications services)

- AMERICATEL HONDURAS S.A.
  (telecommunications services)

- ENTEL CALL CENTER S.A.
  (telecommunications services)

- ENTEL INTERNATIONAL B.V.I. Corp.
  (holding company)

  - AMERICATEL CORP. USA
    (telecommunications services)

  - ENTEL USA HOLDING Inc.
    (holding company)

    - AMERICASKY Corporation
      (telecommunications services)

- ENTEL INVERSIONES S.A.
  (holding company)

  - AMERICATEL PERU' S.A.
    (telecommunications services)

- ENTEL INVESTMENTS Inc.
  (holding company)

- ENTEL SERVICIOS TELEFONICOS S.A.
  (telecommunications services)

- ENTEL TELEFONIA LOCAL S.A.
  (local telecommunications services)

  - CHILE WIRELESS S.A.
    (holding company)

- ENTEL TELEFONIA PERSONAL S.A.
  (holding company)

  - EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda
    (telecommunications services)

  - ENTEL PCS TELECOMUNICACIONES S.A.
    (mobile telecommunications services)

  - ENTEL TELEFONIA MOVIL S.A.
    (mobile telecommunications services)

- MICARRIER TELECOMUNICACIONES S.A.
  (telecommunications services)

- ENTEL VENEZUELA C.A.
  (former ORBITEL VENEZUELA C.A.)
  (telecommunications services)

- RED DE TRANSACCIONES ELECTRONICAS S.A.
  (telecommunications services)

Name (type of business)	Hea
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	
ENTEL Empresa Nacional de Telecomunicaciones S.A. (telecommunications services)	
- DATACOM S.A. (data transmission services)	
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications promotional services)	

Name (type of business)	Hea
Internet and Media	
SEAT PAGINE GIALLE S.p.A. (publishing and Internet services)	Mil (It
- ANNUARI ITALIANI S.p.A. (former KOMPASS ITALIA) (publishing of annuals and sale of telematic products)	Tur (It
- CIPI S.p.A. (personalized products for companies)	Mil (It
- CONSODATA S.A. (management and supply of data banks and market researches)	Lev (Fr
- - BCA FINANCES S.A. (analysis, management and trading of data banks)	Lil (Fr
- - - BCA S.A. (analysis, management and trading of data banks)	Lil (Fr
- - CAL - CONSUMER ACCES Ltd (management and supply of data banks)	Kin (UK
- - - CONSODATA UK Ltd (business information)	Kin (UK
- - CHINALOOP HOLDINGS (direct marketing)	Cay
- - - CHINALOOP (MAURITIUS) Co (direct marketing)	Por (Ma
- - - - SHANGHAI CHINALOOP INFORMATION SERVICES (direct marketing)	Sha (Ch
- - CONSOBELGIUM S.A. (business information)	Bru (Be

- CONSODATA ESPANA S.A. (business information)	Bar (Sp
- QUANTITATIVE MARKETING TECHNOLOGIES S.L. (direct marketing)	Bar (Sp
- CONSODATA SOLUTIONS S.A. (data management)	Lev (Fr
- CONSODATA S.p.A. (services of direct marketing; creation, management and marketing of data bank)	Rom (It
- CONSODATA MARKETING INTELLIGENCE S.r.l. (former DOMINO RESEARCH S.r.l.) (data processing geomarketing sector)	Mil (It
- DWI S.p.A. (design, software realization)	Ver (It
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)	Mil (It
- PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)	Cus (Mi
- MEDIA PRISME S.A. (analysis, management and trading of data banks)	Lev (Fr
- MEDIA PRISME ESPAGNE S.A. (direct marketing)	Mad (Sp
- MP LIST S.A. (analysis, management and trading of data banks)	Bru (Be
- CONSODATA GROUP Ltd (management and supply of data banks)	Lon (UK
- NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)	New (US
- PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH (direct marketing)	Mun (Ge
- PAN-ADRESS DIREKTMARKETING & Co. KG (direct marketing)	Mun (Ge
- CONSODATA DEUTSCHLAND GmbH (in liquidation) (direct marketing)	Mun (Ge
- CONSODATA MARKETING INTELLIGENCE GmbH (direct marketing)	Mun (Ge
- MEDIAPLAN GmbH (in liquidation) (direct marketing)	Mun (Ge
- DATABANK S.p.A. (marketing)	Mil (It

Name (type of business)	
- DBK S.A. (marketing)	Mad (Sp

Name (type of business)	Share capi
Internet and Media	
SEAT PAGINE GIALLE S.p.A. (publishing and Internet services)	
- ANNUARI ITALIANI S.p.A. (former KOMPASS ITALIA) (publishing of annuals and sale of telematic products)	
- CIPI S.p.A. (personalized products for companies)	
- CONSODATA S.A. (management and supply of data banks and market researches)	
- BCA FINANCES S.A. (analysis, management and trading of data banks)	
- BCA S.A. (analysis, management and trading of data banks)	
- CAL - CONSUMER ACCES Ltd (management and supply of data banks)	
- CONSODATA UK Ltd (business information)	
- CHINALOOP HOLDINGS (direct marketing)	
- CHINALOOP (MAURITIUS) Co (direct marketing)	
- SHANGHAI CHINALOOP INFORMATION SERVICES (direct marketing)	
- CONSOBELGIUM S.A. (business information)	
- CONSODATA ESPANA S.A. (business information)	
- QUANTITATIVE MARKETING TECHNOLOGIES S.L. (direct marketing)	
- CONSODATA SOLUTIONS S.A. (data management)	
- CONSODATA S.p.A. (services of direct marketing; creation, management and marketing of data bank)	

- CONSODATA MARKETING INTELLIGENCE S.r.l. (former DOMINO RESEARCH S.r.l.) (data processing geomarketing sector)
- DWI S.p.A. (design, software realization)
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)
- PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)

- MEDIA PRISME S.A. (analysis, management and trading of data banks)
  - MEDIA PRISME ESPAGNE S.A. (direct marketing)
  - MP LIST S.A. (analysis, management and trading of data banks)

- CONSODATA GROUP Ltd (management and supply of data banks)
  - NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)
  - PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH (direct marketing)
  - PAN-ADRESS DIREKTMARKETING & Co. KG (direct marketing)
    - CONSODATA DEUTSCHLAND GmbH (in liquidation) (direct marketing)
    - CONSODATA MARKETING INTELLIGENCE GmbH (direct marketing)
    - MEDIAPLAN GmbH (in liquidation) (direct marketing)
- DATABANK S.p.A. (marketing)
  - DBK S.A. (marketing)

Name (type of business)	% of voting rights
Internet and Media	
SEAT PAGINE GIALLE S.p.A.	53.5850

(publishing and Internet services) 2.068
0.0171

- ANNUARI ITALIANI S.p.A. (former KOMPASS ITALIA)
  (publishing of annuals and sale of telematic products)

- CIPI S.p.A.
  (personalized products for companies)

- CONSODATA S.A.
  (management and supply of data banks and market researches)

  - BCA FINANCES S.A.
    (analysis, management and trading of data banks)

    - BCA S.A.
      (analysis, management and trading of data banks)

  - CAL - CONSUMER ACCES Ltd
    (management and supply of data banks)

    - CONSODATA UK Ltd
      (business information)

  - CHINALOOP HOLDINGS
    (direct marketing)

    - CHINALOOP (MAURITIUS) Co
      (direct marketing)

      - SHANGHAI CHINALOOP INFORMATION SERVICES
        (direct marketing)

  - CONSOBELGIUM S.A.
    (business information)

  - CONSODATA ESPANA S.A.
    (business information)

    - QUANTITATIVE MARKETING TECHNOLOGIES S.L.
      (direct marketing)

  - CONSODATA SOLUTIONS S.A.
    (data management)

  - CONSODATA S.p.A.
    (services of direct marketing; creation, management and marketing of data bank)

    - CONSODATA MARKETING INTELLIGENCE S.r.l.
      (former DOMINO RESEARCH S.r.l.)
      (data processing geomarketing sector)

    - DWI S.p.A.
      (design, software realization)

    - FINANZA E GESTIONE S.r.l.
      (creation, management and trading of data banks for the banking sector)

    - PUBBLIBABY S.p.A.
      (design, management and marketing of native sector

data bank)

- MEDIA PRISME S.A.
  (analysis, management and trading of data banks)

  - MEDIA PRISME ESPAGNE S.A.
    (direct marketing)

  - MP LIST S.A.
    (analysis, management and trading of data banks)

- CONSODATA GROUP Ltd
  (management and supply of data banks)

  - NETCREATIONS Inc.
    (management of the license regarding the software products of Netex Ltd)

  - PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH
    (direct marketing)

  - PAN-ADRESS DIREKTMARKETING & Co. KG
    (direct marketing)

    - CONSODATA DEUTSCHLAND GmbH (in liquidation)
      (direct marketing)

    - CONSODATA MARKETING INTELLIGENCE GmbH
      (direct marketing)

    - MEDIAPLAN GmbH (in liquidation)
      (direct marketing)

- DATABANK S.p.A.
  (marketing)

  - DBK S.A.
    (marketing)

Name (type of business)	Hea
- EUREDIT S.A. (realization, promotion and marketing European technology of commerce annual "Europages")	Par (Fr
- FINANZIARIA WEB S.p.A. (financing)	Tur (It
- MATRIX S.p.A. (Internet services)	Mil (It

- FREE FINANCE S.p.A. (Internet loans for the real estate market)	Mil (It
- WEBNEXT S.r.l. (former XOOM.It S.p.A.) (in liquidation) (development and management of virtual communities)	Mil (It
- FINSATEL S.r.l. (in liquidation) (holding company)	Tur (It
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Tur (It
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)	Fae (Ra
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)	Cas (Sp
- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	Sao (Br
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)	Fae (Ra
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cin (Mi
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	Mil (It
- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Mil (It
- TTG ITALIA S.p.A. (publishing house and advertising agency)	Tur (It
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Tur (It
- IMR S.r.l. (call center services)	Tur (It
- OPS S.r.l. (call center services)	Mil (It
- TELEPROFESSIONAL S.r.l. (call center services)	Mon (Mi
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rom (It
- OFFICE AUTOMATION PRODUCTS S.p.A. (wholesale magnetic stand)	Lec (It

- IS PRODUCTS S.p.A. (marketing of office automation)	Lec (It
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Ven (Tu
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and trading of business software)	Rom (It
- SK DIRECT S.r.l. (graphic arts)	Rom (It
- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	Rom (It
- GLOBO EUROPA B.V. (in liquidation) (services and operations in the field of radio and tv broadcasting)	Ams (Ho
- HOLDING MEDIA E COMUNICAZIONE PUBBLICITA S.r.l. (in liquidation) (purchase and sale of advertising spaces and management of advertising in the field of radio and tv broadcasting)	Rom (It
- TV INTERNAZIONALE S.p.A. (purchase, management and maintenance of technical transmission systems for audio and video broadcasting)	Rom (It
- BEIGUA S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)	Rom (It

Name (type of business)	Share capit
- EUREDIT S.A. (realization, promotion and marketing European technology of commerce annual "Europages")	
- FINANZIARIA WEB S.p.A. (financing)	
- MATRIX S.p.A. (Internet services)	
- FREE FINANCE S.p.A. (Internet loans for the real estate market)	
- WEBNEXT S.r.l. (former XOOM.It S.p.A.) (in liquidation) (development and management of virtual communities)	
- FINSATEL S.r.l. (in liquidation) (holding company)	

- GIALLO PROFESSIONAL PUBLISHING S.p.A.
  (publishing, typographic and graphic marketing, advertising)
  - GRUPPO EDITORIALE FAENZA EDITRICE S.p.A.
    (publishing house)
    - FAENZA EDITRICE IBERICA S.L.
      (publishing house also on behalf of third parties)
    - FAENZA EDITRICE DO BRASIL Ltda
      (publishing house also on behalf of third parties)
    - PROMO ADVERTISING S.r.l.
      (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)
  - GRUPPO EDITORIALE JCE S.p.A.
    (publishing house)
  - QUASAR E ASSOCIATI S.r.l.
    (multimedia publishers)
    - EDITORIALE QUASAR S.r.l.
      (publishing house and advertising agency)
  - TTG ITALIA S.p.A.
    (publishing house and advertising agency)
- GIALLO VOICE S.p.A.
  (teleselling, telemarketing, call centers and marketing)
  - IMR S.r.l.
    (call center services)
  - OPS S.r.l.
    (call center services)
  - TELEPROFESSIONAL S.r.l.
    (call center services)
- GRUPPO BUFFETTI S.p.A.
  (supply of products regarding the paper industry, printing and publishing)
  - OFFICE AUTOMATION PRODUCTS S.p.A.
    (wholesale magnetic stand)
    - IS PRODUCTS S.p.A.
      (marketing of office automation)
    - INCAS PRODUCTIONS S.r.l.
      (wholesale production and marketing of office consumable products)
  - PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A.
    (production and trading of business software)
  - SK DIRECT S.r.l.

(graphic arts)

- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.
  (production, marketing on TV and press)

  - GLOBO EUROPA B.V. (in liquidation)
    (services and operations in the field of radio and tv broadcasting)

  - HOLDING MEDIA E COMUNICAZIONE PUBBLICITA S.r.l. (in liquidation)
    (purchase and sale of advertising spaces and management of advertising in the field of radio and tv broadcasting)

  - TV INTERNAZIONALE S.p.A.
    (purchase, management and maintenance of technical transmission systems for audio and video broadcasting)

    - BEIGUA S.r.l.
      (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)

Name (type of business)	% of voting rights	H
- EUREDIT S.A. (realization, promotion and marketing European technology of commerce annual "Europages")		S
- FINANZIARIA WEB S.p.A. (financing)		S
- MATRIX S.p.A. (Internet services)		S F N
- FREE FINANCE S.p.A. (Internet loans for the real estate market)		M
- WEBNEXT S.r.l. (former XOOM.It S.p.A.) (in liquidation) (development and management of virtual communities)		M
- FINSATEL S.r.l. (in liquidation) (holding company)		S
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)		S
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)		G
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)		G

- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	G F
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)	G
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	G
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	G
- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Q
- TTG ITALIA S.p.A. (publishing house and advertising agency)	G
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	S
- IMR S.r.l. (call center services)	G
- OPS S.r.l. (call center services)	G
- TELEPROFESSIONAL S.r.l. (call center services)	G
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	S
- OFFICE AUTOMATION PRODUCTS S.p.A. (wholesale magnetic stand)	G
- IS PRODUCTS S.p.A. (marketing of office automation)	G O
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	O
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and trading of business software)	G
- SK DIRECT S.r.l. (graphic arts)	G O
- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	S
- GLOBO EUROPA B.V. (in liquidation) (services and operations in the field of radio and tv broadcasting)	H
- HOLDING MEDIA E COMUNICAZIONE PUBBLICITA S.r.l. (in liquidation) (purchase and sale of advertising spaces and management of	H

advertising in the field of radio and tv broadcasting)	
- TV INTERNAZIONALE S.p.A. (purchase, management and maintenance of technical transmission systems for audio and video broadcasting)	H
- BEIGUA S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)	T

Name (type of business)	Hea
- GIAROLO S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)	Rom (It
- MTV ITALIA S.r.l. (services in the field of radio and tv broadcasting, production and sale of radio, tv and cinema programs)	Rom (It
- MTV PUBBLICITA S.r.l. (advertising agency)	Mil (It
- TDL INFOMEDIA Ltd (holding company)	Ham (UK
- MYBLUECAT.COM (in liquidation) (supply of services)	Ham (UK
- TDL INFOMEDIA FINANCE Ltd (holding company)	Ham (UK
- TDL INFOMEDIA HOLDINGS Plc (holding company)	Ham (UK
- TDL INFOMEDIA GROUP Plc (holding company)	Ham (UK
- TDL GROUP Ltd (holding company)	Ham (UK
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	Ham (UK
- THOMSON DIRECTORIES PENSION COMPANY Ltd (management of Thomson Directories Pension fund)	Ham (UK
- TDL INVESTMENTS B.V. (in liquidation) (supply of services)	Rot (Ho
- TELEGATE HOLDING GmbH	Mar

(holding company)	(Ge
- TELEGATE A.G. (call center services)	Mar (Ge
- 118866 Ltd (former TELEGATE Ltd) (call center services)	Lon (UK
- ARSMOVENDI.COM A.G. (in liquidation) (Internet services)	Mun (Ge
- TRAVELGATE BUSINESS GmbH (in liquidation) (business tour operator)	Mun (Ge
- DATAGATE GmbH (call center)	Mar (Ge
- KIMTRAVEL CONSULTING A.G. (in liquidation) (Internet services)	Mun (Ge
- TELEGATE AKADEMIE GmbH (training center for employees of call centers)	Ros (Ge
- TELEGATE ANKLAM GmbH (Internet services)	Ank (Ge
- 11880.com GmbH (call center services)	Mar (Ge
- MOBILSAFE A.G. (in liquidation) (Internet services)	Mee (Ge
- TELEGATE ESPANA S.A. (call center services)	Mad (Sp
- TELEGATE GmbH (call center services)	Vie (Au
- TELEGATE Inc. (call center services)	Tex (US
- TELEGATE ITALIA S.r.l. (call center services)	Mil (It
- TGT HOLDING B.V. (in liquidation) (holding company)	Sch (Ho

Information Technology - Market

FINSIEL - Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	Rom (It
- AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A. (consulting and services in favour of agriculture)	Rom (It
- ASPASIEL S.r.l. (information systems)	Rom (It
- BANKSIEL - Societa di informatica e Organizzazione p.A. (design, installation, operation and maintenance of information systems for	Mil

bank and insurance companies) (It

Name (type of business)	Share capit
- GIAROLO S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)	
- MTV ITALIA S.r.l. (services in the field of radio and tv broadcasting, production and sale of radio, tv and cinema programs)	
- MTV PUBBLICITA S.r.l. (advertising agency)	
- TDL INFOMEDIA Ltd (holding company)	
- MYBLUECAT.COM (in liquidation) (supply of services)	
- TDL INFOMEDIA FINANCE Ltd (holding company)	
- TDL INFOMEDIA HOLDINGS Plc (holding company)	
- TDL INFOMEDIA GROUP Plc (holding company)	
- TDL GROUP Ltd (holding company)	
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	
- THOMSON DIRECTORIES PENSION COMPANY Ltd (management of Thomson Directories Pension fund)	
- TDL INVESTMENTS B.V. (in liquidation) (supply of services)	
- TELEGATE HOLDING GmbH (holding company)	
- TELEGATE A.G. (call center services)	
- 118866 Ltd (former TELEGATE Ltd) (call center services)	
- ARSMOVENDI.COM A.G. (in liquidation) (Internet services)	
- TRAVELGATE BUSINESS GmbH (in liquidation) (business tour operator)	

- DATAGATE GmbH
  (call center)
- KIMTRAVEL CONSULTING A.G. (in liquidation)
  (Internet services)
- TELEGATE AKADEMIE GmbH
  (training center for employees of call centers)
- TELEGATE ANKLAM GmbH
  (Internet services)
  - 11880.com GmbH
    (call center services)
  - MOBILSAFE A.G. (in liquidation)
    (Internet services)
- TELEGATE ESPANA S.A.
  (call center services)
- TELEGATE GmbH
  (call center services)
- TELEGATE Inc.
  (call center services)
- TELEGATE ITALIA S.r.l.
  (call center services)
- TGT HOLDING B.V. (in liquidation)
  (holding company)

Information Technology - Market

FINSIEL - Consulenza e Applicazioni Informatiche S.p.A.
(conception and implementation of projects in information technology applications)

- AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A.
  (consulting and services in favour of agriculture)
- ASPASIEL S.r.l.
  (information systems)
- BANKSIEL - Societa di informatica e Organizzazione p.A.
  (design, installation, operation and maintenance of information systems for bank and insurance companies)

Name (type of business)	% of voting rights
- GIAROLO S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and tv broadcasting)	

- MTV ITALIA S.r.l.
  (services in the field of radio and tv broadcasting, production and sale of radio, tv and cinema programs)
  - MTV PUBBLICITA S.r.l.
    (advertising agency)

- TDL INFOMEDIA Ltd
  (holding company)
  - MYBLUECAT.COM (in liquidation)
    (supply of services)
  - TDL INFOMEDIA FINANCE Ltd
    (holding company)
    - TDL INFOMEDIA HOLDINGS Plc
      (holding company)
      - TDL INFOMEDIA GROUP Plc
        (holding company)
        - TDL GROUP Ltd
          (holding company)
          - THOMSON DIRECTORIES Ltd
            (publishing and marketing directories)
            - THOMSON DIRECTORIES PENSION COMPANY Ltd
              (management of Thomson Directories Pension fund)
  - TDL INVESTMENTS B.V. (in liquidation)
    (supply of services)

- TELEGATE HOLDING GmbH
  (holding company)
  - TELEGATE A.G.
    (call center services)
    - 118866 Ltd (former TELEGATE Ltd)
      (call center services)
    - ARSMOVENDI.COM A.G. (in liquidation)
      (Internet services)
      - TRAVELGATE BUSINESS GmbH (in liquidation)
        (business tour operator)
    - DATAGATE GmbH
      (call center)
    - KIMTRAVEL CONSULTING A.G. (in liquidation)
      (Internet services)
    - TELEGATE AKADEMIE GmbH
      (training center for employees of call centers)
    - TELEGATE ANKLAM GmbH
      (Internet services)

- 11880.com GmbH
  (call center services)

- MOBILSAFE A.G. (in liquidation)
  (Internet services)

- TELEGATE ESPANA S.A.
  (call center services)

- TELEGATE GmbH
  (call center services)

- TELEGATE Inc.
  (call center services)

- TELEGATE ITALIA S.r.l.
  (call center services)

- TGT HOLDING B.V. (in liquidation)
  (holding company)

Information Technology - Market

FINSIEL - Consulenza e Applicazioni Informatiche S.p.A.
(conception and implementation of projects in information technology applications)

- AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A.
  (consulting and services in favour of agriculture)

- ASPASIEL S.r.l. 51.00
  (information systems)

- BANKSIEL - Societa di informatica e Organizzazione p.A.
  (design, installation, operation and maintenance of information systems for bank and insurance companies)

Name (type of business)	Hea
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. electronic information systems for banking and financial industry)	Ren (Co
- CENTROSIEL S.p.A. (information systems)	Mil (It
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	Rom (It

- FINSIEL ROMANIA S.r.l. (information systems) — Buc (Ru
- INSIEL - Informatica per il Sistema degli Enti Locall S.p.A. (information systems) — Tri (It
  - VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities) — Ven (It
- INTERSIEL - Societa Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems) — Ren (Co
- KRENESIEL - Societa Sarda di Informatica S.p.A. (information systems) — Sas (It
- TELE SISTEMI FERROVIARI S.p.A. (information systems) — Rom (It
- WEBRED S.p.A. (information systems) — Per (It

Information Technology - Group

IT TELECOM S.p.A. (information and communication technology) — Rom (It

- NETIKOS S.p.A. (information systems) — Rom (It
  - NETIKOS FINLAND OY (development of wireless solutions) — Hel (Fi
- SODALIA NORTH AMERICA Inc. (telecommunications software) — Vir (US
- EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems) — Rom (It
- TECO SOFT ARGENTINA S.A. (design, realization and sale of software) — Bue (Ar
- TELESOFT HELLAS S.A. (telecommunications software) — Ath (Gr
- TELESOFT RUSSIA ZAO (telecommunications software) — Mos (Ru
- WEBEGG S.p.A. (e-business solution) — Mil (It
  - TELEAP S.p.A. (software applications, architecture) — Ivr (Tu
  - @LIVE S.p.A. (international training) — Tur (It
  - DOMUS ACCADEMY S.p.A. (design research) — Mil (It

- W.P. WINNER PROJECT B.V. (software applications)	Rot (Ho
- - SOFTWARE FACTORY S.p.A. (software applications)	Mil (It
TELECOM ITALIA LAB S.p.A. (studies, research and venture capital in telecommunications and electronics)	Tur (It
- LOQUENDO - SOCIETA PER AZIONI (research, development and trading of technologies and equipments regarding vocal recognition and interaction)	Tur (It
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Lux
- TELECOM ITALIA LAB S.A. (holding company)	Lux
- - TELECOM ITALIA LAB B.V. (holding company)	Ams (Ho
- TELSY Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Tur (It

Name (type of business)	Share capit
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. electronic information systems for banking and financial industry)	
- CENTROSIEL S.p.A. (information systems)	
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	
- FINSIEL ROMANIA S.r.l. (information systems)	
- INSIEL - Informatica per il Sistema degli Enti Locall S.p.A. (information systems)	
- - VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities)	
- INTERSIEL - Societa Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	
- KRENESIEL - Societa Sarda di Informatica S.p.A. (information systems)	
- TELE SISTEMI FERROVIARI S.p.A.	

(information systems)

- WEBRED S.p.A.
  (information systems)

Information Technology - Group

IT TELECOM S.p.A.
(information and communication technology)

- NETIKOS S.p.A.
  (information systems)
  - NETIKOS FINLAND OY
    (development of wireless solutions)
- SODALIA NORTH AMERICA Inc.
  (telecommunications software)
- EUSTEMA S.p.A.
  (design, research, development and marketing of software, information and online systems)
- TECO SOFT ARGENTINA S.A.
  (design, realization and sale of software)
- TELESOFT HELLAS S.A.
  (telecommunications software)
- TELESOFT RUSSIA ZAO
  (telecommunications software)
- WEBEGG S.p.A.
  (e-business solution)
  - TELEAP S.p.A.
    (software applications, architecture)
  - @LIVE S.p.A.
    (international training)
  - DOMUS ACCADEMY S.p.A.
    (design research)
  - W.P. WINNER PROJECT B.V.
    (software applications)
    - SOFTWARE FACTORY S.p.A.
      (software applications)

TELECOM ITALIA LAB S.p.A.
(studies, research and venture capital in telecommunications and electronics)

- LOQUENDO - SOCIETA PER AZIONI
  (research, development and trading of technologies and equipments regarding vocal recognition and interaction)
- TELECOM ITALIA LAB GENERAL PARTNER S.A.
  (holding company)

- TELECOM ITALIA LAB S.A. (holding company)	
- TELECOM ITALIA LAB B.V. (holding company)	
- TELSY Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	

Name (type of business)	% of voting rights
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. electronic information systems for banking and financial industry)	
- CENTROSIEL S.p.A. (information systems)	51.00
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	
- FINSIEL ROMANIA S.r.l. (information systems)	
- INSIEL - Informatica per il Sistema degli Enti Locall S.p.A. (information systems)	
- VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities)	
- INTERSIEL - Societa Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	
- KRENESIEL - Societa Sarda di Informatica S.p.A. (information systems)	
- TELE SISTEMI FERROVIARI S.p.A. (information systems)	
- WEBRED S.p.A. (information systems)	
Information Technology - Group	
IT TELECOM S.p.A. (information and communication technology)	
- NETIKOS S.p.A. (information systems)	
- NETIKOS FINLAND OY (development of wireless solutions)	

- SODALIA NORTH AMERICA Inc.
  (telecommunications software)
- EUSTEMA S.p.A.
  (design, research, development and marketing of software, information and online systems)
- TECO SOFT ARGENTINA S.A.
  (design, realization and sale of software)
- TELESOFT HELLAS S.A.
  (telecommunications software)
- TELESOFT RUSSIA ZAO
  (telecommunications software)
- WEBEGG S.p.A.
  (e-business solution)
  - TELEAP S.p.A.
    (software applications, architecture)
  - @LIVE S.p.A.
    (international training)
  - DOMUS ACCADEMY S.p.A.
    (design research)
  - W.P. WINNER PROJECT B.V.
    (software applications)
    - SOFTWARE FACTORY S.p.A.
      (software applications)

TELECOM ITALIA LAB S.p.A.
(studies, research and venture capital in telecommunications and electronics)

- LOQUENDO - SOCIETA PER AZIONI
  (research, development and trading of technologies and equipments regarding vocal recognition and interaction)
- TELECOM ITALIA LAB GENERAL PARTNER S.A.
  (holding company)
- TELECOM ITALIA LAB S.A.
  (holding company)
  - TELECOM ITALIA LAB B.V.
    (holding company)
- TELSY Elettronica e Telecomunicazioni S.p.A.
  (manufacturing and sale of systems for encrypted telecommunications)

Name (type of business)	Hea
Other operations	
EMSA Servizi S.p.A. (former CONSULTEL S.p.A.) (real estate management)	Rom (It
EPICLINK S.p.A. (telecommunications services)	Seg (Mi
IN.TELAUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	Mil (It
NETESI S.p.a. (telecommunication and multimedia services)	Mil (It
SAIAT - Societa Attivita Intermedie Ausillarie Telecomunicazioni p.A. (financing)	Tur (It
TELECOM ITALIA LEARNING SERVICES S.p.A. (former SSGRR) (professional training)	L'A (It
- TELECOM ITALIA LEARNING SERVICES DO BRASIL Ltda (former CONSIEL DO BRASIL) (consulting and information systems)	Sao (Br
TECNO SERVIZI MOBILI S.r.l. (real estate management)	Rom (It
TELECOM ITALIA INTERNATIONAL N.V. (former STET INTERNATIONAL NETHERLANDS N.V.) (holding company)	Ams (Ho
- BBNED N.V. (telecommunications services)	Ams (Ho
- - BBEYOND B.V. (telecommunications services)	Ams (Ho
- ICH - International Communication Holding N.V. (holding company)	Ams (Ho
- - ETI - Euro Telecom International N.V. (holding company)	Ams (Ho
TELECOM ITALIA FINANCE S.A. (former TI WEB) (holding company)	Lux
- ISM S.r.l. (holding company)	Tur (It
- - N.V. VERTICO (holding company)	Bru (Be
- TELSI Ltd (holding company)	Lon (UK
TELE PAY ROLL SERVICES S.p.A. (information systems for payroll services)	Rom (It

Name (type of business)	Share capit
Other operations	
EMSA Servizi S.p.A. (former CONSULTEL S.p.A.) (real estate management)	
EPICLINK S.p.A. (telecommunications services)	
IN.TELAUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	
NETESI S.p.a. (telecommunication and multimedia services)	
SAIAT - Societa Attivita Intermedie Ausillarie Telecomunicazioni p.A. (financing)	
TELECOM ITALIA LEARNING SERVICES S.p.A. (former SSGRR) (professional training)	
- TELECOM ITALIA LEARNING SERVICES DO BRASIL Ltda (former CONSIEL DO BRASIL) (consulting and information systems)	
TECNO SERVIZI MOBILI S.r.l. (real estate management)	
TELECOM ITALIA INTERNATIONAL N.V. (former STET INTERNATIONAL NETHERLANDS N.V.) (holding company)	
- BBNED N.V. (telecommunications services)	
- - BBEYOND B.V. (telecommunications services)	
- ICH - International Communication Holding N.V. (holding company)	
- - ETI - Euro Telecom International N.V. (holding company)	
TELECOM ITALIA FINANCE S.A. (former TI WEB) (holding company)	
- ISM S.r.l. (holding company)	
- - N.V. VERTICO (holding company)	
- TELSI Ltd (holding company)	

TELE PAY ROLL SERVICES S.p.A.
(information systems for payroll services)

Name (type of business)	% of voting rights
Other operations	
EMSA Servizi S.p.A. (former CONSULTEL S.p.A.) (real estate management)	
EPICLINK S.p.A. (telecommunications services)	
IN.TELAUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	
NETESI S.p.a. (telecommunication and multimedia services)	
SAIAT - Societa Attivita Intermedie Ausillarie Telecomunicazioni p.A. (financing)	
TELECOM ITALIA LEARNING SERVICES S.p.A. (former SSGRR) (professional training)	
- TELECOM ITALIA LEARNING SERVICES DO BRASIL Ltda (former CONSIEL DO BRASIL) (consulting and information systems)	
TECNO SERVIZI MOBILI S.r.l. (real estate management)	
TELECOM ITALIA INTERNATIONAL N.V. (former STET INTERNATIONAL NETHERLANDS N.V.) (holding company)	
- BBNED N.V. (telecommunications services)	
- - BBEYOND B.V. (telecommunications services)	
- ICH - International Communication Holding N.V. (holding company)	
- - ETI - Euro Telecom International N.V. (holding company)	
TELECOM ITALIA FINANCE S.A. (former TI WEB) (holding company)	
- ISM S.r.l. (holding company)	
- - N.V. VERTICO (holding company)	

- TELSI Ltd
  (holding company)

TELE PAY ROLL SERVICES S.p.A.
(information systems for payroll services)

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* The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order to undertake the charge of Director/Manager, or held by Fiduciaries.

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Name (type of business)	Hea
SUBSIDIARIES	
EDOTEL S.p.A. (holding company)	Tur (It
EURO DATACOM Ltd (telecommunications services)	Hud (UK
GOALLARS B.V. (management of an Internet site)	Ams (Ho
TELECOM ITALIA CAPITAL S.A. (financing)	Lux
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Mon (Ca
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Rep
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	Rep
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	Sao (Br
ZDNET ITALIA S.p.A. (creation and management of Internet sites)	Mil (It
AFFILIATED COMPANIES	

ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rom (It ---
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Rep ---
BUENAVENTURA S.A. (telecommunications services)	San (Ch ---
CABLE INSIGNIA S.A. (telecommunications services)	Asu (Pa ---
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	Rom (It ---
CYGENT Inc. (development and sale of software)	Cal (US ---
DATASIEL - Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	Gen (It ---
DISCOVERITALIA S.p.A. (communication services)	Nov (It ---
EISYS S.p.A. (information systems)	Rom (It ---
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	Rom (It ---
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	La (Cu ---
EURODIRECTORY S.A. (holding company of the publishers of the Kompass directories)	Lux ---
GARAGE S.r.l. (multimedia and cinema broadcasting)	Mil (It ---
GLB SERVICOS INTERATIVOS S.A. (Internet services)	Rio (Br ---
GO TO WEB S.p.A. (web-based software solutions)	Ivr (To ---
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ram (Is ---
ICOM Inc. (development of data bank and Internet market place)	Tor (Ca ---
IM.SER S.p.A. (real estate management)	Rom (It ---
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	Ist (Tu ---

Name (type of business)	Share capit
SUBSIDIARIES	
EDOTEL S.p.A. (holding company)	
EURO DATACOM Ltd (telecommunications services)	
GOALLARS B.V. (management of an Internet site)	
TELECOM ITALIA CAPITAL S.A. (financing)	
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	
ZDNET ITALIA S.p.A. (creation and management of Internet sites)	
AFFILIATED COMPANIES	
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	
BUENAVENTURA S.A. (telecommunications services)	
CABLE INSIGNIA S.A. (telecommunications services)	
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	
CYGENT Inc. (development and sale of software)	
DATASIEL - Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	
DISCOVERITALIA S.p.A.	

(communication services)	
EISYS S.p.A. (information systems)	
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	
EURODIRECTORY S.A. (holding company of the publishers of the Kompass directories)	
GARAGE S.r.l. (multimedia and cinema broadcasting)	
GLB SERVICOS INTERATIVOS S.A. (Internet services)	
GO TO WEB S.p.A. (web-based software solutions)	
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	
ICOM Inc. (development of data bank and Internet market place)	
IM.SER S.p.A. (real estate management)	
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	545,

Name (type of business)	% of voting rights	H
SUBSIDIARIES		
EDOTEL S.p.A. (holding company)		T T
EURO DATACOM Ltd (telecommunications services)		T
GOALLARS B.V. (management of an Internet site)		M
TELECOM ITALIA CAPITAL S.A. (financing)		T T
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)		T

TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	I
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	I
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	T
ZDNET ITALIA S.p.A. (creation and management of Internet sites)	M
AFFILIATED COMPANIES	
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	S
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	I
BUENAVENTURA S.A. (telecommunications services)	E
CABLE INSIGNIA S.A. (telecommunications services)	T
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	T
CYGENT Inc. (development and sale of software)	T
DATASIEL - Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	F
DISCOVERITALIA S.p.A. (communication services)	S
EISYS S.p.A. (information systems)	E
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	S
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	T
EURODIRECTORY S.A. (holding company of the publishers of the Kompass directories)	S
GARAGE S.r.l. (multimedia and cinema broadcasting)	W
GLB SERVICOS INTERATIVOS S.A. (Internet services)	T
GO TO WEB S.p.A. (web-based software solutions)	W

GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	T
ICOM Inc. (development of data bank and Internet market place)	N
IM.SER S.p.A. (real estate management)	T
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	T

Name (type of business)	Hea
ISCE Investor In Sapient & Cuneo Europe SA. (consulting)	Lux
ITALCOM S.p.A. (multimedia systems and devices)	Mil (It
ITALDATA S.p.A. (solutions and services for the web economy)	Ave (It
ITALTEL A.O. (telecommunications system)	Sai (Ru
ITALTEL ARGENTINA SA (telecommunications systems)	Bue (Ar
ITALTEL B.V. (trade and financial company)	Ams (Ho
ITALTEL BRASIL Ltda. (trade company)	Sao (Br
ITALTEL CERM PALERMO S.c.p.a. (research)	Pal (It
ITALTEL DE CHILE S.A. (telecommunications system)	San (Ch
ITALTEL DEUTSCHLAND GmbH (trade company)	Dus (Ge
ITALTEL FRANCE S.a.s. (trade company)	Iss (Fr
ITALTEL HOLDING S.p.A. (holding company)	Mil (It

ITALTEL Inc. (trade company)	Del (US
ITALTEL KENYA Ltd (telecommunications systems)	Nai (Ke
ITALTEL NIGERIA Ltd (telecommunications systems)	Lag (Ni
ITALTEL S.A. (telecommunications systems)	Mad (Sp
ITALTEL S.p.A. (telecommunications system)	Mil (It
ITALTEL UK Ltd (trade company)	Sta (UK
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	Flo (It
MARCAM ITALY S.r.l (services for automatical data management)	Mil (It
MESNIL HOLDING S.A. (trading company)	Lux
MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	Mil (It
MICRO SISTEMAS S.A. (telecommunications services)	Bue (Ar
MIRROR INTERNATIONAL HOLDING S.a.r.l (holding company)	Lux
MIRROR INTERNATIONAL GmbH (holding company)	Fra (Ge
MOVENDA S.p.A (technological platforms for the development of mobile Internet services)	Rom (It
NETCO REDES S.A. (provider of telecommunications infrastructures)	Mad (Sp
NORDCOM S.p.A. (application service provider)	Mil (It
NORTEL INVERSORA S.A. (holding company)	Bue (Ar
NUCLEO S.A. (telecommunications services)	Asu (Pa
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	Mil (It
PUBLICOM S.A. (telecommunications services)	Bue (Ar
SIEMENS INFORMAT1CA S.p.A. (sale of innovating solutions in the field of electronic and mobile business)	Mil (It

SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support system)	Bre (It

Name (type of business)	Share capita
ISCE Investor In Sapient & Cuneo Europe SA. (consulting)	
ITALCOM S.p.A. (multimedia systems and devices)	
ITALDATA S.p.A. (solutions and services for the web economy)	
ITALTEL A.O. (telecommunications system)	
ITALTEL ARGENTINA SA (telecommunications systems)	
ITALTEL B.V. (trade and financial company)	
ITALTEL BRASIL Ltda. (trade company)	
ITALTEL CERM PALERMO S.c.p.a. (research)	
ITALTEL DE CHILE S.A. (telecommunications system)	
ITALTEL DEUTSCHLAND GmbH (trade company)	
ITALTEL FRANCE S.a.s. (trade company)	
ITALTEL HOLDING S.p.A. (holding company)	
ITALTEL Inc. (trade company)	
ITALTEL KENYA Ltd (telecommunications systems)	
ITALTEL NIGERIA Ltd (telecommunications systems)	
ITALTEL S.A. (telecommunications systems)	
ITALTEL S.p.A.	

(telecommunications system)	
ITALTEL UK Ltd (trade company)	
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	
MARCAM ITALY S.r.l (services for automatical data management)	
MESNIL HOLDING S.A. (trading company)	
MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	
MICRO SISTEMAS S.A. (telecommunications services)	
MIRROR INTERNATIONAL HOLDING S.a.r.l (holding company)	
MIRROR INTERNATIONAL GmbH (holding company)	
MOVENDA S.p.A (technological platforms for the development of mobile Internet services)	
NETCO REDES S.A. (provider of telecommunications infrastructures)	
NORDCOM S.p.A. (application service provider)	
NORTEL INVERSORA S.A. (holding company)	
NUCLEO S.A. (telecommunications services)	1
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	
PUBLICOM S.A. (telecommunications services)	
SIEMENS INFORMAT1CA S.p.A. (sale of innovating solutions in the field of electronic and mobile business)	
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support system)	

Name (type of business)	% of voting rights	He

ISCE Investor In Sapient & Cuneo Europe SA. (consulting)	SE
ITALCOM S.p.A. (multimedia systems and devices)	IT
ITALDATA S.p.A. (solutions and services for the web economy)	SI
ITALTEL A.O. (telecommunications system)	IT
ITALTEL ARGENTINA SA (telecommunications systems)	IT IT
ITALTEL B.V. (trade and financial company)	IT
ITALTEL BRASIL Ltda. (trade company)	IT IT
ITALTEL CERM PALERMO S.c.p.a. (research)	IT TE
ITALTEL DE CHILE S.A. (telecommunications system)	IT IT
ITALTEL DEUTSCHLAND GmbH (trade company)	IT IT
ITALTEL FRANCE S.a.s. (trade company)	IT
ITALTEL HOLDING S.p.A. (holding company)	TE
ITALTEL Inc. (trade company)	IT IT
ITALTEL KENYA Ltd (telecommunications systems)	IT IT
ITALTEL NIGERIA Ltd (telecommunications systems)	IT IT
ITALTEL S.A. (telecommunications systems)	IT
ITALTEL S.p.A. (telecommunications system)	IT
ITALTEL UK Ltd (trade company)	IT IT
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	GR IL
MARCAM ITALY S.r.l (services for automatical data management)	PR
MESNIL HOLDING S.A. (trading company)	IS

MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	MA
MICRO SISTEMAS S.A. (telecommunications services)	TE PU
MIRROR INTERNATIONAL HOLDING S.a.r.l (holding company)	TE
MIRROR INTERNATIONAL GmbH (holding company)	MI
MOVENDA S.p.A (technological platforms for the development of mobile Internet services)	TE
NETCO REDES S.A. (provider of telecommunications infrastructures)	TE
NORDCOM S.p.A. (application service provider)	TE
NORTEL INVERSORA S.A. (holding company)	TE TE
NUCLEO S.A. (telecommunications services)	TE
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	FI
PUBLICOM S.A. (telecommunications services)	TE NO
SIEMENS INFORMAT1CA S.p.A. (sale of innovating solutions in the field of electronic and mobile business)	TE
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support system)	TE

Name (type of business)	Hea
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Pal (It
SITEBA SISTEMI TELEMATICI BANCARI S.p.A (support services for payments systems)	Mil (It
SITECNIKA S.p.A.	Mil

(IT multivendor services)	(It
SITEKNE S.p.A (furnishing of resources in the field of ITC-Information Technology Communication solutions)	Rom (It
SOGEI SERVIZI INNOVATIVI E TECNOLOGICI S.p.A. (development of business enterprises in the field of ITC and technological information)	Rom (It
STREAM S.p.A. (multimedia services)	Rom (It
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Bue (Ar
TELECOM ARGENTINA USA Inc. (telecommunications services)	Del (US
TELECOM PERSONAL SA (telecommunications services))	Bue (Ar
TELEGONO S.r.l. (real estate management)	Rom (It
TELEKOM AUSTRIA A.G. (wireline telephony)	Vie (Au
TELEKOM SRBIJA a.d. (telecommunications services)	Bel (Se
TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Mil (It
TIGLIO I S.r.l. (real estate management)	Mil (It
TIGLIO II S.r.l. (real estate management)	Mil (It
USABLENET Inc. (development of a software for the analysis of web sites)	Del (US
VIRTUALSELF Ltd. (development and sale of internet services based on a technology for the linguistic analysis for the research of contents).	Ram (Is

Name (type of business)	Share capital
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	
SITEBA SISTEMI TELEMATICI BANCARI S.p.A (support services for payments systems)	

SITECNIKA S.p.A. (IT multivendor services)	
SITEKNE S.p.A (furnishing of resources in the field of ITC-Information Technology Communication solutions)	
SOGEI SERVIZI INNOVATIVI E TECNOLOGICI S.p.A. (development of business enterprises in the field of ITC and technological information)	
STREAM S.p.A. (multimedia services)	
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	
TELECOM ARGENTINA USA Inc. (telecommunications services)	
TELECOM PERSONAL SA (telecommunications services))	
TELEGONO S.r.l. (real estate management)	
TELEKOM AUSTRIA A.G. (wireline telephony)	
TELEKOM SRBIJA a.d. (telecommunications services)	1
TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	
TIGLIO I S.r.l. (real estate management)	
TIGLIO II S.r.l. (real estate management)	
USABLENET Inc. (development of a software for the analysis of web sites)	
VIRTUALSELF Ltd. (development and sale of internet services based on a technology for the linguistic analysis for the research of contents).	

Name (type of business)	% of voting rights	He
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)		FI
SITEBA SISTEMI TELEMATICI BANCARI S.p.A (support services for payments systems)		TE

SITECNIKA S.p.A. (IT multivendor services)	SI
SITEKNE S.p.A (furnishing of resources in the field of ITC-Information Technology Communication solutions)	SI
SOGEI SERVIZI INNOVATIVI E TECNOLOGICI S.p.A. (development of business enterprises in the field of ITC and technological information)	FI
STREAM S.p.A. (multimedia services)	TE
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	NO
TELECOM ARGENTINA USA Inc. (telecommunications services)	TE
TELECOM PERSONAL SA (telecommunications services))	TE PU
TELEGONO S.r.l. (real estate management)	TE
TELEKOM AUSTRIA A.G. (wireline telephony)	TE
TELEKOM SRBIJA a.d. (telecommunications services)	TE
TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	SA
TIGLIO I S.r.l. (real estate management)	TE SE
TIGLIO II S.r.l. (real estate management)	TE
USABLENET Inc. (development of a software for the analysis of web sites)	TE
VIRTUALSELF Ltd. (development and sale of internet services based on a technology for the linguistic analysis for the research of contents).	TE

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* The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order to undertake the charge of Director/Manager, or held by Fiduciaries.

LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES

Name (type of business)	Hea
SUBSIDIARIES	
ARTES S.r.l. (in liquidation) (telecommunications services)	Rom (It
BUFFETTI S.r.l (in liquidation) (sale of books and office supplies)	Rom (It
CABESTAN S.A. (in liquidation) (software design)	Sur (Fr
CONSODATA INTERACTIVE S.A. (in liquidation) (business information services)	Lev (Fr
CONSODATA ITALIA S.r.l. (in liquidation) (business information)	Mil (It
CONSODATA SYSTEME S.A. (in liquidation) (business information services)	Lev (Fr
DATABANK WETTBEWERBS - MARKT - UND FINANZANALYSE GmbH (in liquidation) (marketing)	Dar (Ge
EMAX-TRADE S.r.l. (in liquidation) (management of Internet sites)	Mil (It
GIALLO MARKET S.r.l. (in liquidation) (owner of Virgillo.it)	Mil (It
GIALLO VIAGGI.It S.p.A. (in liquidation) (research, development, production of information and telematic products for tourism)	Mil (It
EVEREST S.r.l. (telematic services)	Tri (It
FINSIEL HELLAS S.A. (in liquidation) (computer products for public and private customers)	Kor (Gr
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office ware)	Rom (It
INCAS FRANCE S.A. (in liquidation) (sale of products for office automation)	Asn (Fr
IREOS S.p.A. (in liquidation) (promotion and management of remote domiciliary assistance)	Rom (It
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	Rom (It
KMATRIX S.r.l (creation and management of an Internet site)	Mil (It
LINK S.r.l. (in liquidation)	Mil

(supply of computer services)	(It
LOQUENO Inc. (in liquidation) (development of software for web vocal interaction)	Cal (US
NETESI S.A.S. (in liquidation) (telecommunication services)	Par (Fr
NEW WORLD TELECOM S.A. (telecommunication services)	San (Ch
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	Rom (It
RFM DATA Ltd (in liquidation) (list broking)	Kin (UK
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	Rom (It
SERVICE IN S.r.l. (in liquidation) (furnishing of services)	Mil (It
TELECOM ITALIA GmbH (in liquidation) (holding company)	Vie (Au
TELECOM ITALIA IRELAND Ltd (telecommunications services)	Dub (Ir
TELECOMMUNICATIONS ADVISER LLC (management of Saturn Venture Partners fund)	Del (US
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	Rom (It
TIM.COM Holding B.V. (holding company)	Ams (Ho
TIMNET.COM PERU' S.A.C. (services for mobile networks)	Lim (Pe

Name (type of business)	Share capital
SUBSIDIARIES	
ARTES S.r.l. (in liquidation) (telecommunications services)	
BUFFETTI S.r.l (in liquidation) (sale of books and office supplies)	
CABESTAN S.A. (in liquidation) (software design)	
CONSODATA INTERACTIVE S.A. (in liquidation) (business information services)	

CONSODATA ITALIA S.r.l. (in liquidation)
(business information)

CONSODATA SYSTEME S.A. (in liquidation)
(business information services)

DATABANK WETTBEWERBS - MARKT - UND
FINANZANALYSE GmbH (in liquidation)
(marketing)

EMAX-TRADE S.r.l. (in liquidation)
(management of Internet sites)

GIALLO MARKET S.r.l. (in liquidation)
(owner of Virgillo.it)

GIALLO VIAGGI.It S.p.A. (in liquidation)
(research, development, production of information and telematic products
for tourism)

EVEREST S.r.l.
(telematic services)

FINSIEL HELLAS S.A. (in liquidation)
(computer products for public and private customers)

IL CENTRO CONTABILE S.p.A. (in liquidation)
(sale of books and office ware)

INCAS FRANCE S.A. (in liquidation)
(sale of products for office automation)

IREOS S.p.A. (in liquidation)
(promotion and management of remote domiciliary assistance)

IRIDIUM ITALIA S.p.A. (in liquidation)
(satellite telecommunications services)

KMATRIX S.r.l
(creation and management of an Internet site)

LINK S.r.l. (in liquidation)
(supply of computer services)

LOQUENO Inc. (in liquidation)
(development of software for web vocal interaction)

NETESI S.A.S. (in liquidation)
(telecommunication services)

NEW WORLD TELECOM S.A.
(telecommunication services)

OR.MA INFORMATICA S.r.l.
(wholesale of computer products)

RFM DATA Ltd (in liquidation)
(list broking)

SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation)
(marketing and communication consulting)

SERVICE IN S.r.l. (in liquidation) (furnishing of services)	
TELECOM ITALIA GmbH (in liquidation) (holding company)	
TELECOM ITALIA IRELAND Ltd (telecommunications services)	
TELECOMMUNICATIONS ADVISER LLC (management of Saturn Venture Partners fund)	
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	
TIM.COM Holding B.V. (holding company)	
TIMNET.COM PERU' S.A.C. (services for mobile networks)	

Name (type of business)	% of voting rights	Hel
SUBSIDIARIES		
ARTES S.r.l. (in liquidation) (telecommunications services)		HOL
BUFFETTI S.r.l (in liquidation) (sale of books and office supplies)		GRU
CABESTAN S.A. (in liquidation) (software design)		CON
CONSODATA INTERACTIVE S.A. (in liquidation) (business information services)		CON
CONSODATA ITALIA S.r.l. (in liquidation) (business information)		CON
CONSODATA SYSTEME S.A. (in liquidation) (business information services)		CON
DATABANK WETTBEWERBS - MARKT - UND FINANZANALYSE GmbH (in liquidation) (marketing)		DAT
EMAX-TRADE S.r.l. (in liquidation) (management of Internet sites)		MAT
GIALLO MARKET S.r.l. (in liquidation) (owner of Virgillo.it)		MAT SEA
GIALLO VIAGGI.It S.p.A. (in liquidation)		SEA

(research, development, production of information and telematic products for tourism)	
EVEREST S.r.l. (telematic services)	WAV
FINSIEL HELLAS S.A. (in liquidation) (computer products for public and private customers)	FIN
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office ware)	GRU
INCAS FRANCE S.A. (in liquidation) (sale of products for office automation)	IS
IREOS S.p.A. (in liquidation) (promotion and management of remote domiciliary assistance)	TEL
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	TEL TEL
KMATRIX S.r.l (creation and management of an Internet site)	MAT
LINK S.r.l. (in liquidation) (supply of computer services)	MAT
LOQUENO Inc. (in liquidation) (development of software for web vocal interaction)	LOQ
NETESI S.A.S. (in liquidation) (telecommunication services)	NET
NEW WORLD TELECOM S.A. (telecommunication services)	LAT
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	GRU
RFM DATA Ltd (in liquidation) (list broking)	CAL
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	SEA
SERVICE IN S.r.l. (in liquidation) (furnishing of services)	CIP
TELECOM ITALIA GmbH (in liquidation) (holding company)	TEL
TELECOM ITALIA IRELAND Ltd (telecommunications services)	TEL
TELECOMMUNICATIONS ADVISER LLC (management of Saturn Venture Partners fund)	TEL
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	TEL TEL
TIM.COM Holding B.V. (holding company)	TIM

TIMNET.COM PERU' S.A.C. (services for mobile networks)	TIM

Name (type of business)	Hea
TIN WEB S.p.A. (in liquidation) (consulting for the creation of Internet sites)	Mil (It
TMI HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)	Bud (Hu
TRAINET S.p.A. (in liquidation) (development, operation and sales of lines teaching systems)	Rom (It
WAVENET S.r.l. (thematic services)	Mon (Go
AFFILIATED COMPANIES	
CITEL - Corporacion Interamericana de Telecomunicaciones S.A. (holding company)	Mon (Me
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)	Rom (It
CROMA S.r.l. (in liquidation) (hardware maintenance)	P. (Pe
DATATRADER S.A. (in liquidation) (creation and sale of data base)	Rue (Fr
E-UTILE S.p.A. (ICT Solutions and services for companies in the field of public utilities)	Mil (It
INDIRECT S.P.R.L. (in liquidation) (sale of services)	Bru (Be
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	Her (Gr
NETEX S.r.l. (in liquidation) (activities relating to the contract regarding the licence of the software of Netex Ltd.)	Mil (It
TDL BELGIUM S.A. (publishing and sale of directories)	Bru (Be
UBA - NET S.A.	Bue

(teledidactic services)	(Ar
VOICEMAIL INTERNATIONAL INC. (in liquidation) (vocal message services)	Cal (US

CONSORTIUM SUBSIDIARIES

CONSORZIO ABECA (in liquidation) (information systems for the Ministry of cultural properties and environment)	Rom (It
CONSORZIO CONNET FORMAZIONE (Professional training for the Ministry of work and social security)	Bar (It
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (electrical feeding of the fixed and mobile lines of the associated companies)	Rom (It
CONSORZIO GEODOC (in liquidation) (realization of an information system for the geological documentation of the nation)	Rom (It
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of cultural properties and environment)	Rom (It
CONSORZIO ISIB (in liquidation) (harmonization of the infrastructural system of the Central Institute which manages the unique catalogue of the Italian libraries)	Rom (It
CONSORZIO NAUTILUS (professional training)	Rom (It
CONSORZIO SEGISIEL (in liquidation) (realization of operating systems in the field of justice for the Telcal consortium)	Ren (Co
CONSORZIO SER (in liquidation) (realization of the information plan Calabria for the Telcal consortium)	Cat (It
CONSORZIO SESIT (realization of the integrated information system for the Ministry of transport and navigation)	Rom (It
CONSORZIO SOFTIN (in liquidation) (research and development in the field of industrial software and consulting)	Nap (It
CONSORZIO TURISTEL (information systems for tourism)	Rom (It

Name (type of business)	Share capita
TIN WEB S.p.A. (in liquidation) (consulting for the creation of Internet sites)	
TMI HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)	
TRAINET S.p.A. (in liquidation)	

(development, operation and sales of lines teaching systems)

WAVENET S.r.l.
(thematic services)

AFFILIATED COMPANIES

CITEL - Corporacion Interamericana de Telecomunicaciones S.A.
(holding company)

CLIPPER S.p.A. (in liquidation)
(marketing and communication consulting)

CROMA S.r.l. (in liquidation)
(hardware maintenance)

DATATRADER S.A. (in liquidation)
(creation and sale of data base)

E-UTILE S.p.A.
(ICT Solutions and services for companies in the field of public utilities)

INDIRECT S.P.R.L. (in liquidation)
(sale of services)

MEDITERRANEAN BROAD BAND ACCESS S.A.
(telecommunications services)

NETEX S.r.l. (in liquidation)
(activities relating to the contract regarding the licence of the software of Netex Ltd.)

TDL BELGIUM S.A.
(publishing and sale of directories)

UBA - NET S.A.
(teledidactic services)

VOICEMAIL INTERNATIONAL INC. (in liquidation)
(vocal message services)

CONSORTIUM SUBSIDIARIES

CONSORZIO ABECA (in liquidation)
(information systems for the Ministry of cultural properties and environment)

CONSORZIO CONNET FORMAZIONE
(Professional training for the Ministry of work and social security)

CONSORZIO ENERGIA GRUPPO TELECOM ITALIA
(electrical feeding of the fixed and mobile lines of the associated companies)

CONSORZIO GEODOC (in liquidation)
(realization of an information system for the geological documentation of the nation)

CONSORZIO IRIS BENI CULTURALI
(filing and recovery of documents and system assistance for the Ministry of cultural properties and environment)

CONSORZIO ISIB (in liquidation)
(harmonization of the infrastructural system of the Central Institute which manages the unique catalogue of the Italian libraries)

CONSORZIO NAUTILUS
(professional training)

CONSORZIO SEGISIEL (in liquidation)
(realization of operating systems in the field of justice for the Telcal consortium)

CONSORZIO SER (in liquidation)
(realization of the information plan Calabria for the Telcal consortium)

CONSORZIO SESIT
(realization of the integrated information system for the Ministry of transport and navigation)

CONSORZIO SOFTIN (in liquidation)
(research and development in the field of industrial software and consulting)

CONSORZIO TURISTEL
(information systems for tourism)

Name (type of business)	% of voting rights	He
TIN WEB S.p.A. (in liquidation) (consulting for the creation of Internet sites)		SE
TMI HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)		TM
TRAINET S.p.A. (in liquidation) (development, operation and sales of lines teaching systems)		TE
WAVENET S.r.l. (thematic services)		NE

AFFILIATED COMPANIES

CITEL - Corporacion Interamericana de Telecomunicaciones S.A. (holding company)		TE
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)		SC
CROMA S.r.l. (in liquidation) (hardware maintenance)		WE
DATATRADER S.A. (in liquidation) (creation and sale of data base)		CO
E-UTILE S.p.A. (ICT Solutions and services for companies in the field of public utilities)		SI

INDIRECT S.P.R.L. (in liquidation) (sale of services)	TD TD
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	TE
NETEX S.r.l. (in liquidation) (activities relating to the contract regarding the licence of the software of Netex Ltd.)	MA
TDL BELGIUM S.A. (publishing and sale of directories)	TD
UBA - NET S.A. (teledidactic services)	TR
VOICEMAIL INTERNATIONAL INC. (in liquidation) (vocal message services)	TE
CONSORTIUM SUBSIDIARIES	
CONSORZIO ABECA (in liquidation) (information systems for the Ministry of cultural properties and environment)	FI IN
CONSORZIO CONNET FORMAZIONE (Professional training for the Ministry of work and social security)	TE
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (electrical feeding of the fixed and mobile lines of the associated companies)	TE TE
CONSORZIO GEODOC (in liquidation) (realization of an information system for the geological documentation of the nation)	FI
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of cultural properties and environment)	FI IT
CONSORZIO ISIB (in liquidation) (harmonization of the infrastructural system of the Central Institute which manages the unique catalogue of the Italian libraries)	FI IN
CONSORZIO NAUTILUS (professional training)	TE ME
CONSORZIO SEGISIEL (in liquidation) (realization of operating systems in the field of justice for the Telcal consortium)	FI IN
CONSORZIO SER (in liquidation) (realization of the information plan Calabria for the Telcal consortium)	FI IN
CONSORZIO SESIT (realization of the integrated information system for the Ministry of transport and navigation)	FI
CONSORZIO SOFTIN (in liquidation) (research and development in the field of industrial software and consulting)	FI
CONSORZIO TURISTEL (information systems for tourism)	IT FI

Name (type of business)	Hea
CONSORTIUM AFFILIATES	
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the military air force)	Rom (It
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	Bol (It
CONSORZIO CEW (electronic publishing)	Per (It
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	Rom (It
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	Rom (It
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated telematic systems)	Mil (It
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for innovative remote professional training and platforms in Naples)	Nap (It
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (Integrated services for the metropolitan area of Venice)	Ven (It
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Per (It
CONSORZIO PAOLA (in liquidation) (applicated research for the development of information systems for clinics and medical structures)	Udi (It
CONSORZIO REISSFORM (services and consulting regarding professional training and management)	Rom (It
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA FEDERICO II (professional training)	Nap (It
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	Rom (It
CONSORZIO STOAMED (projects and management of technologically advanced services regarding professional training)	Erc (Na

CONSORZIO TELCAL
(planning and development of the organic project "Plano Telematico Calabria") Cat
(It

CONSORZIO TELEMED (in liquidation) Rom
(telematic activities for social and sanitary assistance) (It

Name (type of business)	Share cap
CONSORTIUM AFFILIATES	
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the military air force)	
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	
CONSORZIO CEW (electronic publishing)	
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated telematic systems)	
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for innovative remote professional training and platforms in Naples)	
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (Integrated services for the metropolitan area of Venice)	
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	
CONSORZIO PAOLA (in liquidation) (applicated research for the development of information systems for clinics and medical structures)	
CONSORZIO REISSFORM (services and consulting regarding professional training and management)	
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA FEDERICO II (professional training)	
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	
CONSORZIO STOAMED (projects and management of technologically advanced services regarding professional training)	

CONSORZIO TELCAL
(planning and development of the organic project "Plano Telematico Calabria")

CONSORZIO TELEMED (in liquidation)
(telematic activities for social and sanitary assistance)

Name (type of business)	% of voting rights
CONSORTIUM AFFILIATES	
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the military air force)	
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	
CONSORZIO CEW (electronic publishing)	
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated telematic systems)	
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for innovative remote professional training and platforms in Naples)	
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (Integrated services for the metropolitan area of Venice)	
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	
CONSORZIO PAOLA (in liquidation) (applicated research for the development of information systems for clinics and medical structures)	
CONSORZIO REISSFORM (services and consulting regarding professional training and management)	
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA FEDERICO II (professional training)	
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	
CONSORZIO STOAMED	

(projects and management of technologically advanced services regarding professional training)

CONSORZIO TELCAL
(planning and development of the organic project "Plano Telematico Calabria")

CONSORZIO TELEMED (in liquidation)
(telematic activities for social and sanitary assistance)

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* The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order to undertake the charge of Director/Manager, or held by Fiduciaries.

Independent Auditors' Report and
Board of Statutory Auditors' Report

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[LOGO] ERNST & YOUNG | Reconta Ernst & Young S.p.A.
Corso Vittorio Emanuele II, 83
10128 Torino | Tel. (+39) 011 5161611
Fax (+39) 011 5612554
www.ey.com

AUDITORS' REPORT

pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Olivetti S.p.A.

1. We have audited the financial statements of Olivetti S.p.A. as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Olivetti S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated April 16, 2002.

3. In our opinion, the financial statements of Olivetti S.p.A. comply with the Italian regulations governing financial statements; accordingly, they clearly present and give a true and fair view of the financial position of Olivetti S.p.A. as of December 31, 2002, and the results of its operations for the year then ended.

4. We draw your attention to the following:

   a) The company holds investments in subsidiary companies and has therefore prepared (as required by law) consolidated financial statements. These consolidated financial statements form an integral part of the annual financial statements for the purpose of providing adequate information on the financial position and the results of operation of the company and the Group. We have audited the consolidated financial statements which, together with our audit report thereon, are presented together with these financial statements.

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma -Via G.D. Romagnosi, 18/A
Capitale Sociale(euro)1.111.000,00 iv.
Iscritta alla S.O. del Registro delle Imprese presso a
C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 2509041)

   b) In 2002, the company wrote-down its investment in Telecom Italia

S.p.A., in order to obtain tax benefits provided by the tax legislation. The purpose and the effects of such accounting treatment, allowed by the Italian regulations governing financial statements, are illustrated in the explanatory notes.

c) On April 15, 2003 the board of directors of the company adopted the plan for the merger of the subsidiary Telecom Italia S.p.A. into Olivetti S.p.A., which will be submitted for approval to the extraordinary shareholders' meetings of the respective companies called for this purpose.

Turin, April 18, 2003

Reconta Ernst & Young S.p.A.
Signed by: Mario Lamprati, Partner

[LOGO] ERNST & YOUNG | Reconta Ernst & Young S.p.A.
Corso Vittorio Emanuele II, 83
10128 Torino | Tel. (+39) 011 5161611
Fax (+39) 011 5612554
www.ey.com

AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Olivetti S.p.A.

1. We have audited the consolidated financial statements of Olivetti S.p.A. as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Olivetti S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The financial statements of certain subsidiaries and associated companies, which represent respectively 4% and 7% of consolidated total assets and consolidated total revenues, have been examined by other auditors, whose reports have been furnished to us. Our opinion, expressed herein, insofar as it relates to the data relating to these subsidiaries and associated companies included in the consolidated financial statements, is based also on the reports of the other auditors.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated April 16, 2002.

3. In our opinion, the consolidated financial statements of Olivetti S.p.A. comply with the Italian regulations governing consolidated financial statements; accordingly, they clearly present and give a true and fair view of the consolidated financial position of Olivetti S.p.A. as of December 31, 2002, and the consolidated results of its operations for the year then ended.

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma -Via G.D. Romagnosi, 18/A
Capitale Sociale(euro)1.111.000,00 iv.
Iscritta alla S.O. del Registro delle Imprese presso a C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 2509041)

4. We draw your attention to the following:

a) The explanatory notes describe, in relation to the dispute with INPS (the "Italian National Insurance Board"), the uncertainty of the liability for the payments due by the subsidiary Telecom Italia S.p.A. for the social security contributions (the previous Telecom Workers Fund) of the personnel of its telephone division.

b) On April 15, 2003 the board of directors of the company adopted the plan for the merger of the subsidiary Telecom Italia S.p.A. into Olivetti S.p.A., which will be submitted for approval to the extraordinary shareholders' meetings of the respective companies called for this purpose.

Turin, April 18, 2003

Reconta Ernst & Young S.p.A.
Signed by: Mario Lamprati, Partner

Report of the Board of Statutory Auditors to the Olivetti S.p.A. Shareholders' Meeting pursuant to art. 153 Legislative Decree 58/98 and art. 2429 of the Italian Civil Code.

(Translation from the original version in Italian)

To the Shareholders,

The Board of Statutory Auditors reports on the controls it performs and on the other duties it is required to perform pursuant to Legislative Decree 58/98 and art. 2429 of the Italian Civil Code, and also with reference to the relevant Consob communications.

The Board has controlled compliance with the provisions of law and with the articles of association.

The Company's statutory financial statements at 31 December 2002 show net losses of 6,239,962,549 euros (of which 8,051 million euros from the writedown of Telecom Italia shares purely for tax reasons) and shareholders' equity of 9,031,365,025 euros; the financial statements were consigned together with the Directors' Report on Operations as prescribed by law.

The Board of Statutory Auditors has verified that the financial statements were drawn up in compliance with legal requirements through its own auditing work and through the information provided by the Independent Auditors.

The Olivetti Group consolidated financial statements were also consigned to the Board of Statutory Auditors as prescribed by law and show a loss for the portion attributable to the Group of 773 million euros and Group shareholders' equity of 11,640 million euros (20,624 million euros including minority interests).

1. The Directors provided us with quarterly reports on activities and on the main business, financial and equity operations, as well as on transactions executed by the Company with related parties, other Group entities and/or transactions that could represent a potential conflict of interest; these are described briefly below and - for the most part - are illustrated in greater detail in the Directors' Report on Operations:

- together with Finsiel, in February 2002 the Company accepted the public tender offer launched on Lottomatica by Tyche S.p.A. of the De Agostini Group, for an overall total of 34% of the company's capital, raising proceeds of 391 million euros;

- with regard to financial operations, Olivetti executed the following main transactions:

  - placement of a multi-tranche bond for 1.5 billion euros;

  - redemption two years early of the "Olivetti Finance N.V. 1999-2004" bond for the outstanding amount of 5.15 billion euros;

  - re-opening of three bond loans for an aggregate amount of 1,550 million euros on existing "Olivetti Finance N.V." bonds;

- in 2002, the Pirelli and Olivetti-Telecom Italia groups drew up a frame agreement, named Project Tiglio, for the integration and enhancement of their respective real-estate assets and property services provider entities.

Under this operation, Olivetti sold a real-estate equity investment for approximately 225 million euros, realising a gain of approximately 72 million euros. Approximately 45 million euros of the proceeds from the sale were re-invested to purchase an equity investment in Tiglio 1;

- in the period 1 July - 30 September the Olivetti Finance N.V. company (a wholly owned subsidiary of Olivetti S.p.A.) granted the following loans to the Softe S.p.A. company (a wholly owned subsidiary of the Telecom Italia Group):

- 161,566,794.04 euros from 18 July 2002 to 26 July 2002 at a rate of 3.68371%.

- 150,996,577.41 euros from 26 July 2002 to 30 July 2002 at a rate of 3.5285%.

In the same period, Olivetti International S.A. (a wholly owned subsidiary of Olivetti S.p.A.) granted the following loan to Softe S.p.A.:

- 151,214,100 euros from 30 July to 1 August at a rate of 3.5285%;

- in the period 1 October - 31 December, in order to optimise synergies among their professional resources working in the Latin American area, Olivetti do Brasil S.A. (a Tecnost Group company wholly owned by Olivetti Tecnost S.p.A.), Telecom Italia America Latina S.A., Tim Brasil S.A. and Pirelli S.A. (all subject to Brazilian law and active in Brazil) drew up a Reciprocal Services Provision agreement (Contrato de Prestacao de Servicio Reciproco) dated 30 October 2002, which provides for any service relating to administrative activities of any kind, including assistance on fiscal matters, to be shared, depending on the availability and needs of each company.

Deloitte Touche Tohmatsu of Sao Paulo, Brazil attested the congruity of the remuneration determined for such services.

In the opinion of the Board of Statutory Auditors, the operations performed comply with the law and with the articles of association, are in the interests of the Company, are not manifestly imprudent or speculative, do not conflict with resolutions adopted by the Shareholders and do not compromise the integrity of the Company's net assets.

2. The Board of Statutory Auditors has not encountered any atypical and/or unusual operations by Olivetti S.p.A. with third parties.

The ordinary operations between Olivetti S.p.A. and related parties and Group entities are conducted at normal market conditions, are in the interests of the Company and consist mainly of the provision of services, centralised Treasury management and coordination of the operations of the subsidiaries, in line with the Company's role as a holding.

Specifically:

- financial charges of 607 million euros posted to income refer to financial payables due to Group financial companies;

- income from equity investments for dividends from subsidiary and associated companies totalling 1,263 million euros (of which 1,250 million euros from Telecom Italia) plus 710 million euros for tax credits;

- other operations for smaller amounts as described in the Directors' Report on Operations.

3. The Board of Statutory Auditors believes that the information provided in the Directors' Report on Operations with regard to operations with Group entities and with related parties is adequate, and presented in sufficient detail to illustrate the interest of the Company in such operations, in consideration of the nature and complexity of the Group.

4. The reports issued on 18 April 2003 by the Independent Auditors Reconta Ernst & Young S.p.A. pursuant to art. 156 of Legislative Decree 58/98 certify that the statutory financial statements and the consolidated financial statements give a true and fair view of the operations and financial and equity situation of the Parent Company and of the Group.

The report of the Independent Auditors on the statutory financial statements draws your attention to three points:

- first, that the Company draws up consolidated financial statements to supplement the statutory financial statements in order to provide adequate information on the financial and equity position and operations of the Parent Company and the Group;

- second, that in financial year 2002 the Parent Company adjusted the book value of the equity investment in Telecom Italia S.p.A. in order to obtain the fiscal benefits allowed under tax laws. The nature and the effects on the financial statements of this adjustment, which is allowed under regulations governing financial reporting, are illustrated in the explanatory notes;

- third, that on 15 April 2003 the Company Board of Directors adopted a plan for the merger of the subsidiary Telecom Italia S.p.A. into the controlling company Olivetti S.p.A., which will be presented for the approval of the respective Extraordinary Shareholders' Meetings convened specifically for this purpose.

The report of the Independent Auditors on the consolidated financial statements draws your attention to two points:

- first, to the uncertainty over the liability for the payments due by the subsidiary Telecom Italia S.p.A. - in connection with the dispute with the INPS (the Italian National Insurance Board) - for the social security contributions of the personnel of its telephone division, as illustrated in the explanatory note;

- second, a repetition of the information provided in the Report to the statutory financial statements concerning the plans for Telecom Italia S.p.A. to be merged with Olivetti S.p.A.

5. No charges were presented to the Board of Statutory Auditors pursuant to art. 2408 of the Italian Civil Code.

6. No petitions, objections or complaints were presented to the Board of Statutory Auditors.

7. During the year, in addition to the audit of the financial statements Olivetti S.p.A. commissioned the following services from the Independent Auditors Reconta Ernst & Young S.p.A.:

- Issue of the "Pricing Supplements" of 24 April 2002	Euro	85,000
- Issue of the Offering Circular on the Euro Medium Term Note ("EMTN") Programme of 14 May 2002	Euro	75,000
- Issue of the "Pricing Supplement" on the EMTN of 7 August 2002	Euro	52,000
- Issue of the Offering Circular on the "Zero Coupon Guaranteed Exchangeable Bond" of 20 September 2002	Euro	145,000
- Issue of the "Pricing Supplements" on the EMTNs of 3 October 2002	Euro	53,000

- Issue of the "Pricing Supplement" on the EMTNs of 11 November 2002	Euro	54,000

The Company was also billed for out-of-pocket expenses totalling Euro 27,700.

The fees and out-of-pocket expenses were checked by the Board of Statutory Auditors, and are considered fair.

8. During the year Olivetti S.p.A. did not commission services from entities with which the Independent Auditors Reconta Ernst & Young S.p.A. have relations on a continuous basis.

9. During the year the Board of Statutory Auditors approved the resolutions adopted by the Board of Directors to co-opt two Directors in the place of outgoing Directors on 5 September and 7 November respectively (par 1, art. 2386 of the Italian Civil Code).

10. During the period between the Report of the Board of Statutory Auditors to the 2001 financial statements and this Report, the Board of Statutory Auditors held 14 meetings.

The Statutory Auditors also attended all of the 9 meetings held by the Board of Directors during 2002, obtaining information from the directors on activities and on the main business, financial and equity operations performed by the Company and its subsidiaries, also in compliance with art. 150 of Legislative Decree 58/98.

The Statutory Auditors also attended all of the 6 meetings held by the Internal Control Committee.

11. Within the limits of its competence, the Board of Statutory Auditors ascertained and controlled compliance with the principles of correct administration, through direct observation, collection of information from the heads of function and meetings with the managers of the Independent Auditors for the purpose of exchanging significant data and information.

It has nothing of note to report in this connection.

12. Within the limits of its competence, the Board of Statutory Auditors also ascertained and controlled the adequacy of the Company's organisational structure, and found nothing of note to report.

13. The Board of Statutory Auditors controlled the adequacy of the internal control system of the Company, whose structure is that of a holding company, verifying the activities and control procedures thereof, confirming their adequacy and obtaining specific documentation at regular intervals.

During the year, the Internal Control Committee took steps to improve the structure and functionality of the Company's Internal Control system. In 2002 the Company joined a consortium with the Telecom Italia Group (In.Tel.Audit) and designated the consortium as the Head of Internal Control in the person of a Director.

14. The administrative and accounting system is adequate and reliable for the purposes of correct disclosure of operations.

15. Olivetti S.p.A. provided the subsidiaries with the instructions necessary to ensure fulfilment of disclosure requirements pursuant to par 2, art. 114, Legislative Decree 58/98. These instructions are adequate to ensure compliance

with legal requirements.

16. During the meetings held with the Independent Auditors, pursuant to par 2, art. 150, Legislative Decree 58/98, no comments or observations were made to the Board of Statutory Auditors as regards matters for which the Independent Auditors are responsible. The Board of Statutory Auditors therefore has nothing of note to report.

17. The Company strongly supports the letter and spirit of the recommendations of the Voluntary Code of Conduct for listed companies, on which increasingly it bases its own corporate governance model. In particular:

- the Company By-Laws comply with Legislative Decree 58/98;

- under the By-Laws, the Board of Directors, which consists of 16 members, is invested with full ordinary and extraordinary administrative powers, since all matters that are not by law or under the By-Laws expressly reserved for the Shareholders' Meeting fall within its competence;

- the Company declares that the Deputy Chairman and Chief Executive Officer and the Chief Executive Officer are considered executives since they have been given management/operational powers; six Directors may be qualified as independent;

- in the previous year, the Board of Directors formed an Internal Control Committee and a Remuneration Committee with the characteristics specified by the Code of Conduct, whose members are all independent Directors;

- the Board of Directors approved the "Principles of conduct" to be observed in the execution of transactions with related parties (according to the definition provided by the International Financial Reporting Standard - IFRS 24) including operations among Group entities;

It also adopted a specific procedure for compliance with the requirements of par 1, art. 150, Legislative Decree 58/98 in order - as declared by the Company - to ensure full procedural and substantial transparency with regard to activities, principal operations, atypical or unusual operations as well as operations with related parties, and to make the entire Board responsible for the resolutions it adopts.

The procedure has been amended this year to introduce subsequent CONSOB updates in this area;

- the Board of Directors adopted a "Code of Conduct on insider dealing", which regulates disclosure to the Company and to the market of transactions executed on Group listed securities by so-called "relevant persons"; the code took effect on 1 December 2002;

- in performing the duties envisaged by the By-Laws, the Chairman of the Board of Directors moderates the meetings of the Board of Directors and chairs and moderates the Shareholders' Meetings, ensuring correct application of the provisions of law and the By-Laws;

- a specific function guarantees relations with the Shareholders and with institutional investors.

18. The controls performed by the Board of Statutory Auditors have not found

any omissions, censurable facts or irregularities to be reported to the Shareholders and other Controlling Bodies.

Your attention is drawn to the fact that the book value of the Telecom Italia S.p.A. shares in the statutory accounts was written down exclusively for tax purposes.

On 15 April 2003 the Olivetti S.p.A. and Telecom Italia S.p.A. Boards of Directors approved plans for the merger of Telecom Italia into Olivetti, which will be submitted to the respective Extraordinary Shareholders' Meetings.

The Board of Statutory Auditors requested and obtained the Reports of the Boards of Statutory Auditors on the 2002 Annual Reports of the companies controlled directly by Olivetti S.p.A. No critical matters have been found in these reports.

19. The Olivetti S.p.A. Board of Statutory Auditors invites you to approve the Company statutory financial statements at 31 December 2002 as drawn up by the Board of Directors and, with reference to par 2, art. 153, Legislative Decree 58/98, has no objections to the proposal for the coverage of the loss.

Shareholders,

our mandate expires at the Meeting to which you have been convened and we therefore invite you to renew the Board of Statutory Auditors.

Ivrea, 7 May 2003

The Board of Statutory Auditors

The Chairman
Angelo Fornasari
(signed in the original version)

ANNEX V

Balance Sheet of Telecom Italia S.p.A at 31 December, 2002 pursuant to Article 2051-ter of the Civil Code

[TELECOM ITALIA LOGO]

ANNUAL REPORT 2002

[] CONTENTS

Summary data and general information	Corporate boards Selected economic and financial data - Telecom Italia Group Key data - Telecom Italia Business Units/Operating Activities Operating highlights - Telecom Italia Group Shareholder information Macro-organization chart of Telecom Italia Group at December 31, 2002 International presence
Report on operations	Economic and financial performance - Telecom Italia Group Economic and financial performance - Telecom Italia S.p.A. Subsequent events Business outlook Related party transactions Economic and financial performance - Telecom Italia Business Units/Op Domestic Wireline Mobile South America Internet and Media Information Technology Market Information Technology Group Other activities Sustainability section Introduction Charters and Codes Human resources Shareholders: Corporate Governance Customers Suppliers Competitors and regulatory framework The State and other institutions Future generations The Community Research & Development Other information Equity investments held by Directors, Statutory Auditors and Genera Litigation Interbusiness services
Telecom Italia Group - Consolidated financial statements	Consolidated balance sheets Consolidated statements of income Notes to consolidated financial statements Independent Auditors' report
Telecom Italia S.p.A. - Financial statements	Balance sheets Statements of income Notes to financial statements Independent Auditors' report

[] CORPORATE BOARDS

Board of Directors1	Chairman	Marco Tronchetti Prove
	Deputy Chairman	Gilberto Benetton
	Managing Directors	Carlo Orazio Buora (E)
		Riccardo Ruggiero (E)
	Directors	Umberto Colombo (I)
		Francesco Denozza (I)
		Luigi Fausti (I)
		Guido Ferrarini (I)
		Natalino Irti (I)
		Gianni Mion
		Pietro Modiano o
		Massimo Moratti
		Carlo Alessandro Puri
		Pier Francesco Saviott
		Roberto Ulissi (I)
	Secretary to the Board	Francesco Chiappetta
Directors' Compensation Committee	Chairman	Luigi Fausti
	Members	Umberto Colombo
		Pier Francesco Saviott
Audit and Corporate Governance Committee	Chairman	Roberto Ulissi
	Members	Guido Ferrarini
		Natalino Irti
Board of Statutory Auditors2	Chairman	Paolo Germani
	Acting auditors	Mario Boidi
		Paolo Golia
		Fabrizio Quarta
		Gianfranco Zanda
	Alternate auditors	Enrico Bignami
		Leonida Liuni
Common representative of savings shareholders 3		Carlo Pasteris
Independent auditors 4		Reconta Ernst & Young

(E) Executive director.

(I) Independent director.

1 Appointed by the Shareholders' Meeting on November 7, 2001.

2 Appointed by the Shareholders' Meeting on July 3, 2000.

3 Appointed by the special Savings Shareholders' Meeting on October 31, 2001.

4 Appointed by the Shareholder

* Appointed by the Shareholder
he holds the position of gen

o Appointed by the Shareholder

[] SELECTED ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

Changes in the scope of consolidation in 2002 refer to the exclusion of the 9 Telecom group, the Telespazio group and the companies Sogei S.p.A., Consiel S.p.A., DataHouse S.p.A., Emsa S.p.A., Immsi S.p.A., and Telimm S.p.A.; additions include the Webegg group, Blu S.p.A. and other minor companies. These changes, moreover, did not have a significant impact on the economic results or the financial conditions for the year ended December 31, 2002.

Revenues
(euro/millions)

[GRAPHIC OMITTED]

[2000 - 27,169
2001 - 30,818
+13.4%
2002 - 30,400
-1.4%]

Operating income
(euro/millions)

[GRAPHIC OMITTED]

[2000 - 6,440
2001 - 6,674
+3.6%
2002 - 7,381
+10.6%]

Revenues/Employees
(euro/thousands)

[GRAPHIC OMITTED]

[2000 - 231.4
2001 - 286.7
+23.9%
2002 - 298.7]

	2002	2001
Results of operations (in millions of euro)		
Sales and services revenues	30,400	30,818
Gross operating profit	13,964	13,619
Operating income	7,381	6,674
Income (loss) before income taxes	(419)	(733)
Income (loss) before minority interest	297	(1,658)
Net income (loss)	(322)	(2,068)
Free cash flow (1)	8,610	5,990
Investments:	6,919	11,257
- Industrial	4,842	6,990
- Goodwill	369	1,174
- Financial	1,708	3,093
Financial condition (in millions of euro)		
Total assets	52,786	62,670
Net invested capital	30,941	41,250
Shareholders' equity	12,823	19,308
- Parent company's interest	9,049	13,522
- Minority interest	3,774	5,786
Net debt	18,118	21,942
Profit and financial indexes		
Gross operating profit/Revenues	45.9%	44.2%
Operating income/Revenues (ROS)	24.3%	21.7%
Return on investments (ROI)	20.4%	16,0%
Free cash flow/Revenues	28.3%	19.4%
(Debt ratio) Net debt/ Net invested capital	58.6%	53.2%
Employees		
Employees (number in Group at year-end)	101,713	109,956
Employees (average number in Group)	101,789	107,491
Revenues/Employees (Group average), euro/thousands	298.7	286.7

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional method.

(1) Calculated as follows: Operating income + Depreciation and amortization - Industrial investments - Change in operating working capital.

[] KEY DATA - TELECOM ITALIA BUSINESS UNITS /OPERATING ACTIVITIES

In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. Although maintaining the same corporate control structure, the relative companies and business segments of Telecom Italia organizationally became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9 Telecom group, BB Ned group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP) and the companies in the South American area report to Latin America Operations (LAO).

Telecom Italia Group thus operated with the following Business Unit/Operating Activities structure:

(in millions of euro)		Domestic Wireline (1)	Mobile	South America (1) (2)	Internet and Media	IT Market (3)	IT Group (3)	S
Sales and services revenues	2002	17,022	10,867	1,409	1,991	912	1,215	
	2001	17,168	10,250	1,534	1,957	1,198	1,198	
Gross operating profit	2002	7,965	5,039	450	593	104	140	
	2001	7,750	4,760	527	444	166	188	
Operating income	2002	4,700	3,358	146	232	61	(21)	
	2001	4,361	3,136	187	31	123	22	
Investments:								
- Industrial	2002	2,462	1,715	216	81	30	158	
	2001	2,801	3,151	406	175	30	162	
- Goodwill	2002		196		40		28	
	2001		31		203	1	6	
Number of employees at December 31	2002	53,682	18,702	5,461	7,715	4,493	7,327	
	2001	57,895	16,721	5,746	9,264	6,441	6,844	

(1) For purposes of a more meaningful comparison, the data relating to 2001 has been restated.
(2) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.
(3) In the early months of 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 BU instead of the Domestic Wireline BU.
(4) The data presented above includes the Foreign Holdings Central Function and the Telespazio business unit, sold in the last quarter of 2002 and

consolidated only with respect to the statement of income for the first nine months of 2002.

Major economic and operating indicators in 2002 by Business Unit / Operating Activity

	Sales and services revenue	Gross operating margin	Operating income	Industrial investments	Employees(*)
Domestic Wireline	51.0%	55.8%	55.5%	52.9%	52.8%
Mobile	32.5%	35.3%	39.6%	36.8%	18.4%
South America (1)	4.2%	3.1%	1.7%	4.6%	5.4%
Internet and Media	6.0%	4.1%	2.7%	1.7%	7.6%
IT Market	2.7%	0.7%	0.7%	0.6%	4.4%
IT Group	3.6%	1.0%	(0.2)%	3.4%	7.2%

(*) 4.2% of employees work in Other Activities of the Telecom Italia Group.

(1) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.

[] OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat rate plans (thousands)

[GRPAHIC OMITTED]

[12/31/2000 - 2,200

12/31/2001 - 4,094 +86.1%

12/31/2002 - 5,224 +27.6%]

	2002
DOMESTIC WIRELINE	
Fixed network connections in Italy (thousands)	27,142
- of which digital (equivalent ISDN channels)	5,756
Voice flat rate plans (thousands)	5,224
Network infrastructure in Italy	
- access network in copper (millions of km - pair)	104.3
- access network and transport in fiber optics (millions of km of fiber optics)	3.
Network infrastructure abroad	
- European backbone (km of fiber optics)	36,60

	MOBILE	
	TIM lines in Italy (at year-end, thousands)	25,302
TIM lines in Italy	TIM group foreign lines (at year-end, thousands)(1)	13,809
(thousands)	TIM group lines total (Italy + foreign in thousands)(1)	39,111
	GSM penetration in Italy (% of population)	99.8
[GRAPHIC OMITTED]	E-TACS penetration in Italy (% of population)	98.0
[12/31/2000 - 21,601	INTERNET AND MEDIA	
	Directories:	
12/31/2001 - 23,946	- published by Seat Pagine Gialle (units)	304
+10.6%	- published by Thomson (TDL Infomedia Ltd.) (units)	173
	Internet:	
12/31/2002 - 25,302	Page views Virgilio (millions)	5,267
+5.7%]	Active users ISP (at year-end, thousands)	2,226

(1) The foreign lines at December 31, 2001 and December 31, 2000 have been rendered comparable to those at December 31, 2002, excluding the lines of Bouygues Decaux Telecom, Amena (mobile operator controlled by Auna) and the Mobilkom Austria group. The foreign lines include those of the affiliate Aria - IS TIM Turchia and the subsidiary Radiomobil.

6

[] SHAREHOLDER INFORMATION

o TELECOM ITALIA S.p.A. SHARES

Share capital	euro 4,023,8
Ordinary shares (par value euro 0.55 each)	No. 5,262,90
Savings shares (par value euro 0.55 each)	No. 2,053,12
Market capitalization (based on average December 2002 prices)	euro 50,362
Percentage of Telecom Italia stock	
.. on Mibtel Index (Telecom Italia - ordinary and savings)	10.1% (at 1
.. on DJ eurostoxx TLC Index 1 (Telecom Italia - ordinary)	5.1% (at 12
Percentage of the stocks of companies in the Telecom Italia Group	
.. on Mibtel Index (Telecom Italia, TIM, Seat Pagine Gialle - ordinary and savings)	19.9% (at 1
.. on DJ eurostoxx TLC Index (Telecom Italia, TIM - ordinary)	10.0% (at 1

o SHAREHOLDERS

Shareholders of Telecom Italia S.p.A. as of stock ledger at December 31, 2002 (Ordinary shares)

[GRAPHIC OMITTED]

[Olivetti	54.94%
Italian institutional investors	10.55%
Foreign institutional investors	22.42%
Italian companies	0.65%
Foreign companies	2.81%
Others	8.63%]

1The Index is calculated on a geographical basis that includes all European countries.

[] DISTRIBUTION OF INCOME RESERVES

Mention should made of the fact that:

[X] the TIM Shareholders' Meeting on December 11, 2002 voted to distribute reserves to the shareholders up to a maximum of euro 1,600 million, equal to euro 0.1865 per each ordinary and savings share. Payment was made from these reserves starting from December 19, 2002; the amount paid out amounted to euro 1,597 million, of which euro 711 million was to minority shareholders.

[X] the Telecom Italia Shareholders' Meeting on December 12, 2002 voted to reclassify reserves by the transfer of euro 2,160 million from "miscellaneous reserves" to "additional paid-in-capital ", the transfer of euro 820 million from "additional paid-in-capital" to the "legal reserve", the transfer of euro 660 million from the "legal reserve" to "miscellaneous reserves" with the contextual change in the name to "miscellaneous income reserves".

This reclassification immediately identifies the nature of the reserves in the financial statements, namely whether they are profit or capital reserves. The same Shareholders' Meeting resolved to distribute reserves for a maximum amount of euro 1,000 million, paying euro 0.1357 to the shareholders per each ordinary and savings share. On December 19, 2002, a payment of euro 987 million was made.

[] PERFORMANCE OF THE MAIN STOCKS OF THE TELECOM ITALIA GROUP

Relative performance Telecom Italia S.p.A., 2002 vs. MIBTEL Index and DJ eurostoxx TLC Index (ordinary shares) (Source: Reuters)

[GRAPHIC OMITTED]

[Performance of stocks for Telecom Italia Ord., Telecom Italia Sav., MIBTEL Index and Dow Jones EUROSTOXX TLC Index from Jan-02 through Dec-2]

Relative performance TIM S.p.A. 2002, vs. MIBTEL Index and DJ eurostoxx TLC Index (ordinary shares) (Source: Reuters)

[GRAPHIC OMITTED]

[Performance of stocks for TIM Ord., MIBTEL Index, and Dow Jones EUROSTOXX TLC Index from Jan-02 through Dec-02]

Relative performance Seat Pagine Gialle S.p.A., 2002 vs. MIBTEL Index and DJ eurostoxx TLC Index (ordinary shares) (Source: Reuters)

[GRAPHIC OMITTED]

[Performance of stocks for SEAT PG Ord., MIBTEL Index,

and Dow Jones EUROSTOXX MEDIA
Index from Jan-02 through
Dec-2]

[] FINANCIAL INDICATORS

(in euro)	2002	2001	2000
Telecom Italia S.p.A.			
Market price (December average) (*)			
- Ordinary share	7.61	9.56	12,75
- Savings share	5.03	5.80	6,33
Dividends	0.3125 (o)		
- Ordinary share	0.3235 (o)	0.3125	0,3125
- Savings share	-	0.3237	0,3238
Pay-out Ratio	4.6	95%	90%
Market to Book Value	4.11%	3.9	4,3
Dividend Yield (on December average market prices)	6.43%		
- Ordinary share	(0.0443)	3.27%	2,45%
- Savings share	1.1851	5.58%	5,11%
	1.2455		
Telecom Italia Group			
Earnings/(loss) per share		(0.2827)	0.2770
Operating free cash flow per share		0.8189	0.6082
Consolidated equity per share		1.8486	2,5708

Ratings at 12/31/2002		Outlook
STANDARD&POOR'S	BBB+	Positive
MOODY'S	Baa1	Positive
FITCH IBCA	A-	Stable

The positive outlook expressed by both Moody's and Standard & Poor's is confirmation of the Company's credibility to reduce its debt and sell its non-core businesses, as established by the Industrial Plan. The opinion expressed by the rating agencies also reflects expectations that the Company will remain the leading operator in Italy in both wireline and mobile telephone services with the ability to continue to generate cash flows.

(o) In line with the objective of ensuring shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed corresponding to a per share dividend of euro 0.1357. A motion will be put before the Shareholders' Meeting for the approval of the financial statements for the year ended December 2002 to pay out the residual dividends of euro 0.1768 euro per ordinary share and euro 0.1878 per savings share, by drawing from the income and capital reserves.

9

[] MACRO-ORGANIZATION CHART OF TELECOM ITALIA
GROUP AT DECEMBER 31, 2002

------------------------ -----------------

```
                           Chairman                         Deputy Chairman
                   Marco Tronchetti Provera   ---------   Gilberto Benetton

                   ------------------------               -----------------
                                      |
              ---------------         |
                  C.E.O.              |
                                   ---|     Assistant to the Chairman
                Carlo Buora           |----      Giuseppe Sala
              ---------------         |
Assistant to C.E.O.         |         |
  Fausto Federici   --------|         |
                            |         |-------------------------------------------------------
                            |         |             |            |          |            |
                            |         |    ------------- ----------  ---------  -------------
                            |         |    Communication    Brand       Human      Public and
                            |         |     and Image    Enrichment  Resources     Economic
                            |         |                                             Affairs
                            |         |                                           R. Perissich
                            |         |    G. Carlo Rocco   Andrea     Gustavo     A. Camanzi
                            |         |    di Torrepadula  Kerbaker    Bracco     (Co-director)
                            |         |    -------------- ----------  ---------  -------------
                            |        ------|
     --------------------------------------|-----------------------------------------------------
      |             |          |         |     |      |            |          |         |         |
-------------- ---------- --------- --------- | ------------ ----------- --------- -------- -----
   Finance     Purchasing Corporate Security  | Mergers and   Research   Investor  Venture  Forei
Administration            and Legal    (2)    | Acquisitions    and      Relations Capital  Holdi
 and Control               Affairs            |             Development    (3)      (4)
                                              |
   Enrico      Germanio    Aldo     Luciano   |  Francesca     Andrea     Alberto  Andrea   Franc
 Parazzini     Spreafico Cappuccio  Gallo M.  |  Di Carlo      Granelli   Borgia   Granelli S. Br
-------------- ---------- --------- --------- | ------------ ----------- --------- -------- -----
                                              |
                                              |
        ------------------------------------------------ - - - - - - - - - - - - -
        |                       |                      |                           |
    -----------------      ------------------      --------------             ----------------
    Domestic Wireline           Mobile           Internet and Media             Latin America
                                                                                  Operations
                                                                                     (6)
    Riccardo Ruggiero      Marco De Benedetti      Paolo Dal Pino             Oscar Cristianci
    -----------------      ------------------      --------------             ----------------
```

(1) Consortium company which carries out Internal Auditing activities in the Telecom Italia Group and Olivetti.
(2) Starting March 1, 2003, Giuliano Tavaroli took over responsibility for the Security function. (3) Starting February 1, 2003, Olimpia Cuomo took over responsibility for the Investor Relations function.
(4) In January 2003, the Venture Capital function was disbanded.
(5) 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 Group.
(6) The function coordinates the activities of the Telecom Italia Group in Latin America, to be developed in accordance with the strategic plan. It reports to the International Steering Committee, composed of the Chairman and CEO. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Domestic Wireline and Mobile Business Units; the assistant to the Chairman is the Secretary. Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for

wireline TLC and to the manager of the Mobile Business Unit Mobile for Mobile TLC.

10

[] INTERNATIONAL PRESENCE OF TELECOM ITALIA GROUP AT DECEMBER 31, 2002 - MAJOR SUBSIDIARIES

[MAP OMITTED]

====== Presence through subsidia
------ Presence through affiliat

ITALY

DOMESTIC WIRELINE
- Atesia S.p.A. *
- Path.net S.p.A. *
- Telecom Italia Sparkle S.p.A.
- Telecontact Center S.p.A.

MOBILE
- TIM S.p.A. *

INTERNET AND MEDIA
- Buffetti Group *
- Holding Media e Comunicazione
- Matrix S.p.A. *
- Seat Pagine Gialle S.p.A. *

IT MARKET
- Agrisian S.C.p.A.
- Aspasiel S.p.A.
- Banksiel S.p.A. *
- EIS S.p.A.
- Finsiel S.p.A. *
- Insiel S.p.A. *
- Tele Sistemi Ferroviari S.p.A

IT GROUP
- Netikos Group *
- TILAB Group *
- Webegg Group *
- I.T. Telecom S.p.A. *

OTHER ACTIVITIES
- Saiat S.p.A. *
- TI Learning Services S.p.A. *

EUROPE

DOMESTIC WIRELINE
- Intelcom S.Marino (S.Marino) *
- Pan European Backbone (Europe) *
- TMI - Telemedia International Luxemburg S.A.

INTERNET AND MEDIA
- Consodata Group (France) *
- Telegate Group (Germany) *
- TDL Infomedia Group (Great Britain) *

FOREIGN HOLDINGS
- BBNed (Holland)
- Telecom Italia International (Holland)

OTHER ACTIVITIES
- T.I.Finance (Luxembourg) *

MEDITERRANEAN BASIN

DOMESTIC WIRELINE
- Mediterranean Nautilus Group
- Med-1 Group (Mediterranean B

MOBILE
- Stet Hellas S.A. (Greece) *

SOUTH AMERICA

DOMESTIC WIRELINE
- Latin American Nautilus Gro

MOBILE
- Bitel Participacoes S.A. (B

[MAP OMITTED]

- Corporacion Digitel C.A. (V
- Tele Celular Sul Participac
- Tele Nordeste Celular Parti
- Maxitel S.A. (Brazil) *
- TIM Celular S.A. * (Brazil)
- TimNet Com S.A. (Brazil)
- TIM Peru S.A.C. (Peru) *

LATIN AMERICA OPERATIONS

- Entel Bolivia Group (Bolivi
- Entel Chile Group (Chile) *
- Telecom Italia America Lati

(1) In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. Although maintaining the same corporate control structure, the relative companies became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9Telecom Reseau group, BB Ned group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP) and the companies in the South American area report to Latin America Operation (LAO).

* Comments on the main economic and financial performance of these companies are provided in the report.

[] ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

RESULTS OF OPERATIONS

The consolidated net result of the Group for 2002 is a loss of euro 322 million (net income of euro 297 million before minority interest). In 2001, the consolidated net result of the Group was a loss of euro 2,068 million (loss of euro 1,658 million before minority interest).

The pretax result was a loss of euro 419 million. The improvement of euro 314 million compared to the prior year was due to:

- a notable increase in the operating income (+euro 707 million);

- an improvement in net investment and financial income (expense) (+euro 1,792 million)

- a deterioration in net extraordinary income (expense) (-euro 2,185 million).

The latter, as detailed later in the report, includes:

- gains from the disposal of investments for euro 2,413 million (euro 264 million in 2001) following the sales of Auna, Bouygues Decaux Telecom (BDT), Mobilkom Austria, Lottomatica, Telemaco Immobiliare, Telespazio and the Tiglio transaction;

- writedown of Seat Pagine Gialle goodwill and provision to the reserve for charges in respect of the forward commitment to purchase Seat Pagine Gialle shares for a total of euro 3,486 million, following the decision - taken within the framework of the redefinition of Telecom Italia Group's strategies - of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest. In 2001, with regard to the purchase commitment, a provision of euro 569 million had been aside and was included in net investment and financial income and expense;

. writedowns of investments and goodwill on investments for euro 2,751 million (euro 2,984 million in 2001) mainly with regard to Aria - Is Tim Turchia, Netco Redes, Corporacion Digitel and Blu;

. other extraordinary expense for euro 1,813 million (euro 732 million in 2001) relating in 2002, among other things, to the expenses incurred on the sale of the investment in the 9Telecom group, the loss on the sale of Telekom Austria AG shares, the expenses connected with extraordinary investment transactions, the expenses and provisions for employee cutbacks and layoffs and provisions to reserves.

Sales and service revenues in 2002 amounted to euro 30,400 million, with a reduction of 1.4% compared to 2001. Excluding the effect of the changes in the exchange rates (euro 763 million), the increase was 1.1%, while the effect of the change in the scope of consolidation was euro 755 million. Excluding such effects, the organic growth was +3.8%. Particularly affecting the change in the scope of consolidation are the exclusion of the 9Telecom group and Sogei (both consolidated for the first six months of 2002) and the exit of the Telespazio group from October 1, 2002.

The increase in revenues reflected the positive contribution made by the Mobile BU and higher revenues from the Internet and Media BU, contrasting a reduction in the revenues contributed by the Domestic Wireline BU where traffic revenues, despite a 2.4% increase in terms of minutes, fell by euro 533 million (- 6.0%). In spite of an increase in minutes, the average return of retail and wholesale traffic fell by 8.3%. Such phenomena were partly compensated by higher basic charges and activation fees.

The breakdown of sales and service revenues is as follows:

Geographical area (millions of euro)	2002		2001	
Italy	24,652	81.1%	24,456	79.4%
Rest of Europe	2,182	7.2%	2,169	7.0%
North America	354	1.2%	968	3.1%
Central and South America	2,638	8.7%	2,592	8.4%
Australia, Africa and Asia	574	1.9%	633	2.1%

Gross operating profit, equal to euro 13,964 million, rose in comparison to 2001 by euro 345 million (+ 2.5%). As a percentage of revenues, the gross operating profit was 45.9% (44.2% in 2001). Excluding the effect of exchange rates (euro 186 million) and the effect caused by the change in the scope of consolidation (euro 120 million), the increase was 4.9% (euro 651 million).

In particular, the percentage of the Domestic Wireline BU's gross operating profit to revenues rose from 45.1% in 2001 to 46.8% in 2002, while the Mobile BU confirms its position at over 46%.

In greater detail, gross operating profit was impacted in 2002 by the following:

- raw materials and outside services, equal to euro 12,558 million, were down by 3.7% compared to 2001. The reduction was principally due to action taken to improve the level of efficiency. The percentage of raw materials and outside services to revenues was 41.3%, a decrease from 2001 (42.3%).

- Labor costs, equal to euro 4,532 million, were lower by euro 115 million compared to 2001 (2.5%). The decrease was connected to the change in the scope of consolidation as well as the headcount reduction in Telecom Italia. As a percentage of revenues, labor costs were 14.9%, in line with 2001. Employees at December 31, 2002 numbered 101,713 (109,956 at December 31, 2001). A breakdown is presented below:

	12/31/2002 (a)	12/31/2001 (b)	Change (a - b)
Italy	83,541	90,628	(7,087)
Outside Italy	18,172	19,328	(1,156)
Total employees	101,713	109,956	(8,243)

Contributing to this decrease were the changes in the scope of consolidation, with a net headcount reduction of -2,883, and the drop in the number of employees due to turnover (-5,360). The headcount variation caused by changes in the scope of consolidation specifically refer to the exclusion of the 9Telecom group (-1,003), the sale of the Telespazio group (-1,168), the exit of Sogei and Consiel (a total of -1,538) and other minor companies (-711), as well as the inclusion of Blu (+618), the Webegg group (+719), Netesi and Epiclink (a total of +168) and other minor companies (+32).

As regards turnover, during the year 12,567 employees left and 7,207 were hired.

Operating income, equal to euro 7,381 million, increased by euro 707 million (+10.6%) compared to 2001, and as a percentage of revenues rose from 21.7% in 2001 to 24.3% in 2002. Excluding the effect of exchange rates and the consequence of the change in the scope of consolidation, the gain was 9.9%. The increase in the absolute amount reflects higher gross operating profit, in addition to the decrease in amortization and depreciation charges.

In particular:

- Depreciation and amortization, equal to euro 5,877 million (euro 6,275 million in 2001), recorded a reduction of euro 398 million. Details are as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a - b)
Fixed assets	3,783	4,034	(251)
Intangibles	2,094	2,241	(147)
of which goodwill	844	1,022	(178)
Total depreciation and amortization	5,877	6,275	(398)

The reduction in the amortization of goodwill (-euro 178 million) was primarily due to the goodwill writeoffs taken in 2001. As a percentage of revenues, depreciation and amortization charges were 19.3%, down from 20.4% in 2001.

- Other valuation adjustments, equal to euro 599 million (euro 455 million in 2001), increased by euro 144 million compared to 2001. Such adjustments were principally for writedowns to reduce receivables from customers to their estimated realizable value. They referred, in particular, to:

  - Telecom Italia: euro 356 million
  - Seat Pagine Gialle group: euro 57 million
  - Tim: euro 51 million
  - Entel Chile group: euro 40 million

- Provisions to reserves for risks and charges, amounting to euro 153 million (euro 278 million in 2001), presented a reduction of euro 125 million, which was partly due to the amount provided in 2001 for the closing of the Astrolink contract (euro 54 million).

- Net other income (expense) showed an income balance of euro 46 million (an income balance of euro 63 million in 2001). Details are as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a - b)
Indirect duties and taxes	(115)	(120)	5
Net loss on sale of fixed assets and intangibles	(30)	(17)	(13)
Expenses connected with credit management	(60)	(37)	(23)
Late payment fees charged by TLC companies to customers	106	112	(6)
Portion of capital grants credited to income during the year	65	73	(8)
Sundry other income and expense	80	52	28
Total	46	63	(17)

Net investment and financial income (expense) is composed of the following:

(millions of euro)	2002 (a)	2001 (b)	Change (a - b)
Net investment income	18	154	(136)
Net financial expense	(1,449)	(2,153)	654
Value adjustments to financial assets	(682)	(1,956)	1,274
Total	(2,163)	(3,955)	1,792

Details are as follows:

- The reduction in net investment income was due to lower net gains realized on the listed stocks classified in current assets.

- The reduction in net financial expenses, for euro 569 million, can be ascribed to the provision that was set aside in 2001 for the forward commitment to purchase Seat Pagine Gialle shares that, in 2002, instead, was recorded in extraordinary expense. Excluding such effect, the improvement in net financial expenses (+euro 85 million) came from a lower average debt exposure of the Group during the period and lower interest rates and fees that was mainly countered by a worsening of the exchange rates which negatively affected certain South American economies, particularly Venezuela and Brazil.

- Value adjustments to financial assets, equal to euro 682 million, refer to:

  - amortization of goodwill arising at the time of the purchase of the investments in companies accounted for using the equity method, equal to euro 80 million (euro 316 million in 2001). The reduction is due to the writeoffs of goodwill taken in the 2001 financial statements;

  - writedowns of securities and investments included in current assets of euro 176 million (euro 291 million in 2001) and long-term securities of euro 40 million (euro 49 million in 2001), with a total reduction of euro 124 million compared to 2001;

  - the Group's share of the equity in the earnings and losses of the unconsolidated companies accounted for using the equity method which produced a loss of euro 386 million (-euro 1,300 million in 2001). This refers to the losses of Stream of euro 246 million (euro 241 million in 2001), Aria -Is Tim Turchia of euro 171 million (euro 334 million in 2001) and the earnings balance relating to the earnings and losses of the other unconsolidated companies of euro 31 million.

  Moreover, in 2001, this caption had included the results of the investments in the Nortel Inversora group (euro 238 million) and the Auna group (euro 203 million) and the writedown of Astrolink (euro 259 million) effected by Telespazio as a consequence of the interruption of the relative contract. The investment in Nortel Inversora, the carrying value of which had been prudently written off in the consolidated financial statements at December 31, 2001, has remained unchanged.

Net extraordinary income (expense) showed an expense balance of euro 5,637 million (-euro 3,452 million in 2001), with a deterioration of euro 2,185 million compared to 2001. In particular:

Extraordinary income of euro 2,814 million comprised:

- euro 2,413 million of gains from disposals relating to:

  - the sale of the entire 26.89% interest held by the Telecom Italia Group in Auna, realizing a gross gain of euro 1,245 million, which contributed - net of selling expenses - euro 1,033 million to the consolidated net result of the Telecom Italia Group;

- sale of the entire 19.61% interest held by the Mobile BU in Bouygues Decaux Telecom (BDT), realizing a gross gain of euro 484 million, which contributed euro 266 million to the consolidated net result of the Telecom Italia Group;

- the acceptance of the tender offer for Lottomatica shares by the Information Technology Market BU (Finsiel group), realizing a gross gain of euro 133 million (euro 93 million net of income taxes), which contributed euro 73 million to the consolidated net result of the Telecom Italia Group;

- the sale to Telekom Austria (a company in which Telecom Italia International has a 14.78% interest at December 31, 2002) of the entire 25% interest held by the Mobile BU in the Mobilkom Austria group, realizing a gross gain of euro 115 million, which contributed 64 million to the consolidated net result of the Telecom Italia Group;

- the sale of the entire 40% interest held in Telemaco Immobiliare, realizing a gross gain of euro 110 million, which contributed euro 64 million to the consolidated net result of the Telecom Italia Group;

- the sale of the entire 100% interest held in Telespazio, realizing a gross gain of euro 70 million, which contributed euro 36 million to the consolidated net result of the Telecom Italia Group;

- the sale of the entire 100% interest held in Emsa and Telimm, in addition to the properties and business segment in the Tiglio transaction, realizing a total gross gain of euro 234 million, which contributed euro 150 million to the consolidated net result of the Telecom Italia Group;

- the disposal of other investments, fixed assets, intangibles and business segments for a total of euro 22 million.

o prior period income of euro 131 million arising from the recovery of accrued 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;

o the release of euro 77 million, primarily to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to News Corporation and Vivendi Universal/Canal+ after the parties did not go through with the agreement

o grants of euro 9 million and other income of euro 184 million.

Extraordinary expenses of euro 8,451 million comprised:

o writedowns, for permanent impairments in value, and other provisions relating to investments for a total of euro 6,237 million (euro 2,984 million in 2001), referring to:

- the writedown of goodwill and the provision to the reserve for charges in respect of the forward commitment to purchase Seat Pagine Gialle shares for a total of euro 3,486 million. The writedown and the provision were effected on the basis of market value (average market price of ordinary shares for the last six months of 2002) within the framework of Telecom Italia Group's decision of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest. In 2001, with regard to the purchase commitment only, a provision of euro 569 million had been set aside and was included in net investment and financial income (expense);

- the writedown of goodwill on the subsidiaries and affiliated companies for a total of euro 225 million in respect of Blu (euro 103 million), Digitel Venezuela (euro 75 million) and other subsidiaries (euro 47 million);

- the writeoff of the investment in Aria - Is Tim Turchia (euro 2,341 million), arising from the writeoff of the carrying value (euro 1,491 million) and the provision to the reserves for risks and charges to cover the Group's exposure with the same affiliated company (euro 850 million). The provision is commensurate with the guarantees provided by the Group to the international financial institutions that are creditors of Aria - Is Tim and the loan in financial receivable granted directly by the Group.

- the writedown of goodwill on Netco Redes (euro 96 million), writedowns of other companies (euro 46 million) and the provision relating to the purchase of an additional stake in Consodata by Seat Pagine Gialle in order to adjust the value of the company to that determined on the basis of an appraisal (euro 43 million).

The writedowns in 2001 had referred to the goodwill relating to both the consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and certain companies in the Seat Pagine Gialle group) and companies valued using the equity method (Globo.com, Solpart Participacoes, Telekom Austria and Nortel Inversora group), as well as other provisions related to investments.

- the expenses of euro 316 million incurred in conjunction with the disposal of the investment in the 9Telecom group. In particular, in view of the loss reported prior to the sale, the French group 9Telecom produced a negative effect on the nine-months 2002 statement of income of the Telecom Italia Group for a total of euro 389 million (euro 267 million net of income taxes);

- the loss of euro 135 million on the sale of 75 million (equal to 15% of share capital) Telekom Austria AG shares during the month of November 2002. As a result of this sale, Telecom Italia Group's holding in Telekom Austria AG has been reduced to 14.78% and the investment value is aligned with the market value;

- the expenses of euro 235 million connected with extraordinary investment transactions;

- the provisions to reserves for euro 194 million, of which euro 135 million refer to guarantees provided for the disposal of investments and business segments and euro 59 million for other provisions to reserves;

- the expenses and provisions of euro 494 million for employee cutbacks and layoffs (of which euro 379 million is borne by Telecom Italia S.p.A.);

- the expenses of euro 155 million under Law 58/1992 to cover employees under the former fund "Telephone Employees Pension Fund" (FPT) and euro 74 million for the extraordinary contribution to INPS to meet the higher financial requirements covered by the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund";

- the writedowns of euro 190 million to fixed assets, intangibles and long-term investments, mainly in reference to the mobile telephone companies in Brazil, and euro 38 million for losses on the sale of fixed assets, intangibles and long-term investments;

- other prior period expenses of euro 383 million.

Income taxes had a positive effect on the result of euro 716 million and decreased by euro 1,641 million compared to 2001. This was due to the loss for the year that was principally caused by the aforementioned investment writedowns, which contributed to the increase in deferred tax assets, as well as the utilization of tax loss carryforwards deriving from the merger of TIM and Blu.

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 35,586 million, decreased by euro 9,432 million from the end of 2001.

Details are as follows:

- fixed assets decreased from euro 21,757 million at the end of 2001 to euro 19,291 million at the end of 2002 and intangibles fell from euro 16,197 million at the end of 2001 to euro 13,052 million at December 31, 2002. The reduction is due overall to the depreciation and amortization charge for the year that was only partly compensated by the investments made during the same period, the fall in exchange rates compared to the end of 2001, as well as the contributions of business segments under the "Tiglio" transaction and the writedowns of the goodwill on consolidated companies effected in 2002 and recorded in extraordinary expense.

- long-term investments decreased from euro 7,064 million at the end of 2001 to euro 3,243 million al December 31, 2002. The reduction is principally due to the disposal of investments and writedowns for permanent impairments in value carried out during the year.

Investments made during the year amounted to euro 6,919 million (compared to euro 11,257 million in 2001). The breakdown is as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a-b)
Industrial investments	4,842	6,990	(2,148)
Goodwill	369	1,174	(805)
Financial investments	1,708	3,093	(1,385)
Total investments	6,919	11,257	(4,338)

The reduction of investments by euro 4,338 million was mainly due to:

- industrial investments:

  - to lower investment made by the Mobile BU for euro 1,436 million, chiefly relating to mobile phone licenses acquired in 2001 in Brazil and Greece (about euro 1,080 million);

- to lower investments made by the Domestic Wireline BU (-euro 339 million), by other companies in South America (-euro 190 million) and by the Seat group (-euro 94 million) partly as a result of the implementation of the selective investment program;

o for goodwill: to the acquisitions which occurred in 2001 in respect of Entel Chile (euro 731 million), Holding Media e Comunicazione (euro 66 million), NetCreations (euro 93 million) and the increase in the investment in Stet Hellas (euro 31 million), compared to those in 2002 which referred mainly to the increase in the investment in Stet Hellas (euro 66 million) and in Digitel Venezuela (euro 27 million), to the acquisition of Epiclink (euro 49 million) and Netesi (euro 14 million), the acquisition of Blu (euro 103 million) and the increase in the investment holding in the Webegg group (euro 24 million);

o for financial investments: to capital injections made in 2001 in the company Aria - Is Tim Turchia (euro 1,906 million) and in Auna (euro 276 million).

Financial investments made in 2002 mainly regarded transactions involving the share capital of Stream (euro 234 million) and Auna (euro 193 million, repaid on August 1, 2002), the investment in the share capital of Tiglio I (euro 197 million), the purchase of LDCom within the framework of the 9Telecom deal (euro 172 million), the disbursement of loans to subsidiaries and affiliated companies (euro 351 million), as well as the buy-back of treasury stock (euro 287 million), acquisitions of other investments and share capital increases for a total of euro 274 million.

Working capital showed a negative balance of euro 3,340 million (a negative balance of euro 2,418 million at December 31, 2001), with a change of euro 922 million.

Shareholders' equity amounted to euro 12,823 million (euro 19,308 million at the end of 2001), of which euro 9,049 million was Telecom Italia, the Parent Company's interest (euro 13,522 million al December 31, 2001), and euro 3,774 million was the minority interest (euro 5,786 million at December 31, 2001).

The reduction of euro 6,485 million can be analyzed as follows:

(millions of euro)	2002	2001
At beginning of year	19,308	24,690
Net income (loss) of the Parent Company and minority interest	297	(1,658)
Dividends to third parties paid by:	(3,247)	(3,097)
- Telecom Italia S.p.A	(2,306)	(2,309)
- TIM S.p.A	(895)	(743)
- Other Group companies	(46)	(45)
Extraordinary distribution of reserves to third parties:	(1,698)	--
- Telecom Italia S.p.A	(987)	
- TIM S.p.A	(711)	
Cancellation of Telecom Italia S.p.A. treasury stock	--	(711)
Change in scope of consolidation	(95)	358

Translation adjustments and other changes	(1,742)	(274)
At end of year	12,823	19,308

Translation adjustments and other changes, in particular, are primarily the result of the deterioration in exchange rates of certain South American countries such as Brazil, Chile and Bolivia.

Net debt of euro 18,118 million decreased from euro 21,942 million at the end of 2001 by euro 3,824 million subsequent to the payment of dividends and the distribution of reserves for a total of euro 4,945 million. Indebtedness at December 31, 2002 particularly benefited from the investment disposals made in 2002, net of the related expenses, for a total of euro 4,771 million mainly in connection with the sale of Auna (euro 1,998 million), Bouygues Decaux Telecom (euro 750 million), Mobilkom Austria (euro 756 million), Lottomatica (euro 212 million), Sogei (euro 176 million), Telemaco Immobiliare (euro 192 million), Immsi (euro 69 million) Tiglio (euro 328 million), Telekom Austria (euro 559 million), Telespazio (euro 239 million), 9Telecom (-euro 529 million) and other minor companies (euro 21 million). Transactions for the securitization and factoring of trade accounts receivable were also carried out which led to an improvement in net debt at December 31, 2002 of euro 1,038 million (euro 848 million at the end of 2001).

The following chart summarizes the major items which had an impact on the change in net debt during the course of 2002.

[GRAPHIC OMITTED]

[Net financial debt 12/31/2001	21,942
Industrial investments	4,842
Goodwill investments	369
Financial investments	1,708
Dividend and reserve payments	4,945
Payment at present value JPM strike price reduction	500
Flows from operating activities	10,390
Disposals	5,698
Other	100
Net financial debt 12/31/2002	18,118]

The portion of debt due beyond one year rose from 64% at December 31, 2001 to 75% at December 31, 2002. When also considering the current portion due next year (euro 2,677 million) as medium/long-term, the percentage rises to 88% (70% in 2001). The increase is the result of the issue of fixed-rate notes for euro 2,500 million by Telecom Italia S.p.A. on February 1, 2002, divided into two tranches of euro 1,250 million each, expiring, respectively on February 1, 2007 and February 1, 2012. This issue falls under the "Global Note Program".

Gross debt is detailed in the following table:

	At 12/31/2002						At 12/31/2001	
(millions of euro)	euro	%	Foreign currency	%	Total	%	Total	%

Medium/long-term debt	13,684	76	1,334	63	15,018	75	16,083	64
Short-term borrowings	4,320	24	769	37	5,089	25	9,114	36
Total	18,004	100	2,103	100	20,107	100	25,197	100

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[] ACQUISITIONS AND SALES OF EQUITY INVESTMENTS

Sale of Lottomatica

In February 2002, the Information Technology Market BU (Finsiel group) tendered its Lottomatica shares to the tender offer for Lottomatica for proceeds of euro 212 million, realizing a gain that contributed euro 73 million to the consolidated net result of the Telecom Italia Group.

Sale of BDT - Bouygues Decaux Telecom

In March 2002, the Telecom Italia Group sold the investment (19.61%) held by TIM International in BDT, the holding company of the French operator Bouygues Telecom for proceeds of euro 750 million, realizing a gain that contributed euro 266 million to the consolidated net result of the Telecom Italia Group.

Sale of Mobilkom Austria

On June 28, 2002, TIM International N.V. sold the entire investment (25%) held in Mobilkom Austria to Telekom Austria (a 14.78%-owned affiliate of Telecom Italia International at December 31, 2002) for proceeds of euro 756 million, realizing a gain that contributed euro 64 million to the consolidated net result of the Telecom Italia Group.

Sale of Sogei

On July 31, 2002, Finsiel concluded the sale of Sogei to the Ministry of Economy and Finance - Department of Fiscal Policy. This had a positive impact of euro 176 million on the net debt of the Telecom Italia Group.

Sale of Auna

On August 1, 2002, the transaction was finalized for sale of the investment in Auna by the Telecom Italia Group to Endesa, Union Fenosa and Banco Santander Central Hispano, that had initially been planned for December. The transaction gave rise to proceeds of euro 1,998 million for Telecom Italia Group that contributed 1,033 million to the consolidated net result.

Sale of Telemaco Immobiliare

On August 1, 2002, Telemaco Immobiliare was sold to Mirtus, a company indirectly controlled by the American real estate fund Whitehall, promoted by the Goldman Sachs group, for net proceeds of euro 192 million, realizing a net gain of 64 million for the Telecom Italia Group.

Acquisition of EPIClink

On August 2, 2002, after having received approval from the Antitrust Authority, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of euro 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli S.p.A.

(25.3%; Pirelli is considered a related party of Telecom Italia through the persons of the Chairman and the CEO Carlo Buora), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). After this transaction, EPIClink's shareholder base was as follows: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2% and E_voluzione 2%. Furthermore, Telecom Italia is committed to the purchase of the remaining stake (14%) at a total price of euro 10 million.

Sale of 9Telecom

On August 26, 2002, the transaction was concluded for sale of the investment in 9Telecom and the simultaneous purchase of a 7% stake in LDCom. The net impact on the net result of the Telecom Italia Group was a loss of euro 267 million.

Sale of a stake in Solpart Participacoes

On August 27, 2002, the Telecom Italia Group reached an agreement with the other shareholders of Solpart (indirect parent company of Brasil Telecom) to reduce its stake in ordinary share capital from 37.29% to 19% by the sale of 18.29% of ordinary share capital to Timepart Participacoes and to Techold Participacoes. This reduction, among other things, removed the regulatory obstacles that prevented TIM's local subsidiaries from offering GSM 1800 commercial service. 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 shareholder position quo ante.

Acquisition of another stake in Stet Hellas

In August, 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 had a 63.95% interest, at a price of euro 108 million. The deal, which in effect makes TIM International N.V. the only industrial partner and strategic shareholder in the company, falls within the framework of the Group's strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

Acquisition of another stake in Netesi

In August, following the authorization received from the Antitrust Authority, the Telecom Italia Group purchased a 69.10% stake in the share capital of Netesi, in which it already held a 17.98% interest, at a price of euro 11 million.

Acquisition of Pagine Utili

On September 11, 2002, Telecom Italia reached an agreement with Pagine Italia S.p.A. for the acquisition of the assets of the Pagine Utili directories, the business segment represented principally by the so-called pocket pages with about 60,000 advertisers.

The transaction involves the payment of consideration to Pagine Italia equal to 214 million Seat Pagine Gialle ordinary shares held by the Telecom Italia Group, corresponding to 1.9% of the Seat Pagine Gialle ordinary share capital.

The execution of this transaction is subject to the approval of the Italian Antitrust Authority. After the observations formulated by the Antitrust Authority during the preliminary investigation, on January 16, 2003, Telecom Italia and Pagine Italia S.p.A. agreed to formally withdraw the announcement about the acquisition of the Pagine Utili business segment.

The parties further agreed to extend the contract period in order to be able to re-design the transaction so that it can eventually be re-submitted to the Antitrust Authority.

Moreover, the agreement between the parties provides for exclusive consideration which would, in any case, involve the payment to Pagine Italia S.p.A. of a percentage equal to 6.6% of the 214 million of Seat Pagine Gialle shares already said.

After execution of the transaction, a decision will be made as to how the purchased business segment will be integrated in Seat Pagine Gialle.

Telecom Italia - News Corporation agreement

On October 1, 2002, Telecom Italia signed agreements with the News Corporation group ("News"), partner of Telecom Italia in Stream, and Vivendi Universal ("Vivendi"), current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single platform for pay-TV in Italy. On the basis of this agreement Telecom Italia will hold a 19.9% stake in the single platform and News Corporation will own the remaining 80.1%.

Telecom Italia will pay euro 31.84 million at the closing for a 19.9% stake in Tele+ and will waive receivables owed by Stream to the Telecom Italia Group companies due at the end of 2002 for euro 147 million (a figure entirely provided for in the 2001 financial statements). At the same time, News Corporation will waive receivables from Stream for the same amount.

The execution of the contract is subject to the approval by the European Antitrust Authority which should announce a decision by the end of April 2003.

Sale of Consiel investment

On October 3, 2002, the agreement was concluded for the sale of the shares representing the entire share capital of Consiel by Finsiel to World Investment Partners S.A.. The total amount paid by World Investment Partners S.A. amounted to euro 1 million.

Acquisition of 100% of Blu S.p.A. shares

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, later merged with TIM S.p.A.. The authorizations for this transaction had been previously granted by the Antitrust Authority in view of the approval by the Telecommunications Regulatory Agency. The merger plan was signed on December 18, 2002. On that date the final price of the sale was set at euro 83 million. The merger became effective on December 23, 2002. Other sellers of Blu S.p.A. include Edizione Holding S.p.A. (the Chairman and Deputy Chairman of which are, respectively, the Deputy Chairman of Telecom Italia Gilberto Benetton and the Director Gianni Mion) and Autostrade S.p.A. (where the same Gilberto Benetton and Gianni Mion are members of the Executive Committee)

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Progetto Tiglio

On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti- Telecom Italia Groups and The Morgan Stanley

Real Estate Funds was finalized and integration was thus achieved for 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.

The agreement also calls for leveraging, during 2003, the assets of Tiglio I and Tiglio II through a market transaction within the framework of a strategy that could contribute to the development of the real estate financial market, with consequent significant opportunities for the Telecom Italia Group to leverage the investments currently held in the two companies.

In particular, Telecom Italia Group transferred assets worth euro 1,360 million to Tiglio I and Tiglio II , in various corporate forms. Euro 50 million of the total relates to Seat Pagine Gialle, about euro 840 million to real estate that was contributed to Emsa Immobiliare after the non-proportional spin-off of IM.SER and euro 470 million to other assets. The transaction had a gross economic impact of about euro 229 million on Telecom Italia S.p.A. and euro 234 million on the Telecom Italia Group (a net impact of euro 150 on the net result of the Telecom Italia Group).

The companies in the Pirelli Group involved in the transaction were Pirelli S.p.A. (a related party of Telecom Italia through the Chairman and the Managing Director Carlo Buora) and Pirelli & C. Real Estate S.p.A. (a related party of Telecom Italia through the Chairman, the Managing Director Carlo Buora and the Director Carlo Alessandro Puri Negri).

Sale of Telespazio

In November, Telecom Italia executed the sale of Telespazio to Finmeccanica on the basis of the agreement signed on August 2, 2002. The positive impact on the financial indebtedness of the Telecom Italia Group was euro 239 million and the net gain was euro 36 million for the Telecom Italia Group.

Sale of Viasat

On November 18, 2002, Seat Pagine Gialle S.p.A. and Finsatel sold their respective 33.54% and 16.46% investments in Viasat S.p.A. to Exe Fin S.p.A. for a total of some euro 2.5 million. As a result of this sale, the company no longer holds an indirect interest in the company Viasat Assistance S.p.A.

Sale of Telekom Austria

In November 2002, Telecom Italia International N.V. placed 75 million Telekom Austria AG shares on the market (equal to 15% of share capital). The price of the placement was set at euro 7.45 per share. Gross proceeds from the sale were euro 559 million. The impact on the consolidated net result of the Telecom Italia Group was a loss of -euro 101 million. After this transaction, Telecom Italia Group's stake in Telekom Austria decreased from 29.78% to 14.78%.

Sale of Informatica Trentina

On November 21, 2002, Finsiel sold the 40.41% stake held in Informatica Trentina to DeDa S.r.l., a company controlled by Deltadator S.p.A. (Sequenza Group), for some euro 8.7 million, realizing a gain of euro 4 million in the consolidated financial statements of Telecom Italia.

Sale of IMMSI

On November 22, 2002, Telecom Italia sold its stake in IMMSI to the company Omniapartecipazioni. The sales price was euro 69 million, with a positive impact of euro 41 million for the Parent Company, Telecom Italia.

Sale of Fintech

On December 20, 2002, Telecom Italia Lab sold its investment in Fintech S.p.A. (equal to 50% of share capital) to the Belgium-registered company Euroqube S.A., for consideration of euro 4.75 million, of which about half will be paid at the closing and the remainder within 12 months thereafter.

Acquisition of a stake in Mediocredito Centrale S.p.A.

On December 27, 2002, in execution of the contract signed in July, a 3% stake was purchased in the share capital of Mediocredito Centrale S.p.A. for a price of euro 36 million.

In conclusion, the following chart depicts the impact that the sales had on the net debt of the Telecom Italia Group in the two-year period 2001-2002, reaching the objective of the divestiture program earlier than anticipated.

[GRAPHIC OMITTED]

[Satellite Consortia 2001		450
Lottomatica		212
Bouygues		750
Mobilkom Austria		756
Real Estate		610
o Tiglio 1 and 2	+328	
o Telemaco	+192	
o IMSI	+69	
o Other Assets	+21	
9Telecom		-529
Auna		1,998
Sogei		176
Telespazio		239
TeleKom Austria		559
Total		5,221
o 2002 - 4,771		
o 2001 - 450]		

[] MARKET SCENARIO

The projections for the world market of telecommunications services for the next few years suggest average annual growth of approximately 5.7%, lower than the growth of 7.7% reported in 2002.

In Europe, in 2002, the market grew by 5.4% and, over the next few years, annual average growth is expected to be in the order of 4.1%, and impacted by a slowdown in the growth of revenues from mobile services.

Performance of the European TLC services market

[GRAPHIC OMITTED]

2001 2002 2003 2004 2005

[TD eleased lines	9	12	14	17	21
Internet access (NB + BB)	14	15	16	17	17
Wireline (voice and VAS)	109	106	102	101	100
Mobile (voice and VAS)	93	104	115	123	130
Total	225	237	247	258	268]

In Italy, growth over the next few years is expected to be higher than in the European market as a whole, with annual average growth of 5%. In particular, revenues from mobile services will increase at an annual average of 9%, particularly as a result of the development of innovative services, broadband and VAS on wireline networks, especially thanks to the spread of ADSL, at an annual average of approximately 18%.

In South America, annual average growth over the next few years is expected to be 11.6%. In particular, the mobile telephone services market in Brazil is expected to grow at an annual average of approximately 12%, and will be marked by a growing consolidation and by a regulatory framework that will favor the evolution of the SMC model over the SMP model, with higher standards of quality and fiercer competition.

From the point of view of the range of services available, it is probable that, over the next few years, the trend towards the consolidation of operators will continue, especially on a national level. This may prove to be to the advantage of large operators which will be able to exploit a broad customer base and control over the infrastructures.

From the point of view of technological development, there is likely to be innovation geared to expanding the bandwidth for wireline services and the development of "seamless" solutions for mobile services.

The development strategies of the larger operators are mainly focused on defending the domestic core business, launching broadband and value-added services and on reducing the level of indebtedness.

[] STRATEGIC GUIDELINES

The fundamental objective declared by management for the next few years (as it was last year) will continue to be the creation of value. This must be ensured by capitalizing on the assets and on the distinctive competences and by further strengthening the financial structure to sustain development.

The priorities of industrial operations as described by the management are as follows:

- to consolidate its leadership of the domestic market: in wireline services, by encouraging customer loyalty with innovative products and stimulating the market of VAS and broadband, particularly through ASL access technology; in mobile services, by augmenting traffic volumes and developing a range of value-added services consistent with market expectations (MMS, community, videotelephone services), and by effectively introducing UMTS technology; in Internet and Media, by developing broadband and portals, directories and office products.

- to develop corporate presence abroad in markets where the Group can enhance its commercial and technological expertise: in the mobile sector, in South American countries, and particularly in Brazil; in the wireline sector, through the development of the pan-European broadband network.

- to continue to manage the Group according to strict criteria of efficiency thanks to the synergies activated by the organizational model based on professional categories and service centers, systems that control expenditure and results, and a careful selection of investments targeting innovation and development.

Over the next few years, the exacting dynamics in the economic and financial field will generate cash flows that will lead to a reduction in consolidated indebtedness that is expected to fall by more than euro 5 billion by the end of 2005, compared to the end of 2002.

The Group will also further develop initiatives associated with sustainability, which for the first time constitutes an integral part of corporate planning.

Telecom Italia Group

Consolidated Statements of Income

	(millions of euro)	2002 (a)	2001 (b)	Ch (a amount
C				
A.	SALES AND SERVICE REVENUES	30,400	30,818	(418)
	Changes in inventories of work in progress, semifinished and finished goods	2		2
	Changes in inventory of contract work in process	(42)	(115)	73
	Increases in capitalized internal construction costs	675	581	94
	Operating grants	19	24	(5)
B.	STANDARD PRODUCTION VALUE	31,054	31,308	(254)
	Raw materials and outside services (1)	(12,558)	(13,042)	484
C.	VALUE ADDED	18,496	18,266	230
	Labor costs (1)	(4,532)	(4,647)	115
D.	GROSS OPERATING PROFIT	13,964	13,619	345
	Depreciation and amortization	(5,877)	(6,275)	398
	of which goodwill	(844)	(1,022)	178
	Other valuation adjustments	(599)	(455)	(144)
	Provisions to reserves for risks and charges	(153)	(278)	125
	Net other income (expense)	46	63	(17)
E.	OPERATING INCOME	7,381	6,674	707
	Net investment and financial income (expense)	(2,163)	(3,955)	1,792
	of which value adjustments	(682)	(1,956)	1,274
	INCOME BEFORE EXTRAORDINARY ITEMS AND			
F.	TAXES	5,218	2,719	2,499

	Net extraordinary income (expense)	(5,637)	(3,452)	(2,185)
G.	INCOME BEFORE TAXES	(419)	(733)	314
	Income taxes	716	(925)	1,641
H.	NET INCOME (LOSS) BEFORE MINORITY INTEREST	297	(1,658)	1,955
		(619)	(410)	(209)
I.	NET INCOME (LOSS)	(322)	(2,068)	1,746

(1) Reduced by related cost recoveries

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Telecom Italia Group

Consolidated Balance Sheets

	(millions of euro)		12/31/2002 (a)	12/31/2001 (b)	Change (a-b)
A.	INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
	Intangible assets		13,052	16,197	(3,145)
	Fixed assets		19,291	21,757	(2,466)
	Long-term investments				
	. equity investments and advances on future capital contributions		2,286	6,586	(4,300)
	. other		957	478	479
			35,586	45,018	(9,432)
B.	WORKING CAPITAL				
	Inventories		411	636	(225)
	Trade accounts receivable		8,201	8,346	(145)
	Other assets		6,154	5,047	1,107
	Trade accounts payable		(5,966)	(6,793)	827
	Reserves for risks and charges		(5,214)	(3,053)	(2,161)
	Other liabilities		(6,926)	(6,601)	(325)
			(3,340)	(2,418)	(922)
C.	INVESTED CAPITAL, net of operating liabilities	(A+B)	32,246	42,600	(10,354)
D.	RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES		(1,305)	(1,350)	45
E.	INVESTED CAPITAL, net of operating liabilities and the reserve for employee termination indemnities	(C+D)	30,941	41,250	(10,309)
	Financed by:				
F.	SHAREHOLDERS' EQUITY (1)				
	Parent Company interest		9,049	13,522	(4,473)

	Minority interest		3,774	5,786	(2,012)
			12,823	19,308	(6,485)
G.	MEDIUM/LONG-TERM DEBT		15,018	16,083	(1,065)
H.	NET SHORT-TERM BORROWINGS				
	Short-term borrowings		5,089	9,114	(4,025)
	Liquid assets and short-term financial assets		(2,271)	(3,505)	1,234
	Financial accrued expense (income) and deferred expense (income), net		282	250	32
		(G+H)	3,100	5,859	(2,759)
I.	TOTAL	(F+G+H)	18,118	21,942	(3,824)
			30,941	41,250	(10,309)

(*) Net of "Receivables from shareholders for capital contribution"

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Telecom Italia Group

Consolidated Statements of Cash Flows

	(millions of euro)		2002
A.	NET DEBT, AT BEGINNING OF YEAR		(21,942)
B.	CHANGE IN SCOPE OF CONSOLIDATION		
C.	CASH FLOWS - OPERATING ACTIVITIES		
	Net income (loss)		297
	Depreciation and amortization		5,877
	(Gains) losses on sales of intangibles, fixed assets and long-term investments		(2,210)
	Writedowns of intangibles, fixed assets and long-term investments		4,384
	Change in working capital (*)		896
	Net change in reserve for employee termination indemnities		(45)
	Foreign exchange gains (losses) and other changes		691
			9,890
D.	CASH FLOWS - INVESTING ACTIVITIES		
	Long-term investments:		(6,919)
	. intangible assets:		
	- goodwill	(369)	
	- other investments	(1,584)	
	. fixed assets	(3,258)	
	. long-term investments	(1,708)	
	Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments		5,698
			(1,221)

E.	CASH FLOWS - FINANCING ACTIVITIES		
	Capital contributions		58
	Capital grants		42
			100
F.	DIVIDENDS		(4,945)
G.	CHANGE IN NET DEBT	(B+C+D+E+F)	3,824
H.	NET DEBT, AT END OF YEAR	(A+G)	(18,118)

(*) The difference with respect to the reclassified consolidated balance sheets is due to the movements in capital grants and the use of the reserves for risks and charges.

The change in net debt was due to the following:

(millions of euro)	2002
Increases (decreases) in medium/long-term debt	(1,065)
Increases (decreases) in short-term borrowings	(2,759)
Total	(3,824)

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[] ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.p.A.

RESULTS OF OPERATIONS

The Parent Company, Telecom Italia S.p.A., closed the year 2002 with a net loss of euro 1,645 million (a net income of euro 151 million in 2001).

The result was mainly caused by a higher expense balance of net extraordinary income (expense) (-euro 3,200 million) that was partly offset by an improvement in the operating income (+euro 62 million) and the income balance of net investment and financial income (expense) (+euro 754 million), and lower income taxes (-euro 588 million).

The increase in the net expense balance of extraordinary income (expense), in particular, was caused, on one hand, by the provisions made with respect to the value of the Seat Pagine Gialle investment (euro 2,691 million) and to the forward commitment for the purchase of Seat Pagine Gialle shares (euro 1,942 million), to adjust them to the market value of the shares (based on the average of the last six months of 2002), as a result of the decision of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest, and, on the other hand, to the lower writedown, compared to the prior year, made in respect of Telecom Italia International (-euro 882 million) and the writedown of TI WEB (euro 542 million) effected in 2001.

As far as dividends are concerned, with a view towards meeting the objective of paying dividends to the shareholders that are substantially in line with 2001, in December 2002, reserves were distributed for euro 987 million. A motion for the residual amount of dividends will be submitted to the Shareholders' Meeting convened to approve the 2002 financial statements.

Sales and service revenues of euro 17,055 million decreased by euro 254 million, -1.5%, compared to 2001.

The reduction can principally be attributed to traffic, the equivalent amount of which, despite an increase of 2.4% in term of minutes, declined by euro 533 million (-6.0%) as a result of a reduction in the average retail and wholesale return of 8.3%.

Such phenomena were partly compensated by the increase in basic charges and activation fees.

Sales and service revenues, net of the amounts due to other telecommunications operators, totaled euro 13,409 million and decreased by euro 485 million (-3.5%) compared to the prior year.

Gross operating profit of euro 7,549 million decreased by euro 22 million compared to 2001 (euro 7,571 million). The percentage of gross operating profit to sales and service revenues was 44.3% (43.7% in the previous year).

The change is due to the reduction in the costs of raw materials and outside services (-euro 143 million) and the reduction in labor costs, which fell by euro 65 million compared to 2001, thus compensating the aforementioned decrease in revenues.

Total raw materials and outside services, net of the amount due to other operators, amounted to euro 3,320 million, and decreased by euro 374 million compared to the prior year.

Operating income, amounting to euro 4,045 million, increased by euro 62 million compared to 2001 (+1.6%), and represents 23.7% of revenues, compared to 23.0% in 2001. The increase was essentially attributable to lower depreciation and amortization charges (-euro 301 million) that were partly compensated by expenses connected with credit management (+euro 255 million).

Net investment and financial income (expense) is composed as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a-b)
Net investment income	2,118	2,022	96
Net financial expense	(1,087)	(1,624)	537
Value adjustments to financial assets	(654)	(775)	121
Total	377	(377)	754

In particular:

- the increase in net investment income (+euro 96 million) is primarily due to higher dividends from the subsidiaries TIM (+euro 247 million) - following the distribution of reserves in December 2002 - and Finsiel (+euro 126 million), partly offset by the fact that in 2001

Telecom Italia had benefited from a distribution of reserves by Saiat (euro 249 million);

- the reduction in net financial expenses (-euro 537 million) was almost entirely due to the fact that a provision was set aside in 2001 (euro 569 million) for the forward commitment to purchase Seat Pagine Gialle shares; the provision in 2002, as previously described, was recorded in extraordinary expense;

- the reduction in value adjustments to financial assets (-euro 121 million) was due to the increase in the writedowns of other investments for a total of euro 131 million and to the fact that in 2001 writedowns were made to the investments in Telespazio (euro 91 million) and in TMI - Telemedia International Italia (euro 161 million).

Net extraordinary income (expense) showed an expense balance of euro 6,093 million (-euro 2,893 million in 2001), with an decrease of euro 3,200 million. Specifically:

Extraordinary income of euro 884 million comprised:

- the gains realized on the sales of investments in Telemaco Immobiliare (euro 134 million), Telespazio (euro 47 million), IMMSI (euro 51 million), EMSA (euro 70 million), the contribution of the "Asset Management" business segment to Tiglio II (euro 126 million), the sale of the non-facility business segments (property, project and agency) to the Pirelli & C. Real Estate group (euro 15 million), the sale of the "Training" segment to Telecom Italia Learning Services (euro 2 million) and the disposal of buildings (euro 7 million);

- the prior period income arising from the recovery of accrued pre-amortization interest (euro 131 million) 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;

- the recovery of expenses connected with extraordinary transactions (euro 192 million) incurred by Telecom Italia on behalf of subsidiaries (principally Telecom Italia International and TIM International);

- the release to income (euro 59 million) of a part of the reserve for risks and charges, set up in 2001 to cover the expenses connected with the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+, after the parties did not go through with the agreement;

- other prior period income of euro 50 million.

Extraordinary expenses of euro 6,977 million comprised:

- the writedown of the investment in Seat Pagine Gialle (euro 2,691 million) and the provision for the forward commitment to purchase Seat Pagine Gialle shares (euro 1,942 million);

- the extraordinary provisions regarding the investments in Netesi (euro 31 million) and Telecom Italia International (euro 1,102 million) mainly in conjunction with the expenses on the sale of the investment in 9Telecom to LDCom (euro 389 million), the loss on the sale of Telekom Austria (euro 189 million), the writedown of Netco Redes (euro 103 million) and the writeoff of the carrying value of the investment in Nortel Inversora (euro 37 million);

- the expenses and provisions (euro 379 million) for corporate restructuring relating to employees cutbacks and layoffs;

- expenses under Law 58/1992 (euro 154 million) to cover employees under the former fund "Telephone Employees Pension Fund" (FPT), which became part of the general "Employees Pension Fund", in accordance with the 2000 Finance Bill;

- the aforementioned expenses incurred on behalf of Group companies and recovered from the same companies (euro 192 million);

- the extraordinary contribution to INPS, euro 71 million (established by the 2000 Finance Bill for the three years 2000 - 2002);

- the provisions of euro 111 million following the guarantees provided upon the disposals of Italtel (euro 15 million) and Telespazio (euro 38 million) and at the time of the reorganization of real estate assets (Progetto Tiglio, euro 30 million), as well as for other matters totaling euro 28 million, of which euro 22 million refers to relations with Stream;

- the prior period expense (euro 158 million) relating to the adjustment of the estimated value of unused prepaid telephone cards following the introduction of technical data collection procedures;

- other prior period expenses of euro 146 million relating mainly to expenses connected with extraordinary transactions, damage compensation to third parties and sundry charges.

Income taxes had a positive effect on the result for the year of euro 26 million and decreased by euro 588 million compared to 2001. This was due to the loss for the year that was principally caused by the aforementioned investment writedowns, which contributed to the increase in deferred tax assets.

FINANCIAL CONDITION

As far as intangibles, fixed assets and long-term investments are concerned, the reduction in industrial assets compared to December 31, 2001 (-euro 1,462 million) can be ascribed to the balance between investments (euro 2,322 million), depreciation and amortization (euro 3,020 million), disposals (euro 84 million), writedowns (euro 39 million) and the contributions of Telecom Italia's "Asset Management" business to Tiglio II (euro 245 million) and the "International Wholesale Services" business segment to TI Sparkle (euro 396 million). Long-term investments totaled euro 15,598 million and decreased by euro 2,772 million from December 31, 2001. The reduction is principally due to:

- new investments and recapitalizations of euro 860 million of which:

  - [X] euro 186 million for the purchase of a 36.85% interest in the share capital of Tiglio I;

  - [X] euro 60 million for the purchase of an 86% interest in EPIClink;

  - [X] euro 29 million for the purchase of a 69.10% interest in the share capital of Netesi and for its successive recapitalization;

- [X] euro 234 million for the recapitalization and replenishment of the share capital of Stream;
- [X] euro 87 million for the recapitalization of Telecom Italia Sparkle;
- [X] euro 166 million for payments against future capital increases in investments made principally to IT Telecom;
- [X] euro 98 million for the purchase/recapitalization of other holdings;

o acquisition of investments, as a result of the aforementioned contributions of business segments, in Telecom Italia Sparkle (euro 698 million) and Tiglio II (euro 74 million);

o writedowns for euro 4,396 million, including extraordinary writedowns (euro 3,939 million) made to the value of investments in Seat Pagine Gialle, Telecom Italia International and Netesi;

o disposals of investments for euro 376 million, of which euro 330 million principally relates to the sale of EMSA (euro 155 million), Telespazio (euro 80 million) and Telemaco Immobiliare (euro 76 million) and euro 46 million for the disposal of investments within the framework of the contribution of the "International Wholesale Services" business segment to Telecom Italia Sparkle;

o loans made primarily to Tiglio I, Tiglio II and Telegono for a total of euro 117 million;

o euro 287 million for the purchase of 5,280,500 ordinary shares of treasury stock and 45,647,000 savings shares of treasury stock.

Working capital was a negative balance of euro 2,511 million (a positive balance of euro 12 million at December 31, 2001) and decreased by euro 2,523 million. The reduction is due to lower "trade accounts receivable" (-euro 812 million) and "other assets" (-euro 400 million) and higher "reserves for risks and charges" (+euro 1,532 million) - especially with regard to the provision for the forward commitment to purchase Seat Pagine Gialle shares of euro 1,942 million and the provisions to the reserve for corporate restructuring - and higher other liabilities (+euro 363 million). Such effects were partly compensated by the reduction in trade accounts payable (-euro 591 million). In 2002, transactions for the securitization of trade accounts receivable from residential customers and the sale of receivables to factoring companies led to a reduction in trade accounts receivable from customers at December 31, 2002 of euro 1,031 million.

Net invested capital of euro 26,084 million (euro 32,784 million at December 31, 2001) was financed by shareholders' equity for 42% and net debt for 58%.

Shareholders' equity went from euro 15,871 million at December 31, 2001 to euro 10,956 million at the end of 2002. The reduction, equal to euro 4,915 million, was due to:

(millions of euro)	2002	2001
At January 1	15,871	18,714

Net income (loss) for the year	(1,645)	151
Retained earnings	1	-
Portion of capital grants available	13	15
Distribution of profits	(142)	(2,309)
Distribution of income reserves	(3,151)	-
Cancellation of the reserve for treasury stock in portfolio	-	(711)
Increase in additional paid-in-capital	8	10
Increase in share capital	1	188
Reduction in revaluation reserve Law 72, 3/19/83	-	(187)
At December 31	10,956	15,871

The Telecom Italia Shareholders' Meeting on December 12, 2002 passed a resolution to reclassify reserves by the transfer of euro 2,160 million from "miscellaneous reserves" to "additional paid-in-capital ", the transfer of euro 820 million from "additional paid-in-capital" to the "legal reserve", the transfer of euro 660 million from the "legal reserve" to "miscellaneous reserves" with the contextual change in the name to "miscellaneous income reserves". This reclassification immediately identifies, in the financial statements, the nature of the reserves, namely whether they are profit or capital reserves. The same Shareholders' Meeting resolved to distribute reserves for an amount of euro 987 million, paying euro 0.1357 to the shareholders for each ordinary and savings share, which is in line with the objective of ensuring the shareholders an amount corresponding to the dividends paid out for 2001.

Net debt of euro 15,128 million (euro 16,913 million at December 31, 2001) decreased by euro 1,785 million from December 31, 2001. The improvement from the end of 2001 was due to the monetary flows provided by operating activities (euro 7,845 million) which more than compensated the flows used for investing activities (euro 2,799 million), for the payment of 2001 dividends and for the distribution of income reserves totaling euro 3,293 million. Net financial debt benefited from the effects of the securitization and factoring transactions for a total amount, at December 31, 2002, of euro 1,008 million, of which euro 826 million refers to securitization (euro 848 million at December 31, 2001).

Gross debt at December 31, 2002 totals euro 17,299 million (euro 17,909 million at December 31, 2001). Details are provided in the following table:

(millions of euro)	At 12/31/2002						At 12/31/2001	
	euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	11,767	69	81	26	11,848	68	10,371	58
Short-term borrowings	5,216	31	235	74	5,451	32	7,538	42
Total	16,983	100	316	100	17,299	100	17,909	100

The portion of medium/long-term debt rose from 58% at December 31, 2001 to 68% at December 31, 2002 following the issue of Telecom Italia fixed-rate notes under the "Global Note Program" for a total of euro 2,500 million.

Statements of income

(millions of euro)		2002	2001	Change amount	Change %
A.	SALES AND SERVICE REVENUES	17,005	17,309	(254)	(1.5)
	Changes in inventory of contract work in process	-	(19)	19	
	Increases in capitalized internal construction costs	11	6	5	83.3
	Operating grants	-	-		
B.	STANDARD PRODUCTION VALUE	17,066	17,296	(230)	(1.3)
	Raw materials and outside services (1)	(6,966)	(7,109)	143	(2.0)
C.	VALUE ADDED	10,100	10,187	(87)	(0.9)
	Labor costs (1)	(2,551)	(2,616)	65	(2.5)
D.	GROSS OPERATING PROFIT	7,549	7,571	(22)	(0.3)
	Depreciation and amortization	(3,020)	(3,321)	301	(9.1)
	Other valuation adjustments	(357)	(159)	(198)	o
	Provisions to reserves for risks and charges	(44)	(100)	56	(56.0)
	Net other income (expense)	(83)	(8)	(75)	o
E.	OPERATING INCOME	4,045	3,983	62	1.6
	Net investment and financial income (expense)	377	(377)	754	o
	Of which value adjustments	(654)	(775)	121	(15.6)
F.	INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	4,422	3,606	816	22.6
	Net extraordinary income (expense)	(6,093)	(2,893)	(3,200)	o
G.	INCOME BEFORE TAXES	(1,671)	713	(2,384)	o
	Income taxes	26	(562)	588	o
H.	NET INCOME (LOSS)	(1,645)	151	(1,796)	o

(1) Reduced by related cost recoveries

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Balance Sheets

(millions of euro)		12/31/2002 (a)	12/31/2001 (b)
A.	INTANGIBLES, FIXED ASSETS AND LONGTERM INVESTMENTS		
	Intangible assets	1,287	1,336

	Fixed assets		12,678	14,091
	Long-term investments			
	o Equity investments and advances on future capital contributions		15,010	18,149
	o Other		588	221
			29,563	33,797
B.	WORKING CAPITAL			
	Inventories		70	77
	Trade accounts receivable		4,292	5,104
	Other assets		3,468	3,868
	Trade accounts payable		(2,958)	(3,549)
	Reserves for risks and charges		(3,145)	(1,613)
	Other liabilities		(4,238)	(3,875)
			(2,511)	12
C.	INVESTED CAPITAL, net of operating liabilities	(A+B)	27,052	33,809
D.	RESERVE FOR EMPLOYEE TERMINATION INDEMNITY		(968)	(1,025)
E.	INVESTED CAPITAL, net of operating liabilities and reserve for employee termination indemnities	(C+D)	26,084	32,784
	Financed by:			
F.	SHAREHOLDERS' EQUITY			
	Share capital paid-in		4,024	4,023
	Reserves and retained earnings		8,577	11,697
	Net income (loss)		(1,645)	151
			10,956	15,871
G.	MEDIUM/LONG-TERM DEBT		11,848	10,371
H.	NET SHORT-TERM BORROWINGS			
	Short-term borrowings		5,451	7,538
	Liquid assets and short-term financial assets		(2,698)	(1,248)
	Financial accrued expense (income) and deferred expense (income), net		527	252
			3,280	6,542
		(G+H)	15,128	16,913
I.	TOTAL	(F+G+H)	26,084	32,784

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Statements of Cash Flows

(millions of euro)	2002

A.	NET DEBT, AT BEGINNING OF YEAR			(16,913)
B.	CASH FLOWS - OPERATING ACTIVITIES			
	Net income (loss)			(1,645)
	Depreciation and amortization			3,020
	(Gains) losses on sales of intangibles, fixed assets and long-term investments			(423)
	Writedowns of intangibles and fixed assets and long-term investments			4,371
	Change in working capital (*)			2,579
	Net change in reserve for employee termination indemnities			(57)
				7,845
C.	CASH FLOWS - INVESTING ACTIVITIES			
	Intangibles, fixed assets and long-term investments:			(3,608)
	. intangible assets		(648)	
	. fixed assets		(1,674)	
	. long-term investments		(1,286)	
	Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions			(772)
	Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments			891
	Intangibles, fixed assets and long-term investments sold as a result of corporate transactions			690
				(2,799)
D.	CASH FLOWS - FINANCING ACTIVITIES			
	Capital contributions			9
	Capital grants			23
				32
E.	DIVIDENDS			(3,293)
F.	CHANGE IN NET DEBT	(B+C+D+E)		1,785
G.	NET DEBT, AT END OF YEAR	(A+F)		(15,128)

(*) The difference with respect to the reclassified "balance sheet" is due to entries affecting working capital. They refer to changes in capital grants, the use of the reserve for losses of subsidiaries and affiliates, the adjustment of medium/long-term loans receivable to year-end exchange rates.

The change in net debt is due to the following:

(millions of euro)	2002	2001
Increase (decrease) in medium/long-term debt	1,477	7,183
Increase (decrease) in short-term borrowings	(3,262)	(7,109)
Total	(1,785)	74

[] SUBSEQUENT EVENTS

There follows a description of the significant events subsequent to December 31, 2002.

Sale of Globo.com

On January 15, 2003, Telecom Italia Finance sold its 28.57% investment in the Brazilian company Glb Servicos Interativos ("Globo.com") to TIM Brasil for US $15 million. At the end of January, TIM Brasil then sold that investment to the Globo television group. The net gain for the Telecom Italia Group was about euro 4 million.

Renewal of the first securitization tranche 2001

On January 22, the company TI Securitisation Vehicle renewed the first tranche of euro 100 million of asset backed securities issued on January 29, 2001. The transaction falls under the securitization program of Telecom Italia telephone bills and is described in greater detail in the notes to the financial statements of Telecom Italia S.p.A.

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 Group companies under financial leasing contracts. The deal involved a total financial payment of some euro 369 million for the entire Group.

Sale of the TI Logistic business segment

On January 27, 2003, Telecom Italia announced an agreement with TNT Logistics Italia whereby this company would take over the warehouse and distribution operations of wireline telephone products for customers and for assistance and installation for the Telecom Italia network. The agreement also provides for the sale to TNT Logistics of the relative business segment of Telecom Italia, including six central warehouses, 100 advance warehouses and over 4.5 million pieces of telephone equipment and parts a year. The understanding, finalized with the aim of concentrating on the core business, became operative on March 5, 2003 following the authorization of the Antitrust Authority and the experiment with the labor consultation procedure.

Acquisition of Consodata shares

On February 12, 2003, Seat Pagine Gialle purchased 1,108,695 ordinary shares of the French subsidiary Consodata S.A. - listed on the Nouveau Marche of the Paris Stock Exchange - following the sale option exercised by the founding shareholders to which they were entitled on the basis of the agreement signed originally with the previous management of Seat Pagine Gialle on July 31, 2000. As a result of this transaction, after payment of the agreed consideration of euro 44 per share - for a total amount some euro 48.8 million - Seat Pagine Gialle acquired a further 8.17% stake and voting rights in the company, thus increasing its holding in Consodata S.A. to 98.60%.

Sale of Telekom Srbija

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 agreement for the sale was finalized on February 20, 2003 and the closing is scheduled to take place by the end of June.

PTT will pay euro 195 million, 120 million of which will be paid in four installments beginning February 2003. The remaining amount will be paid in six semi-annual installments beginning January 2006. The shares sold will be deposited with an international bank until full payment of the price.

Sale of Tele Pay Roll Services

On February 28, 2003, Telecom Italia sold to Accenture group the 100% interest in TE.SS - Tele Pay Roll Services, a company responsible for the administration activities connected with human resources management of the Telecom Italia Group. The sales price was euro 10 million. The transaction falls under the program for the divestiture of non-core businesses by the Telecom Italia Group.

Telecom Italia - Hewlett Packard agreement

On February 21, 2003, Telecom Italia and Hewlett-Packard signed a five-year agreement for management services and outsourcing worth a total of euro 225 million. Under the agreement, HP will supply asset management, help desk, maintenance and administration services for 90,000 Telecom Italia workstations,

drawing upon the skills of around 600 IT Telecom specialists, who will be absorbed by a new HP company specialized in these services. For its part, IT Telecom is to house the systems and manage HP Italia's operating activities in the SAP environment. The agreement will lead to a closer focus on the core business and efficiency needs in terms of savings in the operation of the distributed environment. The deal becomes binding and operational once the consultations with the labor unions have been concluded and authorization has been received from the Italian Antitrust Authority.

Bonds reserved for employees

On February 13, 2003, the Board of Directors of Telecom Italia resolved, by partially revoking the resolution for the issue of bonds for the part not yet executed, to reduce the bond issue reserved for employees from euro 1 billion to euro 400 million.

Repurchase and subsequent cancellation of notes

On March 11, 2003, the Board of Directors of Telecom Italia voted to repurchase, at market price, and subsequently cancel, a part of the notes subscribed by the subsidiary Telecom Italia Finance up to a maximum amount of euro 2 billion. This decision was taken in order to regulate the ratio of net equity to notes and bonds, in view of the motion for the distribution of reserves up to a maximum amount of euro 1,333 million.

Approval of the 2002 interconnection price list by the National Regulatory Agency

On February 27, 2003, the Infrastructures and Networks Commission of the National Regulatory Agency approved the interconnection price list for 2002, currently being announced, which Telecom Italia must apply to competing operators for the use of its network with regard to Interconnection Services for traffic, Billing Services with the risk of non-payment by Telecom Italia subscribers for access to non-geographical numbers and Unbundling Local Loop Access Services. The economic effects are included in the 2002 financial statements.

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 Region (through the subsidiary Lombardia Informatica S.p.A.) 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 euro 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 euro 54 million.

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 euro 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, since it enhances the innovative connectivity services on fixed networks with functions and flexibility. Megabeam offers Wi-Fi networking services in private sites and is experimenting the same Wi-Fi service in public places - in the main Italian airports and in an important hotel chain - using Wireless-Lan which operates on the 2400-2483.5 frequency.

The execution of the agreement is subject to the approval of the Antitrust Authority.

Buy-back of treasury stock by Telecom Italia

Under the transaction for the buy-back of treasury stock authorized by the Ordinary Shareholders' Meeting of Telecom Italia shareholders on November 7, 2001, during the period January 1, 2003 to March 11, 2003, 8,662,500 savings shares were purchased at an average price of euro 4.73 per share, for an investment of euro 41 million, and 915,000 ordinary shares at an average price of euro 6.83 per share, for an investment of euro 6 million. The total treasury stock purchased up to March 11, 2003 amounted to 54,309,500 savings shares at an average price of euro 5.24 for an investment of euro 285 million and 6,195,500 ordinary shares at an average price of euro 8.00 for an investment of euro 50 million.

Sale of SITEBA

On March 12, 2003, Telecom Italia sold, to the other shareholders which exercised their pre-emptive right, the 30% investment held in the share capital of the company SITEBA Sistemi Telematici Bancari S.p.A., for a total amount of some euro 7.2 million.

Merger by incorporation of Telecom Italia Lab in Telecom Italia

As voted by the Extraordinary Shareholders' Meetings of Telecom Italia and Telecom Italia Lab on December 12, 2002, the 100%-controlled company Telecom Italia Lab was merged by incorporation in Telecom Italia. The deed of merger was signed on March 18, 2003, effective for accounting and fiscal purposes on January 1, 2003.

Project to merge Telecom Italia and Olivetti

On March 11, 2003, the Boards of Directors of Olivetti and Telecom Italia passed resolutions on the project directed to the simplification of the corporate structure of the Group via the merger of the two companies. The project specifically calls for the merger by incorporation of Telecom Italia in Olivetti and constitutes a fundamental step in the industrial and financial reorganization process begun in July 2001 and aimed at the creation of value for the shareholders.

[] BUSINESS OUTLOOK

In 2003, the Telecom Italia Group expects to substantially maintain operating income at this year's level and further reduce net debt.

[] RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income in the consolidated financial statements of the Telecom Italia Group at December 31, 2002 are reported in the following table.

The effects of transactions between Telecom Italia S.p.A. and the relative parent companies, subsidiaries and affiliated companies are reported, as a supplement to this disclosure, in the individual notes to the statutory financial statements of Telecom Italia S.p.A.

In the consolidated financial statements, the effects of intercompany transactions on the balance sheet and statement of income, that is, all transactions among consolidated companies, have been eliminated. All related party transactions, including intercompany transactions, fall within the normal business operations of the group, are governed by market terms or on the basis of specific laws; there aren't atipic or unusual transactions.

Major statement of income and balance sheet components	Transactions with:		Nature of transac
(millions of euro)	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
Sales and service revenues	299	3	These comprise re million), Brasil (euro 42 million) Telecom Argentina (euro 17 million)

Raw materials and outside services	445	24	These mainly comp 153 million) and million) as well Cuba (euro 77 mil assistance contra and Siemens Infor
Net other (income) expense	9	-	These mainly rela on loan to certai affiliates
Net financial (income) expense	(9)	(11)	These include acc to certain subsid million), interes for financial lea and interest on t Finance NV (euro
Loans in long-term investments	440	-	These comprise me (euro 313 million Telegono (euro 34 million)
Financial receivables	35	-	These comprise sh companies (euro 1 10 million net of
Financial payables	406	-	These refer mainl Teleleasing (euro
Trade and other accounts receivable	219	2	They mainly regar million), Telekom provisions), Tele Consorzio Telcal
Trade and other accounts payable	386	311	These refer to pa settlement of Gro authorities trans supply contracts investment activi Italtel group (eu Informatica (euro million) and adva 103 million)
Contract work in process	110	-	These refer mainl Consorzio Telcal
Guarantees and collateral provided	908	-	These comprise su (euro 537 million and Stream (euro on behalf of Is T
Purchases and sales commitments	17	-	They refer to com operating leases.
Investments in fixed assets and	455	-	These mainly cons intangibles milli 19 million) excha 406 million) and 14 million) and S

			million)
Acquisition of investments	-	58	50% of Webegg fro
Disposal of investments	690	-	25% of Mobilkom A Autel holding to
Contribution and sale of business	219	-	They refer to gai segments real est million) and the management" busin million) (1).

Related party transactions, excluding transactions among Group companies, also comprise those by the Telecom Italia Group with the Pirelli group and the Edizione Holding group in 2002 as follows:

(millions of euro)	2002	
Sales and service revenues	26	These mainly refe group (euro 8 mil 16 million) and t group (euro 2 mil
Raw materials and outside services	23	These essentially the supply of ser group (euro 21 mi group (euro 2 mil
Trade and other accounts receivable	3	These mainly refe services to Pirel Edizione Holding
Trade and other accounts payable	9	These mainly refe with investment a million) and to E million).
Investments in fixed assets and intangibles	32	These mainly refe telecommunication
Acquisition of investments and purchases commitments	21	Purchase of 25.3% Italia S.p.A. fro purchase commitme million) (2)
	35	Purchase by TIM o Edizione Holding
Acquisition of business segments	3	Purchase of a bus from Pirelli Info
Disposal of business segments	15	Gain on the sale to Pirelli Real E

Moreover, during the year 2002, TIM sold telephone cards for an equivalent amount of some euro 20 million to Autogrill (Edizione Holding Group) for subsequent resale to the public.

(1) The acquisition and sale transactions of equity investments is fully described in the section "Acquisitions and sales of equity investments" and in the section "Economic and financial performance - Telecom Italia Business Units/Operating Activities - Other activities".

(2) The transaction is extensively described in the section "Acquisitions and sales of equity investments".

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA BUSINESS UNITS/OPERATING ACTIVITIES

DOMESTIC WIRELINE

- Growth of profit margins
- Innovation of products and service and in the field of Customer Care
- Efficiency in costs and investments
- Development of fiber optic networks for operators
- Corporate reorganization for international services management

[] THE BUSINESS UNIT

The Domestic Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and Latin America. During the year, strong competition in the market continued. It was more accentuated in the case of national traffic and was countered with new rate plans offered as part of the action to win back and retain customers.

[] THE STRUCTURE BUSINESS UNIT

The Business Unit is organized as follows:

Telecom Italia DW	National Subsidiaries	International Subsidiaries
Wireline TLC services:	Atesia S.p.A.	Latin American Nautilus Gr
	Path.Net S.p.A.	Mediterranean Nautilus Gro
.. Traffic and Access	Telecom Italia Sparkle Group (1)	Med-1 Group
.. Data Business	- Telecom Italia Sparkle S.p.A.	Intelcom San Marino S.p.A
.. National Wholesale	- Pan European Backbone	
.. International Wholesale (1)	- Telecom Italia of N.A.Inc.	
.. Public Telephone Services	- Telemedia Int.Lux. Group	

(1) "International Wholesale Services" became part ot Telecom Italia Sparkle on December 31, 2002

[] MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In 2002, changes in the scope of consolidation were due to the transfer of Saritel S.p.A. to the Information Technology Group Operating Activity and the addition of the company Intelcom San Marino S.p.A. (previously part of the International Operations Operating Activity) following the reorganization of the international operations of the Telecom Italia Group. 2001 figures have been restated accordingly.

On December 31, 2002, Telecom Italia's "International Wholesale Services" business was contributed to Telecom Italia Sparkle (ex TMI - Telemedia International Italia), to which the investments in the companies headed by Pan European Backbone and Telecom Italia of North America were also conferred at the same time. Telecom Italia Sparkle will have the task of developing the international services market aimed at "heavy users", these being wireline and mobile operators, ISPs (Internet Service Providers) and multinational companies. This initiative will enable Telecom Italia to step up its competitive position on the international market by focusing on high-value Data and Internet services with a high growth potential, operated on infrastructures owned by the Group in Italy and abroad.

[] ECONOMIC AND FINANCIAL DATA

The following table shows the key results in 2002 compared to those in 2001, restated for purposes of comparison.

	2002 (a)	2001 (b)	Change (a - b)	
(millions of euro)			amount	%
Sales and service revenues	17,022	17,168	(146)	(0.9)
Gross operating profit	7,965	7,750	215	2.8
% of revenues	46.8%	45.1%		
Operating income	4,700	4,361	339	7.8
% of revenues	26.6%	25.4%		
Investments:				
.. industrial	2,462	2,801	(339)	(12.1)
.. goodwill	-	-	-	-
Employees at year-end (number)	53,682	57,895	(4,213)	(7.3)

Gross operating profit

[GRAPHIC OMITTED]

[2001 - 7,750
2002 - 7,965]

For comments on the performance of operations please refer to the section "Economic and financial review of Telecom Italia S.p.A.".

Compared to the prior year, Sales and service revenues reported a reduction of 0.9% (-euro 146 million). This slight fall, which was considerably lower than that reported in 2001 (-1.4% compared to 2000), constitutes a very important result that was achieved thanks to an effective focus on the telephony market, the core market of the Business Unit, and to the notable growth of the broadband markets. Growth in the segment of innovative Data services and Web services was particularly significant. This compensated the decline recorded in traditional data and leased line services, which were affected by a regimented price regime, and the effect of migration towards innovative solutions.

In particular, the reduction in revenues can be mainly attributed to traffic (-euro 533 million) and other components reporting a decline (sales and other revenues), and was offset to a large extent by the increase in charges and fees (+euro 539 million).

In greater detail, the reduction in the average yield of traffic (-8.3%) was partially compensated by an increase in minutes (+2.4%), with greater stability of the market share and growth of 0.1% compared to 2001. The main phenomena which influenced these figures were as follows:

- the spread of commercial rate plans (mainly Teleconomy and Alice) offering rate discounts on traffic in order to build customer loyalty, with payment of subscription charges;
- the rate adjustments of July 1, 2001 and February 1, 2002 which reduced the prices of national and international communications and, at the same time, led to an increase in subscriber line charges for the network;
- the competitive context;
- the sharp growth of "carried" traffic on behalf of other operators.

There was a considerable increase in the gross operating profit compared to the prior year (+2.8%), which was amply confirmed by the operating income (+7.8%), as a result of steps taken to curb costs and improve the level of the efficiency of invested capital begun in 2001.

Investments fell by 12.1% compared to the prior year, as a result of a selective policy of investments designed to combine efficiency with technological development.

The number of employees fell by 4,213 due to cutbacks under Law 223/1991 (3,298), other resignations (2,040), new recruits (1,104) and an increase as a result of transfers of employees from other companies in the Group (21).

[] INFORMATION ON OPERATIONS

The following table shows the operating highlights in 2002, compared to those in 2001:

Operating data	12.31.2002	12.31.2001
Fixed network connections (in thousands)	27,142	27,353
- of which ISDN	5,756	5,403
Annual increase in minutes of traffic on the fixed network (%)	2.4	22.5
o national traffic	1.8	22.8
o international traffic	17.9	16.9
- outgoing	13.0	11.4
- incoming	(0.1)	12.6
- in transit	64.1	39.3

[] Traffic and access

During 2002, new commercial rate plans were launched for Residential and Business Phone services, including:

Residential telephone services	Ricomincio da Te	Generalized plan combining minutes of free cal distance) included in the monthly basic teleph
	Teleconomy Forfait	Customized package offering free national call distance calls) of unlimited duration for a fi
	Teleconomy Zero	Customized package offering calls to anywhere distance calls) at a fixed cost per call (rega of the call) with a monthly subscription charg
Business telephone services	Ricomincio da Te	In the second half, the plan combining minutes simultaneous adjustment of the monthly basic s also introduced to the Business segment
	Business and Corporate Rate Plans	Plan directed at companies with a high volume 9 variable rate plans according to the custome expenditure, with the expense subdivided into
	Teleconomy Professional Plan	Plan enabling customers to acquire a maximum n national traffic included in the monthly subsc
	Teleconomy Zero Business	Package offering calls to anywhere in Italy (l calls) at a fixed cost per call (regardless of call) with a monthly subscription charge

With reference to Public Telephone Service installations, terminals using ISDN technology numbered 104,635 at year-end (+50% compared to year-end 2001).

[] Data business

During 2002, the commercial range of data packages was expanded by the introduction of new plans in both the data transmission segment of corporate networks and Internet access, offered to Companies and Private Customers alike. These included:

Data transmission	o Development of new fiber optic solutions for both point-to-point connections and IP services services, with new rate plan profiles especially for the small/medium size business segment o Extension of geographical coverage in broadband with 600 new ADSL exchanges, and extension of the ATM service to 80 POP with consequent repricing o Consolidation of the range of value-added services offered through the launch of security solutions for the small/medium-size business segment and enhancement of the range of outsourcing services
Web services	o Launch of the web-wizard rate plan for helping

	users create websites on the Broadway platform o Launch of storage services which make a secure, confidential space available to companies for keeping and conserving sensitive documents in Internet Data Centers o Enhancement of messaging services through integration with SMS and Fax services and of streaming services on Internet WebStudios with the introduction of hi-tech production and operation tools o Expansion of the IES rate plan with customized e-learning environments for companies New services for the Full Business Management plan (Housing, Hosting and Colocation)

[] National wholesale

In 2002, Telecom Italia expanded its activities in the national wholesale area as follows:

- at year-end approximately 131,000 phone lines had been connected directly to the networks of other operators, through Local Loop Unbundling.
- approximately 220,000 ADSL Wholesale lines were acquired by other operators and ISPs.
- an increase of approximately 20% of traffic from traditional interconnection services compared to the prior year.
- an increase of approximately 8% of access lines compared to 2001.
- construction of long-distance fiber optic networks for some leading mobile and wireline operators in 2002.

From the commercial point of view, in 2002 the activities of the Wholesale market were expanded through the following products:

Access to broadband	Wholesale ADSL: The plan, which was already available the prior year, was enhanced through the addition of new features in terms of services and economic incentives. A new plan was introduced whereby the ADSL connection is invoiced based on consumption, according to the traffic involved. Finally, promotional offers were introduced for activation fees and discounts on monthly subscription rates Permanent Virtual Channel: new technological (SHDSL technology) and commercial (flat-rate charges applied to symmetrical connections) features have also been introduced for this type of connection
Dedicated carrier services	Giganet: the service for carrying data on optic connections, already available at the speed of 2.5 Gbit/s, has been expanded with the introduction of the speed of 10 Gbit/s
Unbundling Local Loop	ULL Provisioning: A new plan has been created to

Services	enable operators to obtain additional processing capacity of ULL orders from Telecom Italia compared to the standard capacity. In addition, significant economic incentives were introduced on ULL and Shared Access services
Housing and hosting	There have been significant developments in the offering to accommodate apparatus on Telecom Italia premises. It has been extended to various types of systems and includes the option of maintenance of the apparatus concerned
Internet interconnection traffic	Decade 7: OLOs (Other Licensed Operator) and ISPs have initiated the large-scale introduction of the new numbering system for access to Internet through the telephone network. This interconnection service makes it possible to use single numbers on a national scale to dial the access supplier, and also makes it possible to charge the final customer for the traffic in various ways "Flat collection": This new offer has been introduced whereby, in addition to the minute collection system already available, operators can acquire a certain "capacity" of traffic collection at various levels of the network, in blocks of 30 lines

[] International wholesale

With regard to international wholesale services (which, as described above, were contributed to Telecom Italia Sparkle at the end of 2002 by Telecom Italia - Domestic Wireline), growth was steady both in Telephony services and in IP and Data transmission services:

- With regard to wholesale volumes there was growth (+26.2% compared to the prior year) thanks to interconnection with new international carriers, to greater collection by Italian OLOs on the domestic market and the competitiveness of the Telecom Italia offering in the transit segment.
- In the area of IP and data transmission, there was an increase in the sales of innovative international connectivity services, (+6.7% compared to 2001), in line with the growth trend of the market.

[] National network

The national network in statistics at December 31, 2002 is as follows.

Exchange areas	about 10,400
Switching areas	615, served by 628 Line Stages (LS)
Gateway areas	33, served by 66 Transit Group Stages (TGS)
Copper access network	104.3 millions of kilometers-pair
Fiber optic access network	417,000 kilometers-line
Fiber optic carrier network	3.18 million of kilometers-line
Direct dialing circuits	3.6 million
Network for direct digital circuits	511,600 access points with speed up to 2 Mbit/s
Frame Relay accesses	about 71,500 gates at 2 Mbit/s
PoP main data networks	32

As far as the national network is concerned, during 2002, infrastructures and operation systems were improved, in particular, by the development of the infrastructure supporting broadband services. The following activities are worthy of note:

National Backbone	The migration of long-distance phone traffic from a backbone based on circuit technologies to the innovative one based on IP technologies began. In 2002, work began to integrate the voice and data network platforms with the migration of voice traffic to the Rome-Milan route on the innovative IP network; the project is scheduled for completion in 2004
ADSL	In 2002, the ADSL network was extended to increase the coverage of the ADSL service to more than 74% of Internet users in 1,300 towns with 2,120 exchanges
SHDSL	New technology is making it possible to supply services at up to 2 Mbit/s by using a single two-pair copper cable
Gigabit Ethernet	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity and Hyperway MPLS services)
W-LAN	The broadband wireless LAN service for private users was introduced
Open Multimedia Platform	The Open Multimedia Platform (Content Delivery Network) was introduced, making it possible to accelerate the distribution time of Web content by repetition on the network server
Carrier network	17 more SDH rings were realized for the network infrastructure called Arianna involving links between the regional networks and the national transmission backbone. The national 96-fiber T- bone fiber optic cable infrastructure using new technology linking the largest Italian cities has been completed along the main line of Turin-Venice and Milan-Palermo via Genoa-Florence-Rome- Naples, and via Bologna-Ancona-Bari. 32-fiber optic wavelength division multiplexer systems (DWDM) have been introduced at the speed of 40 times 10 Gbit/s
Organization of operating activities	Within the framework of striving to improve the efficiency and quality of service, the Single Work Center (CLU) project has been completed for the integration of work centers (which are no longer specialized according to the type of activity) and the reduction of the number of centers from 331 to 148. The Work Force Management (WFM) and Trouble

	Ticket Management (TTM) platform has now been spread to all the work centers. The organization of network platform supervision and control has been centralized and the number of national centers has been reduced from 11 to 5. The delivery and assurance processes were re-engineered and optimized
Value-added voice services	With regard to VAS voice services, implemented through the Intelligent Network, numerous new services were created, particularly in the field of Public Telephone Services, games and Customer Operation

[] International network

The international network in statistics at December 31, 2002 is as follows.

Network operator directly connected	237
- Countries connected by direct dialing	220 (more than 9 satellite destinations)
- Countries connected by ISDN	53
Switching exchanges	9 (5 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	36,600 kilometers-line
Bands	2 rings of 60,000 Mbit/s

As far as the international network is concerned, services continued to be activated on the new infrastructures and operating systems developed in 2001. These were carried out in geographical areas with a strong growth in demand for capacity and of strategic importance, thanks partly to interconnection with MED and LAN networks.

At the end of 2002, integrated voice/data POPs in Europe and the U.S.A. were nine, in Amsterdam, Brussels, Frankfurt, London, Milan, Paris, Vienna, Zurich and Newark. The submarine cable network is now approximately 360,000 km long. Highlights during the year include:

Pan-European Backbone	Activation of the pan-European regional network, which connects nine countries (Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and Great Britain) with high-speed optical fibers and a ring structure which will guarantee the self-protection of traffic should a fault occur on any given section. Activation of cross-border services for wholesale customers such as Managed Bandwidth (transmission capacity services), IP connectivity (international IP connectivity services), international phone services (transport and delivery of international phone traffic, also using ATM technology) and GRX (GPRS Roaming eXchange for IP interconnection between GPRS mobile operators) which are now fully operational.
LAN (Latin American Nautilus)	Activation of the final configuration of the LAN ring network, which connects eight junctions in Latin America, including Rio de Janeiro, Sao Paulo,

	Buenos Aires and Santiago, to the American junctions in Miami and New York.

MED (Mediterranean Nautilus)	Work continued on the "Mediterranean Nautilus" project, the submarine optical fiber ring network which will connect Italy, Greece, Turkey and Israel, with the completion (in the configuration which ensures self-protection of the traffic) of the ring which connects the points of Catania (Sicily), Chania (Crete), Haifa (Israel) and Tel Aviv (Israel).
TINA (Telecom Italia of North America)	Within the framework of the international development of the Telecom Italia network, POPs were installed in Newark (NJ) and Miami, making it possible to expand and extend the commercial range of services currently active on the Pan-European PEB network (IP connectivity, wholesale phone services and Managed bandwidth) to North America and, through Miami, also to those of South America (LAN). Furthermore, work began to augment capacity on the trans-Atlantic route (EU- USA).

[] Events subsequent to December 31, 2002

Events already described in the section "Subsequent events" are listed below:

o New broadband network infrastructure: in February 2003, Telecom Italia announced the start of an important project to create a new broadband network infrastructure able to distribute hi-tech multimedia services. This initiative will make it possible to adapt telephone exchanges to new technologies through the gradual replacement of current connection systems with apparatus of the new generation.

The construction of this project was awarded by Telecom Italia to Marconi which won the bid worth more than euro 80 million under a two-year agreement, in keeping with the wide- ranging investment plan that Telecom Italia has set up for developing broadband technologies. Marconi will build the new network infrastructure together with Italtel which will supply its switching technologies and professional services. Thanks in particular to its Access Hub technology, Marconi will make it possible to distribute many services to the clientele, including xDSL, conventional and ISDN telephone services that are able to interact both with conventional exchanges and with new-generation systems based on IP protocols.

o Approval of the 2002 interconnection price list by the National Regulatory Agency

On February 27, 2003, the Infrastructures and Networks Commission of the National Regulatory Agency approved the interconnection price list for 2002, currently being announced, which Telecom Italia must apply to competing operators for the use of its network with regard to Interconnection Services for traffic, Billing Services with the risk of non-payment by Telecom Italia subscribers for access to non-geographical numbers and Unbundling Local Loop Access Services. The economic effects are included in the 2002 financial statements.

[] MAJOR SUBSIDIARIES

Atesia S.p.A.
Held by: Telecom Italia 100.0%

The company operates in the sector of telemarketing and market research.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	98	83	18.1
Gross operating profit	38	40	(5.0)
Operating income	32	36	(11.1)

Activities during 2002:

- creation and operation of the first CRM platform and opening of two new Call Centers (about 700 operating stations) to manage the growth of Telecom Italia's business

Path.Net S.p.A.
Held by: Telecom Italia 99.99%, IT Telecom 0.01%

The company is responsible for the development and management of the single Public Administration (R.U.P.A.) network.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	93	79	17.7
Gross operating profit	5	3	66.7
Operating income	4	1	o

Activities during 2002:

- growth of access and transmission band services compared to 2001
- stipulation of eight important new contracts with the Public Administration (at year-end there were 64 active contracts)

TMI group - Telemedia International Italia (Telecom Italia Sparkle as from December 31, 2002)
Held by: Telecom Italia 100.0%

During 2002, the group was reorganized as a result of the contribution of the "International Wholesale Services" business segment of Telecom Italia -

Domestic Wireline. It also changed its name to Telecom Italia Sparkle.

The table shows the key economic highlights, which refer exclusively to the former TMI - Telemedia International Italia group, since the contribution of the business segment took place on December 31, 2002:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	19	91	(79.1)
Gross operating loss	(30)	(53)	43.4
Operating loss	(43)	(126)	65.9

Activities during 2002:

- With reference to the reorganization described above, the economic and financial data for 2002 are not significant

Latin American Nautilus Group
Held by: Telecom Italia 70.0%, Entel Bolivia 10.0%, Entel Chile 10.0%. Tel. Arg. 10.0%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in Latin America.

The table shows the key economic highlights:

	2002 millions of euro)	2001 (millions of euro)	2002 (millions of US$)	2001 (millions of US$)	Change in US$ (%)
Sales and service revenues	29	3	28	3	o
Gross operating profit (loss)	11	(26)	11	(24)	o
Operating loss	(6)	(27)	(6)	(24)	75.0

Activities during 2002:

- The group network has been fully operational since the first quarter of 2002. Activities during the year focused on extending the customer base and developing new products and services

Mediterranean Nautilus Group
Held by: Telecom Italia 62.51%, Telecom Italia International 7.49%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in the Eastern Mediterranean.

The table shows the key economic highlights:

	2002 millions of euro)	2001 (millions of euro)	2002 (millions of US$)	2001 (millions of US$)	Change in US$ (%)

Sales and service revenues	64	54	61	48	27.1
Gross operating profit	26	20	24	18	33.3
Operating income (loss)	56	(20)	53	(17)	o

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Med-1 Group
Held by: Telecom Italia 23.17%, Telecom Italia International 27.83%

The group is responsible for installing land-based and submarine networks in the area of the Middle East.

The table shows the key economic highlights:

	2002 millions of euro)	2001 (millions of euro)	2002 (millions of US$)	2001 (millions of US$)	Change in US$ (%)
Sales and service revenues	20	13	19	12	58.3
Gross operating profit	12	2	12	1	o
Operating income (loss)	4	(5)	4	(5)	o

Activities during 2002:

- management of the laying of the Lev-1 (Israel-Cyprus-Italy) fiber optic submarine network and integration of the land network

Pan European Backbone
Held by: Telecom Italia Sparkle 100.00%

This is a group of companies responsible for the transport of traffic and the supply of transmission capacity for wholesale customers in Europe.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	27	19	42.1
Gross operating profit	18	13	38.5
Operating income	6	7	(14.3)

Activities during 2002:

- completion of the Vienna junction and consolidation of commercial activities with the aim of supplying wholesale customers with Managed Bandwidth services (transmission capacity services), IP Connectivity, international phone services and GRX (GPRS Roaming eXchange)

Intelcom San Marino S.p.A.
Held by: Telecom Italia International 70.00%

The company operates under a concession for international telephone services in the Republic of San Marino. In addition, it offers value-added services connected with the sale of international connections, as well as data-transmission, hosting and housing and Internet-access services.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	25	41	(39.0)
Gross operating profit (loss)	(1)	2	o
Operating income (loss)	(11)	1	o
Volume of traffic handled (millions of minutes)	166	304	(45.4)
Internet customers at year-end (thousands)	5.3	4.6	15.2

Activities during the 2002:

- The company is currently working out an organizational restructuring plan and a commercial repositioning plan

MOBILE

- Growth of revenues and improvement in profitability margins
- Confirmation of leadership on the domestic market
- Launch of GSM service in Brazil
- Completion of non-core asset divestiture program
- Completion of integration of the former company Blu S.p.A.

[] THE BUSINESS UNIT

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

During 2002, the spread of wireless telephone services throughout the world continued at a steady pace. The number of customers exceeded the billion mark, with penetration of the population at close to 20%. In this scenario, Italy is a market that can now be considered saturated (with a penetration rate of more than 90%) whereas Latin America, with approximately 100 million customers and a level of penetration of approximately 20%, is a market with enormous potential (growth in 2002 was higher than 20%).

[] THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

	Mobile	
National Subsidiaries	International Subsidiaries	
TIM - Telecom Italia Mobile	Mobile South America	Other Subsidiaries

S.p.A	TIM International N.V.	
	. TIM Brasil Group . Bitel Participacoes S.A. (Brazil) . Tele Nordeste Celular Group Participacoes (Brazil) . Tele Celular Sul Group Participacoes (Brazil) . Maxitel S.A. (Brazil) . TIM Celular S.A .Brazil) . TIMNet.com S.A. (Brazil) . TIM Peru S.A.C. . Corporacion Digitel C.A. (Venezuela)	Stet Hellas Telecommunicati S.A. (Greece)

[] MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The year 2002 was marked by:

- the sale of BDT (Bouygues Decaux Telecom, a 19.61%-owned affiliate, the group holding company of the French operator Bouygues Telecom), for proceeds of euro 750 million and a gain of euro 484 million;

- the sale of Autel (a 100%-owned subsidiary which holds a 25% stake in the Mobilkom Austria group) to Telekom Austria, for proceeds of euro 756 million and a gain of euro 163 million;

- the sale of Auna, for proceeds of euro 240 million and a gain of euro 198 million;

- the purchase of 17.45% of the ordinary share capital of Stet Hellas for euro 108 million, bringing the stake held by TIM International to 81.40%;

- the purchase of 10% of the ordinary share capital of Digitel for euro 32 million, bringing the stake held by TIM International to 66.56%;

- the purchase of 100% of the share capital of Blu, later absorbed by TIM S.p.A.

These transactions had no significant effect on the scope of consolidation in that the companies sold had been valued using the equity method, whereas the acquisition of Blu, consolidated in the Mobile Business Unit for the fourth quarter of 2002 only, had no meaningful impact on the results of operations or on the financial condition.

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[] ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the 2002, compared to those in 2001.

(millions of euro)	2002 (a)	2001 (b)	Change (a - b) amount	%
Sales and service revenues	10,867	10,250	617	6.0
Gross operating profit	5,039	4,760	279	5.9
% on Revenues	46.4%	46.4%		
Operating income	3,358	3,136	222	7.1
% on Revenues	30.9%	30.6%		
Investments:				
.. industrial	1,715	3,151	(1,436)	(45.6)
.. goodwill	196	31	165	o
Employees at year-end (number)	18,702	16,721	1,981	11.8

Gross operating profit

[GRAPHIC OMITTED]

[2001 - 4,760
2002 - 5,039]

In 2002, sales and service revenues amounted to euro 10,867 million, an increase of euro 617 million (+6% compared to 2001) despite the effects deriving from the weakness of the Brazilian and Venezuelan currencies. Excluding the effect of the changes in the exchange rates, the increase in revenues would be +11.9% compared to the prior year.

The growth in revenues can mainly be attributed to Italy (+6.7%).

In addition, the TIM Brasil group reported revenues of euro 39 million generated by the GSM service launched in the fourth quarter of 2002.

In 2002, the gross operating profit was euro 5,039 million, with an increase of euro 279 million (+5.9% compared to 2001). As a percentage of revenues, the gross operating profit was 46.4% (46.4% in 2001). Excluding the effect of the changes in the exchange rates, the growth of the gross operating profit would be +8.6% compared to the prior year, and can mainly be attributed to the positive performance reported by TIM S.p.A. (+euro 304 million), Stet Hellas (+euro 67 million) and to the improvement in the results, albeit still negative, of TIM Peru (+euro 26 million).

Operating income in 2002 was euro 3,358 million, an increase of euro 222 million (+7.1% compared to 2001) and, as a percentage of revenues was 30.9% (30.6% in 2001). The increase in the operating income can mainly be attributed to the positive results of TIM S.p.A. (+euro 213 million) and Stet Hellas (+euro 42 million) which compensates for the deterioration in the operating income of the TIM Brasil group (euro 45 million) due to expenses incurred for start-up operations. Since the financial statements of TIM S.p.A. include the economic and financial results for the whole of 2002 of the former company Blu S.p.A., for the purposes of consolidation the economic and equity situation of TIM S.p.A. has been adjusted to eliminate the effects of the merger with Blu as regards pre-acquisition transactions. Furthermore, the economic and equity situation of TIM S.p.A. has been adjusted to account for tax interference mainly for the amortization taken on the UMTS licenses.

Industrial investments in 2002 amounted to a total of euro 1,715 million, with a decrease compared to 2001 of euro 1,436 million, relating to the considerable investments made in 2001 for the acquisition of telecommunications licenses and for the start-up and development of foreign subsidiaries and affiliates.

At December 31, 2002, employees numbered 18,702 with an increase of 1,981 compared to December 31, 2001 due both to the acquisition of Blu S.p.A. and the increase in the number of employees of the South American companies connected, amongst other things, with the launch of the GSM service in Brazil.

For a description of operations, please refer to the comment on the parent company TIM and the individual consolidated companies.

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[] ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

The following table shows the key economic and financial highlights of the Mobile BU operations in Latin America, coordinated by Latin America Operations (LAO).

	2002 (a)	2001 (b)	Change (a - b)	
(millions of euro)			amount	%
Sales and service revenues	1,298	1,403	(105)	(7.5)
Gross operating profit	274	355	(81)	(22.8)
% on Revenues	21.1	25.3		
Operating loss	(98)	(72)	(26)	(36.1)
% on Revenues	o	o		
Investment:				
.. industrial	541	1,662	(1,121)	(67.4)
.. goodwill				
Employees at year-end (number)	7,050	5,678	1,372	24.2

Gross operating profit

[GRAPHIC OMITTED]

[2001 - 355
2002 - 274]

In 2002, the operations of the Mobile Business Unit in Latin America generated revenues of euro 1,298 million, with a decrease of 7.5% compared to 2001, and can mainly be attributed to the effect of changes in the exchange rates resulting from the weakening of the Brazilian and Venezuelan currencies.

Gross operating profit for 2002 amounted to euro 274 million, with a decrease of 22.8% compared to 2001. This was due mainly to expenses incurred for start-up activities.

Operating income for 2002 was a loss of euro 98 million.

In 2002, industrial investments amounted to euro 541 million, with a decrease compared to 2001 of euro 1,121 million. The decrease can be correlated to the aforementioned investments made in 2001 to acquire PCS telecommunications licenses in Brazil and the start-up and development of foreign subsidiaries. In particular, on October 18, following the concession of authorization from Anatel, the Brazilian Regulatory body for telecommunications, the TIM group launched a commercial plan for the GSM mobile telephone service throughout the Brazilian territory.

At December 31, 2002, employees numbered 7,050, an increase of 1,372 compared to December 31, 2001 which can mainly be attributed to the increase of employees associated with the above-mentioned launch of the GSM service in Brazil.

[] TELECOM ITALIA MOBILE S.p.A. (PARENT COMPANY)

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

The following table shows the key economic highlights. Since the 2002 economic results of TIM S.p.A. also include those of the merged company Blu, for purposes of comparison with the figures of the prior year, the results are also shown net of Blu.

(millions of euro)	2002 TIM EXCLUDING BLU (a)	2002 BLU (b)	2002 TIM POST-MERGER (*) (a+b)	2001 TIM (c)
Sales and service revenues	8,915	213	9,022	8,357
Gross operating profit (loss)	4,529	(125)	4,404	4,225
Operating income (loss)	3,323	(170)	3,153	3,231

(*) The figures are net of any intercompany eliminations.

The comments on the key economic and financial results refer to data excluding the effects of Blu's operations.

The increase in sales and service revenues stems from higher service revenues, the VAS component of which increased by more than 41% to euro 752 million, thanks to the growth of SMS (+32.6%) and the increase in traffic to euro 6,845 million (+3.5%) especially as a result of the growth of Internet traffic.

Revenues from prepaid cards showed an increase of 19.3%.

Revenues from sales of phones, spurred on by the launch of MMS services, led to overall growth of approximately 9%.

Gross operating profit increased more than revenues, as a result of efforts to curb expenses, achieved also thanks to the considerable efforts made to improve efficiency in operating and administrative expenses.

Operating income rose by 2.8% and was affected by higher amortization and depreciation charges for the year which included:

- the amortization of the UMTS license, recorded beginning from the month of January for purposes of tax deductibility. The charge was some euro 121 million, gross of the tax effect of some euro 49 million;

- higher depreciation of fixed assets following the review of the estimates for the useful lives of the assets. Such higher depreciation, compared to the depreciation charge that would have been recorded if the previous estimated useful lives had been used, amounted to about euro 53 million.

Activities during 2002:

The following table shows the key operating highlights for 2002, compared to 2001, and the main activities carried out by each sector:

TIM - operating highlights (excluding BLU)	12.31.2002	12.31.2001
TIM lines in Italy (thousands)	25,302	23,946
Mobile traffic (millions of minutes)	36,432	33,784
GSM penetration in Italy (% of population)	99.8	99.7
E-TACS penetration in Italy (% of population)	98.0	98.0

In 2002, TIM continued to develop innovative services with the aim of building customer loyalty and giving users greater incentives for using mobile phones. The most important initiatives are discussed below:

- TIM was the first mobile operator in Europe to launch the new MMS (Multimedia Messaging Service), the multimedia evolution of SMS, making it possible to send and receive, directly from and on cell phones or on PCs, messages composed by photos, images, sound and texts.

- Presentation of the Extended memory SIM Card (64K/byte).

- Launch of the exclusive "4888 Pay For Me" service, which enables customers to charge the cost of a call to the receiver of the call (TIM cell phones and all Telecom Italia fixed phones).

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[] MAJOR SUBSIDIARIES

[] EUROPE

Stet Hellas Telecommunications S.A.
Held by: TIM International N.V. 81.40%, TI Finance 0.13%
The company operates the GSM service in Greece.
The table shows the main economic and operating data:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	689	523	31.7
Gross operating profit	255	188	35.6
Operating income	131	89	47.2
Number of lines at year-end (thousands)	2,514	2,135	17.8
Market share	27%	27%	

The results achieved in 2002 confirm the positive market performance of Stet

Hellas. Revenues increased by 31.7% compared to the prior year, mainly as a result of the increase in outgoing traffic and VAS services. The gross operating margin rose by 35.6% as a result of market growth, with an increase in industrial costs that was lower than the increase in revenues. The operating income was euro 131 million, an increase of 47.2%.

Activities during 2002:

- Launch of the TELEST E-bill, a service offered to subscribers through Internet
- Development of TELESTET Centers, which helped to encourage the growth of the distribution network
- Launch of the new "B Best Web SMS" service for business clientele
- Experiments with the UMTS infrastructure, currently at the testing stage

[] LATIN AMERICA

As previously pointed out, the activities of the Mobile BU in Latin America are coordinated by Latin America Operations.

Tele Nordeste Celular Participacoes Group
Held by: Bitel Participacoes S.A. 21.18%

The group operates mobile network services in the northeast of Brazil using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions reais)
Sales and service revenues	355	416	984	87
Gross operating profit	189	198	523	41
Operating income	98	102	271	21
Number of lines at year-end (thousands)			1,926	1,75
Market share			59%	65

The economic results achieved in 2002 reflect a general increase compared to 2001. Revenues increased by 12.3% thanks to the expansion of telephone traffic and growth in interconnection rates which were updated by Anatel in February. The gross operating profit increased by 25.7% compared to the prior year as a result of an improvement in cost control policies. The operating income rose by 26% compared to 2001.

Activities during 2002:

- Strategy aimed at pursuing profitability and focused on the corporate segment
- Launch of programs to encourage customer loyalty and retention
- Rationalization in the operation of points of sale and with the aim of pursuing a continuous reduction of costs
- Control of investments, while pursuing the objective of maintaining an optimum level of efficiency of service

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Tele Celular Sul Participacoes Group

Held by: Bitel Participacoes S.A. 20.68%

The group operates mobile network services in the south of Brazil using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)
Sales and service revenues	364	423	1,010
Gross operating profit	152	179	422
Operating income	69	88	192
Number of lines at year-end (thousands)			1,724
Market share			61%

Positive results were reported in 2002. As in the case of Tele Nordeste Celular, revenues increased compared to 2001 (+13.6%) thanks to higher interconnection rates and greater telephone traffic. Cost control policies led to an increase in the gross operating profit of 12.2% and an improvement in the operating income of 3.8%.

Activities during 2002:

- Implementation of strategies focused on the clientele
- Repositioning of the commercial product range for the business segment
- Growth of revenues from SMS and from value-added services
- Development of diversified sales channels

Maxitel S.A.

Held by: TIM International N.V. 58.70%, Bitel Participacoes S.A. 37.97%, TIM Brasil S.A. 3.33%

The group handles mobile telephone services in Brazil in the areas of Bahia Sergipe and Minas Gerais using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)
Sales and service revenues	273	277	755
Gross operating profit	106	86	293
Operating income (loss)	27	(21)	74
Number of lines at year-end (thousands)			1,392
Market share			30%

During 2002, Maxitel reported an increase in revenues of 29.7% compared to 2001, attributed to a significant increase in telephone traffic and to the review of interconnection rates. The increase in revenues, together with a more careful control of costs, led to growth in the gross operating profit of 61.9% and to a positive operating income.

Activities during the year:

- Special offers for subscriber customers to encourage migration to new rate plans
- Commercial strategies focused on customer acquisition and retention of high-profile customers
- Expansion of the range of value-added services

Tim Celular S.A.

Held by: TIM Brasil S.A. 100.00%

The company operates mobile network services using GSM technology in the north of Brazil and in the states of Sao Paulo, Rio de Janeiro and Espirito Santo.

Within the framework of the corporate reorganization process, Portale Rio Norte and TIM Celular Centro Sul were merged by absorption in Portale Sao Paulo, which subsequently changed its name to Tim Celular.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions of reais)	C in
Sales and service revenues	39	0	108	0	
Gross operating loss	(170)	(16)	(472)	(33)	
Operating loss	(188)	(16)	(521)	(34)	
Number of lines at year-end (thousands)			293	0	

Revenues in 2002 were generated by the launch of the GSM service in the fourth quarter of 2002. The company reported a gross operating loss and an operating loss because of start-up expenses.

Activities in 2002:

- Implementation of the roll-out of the network and IT systems
- Organization of the sales force and the distribution channel
- Strategy focused on innovative features of the GSM service and the SIM card
- Activation of call center services

TIM Peru S.A.C.

Held by: TIM International N.V. 100.00%

The company operates mobile telephone services in Peru.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of nuevo soles)	2001 (millions o nuevo soles)
Sales and service revenues	93	34	308	105
Gross operating loss	(29)	(55)	(95)	(173)
Operating loss	(61)	(76)	(201)	(238)
Number of lines at year-end (thousands)			395	173
Market share			17%	10%

In 2002, revenues increased by approximately 193% compared to the prior year, particularly as a result of the intensification of telephone traffic generated by the increase in the customer base. The gross operating result improved by 45.1% compared to 2001 thanks to higher revenues and more careful cost control. Despite the fact that the company again reported an operating loss, it improved considerably compared to the prior year.

Activities during 2002:

- Launch of new products and services, with the aim of developing voice and data traffic

- Expansion of the distribution chain and phone recharging points

Corporacion Digitel C.A.

Held by: TIM International N.V. 66.56%

The company operates mobile telephone services in Venezuela.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of bolivares)
Sales and service revenues	177	255	260,378
Gross operating profit	35	15	51,355
Operating loss	(20)	(32)	(30,070)
Number of lines at year-end (thousands)			894
Market share (*)			15%

(*)The market share in 2001 cannot be compared to that in 2002 because the latter refers to the whole of Venezuela whereas the 2001 figure refers only to the central region.

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In 2002, revenues increased by 50.2% compared to 2001, thanks to an increase in the number of lines. The gross operating profit improved compared to the prior year as a combined result of a decrease in the costs of services and an increase in revenues. The operating loss shows a deterioration of 40.1% which can mainly be attributed to the impact of the writedown of assets with out-of-date technology.

Activities during 2002:

- Significant changes in the architecture of the network with the choice of Nokia as the main infrastructure supplier

- Updates of prepaid services technology

- Launch of the GPRS and MMS services

[] AFFILIATED COMPANIES

[] MEDITERRANEAN BASIN

IS TIM T.H.A.S.

Held by: TIM International N.V. 49.00%

The company operates mobile telephone services in Turkey, under the Aria trademark.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (billions of Turkish lire)	(
Sales and service revenues	83	46	141,276	
Gross operating loss	(122)	(181)	207,609)	
Operating loss	(420)	(382)	715,735)	
Number of lines at year-end (thousands)			1,161	
Market share			5%	

The results for 2002 cannot be compared with those of 2001 because some of the revenues and costs date from the start of the operations, that is, from March 21, 2001, and thus refer to a shorter period than the twelve months of 2002.

The growth of revenues was negatively influenced by the deterioration of the macroeconomic scenario which was already in place in 2001 and by a regulatory framework which made it impossible to conclude national roaming agreements with other operators. The company succeeded in limiting the growth of consumption costs. As a percentage of revenues, the company reported a gross operating loss, but with a considerable improvement over that of the prior year. The operating loss deteriorated primarily as a result of the higher amortization and depreciation charges. Activities during 2002:

- New rate plans aimed at corporate clientele and the introduction of rates based on time frames

- Launch of new services including "pay for me"

- Continuation of the network roll-out with a significant increase in radio base stations

SOUTH AMERICA

In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. 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 Domestic Wireline (Intelcom San Marino and Golden Lines), the Foreign Holdings Corporate Function (9Telecom Reseau group, BBNed group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP), while all the companies situated in Latin America are now coordinated by Latin America Operations (LAO).

LAO's structure is organized as follows:

Latin America Operations		
Subsidiaries		Affiliates
.. TIM Brasil Group	. Entel Chile Group	. Telecom Argentina Group
.. TIM Peru S.A.C.	. Entel Bolivia Group	. GLB Servicos Interativos (Globo.com) - Brazil
.. Corporacion Digitel C.A. (Venezuela)	. Telecom Italia America Latina	

The following comments present the key consolidated economic and financial highlights of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia.

The economic and financial highlights of the companies in the Tim Brasil group, Tim Peru and Corporacion Digitel are described in the section pertaining to the Mobile BU.

[] MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

2002 was marked by the following transactions:

- Sale, by Telecom Italia Group of a stake in Solpart Participacoes S.A. (indirect parent company of Brasil Telecom) to other shareholders for a price of US $47,000, which takes into account the value of the ordinary shares compared to the preferred shares based on the economic value of Solpart. Following this transaction, the Group's stake in ordinary share capital fell from 37.29% to 19.0%. As a result, the regulatory obstacle preventing the TIM group from launching a mobile telephone service based on GSM technology throughout Brazil was 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 shareholder position quo ante.

- on August 19, as a result of the transformation of the subsidiary Telecom Italia do Brasil Ltda, the company Telecom Italia America Latina S.A. came into being. Subsequently, on September 26, Telecom Italia S.p.A. subscribed to the share capital increase of euro 11 million voted by the subsidiary.

[] ECONOMIC AND FINANCIAL DATA

The following table shows the key highlights, restated for the purposes of comparison, of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia in 2002, compared to those of 2001.

(millions of euro)	2002 (a)	2001 (b) (1)	Change (a - b) amount	%
Sales and service revenues	1,409	1,534	(125)	(8.1)
Gross operating profit	450	527	(77)	(14.6)
% on Revenues	31.9%	34.4%		
Operating income	146	187	(41)	(21.9)
% on Revenues	10.4%	12.2%		
Investments:				
.. industrial	216	406	(190)	(46.8)
.. goodwill	5,461	-		
Employees at year-end (number)(1)		5,746	(285)	(5.0)

(1) Figures restated for the purposes of comparison.

Gross operating profit

[GRAPHIC OMITTED]

[2001 - 527
2002 - 450]

Sales and service revenues amounted to euro 1,409 million, with a decrease of 8.1% (-euro 125 million in absolute terms) compared to 2001. The decrease can be attributed mainly to exchange rate fluctuations (which generated a total impact of -euro 212 million, of which euro 182 million refer to the Chilean peso and euro 29 million to the Bolivian boliviano). Had this effect not been considered, consolidated revenues would have increased by 5.7%, as a result of the increase in revenues of the Entel Chile group (+12.3% in local currency). This was offset by the effects of the deregulation of the Bolivian market (Entel Bolivia reported a reduction of approximately 4.5% in local currency), and the suspension with effect from April 1, 2002 of the contribution of the management fee under the terms of the contract with Telecom Argentina.

The fluctuations described affected profitability performance. In particular, the gross operating profit decreased by euro 77 million (-14.6%) compared to 2001, of which approximately euro 65 million can be attributed to the exchange effect. Excluding the exchange effect, the reduction in the gross operating profit compared to 2001 would have been 2.3% and can be ascribed to the suspension of the payment of the management fee by Telecom Argentina and lower profit margins in Bolivia that were offset by a recovery in Chile that can be attributed to improved profit margins in the mobile sector. As a percentage of revenues, the gross operating profit was 31.9% in 2002 (34.4% in the prior year).

Operating income confirms the trends already described with regard to the gross operating profit. As a percentage of revenues, the operating income was 10.4% in 2002 (compared to 12.2% in 2001).

Industrial investments show a declining trend compared to December 31 2001, with a reduction of 46.8%.

Employees numbered 5,461, with a decrease of 285 (-5.0%) compared to December 31, 2001. This can mainly be attributed to rationalization measures adopted by the Entel Chile group and the Entel Bolivia group (reductions of -180 and -122 respectively compared to December 31, 2001).

Entel Chile Group

Held by: Telecom Italia International 54.76%

The group operates in the sectors of fixed and mobile telephone services, data transmission and Internet access services in Chile.

The table shows the key economic and operating highlights 2002, compared to those of 2001:

	2002 (millions of euro)	2001 (billions of pesos)	2002 (billions of pesos)
Sales and service revenues	1,223	1,251	797
Gross operating profit	381	374	248
Operating income	151	128	99
No. of fixed lines at year-end (thousands)			98
No. of mobile customers at year-end (thousands)			2,293
Internet customers at year-end (thousands)			513

Activities during 2002:

- Despite the persisting recessive macroeconomic context in South America, in 2002, the Entel Chile group considerably improved all the economic indicators of operational profitability, consolidating its leadership position as a mobile telephone services operator and successfully implementing a fast Internet-access service using WLL technology in Chile and long distance services in Peru and Venezuela

- In August 2002, the Entel Chile group reduced the number of its employees (468 between staff and outsourcing) incurring extraordinary expenses of approximately euro 10 million

Entel Bolivia Group

Held by: Telecom Italia International through ICH/ETI 50.00%

The group operates in the sectors of wireline and mobile telephone services, Internet, data transmission, telex and telegraphy services in Bolivia.
The table shows the economic and operating highlights for 2002, compared to those of 2001:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of bolivianos)
Sales and service revenues	186	224	1,260
Gross operating profit	72	92	489
Operating income	2	15	15
Number of fixed lines at year-end (thousands)			50
Number of mobile customers at year-end (thousands)			462
Internet customers at year-end (thousands)			15

Activities during 2002:

- Following the deregulation of the market in November 2001, there are now 7 Long Distance and 4 mobile competitors operating in Bolivia, whereas local traffic continues to be operated mainly by pre-existing operators ("cooperativas") In this scenario, the operating performance of the group (which formerly held the monopoly for long distance service) shows a significant reduction in revenues from wireline services (- 23% in local currency, as a result of lower volumes and price fluctuations) and a decline in profitability (the gross operating profit in local currency was -10% compared to 2001). There was also a reduction in the market share which fell to 87% on long distance service and 71% on international long distance service. Conversely, the mobile sector showed marked growth. Revenues increased by 50% thanks to the dynamics of customers. The company now leads the field with 52% of the market

- During 2002, the group implemented a radical rationalization plan to reduce labor costs (-7%) and investments (-61% compared to 2001), giving priority to the development of GSM technology in keeping with the strategies decided for South America. 2002 also saw the start-up of the xDSL service

Affiliated companies

Telecom Argentina Group

Held by: Telecom Italia and Telecom Italia International through Nortel Inversora 13.97%

The group operates in the sector of fixed and mobile telephone services, data-transmission and Internet-access services in Argentina.

The table shows the key economic and operating highlights:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of pesos)	2001 (millio of pes
Sales and service revenues	1,115	3,588	3,940	3,18
Gross operating profit	672	1,904	2.374	1,70
Operating income	6	636	21	57
Number of fixed lines at year-end (thousands)			3,295	3,58
Number of mobile lines at year-end (thousands)			2,725	2,63
Internet customers at year-end (thousands)			181	24

The figure for mobile lines at December 31, 2001 includes Nucleo customers.

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Activities during 2002:

- The group is implementing a plan to optimize costs and investments and is making efforts to restructure the debt resulting from the serious crisis prevailing in the country

- The group maintained its leadership in the mobile sector, whereas the development of ADSL services has been slowed down by the weakness in the demand for domestic consumption

In the 2002 financial statements, the value of the investment held by Telecom Italia Group in Nortel Inversora, written off in the consolidated financial statements at December 31, 2001, has remained unchanged.

Furthermore, 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 savings shareholders and the right to appoint their own representative on the Board of Directors, has reduced its percentage of vote 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 subsidiary Telecom Personal 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. The offer will be launched after the necessary approvals are received from the competent regulatory authorities.

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In order to present an overall view of Latin America Operations (LAO), the following table shows the key economic and financial highlights of all the companies operating in wireline and mobile telephone services in South America in 2002, compared to those in 2001, restated for the purposes of comparison.

(millions of euro)	2002 (a)	2001 (b)(1)	Change (a - b) amount	Change (a - b) %
Sales and service revenues	2,706	2,937	(231)	(7.9)
Gross operating profit	724	882	(158)	(17.9)
% on Revenues	26.8	30		
Operating income	48	115	(67)	(58.3)
% on Revenues	1.8	3.9		
Investments:				
.. industrial	757	2,068	(1,311)	(63.4)
.. goodwill	0	0	-	-
Employees at year-end (number)	12,511	11,424	1,087	9.5

(1) Figures restated for the purposes of comparison.

INTERNET AND MEDIA

- Sharp increase in profitability, gross operating profit reaches 29.8% of revenues
- Revenues gain 1.7% thanks to the positive trend of telephone publishing
- Rationalization of activities and focus on core business areas

[] THE BUSINESS UNIT

The Internet and Media Business Unit is responsible for the whole chain of value in the media sector, satisfying the public's need for information and entertainment, and the communication requirements of the business sector, through the production of traditional products on paper, and innovative products through the media of Internet, the telephone and television.

In the field of telephone publishing, the group leads the field in Italy and is the second largest telephone publishing group in the United Kingdom with a market share of 14%. In the Internet sector, Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies: access, portals and web services. In Directory Assistance, the group handles the 89.24.24 Pronto Pagine Gialle 24-hour service in Italy and has a market share of more than 30% in Germany. Furthermore, in Italy, Seat Pagine Gialle is the top company in the marketing of services and products for the office and is present in the television sector with La7 and MTV Italia.

[] THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit consists of the Seat Pagine Gialle group, which is organized as follows (the table shows the main consolidated companies/areas of consolidated operations):

Seat Pagine Gialle Group				
Directories	Directory Assistance	Internet	Office Products & Services	Business Information
o Seat Pagine Gialle - Directories Division Italia o TDL Infomedia Group	o Telegate Group o Seat Pagine Gialle - Directory Assistance Division	o Seat Pagine Gialle - Tin.it o Matrix	o Buffetti Group o CIPI	o Consodata Group o Pan-Adress o NetCreations

[] MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

There were no significant changes in the scope of consolidation compared to 2001. Major corporate transactions during the year comprised the sale of Datahouse (Business Information) and Neoexpo (Directories) and the investments in the affiliated companies Mondus, Viasat and Roncadin. Transactions were also concluded for the rationalization and simplification of the corporate structure, particularly in the TV sector.

[] ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for 2002, compared to those for 2001.

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Gross operating profit

[GRAPHIC OMITTED]

[2001 - 444
2002 - 593]

(millions of euro)	2002 (a)	2001 (b)	Change (a - b) amount	
Sales and service revenues	1,991	1,957	34	1
Gross operating profit	593	444	149	33
% on Revenues	29.8%	22.7%		
Operating income	232	31	201	
% on Revenues	11.7%	1.6%		
Investments:				
. industrial	81	175	(94)	(53
. goodwill	40	203	(163)	(80
Employees at year-end (number)	7,715	9,264	(1,549)	(16

Consolidated revenues of the Seat Pagine Gialle group for 2002 showed an increase of 1.7% to euro 1,991 million compared to 2001. The largest contributor to the increase was telephone publishing activities, which rose by 3.4%.

Gross operating profit reported an increase of 33.6% to euro 593 million (equal to 29.8% of revenues), while operating income rose from euro 31 million in 2001 to euro 232 million in 2002. These figures - despite the persisting crisis in the advertising market - are the result of the initiatives launched by management which, in a particularly difficult economic context, concentrated on rationalizing activities, curbing costs and applying selectivity in its initiatives. In particular, during 2002, important improvements in efficiency were achieved in the areas of Internet, Directories and Directory Assistance (which, together, constitute 73% of aggregate revenues). For the first time, all the areas of operations generated a gross operating profit (with the sole exception of Television, where, however, there were lower losses than in 2001).

A more effective capital allocation policy made it possible to reduce industrial investments by 53.7% (from euro 175 million in 2001 to euro 81 million in 2002). The reduction of 80.3% in investments in goodwill (from euro 203 million in 2001 to euro 40 million in 2002) reflects fewer purchases of consolidated investments effected in 2002.

Rationalization measures led to a reduction in the number of employees of 1,549 compared to December 31, 2001, from 9,264 to 7,715.

[] INFORMATION ON OPERATIONS

During 2002, in addition to achieving significant improvements in efficiency, Seat Pagine Gialle strengthened its position on the markets in which it operates thanks to a dynamic sales strategy and to its portfolio of highly acclaimed trademarks. The business of the group was characterized by:

- New definition of internal activities and processes and the introduction of a new commercial group structure;

- Launch of new telephone publishing products on paper and the constant development of on-line products (telephone and Internet) as part of the process of integrating the various media;

- Revision of the range of text products proposed by the Virgilio portal and a more effective use of its search tool by offering outgoing priority and listing on the results of searches (PG Net product);

- Entry of Telegate on the British Directory Assistance market, in collaboration with Thomson;

- Collaboration with Telecom Italia Domestic Wireline for the range of integrated content and services in the Alice ADSL subscription package;

- Collaboration on content between the areas of Internet and Television.

For a description of operations during 2002, please refer to the comments on the parent company Seat Pagine Gialle and its main consolidated companies, presented below.

[] EVENTS SUBSEQUENT TO DECEMBER 31, 2002

- In January 2003, the remaining 34% stake was acquired in Teleprofessional. As a result of this transaction, the company is now 100%-owned by Seat Pagine Gialle.

- On February 12, 2003, Seat Pagine Gialle purchased 1,108,695 ordinary shares of the French subsidiary Consodata S.A. - listed on the Nouveau Marche of the Paris Stock

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Exchange - following the sale option exercised by the founding shareholders to which they were entitled on the basis of the agreement signed originally with the previous management of Seat Pagine Gialle on July 31, 2000. As a result of this transaction, after payment of the agreed consideration of euro 44 per share - for a total amount of some euro 48.8 million - Seat Pagine Gialle acquired a further 8.17% stake and voting rights in the company, thus increasing its stake in Consodata S.A. to 98.60%.

[] SEAT PAGINE GIALLE (PARENT COMPANY)

Held by: Telecom Italia 53.21%, TI Finance 2.03%, IT Telecom 0.02%

The company operates in the sectors of telephone publishing and the Internet.

The table shows the economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	1,152	1,090	5.7
Gross operating profit	545	505	8.0
Operating income	348	285	22.2

Activities during 2002:

Telephone publishing	Pagine Bianche	Introduction of the Pagine Bianche name to repl
	Pagine Gialle	Launch of graphics restyling and innovations in
	PG on line	Sharp increase in the customer base (+18%), int a new product offering listing on the Virgilio
	Tuttocitta	Service supplying maps of Italian cities on-lin
Internet	Dial up	Growth of 6.3% in the number of users to 1.8 mi towards ADSL
	ADSL	Extension of the product range, introduction of consumption and marked increase in the customer more than tripled compared to 450,000

[] MAJOR SUBSIDIARIES

TDL Infomedia Group

Held by: Seat Pagine Gialle 99.73%

The group operates in the telephone publishing sector and is the second-largest publisher of directories in the United Kingdom.

The table shows the economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	154	151.2	1.8
Gross operating profit	52	48.4	8.1
Operating income	20	19	2.1

Activities during 2002:

- 173 Thomson Local editions were published and distributed, the same number as in 2001
- Growth in the customer base of paper editions by 4% to 92,791
- Development of the plan to relaunch the yellow pages activities on line (Thomweb)
- Growth of business information services

Telegate Group

Held by: Seat Pagine Gialle 78.44%

The group operates in the sector of Directory Assistance, mainly in Germany and Italy.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	116	135	(14.4)
Gross operating profit	14	(12)	214.3
Operating loss	(3)	(32)	90.4

Activities during 2002:

- Rationalization of Telegate activities in Germany, given the very difficult market situation
- Start-up of operations in the United Kingdom following deregulation and in collaboration with Thomson

Matrix S.p.A.

Held by: Finanziaria WEB 66.0%, Seat Pagine Gialle 0.7%, NV Vertico 33.3%

The company operates in the Internet sector.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	28	26	7.7
Gross operating loss	(7)	(39)	82.1
Operating loss	(15)	(46)	67.4

Activities during 2002:

- New definition of range of activities and strengthening of the company's competitive position (reach of 63% compared to approximately 61% the prior year)
- Complete review of the text and graphics of the Virgilio portal and the launch of the pay-service Virgilio Piu
- Introduction of PG Net (a new service offering outgoing priorities and listing on the Virgilio search tool for a fee) with almost 33 thousand on-line customers after 6 months of activity

Buffetti Group

Held by: Seat Pagine Gialle 100.0%

The group operates in the sector of products and services for the office.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	253	239	5.9
Gross operating profit	11	11	-
Operating income	5	4	25.0

Activities during 2002:

- Repositioning towards products with greater added value, with the introduction of print on demand and the digital signature, development of software and the ADSL subscription plan
- Strengthening of the market position of Cipi (promotional gifts), generating revenues of euro 27 million

Consodata Group

Held by: Seat Pagine Gialle 90.42%

The group operates in the sector of business information in the French market.

The table shows the economic highlights for 2002, compared to those for 2001. (Figures restated for the purposes of comparison):

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	83	82	1.2
Gross operating profit	7	4	75.0
Operating loss	(5)	(13)	61.5

Activities during 2002:

- During the first half of the year a plan was started to rationalize operations and relaunch commercial activities

Holding Media e Comunicazione Group

Held by: Seat Pagine Gialle 100.0%

The group operates in the sector of radio and television broadcasting.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	88	85	3.5
Gross operating loss	(45)	(75)	40.0
Operating loss	(64)	(99)	35.4

Activities during 2002:

- 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

- Collaboration with the Virgilio portal for news

INFORMATION TECHNOLOGY MARKET

- o Action to improve efficiency and reduce the cost of orders in a shrinkage market with falling prices

- o Relaunching of commercial dealings with all high-profile customers and acquisition of strategic new customers in the sphere of the Public Administration, banks, insurance companies and transport

[] INTRODUCTION

The Information Technology Market Business Unit was created in the early months of 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services BU according to the type of customer.

The BU is responsible for organizing the information technology activities of the Group towards the external market, in particular, Central and Local Public Administrations moving towards decentralization and e-government, as well as banks, insurance companies and industry. Its product range covers the whole chain of value of information services. The IT Market BU 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 (including Microsoft, SAP and Oracle).

The year 2002 was marked by growth in the IT services market on a global scale, although growth was more restrained and tended to contract more compared to the prior year. The negative economic situation and the stagnation of the IT market, which affected all operators, and the acquisition of new orders and new customers at lower prices than in the past, obliged companies in the Finsiel group to adopt far-reaching measures to reduce costs and improve efficiency.

[] THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit, which is represented by the Finsiel group, is organized as follows:

Information Technology Market

Major subsidiaries

Finsiel S.p.A.
Agrisian S.C.p.A.
Aspasiel S.p.A.
Banksiel S.p.A.

EIS S.p.A.
Insiel S.p.A.
Tele Sistemi Ferroviari S.p.A.

On October 22, 2002 a new organizational structure became operational in the IT Market BU, organized according to the following functions which have the task of guaranteeing activities relating to the design, development, operation and marketing of IT products/solutions for each respective reference market:

Government	Finance	Innovation,
Central and Local Public Administrations market	Bank and insurance market	Coor

[] MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following major corporate events and changes in the scope of consolidation took place during the year:

- Sale, in February 2002, of the investment in Lottomatica (18.33%) by Finsiel to Tyche S.p.A., through the tender of its shares in the tender offer.

- Creation, in May 2002, of Sogei Servizi Innovativi and Tecnologici S.p.A. (Sogei 51% and Finsiel 49%). The business purposes of these companies is to obtain and realize initiatives geared to the operation and development of businesses connected with Information Communication Technology (ICT) in the fiscal sector. Furthermore, on July 25, 2002, the company voted a capital increase to be paid partly in cash and partly in kind. The cash

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increase was subscribed to by Finsiel while the increase in kind was carried out by Sogei by contribution of its "ETI" business segment. Sogei IT, as a result of the sale of Sogei S.p.A., became an affiliated company and is valued using the equity method.

- Sale, in June 2002, of the investments held by Finsiel in Netikos (75%), Netsiel (31.35% and Telesoft (40%) to IT Telecom.

- On July 10, 2002, Finsiel sold the investment (40.41%) in the affiliated company Informatica Trentina to Deda S.r.l.. The transfer of the shares took place on November 21, 2002.

- On July 31, 2002, Finsiel sold 100% of the share capital of Sogei to the Ministry of Economy and Finance - Department of Fiscal Policy, with the relative transfer of the shares. For purposes of the consolidation of the ITM Business Unit, Sogei's statement of income was consolidated up to June 30, 2002.

- On August 2, 2002, the company AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A., was set up; Finsiel has a 50.86% stake. The company administers a five-year contract with the Ministry for Agriculture and Forestry Policy also on behalf of AGEA (Agency for Agriculture Disbursements). The company was consolidated from the month of August.

- On August 2, 2002, Finsiel signed a contract for the sale of 100% of the capital of Consiel to World Investment Partners S.A. The company was deconsolidated beginning September 1, 2002, while the transfer of shares took place on October 3, 2002.

[] ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for 2002, compared to those for 2001, restated for the purposes of comparison.

(millions of euro)	2002 (a)	2001 (b)(1)	2001
Sales and service revenues	912	960	1,198
Gross operating profit	104	137	166
% on Revenues	11.4%	14.3%	13.9%
Operating income	61	100	123
% on Revenues	6.7%	10.4%	10.3%
Investments:			
.. industrial	30	28	30
.. goodwill		1	1
Employees at year-end (number)	4,493	4,810	6,441

(1) Restated for the purposes of comparison. Note that Sogei is included in the scope of consoli first six months of 2001 and Consiel for only the first eight months of 2001.

[GRAPHIC OMITTED]

Gross operating profit
[2001 - 137
2002 - 104]

Sales and service revenues, in 2002, decreased by euro 48 million compared to the prior year which was restated for purposes of comparison. A contributory factor to the decrease was a contraction in the revenues of Finsiel, Consiel and Banksiel, resulting from both lower volumes and a reduction in prices with the most important customers. This was offset by an increase in the operations of Intersiel and Insiel both for core customers and as a result of the acquisition of new customers in the Local Public Administration market.

The profitability of the IT Market BU, both in terms of the gross operating profit and the operating income, decreased as a result of the already-mentioned reduction of prices on some contracts which were renewed during the year, and the new bids won with lower contract prices, that were only partly offset by cost cuts and improved levels of efficiency. The reduction can mainly be attributed to the lower profit margins of Finsiel, Consiel and Tele Sistemi Ferroviari on outsourcing activities for companies in the Ferrovie group.

Industrial investments were much in line with those in the prior year.

The number of employees of the IT Market BU fell by 317 compared to the figure at December 31, 2001, adjusted for the purposes of comparison, and can mainly be attributed to Finsiel. The reduction was the result, on the one hand, of the sale by Finsiel of the "Personnel Administration" business segment to Tess S.p.A., and, on the other, to rationalization activities and measures aimed to improve efficiency.

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[] INFORMATION ON OPERATIONS

During 2002, the range of services was rationalized through an organization focusing on the vertical markets (government, finance and enterprises).

Numerous contracts were acquired, including the following:

- Finsiel stepped up its collaboration with Inps by winning the bid for new e-service services, with Consip for the document system of the Ministry of Economy and Finance and for the public employment information system. Collaboration continued with MIFAP to create the new National Agricultural Information System and with the Ministry of the Interior on the electronic identity card; at the end of 2002 Emilia Romagna and the Veneto were added to the list of customers in the field of local health services.

- Insiel devoted itself to new e-government initiatives: electronic personal Health Records, which can also be consulted via Internet; a system of health-care administration, based on an epidemiological and economic datawarehouse; regional CUP; a regional Coordination and Compensation Center for the Blood Plan; completion of the Territorial and Hospital Information System.

- Banksiel, the leading Italian company specializing in IT solutions and services for finance, has supervised the migration of information systems of banks involved in processes of combining or merging with other banks, such as Sanpaolo IMI, Banca Antoniana Popolare Veneta and Banca Popolare di Milano; it has acquired the first important customer in the sphere of insurance (Cattolica group); it has created innovative projects in the area of derivatives (Cassa Risparmio di Firenze) and Wealth Management for Monte dei Paschi di Siena.

- Tele Sistemi Ferroviari, the technological partner of the companies of the Ferrovie dello Stato group, has stepped up its presence in local public transport with projects that are highly innovative from a technological point of view; in 2002 the company won three bids for electronic ticketing systems for CIVA (the consortium of companies providing transport in the Province of Varese), ASM of Pavia and the Autonomous Province of Trento. It was also involved in numerous activities for the Italian national rail network, including the electronic system for managing investment projects on the SAP platform, the start of the Traffic Information Platform for planning and operating the rail network; the extension and integration of traffic control and public information systems and development over new companies in the FS group (Centostazioni).

[] EVENTS SUBSEQUENT TO DECEMBER 31, 2002

- Finsiel with RTI was awarded the bid to develop and operate the new Ministry of Education Information System in full outsourcing for five years. The group will create an information system which will be disseminated to teachers, families and students who will be able to interact with the system wherever they are, at school or at home.

- The bid was won for the creation of an Information System for Social Services and Health Care and a Regional Services Card for the Lombardy Region, under a seven-year contract, which involves the design of a network incorporating all the facilities and operators of health care and social services, as well as new services which the public can access through a Regional Health Care Card;

- Still in the field of health care, the Ministry of Health has entrusted Finsiel with the operation of the information system of the National Transplant Center, which Finsiel has been involved in developing over the last three years;

- The bid was awarded for the whole project to create the portal for Italy's six-month Presidency of the European Union.

- In mid-January, Finsiel and Oracle Italia (a subsidiary of Oracle Corporation, a world leader in creating software for businesses) signed an agreement to use and develop vertical applications on the innovative Oracle HTB (Healthcare Transaction Based) platform. Finsiel aims to use the HTB platform for designing new solutions for information systems of clinics and hospitals, and intends to develop approximately 60 specialized resources using Oracle technologies.

[] MAJOR SUBSIDIARIES

Finsiel S.p.A.

Held by: Telecom Italia 77.92%

The company supplies systems integration and Internet services for the Public Administration and large businesses.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	244	296	(17.6)
Gross operating profit	3	24	(87.5)
Operating income (loss)	(14)	16	o

Activities during 2002:

- There was a reduction in sales and service revenues in 2002, leading to a contraction of profitability indicators. This can almost exclusively be attributed to a revision of the prices applied to important customers and to the acquisition of new orders at lower prices

- The award of numerous bids and the renewal of some important contracts

- The start of initiatives geared to considerably improving the level of efficiency, by taking measures to reduce purchase costs and improve performance through a review of the organizational structure

Banksiel S.p.A.

Held by: Finsiel 55.5%

The company is