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

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER**

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

**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**FOR JULY 7, 2003**

# Telecom Italia S.p.A.

**(Translation of registrant s name into English)**

**Corso d Italia 41**

**Rome, Italy 00198**

**(Address of principal executive offices)**

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

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

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

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. YES ¨ NO x

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

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

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

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

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

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

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

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

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

* * *

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

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

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

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## SIGNATURES

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

TELECOM ITALIA S.p.A.

/s/ Carlo De Gennaro

**Carlo De Gennaro**

Date: July 7, 2003

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# Olivetti S.p.A.

**Information Statement**

**Merger of Telecom Italia S.p.A. into**

**Olivetti S.p.A.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## WHERE YOU CAN FIND MORE INFORMATION ABOUT TELECOM ITALIA AND OLIVETTI

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

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

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

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

## INCORPORATION BY REFERENCE

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

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

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

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

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## ENFORCEABILITY OF CIVIL LIABILITIES UNDER THE UNITED STATES SECURITIES LAWS

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

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

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

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

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

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

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

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

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

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

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

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

**CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS**

This Information Statement contains certain forward-looking statements, which reflect the Olivetti management s current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any

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forward-looking statements. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof:

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

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

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

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

(v) the impact and consequences of the Merger;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ANNEXES:



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## SUMMARY

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

## THE COMPANIES

### Olivetti

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

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

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

### Telecom Italia Group

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

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

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

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

**Recent Developments**

*SEAT Spin-off and Proposed Sale*

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

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

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

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

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

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

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

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

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

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

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

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

*Potential Sale of Telecom Italia s Stake in New SEAT*

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

See Unaudited Pro Forma Condensed Consolidated Financial Data.

*Other Recent Developments*

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

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## THE MERGER

### Terms of the Merger

*What Telecom Italia Shareholders Will Receive*

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

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

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

*Terms of the New Telecom Italia Savings Shares*

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

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

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

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

*Olivetti Shareholders Withdrawal Rights*

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

*The Tender Offer*

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

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

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

*New Loan Facility*

On April 24, 2003, Olivetti entered into a 9 billion term loan facility (the **Term Loan Facility** ). Pursuant to the terms of the Term Loan Facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving credit facility available for the short-term financial requirements, including the repayment of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) and for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

**Background and Development of the Plan of Merger**

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

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

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

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

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

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

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

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**Reasons for the Merger**

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

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

**Opinions of Financial Advisors**

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

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

***Opinions of Experts Appointed Pursuant to Italian Law***

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

***Opinion of Other Expert***

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

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

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

**Conditions to the Completion of the Merger**

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

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

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

**Certain Income Tax Consequences of the Transaction**

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

**Required Regulatory Approvals**

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

**Certain Differences in Shareholders Rights**

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

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

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

**Accounting Treatment of the Merger**

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

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**SUMMARY SELECTED FINANCIAL INFORMATION**

**Olivetti Selected Financial Data**

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

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

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

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

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

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

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

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

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

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

**Telecom Italia Selected Financial Data**

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

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

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

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

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

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

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

(3)

Beginning in 1999, the Telecom Italia Group changed the way in which it accounted for revenues from telecommunications services, calculating such revenues gross of interconnection and service charges payable to other operators and service providers and accounting for such interconnection and service charges as an operating expense (other external charges). In prior fiscal years, revenues from telecommunications services were accounted for net of interconnection and service charges. Due to this change, operating revenues from telecommunications services and other external charges increased by the same amount: 1,571 million in 1998. This accounting change had no impact on reported net income for 1998. In 1998, the item Other external charges also takes into account additional expenses ( 10 million) included in Other income and expense, net in the consolidated financial statements in Telecom Italia s 1998 Annual Report on Form 20-F.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## SUMMARY UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

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

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

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

(*) After elimination of infra group transactions.

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

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

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

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information**

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

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

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The accompanying pro formas are presented in the following manner:

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

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

- Phase one is a spin-off to the existing shareholders, including Telecom Italia, of shares in the New SEAT. This entity will be listed on the Italian stock exchange.
- The second step is for Telecom Italia to sell the shares it will hold in New SEAT including, as described above, those arising from the expected early exercise of the SEAT put option. Pursuant to requirements of Italian Law, the purchasers of the New SEAT shares from Telecom Italia will be required to make the same offer to the remaining New SEAT shareholders.

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

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

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

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

| | **(millions of euros)** |
|---|---|

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

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

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

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

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

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## COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

### Comparative Per Share Data

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

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

Notes:
(1) Computed on the weighted average number of Olivetti Ordinary Shares outstanding equal to 8,631 million share.
(2) Computed on the weighted average number of Telecom Italia Shares outstanding equal to 7,298 million shares.
(3) Computed on the pro forma weighted average number of New Telecom Italia Shares expected to be outstanding after completion of the Merger equal to approximately 30,333 million shares (before redistribution).
(4) Computed in accordance with the two class method described on page 21.

### Market Data

*Olivetti Shares*

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

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*Olivetti Ordinary Shares*

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

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

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

*Telecom Italia Shares*

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

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

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

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

Source: Reuters data.

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

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

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

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

Source: Reuters data.

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

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

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

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

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

*Holders of Telecom Italia Shares*

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

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

**Dividends**

***Olivetti***

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

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

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

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

***Telecom Italia***

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

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

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

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

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

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

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

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

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## RISK FACTORS

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

### Risk Factors Relating to the Merger

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

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

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

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

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

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

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

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

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

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

***Golden Share***

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

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

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

***Risk Factors Relating to the Business of Olivetti and Telecom Italia***

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

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## TERMS OF THE TRANSACTION

### General

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

### Terms of the Merger

*What Telecom Italia Shareholders Will Receive*

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

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

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

*Terms of the New Telecom Italia Savings Shares*

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

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

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

*Olivetti Shareholders Withdrawal Rights*

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

*The Tender Offers*

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

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

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

*New Loan Facility*

On April 24, 2003, Olivetti entered into a 9 billion term loan facility. Pursuant to the terms of this facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving credit facility available, for the short-term financial requirements, including the repayment of commercial paper issued by any member of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

**Background of the Merger**

***The Olivetti Tender Offer***

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

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

***The Pirelli-Olimpia Transaction***

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

Olimpia became the major shareholder of Olivetti in 2001.

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

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

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

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

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

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

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

***The Development of the Plan of Merger***

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

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

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

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

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

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

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

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

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

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

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

**Reasons for the Merger**

***Principal Business Rationales***

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

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

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

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

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

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

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

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

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

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

Conversely, assuming that:

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

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

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

*Improved corporate structure*

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

*Rationalized capital and financial structure*

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

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

*Increased tax efficiency*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Other Factors Considered by the Boards of Directors***

*Olivetti*

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

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

BBB+ with positive outlook;

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

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

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

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

*Telecom Italia*

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

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

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

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

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

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

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

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

**Assignment of New Telecom Italia Shares and Start of Dividend Entitlement**

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

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

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

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

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

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

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

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

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

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

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

More precisely, where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Opinions of Financial Advisors**

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

***Opinion of Goldman Sachs to Telecom Italia***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Opinion of Lazard to Telecom Italia***

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

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

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

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

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

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

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

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

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

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- information gathered in a limited number of meetings with members of the senior management of Telecom Italia who provided and explained the documentation supplied;

- publicly available information on companies operating in business lines believed to be generally comparable to those of Telecom Italia and Olivetti; and

- such other financial analyses and investigations deemed appropriate.

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

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

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

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

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

- as the principal method that of the stock exchange quotation or market prices ( **Market Prices Valuation** ) utilizing the market prices of Telecom Italia and Olivetti over different time periods. In the present case, the stock exchange quotations were particularly significant, taking into account the high levels of capitalization and liquidity of Telecom Italia and Olivetti;

- as a control method that of the sum-of-the-parts ( **SOP** ), by determining the value of Telecom Italia using a discounted cash flow methodology, and applying the SOP criterion to Olivetti on the basis of the results that emerged from the valuation of the different activities of Telecom Italia. Lazard did not consider that under the circumstances the method of the SOP applied with reference to the current market value of the shareholding held by Olivetti in Telecom Italia would be useful insofar as such application (i) would have lead to strongly volatile results also due to the effect of the financial leverage present in Olivetti itself, (ii) would have implied a reference to the market values for only one of the companies participating in the Merger, an aspect that was not deemed to be admissible and consistent from a methodological point of view.

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

***Market Prices Valuation***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Datastream

(*) Possible differences attributable to rounding

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

***Sum of the Parts Method***

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

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**Telecom Italia**

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

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

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

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

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

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

**Olivetti**

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

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

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

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**Summary of the Results**

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

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

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

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

***Determination of the Exchange Ratio***

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

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

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

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

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

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

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

***Opinion of JPMorgan to Olivetti***

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

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

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

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

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

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

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

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

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

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

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

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

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

JPMorgan did not use the values resulting from its analyses for any purpose other than that of evaluating the fairness of the pre-redistribution Merger exchange ratio to Olivetti and those values should not be used for any

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

*Sum-of-the-Parts Analysis of Telecom Italia*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Net Asset Value Analysis of Olivetti*

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

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

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

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

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

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

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

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

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*Analysis of the Exchange Ratio*

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

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

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

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

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

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

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

**Reports of Experts Appointed Pursuant to Italian Law**

***Report of Deloitte & Touche to Olivetti Shareholders***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Report of Ernst & Young to Telecom Italia Shareholders***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Report of Professor Angelo Provasoli to Olivetti***

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

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

On March 11, 2003, Professor Provasoli delivered a preliminary written report on the valuation methodologies used by JPMorgan in giving its fairness opinion. On April 15, 2003, Professor Provasoli delivered a final report dated April 14, 2003. In this report Professor Provasoli considered the use and application of the valuation methodologies used by JPMorgan in giving its fairness opinion and concluded that such valuation methodologies, and their application in relation to the exchange ratios, were appropriate.

In rendering his report, Professor Provasoli:

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

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

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

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

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

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

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

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

***Reports of the Olivetti and Telecom Italia Boards of Directors***

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

**Plan of Merger**

*Assignment and Exchange Ratios*

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

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*Exchange of Shares*

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

*Fractional Shares*

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

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

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

*Fractional ADSs*

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

*Conditions to the Completion of the Merger*

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

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

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

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

**Required Regulatory Approvals**

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

**Accounting Treatment**

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

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## CERTAIN INCOME TAX CONSEQUENCES

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

### Italian Taxation

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

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

#### *Tax Consequences of the Merger*

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

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

*Income Tax*

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

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

*Transfer Tax*

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

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

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

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

*Capital Gains Tax*

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

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

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

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

*Inheritance and Gift Tax*

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

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

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

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

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**United States Taxation**

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

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

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

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

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

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

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

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

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

***U.S. Federal Income Tax Consequences of the Merger***

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

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For U.S. federal income tax purposes:

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

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

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

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

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

*Taxation of dividends*

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

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

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

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

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

*Passive Foreign Investment Company Rules*

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

*Information Reporting and Backup Withholding*

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

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

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

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

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# MATERIAL CONTRACTS

## Material Contracts between Olivetti and Telecom Italia

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

## Contracts and Shareholders Agreements Concerning Olimpia

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

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

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

### *Shareholders Agreements*

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

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

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

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

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

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

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

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

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

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

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

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

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

***Ownership Restrictions relating to Olivetti Securities in the Shareholders Agreements***

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

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

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

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

- Pirelli may exercise:

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

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

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

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

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

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

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

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

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

- Olivetti 2001-2010 1.5% Convertible Bonds;

- Olimpia 2001-2007 1.5% bonds; and

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

  Maturity date of February 2008.

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

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

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

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

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

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## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

i) the Merger;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(*) After elimination of infra group transactions.

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

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

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

**Notes to the Unaudited Pro Forma Condensed Consolidated Financial Data**

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

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

The accompanying pro formas are presented in the following manner:

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

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

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

- Phase one is a spin-off to the existing shareholders, including Telecom Italia, of shares in the New SEAT. This entity will be listed on the Italian stock exchange.
- The second step is for Telecom Italia to sell the shares it will hold in New SEAT including, as described above, those arising from the expected early exercise of the SEAT put option . Pursuant to requirements of Italian law, the purchasers of the New SEAT shares from Telecom Italia will be required to make the same offer to the remaining New SEAT shareholders.

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

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

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

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

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

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

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

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

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

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

**Potential Effects of the Merger**

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

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

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

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

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

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**PRO FORMA LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

2,813 million in 2002 on an historical basis.

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

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

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

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

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

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

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

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

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

Olivetti International N.V. - 700 million

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

Olivetti International N.V. - 1,500 million

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

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

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

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

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

Olivetti Finance N.V. - 200 million

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

Olivetti Finance N.V.- 500 million

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

Olivetti Finance N.V. - 1,100 million

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

Olivetti Finance N.V. - 1,750 million

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

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

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

Olivetti Finance N.V. - 1,000 million

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

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

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

Olivetti Finance N.V. - 250 million

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

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

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

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

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

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

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

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

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

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

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

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

Details of the Facilities are as follows.

*Term Loan Facility*

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

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

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

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

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

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

*Revolving Facility*

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

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

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

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

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

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

(1) Less one day

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

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

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## DESCRIPTION OF OLIVETTI BUSINESSES

### General

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

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

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

### Predecessor Activities

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

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

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

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

**Tender Offer for Telecom Italia**

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

Accordingly, in May 1999, Olivetti jointly with its subsidiary Tecnost S.p.A. ( **Tecnost** ), made a tender offer for Telecom Italia, giving Olivetti an indirect 52.12% controlling interest in Telecom Italia s Ordinary Shares. Following the success of this tender offer, the Olivetti Group was expanded to include all of the operating companies of Telecom Italia and Olivetti s controlling interest in Telecom Italia s Ordinary Shares eventually increased to 54.94%. The Telecom Italia Group operates in a wide range of fixed and mobile

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telecommunications sectors (including information technology, manufacturing and systems facilities) which complement its telecommunications operations, as well as in multimedia services and the Internet, in Italy and worldwide.

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

**Information about the Olivetti Group Business**

The Olivetti Group operates:

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

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

*Fixed and Mobile Telecommunications Sector: Telecom Italia Group*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Therefore:

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

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

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

*Facility Management Services: Olivetti Multiservices*

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

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

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**Information about the Telecom Italia Group Business**

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

**Item 3. Key Information**

Risk Factors
Rates of Exchange
Selected Financial and Statistical Information
Dividends

**Item 4. Information on the Telecom Italia Group**

Business
Business Units
Regulation
Description of Property

**Item 5. Operating and Financial Review and Prospects**

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

**Item 6. Directors, Senior Management and Employees**

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

**Item 7. Major Shareholders and Related-Party Transactions**

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**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

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

**General**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Condensed Income Statement Data(1):**

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

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

**Condensed Balance Sheet Data(1):**

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

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

Olivetti Group operating revenues amounted to 7,291 million for the three months ended March 31, 2003, compared to 7,533 million for the three months ended March 31, 2002, a decrease of 242 million, or 3.2%

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(+4.8% on a like-for-like basis and net of the impact of exchange rate movements). Telecom Italia Group operating revenues (which accounted for 97.7% of total operating revenues) decreased by 140 million, or 1.9%. Excluding the exchange rate effect and the changes in the consolidation area, Telecom Italia Group operating revenues improved by 6.4%.

Operating income for the three months ended March 31, 2003 was 1,515 million, an increase of 124 million from the three months ended March 31, 2002 ( 1,391 million). The increase in operating income was primarily due to a reduction of costs ( 366 million) which was higher than the decrease in revenues ( 242 million).

Income before income taxes and minority interests for the three months ended March 31, 2003 was 868 million, compared to 1,313 million for the three months ended March 31, 2002. The decrease in income was primarily due to:

- gains on disposals and other non-recurring income which totaled 70 million compared to 792.4 million in 2002; and
- financial charges, net which totaled 518 million compared to 665 million for the three months ended March 31, 2002, a decrease of 167 million, largely attributable to the Telecom Italia Group as a result of lower average debt exposure and improved exchange rates in Brazil and Venezuela.

After income taxes of 713 million (compared to 636 million for the three months ended March 31, 2002) and minority interests of 552 million (compared to 864 million for the three months ended March 31, 2002), the Olivetti Group posted a consolidated net loss of 397 million for the three months ended March 31, 2003 (compared to a loss of 187 million in three months ended March 31, 2002). The increase in losses was primarily due to lower income before income taxes, partially offset by lower minority interest.

The table below analyses Olivetti Group net financial debt:

| | As of December 31, | | | |
|---|---|---|---|---|
| | **2000** | **2000(1)** | **2001** | **2002** |
| | (millions of euro) | | | |
| Short-term debt, including current portion of long-term debt | 16,927 | 16,536 | 9,072 | 6,827 |
| Long-term debt | 27,485 | 25,950 | 37,747 | 33,804 |
| Cash and cash equivalents: | | | | |
| • Bank and postal accounts | (2,763) | (2,745) | (3,626) | (4,363) |
| • Cash and valuables on hand | (8) | (7) | (76) | (7) |
| • Receivables for sales of securities | (1) | (1) | (4) | (56) |
| Marketable debt securities | (2,909) | (2,759) | (3,616) | (1,927) |
| Financial accounts receivable | (1,538) | (1,538) | (1,599) | (1,506) |
| Financial prepaid expense/deferred income, net and accrued financial income/expense, net | 331 | 292 | 464 | 627 |
| **Net Financial Debt** | **37,524** | **35,728** | **38,362** | **33,399** |

(1) Amounts Restated by Consolidating the Nortel Inversora Group with the Equity Method instead of the Proportional Method.

**Analysis by company**

| | March 31, 2003 (a) | December 31, 2002 (b) | Changes (a-b) |
|---|---|---|---|
| | | (millions of euros) | |
| Telecom Italia Group | 16,079 | 18,118 | (2,039) |
| Olivetti S.p.A., and other operating and finance companies | 15,812 | 15,281 | 531 |
| **Total net financial indebtedness** | **31,891** | **33,399** | **(1,508)** |

As of March 31, 2003, the Olivetti Group had 104,370 employees compared to 106,620 at March 31, 2002. The fall is primarily due to the change in the sale of manufacturing operations in Mexico (resulting in a decrease of 1,266 heads at Olivetti Tecnost Group), the consolidation within the Telecom Italia Group (resulting in a net decrease of 819 heads) and the disposal of certain companies by SEAT.

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**Business Unit**

The following discussion relates to the Olivetti Group s principal business unit (other than the Telecom Italia Group), Olivetti Tecnost Group. Together, Telecom Italia and the Olivetti Tecnost Group account for more than 99% of the Olivetti Group s consolidated net revenues.

**Condensed Income Statement for Three Months ended March 31, 2003 and 2002(1):**

| | Olivetti Tecnost Group | |
|---|---|---|
| | **2002** | **2003** |
| | (millions of euros) | |
| Operating revenues | 234.4 | 158 |
| Operating income | 1.7 | (4) |
| Income (loss) before taxes and minority interest | (1.1) | (6.4) |
| Income taxes | (6.4) | (2.5) |
| Net loss before minority interest | (7.5) | (8.9) |
| Minority interests | 0.9 | 0.6 |
| **Net result for consolidation purposes** | **(6.6)** | **(8.3)** |

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

Olivetti Tecnost Group operating revenues in the three months ended March 31, 2003 totaled 158 million. This included 153 million of third-party revenues outside the Olivetti Group as follows: 99 million from hardware sales, 32 million from sales of consumables, 22 million from service sales and other revenues.

Compared with first three months ended March 31, 2002, revenues were down 32.8% (27.3% net of the impact of exchange rate movements), a decrease that to a large extent was expected in the Office area, as a result of the decision to cut sales of low-margin products, and in the specialized printer area due to the temporary sales slowdown in China, where an upturn is expected in the second half of the year.

Operating income for the three months ended March 31, 2003 was a loss of 4 million, a better result than business plan projections. Operating income for three months ended March 31, 2002 was 1.7 million, reflecting the positive impact of high specialized printer sales volumes in China.

Loss before income taxes and minority interests for the three months ended March 31, 2003 amounted to 8.9 million, compared to 7.5 million for the three months ended March 31, 2002. The increased loss was primarily due to lower revenues, which were only partially offset by the reduction in operating costs.

For Olivetti Group consolidation purposes, the Olivetti Tecnost Group posted a net loss of 8.3 million in the first three months of 2003, compared to a loss of 6.6 million in the first three months of 2002.

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

The following table presents the Olivetti Group Italian GAAP statement of operations for the years ended December 31, 2000, 2001 and 2002, during which the Telecom Italia Group represented over 90.2%, 96.3% and 96.8% of net revenues, respectively. The following discussion of the results of the Olivetti Group will largely focus on the results of the Olivetti Tecnost Group, the principal business unit of the Olivetti Group other than the Telecom Italia Group. For a full discussion of the results of operations of the Telecom Italia Group for each of the years ended December 31, 2000, 2001 and 2002, see Item 5. Operating and Financial Review and Prospects in the Telecom Italia Annual Report incorporated by reference herein.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2000(1) | 2000 pro forma (1)(2) | 2001 | 2002 |
| | (millions of euro) | | | |
| **Statement of Operations Data in accordance with Italian GAAP:** | | | | |
| Operating revenues | 30,116 | 28,374 | 32,016 | 31,408 |
| Other revenues | 483 | 459 | 476 | 504 |
| Total revenues | 30,599 | 28,833 | 32,492 | 31,912 |
| Cost of materials | 3,058 | 2,931 | 2,640 | 2,315 |
| Salaries and social security contributions | 5,245 | 4,965 | 4,919 | 4,737 |
| Depreciation and amortization | 6,956 | 6,519 | 7,645 | 7,269 |

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| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2001(1) | 2000 pro forma (1)(2) | 2001 | 2002 |
| | (millions of euro) | | | |
| Other external charges | 11,136 | 10,476 | 12,687 | 12,188 |
| Changes in inventories | (318) | (296) | 92 | 62 |
| Capitalized internal construction costs | (912) | (831) | (583) | (675) |
| Total operating expenses | 25,165 | 23,764 | 27,400 | 25,896 |
| Operating income | 5,434 | 5,069 | 5,092 | 6,016 |
| Financial income | 1,202 | 1,162 | 1,446 | 1,569 |
| Financial expense | (3,847) | (3,638) | (6,526) | (4,605) |
| Other income and (expense), net | 135 | 165 | (3,109) | (5,496) |
| Income (loss) before income taxes and minority interests | 2,924 | 2,758 | (3,097) | (2,516) |
| Income taxes | (1,923) | (1,813) | (579) | 2,210 |
| Net income (loss) before minority interests | 1,001 | 945 | (3,676) | (306) |
| Minority Interest | (1,941) | (1,885) | 586 | (467) |
| Net loss | (940) | (940) | (3,090) | (773) |
| **Amounts in accordance with U.S. GAAP:** | | | | |
| Total revenues | | | 32,274 | 31,864 |
| Operating Income | | | 3,981 | 7,729 |
| Loss before income taxes and minority interests | | | (6,056) | (100) |
| Income taxes | | | (240) | 3,176 |
| Income (loss) before minority interests | | | (6,296) | 3,076 |
| Minority interests | | | 2,270 | (1,120) |
| Cumulative effect of accounting changes, net of taxes | | | 20 | |
| Net Income (loss) | | | (4,006) | 1,956 |
| Net Income (loss) per Share Basic(3) | | | (0.4698) | 0.2266 |
| Net Income (loss) per Share Diluted(3) | | | (0.4698) | 0.2266 |

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

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

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

***Operating Revenues***

*2002 compared to 2001*

Olivetti Group operating revenues amounted to 31,408 million in 2002, compared with 32,016 million in 2001, a decrease of 1.9% (an increase of 3.1% on a comparable consolidation basis and net of the impact of exchange-rate movements). Excluding the Telecom Italia Group, operating revenues in 2002 were 1,007.5 million compared to 1,198.1 million in 2001, a 15.9% decrease. This decrease was primarily due to the decrease in revenues of Olivetti Tecnost and the disposal of Webegg to the Telecom Italia Group in the second part of the year.

*2001 compared to 2000*

Olivetti Group operating revenues for 2001 totaled 32,016 million, an increase of 12.8%, after deconsolidation of the Nortel Inversora Group, compared to 2000 (an increase of 2.5% at constant consolidation, considering companies present in both years). This increase reflected the positive performance of the Telecom Italia Group (primarily in mobile services). Telecom Italia operating revenues amounted to 30,818 million and

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accounted for 96.3% of total operating revenues; net of amounts due to other telecommunications operators, operating revenues totaled 27,104 million and rose by 2,648 million from 2000 (an increase of 10.8%). Excluding the Telecom Italia Group, operating revenues in 2001 were 1,198 million compared to 1,205 million in 2000, a 0.5% decrease.

***Operating Income***

*2002 compared to 2001*

Operating income for the year 2002 amounted to 6,016 million compared to 5,092 million for the year 2001. The 18.1% increase in operating income for the year 2002 was primarily due to a decrease in operating costs, which was greater than the increase in revenues. Among the other items affecting operating income for the year 2002 were cost of materials amounting to 4,737 million (a decrease from 4,919 million in 2001), other external charges amounting to 12,188 million (a decrease from 12,687 for 2001) and depreciation and amortization charges which totaled 7,269 million (compared to 7,645 in 2001).

Excluding the Telecom Italia Group, operating income in 2002 reflected a loss of 1,399 million compared to a loss of 1,651 million in 2001. This decrease in the loss was primarily due to the strong cost containment policy and to the consolidation of the Webegg Group into the Telecom Italia Group in the second half of the year.

*2001 compared to 2000*

Operating income in 2001 was 5,092 million, compared to 5,069 million in 2000. The 0.5% increase for the year 2001 was primarily due to the growth in operating revenues.

Excluding the Telecom Italia Group, operating income in 2001 reflected a loss of 1,651 million compared to a loss of 1,483 million in 2000. The 168 million increase in loss was mainly due to provisions for risks on certain businesses.

***Loss before income taxes and minority interests***

*2002 compared to 2001*

The Olivetti Group loss before income taxes and minority interests for the year 2002 was 2,516 million (compared to a loss of 3,097 million in 2001). The 18.8% decrease in the loss before income taxes and minority interests was primarily due to the above mentioned factors and to:

- gains on disposals and other non-recurring income of   2,990 million, a 199% increase compared to   999 million in 2001;
- non-recurring charges of   8,486 million (including   3,486 million attributable to the write-down of goodwill and the call option on SEAT shares), a 106.6% increase compared to   4,108 million in 2001; and
- write-downs and other net financial charges of   3,036 million, a 42.5% decrease compared to   5,280 million in 2001 which reflects income from equity investments of   57 million (compared to   221 million in income from 2001), financial charges of   2,307 (compared to charges of   3,105 in 2001) and write-downs on financial assets of   786 million (compared to write-downs of   2,196 million in 2001).

The Telecom Italia Group loss before income taxes and minority interest in 2002 for Olivetti consolidation purposes amounted to   313 million (a 2.3% increase compared to   306 million in 2001) of the total Olivetti Group result.

Excluding the Telecom Italia Group, the loss before income taxes and minority interests in 2002 was   2,203 million compared to   2,790 million in 2001, a 21.0% decrease. The decrease in loss was primarily due to:

- non-recurring charges which totaled   111 million, a 31.1% decrease compared with   161 million in 2001;
- net financial charges which totaled   807 million, a 15.1% decrease compared with   951 million in 2001, mainly due to a lower average financial exposure;
- value adjustments to financial assets which totaled   105 million, a 56.4% decrease (compared to   241 million in 2001), which included   118 million of write-down of 174 million SEAT shares.

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*2001 compared to 2000*

The Olivetti Group loss before income taxes and minority interests for the year 2001 was 3,097 million (compared to a gain of 2,758 million in 2000). The decline of 5,855 million compared to 2000 was primarily due to an increase in non-recurring costs in 2001 (primarily attributable to a 2,984 million write-down of goodwill related to Telecom Italia s subsidiaries and equity investments), in net financial charges (primarily attributable to the increased financial exposure and to the renegotiation of Telecom Italia put/call options on SEAT shares) and in write-downs of equity investments and other financial assets. The decrease reflects a 43.5% decrease in income from equity investments of 221 million (compared to 391 million in income from 2000), an 85.6% increase in financial charges of 3,105 million (compared to charges of 1,673 million in 2000) and an 83.9% increase in value adjustments to financial assets of 2,196 million (compared to adjustments of 1,194 million in 2000). The loss before income taxes and minority interests in 2001 of Telecom Italia represented 306 million of the total Olivetti Group result. In 2000, the profit before income taxes and minority interest of Telecom Italia represented 4,964 million of the total Olivetti Group result.

Excluding the Telecom Italia Group, the loss before income taxes and minority interests in 2001 was 2,790 million compared to 2,206 million in 2000, an increase in losses of 584 million primarily due to:

- non-recurring income of 147 million compared to 326 million in 2000, a 54.9% decrease mainly attributable to a reduction in gains on disposals;
- non-recurring charges of 161 million, compared to 28 million in 2000, a 475% increase mainly attributable to miscellaneous charges;
- value adjustments to financial assets of 241 million, compared to 47 million in 2000, a 412.8% increase mainly attributable to write-downs on Telecom Italia and SEAT shares (both excluded from the consolidation as classified as current assets); and
- net financial charges of 951 million, compared to 1,064 million in 2000, a 10.6% decrease due to lower average financial exposure.

***Net loss***

*2002 compared to 2001*

The Olivetti Group net loss for financial 2002 was 773 million, a 75.0% decrease (compared to a loss of 3,090 million in 2001). Excluding amortization of goodwill on the acquisition of Telecom Italia, the Olivetti Group had net income of 520 million in 2002, a 2,311 million improvement (compared to a net loss of 1,791 million in 2001). The net loss for the year 2002 for Telecom Italia amounted to 97.2 million, a 85.5% decrease compared to a net loss of 671.7 million in 2001.

Excluding the Telecom Italia Group, the net loss for the year was 676 million, a 72% decrease compared to a loss of 2,418 million in 2001. In 2002, Olivetti S.p.A. recorded a tax credit of 1,603 million, largely as a result of the writedown of the Telecom Italia equity investment solely for tax purposes; this produced a positive overall tax effect of 1,078 million, including a tax asset of 609 million.

*2001 compared to 2000*

The Olivetti Group net loss for 2001 was 3,090 million, a 228.7% increase compared to a loss of 940 million in 2000. Excluding amortization of goodwill on the acquisition of Telecom Italia, the Olivetti Group net loss amounted to 1,791 million (compared to net earnings of 111 million in 2000). The net loss for the year 2001 for Telecom Italia (for Olivetti consolidation purposes) amounted to 672 million, a 1,356 million decline compared to 684 million in income in 2000.

Excluding the Telecom Italia Group, the net loss for the year was 2,418 million, a 49% increase compared to a loss of 1,623 million in 2000. Such result was primarily due to the reasons cited above.

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

***Business Unit Financial Data***

The following table sets forth condensed income statement for the Olivetti Tecnost Group for the three years ended December 31, 2000, 2001 and 2002.

| | Olivetti Tecnost Group | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| | (millions of euros) | | |
| Operating revenues | 1,130.2 | 1,097.0 | 914.0 |
| Operating Income | (2.5) | 13.1 | 13.9 |
| Income (loss) before income taxes and minority interest | 19.4 | (41.5) | (80.2) |
| Income taxes | 13.0 | (14.5) | (11.0) |
| Income (loss) before minority interest | 32.4 | (56.0) | (91.2) |
| Minority interest | (8.9) | 1.3 | 4.1 |
| **Net result for consolidation purposes** | **23.5** | **(54.7)** | **(87.1)** |

(1) This financial data has been presented in condensed form because the available Olivetti Tecnost Group financial data for the years ended December 31, 2000, 2001 and 2002 use a classification system which differs in presentation from that used in the Olivetti financial statements provided elsewhere in this Information Statement. Accordingly, only those items which are common to both presentations are included in this table and discussed below.

***Operating revenues***

*2002 compared to 2001*

Revenues for the Olivetti Tecnost Group for financial 2002 amounted to 914 million (including 906 million from customers outside the Olivetti Group), a decrease of 16.7% from operating revenues of 1,097 million in 2001 (down 12.7% net of the exchange rate effect). Operating revenues comprised 588 million for hardware products, 154 million for supplies, 73 million for services and 99 million of other revenues.

The decrease in operating revenues was primarily attributable to the office products division where third-party revenues fell sharply (down 19%) and to a lesser extent to the vertical applications division where third-party revenues also fell (down 11.6%).

In the special products sector, operating revenues more than doubled in 2002, mainly as a result of the supply of TP Label automatic weighing and franking machines to the Italian Post Office.

*2001 compared to 2000*

In 2001, the Olivetti Tecnost Group achieved total operating revenues of 1,097 million (of which 1,076 million with third-party customers outside the Olivetti Group), a decrease from year 2000 ( 1,130.2 million in 2000). Digital product deliveries revenues increased 114% in 2001 (volume increased 64% over 2000), due to the introduction of a complete range of multifunctional photocopiers. Specialized products and services for vertical applications division also recorded an increase over 2000 in third-party revenues of approximately 295 million, a 29% increase in value compared to the year before.

***Operating income***

*2002 compared to 2001*

Operating income for the year 2002 amounted to 13.9 million compared to 13.1 million in 2001, an increase of 6.1%. The increase was primarily due to the following factors which offset the decline in revenues:

- operating costs for the year 2002 decreased to 850.2 million (compared to 1,017 million for the year 2001);

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- depreciation and amortization charges fell to 24.7 million (compared to 43.7 million in 2001); and
- value adjustments and provisions for risks totaled 15.5 million (compared to 20.3 million in 2001).

*2001 compared to 2000*

Operating income for the year 2001 amounted to 13.1 million (compared to a loss of 2.5 million in 2000). The increase in operating income for 2001 was primarily due to the following factors, which offset the decline in revenues:

- operating costs for the year 2001 amounted to 1,017 million compared to 1,061.2 million for the year 2000;
- depreciation and amortization charges totaled 43.7 million (compared to 47 million in 2000); and
- value adjustments and provisions for risks were 20.3 million compared with 21.8 million.

***Loss before income taxes and minority interest before taxes***

*2002 compared to 2001*

The Olivetti Tecnost Group loss before income taxes and minority interest in 2002 was 80.2 million, (compared to a loss of 41.5 million in 2001). The increase in such loss was primarily due to:

- gains on disposal and other non recurring income which totaled 5.6 million compared to 26.6 million in 2001;
- non recurring charges which totaled 82.1 million compared to 69.7 million in 2001; and
- net financial charges which totaled 17.4 million compared to 9.8 million in 2001.

*2001 compared to 2000*

The Olivetti Tecnost Group loss before income taxes and minority interest for the year 2001 was 41.5 million (compared to income of 19.4 million in 2000). The main causes of the loss before income taxes and minority interest for 2001 were:

- non recurring income of 26.6 million, decreased from 59.2 million in 2000; and
- non recurring charges increased to 69.7 million in 2001 compared to 32.8 million in 2000 (mainly due to higher reorganization charges).

***Net result for the year for consolidation purposes***

*2002 compared to 2001*

After taxes and minority interests, the Olivetti Tecnost Group posted a net loss after adjustments for Olivetti consolidation purposes of 87.1 million for financial 2002 (a loss of 54.7 million in 2001), after taking a net non-recurring charge of 76.5 million relating to the corporate restructuring, implementation of which is essential to ensure a return to profitability in the future.

*2001 compared to 2000*

After taxes and minority interests, the Olivetti Tecnost Group posted a net loss after adjustments for Olivetti consolidation purposes of 54.7 million for financial 2001 ( 23.5 million in 2000).

**Liquidity and Capital Resources**

Set forth below is a discussion of the liquidity and capital resources of the Olivetti Group. For a discussion of the liquidity and capital resources of the Telecom Italia Group, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resouces of the Telecom Italia Annual Report incorporated by reference herein. For a discussion of the impact the Merger will have on the financial statements of Olivetti and Telecom Italia when they are combined into one (including the impact of to the assumption of Olivetti s debt together with the incurrence of additional debt of up to 9 billion that will be used to finance the required withdrawal right of Olivetti shareholders ( 11 million) and the Tender Offers) see Pro Forma Liquidity and Capital Resources.

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*Liquidity*

The Olivetti Group s primary source of liquidity is cash generated from operations, particularly from telecommunications services, and its principal uses of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders and strategic investments, such as international acquisitions.

The table below summarizes, for the periods indicated, the Olivetti Group s cash flows.

| | Year ended December 31, | |
|---|---|---|
| | **2001** | **2002** |
| | **(millions of euro)** | |
| Net cash provided by operating activities | 5,657 | 7,083 |
| Net cash used in investing activities | (10,042) | (1,065) |
| Net cash provided by (used in) financing activities | 5,319 | (5,298) |
| Net increase (decrease) in cash and cash equivalents | 934 | 720 |
| Cash and cash equivalents: | | |
| Beginning of year | 2,772 | 3,706 |
| End of year | 3,706 | 4,426 |

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

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities was 7,083 million in 2002 and 5,657 million in 2001. The increase in 2002 compared to 2001 was primarily due to lower levels of losses before minority interest ( 2,597 million in 2002 compared to 3,097 million in 2001), the significant level of write-downs of fixed assets, intangibles and other long-term assets ( 4,387 million in 2002 compared to 3,753 million in 2001), the net change in other liabilities which increased cash from operating activities by 1,819 million in 2002 compared with a positive contribution of 1,432 million in 2001. Such effects were only partially offset by lower levels of depreciation and amortization in 2002 ( 7,269 million) compared to 2001 ( 7,645 million) and net gains on disposals of fixed and intangible assets and other long-term assets ( 2,243 million in 2002 compared with 373 million in 2001).

*Net Cash Used in Investing Activities*

Net cash used in investing activities was 1,065 million in 2002 and 10,042 million in 2001. Investments in fixed assets, which consisted for the most part of telecommunications installations acquired by Telecom Italia and TIM, were 3,291 million in 2002 and 4,317 million in 2001. Investments in intangible assets (including goodwill of 346 million in 2002 and 1,193 million in 2001) were 1,956 million in 2002 and 4,107 million in 2001. The decrease in 2002 compared to 2001 was principally due to the reduced level of acquisitions in 2002. In 2002 such investments include 1,325 million of equity investments (of which 287 million related to Telecom Italia treasury stock); in 2001 such investments include 1,906 million of investments made by TIM International in the associated company Is TIM (this entire investment was written off in 2002). In 2001 and 2002 proceeds from sales of fixed assets, intangible assets and long-term investments were 1,484 million and 5,968 million (mainly relating to the disposal of equity investments). Net proceeds in 2002 are largely responsible for the net cash used as it offset the levels of investment in fixed assets, intangible assets and other long-term assets.

*Net Cash Provided by (Used in) Financing Activities*

Net cash provided by (used in) financing activities was a net cash use of 5,298 million in 2002 compared to net cash provided of 5,319 million in 2001. Net cash used in financing activities in 2002 reflected a decrease of 3,089 million in long-term debt and a decrease in short term debt of 2,245 million Net cash provided by in financing activities in 2001 reflected a significant increase in long term debt ( 11,009 million) as the Telecom Italia Group replaced short term debt with long term debt to extend the average life of its debt. The proceeds of such long term debt was primarily used to retire indebtedness, including 7,855 million of short term debt.

***Capital Resources***

As a result of the Merger an historical discussion of the Olivetti Group s Capital Resources would not be meaningful. For a discussion of capital resources, including repayment obligations on the New Telecom Italia Group s financial indebtedness, see Pro Forma Liquidity and Capital Resources.

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***New Loan Facility***

On April 24, 2003, Olivetti entered into a 9 billion term loan facility. Pursuant to the terms of this facility, up to 9 billion is available to finance the cash-out payment to Olivetti shareholders who have exercised their withdrawal right and, for the amounts not used to finance the cash-out payment, the Tender Offers. Concurrently, Olivetti received a binding commitment whereby New Telecom Italia, or, under certain circumstances, Telecom Italia and its finance subsidiary Telecom Italia Finance S.p.A., will have access to a 6.5 billion senior revolving credit facility available for short-term financial requirements including the repayment of commercial paper issued by any members of the New Telecom Italia Group, to refinance existing debt (including Telecom Italia s existing 7.5 billion facility) and for general corporate purposes. Payments for withdrawal rights and for the Tender Offers in connection with the Merger will only be made after the Merger becomes effective. In particular, Olivetti will make payments in respect of exercised withdrawal rights at the latest within 90 days of the date on which the Merger becomes effective, while payments for the Tender Offers will be made within five business days following the effectiveness of the Merger. See Pro Forma Liquidity and Capital Resources.

**Legal Proceedings**

For a description of material legal proceedings involving Telecom Italia or its affiliates and subsidiaries, please see Item 8. Financial Information Legal Proceedings of the Telecom Italia Annual Report incorporated by reference herein.

***Olivetti Group (other than Telecom Italia Group)***

**Poste Italiane**

Criminal proceedings were brought by the Rome public prosecutors against former representatives and former employees of Olivetti and of Poste Italiane S.p.A. ( **Poste Italiane** ), the Italian Postal company) regarding products and services provided by Olivetti to Poste Italiane in the early 1990s. The Rome magistrates recently acquitted all the Olivetti personnel involved in the investigation of the charge of misappropriation. The verdict became final after an appeal made by the Public Prosecutor was rejected by the Rome Court of Appeal. A Rome judge also recently acquitted all the former Olivetti managers involved in the investigations as far as alleged corruption was concerned. This decision has been appealed by the Public Prosecutor.

Disputes in the Rome courts between Olivetti and Poste Italiane. for non-payment by Poste Italiane for products and/or technical assistance are still pending. Rulings made by the courts to date are in favor of Olivetti and have been appealed by Poste Italiane.

*Personal Computer Business*

In relation to the disposal of the personal computers business in April 1997, lawsuits have been brought and are still pending before the Ivrea courts against Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A. by:

- Centenary Corporation and Centenary International, for damages of 250 billion Italian lire or 129.1 million, which the plaintiffs allege they suffered as a consequence of the acquisition of the Olivetti Group s personal computer business (through the acquisition of the specific company division, which was demerged and transferred to OP Computers S.p.A., established for that purpose);

- ex-employees of OP Computers S.p.A., claiming that the contracts relating to the aforementioned disposal of the personal computer business are null and void, to obtain reinstatement as employees of Olivetti, with payment of salary differences and damages (of 310 billion Italian lire or 160.1 million);

- the receiver of OP Computers S.p.A. (which is in bankruptcy proceedings), claiming that the contract of sale of the personal computers business by Olivetti Personal Computers to OP Computers is either null and void, or to be annulled or revoked with a claim for damages (of 158 billion Italian lire, or 81.6 million); and

- a group of ex-employees of OP Computers S.p.A., who in 1998 filed a complaint against former legal representatives of the company. The Ivrea Public Prosecutor s office is currently investigating the complaint and the case is still pending.

Olivetti and its external advisors believe that the transactions carried out regarding the disposal of the personal computers business were legal and proper, and therefore consider the above legal actions to be essentially groundless in fact and in law.

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*Piedmont International*

Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A., for their part, have brought a lawsuit against Piedmont International S.p.A. (a Centenary Group company) before the Court of Milan for the recovery of credits from the latter amounting to 100 billion Italian lire (  51.6 million) or for a higher amount to be proven in court. On February 4, 2003, the Milan Court, first grade, ordered Piedmont to pay Olivetti and Olivetti Finanziaria Industriale S.p.A. a total amount of approximately   46 million.

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**OWNERSHIP OF OLIVETTI AND TELECOM ITALIA SHARES BY DIRECTORS, EXECUTIVE OFFICERS, STATUTORY AUDITORS AND AFFILIATES**

The following table shows the shares issued by Olivetti and its subsidiaries (including Telecom Italia) that were owned by Olivetti directors, statutory auditors and their affiliates as of December 31, 2002. According to Olivetti s Code of Conduct on Internal Dealing, each of Olivetti directors and executive officers is obliged to disclose material transactions directly or indirectly undertaken on listed securities issued by Olivetti and its subsidiaries, either on a quarterly basis or immediately, depending on the value of the transaction. In 2003 no such disclosure has been made to date and therefore the following information is considered to be current.

| Name | Company | Number of shares held at end of prior year | Number of shares purchased | Number of shares sold | Number of shares held at end of 2002 (or at date of resignation) |
|---|---|---|---|---|---|
| **Board of Directors** | | | | | |
| *Chairman* | | | | | |
| Antonio Tesone | Olivetti Ordinary Shares | 224 | 0 | 0 | 224 |
| | TIM ordinary shares | 625 | 0 | 0 | 625 |
| Cesare Geronzi | Olivetti Ordinary Shares | 15,250 | 59,475 | 74,725 | 0 |
| | Telecom Italia Ordinary Shares | 0 | 3,980 | 2,180 | 1,800 |
| | Telecom Italia Ordinary Shares | 4,950 | 7,250 | 6,600 | 5,600 |
| | TIM ordinary shares | 5,000 | 4,900 | 2,900 | 7,000 |
| | SEAT ordinary shares | 23,000 | 13,000 | 36,000 | 0 |
| Alberto Pirelli | Telecom Italia Ordinary Shares | 550 | 0 | 0 | 550 |
| | TIM ordinary shares | 750 | 0 | 0 | 750 |
| | SEAT ordinary shares | 3,000 | 0 | 0 | 3,000 |
| Dario Trevisan(3) | Olivetti Ordinary Shares(1) | 6,961 | 0 | 0 | 6,961 |
| | SEAT ordinary shares | 1,000 | 0 | 0 | 1,000 |
| Alberto Varisco | SEAT ordinary shares | 5,000 | 0 | 0 | 5,000 |
| **Board of Statutory Auditors** | | | | | |
| Franco Caramanti | Telecom Italia Savings Shares | 20,000 | 0 | 0 | 20,000 |
| Chief Operating Officer | | | | | |
| Corrado Ariaudo(4) | Olivetti Ordinary Shares | 0 | 533,332(2) | 233,332 | 300,000 |
| | Telecom Italia Ordinary Shares | 50,000 | 0 | 0 | 50,000 |
| | Telecom Italia Savings Shares | 200,000 | 0 | 0 | 200,000 |
| | TIM ordinary shares | 25,000 | 0 | 0 | 25,000 |

(1) Operations carried out by separate company-managed asset portfolio.
(2) Through exercise of stock options.
(3) Resigned with effect from April 16, 2003.
(4) Resigned with effect from December 31, 2002.

For details of the listed shares issued by Telecom Italia and its subsidiaries that are owned by Telecom Italia directors, executive officers, statutory auditors and their affiliates, see Item 7. Major Shareholders and Related-Party Transactions of the Telecom Italia Annual Report incorporated by reference herein. As of June 16, 2003, apart from the director, executive officers and statutory auditor listed below, no Telecom Italia director, executive officer and statutory auditor owned Olivetti shares:

| Name | Company | Number of Shares |
|---|---|---|

| | | |
|---|---|---|
| **Directors** | | |
| Umberto Colombo | Olivetti Ordinary Shares | 14,062 |
| **Board of Statutory Auditors** | | |
| Salvatore Spiniello | Olivetti Ordinary Shares | 50,000 |
| **Executive Officers** | | |
| ***General Counsel*** | | |
| Francesco Chiappetta | Olivetti Ordinary Shares | 1,000 |
| ***Head of Information Technology Market*** | | |
| Giuseppe Tronchetti Provera | Olivetti Ordinary Shares | 47,000 |

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## VOTING SECURITIES OF NEW TELECOM ITALIA AND THE PRINCIPAL HOLDERS THEREOF

### Ownership of New Telecom Italia Ordinary Shares

For a description of the estimated percentage ownership of New Telecom Italia Ordinary Shares by Olimpia, which will be New Telecom Italia s largest shareholder, see Terms of the Transaction Reasons for the Merger Principal Business Rationales Improved Ownership Structure: Majority ownership by shareholders unaffiliated with Pirelli or Olimpia.

There are no arrangements known to Olivetti the operation of which may, at a date subsequent to the effectiveness of the Merger, result in any entity acquiring control of New Telecom Italia.

For a description of certain shareholders agreements concerning Olimpia, Olivetti s largest shareholder, see Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to the shareholders agreements concerning Olimpia have not sent any notification concerning the possible effects of the Merger on such agreements.

### Ownership of New Telecom Italia Shares by Directors, Executive Officers and Statutory Auditors

The following table shows certain information about the ownership of New Telecom Italia s Ordinary Shares and Savings Shares by New Telecom Italia directors and executive officers as a group and by the members of New Telecom Italia Board of Statutory Auditors as a group as a result of the ownership of Olivetti and Telecom Italia Ordinary and Savings Shares at June 16, 2003 after giving effect to the Merger.

| Title of Class | Owner | Number Owned(1) | % of Class(1) |
|---|---|---|---|
| Ordinary Shares | Directors and executive officers as a group (27 persons)(2) | 333,653 | 0.0033% |
| | Board of Statutory Auditors as a group (5 persons) | 92,672 | 0.0009% |
| Savings Shares | Directors and executive officers as a group (27 persons)(2) | 103,793 | 0.0017% |
| | Board of Statutory Auditors as a group (5 persons) | 250,638 | 0.0041% |

(1) Based on the actual number of Olivetti Ordinary Shares in respect of which withdrawal rights were exercised and assuming no Conversions (except for Conversions already requested through June 24, 2003) and full acceptance of the Tender Offers.

(2) Both the current Olivetti executive officers and the current Telecom Italia executive officers are included.

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## MANAGEMENT INFORMATION SUBSEQUENT TO THE MERGER

### Directors, Executive Officers and Statutory Auditors of Olivetti

*Board of Directors of Olivetti*

The following are the members of the Olivetti Board of Directors as of June 23, 2003(1).

| Name | Age | Position | Appointed |
|---|---|---|---|
| Antonio Tesone | 79 | Chairman | October 13, 2001 |
| Marco Tronchetti Provera | 55 | Deputy Chairman and Chief Executive Officer | October 13, 2001 |
| Gilberto Benetton | 62 | Deputy Chairman | October 13, 2001 |
| Carlo Buora | 57 | Managing Director | October 13, 2001 |
| Lorenzo Caprio | 45 | Director | October 13, 2001 |
| Giorgio Cirla | 63 | Director | October 13, 2001 |
| Pier Luigi Fabrizi | 55 | Director | October 13, 2001 |
| Cesare Geronzi | 68 | Director | October 13, 2001 |
| Gianni Mion | 59 | Director | October 13, 2001 |
| Giampietro Nattino | 68 | Director | October 13, 2001 |
| Paola Pierri | 43 | Director | May 26, 2003(2) |
| Alberto Pirelli | 48 | Director | October 13, 2001 |
| Carlo Alessandro Puri Negri | 51 | Director | October 13, 2001 |
| Gian Carlo Rocco Di Torrepadula | 60 | Director | May 26, 2003(2) |
| Alberto Varisco | 62 | Director | October 13, 2001 |

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

(2) Mrs. Pierri was previously co-opted to the Board on November 7, 2002 and Mr. Rocco was co-opted to the Board on September 5, 2002.

Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Olivetti directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

***Executive Officers of Olivetti***

The following are the executive officers of Olivetti as of June 23, 2003.

| Name | Age | Position | Appointed |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Loris Bisone | 55 | Legal Affairs | July 9, 1999 |
| Mario Ferrero | 54 | Administration Department | October 30, 1995 |
| Angelo Landriani | 52 | Human Resources | January 1, 2001 |
| Luigi Premoli | 43 | Finance Department | March 15, 2002 |

***Board of Statutory Auditors of Olivetti***

The Olivetti Board of Statutory Auditors was appointed at Olivetti s shareholders meeting held on May 26, 2003 and will expire with the approval of the 2005 financial statements. The following are the members of the Olivetti Board of Statutory Auditors.

| Name | Position | Appointed |
|---|---|---|
| Ferdinando Superti Furga | Chairman | May 26, 2003(1) |
| Gianfranco Zanda | Auditor | May 26, 2003 |
| Salvatore Spiniello | Auditor | May 26, 2003 |
| Paolo Golia | Auditor | May 26, 2003 |
| Rosalba Casiraghi | Auditor | May 26, 2003 |
| Enrico Laghi | Alternate | May 26, 2003 |
| Enrico Maria Bignami | Alternate | May 26, 2003 |

(1) Mr. Superti Furga was appointed to the Statutory Board of Auditors on May 26, 2003; he became Chairman of the Statutory Board of Auditors on June 3, 2003.

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**Directors, Executive Officers and Statutory Auditors of Telecom Italia**

For a complete list of the current directors, senior management and Board of Statutory Auditors of Telecom Italia, see Item 6. Directors, Senior Management and Employees in the Telecom Italia Annual Report incorporated by reference herein.

***Voto di lista***

Pursuant to Telecom Italia s bylaws, the election of directors and statutory auditors, other than those appointed pursuant to the special powers described in Comparison of Shareholders Rights Limitations on Shareholders; Special Powers of the State , is made through the *voto di lista* system. The *voto di lista* system is primarily aimed at ensuring that minority shareholders are represented on the Telecom Italia Board and the Telecom Italia Board of Statutory Auditors. For the Telecom Italia Board of Statutory Auditors, representation of minority shareholders is mandatory.

By the *voto di lista* system, the Telecom Italia Board is elected on the basis of lists or slates of candidates presented by the shareholders or by the outgoing Telecom Italia Board; candidates are listed by means of progressive numbers. Each shareholder may submit only one slate, and each candidate may appear only on one slate. Only those shareholders who alone or together with other shareholders hold a total number of Telecom Italia Ordinary Shares representing at least 1% of the share capital entitled to vote at the shareholders meeting may submit slates. Each person entitled to vote may vote for only one slate. Four-fifths of the directors to be elected are chosen from the slate that obtains the highest number of shareholders votes in the progressive order in which they are listed on the slate. The remaining directors are chosen from the other slates; the votes obtained by the various slates are successively divided by one, two, three or four, depending on the number of directors to be chosen, and the quotients obtained are assigned progressively to candidates on each of these slates, in the order respectively specified on the slate. The quotients thus assigned to the candidates on the various slates are arranged in a single decreasing order. Those candidates who have obtained the highest quotients are elected to the Telecom Italia Board.

The election of the Telecom Italia Board of Statutory Auditors is governed by the same procedures used for the election of the Telecom Italia Board as far as presentation, filing and publication of slates are concerned. Since the Telecom Italia Board of Statutory Auditors consists of more than three members, in accordance with Italian law, two members must be elected from slates proposed by minority shareholders.

***Olivetti s Election of Telecom Italia Directors***

As the controlling shareholder of Telecom Italia, Olivetti, through the *voto di lista* , has elected four-fifths of the Telecom Italia Directors. Most of the current Directors of Telecom Italia were elected at the Telecom Italia shareholders meeting held on November 7, 2001. The shareholders meeting was called following the resignation of the previous Board of Directors following Olimpia s acquisition of its stake in Olivetti. See Terms of the Transaction Background of the Merger The Pirelli-Olimpia Transaction.

The current Telecom Italia directors which were chosen from the slate submitted by Olivetti are:

- Mr. Marco Tronchetti Provera;
- Mr. Gilberto Benetton;
- Mr. Carlo Buora;
- Mr. Gianni Mion;
- Mr. Massimo Moratti;
- Mr. Carlo Alessandro Puri Negri; and
- Mr. Pier Francesco Saviotti.

Messrs. Enrico Bondi and Luigi Grandi were also chosen from the slate submitted by Olivetti, but they resigned in 2002 and were replaced by Messrs. Riccardo Ruggiero and Pietro Modiano, in accordance with the ordinary rules (i.e., by the shareholders meeting on December 12, 2002, with the absolute majority of those present).

Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Telecom Italia directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia. The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

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There is currently a significant overlap between the Olivetti Board of Directors and the Telecom Italia Board of Directors. The following sit on both the Olivetti and Telecom Italia Boards of Directors.

- Mr. Marco Tronchetti Provera (Chairman of the Board of Directors of Telecom Italia and Deputy Chairman and Managing Director of Olivetti);
- Mr. Gilberto Benetton (Deputy Chairman of both the Telecom Italia and Olivetti Boards of Directors);
- Mr. Carlo Buora (director and Managing Director of both Telecom Italia and Olivetti);
- Mr. Gianni Mion (director of both Telecom Italia and Olivetti); and
- Mr. Carlo Alessandro Puri Negri (director of both Telecom Italia and Olivetti).

**Directors, Executive Officers and Statutory Auditors of New Telecom Italia**

Olivetti s directors, recognizing that New Telecom Italia will be inherently different from Olivetti as it is now, determined that it would be appropriate that the direction of New Telecom Italia remain entrusted essentially to the directors of Telecom Italia. Accordingly, the members of the Olivetti Board have declared that, upon effectiveness of the Merger, they will consider their mandate as directors of Olivetti to be essentially completed. At the April 15, 2003 meeting of the Olivetti Board, the members of the Olivetti Board tendered their resignation with effect from the date of effectiveness of the Merger (apart from one director, Mr. Dario Trevisan, who resigned effective as of April 16, 2003).

At the Olivetti shareholders meeting held on May 26, 2003, the Olivetti shareholders appointed a new Board of Directors that essentially reproduced the current Telecom Italia Board and, upon effectiveness of the Merger, will become the Board of Directors of New Telecom Italia. The new Board was appointed with the absolute majority of the shareholders who attended the meeting, consistent with the current procedure for appointing Olivetti s Board of Directors. The names, ages and positions of the members of the New Telecom Italia Board of Directors as from the date of effectiveness of the Merger are provided below.

| Name | Age | Position(1) |
|---|---|---|
| Gilberto Benetton | 62 | Director |
| Carlo Buora | 57 | Director |
| Umberto Colombo | 75 | Director |
| Giovanni Consorte | 55 | Director |
| Francesco Denozza | 56 | Director |
| Luigi Fausti | 74 | Director |
| Guido Ferrarini | 52 | Director |
| Natalino Irti | 67 | Director |
| Gianni Mion | 59 | Director |
| Pietro Modiano | 51 | Director |
| Massimo Moratti | 58 | Director |
| Carlo Alessandro Puri Negri | 51 | Director |
| Marco Tronchetti Provera | 55 | Director |

| | | |
|---|---|---|
| Riccardo Ruggiero | 42 | Director |
| Pier Francesco Saviotti | 61 | Director |

(1) Pending the effectiveness of the appointment, no executive powers have been granted.

The term of the New Telecom Italia Board of Directors will expire in 2004 after the approval of the 2003 financial statements. Consistent with the New Telecom Italia bylaws, the Board of Directors of New Telecom Italia that will be elected in 2004 will be elected under the *voto di lista* system currently applicable to Telecom Italia and described above.

Olimpia, who will be New Telecom Italia s largest shareholder, will have the ability under the *voto di lista* system to propose a slate of directors and therefore may have the ability to cause its slate to obtain the majority of the shareholders vote. If this is the case, Olimpia will be able to elect four-fifths of the directors of New Telecom Italia and consequently have substantial involvement in the day-to-day activities of New Telecom Italia and a significant influence on all matters to be decided by a vote of shareholders. See Item 4. Information on the Telecom Italia Group Business Significant Developments during 2002 The Pirelli-Olimpia Transaction of the Telecom Italia Annual Report incorporated by reference herein.

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Pursuant to the Agreements, the Agreements with the Banks and the Expanded Olimpia Shareholders Agreement, Pirelli, Edizione Finance, Banca Intesa, Unicredito and Hopa have certain rights in connection with the election of Olivetti and Telecom Italia directors. See Material Contracts Contracts and Shareholders Agreements Concerning Olimpia . The parties to such agreements have not sent any notification concerning the possible effects of the Merger on such agreements.

For biographical information relating to the New Telecom Italia directors, see Item 6. Directors, Senior Management and Employees Biographical Data in the Telecom Italia Annual Report incorporated by reference herein.

***Executive Officers of New Telecom Italia***

Under Italian law, the adoption of a new organizational and management structure (including the appointment of new or additional executive officers) for the surviving entity in a merger is not required as a condition to the completion of a merger. Therefore, the New Telecom Italia executive officers are expected to be the executive officers of Telecom Italia and Olivetti on the effective date of the Merger, subject to changes made in the ordinary course of business and as otherwise described above. As of the date of this Information Statement, no decision has been made regarding any such changes.

***Board of Statutory Auditors of New Telecom Italia***

In accordance with Italian law, there is no requirement to change the members of the Olivetti Board of Statutory Auditors pursuant to the Merger. At the shareholders meeting of May 26, 2003, the Olivetti shareholders elected a new Board of Statutory Auditors which is the same as the Board of Statutory Auditors of Telecom Italia. See Directors, Executive Officers and Statutory Auditors of Olivetti Olivetti Statutory Auditors above. As a result of the Merger and Telecom Italia not being the surviving company, the Board of Statutory Auditors of Olivetti, as elected on May 26, 2003, will become the Board of Statutory Auditors of New Telecom Italia. For further details on this new Board of Statutory Auditors, see Item 6. Directors, Senior Management and Employees Board of Statutory Auditors of the Telecom Italia Annual Report incorporated by reference herein.

The election of the New Telecom Italia Board of Statutory Auditors will be governed substantially by the same procedures used for the election of the Telecom Italia Board as far as presentation, filing and publication of slates are concerned. According to New Telecom Italia s bylaws, the Board of Statutory Auditors will be composed of either five or seven members.

***Outside Auditors***

The consolidated financial statements of Olivetti (i.e., New Telecom Italia) are required to be audited by independent auditors appointed by the shareholders meeting. Both the Olivetti Group s consolidated financial statements and Telecom Italia s financial statements have been audited by Ernst & Young. According to Italian law, such appointment is for three years and the shareholders meeting may not appoint the same external auditors for more than three consecutive three-year terms. Ernst & Young has audited the financial statements of Olivetti since the fiscal year ending December 31, 2001. The appointment of Ernst & Young was for the three year period 2001- 2003.

**Options to Purchase Securities from New Telecom Italia in the Aggregate**

For a description of the Olivetti and Telecom Italia stock option plans, respectively, see Note 28(o) of Notes to the audited financial statements of Olivetti and Item 6. Directors, Senior Management and Employees Options to Purchase Securities From Registrant of the Telecom Italia Annual Report incorporated by reference herein.

**Interest of Management in Certain Transactions**

For a presentation of the related party transactions involving members of the Olivetti Board and the companies in which they hold corporate office or significant responsiblity see Note 28(w) to the audited financial statements of Olivetti included in this Information Statement.

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## COMPARISON OF SHAREHOLDERS RIGHTS

There are no differences between the rights of Telecom Italia Savings Shares and the rights of New Telecom Italia Savings Shares. The New Telecom Italia Savings Shares will have identical economic rights to those of the existing Telecom Italia Savings Shares, including the possibility of satisfying the preferential rights provided for in the bylaws by means of distributing reserves. For a description of Telecom Italia Savings Shares and the rights of holders with respect thereto, see Item 10. Additional Information Description of Bylaws and Capital Stock in the Telecom Italia Annual Report incorporated by reference herein.

Included below is a description of the (i) special powers of the Italian Government in the New Telecom Italia bylaws and (ii) other relevant aspects of the bylaws of New Telecom Italia (attached hereto as Annex B), as approved by the ordinary shareholders of Olivetti and Telecom Italia at their respective extraordinary meetings held on May 26, 2003 (Olivetti) and May 24, 2003 (Telecom Italia).

### Limitations on Shareholders; Special Powers of the State

Telecom Italia s current bylaws contain clauses that give the Minister for the Economy and Finance certain special powers, to be exercised in agreement with the Minister for Productive Activities, in application of Article 2 of Law 474/1994. These powers, which include, *inter alia*, the right to veto the adoption of merger resolutions and amendments to the bylaws that would suppress or alter the powers themselves, were introduced into Telecom Italia s bylaws under a Decree of the Prime Minister dated March 21, 1997 in the light of the sector of the company s operations (telecommunications) and with a view to its privatization. On May 22, 2003, the Minister for the Economy and Finance issued a Decree stating that it is necessary to maintain in the bylaws of New Telecom Italia the power of assenting to the acquisition of major shareholdings (equal to at least 3%) in New Telecom Italia s capital and the power of veto as set out in the current bylaws of Telecom Italia. However, pursuant to the Decree issued on May 22, 2003, the power of assenting to New Telecom Italia s major shareholders agreements and the power of appointment of one director and one Statutory Auditor of New Telecom Italia were relinquished.

### Other changes reflected in the New Telecom Italia Bylaws

Article 5 of the New Telecom Italia bylaws, which addresses the share capital of New Telecom Italia, incorporates a series of amendments to take into account, in particular, the assignment mechanics of the New Telecom Italia Shares issued for the purpose of the exchange and the adjustments necessary, in the light of the new amount of the share capital following the Merger, for the conversion of the convertible bonds and the exercise of the warrants issued by Olivetti and for the stock-option plans approved by Olivetti and Telecom Italia.

New Telecom Italia will also take over Telecom Italia s stock-option plans and will therefore honor the stock options already assigned thereunder. To this end, Olivetti has approved corresponding increases in capital permitting the issue, in relation to such stock options, of a number of shares to be updated in accordance with the Assignment Ratio provided for in the Plan of Merger, while the exercise price will remain unchanged. The owner of Telecom Italia stock options will therefore maintain the right to subscribe, at the price already fixed, the larger number of shares of New Telecom Italia established on the basis of the Assignment Ratio (as opposed to the original number of Telecom Italia Shares). The exact quantification of the new quantities that can be subscribed will only be possible at the time the Deed of Merger is executed and the Assignment Ratio is officially determined.

The New Telecom Italia bylaws will include an ad hoc article (Article 6) concerning the New Telecom Italia Savings Shares. In accordance with Article 145 of the Consolidated Law, the article will specify the substance of the preferential rights attaching to the New Telecom Italia Savings Shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof, and will describe the legal treatment of this class of shares in the event of the delisting of the New Telecom Italia Ordinary Shares or New Telecom Italia Savings Shares. The preferential rights of the New Telecom Italia Savings Shares to be issued in exchange will be the same as those of the Telecom Italia Savings Shares, including the possibility of satisfying the economic rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws, with immediate effect, was proposed and approved at the shareholders meeting called to approve the Merger.

As regards corporate governance, the bylaws of New Telecom Italia will provide for a board of directors of not less than 7 and not more than 23 members, appointed by means of a slate mechanism which is based in large part on the mechanism provided for in Telecom Italia s current bylaws (see the text of the bylaws attached to the Plan of Merger; Annex A).

**SECURITIES TRADING IN ITALY**

Since July 1994, all Italian equity securities have been traded on Telematico except for those of certain smaller companies and cooperative banks traded on *Mercato Ristretto* under certain specific rules concerning trading hours and procedures and for those of high growth companies traded on *Nuovo Mercato*.

Telematico operates under the control of CONSOB, the public authority charged, among other things, with regulating securities markets and all public offerings of securities in Italy, and is managed by Borsa Italiana a joint stock company previously owned by the Treasury, sold through a tender offer to authorized intermediaries.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third business day following the trading date. Borsa Italiana issues a daily official list with certain information on transactions in each listed security, including the volume traded and the high and low prices of the day. No closing price is reported, but an official price calculated as a weighted average price of all trades effected during the trading day and a reference price[2] The Bank of Italy clearing system assists with the settlement of transactions and the delivery of securities traded.

Residents of Italy and non-residents through their authorized agents may purchase or sell shares on Telematico, subject to satisfying (i) in case of sales, either the Margin or the Deposit, and (ii) in case of purchases, the Margin. Margin means a deposit equal to 100% of the agreed price, and Deposit means a deposit of an equal number of the same shares as those sold. If in the course of a trading day the maximum price variation between two consecutive contracts is ±5%, or maximum price variation of the contracts with respect to the control price[3] is ±10% an automatic five-minute suspension is declared. In the event of such a suspension, effect is not given to trades agreed but not confirmed before the suspension. In addition, Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

Starting May 15, 2000 the most liquid shares traded on Telematico, including the Shares and the TIM ordinary shares, have been traded on Mercato After Hours , an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 8.30 p.m. on every trading day, substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

American style call and put options are traded on the derivative market managed by Borsa Italiana which currently include the Shares, the Savings Shares and the TIM ordinary shares.

Effective July 1, 1998, the Italian financial markets have been regulated by the Draghi Law. With the Draghi Law, the Italian Government has introduced new laws and regulations governing some aspects of the financial sector and, in particular: (i) brokers and firms managing financial instruments; (ii) the Italian regulated Stock Exchanges; (iii) the offering to the public of financial instruments; (iv) public tender offers; (v) some aspects of corporate governance of listed companies; and (vi) insider trading. The Draghi Law contains framework provisions which have been implemented by specific regulations.

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2 The reference price shall be the closing auction price. Where it is not possible to determine the closing auction price, the reference price shall be the weighted average price of the last 10% of the quantiry traded. Where no contracts have been concluded during the session,

the reference price shall be determined by the Italian Exchange on the basis of a significant number of best bids and offers on the book during the session, giving greater weight to the most recent.

[3] The daily control price shall be the reference price in the opening auction, the opening-auction price during continuous trading; the opening-auction price in the closing auction.

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## CLEARANCE AND SETTLEMENT OF NEW TELECOM ITALIA SHARES

Legislative Decree No. 213 of June 24, 1998 ( **Dematerialization Decree** ) provided for the dematerialization of financial instruments publicly traded on regulated markets including treasury bonds. From July 9, 1998, all companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of New Telecom Italia Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of New Telecom Italia Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those New Telecom Italia Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their New Telecom Italia Savings Shares. All new issues of New Telecom Italia Savings Shares and all other transactions involving New Telecom Italia Savings Shares must settle electronically in book-entry form.

New Telecom Italia Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such New Telecom Italia Savings Shares through Euroclear or Clearstream (outside the United States).

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## DESCRIPTION OF ADR FACILITY FOR NEW TELECOM ITALIA SAVINGS SHARES

JPMorgan Chase Bank, as Depositary, will issue the New Telecom Italia Savings Share ADSs pursuant to a Deposit Agreement (the **Deposit Agreement** ) among New Telecom Italia, JPMorgan Chase Bank and each New Telecom Italia Savings Share ADR holder. Each New Telecom Italia Savings Share ADS will represent an ownership interest in 10 New Telecom Italia Savings Shares deposited with a custodian, as agent of the Depositary, under the Deposit Agreement among New Telecom Italia, the Depositary and each holder of New Telecom Italia Savings Share ADSs. In the future, each New Telecom Italia Savings Share ADS will also represent any securities, cash or other property deposited with the Depositary but which they have not distributed directly to a holder of New Telecom Italia Savings Share ADSs. Unless specifically requested by a holder of New Telecom Italia Savings Share ADSs, all New Telecom Italia Savings Share ADSs will be issued on the books of the Depositary in book-entry form and a statement will be mailed to such holder that reflects such holder s ownership interest in such ADSs. In this description, references to American Depositary Receipts or ADRs shall include the statements holder of New Telecom Italia Savings Share ADSs will receive that reflect such holder s ownership of New Telecom Italia Savings Share ADSs.

The Depositary s office is located at 1 Chase Manhattan Plaza, New York, NY 10081.

A holder of New Telecom Italia Savings Share ADSs may hold such ADSs either directly or indirectly through a broker or other financial institution. If a holder holds the New Telecom Italia Savings Share ADSs directly, by having ADSs registered in such holder s name on the books of the Depositary, such holder will be a New Telecom Italia Savings Share ADR holder. This description assumes a holder of New Telecom Italia Savings Share ADSs will hold such ADSs directly. If a holder holds New Telecom Italia Savings Share ADSs through a broker or financial institution nominee, such holder must rely on the procedures of the broker or financial institution to assert the rights of a New Telecom Italia Savings Share ADR holder described in this section. Each holder of New Telecom Italia Savings Share ADSs should consult with his or her broker or financial institution about such procedures.

Because the Depositary s nominee will actually be the registered owner of the New Telecom Italia Savings Shares, holders of New Telecom Italia Savings Share ADSs must rely on the Depositary to exercise certain rights of a shareholder on their behalf. The Deposit Agreement will set out the obligations of the Depositary and its agents. New York law will govern the Deposit Agreement and the New Telecom Italia Savings Share ADSs.

The following is a summary of the material terms of the Deposit Agreement. Because it is a summary, it does not contain all the information that may be important to a holder of New Telecom Italia Savings Share ADSs. For more complete information, each holder of New Telecom Italia Savings Share ADSs should read the entire Deposit Agreement and the form of ADR that contains the terms of such holders New Telecom Italia Savings Share ADSs. The Deposit Agreement will be available at the offices of the Depositary during normal business hours on advance notice. Any holder of New Telecom Italia Savings Share ADSs will also be able to obtain a copy of the Deposit Agreement at the SEC s Public Reference Room, located at 450 Fifth Street, N.W., Washington, D.C. 20549. Any holder of New Telecom Italia Savings Share ADSs may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

### Share Dividends and Other Distributions

New Telecom Italia may make various types of distributions with respect to its securities. The Depositary has agreed to pay to each holder of New Telecom Italia Savings Shares the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting any fees and expenses. Each holder of New Telecom Italia Savings Share ADSs will receive these distributions in proportion to the number of underlying shares that such holder s ADSs represent.

Except as stated below, to the extent the Depositary is legally permitted, the Depositary will deliver distributions to ADR holders in proportion to their interests in the following manner:

- *Cash.* The Depositary will distribute any dollar available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an average or other practicable basis, subject to:

    appropriate adjustments for taxes withheld; and

    deduction of the Depositary s expenses in (1) converting any foreign currency to dollars to the extent that it determines that the conversion may be made on a reasonable basis, (2) transferring

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foreign currency or dollars to the United States by such means as the Depositary may determine to the extent that it determines that the transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for the conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

The Depositary will not make any distribution to certain registered holders if it would be impermissible or impractical to make such distribution. If exchange rates fluctuate during a time when the Depositary converts a foreign currency, a holder of New Telecom Italia Savings Share ADSs may lose some or all of the value of a distribution.

- *Shares.* In the case of a distribution in New Telecom Italia Savings Shares, the Depositary will issue additional New Telecom Italia Savings Share ADRs to evidence the whole number of New Telecom Italia Savings Share ADSs representing such New Telecom Italia Savings Shares. The Depositary will issue only whole New Telecom Italia Savings Share ADSs. Any New Telecom Italia Savings Shares that would result in fractional New Telecom Italia Savings Share ADSs will be sold and the net proceeds will be distributed to the New Telecom Italia Savings Share ADR holders entitled thereto.

- *Rights to Receive Additional Shares.* In the case of a distribution of rights to subscribe for additional New Telecom Italia Savings Shares or other rights, if New Telecom Italia provides satisfactory evidence to the Depositary that the Depositary may lawfully distribute the rights (New Telecom Italia has no obligation to furnish such evidence), the Depositary may arrange for New Telecom Italia Savings Share ADR holders to instruct the Depositary as to the exercise of the rights. However, if New Telecom Italia does not furnish such evidence or if the Depositary determines it is not practical to distribute the rights, the Depositary may:

  sell the rights if practicable and distribute the net proceeds as cash; or

  allow the rights to lapse, in which case New Telecom Italia Savings Share ADR holders will receive nothing.

New Telecom Italia has no obligation to file a registration statement under the Securities Act of 1933, as amended, in order to make any rights available to New Telecom Italia Savings Share ADR holders.

- *Other Distributions.* In the case of a distribution of securities or property other than those described above, the Depositary may:

  distribute such securities or property in any manner it deems equitable and practicable;

  to the extent the Depositary deems distribution of the securities or property not to be equitable and practicable, sell the securities or property and distribute any net proceeds in the same way it distributes cash; or

  hold the distributed property in which case the New Telecom Italia Savings Share ADSs will also represent the distributed property.

Any dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. The Depositary will withhold fractional cents without liability for interest and will add them to future cash distributions.

The Depositary may choose any practical method of distribution for any specific New Telecom Italia Savings Share ADR holder, including the distribution of foreign currency, securities or property, or it may retain these items, without paying interest on or investing them, on behalf of the New Telecom Italia Savings Share ADR holder as deposited securities.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any New Telecom Italia Savings Share ADR holders.

*The Depositary may not be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price or complete that any of these transactions within a specified time period.*

**Deposit, Withdrawal and Cancellation**

***Issuance of ADSs***

The Depositary will issue New Telecom Italia Savings Share ADSs to or upon the order of those who deposit New Telecom Italia Savings Shares or evidence of rights to receive New Telecom Italia Savings Shares with the custodian for the Depositary.

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New Telecom Italia Savings Shares deposited in the future with the custodian for the Depositary must be accompanied by certain documents, including instruments showing that the New Telecom Italia Savings Shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian for the Depositary will hold all deposited New Telecom Italia Savings Shares for the account of the Depositary. New Telecom Italia Savings Share ADR holders thus have no direct ownership interest in the New Telecom Italia Savings Shares and only have rights defined in the Deposit Agreement. The custodian for the Depositary will also hold any additional securities, property and cash received on or in substitution for the deposited New Telecom Italia Savings Shares. The deposited New Telecom Italia Savings Shares and any of these additional items are referred to as deposited securities.

New Telecom Italia Savings Shares or evidence of rights to receive New Telecom Italia Savings Shares may be deposited through (x) electronic transfer of such shares to the account maintained by the custodian for such purpose at Monte Titoli, (y) evidence satisfactory to the custodian of irrevocable instructions to cause such New Telecom Italia Savings Shares to be transferred to such account or (z) delivery of the certificates representing such New Telecom Italia Savings Shares. Upon each deposit of New Telecom Italia Savings Shares, receipt of related delivery documentation and compliance with the other provisions of the Deposit Agreement, including the payment of the fees and charges of the Depositary and any taxes or other fees or charges owing, the Depositary will issue a New Telecom Italia Savings Share ADR or New Telecom Italia Savings Share ADRs in the name of the person entitled thereto evidencing the number of New Telecom Italia Savings Share ADSs to which the person is entitled. Certificated New Telecom Italia Savings Share ADRs will be delivered at the Depositary s principal New York office or any other location that it may designate as its transfer office. New Telecom Italia Savings Share ADRs issued in book-entry form will be reflected on a statement which will be mailed to the address set forth on the books of the Depositary.

***Cancellation of ADSs***

When a holder of New Telecom Italia Savings Shares turns in his or her New Telecom Italia Savings Share ADSs at the Depositary s office, the Depositary will, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions, deliver the underlying shares to such holder s attention at an account of an accredited financial institution on such holder s behalf.

The Depositary will effect the delivery to a holder of New Telecom Italia Savings Shares or upon such holder s order of only that portion of the deposited securities comprising a unit or an integral multiple thereof. Currently a unit comprises 10 New Telecom Italia Savings Shares. The Depositary will promptly advise each holder of New Telecom Italia Savings Shares as to the amount of deposited securities, if any, represented by the New Telecom Italia Savings Share ADSs such holder has surrendered that it cannot deliver as a result of the unit requirement. At each holder s risk, expense and request, the Depositary may deliver deposited securities at another place such holder may request.

The Depositary may only restrict the withdrawal of deposited securities in connection with matters covered by general instruction I.A.(1) of Form F-6, which, on the date hereof, includes:

- temporary delays caused by closing New Telecom Italia s transfer books or those of the Depositary or the deposit of shares in connection with voting at a shareholders meeting or the payment of dividends;
- the payment of fees, taxes and similar charges; or

- compliance with any U.S. or foreign laws or governmental regulations relating to the New Telecom Italia Savings Share ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the Deposit Agreement.

**Voting Rights**

Upon receipt of notice of any meeting or solicitation of consents or proxies of New Telecom Italia Savings Share ADR holders, the Depositary will, unless otherwise instructed by New Telecom Italia, promptly thereafter, distribute to all New Telecom Italia Savings Share ADR holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the New Telecom Italia Savings Share ADR holders, as of the close of business on a specified record date, will be entitled, subject to applicable provisions of Italian law and of New Telecom Italia s certificate of incorporation and bylaws (any such provisions will be summarized in such notice), to instruct the

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Depositary as to the exercise of voting rights, if any (subject to compliance by such holder with the requirements described below) pertaining to the number of New Telecom Italia Savings Shares represented by their respective New Telecom Italia Savings Share ADSs, (iii) if applicable, a statement as to the manner in which such New Telecom Italia Savings Share ADR holders may request a certificate for such meeting attesting that beneficial ownership of the related New Telecom Italia Savings Shares is in the name of the New Telecom Italia Savings Share ADR holders and therefore enabling them to exercise voting rights with respect to the New Telecom Italia Savings Shares represented by their New Telecom Italia Savings Share ADSs without the use of Voting Proxy Cards as defined hereinafter (the **Certificate** ), (iv) if applicable, a proxy card (the **Voting Proxy Card** ) pursuant to which such New Telecom Italia Savings Share ADR holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such Voting Proxy Card as hereinafter described, and (v) such other information, including any such modification to the foregoing procedures, as agreed between the Depositary and New Telecom Italia.

The Voting Proxy Card will, among other things, require the New Telecom Italia Savings Share ADR holder to set forth its name and the number of such holder s New Telecom Italia Savings Share ADSs, authorize the Depositary (or the broker, custodian or other nominee holding such holders New Telecom Italia ADRs) to prohibit any transfers of New Telecom Italia Shares evidenced by such New Telecom Italia Savings Share ADRs for a period of time (i) as set forth by applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of New Telecom Italia s certificate of incorporation and bylaws and in any case (ii) beginning from the issuance of the Certificate for such meeting and ending at the end of the day on the date upon which such meeting is held with a quorum (the Blocked Period ) and authorize the Depositary to request the Custodian to cause the name and address of such New Telecom Italia Savings Share ADR holder to be registered in the share register of New Telecom Italia during such Blocked Period and to issue or cause to be issued a Certificate for such meeting during such Blocked Period in respect of the number of New Telecom Italia Savings Shares represented by such Holder s New Telecom Italia Savings Share ADSs. If practicable, the Depositary shall provide New Telecom Italia with written notice of the number of New Telecom Italia Savings Shares and the number of New Telecom Italia Savings Share ADR holders (including the name of the holder, if practicable) for which the Depositary has been appointed as a proxy.

Upon receipt by the Depositary of a properly completed Voting Proxy Card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and New Telecom Italia s certificate of incorporation and bylaws, to vote or cause to be voted the New Telecom Italia Savings Shares underlying such New Telecom Italia Savings Share ADRs in accordance with any nondiscretionary instructions set forth in such Voting Proxy Card. The Depositary will not vote, or attempt to exercise the right to vote that attaches to New Telecom Italia Savings Shares underlying such New Telecom Italia Savings Share ADRs, other than in accordance with such instructions.

A New Telecom Italia Savings Share ADR holder desiring to exercise voting rights with respect to the New Telecom Italia Savings Shares represented by its New Telecom Italia Saving Share ADSs without the use of Voting Proxy Cards may do so by (A) depositing its New Telecom Italia Savings Share ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such holder, the number of New Telecom Italia Savings Share ADSs represented by New Telecom Italia Savings Share ADRs held by such Holder and any other information required in accordance with Italian law or New Telecom Italia s certificate of incorporation and bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a Certificate for such meeting, and to give notice to New Telecom Italia of such holder s intention to vote the New Telecom Italia Savings Shares underlying its New Telecom Italia Savings Share ADRs. By giving the instructions set forth under clause (B) above, holders of New Telecom Italia Savings Share ADRs will be deemed to have authorized the Custodian to prohibit any transfers of the related New Telecom Italia Savings Shares for the Blocked Period. Each Holder understands and agrees that a precondition for the issue of the Certificate for a specific meeting by the Custodian may be that beneficial ownership of the related New Telecom Italia Savings Shares has been in the name of the New Telecom Italia Saving Share ADR holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of New Telecom Italia s certificate of incorporation and bylaws.

Under Italian law, shareholders at shareholders meetings may modify the resolutions presented for their approval by the Board of Directors. In such case holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

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The Depositary and New Telecom Italia agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable holders of New Telecom Italia Savings Share ADRs to vote the New Telecom Italia Savings Shares underlying their New Telecom Italia Savings Share ADRs.

**Record Dates**

The Depositary may, subject to the provisions of the Deposit Agreement fix record dates, which will be as close as possible to the record date on the New Telecom Italia Savings Shares, for the determination of the New Telecom Italia Savings Share ADR holders who will be entitled:

- to receive a dividend, distribution or rights, or
- to give instructions for the exercise of voting rights at a meeting of holders of ordinary shares or other deposited securities.

**Reports and Other Communications**

The Depositary will make available for inspection by New Telecom Italia Savings Share ADR holders any written communications from New Telecom Italia that are both received by the custodian for the Depositary or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. New Telecom Italia will furnish these communications in English when so required by any rules or regulations of the Securities and Exchange Commission.

Additionally, if New Telecom Italia makes any written communications generally available to holders of its shares, including the Depositary or the custodian for the Depositary, and the Depositary or the custodian actually receive those written communications, the Depositary will distribute copies of them, or, at its option, summaries of them to New Telecom Italia Savings Share ADR holders.

**Fees and Expenses**

The Depositary will charge New Telecom Italia Savings Share ADR holders a fee for each issuance of New Telecom Italia Savings Share ADSs, including issuances resulting from distributions of New Telecom Italia Savings Shares, rights and other property, and for each surrender of New Telecom Italia Savings Share ADSs in exchange for deposited securities. The fee in each case is $5.00 for each 100 New Telecom Italia Savings Share ADSs, or any portion thereof, issued.

The following additional charges, whichever is applicable, will be incurred by the New Telecom Italia Savings Share ADR holders, by any party depositing or withdrawing New Telecom Italia Savings Shares or by any party surrendering New Telecom Italia Savings Share ADRs or to whom New Telecom Italia Savings Share ADRs are issued, including, without limitation, issuance pursuant to a stock dividend or stock split declared by New Telecom Italia or an exchange of stock regarding the New Telecom Italia Savings Share ADRs or the deposited securities or a distribution of New Telecom Italia Savings Share ADRs:

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at a holder s request;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- expenses of the Depositary in connection with the conversion of foreign currency into dollars; and
- such fees and expenses as are incurred by the Depositary in delivery of deposited securities or otherwise in connection with the Depositary s or its custodian s compliance with applicable law, rule or regulation.

We will pay all other charges and expenses of the Depositary and any agent of the Depositary, except the custodian for the Depositary, pursuant to agreements from time to time between New Telecom Italia and the Depositary. The fees described above may be amended from time to time.

**Payment of Taxes**

New Telecom Italia Savings Share ADR holders must pay any tax or other governmental charge payable by the custodian for the Depositary or the Depositary on any New Telecom Italia Savings Share ADS or New

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Telecom Italia Savings Share ADR, deposited security or distribution. If a New Telecom Italia Savings Share ADR holder owes any tax or other New Telecom Italia Savings Share governmental charge, the Depositary may:

- deduct the amount thereof from any cash distributions, or
- sell deposited securities and deduct the amount owing from the net proceeds of such sale.

In either case the New Telecom Italia Savings Share ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the Depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities, except under limited circumstances mandated by securities regulations. If any tax or governmental charge is required to be withheld on any non-cash distribution, the Depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the New Telecom Italia Savings Share ADR holders entitled thereto. The Depositary and New Telecom Italia agree to use reasonable efforts to make and maintain arrangements to enable persons that are considered U.S. residents for purposes of applicable law to receive any rebates, tax credits or other benefits relating to distributions on the New Telecom Italia Savings Share ADSs to which such persons are entitled. The Depositary will establish procedures, and notify holders of New Telecom Italia Savings Share ADSs of the actions necessary, to enable such holders to take advantage of any such tax rebates or tax credits relating to distributions on the New Telecom Italia Savings Share ADSs to which such holders are entitled. However, absent New Telecom Italia s gross negligence or bad faith, or that of the Depositary, neither New Telecom Italia nor the Depositary assumes any obligation, and shall not be subject to any liability, for the failure of any New Telecom Italia Savings Share ADR holder or beneficial owner of New Telecom Italia Savings Share ADSs, or their agent or agents, to receive any tax benefit under applicable law or tax treaties. Neither New Telecom Italia nor the Depositary shall be liable for any acts or omissions of any other party in connection with any attempts to obtain any such benefit, and, by holding an interest in New Telecom Italia Savings Share ADSs, New Telecom Italia Savings Share ADR holders and beneficial owners are deemed to agree that each of them shall be conclusively bound by any deadline established by New Telecom Italia and the Depositary in connection therewith.

**Reclassifications, Recapitalizations and Mergers**

If New Telecom Italia takes certain actions that affect the deposited securities, including

- any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or
- any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of New Telecom Italia s assets,

then the Depositary may choose to:

- amend the form of New Telecom Italia Savings Share ADR;
- distribute additional or amended New Telecom Italia Savings Share ADRs;
- distribute cash, securities or other property it has received in connection with such actions; or

- sell any securities or property received and distribute the proceeds as cash.

If the Depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each New Telecom Italia Savings Share ADS will then represent a proportionate interest in such property.

**Amendment and Termination**

***Amendment***

We may agree with the Depositary to amend the Deposit Agreement and the New Telecom Italia Savings Share ADSs for any reason without the consent of holders. New Telecom Italia Savings Share ADR holders must be given at least 30 days notice of any amendment that:

- imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses) or
- affects any substantial existing right of New Telecom Italia Savings Share ADR holders.

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If a New Telecom Italia Savings Share ADR holder continues to hold a New Telecom Italia Savings Share ADR or ADRs after receiving the notice, the New Telecom Italia Savings Share ADR holder is deemed to agree to the amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair a holder s right to surrender his or her New Telecom Italia Savings Share ADSs and receive the underlying securities. If a governmental body adopts new laws or rules that require the Deposit Agreement or New Telecom Italia Savings Share ADSs to be amended, New Telecom Italia and the Depositary may make the necessary amendments, which could take effect before holders receive notice thereof.

***Termination***

The Depositary may and, if so requested by New Telecom Italia, must terminate the Deposit Agreement by mailing notice of termination to the New Telecom Italia Savings Share ADR holders. The notice of termination must be mailed to New Telecom Italia Savings Share ADR holders at least 30 days prior to the date fixed in such notice for such termination. The Depositary may also terminate the Deposit Agreement if at any time 90 days shall have expired after the Depositary shall have delivered to New Telecom Italia a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment within such 90 days.

After termination, the Depositary s only responsibility will be:

- to deliver deposited securities to New Telecom Italia Savings Share ADR holders who surrender their New Telecom Italia Savings Share ADRs; and
- to hold or sell distributions received on deposited securities.

As soon as practicable after the expiration of six months from the termination date, the Depositary will sell the deposited securities that remain and hold the net proceeds of such sales, without liability for interest, in trust for the New Telecom Italia Savings Share ADR holders who have not yet surrendered their New Telecom Italia Savings Share ADRs. After making such sale, the Depositary will have no obligations except to account for such proceeds and other cash. The Depositary will not be required to invest such proceeds or pay interest on them.

**Limitations on Obligations and Liability to ADR holders**

The Deposit Agreement expressly limits the obligations and liability of the Depositary, New Telecom Italia and their respective agents. Neither New Telecom Italia nor the Depositary nor any such agent will be liable if:

- present or future law, regulation, the provisions of or governing any deposited securities, act of God, war or other circumstance beyond its control prevents, delays or subject to any civil or criminal penalty any act that the Deposit Agreement or New Telecom Italia Savings Share ADRs provide will be done or performed by it, or by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or New Telecom Italia Savings Share ADRs;

- it exercises or fails to exercise discretion under the Deposit Agreement or New Telecom Italia Savings Share ADR;
- it performs its obligations without gross negligence or bad faith;
- it takes any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of New Telecom Italia Savings Share ADRs, or any other person believed by it in good faith to be competent to give advice or information; or
- it relies upon any written notice, request, direction or other document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties.

Neither the Depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the New Telecom Italia Savings Share ADRs. Neither New Telecom Italia nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the New Telecom Italia Savings Share ADRs which, in the opinion of New Telecom Italia, may involve New Telecom Italia in expense or liability, unless indemnity satisfactory to New Telecom Italia against all expenses (including fees and disbursements of counsel) and liability is furnished as often as New Telecom Italia requires.

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The Depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote. In no event will the Depositary or any of its agents be liable for any indirect, special, punitive or consequential damages.

The Depositary may own and deal in deposited securities and in New Telecom Italia Savings Share ADSs.

**Disclosure of Interest in ADSs**

From time to time New Telecom Italia may request holders and beneficial owners of New Telecom Italia Savings Share ADSs to provide information as to:

- the capacity in which holders and beneficial owners own or owned New Telecom Italia Savings Share ADSs;
- the identity of any other persons then or previously interested in New Telecom Italia Savings Share ADSs; and
- the nature of the interest and various other matters.

Holders of New Telecom Italia Savings Share ADSs agree to provide any information requested by New Telecom Italia or the Depositary pursuant to the Deposit Agreement. The Depositary has agreed to use reasonable efforts to comply with written instructions received from New Telecom Italia requesting that it forward any such requests to holders and beneficial owners of New Telecom Italia Savings Share ADSs and to forward to New Telecom Italia any responses to such requests to the extent permitted by applicable law. In addition, holders of New Telecom Italia Savings Share ADSs will be required to comply with any applicable local law reporting requirements to which they are subject.

**Requirements for Depositary Actions**

The Depositary or the custodian for the Depositary may refuse to:

- issue, register or transfer a New Telecom Italia Savings Share ADR or New Telecom Italia Savings Share ADRs;
- effect a split-up or combination of New Telecom Italia Savings Share ADRs;
- deliver distributions on any such New Telecom Italia Savings Share ADRs; or
- permit the withdrawal of deposited securities, unless the Deposit Agreement provides otherwise,

until the following conditions have been met:

- the holder has paid all taxes, governmental charges, and fees and expenses as required in the Deposit Agreement;
- the holder has provided the Depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and
- the holder has complied with such regulations as the Depositary may establish under the Deposit Agreement.

The Depositary may also suspend the issuance of New Telecom Italia Savings Share ADSs, the deposit of shares, the registration, transfer, split-up or combination of New Telecom Italia Savings Share ADRs, or the withdrawal of deposited securities, unless the Deposit Agreement provides otherwise, if the register for New Telecom Italia ADRs or any deposited securities is closed or if New Telecom Italia or the Depositary decide it is advisable to do so.

**Books of the Depositary**

The Depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of New Telecom Italia Savings Share ADRs. Any holder of New Telecom Italia Savings Share ADSs may inspect these records at the Depositary s office during regular business hours, but solely for the purpose of communicating with other holders in the interest of business matters relating to the Deposit Agreement.

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The Depositary will maintain facilities to record and process the issuance, cancellation, combination, split-up and transfer of New Telecom Italia Savings Share ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

**Pre-release of New Telecom Italia Savings Share ADSs**

The Depositary may issue New Telecom Italia Savings Share ADSs prior to the deposit with the custodian for the Depositary of shares or rights to receive shares. This is called a pre-release of ADSs. A pre-release is closed out as soon as the underlying shares or other ADSs are delivered to the Depositary. The Depositary may pre-release New Telecom Italia Savings Share ADSs only if:

- the Depositary has received collateral for the full market value of the pre-released New Telecom Italia Savings Share ADSs; and
- each recipient of pre-released New Telecom Italia Savings Share ADSs agrees in writing that he or she:
  - owns the underlying New Telecom Italia Savings Shares;
  - assigns all rights in the New Telecom Italia Savings Shares to the Depositary;
  - holds the New Telecom Italia Savings Shares for the account of the Depositary; and
  - will deliver the New Telecom Italia Savings Shares to the custodian for the Depositary as soon as practicable, and promptly if the Depositary so demands.

In general, the number of pre-released New Telecom Italia Savings Share ADSs will not evidence more than 20% of all New Telecom Italia Savings Share ADSs outstanding at any given time, excluding those evidenced by pre-released New Telecom Italia Savings Share ADSs. However, the Depositary may change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for pre-released New Telecom Italia Savings Share ADSs and its charges for issuance thereof.

## EXPERTS

Reconta Ernst & Young S.p.A., independent auditors, have audited the Olivetti consolidated financial statements at December 31, 2001 and 2002, and for each of the two years in the period ended December 31, 2002, as stated in their report appearing herein.

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**OLIVETTI CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT AUDITORS**

To the Shareholders of

Olivetti S.p.A.

We have audited the accompanying consolidated balance sheets of Olivetti S.p.A., as of December 31, 2001 and 2002, and the related consolidated statements of operations, shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries and affiliated companies accounted for by the equity method of accounting, which statements reflect total assets of six percent and three percent as of December 31, 2001 and 2002, respectively, and revenues constituting seven percent as of December 31, 2001 and 2002, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of those other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Olivetti S.p.A. at December 31, 2001 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles established by the Italian accounting profession, which differ in certain respects from those followed in the United States (see Notes 26, 27 and 28 to the consolidated financial statements).

Reconta Ernst & Young S.p.A.

Turin, Italy

April 18, 2003

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**OLIVETTI S.P.A.**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2001 AND 2002**

| | December 31, 2001 | December 31, 2002 |
|---|---|---|
| | (millions of euro) | |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 4) | 3,706 | 4,426 |
| Marketable securities (Note 4) | 4,009 | 2,100 |
| Receivables (Note 5) | 8,856 | 8,383 |
| Inventories (Note 6) | 861 | 584 |
| Other current assets (Note 7) | 5,942 | 7,059 |
| TOTAL CURRENT ASSETS | 23,374 | 22,552 |
| Fixed assets | 66,692 | 65,152 |
| Less Accumulated depreciation | (44,595) | (45,703) |
| Fixed assets, net (Note 8) | 22,097 | 19,449 |
| Intangible assets, net (Note 9) | 39,220 | 34,561 |
| Other assets (Note 10): | | |
| Investments in affiliates | 6,716 | 2,576 |
| Treasury stock | 393 | 393 |
| Securities | 87 | 304 |
| Other receivables | 2,340 | 3,549 |
| **TOTAL ASSETS** | 94,227 | 83,384 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term debt (Note 11) | 9,072 | 6,827 |
| Payables, trade and other (Note 12) | 10,970 | 10,270 |
| Accrued payroll and employee benefits | 943 | 977 |
| Accrued income taxes | 224 | 244 |
| Other accrued liabilities (Note 14) | 1,775 | 2,067 |
| TOTAL CURRENT LIABILITIES: | 22,984 | 20,385 |
| Long-term debt (Note 11) | 37,747 | 33,804 |
| RESERVES AND OTHER LIABILITIES | | |
| Deferred income taxes | 381 | 40 |
| Other liabilities (Note 13) | 5,348 | 7,167 |
| Employee termination indemnities (Note 15) | 1,414 | 1,364 |
| TOTAL LIABILITIES | 67,874 | 62,760 |
| STOCKHOLDERS EQUITY: | | |

| | | |
|---|---|---|
| Share capital (Note 16) | 8,785 | 8,845 |
| Additional paid in capital | 3,765 | 3,765 |
| Reserves, retained earnings and loss of the year (Note 17) | 179 | (970) |
| TOTAL STOCKHOLDERS EQUITY BEFORE MINORITY INTEREST | 12,729 | 11,640 |
| Minority interest | 13,624 | 8,984 |
| TOTAL STOCKHOLDERS EQUITY | 26,353 | 20,624 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | 94,227 | 83,384 |

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

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**OLIVETTI S.P.A.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**

| | 2001 | 2002 |
|---|---|---|
| | (millions of euro) | |
| Operating revenues | 32,016 | 31,408 |
| Other revenues (Note 19) | 476 | 504 |
| **Total revenues** | 32,492 | 31,912 |
| Cost of materials | 2,640 | 2,315 |
| Salaries and social security contributions | 4,919 | 4,737 |
| Depreciation and amortization | 7,645 | 7,269 |
| Other external charges (Note 20) | 12,687 | 12,188 |
| Changes in inventories | 92 | 62 |
| Capitalized internal construction costs | (583) | (675) |
| **Total operating expenses** | **27,400** | **25,896** |
| **Operating income** | **5,092** | **6,016** |
| Financial income (Note 21) | 1,446 | 1,569 |
| Financial expense (Note 22) | (6,526) | (4,605) |
| Other income and (expense), net (Note 23) | (3,109) | (5,496) |
| **Loss before income taxes and minority interests** | **(3,097)** | **(2,516)** |
| Income taxes (Note 24) | (579) | 2,210 |
| **Net loss before minority interests** | **(3,676)** | **(306)** |
| Minority interest | 586 | (467) |
| **Net loss** | **(3,090)** | **(773)** |

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

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**OLIVETTI S.P.A.**

**CONSOLIDATED STATEMENTS OF CASH FLOW**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**

| | 2001 | 2002 |
|---|---|---|
| | (millions of euro) | |
| **OPERATING ACTIVITIES:** | | |
| Net loss after minority interest | (3,090) | (773) |
| Minority interests | (586) | 467 |
| Depreciation and amortization | 7,645 | 7,269 |
| Net change in deferred taxes | (645) | (341) |
| Losses (gains) on disposal of fixed assets and other long-term assets | (373) | (2,243) |
| Write-down of fixed assets and other long-term assets | 3,753 | 4,387 |
| Net change in other liabilities, excluding investments grants | 1,432 | 1,819 |
| Net change in reserve for employee termination indemnities | 26 | (50) |
| Change in operating assets and liabilities | (280) | 86 |
| Other changes, net | (2,225) | (3,538) |
| Net cash provided by operating activities | 5,657 | 7,083 |
| **INVESTING ACTIVITIES:** | | |
| Investments in fixed assets | (4,317) | (3,291) |
| Investments grants | 22 | 42 |
| Additions to goodwill | (1,193) | (346) |
| Additions to other intangible assets | (2,914) | (1,610) |
| Additions to other long term assets | (3,141) | (1,777) |
| Changes in consolidation area (net cash flow from acquisition and disposal) | 17 | (51) |
| Proceeds from sale or redemption value of tangible and intangible assets, and long-term investments | 1,484 | 5,968 |
| Net cash used in investing activities | (10,042) | (1,065) |
| **FINANCING ACTIVITIES:** | | |
| Changes in short term debt | (7,855) | (2,245) |
| Increase in long term debt | 16,429 | 3,881 |
| Repayment of and other changes to long term debt | (5,420) | (6,970) |
| Paid in capital in subsidiaries | 2,420 | 36 |
| Dividends paid | (255) | |
| Net cash provided by (used in) financial activities | 5,319 | (5,298) |
| Net increase in cash and cash equivalents | 934 | 720 |
| Cash and cash equivalents, beginning of the year | 2,772 | 3,706 |
| **Cash and cash equivalents, end of year** | **3,706** | **4,426** |

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

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**OLIVETTI S.P.A.**

**STATEMENTS OF CONSOLIDATED STOCKHOLDERS EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**

| | | Attributable to Olivetti | | | Attributable to minority interest | |
|---|---|---|---|---|---|---|
| | Share Capital | Additional Paid in Capital | Reserves, retained earnings and net income (loss) of the year | Total | Reserves, retained earnings and net income (loss) of the year | TOTAL |
| | | | (millions of euro) | | | |
| **BALANCE AS OF JANUARY 1, 2001** | **6,914** | **3,196** | **3,746** | **13,856** | **17,510** | **31,366** |
| Dividend distribution | | | (255) | (255) | (2,206) | (2,461) |
| Conversion of Olivetti 1998-2002 bonds | 9 | | (4) | 5 | | 5 |
| Exercise of Olivetti common shares 1998-2002 warrants | 4 | | (2) | 2 | | 2 |
| Resolutions of the Board of Directors on June 9, 1999 in accordance with the powers granted by Extraordinary Shareholders Meeting on April 7, 1999 | 17 | 12 | (8) | 21 | | 21 |
| Share capital increase in March 2001 (no. 348,249,405 subscribed shares) | 349 | 557 | | 906 | | 906 |
| Share capital increase in November 2001 (no. 1,491,373,698 subscribed shares) | 1,492 | | | 1,492 | | 1,492 |
| Cancellation of Telecom Italia saving shares | | | (277) | (277) | (434) | (711) |
| Effect of change in method of accounting for the investments in the Nortel Inversora Group | | | | | (837) | (837) |
| Entel Chile group acquisitions | | | | | 358 | 358 |
| Translation adjustments and other | | | 69 | 69 | (181) | (112) |
| Net loss for the year 2001 | | | (3,090) | (3,090) | (586) | (3,676) |
| **BALANCE AS OF DECEMBER 31, 2001** | **8,785** | **3,765** | **179** | **12,729** | **13,624** | **26,353** |
| Dividend distribution | | | | | (2,357) | (2,357) |
| Extraordinary dividend distribution of reserves | | | | | (1,311) | (1,311) |
| Conversion of Olivetti 1998-2002 bonds | 29 | | (14) | 15 | | 15 |
| Exercise of Olivetti common shares 1998-2002 warrants | 23 | | (11) | 12 | | 12 |
| Resolutions of the Board of Directors on June 9, 1999 in accordance with the powers granted by Extraordinary Shareholders Meeting on April 7, 1999 | 5 | | | 5 | | 5 |
| Conversion of Olivetti 2001-2010 bonds | 3 | | | 3 | | 3 |
| Translation adjustments and other | | | (351) | (351) | (1,439) | (1,790) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income (loss) for the year 2002 | | | (773) | (773) | 467 | (306) |
| **BALANCE AS OF DECEMBER 31, 2002** | **8,845** | **3,765** | **(970)** | **11,640** | **8,984** | **20,624** |

The accompanying notes to the consolidated financial statements

are an integral part of these financial statements

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Form and Content of the Consolidated Financial Statements**

The consolidated financial statements of Olivetti S.p.A. ( **Olivetti** ) and its subsidiaries (the **Olivetti Group** ) are prepared on the basis of the accounts of Olivetti and the financial statements of the individual consolidated companies as of December 31, 2002 as approved by their respective Boards of Directors, adjusted, where necessary, to conform with the accounting policies adopted by Olivetti. The accounting policies are consistent with the Italian law related to consolidated financial statements interpreted and integrated by the accounting principles established or adopted by the Italian Accounting Profession (collectively, **Italian GAAP** ).

Italian GAAP differs in certain material respects from U.S. generally accepted accounting principles ( **U.S. GAAP** ). The effects of these differences on stockholders equity as of December 31, 2001 and 2002 and on consolidated net result for the years then ended are set forth in Note 26.

The consolidated financial statements and related notes as presented herein reflect certain reclassifications and disclosures to conform to an international presentation format, which differs from Olivetti s financial statements and disclosures which are prepared in accordance with Italian legal requirements. The format presented does not result in any modification of the portions attributable to Olivetti stockholders equity and net income (loss) as reported on an Italian GAAP basis.

The consolidated financial statements of the Olivetti Group include the financial statements of Olivetti and all Italian and foreign subsidiaries in which Olivetti holds, directly or indirectly, more than 50% of the voting capital or has dominant influence (effective control), primarily Telecom Italia S.p.A. ( **Telecom Italia** ) and its subsidiaries (together with Telecom Italia, the **Telecom Italia Group** ) which was acquired by Olivetti during 1999 as detailed below.

In 1999, Olivetti, through its 72.9% owned subsidiary Tecnost S.p.A. ( **Tecnost** ), made a tender offer for the majority of the Telecom Italia Ordinary Shares. The transaction was announced at the end of February 1999, when Tecnost and Olivetti declared their intention to proceed with a joint public tender and exchange offer for 100% of Telecom Italia Ordinary Shares. The tender offer took place in May 1999 and was completed on June 23, 1999, giving Tecnost 52.12% controlling interest in Telecom Italia Ordinary Shares. The tender offer was financed through a combination of cash, bonds and shares for a total amount equal to 31,501 million. The cash component, accounting for a total amount equal to 18,955 million, was financed mainly through: (i) the disposal by Olivetti to Mannesman of OliMan (controlling the telecommunication companies Omnitel and Infostrada), (ii) a share capital increase, and (iii) borrowings under a bank facility, reimbursed in July 1999 with the issuing of two tranches of notes under an Euro Medium Term Note program. The bonds component of 7,944 million was represented by the issue of the Floating Rates Note offered in exchange to shareholders tendering the Telecom Italia Shares. The shares component, valued at 4,602 million, was represented by new Tecnost shares issued in order to be offered in exchange to tendering shareholders. During 1999, Tecnost increased its controlling interest in Telecom Italia to 54.16% acquiring an additional interest of 2.04%, as a result of certain cash transactions. Total consideration amounted to approximately 32,506 million, including direct acquisition costs. The excess of purchase price over the adjusted net book value assets acquired amounting to approximately 26,208 million was allocated to goodwill and amortized over a period of 20 years. The adjustments to the net book value of the of the assets acquired to determine the excess purchase price related principally to: i) the recognition of the estimated minimum liability to the Italian National Social Security Board (see Notes 14 and 18), in connection with the telephone workers social security obligations and the related tax effect, ii) the elimination of goodwill recorded in the books of Telecom Italia, and iii) dividends subsequently paid.

In 2000, to rationalize the organizational structure of the Olivetti Group, the 72.9% owned subsidiary Tecnost was merged into Olivetti. The merger was announced on May 15, 2000 and the Boards of Directors of the companies involved in the merger, with the assistance of their advisors, fixed an exchange ratio of 1.12 Olivetti shares for each Tecnost share, both with a par value of 1.00 per share. No cash consideration was involved. The merger was effective from December 31, 2000, with the cancellation of all the Tecnost shares previously held by Olivetti and with the issue of 1,999,439,092 Olivetti shares, par value 1.00 to minority shareholders in exchange for their 1,785,213,475 shares. The merger was accounted for at book value. Included in the minority shareholders was Olivetti s subsidiary, Olivetti International S.A., which owned 3.2% of total Tecnost shares and obtained in exchange of the Olivetti shares (thus becoming treasury shares at the consolidated level) carried at a total value of 391 million, the original book value of the Tecnost shares.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2001 and 2002 Olivetti owned 2,850,255,432 Telecom Italia Ordinary Shares, equal to 54.16% of total Telecom Italia Ordinary Shares and to 38.96% of total share capital.

The significant changes in the composition of the Olivetti Group in 2002 and 2001, principally related to the changes in the Telecom Italia Group, are as follows:

Year 2002

- In February 2002, Olivetti and Finsiel S.p.A. accepted the tender offer from Tyche S.p.A. (De Agostini group), for their 34% investment in Lottomatica S.p.A. Total proceeds were 391 million realizing a gain, which contributed 135 million to the consolidated net result of the Olivetti Group.

- In March 2002, the Telecom Italia Group disposed of its 19.61% stake held by TIM International in BDT (Bouygues Decaux Telecom), parent company of the French operator Bouygues Telecom, generating proceeds of 750 million which contributed 104 million to the consolidated net result of the Olivetti Group.

- On June 28, 2002, TIM International N.V. disposed of its entire 25% stake in the Mobilkom Austria group to Telekom Austria (a company 14.78% owned by Telecom Italia International as of December 31, 2002), generating proceeds of 756 million and realizing a gain, which contributed 25 million to the consolidated net result of the Olivetti Group.

- On July 31, 2002, Finsiel disposed of its 100% stake in Sogei to the Ministry of Economy and Finance, which had the effect of reducing the Olivetti Group net financial debt by 68 million (defined as long-term debt and short-term debt less cash and cash equivalents, marketable debt securities and financial receivables).

- On August 1, 2002, the Telecom Italia Group concluded the sale of Auna to Endesa, Union Fenosa and Banco Santander Central Hispano. The transfer of the entire 26.89% interest held by the Olivetti Group resulted in proceeds of 1,998 million and contributed 402 million to the consolidated net result of the Olivetti Group.

- On August 1, 2002, Telecom Italia sold the 40% interest held in Telemaco Immobiliare to Mirtus, an indirect subsidiary of the American real estate fund Whitehall promoted by the Goldman Sachs group, for net proceeds of 192 million. The net gain realized by the Group was 25 million.

- On August 2, 2002, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli S.p.A. (25.3%), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). EPIClink specialized in outsourcing services in Information and Communication Technology (ITC) for small and medium-size businesses. After this transaction, EPIClink s shareholder base is as follows: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2% and

E_voluzione 2%. Telecom Italia is committed to acquire the residual 14% stake for a total consideration of 10 million.

- On August 26, 2002, the Telecom Italia Group completed, with the Louis Dreyfus Communication Networks Group (LDCom), the sale of the Olivetti Group s investment in 9Télécom and the concurrent purchase of approximately 7% of LDCom by the Olivetti Group. The net impact on the Olivetti Group s results was a loss of 104 million. LDCom is part of the Louis Dreyfus Group, a leading French holding company with international operations in telecommunications, energy, oil, maritime and agricultural commodities trading.

- On August 27, 2002, the Telecom Italia Group reached agreement with the other shareholders in Solpart Participações (which has indirect control of Brasil Telecom) to reduce its own stake in Solpart (from 37.29% to 19% of ordinary share capital) through a sale of 18.29% of the ordinary share capital to Timepart Participações and to Techold Participações. This reduction was carried out to overcome regulatory constraints which had prevented TIM´s local subsidiaries from commencing commercial operations of its GSM 1800 service. As soon as legally possible, the Telecom Italia Group intends to return to its previous investment position. To this extent option rights have been granted to all parties.

- In August 2002, TIM International N.V., a subsidiary of TIM, purchased from the Verizon Europe Holding II group, a 17.45% stake in the share capital of Stet Hellas, in which it already owned a 63.95% interest, for a price of 108 million. The transaction, which in effect makes TIM International

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

N.V. the only industrial partner and strategic shareholder in the company, falls within the framework of the Olivetti Group s strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

- On October 1, 2002, Telecom Italia signed an agreement with the News Corporation Group ( **News Corporation** ), partner of Telecom Italia in Stream, and Vivendi Universal ( **Vivendi** ), current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single Italian pay-TV company on one platform.

On April 30, 2003, following the approval by the competent authorities, the agreement with News Corporation announced in October 2002 was concluded. The new company arising from the integration between Stream and Tele+ has been named SKY ITALIA and Telecom Italia paid approximately 30 million for the transaction. The company is held by Telecom Italia (19.9%) and News Corporation (80.1%).

- On October 7, 2002, TIM finalized the preliminary contract signed on August 7, 2002 with Blu S.p.A. shareholders for the purchase of 100% of the company, subsequently merged with TIM S.p.A. The deed of merger was registered on December 18, 2002; on the same date the definitive price of 84 million was established. The merger became effective on December 23, 2002.

- On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized, allowing the integration of certain of the real estate properties of the companies involved, as well as the entities that provide real estate services to the same companies or to their subsidiaries.

Under the framework agreement the Olivetti Group transferred assets to Tiglio I and Tiglio II in various corporate forms. The market value of these assets was 1,582 million, of which 50 million was related to Seat Pagine Gialle, approximately 1,310 million to real estate from Telecom Italia and approximately 222 million for Olivetti. The transaction had a net impact on the consolidated statement of operations of approximately 121 million for the Olivetti Group.

- In November 2002, Telecom Italia finalized the agreement that was initially signed on August 2, 2002 with Finmeccanica for the sale of Telespazio. The total impact on the net financial debt of the Olivetti Group was 239 million with a net gain for the Olivetti Group of 14 million.

- In November 2002, Telecom Italia International N.V. closed the private placement of 75 million Telekom Austria A.G. shares previously held by the Olivetti Group. The placement price was set at 7.45 per share, generating gross proceeds of 559 million and a net loss of 52.5 million. After this transaction, Telecom Italia Group s stake in Telekom Austria decreased from 29.78% to 14.78%.

- On November 22, 2002, Telecom Italia disposed of its 45% stake in IMMSI to Omniapartecipazioni S.p.A. for a consideration of 69 million.

- Under the reorganization of the Telecom Italia Group companies in Luxembourg, in October 2002, Sogerim S.A., was absorbed by its sole shareholder Softe S.A., and Huit II was absorbed by its sole shareholder TI Media S.A. On December 16, 2002, Softe S.A.

incorporated TI Media S.A. and the new company was merged with TI WEB S.A., which, on the same date, changed its name to Telecom Italia Finance. All the rights and obligations of the merged companies are vested in Telecom Italia Finance.

Year 2001

- In February 2001, SEAT acquired a 54.5% stake in Consodata S.A. ( **Consodata** ), a French company listed on Paris s Nouveau Marché. This acquisition was made through the issuance by SEAT of 63,789,104 of its ordinary shares in exchange for Consodata shares held by certain funds and management, followed by the contribution by SEAT to Consodata of its business information activity. In June 2001, SEAT exchanged 1,084,913 Consodata shares for a 100% stake in Pan-Adress GmbH, a German company operating in the direct marketing sector. Furthermore, in August 2001, as a result of a public exchange offer through the issuance by SEAT of 95,706,000 of its ordinary shares in exchange for 5,981,625 Consodata shares, SEAT s stake in Consodata increased to 90.74%. As of December 31, 2002, SEAT s stake in Consodata was 90.42%. Consodata operates in the business information sector in the French market.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- In April 2001, SEAT increased its total stake in Telegate A.G. to 64.53% after acquiring Telegate Holding s remaining 48.63% share capital. The acquisition was effected by SEAT issuing 150,579,625 of its ordinary shares in exchange for Telegate Holding shares. As of December 31, 2002, SEAT holds a 78.44% stake in Telegate A.G.. Telegate operates predominantly in Germany in the Directory Assistance sector.

- In August 2001, subsidiary Huit II exchanged 186,000,000 Seat Pagine Gialle shares for 100% of ISM, a company that holds 33.3% of the share capital of Matrix. After this transaction, the Telecom Italia Group controls Matrix, a company that operates in the Internet sector.

- In December 2001, Telecom Italia s stakes in the former satellite consortia companies Eutelsat, Intelsat, Inmarsat and New Skies Satellites were transferred to a new company (Mirror International Holding S.a.r.l., **Mirror** ), of which 70% was subsequently acquired by the Lehman Brothers Merchant Banking II L.P. closed fund with a minority stake acquired by Intesa BCI and Interbanca. As a result of the sale, Telecom Italia received 450 million in cash and recorded in the consolidated financial statements a capital gain, before taxes, of 170 million. The remaining interest in Mirror is accounted for using the equity method of accounting.

As a result of such changes the following operations disposed of during the fiscal year 2002 have been consolidated in the statement of operations as follows: the 9Télécom group for the period from January 1, 2002 to June 30, 2002; the Telespazio group for the period from January 1, 2002 to September 30, 2002 and the company Sogei for the period from January 1, 2002 to June 30, 2002;

The consolidation principles applied by Olivetti are as follows:

- The assets and liabilities of the companies consolidated on a line-by-line basis are included in the consolidated financial statements after eliminating the carrying value of the investments against the related stockholders equity.

- Differences arising on elimination of the investments against the fair value of the related stockholders equity of the subsidiaries at the date of acquisition are treated as follows:

  if positive, they are recorded as goodwill in intangible assets and amortized on a straight line basis over the period estimated to be benefited and, in any case, not more than a period of 20 years;

  if negative, they are recorded in stockholders equity as consolidation reserve , or, when the amount is due to expectations of unfavorable financial results, to other liabilities (consolidation reserve for future risks and charges) .

- All significant intercompany transactions are eliminated, together with the unrealized intercompany profits included in inventory.

-

Unrealized intercompany profits, included in fixed assets and intangible assets, which arise from intraGroup sales of goods and services at market prices are eliminated, along with the related tax effects. Such sales, net of intercompany profits, are reclassified under the heading of capitalized internal construction costs in the accompanying consolidated statements of operations.

- Accruals and adjustments made in the individual financial statements of the consolidated companies in accordance with the current tax legislation in order to obtain tax benefits otherwise not obtainable are eliminated.

- The minority stockholders share of the equity and net income (loss) of consolidated subsidiaries, calculated using financial statements reflecting the Olivetti Group s accounting principles, are classified separately in the consolidated stockholders equity and the statement of operations for the year.

The financial statements expressed in foreign currency have been translated into Euro by applying the average annual exchange rate to the individual items of the statement of operations and the year-end exchange rate to the items of the balance sheet. The difference arising from the translation of beginning stockholders equity and the net result for the year at the year-end exchange rate is recorded in the reserves under consolidated stockholders equity.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For those consolidated subsidiaries and affiliated companies that use inflation accounting to eliminate distorting effects of inflation on the financial statements, these inflation adjusted financial statements have been translated at the year-end exchange rates for inclusion in the consolidation. The companies in the Olivetti Group that apply inflation accounting principles are Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), Is TIM Telekomunikasyon Hizmetleri A.S. (Turkey), Teco Soft Argentina S.A. (Argentina) and Olivetti Argentina S.A.C.è.l. (Argentina).

**Note 2 Regulation**

The legal framework for the regulation of the telecommunications sector in Italy has been extensively revised in recent years. This revision includes the liberalization of substantially all telecommunication services including the provision of fixed public voice telephony services and the operation of networks to support the provision of such services, which were opened to competition as of January 1, 1998. Most importantly, the legal framework for regulation of the telecommunications sector in Italy has been completely transformed through the formation of the National Regulatory Authority ( **NRA** ) in accordance with the Maccanico Law, which implemented the Framework Law, and the adoption of the Telecommunications Regulations by the Italian Government pursuant to Law No. 650 of December 23, 1996 ( **Law 650** ) and Law No. 189 of July 1, 1997 ( **Law 189** ) to implement a number of EU directives in the telecommunications sector. The Telecommunications Regulations became effective on October 7, 1997, and have been implemented by specific regulations. The Framework Law in general is aimed at:

- ensuring the improvement of competition and efficiency in the telecommunications sector;
- establishing adequate quality standards;
- ensuring access to telecommunications services in a homogeneous manner throughout Italy;
- defining a clear and transparent tariff system on the price cap method which, pursuant to the Maccanico Law, applied to Telecom Italia s fixed public voice telephony services for up two years from August 1, 1997 (which price cap method was extended by the NRA from August 1, 1999 to December 31, 2002); and
- protecting the interests of consumers and users.

The Telecommunications Regulations completed the liberalization of the provision of all telecommunications services and the operation of all telecommunications networks in Italy, effective from October 7, 1997, except for the provision of fixed public voice telephony services and the operation of telecommunications networks to support provision of such services, which were liberalized as of January 1, 1998. Restrictions on other operators providing telecommunications services, other than fixed public voice telephony services and the operation of telecommunications networks, had been lifted by several previous measures.

The Telecommunications Regulations contain provisions concerning:

- the granting of general authorizations or individual licenses to provide telecommunications services;
- universal service obligations and the mechanism for funding the net cost of such obligations;
- special obligations imposed on operators having significant market power, including the determination of interconnection charges using principles cost orientation;
- numbering, carrier selection and number portability;
- right of way; and
- the essential requirements that must be complied with in the provision of services and when interconnecting between public telecommunications networks.

The NRA has established and will continue to establish detailed regulations governing the telecommunications sector and will monitor their application, while the Ministry of Communications will retain the responsibility for defining telecommunications policy in Italy.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During 2001 and 2002 the NRA adopted numerous resolutions in order to implement and detail general framework regulation. In particular, implementing regulations on carrier preselection, interconnection and local loop unbundling/shared access were adopted.

New European Regulatory Framework, that was published on April 2002 and will be transposed in National Laws by July 2003, will change the nature of regulatory and competitive markets, through increased liberalization and a decrease of ex ante regulation. Converging markets regulation will be privileged.

**Note 3 Accounting Policies**

The principal accounting policies applied are as follows:

***Securities***

Debt securities included under current assets are valued at the lower of cost of acquisition or net realizable value based on market prices.

Debt securities acquired under repurchase agreements , for which the obligation exists to resell them at maturity, are included at purchase cost under current assets. The difference between the sales price and the purchase price is allocated to the statement of operations as it accrues.

Debt securities classified under non current assets (other assets) are held to maturity and recorded at purchase cost adjusted for the unamortized discount or premium. They are also adjusted for any permanent impairment in value.

Equity investments considered long-term in nature are recorded under non current assets (other assets) or, if acquired for subsequent sale, recorded under current assets.

Equity investments included under current assets, consisting mainly of shares of consolidated listed subsidiaries anticipated to be sold, are stated at the lower of cost and realizable value, based on the year-end stock market prices.

Contracts for the loan of equity securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, other current assets and short term debt include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract.

Other long-term equity investments are recorded at acquisition or subscription cost, including incidental costs, adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of long-term equity investments is written down and the impairment in value in excess of the corresponding carrying value is recorded under reserves and other liabilities other liabilities (reserve for contract and other risks and charges) .

Write-downs of securities are reversed if the reason for the write-down no longer exists, but in no event can the subsequent reversal of the previous write-down exceed the prior carrying value..

***Accounts receivable and payable***

Accounts receivable and payable are recorded at their nominal value. Where required, provision is made to write-down the receivables to their estimated realizable value.

An estimate is made for doubtful receivables based upon a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Foreign currency transactions***

Monetary assets and liabilities denominated in foreign currencies have been recorded at the exchange rate in effect at the date of the transaction; such assets and liabilities denominated in foreign currencies are remeasured at the prevailing rate at the balance sheet date, taking into consideration the hedging contracts, and any resulting unrealized losses are charged to the statement of operations as financial expense and unrealized gains are credited to the statement of operations as financial income .

***Inventories***

Inventories are valued at the lower of cost or market. Cost is determined using the LIFO method for raw materials and finished products the manufacturing cost for work in progress and semi-finished products and the weighted average method for purchased finished goods. Provision is made for potential losses on obsolete or slow-moving raw materials, finished products and other inventories, taking into account their expected future use and estimated realizable value. Contracts covering less than 12 months are valued using the actual manufacturing cost, while long-term contracts are accounted for using the percentage of completion method. Provision is also made for estimated losses on completion and any other related risks on long-term contracts.

***Accruals and deferrals***

These items are recorded on the accrual basis

***Fixed assets***

Fixed assets are stated at purchase or construction cost plus accessory costs and directly attributable expenses. The values are periodically adjusted in those jurisdictions where the assets are located that allow or require monetary revaluations.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets using the following annual rates applied to the historical or revalued costs:

| | |
|---|---|
| Buildings | 3 7 % |

| | | |
|---|---|---|
| Telecommunication system and equipment | 3 | 33% |
| Machinery and installation. | 20 | 33% |
| Industrial and commercial equipment | 15 | 25% |
| Other fixed assets | 6 | 33% |

Construction in progress is stated at cost. Ordinary repair and maintenance costs are charged to the statement of operations in the year they are incurred. Alterations and major overhauls that extend the life or increase the capacity of the asset are capitalized.

Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the accounts with any resulting gain or loss reflected in the statement of operations.

***Capital grants***

Capital grants provided by the Italian government or other public agencies in connection with investments in fixed assets are recorded in the year the grant is formally approved and, in any event, when the right to their receipt is definite. The grants are not subject to any restriction as to use and may not be reclaimed by the government. Capital grants are included in deferred income and recorded in the statement of operations in connection with the gradual depreciation of the assets they refer to.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Intangible assets***

Intangible assets are recorded at cost, and amortized on a straight line basis over the period of expected future benefit as follows:

| | |
|---|---|
| Licenses, trademarks and similar rights | Contract duration(1) |
| Goodwill | Years to be benefited (20 years for the Telecom Italia acquisition) |
| Software | Principally in 3 years |
| Leasehold improvements | Rental contract duration |
| Other, including start-up costs | Principally in 5 years |

(1) Except that telecommunications licenses are amortized for not more than 15 years.

Software costs capitalized represent only those costs associated with the development of new software or the enhancement of software when additional functionality is provided. The Company applies the same policy in accounting for web site development costs and for costs of computer software developed or obtained for internal use. All costs of maintaining existing software, costs for the enhancement of software that does not provide for additional functionality, and costs pertaining to the preliminary stage of software development are expensed as incurred.

***Write-down of long-lived assets***

The Olivetti Group periodically evaluates potential impairment loss relating to long lived assets (fixed assets, intangible assets, including goodwill, and equity investees) when a change in circumstances occurs by assessing whether permanent diminution in value has occurred. Impairment is recognized if the recoverable amount falls below its carrying value. In that event, an impairment loss is recognized based on the amount by which the net carrying value exceeds the recoverable amount, pursuant to Article 2426, Section 1, item 3 of the Italian Civil Code. Write-downs are reversed if the reason for the write-down no longer exists.

***Employee termination indemnities***

The amount of this reserve is determined in accordance with current laws and collective bargaining agreements.

The reserve for termination indemnities shown in the consolidated balance sheets reflects the total amount of the indemnities, net of any advances taken, that each employee in the Italian consolidated companies would be entitled to receive if termination were to occur as of the balance sheet date.

***Reserves for risks and other charges***

Reserves for risks and other charges are recognized when the Olivetti Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Research and development costs***

Research and development costs are charged to the statement of operations as incurred. In 2001 and 2002 gross research and development costs charged to the statement of operations (before revenue grants) amounted to   204 million, and   151 million, respectively.

***Revenue grants***

Revenue grants represent contributions against operating costs mainly provided by the government or other public agencies in connection with research and development costs. They are recorded in the statement of operations in the year they are formally approved and in any event when the right to their receipt is definite.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

These grants are not subject to any restriction as to use and they may not be reclaimed by the government. Revenue grants are included in other income and are recorded as part of total revenues in the accompanying statement of operations.

***Recognition of revenues and expenses***

Revenues and expenses are recorded on the accrual basis.

Revenues are recorded in the statements of operations as follows:

i) for telecommunication services companies (both fixed and mobile providers), in the year in which the services are provided. Revenue from telecommunication traffic are reported gross of the shares belonging to other operators and service providers which are reported, for the same amount, under operating expenses (other external charges).

Certain revenues deriving from fixed telephone and mobile services are billed in advance and are recognized when services are provided. Revenues deriving from other telecommunications services, principally network access, long distance, local and wireless airtime usage, are recognized based on minutes of traffic processed or contracted fee schedules. Revenues from installation and activation activities are recognized at the date of the installation or activation.

The revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by customers, as this is considered to be a separate earnings process from the sale of wireless services;

ii) for IT software and services and other activities, on the basis of the services rendered during the year; and

iii) revenues of the Internet and Media segment are primarily derived from advertising and publishing, sale of office and related products, and internet access and related services. Revenues from the sale of advertising and publishing are recognized in the statement of operations according to the date of publication, which corresponds to the time at which the directories are printed and delivered. Advertising revenue from on-line services is recorded on the date the on-line advertisement is posted to the related web site and advertising revenue from television is recorded on the date at which the advertisement is shown. Revenues from the sale of office and related products are recognized when title transfers, which generally corresponds to the date when products are shipped. Provisions for returns and other adjustments related to sales are provided in the same period the related sales are recorded. Revenues from internet access and related services, primarily subscription services, are recognized over the subscription period on a straight line basis.

***Capitalization of interest policy***

Interest on construction projects is capitalized when specific borrowings can be attributed to the project.

***Income taxes***

The companies within the Olivetti Group are required to pay taxes on a separate company basis. Income taxes currently payable, recorded in accrued income taxes, are provided on the basis of a reasonable estimate of the tax liability for the year of all consolidated companies.

The Olivetti Group also recognizes deferred income tax assets and liabilities that are determined under the liability method. Deferred income taxes represent the tax effect of temporary differences between the tax and financial reporting bases of assets and liabilities, using enacted tax rates, and the expected future benefit of net operating loss carry forward. The tax benefit of tax loss carry-forwards is recorded only when there is a reasonable expectation of realization.

Deferred tax assets and deferred tax liabilities are offset, whenever allowed by local tax laws.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

No deferred taxes are established on certain equity reserves, as management s intent is not to distribute these reserves. Taxes would need to be provided for on these reserves if management expects to utilize or distribute them in the future.

***Accounting for leases***

Assets covered by finance lease contracts are recorded in fixed assets and depreciated from the date of the lease contract. The corresponding liability is allocated between short and long term debt. The interest element of the finance lease and the depreciation charge are recorded in the statement of operations. Depreciation is calculated on the same basis as that for similar owned assets.

All other leases are accounted for as operating leases.

***Financial derivatives***

Financial derivative contracts are used by the Olivetti Group to hedge exposure to interest rate and foreign currency exchange risks. They are valued consistently with the underlying asset and liability positions and any net expense connected with each single transaction is recognized in the statement of operations.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of operations in financial income or financial expense based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or financial component calculated as the difference between the rate at the date of entering into the contract and the forward rate) is recorded in the statement of operations in financial income or financial expense based on the accrual principle.

Non-hedging derivatives are assessed by comparing the instrument value at the contract date and its year-end value. Any losses are charged to income, while gains are not recorded since they are not realized.

Premiums collected (paid) on the sale or purchase of put and call options on listed portfolio shares are classified under other payables or receivables due from others . If the option is exercised, the premium collected (paid) is treated as an accessory component of the strike price of the underlying instruments; if the option is not exercised, the premium collected (paid) is recorded under financial income (financial charges). Purchase or sale commitments in respect of the sale of put and call options are described in Note 18.

***Securitization of accounts receivable***

Upon the sale of receivables to the TI Securitization Vehicle S.r.l. (the **Vehicle** ), the underlying receivables are removed from the balance sheet. The difference between the carrying value of the receivables sold and the consideration received (including the deferred consideration under the deferred purchase price) is charged on the accrual basis to the consolidated statement of operations in other external charges or in financial expense . All expenses to initiate and operate the program are charged to other external charges . The notes issued under the program are not included in the consolidated balance sheet of Olivetti, as they are considered to be legal obligations of the Vehicle see Note 5).

**Note 4 Cash and Cash Equivalents and Marketable Securities**

***Cash and Cash Equivalents***

| | As of December 31, | |
|---|---|---|
| | 2001 | 2002 |
| | (millions of euro) | |
| Bank and postal accounts | 3,626 | 4,363 |
| Cash and valuables on hand | 76 | 7 |
| Receivables for securities held under reverse repurchase agreements | 4 | 56 |
| | 3,706 | 4,426 |

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OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Bank and postal accounts consist mainly of funds on deposit in Italian and foreign banks in current accounts. 300 million, due in the first months of 2003, are reserved for the creditors of Telesoft due to its merger and absorption in IT Telecom, for the creditors of Blu due to its merger and absorption by TIM and for the creditors of the companies H.M.C. Broadcasting and H.M.C. Produzioni for their mergers and absorptions in TV Internazionale. 198 million are reserved for a guarantee provided by Royal Bank of Scotland on behalf of Mediobanca in the interest of Is TIM. Therefore, as of December 31, 2002 a total of 498 million in cash was restricted.

*Marketable Securities*

| | As of December 31, | |
|---|---|---|
| | 2001 | 2002 |
| | (millions of euro) | |
| Marketable equity securities | 393 | 472 |
| Marketable debt securities | 3,616 | 1,628 |
| | 4,009 | 2,100 |

As of December 31, 2002, marketable equity securities include 299 million concerning 41,401,250 Telecom Italia ordinary shares not held as fixed assets (and valued at 7.23 per share, corresponding to the stock price on the last day of trading in December) and 170 million ( 247 million as of December 31, 2001) of other listed shares in otherwise consolidated subsidiaries. The reduction from December 31, 2001 is mainly attributable to the write-down of TIM shares ( 75 million) to their market value.

Marketable debt securities are held in the main by Group finance companies in connection with trading activities; they included 278 million for securities held by the Telecom Italia Group (consisting of bank certificates of deposits held by the Tele Nordeste Celular Group and of bonds held by TI Finance) and 1,649 million for securities held by other Olivetti Group companies, in particular bonds ( 517 million), own bonds ( 649 million) and other securities ( 483 million). The decrease of 1,988 million from December 31, 2001 is essentially attributable to Softe and Sogerim, which, before their merger into TI Finance, reduced their bond portfolios.

The carrying values of both marketable equity and debt securities have been written-down by 259 million to reflect market values at year end.

**Note 5 Receivables**

| | As of December 31, | |
|---|---|---|
| | 2001 | 2002 |
| | (millions of euro) | |
| Trade | 9,081 | 8,967 |
| Reserve for bad debt | (826) | (839) |
| | 8,255 | 8,128 |
| Unconsolidated subsidiaries | 32 | 41 |
| Affiliated companies | 569 | 214 |
| | 8,856 | 8,383 |

Gross trade accounts receivable at December 31, 2002 totaled 8,967 million ( 9,081 million in 2001) and consist, for the most part, of receivables for telecommunications services. Receivables are adjusted to estimated realizable value through write-downs. Such write-downs mainly relate to the telecommunications companies. Trade accounts receivable are primarily held by Telecom Italia ( 3,753 million), TIM ( 1,404 million) and Seat Pagine Gialle group ( 894 million).

This caption also includes 1,107 million of receivables from other telecommunications carriers and 113 million of services to be performed by Seat Pagine Gialle representing the advertising commitments undertaken and invoiced by the company for directories that will be published in 2003. The same amount is recorded in payables, trade and other, as deferred revenue.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In 2002, Olivetti Group sold trade accounts receivable under non-recourse factoring arrangements for a total of 3,969 million of which 3,843 million related to Telecom Italia Group and 126 million related to other companies ( 3,516 million in 2001, of which 3,297 million related to TIM S.p.A. and 219 million related to other Olivetti Group companies). At December 31, 2002, receivables sold and not yet due totaled 585 million ( 130 million as of December 31, 2001).

During 2001, Telecom Italia began a program (the **Program** ) for the securitization of receivables generated by the services rendered to the customers of the Telecom Italia Domestic Wireline (TIDW) business unit and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the Public Administration). A first tranche of 700 million of Notes was issued in June 2001 by the Vehicle, a non-consolidated special purpose vehicle for the Program which operates under Law No. 130/1999. The Program allows for the possibility of successive issues of notes, all with the same rights and risk profile, up to a total maximum amount of 2 billion. This program continued in 2002.

The Program, regulated by the aforementioned law, allows the transfer of trade receivables, on a non-recourse basis, between Telecom Italia and Path.Net (assignors) and the Vehicle (assignee). The cash flows from the trade accounts receivable covered by the Program constitute the funds that the securitization vehicle uses to pay the interest and the principal to the note holders. Within the framework of the Vehicle s disbursement plans and the time frame for the collection of the receivables, the sums received are also used to purchase new receivables generated by the normal operating activities of the assignors.

The price for this transaction, equals to the nominal value of the receivables, less a discount which takes into account the expenses that the Vehicle must bear, is paid to the respective assignor partly as an advanced purchase price, at the time of sale, and partly as a deferred purchase price. The deferred portion, which constitutes the credit enhancement under the Program, is paid to the assignor each time new receivables are sold, subject to the collection of the receivables, and is calculated by the rating agencies on the basis of pre-established estimates of the collection times and the amounts of the credit notes that will eventually be issued. Such estimates, and therefore also the deferred purchase price, is adjusted monthly on the basis of the effective performance of the receivables (i.e., a dynamic credit enhancement).

As regards the risk of non-collectibility, the respective assignor is responsible for the ultimate recovery from the debtors on the receivables sold, up to the limit of the amount of the deferred purchase price. The Vehicle would absorb any amounts over the deferred purchase price.

The first issue of notes backed by the securitization of receivables (called Series 2001-1) for a total of 700 million, was divided into three classes having the following characteristics:

- Class A1: 100 million variable rate notes denominated in with a maturity of approximately 18 months (maturing January 25, 2003) with a margin of 19 basis points over the 3-month Euribor;

- Class A2: 150 million variable rate notes denominated in with a maturity of approximately 3 years (maturing July 25, 2004) with a margin of 27 basis points over the 3-month Euribor;

- Class A3: 450 million variable rate notes denominated in with a maturity of approximately 5 years (maturing July 25, 2006) with a margin of 34 basis points over the 3-month Euribor.

These notes have been rated by Fitch, Moody s and Standard & Poor s at AAA/Aaa/AAA, respectively. The high ratings reflect the quality and diversification of the underlying receivable portfolio, the element of over collateralization represented by the dynamic credit enhancement, the legal structure of the transaction and other qualifying aspects of the program. The total amount of the trade accounts receivable sold under the securitization transactions in 2002 was 9 billion ( 5.9 billion in 2001) and solely referred to receivables from residential customers generated by Telecom Italia. As of December 31, 2002, the receivables sold and not yet collected amounted to 849 million ( 877 million as of December 31, 2001), of which 757 million ( 684 million as of December 31, 2001) were not yet due.

The securitization and the factoring transactions led to an improvement in consolidated net financial debt as of December 31, 2002 of 1,049 ( 848 million as of December 31, 2001), of which 826 million was due to the securitization Program.

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OLIVETTI S.P.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the securitization Program, the Vehicle can invest the temporary excess liquidity from the Program by lending the excess cash to Telecom Italia. As of December 31, 2002, the balance of such loans to the Olivetti Group totaled 165 million ( 168 million as of December 31, 2001). The Olivetti Group has recorded these amounts as financial payables included under short term debt in the accompanying consolidated balance sheet.

**Note 6 Inventories**

| | As of December 31, | |
|---|---|---|
| | 2001 | 2002 |
| | (millions of euro) | |
| Raw materials | 42 | 30 |
| Work in progress | 29 | 27 |
| Total manufacturing inventories | 71 | 57 |
| Finished products and goods for resale: | | |
| in respect of group core business | 409 | 323 |
| Property for sale | 27 | 23 |
| Contracts in progress | 352 | 179 |
| Advances to suppliers | 2 | 2 |
| | 861 | 584 |

Inventories of 411 ( 636 million as December 31, 2001) are held by Telecom Italia Group companies and of 173 million ( 225 million as of December 31, 2001) by other companies (mainly Olivetti Tecnost Group). In particular, as far as Telecom Italia Group companies are concerned, inventories of 193 million ( 245 million as of December 31, 2001) are held by companies providing telecommunications services, 170 million ( 234 million as of December 31, 2001) by companies providing information technology services and 48 million by the Seat Pagine Gialle group and other minor subsidiaries. The reduction from December 31, 2001 is mainly attributable to the disposals of Sogei and the Telespazio Group (a decrease of 133 million).

**Note 7 Other Current Assets**

As of

December 31,

| | 2001 | 2002 |
|---|---|---|
| | (millions of euro) | |
| Receivables from banks and other loans | 681 | 976 |
| Receivables from national government and public agencies for subsidies and contributions | 43 | 59 |
| Cash receipts in transit | 210 | 98 |
| Tax receivables | 2,215 | 2,092 |
| Deferred tax assets | 991 | 2,151 |
| Accrued income | 466 | 367 |
| Prepaid expenses | 408 | 328 |
| Other | 928 | 988 |
| | 5,942 | 7,059 |

Receivables from banks and other loans are mainly due to the deferred purchase price due from the securitization Vehicle ( 370 million) and amounts due from financial institutions for the lending of Seat Pagine Gialle shares ( 176 million) by Telecom Italia. These shares continue to be consolidated for financial reporting purposes. As required by the Bank of Italy regulations, an offsetting debt is recorded against the receivable from the financial institution. Such agreements were concluded during the months of February and March 2003. Receivables from banks and other loans also includes 300 million related to a shares lending agreement entered by Olivetti Finance N.V. with a financial institution; a short term liability is also recognized for an equal amount.

The 123 million decrease in tax receivables is principally due to lower VAT and current tax receivables at Telecom Italia (a decrease of 596 million), partially offset by the increase in TIM current tax receivables (an increase of 335 million) mainly due to the benefit arising from the merger of Blu into TIM.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Deferred tax assets, including those under Other assets (see Note 10), totaled 4,190 million ( 1,695 million as of December 31, 2001), while deferred tax liabilities amounted to 40 million ( 381 million as of December 31, 2001). As a result, net deferred tax assets amounted to 4,150 million ( 1,314 million as of December 31, 2001).

The 2,495 million increase in deferred tax assets is mainly due to TIM (an increase of 928 million), Telecom Italia (an increase of 1,080 million) and Olivetti (an increase of 598 million) and is related to the write-downs of equity investees and the provisions to the reserves for risks and charges; deferred tax liabilities are generally associated with deferred gains.

Other current assets include miscellaneous receivables due from the Italian government and other public institutions and advances to personnel.

**Note 8 Fixed assets, net**

Fixed asset balances, net of accumulated depreciation and write-downs are detailed as follows:

| | As of December 31, 2001 | As of December 31, 2002 | | |
|---|---|---|---|---|
| | | Cost | Accumulated Depreciation | Net Book Value |
| | | (millions of euro) | | |
| Land and buildings | 3,137 | 3,712 | 1,467 | 2,245 |
| Telecommunications systems and equipment, machinery and installations | 16,695 | 56,801 | 41,843 | 14,958 |
| Industrial and commercial equipment | 83 | 1,043 | 983 | 60 |
| Other | 746 | 2,101 | 1,410 | 691 |
| Construction in progress and advances to suppliers | 1,436 | 1,495 | | 1,495 |
| | 22,097 | 65,152 | 45,703 | 19,449 |

As of December 31, 2002 fixed assets include leased assets with a net book value of 565 million ( 680 million as of December 31, 2001), with a gross value of 728 million ( 831 million as of December 31, 2001) less accumulated depreciation of 163 million ( 151 million as of December 31, 2001). In January 2003, some property units leased by Telecom Italia and other Group s companies were purchased ahead of schedule.

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

An analysis of movements in fixed assets for each of the years is as follows:

| | As of December 31, 2001 | As of December 31, 2002 |
|---|---|---|
| | (millions of euro) | |
| **Balance, at beginning of the year** | 23,776 | 22,097 |
| Effect of change in accounting for the Nortel Inversora Group | (2,704) | |
| | 21,072 | 22,097 |
| Investments in fixed assets | 4,317 | 3,291 |
| Disposals | (188) | (542) |
| Depreciation(1) | (4,080) | (3,807) |
| Changes in consolidation area | 1,347 | (313) |
| Translation adjustments | (352) | (1,168) |
| Write-downs and other | (19) | (109) |
| **Balance, end of the year** | 22,097 | 19,449 |

(1) A breakdown of depreciation is as follows:

| | As of December 31, 2001 | As of December 31, 2002 |
|---|---|---|
| | (millions of euro) | |
| Buildings | 165 | 155 |
| Telecommunications systems and equipment, machinery and installations | 3,560 | 3,336 |
| Industrial and commercial equipment | 44 | 38 |
| Other | 311 | 278 |
| | 4,080 | 3,807 |

Translation adjustments amount to 1,168 million, associated with the segment Mobile ( 674 million), the Entel Chile group ( 305 million), the Entel Bolivia group ( 111 million) and other minor subsidiaries ( 78 million).

In 2001, changes in consolidation area mainly refer to the inclusion of the Entel Chile group and consolidation of certain SEAT s subsidiaries all of which were acquired in 2001.

A detail of investments in fixed assets by segment during each of the years is as follows:

| | As of December 31, | |
|---|---|---|
| | **2001** | **2002** |
| | **(millions of euro)** | |
| Domestic Wireline | 1,949 | 1,828 |
| Mobile | 1,547 | 1,075 |
| Internet and Media | 82 | 28 |
| Latin America | 351 | 201 |
| IT Group | 111 | 85 |
| IT Market | 19 | 12 |
| Other activities and intercompany eliminations | 195 | 29 |
| Telecom Italia Group | 4,254 | 3,258 |
| Olivetti S.p.A and other operating companies | 63 | 33 |
| | 4,317 | 3,291 |

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**OLIVETTI S.P.A.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 9 Intangible assets**

| | As of December 31, | |
|---|---|---|
| | 2001 | 2002 |
| | (millions of euro) | |
| Licenses, trademarks and similar rights | 4,452 | 3,995 |
| Goodwill | 31,887 | 27,894 |
| Software and other rights | 1,291 | 1,269 |
| Leasehold improvements | 238 | 222 |
| Work in progress and advances | 874 | 832 |
| Other | 478 | 349 |
| | 39,220 | 34,561 |

- Licenses, trademarks and similar rights decreased by 457 million mainly as a result of the change in the exchange rates of South American countries (a decrease of 650 million). They refer to the Mobile segment for 3,446 million, mainly in respect of the remaining unamortized cost on the UMTS and PCS licenses (of which 2,417 million relating to TIM), and other Telecom Italia Group companies for 549 million, principally for Indefeasible Rights of Use (IRU) that have been granted to the Olivetti Group and capitalized.

- Goodwill decreased by 3,993 million compared to December 31, 2001. This is mainly due to the amortization charge for the period ( 2,151 million), the write-downs of the residual goodwill of Jet Multimedia prior to its disposal ( 134 million) and of goodwill relating to Seat Pagine Gialle ( 1,544 million, in consideration of the fact that the Olivetti Group no longer considers its Directories business to be of a core, strategic business), Blu ( 103 million), Corporacion Digitel ( 75 million) and other minor subsidiaries ( 47 million) and the negative performances of the Brasilian Real and Chilean Peso as regards goodwill in those currencies ( 84 million).

Additions of goodwill for the year 2002 amount to 349 million ( 1,196 million in 2001) mainly for the purchase by TIM of Blu ( 103 million) Stet Hellas ( 66 million) and Corporacion Digitel ( 27 million) and by Telecom Italia of Netesi and Epiclink ( 67 million).

As of December 31, 2002, the residual value of goodwill mainly refers to:

**(millions of euro)**

| | |
|---|---|
| Telecom Italia | 21,351 |
| Seat Pagine Gialle | 3,780 |
| TIM | 748 |
| Entel Chile | 739 |
| Corporacion Digitel | 266 |
| TDL Infomedia | 252 |
| Holding Media e Comunicazione | 163 |
| Other Companies | 595 |
| | 27,894 |