PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

RISK FACTORS

Risk Factors Relating to the Business of the Telecom Italia Group

Continuing competition in a fully liberalized market may further reduce Telecom Italia Group’s market share of domestic and international traffic and may cause further reductions in prices and margins.

Domestic competition exists in all of the principal telecommunications business areas in which the Telecom Italia Group operates, including, most significantly, fixed-line and mobile voice telecommunications services, which have been open to competition since 1998 for fixed-line services and since 1995 for mobile services. As a result, the Company and TIM face competition in Italy. This competition may increase due to the consolidation and globalization of the telecommunications industry in Europe and elsewhere. Consolidation is increasing rapidly and competition is expected to rise at all levels in the future. In addition, the use of the single European currency could further intensify competition by facilitating international operators’ entry into the Italian market and direct competition with Telecom Italia and with TIM in fixed and mobile telephony and in the local and long-distance markets. As of December 31, 2002, there were a number of significant competitors offering fixed-line services and two other operators (as a result of the merger of Blu with TIM) offering mobile services in the Italian domestic market; a third mobile competitor (H3G) has entered the market in 2003, offering 3G commercial services. Although the decline in Telecom Italia’s market share slowed during 2002, continuing pressures on prices due to competition and further erosion in market shares could adversely affect Telecom Italia Group’s results of operations. Additional changes in the regulatory regime, including carrier preselection, number portability and local loop unbundling could further increase competition for the services Telecom Italia Group provides which could also adversely affect its business.

Telecom Italia Group’s business may be adversely affected if it is unable to continue the introduction of new services to stimulate increased usage of its fixed and wireless networks.

In order to maintain a positive trend in revenues despite increased competition and lower prices, Telecom Italia Group’s strategy has been to introduce new services in both its fixed-line and wireless services to increase traffic on its networks and find alternative revenue sources. These services include non-voice services such as Internet, data traffic and value added services such as interactive mobile services that allow users to receive news or engage in simple banking transactions. TIM has also introduced multimedia messaging services (MMS) allowing users to send and to receive images, photos and files. Alternative revenue sources also include increased interconnection traffic from other operators using the Company’s fixed-line network. In addition to the steps taken in recent years, the Telecom Italia Group continues to develop new products and services, such as new data services for business customers, broadband services, enhanced communication services and new voice packages, in order to attract and retain customers, particularly business customers, and to stimulate usage of its fixed and wireless telecommunications network. The Telecom Italia Group is also investing in new infrastructure and technologies to enable it to introduce new products and services. The Telecom Italia Group expects that these strategic initiatives will require substantial expenditures and commitment of human resources. The Telecom Italia Group may not be able to introduce commercially these new products and services, and even if it introduces them, they may not be successful.

The Telecom Italia Group’s business will be adversely affected if it is unable to successfully implement its business plans, particularly in light of the Merger. Factors beyond the Telecom Italia Group’s control may prevent the Telecom Italia Group from successfully implementing its strategy.

Following the change in control of the Company in late 2001, the Telecom Italia Group adopted its 2002-2004 Industrial Plan and established priorities for 2002. The main objectives were:

- Strengthen competitive capabilities;

- Improve cost efficiency; and
- Strengthen the financial structure.

Significant portions of the 2002-2004 Industrial Plan were completed during 2002, particularly the sale of non-core assets and debt reduction. The Telecom Italia Group also took steps to strengthen its competitive position in its core domestic market through the introduction of new products and tariff packages and confirmed to focus on lowering costs through the reduction of operating expenses and capital expenditures.

In connection with the proposed Merger, the Company has confirmed the objectives of the 2002-2004 Plan and stated that it has established certain targets, which include strict limits on capital expenditures and cost controls, together with further assets sales, to reduce the significantly higher levels of debt the Telecom Italia Group will have as a result of the Merger. See *"––New Telecom Italia's total net financial debt will increase if the Merger of Telecom Italia and Olivetti is successful"* below.

Factors beyond the Telecom Italia Group's control that could affect the further implementation and completion of the 2002-2004 Plan and the Telecom Italia Group reaching its targets for the period 2003-2005 include:

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

Regulatory decisions and changes in the regulatory environment could adversely affect Telecom Italia Group's business.

Telecom Italia Group's fixed and mobile telecommunications operations, as well as its broadband services businesses, are subject to extensive regulatory requirements in Italy and its international operations and investments are subject to regulation in their host countries. In Italy, the Company is the only operator subject to universal service obligations, including the provision of fixed public voice telecommunications services in non-profitable areas, publication of telephone directories and provision of subscriber information services at affordable prices and provision of public payphones. In addition, the National Regulatory Authority has identified the Company as an operator having significant market power in all relevant markets. As a result, the Company is, or will be, subject to a number of regulatory constraints, including:

- a requirement to conduct its business in a transparent and non-discriminatory fashion;
- a requirement to have its prices for fixed-line telecommunications services approved by the National Regulatory Authority prior to implementation in accordance with a price cap mechanism which is currently being reviewed by the National Regulatory Authority; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-oriented prices. These services include allowing other operators to interconnect to the Company's network and transport traffic through the network and offering certain services relating to its local access network, or local loop, on an unbundled basis to other operators to enable these operators to access directly end users by leasing the necessary components from the Telecom Italia Group.

As a member of the European Economic Area, or EEA, Italy is additionally required to adapt its regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market as far as the directives are made relevant to the EEA Agreement. The EU regulators approved revised telecommunications regulation in March 2002. Implementation of such regulation through Italian law is expected by July 2003. The implementation of the revised telecommunications regulation and possible future decisions relating thereto may change the regulatory accounting system currently used by the Telecom Italia Group in a manner adverse to the Telecom Italia Group. Please see “Item 4.—Information on the Telecom Italia Group—Regulation” in this report for more information on the regulatory requirements to which the Telecom Italia Group is subject.

The Telecom Italia Group is unable to predict the impact of any proposed or potential changes in the regulatory environment in which it operates both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect the Telecom Italia Group’s business and competitiveness. In particular, the Telecom Italia Group’s ability to compete effectively in its existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which the Telecom Italia Group is subject or extend them to new services and markets. In addition, changes in tax laws in countries in which the Telecom Italia Group operates could adversely affect its results of operations. Finally, decisions by regulators regarding the granting, amendment or renewal of licenses, to the Telecom Italia Group or to third parties, could adversely affect the Telecom Italia Group’s future operations in Italy and in other countries where it operates.

The Telecom Italia Group may not be able to achieve the expected return on the significant investments and capital expenditures it has made in Latin America due to the competitive environment in these markets. Returns from the sale of non-core international assets may be lower than expected.

In recent years the Telecom Italia Group pursued a significant strategic acquisition program in Latin America and Europe aimed at achieving a stronger competitive position and balancing the loss of market share in its domestic market. During the past 18 months the Telecom Italia Group has reconsidered this strategy. The Telecom Italia Group’s strategy is now focused on:

- consolidating its international presence in Latin America;
- developing its international investments in high-growth market segments, such as wireless, data and Internet;
- strengthening its role of strategic partner in existing investments by increasing the transfer of its technological expertise and marketing know-how; and
- rationalizing its existing international portfolio by divesting minority participations in non-strategic geographical markets.

As a result of this change in strategy, in 2002 the Telecom Italia Group divested certain of its most significant European assets such as BDT (Bouygues Decaux Telecom), Autel (Mobilkom Austria), 9Telecom group and Auna and is still seeking to divest certain international non-strategic assets. In addition, certain investments which were made during the 1999-2001 period have declined significantly in value resulting in significant write-downs and asset impairments. Due to the current market situation, the general economic conditions and the high level of competition, the actual returns from the announced divestment of non-strategic assets may be lower than the ones originally expected and further impairment charges and goodwill writedowns may be required.

Continuing rapid changes in technologies could increase competition or require the Telecom Italia Group to make substantial additional investments.

Many of the services the Telecom Italia Group offers are technology-intensive and the development of new technologies may render such services non-competitive. The Telecom Italia Group is already making and may have to make substantial additional investments in new technologies to remain competitive. The new technologies the Telecom Italia Group chooses may not prove to be commercially successful. In addition, the Telecom Italia Group may not receive the necessary licenses to provide services based on new technologies in Italy or abroad. As a result, the Telecom Italia Group could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base.

The value of the Telecom Italia Group’s operations and investments may be adversely affected by political and economic developments in Italy or other countries.

The Telecom Italia Group’s business is dependent on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect the Telecom Italia Group’s business and results of operations. The Telecom Italia Group may also be adversely affected by political and economic developments in other countries where it has made significant investments in telecommunications operators. Some of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which the Telecom Italia Group has invested and impair the value of these investments. A significant risk of operating in emerging market countries is that foreign exchange restrictions could be established. This could effectively prevent the Telecom Italia Group from receiving profits from, or from selling its investments in, these countries.

Fluctuations in currency exchange and interest rates may adversely affect the Telecom Italia Group's results.

Because the Telecom Italia Group has made substantial international investments, primarily in U.S. dollars, and has significantly expanded its operations outside the euro zone, movements in the exchange rates of the euro against other currencies could have an adverse effect on the Telecom Italia Group's revenues and operating results. A rise in the value of the euro relative to other currencies in certain countries in which the Telecom Italia Group operates or has made investments would reduce the relative value of the revenues or assets of the Telecom Italia Group's operations in those countries and, therefore, may adversely affect the Telecom Italia Group's operating results or financial position. In addition, the Telecom Italia Group has raised, and may raise in an increasing proportion in the future, financing in currencies other than the euro, principally the U.S. dollar. Accordingly, the value of those liabilities will be affected by fluctuations of the currencies of the countries in which the TI Group operates against the currency in which the financing is denominated. The Telecom Italia Group generally enters into a number of forward currency transactions, swaps and options to manage foreign currency risk exposure with respect to its non-euro denominated liabilities. However, the Telecom Italia Group can give no assurances that it will be successful in managing foreign currency risk exposure, taking into consideration that appropriate foreign currency swaps and options may not be available as needed on the relevant financial markets.

In addition, total net financial debt at year end 2002 was €18,118 million. As a result of the Merger and on completion of the Merger, under Italian GAAP New Telecom Italia will have up to €43,576 million of pro forma net financial debt. The Telecom Italia Group generally enters into interest rate swaps and interest rate options to manage its exposure to floating interest rates. However, the Telecom Italia Group can give no assurance that fluctuations in interest rates will not adversely affect its results of operations.

The Telecom Italia Group may not be able to realize the benefits of its investment in UMTS licenses and related capital expenditures.

Through TIM and other subsidiaries, the Telecom Italia Group has acquired a third generation mobile telephone, or UMTS, license to commence operations of UMTS services in Italy and Greece. As of June 20, 2003, TIM has committed to pay €2,417 million (of which €2,300 million has already been paid) for its UMTS license in Italy and, through its international subsidiaries and affiliated companies, a further €145 million for UMTS licenses in Greece (of which approximately €101 million has already been paid). The size of the market for UMTS products and services is unknown and may fall short of the industry's expectations. The Telecom Italia Group cannot be certain that the demand for such services will justify the related costs. In some locations, the investments, although required under the licenses, may not be commercially desirable. In addition, the Telecom Italia Group has a number of significant competitors in each of its geographic markets.

The Telecom Italia Group will be rolling out the UMTS networks, together with its competitors, in compliance with the terms and conditions of their respective licenses. Given the substantial costs of upgrading Telecom Italia's existing networks to support UMTS and the uncertainty regarding the commercial adoption of UMTS, the Telecom Italia Group may not be able to recoup its investment according to its estimates, if at all. The Telecom Italia Group has entered into and intends to enter into arrangements with other operators to share the costs and infrastructure of its planned UMTS networks. However, the Telecom Italia Group cannot give any assurance that it will succeed in concluding the necessary agreements with other operators on satisfactory terms. Moreover, while network sharing is intended to reduce costs, the Telecom Italia Group cannot give any assurance that this will be the case or that it will be able to make such network sharing work commercially or technically.

Devaluations of telecom assets and write-downs could adversely affect the Telecom Italia Group's financial condition and results of operations.

Recent events in the market for telecom stocks and credit ratings of market participants, as well as the Telecom Italia Group's ongoing review and refinement of its business plan, has resulted and may result in substantial impairment write-downs of the Telecom Italia Group's assets at any time. Accounting standards relating to asset valuations and impairment may be refined to require the use of new criteria or methodology. Starting in fiscal year 2002, under U.S. GAAP, goodwill is tested for impairment pursuant to SFAS 142 “Goodwill and Other Intangible Assets”. In accordance with the provisions of SFAS 142, goodwill is no longer amortized, but is subject to annual impairment tests based on fair value. An interim assessment of goodwill may be necessary if an impairment indicator indicates that the fair value of a reporting unit may have decreased. Future changes in the fair value of the Telecom Italia Group’s business units could adversely affect the Telecom Italia Group’s U.S. GAAP results and financial conditions.

Growth in the traditional mobile telecommunications industry has slowed significantly during the past few years and our revenues may not grow as rapidly as in the past.

In recent years, the Telecom Italia Group’s revenues have grown or remained stable in large part because of the rapid growth in the mobile communications business. This growth has been driven largely by the rapid expansion of the mobile telecommunications market in Italy. However, as a result of this growth, mobile phone use in the Italian market is approaching saturation levels.

Continued growth in the mobile telecommunications markets in which the Telecom Italia Group operates depends on a number of factors, many of which are outside the Telecom Italia Group’s control. These factors include:

- the activities of TIM’s competitors, including consolidation, tariff reductions and handset subsidies;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and the attractiveness of these to customers;
- customer usage habits;
- general economic conditions; and
- health risks or safety concerns associated with mobile telephones and transmission equipment.

If the mobile telecommunications markets in which TIM operates do not continue to expand, or TIM is unable to retain its existing customers or is unable to stimulate increases in customer usage, the Telecom Italia Group’s financial condition and results of operations may be harmed.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

Various reports have alleged that certain radio frequency emissions from wireless handsets and transmission equipment may be linked to various health concerns and may interfere with various electronic devices. The Telecom Italia Group cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future. The Telecom Italia Group’s mobile communications business may be harmed as a result of these alleged health risks. For example, this could result in a lower number of customers, reduced usage per customer or potential consumer liability for the Telecom Italia Group. In addition, although Italian law already requires strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services.

The Telecom Italia Group may be adversely affected if it fails to successfully implement its Internet strategy.

The Telecom Italia Group’s ability to develop successfully its Internet dial-up and broadband operations and its strategy to provide contents and services to consumers and small and medium-sized companies may be adversely affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users’ preferences;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for internet access and/or internet distribution; and
- Telecom Italia experiences any network interruptions or related problems with network infrastructure.

Any of the above factors may adversely affect the Telecom Italia Group’s business and results of operations.

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You may not be able to assert claims against Arthur Andersen

The consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2000, appearing in our annual report on Form 20-F have been audited by PricewaterhouseCoopers S.p.A., independent auditors for 2000, whose report is based in part on the report of Arthur Andersen S.p.A., now called Deloitte & Touche Italia S.p.A..

We have not been able to obtain, after reasonable efforts, the written consent of Arthur Andersen S.p.A., as required by section 7 of the Securities Act for incorporation by reference of its reports on our consolidated financial statements for the year ended December 31, 2000. Rule 437a of the Securities Act, as amended, permits us to include these reports on the financial statements which will be incorporated by reference into our Registration Statement (File No. 333 - 127666) without the consent of Arthur Andersen S.p.A.. Because Arthur Andersen S.p.A. has not consented to the incorporation by reference of its reports therein, your ability to recover for claims against Arthur Andersen S.p.A. may be limited. In particular, you will not be able to recover against Arthur Andersen S.p.A., under Section 11 (a) (4) of the Securities Act for any untrue material fact contained in the financial statements audited by Arthur Andersen S.p.A. or any omission to state a material fact required to be stated therein.

Risk Factors Relating to the Merger

New Telecom Italia’s total net financial debt will increase if the Merger of Telecom Italia and Olivetti is successful.

On April 15, 2003, the Boards of Directors of Olivetti and the Company approved a plan of Merger between Olivetti and Telecom Italia. On May 24 and May 26 the Ordinary and Extraordinary Meetings of the Company’s Ordinary Shareholders and the Ordinary and Extraordinary Meetings of Olivetti’s Ordinary Shareholders voted in favor of the Merger, respectively. The merged company will be called Telecom Italia. The Merger is expected to become effective in the first half of August 2003, subject to the satisfaction of certain conditions.

From the date on which the Merger becomes effective and as a consequence thereof, New Telecom Italia will assume the rights and obligations of the Telecom Italia Group, continuing its activity. In particular, New Telecom Italia will succeed to Telecom Italia’s concessions, licenses and administrative authorizations subject to regulatory approvals, where required. In addition, it will be responsible for the additional businesses currently operated by Olivetti.

See “Item 4. Information on the Telecom Italia Group—Business—Significant Development during 2002—Merger of Telecom Italia into Olivetti”.

The debt of New Telecom Italia could be greater than the present total debt of Olivetti and Telecom Italia as a consequence of the Merger although the total amount will depend on the level of acceptances of Telecom Italia’s shareholders of the partial cash tender offer for Shares and Savings Shares by Olivetti. Under Italian GAAP, total net financial debt (see “Item 3. Key Information-–Selected Financial and Statistical Information—Note 10”) is expected to be up to approximately €43.6 billion on a pro forma basis following the Merger, a maximum increase of approximately €25 billion from the net financial debt of €18.1 billion at December 31, 2002 of the Telecom Italia Group, of which about €15 billion is existing Olivetti net financial debt and a further €9 billion relates to the maximum amount of funding for the withdrawal rights exercised by certain Olivetti shareholders and the tender offers to be made by Olivetti for a portion of the Telecom Italia Shares and Savings Shares. At December 31, 2002 net financial debt of the Olivetti group was €33.4 billion (including the net financial debt of the Telecom Italia Group).

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

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RATES OF EXCHANGE

Beginning with the fiscal year 2001, the Telecom Italia group has published its consolidated financial statements in euros. References to "€", "euro" and "Euro" are to the euro, the currency of 12 member states of the European Union, including Italy and references to "lire", "lira" and "Lit." are to Italian lire, the former Italian non-decimal denomination of the euro, and references to "U.S. dollars", "dollars", "U.S.$" or "$" are to U.S. dollars, the currency of the United States.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the "Euro/Dollar Exchange Rate") of €1.00 = U.S.$1.1843, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the "Noon Buying Rate") on June 16, 2003. These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

For the purpose of this Annual Report, "billion" means a thousand million.

Exchange Rates

Effective January 1, 1999, the following 11 European Union member states adopted the euro as a common currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. They also established fixed conversion rates between their respective sovereign currencies and the euro. On January 1, 2001, Greece (together, with the 11 European Union member states referred to in the previous sentence, the "Member States") joined the European Economic and Monetary Union. The exchange rate at which the lira was irrevocably fixed against the euro is Lit.1,936.27 = €1.00. On January 1, 2002, the Member States began issuing new euro-denominated bills and coins for use in cash transactions. As of March 1, 2002, the Member States withdrew the bills and coins denominated in their respective currencies from circulation, and they are no longer legal tender for any transactions.

The Federal Reserve Bank of New York no longer quotes a Noon Buying Rate for the legacy currencies of any of the Member States.

At the extraordinary stockholders' meeting held on May 3, 2001, Telecom Italia's share capital was converted from lire into euros by rounding up the par value of the shares, from Lit. 1,000 (approximately €0.52) to €0.55 partially through the cancellation of 112,998,070 Savings Shares held in treasury.

The following table sets forth, for the year 1998 certain information regarding the Noon Buying Rate for lira expressed in lira per U.S.$1.

Calendar Period	High	Low	Average(1)	At Period End
1998	1,828	1,1592	1,737	1,654

(1) Average of the rates for the last business day of each month in the relevant prices.

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The following table sets forth for the years 1999 to 2002 and for the beginning of 2003 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per €1.00.

Calendar Period	High	Low	Average(1)	At Period End
1999	1.1812	1.0016	1.0588	1.0070
2000	1.0335	0.8270	0.9207	0.9388
2001	0.9535	0.8425	0.8909	0.8901
2002	1.0485	0.8594	0.9495	1.0485
2003 (through June 16, 2003)	1.1870	1.0361	1.1201	1.1843
Monthly Amounts				
December 2002	1.0485	0.9927	1.0194	1.0485
January 2003	1.0861	1.0361	1.0622	1.0739
February 2003	1.0875	1.0708	1.0785	1.0779
March 2003	1.1062	1.0545	1.0797	1.0900
April 2003	1.0621	1.1180	1.0862	1.1180
May 2003	1.1853	1.1200	1.1556	1.1766
June 2003 (through June 16, 2003)	1.1870	1.1686	1.1759	1.1843

(1) Average of the rates for the last business day of each month in the relevant period except for 2003 for which the date used is June 16, 2003.

Beginning January 4, 1999, the Shares and Savings Shares commenced trading on *Mercato Telematico Azionario* (“Telematico”), managed by Borsa Italiana S.p.A. (“Borsa Italiana”) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Shares and the Savings Shares and the price of the American Depositary Shares (“ADSs”) and the Savings Share American Depositary Shares (“Savings Share ADSs”), on the New York Stock Exchange (“NYSE”). Cash dividends were paid by Telecom Italia in lire until 2001 and in euro starting from 2002. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Telecom Italia Shares and Telecom Italia Savings Shares. See “Item 10. Additional Information—Description of American Depositary Receipts”.

On completion of the Merger, New Telecom Italia will become a successor registrant to the Company under the Securities Exchange Act of 1934, as amended (the “1934 Act”) and, therefore, become subject to and continue to file periodic reports under the 1934 Act required for a foreign private issuer. New Telecom Italia intends to seek a listing of the New Telecom Italia ordinary shares and savings shares to be issued if the Merger is completed, on the NYSE where such ordinary shares and savings shares will trade in the form of ADSs.

SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report. The selected financial data (other than the 2000 pro forma data) for each of the five years in the period ended December 31, 2002, are extracted or derived from the consolidated financial statements of the Telecom Italia group, which have been audited by the following independent auditors: Reconta Ernst & Young S.p.A. (only for the years ended December 31, 2001 and 2002), PricewaterhouseCoopers S.p.A. (only for the year ended December 31, 2000) and Arthur Andersen S.p.A. (now called Deloitte & Touche Italia S.p.A.) for all other periods. In accordance with Italian law, the financial statements of the parent company Telecom Italia have been approved by the shareholders of Telecom Italia at its Annual Meeting of Shareholders held on May 24, 2003. The Telecom Italia Group’s Consolidated Financial Statements included herein have been approved by the Telecom Italia Board of Directors. Unless otherwise indicated, amounts presented are based on Italian GAAP.

	Year ended December 31,					
	1998(1)	1999(1)	2000(1)	2000 pro forma (1)(2)	2001(1)	2002(1)
	(millions of Euro, except per share and per ADS amounts)					
Statement of Operations Data in accordance with Italian GAAP:						
Operating revenues	25,052(3)	27,104	28,911	27,169	30,818	30,400
Other income	560	516	426	402	417	479
Total revenues	25,612(3)	27,620	29,337	27,571	31,235	30,879
Cost of materials	2,342	2,477	2,259	2,132	1,972	1,779
Salaries and social security contributions	4,992	4,977	5,025	4,745	4,666	4,540
Depreciation and amortization	5,412	5,339	5,647	5,209	6,275	5,877
Other external charges	9,065(3)	9,586	10,790	10,130	12,171	11,949
Changes in inventories	135	(130)	(277)	(255)	58	28
Capitalized internal construction costs	(1,078)	(1,062)	(912)	(831)	(581)	(675)
Total operating expenses	20,868(3)	21,187	22,532	21,130	24,561	23,498
Operating income	4,744(3)	6,433	6,805	6,441	6,674	7,381
Financial income	815	555	847	806	1,076	1,236
Financial expense	(868)	(1,466)	(2,470)	(2,261)	(5,031)	(3,399)
Of which write-downs and equity in losses in unconsolidated subsidiaries, affiliated companies and other companies, net	*(178)*	*(565)*	*(1,025)*	*(1,011)*	*(1,616)*	*(465)*
Other income and expense, net	69(3)	(507)	(214)	(184)	(3,452)	(5,637)
Income (loss) before income taxes	4,760	5,015	4,968	4,802	(733)	(419)
Income taxes	(2,048)	(2,606)	(2,020)	(1,910)	(925)	716
Net income (loss) before minority interests	2,712	2,409	2,948	2,892	(1,658)	297
Minority interest	(734)	(672)	(920)	(864)	(410)	(619)
Net income (loss)	1,978	1,737	2,028	2,028	(2,068)	(322)
Net income (loss) per Share(4)	0.2634	0.2309	0.2741	0.2741	(0.2858)	(0.0474)
Net income (loss) per Share ADS(4)	2.6339	2.3086	2.7410	2.7410	(2.8581)	(0.4736)
Dividends per Share	0.1446	0.3114	0.3125	0.3125	0.3125	0.3125(5)
Dividends per Savings Share	0.1549	0.3218	0.3238	0.3238	0.3237	0.3235(5)
Amounts in accordance with U.S. GAAP:						
Total revenues	25,612(3)	27,620	27,938	—	31,017	30,830
Operating income (loss)	4,662(3)	6,153	(1,926)	—	2,272	4,850
Income (loss) before income taxes	4,419	4,774	7,058	—	(3,379)	1,357
Net income (loss)	1,526	1,505	3,522	—	(4,039)	828
Net income (loss) per Share—Basic(6)	0.2026	0.1998	0.4731	—	(0.5553)	0.1103
Net income (loss) per Share—Diluted(6)	0.2026	0.1997	0.4717	—	(0.5553)	0.1103
Net income (loss) per Share ADS—Basic(6)	2.0255	1.9982	4.7307	—	(5.5531)	1.1031
Net income (loss) per Share ADS—Diluted(6)	2.0255	1.9966	4.7173	—	(5.5531)	1.1031

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

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

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

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

(6) In accordance with U.S. GAAP, the Net income (loss) per Share has been calculated using the two class method, since the Company has both Shares and Savings Shares outstanding. Under this method, set forth in Statement of Financial Accounting Standards No. 128, “Earnings per Share”, Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding, and diluted earnings per share is increased to include any potential common shares and is adjusted for any changes to income that would result from the assumed conversion of those potential common shares. For the purpose of these calculations, the weighted average number of Shares and Savings Shares was 7,421,251,726 for the year ended December 31, 1998, 7,421,660,518 for the year ended December 31, 1999, 7,398,247,829 for the year ended December 31, 2000, 7,314,353,578 for the year ended December 31, 2001 and 7,297,953,685 for the year ended December 31, 2002. The calculations take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of Savings Shares above dividends paid on the Shares. Prior to 2001 the par value of the Savings Shares was Lit. 1,000 per share, while for 2001 and 2002, following the resolution of the extraordinary shareholders’ meeting held on May 3, 2001 regarding the re-denomination of Telecom Italia share capital into Euro, the calculations take into account the new par value per share of €0.55. In addition, in accordance with U.S. GAAP, net income (loss) per Savings Share—Basic was €0.2129, €0.2101, €0.4834, €(0.5443) and €0.1213 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively, and net income (loss) per Savings Share ADS—Basic, was €2.1288, €2.1015, €4.8340, €(5.4431) and €1.2131 in 1998, 1999, 2000 (historical and pro forma), 2001 and 2002, respectively.

(7) As a consequence of the introduction of the new Italian Accounting Principle for Income Taxes, beginning in 1999, deferred tax assets and liabilities are offset. Due to this change as of December 31, 1998 the

amount of current assets was reduced by €114 million, while total assets and liabilities were reduced by the same amount of €379 million.

(8) Stockholders' equity under U.S. GAAP is calculated after elimination of minority interest. See Note 26 of Notes to Consolidated Financial Statements included elsewhere herein.

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

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

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

	As of December 31,					
	1998	1999	2000	2000 pro forma	2001	2002
	(millions of Euro)					
Short-term debt, including current portion of long-term debt	4,824	4,969	15,136	14,745	9,114	5,089
Long-term debt	5,598	5,165	8,268	6,733	16,083	15,018
Cash and cash equivalents:						
· Bank and postal accounts	(582)	(668)	(1,299)	(1,281)	(757)	(1,251)
· Cash and valuables on hand	(3)	(9)	(5)	(4)	(5)	(4)
· Receivables for sales of securities	—	(5)	(1)	(1)	(3)	(55)
Marketable debt securities	(1,252)	(1,265)	(2,020)	(1,869)	(1,935)	(278)
Financial accounts receivable (included under "Receivables" and "Other current assets")	(523)	(144)	(1,110)	(1,110)	(805)	(683)
Financial prepaid expense/deferred income, net and accrued financial income/expense, net	112	95	59	20	250	282
Net Financial Debt	**8,174**	**8,138**	**19,028**	**17,233**	**21,942**	**18,118**

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

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Dividends

Telecom Italia has normally paid annual cash dividends on its outstanding Shares and Savings Shares, although the determination of Telecom Italia's future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to the Company's earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time.

Telecom Italia's management has publicly stated that in relation to the Merger between Olivetti and Telecom Italia, New Telecom Italia's dividend policy is not expected to change. New Telecom Italia is expected to be able to distribute to the Company's present shareholders an overall dividend corresponding to the dividends presently paid to them.

The dividends per share and per savings share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividend paid in such years are shown below. Actual dividends paid are rounded to the nearest whole cent.

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

(1) Dividends for 1998, 1999 and 2000 were paid in lire. The lire amounts were translated into euros at the irrevocably-fixed rate of exchange of Lit.1,936.27 = €1.
(2) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. See "—Rates of Exchange".
(3) The per share amount paid with respect to the fiscal year ended December 31, 1999 includes the distribution to all shareholders of the dividends payable on 26,046,820 Savings Shares held in treasury on the date the dividend was paid. A total of approximately €3.12 million was also distributed from the statutory reserve in order to round up such per share amounts.
(4) Approved at the Annual Meeting of Shareholders held on May 7, 2002. Telecom Italia's dividend coupons for the year ended December 31, 2001 were clipped on May 20, 2002 and were payable from May 23, 2002. Dividends for the year ended December 31, 2001 were paid also utilizing reserves.
(5) In order to ensure shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed and paid corresponding to a dividend of €0.1357 per Share and a dividend of €0.1357 per Savings Share. Furthermore, the Shareholders' Meeting held on May 24, 2003 approved an additional dividend of €0.1768 per Share and €0.1878 per Savings Share, payable from income and capital reserves. Pursuant to Italian Stock Exchange rules, dividends on the Shares and the Savings Shares are payable from the fourth business day after the third Friday of each month, and in any case, at least four business days after the Annual Meeting of Shareholders approving the dividends. Telecom Italia's additional dividend coupons for the year ended December 31, 2002 were clipped on June 23, 2003, and are payable from June 26, 2003.

Payment of annual dividends is subject to approval by the holders of ordinary shares at the annual general shareholders' meeting, which must be convened within six months after the end of the financial year to which it relates. In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of "interim dividends". Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends are usually payable within 30 days of the general shareholders' meeting at which they are approved. Dividends not collected within five years from the date they become payable will be forfeited in favour of the Company.

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the net income of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company's issued share capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the Telecom Italia Group. The Company may also pay dividends out of available retained earnings from prior years or other reserves.