TELECOM ITALIA S.p.A. – TELECOM ITALIA MOBILE S.p.A.

Information document
pursuant to Article 70.4 of the Regulation
approved by Consob Resolution No. 11971
of 14 May 1999, as amended,
concerning

THE MERGER
OF
TELECOM ITALIA MOBILE S.p.A.
WITH AND INTO
TELECOM ITALIA S.p.A.

The Telecom Italia securities referred to herein that will be issued in connection with the merger described 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 Telecom Italia securities are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

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

It may be difficult for you to enforce your rights and any claim you may have arising under the U.S. federal securities laws, since Telecom Italia and TIM 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 Telecom Italia may purchase securities of TIM otherwise than under the merger, such as in open market or privately negotiated purchases. Disclosure of such purchases will be made in accordance with, and to the extent required by, Telecom Italia's disclosure obligations under Italian law.

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INTRODUCTION

This information document ("**Information Document**") has been prepared and published jointly by Telecom Italia S.p.A. ("**Telecom Italia**" or the "**Absorbing Company**") and Tim S.p.A. ("**Tim**" or the "**Company to be Absorbed**") in accordance with Article 70.4 of the Regulation approved by Consob Resolution No. 11971 of 14 May 1999, as amended (the "**Consob Regulation**"), in connection with the plan for the reorganization of the group headed by Telecom Italia (the "**Group**"), of which the merger of Tim with and into Telecom Italia (the "**Merger**") is the last step, to provide shareholders and the market with the necessary information on the above-mentioned transaction.

The Merger, approved by the Boards of Directors of Telecom Italia and Tim on 23 January 2005, is subject to Article 2501 et seq. of the Italian Civil Code ("**Civil Code**"). Since it involves companies with financial instruments listed on an Italian regulated securities exchange, it is also subject to Legislative Decree 58/1998 (the "**Consolidated Law**") and the Consob Regulation.

The Merger, as noted above, is the last step in the plan for the reorganization of the Group, the guidelines of which were approved by the Boards of Directors of Telecom Italia and Tim in their meetings on 7 December 2004 and publicly disclosed on the same date. The plan also includes the following transactions, which have already been completed:

- a voluntary partial tender offer for Tim ordinary shares and a voluntary tender offer for all Tim savings shares (collectively, the "**Tender Offer**"); and
- the spin-off of Tim's mobile communications business in Italy (the "**Domestic Mobile Division**") into Tim Italia S.p.A. ("**Tim Italia**"), a company wholly owned by Tim (the "**Spin-Off**").

Under the proposed Merger, Telecom Italia will succeed to all of Tim's legal rights and obligations in respect of the latter's assets and liabilities, except for those pertaining to the Domestic Mobile Division transferred in the Spin-Off. These rights and obligations pertain to Tim Italia, which will be wholly owned by Telecom Italia upon completion of the Merger.

The Merger will result in the cancellation without exchange of the Tim ordinary and savings shares held by Telecom Italia. In addition, the treasury shares owned by Tim will be cancelled without exchange pursuant to Article 2504-*ter*, second paragraph, of the Civil Code.

Holders of Tim ordinary and savings shares other than Telecom Italia will be assigned ordinary and savings shares newly issued by Telecom Italia on the basis of the exchange ratios described in Section 2.1.2(c).

The bylaws of Telecom Italia will not be amended as a consequence of the Merger, apart from the amendments described in Section 2.1.2(f).

In view of the different dividend rights attaching to the Telecom Italia and Tim savings shares, persons who did not vote in favor of the resolution of the special meeting of Tim savings shareholders called pursuant to Article 146.1b) of the Consolidated Law to approve the resolution of Tim's extraordinary shareholders' meeting concerning the Merger will be entitled to withdrawal rights pursuant to Article 2437, first paragraph, point g), of the Civil Code, since their rights will be modified by the share exchange. See also Sections 2.1(a) and 2.1.2(e).

For purposes of the Merger reference has been made to the balance sheets of Telecom Italia and Tim at 30 September 2004, which were prepared in accordance with Article 2501-*quater* of the Civil Code. As regards the preparation of the reports on the fairness of the exchange ratios pursuant to Article 2501-*sexies* of the Civil Code, the competent courts appointed the accounting firms of Mazars & Guérard S.p.A. (for Telecom Italia) and Reconta Ernst & Young S.p.A. (for Tim).

The Merger will be submitted for approval to the shareholders' meetings of Telecom Italia and Tim, which have been called for 5, 6 and 7 April 2005 and 5 and 6 April 2005, respectively. The special meeting of Tim savings shareholders has also been called for 6, 7 and 8 April 2005. The intention of the companies involved is to arrange for the Merger to become effective by the end of June 2005. For accounting purposes the transactions effected by Tim will be attributed to and recorded in the financial statements of Telecom Italia from 1 January 2005. The Merger will also become effective for Italian tax purposes from the same date.

Upon completion of the Merger, Telecom Italia's ordinary and savings shares will continue to be listed on the Mercato Telematico Azionario operated by Borsa Italiana S.p.A. and on the New York Stock Exchange in the form of ADSs (American Depository Shares, each of which represents ten ordinary or savings shares). By contrast, with effect from 8 March 2005, Telecom Italia's ordinary shares have been delisted from the Frankfurt Stock Exchange following the decisions adopted by its Board of Admission.

The Tender Offer

The Tender Offer, which commenced on 3 January 2005 and terminated on 21 January 2005, represented the first step in the Group's reorganization plan and must be considered as connected with and serving the purposes of the Merger.

With a view to the Merger, the Tender Offer was intended to contribute to optimizing the capital structure of the Absorbing Company. Since, in implementing the Merger, the Tim shares held by Telecom Italia will be cancelled without exchange, the acquisition of Tim shares in the Tender Offer will have the effect of reducing the amount of equity to be issued in exchange for Tim shares. This will have a positive effect on earnings and free cash flow yield per share, to the benefit of all the shareholders of the Company resulting from the Merger. From a financial perspective, the equity that is not issued will in effect be replaced, as a result of the settlement of the obligations arising from the Tender Offer, by an increase in Telecom Italia's net debt. The cost of this new debt – in terms of after-tax net financial expense – is lower than the cost – in terms of the expected dividends – which would have been incurred on the equity to be issued in exchange for Tim shares if they had not been purchased in the Tender Offer.

The Tender Offer was for 2,456,534,241 Tim ordinary shares and 132,069,163 Tim savings shares at a price of €5.6 for each ordinary share and each savings share. At the end of the acceptance period the following shares had been tendered: 2,639,154,665 ordinary shares (corresponding to approximately 31.2% of Tim's ordinary share capital and approximately 107.4% of the ordinary shares that were the subject of the ordinary share offer) and 8,463,127 savings shares (corresponding to approximately 6.4% of Tim's savings share capital and of the savings shares that were the subject of the savings share offer and to approximately 0.098% of Tim's total share capital). Following the proration of the Tim ordinary shares tendered, Telecom Italia therefore owned 7,190,583,124 Tim ordinary shares (corresponding to approximately 84.8% of the company's ordinary share capital and approximately 85.539% of its total share capital).

On the basis of the results of the Tender Offer, the total consideration paid by Telecom Italia for the Tim shares tendered was approximately €13.8 billion. Of this amount, €2.5 billion was paid by using Telecom Italia's own funds and approximately €11.3 billion was raised through bank financing agreed on 8 December 2004 with a syndicate of banks for up to a maximum of €12 billion. Following the early repayment of the first tranche of the bank financing disbursed, the amount remaining to be repaid is equal to €9 billion.

It should also be noted that, following the Tender Offer and the exercise by the counterparty of put options referred to in the contract executed on 21 December 2004, Telecom Italia purchased 42 million additional Tim ordinary shares and therefore owns at the date of this Information Document a total of 7,232,583,124 Tim ordinary shares (including those acquired in the Tender Offer), corresponding to approximately 85.5% of the company's ordinary share capital. In addition, as a result of the exercise of the put and call options disclosed to the market on 21 December 2004 (for approximately 21 million Tim savings shares), the execution of securities lending agreements (for approximately 37 million Tim savings shares) and the subsequent purchase on the market of 5,063,816 Tim savings shares, as of 18 March 2005 Telecom Italia will be entitled to vote approximately 54.16% of the shares entitled to vote in the special meeting of Tim savings shareholders called to approve the Merger resolution.

For more information on the Tender Offer, see Section 2.1(b).

The Spin-Off

On 23 January 2005 the Board of Directors of Tim approved the Spin-Off, which led to the transfer of the Domestic Mobile Division to Tim Italia, a limited company established on 29 December 2004 by means of a unilateral act. The Spin-Off was executed on 24 February by means of a capital increase in kind by Tim Italia that was paid for with the contemporaneous execution of the deed of transfer of the Domestic Mobile Division and became effective on 1 March 2005, upon completion of the authorization procedure referred to in Legislative Decree no. 259 of 1 August 2003 and the filing with the Milan Company Register on 25 February 2005 of the resolution to increase Tim Italia's share capital.

As a result of the Spin-Off, Tim Italia succeeded to the authorizations held by Tim for the provision of mobile communications services in Italy, and to all the licenses (including those assigned temporarily to Tim at the date of the transfer of the Domestic Mobile Division), numbering systems and/or radio frequencies that were already the subject of a franchise, license or general authorization, and to the special authorizations following declarations of the commencement of activities.

The Spin-Off is a key step in the reorganization of the Group, following the Tender Offer and prior to the Merger that is the subject of this Information Document. Maintaining the autonomy of the Domestic Mobile Division is in line with an assessment of what would be desirable from a regulatory and accounting perspective in the context of the overall reorganization plan and at the same time is an efficient way to meet the need for transparency in the relationship between the fixed and mobile communications businesses: see Section 2.1(c).

The Domestic Mobile Division was valued on the basis of Tim's balance sheet at 31 December 2004, as reported in the draft annual financial statements approved by Tim's Board of Directors on 24 February 2005, and includes all the assets and liabilities and the legal rights and obligations related in any way to the Domestic Mobile Division at the effective date of the transfer. In particular, all the employment contracts for employees and independent contractors involved in the Spin-Off have been transferred to Tim Italia.

At 31 December 2004 the business to be spun-off included:

A. assets with a book value of €7,721 million, comprising: (i) tangible fixed assets, amounting to €2,196 million; (ii) intangible fixed assets, amounting to €3,364 million; (iii) trade receivables, amounting to approximately €1,349 million; (iv) other receivables and accrued income and prepayments, totaling €768 million; (v) financial receivables and cash, amounting to €24 million; and (vi) inventories amounting to €20 million;

B. liabilities with a book value of €3,781 million, comprising: (i) trade payables, sundry payables and payables to employees and self-employed workers, and accrued expenses and deferred income, totaling €3,405 million; (ii) the reserve for employee termination indemnities, amounting to €105 million; (iii) reserves for risks and charges connected with the activity transferred, totaling €134 million; and (iv) the reserve for deferred taxes, amounting to €137 million.

The shareholders' equity of the Domestic Mobile Division at 31 December 2004 amounted to approximately €3,940 million.

The items transferred at the values obtaining at the effective date of the Spin-Off did not include the following assets and liabilities related primarily to Tim's international business, which were reported in Tim's draft annual financial statements for 2004 at the following values: (i) Tim's 100% equity interest in TIM International N.V. ("**TIM International**"), the holding company for equity investments in foreign companies engaged in mobile communications activities with a book value, including payments for future increases in capital, of €4,587 million; (ii) the reserves for risks in respect mainly of guarantees issued on behalf of foreign affiliates, amounting to €211 million; (iii) the guarantees granted and received in relation to the foreign sector, included in the memorandum accounts, for a total of €395 million; (iv) the prepaid taxes related to the international assets, totaling €587 million; (v) the balance of the current account held by Tim with Telecom Italia for the amount outstanding at the date of the transfer of the Domestic Mobile Division, equal at 31 December 2004 to €633 million; and (vi) certain other financial and tax items.

Accordingly, as a consequence of the Spin-Off and until the Merger is consummated, Tim will maintain control of Tim Italia, the owner of the Domestic Mobile Division, and of Tim International. Upon completion of the merger Telecom Italia will become the direct holder of 100% of the capital of both companies.

For more information on the Spin-Off, see Section 2.1(c).

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This Information Document is available to the public: at Telecom Italia's registered office at 2 Piazza degli Affari, Milan; at Tim's registered office at 6 Via Cavalli, Turin, and at its corporate headquarters at 152 Via Pietro De Francisci, Rome; at Borsa Italiana's registered office; and at the office of Telecom Italia North America Inc., 745 Fifth Avenue, New York, NY 10151. It has also been posted on the websites of Telecom Italia and Tim, at respectively www.telecomitalia.it and www.investor.tim.it.

SELECTED CONSOLIDATED FINANCIAL DATA FOR THE TELECOM ITALIA AND TIM GROUPS FOR FISCAL YEAR 2004

	Tim Group	Telecom Italia Group	
(millions of euro)	**Year 2004 (historical)**	**Year 2004 (historical)**	**Year 2004 (pro forma)(°)**
Statement of income data			
Sales and service revenues	12,900	31,237	31,237
Gross operating profit	6,052	14,528	14,528
Operating income before amortization of differences on consolidation	4,166	8,754	8,754
Operating income	4,073	7,200	6,565
Consolidated net income from ordinary activities (Parent Company's interest)(1)(3)	2,167	1,269	1,469
Consolidated net income before minority interest	2,446	1,902	994
Consolidated net income (Parent Company's interest)	2,353	781	974
(millions of euro)			
Balance sheet and financial data			
Net invested capital	7,930	49,386	61,443
Shareholders' equity	8,247	19,861	17,387
of which:			
Parent Company's interest	7,660	15,172	15,887
Minority interests	587	4,689	1,500
Net financial debt	(317)	29,525	44,056
Cash Flow(2)	4,255	8,548	8,275
(in euro)			
Per share data(*)			
Consolidated net income from ordinary activities (Parent Company's interest)(1)(3) per:			
Ordinary share	0.2521	0.0753	0.0763
Savings share	0.2641	0.0863	0.0873
Consolidated net income (Parent Company's interest) per(3):			
Ordinary share	0.2736	0.0448	0.0493
Savings share	0.2856	0.0558	0.0603
Cash flow(2) per share	0.4951	0.5337	0.4500
Consolidated shareholders' equity (Parent Company's interest) per share	0.8913	0.9473	0.8641
(*) Number of shares (at 31 December) for the computation of the data per share:			
Ordinary shares	8,462,512,633	10,220,792,202	12,348,570,253
net of treasury shares	*897,835*	*101,208,867*	*101,208,867*
Savings shares	132,069,163	5,795,921,069	6,038,071,314

(°) *The pro forma column was prepared on the basis of the assumptions described in Section 5.*

(1) *Consolidated net income from ordinary activities attributable to each group's parent company was calculated on the basis of the share of the consolidated net income from ordinary activities attributable to the parent company, net of the applicable income taxes determined in accordance with the tax rate applicable for 2004.*

(2) *Consolidated net income before minority interest plus amortization and depreciation.*

(3) *This indicator was calculated considering the bylaw provisions requiring dividends on savings shares to exceed dividends on ordinary shares by an amount equivalent to 20% of the par value of the shares for Tim (Euro 0.012) and by 2% of the par value of the shares for Telecom Italia (Euro 0.0110).*

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1. RISK FACTORS

The principal risk factors or significant uncertainties regarding the Merger covered by this Information Document and the activities of Telecom Italia and the Telecom Italia Group, including upon completion of the Merger, are indicated below.

Objectives

The Merger, as explained more fully in Section 2.2, satisfies a series of business needs prompted by the progressive convergence between fixed and mobile communications platforms.

Market evolution and the defense of the value creation requires business models to adapt and organizational strategies to change, an objective that the merger of Tim into Telecom Italia is intended to promote. In fact, the Merger is intended to simplify the Group's ownership structure and ensure the unitary governance of business processes, thereby enabling Telecom Italia to exploit the opportunity to achieve the synergies that are expected to derive from integrated management of fixed and mobile communications business.

The achievement of the Merger's business objectives could be influenced by a number of factors, including, but not limited to, the ability of Telecom Italia to:

- carry out an effective reorganization of the different corporate structures, avoiding overlap;
- optimize the interaction between the different business areas;
- continue with the policy of curbing costs;
- develop and introduce new technologies and value-added services;
- maintain an adequate level of investment with respect to continual technological innovation;
- face the increase in competition in the market and the attendant policy of price cutting for the services offered by the different operators.

Furthermore, achievement of the objectives could also depend on factors that are beyond the control of Telecom Italia, such as unfavourable economic and market developments.

In the first few days of April 2005 Telecom Italia will finalize the estimates of the potential economic and financial benefits foreseen in the 2005-2007 three-year term, as a result of the re-organization plans. Such benefits are expected to be disclosed on the same day when Telecom Italia extraordinary shareholders' meeting - which was called to approve the Merger (see Section 2.2.2) - takes place, and therefore they will be presented to the financial community, together with the three-year objectives for revenues, operating results and total cash flow generation, on April 8, 2005.

Beside the operational needs described in Section 2.2, the Merger is intended to pursue the following additional objectives:

- to optimize financial and cash flows within the Group by managing Group debt more efficiently and making better use of financial leverage. At the same time, Telecom Italia's current shareholders will have access to all the cash flow generated by the mobile communications business;
- to enable Telecom Italia to optimize, in conjunction with the Tender Offer, its own financial structure and to reduce the weighted average cost of capital employed compared with its current cost. Such a reduction in the weighted average cost of capital will foster the realization of the full value potential of the post-Merger Telecom Italia's shares and thus the creation of value for the shareholders.

Debt

To cover part of the consideration connected with the Tender Offer, on 8 December 2004 Telecom Italia entered into an agreement with a syndicate of banks for bank financing of up to €12 billion.

The total consideration paid was approximately €13.8 billion, of which approximately €11.3 billion deriving from the above-mentioned financing. On 11 February 2005, using Telecom Italia's own funds, the first tranche of the bank financing, amounting to €2.3 billion, was repaid early and consequently cancelled in full; the portion of the bank financing remaining to be repaid equals €9 billion.

As a result of the consideration paid by Telecom Italia for the Tim shares tendered in the Tender Offer, the net financial debt of the Telecom Italia Group, excluding the other costs related to the Tender Offer, rose by €13.8 billion, from €29.5 billion at 31 December 2004 to €43.3 billion.

This figure does not take into account the exercise of the call/put options under the agreement executed and disclosed to the market on 21 December 2004. The exercise of these options resulted in the purchase of approximately 42 million Tim ordinary shares and 21 million Tim savings shares for a total consideration of approximately €351 million, which was paid using Telecom Italia's own funds.

However, as a consequence of the requests to convert "Telecom Italia 1.5% 2001-2010 convertible bonds with redemption premium" received by 10 March 2005 – the last day before the suspension of conversion rights before the annual shareholders' meeting called to approve the annual financial statements (such conversion rights being again open to exercise as of 19 April 2005, that is ex dividend) – the net financial debt will have been reduced by approximately €2 billion.

It should be noted that on 17 March 2005 Telecom Italia made a note issue amounting to €850 million, with an annual coupon paying a fixed rate of 5.25% and a maturity date of 17 March 2055; this issue has no effect on the net financial debt, which remains unchanged since the proceeds of the note issue constitute easily realizable financial resources.

By contrast, the note issue impacts on gross financial debt: the €38.8 billion of gross financial debt at 31 December 2004 has in fact increased by €9 billion as a consequence of the financing of the Tender Offer and by an additional €850 million as a consequence of the above-mentioned note issue, although here again the approximately €2 billion deriving from the partial conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with redemption premium" will contribute to the reduction of gross financial debt.

It is expected that the bank financing used for the purposes of the Tender Offer and not yet repaid, equal to €9 billion, may be refinanced in the capital markets, depending on market opportunities and conditions, probably over the next two years. It is also expected that the progressive reduction in the debt incurred as a result of the Tender Offer will be made possible by the cash flow generated by the Absorbing Company, which is expected to be in line with the objectives disclosed to the market in March 2004.

The Group also aims to reduce its debt in the course of 2005, principally through the generation of cash flows. However, factors now unforeseeable, including, but not limited to, the deterioration of the general situation of the economy, could significantly affect debt reduction or the ability to refinance existing debt through further borrowing.

Possible recourse to additional financing and/or refinancing

The operation and development of our fixed and mobile telecommunications businesses, which will constitute the principal activities of the Group headed by Telecom Italia, require the implementation of major investment plans. In order to implement such plans, the Group may need to seek additional financing and/or refinance its existing debt, which will be dependent on the opportunities offered by the bank credit and capital markets. The future profitability of the Group could be affected by the Group's ability to complete such transactions, which will be subject to the influence of market conditions and other external factors.

Competitive position

There is intense competition in the communications market in Italy, particularly in the fixed and mobile telephony sectors. The growth in competition has been spurred by the advent of the euro and the liberalization of the Italian telecommunications market (from 1 January 1998), which have made it easier for international operators to enter the Italian market and facilitated direct competition with Telecom Italia in fixed and mobile telephony and in local and long-distance markets.

A significant number of competitors offering fixed telephony services and three operators (beside Tim) offering mobile telephony services were present on the Italian market at 31 December 2004. The concentration and globalization of the communications market in Europe and elsewhere may lead to a further increase in competition, including in the domestic market. In any event, the coming years will see more resolute entry by international operators of equal standing alongside the existing ones. Direct competition with Telecom Italia in fixed and mobile telephony and in local and long-distance markets will therefore increase.

Notwithstanding Telecom Italia's intent to make efficiency gains and innovate its network and services, and although our strategic plans anticipate an increase in the number of competing operators in all of our communications markets, the reduction in tariffs due to the growth of competition in the sector and the erosion of market shares could affect Telecom Italia's and the Group's revenues and margins in Italy.

Development of new products and services in the electronic communications sector

To sustain revenue growth in spite of more intense competition and the reduction of tariffs, the Group has adopted the strategy of introducing new fixed and mobile communications services, with a view to increasing traffic on its own networks and developing alternative revenue sources in addition to carrying voice traffic. These strategic projects involve and will continue to involve substantial investments of financial and human resources. Although these initiatives are fundamental for Telecom Italia's strategy, it is possible that the company will be unable to launch new products and services on the market, or that the new products and services introduced will not obtain positive commercial results.

New technologies

Many of the services supplied by Telecom Italia have a high technological content. The development of new technologies in the future could render these services uncompetitive. Telecom has made substantial investments in new technologies in the past and must continue to do so in the future to remain competitive. However, the new technologies in which Telecom Italia invests could yield unsatisfactory commercial results. Furthermore, Telecom Italia might not succeed in obtaining the necessary licenses or authorizations to provide services based on new technologies in Italy or abroad. This could influence Telecom Italia's ability to retain its existing customers or attract new ones, or could necessitate additional investments to retain existing customers.

Mobile communications services

In recent years Telecom Italia's consolidated revenues have increased thanks largely to the rapid growth of mobile telecommunications business and the maintenance of sales revenues in the fixed telephony sector. However, the mobile telecommunications market is approaching maturity in the field of voice services, while its data and innovative value-added services component is expanding.

In 2004 Tim's share of the total Italian market was equal to approximately 42%, with 26.3 million subscribers; this figure excludes 688,000 dormant subscribers, to ensure greater consistency between the number of subscribers and the growth of traffic. At the same time, the contribution of the foreign affiliates is growing, above all in Latin America, and with more than 27.5 million subscribers surpasses the number in the Italian market.

The Group has purchased two UMTS licenses to provide third-generation mobile telephony services in Italy and Greece, respectively. The acquisition of the licenses involved an outlay of, respectively, €2,417 million (for Tim) and €145 million (for TIM Hellas). Furthermore, the Group has had to make additional investments, required by the licenses, to create the UMTS infrastructures. Tim launched its UMTS services in Italy in the second half of 2004; it is therefore not yet possible to evaluate the market's response.

The Group companies' continued growth in the mobile communications market will depend on a number of factors, many of them beyond their control, including:

- the activity of competitors;
- the competitive and regulatory pressure on retail and wholesale prices;
- the development and introduction of new technologies;
- the development of substitutive services on other technological platforms and their penetration among customers;
- the actual growth of the mobile communications market.

Internet and broadband services

The introduction of Internet and broadband services is an important element of Telecom Italia's growth strategy and a means of increasing use of the network in Italy and extending activities outside Italy, particularly in Europe. Telecom Italia's strategy is to flank traditional voice services with value-added contents and services for consumers and small and medium-sized enterprises. The company's ability to realize this strategy with success could be adversely affected if:

- utilization of the Internet in Italy grows more slowly than expected, owing to changes in Internet users' preferences;
- the penetration of broadband in Italy does not develop according to expectations;
- competition increases owing to the entry of new competitors, concentration in the market or technological developments that introduce new platforms for Internet access and/or distribution, or because other operators provide better broadband connections than those Telecom Italia can offer.

Outside Italy, Telecom Italia's ability to implement this strategy will also depend on its ability to acquire activities or networks or to utilize networks of other operators that allow the company to offer its own services.

Each of the above-mentioned factors could adversely affect the Group's business and revenues.

Evolution of the regulatory framework

The activities that Telecom and Tim currently perform separately are carried out within the legislative and regulatory framework applicable in the European Union and Italy, just as the activities of the foreign affiliates are in conformity with the laws and regulations applicable in the individual countries in which the Group is present. In the same way, the post-Merger Telecom Italia will also be subject to applicable law and regulations.

In Italy, the regulatory framework for the communications sector was altered with the entry into force on 16 September 2003 of the new Electronic Communications Code which, among other things, transposed into Italian law the European directives pursuant to the "99 Review" regarding electronic communications networks and services (the "Access", "Authorizations", "Framework" and "Universal Service" directives). The Code was issued under Law no. 166 of 1 August 2002, which delegated authority to the Government to transpose the above-mentioned directives and adopt a Code. The Government's mandate included the simplification of administrative processes and the express repeal of the body of outdated provisions. Among its major innovative features, the Code established procedures and criteria for the identification of remedies applicable to operators that have "significant market power". In particular, such operators will be identified following specific market analyses of each of the eighteen markets, both retail and wholesale, in which it is considered necessary to intervene to protect free competition. In conformity with the Code, the Communications Authority has already initiated the process. The market analyses and the application of the related remedies for each of the eighteen markets are not likely to be completed before the second half of 2005. Accordingly, the fully operational phase of the Merger will coincide with the start of full implementation of the new legislative framework. In particular, pending the conclusion of the market analyses Telecom Italia will continue to be notified as an operator with a dominant position in four of the markets identified on the basis of the previous regulatory framework, until the new Code takes effect, and to be subject to all the relevant obligations.

It is likely that the set of remedies for Telecom Italia at the completion of the procedure described above will be tailored more closely to the competitive structure of the market and more closely calibrated to the actual nature of the residual obstacles to the development of competition. However, implementation of the new provisions and, in particular, the new measures that may be introduced in the future pursuant to them, as well as other changes in the legislative framework governing the communications market, could affect the operations of Telecom Italia, especially as regards the supply of new services, which today are not subject to any market analysis since they are not included among the eighteen markets that are the subject of the current evaluation.

As mentioned, the Absorbing Company is the dominant operator and, as such, is subject to a series of especially stringent regulatory requirements regarding fixed telephony and the access network, the most important of which are: the obligation to provide interconnection services to other operators and other wholesale services and to apply tariffs based on non-discriminatory costs and prices or subject to certain maximum limits (network caps and price caps). Even after the completion of the market analyses, the Absorbing Company might still be considered a dominant operator and the above-mentioned restrictions could therefore continue to apply to it after the Merger.

As in the case of Telecom Italia, under the new rules of the Electronic Communications Code Tim's obligations as dominant operator for the market of mobile and personal communications have been provisionally confirmed, pending completion of the market analyses by the Communications Authority.

Possible amendments to the applicable legislation, in particular the easing or tightening of the restrictions and obligations to which the Group is subject, could affect the Group's competitiveness. Decisions by the authorities of the sector concerning the issue, modification or renewal of licenses in favour of Group companies or third parties in Italy or other countries in which the Group operates, or further amendments to the provisions governing the sector, for example concerning carrier pre-selection, number portability and the liberalization of the last mile (local loop unbundling), could affect the Group's results. Similar consequences could derive from changes in applicable tax law.

Malfunctioning of infrastructures

Telecom Italia's technical infrastructures (including network infrastructures for fixed and mobile communications) are vulnerable to damage or service interruption due to computer malfunctions, power failures, natural events, terrorist acts, criminal acts, human errors and similar events. Unexpected problems at plants, infrastructure breakdowns, hardware or software failures, computer viruses and hacker attacks could adversely affect the quality of services and cause service interruptions. Such events could adversely affect traffic and revenues or harm the Group's reputation.

Mobile communications and alleged risks for health

According to some studies, certain emissions of radio waves from wireless sets and transmission equipment could be associated with health problems and interfere with electronic devices. The possibility cannot be ruled out that exposure to electromagnetic fields or other emissions generated by wireless equipment will be considered hazardous to health in the future. The Group's mobile telephony business could be harmed by such alleged risks for health, including in terms of a reduction in the number of customers, less use of mobile communications per customer or litigation.

Furthermore, although Italian law already sets strict limits regarding transmission equipment, the above-mentioned risks could induce lawmakers to introduce further restrictions on the construction of radio stations or similar infrastructures, which could be detrimental to the updating of the network and the marketing of new services.

Judicial proceedings pending

Management does not believe that the companies of the Group are parties to legal or arbitration proceedings which, if determined unfavorably to the Group, could have significant adverse effect on the financial position or the results of operations of the Group, taken as a whole.

On 19 November 2004 the Antitrust Authority notified the closure of its investigation A351, pursuant to which Telecom Italia was fined €152 million for alleged abuse of dominant position. Telecom Italia petitioned the Lazio Administrative Tribunal for annulment of the decision. On 16 February 2005 the Lazio Administrative Tribunal issued an order granting Telecom Italia's request for suspension but only as regards the imposition of the fine. Subsequently, on 22 February 2005, the decision on the merits of the case was filed, showing that Telecom Italia's petition had been granted in part. The publication of the reasons for the decision, now pending, will provide additional information regarding the applicability of the fine. In any event, the administrative dispute can be appealed before the State Council. In 2004 Telecom Italia allocated the full amount of the fine to a specific risk reserve.

On 23 February 2005 the Antitrust Authority decided to open an investigation of Tim, Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A. for abuse of both individual and collective dominant position in the market for access to mobile network infrastructures and in the markets for termination on individual mobile networks, as well as for alleged collusive agreements in the access market, in the market for end-user mobile communication services and in commercial offers to business customers. The proceeding, which is to be concluded by 28 April 2006, is still in the initial phase. Accordingly, any evaluation regarding its outcome must be deferred until a later date.

Political and economic context

The activity of the Group depends on the general conditions of the economy in the countries in which it operates, particularly as regards the levels of interest rates, inflation and taxation. A significant worsening of such conditions could adversely affect Telecom Italia's business and results. Radical changes in the economic or political field or alterations of the legislative framework or of the procedures for applying legislation in such countries could harm the companies in which the Group has invested or diminish the value of the investments made.

International activities

In recent years Telecom Italia has reviewed its international strategy, disposed of important non-core international businesses and chosen to focus its international strategy on:

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

Consistent with this strategy, Telecom Italia recently signed preliminary agreements for the sale of its holdings in Entel Chile (Chile) and Corporacion Digitel (Venezuela) and will continue to seek opportunities to divest non-strategic international activities.

Telecom Italia might not obtain a satisfactory return on its investments abroad.

Variations in exchange rates

The Group has made substantial investments abroad, mainly in US dollars, and has significantly expanded its activity outside the euro area, especially in Latin America.

Consequently, fluctuations in the euro's exchange rate against other currencies could influence the Group's business and results. The appreciation of the euro with respect to the currencies of countries in which the Group operates or has made investments would reduce the relative value of the Group's revenues or assets in those countries and could therefore adversely affect the Group's results or financial position. The results of business in Latin America in the last few years have been influenced by the local currencies' performance vis-à-vis the euro. In particular, in 2004 the strengthening of the euro against the local currencies in Latin America caused a €150 million reduction in the revenues of the Mobile Business Unit.

Furthermore, the Group has raised funds denominated in currencies other than the euro, principally the US dollar, and may continue to do so in the future. The value of such liabilities will be influenced by movements in the currencies of the countries in which the Group operates with respect to the currency in which the financing is denominated. In general, the Group makes use of various foreign exchange forward transactions, swaps and options to manage the exposure to exchange rate risk on liabilities not denominated in euros. However, the management of exchange rate risk could prove ineffective, possibly because the necessary swaps and options may not be available on the financial market.

Variations in interest rates

The Group's gross financial debt amounted to €38.8 billion at 31 December 2004. As mentioned, Telecom Italia obtained bank financing to cover part of the consideration connected with the Tender Offer for Tim ordinary and savings shares and repaid the whole of the first tranche of such financing early on 11 February 2005 (see Section 2.1.1b)). As a consequence of the Tender Offer, it is expected that in 2005 both the total amount of interest payable and the Group's exposure relative to borrowings at variable interest rates will increase. The Group has executed derivatives transactions to cover the risk connected with the fluctuation of interest rates and diversify its borrowing parameters, with a view to reducing the cost of debt and its volatility within predetermined limits. However, fluctuations in interest rates could adversely affect the results of Telecom Italia and the Group.

Valuation adjustments

In recent years the market performance of telecommunications shares, the credit ratings of telecommunications operators and the revision of Group economic and financial forecasts have led Telecom Italia to make sizable value adjustments for losses on assets (principally differences on consolidation) that had significant negative effects on the income statement in the 2001 and 2002 fiscal years.

Although such effects were much smaller in 2003 and 2004, the possibility cannot be ruled out that the phenomena in question will cause further value adjustments to be made in the future for losses on assets.

Ownership structure

Telecom Italia is not subject to direction and coordination pursuant to Article 2497 et seq. of the Civil Code nor to the control of any person pursuant to Article 93 of the Consolidated Law.

As a consequence of the provision in Telecom Italia's bylaws requiring the slate voting system to be used for the election of the Board of Directors, in the shareholders' meeting of 6 May 2004 Olimpia S.p.A. ("**Olimpia**"), as the largest shareholder with a holding at the time of approximately 17%, determined the election of 15 of the 19 incumbent directors.

Marco Tronchetti Provera and Carlo Orazio Buora, respectively Chairman and Managing Director of Telecom Italia, are also, respectively, Chairman and Managing Director of Pirelli & C. S.p.A., which currently holds approximately 57.66% of the share capital of Olimpia. Marco Tronchetti Provera is also Chairman of Olimpia, while Carlo Orazio Buora is a member of that company's Board of Directors.

Olimpia is a holding company, and the operating company in which it invests is Telecom Italia. Accordingly, should Olimpia be unable to obtain further financing from its own shareholders, present or future, or from other sources, it would be completely dependent on the dividends paid on Telecom Italia shares for the satisfaction of its own financing needs (including repayment of the existing debt). In such circumstances, Telecom Italia's decisions regarding the level of dividends to pay to the shareholders could be influenced primarily by the needs of Olimpia.

However, Telecom Italia's financial position is independent of that of Olimpia, and Telecom Italia has no obligation to repay Olimpia's debt inasmuch as they are two distinct legal persons.

At 16 March 2005 Olimpia held 21.80% of the ordinary share capital of Telecom Italia. Upon completion and as a consequence of the Merger, Olimpia's holding in the capital of the post-Merger Telecom Italia will be diluted and, according to current estimates, could fall to a percentage close to that (approximately 17%) held before the capital increase that Olimpia approved on 22 December 2004 following and in connection with the announced consolidation of the Telecom Italia Group.

In any case, upon completion of the Merger no shareholder is expected to control Telecom Italia.

Special powers of the Minister for the Economy and Finance

Article 22 of Telecom Italia's bylaws grant the Minister for the Economy and Finance certain special powers, to be exercised in agreement with the Minister for Productive Activities, pursuant to Article 2 of Law 474 of 30 July 1994. These powers permit the Minister: (i) to approve the acquisition of holdings equal to at least 3 per cent of Telecom Italia's share capital represented by shares with voting rights in the ordinary shareholders' meeting; and (ii) to veto the adoption of certain resolutions by the extraordinary shareholders' meeting, including resolutions to merge or divide the Company or to eliminate or amend such special powers.

At the end of the meeting of its Board of Directors on 7 December 2004, Telecom Italia, pursuant to Article 22.b) of its bylaws and Article 2 of Law 474 of 30 July 1994, notified the Minister for the Economy and Finance of the commencement of the plan for the reorganization of the Group.

The Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, has notified Telecom Italia that he does not consider that the conditions exist for the exercise of the veto right with respect to the adoption of the Merger resolution by Telecom Italia's shareholders' meeting.

However, the clause of Telecom Italia's bylaws concerning special powers will be retained even after the Merger, Consequently, the subjection of Telecom Italia to the powers of approval and veto of the Minister for the Economy and Finance could affect its contestability and the execution of major corporate actions.

International accounting standards

Until 2004 Telecom Italia drew up its consolidated financial statements in accordance with Italian accounting standards. In June 2002 the Council and the Parliament of the European Union published a Regulation requiring all companies listed on regulated securities exchanges in the European Union to apply International Financial Reporting Standards (IFRS, previously known as International Accounting Standards, or IAS) in preparing their consolidated financial statements from 1 January 2005. The difference between the consolidated financial statements of Telecom Italia prepared according to IFRS and those prepared according to Italian accounting standards (Italian GAAP) could affect the methods adopted by the financial community in evaluating Telecom Italia's results.

The information reported below was illustrated to financial analysts on 16 March 2005; such information should be considered as preliminary and liable to amendments and has been prepared on the basis of IAS / IFRS currently in force and following the interpretations currently available. External auditors Reconta Ernst & Young have been engaged to check the data concerning the transition process and such review is presently under way.

Based on the foregoing, the effects on the 2004 consolidated financial statements arising from the adoption of IAS / IFRS are as follows:

- an increase in *operating income* by €0.4 billion (from €7.2 billion to €7.6 billion), net of €0.6 billion of net charges reclassified from extraordinary items under Italian accounting standards which are no longer allowed under IAS/IFRS;
- an increase in consolidated *net income (Parent Company's interest)* by €1 billion (from €0.8 billion to €1.8 billion);
- an increase in consolidated s*hareholders' equity (Parent Company's interest)* by €1.2 billion (from €15.2 billion to €16.4 billion);
- an increase in *net financial debt* by €3.3 billion (from €29.5 billion to €32.8 billion).

In particular, the main impacts can be summarized as follows:

- *goodwill arising on consolidation*: this item is no longer regularly amortized in the income statement but is subject to an impairment test at least once a year. For the fiscal year 2004 such change results in an increase of the shareholders' equity, in particular the consolidated net income, by €1.5 billion, fully attributable to the elimination of the amortization;
- *consolidation area*: all subsidiaries must be consolidated on the basis of the shares owned even if previously classified as current assets under Italian GAAP; also Special Purpose Entities set up for specific transactions shall be consolidated. As a consequence, the consolidation of the special-purpose entity TISV (set up for securitization operations purposes) results in an increase in net financial debt by €0.7 billion and no significant impacts on net income and shareholders' equity;
- *sale and lease-back transactions*: some real estate sales completed by the Telecom Italia Group in prior years (2000-2003) with simultaneous lease-back contracts over 19-21 years, classified as operating leases according to Italian accounting principles, are classified under IAS/IFRS as sale and financial lease-back transactions. Accordingly, leased assets and the residual amount of the corresponding financial liability shall be recognized in the balance sheet, while depreciation and interest charges (instead of rentals) are recognized in the income statement and the gain realized at the disposal is deferred over the terms of the lease contracts. The different accounting treatment of these real estate transactions lead to an increase in net financial debt at the end of 2004 of €1.6 billion, and a decrease in shareholders' equity of €0.2 billion, including a decrease of €0.1 in net income;
- *factoring transactions*: the adoption of IAS 39, particularly the provisions regarding the derecognition of financial assets (accounts receivable), leads to a more restrictive interpretation of the conditions needed for recognizing the sale of accounts receivable and, consequently, an increase in net financial debt by €0.8 billion inasmuch as the proceeds of the sale are considered a borrowing;
- *provisions for risks and charges*: the requirements specified by IFRS entail a more restrictive interpretation of the conditions needed for recognizing these liabilities. In particular, under IFRS the opening balance sheet at 1 January 2004 reflects a positive adjustment to the opening shareholders' equity due to the reversal of some provisions for risks and charges recognized under Italian accounting standards. This different accounting treatment results in a reduction of €0.1 billion in 2004 net income under IFRS, as a consequence of the reversal of the uses of provisions recorded in the same fiscal year in the income statement under Italian accounting standards;
- *revenues*: under Italian accounting standards, revenues from activating telephone service and recharging prepaid cards are accounted for immediately in the income statement, whereas under IFRS they are treated as deferred revenues, as well as the related costs, to be amortized over the expected duration of the customer contract, with a consequent negative effect on the shareholders' equity as of 31 December 2004 by €0.3 billion of which €0.1 billion on 2004 net income;

- *convertible and exchangeable bonds*: under IFRS the value of these compound financial instruments must be split between the debt component and the option component. As regards bonds convertible into own shares the value of the option is classified in shareholders' equity while as regards the bonds exchangeable for shares issued by other entities (Group or third parties) it is classified as a financial liability and measured at fair value at each period end. This different accounting treatment results in a reduction in net financial debt at 31 December 2004, by €0.3 billion, a decrease in net income for 2004 by € 0.1 billion and an increase in shareholders' equity by €0.4 billion;
- *derivative instruments*: under Italian accounting standards these financial instruments are normally treated as off-balance-sheet items and adequately disclosed in the footnotes to the financial statements, whereas under IFRS they are recognized in the balance sheet at fair value. The different accounting treatment results in a negative impact on shareholders' equity at 31 December 2004 by €0.1 billion and an increase in net financial debt by €0.3 billion;
- *options on Tim shares*: the binding commitment arisen at the end of 2004 to purchase Tim shares in the first months of 2005 (as a financial transaction connected with the integration between Telecom Italia and Tim) involves consolidating a further interest in Tim and recording a financial liability in the balance sheet at 31 December 2004 under IFRS, with a consequent increase in net financial debt by €0.4 billion, since, under Italian accounting standards, such commitments are treated as off-balance-sheet items;
- *treasury shares:* under Italian accounting principles treasury shares are recognized as assets and a specific restricted reserve shall be recorded in shareholders' equity; under IAS/IFRS treasury shares shall be recognized as a reduction of shareholders' equity. Such different accounting treatment results in a reduction in shareholders' equity as of 31 December 2004 by €0.4 billion.

Pro forma data

The main accounting impacts of the Merger are reported in the "Selected consolidated financial data for the Telecom Italia and Tim groups for the fiscal year 2004" in the Year 2004 pro forma column. In connection with the pro forma consolidated financial data it shall be pointed out that these data have been prepared on the basis of the Italian accounting standards. For further details see the following section 5. However, in the 2005 consolidated financial statements the Merger will be accounted for in accordance with IAS/IFRS; the main accounting impacts arising from the application of IAS/IFRS to the Merger are described in a specific section ("IAS/IFRS adoption") in the paragraph 5.1.3 under the section 5.

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2. INFORMATION REGARDING THE MERGER

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

2.1(a) The transaction: general aspects

The transaction covered by this Information Document, which will be submitted for approval to the shareholders' meetings of Telecom Italia and Tim, consists of the merger of Tim with and into Telecom Italia pursuant to Article 2501 et seq. of the Civil Code. Since the transaction involves companies with securities listed on an Italian regulated securities exchange, it is also subject to the Consolidated Law and the Consob Regulation.

The Merger is the last step in the plan for the reorganization of the Group headed by Telecom Italia, which also includes the Tender Offer and the Spin-Off (described in Sections 2.1(b) and 2.1(c) respectively). When the Merger becomes effective, Telecom Italia will succeed to all of Tim's legal rights and obligations in respect of the latter's assets and liabilities, except for those pertaining to the Domestic Mobile Division transferred in the Spin-Off. These rights and obligations are held by Tim Italia, which will be wholly owned by Telecom Italia upon completion of the Merger.

On 7 December 2004 the Boards of Directors of Telecom Italia and Tim approved the guidelines of the Merger and commenced the preliminary work needed to prepare the merger plan to be submitted to their respective shareholders' meetings for approval. On 23 January 2005, the Boards of Directors of Telecom Italia and Tim approved the plan for the merger of Tim with and into Telecom Italia (attached herewith as Annex I) and called the extraordinary shareholders' meetings for 5, 6 and 7 April 2005 (Telecom Italia) and 5 and 6 April 2005 (Tim). The reports on the merger plan of the Boards of Directors of Telecom Italia and Tim are attached herewith as Annexes II and III, respectively.

For purposes of the Merger, reference has been made, in accordance with Article 2501-qua*ter* of the Civil Code, to the balance sheets of Telecom Italia and Tim at 30 September 2004 (attached herewith as Annexes IV and V).

For purposes of issuing the report on the fairness of the exchange ratios, i accordance with Article 2501-*sexies* of the Civil Code the Milan Court appointed as expert for Telecom Italia the accounting firm of Mazars & Guerard S.p.A. and the Turin Court appointed as expert for Tim the accounting firm Reconta Ernst & Young S.p.A. These experts issued their respective reports on 28 February 2005 (see Annexes VI and VII).

The bylaws of Telecom Italia will not be amended as a consequence of the Merger, apart from the amendments described in Section 2.1.2(f).

The intention of Telecom Italia and Tim is to arrange for the Merger to become effective by the end of June 2005.

Since the transaction involves the incorporation into Telecom Italia of a subsidiary, the Merger will result in the cancellation without exchange of the Tim ordinary and savings shares held by Telecom Italia at the effective date of the Merger and the assignment to the holders of Tim ordinary and savings shares other than Telecom Italia of ordinary and savings shares issued by Telecom Italia. These shares will be assigned on the basis of the exchange ratios described in Section 2.1.2(c). The treasury shares held by Tim will also be cancelled without exchange in accordance with Article 2504-*ter*, paragraph 2, of the Civil Code.

With effect from the 2005 fiscal year, Telecom Italia will prepare its interim and annual consolidated financial statements in accordance with IAS/IFRS, while, for the statutory financial statements of Telecom Italia S.p.A., the new accounting standards will be applied with effect from the 2006 fiscal year.

Accordingly, the Merger will result in the application of the following accounting treatments:

- *Statutory financial statements of Telecom Italia S.p.A. for the year ending 31 December 2005*. For purposes of Italian GAAP, the Merger will be accounted for at book value. Such treatment gives rise to both a cancellation deficit (the difference between the book value of the Tim shares held by Telecom Italia, including those acquired through the Tender Offer, and the value of the corresponding portion of shareholders' equity) and an exchange deficit (the difference between the increase in share capital for the exchange and the portion of Tim shareholders' equity acquired). The cancellation deficit will be allocated to increase the book value of Tim assets at the time of the Merger (the equity interests in Tim Italia and Tim International), while the exchange deficit will be allocated to the reduction of the reserves included in Telecom Italia's shareholders' equity.

- *Consolidated financial statements of the Telecom Italia Group for the year ending 31 December 2005*. For purposes of IAS/IFRS currently in force, the Merger will be accounted for using the purchase method, i.e., by valuing the newly issued shares given in exchange to minority shareholders at their fair value at the effective date of the Merger. The difference between the fair value of the newly issued shares and the portion of Tim shareholders' equity acquired through the Merger will be recorded as goodwill.

Upon completion of the Merger, Telecom Italia's ordinary and savings shares will continue to be listed on the Mercato Telematico Azionario operated by Borsa Italiana S.p.A. and on the New York Stock Exchange in the form of ADSs (American Depository Shares, each of which represents ten ordinary or savings shares). By contrast, with effect from 8 March 2005, Telecom Italia's ordinary shares have been delisted from the Frankfurt Stock Exchange following the decisions adopted by its Board of Admission.

Savings shares

As part of the share exchange, the Absorbing Company will assign holders of Tim savings shares newly issued savings shares of Telecom Italia.

It should be noted that, from a formal legal perspective, Telecom Italia savings shares are entitled to a smaller percentage dividend premium compared with ordinary shares than that to which holders of Tim savings shares are currently entitled compared with Tim ordinary shares.

In fact, whereas Tim savings shares give their holders, in addition to the right to a preferential dividend of up to 5% of their par value, the right to a premium with respect to any profit distributed to ordinary shareholders equal to 20% of their par value (€0.06 per share), Telecom Italia savings shares give their holders the right to a preferential dividend of up to 5% of their par value and the right to a premium with respect to any dividend distributed to ordinary shareholders equal to only 2% of their par value (€0.55 per share).

Because of these different rights, the resolution approving the Merger Plan will be submitted for approval to the special meeting of Tim savings shareholders called for 6, 7 and 8 April 2005; holders of Tim savings shares who do not vote in favour of the Merger will be entitled to withdrawal rights pursuant to Article 2437, first paragraph, point g), of the Civil Code. For more information on the withdrawal rights, see Section 2.1(e).

It should be noted, however, that from a substantive economic perspective, the exchange will lead to an improvement in the entitlement to profits of Tim savings shareholders in terms of the quantification of their premium, since each Tim savings share with a par value of €0.06 will be exchanged for more than one Telecom Italia savings share with a par value of €0.55 (on the basis of the exchange ratio of 2.36 Telecom Italia savings shares for each Tim savings share; see Section 2.1.2(c) below), so that the post-exchange dividend premium for each former Tim savings share will be calculated with reference to a higher total par value of €0.55 x 2.36 = €1.30, instead of €0.06. Therefore, the post-exchange dividend premium for holders of Tim savings shares will increase as a consequence of the exchange for Telecom Italia savings shares – with respect to the dividend premium compared with ordinary shares – from the current value for each Tim savings share held of 20% x €0.06 = €0.012 to 2% x €1.30 = €0.026. In this way, the right to a smaller premium in relative terms will be more than compensated in absolute terms.

Convertible bonds issued by Telecom Italia

On 14 December 2004, Telecom Italia published a notice in the Italian Official Gazette concerning the right of holders of Telecom Italia's 1.5% 2001-2010 convertible bonds with redemption premium to exercise their conversion rights under Article 2503-*bis*, second paragraph, of the Civil Code.

The above-mentioned bonds are continuously convertible subject to the provision on the suspension of conversion rights contained in Article 6(iv) of the terms and conditions of the bonds. Under these terms and conditions, conversion rights were suspended from the day after the meeting of the Board of Directors that called the shareholders' meeting to approve the Merger Plan. However, as announced on 31 December 2004 and specified in notices published in newspapers on 24 January and 25 February 2005, as a result of the addition of the approval of the annual financial statements to the agenda of such shareholders' meeting, the special provision under the terms and conditions for the case in which the shareholders' meeting is called to approve the distribution of a dividend was applied. Accordingly, from 25 February 2005, it was again possible to exercise conversion rights. From the fifteenth day subsequent to the meeting of the Board of Directors that called the shareholders' meeting to examine the draft financial statements for the year ended 31 December 2004 (held on 24 February 2005), i.e. from 11 March 2005 until the ex dividend date (which it has been proposed should be 18 April 2005), inclusive, the right to exercise conversion rights is again suspended. Pursuant to the terms and conditions of the bonds it will again be possible to exercise conversion rights as of 18 April 2005.

2.1(b) The Tender Offer

Pursuant to Article 102 et seq. of the Consolidated Law, Telecom Italia made a voluntary partial tender offer for Tim ordinary shares and a voluntary tender offer for all Tim savings shares. The Tender Offer, which commenced on 3 January 2005 and terminated on 21 January 2005, represented the first step in the Group's reorganization plan and must be considered as connected with and serving the purposes of the Merger.

With a view to the Merger, the Tender Offer was intended to contribute to optimizing the capital structure of the Absorbing Company. Since, in implementing the Merger, the Tim shares held by Telecom Italia will be cancelled without exchange, Telecom Italia's acquisition of Tim shares in the Tender Offer has increased the proportion of Tim's share capital not subject to exchange. This will have a positive effect on earnings and free cash flow yield per share, to the benefit of all the shareholders of the Company resulting from the Merger. From a financial perspective, instead of issuing equity in exchange for the shares acquired by Telecom Italia, there is an increase in Telecom Italia's net debt as a result of the settlement of the obligations arising from the Tender Offer. The cost of this new debt - in terms of after-tax net financial expense - is lower than the cost - in terms of the expected dividends - which would have been incurred on the equity that would have been in exchange for Tim shares if they had not been purchased in the Tender Offer.

The Tender Offer was for 2,456,534,241 Tim ordinary shares and 132,069,163 Tim savings shares at a price of €5.6 for each ordinary share and each savings share. The effectiveness of the Tender Offer was subject, among other things, to the condition that the shares tendered for both classes should reach the threshold of two thirds of the quantity that was the subject of the offer (without prejudice to the right of Telecom Italia's Board of Directors to decide to purchase any smaller quantity of ordinary and/or savings shares tendered and to proceed with the reorganization plan by effecting the Merger.

In its meeting on 22 December 2004, Tim's Board of Directors, taking into account the opinions expressed by the financial advisors – Lazard & Co. S.r.l. (Sole Lead Advisor) and Credit Suisse First Boston, as well as Merrill Lynch International, Milan office, and Studio Casò, represented by Mr. Angelo Casò, on the recommendation of Tim's Internal Control Committee – judged the consideration offered by Telecom Italia for Tim's ordinary and savings shares to be fair and expressed a favorable opinion on the Tender Offer.

At the end of the acceptance period, the following shares had been tendered: 2,639,154,665 ordinary shares (corresponding to approximately 31.2% of Tim's ordinary share capital and approximately 107.4% of the ordinary shares that were the subject of the ordinary share offer) and 8,463,127 savings shares (corresponding to approximately 6.4% of Tim's savings share capital and of the savings shares that were the subject of the savings share offer). Following the proration of the Tim ordinary shares tendered, Telecom Italia therefore owned 7,190,583,124 Tim ordinary shares, corresponding to approximately 84.8% of the company's ordinary share capital and approximately 85.539% of its total share capital, and 8,463,127 Tim savings shares, corresponding to approximately 6.4% of the company's savings share capital and approximately 0.098% of its total share capital.

Telecom Italia's Board of Directors assessed the results of the Tender Offer favorably, especially in view of the fact that the Tim ordinary shares tendered exceeded the number of Tim ordinary shares subject to the Tender Offer, and decided to waive the Tender Offer effectiveness conditions concerning the minimum threshold of acceptances for Tim savings shares, thereby confirming the effectiveness of the Tender Offer, and accepting the purchase of the smaller quantity of Tim savings shares tendered, and proceeding with the integration process.

The Tender Offer consideration was paid on 28 January 2005.

On the basis of the results of the Tender Offer, the total consideration paid by Telecom Italia for the Tim shares tendered was approximately €13.8 billion. Of this amount, €2.5 billion was paid by using Telecom Italia's own funds and approximately €11.3 billion was raised through bank financing agreed on 8 December 2004 with a syndicate of banks for up to a maximum of €12 billion (the "**Bank Financing**"; for more information see below). Subsequently, on 11 February 2005, using Telecom Italia's own funds, the first tranche of the Bank Financing, amounting to €2.3 billion, was repaid early and consequently cancelled in full; the portion of the bank financing remaining to be repaid is therefore equal to €9 billion.

It should also be noted that as a result of the post-Tender-Offer exercise of put options under the above-mentioned contract executed on 21 December 2004, Telecom Italia purchased 42 million additional Tim ordinary shares and therefore owns at the date of this Information Document a total of 7,232,583,124 Tim ordinary shares (including those acquired in the Tender Offer), corresponding to approximately 85.5% of the company's ordinary share capital. In addition, as a result of the exercise of the call options under the aforementioned agreement, dated as of 21 December 2004 (for approximately 21 million Tim savings shares), the execution of securities lending agreements (for approximately 37 million Tim savings shares) and the purchase on the market of 5,063,816 Tim savings shares, as of 18 March 2005 Telecom Italia is entitled to vote approximately 54.16% of the shares entitled to vote in the special meeting of Tim savings shareholders called to approve the Merger resolution.

Financing of the Tender Offer

Telecom Italia paid the consideration connected with the Tender Offer by using €2.5 billion of its own funds and drawing on the Bank Financing for approximately €11.3 billion. The first tranche of the Bank Financing disbursed, amounting to €2.3 billion, was repaid early and consequently cancelled in full.

Telecom Italia executed the Bank Financing agreement with a syndicate of banks led by JP Morgan plc (Global Coordinator), Mediobanca, MCC, UniCredit Banca Mobiliare S.p.A. and Banca Intesa S.p.A. (Mandated Lead Arrangers). The Bank Financing provided for up to a maximum of €12 billion in loans and is divided into three repayment tranches of respectively €3 billion, €6 billion and €3 billion with different maturities (12, 36 and 60 months, with Telecom Italia having the option, at its discretion, to extend the maturities of the first two tranches – provided no event of default occurs and there is no early termination of the Bank Financing – by 12 months and 9 months, respectively). The Bank Financing is not backed by a pledge or any other form of security and provides for no financial covenants.

As a result of the disbursement connected with payment of the Tender Offer consideration, the net financial debt of the Telecom Italia Group, equal to approximately €29.5 billion at 31 December 2004, amounted, excluding the other costs related to the Tender Offer, to just under €43.3 billion. This figure does not take into account the exercise of call options for approximately 42 million Tim ordinary shares and 21 million Tim savings shares, previously disclosed to the market and amounting to approximately €351 million. It should be noted, however, that following requests to convert Telecom Italia 1.5% 2001-2010 convertible bonds with redemption premium received by 10 March 2005 – the last day before the start of the suspension of conversion rights, which it will again be possible to exercise as of 19 April 2005 – and not yet effected, the net financial debt will already have been reduced by approximately €2 billion as a consequence of the issuance of the corresponding conversion shares.

The amount borrowed under the Bank Financing for the Tender Offer and not yet repaid, equal to €9 billion, may be refinanced in the capital markets, depending on market opportunities and conditions, probably over the next two years. The progressive reduction in the debt incurred as a result of the Tender Offer will be made possible primarily by the cash flow that will be generated, which is expected to be in line with the objectives disclosed to the market in March 2004.

The increase in debt following the Tender Offer has not led to a reduction in Telecom Italia's credit rating (currently Baa2 for Moody's, BBB+ for Standard & Poor's, and A- for Fitch). It should be noted that Standard & Poor's and Fitch, while confirming their respective ratings, have revised their outlooks from positive to stable and from stable to negative, respectively. The rating agencies arrived at these conclusions on the basis of the maximum estimated consideration payable in connection with the Tender Offer, equal to approximately €14.5 billion.

2.1(c) The Spin-Off

On 23 January 2005, the Board Of Directors of Tim approved the Spin-Off whereby the Domestic Mobile Division was transferred to Tim Italia, a company established on 29 December 2004 by means of a unilateral act having its registered office in Milan at 2 Piazza degli Affari.

On 24 February 2005, Tim Italia's extraordinary shareholders' meeting approved a capital increase in kind for the Spin-Off, to be paid for with the transfer of the Domestic Mobile Division; the deed of transfer was executed at the same time. The Spin-Off accordingly became effective on 1 March 2005, after the filing with the Milan Company Register on 25 February 2005 of the above-mentioned resolution to increase Tim Italia's share capital with the contemporaneous transfer of the Domestic Mobile Division.

As a result of the Spin-Off, Tim Italia succeeded to the authorizations held by Tim for the provision of mobile communications services in Italy, and to all the licenses (including those assigned temporarily to Tim at the date of the transfer of the Domestic Mobile Division), numbering systems and/or radio frequencies that were already the subject of a franchise, license or general authorization, and to the special authorizations following declarations of the commencement of activities.

By maintaining the autonomy of the Domestic Mobile Division, the Spin-Off is in line with an assessment of what would be desirable from a regulatory and accounting perspective in the context of the overall reorganization plan and is an efficient way to meet the need for transparency in the relationship between fixed and mobile communications.

As specified in Section 2.2, the Merger, together with the Spin-Off, will maintain the Domestic Mobile Division under an unlisted, wholly owned subsidiary of Telecom Italia, thereby creating the conditions that will allow Telecom Italia to best exploit the potential synergies offered by the fully integrated management of the fixed and mobile communications businesses. The new 100% ownership structure will in fact make it possible to benefit from the operational synergies described in Section 2.2, since the absence of minority shareholders and the fact that TIM Italia is unlisted will ensure the high degree of management and operational flexibility needed to grasp these opportunities to the full, while meeting competitive and regulatory requirements.

The above mentioned assessment of what would be desirable from an accounting perspective, was also affected by the current lack of specific accounting rules for the merger under IAS/IFRS for separate financial statements purposes.

For Italian income tax purposes, pursuant to Article 176.1 of the Consolidated Income Tax Law (Presidential Decree No. 917 of 22 December 1986, as amended), the Spin-Off is a tax-neutral transaction and as such will not result in Tim recording capital gains or losses.

Domestic Mobile Division

The Domestic Mobile Division was valued on the basis of Tim's balance sheet at 31 December 2004, as reported in the draft annual financial statements approved by Tim's Board of Directors on 24 February 2005, and includes all the assets and liabilities and the legal rights and obligations related in any way to Tim's domestic mobile communications business at the effective date of the transfer. In particular, all the employment contracts for employees and independent contractors involved in the Spin-Off have been transferred to Tim Italia.

At 31 December 2004 the business to be spun-off included:

A. assets with a book value of €7,721 million, comprising: (i) tangible fixed assets, amounting to €2,196 million; (ii) intangible fixed assets amounting to €3,364 million; (iii) trade receivables, amounting to approximately €1,349 million; (iv) other receivables and accrued income and prepayments, totaling €768 million; (v) financial receivables and cash, amounting to €24 million; and (vi) inventories, amounting to €20 million;

B. liabilities with a book value of €3,781 million, comprising: (i) trade payables, sundry payables and payables to employees and self-employed workers, and accrued expenses and deferred income, totaling €3,405 million; (ii) the reserve for employee termination indemnities, amounting to €105 million; (iii) reserves for risks and charges connected with the activity transferred, totaling €134 million; and (iv) the reserve for deferred taxes, amounting to €137 million.

The shareholders' equity of the Domestic Mobile Division at 31 December 2004 amounted to approximately €3,940 million.

The items transferred at the values obtaining at the effective date of the Spin-Off did not include the following assets and liabilities related primarily to Tim's international business, which were reported in Tim's draft annual financial statements for 2004 at the following values: (i) Tim's 100% equity interest in TIM International, the holding company for equity investments in foreign companies engaged in communications activities with a book value, including payments for future increases in capital, of €4,587 million; (ii) the reserves for risks and charges in respect mainly of guarantees issued on behalf of foreign affiliates, amounting to €211 million; (iii) the guarantees granted and received in relation to the foreign sector, included in the memorandum accounts, for a total of €395 million; (iv) the prepaid taxes, related to the international assets, totaling €587 million; (v) the balance of the current account held by TIM with Telecom Italia for the amount outstanding at the date of the transfer of the Domestic Mobile Division, equal at 31 December 2004 to €633 million; and (vi) certain other financial and tax items.

For the sake of completeness, column 1 in the table below shows Tim's reclassified balance sheet at 31 December 2004. Columns 2 and 3 provide details of the company's assets and liabilities allocated between Tim Italia and the post-Spin-Off Tim, respectively. The assets and liabilities of the post-Spin-Off Tim will be transferred to Telecom Italia as a result of the Merger.

Balance sheet data *(millions of euro)*	**Tim at 31.12.2004**	**Tim Italia at 31.12.2004**	**Post-Spin-Off Tim at 31.12.2004**
Intangibles, fixed assets and long term investments	**10,171**	**5,583**	**8,528**
Intangible assets:	3,364	3,364	—
Fixed assets	2,196	2,196	—
Long-term investments:			
- equity investments and advances on future capital contributions	4,589	1	8,528
- other	22	22	—
Working capital	**(1,209)**	**(1,627)**	**418**
Inventories	20	20	—
Trade accounts receivable, net	1,347	1,347	—
Other assets	1,154	663	491
Trade accounts payable	(2,683)	(2,683)	—
Other liabilities	(1,145)	(696)	(449)
Reserves for employee termination indemnities and pensions and similar obligations	(108)	(108)	—
Deferred tax assets, net of reserve for income taxes	554	(33)	587
Other reserves for risks and charges	(342)	(131)	(211)
Capital and/or industrial grants	(6)	(6)	—
Net invested capital	**8,962**	**3,956**	**8,946**
Financed by:			
Shareholders' equity:	**9,765**	**3,940**	**9,765**
Share capital	516	414	516
Retained earnings and reserves	6,427	3,526	6,427
Net income for the period	2,822	—	2,822
Medium/long-term debt	**—**	**—**	**—**
Net short-term financial borrowings (liquidity)	**(803)**	**16**	**(819)**
Short-term borrowings	18	18	—
Liquid assets and short-term financial receivables	(817)	(2)	(815)
Financial accrued expenses (income), prepaid expenses and deferred income, net	(4)	—	(4)
Total net financial debt (liquidity)	(803)	16	(819)
Total net financing	**8,962**	**3,956**	**8,946**

Certain values in the above table reflect a classification that differs from that adopted for the appraisal of the Domestic Mobile Division under Article 2343 of the Civil Code, which was based on the classification principles provided for by the Civil Code.

Tim Italia's share capital increase

For purposes of the transfer to Tim Italia, on 12 January 2005, upon Tim's request, the President of the Court of Milan appointed Mr. Carlo Pastori, a Milan-based consultant, as the expert responsible for preparing the sworn appraisal report on the value of the Domestic Mobile Division, pursuant to Article 2343 of the Civil Code.

The expert appointed by the Court of Milan submitted the report, signed under oath on 24 February 2005, on the Domestic Mobile Division pursuant to and for the purposes of Article 2343 of the Civil Code.

In view of the Spin-Off and taking cognizance of the expert's sworn appraisal report, in the extraordinary meeting held on 24 February 2005, Tim Italia's shareholders resolved to increase the share capital, pursuant to and for the purposes of Article 2440 of the Civil Code, from €120,000.00 to €413,552,203.00, by authorizing the issuance of 413,432,203 shares with a par value of €1 each with normal entitlement to all the rights pertaining thereto and a share premium of €8.53 per share, for a total of €3,526,576,691.59, to be paid exclusively by means of Tim's contribution of the Domestic Mobile Division.

Shareholders of Tim Italia

Tim Italia is wholly owned by Tim, which also controls Tim International. As a result of the Merger, Telecom Italia will own the entire share capital of both Tim Italia and Tim International.

Organizational structure of Tim Italia

Tim Italia considers it desirable to maintain an organizational structure for the Domestic Mobile Division analogous to that existing before the Spin-Off, based on a division between Staff and Line functions.

The Staff functions, which are placed directly under the Managing Director, serve to provide support, direction and control. They consist of Finance & Control, Human Resources, Legal and Corporate Affairs, Regulatory Affairs, Investor Relations, Security, and Mobile Business Development.

The Line functions are engaged in the operation and development of the mobile business; they are grouped in three "poles of functional integration" that report directly to the Managing Director. The three poles are: Marketing & Sales (concerned with handling the marketing mix on an integrated and thus with all the means for increasing revenues and the customer base); Operations (ensures unitary management of the main cost levers, consistency between technological developments and innovation strategy, and maximizes IT and Network synergy); and Coordination Mobile Business Unit International Operations (the Telecom Italia Group's center of authority for the international activities of the mobile business).

Material agreements

Apart from the integration process associated with the Merger, in which the Spin-Off is set, there are no specific agreements between Tim and Tim Italia that are material to the Spin-Off.

2.1.1 Description of the companies involved in the transaction

2.1.1(a) Absorbing company

Name

Telecom Italia S.p.A.

Registered office

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

Identity data

Telecom Italia is entered in the Milan Company Register. Its registration, tax and VAT number is 00488410010.

Share capital

On 14 March 2005, Telecom Italia's fully paid-up share capital filed with the Company Register was €9,260,014,820,65, divided into 11,040,469,514 ordinary shares and 5,795,921,069 savings shares. Both Telecom Italia's ordinary shares and its savings shares have a par value of €0.55 each.

Telecom Italia's approved share capital (comprising that subscribed and paid up and that which can be issued for the conversion of convertible bonds and, in accordance with resolutions already adopted by Telecom Italia's Board of Directors, for the exercise of stock options) is €11,702,411,105.

The bylaws state that resolutions to increase the share capital by issuing shares for cash may exclude pre-emption rights for up to a maximum of 10% of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the company's independent auditors.

The bylaws also provide that, for five years starting from 6 May 2004, the Directors may make cash capital increases in one or more tranches, up to total amount of €880,000,000, by issuing up to 1,600,000,000 ordinary shares, all or part of which: (i) are to be offered with pre-emption rights to shareholders and holders of convertible bonds; or (ii) are to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries, without pre-emption rights, pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Article 134.2 of the Consolidated Law. Resolutions to increase the share capital adopted by the Board of Directors in exercising such powers must set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.

The Board of Directors may also issue, in one or more tranches and for up to five years from 6 May 2004, convertible bonds up to a maximum amount of €880,000,000.

Corporate purpose

The company's corporate purpose is:

- the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a free-market environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;
- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;
- the acquisition, provided it is not the company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;
- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

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

Governing bodies

The members of Telecom Italia's Board of Directors, which was appointed by the ordinary shareholders' meeting of 6 May 2004 for three years (i.e. until the approval of the annual report for the year ending 31 December 2006), are as follows:

Name	Place and date of birth	Position
Marco Tronchetti Provera(1)	Milan - 18 January 1948	Chairman
Gilberto Benetton(1)	Treviso - 19 June 1941	Deputy Chairman
Carlo Orazio Buora(1)	Milan - 26 May 1946	Managing Director
Riccardo Ruggiero(1)(4)	Naples - 26 August 1960	Managing Director
Paolo Baratta(1)(3)	Milan - 11 November 1939	Director
John Robert Sotheby Boas(1)(3)	London - 28 February 1937	Director
Giovanni Consorte(1)	Chieti - 16 April 1948	Director
Francesco Denozza(2)(3)	Turin - 5 October 1946	Director
Domenico De Sole(1)(3)	Rome - 1 January 1944	Director
Luigi Fausti(1)(3)	Ancona - 9 March 1929	Director
Guido Ferrarini(2)(3)	Genoa - 8 August 1950	Director
Jean Paul Fitoussi(2)(3)	La Goulette (Tunisia) - 19 August 1942	Director
Gianni Mion(1)	Vò (Padua) - 6 September 1943	Director
Massimo Moratti(1)	Bosco Chiesanuova (VR) - 16 May 1945	Director
Marco Onado(1)(3)	Milan - 19 April 1941	Director
Renato Pagliaro(1)	Milan - 20 February 1957	Director
Pasquale Pistorio(2)(3)	Agira (EN) - 6 January 1936	Director
Carlo Alessandro Puri Negri(1)	Genoa - 11 July 1952	Director
Luigi Roth(1)(3)	Milan - 1 November 1940	Director

(1) Directors elected from the slate presented by Olimpia S.p.A.

(2) Directors elected from the slate presented by a group of asset management companies.

(3) Independent director.

(4) General Manager.

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

Among other things, the ordinary meeting of Telecom Italia's shareholders called for 5, 6 and April 2005 will enlarge the Board of Directors by increasing the number of directors to twenty-one and appointing two additional directors. The Board has proposed the appointment of Marco De Benedetti (currently Managing Director of Tim and Tim Italia) and Enzo Grilli (currently an independent director of Tim and director of Tim Italia).

Telecom Italia does not have an Executive Committee.

On 6 May 2004, Telecom Italia's Board of Directors assigned delegated powers to the executive directors and appointed the members of the Internal Control and Corporate Governance Committee and the Remuneration Committee.

On 9 September 2004, the Board of Directors formed a Strategy Committee of the Board and named the Chairman of the Internal Control and Corporate Governance Committee, Guido Ferrarini, as the Lead Independent Director with the power to call separate meetings of the independent directors to discuss matters deemed to be of importance for the functioning of the Board of Directors or the management of the business.

The members of the various Board committees are shown below.

Internal Control and Corporate Governance Committee

Position	Name	Place and date of birth
Chairman	Guido Ferrarini	Genoa - 8 August 1950
Member	Francesco Denozza	Turin - 5 October 1946
Member	Domenico De Sole	Rome - 1 January 1944
Member	Marco Onado	Milan - 19 April 1941

Remuneration Committee

Position	Name	Place and date of birth
Chairman	Luigi Fausti	Ancona - 9 March 1929
Member	Paolo Baratta	Milan - 11 November 1939
Member	Pasquale Pistorio	Agira (EN) - 6 January 1936

Strategy Committee

Position	Name	Place and date of birth
Member	Marco Tronchetti Provera	Milan – 18 January 1948
Member	Carlo Orazio Buora	Milan – 26 May 1946
Member	Pasquale Pistorio	Agira (EN) – 6 January 1946
Member	Domenico De Sole	Rome – 1 January 1944
Member	Marco Onado	Milan – 19 April 1941

Telecom Italia's Board of Auditors was appointed on 26 May 2003 by the shareholders' meeting of Olivetti S.p.A. (now Telecom Italia, following the merger of the company formerly known as Telecom Italia S.p.A. into Olivetti S.p.A. in 2003) and will remain in office until the approval of the annual report for the year ending on 31 December 2005. The members are as follows:

Name	Place and date of birth	Position
Ferdinando Superti Furga	Milan – 20 January 1932	Chairman
Rosalba Casiraghi	Milan – 17 June 1950	Auditor
Paolo Golia	Verona - 29 July 1944	Auditor
Salvatore Spiniello	Siracusa – 26 April 1951	Auditor
Gianfranco Zanda	Udine – 4 April 1941	Auditor

The shareholders' meeting of 26 May 2003 also appointed the following alternates: Enrico Maria Bignami (born in Milan on 7 May 1957) and Enrico Laghi (born in Rome on 23 February 1969).

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

Shares of listed Group companies held directly or indirectly by members of the Board of Directors, the Board of Auditors and the General Managers of Telecom Italia

The table below shows the number of shares of listed Group companies held directly or indirectly by all the persons who in fiscal 2004 or a part thereof were members of the Board of Directors, the Board of Auditors or the General Manager of Telecom Italia.

Name	Investee company	Class of shares	Number of shares held at the end of 2003 (or at date appointed if later)	Number of shares bought in 2004	Number of shares sold in 2004	Number of shares held at the end of 2003 (or at date appointment terminated if earlier)
Marco TRONCHETTI PROVERA	=	=	=	=	=	=
Gilberto BENETTON	Telecom Italia Mobile	Ordinary	=	1,125,000	=	1,125,000
Carlo Orazio BUORA	=	=	=	=	=	=
Riccardo RUGGIERO(*)	=	=	=	=	=	=
Paolo BARATTA	=	=	=	=	=	=
John Robert SOTHEBY BOAS	=	=	=	=	=	=
Umberto COLOMBO	=	=	=	=	=	=
Giovanni CONSORTE	Telecom Italia	Savings	33,008	=	33,008	=
	Telecom Italia Media	Ordinary	40,183	=	40,183	=
Francesco DENOZZA	=	=	=	=	=	=
Domenico DE SOLE	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia Mobile	Ordinary	50,000	=	=	50,000
Guido FERRARINI	=	=	=	=	=	=
Jean Paul FITOUSSI	=	=	=	=	=	=
Natale IRTI	=	=	=	=	=	=
Gianni MION	Telecom Italia	Savings	=	15,000(1)	=	15,000
	Telecom Italia Mobile	Ordinary	=	3,500(1)	=	3,500
	Telecom Italia Mobile	Savings	=	5,000(1)	=	5,000
Pietro MODIANO	=	=	=	=	=	=
Massimo MORATTI	=	=	=	=	=	=
Marco ONADO	Telecom Italia Mobile	Savings	=	4,700	=	4,700
Renato PAGLIARO	=	=	=	=	=	=
Pasquale PISTORIO	Telecom Italia	Ordinary	1,549,000(2)	=	=	1,549,000
Carlo A. PURI NEGRI	=	=	=	=	=	=
Luigi ROTH	Telecom Italia	Ordinary	11,553(1)	=	=	11,553
	Telecom Italia Mobile	Ordinary	14,300(1)	=	=	14,300
	Telecom Italia Media	Ordinary	726(1)	=	=	726
Giuseppe SALA(*)	=	=	=	=	=	=
Pier Francesco SAVIOTTI	Telecom Italia Mobile	Ordinary	10,000	=	=	10,000
Rosalba CASIRAGHI	=	=	=	=	=	=
Paolo GOLIA	Telecom Italia Mobile	Ordinary	=	15,555	3,555	12,000
Salvatore SPINIELLO	Telecom Italia	Ordinary	82,922	=	82,922	=
	Telecom Italia	Savings	234,458	=	234,458	=
	Telecom Italia Mobile	Ordinary	10,000	=	10,000	=
Ferdinando SUPERTI FURGA	Telecom Italia Mobile	Ordinary	6,270	=	2,547	3,723
Gianfranco ZANDA	=	=	=	=	=	=

(*) *General Manager.*

(1) *Shares held indirectly.*

(2) *Of which 660,000 shares are held indirectly.*

Activities

Olivetti S.p.A. (now Telecom Italia S.p.A.) was founded in 1908 at Ivrea, near Turin, as a typewriter manufacturer. The company changed its focus gradually, turning first into a computer manufacturer and eventually into a telecommunications company.

In May 1999, Olivetti S.p.A. and its subsidiary, Tecnost S.p.A., successfully completed a cash and stock tender offer for all of Telecom Italia S.p.A.'s ordinary shares.

In March 2003, plans for the merger of Telecom Italia S.p.A. into Olivetti S.p.A. were announced. The merger plan was approved by the shareholders of Telecom Italia S.p.A. and Olivetti S.p.A. in meetings held on 24 and 26 May 2003, respectively. Following the merger, which took effect on 4 August 2003, Olivetti S.p.A. adopted Telecom Italia's corporate purpose and name.

The Telecom Italia Group is at the forefront of the international information and communication technology sector. As leaders in wireline and mobile communications, internet and media, information technology and R&D, its companies provide integrated and innovative services in Italy and abroad. Moreover, the Telecom Italia Group also supplies office products and solutions, commercial systems and IT for gaming and lotteries.

In the domestic market, the Group is both a technology and market leader in the fastest-growing segments (mobile, broadband and data transmission). Its international operations are concentrated mainly in Latin America, Europe and the Mediterranean basin.

In particular, at 31 December 2004, the Telecom Italia Group was one of the world's main wireline operators, with approximately 25.9 million lines (including the equivalent ISDN lines). In addition, through Tim, the Group is the leading mobile operator in Italy, with approximately 26.3 million subscribers, and one of the most important at the international level, with more than 27.5 million subscribers outside of Italy, through Tim's subsidiaries and affiliates, resulting in a total of 53.8 million subscribers.

Tim (currently Tim Italia, after the Spin-off) is one of the three mobile operators licensed to provide services using GSM technology and one of the three operators licensed to provide services using DCS 1800 technology. It is also one of the four operators holding a UMTS license to provide third-generation telephony services in Italy.

Key economic and financial data of the Telecom Italia Group Business Units/Central Functions:

(millions of euro)		**Wireline**	**Mobile**	**South America(1)**	**Internet and Media(2)**	**Olivetti Tecnost**	**IT Market**	**IT Group**	**Sub-total**	**Other activities and eliminations(3)**	**Total Group**
Sales and service revenues	Year 2004	17,571	12,900	1,076	597	601	729	965	**34,439**	(3,202)	31,237
	Year 2003	17,216	11,782	1,111	1,297	655	891	1,100	**34,052**	(3,202)	30,850
Gross operating profit............	Year 2004	8,426	6,052	396	24	44	65	76	**15,083**	(555)	14,528
	Year 2003	8,255	5,502	407	322	40	84	96	**14,706**	(426)	14,280
Operating income (loss) before amortization of differences on consolidation	Year 2004	5,207	4,166	127	(60)	22	37	(67)	**9,432**	(678)	8,754
	Year 2003	4,972	3,885	153	125	4	60	(36)	**9,163**	(544)	8,619
Operating income	Year 2004	5,199	4,073	121	(89)	21	36	(67)	**9,294**	(2,094)	7,200
	Year 2003	4,969	3,786	145	63	2	58	(36)	**8,987**	(2,198)	6,789
Industrial investments............	Year 2004	2,201	2,490	157	62	15	25	180	**5,130**	205	5,335
	Year 2003	2,302	1,957	129	102	20	30	174	**4,714**	180	4,894
Number of employees at the end of year	31.12.2004	50,383	20,361	5,080	1,805	2,108	4,131	3,160	**87,028**	4,337	91,365
	31.12.2003	50,766	18,888	4,953	2,029	2,395	4,827	4,107	**87,965**	5,222	93,187

(1) The data relates to the Entel Chile group and to the Entel Bolivia group. Beginning 1 March 2004, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia have been consolidated in Other Activities. The 2003 data has been restated for purposes of comparision.

(2) Nuova Seat Pagine Gialle, the beneficiary company of the partial spin-off of Seat Pagine Gialle S.p.A. (now Telecom Italia Media S.p.A.), was sold 8 August 2003. The figures for 2003 include the economic data for the first seven months of the Nuova Seat Pagine Gialle group.

(3) The data presented above includes the activities of International Affairs, TILAB, the centralized group services and central functions, the financial companies, the company Telecom Italia America Latina and the Argentine branch of Telecom Italia.

Wireline

The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) providers. On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe and South America), as well as innovative broadband services in key European metropolitan areas.

At 31 December 2004, the Business Unit was organized as follows:

Wireline		
Telecom Italia Wireline	**National subsidiaries**	**International subsidiaries**
Wireline TLC services: • Retail Telephone • Internet • Data Business • V.A.S. Phone and Data • National Wholesale	Loquendo S.p.A. Path.Net S.p.A. Telecontact Center S.p.A.	BBNED Group Latin American Nautilus Group Mediterranean Nautilus Group Med-1 Group Telecom Italia Deutschland Holding GmbH —HanseNet Telekommunikation GmbH
	Telecom Italia Sparkle Group • Telecom Italia Sparkle S.p.A. — Intelcom San Marino S.p.A. — — Telefonia Mobile Sammarinese S.p.A. — Pan European Backbone (includes Telecom Italia France) — Telecom Italia Sparkle of North America Inc.	

Mobile

The Mobile Business Unit (Tim Group) operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America and in the Mediterranean Basin.

At 31 December 2004, the Business Unit was organized as follows:

Mobile			
National subsidiaries	**Major international subsidiaries**		**Major affiliated**
	Mobile South America	**Other subsidiaries** **TIM International N.V**	
Tim—Telecom Italia Mobile S.p.A. Tim Italia S.p.A. (*)	Tim Brazil Group • Tim Group Participaçoes (Brazil) • TIM Celular S.A. (Brazil) — Maxitel S.A. (Brazil) • CRC Ltda (ex Starcel Ltda) (Brazil) TIM Perù S.A.C. Corporacion Digitel C.A. (Venezuela) (**) Blah! S.A.	TIM Hellas Telecommunications S.A. (Greece)	AVEA I.H.A.S. (Turkey)

(*) Not operational as of 31 December 2004.

(**) On 5 November 2004, a preliminary agreement was signed to sell the equity interest held in Corporacion Digitel C.A.

South America

With effect from 1 March 2004, the former Latin American Operations structure has been disbanded and the Telecom Italia Latam structure took over the role of the "delocalized" Corporate function, in keeping with the strategic policies of the Group to consolidate and develop its presence in Latin America.

In the meantime, the Wireline and Mobile Business Units, with no change in the corporate control structure, are responsible for the results of the subsidiaries in Latin America.

The table below provides an overview of the Latin American operations at 31 December 2004:

South America

SUBSIDIARIES		AFFILIATES	
Wireline	**Mobile**	**Wireline**	**Mobile**
Entel Chile Group(*): • Americatel Corp. USA • Americatel Centroamerica • Entel Servicios Telefonicos • Americatel Perù Entel Bolivia Group: • Entel Bolivia—wireline • Datacom	Entel Chile Group(*): • Entel Telefonia Personal — Entel PCS — Entel Telefonia Movil Entel Bolivia Group: • Entel Bolivia—Mobile	Telecom Argentina Group: • Telecom Argentina — Publicom — Micro Sistemas — Telecom Arg. USA	Telecom Argentina Group: • Telecom Personal – Nucleo

(*) On 25 January 2005, a preliminary agreement was executed for the sale of the equity interest in the Entel Chile Group.

Internet and Media

The Internet and Media Business Unit operates in the following segments:

- *Internet*: in the management of access services (ISP) with Tin.it, in the management and development of the Virgilio portals with Matrix, and in web services, were it occupies a leadership position in the Italian market;
- *Television*: with La7 and MTV, in the production and broadcasting of editorial content through the television transmission networks entrusted under concession and in the marketing of advertising space in TV programming;
- *Office Products & Services*: in the distribution of products, services and solutions for the office through the Buffetti retail network.

At 31 December 2004, this Business Unit was organized as follows (main consolidated companies/areas are shown below):

Internet and Media

INTERNET	TV	NEWS	OFFICE PRODUCTS	OTHER ACTIVITIES
Tin.it	La7		Gruppo Buffetti	Databank (*)
Matrix	MTV	TM News	Sk Direct	Televoice (**)

(*) On 14 March 2005 Telecom Italia Media completed the sale of 100% of Databank to Centrale dei Bilanci S.r.l. and to Cerved Business Information S.p.A

(**) On 16 December 2004, Telecom Italia Media signed an agreement with Comdata (Altair Group) for the sale of 100% of Televoice S.p.A., a company which operates in the call center and telemarketing and teleselling sector. The transaction was finalized on 3 January 2005.

Olivetti Tecnost

The Olivetti Tecnost Group Business Unit operates through the Office Products Division in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet print-heads and MEMS). Through the Systems Division it provides specialized applications for the banking field and commerce and information systems for gaming and lottery management. In addition, the group collaborates with Nuove Iniziative Canavese in document management services and fixed and cell phone repaires.

The reference market of the Business Unit is focused mainly in Europe and Asia.

At 31 December 2004, Olivetti Tecnost was structured as follows (the main companies are indicated):

Olivetti Tecnost Group

Olivetti Tecnost S.p.A.

- Olivetti I-Jet S.p.A.
- Innovis S.p.A.
- Cell-Tel S.p.A.
- Wirelab S.p.A.
- Olivetti Tecnost International B.V. (foreign sales companies)

Information Technology Market

The Telecom Italia IT Market Business Unit brings together all the information technology companies and activities of the Group directed to the external market. The Business Unit, as a whole, is among the ICT - Information Communication Technology - leaders at national level, the largest Italian-owned ICT group, the foremost in providing solutions for the public administrations and transportation companies, and one of the top five supplying solutions for banks.

On 24 February 2005, after reviewing bids by interested parties, Telecom Italia entered into a preliminary agreement with the COS Group for the sale of its controlling interest in Finsiel (79.5%) on the basis of an enterprise value of approximately 164 million. Thus, in the 2004 consolidated financial statements, Finsiel's value was adjusted to reflect the expected selling price, which resulted in the allocation of 27 million to a reserve for writedowns of investments. In addition, this transaction made it possible to record deferred tax assets in the amount of 38 million arising from the 115 million write-down of this shareholding in fiscal year 2002. Overall, the 2004 consolidated accounts reflected a net positive effect of 11 million relating to this divestiture.

At 31 December 2004, this Business Unit was organized as follows (main consolidated companies are shown):

Information Technology Market

Finsiel Group:

- Finsiel S.p.A.
- Banksiel S.p.A.
- Insiel S.p.A.
- Tele Sistemi Ferroviari S.p.A.

Eustema S.p.A.

Information Technology Group

The Information Technology Group Function is responsible for coordination, technological innovation and service information technology activities within the Telecom Italia Group. The function focuses on the core business of TLC, pursuing objectives such as the increment, the efficiency and the improvement of quality and innovation, with the aim of implementing economies of scale and achieving advancements in terms of performance.

On 9 September 2004, Telecom Italia's Board of Directors examined and approved the plan for merger of the wholly-owned subsidiaries IT Telecom S.p.A. and Epiclink S.p.A. into Telecom Italia. The merger (which did not entail a capital increase by the acquiring company) had been approved on 11 October 2004 by the Boards of Directors of the three companies. The merger is effective from 31 December 2004, and for accounting and tax purposes from 1 January 2004. In addition, on 15 December 2004, effective from 30 December 2004, IT Telecom S.p.A. conferred its Data Center business segment to IT Telecom S.r.l., a new company set up on 12 November 2004.

This plan falls under a broader reorganization of the Information Technology Group area. Bringing the activities of these two subsidiaries into Telecom Italia will make it possible to rationalize the use of resources and technological expertise and will lead to an important simplification of the operational, administrative and corporate management processes.

After the merger, the reorganization of the Information Technology area was completed with a new organizational model which calls for the allocation of IT activities according to the following organization chart:

Information Technology Group

BU Wireline | Corporate Central Functions | IT Telecom S.r.l.

2.1.1(b) Company to be Absorbed

Name

Tim S.p.A. (in abbreviated form, also TIM S.p.A. or T.I.M. S.p.A.).

Registered office

Turin, 6 Via Cavalli (Corporate Headquarters in Rome, 152 via Pietro De Francisci).

Identity data

Tim is entered in the Turin Company Register. Its registration, tax and VAT number is 06947890015.

Share capital

On 17 February 2005, Tim's fully paid-up share capital filed with the Company Register was €516,532,330.74 divided into 8,476,803,016 ordinary shares and 132,069,163 savings shares. Both Tim's ordinary shares and its savings shares have a par value of €0.06 each.

Tim's approved share capital (comprising that subscribed and paid up and that which can be issued in accordance with resolutions already adopted by Tim's Board of Directors for the exercise of stock options) is €519,174,511.91.

The bylaws state that resolutions to increase the share capital by issuing shares for cash may exclude pre-emption rights for up to a maximum of 10% of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the firm appointed to audit the accounts.

The extraordinary meeting of Tim's shareholders held on 4 May 2004 granted the Board of Directors the power (which to date it has not exercised) to make cash capital increases in one or more tranches up to total amount of €51,000,000.00 by issuing up to 850,000,000 ordinary shares, all or part of which are to be offered with pre-emption rights to shareholders or for subscription to employees of Tim or the companies it controls or is controlled by, with the exclusion of pre-emption rights, within the limits set by Article 134.2 of the Consolidated Law.

Tim holds 897,835 treasury ordinary shares.

Corporate purpose

The Company's principal purpose is the installation and operation – without any territorial limitation – of systems for the provision and operation of telecommunication services, especially mobile telecommunication services, either under license or in free market conditions, and the carrying out of all other activities related or connected therewith, including the design, production, operation and marketing of products, services and systems in the fields of telecommunications, remote data processing and electronics (but with the exclusion of activities reserved to registered professionals).

The Company may also carry out any and all commercial, industrial, financial, investment and real estate transactions deemed to be useful for achieving the corporate purpose; to this end, the Company may also acquire, either directly or indirectly, interests and holdings in other companies and businesses.

Governing bodies

Following the resignation of one director, the members of Tim's Board of Directors, which was appointed by the ordinary shareholders' meeting of 4 May 2004 for one year (i.e. until the approval of the annual report for the year ending 31 December 2004), are as follows:

Name	Place and date of birth	Position
Carlo Orazio Buora	Milan - 26 May 1946	Chairman
Gianni Mion	Vò (Padua) - 6 September 1943	Deputy Chairman
Marco De Benedetti	Turin - 9 September 1962	Managing Director
Carlo Angelici(1)	Rome - 9 April 1945	Director
Carlo Bertazzo	Monselice (Padua) - 24 September 1965	Director
Lorenzo Caprio(1)	Milan - 19 November 1957	Director
Giorgio Della Seta Ferrari Corbelli Greco	Florence - 2 January 1936	Director
Enzo Grilli(1)	Casarza Ligure (Genoa) - 7 October 1943	Director
Attilio Leonardo Lentati(1)	Milan - 26 March 1937	Director
Gioacchino Paolo Ligresti(1)	Milan - 26 March 1969	Director
Giuseppe Lucchini	Brescia - 2 July 1952	Director
Pierfrancesco Saviotti	Alessandria - 16 June 1942	Director
Paolo Savona(1)	Cagliari - 6 October 1936	Director
Rodolfo Zich(1)	Turin - 15 July 1939	Director

(1) Independent director.

All the members of Tim's Board of Directors are domiciled for purposes of their position at the company's registered office in Turin, at 6 Via Cavalli.

The ordinary meeting of Tim's shareholders called for 5 and 6 April will resolve, among other things, on the renewal of the Board of Directors, which will cease to exist once the Merger becomes effective.

On 15 March 2005, Telecom Italia submitted the following slate of candidates for appointment to the Board of Directors and proposed that the number of directors be 14.

Name	Place and date of birth
Carlo Orazio Buora	Milan - 26 May 1946
Marco De Benedetti	Turin - 9 September 1962
Carlo Angelici	Rome - 9 April 1945
Carlo Bertazzo	Monselice (Padua) - 24 September 1965
Lorenzo Caprio	Milan - 19 November 1957
Giorgio Della Seta Ferrari Corbelli Greco	Florence - 2 January 1936
Enzo Grilli	Casarza Ligure (Genoa) - 7 October 1943
Attilio Leonardo Lentati	Milan - 26 March 1937
Gioacchino Paolo Ligresti	Milan - 26 March 1969
Giuseppe Lucchini	Brescia - 2 July 1952
Gianni Mion	Vò (Padua) - 6 September 1943
Pierfrancesco Saviotti	Alessandria - 16 June 1942
Paolo Savona	Cagliari - 6 October 1936
Rodolfo Zich	Turin - 15 July 1939

Tim does not have an Executive Committee.

On 4 May 2004, Telecom Italia's Board of Directors assigned delegated powers to the executive directors and appointed the members of the Internal Control Committee and the Remuneration Committee.

The members of the various Board committees are shown below.

Internal Control Committee

Position	Name	Place and date of birth
Chairman	Paolo Savona	Cagliari - 6 October 1936
Member	Carlo Angelici	Rome - 9 April 1945
Member	Lorenzo Caprio	Milan - 19 November 1957

Remuneration Committee

Position	Name	Place and date of birth
Chairman	Enzo Grilli	Casarza Ligure (Genoa) -7 October 1943
Member	Attilio Leonardo Lentati	Milan - 26 March 1937
Member	Rodolfo Zich	Turin - 15 July 1939

Tim's Board of Auditors was appointed by the ordinary shareholders' meeting on 12 April 2002 for the three years 2002-04. The members are as follows:

Name	Place and date of birth	Position
Pietro Adonnino	Rome - 6 November 1929	Chairman
Enrico Laghi	Rome - 23 February 1969	Auditor
Gianfranco Zanda	Udine - 4 April 1941	Auditor

The same shareholders' meeting also appointed the following alternates: Alfredo Malguzzi (born at Lerici – La Spezia on 31 August 1962) and Antonio Mastrapasqua (born in Rome on 20 September 1959).

All the members of Tim's Board of Auditors are domiciled for purposes of their position at the company's registered office in Turin, at 6 Via Cavalli.

The ordinary meeting of Tim's shareholders called for 5 and 6 April will resolve, among other things, on the renewal of the Board of Auditors, which will also cease to exist once the Merger becomes effective.

On 15 March 2005, Telecom Italia submitted the following slate of candidates for appointment to the Board of Auditors.

Auditors

Name	Place and date of birth
Pietro Adonnino	Rome - 6 November 1929
Enrico Laghi	Rome - 23 February 1969
Gianfranco Zanda	Udine - 4 April 1941

Alternates

Name	Place and date of birth
Alfredo Michele Malguzzi	Lerici (SP) - 31 August 1962
Antonio Mastrapasqua	Rome - 20 September 1959

Activities

Tim, together with the group of which it is the parent company, is one of the leading international groups operating in the telecommunications services sector, and more specifically in mobile telecommunications under license or in free market conditions. Its activities include the design, implementation, management and sale of telecommunications, information and communication technology and electronic systems. Tim's main international markets are in South America and the Mediterranean basin.

The following tables provide selected historical statement of income and cash flow data for the Tim Group and Tim S.p.A., as reported in the annual financial statements for 2004 and 2003.

Tim Group

Statement of income and cash flow data *(millions of euro)*	**2004**	**2003**
Sales and service revenues	12,900	11,782
Gross operating profit	6,052	5,502
Operating income before amortization of differences on consolidation	4,166	3,885
Operating income	4,073	3,786
Income before income taxes	4,302	4,207
Consolidated net income before minority interests	2,446	2,456
Consolidated net income: Parent Company's interest	2,353	2,342
Consolidated cash flow(1)	4,255	3,998
Free cash flow from operations(2)	3,974	3,746

1. *Consolidated net income (loss) before minority interests plus amortization and depreciation.*
2. *Calculated as follows: Operating Income + Amortization and Depreciation – Industrial Investments – Change in Operating Working Capital.*

Balance sheet data *(millions of euro)*	**At 31 December 2004**	**At 31 December 2003**
Intangibles, fixed assets and long term investments	9,862	9,276
Working capital	(1,932)	(2,407)
Net invested capital	7,930	6,869
Financed by:		
Consolidated shareholders' equity:	8,247	7,803
• Parent company's interest	7,660	7,295
• Minority interest	587	508
Consolidated net financial debt:	(317)	(934)
• Medium/long-term	385	585
• Short-term	(702)	(1,519)

Per share data *(in euro)*	**2004**	**2003**
Consolidated net income from ordinary activities: Parent company's interest(1)(4) per:		
Ordinary share	0.2521	0.2289
Savings share	0.2641	0.2409
Consolidated net income: Parent Company's(4) interest per:		
Ordinary share	0.2736	0.2732
Savings share	0.2856	0.2852
Cash flow(2) per share	0.4951	0.4668
Free cash flow from operations(3) per share	0.4624	0.4374
Consolidated shareholders' equity per share: Parent Company's interest	0.8913	0.8517
(*) Number of shares (at 31 December) for the computation of the data per share:		
Ordinary	8,462,512,633	8,433,106,881
net of treasury shares	*897,835*	*897,835*
Savings	*132,069,163*	*132,069,163*

(1) *Consolidated net income from ordinary activities attributable to parent company's interest was calculated on the basis of the share of the consolidated net income from ordinary activities attributable to the parent company, net of the applicable income taxes determined in accordance with the tax rate applicable for 2004.*

(2) *Consolidated net income (loss) before minority interests plus amortization and depreciation.*

(3) *Calculated as follows: Operating Income + Amortization and Depreciation – Industrial Investments – Change in Operating Working Capital.*

(4) *This indicator was calculated considering the bylaws provision requiring dividends on savings shares to exceed those on ordinary shares by an amount equivalent to 20% of the par value of the shares (€0.012).*

Tim S.p.A.

Statement of income and cash flow data *(millions of euro)*	**2004**	**2003**
Sales and service revenues	9,943	9,469
Gross operating profit	5,347	5,035
Operating income	4,147	3,863
Income before taxes	4,489	3,852
Net income	2,822	2,322
Cash flow(1)	3,962	3,405
Free cash flow from operations(2)	4,127	4,201

1. *Net income plus amortization and depreciation.*

2. *Calculated as follows: Operating Income + Amortization and Depreciation – Industrial Investments – Change in Operating Working Capital.*

Balance sheet data *(millions of euro)*	**At 31 December 2004**	**At 31 December 2003**
Intangibles, fixed assets and long term investments	10,171	9,161
Working capital	(1,209)	(1,622)
Net invested capital	8,962	7,539
Financed by:		
Shareholders' equity:	9,765	8,957
• Share capital	516	514
• Reserves and retained earnings	6,427	6,121
• Net income for the period	2,822	2,322
Net financial debt	(803)	(1,418)
• Of which short-term	(803)	(1,418)

Per share data *(in euro)*	**2004**	**2003**
Net income from ordinary activities per(1) (4):		
Ordinary share	0.2990	0.2755
Savings share	0.3110	0.2875
Net income per (4):		
Ordinary share	0.3282	0.2709
Savings share	0.3402	0.2829
Cash flow (2) per share	0.4610	0.3975
Free cash flow from operations per share(3)	0.4802	0.4905
Shareholders' equity per share	1.1362	1.0457
(*) Number of shares (at 31 December) for the computation of the data per share:		
Ordinary	8,462,512,633	8,433,106,881
net of treasury shares	*897,835*	*897,835*
Savings	132,069,163	132,069,163

(1) *Net income from ordinary activities was calculated net of the applicable income taxes determined in accordance with the tax rate for 2004.*

(2) *Net income (loss) plus amortization and depreciation.*

(3) *Calculated as follows: Operating Income + Amortization and Depreciation – Industrial Investments – Change in Operating Working Capital.*

(4) *Consolidated net income per share was calculated considering the bylaws provisions requiring dividends on savings shares to exceed those on ordinary shares by an amount equivalent to 20% of the par value of the shares (€0.012).*

2.1.2 Procedures, terms and conditions applying to the transaction

2.1.2(a) Values assigned to Telecom Italia and Tim, with reference also to expert appraisals

For the valuations used to determine the exchange ratios, the Boards of Directors of Telecom Italia and Tim were assisted by financial advisors of international standing: JPMorgan Chase Bank N.A. ("**JPMorgan**"), Mediobanca

– Banca di Credito Finanziario S.p.A. (“**Mediobanca**”) and MCC S.p.A. – Capitalia Gruppo Bancario (“**MCC**”) as Lead Advisor, for Telecom Italia; Lazard & Co. S.r.l. as Sole Lead Advisor and Credit Suisse First Boston for Tim.

In addition, in line with international best practice and acting on the recommendation of its Internal Control and Corporate Governance Committee, Telecom Italia engaged Goldman Sachs International (“**Goldman Sachs**”). Likewise, acting on the recommendation of its Internal Control Governance Committee, Tim also engaged Merrill Lynch International, Milan office, and Studio Casò, represented by Mr. Angelo Casò.

For details on the values assigned by the Boards' of Directors of Telecom Italia and Tim to the companies involved in the Merger, see the two Boards, respective reports on the merger plan, which were approved on 23 January 2005 and are attached herewith as Annexes II and III. For details on the valuation methods applied in determining the exchange ratios, in addition to the above-mentioned reports, see Section 2.1.2(b).

2.1.2(b) Valuation methods applied in determining the exchange ratios

In reaching their conclusions, the Boards of Directors of Telecom Italia and Tim acknowledged that, among a number of available valuation methods, each of its financial advisors used those valuation methods deemed more appropriate considering the activities of both the Absorbing Company and the Company to be Absorbed, and that, in spite of the different methods adopted, all the financial advisors reached mutually consistent conclusions. Accordingly, the Boards of Directors of Telecom Italia and Tim, after carefully analyzing the valuations put forward by their respective advisors, approved the valuation methods they had applied.

A summary is provided below of the material contained in the reports of the Boards of Directors attached herewith as Annexes II and III. Reference is made to these documents and to the fairness and valuation opinions of the individual advisors and to the summary description of each advisor's analysis (Annexes VIII-XV).

Valuation methods applied

The aim of the valuation of the companies participating in a merger is to obtain values that are meaningfully comparable.

Consistent with this objective, and in accordance with standard practice, a uniform measure must be adopted for the whole valuation process in order to protect the interests of the shareholders of Telecom Italia and Tim, respectively. This does not necessarily mean that identical valuation methods must be used for all the companies directly or indirectly involved in a merger, but rather that the same approach to valuation must be adopted.

Accordingly, the exchange ratio was established by applying valuation methodologies that are commonly used in Italy and internationally for transactions of this kind and for businesses active in the communications sector. In particular, account was taken of the comparative valuation of the companies involved and priority was given to the homogeneity and comparability of the criteria applied rather than a simple estimate of the equity value of each company on a stand-alone basis.

In this perspective, the valuations were undertaken considering the two companies on a stand-alone basis and therefore without considering the strategic, operational and financial synergies expected from the Merger or the control premiums and minority discounts associated with the holding of equity interests.

The advisors of Telecom Italia's Board of Directors used the following fundamental methods:

- for the valuation of Tim, the “**Discounted Cash Flow**” or “**DCF**” method;
- for the valuation of Telecom Italia, the Sum-of-the-Parts method, valuing each sector of activity with the method considered best suited to the specific situation. In particular, the valuation of the principal assets (Telecom Italia and Tim) was based on the Discounted Cash Flow method, while the remaining assets were valued using, depending on the circumstances, the market-price method, the market multiples method, balance sheet values, the Discounted Cash Flow method and/or the values published in analysts' research reports on such activities, where available.

The exchange ratios obtained by applying the above methods were tested using the market-price valuation method.

The advisors of Tim's Board of Directors valued the two companies involved in the Merger using both the market-price method and the Sum-of-the-Parts method, the latter primarily through the application of the discounted cash flow or DCF methodology to the various business units. The valuation process was further supported by considering financial analysts' target prices for the Telecom Italia and Tim shares and making reference to market multiples for comparable companies.

In summary, the Discounted Cash Flow method determines the value of a company or an economic activity as a whole. It is based on the assumption that the value of a company or an economic activity is equal to the present value of future cash flows. Under this method, the value of the economic capital of a company or an economic activity is equal to the sum of the discounted value of the expected cash flows and the terminal value of the company or the economic activity, less the net financial debt and minority interests and possibly other adjustments.

In applying the Discounted Cash Flow method, reference was made to the cash flows from operations for the main activities based on the update, for the period 2004-2007, of the business and financial plans approved and disclosed to the market in March 2004. The plans were developed by management in accordance with the strategic, operating and financial objectives of the Group.

The Sum-of-the-Parts method is commonly used to value companies operating in a wide variety of sectors. Under this method, the value of a company's economic capital is calculated as the sum of the values of its separate units, as economic entities that can be valued independently, suitably adjusted to take into account the company's financial position, proportional net debts and minority interests, where material, and other factors such as off-balance-sheet items and potential tax benefits.

The market-price valuation method, which consists in considering the ratio of the prices expressed by the stock market for the companies involved in the merger, is considered particularly significant in the case in question, given the high market value and liquidity of the shares of both Telecom Italia and Tim. In fact, in such circumstances, the prices established by the financial markets provide a meaningful baseline for purposes of a comparison of the profitability, soundness, growth prospects and risk profile of the companies from the perspective of investors and thus for the ratio between the values of the companies involved in the merger. In applying this method, it is necessary to strike a balance between the need to mitigate the volatility of daily share prices by considering a sufficiently long period and the need to use recent data that are indicative of the market values of the companies in question.

Results obtained - valuations used by Telecom Italia

Tim

Applying the DCF method, Telecom Italia's advisors obtained the following minimum, mean and maximum values per Tim ordinary share, before payment of the dividend (ex dividend 18 April 2005), €5.32, €5.58 and €5.84. The corresponding figures per Tim savings share were calculated on the basis of the average market discount of the last month, the last three months and the last six months before 3 December 2004, as well as the discount on the last day of trading of Telecom Italia and Tim shares before the announcement of the transaction (3 December 2004), resulting in the application of a discount of approximately zero (minimum €5.31, mean €5.58 and maximum €5.84). The table below shows the minimum, mean and maximum values per Tim ordinary and savings share adjusted to take account of the dividend for the fiscal year 2004, assumed to be in line with that paid last year.

	Minimum	Mean	Maximum
Values per Tim ordinary share (€)	5.07	5.33	5.58
Values per Tim savings share (€)	5.05	5.31	5.57

Telecom Italia

Applying the Sum-of-the-Parts fundamental method, the following minimum, mean and maximum values were obtained per Telecom Italia ordinary share, before payment of the dividend, expected in April 2005: €2.99, €3.22 and €3.44. In this case the discount applied to obtain the value of the savings share was between approximately 26% and 27%, resulting in a minimum of €2.21, a mean of €2.37 and a maximum of €2.52 per share. The table below shows these minimum, mean and maximum values per Telecom Italia ordinary and savings share adjusted for payment of the dividend for the fiscal year 2004, assumed to be in line with that paid last year.

	Minimum	Mean	Maximum
Values per Telecom Italia ordinary share (€)	2.89	3.12	3.34
Values per Telecom Italia savings share (€)	2.09	2.25	2.41

The following table shows the range of the estimates of the exchange ratios calculated as the quotient of the estimated value per Tim ordinary and savings share and the estimated value per Telecom Italia ordinary and savings share using the minimum and maximum values of the respective ranges.

	Minimum	Mean	Maximum
Telecom Italia ordinary shares per Tim ordinary share	1.67	1.71	1.75
Telecom Italia savings shares per Tim savings share	2.31	2.36	2.42

The results of the Tender Offer are not deemed to have had an effect on the exchange ratios, since the Tender Offer was made on terms consistent with the valuations used to determine them. In fact, in the context of the valuation of Telecom Italia, the acquisition of the Tim shares tendered in the Tender Offer determines an increase in the value of the equity interest in Tim substantially equivalent to the increase in Telecom Italia's net financial debt, which, moreover, has remained at a level consistent with Telecom Italia's current rating. The overall effect of the Tender Offer has therefore left the value of Telecom Italia's equity substantially unchanged.

The Board of Directors, in the light of the information provided by JPMorgan, Mediobanca, and MCC, as well as Goldman Sachs, and after considering the results of the application of the above-mentioned valuation methods, reached a conclusion with regard to the ratio existing between the economic values of the two companies participating in the Merger. This conclusion was then compared with that reached by the Board of Directors of Tim, in taking into consideration the information provided by its own advisors.

Results obtained – valuations used by Tim

Applying the market-price valuation method, Tim's advisors considered the prices of Telecom Italia and Tim shares over various periods both prior to the announcement of the Merger (3 December 2004) and prior to the first rumors concerning the transaction (the week of 16-19 November 2004), in order to focus on the values of the two companies expressed by market prices excluding possible announcement effects. In the subsequent period, both the market prices and the trading volumes showed anomalies and discontinuities compared with their long-term trends.

From the analysis of the shares' performance, the 1, 2, 3, 6 and 12-month weighted average prices were calculated (both excluding and including the impact of payment of the dividend, assumed to be in line with that paid last year), together with the corresponding exchange ratios.

Market prices (ordinary shares)	**Stock market value not adjusted for dividend**		**Ratio**	**Stock market value adjusted for dividend**		**Ratio**
	TI (€)	**Tim (€)**	**(X)***	**TI (€)**	**Tim (€)**	**(X)***
Weighted averages						
16/11/2004	2.82	4.81	1.71	2.71	4.55	1.68
1 month	2.70	4.68	1.73	2.59	4.42	1.71
2 months	2.63	4.56	1.73	2.52	4.30	1.70
3 months	2.58	4.50	1.74	2.48	4.25	1.71
6 months	2.55	4.51	1.77	2.45	4.25	1.74
12 months	2.54	4.52	1.78	2.44	4.27	1.75

Source: Datastream

* *Rounding may lead to differences.*

Market prices (savings shares)	Stock market value not adjusted for dividend TI (€)	Tim (€)	Ratio (X)*	Stock market value adjusted for dividend TI (€)	Tim (€)	Ratio (X)*
Weighted averages						
16/11/2004	2.05	4.78	2.33	1.94	4.51	2.33
1 month	2.01	4.62	2.30	1.89	4.35	2.30
2 months	1.95	4.53	2.32	1.84	4.26	2.32
3 months	1.92	4.48	2.34	1.80	4.22	2.34
6 months	1.86	4.45	2.39	1.75	4.18	2.39
12 months	1.84	4.45	2.42	1.72	4.18	2.43

Source: Datastream

* *Rounding may lead to differences.*

With reference instead to the Sum-of-the Parts method, the following ranges for the values of the ordinary and savings shares were specified; they confirm the relative values obtained by using the market-price valuation method. In the same way as for the latter method, the values per share and the corresponding exchange ratios were calculated both excluding and including the impact of payment of the dividend, assumed to be in line with that paid last year.

	Values per share not adjusted for dividend Telecom Italia (€)	Tim (€)	Ratio (X)	Values per share adjusted for dividend Telecom Italia (€)	Tim (€)	Ratio (X)
Value per ordinary share	2.97-3.28	5.26-5.50	1.68-1.77	2.86-3.17	5.1-5.25	1.65-1.75
Value per savings share	2.18-2.41	5.26-5.50	2.29-2.41	2.06-2.29	4.99-5.24	2.29-2.42

In this case as well, and on the basis of the same considerations as those set out above, the results of the Tender Offer for Tim ordinary and savings shares are deemed not to have had an effect on the exchange ratios.

Taking into account the valuations put forward by its advisors, Tim's Board of Directors established the relative values of the companies involved in the Merger for the purpose of determining the exchange ratios.

The exchange ratios derived for the ordinary and savings shares by applying the foregoing methods are summarized below:

Method (ordinary shares)	Exchange Ratio not adjusted for dividend (x)	Exchange Ratio adjusted for dividend (x)
Market-price method		
– 16 November 2004	1.71	1.68
Weighted averages:		
– 1 month	1.73	1.71
– 2 months	1.73	1.70
– 3 months	1.74	1.71
– 6 months	1.77	1.74
– 12 months	1.78	1.75
Sum-of-the-Parts method	1.68-1.77	1.65-1.75

Method (savings shares)	Exchange Ratio not adjusted for dividend (x)	Exchange Ratio adjusted for dividend (x)
Market-price method		
– 16 November 2004	2.33	2.33
Weighted averages:		
– 1 month	2.30	2.30
– 2 months	2.32	2.32
– 3 months	2.34	2.34
– 6 months	2.39	2.39
– 12 months	2.42	2.43
Sum-of-the-Parts method	2.29-2.41	2.29-2.42

2.1.2(c) Determination of the exchange ratios

The Boards of Directors of Telecom Italia and Tim, taking into account the valuations referred to above and the discussions regarding the determination of the exchange ratios and in the light of valuations of their respective financial advisors, established the relative values of the companies involved in the Merger for the purpose of determining the exchange ratios.

At the end of the valuation process and the comparison between the results obtained, the Board of Directors of Telecom Italia and the Board of Directors of Tim determined that:

(i) the exchange ratio on the basis of which the assignment of the ordinary shares of Telecom Italia will be made is:

1.73 Telecom Italia ordinary shares, with a par value of €0.55 per share
for each
1 Tim ordinary share, with a par value of €0.06;

(ii) the exchange ratio on the basis of which the assignment of the savings shares of Telecom Italia will be made is:

2.36 Telecom Italia savings shares, with par value of €0.55 per share
for each
1 Tim savings share, with a par value of €0.06.

The above exchange ratios have been verified by the experts appointed under Article 2501-*sexies* of the Civil Code, namely the accounting firm Reconta Ernst & Young S.p.A., appointed by the Turin Court, for Tim, and the accounting firm of Mazars & Guerard S.p.A., appointed by the Milan Court, for Telecom Italia, for purposes of issuing the reports required by law. The reports of these experts are attached herewith as Annexes VI and VII.

2.1.2(d) Procedure for assigning Telecom Italia shares and their entitlement date

The newly issued shares earmarked for the exchange will be assigned to the persons entitled thereto at the effective date of the Merger through the authorized intermediaries participating in the Monte Titoli S.p.A. central securities depository.

Tim shares held in certificated form may only be exchanged upon delivery of such shares to an authorized intermediary for deposit with the central securities depository on a dematerialized basis.

The authorized intermediaries will provide Tim minority shareholders with a service permitting the number of newly issued shares to which shareholders are entitled on the basis of the exchange ratios to be rounded up or down to the nearest whole number, at market prices and at no cost in terms of expenses, stamp duty or commissions.

2.1.2(e) Withdrawal rights

Withdrawal rights pursuant to Article 2437, first paragraph, point a), of the Civil Code

As the Absorbing Company, Telecom Italia' bylaws concerning the company's purpose will not be amended since they do not differ significantly from Tim's bylaws with respect to either the activities the company can engage in or the related business risk. Furthermore, Telecom Italia's corporate purpose allows the company to own equity interests in operating companies. Accordingly, it will not be necessary, as a result of the Merger, to make any amendments to Telecom Italia's bylaws concerning the company's purpose, so that from this perspective the Merger will not give rise to withdrawal rights pursuant to Article 2437, first paragraph, point a), of the Civil Code.

Withdrawal rights pursuant to Article 2437, first paragraph, point g), of the Civil Code

In the share exchange, holders of Tim savings shares will be assigned newly issued Telecom Italia savings shares in accordance with the exchange ratios referred to above.

As mentioned earlier, from a formal legal perspective, Telecom Italia savings shares are entitled to a smaller dividend premium compared to Telecom Italia ordinary shares than that to which holders of Tim savings shares are currently entitled compared to Tim ordinary shares. In fact, Tim savings shares, as well as entitling their holders to a preferential dividend of up to 5% of their par value, entitle them to a premium with respect to any profit distributed to ordinary shareholders equal to 20% of their par value of €0.06, whereas Telecom Italia savings shares, while they also entitle their holders to a preferential dividend of up to 5% of their par value, entitle them to a premium with respect to any dividend distributed to ordinary shareholders equal to 2% of their par value of €0.55.

Since, as a result of the Merger, in the exchange, holders of Tim savings shares will receive Telecom Italia savings shares that entitle holders to a percentage dividend premium that is smaller than that of the Tim savings shares cancelled, the special meeting of Tim savings shareholders (the "**Special Meeting**") has been called – for 6, 7 and 8 April on the first, second and third call, respectively – to approve, pursuant to Article 145.1b) of the Consolidated Law, the resolution adopted by the extraordinary meeting of Tim ordinary shareholders concerning the plan for the merger of Tim with and into Telecom Italia.

Because of the different dividend premium rights attaching to the Telecom Italia savings shares that will be assigned in exchange to the existing holders of Tim savings shares, the latter will be entitled – if they do not vote in favor of the resolution by means of which the Special Meeting will approve the resolution of the extraordinary meeting of Tim shareholders concerning the Merger – to withdrawal rights pursuant to Article 2437, first paragraph, point g), of the Civil Code, since the share exchange would modify their rights.

It should be noted, however, that from a substantive economic perspective, in addition to the above-mentioned change in the dividend premium in relative terms, the Merger will lead to an improvement in absolute terms in the entitlement to profits of Tim savings shareholders with respect to their premium compared with the dividend paid to Tim ordinary shares. In fact, as a result of the Merger, more than one Telecom Italia savings share with a par value of €0.55 will be assigned for each Tim savings share with a par value of €0.06, on the basis of the exchange ratio specified above (see Section 2.1.2(c)), so that the post-exchange dividend premium for each former Tim savings share will be calculated with reference to a higher total par value of €0.55 (par value) x 2.36 (exchange ratio) = €1.30 instead of €0.06. Consequently, the post-exchange dividend premium for holders of Tim savings shares for each Tim savings share held, currently equal to 20% x €0.06 = €0.012, will increase as a consequence of the exchange for Telecom Italia savings shares to 2% x €1.30 = €0.026.

Procedures for the exercise of withdrawal rights by Tim savings shareholders

The exercise of withdrawal rights to which Tim savings shareholders are entitled is governed by Article 2437-*bis* et seq. of the Civil Code.

Withdrawal rights may be exercised by entitled savings shareholders for all or a part of the shares held by sending a registered letter to Tim S.p.A., to the attention of Funzione Affari Legali e Societari, Via Pietro De Francisci n. 152, Roma 00165, within fifteen days of the filing with the Company Register of the resolutions of the Tim extraordinary and special meetings concerning the Merger (the "**Filing**"). The Filing will be announced by means of a public notice.

For purposes of withdrawal rights, persons will be deemed to have such entitlement who, having acquired Tim savings shares on the stock exchange, have also received them before the opening of the extraordinary meeting of Tim ordinary shareholders; the status of Tim savings shareholder must be documented on the date of the extraordinary meeting of Tim ordinary shareholders and continue until the date on which the withdrawal rights are exercised.

The declaration of withdrawal must indentify the intermediary with whom the shares for which withdrawal rights are being exercised are deposited and a statement to the effect that they are free from pledges and other encumbrances in favor of third parties. Shareholders must also attach an appropriate certification, issued by an authorized intermediary pursuant to the provisions governing dematerialized financial instruments deposited with a central securities depository. If shareholders who have exercised their withdrawal rights by the fifteenth day from the Filing date are unable to attach such certification to the declaration of withdrawal, they must transmit it – by sending another registered letter to the above-mentioned Tim address – not later than the third working day subsequent to the fifteenth day from the Filing date.

If the Tim savings shares are pledged or encumbered in favor of third parties, withdrawing shareholders must accompany the declaration of withdrawal – under penalty of its invalidity – with a declaration from the pledgee or such other person in whose favour the shares are encumbered in which such persons give their irrevocable consent to Tim to pay for the shares for which withdrawal rights are exercised in accordance with the instructions of the withdrawing shareholders.

As provided for by Article 2437-*bis* of the Civil Code and the applicable regulations, when certifications are issued the shares in question will be blocked by the intermediary until the relevant savings shares are transferred according to the settlement procedures described hereinbelow, which will be performed at the latest by the effective date of the Merger.

Withdrawing Tim savings shareholders will be entitled to be paid for the shares for which withdrawal rights have been exercised from the effective date of the Merger; the redemption price is equal to €4.84 per share.

Tim will announce all the additional information necessary for the exercise of withdrawal rights in timely fashion through the publication of notices.

Procedures for the settlement of Tim savings shares for which withdrawal rights have been exercised

The payment procedure for the Tim shares for which withdrawal rights have been exercised will be effected, in accordance with Article 2437-*quater* of the Civil Code, by means of a rights offering of such shares to all Tim ordinary and savings shareholders, other than the withdrawing savings shareholders, in proportion to the shares they hold (the "**Offering**"). Tim shareholders who exercise their purchase rights, provided they make a contemporaneous application, will have the right of pre-emption for the purchase of Tim savings shares that have not been taken up at the closing of the Offering.

If the number of Tim savings shares for which purchase rights have not been exercised in the Offering is less than the number applied for by the Tim shareholders who have exercised pre-emption rights, the shares will be assigned to applicants on a pro rata basis.

Consistent with its interest in purchasing all of Tim's savings shares, as evidenced by the Tender Offer, Telecom Italia intends to exercise all its purchase rights and its pre-emption rights in respect of any shares not taken up in the Offering. Consequently, at the close of the Offering Tim savings shares that have not been taken up will not be placed on regulated securities exchanges pursuant to Article 2437-*quater*, fourth paragraph, of the Civil Code. Like the other Tim savings shares held by Telecom Italia, any savings shares purchased by Telecom Italia under the withdrawal procedure will be cancelled without exchange as a result of the Merger in accordance with Article 2504-*ter*, second paragraph, of the Civil Code.

Markets in which the Offering is made

The Offering will be made in Italy and will be addressed without distinction and at the same conditions to all Tim ordinary and savings shareholders, other than the Tim savings shareholders who have withdrawn, in proportion to the number of shares they hold.

The Tim savings shares that are the subject of the Offering (and the related purchase rights) have not been and are not intended to be registered under the US Securities Act of 1933, as amended, and may not be offered or sold into the United States of America except pursuant to an applicable exemption. The Tim savings shares that are the subject of the Offering (and the related purchase rights) are intended to be made available within the United States of America pursuant to an exemption from the registration requirements of the US Securities Act of 1933. The rights to purchase the Tim savings shares that are the subject of the Offering may not be transferred or sold by U.S. shareholders except in an "offshore transaction" pursuant to Regulation S under the US Securities Act of 1933.

The Offering will not constitute an offering of securities in any country (collectively the "**Other Countries**") in which the Offering is not permitted in the absence of a specific authorization in compliance with the provisions of applicable law or an exemption from such provisions.

Tim shareholders not resident in Italy or the United States may not be able to exercise the right to purchase the Tim shares that are the subject of the Offering nor be able to exercise the consequent pre-emption rights pursuant to the local law which may be applicable to them. Accordingly, Tim shareholders who intend to accept the Offering should obtain specific advice before taking any action. If Tim should find that the exercise of purchase rights for Tim savings shares by Tim savings shareholders who have not exercised their withdrawal rights may violate laws and/or regulations in the Other Countries, it reserves the right not to permit the exercise thereof.

Tim will announce all necessary information relevant to the Offering through the publication of notices in the international press too.

Offering period

Acceptance of the Offering will be permitted within a time limit of not less than 30 days from the date of the filing of the Offering with the Turin Company Register, which will be announced by means of a public notice.

Settlement price of the Tim savings shares for which withdrawal rights have been exercised

The settlement price of the shares to be redeemed to Tim savings shareholders who have exercised their withdrawal rights, equal to €4.84, has been determined pursuant to Article 2437-*ter* of the Civil Code with reference exclusively to the arithmetic mean of the closing prices in the six months preceding the date of publication of the notice calling the extraordinary meeting of Tim shareholders concerning the Merger.

Manner of accepting the Offering

Tim will announce the manner of accepting the Offering and any additional information regarding the same in the notice that will be filed with the Turin Company Register pursuant to Article 2437-*quater* of the Civil Code and through the publication of a suitable notice in at least one daily newspaper with national circulation and in he U.S. edition of the *Financial Times*.

Italian Tax regime

For Italian income tax purposes, pursuant to Article 47.7 of Presidential Decree 917/1986 (the "**Consolidated Income Tax Law**"), any difference between the amount payable to natural persons who exercise withdrawal rights and the subscription or purchase price paid by any such person for shares cancelled by the company constitutes taxable investment income. However, it should be noted that, according to an interpretation issued by the Italian tax authorities (Revenue Agency circular no. 26/E dated 16 June 2004) such rule applies only to withdrawals entailing the cancellation of shares. By contrast, an investor (including – where applicable – the investee company) who purchases shares for a consideration from withdrawing shareholders would not qualify for the same tax treatment. Therefore, it is clear that – in light of the withdrawal procedures available to Tim's savings shareholders – the gain accruing to persons intending to exercise their withdrawal rights would be considered as other income pursuant to Article 67 of the Consolidated Income Tax Law.

In particular, since these are savings shares, withdrawing shareholders will record a capital gain on the sale of a non-qualifying shareholding, pursuant to article 67.1, point c bis) of the Consolidated Income Tax Law, determined by the difference between the price received and the acquisition cost, inclusive of the tax paid at the time of purchase. If the price received is lower than the acquisition cost incurred, withdrawing shareholders will record a capital loss. Any such loss can be offset against any capital gain of the same nature in the same fiscal year and, pursuant to Article 68.5 of the Consolidated Income Tax Law, can be carried forward up to the fourth year therefrom. Capital gains, other than those deriving from the operation of commercial enterprises, by natural persons resident in Italy for tax purposes which result from a sale for a consideration of non-qualifying shareholdings, are subject to a flat-rate tax of 12.5% in lieu of income tax, pursuant to Article 5.2 of Legislative Decree 461/1997. In particular, investors may opt for one of the following regimes for the payment of such flat-rate tax:

(1) Income-tax-return regime (Article 5 of Legislative Decree 461/1997).

In this case, taxpayers are required to report and pay the tax and include all required information on their yearly income tax return. This is the default choice if the taxpayer does not opt for one of the regimes under (2) and (3) below.

(2) Segregated-accounts regime (Article 6 of Legislative Decree 461/1997).

If taxpayers opt for this regime, the tax is calculated and paid on every sale where a capital gain is recorded by the intermediary with which the shares are held in custody or deposited in a securities account.

(3) Asset-management regime (Article 7 of Legislative Decree 461/1997).

Taxpayers who opt for this regime must have an asset management account with a licensed financial intermediary. Under this regime, at the end of every fiscal year, the intermediary applies a 12.5% tax in lieu of income tax on the incremental value of the investment for the reporting period. Therefore, gains on the sale of non-qualifying shareholdings are not taxed individually, but are subject to the above-mentioned 12.5% tax to the extent that they contribute to the increase in the value of the assets under management during the fiscal year.

2.1.2(f) Amendments to the bylaws

Telecom Italia's bylaws will not be modified in connection with the Merger, apart from Article 5 concerning the company's share capital. This will be amended to take into account the increases in capital needed both for the issuance of new ordinary and savings shares to be assigned in the exchange to holders of Tim ordinary and savings shares, on the basis of the exchange ratios referred to in Section 2.1.2(c), and for the exercise of stock options under plans already approved by Tim.

The maximum increase in Telecom Italia's share capital for the purposes of the share exchange,

– considering the maximum amount by which Tim's existing share capital may be increased, among other things, as a consequence of the exercise of stock options granted and still valid, and
– on the basis of the exchange ratios indicated in Section 2.1.2(c),

will be €1,420,690,865.55, through the issuance of a maximum of 2,291,344,587 new Telecom Italia ordinary shares and a maximum of 291,729,714 new Telecom Italia savings shares, all with a par value of €0.55 per share. The maximum amount of the increase in Telecom Italia's share capital for purposes of the share exchange has been calculated without considering the Tim ordinary and savings shares held by Telecom Italia as a result of the Tender Offer or Tim's treasury shares, which will not be exchanged in the Merger.

Article 5 of Telecom Italia's bylaws will also be amended to take into account the increases in capital for Tim's stock option plans. Telecom Italia will take over these plans and issue a number of new ordinary shares for their implementation, adjusted on the basis of the exchange ratio adopted for the Merger, while the exercise price of each option will remain unchanged.

As a result, the owners of Tim stock options will have the right to purchase, at the predetermined price, not the original number of ordinary shares of Tim but the larger number of ordinary shares of Telecom Italia, as the company resulting from the Merger, determined on the basis of the exchange ratio of 1 to 1.73. The unit price of ordinary shares deriving from the exercise of stock options will therefore be that determined for each plan by dividing the original price by 1.73.

In more detail, Telecom Italia will approve an overall maximum increase in capital, divided into the following tranches:

a) an increase of up to €11,705,656.05 for the exercise of stock options granted by Tim under its "2000-2002 Stock Option Plans", to be implemented by 31 December 2008 through the issuance of up to 21,283,011 Telecom Italia ordinary shares with a par value of €0.55 per share, to be offered to the holders of the above-mentioned stock options on the basis of the exchange ratio adopted for Tim shareholders for purposes of the Merger at a price of €6.42 for each option held (i.e., €3.710983 for each newly issued share);

b) an increase of up to €1,132,285 for the exercise of stock options granted by Tim under its "2001-2003 Stock Option Plans", to be implemented by 31 December 2005 through the issuance of up to 2,058,700 Telecom Italia ordinary shares with a par value of €0.55 per share, to be offered to the holders of the above-mentioned stock options on the basis of the exchange ratio adopted for Tim shareholders for purposes of the Merger at a price of €8.671 for each option held (i.e., €5.012139 for each newly issued share);

c) an increase of up to €474,798.50 for the exercise of stock options granted by Tim under its "2001-2003 Supplementary Plans", to be implemented by 31 December 2005 through the issuance of up to 863,270 Telecom Italia ordinary shares with a par value of €0.55 per share, to be offered to the holders of the above-mentioned stock options on the basis of the exchange ratio adopted for Tim shareholders for purposes of the Merger at a price of €7.526 for each option held (i.e., €4.350289 for each newly issued share);

d) an increase of up to €22,150,920 for the exercise of stock options granted by Tim under its "2002-2003 Stock Option Plans", to be implemented by 31 December 2008 through the issuance of up to 40,274,400 Telecom Italia ordinary shares with a par value of €0.55 per share, to be offered to the holders of the above-mentioned stock options on the basis of the exchange ratio adopted for Tim shareholders for purposes of the Merger at a price of €5.67 for each option held (i.e., €3.277457 for each newly issued share);

e) an increase of up to €3,192,173.05 for the exercise of stock options granted by Tim under its "2003-2005 Stock Option Plans", to be implemented through the issuance of up to a total of 5,803,951 Telecom Italia ordinary shares with a par value of €0.55 per share, by 31 December 2008 for the first lot, by 31 December 2009 for the second lot and by 31 December 2010 for the third lot. The shares will be offered to the holders of the above-mentioned stock options on the basis of the exchange ratio adopted for Tim shareholders for purposes of the Merger at a price of €5.07 for each option held (i.e., €2.930636 for each newly issued share).

The amendments to the bylaws described above will come into force on the effective date of the Merger pursuant to Article 2504-*bis* of the Civil Code and as provided for in the merger plan, to which the new bylaws are attached (see Annex I attached herewith).

2.1.2(g) Date from which Tim's transactions will be attributed to Telecom Italia and recorded, for Italian tax purposes as well, in its accounts

Pursuant to Article 2504-*bis*, second paragraph, of the Civil Code, the Merger will be effective from the date of the last filing of the merger deed required by Article 2504 of the Civil Code, or from such later date as may be specified in the merger deed itself.

The Telecom Italia shares issued in the exchange will have normal entitlement to all the rights appertaining thereto and will therefore have equivalent rights to the Telecom Italia shares outstanding at the time of issuance.

For purposes of Telecom Italia's financial statements, in accordance with the combined effect of Articles 2504-*bis*, third paragraph, and 2501-*ter*, first paragraph, point 6, of the Civil Code, the transactions effected by Tim will be attributed to and recorded in Telecom Italia's accounts as of 1 January of the year in which the Merger becomes effective, or 1 January 2005, in accordance with the planned timetable for the Merger. The same date will apply to the tax effects, pursuant to Article 172.9 of the Consolidated Income Tax Law.

Accordingly, as of the effective date of the Merger, Telecom Italia will assume all of Tim's assets, rights and obligations, except for those of the Domestic Mobile Division transferred in the Spin-Off.

2.1.2(h) Italian tax effects

Tax neutrality

For income tax purposes, pursuant to Article 172.1 of the Consolidated Income Tax Law, the Merger is tax neutral and therefore does not constitute a realization or a distribution of capital gains and losses on the assets of the merged or incorporated companies, including inventories and goodwill.

Merger goodwill

Concerning the position of Telecom Italia, merger goodwill is not recognized as income for tax purposes, and thus there is no tax impact.

Tax-deferred reserves

The tax-deferred reserves reported in Tim's latest financial statements and existing at the effective date of the Merger will be treated in accordance with the specific provisions of Article 172.5 of the Consolidated Income Tax Law and, if appropriate, will be re-established.

Income taxes

On the effective date of the Merger, Telecom Italia will succeed to all of Tim's rights and obligations in relation to income taxes. In addition, since, for accounting purposes (with regard to the annual financial statements) and tax purposes, the effects of the Merger will be retroactive to 1 January of the year in which it becomes effective, there will be no separate tax period between the closing date of Tim's last fiscal year and the effective date of the Merger.

Registration fee

The merger deed is subject to a registration fee of €129.11, pursuant to Article 4.b) of the first part of the schedule attached to Presidential Decree No. 131 of 22 December 1986.

Italian tax effects on shareholders

Pursuant to Article 172 of the Consolidated Income Tax Law, the exchange of Tim shares for Telecom Italia shares does not constitute a realization or a distribution of capital gains or losses, or a source of income, as the transaction merely involves the replacement in shareholders' portfolios of Tim shares by Telecom Italia shares. Accordingly, the tax basis in the Tim shares will be transferred to the shares obtained in the exchange.

Shareholders resident in countries outside Italy are urged to consult their own tax advisors about the tax effects of the Merger in their own jurisdictions.

The Spin-Off

The Spin-Off prior to the Merger, whereby Tim transferred the Domestic Mobile Division to Tim Italia (see Section 2.1(c)), is tax neutral and, as such, it will not give rise to taxable capital gains or tax-deductible capital losses.

2.1.3 Expected major shareholdings and control of the post-Merger Telecom Italia

At 16 March 2005, the shareholders of Telecom Italia with an interest in that company's ordinary share capital of more than 2% on the basis of the shareholder register and the disclosures of major shareholdings pursuant to Article 120 of the Consolidated Law were as follows:

Shareholders	Type of holding	Number of ordinary shares held	% of the ordinary share capital
Olimpia S.p.A..	Direct	2,407,345,359	21.80
Brandes Investment Partners LLC	Fund[(a)]	372,896,243	3.38
Assicurazioni Generali S.p.A.	Direct and indirect[(b)]	363,640,564	3.29
Hopa S.p.A.	Direct and indirect[(c)]	361,364,703	3.27
JP Morgan Chase and Co.	Direct[(d)]	249,411,198	2.26

(a) Disclosure pursuant to Article 121.3 of the Consob Regulation.

(b) The list of companies through which the shares are held is available on the Internet at www.consob.it.

(c) Shares held through the subsidiary company Holinvest S.p.A.

(d) Of which 72,894,581 held as temporary purchaser/borrower.

As things stand, Telecom Italia is not subject to the control of any person within the meaning of Article 93 of the Consolidated Law. As a consequence of the provision in Telecom Italia's bylaws requiring the slate voting system to be used for the election of the Board of Directors, in the shareholders' meeting of 6 May 2004 Olimpia, with a holding at the time of approximately 17%, determined the election of 15 of the 19 incumbent directors (10 of whom qualify as independent) since it was found to own a little more than half (51%) of the capital represented in the meeting.

The following table summarizes the expected composition of Telecom Italia shareholders with holdings in excess of 2% of the ordinary share capital, assuming (i) that no Telecom Italia or Tim stock options are exercised and that no Telecom Italia convertible bonds are converted subsequent to the former becoming exercisable again and the latter becoming convertible again, between the ex dividend date and the effective date of the Merger, and (ii) that Telecom Italia's interest in Tim's capital does not change and remains equal to 7,232,583,124 ordinary shares.

The table is based exclusively on information in the Telecom Italia shareholder register or disclosed by shareholders pursuant to Article 120 of the Consolidated Law.

Shareholders	Number of ordinary shares held	% of the ordinary share capital
Olimpia S.p.A..	2,407,345,359	18.25
Brandes Investment Partners LLC	372,896,243	2.83
Assicurazioni Generali S.p.A.	363,640,564	2.76
Hopa S.p.A.	361,364,703	2.74

Upon completion of the Merger, no shareholder is expected to control Telecom Italia within the meaning of Article 93 of the Consolidated Law.

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

Notices have been published in the Italian press containing extracts of the following agreements:

- agreement between Pirelli S.p.A. (now Pirelli & C. S.p.A.) and Edizione Holding S.p.A. – Edizione Finance International S.A., executed on 7 August 2001 and subsequently amended;
- agreement between Pirelli S.p.A. (now Pirelli & C. S.p.A), UniCredito Italiano S.p.A. and Intesa BCI S.p.A (now Banca Intesa S.p.A.), executed on 14 September and subsequently amended;
- agreement between Pirelli S.p.A. (now Pirelli & C. S.p.A.), Edizione Finance International S.A./ Edizione Holding S.p.A., Banca Intesa S.p.A., UniCredito Italiano S.p.A., Olimpia S.p.A. and Hopa S.p.A., executed on 2 February 2003 and subsequently amended.

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

The extracts of these shareholders' agreements are available on Consob's website (www.consob.it) and are attached herewith (see Annex XVII).

2.2 Reasons for and purposes of the transaction

2.2.1 Reasons for and purposes of the transaction with specific regard to operating objectives

The Merger, together with the associated Tender Offer and Spin-Off, is intended to satisfy a series of business needs, prompted by the progressive convergence between fixed and mobile telecommunications platforms. The incorporation of Tim into Telecom Italia is intended to promote the creation of a business model and organizational strategy appropriate to expected market developments and the defense of the creation of value.

To capture the benefits made available by the integration of platforms and services, at a time of significant technological discontinuity, it is desirable to undertake a corporate structural reorganization that will permit the unitary governance of business processes that a situation of partial control does not fully allow. In fact, the "strong" path of corporate integration by means of the Merger will make it possible to overcome the constraints inherent in the existing ownership structure, notwithstanding the scope for coordination typical of a group structure. That structure is conditioned by the existence of two sets of shareholders in the market, whose interests have to be pursued separately as regards strategic investments and business plans. Only complete integration can overcome these limitations, by eliminating conflicts and simultaneously promoting the most efficient distribution of costs and benefits between the parent company and the subsidiary.

The changes under way in the market pose new challenges for the Telecom Italia Group, but they also offer new opportunities if they are appropriately faced.

The demand for telecommunications services is growing, driven by the spread of broadband in wireline business and by the new services supplied in the mobile segment. In particular:

- communications on fixed networks have enriched the supply of traditional "voice" and "data" services by adding innovative services (e.g., supply of paid contents) made possible by XDSL technology and fiber optics;
- communications on the new-generation mobile networks (GPRS, EDGE and UMTS) now afford mobility not only for voice services but also for data, Internet and media services.

Alongside these recent developments, additional elements of discontinuity in technology and the market are leading towards a progressive attenuation of the traditional distinctions between the different business areas.

Some trends in technologies are facilitating interaction between the different networks (fixed and mobile, voice and data) and between the supply of telecommunications services and that of adjacent sectors, such as information technology, media and consumer electronics, offering operators the opportunity to develop new services and make the technical management and development of network infrastructures more efficient.

In particular, the convergence between fixed and mobile is generated by:

- the spread of the IP protocol for the transport of voice, data and video on fixed and mobile networks;
- the creation of the Unlicensed Mobile Access standard (UMA) for seamless access from mobile terminals via both cellular networks and wireless fixed networks based on IP;
- the use of the Session Initiation Protocol (SIP) for the provision of multimedia content equally on fixed and mobile networks;
- the unification of the control platform for interactive multimedia services;
- the availability of new broadband technologies for wireless access to fixed networks (Wi-Fi, WiMax); and
- the spread of advanced multi-standard terminals (PSTN/Wi-Fi/GSM/UMTS) for seamless access to fixed and mobile services.

On the demand side, customers increasingly feel the need to use the services made possible by the new technologies seamlessly, regardless of where they are. In particular, business customers require solutions for access to their own intranet and to corporate applications with the fixed or mobile network available at any given moment, and consumers are interested in the creation of multimedia portals with access from both fixed and mobile networks to enjoy digital content (music, film, etc.).

The developments described above will radically change the business models in the information and communication technology market. Accordingly, the leading players will need to alter the organizational and operating structure of the different business areas in order to take advantage of the opportunities offered, with a view to counterbalancing the effects of the saturation of demand for traditional telephone services and the related erosion of prices and margins.

The leading operators in the Italian and European telecommunications market are preparing to respond to the latest technological and market developments on three main fronts:

– better coordination and distribution of customer relations between the various segments (integration of sales channels and responsibilities for specific segments, brand management);
– strengthening of certain critical functions for comparative advantage (IT and network technological choices; management of research; procurement; content acquisition and management; and coordination of supply policies); and
– programs to recoup efficiency by exploiting synergies across the different business areas (common management of IT and network infrastructures, convergent evolution of applications platforms, and common content acquisition and management).

In this setting, the Telecom Italia Group already ranks in the top tier among European competitors in all business areas in terms of growth, profitability and product innovation. This is the result of the substantial investments made in technological innovation, which today provide the Group with a network infrastructure considered future-proof, ready to host and handle the portfolio of new generation products and services.

As mentioned above, however, the evolution of the market and the defense of the creation of value also require an adaptation of current business models and organizational strategies, an objective that the merger between Tim and Telecom Italia is intended to promote.

In particular, from a business perspective, it will be possible to anticipate the roadmap for the launch of new services, due to the integrated management of the introduction of innovative network technologies and architectures, and at the same time to improve efficiency in the operation of the fixed and mobile network business areas, above all through the coordination of common processes in the management and development of the networks and IT platforms.

The following additional advantages will also be pursued through the Merger:

– to optimize financial and cash flows within the Group by managing Group debt more efficiently and making better use of financial leverage. At the same time, Telecom Italia's current shareholders will have access to all the cash flow generated by the mobile communications business;
– to enable Telecom Italia to optimize, in conjunction with the Tender Offer, its own financial structure and to reduce the weighted average cost of capital employed compared with its current cost. In fact,

from a financial perspective, the equity that is not issued will in effect be replaced, as a result of the settlement of the obligations arising from the Tender Offer, by an increase in Telecom Italia's net debt. The cost of this new debt – in terms of after-tax net financial expense – is lower than the cost – in terms of the expected dividends – which would have been incurred on the equity that would otherwise have been issued in exchange for the Tim shares purchased in the Tender Offer. The consequent reduction in the weighted average cost of capital will foster the realization of the full value potential of the post-Merger Telecom Italia's shares and thus the creation of value for shareholders.

2.2.2 Plans prepared by the companies participating in the Merger with regard to the business prospects and possible restructuring and/or reorganization

As mentioned above, the Merger serves to promote the adaptation of the Group's business models and organizational strategy to the evolution of the market and the defense of the creation of value for shareholders.

Working Groups have been formed to ensure effective governance of the evolution of the post-Merger business and organizational structure. Their objective is to identify specific areas offering scope for efficiency gains in activities, processes and products in the fixed and mobile sectors, to draw up an action plan and to prepare estimates of the economic and financial benefits in the three years 2005-07 and beyond.

The activity of the Working Groups is coordinated by the "Telecom 2007" Steering Committee, in which the Group's top management participates. The Committee provides guidance and control over the development of the overall plan by ensuring the observance of specific responsibilities.

The operational and organizational restructuring will be based on three guidelines: a market plan aimed at increasing the effectiveness of customer relations; an efficiency plan for the rationalization of internal and external structures; and an organizational development plan.

The actions primarily relate to the following business areas:

– Networks and Information Technology;
– Customer Operations;
– Supply of Innovative Services and Sales Channels; and
– Procurement.

In general, the measures, evaluated and implemented in compliance with applicable sector and antitrust legislation, will make it possible to:

a. accelerate the adoption of innovative network technologies and architectures for the provision of convergent services;
b. develop single platforms for fixed and mobile networks for the supply of multimedia content and value-added services;
c. integrate network elements and IT infrastructures that are currently separate and achieve unitary management of the future development of fixed and mobile network infrastructures, software platforms for the management of network functions, and software architectures and applications for the management of the business;
d. reduce reliance on outsourcers in some areas of the technical management of networks and IT platforms;
e. offer convergent innovative services; and
f. exploit the scope for efficiency gains in logistics and facility management through integrated management of the related processes.

In detail, the main projects under consideration are as follows:

Networks and Information Technology

Common management of network engineering and of the operation and maintenance of the technical platforms will make it possible to accelerate the pace of innovation and render the whole infrastructure more efficient. The solutions identified are critical to the expansion of the products portfolio with the focus on convergent services and applications made possible by broadband and to increase the profitability of the different business areas through an improvement of the cost structure in the creation and supply of services.

The main actions identified in this area relate to:

- the planning of the Next Generation Network, a single IP transport network capable of providing voice, data and multimedia content services in transparent fashion with respect to the fixed and mobile access networks, which will nonetheless remain separate;
- the creation of joint fixed and mobile platforms for the provision of value-added services and multimedia content;
- the joint development, operation and maintenance of network information systems;
- the internalization of part of the network technical maintenance and operating activities now being outsourced;
- the development of a roadmap for the evolution towards multistandard WiFi/mobile terminals; and
- the integration of IT infrastructures (consolidation and specialization of the Group Data Centers, creation of a Group-wide platform for the management of digital content, integration of Group company data networks, integration of desktop management services, integration of centers for the management of security on Group data networks and for the market).

Customer Operations

Customer care and the management of software platforms supporting the business will benefit from the scope for rationalizing processes common to fixed and mobile activities.

The main actions identified in this area relate to:

- the creation of integrated architectures and platforms for IT applications used in the management of the business (e.g., billing, credit management and customer management) and, consequently, their evolution over time according to a common roadmap;
- efficiency gains in back-office activities and customer care;
- efficiency gains in the supply of customer information services based on directories (directories of subscribers, restaurants, hotels, etc); and
- increases in customer care efficiency and service levels by adoption of the best practices developed in Telecom Italia and Tim.

Supply of Innovative Services and Sales Channels

Efficiency gains are expected in the development of value-added services – core voice services are not involved – and in the distribution channels. In particular, a new product line is being studied that brings together contents and services for use in a way that is simple, uniform and independent of the terminal and access network.

The main actions identified in this area relate to:

- the development of homogeneous value-added services for the consumer market (e.g., seamless access to mail, interoperability of fixed and mobile services, and standardization of mimicking) and for the business market (e.g., mobile use of corporate applications by means of an extended enterprise model);
- the development of a multimedia portal accessible from fixed and mobile network terminals and enhancement of Group contents and brands; and
- the adoption of commercial best practices developed within the business units and rationalization of the activities in support of sales, while keeping fixed and mobile network offers separate, in order to increase the effectiveness of sales channels and their efficiency where they overlap.

Procurement

The Telecom Italia Group centralized the management of procurement processes some time ago. The Merger will make it possible to realize further improvements in the cost structure through more efficient and effective supervision of logistics and internal services.

The main actions identified in this area relate to:

- the optimization of distribution logistics for commercial products by integrating the management of supplies, infrastructures and physical flows, and the maintenance and repair of equipment and terminals;
- the exploitation of synergies between network operating structures and the evaluation of make-or-buy options;
- the elimination of duplication and the harmonization of service standards in Facility Management and General Services; and
- the extension to foreign affiliates of best practices in product logistics, network activities and internal services.

* * *

The above-mentioned projects will give rise in the three years 2005-07 to significant economic and financial benefits, which are expected to be disclosed to the market on the day when Telecom Italia extraordinary shareholders' meeting takes place. Subsequently, on 8 April 2005 they will be presented to the financial community, together with the three-year objectives for revenues, operating results and total cash flow generation.

The Telecom Italia Steering Committee will monitor the progress of the operational and organizational reorganization, checking the operational results and economic impacts against the plans and forecasts, and will assist in the identification of new areas for integration and the creation of value.

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

This Information Document and the documents referred to in Article 2501-*septies*, first paragraph, points 1), 2) and 3), of the Civil Code and Article 70.1 of the Consob Regulation have been made available to the public. They can be consulted by anyone who applies: at Telecom Italia's registered office at 2 Piazza degli Affari, Milan; at Tim's registered office at 6 Via Cavalli, Turin, and at the latter's corporate headquarters at 152 Via Pietro De Francisci, Rome; and at Borsa Italiana's registered office. English translations of the above-mentioned documents are also available at the office of Telecom Italia North America Inc., 745 Fifth Avenue, New York, NY 10151. The appraisal report prepared in connection with the Spin-Off pursuant to Article 2343 of the Civil Code is also available at the Tim offices referred to above.

This Information Document and the documents filed pursuant to Article 2501-*septies*, first paragraph, points 1), 2) and 3), of the Civil Code have also been posted on the websites of Telecom Italia and Tim, at respectively www.telecomitalia.it and www.investor.tim.it.

3. SIGNIFICANT EFFECTS OF THE TRANSACTION

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

The Merger will not lead to changes in the types of business engaged in. It is intended to satisfy a series of business needs prompted by the progressive convergence between fixed and mobile telecommunications platforms. The incorporation of Tim into Telecom Italia is intended to promote the creation of a business model and organizational strategy appropriate to expected market developments and the defense of the creation of value. For more information, see Section 2.2.

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

The Merger will not lead to significant changes in the business and financial dealings between companies belonging to the group headed by the post-Merger Telecom Italia or in the centralized supply of services

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4. TIM'S OPERATING, FINANCIAL AND CASH FLOW DATA

4.1 Comparative tables of the TIM Group's reclassified consolidated income statements and balance sheets for financial years 2004 and 2003 with explanatory notes

A comparison of the TIM Group's reclassified consolidated income statements and balance sheets for financial years 2003 and 2004 is provided below, together with explanatory notes.

4.1.1 TIM Group's reclassified consolidated income statements and balance sheets for financial years 2004 and 2003 with explanatory notes

Consolidated income statement (millions of euro)	**2004**	**2003**
A. Sales and service revenues	**12,900**	**11,782**
Increases in capitalized internal construction costs	43	2
B. Standard Production Value	**12,943**	**11,784**
Raw materials and outside services(*)	(6,228)	(5,660)
C. Value added	**6,715**	**6,124**
Labour costs(*)	(663)	(622)
D. Gross operating profit	**6,052**	**5,502**
Amortization of other intangibles and depreciation of fixed assets	(1,716)	(1,443)
Other valuations adjustments	(68)	(138)
Provision to reserve for risks and charges	(15)	(21)
Net other income (expense)	(87)	(15)
E. Operating income before amortization of differences on consolidation	**4,166**	**3,885**
Amortization of differences on consolidation	(93)	(99)
F. Operating income	**4,073**	**3,786**
Net financial income (expenses)(**)	(11)	8
Net investment income (expenses)	(1)	(4)
G. Income before extraordinary items and income taxes	**4,061**	**3,790**
Net extraordinary income (expenses)	241	417
H. Income before income taxes	**4,302**	**4,207**
Income taxes	(1,856)	(1,751)
I. Net income before minority interest	**2,446**	**2,456**
Minority interest	(93)	(114)
L. Net income (parent company's interest)	**2,353**	**2,342**

(*) Reduced by related cost recoveries.

(**) Includes value adjustments to financial assets other than equity investments.

Notes to the reclassified consolidated income statements for financial years 2004 and 2003

RESULTS OF OPERATIONS

The consolidated net income of the Tim Group for 2004 was €2,446 million, of which €93 million was attributable to minority interests, resulting in net income of €2,353 million.

In 2003 the Tim Group had net income before minority interest of €2,456 million, of which €114 million was attributable to minority interests.

Net income for 2003 reflected the combined effects of the reversal of the liabilities and reserves established for the telecommunication license fee of €543 million and writedowns and provisions of €191 million in relation to Digitel, resulting in a positive after-tax contribution of €348 million.

Excluding extraordinary items, as described in the notes to the balance of extraordinary income and expense, and the related tax effect (for a total of €62 million), net income before minority interest for 2004 amounted to €2,237 million (€2,144 million after minority interest).

Excluding extraordinary items, net income before and after minority interests for the period increased by 6.1% and 7.5%, respectively.

More specifically:

Sales and service revenues for 2004 amounted to €12,900 million, an increase of 9.5% from the comparable figure for 2003 (€11,782 million). Excluding the negative effect of changes in the exchange rates on Latin American subsidiaries, organic growth would have been 10.9%.

International activities contributed €2,995 million, a 27.4% increase due mainly to the performance of TIM Brasil, which had consolidated revenues of €1,818 million, an increase of 43% compared to 2003 (49.9% at constant exchange rates).

Gross operating profit for 2004 amounted to €6,052 million (€5,502 in 2003), a 10% increase over the comparable figure for the preceding year. Excluding the effect of changes in the exchange rates, gross operating profit rose by 10.7%. Such growth was due both to the positive performance of existing activities and to the progressive reduction of the negative impact of start-up costs of the GSM service in Brazil.

Gross operating margin was 46.9% in 2004 (46.7% in 2003).

More specifically, gross operating profit was affected by:

- the cost of raw materials and outside services, amounting to €6,228 million, an increase of €568 million (or 10%) from the comparable figure for 2003. This increase was mainly due to the start-up of the GSM service in Brazil and the higher costs associated with growing business volumes. Raw materials and outside services amounted to 48.3% of total revenues in 2004 (48% in 2003);
- labor costs, totaling €663 million, increased by €41 million, or 6.6%, compared with the previous year. This item amounted to 5.1% of revenues in 2004, compared with 5.3% in 2003. At 31 December 2004, staff numbered 20,361 (18,888 at 31 December 2003).

Amortization and depreciation for 2004 amounted to €1,809 million (€1,542 million in 2003), as shown in the table below:

(millions of euro)	**2004**	**2003**	**Change in absolute terms**
Intangible assets	847	596	251
of which goodwill arising on consolidation differences	*93*	*99*	*(6)*
Fixed assets	962	946	16
Total amortization and depreciation	**1,809**	**1,542**	**267**

In January 2004 Tim S.p.A. began amortizing its UMTS license (included in intangible assets), previously amortized only for tax purposes in Telecom Italia's financial statements. Amortization for the year amounted to €134 million.

Writedowns in financial year 2004 amounted to €68 million and mainly related to adjustments to bring accounts receivable into line with their expected realizable value. In particular, they referred to:

- TIM S.p.A. (€42 million);
- TIM Brasil Group (€19 million);
- TIM Hellas (€5 million);
- TIM Perù (€1 million).

Provisions added to the reserves for risks and charges amounted to €15 million in 2004, a decrease of €6 million compared to the previous year. They referred mainly to €7 million set aside by TIM Hellas, €5 million by the TIM Brasil Group and €3 million by TIM S.p.A.

Other expense exceeded other income by €87 million in 2004 (€15 million in 2003). This change was due mainly to an increase of €40 million in receivables written off by the Brazilian subsidiaries TIM Participaçoes, TIM Celular and Maxitel, as a result of refining and standardizing the accounting treatment of the allowances for bad debts and of the payment of higher indirect taxes (up €20 million), particularly by the TIM Brasil Group.

Operating income for 2004 amounted to €4,073 million (€3,786 million in 2003), a 7.6% increase. The organic growth rate compared with 2003 was 7.5%.

The operating margin was 31.6% in 2004 (32.1% in the previous year), reflecting, in addition to the impact of the amortization of the UMTS license of €134 million, or 1% of revenues, the inherent increase in depreciation associated with the development of technical and service infrastructures, particularly the GSM network in Brazil.

The table below shows the details of financial and investment income and expense:

(millions of euro)	**2004**	**2003**	**Change in absolute terms**
Financial income	196	290	(94)
Financial expense	(207)	(282)	75
Investment income (expense), net	(1)	(4)	3
Total	**(12)**	**4**	**(16)**

The deterioration of the balance of financial income and expense reflected mainly the impact of the time lag between the effect of inflation accounting and the exchange rate differences recorded by Digitel, partially offset by the improvement in TIM S.p.A.'s investment income.

Financial income decreased principally as a result of Digitel's decrease in revenue attributable to exchange rate differences (down €35 million), reduced interest income (down €31 million), and lower income on foreign exchange transactions (down €7 million) and hedging contracts (down €4 million).

Financial expense decreased mainly due to lower expenses on hedging contracts (down €39 million) and lower interest expenses (down €52 million), partially offset by an increase in foreign exchange expenses (up €31 million).

Income before extraordinary items and taxes amounted to €4,061 million in 2004 (€3,790 million in 2003), an increase of 7.2%.

Extraordinary income exceeded extraordinary expense by €241 million in 2004. This amount included extraordinary income related mainly to the release of the reserve for risk and charges established for the Brazilian subsidiary TIM Celular (€109 million) and to the repayment to TIM S.p.A. of the first annual instalment (paid in 2000) of the telecommunication contribution (under Article 20 of Law 448/1998) plus legal interest accrued thereon (€210 million). On the other hand, Tim S.p.A. incurred extraordinary expenses of €41 million (including €23 million related to corporate reorganization and €18 million for restructuring costs) and wrote off €7 million of Blah!'s goodwill in light of this company's downsizing. Other extraordinary expenses for the Group amounted to €30 million.

The €176 million decrease from the previous year's positive balance of €417 million was due mainly to last year's reversal of the liability and reserves established for the telecommunication contribution in 2000-2002 and reported at year-end 2002 (€543 million), which was partly offset by the €191 million in writedowns and provisions in relation to Digitel.

Income taxes for 2004, amounting to €1,856 million, increased by €105 million compared to 2003, mainly as a result of TIM S.p.A.'s higher taxable income.

4.1.2 TIM Group's reclassified consolidated financial statements at 31 December 2004 and 2003 with explanatory notes

Consolidated balance sheet *(millions of euro)*	**At 31 December 2004**	**At 31 December 2003**
A. Intangibles, fixed assets and long-term investments	**9,862**	**9,276**
Intangible assets		
- differences on consolidation	671	734
- other intangible assets	4,785	4,516
Fixed assets	4,354	3,908
Long-term investments:		
- equity investments and advances on future capital contributions	11	12
- other	41	106
B. Working capital	**(1,932)**	**(2,407)**
Inventories	89	97
Trade accounts receivable, net	1,941	1,731
Other assets	1,352	758
Trade accounts payable	(3,734)	(2,713)
Other liabilities	(1,332)	(1,941)
Reserve for employee termination indemnities and pensions and similar obligations	(111)	(95)
Deferred tax assets, net of the reserve for income taxes	587	1,020
Other reserves for risks and charges	(718)	(1,256)
Capital and/or investment grants	(6)	(8)
C. Net invested capital (A+B)	**7,930**	**6,869**
Financed by:		
D. Shareholders' equity:	**8,247**	**7,803**
• Parent company's interest	7,660	7,295
• Minority interests	587	508
E. Medium/long-term debt	**385**	**585**
F. Net short-term financial borrowings (liquidity)	**(702)**	**(1,519)**
Short-term borrowings	259	257
Liquid assets and short-term financial receivables	(974)	(1,778)
Financial accrued expenses (income), prepaid expenses and deferred income, net	13	2
Total net financial debt (liquidity) (E+F)	**(317)**	**(934)**
G. Total net financing (D+E+F)=C	**7,930**	**6,869**

Explanatory notes to the TIM Group's reclassified consolidated balance sheets at 31 December 2004 and 2003

FINANCIAL STRUCTURE AND CASH FLOW

Intangibles, fixed assets and long-term investments at year-end 2004, amounting to €9,862 million, increased by €586 million compared to year-end 2003.

Details are as follows:

- Intangible assets amounted to €5,456 million at year-end 2004 (€5,250 million at 31 December 2003). The increase was due mainly to investments totaling €964 million, amortization of €847 million and €10 million of translation differences determined by adverse changes in exchange rates.
- Fixed assets totaled €4,354 million at year-end 2004 (€3,908 million at 31 December 2003). The increase was due principally to investments totaling €1,621 million, amortization totaling €962 million and the negative effect of translation differences amounting to €15 million;
- Long-term investments amounted to €52 million at year-end 2004 (€118 million at 31 December 2003). The reduction was due mainly to the repayment of part of the financial receivable from Telecom Italia Finance. As described more extensively in the notes to the Group's financial statements, the carrying value of the equity investment in Avea (formerly TT&TIM) has been written off, while the receivable

from Is-TIM, which had also been written off, have been converted into shares of Is-TIM as part of the merger with Aycell. Furthermore, at 31 December 2004, the book value of the equity investment in Avea was kept at zero since, in the case of non-cash contributions to a joint venture, International Accounting Standards (IAS 31 and its interpretations) require transactions to be reported at pre-existing book values.

Investments totaled €2,602 million in 2004 (€2,017 million in 2003). The table below provides a breakdown:

(millions of euro)	2004	2003	Change in absolute terms
Industrial investments	2,490	1,957	533
Differences on consolidation	95	7	88
Financial investments	17	53	(36)
Total investments	**2,602**	**2,017**	**585**

In 2004, industrial investments focused on the technology necessary to expand the network and to develop platforms to support the offering of innovative services, mainly in Italy (€1,469 million) and Brazil (€819 million, in particular for the rollout of the GSM network).

Working capital was a negative €1,932 million (compared with a negative €2,407 million at 31 December 2003).

The €475 million improvement from a year earlier was mainly due to the following:

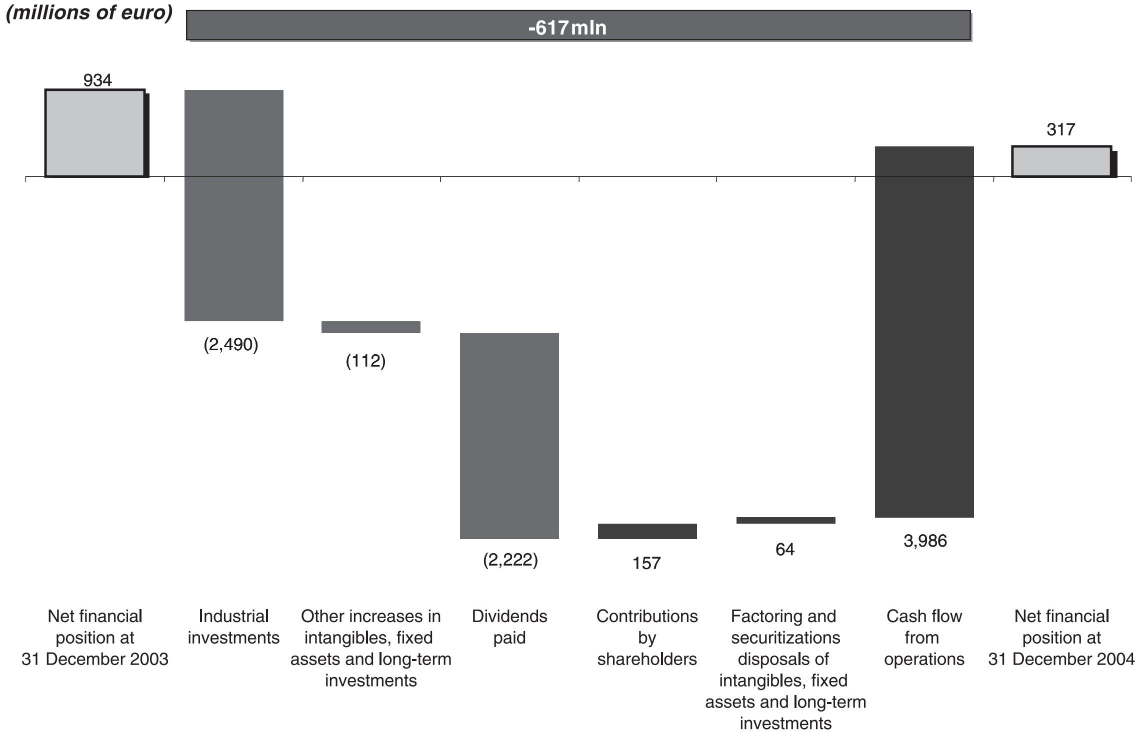
- the increase of €210 million in accounts receivable, which was attributable mainly to the companies of the TIM Brasil Group (TIM Celular €99 million, TIM Participaçoes €47 million, Maxitel €20 million), to Tim S.p.A. (€30 million) and to TIM Hellas (€12 million), primarily as a result of the launch of new services and higher revenues, particularly in Brazil;
- the increase of €1,021 million in trade accounts payable, from €2,713 million at the end of 2003 to €3,734 million at the end of 2004, which was attributable mainly to Tim S.p.A. (€602 million) and the TIM Brasil Group (€427 million);
- the decrease of €609 million in other liabilities, attributable mainly to Tim S.p.A.;
- the decrease of €433 million in deferred tax assets, net of the reserve for income taxes, attributable to Tim S.p.A.;
- the decrease of €538 million in the reserve for risks and charges, attributable mainly to Tim S.p.A. (€316 million) as a result of the use of the reserve for technological upgrading, to Tim International (€83 million) and to the release of the reserve for risks established for the Brazilian subsidiary TIM Celular (€109 million).

Shareholders' equity amounted to €8,247 million at year-end 2004 (€7,803 million at year-end 2003), of which €7,660 million was attributable to Tim (€7,295 million at 31 December 2003) and €587 million to minority interests (€508 million at 31 December 2003).

(millions of euro)	**2004**	**2003**
At beginning of year	**7,803**	**5,779**
Net income attributable to the parent company and minority interests	2,446	2,456
Dividends and reserves distributed to minority interests paid by:	(2,222)	(429)
Tim S.p.A.	*(2,200)*	*(410)*
Other (Tele Nordeste Celular, Tele Celular Sul, TIM Hellas)	*(22)*	*(19)*
Shareholders' contributions	157	0
Net translation adjustments and other changes	63	(3)
At end of year	**8,247**	**7,803**

The increase in shareholders' equity, net of dividend payments amounting to €2,222 million, was due mainly to the net income for 2004 and the management's subscription of new shares under stock option plans.

At 31 December 2004, the Tim Group had a positive financial position of €317 million. This represented a decrease of €617 million compared to 31 December 2003, primarily due to the impact of the dividend payments, which were partially compensated by the significant cash flows for the year.



The table below summarizes the composition of gross financial debt (which does not include short-term financial accruals, prepayments and deferrals of €13 million):

	At 31.12.2004						At 31.12.2003	
(millions of euro)	**Euro**	**%**	**Foreign currency**	**%**	**Total**	**%**	**Total**	**%**
Medium/long-term debt	194	82	191	47	385	60	585	69
Short-term financial borrowings	42	18	217	53	259	40	257	31
Total	**236**	**100**	**408**	**100**	**644**	**100**	**842**	**100**

4.1.3 Tim Group's cash flow for financial years 2004 and 2003 and net financial position at 31 December 2004 and 2003

Consolidated statement of cash flow *(millions of euro)*		**2004**	**2003**
A. Net financial debt (liquidity), at beginning of year		**934**	**(1,922)**
Operating income		4,073	3,786
Depreciation of fixed assets and amortization of intangible assets		1,809	1,542
Investments in fixed assets and intangible assets		(2,490)	(1,957)
Proceeds from disposal of intangible assets and fixed assets		8	6
Change in operating working capital and other changes		574	369
B. Free cash flow from operations		**3,974**	**3,746**
Investments in long-term investments and differences on consolidation		(112)	(60)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments		64	58
Change in non-operating working capital and other changes		(2,478)	(459)
C.		**(2,526)**	**(461)**
D. Net cash flows before distribution of income/reserves and contributions by shareholders	**(B+C)**	**1,448**	**3,285**
E. Distribution of income/reserves		**(2,222)**	**(429)**
F. Contributions by shareholders		**157**	**—**
G. Net change in net financial debt	**(D+E+F)**	**(617)**	**2,856**
H. Net financial debt (liquidity) at end of year	**(A+G)**	**317**	**934**

Free cash flow from operations amounted to €3,974 million in 2004, an increase of €228 million from 2003 (€3,746 million). It was equal to 30.8% of revenues.

4.2 Auditors' opinion on the consolidated financial statements for 2004 and 2003

The comparative data shown in the tables in Section 4.1 of this Information Document have been derived from the Tim Group's consolidated financial statements for the years ended 31 December 2004 and 31 December 2003, which were audited by Reconta Ernst & Young S.p.A.

Reconta Ernst & Young S.p.A. rendered an unqualified opinion on the Tim Group's consolidated financial statements for the years ended 31 December 2004 and 31 December 2003.

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5. PRO FORMA FINANCIAL DATA OF THE ABSORBING COMPANY

Introduction

This Section contains the pro forma consolidated reclassified financial data as of and for the year ended 31 December 2004 of the Absorbing Company which give retroactive effect to the Merger described in the merger plan approved by the Boards of Directors of Tim and Telecom Italia on 23 January 2005, reported in summary in Section 2 and attached to this Information Document as Annex I.

The pro forma consolidated reclassified financial data as of and for the year ended 31 December 2004 were prepared by making appropriate pro forma adjustments to the historical consolidated financial statements of Telecom Italia, to give effect to the Merger transaction, as outlined below.

The consolidated financial statements of Telecom Italia as of and for the year ended 31 December 2004 and the consolidated financial statements of Tim as of and for the year ended 31 December 2004 were audited by Reconta Ernst & Young S.p.A., which issued its audit reports on 16 March 2005.

The pro forma consolidated reclassified financial data follow the schemes adopted by Telecom Italia and Tim for the presentations of their consolidated financial data.

The pro forma consolidated reclassified financial data have been obtained on the basis of:

i. the historical consolidated financial data of Telecom Italia which include also the historical consolidated financial data of Tim;

ii. the pro forma adjustments reflecting the Tender Offer, the Merger and the related transactions envisaged to complete the Merger.

The pro forma consolidated reclassified financial data were prepared by making appropriate pro forma adjustments to the historical consolidated financial data, to give retroactive effect to the significant aspects of the Merger transaction. In detail, in accordance with Consob Communication No. DEM/1052803 of 5 July 2001, the effects of the Merger have been shown retroactively in the pro forma consolidated balance sheet as if the Merger had taken place on 31 December 2004 and in the pro forma consolidated income statement as if it had taken place on 1 January 2004.

The pro forma adjustments made to the consolidated historical financial statements and the scope and assumptions upon which they are based are described in detail in this Section, in paragraphs 5.1.1, 5.1.2 and 5.1.3.

With respect to the accounting policies adopted by Telecom Italia and Tim in preparing their historical consolidated financial statements, reference is made to the notes to the respective consolidated financial statements as of and for the year ended 31 December 2004. It should be noted that such financial statements are prepared in accordance with Legislative Decree 9 April 1991, No. 127 which introduced in Italy the VII EEC Directive with respect to the consolidated financial statements and in accordance with the rules of the Civil Code for the preparation of statutory financial statements, modified by Legislative Decree 17 January 2003, No. 6 and subsequent amendments, where applicable for analogy or specifically related to the consolidated financial statements ("Italian GAAP"), which differ from the international accounting principles IAS/IFRS.

Telecom Italia will prepare its consolidated financial statements as of and for the year ending 31 December 2005 in accordance with IAS/IFRS. At completion of the Merger, such transaction will then be accounted for, in the consolidated financial statements as of and for the year ending 31 December 2005, in accordance with the international accounting principles, as described in Section 2.

Reconta Ernst & Young S.p.A. examined the pro forma consolidated reclassified financial data as of and for the year ended 31 December 2004 in accordance with the criteria recommended by CONSOB in its Recommendation No. DEM/1061609 of 9 August 2001 for the examination of the pro forma consolidated financial data and issued the report on the reasonableness of the assumptions and of the methodology adopted for the preparation of the pro forma consolidated financial data. The independent auditors' examination report on the pro forma consolidated financial data at 31 December 2004, issued on 23 March 2005, is attached as Annex XVI to this Information Document.

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

i) since the pro forma data are prepared based on assumptions, if the Merger had taken place at the dates referred to for the purpose of preparing the pro forma consolidated financial data, instead of the date at which it will actually take place, the results that are presented therein would not be necessarily obtained;

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

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

5.1 Pro forma consolidated balance sheet at 31 December 2004 and pro forma consolidated income statement for the year ended 31 December 2004

Pro forma consolidated balance sheet at 31 December 2004 of the Telecom Italia Group

				Adjustments						
	(Euro million)		Historical data	Tender Offer	Put/Call options on Tim shares	Consolidation of Tim shares from tender offer and Put/Call options	Tim dividend distribution to third parties	Cancellation of Tim treasury shares	Merger effect	Pro forma data
A	**INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS**									
	Intangible assets:									
	– Differences on consolidation		25,637			12,062				37,699
	– Other intangible assets		7,237							7,237
	Fixed assets		17,717							17,717
	Long-term investments:									
	– Equity Investments and advances on future capital contributions		1,064	13,804	351	(14,155)				1,064
	– Other		802							802
			52,457	**13,804**	**351**	**(2,093)**				**64,519**
B	**WORKING CAPITAL**									
	Inventories		435							435
	Trade accounts receivable, net		6,666							6,666
	Other assets		2,646					(5)		2,641
	Trade accounts payable		(7,057)							(7,057)
	Other liabilities		(5,436)							(5,436)
	Reserves for employee termination indemnities and pensions and similar obligations		(1,364)							(1,364)
	Capital and/or investment grants		(209)							(209)
	Deferred tax assets net of reserve for income taxes		3,246							3,246
	Other reserves for risks and charges		(1,998)							(1,998)
			(3,071)					(5)		(3,076)
C	**NET INVESTED CAPITAL**	**(A+B)**	**49,386**	**13,804**	**351**	**(2,093)**		**(5)**		**61,443**
	Financed by:									
D	**SHAREHOLDERS' EQUITY**									
	Parent Company's interest		15,172					(3)	718	15,887
	Minority interest		4,689			(2,093)	(376)	(2)	(718)	1,500
			19,861			**(2,093)**	**(376)**	**(5)**	**—**	**17,387**
E	**MEDIUM/LONG-TERM DEBT**		**36,535**	**9,000**						**45,535**
F	**NET SHORT-TERM FINANCIAL BORROWINGS (LIQUIDITY)**									
	Short-term borrowings		2,027							2,027
	Liquid assets and short-term financial receivables		(9,878)	4,804	351		376			(4,347)
	Financial accrued expenses (income), prepaid expenses and deferred income, net		841							841
			(7,010)	**4,804**	**351**		**376**			**(1,479)**
G	**TOTAL NET FINANCIAL DEBT**	**(E+F)**	**29,525**	**13,804**	**351**		**376**			**44,056**
H	**TOTAL NET FINANCING**	**(D+G)**	**49,386**	**13,804**	**351**	**(2,093)**	**—**	**(5)**		**61,443**

Pro forma consolidated income statement for the year ended 31 December 2004 of the Telecom Italia Group

			Adjustments				
	(Euro million)	Historical data	Tender Offer	Put/Call options on Tim shares	Amortization of differences on consolidation	Minority interest	Pro forma data
A	**SALES AND SERVICE REVENUES**	**31,237**					**31,237**
	Change in inventories of work in process, semi-finished and finished goods	(6)					(6)
	Change in inventory of contract work in progress	(6)					(6)
	Increases in capitalized internal construction costs	742					742
	Operating grants	12					12
B	**STANDARD PRODUCTION VALUE**	**31,979**					**31,979**
	Raw materials and outside services[1]	(13,414)					(13,414)
C	**VALUE ADDED**	**18,565**					**18,565**
	Labour cost[1]	(4,037)					(4,037)
D	**GROSS OPERATING PROFIT**	**14,528**					**14,528**
	Amortization of other intangibles and depreciation of fixed assets	(5,092)					(5,092)
	Other valuations adjustments	(280)					(280)
	Provision to reserves for risks and charges	(81)					(81)
	Net other income (expenses)	(321)					(321)
E	**OPERATING INCOME BEFORE AMORTIZATION OF DIFFERENCES ON CONSOLIDATION**	**8,754**					**8,754**
	Amortization of differences on consolidation	(1,554)			(635)		(2,189)
F	**OPERATING INCOME**	**7,200**			**(635)**		**6,565**
	Net financial income (expenses)[2]	(1,952)	(401)	(7)			(2,360)
	Net investment income (expenses)	118					118
G	**INCOME BEFORE EXTRAORDINARY ITEMS AND INCOME TAXES**	**5,366**	**(401)**	**(7)**	**(635)**		**4,323**
	Net extraordinary income (expenses)	(410)					(410)
H	**INCOME BEFORE INCOME TAXES**	**4,956**	**(401)**	**(7)**	**(635)**		**3,913**
	Income taxes	(3,054)	132	3			(2,919)
I	**NET INCOME BEFORE MINORITY INTEREST**	**1,902**	**(269)**	**(4)**	**(635)**		**994**
	Minority interest	(1,121)				1,101	(20)
L	**NET INCOME (PARENT COMPANY'S INTEREST)**	**781**	**(269)**	**(4)**	**(635)**	**1,101**	**974**

(1) *Reduced by related cost recoveries.*

(2) *Includes value adjustments to financial assets, other than equity investments.*

5.1.1 Description of the pro forma adjustments to the historical consolidated reclassifed data as of 31 December 2004 and for the year ended 31 December 2004

Pro forma adjustments to the historical consolidated reclassified balance sheet data as of 31 December 2004:

1. the column "Tender Offer" represents the disbursement of Euro 13,804 million, initially through the utilization of the Financing for Euro 11,300 million (of which Euro 2,300 million early reimbursed), and through the utilization of a portion of the liquidity of Telecom Italia, for Euro 2,504 million;
2. the column "Put/Call options on Tim shares" represents the disbursement of Euro 351 million for the purchase of Tim ordinary and savings shares at the price of Euro 5.57, through the utilization of a portion of the liquidity of Telecom Italia;
3. the column "Consolidation of Tim shares from Tender Offer and Put/Call options" represents the consolidation of Tim shares acquired through the Tender Offer and the exercise of the put and call options which determines an increase of the line item "Differences on consolidation" of Euro 12,062 million;
4. the column "Tim dividend distribution to third parties" represents the portion of the estimated dividend on the net result of Tim for the year 2004 to be paid to third parties (parties resulting different from the companies belonging to the Telecom Italia Group) after the completion of the Tender Offer and the exercise of the call and put options;
5. the column "Cancellation of Tim treasury shares";
6. the column "Merger effect" represents the effect of the Merger, resulting in a decrease in minority interest, following the exchange of shares owned by the residual Tim minority shareholders.

Pro forma adjustments to the historical consolidated reclassified income statement data for the year ended 31 December 2004:

1. the column "Tender Offer" reports the financial expenses deriving from the utilization of the Financing, in addition to the lower financial income deriving from the utilization of a portion of the liquidity of Telecom Italia as if such utilization started on 1 January 2004; such net financial expenses, equal to Euro 401 million, include the costs for the availability of the Financing for an amount of Euro 24 million;
2. the column "Put/Call options on Tim shares" reports the lower financial income deriving from the utilization of a portion of the liquidity of Telecom Italia, equal to Euro 7 million, as if such utilization started on 1 January 2004;
3. the column "Amortization of differences on consolidation" represents the amortization of the differences on consolidation arising from the Tender Offer and the exercise of the put and call options on the Tim shares for Euro 635 million. Amortization is computed over a period of 19 years, corresponding to estimated residual useful life of the differences on consolidation accounted for with respect to the merger Olivetti – Telecom Italia;
4. the column "Minority interest" represents the effect of the Merger on minority interest, equal to a decrease in minority interest of Euro 1,101 million.

5.1.2 Purpose of the presentation of the pro forma consolidated reclassified financial data

The purpose of the presentation of the pro forma consolidated reclassified financial data is to give retroactive effect to the significant aspects of the Merger transaction and to the accessory transactions, by making appropriate pro forma adjustments to the historical consolidated financial data. In detail, the effects of the Merger have been shown retroactively in the pro forma consolidated balance sheet as if the Merger had taken place on 31 December 2004 and in the pro forma consolidated income statement as if it had taken place on 1 January 2004.

5.1.3 Assumptions for the preparation of the pro forma consolidated financial data

Tender Offer

The Tender Offer, which commenced on 3 January 2005 and was completed on 21 January 2005, represented the first stage of the Group's reorganization program and must be considered connected with and functional to the Merger.

At the end of the Tender Offer acceptance period and following the proration of the Tim ordinary shares tendered, Telecom Italia acquired No. 2,456,501,605 Tim ordinary shares and, accordingly, owns No. 7,190,583,124 Tim ordinary shares, representing approximately 84.8% of total ordinary shares and approximately 83.539% of total share capital of Tim; in addition, Telecom Italia owns No. 8,463,127 Tim savings shares, representing approximately 6.4% of total savings shares and approximately 0.098% of total share capital of Tim.

On the basis of the results of the Tender Offer, the total cash disbursement of Telecom Italia for the purchase of the Tim shares amounted to approximately Euro 13.8 billion. This disbursement has been made utilizing, for Euro 2.5 billion, a portion of the liquidity of Telecom Italia and, for Euro 11.3 billion, the Financing. Following the early repayment of the first tranche of the Financing (and in turn, its full cancellation) for Euro 2.3 billion, the portion of the Financing to be reimbursed is equal to Euro 9 billion. Further details are provided for in paragraph 2.1(b).

The Tender Offer has been settled on 28 January 2005.

Summary of the Merger transaction

As summarised in Section 2 and described in the reports of the Boards of Directors of Telecom Italia and Tim of 23 January 2005 (attached to this Information Document as Annexes II and III), under the proposed Merger transaction Tim will be incorporated into Telecom Italia, pursuant to articles 2501 and following of the Civil Code; prior to the Merger, Tim spun-off its mobile communications business in Italy. For further details see paragraph 2.1(c).

The Merger will result in the cancellation without exchange of the Tim ordinary and savings shares held by Telecom Italia at the effective date of the Merger and the assignment to holders of Tim ordinary and savings shares other than Telecom Italia of ordinary and savings shares issued by the Absorbing Company. Such assignment will be based on the exchange ratios described in paragraph 2.1.2(c) equal, respectively, to No. 1.73 Telecom Italia ordinary share, par value Euro 0.55, for each Tim ordinary share, par value Euro 0.06, and to No. 2.36 Telecom Italia savings shares, par value Euro 0.55, for each Tim savings share, par value Euro 0.06. No cash settlements will be made. The treasury shares owned by Tim will not be exchanged, pursuant to article 2504-*ter*, paragraph 2, of the Civil Code.

Call and put options

Following the exercise of the call and put options communicated to the market on 21 December 2004, Telecom Italia exercised, after the closing of the Tender Offer, call options for 21 million Tim savings shares. Further, following the exercise of the put options under the above mentioned contract, Telecom Italia acquired additional 42 million Tim ordinary shares and, accordingly, owns, on the date of this Information Document, a total of No. 7,232,583,124 Tim ordinary shares (including those acquired in the Tender Offer), equal to approximately 85.5% of the share capital. Additional details are provided for in paragraph 2.1(b).

Assumptions for the preparation of the pro forma consolidated reclassified financial data

The pro forma consolidated reclassified financial data have been prepared on the basis of the following assumptions, as if such assumptions had occured on 31 December 2004 with respect to the pro forma consolidated reclassified balance sheet and on 1 January 2004 with respect to the pro forma consolidated reclassifed income statement:

a) the purchase of ordinary and savings shares of Tim in the Tender Offer;

b) the purchase of ordinary and savings shares of Tim through the exercise of the call and put options;

c) the execution of the Bank Financing agreement and use of the proceeds for the Tender Offer;

d) the utilization of a portion of Telecom Italia liquidity for the Tender Offer and for the exercise of the call and put options;

e) the consolidation of the Tim shares acquired through the Tender Offer and the exercise of the call and put options;

f) the estimate of the portion to be paid to third parties with respect to the Tim dividend to be distributed on the net result of the year 2004;

g) the cancellation of the treasury shares of Tim;

h) the effect of the Merger with a decrease in the portions of shareholders' equity and net result attributable to minority interest following the exchange of the Tim shares owned by the residual minority shareholders;

i) the tax effects, with respect to the income statement data, of the pro forma adjustments.

Withdrawal right

As described in Section 2, the holders of Tim savings shares who will not approve the Merger in their special shareholders' meeting, will have the right of withdrawal in accordance with article 2437, paragraph 1, letter g) of the Civil Code, due to the fact that, because of the exchange of shares, their rights will be modified. For further details see paragraph 2.1.2 (e).

For the preparation of the pro forma consolidated reclassified financial data, no pro forma adjustments have been made with respect to the effects of the withdrawal, because, based on the current market price of the savings shares, the exercise of such right is not economically favorable to the holders of such shares; the exercise of the withdrawal right, if any, would not determine any significant effect.

Costs associated to the Merger and other related transactions

The costs associated to the Merger and other related transactions have been estimated to be approximately Euro 245 million (of which Euro 42 million included in the extraordinary costs of the 2004 income statement); for such costs, which relate principally to consulting fees, legal opinions, fairness opinions, etc., no pro forma adjustments have been accounted for, since they are non recurring costs.

Furthermore, Telecom Italia entered into securities lending agreements for approximately No. 37 million Tim savings shares. For the costs to be incurred for such contracts in 2005, equal to approximately Euro 14 million, no pro forma adjustments have been accounted for, since they are non recurring costs.

Convertible bonds issued by Telecom Italia

No pro forma adjustments were made for the effects of the requests to convert into shares the "Telecom Italia 1.5% 2001-2010 convertible notes with redemption premium" described below, because these convertible notes are continuously convertible and the decision to exercise the conversion by the noteholders is not directly connected with the Merger.

On 14 December 2004 Telecom Italia published on the Italian Official Gazzette the notice concerning the rights of holders of "Telecom Italia 1.5% 2001-2010 convertible notes with redemption premium" to exercise their conversion rights under article 2503-bis, second paragraph, of the Civil Code. Further details are provided for in paragraph 2.1(a).

Subsequent to 31 December 2004, based on the requests for the exercise of the conversion of the notes received within 10 March 2005 (last day, before the closing of the window for the exercise of the conversion; the window will re-open on 19 April 2005), net financial debt will decrease by approximately Euro 2 billion.

* * *

Adoption of IAS/IFRS

Starting in 2005, Telecom Italia will prepare its interim and annual consolidated financial statements in accordance with IAS/IFRS. In this respect it should be noted that if the pro forma consolidated reclassified financial data for the year ended 31 December 2004 had been prepared in accordance with IAS/IFRS, the following differences, among others, would have been determined:

- an increase in "differences on consolidation (goodwill)" and shareholders' equity, given that, under IAS/IFRS, newly-issued shares exchanged for shares held by minority shareholders are entered at fair value (purchase method) instead of at par value (as was done to prepare the pro forma consolidated data in accordance with the Italian accounting principles illustrated above);
- the elimination of the "amortization of differences on consolidation (goodwill)", since under IAS/IFRS goodwill is no longer amortized on a regular basis but is tested for impairment.

5.2 Historical and pro forma financial data per share

(in Euro)	Telecom Italia Group Year 2004 (historical)	 Year 2004 (pro forma)(°)
Per share data(*)		
Consolidated net income from ordinary activities (Parent Company's interest) per(1)(2):		
Ordinary share	0.0753	0.0763
Savings share	0.0863	0.0873
Consolidated net income (Parent Company's interest) per(2):		
Ordinary share	0.0448	0.0493
Savings share	0.0558	0.0603
Consolidated shareholders' equity (Parent Company's interest) per share	0.9473	0.8641
Dividend per:		
Ordinary share	0.1093	—
Savings share	0.1203	—
Cash flow(3) per share	0.5337	0.4500
(*) Number of shares (at 31 December) for the computation of the data per share:		
Ordinary shares	10,220,792,202	12,348,570,253
Net of treasury shares	*101,208,867*	*101,208,867*
Savings shares	5,795,921,069	6,038,071,314

(°) *The pro forma column is based on the assumption described under paragraph 5.1.3.*

(1) *Consolidated net income from ordinary activities attributable to the parent company was calculated on the basis of the share of the consolidated net income from ordinary activities attributable to the parent company, net of the applicable income taxes determined in accordance with the tax rate applicable for 2004.*

(2) *This indicator was calculated considering the bylaws provision requiring dividend on savings shares to exceed dividend on ordinary shares by an amount equivalent to 2% of the par value of the shares (Euro 0.0110).*

(3) *Consolidated net income before minority interest plus amortization and depreciation.*

5.3 Independent auditors' report on examination of pro forma consolidated financial information

The report of Reconta Ernst & Young S.p.A. on the examination of the pro forma consolidated financial data as of and for the year ended 31 December 2004 of the Telecom Italia Group (carried out in accordance with the criteria recommended by CONSOB in Recommendation No. DEM/1061609 of 9 August 2001 for the examination of pro forma data), is attached to this Information Document (Annex XVI).

6. OUTLOOK FOR THE ABSORBING COMPANY AND FOR THE GROUP IT HEADS

6.1 General indications regarding business since the close of the 2004 fiscal year

On 24 February 2004, the Boards of Directors of Telecom Italia and Tim approved their draft financial statements for the year ended 31 December 2004 and their respective consolidated financial statements for the 2004 fiscal year.

Since the close of the 2004 fiscal year, there have been no new significant events concerning the performance of the Group. Net financial debt has increased as a result of the Tender Offer by approximately €13.8 billion, partly offset by the conversion of Telecom Italia 1.5% 2001-2010 convertible bonds with redemption premium.

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

As of the 2005 fiscal year, Telecom Italia will prepare its interim and consolidated annual financial statements under IAS/IFRS.

The main changes compared with the financial statements prepared in accordance with Italian accounting standards relate to goodwill, securities transactions, securitizations and factoring. Compared with the financial statements for the year ended on 31 December 2004 prepared in accordance with Italian accounting standards, consolidated net income pertaining to Telecom Italia on the basis of IAS/IFRS increases by €1 billion (from €0.8 billion to €1.8 billion), primarily as a consequence of the elimination of the amortization of goodwill, while net financial debt increases from €29.5 billion to €32.8 billion, primarily as a consequence of the different accounting treatment of property sale and lease-back transactions in the period 2000-03, of securitizations and factoring (the credit rating agencies had already taken these effects into account in their revisions of Telecom Italia's credit rating). This information must be understood as preliminary and subject to change. It was prepared under the IAS/IFRS adopted to date and in the light of the interpretations currently available. The accounting firm Reconta Ernst & Young has been engaged to verify the figures prepared during the transition to the new standards and this activity is still under way.

An increase in consolidated net income pertaining to Telecom Italia in 2005 is also deemed possible as a result of the reduction in Tim shareholders other than Telecom Italia. Net debt will increase as a result of the payment of the Tender Offer consideration (approximately €13.8 billion) and will be reduced by the cash flow from operations and the proceeds of the disposals already announced (Digitel Venezuela, Entel Chile and the Finsiel group).

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ANNEXES

I. Merger plan referred to in Article 2501-ter of the Civil Code, with attached a copy of the post-Merger Telecom Italia's bylaws.

II. Report prepared by the directors of Telecom Italia S.p.A. pursuant to Article 2501-quinquies of the Civil Code.

III. Report prepared by the directors of Telecom Italia Mobile S.p.A. pursuant to Article 2501-quinquies of the Civil Code.

IV. Balance sheet of Telecom Italia S.p.A. at 30 September 2004 pursuant to Article 2501-quater of the Civil Code.

V. Balance sheet of Telecom Italia Mobile S.p.A. al 30 September 2004 pursuant to Article 2501-quater of the Civil Code.

VI. Report prepared by the accounting firm Mazars & Guerard S.p.A. pursuant to Article 2501-sexies of the Civil Code.

VII. Report prepared by the accounting firm Reconta Ernst & Young S.p.A. pursuant to Article 2501-sexies of the Civil Code.

VIII. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by JPMorgan Chase Bank N.A..

IX. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by Mediobanca Banca di Credito Finanziario S.p.A..

X. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by MCC S.p.A. - Capitalia Gruppo Bancario.

XI. (a) Fairness Opinion and (b) summary description of the analyses carried out by Goldman Sachs.

XII. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by Lazard & Co. S.r.l.

XIII. (a) Valuation Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by Credit Suisse First Boston.

XIV. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by Merrill Lynch International (Milan Branch)

XV. (a) Fairness Opinion, (b) Confirmation Letter and (c) summary description of the analyses carried out by Mr. Angelo Casò (Studio Casò).

XVI. Report by the accounting firm Reconta Ernst & Young S.p.A. on the pro forma balance sheets and income statements of Telecom Italia S.p.A.

XVII. Shareholders' agreements published pursuant to Article 122 of Legislative decree n. 58/1998.